



BANK OF MAURITIUS

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Inflation Report of the Bank of Mauritius – Fifth Issue

In compliance with section 33(2)(b) of the Bank of Mauritius Act 2004, the Bank has today released the fifth issue of the bi-annual *Inflation Report*. The Report reviews developments underpinning the monetary policy stance in the first semester of 2010 and concludes with the inflation outlook.

The global economy continued to improve in the first half of 2010, driven mostly by robust economic expansion in emerging economies. Economic performance in advanced economies was comparatively weaker. Global manufacturing and services sectors activity kept on expanding and, concurrently, world trade as well as financial flows rallied strongly. The effects of the unprecedented expansionary economic policies, though diminishing, continued to be felt generally. Some countries began withdrawing the stimulus to foster macroeconomic stability as economic conditions normalised. Towards May and June 2010, however, leading indicators suggested a deceleration in global activity. Further, the European sovereign debt crisis induced several governments to consider removing fiscal stimulus sooner than initially envisaged and to implement austerity measures, a process that could worsen growth prospects. Expectations of moderation in global economic recovery after the first semester were thus heightened.

Inflation remained subdued globally. Expectations of a gradual rather than brisk recovery in global demand firmed in the second quarter of 2010 and capped the rise in international commodity prices. Faster-growing economies in South East Asia, Latin America and Oceania were concerned about inflation and began hiking policy interest rates. Overall, however, monetary policy was anticipated to remain generally accommodative for some more time to come.

Domestic economic activity moderated in the first half of 2010 after growing at a vigorous pace in the second half of 2009. Buoyant net exports propped up the economy in the first half of 2010 compared to domestic demand which supported activity in the second half of 2009. Recovery in the tourism and textiles sectors underscored the performance of the export sector. With regard to real domestic demand, final consumption expenditure and investment both grew at a modest rate in the first semester of 2010. Household consumption grew softly in the first two quarters while investment rebounded in the second quarter after contracting in the first. Growth prospects were expected to stay moderate, mainly on account of anticipated softness in external demand. The labour market conveyed a mixed picture, with a sharp rise in the rate of unemployment in the first quarter followed by a drop thereafter. Credit growth turned around as from January 2010, after having fallen steadily since late 2008 to a trough in December 2009, with both household as well as private corporate credit picking up.

Inflation remained low by historical standards, moving within a narrow range of 1.7 per cent and 2.7 per cent in the first half of 2010, in line with the Bank's projections. The monetary policy stance was maintained on hold in the first semester as upside risks to the inflation outlook and downside risks to growth prospects were judged to be roughly balanced. Inflation is forecast to gradually rise to 4.0 per cent in the short-to-medium term but uncertainty about international commodity prices and higher inflation in key import markets could change the outlook.

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*.