BANK OF MAURITIUS ***Communiqué***

Released at 18.00 hours on 26 March 2009

Bank of Mauritius cuts the key Repo Rate by 100 basis points

The Monetary Policy Committee (MPC) of the Bank of Mauritius has decided in a split vote to cut the key Repo Rate by 100 basis points to 5.75 per cent per annum at its meeting held today, with immediate effect.

The MPC reviewed global and domestic economic as well as financial developments. Notwithstanding the continued and forceful policy efforts by developed countries, the MPC noted that the global economic outlook has continued to deteriorate. According to the latest IMF forecast, released on 19 March 2009, global GDP is expected to contract by between 0.5 to 1.0 per cent in 2009 before recovering gradually in the course of 2010. Uncertainty remains regarding the depth and duration of the economic downturn. The turnaround in global growth will depend critically on more concerted policy actions to stabilise financial market conditions as well as sustained strong policy support to bolster demand. World trade volume has collapsed and the spectre of trade protectionism is a rising concern.

Global inflation continues to drop rapidly, reflecting the combination of lower commodity prices and increasing economic slack, with deflation risks growing in advanced economies.

In Mauritius, economic growth for 2008 has, against an initial forecast of 5.6 per cent, been revised downward to 5.3 per cent on account of a weaker performance in the second half of the year. Since the last MPC meeting in December 2008, the outlook for growth in 2009 has deteriorated from an estimated 4.0 per cent to a range of between 2.0 to 2.8 per cent against the backdrop of the deepening global recession. In particular, there are visible signs that the global financial crisis and economic downturn are already having an adverse impact on the textile and tourism sectors. These two sectors are expected to contract in 2009. Mauritian exports will suffer a decline as our major markets, Europe and United States, have moved into recession for several quarters already. The tourism sector is going through a difficult phase with reduced room reservations and lower tourist arrivals from our main markets. Visibility in the export-oriented sectors for the months ahead also remains poor. As a result of these factors, the risks to growth are on the downside.

The outlook for employment has worsened in view of the factors outlined above, in spite of a reduction in the unemployment rate to 7.2 per cent in 2008 from 8.5 per cent in the preceding year.

Monetary analysis points to a moderation in the growth rates of the monetary and credit aggregates, although they remain quite comfortable.

Inflationary pressures have receded significantly since the MPC last met in December 2008. Inflation for the twelve-month period ended February 2009 declined to 8.8 per cent, from 9.7 per cent in December 2008. However, on a year-on-year basis, a methodology commonly used by central banks and also advocated for Mauritius by the IMF Staff Mission which visited the country in February 2009, inflation has declined more markedly to 4.6 per cent in February 2009, from 6.7 per cent in December 2008. The MPC acknowledges that the year-on-year methodology captures the dynamics of inflation movements and is a more appropriate measure for monetary policy decisions than the backward-looking average.[1] Henceforth, the Bank of Mauritius will also publish the year-on-year inflation rate on its website and in its publications. The MPC expects inflation, measured by both the average and the year-on-year methods, to converge to around 4 per cent in the course of 2009. Looking further ahead, however, the inflation outlook is clouded by uncertainties regarding the future direction of oil prices on international markets and exchange rate movements.

In considering the scope for further easing of monetary policy, the MPC, however, expressed concern over the widening current account deficit of the balance of payments and the slowdown in private capital flows. The current account deficit as a proportion of GDP increased from 5.7 per cent in 2007 to 10.5 per cent in 2008 and is likely to widen further to 11.3 per cent in 2009. The expected slowdown of foreign direct investment inflows and the reversal of portfolio inflows would also have implications for the financing of the overall balance of payments. In the context of a sharply deteriorating external environment, there is therefore a continued need for vigilance in preventing excessive exchange rate movements, containing emerging balance of payments pressures and maintaining a prudent level of reserves.

Amid ongoing uncertainty and against the backdrop of a protracted economic downturn in our main export markets and with domestic inflation projected to decline, the MPC determined that monetary policy could be eased further. This monetary easing will further support the government's policy to stimulate the domestic economy in the face of the global economic downturn.

The Bank of Mauritius will issue a Monetary Policy Statement at 13.00 hours on Thursday 2 April 2009.

Bank of Mauritius
26 March 2009

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[1] *Year-on-year inflation is computed as the change in the Consumer Price Index (CPI) for a given month compared with the same month of the preceding year in percentage terms. The Central Statistics Office computes the inflation rate by comparing the average level of prices, as measured by the CPI, during a twelve-month period with the average level during the corresponding previous twelve-month period.*