



Inflation Report of the Bank of Mauritius - Fourth issue

In compliance with section 33(2)(b) of the Bank of Mauritius Act 2004, the Bank has today released the fourth issue of the bi-annual *Inflation Report*. The Report reviews developments in the second semester of 2009 and concludes with the inflation outlook.

Global economic activity revived in the second half of 2009. Economic growth resumed in all major advanced countries while output in key emerging economies expanded at a faster pace. The revival of growth relied heavily on the massive monetary and fiscal stimulus and the policy support to financial institutions. World trade rebounded after collapsing during the global crisis. Both business and consumer confidence gradually improved. Risk appetite returned among investors, boosting equity markets. Financial markets continued to mend, assisted by public policies and the rebound in economic activity. Global growth prospects improved significantly and, in April 2010, the IMF forecast world output to grow by 4.2 per cent in 2010.

Inflation remained subdued worldwide mainly on account of significant economic slack. The rise in several commodity prices at the early stage of recovery, which continued in the second half of 2009, led to a pick-up in inflation globally towards the end of 2009.

Domestic economic activity improved significantly, after reaching a trough in the first quarter. The expansionary monetary and fiscal measures helped the economy to bounce back. The combined effects of stronger domestic demand buoyed by higher public capital spending and better-than-expected export sector performance in the final quarter of 2009 explained most of the rebound. Household consumption spending, representing around 75 per cent of total aggregate expenditure, grew at a faster pace than in the first semester of 2009. The accommodative monetary policy stance was maintained.

The general absence of price pressures, both from external and domestic sources, contributed to keep domestic inflation at historically low levels. However, year-on-year inflation began rising as from November 2009 reflecting base effects and the gradual rise in some commodity prices. Overall, with risks around the central forecast fairly well balanced, inflation is expected to settle around 4 per cent over the next few quarters – that is, well below past trends.

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*.