BANK OF MAURITIUS

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PRESS COMMUNIQUE

Financial Stability Report for the Semester Ended June 2009

The Bank released today its third issue of the Financial Stability Report for the Semester ended 30 June 2009.The Report provides a review of the global and domestic financial stability issues.

In its latest World Economic Outlook and Global Financial Stability Report, the IMF acknowledged that financial conditions have improved following unprecedented policy intervention which has reduced the risk of systemic collapse. While risks to global financial stability have subsided, vulnerabilities remain.

Growth rate of the domestic economy is projected by the Central Statistics Office (CSO) at 2.5 per cent in 2009. Public finances in Mauritius remain on a sound footing and debt levels are sustainable. Inflationary pressures are expected to ease further over the next semester. The level of foreign reserves is comfortable in terms of our import coverage and the level of short-term external debt and provides adequate buffer to contain excessive exchange rate movements and any emerging pressures on the balance of payments.

The banking sector is well capitalized and profitable. There is presently no threat of a major deterioration in the quality of assets. The impact of such deterioration, if any, on the financial institutions' soundness is mitigated by the strong capital buffers and other counter-cyclical measures such as the Capital Adequacy Ratio of 10 per cent as against the Basel requirement of 8 per cent and the maintenance of a portfolio provision/general reserve of 1 per cent on the standard assets portfolio of banks. Nevertheless, banks continue to be closely monitored through collection of more intensive and granular data.

Some moderate risks to financial stability may stem from the deteriorating global financial and economic outlook given that uncertainties still prevail. However, macroeconomic fundamentals of the economy are sound and the financial system is robust enough to absorb those risks.

The financial sector of a small open economy like Mauritius is relatively vulnerable to developments in various market segments through inter-sector and intra-sector linkages. There is therefore the need for greater vigilance. In line with the G-20 Declaration to strengthen the financial sector oversight, the Bank will be shortly moving to macroprudential surveillance to capture the impact of such linkages, on financial stability at an early stage, and take appropriate actions, where warranted.

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

8 August 2009