**Statement by the Governor Harvesh Seegolam**

at the

Post Monetary Policy Committee Press Conference

Thursday 15th of June 2023

Ladies and gentlemen, members of the media, good morning.

1. Welcome to this press briefing for the Monetary Policy Committee (MPC) meeting, marking the 67th sitting of this Committee.

2. At the very outset, I wish to contextualise the holding of this meeting. As I communicated before, in light of the introduction of our new monetary policy framework in January this year, we decided to give ample time for the framework to be well entrenched into the operations of banks and financial markets.

3. In fact, the Bank had reviewed its monetary policy framework, which had been in place since 2006, and introduced the new framework effective as from 16 January 2023. The Bank worked on the new framework, in consultation with the IMF.

4. We have been actively monitoring the operational implementation of our new framework across banks since it was launched and have conducted interactive sessions with the IMF for our MPC members.

5. Before delving into the latest developments on the economic and financial landscape, I would like to touch upon a measure recently announced by some banks. Three banks – namely MCB, SBM and MauBank – have decided to offer preferential interest rates on housing loans of up to Rs2 million to households with a monthly income not exceeding Rs100,000 and for a period of one year. This industry-driven measure principally aims at supporting the vulnerable and middle-class households. We also take note of the support from Government of Rs1,000 per month announced in the Budget Speech 2023-2024 for those households which have taken a housing loan of up to Rs5 million.

6. I shall now provide an overview of the latest international and domestic economic and financial developments and outlook before announcing the MPC decision taken today.

## INTERNATIONAL ECONOMIC DEVELOPMENTS

7. The global economy continues to recover despite a challenging economic environment amidst tightening of financial conditions. The IMF, in its April 2023 World Economic Outlook, has revised down its global growth projection for 2023 by 0.1 percentage point to 2.8 per cent compared to its January 2023 forecast.

8. Growth in advanced economies is projected at 1.3 per cent in 2023 while emerging market and developing economies are expected to grow by 3.9 per cent.

9. Leading economic indicators, such as the Purchasing Managers Indices (PMIs), were already pointing towards an improvement in global economic activity in 2023Q1. They expanded further in the second quarter. This was supported by a marked expansion in the services sector amidst higher output growth and rising intakes of new orders. While activity in the manufacturing sector remained subdued, the rate of expansion improved to an 11-month high.

10. Inflation is declining in many countries, partly as a result of aggressive interest rate hikes by central banks. The easing of price pressures also reflects the fall in shipping costs and lower global energy and food prices as global supply chains are improving. Food prices declined on the back of ample world supplies and subdued global demand. Energy prices maintained their general downward trajectory. Brent crude oil prices declined to an average of US$75.7 a barrel in May 2023 amidst worries over weakening demand from China which outweighed progress over the US Debt Ceiling Bill. The Freightos Baltic Index, which measures global container freight rates worldwide and used as a proxy for shipping stocks, maintained its downward trajectory.

11. However, underlying core inflation is yet to peak in most economies and remains well above pre-pandemic levels. The cooling effects of monetary policy tightening on core inflation are expected to be felt in the latter part of 2023. The IMF forecasts global inflation to recede from 8.7 per cent in 2022 to 7.0 per cent in 2023.

12. Towards the end of the first quarter of 2023, it has been noted that many central banks have preferred to maintain status quo given the growing trade-off between inflation and output growth. In fact, since march 2023, 77 decisions of MPCs globally have been to maintain status quo. Yesterday, the US Federal Reserve kept its policy rate unchanged. The US Federal Reserve has given to understand that this pause is out of caution and that it would, in the interim, assess the need for hikes, and that such hikes, if any, would not be as aggressive as before. Going forward, many central banks are likely to leave their interest rates unchanged with inflation being on a downward trend. Some of these central banks – such as the Reserve Bank of India and the central banks of Czech and Hungary – are not expected to tighten monetary policy further.

## DOMESTIC ECONOMIC DEVELOPMENTS

13. The Mauritian economy maintained its recovery path in 2022, buoyed by sustained dynamism in key economic sectors, including services and manufacturing. A growth of 8.7% was recorded in 2022, in line with initial BoM projections but much higher than projections made by international organisations.

14. The tourism sector performed remarkably well in 2022, posting an exceptional growth of around 200 per cent, after two consecutive years of contraction, with positive spillover effects onto other sectors of the economy. In 2022, 997,290 tourists visited Mauritius, representing 72 per cent of the 2019 level. Tourism earnings worked out to around Rs64.8 billion, well above the 2019 level.

15. Prospects for the tourism sector remain strong. For the first five months of 2023, tourist arrivals reached 514,258 while tourism earnings aggregated Rs28.9 billion during the period January to April 2023, higher by 72 per cent compared to the same period of 2022. Improved air connectivity and efforts to promote the attractiveness of Mauritius as a tourist destination will provide further impetus to the sector. For 2023, Statistics Mauritius projects around 1.3 million tourists to visit the island.

16. The recovery in economic activity continues to positively influence the domestic labour market. The unemployment rate maintained its downward trajectory to 6.8 per cent in 2022Q4. Labour market conditions are expected to improve further as the domestic economy sustains its growth momentum.

17. The current account, deficit as a ratio to GDP, was estimated at 12.2 per cent in 2022, down from 13.1 per cent in 2021. The improvement largely reflected a better performance of the services account, in particular, in the second half of 2022. The current account deficit is projected to narrow further to 8.3 per cent of GDP in 2023 on account of continued healthy performance of the tourism sector as well as a larger surplus on the income account which is expected to benefit from higher interest rates in the US and Europe.

18. The Mauritius IFC continues to attract robust financial flows as global cross-border investment activities remain buoyant despite challenging global conditions brought about by the lingering Russia-Ukraine war, higher interest rates and the recent banking crisis. With respect to non-GBC financial flows, the country recorded all-time high gross foreign direct investment (FDI) flows of Rs27.7 billion in 2022, led by the real estate sector. Looking ahead, Mauritius is projected to keep on attracting significant gross FDI into this sector as well as other sectors of activities.

## INFLATION

19. Recent price dynamics have indicated an easing of domestic inflationary pressures amidst normalisation of global supply chains and decline in commodity prices. Headline inflation stood at 10.6 per cent in May 2023, down from 11.3 per cent in February 2023. Year-on-year inflation has also declined steadily to 7.9 per cent in May.

20. Core measures of inflation also indicate a sustained softening of underlying price pressures, with a decline in both CORE1 and CORE2 inflation.

## MONEY MARKET

21. The Bank had held a number of sessions with key stakeholders on the new monetary policy framework. Indeed, financial market participants being the fulcrum of the monetary policy transmission mechanism, it was imperative to have ample interactions, through various committees, with the banking community at large to clarify any concerns they might have about the new monetary policy framework and to set expectations. Let me now provide you with some uplifting figures on the money market which reveal that the new monetary policy framework has already started to pay dividends.

22. Since 16 January 2023 and up to 31 May 2023, a weekly average amount of Rs62.6 billion of 7-Day BOM Bills was issued at 4.50 per cent per annum. Banks have availed of the Overnight Deposit Facility for a daily average of Rs6.8 billion since the introduction of the new MPF.

23. These operations by the Bank have resulted in a significant decline in rupee excess liquidity in the banking system to a daily average of Rs2.4 billion over the period 16 January to 31 May 2023. The

Bank has also mopped up an amount of Rs2.3 billion through foreign exchange intervention since the beginning of the year.

24. Furthermore, the level of outstanding BOM instruments issued to manage excess liquidity stood at Rs130.8 billion as at 31 May 2023, with a major proportion of 55 per cent maturing within 7 days.

25. The new operating target, the overnight interbank rate, hovered between 3.90 per cent and 4.50 per cent over the period 16 January 2023 and up to 31 May 2023, which is well within the interest rate corridor of the new MP framework.

26. This clearly demonstrates that the new monetary policy framework introduced in January this year is leading to improved effectiveness in the monetary policy transmission mechanism.

## FOREIGN EXCHANGE MARKET

27. The recovery of the domestic FX market remained strong in 2023. Total turnover stood at USD5.1 billion from January to May 2023, constituting an increase of 41 per cent relative to USD3.6 billion registered in the corresponding period of 2022.

28. FX interventions by the Bank amounted to USD50 million from the beginning of the year up to now. This represented an important reduction compared to injections totalling USD489 million during the same period last year.

29. You would recall that warning letters were issued to four banks and monetary fines were imposed on eight banks for speculation on the FX market. I am pleased to report that banks have taken corrective actions, as a result of which exchange rate movements are now more reflective of actual market conditions and are less volatile.

30. In line with domestic economic fundamentals as well as international exchange rate movements, the exchange rate has been reflecting market forces and the FX market is now operating in a much more orderly manner.

31. The Gross Official International Reserves (GOIR) remain comfortable, providing adequate buffer against potential adverse external shocks. The GOIR stood at US$6.4 billion as at end-May 2023, representing around 10 months of imports.

## FINANCIAL STABILITY

32. I will now provide you key insights into the resilience of the banking and financial system.

33. Monetary policy has remained unwaveringly geared towards bringing down inflation to within the target range over the policy horizon. Still, I must highlight that concurrently the trade-offs between monetary policy and financial stability are closely monitored and carefully managed. The hikes in interest rate have obviously raised debt servicing costs for both the household and the corporate sectors. However, no evident signs of financial distress have emerged so far in these sectors.

34. The macroprudential metrics for the household sector – such as debt service to income – are broadly comparable to pre-pandemic levels, suggesting that any financial strains are well borne by the sector. There is, of course, a segment of the household sector that is more vulnerable to rising interest rates and high inflation – in particular, those at the lower end of the income ladder. Here, I would like to reiterate the importance of the targeted measures taken by some banks to support the household sector with preferential interest rates for housing loans.

35. The banking sector remains sound and resilient, though risks to financial stability remain elevated. The degree of vulnerabilities in the banking system has receded in the first quarter of 2023, as demonstrated by the stress test exercise conducted during this year. The domestic macroeconomic and financial environment are not expected to induce significant increases in risk to financial stability during 2023.

36. Banks were particularly robust, with comfortable capital and liquidity buffers. In particular, the CAR for the banking sector was 20.4 per cent as at end-March 2023, well above the minimum regulatory requirement imposed by the Bank. Similarly, the aggregate Liquidity Coverage Ratio (LCR) stood at 237.5 per cent in March 2023 while the LCR for material foreign currencies was at 210.3 per cent – largely exceeding the regulatory floor of 100 per cent in both cases. The availability of ample high-quality liquid assets provided adequate cushion against the materialisation of any liquidity risk arising from both domestic and external shocks.

37. The ongoing economic recovery is well supported by the sustained flow of bank credit to the economy. Bank credit to the private sector grew, on an annual basis, by 9.3 per cent in April 2023, up from 2.4 per cent in October 2022, driven mainly by growth in credit extended to the corporate sector. Bank credit to corporates picked up as from November 2022 and registered an annual growth of 6.1 per cent in April 2023. Similarly, bank credit to households continued to grow at an annual rate of 14.1 per cent in April 2023, from 13.6 per cent in October 2022.

38. In terms of asset quality, the credit portfolio of the banking sector continued to improve, as evidenced by a drop noted in Non-performing loan (NPL) ratio. Specifically, NPLs represented 4.1 per cent of gross loans as at end-March 2023, down from 4.4 per cent as at end-September 2022. Concurrently, the NPL coverage ratio stood at 56.4 per cent as at end-March 2023.

39. The Bank continues to assess and monitor closely risks to the stability of the financial system, while pursuing its price stability mandate.

## MPC DECISION

40. I will now focus on the decision of the MPC.

41. The MPC carefully reviewed the recent economic developments taking place at the global level and assessed their potential impact on the Mauritian economy.

42. Inflation is anticipated to decline in the coming months and reach 6.8 per cent in December 2023, supported by an easing of global supply and logistics disturbances, thus enabling a normalisation in

global commodity prices and subsequent downward adjustment in domestic food and fuel prices. The upcoming relaxation of requirements for the importation of labour will contribute towards lowering cost-push pressures on inflation. The gradual normalisation of monetary policy is expected to work through the economy and keep core inflation in check. Inflation expectations are expected to be well anchored.

43. Domestic demand will remain supported by sustained private and public sector consumption and investment spending. Household consumption will receive a boost from the 2023-24 budgetary measures, in particular, the overhauling of the personal income tax regime and implementation of a range of social measures. Measures to facilitate business and competitiveness will support exports and private investment while public investment will be upheld by the construction of social housing units, the extension of the Metro Express project and the expansion of road networks, amongst others.

44. Moreover, the measures announced specifically for improving the business environment in Mauritius will further boost confidence among investors and will provide further impetus to economic activity. The bank forecasts economic growth to be more than 6% for this year, along the same veins as 2022.

45. The MPC noted that the growth projection remains subject to headwinds stemming from current global uncertainties.

46. The MPC discussed lengthily the latest developments on the macro-financial landscape, both globally and on the domestic fronts. The Committee analysed various scenarios, including a potential increase in the policy rate. It balanced the risks to the inflationary and to the growth outlooks.

47. Accordingly, the MPC decided that a further increase is not warranted at this stage. As a result, the MPC unanimously decided to keep the Key Rate unchanged at its current level of 4.50 per cent per annum.

48. The MPC will continue to monitor the economic situation closely and stands ready to meet in between its regular meetings, if the need arises.

49. The next meeting of the MPC is scheduled for August this year.

50. Thank you. I now welcome your questions.