BANK OF MAURITIUS

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PRESS COMMUNIQUE

Financial Stability Report – Fifth Issue

The Bank released today its fifth issue of the Financial Stability Report. The Report provides a review of global and domestic financial stability issues in the first semester of 2010.

The global economic recovery proceeded further and risks emanating from the fallout of the global financial crisis to global financial stability have eased. In its World Economic Outlook Update of July 2010, reflecting stronger activity in the first half of the year, the IMF revised upwards the forecast of world output growth for 2010 to 4.6 per cent, from the earlier forecast of 4.3 per cent. However, concerns about sustainability of the strength of the global economic recovery arose as new risks related to sovereign debts in parts of Europe have materialised and have spread to the financial sector there. Despite little evidence of negative spillovers to real economic activity at a global level, the economic outlook is clouded as there are increasing concerns on risks spilling over to other regions and to the real economy. The joint efforts by the European Union and the IMF helped to comfort markets to some extent. Further, the results of the recent stress test confirmed the overall resilience of the EU banking system and constitute an important step forward in restoring market confidence. Nevertheless, concerns still remain.

In Mauritius, the economy continued to remain stable notwithstanding below trend growth in main economic sectors. The fiscal deficit has been contained at a level which does not jeopardise the sustainability of public debt. The level of net international reserves of the country represented above 10 months of imports, thus providing a comfortable cushion to absorb external shocks. Household financial conditions may be considered as sound and, unlike several countries, the unemployment level in Mauritius did not give rise to any stability concern. Household indebtedness with banks is mainly geared towards asset building rather than consumption. However, the growth of household indebtedness with banks maintained its upward trend and outpaced GDP growth, resulting in a widening of the gap between them. The further evolution of these two variables would provide a better picture on whether there are potential increases in household vulnerabilities arising therefrom.

The foreign currency swap scheme, introduced in December 2009, has achieved its objective and some orderliness in the functioning of the market was restored. Although the weakness of the euro in international markets led to some sectoral concerns, none of them have, so far, jeopardised the overall performance of the economy.

The financial sector has remained relatively healthy and resilient, and continued to support the domestic economic recovery. Banks in Mauritius are well capitalised with capital adequacy ratios well above the regulatory minimum of 10 per cent and profitability levels are considered reasonable. Risks in the banking sector were well managed and kept within the prudential limits prescribed by the Bank. Exposures of banks to the PIGS (Portugal, Italy, Greece and Spain) countries, and to the rest of the euro area, were low and did not create any cause for concern. Liquidity levels in the banking system remained high and were further amplified by subdued credit growth and lower risk appetite by banks. Financial Soundness Indicators have, so far, pointed towards soundness of the banking system.

Overall, financial stability risks are considered as moderate and the financial sector is expected to remain stable and sound this year also. However, given the economic conditions in the euro area and the country’s strong economic and financial linkages with that region, concerns remain.

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

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