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Mauritius holds repo rate on contained inflation

The central bank of Mauritius held its key repo rate steady at 4.65 percent as a majority of the members of the monetary policy committee agreed that rates could remain at its current level "to continue to provide support to the economy against the backdrop of contained inflation, which they expected to remain below the staff forecast."

The Bank of Mauritius, which cut its rate by 25 basis points in June, said other members on the committee argued that upside inflation risks were still present and considered it important to normalize the repo rate to address vulnerabilities in the banking sector from prolonged negative real interest rates and offer rates that would help change savings and consumption behaviour.

"The MPC maintains strong vigilance in monitoring economic and financial developments and stands ready to meet in between its regular meetings, if the need arises," the bank said.

When the central bank cut its rate in June, the governor told Bloomberg that he had voted for an increase in the rate to help contain inflation.

Mauritius' inflation rate fell to 3.1 percent in August from 3.6 percent in July. Since January it has fluctuated between 3.6 and 3.7 percent and the central bank's staff projects inflation remaining in a range of 4.5-4.9 percent by December before rising to 4.9-5.5 percent by June 2014.

Economic activity in Mauritius continues to face headwinds from soft economic conditions in its main trading partners with the output gap projected to remain slightly negative, the bank said, taking note of the statistics' office revising down its 2013 growth forecast to 3.2 percent from 3.3 percent.

The central bank's own staff trimmed its forecasts 2013 growth to a range of 3.1-3.5 percent from a forecast of 3.2-3.7 percent in June.

The global economy had improved slightly since June, the bank said, though the outlook for the U.S. remains clouded by the fiscal deadlock and growth in China and India has slowed and looks unlikely to return to previous highs. Global inflation is broadly benign, below target in advanced economies while some emerging countries have seen higher inflation due to depreciating currencies.