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### **CHANGE IN THE LOMBARD RATE**

The Bank of Mauritius has increased the Lombard Rate by 100 basis points, from 12.00 per cent to 13.00 per cent per annum with effect from noon today, 11 September 2006.

In the light of recent domestic and international economic developments, the hike in the Lombard Rate is considered necessary as a further pre-emptive measure to stem inflationary pressures. The upside risk to inflation has continued to intensify. The inflation rate has been around 5 per cent in 2005 and 2005-06. It is however forecast to go up rapidly in the near term. Monetary growth, particularly that of money supply and credit, may pose upside risk to inflation.

Moreover, inflationary pressures have been aggravated by recent exchange rate developments, which reflect the combined effects of international and domestic factors. The upward trend in interest rates abroad coupled with the recent rapid pace of depreciation of the rupee has called for an adjustment of the domestic interest rate. The present increase in the Lombard Rate is expected to restore the attractiveness of rupee-denominated financial instruments.

The overall balance of payments is forecast to post a deficit for the third consecutive fiscal year with a worsening of the current account deficit, which mars the outlook for the external sector. Tighter demand management policies are not expected to dampen economic growth, which is projected at 4.6 per cent in 2006. The present monetary policy decision remains consistent with the long-term objective of achieving price stability and supporting medium term growth prospects of the economy. The restoration of internal and external balance remains an overriding concern of the Bank.

It will be recalled that the Bank of Mauritius raised the Lombard Rate by 50 basis points to 12.00 per cent per annum on 10 July 2006.