BANK OF MAURITIUS

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Mauritius met on 29 September 2008 and decided to leave the key Repo Rate unchanged at 8.25 per cent per annum. The interest rate chargeable on the Special Deposits Facility, set at 100 basis points below the key Repo Rate, remains at 7.25 per cent per annum while that on the Overnight Facility, introduced at 150 basis points above the key Repo Rate, stays at 9.75 per cent per annum. The interest rate payable on the Standing Facility, at 400 basis points above the key Repo Rate, is maintained at 12.25 per cent per annum.

There are clear signs of the US economic downturn fast spreading to the rest of the G-7 countries and the emerging economies. Recent developments in global financial markets and the collapse of major international financial institutions have exacerbated this process and led to increased uncertainty and volatility. The MPC concluded that the financial crisis is not yet over and the after-effects could be protracted but still expected a gradual global economic recovery towards the end of 2009.

Globally, inflation remains high. However, recent falls in commodity prices suggest that inflationary pressures might start to abate in coming months. Food prices have declined significantly and although oil prices have eased since their peaks they still remain volatile.

The domestic economy has remained resilient to the external economic disturbances but there is increasing evidence that falling demand in major export markets has worsened the growth prospects of export-oriented sectors and that tourist arrivals could be lower than expected. As a consequence, the downside risks to growth have intensified. Against this backdrop, it might be difficult to sustain the current pace of economic expansion.

Headline inflation is clearly excessive: for the twelve-month period ended August 2008 inflation stood at 9.5 per cent while the Governor highlighted that year-on-year inflation was 11.7 per cent.[1] Elevated food inflation and high oil prices have been the main factors driving domestic inflation since June 2006. The underlying trend inflation measures also indicate that price pressures have started to spread more broadly to other goods and services. While the decline in both food and crude oil prices on the international market recently is likely to reduce inflationary pressures in coming quarters, upside risks to price stability are still present particularly for the near-term. However, barring any major price shocks, the MPC expects inflation to start coming down gradually during 2009.

[1] The year-on-year inflation for August 2008 is measured as the percentage change in the Consumer Price Index (CPI) compared with the same month of the preceding year.

From late 2007, the growth rate of money supply has outpaced the growth rate of nominal GDP. Though this high pace of expansion could potentially translate into high inflation over the forecast horizon, these developments could also be interpreted as accommodative to the currently high inflation.

After careful examination of recent developments, in particular the signs of a deceleration in the rate of growth of the domestic economy and the possibility that declining oil and food prices in international markets would reduce inflationary pressures in the coming quarters, the MPC took the decision to leave the key Repo Rate unchanged. The MPC took note that the increase in the minimum Cash Reserve Ratio from 4.0 per cent to 6.0 per cent with effect from 15 August 2008 has led to a rise in short-term market interest rates, thus tightening monetary conditions.

The MPC will continue to monitor domestic and international economic developments and remains committed to price stability and to promote orderly and balanced economic development.

Voting Pattern

The MPC voted with a majority of 5 to 2 to keep the key Repo Rate unchanged at 8.25 per cent per annum. The two dissenting members were in favour of a rise of 25 basis points in the key Repo Rate.

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29 September 2008