



BANK OF MAURITIUS

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PRESS COMMUNIQUE

Financial Stability Report – Fourth Issue

The Bank released today its fourth issue of the Financial Stability Report. The Report provides a review of global and domestic financial stability issues in the second semester of 2009.

The global economic outlook has turned around on the back of unprecedented policy actions but the pace of recovery is uneven across different regions of the world. In its World Economic Outlook Update of January 2010, the IMF revised upwards the forecast of world output growth for 2010 to 3.9 per cent, from the earlier forecast of 3.1 per cent. Emerging and developing economies, led by the strong performance of Asian economies, are generally ahead on the road to recovery. In the developed economies, the high unemployment levels, lack of pick-up in bank lending and the growing debt burden may however cloud the sustainability of growth momentum. Concerns remain over the recovery losing momentum once the extraordinary fiscal stimulus and monetary accommodation are withdrawn.

Since the last issue of the Financial Stability Report, there have been continued signs of improvement in the domestic economy with growth forecasts successively revised upwards, abating inflationary pressures, improvement in the balance of payments and increases in international reserves to historically high levels. The fiscal deficit has been contained at levels which do not jeopardise the sustainability of public debt. Conditions in financial markets remained orderly, notwithstanding some excess volatility at the end of 2009. Amid the generally optimistic outlook for the global economy and in view of the expected spillover effects from the implementation of significant infrastructural projects, domestic growth is projected to accelerate to near trend levels in 2010, which should contribute to an improvement in the labour market. The major risk to sustainability of growth is the pace of recovery of the economies of our main export markets.

Banks have been resilient to the effects of the global downturn and continue to remain sound and profitable, with no bank reporting a loss for the calendar year 2009. Capital adequacy levels have been maintained at above minimum levels, with a strong Tier 1 capital component. In addition, foreign-owned banks including branches and subsidiaries remained solvent both with respect to their country operations and globally. The performance of the non-bank deposit-taking institutions was also satisfactory. With a view to further consolidating its supervisory framework, the Bank is closely following international developments regarding procyclicality mitigation, the reinforcement of capital buffers and the proposed framework for effective macro-prudential surveillance.

Overall, risks to financial stability have receded and the outlook has improved.

The Financial Stability Report is available on the Bank's website at <http://bom.intnet.mu>.

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