



BANK OF MAURITIUS

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COMMUNIQUE

Inflation Report – October 2011

In compliance with section 33(2)(b) of the Bank of Mauritius Act 2004, the Bank is today releasing the seventh issue of the Inflation Report. The Report reviews developments underpinning the monetary policy stance in the first semester of 2011 and concludes with the inflation outlook.

The global economy was subject to a number of shocks in the first half of 2011. Japan was hit by a devastating earthquake and tsunami, which led to disruptions in global supply chains; unrest increased in the Middle-East and North Africa, driving up oil prices; and the euro area ran into major financial turbulence. By mid-2011, clear signs of a slowdown had emerged and high frequency indicators started to reflect the worsening external environment.

Global inflation which had started to pick up in the first quarter of 2011, rose sharply in the second quarter mainly on account of higher commodity prices. While headline CPI inflation was pushed up by surging food and energy prices in advanced economies despite high unemployment rates and excess capacity, the impact was felt more in emerging economies where the share of commodity-related products in household's consumption is much higher than for advanced countries.

Growth in real domestic economic activity in the first semester of 2011 was relatively more upbeat compared to the growth rates in the first semester of 2010. Sectors that drove growth in the first semester of 2011 included *Real estate, renting and business activities, Manufacturing, Financial intermediation, Transport, storage and communications, Wholesale and real trade and Hotels and restaurants*. The *Construction* sector, however, recorded contractions for two successive quarters. Household consumption expenditure growth remained subdued while gross domestic fixed capital formation, in real terms, maintained a downward trend.

Headline inflation remained on an uptrend to reach 5.1 per cent in June 2011. Year-on-year inflation, which had started rising in the second half of 2010, rose further to peak at 7.2 per cent in March 2011 before easing to 6.6 per cent in June 2011. The outlook for inflation has improved in comparison to the previous forecast published in the Inflation Report of April 2011, reflecting muted price increases in a range of commodities and the tightening of the monetary policy stance.

The Report is available in PDF format on the website of the Bank at <http://bom.intnet.mu> under the menu item *Research and Publications/Inflation Report*.