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

The Bank of Mauritius has increased the Lombard Rate by 50 basis points, from 11.50 per cent to 12.00 per cent per annum with effect from noon today, 10 July 2006.

The decision to further raise the key interest rate has been taken after careful consideration of recent economic and monetary developments, both on the domestic and international fronts. The upside risk to inflation has intensified. The reorientation of food subsidies by the Government for better social protection and the rise in the price of petroleum products and of some other commodities, stemming from increases in their prices on the international market, have resulted in an increase in the domestic price level. After hovering around 5 per cent in fiscal year 2005-06, latest projections show a noticeable deterioration in the inflation outlook. As a result of the recent increases in the administered prices of a number of goods in our consumption basket, the rate of inflation will certainly pick up in the immediate future. Thereafter, it is expected that the rate of inflation would decline and stabilise at a lower level.

While the economy is projected to grow moderately at 4.7 per cent in real terms in 2006, economic activity continues to be sustained by strong household consumption on the expenditure side. Concurrently, the outlook for the external sector indicates that the overall balance of payments will again post a deficit for the third consecutive fiscal year with a worsening of the current account deficit, reflecting mainly faster growth of imports relative to exports. Monetary expansion, in particular the growth of money supply and credit, heralds upside risk to inflation.

The foregoing developments coupled with the need for improving the relative attractiveness of rupee-denominated financial assets, warrant the pursuit of tighter demand management policies. The present monetary policy decision is consistent with the long-term objective of achieving price stability and supporting medium term growth prospects of the economy.

It will be recalled that the Bank of Mauritius raised the Lombard Rate by 100 basis points to 11.50 per cent per annum on 7 December 2005.

Bank of Mauritius

*10 July 2006*