

Coupé coupé décalé : 0.15% Repo Rate Cut!

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The Monetary Policy Committee (MPC) of the Bank of Mauritius (BoM) has, on the 9th of August 2019 decided to cut the Key Repo Rate (KRR) by 0.15%. A rate cut prompted by a not so good looking international economic outlook on the back of heightened tensions in the world's two largest economies.

At 3.35% currently, the KRR is at a historical low, the last cut being September 2017's 50 basis points one. Now, what happens next? Following any rate cut, all commercial banks will normally follow the BoM's stance to revise accordingly their savings and lending rates.

Headline inflation has further declined from 1.2% in April to 0.9% in July, and the rate cut was used as a "pre-emptive move against the risks associated with weakening global growth." It is also good to note that the vote was not a unanimous one.

On the international platform, major Central Banks have cut rates in a view to sustain economic growth. *Dilo suivre canal! Anou fer pareil.* However, the pertinent question remains why only 15 basis points? Will it be enough to boost the economy? Some have viewed this cut as being only "symbolic", which also comes to confirm the need to stimulate the economy given the tourism and textile sectors are under pressure. It is also quite unusual for repo change to be of this size, given the normal changes are done in multiples of 25 basis points.

The rate cut, although not of great significance, will decrease the attractiveness of the rupee against other currencies. Hence, the savings rate will also not attract savings, but will, in turn, lead to an increase in consumption, with people having more money in hand. Some economists are of the view that this cut is not enough to boost further investment in new projects and sectors.

Also, in an environment of excess liquidity and in a local market where the demand for MUR sovereign debt is higher than the supply, we could see yields go lower in the months to come.

Pour la petite histoire, the KRR was introduced in Dec 2006 and was set at 8.50% per annum, prior to which, the BoM was using the Lombard rate (introduced at 14%) to signal its monetary policy stance.



Source: <https://tradingeconomics.com/mauritius/interest-rate>

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