



BANK OF MAURITIUS

Communiqué

RELEASE OF THE SECOND ISSUE OF THE BANK OF MAURITIUS INFLATION REPORT

The primary object of the Bank of Mauritius is to maintain price stability and to promote orderly and balanced economic development. In compliance with section 33(2)(b) of the Bank of Mauritius Act 2004, the Bank has today released the second issue of the *Inflation Report*. This issue of the *Inflation Report* analyses developments in the second semester of 2008.

Increased risk aversion provoked by the global financial turmoil, which started in August 2007 and intensified in September 2008, constrained credit flows to households and businesses in most advanced economies, thereby exacerbating the adverse consequences of the financial turbulence on real economic activities. Economic contraction and rising unemployment plagued most advanced economies during the second semester of 2008, which concurrently led to slower growth in emerging and developing economies. As a consequence, there was a significant and rapid deterioration of global growth prospects. The easing of monetary policy by central banks and the implementation of fiscal stimulus packages by governments worldwide were aimed to prop up the global economy and speed up recovery. However, uncertainty still prevails as to the duration and depth of the economic downturn.

The sharp deterioration of global economic conditions in the second half of 2008 bolstered a marked decline in energy and other commodity prices on international markets. The combination of falling prices and weaker demand in major economies considerably reduced inflationary pressures globally and inflation declined in most countries.

In Mauritius, inflation gathered some momentum in the third quarter of 2008 mainly due to increases in domestic prices of petroleum products and some non-oil commodity prices. Inflationary impulses, of both external and domestic origins, were most clearly felt in terms of rising consumer prices of food and transport, with these two categories accounting for three-quarters of the increase in consumer prices. Consequently, domestic inflation remained high.

In the fourth quarter of 2008, domestic prices were favourably influenced by developments in commodity and energy prices on international markets. The pass-through of international price developments into domestic prices became more visible and the Consumer Price Index (CPI) fell in November and December 2008. The continuous rise in inflation observed from July 2008 onwards was reversed in December 2008. Inflation is projected to decline further in the course of 2009. The outlook for inflation is also supported by the findings of the inflation expectations survey conducted by the Bank in November 2008.

The impact of the global economic slump was felt on the domestic economy in the second semester of 2008. Export-oriented sectors – namely, tourism and textile – were undermined by weak consumer spending in our main export markets, generating spill-over effects on other sectors of the economy. The domestic growth outlook for 2009 deteriorated quite markedly.

In the last quarter of 2008, the government and the Bank coordinated their policy responses to ensure that appropriate measures were taken to shore up the economy. The government came up with an *Additional Stimulus Package* and the Bank eased monetary policy by reducing the key Repo Rate.

The Bank of Mauritius proposes to use the year-on-year methodology for measuring inflation, since this methodology provides better information on inflation dynamics and is more appropriate for guiding monetary policy decisions.

The second issue of the *Inflation Report* is available in PDF format on the website of the central bank at <http://bom.intnet.mu> under the menu item [Research and Publications/Inflation Report](#).

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