BANK OF MAURITIUS

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Mauritius convened a special meeting on 31 October 2008 and decided by consensus to reduce the key Repo Rate by 50 basis points to 7.75 per cent per annum. The interest rate chargeable on the Special Deposits Facility, set at 100 basis points below the key Repo Rate, is decreased to 6.75 per cent per annum while that on the Overnight Facility, set at 150 basis points above the key Repo Rate, drops to 9.25 per cent per annum. The interest rate payable on the Standing Facility, at 400 basis points above the key Repo Rate, falls to 11.75 per cent per annum.

At the outset, the MPC took cognisance of Government's policy stance to shore up the domestic economy with special measures to mitigate the effects of the global economic slowdown which is now expected to be more severe and prolonged than initially anticipated. The MPC also noted that the Bank of Mauritius was proposing to support and complement Government's efforts. The MPC discussed recent developments on international financial markets and the global economic crisis and weighed their implications on the domestic economy.

The world economy is now facing a severe economic downturn as the global financial crisis has considerably intensified in recent weeks. According to the International Monetary Fund's World Economic Outlook of October 2008, many advanced economies are already close to, or moving into, recession. The spill-over effects of the credit crunch, and reduced domestic demand in those economies, are already being felt in emerging countries which had earlier benefited from some degree of insulation. Indeed, the economic growth rates of most countries have been scaled down significantly and are projected by the International Monetary Fund to be well below their trend or potential levels in both 2008 and 2009. The MPC took note of the unprecedented and co-ordinated move by many central banks worldwide, acting jointly with their respective governments, to ease monetary policy by cutting their policy interest rates in a comprehensive global effort to contain the worldwide financial crisis and help recovery from the economic recession.

Reflecting the sharp declines in food and energy prices on international markets and weaker prospects for global economic activity, consumer price inflation has eased from recent high levels in many parts of the world. In the near- to medium-term, global inflation as well as inflation expectations are likely to recede.

Although the domestic economy is forecast to grow at 5.6 per cent this year, that is the same rate as forecast at the previous meeting, the MPC noted an intensification of the downside risks to growth in the export-oriented sectors in the medium-term, which could spill over to the rest of the economy. Demand conditions in the country's main export markets are now foreseen to weaken substantially in view of the unexpected severity of the global economic downturn and persisting stress on international financial markets. Against this backdrop, sustaining the current pace of economic expansion will prove difficult. The MPC noted Government's policy to further strengthen the resilience of the domestic economy.

The year-on-year inflation fell to 10.8 per cent in September 2008.[1] The significant decline in both foodand crude oil prices on the international market is likely to reduce inflationary pressures in the domestic economy. According to the forecast of the Bank of Mauritius, consumer price inflation in Mauritius is expected to ease from current high levels by next year. The MPC judged that, barring any major price shocks, upside risks to inflation over the medium-term have diminished and inflation would gradually come down to single-digit levels during 2009.

The MPC noted that the domestic banking sector is sound, stable, profitable and well-regulated and is not facing the same liquidity, capital adequacy and risk-aversion problems as those affecting the banking sectors of some advanced economies. Banks operating in Mauritius are adequately capitalised and there are no indications that the banking sector has any direct exposure to the toxic debt that has affected the global financial markets. The on-going monitoring by the Bank of Mauritius has confirmed that there are no signs of any adverse impact of the current international financial crisis on the domestic banking system. Normal conditions continue to prevail on domestic financial markets. Despite some tightness experienced on the interbank money and foreign exchange markets, due principally to seasonal factors, it is recognised that there is presently neither any liquidity shortage nor any credit crunch facing the economy. Credit expansion remains buoyant with bank credit to the private sector growing by 23 per cent in the twelve-month period ended September 2008. The Bank of Mauritius has been intervening on both the interbank money and foreign exchange markets to ease the tight conditions in the present conjuncture.

After having carefully reviewed the exceptional circumstances characterising the domestic and global economic and financial situation, and in the light of the expected decline in inflationary pressures as well as Government's policy stance to shore up the domestic economy, the MPC decided by consensus to adopt an accommodative monetary policy stance. The MPC also took note of the decision to reduce the minimum Cash Reserve Ratio in order to ease monetary conditions. The MPC, however, expressed concern about developments on the current account of the balance of payments which require closer monitoring.

The MPC will continue to monitor economic and financial developments and remains committed, as per its mandate, to formulate and determine monetary policy taking into account the orderly and balanced economic development of Mauritius.

Voting Pattern

The MPC decided by consensus to reduce the key Repo Rate by 50 basis points to 7.75 per cent per annum.

Bank of Mauritius
31 October 2008

[1] *The year-on-year inflation for October 2008 fell to 9.7 per cent. The year-on-year inflation is measured as the percentage change in the Consumer Price Index (CPI) for a given month compared with the same month of the preceding year.*