BANK OF MAURITIUS

News Release

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Monetary Policy Operations: Absorption of Excess Liquidity from the Banking System

With effect from 20 January 2015, the Bank of Mauritius ('Bank') has been conducting sterilised foreign exchange interventions on the domestic market with a view to preventing an aggravation of the massive liquidity overhang in the banking system. A total amount of Rs3.8 billion was sterilised by way of rupee deposits placed by banks with the Bank following foreign exchange interventions.

As from 18 May 2015, the Bank has embarked on a programme of effective liquidity management in the banking system. On 18 May 2015, the Bank offered Three-Year Bank of Mauritius Notes on auction for an amount of Rs3.0 billion and sterilised liquidity for that amount. The weighted yield on bids accepted was 2.76 per cent, as against 2.50 per cent for the auction of same maturity held on 22 April 2015.

The Bank will continue similar operations with a view to sterilising around Rs20 billion of liquidity by the end of December 2015. In the course of the year, the auction of Bank of Mauritius papers will depend on how the market responds, in terms of interest rate structure, to the liquidity management operations of the Bank.

As the sole supplier of high-powered money, the Bank considers that a gradual reduction in the volume of excess liquidity will steadily allow it to steer short-term interest rates in the appropriate direction. This improved ability to affect short-term interest rates should allow the Bank to positively influence the market interest rate structure and, eventually, lead to better transmission of monetary policy signals.