



# BANK OF MAURITIUS

## ***Media Release***

18 July 2016

### **Bank of Mauritius publishes the *Monetary Policy and Financial Stability Report***

1. The Bank of Mauritius (the Bank) has published this Monday 18<sup>th</sup> of July 2016 its [\*\*Monetary Policy and Financial Stability Report\*\*](#). The Report supersedes the former *Inflation Report* and *Financial Stability Report*.
2. In compliance with section 33(2) (b) of the Bank of Mauritius Act 2004, the Bank has to publish twice a year a “Statement on Price Stability” and a “Statement on the Stability and Soundness of the Financial System”. From now onwards, these two statements will be published around April in the *Monetary Policy and Financial Stability Report* and in October in the Annual Report of the Bank. The first set of the abovementioned statements were published in the Annual Report of the Bank for the year ended 30 June 2015.
3. The *Monetary Policy and Financial Stability Report* presents an assessment of monetary and financial stability, recent and expected inflation trends as well as inherent and potential risks to price and financial stability. It also provides insights into the potential resilience of the domestic financial system to recent domestic and international developments.

#### **Financial Stability**

4. In this Report, the Bank assesses that the financial system is sound and stable. The banking sector remained resilient during 2015, despite negative spill-over effects that have emanated from the collapse of the BAI group.
5. The Statement on the Stability and Soundness of the Financial System issued by the Bank in the *Monetary Policy and Financial Stability Report* highlights the resilience of the banking sector. The sector is supported by strong capital position despite a weakening of some financial soundness indicators. The Statement on the Stability and Soundness of the Financial System enounces the policy measures initiated since 2015 to reinforce the resistance of the banking sector to potential shocks.
6. In particular, the Bank has embarked on a number of key initiatives, namely, the setting-up of a Deposit Insurance Scheme to protect depositors and of an Asset

Management Company to address the adverse impact of non-performing loans on the stability of the banking system. In addition, discussions are under way for the design and implementation of a crisis management and resolution framework. The Bank is currently in the process of strengthening the regulatory framework through the review and rationalisation of regulatory guidelines issued in order to take into account latest developments and best practices on the international front. The payment and settlement system is simultaneously being reinforced to cater for recent technological developments and the need for having a centralised and an effective oversight. Concurrently, the Bank is deploying a robust stress testing framework for the banking sector to assess the resilience of the sector to shocks under various scenarios. The framework is expected to be fully operational in early 2017.

### **Price Stability**

7. The Statement on Price Stability published in the *Monetary Policy and Financial Stability Report* specifies that the Bank's monetary policy stance has remained accommodative, reflecting subdued domestic economic growth and tame inflationary pressures. The statement highlights a moderate inflation outlook and, in the absence of any major shocks, inflation is expected remain at a relatively low level of around 2 per cent for the 2016.
8. The Bank has taken several initiatives as from 2015 to address the disruptive effects that high excess liquidity has had on the efficacy of monetary policy transmission mechanism. For quite some years, excess liquidity inhibited the influence of the Bank's policy interest rate, the Key Repo Rate, on market interest rates. As from early 2015, the Bank conducted more frequent monetary operations by issuing securities and carrying out sterilised interventions in the domestic foreign exchange market to keep excess reserves in check. Meanwhile, the Bank has been working on a new monetary policy framework with the aim of enhancing the transmission of monetary policy signals to the market and, ultimately, to the economy. The new monetary policy framework will be implemented in the near future.
9. The exchange rate channel has facilitated an enabling environment to support the export sector. The effects of loose monetary conditions and favourable exchange rate movements are yet to be fully felt on inflation as transmission channels are assessed to operate over a twelve to eighteen-month period.
10. The *Monetary Policy and Financial Stability Report* is available for download on the Bank's website ***www.bom.mu*** under the menu item **Publications and Statistics**.

### **Note to Editors:**

*Unless otherwise stated, the Monetary Policy and Financial Stability Report relies on information and financial data available up to the end of March 2016.*