



BANK OF MAURITIUS

website: <http://bom.intnet.mu>

COMMUNIQUE

Further to the Bank's Communiqué dated 10 September 2010, the Bank has today held an urgent meeting with the Bureau of the Mauritius Bankers Association (MBA) under the chairmanship of the Governor of the Bank.

At the meeting, the Governor expressed serious concern about the leakage of a correspondence addressed to him under the signature of the Chairman and the Chief Executive of the MBA in the press yesterday. The Governor highlighted that the Bank has over time created mechanisms for more frequent interaction and dialogue with the MBA and the leakage has seriously undermined the trust on which this relationship has been built.

The Chairman of the MBA unequivocally condemned the leakage and stated categorically that it was not the intention of the MBA to bring the issues covered in the letter in the public domain. He also said that the MBA and its members have benefited from the regular dialogue and interaction with the Bank and would do nothing to undermine the trust on which that relationship has been built. He stated that the MBA would be issuing a Communiqué this afternoon to clarify their position on the matter.

In view of the assurances given by the MBA, the Bank does not intend to pursue this matter further.

Regarding the issues that have been raised in the letter which has appeared in the press, the Bank clarifies as under:

Transactions with the State Trading Corporation

The Bank denies that there is any conflict of interest arising from its transactions with the State Trading Corporation (STC).

- In terms of section 6(1)(a)(i) of the Bank of Mauritius Act 2004 (the Act), the Bank is empowered to open accounts for the Government, and institutions and funds controlled by the Government.
- Further, section 6(1)(d) of the Act enjoins upon the Bank to formulate and implement appropriate intervention policies in the foreign exchange market.
- In addition, section 6(1)(aa) of the Act authorises the Bank to generally conduct business as a bank.

Extracts of these provisions of the Act are given in the Annex hereto.

The Bank therefore avers that its transactions with the STC are strictly in conformity with the Act. In the same vein, by virtue of the duty of confidentiality imposed upon it in terms of section 26(2) of the Act (extract in Annex) the Bank cannot make public the details of transactions undertaken with any of its customers, including the STC.

Excess Liquidity

The Bank is as much concerned about the excess liquidity in the market as the MBA. The Bank has underscored to the banks the need to push up credit growth, the slow pace of which is one of the factors contributing to the current excess liquidity.

- In addition to its normal instruments for conducting open market operations- such as Special Deposits, Reverse repurchase transactions and issue of Bank of Mauritius Bills of up to 2 months' maturity – the Bank has taken the extraordinary step of issuing longer term Bank of Mauritius Bills and Bank of Mauritius Notes of maturities of 2,3 and 4 years.
- Over the past month the Bank has absorbed Rs3.3 billion through the issue of such longer maturity instruments.

Although the Bank's profitability is under severe strain due to the low yield on its foreign currency assets, it has not allowed the Balance Sheet constraints to stand in the way of monetary operations.

Banks' Preference for Government/Central Bank Papers

The Bank strongly believes that large investment by banks in Government/Central Bank papers is not intermediation in the true sense of the term. The proposal of the Bank to cap banks' holdings of these instruments must be viewed in this context, i.e to encourage banks to lend more aggressively rather than direct all their surplus funds to the Treasury Bills and official papers which has been one of the factors driving down yields. This proposal does not in any way contradict the Bank's Guideline on Liquidity, which aims to enforce a *minimum* holding of liquid assets.

11 September 2010.

Bank of Mauritius Act 2004

Section 6

- (1) Subject to this Act, the Bank may -
- (a) open accounts for, accept deposits from, and pay interest on such deposits to -
 - (i) the Government, and institutions and funds controlled by the Government;
 - (d) formulate and implement appropriate intervention policies in the foreign exchange market;
 - (aa) subject to the express provisions of this Act, generally conduct business as a bank and do all such things as are incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

Section 26

- (2) Except -
- (a) for the purposes of -
 - (i) the performance of his duties or the exercise of his functions under the banking laws; or
 - (ii) meeting the requirements of an agreement or understanding reached by the Bank with any other relevant supervisory body; or
 - (b) when lawfully required to do so -
 - (i) by an order of a Judge in Chambers or any court of law;
or
 - (ii) under any enactment,

no person referred to in subsection (1) shall, during and after his relationship with the Bank, disclose directly or indirectly to any person any information relating to the affairs of the Bank, of any other bank or financial institution or of any of its customers, which he has acquired in the performance of his duties or the exercise of his functions.