BANK OF MAURITIUS *Communiqué*

Bank of Mauritius agrees to provide a foreign currency line of credit in US Dollars to The Mauritius Commercial Bank Ltd

Following a request received from The Mauritius Commercial Bank Ltd, the Bank has agreed to make a first disbursement of US$5.0 million on a spot basis today, under the Special Foreign Currency Line of Credit announced on Saturday, 20 December 2008.

The global financial crisis, which traces its origins to the US sub-prime market, has snowballed into a full-fledged economic crisis with a number of advanced and emerging economies facing a severe downturn, bordering on a recession.

Until recently, Mauritius has been largely insulated from the first-round effects of the crisis. As the crisis has now amplified and shows signs of being more severe and prolonged than initially anticipated, it has become obvious that the country cannot escape the adverse second-round effects of the global slowdown affecting major trade and financial partners. It has therefore become necessary to take preventive measures well in advance to minimize the adverse impact of any developments on the economy in general, and on the financing of international trade in particular.

Since the onset of the crisis, the Bank has intensified and extended its monitoring of the banking and financial sectors and has been regularly interacting with real sector operators. There are increasing concerns in some quarters that lower demand in major export markets for the country's goods and services could further cloud the prospects for the export sector.

Government has announced a package of measures aimed at countering the adverse impact of the ongoing global economic crisis on Mauritius and to stimulate the economy. In parallel, the Bank has taken the following measures:

- First, the Cash Reserve Ratio has been reduced from 5 per cent to 4.5 per cent. This measure will release Rs1.2 billion into the financial system.

- Secondly, for the first time in its history, the Bank has decided to make available to banks operating in Mauritius, a Special Foreign Currency Line of Credit aggregating USD 125 million, equivalent to Rs4 billion approximately, at the current exchange rate, from its own reserves. This decision has been taken to facilitate access to foreign currency credit lines in view of the difficulties faced by some local banks due to either non-availability, or inadequacy, of foreign exchange credit facilities from their usual sources.

An important feature of this facility is that while each bank has been allocated a quota, a higher amount would be available to the domestically-owned banks as compared to branches and subsidiaries of foreign banks. This has been done to reflect the greater role of the domestically-owned banks in financing the country's international trade as well as the fact that branches and subsidiaries of foreign banks have access to funds from their parents. Should there be a continuing need for this Special Foreign Currency Line, the Bank envisages to proceed by way of auctions in future.

The Bank emphasises that these are exceptional circumstances warranting special measures and responses. The Bank will closely monitor domestic and global economic developments and will step in with further measures as may be required to enable Mauritius to stave off any adverse impact which may be avoidable.

The view has been expressed in some quarters that the Rupee should be devalued. This opinion fails to appreciate the disastrous consequences of a central-bank-engineered depreciation of the domestic currency for a small open economy like Mauritius. The Bank is not a forex market-maker. The Bank has been on **both** sides of the market basically with a view to ensuring that the market functions in an orderly manner and undue volatilities are avoided.

The Bank would like to remind economic operators that Mauritius has a managed floating-rate regime, with no pre-announced exchange rate target. The manner in which the foreign exchange market functioned has been the subject of a recent appraisal and has been favourably commented upon by the IMF. The Public Information Notice (PIN).No.08/83, issued after the Annual Article IV Consultations in 2008, states the following;

"[IMF**] Directors were of the view that Mauritius's managed floating exchange rate regime provides an appropriate framework for macroeconomic management. They noted the staff assessment that the real effective exchange rate of the rupee appears broadly in line with fundamentals'**

The Bank considers it very important that what has been gained is retained, and if possible bettered, for ensuring the overall credibility of the functioning of the interbank forex market mechanism in Mauritius.

Bank of Mauritius
24 December 2008