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## **CHANGE IN THE LOMBARD RATE AND CASH RATIO MAINTAINED BY BANKS**

### **Lombard Rate**

The Bank of Mauritius has increased the Lombard Rate by 100 basis points, from 10.50 per cent to 11.50 per cent per annum with effect from noon today, 7 December 2005.

Factors that have been taken into consideration for effecting the increase in the Lombard Rate include recent domestic and international economic developments, the need to enhance the attractiveness of rupee-denominated financial assets and the containment of emerging demand pressures on the foreign exchange market impinging adversely on the exchange rate of the rupee. The latest balance of payments projections indicate a worsening of the outlook for both the current account and the overall balance of payments, reflecting mainly faster growth of imports relative to exports. This situation can be partly addressed through the pursuit of tighter demand management policies, including a higher level of the structure of interest rates.

After having peaked at 5.6 per cent in June 2005, the inflation rate is expected to decline to close to 5 per cent for the year 2005. Nevertheless, the underlying inflationary pressures need to be addressed and the domestic inflation rate kept under control in keeping with the inflation rate prevailing in our major trading partner countries. 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 50 basis points to 10.50 per cent per annum on 5 August 2005.

### **Cash Ratio Maintained By Banks**

The Bank of Mauritius has decided that, under section 49(3) of the Bank of Mauritius Act 2004 and with effect from the first monitoring week of January 2006, the minimum cash balances shall exclusively consist of balances held by banks with the Bank of Mauritius for the purpose of computing the Cash Ratio. The minimum Cash Ratio is being reduced from 5.5 per cent to 4.0 per cent of banks' total deposits with effect from the same week.

Bank of Mauritius

*7 December 2005*