ANNUAL REPORT

Year ended 30 June 2010

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Letter of Transmittal

The Governor

Bank of Mauritius

Port Louis

29 October 2010

The Honourable Pravind Kumar Jugnauth,
Vice-Prime Minister,
Minister of Finance and Economic Development,
Government House,
Port Louis.

Dear Vice-Prime Minister and Minister of Finance and Economic Development

Annual Report and Audited Accounts 2009-10

In accordance with the provision of Section 32 (3) of the Bank of Mauritius Act 2004, I transmit herewith the forty-third Annual Report of the Bank, which also contains audited Accounts of the Bank for the year ended 30 June 2010.

Yours sincerely

Rundheersing Bheenick

Statement from the Governor

What a challenging and eventful year it has been! From my vantage point at the helm of the Central Bank during these stressful and extraordinary times, there is so much to say. But, confined by space, let me stick to the pattern of my previous Statements, briefly recapture highlights of the year in review, touch on the present outlook and share my thoughts on the very uncertain future that lies ahead.

The World Economy in Perspective

The global context exerted a determining influence on our small open economy and heightened our vulnerability to external shocks, originating far from our shores.

Governments in developed economies and their central banks responded to the global crisis, the worst since the Great Depression of the 1930's, by resorting to unconventional measures and embarking on fundamental financial sector reforms.

International financial institutions, and their governing bodies, having failed to be pro-active in anticipating and circumscribing the initial crisis, reacted with a plethora of initiatives while the economics profession, never a model of unity, polarised into opposing camps, with neo-Keynesians plugging the virtues of fiscal stimulus and monetary easing pitched against "austerians" sounding dire warnings about fiscal profligacy and debt sustainability, even as all agreed on the need to dump failing hypotheses on the efficiency of markets and the faulty models that had brought the world to the edge of financial Armageddon.

When the global economy showed signs of a gradual recovery in the second half of 2009, economists generally agreed that we had seen the worst of the crisis until the timid recovery hit another zone of turbulence in May 2010 with Europe's Sovereign Debt crisis. The Euro750 billion package, assembled by the European Union and the International Monetary Fund, the austerity plans as well as the results of the European banking sector stress tests which indicated that the banking sector was in better shape than feared, appeased some of the worst fears and restored some calm on nervous markets.

As I write this Statement, the world economy is showing visible signs of recovery, with greater momentum coming from emerging-market economies. The exceptional stimulus from monetary and fiscal policies continues to prop up economic activity. There is growing concern that the recovery in the major advanced economies may stall as balance sheets are adjusted and the stimulus packages gradually withdrawn. As public debt, fiscal deficits and unemployment surge turning developed economies into "submerging economies", fears of a double-dip recession and of a Japanese-style deflation exercise the minds of policy-makers.

Considerable risks and policy challenges remain and central banks find themselves with a greater role in promoting financial stability and systemic oversight.

On The Home Front

Mauritius has faced formidable economic challenges this last year. Given our openness, we had very little lead time to respond to global challenges as they unfurled and this kept us on our toes all year round. As the Central Bank of the country, our role has probably never been more intense and our focus on macroeconomic issues never sharper. The challenge of maintaining a credible currency amidst difficult global conditions, coupled with the need to nurture the nascent signs of recovery of our economy, kept us on high alert.

My first term of office as Governor expired in February 2010 and I was entrusted a new mandate late in May 2010. In the interval, the country went through general elections, a feverish moment for our vibrant democracy, and our export-oriented enterprises were buffeted by the Euro crisis. Our vulnerability is such that it suffices for a European butterfly to flap its wings for the Mauritian export sector to be ablaze. In the days preceding my return to the Bank of Mauritius, not a single day passed by without the Euro crisis making headlines in the local press. The speed and virulence of the crisis caused much distress to our textile companies which suffered severe export revenue declines, igniting calls for a quick fix via currency depreciation failing which, it was claimed, they would have to envisage leaner structures and significant lay-offs to remain in business. I was very much alive to the potential dangers of this crisis for our export-driven sector and could not be oblivious to its ripple effects on the rest of the economy. During the first week that I was back in office, this issue monopolised the agenda. I intensified dialogue with private/real sector stakeholders, to assuage their fears on this latest and most direct threat to our economic prospects, the more so that the Euro crisis was coming on the heels of the global financial crisis from which we were still reeling.

It required a good dose of persuasion to appease markets and restore confidence. In December 2009, we had introduced a Short Term Foreign Currency Swap facility for the benefit of operators in the export and tourism sectors to reactivate the domestic foreign exchange market in the face of declining volumes of transactions. From December 2009 to June 2010, we conducted swaps for a total of USD89.2 million, or approximately Rs2.7 billion — a clear indication of the providential nature of this measure.

Apart from our export worries which caused us sleepless nights, the crisis was also an opportunity for Mauritians to show their mettle and for our economy to display unusual resilience as we played to our strength — a quick and flexible policy response capacity, anchored in social cohesion and consensus. We can safely say that Mauritius has weathered the first wave of the global crisis quite well. Our timely policy response helped lower domestic inflation, shore up employment, avert an economic crisis and fight off the spectre of recession. Well-timed and concerted measures by the Bank and the Treasury were instrumental in keeping the economy on track. International institutions, including the International Monetary Fund (IMF), and other observers commended the economic performance of Mauritius and even cited us as an example of resilience during the crisis. Growth remained positive at 3.1 per cent in 2009 and is forecast at 4.2 per cent in 2010.

Even as we remain cautiously optimistic about the future, we cannot escape the conclusion that the depressed growth prospects of our traditional export markets call for a strategic review of our export priorities in a world where the balance of economic power may be rapidly shifting.

The new modern global configuration with its deeply-woven interdependence is such that imported contagion and domino effects will always represent challenges for small open economies like ours. It has become imperative to develop a framework for Contagion Management to trigger the alarm at the least indication of distress in the economy.

Highlights of Last Financial Year

From the kaleidoscope of events which have marked the year, let me focus on a few chosen scenes.

Performance of the banking sector

- Our banking sector remained in good shape, and showed commendable resilience, due mainly to our prudent regulatory and supervisory framework. Although the growth of 1.8 per cent in total assets recorded by the sector in the period under review did not match the performance of 10.9 per cent in the preceding year, it should still be considered quite robust, viewed against the backdrop of the gradual recovery of the global economy from the economic crisis and the sorry state of banking and finance in major economies.

- We did not relent in strengthening our regulatory and supervisory framework. We enhanced existing guidelines, e.g. on liquidity risk management, released new guidelines on country risk management, and finalised work on guidelines relating to fair valuation of financial instruments. All three pillars of the Basel II Capital Adequacy Framework have now been put in place with the issue of the Guideline on the Supervisory Review Process.

- We admitted new players in the banking sector and, in my next Statement, I hope to report on our new full-fledged Sharia-compliant banks as they start operations later this year.

- Preliminary work on the setting up a Deposit Insurance Scheme in Mauritius was initiated in consultation with the banks. I hope to elaborate further on progress in this area in our next Report.

- Savings mobilization continues to be an area where I feel that more effort is needed. We will relentlessly pursue efforts to improve the savings rate, to induce our citizens to save for the proverbial rainy day and to reduce our dependence on external financing.

Monetary Policy

- At the core of the central bank, our Monetary Policy Committee (MPC) helped us to fulfill our mission of maintaining price stability.
- In the light of the conditions prevailing during FY 09/10, the MPC, which had reduced the key Repo Rate by 100 basis points in March 2009, considered it more appropriate to leave it unchanged at 5.75 per cent all through the five meetings convened from June 2009 to June 2010.
- I am happy to record that our monetary policy stance succeeded in maintaining price stability. The headline inflation rate which stood at 6.1 per cent in July 2009 declined steadily to 1.7 per cent in June 2010, which was low by historical standards.
- I take the opportunity here to express my appreciation to our two foreign Members, Prof Stefan Gerlach and Mario Blejer, whose extensive experience have greatly benefited the debate and enhanced the decision-making process at MPC meetings during these trying moments.

Exchange Rate developments

- We can proudly say that we have been successful in maintaining monetary and financial stability in spite of uncertain and unusually volatile conditions.
- Despite sustained criticism from certain quarters, we remained steadfast in our duty to conduct exchange rate policy in the wider national interest. We felt vindicated when the IMF validated the monetary and exchange rate framework used by the Bank as being well-suited to the needs of the Mauritian economy. The last IMF Article IV mission of October 2009 commended our monetary and exchange rate policy framework, which they qualified as a "hybrid system of inflation targeting". The mission also welcomed the prompt and comprehensive policy actions, which included fiscal stimulus, monetary loosening, and direct measures developed in cooperation with the private sector to minimise the impact of the global recession on our economy.
- Against the backdrop of high uncertainty in global financial markets, the rupee behaved well and, on a real effective basis, the rupee recorded a slight appreciation of 0.5 per cent over FY 09/10. We are satisfied that our free-float exchange rate regime worked well.
- Our close monitoring of the domestic foreign exchange market indicated that it was not functioning in a satisfactory manner during mid-May 2010. We had reason to suspect that there might have been some domestic currency manipulation in the wake of the Euro crisis. In such an environment when the rupee was being talked down, adding fuel to domestic uncertainty in a thin forex market, we thought it proper to probe further. We enlisted the services of a forensic consultancy firm to conduct a review.
- As we took these bold steps, exchange rate volatility subsided and the market returned to a fairly normal pattern, aided in this by our decision to meet the currency requirements of the State Trading Corporation, the largest local forex buyer.

Open market operations

Our money market remained liquid throughout FY 09/10. The build-up of excess liquidity towards the end of 2009 accentuated downward pressure on money market rates. We thus raised the minimum Cash Ratio by 0.5 percentage point in June 2010 and, despite severe balance sheet constraints, we undertook a series of open market operations, namely special deposits, reverse repo transactions, and the issue of Bank of Mauritius Bills, in an attempt to normalize liquidity conditions.

Bank's Balance Sheet

Traditionally, the Bank has been very conservative in managing its foreign exchange reserves. Our foreign reserves are mainly invested with major central banks.

- In the wake of the global crisis, these central banks systematically reduced the rate of interest payable on deposits. We suffered a drastic decline in our income derived from interest on foreign investments and this severely affected our profitability. Our operating profit for FY 09/10 has nosedived to Rs 72.4 million, compared with Rs 1.4 billion in the previous year.

- This development only served to place in sharper focus the concern which I had expressed when times were better over the state of the Bank's balance sheet and the severe constraints this might place on our ability to conduct monetary policy. It will be recalled that I had advocated dynamic provisioning during the last financial year. Dynamic provisioning is forward-looking and consists inter alia in making provisions out of profits in good times to meet expected losses in future years. It is an approach that is increasingly favoured by many central banks to finance open market operations. I am somewhat dismayed that our balance sheet has borne the predictable consequences and registered a significant hit during the year in review because my call went unheeded.

- However, the current state of our balance sheet has strengthened my resolve to press for the early adoption of dynamic provisioning to preserve the integrity of the Central Bank's balance sheet — to emulate the farsighted and hardworking Ant preparing for wintry times and not the laid-back Grasshopper enjoying the country's sun and sand, to paraphrase Aesop slightly.

Foreign Exchange Reserves Management

Last year we announced a review of our Foreign Exchange Reserves Management Strategy along with peer reviews conducted by the Bank for International Settlements (BIS) and the Reserves Advisory and Management Program of the World Bank's Sovereign Investments Partnership (SIP).

- We completed our review exercise and decided to entrust a fresh mandate for euro instruments to the BIS and a new mandate to the SIP. These arrangements still awaited finalisation at the time of writing.

Purchase of gold

We purchased two metric tons of gold from the IMF in November 2009 under the Fund's Limited Gold Sales Programme to diversify our portfolio of foreign assets and to mitigate the impact of currency volatility. Our holdings of gold, as a percentage of the Bank's total foreign exchange reserves, rose from 2.3 per cent to around 6 per cent after the purchase.

Net International Reserves

The net international reserves of the country breached the Rs100 billion-mark for the first time in November 2009. Gross official international reserves stood at USD2.2 billion at end-June 2010. Our net international reserves represented roughly 48 weeks' import cover — more than adequate to meet unexpected short-term external shocks.

Public Debt Management

Now that we have taken over debt management functions from the Government, we want to promote the development of an active secondary market for government securities in order to generate a yield curve that could be used as a reference for the pricing of corporate bonds. The Bank has started issuing benchmark Government of Mauritius bonds as well as auctioning single maturity instruments for the medium and long term.

- We have also embarked on a project to modernise and streamline the auction process. The on-line auctioning system which is being run on a pilot basis is expected to go live this year, while the review of the primary dealers system is on course.

Financial Stability

Let us rewind a little in time: an economic crisis surfaces, a financial institution - little-known beyond financial circles - fails, triggering a string of counterparty defaults across financial systems. The shock ripples across oceans and rapidly spreads globally. The contagion spreads at epidemic rates, threatening market functioning and financial stability — and the blame game begins. It was perhaps inevitable that central banks and regulators would be blamed after the crisis for having had a narrow and segmented vision of their mandate.

- Financial Stability moved centre stage for central banks and became the main item on the agenda at Governors' Meetings.

- At the Bank, we embraced this new role well before it became fashionable. I set up a Financial Stability Unit at the

Bank three years ago to identify vulnerabilities and risks in the system and develop tools and policies to incorporate financial stability in our policy framework. We introduced semi-annual Financial Stability Reports.

- The domestic economic landscape is characterised by concentration of economic power, with a web of companies and local conglomerates operating across different sectors, and relatively large complex financial institutions. These raise a host of prudential, macro-prudential and financial stability concerns. Government decided to set up a Financial Stability Committee to focus on some of these issues.

Payment Systems

We modernised our payments infrastructure by switching to new-generation software for the Mauritius Automated Clearing and Settlement System.

- Real-time interbank payments can be made in three major foreign currencies, the US dollar, the pound sterling and the euro, in addition to the Mauritian rupee – a *première* in Africa.
- Central banks in the region are avid for placements and visits to study our payments and settlement system. The Bank thus hosted delegations from the central banks of Kenya, Rwanda, Uganda, Ethiopia, Seychelles and Nigeria during the year.

Mauritius Credit Information Bureau

We have extended the coverage of the Mauritius Credit Information Bureau to have a complete picture of the problem of multi-borrowing and over-indebtedness in the country.

Memorandum of Understanding

We extended our network of Memoranda of Understanding with other institutions, namely with the Financial Intelligence Unit and the Mauritius Revenue Authority, in an effort to combat money laundering and terrorist financing and fiscal evasion. By the end of the review period, we were at an advanced stage of discussion with the Competition Commission of Mauritius.

Regional Cooperation

We hosted the 14th Meeting of the COMESA Committee of Governors of Central Banks in October 2009. The chairmanship of the COMESA Committee of Governors of Central Banks passed to the Bank of Mauritius.

- To mark the event, we invited two renowned speakers to make presentations on two issues of critical importance for central bank Governors – “The evolving structure and role of Monetary Policy Committees” and “Issues of Governance in Central Banks”. This initiative to invite external parties to meetings of Governors was so well received and appreciated that the COMESA Committee decided that it would become a permanent feature in future meetings.
- We marked our presence in regional and international fora and participated actively in the SADC Committee of Central Bank Governors, the meeting of Governors of the Association of African Central Banks and the Commonwealth Central Bank Governors Meeting, which I had the honour of chairing.

Extending Regional Footprint

The dynamism, with which the Bank has gone regional, has heightened our visibility on the international front and has earned us much respect. With the support of COMESA Governors, our country was successful in its candidature to host AFRITAC (South), one of the two new African Technical Assistance Centres which the IMF is establishing in Africa, in the face of strong regional contenders.

- The Bank offered to house AFRITAC (South) on one of the floors of the old Bank of Mauritius Building which would be refurbished for the purpose.

Membership of Islamic Financial Services Board

During the year, we moved from being an Associate Member to full membership of the Board, with a seat on the Governing Council of the Islamic Financial Services Board (IFSB).

- To support our plans to develop Islamic banking and finance in Mauritius, we joined IFSB initiatives to develop Islamic liquidity management instruments with other participating countries. We participated fully in the preparatory work for the launch of a Special Purpose Vehicle and envisage participation in its share capital.

Bank's Admission to the Irving Fisher Committee

We were admitted as a full institutional member of the Irving Fisher Committee (IFC) on Central Bank Statistics. Mauritius is the second country in sub-Saharan Africa, after South Africa, to become a full institutional member of the IFC, which has a total of 66 members.

- Our membership of the IFC comes at a time when our efforts are currently being directed towards improving the coverage and quality of our data to enable us to graduate to the Special Data Dissemination Standards of the IMF.

Platinum Commemorative Coin

Mauritius joined the select list of countries that have issued platinum coinage. Three beautifully-crafted platinum coins constitute the 'Father of the Nation' Platinum Series. The first coin was launched on 30 October 2009 by Dr the Honourable Navinchandra Ramgoolam, our Prime Minister. The second coin in the series will be launched later this year.

Training

The financial turmoil undeniably posed new challenges for central banks and imposed new demands and new burdens on them. The leadership of central banks are under pressure to ensure that their institution is equipped to deal with the challenges which this crisis brought — and ready to face the next one.

- We put a lot of emphasis on training our key staff, expose them to new thinking and raise their professional competence and skills to enable them to deal with a rapidly-changing external environment.
- In the course of the year, our Staff members benefited from 124 training opportunities in different areas of central banking from reserve management to talent building, an increase of 33 per cent on the previous year.
- The credibility of our central bank rests on the quality of its Staff, its work culture and its leadership abilities. I wish here to thank the Governor of the South African Reserve Bank (SARB) who has graciously agreed to assist us in our endeavour to enhance the skills-set of our middle management with a dedicated programme on effective leadership and executive management. We were also delighted to have had the Honourable Tito Mboweni, former Governor of SARB, as a special guest to our Annual Dinner in honour of Economic Operators in December 2009.

Salary Review and Staff Matters

In August 2009, a Report on the Review of Salary and Terms and Conditions of Service was implemented, following a majority decision (mostly external directors) of the Board of Directors of the Bank, with the Governor, the First Deputy Governor, and Me Kader Bhayat, external Director, dissenting.

- This Report was commissioned by the Board after an earlier report by the Hay Group, a well-known pay and remuneration consultancy selected by the Bank after an open competitive tender, was rejected *in toto* by the Board. It followed the first report from the consultant proposed by the Board, which the Board also found unacceptable. The second report of the consultant was prepared along lines acceptable to the Board.
- This last report was based on the organisation structure prevailing before the 2007 restructuring exercise. Predictably, its implementation led to much litigation in Court as well as to a string of cases before the Labour Tribunal, charging the Bank amongst others of breaching a fundamental tenet of labour law relating to "equal pay for equal work". The Bank could have done without the strained industrial relations that resulted from this imbroglio. Following the judgment of the Supreme Court (see below), this matter is now taking a different course. The latest development at the time of writing is that the Bank has now been declared non-compliant by the Labour Tribunal. I shall come back to this in the next Report.
- The introduction of new technology and new work processes — as well as the need to change the competency mix at the Bank to enable it to deliver effectively on its widening mandate — necessitated the introduction of a Voluntary Retirement Scheme. Fifteen long-serving officers of the Bank opted to proceed on early retirement under the Scheme. This will enable the Bank to recruit extra staff with a different profile without increasing our head count.
- Well beyond the Salary Review exercise, it is my earnest resolve to channel more effort towards achieving operational excellence. We shall strive to align our business processes with international standards and best practices. We propose to implement a Performance Review system tagged to productivity. I believe strongly in periodically reviewing our scorecards.

- We will also push for innovative approaches to manage and develop our people, fortify our management team, and continuously restructure in order to adjust to the requirements of an ever-evolving financial landscape.

Landmark Supreme Court Judgment and Fact Finding Committee

Pursuant to an enduring feud between a majority of (external) Members of the Board of Directors of the Bank and the Executive Management, the Supreme Court delivered a significant judgment in March 2010, finding in favour of management.

- The Supreme Court clarified that the Board's statutory remit is to formulate general policy and not to be involved in the day-to-day administration of the Bank. This judgment not only helps to clearly situate responsibilities but also paves the way for much healthier deliberations in the Boardroom.
- The year was also marked by the establishment of a Fact-Finding Committee, chaired by a highly-respected retired Chief Justice, Sir Victor Glover, Kt, GOSK. Coming just after the Supreme Court judgment, the report of the Fact-Finding Committee put paid to the smear campaign against the Governor and confirmed that he had acted *intra vires*, without any abuse of power or authority as charged by his detractors.

Words of Appreciation

I wish to express my gratitude to Dr the Honourable Navinchandra Ramgoolam, Prime Minister, for his support and the confidence he has placed in me by entrusting me this second term of office. I also thank Honourable Pravind Kumar Jugnauth, Vice Prime Minister and Minister of Finance and Economic Development, for his support and an excellent working relationship. I am happy that we are guided by a shared commitment to serve the general good and by a common desire to build on the country's strong fundamentals and make things better for our fellow-citizens.

I extend my appreciation to the Chairman and the Chief Executive of the Mauritius Bankers Association, the Chief Executives of banks, the representatives of the various business chambers and associations and other stakeholders with whom I have a regular dialogue, and the members of the various committees and sub-committees at the Bank for their active collaboration during the past year.

My sincere appreciation also goes to Mr Yandraduth Googoolye, First Deputy Governor, for his unflinching support during very difficult times. I extend a warm welcome to Mr Iqbal Belath, the new Second Deputy Governor, who assumed office in July this year.

Looking Forward

If the past three years have taught us anything, it is that things are never static and we can never bank on the continuation of the status quo. Looking ahead, we need to continuously improve, strengthen our frameworks and re-engineer if we are to achieve greater levels of efficiency and promote financial stability.

As Governor, I will ensure that as one team, we at the Bank — the Deputy Governors, the Senior Management team, and all our Staff — spare no effort in furthering the objectives of the Bank, that is improve the economic and financial well-being of all our countrymen, keep inflation well under check at low and predictable levels and participate in promoting strong, balanced, equitable and durable economic growth.

Rundheersing Bheenick
29 September 2010

The Prime Minister launches the first commemorative platinum coin of the 'Father of the Nation' Platinum Series

A platinum commemorative coin of Rs1500 denomination in proof condition was issued on 30 October 2009. It is the first commemorative platinum coin issued in the 'Father of the Nation' Platinum Series to pay tribute to Sir Seewoosagur Ramgoolam.

14th MEETING OF COMESA COMMITTEE OF GOVERNORS

Visit of the Delegation of COMESA Governors at "Vallée de Ferney"

CORPORATE SOCIAL RESPONSIBILITY

National Inter Club Youth Championship

In meeting its obligations to the youth of the country and as part of its Corporate Social Responsibility, the Bank of Mauritius, for the third consecutive year, sponsored the National Inter Club Youth Championship, which was held during the week-end 14-15 November 2009 at the Maryse Justin Stadium in Réduit. Some 600 athletes from 28 clubs, including Rodrigues, participated in this event. The participants from Rodrigues were the ten best athletes selected at the Inter-Club/School Youth Championship, which was held on Saturday 7 November 2009 in Rodrigues and was also sponsored by the Bank. Some 350 athletes took part in the games in Rodrigues.

During the two-day competition, nine National records were established including one in long jump (in the category Benjamin) i.e. 5m86 compared to previous record of 5m67 held since 28 June 1986.

Safety Week

The Bank of Mauritius organised its first Safety Week from 10 to 14 May 2010. A series of lectures was organised during that week on various subjects such as duties of the employer in respect of the Occupational Safety & Health Act 2005, Defensive Driving, First Aid, Causes and Consequences of Accidents at work, Electrical Safety, Basic Fire Safety, Ergonomics, Meditation and Yoga. The Safety Week was a success with an average participation of 20-25 persons per session. The Bank received the assistance of the Ministry of Health & Quality of Life, Ministry of Labour & Industrial Relations, Fire Services Department and the Red Cross Society in organising this event.

A blood donation day was also organised on the 12 May 2010 with the collaboration of the Blood Donors Association and the Blood Bank of Victoria Hospital. 135 pints of blood were collected on that occasion. The Bank received the participation of banks located in Port Louis and other institutions falling within its purview.

Financial Literacy

The Bank has since November 2007 been organising a Monetary Policy Challenge aimed at creating awareness among the public on Monetary Policy issues. During the financial year 2009-10, the Bank launched the third edition of the Monetary Policy Challenge, for which 15 entries were received and the six best teams were called to make a presentation of their submissions at the Bank.

The Expert panel comprising of Dr C.P. Jaddoo, Associate Professor, Mauritius Institute of Education, Dr V. Ancharaz, Senior Lecturer, University of Mauritius, Mr H.O. Jankee, Chief Economist, and Mr J. Pandoo, Chairman of the Financial Literacy Committee, both from the Bank of Mauritius, assessed the submissions and the winners of the Monetary Policy Challenge 2009 were announced and rewarded during the Annual Dinner in honour of Economic Operators, on Saturday 5 December 2009.

1 Review of the Economy: 2009-10

During 2009-10, the financial market strains of the past year that had crippled international finance and stifled global growth had eased to a great extent, largely due to governments' and central banks' coordinated efforts worldwide. Signs of the global economy recovering showed up consistently in the upgrades of global growth projections put out by the International Monetary Fund in its World Economic Outlook releases. By the second semester of 2009, the recession had bottomed out in many advanced economies namely, the United States, United Kingdom, Spain and Italy and some emerging market economies mostly in Europe, while in some other advanced economies – Australia, Germany, France and Japan – and most emerging markets – China, India, Brazil and other parts of Asia and Latin America – the recovery had already started.

In the first semester of 2010, global economic growth had picked momentum led by the rapid recovery in commodity exporting countries and emerging economies, particularly in Asia. Largely due to the economic recovery in emerging economies, world trade and financial flows had rebounded quite strongly.

High unemployment as well as the deleveraging in households' and firms' balance sheets had raised concerns about the strength and sustainability of the recovery in the world's single largest economy and, to a lesser extent, in Britain. For most of the year under review, the main contributors to economic growth in the United States were fiscal support to household consumption and inventory adjustments but there was not yet solid evidence that autonomous spending had started to kick in.

With the exception of Germany, which had been benefitting from the strong performance of its export sector, most Euro zone economies were still reeling from the budgetary effects of the crisis. Their budgetary position had worsened with high public debt and falls in revenue. Many of these economies were considering to withdraw the fiscal stimulus and start implementing austerity measures. Altogether, the outlook for external demand in the main trading partners of the Mauritian economy had weakened.

Global inflation, which had remained subdued throughout the year under review, was expected to remain at low levels given that major economies continued to operate with significant excess capacity. However, in many Asian economies, there has lately been a resurgence of inflationary pressures emanating from food price inflation mainly and cost push inflation arising from upward wage pressures in particular.

The Food Price Index (FFPI), compiled by the Food and Agriculture Organisation, has witnessed moderate changes over the year as mixed price performances of its components nearly offset each other. Increases in the price indices of meat, dairy and oils more than offset the fall in the price indices of cereals and sugar. Overall, the FFPI rose by 7.9 per cent between June 2009 and June 2010.

International oil prices were marred by heightened price volatility in the year. Oil prices fluctuated in the range US$64-US$86 a barrel during the year. The average price per barrel of NYMEX WTI (West Texas Intermediate benchmark crude oil) rose by 7.7 per cent to US$75.3 in 2009-10. Over the same period, the average price per barrel of ICE Brent futures increased by 7.9 per cent to US$75.3.

The pursuit of expansionary fiscal policy and initial expectations that main export markets were recovering in line with global developments contributed to improve domestic economic sentiment. In the final semester of 2009, the domestic economy appeared to have picked momentum, after it had reached a trough in the first quarter of 2009, growing at year-on-year rates of 3.3 per cent in the third quarter and 6.9 per cent in the fourth quarter. Real activity in key export sectors, namely textile and tourism, expanded in the final quarter of 2009 after several consecutive quarters of contraction. Seasonally-adjusted quarter-on-quarter data also supported the view that the economy was in better shape. The fiscal stimulus translated into higher government consumption and public sector investment spending, which contributed to boost growth. Household consumption, however, slowed down sharply relative to its pace of the past few years.

In the first half of 2010, the pace of economic activity slowed amid an increasingly uncertain environment. Although, year-on-year, the domestic economy was still growing in the first and second quarters of 2010 at rates of 4.2 per cent and 3.8 per cent, respectively, it was more reflective of the favourable base effects as the economy was significantly weak in the first half of 2009. The loss of growth momentum was evident from seasonally-adjusted quarter-on-quarter data, which pointed to an economic contraction of 3.7 per cent in the first quarter and a mild recovery to 0.3 per cent in the second quarter of 2010. Looking ahead, economic growth could moderate further on softer global economic conditions but more accommodative domestic monetary conditions were likely to continue supporting growth.

Labour market conditions improved in the first half of 2009-10 in line with real output. Job losses were mitigated amid expectations that the economic slowdown would end sooner rather than later. The fiscal stimulus package pinning down job preservation with the financial and operational help the Government gave to viable firms was also a contributing factor. Job losses, concentrated mostly in the textile sector, were offset by positive net employment change in other sectors. Largely as a result of the restructuring, labour productivity gains in the textile sector were higher than the increase in labour costs in 2009. In the first quarter of 2010, official data indicated that the unemployment rate rose to 8.4 per cent, from 6.3 per cent in the fourth quarter of 2009, a trend reflected in seasonally-adjusted data as well. Employment fell across sectors. But second quarter 2010 saw a recovery in the labour market as change in employment more than offset the rise in the labour force.

Consumer price inflation eased steadily from 6.9 per cent in 2008-09 to 1.7 per cent in 2009-10. Stable monetary conditions, moderate global food and energy prices and favourable base effects largely explained the decline in the inflation rate. Year-on-year inflation declined from 3.3 per cent to 2.4 per cent. On a 12-month average basis, the underlying measures of inflation, CORE1, CORE2 and TRIM10 also eased significantly. CORE1 inflation fell from 6.1 per cent in June 2009 to 2.2 per cent in June 2010 and CORE2 inflation maintained a downward trend from 5.5 per cent in June 2009 to 2.6 per cent in June 2010. TRIM10 inflation dropped from 2.8 per cent in June 2009 to 2.1 per cent in June 2010.

The country's balance of payments were characterised by a lower current account deficit and further accumulation of foreign reserves. The current account deficit, as a percentage of GDP, was estimated to have fallen from 9.2 per cent in 2008-09 to 8.0 per cent in 2009-10. The deficit on the merchandise account of the balance of payments deteriorated in 2009-10. However, higher surpluses in the services account coupled with larger net inflows in the income account led to the narrowing down of the current account deficit. The capital and financial account, inclusive of reserve assets, recorded lower net inflows of Rs13.0 billion in 2009-10 compared to net inflows of Rs14.5 billion in 2008-09.

During the year under review, the Monetary Policy Committee (MPC) of the Bank of Mauritius held four regular quarterly meetings during which it unanimously decided to keep the key Repo Rate unchanged at 5.75 per cent. The MPC gauged that economic activity worldwide was recovering. But the pace and extent of recovery remained uncertain, especially in Europe where the implementation of fiscal austerity measures could become a drag on the economic recovery. Global inflation had been rather subdued but several key emerging markets had witnessed a build-up in inflationary pressures and that had led more central banks to start raising interest rates. With regard to domestic economic developments and inflation, the MPC took the view that the economy would rebound in the second half of 2009 and inflation to continue falling for some time. Domestic indicators pointed towards sustained improvement in economic activity as soft external demand was partly offset by buoyant domestic demand but real economic activity was likely to stay below potential for some time. Higher commodity prices later in the year on the back of the recovery of world demand prompted the MPC to shift its outlook for inflation. The MPC judged that inflation had bottomed out and further ahead, higher imported inflation could turn out to be a major upside risk. With a weak growth outlook in the background, the MPC agreed that the policy support to the economy should be maintained until growth became self-sustaining.

The Government changed its budgetary accounting from fiscal year ending June to calendar year as part of its reforms. Consequently, it presented a six-month budget spanning from July to December 2009 and the 2010 Budget was the first budget presented on a calendar year basis. The budget deficit, as a percentage of GDP, stood at 4.1 per cent for the period July-December 2009. The bulk of borrowing requirements of budgetary Central Government was financed domestically. For 2010, the deficit was projected at 4.5 per cent with the primary balance projected at 1.1 per cent. The 2010 Budget maintained the fiscal stimulus measures to support the economy and higher expenditure for the acquisition of non-financial assets mainly led to the rise in the budget deficit. As a percentage of GDP, Central Government debt was estimated to have increased to 50.8 per cent at the end of June 2010, from 50.0 per cent at the end of June 2009.

The pace of monetary expansion decelerated further in 2009-10, as reflected by lower annual growth in Broad Money Liabilities (BML) and the moderate growth in bank credit extended to the private sector. Partly reflecting low private sector demand for credit, banks' excess liquidity holdings were higher on average in the year 2009-10 compared with a year ago.

The net international reserves of the country, made up of net foreign assets of depository corporations, foreign assets of the Government and the country's Reserve position in the IMF, increased by Rs5.0 billion in 2009-10 to Rs102.8 billion at the end of June 2010. The import cover of the net international reserves, based on the value of import bill for the year 2009-10 exclusive of the purchase of aircraft, represented 9.9 months of imports at the end of June 2010.

The domestic foreign exchange market was relatively comfortable and the Bank did not intervene to either sell or purchase foreign currencies. However, low liquidity levels in the foreign exchange market in the final months of 2009 led the Bank to start offering spot-to-three-month forward foreign currency swap transactions as from 23 December 2009 with a view to injecting liquidity and restoring orderly market conditions. The exchange rate of the Mauritian rupee appreciated against the US dollar and Pound sterling but depreciated vis-à-vis the euro during 2009-10. On a 12-month average basis, the rupee appreciated against Pound sterling and US dollar by 2.1 per cent and 0.3 per cent, respectively, while it depreciated by 0.9 per cent and 6.4 per cent against the euro and Japanese yen, respectively. In real effective terms, the rupee appreciated by 0.5 per cent.

The banking sector emerged practically unscathed from the global financial and economic crisis. The Bank continued in its endeavour to enhance the guidelines and guidance notes to incorporate changes in best practices as advocated by international standard-setting bodies like the Basel Committee on Banking Supervision and the International Accounting Standards Board. Revisions were also undertaken to incorporate suggestions from an IMF/World Bank mission in the context of the Financial Sector Assessment Programme.

In the wake of the global financial crisis, there have been several initiatives at national and international levels to review the financial regulatory infrastructure. In Mauritius, the Government set up in 2009 a Financial Stability Committee, a tripartite arrangement between the Treasury, the Bank of Mauritius and the Financial Services Commission. The Financial Stability Committee consists of the Minister (Chairperson), the Governor, the Financial Secretary, and the Chief Executive of the Financial Services Commission. The Bank of Mauritius Act 2004 was amended to include section 55A on the Financial Stability Committee with the purpose of regularly reviewing and ensuring the soundness and stability of the financial system. In line with its legal mandate to also ensure the stability and soundness of the financial system of Mauritius, the Bank established in July/August 2009 an in-house Financial Stability Committee chaired by the Governor to address financial stability concerns.

The foregoing economic and financial developments during 2009-10 are reviewed in greater detail in the following chapters of the report, which covers official data up to 24 September 2010, the date on which it was sent to print.

I. NATIONAL INCOME AND PRODUCTION

In 2009, real Gross Domestic Product (GDP) slowed to 3.1 per cent, from 5.1 per cent in 2008. Outward-looking sectors contracted as external demand weakened, which had second-round effects on real activity in the rest of the economy. Fiscal stimulus measures implemented by the government coupled with an accommodative monetary policy remained broadly supportive of the economy. Over the year, however, economic developments were uneven. The weak economic performance in the first half of 2009 had given way to a relatively strong rebound in the second half as concerns about the external outlook eased and key sectors of the economy recovered, reflecting an overall improvement in economic conditions.

In the first quarter of 2010, the economy grew by 3.6 per cent year-on-year but shorter term dynamics pointed to renewed weakness amid increasing uncertainty. Delayed implementation of major infrastructure projects in the first quarter impacted negatively on growth. The performance of the Mauritian economy would depend to a large extent on developments in external demand conditions. In UK and the euro area, economic activity was still fragile and there was growing uncertainty about the impact of the fiscal austerity measures on the growth outlook of these economies. The Central Statistics Office (CSO) forecast the economic growth rate for 2010 at 4.2 per cent on the back of resilient consumption expenditure and a recovery in the export sector.

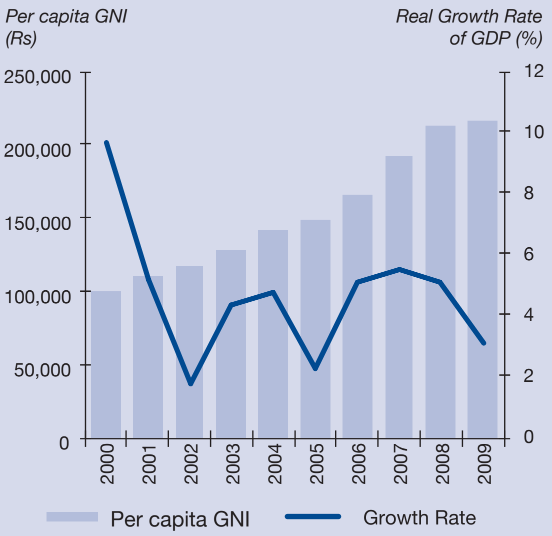
In nominal terms, GDP at market prices increased by 3.7 per cent to Rs274,496 million in 2009. Per capita GNI at market prices increased by 1.4 per cent to Rs215,456 in 2009. Table I.1 shows the main national accounts aggregates and ratios for the years 2007 through 2010. Chart I.1 shows per capita Gross National Income (GNI) and GDP growth rates for the years 2000 through 2009.

Table I.1: Main National Accounts Aggregates and Ratios: 2007 - 2010

	2007	2008 [1]	2009 [1]	2010 [2]
A. Aggregates (Rs million)				
1. GDP at basic prices	206,971	233,509	243,757	258,876
Annual Real Growth Rate (Per cent)	*+5.5*	*+5.1*	*+3.1*	*+4.2*
2. GDP at market prices	235,520	264,710	274,496	291,161
3. GNI at market prices	242,543	269,610	275,321	295,560
4. Per capita GNI at market prices (Rupees)	192,389	212,483	215,456	229,740
5. Aggregate Consumption Expenditure	196,533	231,849	244,913	260,219
6. Compensation of Employees	83,522	95,220	102,280	108,287
7. Gross Domestic Fixed Capital Formation	59,170	65,176	71,848	70,735
8. Gross Capital Formation	63,140	71,803	58,759	67,267
9. Gross Domestic Saving	38,987	32,861	29,583	30,942
10. Resource Balance (9 - 8)	-24,153	-38,942	-29,176	-36,325
11. Gross National Disposable Income	246,425	276,019	282,230	301,455
B. Ratios: As a Percentage of GDP at market prices				
1. Gross Domestic Saving	16.6	12.4	10.8	10.6
2. Aggregate Consumption Expenditure	83.5	87.6	89.2	89.4
3. Gross Domestic Fixed Capital Formation	25.1	24.6	26.2	24.3
4. Resource Balance	-10.3	-14.7	-10.6	-12.5
C. Ratio: As a Percentage of GDP at basic prices				
1. Compensation of Employees	40.4	40.8	42.0	41.8

[1] Revised. [2] Forecast.
Source: Central Statistics Office, Government of Mauritius.

Chart I.1: Per capita GNI and GDP Growth Rate: 2000 - 2009



Source: Central Statistics Office, Government of Mauritius.

EXPENDITURE

Table I.2 shows expenditure on GDP for the years 2007 through 2010. The fiscal stimulus measures translated into higher Government consumption and gross fixed capital formation, which mitigated the impact of the slowdown in private consumption expenditure and the contraction in private sector investment. Due largely to difficult international trading conditions and weak external demand, exports of goods and services shrunk in real terms by 4.8 per cent in 2009 as against an expansion of 2.3 per cent in 2008, with exports of goods contracting more severely than services. The slowdown in domestic economic activity also led to a contraction in imports of goods and services by 4.6 per cent in 2009, from a positive growth rate of 1.8 per cent in the preceding year.

Household consumption expenditure was particularly weak, expanding at a much lower rate of 2.1 per cent compared with preceding periods, while consumption spending by general government, aided by fiscal stimulus measures, rose by 5.4 per cent, the highest annual expansion since 2005. Overall, final consumption expenditure grew by 2.6 per cent in 2009, at a less rapid pace than in the previous two years. For 2010, overall growth in final consumption expenditure is expected to be sustained at 2.6 per cent.

Table I.2: Expenditure on GDP-Growth rates (% over previous year): 2007- 2010

	2007	2008 [1]	2009 [1]	2010 [2]
1. Final consumption expenditure	**+3.9**	**+6.0**	**+2.6**	**+2.6**
Households	+4.5	+7.0	+2.1	+2.5
General government	+0.8	+0.7	+5.4	+3.0
Individual	*+2.8*	*+1.3*	*+3.8*	*+3.4*
Collective	*-0.6*	*+0.3*	*+6.6*	*+2.7*
2. Gross domestic fixed capital formation	**+8.6**	**+3.6**	**+9.1**	**-3.2**
Private sector	+24.0	+9.7	-2.0	-4.8
Public sector	-24.7	-18.1	+62.9	+1.5
3. Gross domestic fixed capital formation exclusive of aircraft and marine vessel	**+17.0**	**+7.2**	**+5.0**	**+1.6**
Private sector	+24.5	+8.4	-0.9	-4.8
Public sector	-7.4	+1.7	+33.2	+24.5
4. Exports of goods & services	**+3.4**	**+2.3**	**-4.8**	**+7.2**
Goods (f.o.b)	-10.6	+1.9	-8.8	+4.6
Services	+23.0	+2.6	-1.1	+9.5
5. Less Imports of goods & services	**+2.0**	**+1.8**	**-4.6**	**+3.0**
Goods (f.o.b)	-1.2	+1.3	-6.1	+3.0
Services	+10.4	+2.9	-1.2	+2.9

[1] Revised. [2] Forecast.
Source: Central Statistics Office, Government of Mauritius.

Gross Domestic Fixed Capital Formation (GDFCF), including the purchase of an aircraft, expanded at a robust pace of 9.1 per cent in 2009, higher than the 3.6 per cent growth recorded in 2008. Excluding aircrafts, the pace of GDFCF slowed down to 5.0 per cent, from 7.2 per cent in 2008. The positive growth rate of GDFCF was brought about by a surge in public sector investment, which more than offset the decline in private sector investment of 2.0 per cent after recording solid growth for three consecutive years. Public sector investment was boosted by the implementation of massive infrastructural projects such as construction of roads, as announced under the Additional Stimulus Package. GDFCF is projected to decline by 3.2 per cent in real terms in 2010 reflecting further contraction in private sector investment spending despite sustained expansion in public sector investment spending of 24.5 per cent. However, delays in the implementation of public sector infrastructure works in the first quarter of 2010 have limited the impact of the public sector investment programme.

By type of investment, as shown in Table I.3, spending in "*Building and Construction Work*" grew by 7.6 per cent in 2009, led mostly by a 30.8 per cent growth in "*Other Construction Work*". Investment in *"Machinery and Equipment"* grew by 12.3 per cent largely reflecting the purchase of aircraft. Excluding the latter, investment in machinery and equipment effectively contracted by 0.5 per cent, following a decline of 2.8 per cent in the preceding year.

By industrial use, several sectors witnessed declines in real investment spending but there were notable expansions in "*electricity, gas and water supply*", "*transport, storage and communications*", "*financial intermediation*", and government services among others.

Table I.3: Real Growth Rates of GDFCF by Type of Capital Goods: 2007 - 2010

(Per cent)

	2007	2008 [1]	2009 [1]	2010 [2]
A. Building and Construction Work	**+16.9**	**+13.4**	**+7.6**	**+5.4**
Residential Building	+5.5	+18.7	+7.8	+8.1
Non-residential Building	+49.2	+12.2	-0.8	-4.6
Other Construction Work	-17.4	+8.1	+30.8	+23.0
B. Machinery and Equipment	**-1.0**	**-10.4**	**+12.3**	**-19.9**
Machinery and Equipment (excluding aircraft & marine vessel)	+17.2	-2.8	-0.5	-7.0
Passenger Car	+29.9	+6.2	-23.1	+1.3
Other Transport Equipment	-38.2	-41.9	+90.1	-59.7
Other Transport Equipment (excluding aircraft & marine vessel)	+19.1	-6.4	-5.0	+1.7
Other Machinery and Equipment	+14.6	-4.2	+5.8	-9.7
GDFCF	**+8.6**	**+3.6**	**+9.1**	**-3.2**
GDFCF (excluding aircraft & marine vessel)	**+17.0**	**+7.2**	**+5.0**	**+1.6**

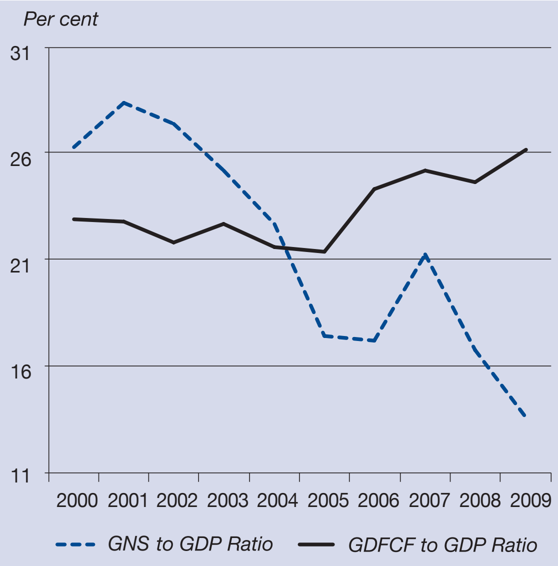
[1] *Revised.* [2] *Forecast.*
Source: Central Statistics Office, Government of Mauritius.

Chart I.2 depicts the movements in the ratios of GDFCF and Gross National Saving (GNS) to GDP at market prices for the years 2000 through 2009. Chart I.3 shows investment by sector in 2009 and Chart I.4 illustrates the growth rates of public and private sector GDFCF for the years 2000 through 2009.

PRODUCTION

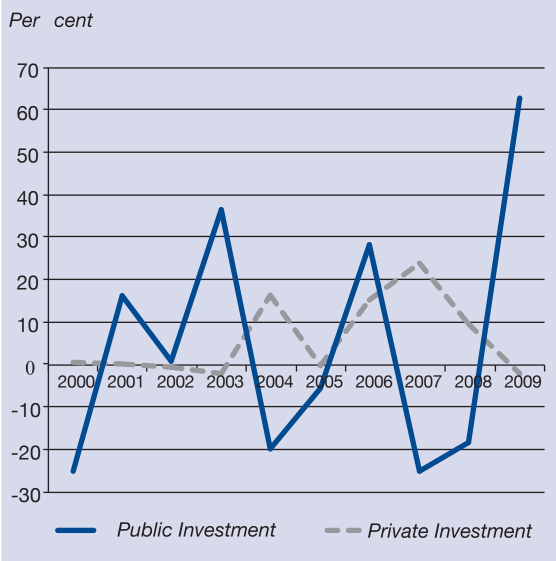
At the sectoral level, developments were uneven. Sectors exposed to external conditions were more severely hit while domestic market-oriented ones displayed some resilience to the global economic slowdown. As a result, the share of the manufacturing sector, which includes textiles, and to a lesser extent, of hotels and restaurants, declined in GDP. In contrast, utilities, construction, financial intermediation,

Chart I.2: Ratios of GDFCF and GNS to GDP at Market Prices: 2000 - 2009



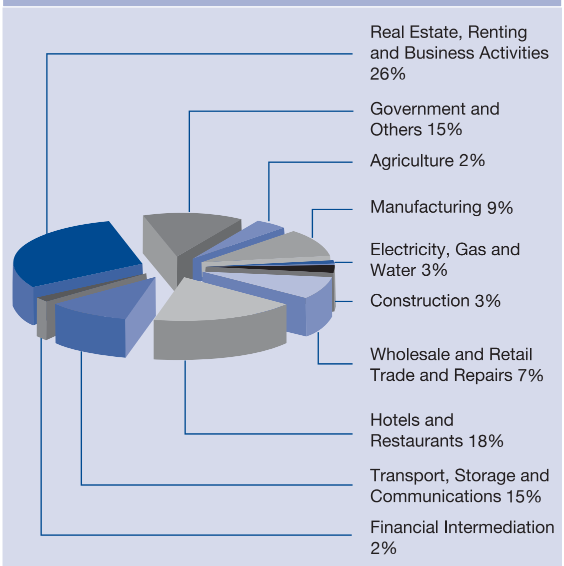
Source: Central Statistics Office, Government of Mauritius.

Chart I.4: Growth Rates of Public and Private Investment: 2000 - 2009



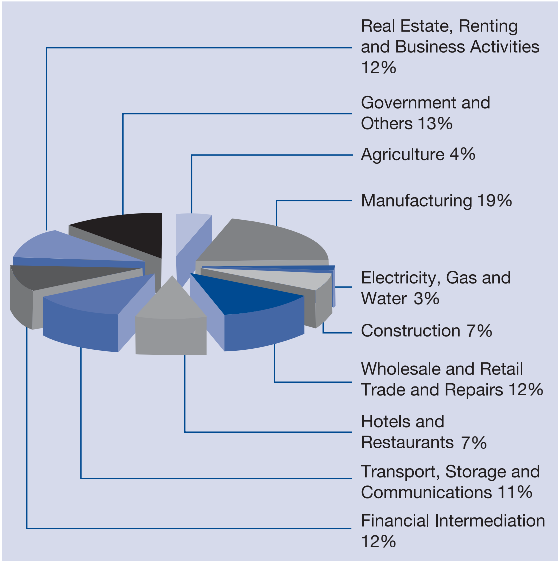
Source: Central Statistics Office, Government of Mauritius.

Chart I.3: Investment by Sector in 2009



Source: Central Statistics Office, Government of Mauritius.

Chart I.5: Sectoral Distribution of GDP at Basic Prices in 2009



Source: Central Statistics Office, Government of Mauritius.

real estate, renting and business activities and Government services recorded a higher share in GDP in 2009 relative to a year ago. Chart I.5 shows the sectoral distribution of GDP at basic prices in 2009. Table I.4 shows the contribution of industry groups to GDP growth for the years 2007 through 2009.

Agriculture

In real terms, the agricultural sector grew strongly by 10.6 per cent in 2009, increasing sevenfold from the 1.5 per cent growth registered in 2008. The sugarcane sector, having switched to the production of high-value added refined sugar, registered 15.0 per cent growth in 2009 as compared to 3.7 per cent in 2008.

Table I.4: Contribution of Industry Groups to GDP Growth: 2007 - 2009				
	Industry Group	2007	2008 [1]	2009 [1]
1.	Agriculture, Hunting, Forestry and Fishing	-0.3	+0.1	+0.5
2.	Mining and Quarrying	0.0	0.0	0.0
3.	Manufacturing	+0.4	+0.6	+0.2
4.	Electricity, Gas and Water	+0.1	+0.1	+0.1
5.	Construction	+0.8	+0.7	+0.5
6.	Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	+0.6	+0.5	+0.1
7.	Hotels and Restaurants	+1.2	+0.2	-0.5
8.	Transport, Storage and Communications	+0.9	+0.7	+0.5
9.	Financial Intermediation	+0.8	+1.1	+0.5
10.	Real Estate, Renting and Business Activities	+0.8	+0.8	+0.7
11.	Public Administration and Defence; Compulsory Social Security	0.0	+0.1	+0.2
12.	Education	+0.1	+0.2	+0.1
13.	Health and Social Work	+0.2	+0.2	+0.2
14.	Other Services	+0.3	+0.4	+0.3
Gross Domestic Product at basic prices		**+5.5**	**+5.1**	**+3.1**

[1] *Revised.*
Source: Central Statistics Office, Government of Mauritius.

With the restructuring of the sugar industry, the contribution of agriculture to GDP growth increased to 0.5 percentage point in 2009, from 0.1 percentage point in 2008. Sugarcane production totalled 467,234 tonnes in 2009 and the contribution of sugarcane accounted for some 38.0 per cent of total value addition of the agricultural sector. The share of sugar exports in total domestic exports decreased from 17.8 per cent in 2008 to 14.4 per cent in 2009.

The non-sugar agricultural sector, which includes activities related to hunting, forestry and fishing, grew by 7.3 per cent in 2009 after contracting by 0.4 per cent in 2008. In nominal terms, value addition of the non-sugar agricultural sector amounted to Rs3,936 million in 2009, decreasing by 12.6 per cent. Its share in the agricultural sector increased to 62.3 per cent.

In the first quarter of 2010, the agricultural sector contracted by 2.4 per cent, compared to 4.1 per cent growth in the corresponding quarter of 2009. During the same period, the sugar sector grew by 2.3 per cent, compared

Table I.5: Main Aggregates of the Agricultural Sector: 2007 - 2009				
		2007	2008 [1]	2009 [1]
1.	Value Added at current basic prices (Rs million)	10,072	10,352	10,435
	of which: Sugarcane	*4,620*	*4,503*	*3,936*
2.	Annual Real Growth Rate (Per cent)	-5.2	+1.5	+10.6
3.	Share of Agriculture in GDP at basic prices (Per cent)	4.9	4.4	4.3
4.	Investment at current prices (Rs million)	2,508	2,691	1,765
5.	Share of Investment in Agriculture in total GDFCF (Per cent)	4.2	4.1	2.5
6.	Sugar Exports (Rs million)	9,578	8,268	6,610
7.	Agricultural Exports other than Sugar (Rs million)	165	263	386
8.	Share of Agricultural Exports in total Domestic Exports (Per cent)	19.3	18.4	15.3

[1] *Revised.*
Source: Central Statistics Office, Government of Mauritius.

to a high growth of 15.0 per cent. Following the transition to the production of higher value-added refined sugar in 2009, growth in the sugar sector is projected to gradually stabilise this year to stand at 2.3 per cent. The agricultural sector is forecast to grow by 4.0 per cent.

Table I.5 shows the main aggregates of the agricultural sector for the years 2007 through 2009.

Manufacturing

Amid the difficult business environment, the manufacturing sector registered lower growth of 1.1 per cent in 2009, compared to 3.2 per cent in 2008, mainly as a result of a contraction of 2.9 per cent in textile manufacturing and zero growth in other manufacturing. The performance of the manufacturing sector was cushioned by strong growth of 15.0 per cent in sugar milling, coupled with satisfactory growth of 4.0 per cent in food processing. The manufacturing sector added 0.2 percentage point to the overall economic growth rate in 2009 compared to 0.6 percentage point in 2008.

Mechanism for Transitional Support for the Private Sector (MTSP) provided temporary relief to enterprises. In the fourth quarter of 2009, there was a reversal of trend as the textile sector recorded a positive but still weak annual growth rate. Overall, for the whole of 2009, the textile sector had a negative contribution of 0.2 percentage point to growth.

In the first quarter of 2010, there were renewed fears related to the euro crisis. However, despite significant weaknesses in main markets, the textile sector grew by 1.0 per cent in the first quarter of 2010 as compared to a contraction of 5.0 per cent in the corresponding quarter of 2009. For the year 2010, the textile sector is projected to grow by 1.0 per cent. Overall, the manufacturing sector grew by 4.5 per cent in the first quarter of 2010, after contracting by 0.2 per cent in the corresponding quarter of 2009 and is expected to grow by 1.9 per cent in 2010.

Table I.6 shows the main aggregates of the manufacturing sector for the years 2007 through 2009.

Table I.6: Main Aggregates of the Manufacturing Sector: 2007 - 2009

	2007	2008 [1]	2009 [1]
1. Value Added at current basic prices (Rs million)	41,075	46,928	47,784
2. Annual Real Growth Rate (Per cent)	+2.2	+3.2	+1.1
3. Share of Value Added in GDP at basic prices (Per cent)	19.8	20.1	19.5
4. Investment at current prices (Rs million)	8,375	6,764	6,612
5. Share of Investment in total GDFCF (Per cent)	14.2	10.4	9.2

[1] Revised.
Source: Central Statistics Office, Government of Mauritius.

Within the manufacturing sector, the textile sector was severely affected, registering the sixth quarter of negative growth in the third quarter of 2009. The textile sector, being highly dependent on the European market was vulnerable to the negative effects of the economic downturn in that market. In 2009, over 66 per cent of exports were destined to European countries, including the United Kingdom.

The Mauritian Government's financial and technical assistance provided under the

Hotels and Restaurants

According to the World Tourism Barometer, travel sentiment in 2009 was generally low around the world, with international tourist arrivals contracting by 4 per cent worldwide. In 2009, 871,356 tourists visited Mauritius compared to 930,456 in 2008, recording a fall of 6.4 per cent, as a result of weak economic conditions in Mauritius's major source markets and depressed market conditions with regard to long-haul and expensive destinations.

Consequently, the 'Hotels and Restaurants' sector was severely affected and contracted by 5.3 per cent in 2009. By the third quarter of 2009, the sector had registered its fourth consecutive quarter of negative growth, but as from the fourth quarter, growth turned positive. For the year 2009, the 'Hotels and Restaurants' sector had a negative contribution of 0.5 percentage point to overall GDP growth. Gross tourism receipts for the year 2009 were Rs35.7 billion, registering a decrease of 13.4 per cent compared to Rs41.2 billion for 2008. Chart I.6 shows tourist arrivals and tourism receipts for the years 2000 through 2009.

Data available for the first semester of 2010 showed that 439,150 tourists visited Mauritius, registering an increase of 6.2 per cent over the corresponding period of 2009 while gross tourism receipts increased by 8.5 per cent from Rs18.2 billion to Rs19.8 billion. The 'Hotels and Restaurants' sector is projected to grow by 5.1 per cent in 2010.

Tourist arrivals from key markets such as France and Reunion Island showed resilience to the economic downturn and recorded positive growth in 2009. Other markets such as the United Kingdom, Italy, Germany and South Africa recorded negative growth rates. In the first semester of 2010, positive growth rates were noted for the French market (8.7 per cent), South Africa (16.9 per cent) and Reunion Island (9.1 per cent).

Chart I.6: Tourist Arrivals and Tourism Receipts: 2000 - 2009

Source: Central Statistics Office, Government of Mauritius.

Financial Intermediation

The pace of real activity of the financial intermediation sector decelerated to 4.9 per cent in 2009, from 10.8 per cent in 2008. Reflecting subdued domestic and global economic growth, the banking sub-sector posted a growth rate of 5.2 per cent in 2009 after recording a high growth rate of 14.0 per cent in 2008. Similarly, real activity in the insurance and other financial intermediaries sub-sectors also slowed down. The insurance sector grew by 4 per cent, marginally lower than 5 per cent in 2008. Other financial intermediaries saw growth slowing down to 5.6 per cent in 2009, from 7 per cent in the previous year. The financial intermediation sector added 0.5 percentage point to real GDP growth in 2009.

In the first quarter of 2010, financial intermediation grew by 4.0 per cent in real terms and decelerated from the 5.6 per cent growth rate registered in the corresponding quarter of 2009. For 2010, the growth rate of the financial intermediation sector is expected to pick up slightly to 5.9 per cent.

Real Estate, Renting and Business Activities

The 'Real Estate, Renting and Business Activities' sector, which includes owner occupied dwellings, renting of machinery, computer activities and other business activities, grew by 5.9 per cent in 2009, lower than the 7.6 per cent growth registered in 2008. The 'Owner occupied dwellings' sub-sector expanded by 3.2 per cent in 2009, lower than the 4.0 per cent growth recorded in the previous year. Activities other than 'Owner occupied dwellings' grew by 8.1 per cent in 2009, but lower than 10.8 per cent in the previous year. The 'Real Estate, Renting and Business Activities' sector added 0.7 percentage point to growth in 2009.

In the first quarter of 2010, the 'Real Estate, Renting and Business Activities' sector grew by 5.3 per cent, lower than 6.3 per cent registered in the corresponding quarter of 2009. In 2010, the sector is forecast to grow by 5.6 per cent, slightly lower than the 5.9 per cent recorded in 2009.

Construction

The construction sector recovered during the second half of 2009 as the implementation of massive public infrastructural projects caused growth in the construction sector to surge by 24.3 per cent in the fourth quarter of 2009. Overall, the construction sector grew by 6.5 per cent in 2009, but still lower than 11.1 per cent in 2008. The construction sector added 0.5 percentage point to growth in 2009.

In the first quarter of 2010, the construction sector contracted by 7.5 per cent, following delays in implementation of major infrastructure projects in both the public and private sectors. The construction sector is expected to be one of the key drivers of domestic economic activity in 2010.

Transport, Storage and Communications

In 2009, the 'Transport, Storage and Communications' sector grew by 4.9 per cent, lower than the growth rate of 6.0 per cent registered in 2008 in line with the general slowdown in economic activity. Transport, storage and communications added 0.5 percentage point to GDP growth in 2009. For 2010, real activity in the sector is forecast to expand by 5.8 per cent higher than in 2009 and close to the growth rate achieved in 2008.

Wholesale and Retail Trade

The distributive trade sector registered two consecutive quarters of negative growth rates in the first half of 2009 but thereafter recovered fairly strongly to post two consecutive quarters of positive growth rates. Overall for 2009, real output in the distributive trade sector expanded marginally by 1.0 per cent in 2009 compared with 4.5 per cent a year ago. In terms of its contribution to the annual growth rate of the economy, the sector added 0.1 percentage point in 2009 compared to 0.5 percentage point in 2008.

In the first quarter of 2010, the distributive trade sector posted a positive real growth rate of 3.1 per cent and was forecast to expand at an annual rate of 3.0 per cent in 2010.

Other Sectors

In 2009, the 'Electricity, Gas and Water' sector grew by 2.5 per cent, lower than 4.0 per cent growth registered in 2008 and added 0.1 percentage point to overall growth. In the first quarter of 2010, the 'Electricity, Gas and Water' sector grew at a stronger pace of 3.1 per cent and growth is forecast to accelerate to 4.0 per cent for the year 2010. Growth in the 'Public Administration and Defence; Compulsory Social Security' sector was 2.5 per cent, higher than in 2008 when it was 1.7 per cent. The contribution of this sector to GDP growth was 0.2 percentage point. In the first quarter of 2010, the sector grew by 3.2 per cent and overall growth is expected at 2.9 per cent in 2010. The 'Education' sector grew by 1.9 per cent, lower than 3.4 per cent in 2008 and added 0.1 percentage point to growth. Higher growth of 3.8 per cent was recorded in the first quarter of 2010 and growth for the year is projected to be at 2.4 per cent. The 'Health and Social Work' sector expanded by 6.1 per cent, higher than 4.6 per cent in 2008, and adding 0.2 percentage point to growth. In the first quarter of 2010, growth was 4.4 per cent and for the year 2010, it is projected at 5.1 per cent. 'Other Services' grew by 7.9 per cent, lower than 8.3 per cent in 2008 and contributed 0.3 percentage point to growth.

II. LABOUR MARKET AND PRICE DEVELOPMENTS

Labour market conditions, which improved in the first half of the year 2009-10, supported by the pick-up in economic activity, deteriorated unexpectedly in the first quarter of 2010 with both the observed and seasonally-adjusted unemployment rates rising sharply from 6.3 per cent and 7.2 per cent in the fourth quarter of 2009 to 8.4 per cent and 7.8 per cent, respectively, in the first quarter of 2010. In spite of continued labour market weakness in the first quarter of 2010, employment in textiles and hotels and restaurants appeared to have stabilised.

In 2009, almost all sectors, except textiles and hotels and restaurants, registered gains in employment. As a result of the restructuring and consolidation of its activities, the textile sector lost jobs in 2009 at an increasing rate relative to the preceding year and lay-offs have affected both Mauritian and foreign workers. In the hotels and restaurants sector, the situation of job losses outstripping jobs creation as from the second quarter of 2009 persisted in the following two quarters albeit at a reduced pace.

WAGE DEVELOPMENTS

Average Monthly Earnings

According to the Survey of Employment and Earnings in "large" establishments carried out by the Central Statistics Office (CSO), the average monthly earnings for all industrial groups increased from Rs16,883 to Rs18,247, or 8.1 per cent, between March 2009 and March 2010 compared to an increase of 16.9 per cent between March 2008 and March 2009. Adjusted for the twelve-month running inflation rate, the average monthly earnings for all industrial groups increased by 6.1 per cent between March 2009 and March 2010 compared to 7.8 per cent between March 2008 and March 2009.

An analysis by industrial group shows that in March 2010, 'Financial Intermediation' recorded the highest average monthly earnings (Rs33,078) while 'Mining and Quarrying' registered the lowest average monthly earnings (Rs6,946). The highest increase in average monthly earnings was registered in 'Financial Intermediation' (13.9 per cent) followed by 'Real Estate, Renting and Business Activities' (12.0 per cent), 'Electricity, Gas and Water' (11.9 per cent), 'Construction' (10.6 per cent) and 'Other Services' (10.5 per cent) between March 2009 and March 2010. The remaining sectors recorded increases in average monthly earnings in the range of 1.1 per cent to 8.5 per cent.

Table II.1 shows the average monthly earnings in large establishments by industrial group over the period March 2008 through March 2010.

Compensation of Employees

Compensation of employees went up, in nominal terms, by 7.4 per cent, from Rs95,220 million in 2008 to Rs102,280 million in 2009 compared to an increase of 14.0 per cent in 2008. Compensation of employees as a percentage of GDP at basic prices increased from 40.8 per cent in 2008 to 42.0 per cent in 2009. Compensation of employees in the General Government sector, which accounts for around 24.0 per cent of total compensation, grew, in nominal terms, by 13.8 per cent in 2009 compared to 16.4 per cent in 2008, while for the rest of the economy, it increased by 5.4 per cent in 2009 compared to 13.3 per cent in 2008.

Cost of Living Compensation

Two salary compensations were paid during the year under review. As from 1st July 2009, a cost of living compensation of 5.1 per cent was awarded to employees receiving a monthly salary of Rs12,000 or less. No compensation was awarded beyond the salary limit of Rs12,000 in view of the difficult domestic economic conditions. With the transition to a calendar fiscal year, a second compensation was paid with effect from 1st January 2010. A cost of living compensation of 3.5 per cent was awarded to those drawing a salary of up to

Table II.1: Average Monthly Earnings[1] in Large Establishments

	Industrial Group	Mar-08 [2] (Rs)	Mar-09 [2] (Rs)	Mar-10 [3] (Rs)	% Nominal Change between Mar-09 and Mar-10	% Change Adjusted for Increase in Price Level
1.	Agriculture, Hunting, Forestry and Fishing	10,990	12,757	13,841	8.5	6.5
	of which: Sugarcane	*9,926*	*11,108*	*12,445*	*12.0*	*9.9*
2.	Mining and Quarrying	6,735	6,870	6,946	1.1	-0.8
3.	Manufacturing	8,995	10,008	10,810	8.0	6.0
	of which: Sugar	*13,691*	*15,703*	*16,023*	*2.0*	*0.1*
	Food	*9,190*	*10,024*	*11,151*	*11.2*	*9.2*
	Textiles	*7,519*	*8,275*	*8,647*	*4.5*	*2.5*
	Other	*11,133*	*11,971*	*13,001*	*8.6*	*6.6*
4.	Electricity, Gas and Water	24,449	26,385	29,527	11.9	9.8
5.	Construction	15,457	16,521	18,276	10.6	8.6
6.	Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	15,786	16,528	17,558	6.2	4.3
	of which: Wholesale and Retail Trade	*15,823*	*16,450*	*17,434*	*6.0*	*4.0*
7.	Hotels and Restaurants	11,550	13,317	14,297	7.4	5.4
8.	Transport, Storage and Communications	19,824	20,281	21,527	6.1	4.2
9.	Financial Intermediation	27,413	29,044	33,078	13.9	11.8
	of which: Insurance	*23,306*	*25,863*	*28,316*	*9.5*	*7.4*
10.	Real Estate, Renting and Business Activities	15,231	16,764	18,768	12.0	9.9
11.	Public Administration and Defence; Compulsory Social Security	16,880	22,039	22,078	0.2	-1.7
12.	Education	17,287	22,374	23,204	3.7	1.8
13.	Health and Social Work	19,562	23,413	23,892	2.0	0.1
14.	Other Services	13,028	14,242	15,736	10.5	8.4
	Total	**14,440**	**16,883**	**18,247**	**8.1**	**6.1**

[1] Earnings of daily, hourly and piece rate workers have been converted to a monthly basis.
[2] Revised. [3] Provisional.
Source: Central Statistics Office, Government of Mauritius.

Rs12,000 per month and a flat compensation of Rs420 was awarded to those receiving a monthly salary of above Rs12,000.

The wage rate index measures changes in the price of labour, that is, changes in the average rates actually paid by employers to their employees for work during normal working hours. As from the first quarter of 2007, the wage rate index is calculated on the basis of the occupational structure of the working population in September 2006, the new base period.

The quarterly wage rate index increased in the four quarters of 2009. The average wage rate index for 2009 was 132.0, recording a rise of 10.9 per cent from the 2008 level on account of an increase in wage rate across all industry groups. The highest increase in wage rate was registered in 'Real Estate, Renting and Business Activities' (17.0 per cent) followed by 'Public Administration and Defence; Compulsory Social Security' (15.8 per cent). The lowest increase was registered in both 'Construction' and 'Financial Intermediation' (5.2 per cent).

Table II.2: Quarterly Wage Rate Indices by Industrial Group, Q1 2009 - Q1 2010

Industrial Group	Weight	2009				2010
		Q1	Q2	Q3	Q4	Q1
Agriculture, Hunting, Forestry and Fishing	61	115.5	119.3	153.8	145.7	134.5
Manufacturing, Mining and Quarrying	170	121.5	122.5	126.1	125.7	127.5
Electricity, Gas and Water	20	119.9	119.7	138.2	135.3	135.6
Construction	37	117.6	122.2	128.1	131.0	129.4
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	69	128.5	134.7	130.6	132.1	133.5
Hotels and Restaurants	64	123.3	127.1	134.8	139.4	140.2
Transport, Storage and Communications	91	125.9	126.4	132.4	135.0	138.4
Financial Intermediation	61	117.7	117.2	120.4	123.7	125.3
Real Estate, Renting and Business Activities	54	130.9	132.3	143.2	147.8	155.0
Public Administration and Defence; Compulsory Social Security	170	137.2	136.9	140.5	140.8	143.7
Education	124	138.1	137.7	140.4	142.3	143.5
Health and Social Work	59	136.6	128.8	136.8	136.2	138.3
Other Community, Social and Personal Services	20	128.2	131.8	130.7	133.1	134.1
All sectors	**1,000**	**128.0**	**128.8**	**135.0**	**136.0**	**137.2**
of which General Government [1]	*333*	*137.7*	*136.0*	*140.0*	*140.1*	*142.4*

[1] Ministries, government departments and agencies operating under them; municipalities; district councils and Rodrigues Regional Assembly.
Source: Central Statistics Office, Government of Mauritius.

'Public Administration and Defence; Compulsory Social Security' and 'Manufacturing, Mining and Quarrying', the two most important industry groups in terms of weight, registered increases of 15.8 per cent and 6.1 per cent in wage rates, respectively. The main contributors to the increase of 13.0 points in the index for 2009 were 'Public Administration and Defence; Compulsory Social Security' (3.2 points), 'Education' (2.3 points), 'Manufacturing, Mining and Quarrying' (1.2 points), 'Real Estate, Renting and Business Activities' (1.1 points) and 'Agriculture, Hunting, Forestry and Fishing' (1.0 point).

The wage rate index rose by 7.2 per cent in the first quarter of 2010 compared to the first quarter of 2009. A comparison of wage rate increases by industrial groups over the same period shows that the largest rise of 18.4 per cent was registered in 'Real Estate, Renting and Business Activities' followed by 'Agriculture, Hunting, Forestry and Fishing' (16.5 per cent) and 'Hotels and Restaurants' (13.7 per cent) while the lowest increase of 1.2 per cent was registered in 'Health and Social Work'.

Table II.2 gives details on the quarterly wage rate indices by industry group.

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT

Labour Force

The population of the Republic of Mauritius, including Agalega and St. Brandon, was estimated at 1,281,214 as at mid year 2010, of whom 631,886 were males and 649,328 were females, that is, a sex ratio of 97.3 males to 100 females. The population growth rate was 0.5 per cent in mid year 2010, same as in mid year 2009.

The total labour force, inclusive of foreign workers, increased from 583,400 in 2008 to 587,300 in 2009, or 0.7 per cent, down from 2.3 per cent in 2008. The number of foreign workers decreased from 24,000 in 2008 to 21,000 in 2009. The male and female labour force grew by 0.2 per cent and 1.5 per cent in 2009, respectively, lower compared to 1.3 per cent and 4.1 per cent in 2008, respectively.

Employment

The total number of persons in employment, inclusive of foreign workers, increased by 0.5 per cent to 545,800 in 2009 compared to 3.7 per cent in 2008. Male employment declined by 0.1 per cent to reach 355,300 while female employment grew by 1.7 per cent to stand at 190,500 in 2009.

Table II.3 shows the main labour market indicators for the years 2000 through 2009 June 2010. Expatriate employment went up by 1,170 over the same period. In the 'Wearing Apparel' group, employment decreased by 532 from 41,223 to 40,691, and within the group, employment fell by 677 in 'Pullovers' but rose by 145 in 'Other Garments'.

Direct employment in the tourism industry stood at 27,161 at the end of March 2010, representing a marginal increase of 0.6 per cent over the employment figure of 27,002 at the end of March 2009.

Table II.3: Main Labour Market Indicators *(Thousand)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Labour force	517.6	526.8	530.0	539.1	548.8	559.1	565.1	570.5	583.4	587.3
Employment	484.9	492.1	493.2	499.0	504.2	507.2	515.3	523.7	543.0	545.8
Unemployment	32.7	34.7	36.8	40.1	44.6	51.9	49.8	46.8	40.4	41.5
Unemployment rate (%)	6.5	6.8	7.2	7.7	8.4	9.6	9.1	8.5	7.2	7.3

Note: Data are based on the CMPHS. As from 2007, estimates refer to population aged 16 years and over and include foreign workers.
Source: Central Statistics Office, Government of Mauritius.

An analysis of data on employment by sector of economic activity in 2009 shows that with around 115,800 workers, the 'Manufacturing' sector had the largest workforce, accounting for 21.2 per cent of total employment compared to 22.7 per cent in 2008. 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' was the second largest employer with 85,100 workers, or 15.6 per cent of total employment, compared to 15.0 per cent in 2008. Total employment in the remaining sectors ranged from 200 to 52,400 workers.

Table II.4 shows employment by industrial group for 2008 and 2009.

Employment in the Export Oriented Enterprises (EOE)

As at June 2010, the number of enterprises in the EOE stood at 387, down from 403 as at June 2009. Employment in the EOE increased by 18 from 58,066 at the end of June 2009 to 58,084 at the end of June 2010. Male employment declined by 366 while female employment increased by 384 between June 2009 and

Unemployment

The rate of unemployment increased marginally from 7.2 per cent in 2008 to 7.3 per cent in 2009. The number of unemployed persons increased from 40,400 (14,600 males and 25,800 females) in 2008 to 41,500 (15,800 males and 25,700 females) in 2009. Male unemployment increased to 4.4 per cent in 2009, from 4.1 per cent in 2008 while female unemployment dropped from 12.7 per cent to 12.3 per cent over the same period. The seasonally-adjusted unemployment rate increased from 7.4 per cent in the first quarter of 2009 to 7.8 per cent in the first quarter of 2010.

In the first quarter of 2010, 40.0 per cent of the unemployed were in the age bracket of 25 to 39 years, while 42.1 per cent were in the age bracket of 16 to 24 years. The mean age of the unemployed was 28 years for males and 31 years for females. Around 20.8 per cent of the unemployed had not reached the Certificate of Primary Education and a further 44.1 per cent did not possess the Cambridge School Certificate. The proportion of the

Table II.4: Employment by Industrial Group *(Thousand)*

Industrial Group	2008 [1]	2009 [2]
1. Agriculture, Forestry and Fishing	46.2	46.2
of which: Sugarcane	*16.0*	*15.5*
Non-Sugar cane	*30.2*	*30.7*
2. Mining and Quarrying	0.2	0.2
3. Manufacturing	123.3	115.8
of which: Sugar	*1.7*	*1.8*
Food	*12.3*	*12.7*
Textiles	*64.3*	*56.1*
Other	*45.0*	*45.2*
4. Electricity, Gas and Water	3.1	3.1
5. Construction	51.5	52.4
6. Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	81.5	85.1
7. Hotels and Restaurants	36.3	35.8
8. Transport, Storage and Communications	39.0	40.0
9. Financial Intermediation	11.9	12.6
10. Real Estate, Renting and Business Activities	28.4	31.4
11. Public Administration and Defence; Compulsory Social Security	39.6	39.4
12. Education	29.4	30.1
13. Health and Social Work	16.4	16.7
14. Other Services	36.2	37.0
All Sectors	**543.0**	**545.8**

[1] *Revised.* [2] *Provisional.*
Source: Central Statistics Office, Government of Mauritius.

unemployed with School Certificate as highest educational attainment was 19.5 per cent and that with Higher School Certificate 7.7 per cent. The number of unemployed having studied up to the tertiary level represented 7.9 per cent. Regarding the duration of unemployment, 83.0 per cent of the unemployed had been looking for a job for up to a year and 17.0 per cent for more than a year.

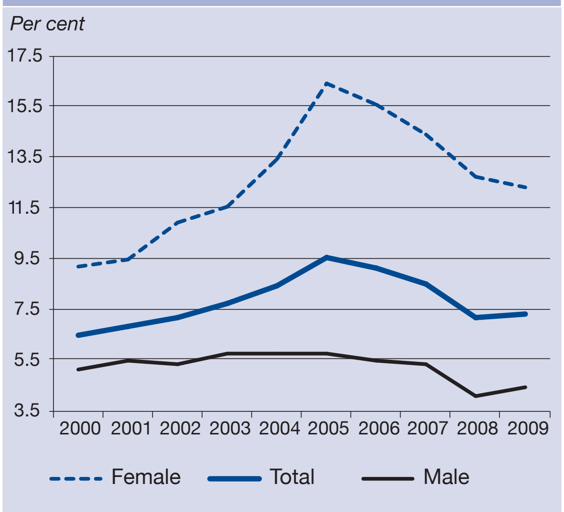
Chart II.1 shows the unemployment rate from 2000 to 2009.

UNIT LABOUR COST AND PRODUCTIVITY

Unit labour cost, defined as the remuneration of labour to produce one unit of output, grew by 3.9 per cent in 2009 compared to 8.6 per cent in 2008 for the total economy. Average compensation of employees increased by 6.6 per cent in 2009 compared to 10.1 per cent in 2008.

In the manufacturing sector, unit labour cost increased by 0.7 per cent in 2009 compared to 10.0 per cent in 2008. Average compensation of employees increased by 8.6 per cent in 2009, down from a growth rate of 12.6 per cent in 2008. In US dollar terms, unit labour cost

Chart II.1: Unemployment Rate



Source: Central Statistics Office, Government of Mauritius.

for the total economy declined by 7.7 per cent in 2009 compared to a growth rate of 20.1 per cent in 2008. In the manufacturing sector, unit labour cost, in US dollar terms, fell by 10.6 per cent in 2009 compared to a growth of 21.7 per cent in 2008.

In 2009, labour productivity for the whole economy, defined as the ratio of real output to labour input, grew by 2.6 per cent compared to an increase of 1.4 per cent in 2008. For the manufacturing sector, labour productivity increased by 7.8 per cent in 2009 compared to 2.4 per cent in 2008, while in the EOE, it rose by 11.0 per cent in 2009 compared to 5.8 per cent in 2008. Labour productivity in the textile sub-sector of the EOE rose by 7.7 per cent in 2009 compared to 6.2 per cent in 2008 while in the non-textile sub-sector of the EOE, it increased by 14.9 per cent in 2009 compared to 0.5 per cent in 2008.

In 2009, capital productivity declined by 2.9 per cent, higher than the contraction of 0.7 per cent registered in 2008 and multifactor productivity contracted by 0.9 per cent in 2009 compared to a growth of 0.1 per cent in 2008.

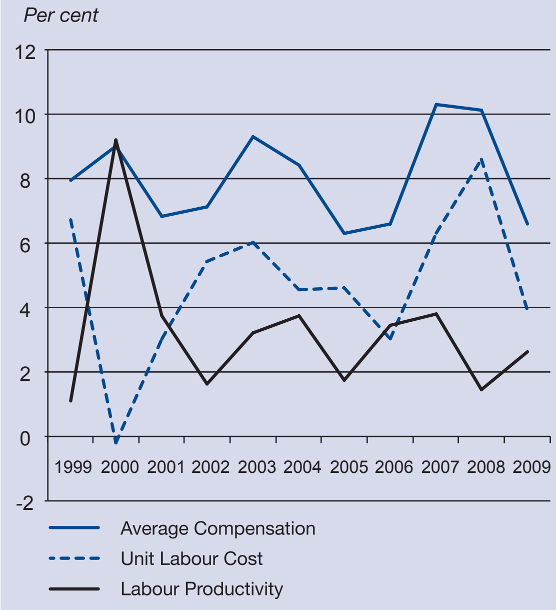
Chart II.2 shows the growth rates of average compensation, unit labour cost and labour productivity for the total economy for the years 1999 through 2009.

Chart II.3 shows the growth rates of average compensation, unit labour cost and labour productivity for the manufacturing sector for the years 1999 through 2009.

PRICES

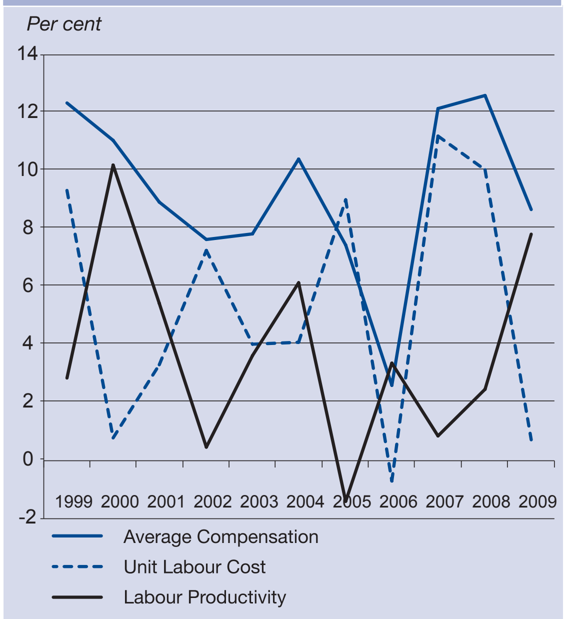
Global inflationary pressures remained modest during 2009-10, both in developed and developing countries alike, as global recovery remained fragile. In many economies, inflation had turned negative or close to zero. In emerging economies, however, a firming up of inflationary pressures was noted. The impact of global recession was most evident in the significant reduction in international commodity prices; food and energy prices, in particular, fell sharply from the peak levels seen in mid-2008.

Chart II.2: Growth Rates of Average Compensation, Unit Labour Cost and Labour Productivity - Total Economy



Source: Central Statistics Office, Government of Mauritius.

Chart II.3: Growth Rates of Average Compensation, Unit Labour Cost and Labour Productivity - Manufacturing Sector



Source: Central Statistics Office, Government of Mauritius.

This has provided some relief to commodity importing countries, which recorded a decline in inflationary pressures.

Consumer Price Index (CPI) inflation in Organisation for Economic Co-operation and Development (OECD) countries rose from -0.1 per cent in June 2009 to 1.5 per cent in June 2010 as the pace of growth recovery in the OECD economies gave rise to upward inflationary pressures. Amongst major economies, headline inflation in the United States stood at 1.1 per cent in June 2010, up from -1.4 per cent in June 2009. In the United Kingdom, inflation went up to 3.2 per cent in June 2010, from 1.8 per cent in June 2009. Inflation in the Euro area went up from -0.1 per cent in June 2009 to reach 1.4 per cent in June 2010. In Japan, deflation eased from -1.8 per cent in June 2009 to -0.7 per cent in June 2010.

The FAO Food Price Index (FFPI), which tracks agricultural commodities, averaged 163 points in June 2010, up from 151 points in June 2009, driven by increases in meat, dairy and oils price indices. Prices had so far resisted a major downturn in the oilseeds complex as demand remained strong. Dairy market prices remained firm, amid sluggish growth in milk production and robust demand. Prices in the meat sector had also been on the rise because of declining production and world demand rebounded. The price increases noted in these components of the FFPI were partially offset by a fall in international prices of cereals and sugar.

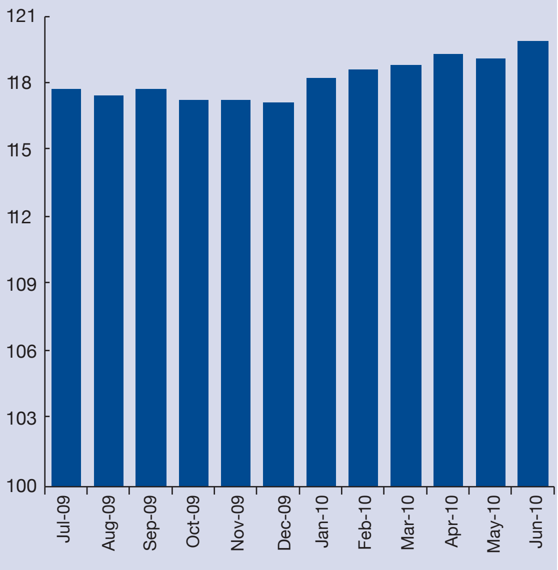
Oil prices on the international market were marred by economic uncertainties during 2009-10 that resulted into heightened oil price volatility. In the absence of any significant change in oil market fundamentals, this volatility indicated the increasing sensitivity of oil prices to conflicting economic signals. During the period under review, oil prices fluctuated within a stable range of around US$64-US$86 a barrel on average. The average price per barrel of NYMEX WTI (West Texas Intermediate benchmark crude oil), which fell by 27.9 per cent in 2008-09, rose by 7.7 per cent to US$75.3 in 2009-10. Likewise, the average price per barrel of ICE Brent futures increased by 7.9 per cent to US$75.3 in 2009-10 compared to a significant drop of 27.1 per cent in 2008-09.

In Mauritius, the CPI increased by 2.8 points or 2.4 per cent, from 117.1 in June 2009 to 119.9 in June 2010. With the exception of ‘Communication’ and ‘Education’, all the divisions of the CPI basket of goods and services recorded increases during the period under review. During the year 2009-10, the division ‘Food and non-alcoholic beverages’, which has the greatest weight in the consumer basket, contributed 1.0 index point followed by ‘Clothing and footwear’ (0.4 point), ‘Transport’ (0.4 point), ‘Furnishings, household equipment and routine household maintenance’ (0.2 point), ‘Restaurants and hotels’ (0.2 point), ‘Miscellaneous goods and services’ (0.2 point), ‘Alcoholic beverages and tobacco’ (0.1 point), ‘Housing, water, electricity, gas and other fuels’ (0.1 point), ‘Health’ (0.1 point) and ‘Recreation and culture’ (0.1 point). The contributions of the divisions ‘Communication’ and ‘Education’ were negligible.

On a quarterly basis, the CPI rose from 117.1 in June 2009 to 117.8 in September 2009, on account of increases in the prices of meat, sugar, ready-made clothing, gasoline and diesel oil. The net decrease in the CPI in December 2009 to 117.2 reflected declines in the prices of gasoline, diesel oil, air tickets, vegetables and other food products. Price developments, however, turned around in the first quarter of 2010 and the CPI registered a net increase of 1.6 index points, or 1.4 per cent, as a result of hikes in food prices, alcoholic beverages and gasoline. The CPI further rose by 1.1 index points, or 0.9 per cent in the second quarter of 2010, resulting from higher prices of petroleum and food products as well as motor vehicles.

Table II.5 shows the quarterly percentage change in the sub-indices of the 12 divisions in the CPI basket of goods and services. Chart II.4 shows the monthly evolution of CPI during the year 2009-10. Table II.6 shows the weighted contribution to change in CPI in terms of divisions. Charts II.5 and II.6 depict the monthly evolution of the 12 divisions of the CPI basket of goods and services during 2009-10 and Chart II.7 shows the year-on-year inflation rates of Mauritius and some of our major trading

Chart II.4: Monthly Consumer Price Index (Base Year: July 2006-June 2007=100)



Source: Central Statistics Office, Government of Mauritius.

partner countries. Chart II.8 shows the daily movement of oil prices during 2009-10. Chart II.9 shows the monthly movement of the FAO Food Price Index and its components during year 2009-10.

Headline inflation, measured by the percentage change in the yearly average CPI in Mauritius, steadily eased from 6.9 per cent in 2008-09 to 1.7 per cent in 2009-10. This deceleration benefitted from the combined effects of the pass-through of the strengthening of the rupee exchange rate, low domestic demand-side pressures, the retreat in oil and other commodity prices on international markets and positive base effects. Thus, price adjustments on the supply side to falling prices of raw materials and weakening demand as well as lower inflation expectations have significantly brought down the inflation rate in the Mauritian economy.

Table II.5: Quarterly Percentage Change in the Sub-indices of the CPI by Division *(Per cent)*

	DIVISIONS	Weights	Quarter ended Sep-09	Quarter ended Dec-09	Quarter ended Mar-10	Quarter ended Jun-10	2009-10
1.	Food	286	-0.1	-0.6	2.9	0.5	2.6
2.	Alcoholic Beverages and Tobacco	92	0.1	-0.3	0.7	0.0	0.5
3.	Clothing and Footwear	51	1.7	2.8	1.1	1.5	7.2
4.	Housing, Water, Electricity, Gas and Other Fuels	131	0.3	0.0	0.3	0.0	0.6
5.	Furnishings, Household Equipment and Routine Household Maintenance	64	0.5	0.7	0.6	1.3	3.1
6.	Health	30	0.8	1.2	1.5	-0.2	3.4
7.	Transport	147	2.4	-3.8	0.6	3.6	2.6
8.	Communication	36	0.7	-0.2	-0.2	0.0	0.3
9.	Recreation and Culture	48	1.0	-1.0	2.0	1.0	2.9
10.	Education	32	0.0	0.0	1.2	0.0	1.2
11.	Restaurants and Hotels	43	0.5	1.8	-0.2	1.1	3.2
12.	Miscellaneous Goods and Services	40	0.3	0.9	1.5	0.7	3.4
ALL GROUPS		**1000**	**0.6**	**-0.5**	**1.4**	**0.9**	**2.4**

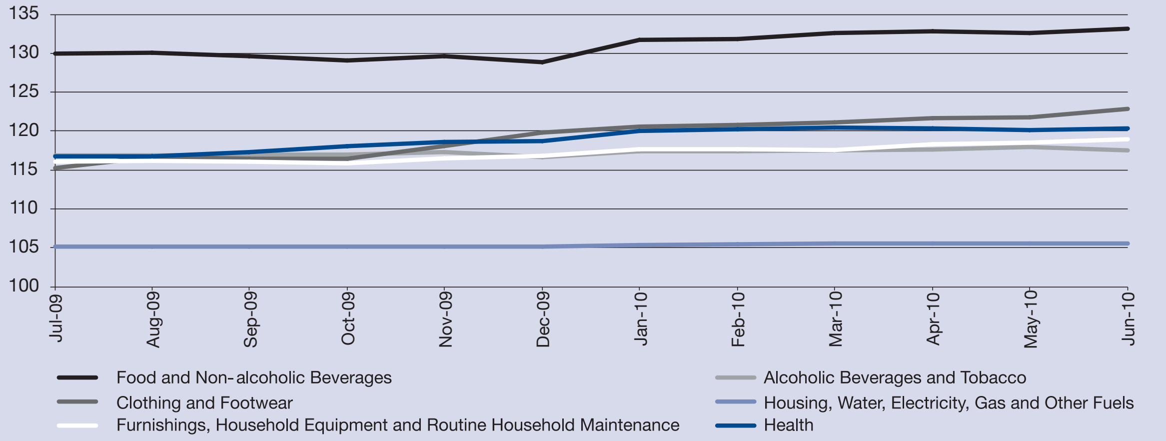
Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

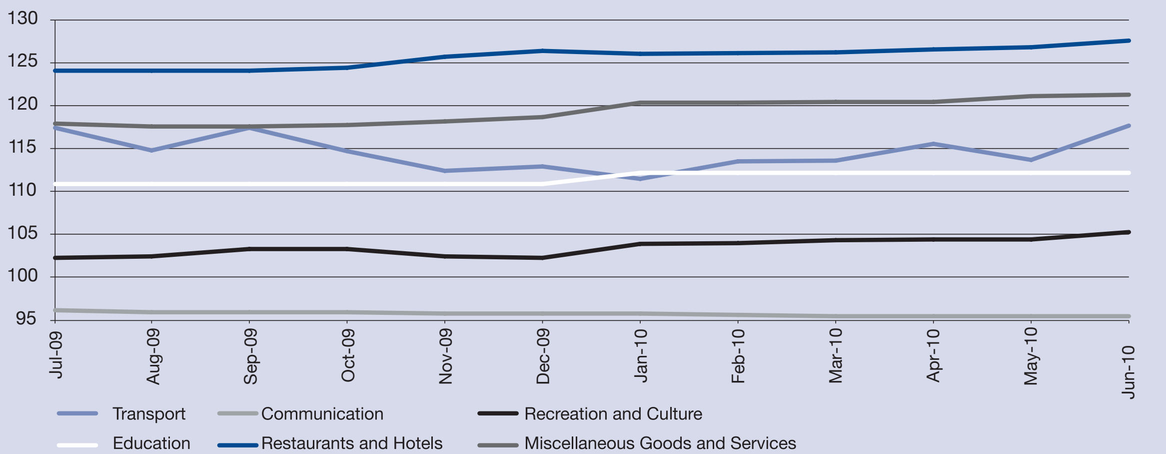
Table II.6: Weighted Contribution to Change in CPI in terms of Divisions

DIVISIONS	Weights	Jun-09	Jun-10	Change *(index point)*	Weighted Contribution: June 2009-June 2010 *(index point)*
1. Food and Non-alcoholic Beverages	286	129.8	133.2	3.4	1.0
2. Alcoholic Beverages and Tobacco	92	116.9	117.5	0.6	0.1
3. Clothing and Footwear	51	114.6	122.9	8.3	0.4
4. Housing, Water, Electricity, Gas and Other Fuels	131	104.9	105.5	0.6	0.1
5. Furnishings, Household Equipment and Routine Household Maintenance	64	115.4	119.0	3.6	0.2
6. Health	30	116.4	120.3	3.9	0.1
7. Transport	147	114.7	117.7	3.0	0.4
8. Communication	36	95.2	95.5	0.3	0.0
9. Recreation and Culture	48	102.3	105.3	3.0	0.1
10. Education	32	110.9	112.2	1.3	0.0
11. Restaurants and Hotels	43	123.6	127.6	4.0	0.2
12. Miscellaneous Goods and Services	40	117.3	121.3	4.0	0.2
ALL GROUPS	**1000**	**117.1**	**119.9**	**2.8**	**2.8**

Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

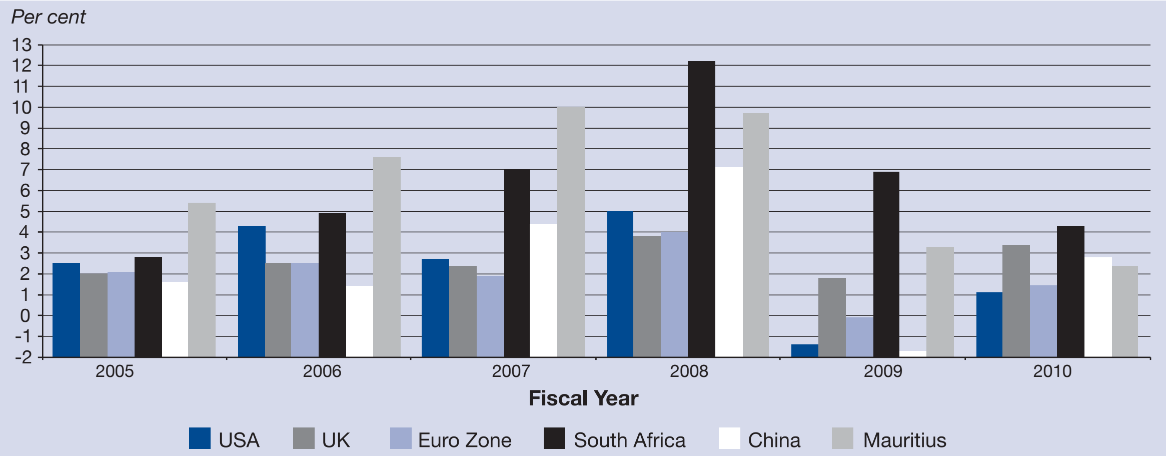
Charts II.5 and II.6: Monthly Evolution of the 12 Divisions of the CPI Basket of Goods and Services during 2009-10 (Base Year: July 2006–June 2007=100)





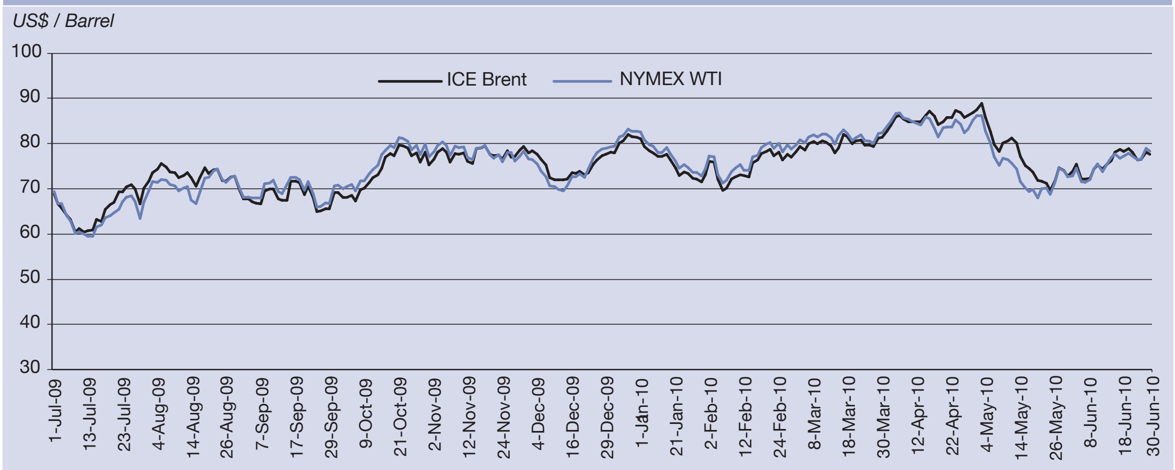
Source: Central Statistics Office, Government of Mauritius.

Chart II.7: Inflation Rates in Selected Countries



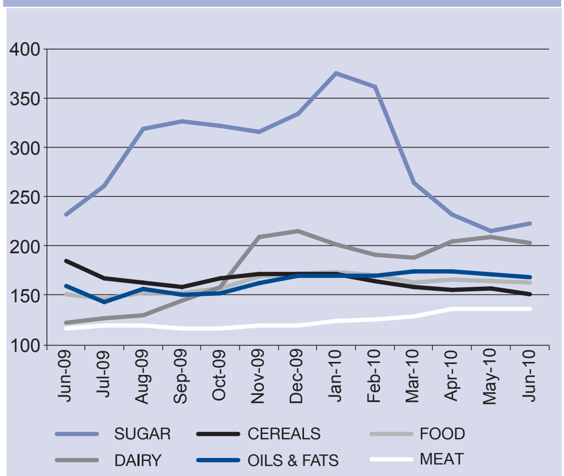
Sources: Central banks' and offices of national statistics' websites.

Chart II.8: Daily Movements of Oil Prices during 2009-10



Source: Reuters.

Chart II.9: FAO Food Price Indices



Source: FAO website.

CORE INFLATION

Mirroring the paths of headline inflation, the underlying measures of inflation, CORE1[1], CORE2[2] and TRIM10[3] also eased significantly. CORE1 inflation stood at 2.2 per cent in June 2010, down from 6.1 per cent in June 2009. CORE2 maintained a downward trend from 5.5 per cent in June 2009 to 2.6 per cent in June 2010. TRIM10 inflation dropped to 2.1 per cent in June 2010, from 2.8 per cent in June 2009.

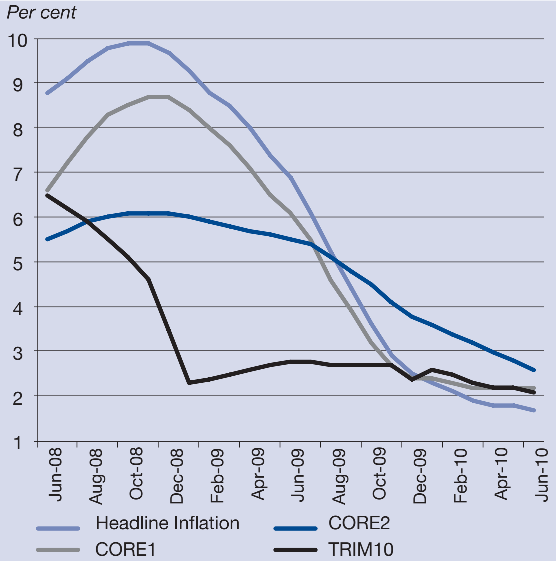
[1] *CORE1 excludes "Food, Beverages and Tobacco" components and mortgage interest on housing loan from the CPI basket.*

[2] *CORE2 excludes Food, Beverages, Tobacco, mortgage interest, energy prices and administered prices from the CPI basket.*

[3] *TRIM10 truncates 5 per cent of each tail of the distribution of price changes.*

Chart II.10 shows the movements of headline inflation and the three measures of core inflation over the period June 2008 through June 2010.

Chart II.10: Headline and Core Inflation



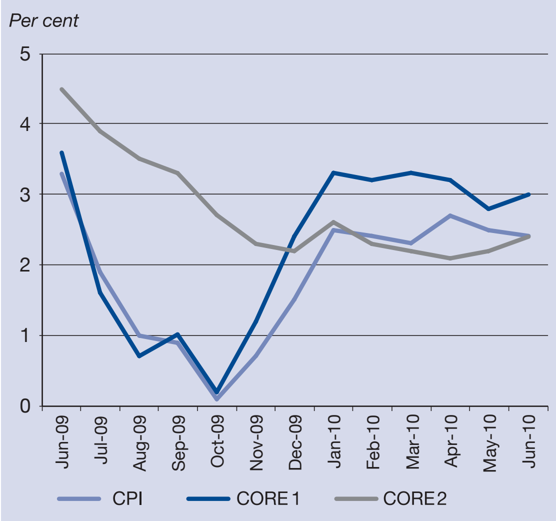
Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

CPI INFLATION AND CORE INFLATION BASED ON YEAR-ON-YEAR METHODOLOGY

Year-on-year measures of inflation remained volatile, albeit moderate, during the period under review. CPI inflation dropped from 3.3 per cent in June 2009 to 2.4 per cent in June 2010 but there were some upward price pressures in November and December 2009, January 2010 and April 2010. CORE1 inflation fell from 3.6 per cent in June 2009 to 3.0 per cent in June 2010, while CORE2 inflation eased from 4.5 per cent in June 2009 to 2.4 per cent in June 2010.

Chart II.11 shows the year-on-year movements of CPI inflation and core inflation rates over the period June 2009 through June 2010.

Chart II.11: CPI and Core Inflation based on Year-on-year Methodology



Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

PRODUCER PRICES

There are two measures of producer prices in Mauritius: the Producer Price Index-Manufacturing (PPI-M), which measures changes in the effective prices received by producers for that part of their output, which is sold on the domestic market and reflects the price trends of a constant basket of goods, representative of the output of manufacturing industries; and Producer Price Index-Agriculture (PPI-A)[4], which gives a measure of the average change in the selling prices which producers receive for their agricultural products.

Using both the 12-month moving average and year-on-year methodologies, producer price inflation rates showed a mixed picture during 2009-10.

The PPI-A fell from 108.7 in June 2009 to 99.1 in June 2010, or 8.8 per cent compared to a decrease of 1.5 per cent in 2008-09. The PPI-A covers two sub-groups, namely “Crop Products” and “Animals and Animal Products”. The index for ‘Crop Products’, which carries 75.6 per cent of the total weight, decreased by 13.6 per cent for the year 2009-10 while the index for the other sub-group ‘Animals and Animal Products’ rose by 2.2 per cent. PPI-A inflation, which is calculated as the percentage change in the yearly average PPI-A index, declined significantly from 3.8 per cent in 2008-09 to -7.6

[4] *In order to reflect changes in the production pattern of agricultural products, the Central Statistics Office has calculated a new set of weights with 2007 as base period, the previous one being 2002.*

per cent for the 12-month period ended June 2010. Based on year-on-year methodology, PPI-A inflation dropped from -1.5 per cent in June 2009 to -8.8 per cent in June 2010.

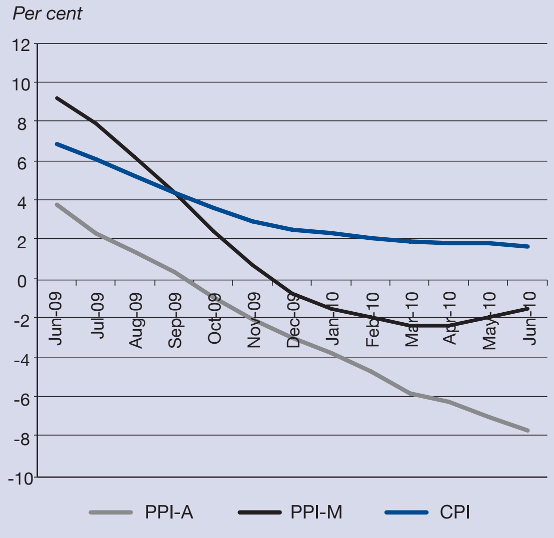
The Producer Price Index-Manufacturing (PPI-M) went up from 165.7 in June 2009 to 174.8 in June 2010. The growth reflects the increase in the sub-index for "Manufacture of Food Products, Beverages and Tobacco" which accounts for nearly 50 per cent of the overall weight. PPI-M inflation, which is calculated as the percentage change in the yearly average PPI-M index, dropped from 9.2 per cent in 2008-09 to -1.5 per cent for the 12-month period ended June 2010. The year-on-year PPI-M inflation rose from 0.0 per cent in June 2009 to 5.5 per cent in June 2010.

Charts II.12 and II.13 give the PPI-A inflation, PPI-M inflation and CPI inflation from June 2009 to June 2010, based on both methodologies.

Inflation Outlook

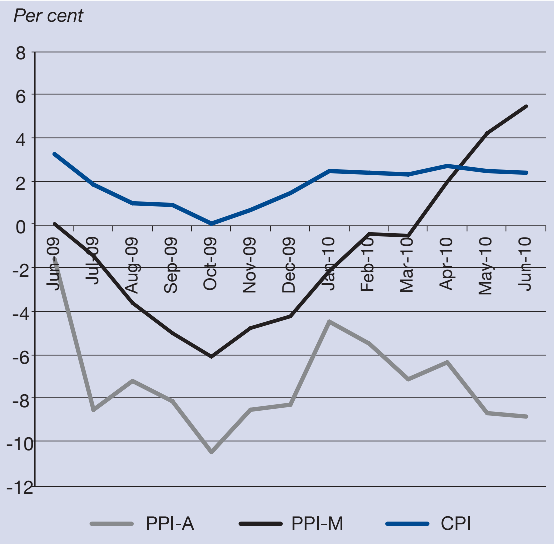
Inflation has remained subdued, amid easing pressures on both external and domestic front. Looking ahead, potential risks would stem mostly from external sources – in particular, the return of commodity bottlenecks and renewed commodity prices surging as the global economy consolidates further. Furthermore, increase in freight rates and higher imported inflation from the main trading partner countries could significantly change the domestic inflation outlook in the near term.

Chart II.12: Inflation Indicators: 12-month Moving Average



Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

Chart II.13: Inflation Indicators: Year-on-year Methodology



Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

III. MONEY AND BANKING

During the year 2009-10, the main developments were (i) the low interest rate environment, given that the key Repo Rate, the Bank's policy rate, was left unchanged at 5.75 per cent since March 2009, a historically low level, (ii) falling domestic inflation rate and subdued domestic demand.

Specifically, the pace of underlying monetary expansion decelerated during the course of the year and this was reflected in more or less comparable declines in the annual growth rates of Broad Money Liabilities (BML), the broadest measure of money supply, and claims on the private sector by Other Depository Corporations (ODCs).

DEPOSITORY CORPORATIONS SURVEY

The Depository Corporations Survey (DCS) consolidates the balance sheets of the Bank of Mauritius and ODCs, which represent the deposit-generating institutions in the country and comprised 19 banks and 12 non-bank deposit-taking institutions as at end of June 2010.

Net foreign assets of depository corporations rose by Rs4,588 million, from Rs97,146 million at the end of June 2009 to Rs101,733 million at the end of June 2010, or 4.7 per cent, lower than the increase of 16.2 per cent recorded in the previous year. The slowdown in these net claims on non-residents reflected to a certain extent risk aversion stemming from the global financial turmoil as well as the combined effects of low interest earned on foreign assets and valuation effects arising from exchange rate developments. Net foreign assets of other depository corporations rose by 8.5 per cent, down from an increase of 27.3 per cent in 2008-09. The net foreign assets of the Bank of Mauritius edged up by 2.7 per cent as against a rise of 11.0 per cent in 2008-09.

Domestic claims of depository corporations, excluding claims on Global Business Licence (GBL) holders, increased by Rs19,497 million, from Rs275,224 million at the end of June 2009 to Rs294,721 million at the end of June 2010, or 7.1 per cent, higher than the 6.4 per cent growth recorded in 2008-09. This increase reflected the dynamics of net claims on Central Government, which recorded positive growth in 2009-10 after a contraction in 2008-09. Net claims on budgetary Central Government rose by Rs2,487 million, from Rs49,785 million at the end of June 2009 to Rs52,272 million at the end of June 2010, or 5.0 per cent, as against a decrease of 6.4 per cent in 2008-09. The rise in net claims on Government was driven by both of its components, with Government running down part of its huge deposits at the Bank and ODCs increasing further their claims, as against the preceding year when the build-up in government balances at the Bank fully offset the additional claims of ODCs. Claims on other sectors, that is, claims on the private sector, moderated in 2009-10, recording an increase of Rs17,010 million, or 7.5 per cent lower than the 9.7 per cent increase recorded in the preceding year. Loan developments during 2009-10 remained consistent with the domestic economic cycle and uncertainty surrounding economic outlook. The low interest rate environment has also not spurred any significant increase in credit, thereby comforting the view that the slowdown in economic activity has reduced the demand for credit. Claims on GBL holders expanded by Rs597 million, from Rs18,645 million at the end of June 2009 to Rs19,242 million at the June 2010, or 3.2 per cent, lower than the 65.5 per cent increase in 2008-09.

BML went up by Rs19,331 million, from Rs283,613 million at the end of June 2009 to Rs302,944 million at the end of June 2010, or 6.8 per cent, down from 12.5 per cent registered in the preceding year. The behaviour of monetary aggregates mirrored somewhat the downturn of domestic business cycle over the period under review. In particular, money demand was conditioned by such parameters as the growth rate of the economy, dynamics of inflation and exchange rate, reduced pace of growth of credit activities and movement of foreign exchange flows.

Of the components of BML, Narrow Money Liabilities (NML), which comprises currency with public and rupee transferable deposits, increased by Rs5,342 million, from Rs53,920 million at the end of June 2009 to Rs59,262 million at the end of June 2010, or 9.9 per cent, lower than the rise of 17.2 per cent registered in 2008-09. In essence, the slowdown in the underlying growth rates of the components of NML, which typically characterise the transactions motive for holding money, again pointed to subdued domestic economic activities, notwithstanding the background of slowing inflation growth and low interest rates on interest-earning deposits, which caused the opportunity costs of holding NML to be lower. Quasi Money Liabilities (QML), the other component, which consists of the interest-bearing and foreign currency deposits, went up by Rs14,704 million, from Rs228,137 million at the end of June 2009 to Rs242,841 million at the end of June 2010, or by 6.4 per cent, significantly lower than the rise of 11.5 per cent recorded in the preceding year. The share of NML in BML went up from 19.0 per cent at the end of June 2009 to 19.6 per cent at the end of June 2010, thereby showing no strong signs of any portfolio shift between holding the two components of BML.

The rupee component of deposits included in BML went up by 8.1 per cent in 2009-10, down from 11.1 per cent in 2008-09 while the foreign currency component of deposits included in BML increased by 3.1 per cent compared to a rise of 18.0 per cent a year ago. The share of foreign currency deposits in BML was around 19.2 per cent at the end of June 2010, lower than the share of 19.9 per cent recorded as at end-June 2009. The slowdown in the underlying growth of deposits reflected weak business conditions as well as exchange rate developments.

The growth of currency with public, a component of NML, slowed down to 8.3 per cent in 2009-10, from 15.2 per cent in 2008-09. On its part, transferable deposits recorded an increase of 10.5 per cent in 2009-10, lower than 18.1 per cent in 2008-09.

Of the components of QML, savings deposits increased by 13.7 per cent in 2009-10, higher than the growth of 8.4 per cent registered in the previous year; time deposits expanded by 2.2 per cent as against an increase of 10.7 per cent in 2008-09; while securities other than shares included in broad money dropped by 45.9 per cent compared to a 1.1 per cent rise recorded in the preceding year. These developments reflected to some extent the low interest rate environment and prevailing uncertainty, thereby causing depositors to keep their funds in savings accounts rather than lock them in longer maturities.

During the year 2009-10, the growth of net foreign assets and net domestic assets worked as the driving force behind the growth of broad money liabilities. The 6.8 per cent increase in BML in 2009-10 resulted from positive contributions of 6.0, 1.6 and 0.9 percentage points in claims on other sectors, net foreign assets of depository corporations and net claims on budgetary Central Government, respectively. Net other items made negative contributions of 1.7 percentage points. During the year 2008-09, the 12.5 per cent rise in BML was brought about by positive contributions of 7.9 and 5.4 percentage points in claims on other sectors and net foreign assets of depository corporations, respectively. Net claims on budgetary Central Government and net other items made negative contributions of 1.3 percentage points and 0.6 percentage point.

As a percentage of GDP at market prices, average BML rose from 100.4 per cent in 2008-09 to 103.8 per cent in 2009-10. Average NML as a percentage of GDP also went up from 18.6 per cent in 2008-09 to 20.3 per cent in 2009-10. Average domestic claims as a percentage of GDP fell from 99.7 per cent to 99.2 per cent and average claims on other sectors fell from 81.5 per cent in 2008-09 to 81.4 per cent in 2009-10.

Table III.1 shows the Depository Corporations Survey as at end-June 2008 through end-June 2010.

Table III.1: Depository Corporations Survey

	Jun-08 (1)	Jun-09 (2)	Jun-10 (3)	Change Between (1) and (2)		Change Between (2) and (3)	
	(Rs Mn)	(Rs Mn)	(Rs Mn)	(Rs Mn)	(Per cent)	(Rs Mn)	(Per cent)
1. Net Foreign Assets	**83,627.6**	**97,145.7**	**101,733.0**	**13,518.1**	**16.2**	**4,587.3**	**4.7**
Bank of Mauritius	57,026.5	63,281.8	65,004.4	6,255.3	11.0	1,722.6	2.7
Other Depository Corporations	26,601.1	33,863.9	36,728.8	7,262.8	27.3	2,864.9	8.5
Banks	*26,719.9*	*34,068.5*	*36,932.0*	7,348.6	27.5	2,863.5	8.4
Non-Bank Deposit-Taking Institutions	*-118.8*	*-204.6*	*-203.2*	-85.8	72.2	1.4	-0.7
2. Domestic Claims	**258,703.8**	**275,223.5**	**294,721.0**	**16,519.7**	**6.4**	**19,497.5**	**7.1**
A. Net Claims on Central Government	***53,171.3***	***49,784.8***	***52,271.7***	**-3,386.5**	**-6.4**	**2,486.9**	**5.0**
Bank of Mauritius	-4,361.6	-10,174.6	-8,506.5	-5,813.0	133.3	1,668.1	16.4
Other Depository Corporations	57,532.9	59,959.4	60,778.2	2,426.5	4.2	818.8	1.4
Banks	*56,126.3*	*58,609.0*	*59,722.0*	2,482.7	4.4	1,113.0	1.9
Non-Bank Deposit-Taking Institutions	*1,406.5*	*1,350.4*	*1,056.2*	-56.1	-4.0	-294.2	-21.8
B. Claims on Other Sectors	***205,532.6***	***225,438.7***	***242,449.0***	**19,906.1**	**9.7**	**17,010.3**	**7.5**
Bank of Mauritius	134.5	133.3	133.1	-1.2	-0.9	-0.2	-0.2
Other Depository Corporations	205,398.0	225,305.4	242,315.9	19,907.4	9.7	17,010.5	7.5
Banks	*176,763.8*	*191,518.7*	*210,158.2*	14,754.9	8.3	18,639.5	9.7
Non-Bank Deposit-Taking Institutions	*28,634.2*	*33,786.6*	*32,157.7*	5,152.4	18.0	-1,628.9	-4.8
3. ASSETS = LIABILITIES	**342,331.4**	**372,369.2**	**396,454.0**	**30,037.8**	**8.8**	**24,084.8**	**6.5**
4. Broad Money Liabilities	**252,006.9**	**283,613.3**	**302,943.8**	**31,606.4**	**12.5**	**19,330.5**	**6.8**
A. Currency with Public	***12,746.2***	***14,683.1***	***15,904.6***	**1,936.9**	**15.2**	**1,221.5**	**8.3**
B. Transferable Deposits	***53,396.6***	***65,368.7***	***72,695.0***	**11,972.1**	**22.4**	**7,326.3**	**11.2**
Bank of Mauritius	288.9	101.0	122.9	-187.9	-65.0	21.9	21.7
Other Depository Corporations	53,107.7	65,267.7	72,572.1	12,160.0	22.9	7,304.4	11.2
Banks	*53,107.7*	*65,267.7*	*72,572.1*	12,160.0	22.9	7,304.4	11.2
Non-Bank Deposit-Taking Institutions	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
C. Savings Deposits	***73,897.5***	***81,932.9***	***92,471.1***	**8,035.4**	**10.9**	**10,538.2**	**12.9**
Bank of Mauritius	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Depository Corporations	73,897.5	81,932.9	92,471.1	8,035.4	10.9	10,538.2	12.9
Banks	*73,136.0*	*80,603.4*	*91,102.2*	7,467.4	10.2	10,498.8	13.0
Non-Bank Deposit-Taking Institutions	*761.5*	*1,333.6*	*1,368.9*	572.1	75.1	35.3	2.6
D. Time Deposits	***110,426.9***	***120,072.4***	***121,031.5***	**9,645.5**	**8.7**	**959.1**	**0.8**
Bank of Mauritius	97.3	78.8	420.1	-18.5	-19.0	341.3	433.1
Other Depository Corporations	110,329.7	119,993.6	120,611.4	9,663.9	8.8	617.8	0.5
Banks	*86,890.1*	*94,502.6*	*94,860.9*	7,612.5	8.8	358.3	0.4
Non-Bank Deposit-Taking Institutions	*23,439.5*	*25,491.0*	*25,750.5*	2,051.5	8.8	259.5	1.0
E. Securities other than Shares	***1,539.5***	***1,555.9***	***841.8***	**16.4**	**1.1**	**-714.1**	**-45.9**
Bank of Mauritius	167.6	0.0	0.0	-167.6	-100.0	0.0	0.0
Other Depository Corporations	1,372.0	1,555.9	841.8	183.9	13.4	-714.1	-45.9
Banks	*784.8*	*851.5*	*0.0*	66.7	8.5	-851.5	-100.0
Non-Bank Deposit-Taking Institutions	*587.2*	*704.4*	*841.8*	117.2	20.0	137.4	19.5
5. Other	**90,324.5**	**88,755.9**	**93,510.2**	**-1,400.4**	**-1.6**	**4,754.3**	**5.4**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

Trends in Monetary Base and Monetary Ratios

The monthly average level of the monetary base went up from Rs29,842 million in 2008-09 to Rs32,816 million in 2009-10, or 10.0 per cent, lower than the increase of 17.0 per cent recorded for 2008-09. The monthly average level of broad money liabilities rose from Rs271,088 million at the end of June 2009 to Rs292,191 million at the end of June 2010, that is, by 7.8 per cent, way lower than the expansion of 14.9 per cent registered in 2008-09. Consequently, the average multiplier for broad money liabilities decreased from 9.1 in 2008-09 to 8.9 in 2009-10.

On an average basis and as a ratio of BML, while currency with public edged up from 5.3 per cent in 2008-09 to 5.4 per cent in 2009-10, transferable deposits increased from 21.5 per cent to 23.2 per cent and savings deposits went up from 28.6 per cent to 29.7 per cent. The share of time deposits declined from 44.1 per cent to 41.4 per cent, while that of securities other than shares fell from 0.6 per cent to 0.3 per cent over the same period.

The income velocity of circulation of BML remained unchanged at 1.0 for the second consecutive year. However, the income velocity of NML maintained its downtrend, falling to 4.9 in 2009-10, from 5.4 in 2008-09. A similar trend was observed for the income velocity of currency in circulation, which declined to 17.8 in 2009-10, from 18.8 in 2008-09. The falling income velocity of the narrow measures of money was indicative of the widespread use of more liquid measures of money as means of payments in the low interest rate environment.

Table III.2a gives details on monetary ratios for the years ended June 2008 through June 2010 and Table III.2b gives details on the income velocity of circulation for the years 2007-08 through 2009-10.

Table III.2a: Monetary Aggregates and Ratios

	June-08	June-09	June-10
1. Monthly Average for year ended (Rs million)			
A. Monetary Base	**25,506**	**29,842**	**32,816**
	(+14.4)	*(+17.0)*	*(+10.0)*
B. Broad Money Liabilities (BML)	**235,888**	**271,088**	**292,191**
	(+13.9)	*(+14.9)*	*(+7.8)*
(a) Currency with public	**12,618**	**14,358**	**15,781**
	(+11.0)	*(+13.8)*	*(+9.9)*
(b) Transferable deposits	**47,109**	**58,343**	**67,734**
	(+20.6)	*(+23.8)*	*(+16.1)*
(c) Savings deposits	**67,376**	**77,438**	**86,846**
	(+6.4)	*(+14.9)*	*(+12.1)*
(d) Time deposits	**107,204**	**119,457**	**120,910**
	(+17.1)	*(+11.4)*	*(+1.2)*
(e) Securities other than shares included in broad money	**1,581**	**1,492**	**921**
	(-9.3)	*(-5.6)*	*(-38.3)*
2. Average Broad Money Multiplier	**9.2**	**9.1**	**8.9**
3. Other Monetary Ratios (Per cent)			
A. Currency to BML	**5.3**	**5.3**	**5.4**
B. Transferable deposits to BML	**20.0**	**21.5**	**23.2**
C. Savings deposits to BML	**28.6**	**28.6**	**29.7**
D. Time deposits to BML	**45.4**	**44.1**	**41.4**
E. Securities other than shares included in broad money to BML	**0.7**	**0.6**	**0.3**

Notes : (i) Figures in brackets represent percentage change over previous period.
(ii) The average Broad Money Multiplier is defined as the ratio of average Broad Money Liabilities to average Monetary Base.
Source: Statistics Division.

Table III.2b: Income Velocity of Circulation of Money

	Income Velocity of Circulation of Currency	Income Velocity of Circulation of Narrow Money Liabilities	Income Velocity of Circulation of Broad Money Liabilities
2007-08	19.9	5.9	1.1
2008-09	18.8	5.4	1.0
2009-10	17.8	4.9	1.0

Source: Statistics Division.

Central Bank Survey

The Central Bank Survey (CBS) shows the components of the monetary base, which comprises the central bank liabilities that support the expansion of broad money and credit.

The monetary base expanded by Rs5,883 million, or 19.7 per cent, from Rs29,868 million at the end of June 2009 to Rs35,751 million at the end of June 2010, as against an expansion of 9.9 per cent in 2008-09. Of its major components, currency in circulation rose by 10.1 per cent, lower than the rise of 14.2 per cent in 2008-09 and reserve deposits increased by 29.9 per cent as against an increase of 6.8 per cent in 2008-09. This increase was indicative of additional build-up in banks' excess reserves amidst an environment of subdued lending to the private sector.

On the sources side of the monetary base, net foreign assets of the Bank increased by Rs1,723 million, or 2.7 per cent, from Rs63,282 million at the end of June 2009 to Rs65,005 million at the end of June 2010 compared to an increase of 11.0 per cent in the previous year. Domestic claims by the Bank improved by Rs1,592 million or 16.7 per cent, to negative Rs7,927 million at the end of June 2010, as against a decrease of 193.7 per cent in 2008-09. Net claims on Government remained largely negative, reflecting the strong deposit base of Government with the central bank.

Table III.3 shows the Central Bank Survey as at end-June 2008 through end-June 2010.

Table III.3: Central Bank Survey

	Jun-08 (1)	Jun-09 (2)	Jun-10 (3)	Change Between (1) and (2)		Change Between (2) and (3)	
	(Rs Mn)	*(Rs Mn)*	*(Rs Mn)*	*(Rs Mn)*	*(Per cent)*	*(Rs Mn)*	*(Per cent)*
1. Net Foreign Assets	**57,026.5**	**63,281.8**	**65,004.8**	**6,255.3**	**11.0**	**1,723.0**	**2.7**
Claims on Nonresidents	57,059.0	63,300.9	69,065.0	6,241.9	10.9	5,764.1	9.1
Liabilities to Nonresidents	32.5	19.1	4,060.2	-13.4	-41.3	4,041.1	21,143.9
2. Domestic Claims	**-3,240.9**	**-9,518.9**	**-7,926.6**	**-6,278.0**	**193.7**	**1,592.3**	**-16.7**
A. Net Claims on Budgetary Central Government	-4,361.6	-10,174.6	-8,506.6	-5,813.0	133.3	1,668.0	16.4
B. Claims on Other Sectors	134.5	133.3	133.1	-1.2	-0.9	-0.2	-0.2
C. Claims on Other Depository Corporations	986.2	522.4	446.9	-463.8	-47.0	-75.5	-14.4
3. ASSETS = LIABILITIES	**53,785.6**	**53,762.9**	**57,077.8**	**-22.7**	**0.0**	**3,314.9**	**6.2**
4. Monetary Base	**27,159.3**	**29,868.0**	**35,751.6**	**2,708.7**	**10.0**	**5,883.6**	**19.7**
A. Currency in Circulation	14,840.1	16,940.1	18,649.4	2,100.0	14.2	1,709.3	10.1
B. Liabilities to Other Depository Corporations	11,933.0	12,748.1	16,559.3	815.1	6.8	3,811.2	29.9
C. Deposits Included in Broad Money	386.2	179.8	542.9	-206.4	-53.4	363.1	202.0
5. Securities other than Shares Included in Broad Money	**167.6**	**0.0**	**0.0**	**-167.6**	**-100.0**	**0.0**	**0.0**
6. Other	**26,458.8**	**23,894.9**	**21,326.2**	**-2,563.8**	**-9.7**	**-2,568.8**	**-10.8**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

Table III.4: Other Depository Corporations Survey

	Jun-08 (1) (Rs Mn)	Jun-09 (2) (Rs Mn)	Jun-10 (3) (Rs Mn)	Change Between (1) and (2) (Rs Mn)	(Per cent)	Change Between (2) and (3) (Rs Mn)	(Per cent)
1. Net Foreign Assets	**26,601.1**	**33,863.9**	**36,728.8**	**7,262.7**	**27.3**	**2,864.9**	**8.5**
Claims on Nonresidents	269,821.0	288,406.0	388,296.1	18,585.0	6.9	99,890.2	34.6
Liabilities to Nonresidents	243,219.9	254,542.1	351,567.3	11,322.2	4.7	97,025.3	38.1
2. Domestic Claims	**283,101.5**	**300,309.4**	**325,279.6**	**17,207.8**	**6.1**	**24,970.3**	**8.3**
A. Net Claims on Central Government	57,532.9	59,959.4	60,778.2	2,426.5	4.2	818.8	1.4
B. Claims on Other Sectors	205,398.0	225,305.4	242,315.9	19,907.3	9.7	17,010.5	7.5
C. Claims on Central Bank	20,170.6	15,044.6	22,185.5	-5,126.0	-25.4	7,140.9	47.5
3. Claims on Global Business Licence Holders Sector	**11,264.0**	**18,644.9**	**19,242.2**	**7,380.9**	**65.5**	**597.3**	**3.2**
4. ASSETS = LIABILITIES	**320,966.7**	**352,818.1**	**381,250.6**	**31,851.5**	**9.9**	**28,432.4**	**8.1**
5. Liabilities to Central Bank	**852.2**	**470.9**	**1,018.9**	**-381.3**	**-44.7**	**548.0**	**116.4**
6. Deposits Included in Broad Money	**237,334.9**	**267,194.2**	**285,654.6**	**29,859.3**	**12.6**	**18,460.4**	**6.9**
A. Transferable Deposits	53,107.7	65,267.7	72,572.1	12,160.0	22.9	7,304.4	11.2
B. Savings Deposits	73,897.5	81,932.9	92,471.1	8,035.4	10.9	10,538.1	12.9
C. Time Deposits	110,329.7	119,993.6	120,611.4	9,663.9	8.8	617.9	0.5
7. Securities other than Shares included in Broad Money	**1,372.0**	**1,555.9**	**841.8**	**183.9**	**13.4**	**-714.1**	**-45.9**
8. Other	**81,407.6**	**83,597.2**	**93,735.4**	**2,189.6**	**2.7**	**10,138.2**	**12.1**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

Other Depository Corporations Survey

The Other Depository Corporations Survey (ODCS) covers all institutional units that issue liabilities included in the national definition of broad money, which are banks and non-bank deposit-taking institutions (NBDTIs).

Net foreign assets of ODCs went up by Rs2,865 million, or 8.5 per cent, from Rs33,864 million at the end of June 2009 to Rs36,729 million at the end of June 2010, as against an expansion of 27.3 per cent in 2008-09. Claims on non-residents rose by Rs99,890 million, or 34.6 per cent, to Rs388,296 million while liabilities to non-residents increased by Rs97,025 million, or 38.1 per cent, to Rs351,567 million at the end of June 2010.

Domestic claims rose by Rs24,970 million, or 8.3 per cent, from Rs300,309 million at the end of June 2009 to Rs325,280 million at the end of June 2010, compared to a growth of 6.1 per cent in the preceding year. Of the components of domestic claims, net claims on Central Government increased by Rs819 million, or 1.4 per cent, to Rs60,778 million, compared to a growth of 4.2 per cent recorded in the previous year. Claims on other sectors grew by Rs17,011 million, or 7.5 per cent, to Rs242,316 million, compared to a growth of 9.7 per cent noted in 2008-09. Claims on the central bank rose by Rs7,141 million, or 47.5 per cent, to Rs22,186 million at the end of June 2010 as against a drop of Rs5,126 million, or 25.4 per cent, in the preceding year.

Claims on GBL holders expanded by Rs597 million, or 3.2 per cent, from Rs18,645 million at the end of June 2009 to Rs19,242 million at the end of June 2010, substantially lower than the growth of 65.5 per cent registered in 2008-09.

Deposits included in broad money increased by Rs18,460 million, or 6.9 per cent, from Rs267,194 million at the end of June 2009 to Rs285,655 million at the end of June 2010, lower than the rise of 12.6 per cent recorded during the previous fiscal year. Transferable deposits increased by Rs7,304 million to Rs72,572 million, or 11.2 per cent, compared to an increase of 22.9 per cent in 2008-09. Savings deposits went up by Rs10,538 million, or 12.9 per cent, to Rs92,471 million as against a rise of 10.9 per cent in 2008-09 and time deposits increased by Rs618 million to Rs120,611 million, or 0.5 per cent, compared to a growth of 8.8 per cent in 2008-09.

Securities other than shares included in broad money dropped by Rs714 million, from Rs1,556 million at the end of June 2009 to Rs842 million at the end of June 2010, or 45.9 per cent, as against a growth of 13.4 per cent registered in the preceding fiscal year.

Table III.4 presents the Other Depository Corporations Survey as at end-June 2008 through end-June 2010.

Banks Survey

The Banks Survey analyses, from the monetary framework, the activities of banks.

The total assets (liabilities) of banks grew by Rs27,479 million, or 9.1 per cent, from Rs303,091 million at the end of June 2009 to Rs330,570 million at the end of June 2010, higher than the growth of 7.1 per cent noted in the previous year. This expansion also includes the total assets (liabilities) of a new bank as at end-June 2010, which was a former non-bank deposit-taking institution. Excluding the statistical coverage of this institution, banks' total assets (liabilities) increased by 8.4 per cent in 2009-10.

Net foreign assets of banks grew by Rs2,863 million, or 8.4 per cent, from Rs34,069 million at the end of June 2009 to Rs36,932 million at the end of June 2010, in contrast to an expansion of 27.5 per cent in 2008-09. The growth in net foreign assets during the year 2009-10 was the net result of a rise in claims on non-residents of Rs99,888 million, or 34.6 per cent, more than offsetting the increase in liabilities to non-residents of Rs97,024 million. After adjusting for the coverage of this NBDTI, banks' net claims on non-residents witnessed an increase of 8.9 per cent.

Domestic claims expanded by Rs24,615 million, or 9.1 per cent, from Rs269,023 million at the end of June 2009 to Rs293,638 million at the end of June 2010, higher than the growth of 5.0 per cent recorded in the preceding year. Of the components of domestic claims, net claims on Central Government increased by Rs1,113 million, or 1.9 per cent, from Rs58,609 million at the end of June 2009 to Rs59,722 million at the end of June 2010. Claims on Other Sectors expanded by Rs18,640 million, or 9.7 per cent, higher than the increase of 8.3 per cent in 2008-09. Claims on the Bank of Mauritius grew by Rs5,135 million, or 34.1 per cent while claims on NBDTIs went down by Rs273 million, or 7.1 per cent, to Rs3,579 million over the same period. Again, adjusting for statistical coverage, domestic claims grew by 8.3 per cent in 2009-10, with claims on other sectors posting an increase of 8.6 per cent and claims on NBDTIs falling by 7.5 per cent.

Deposits included in broad money grew by Rs18,162 million, or 7.6 per cent, from Rs240,374 million at the end of June 2009 to Rs258,535 million at the end of June 2010 compared to the rise of 12.8 per cent registered in the preceding year. This expansion reflects increases of Rs10,499 million, or 13.0 per cent, in savings deposits, Rs7,304 million, or 11.2 per cent, in transferable deposits and of Rs358 million, or 0.4 per cent, in time deposits. After adjusting for the statistical coverage, deposits included in broad money posted an increase of 6.7 per cent in 2009-10, and masking the decline of 1.7 per cent in time deposits.

Table III.5 shows the Banks Survey as at end-June 2008 through end-June 2010.

Non-Bank Deposit-Taking Institutions Survey

Total assets (liabilities) of non-bank deposit-taking institutions dropped by Rs324 million, or 0.8 per cent, from Rs39,080 million at the end of June 2009 to Rs38,755 million at the end of June 2010, as against an expansion of 14.1 per cent noted in the preceding year. However, this decline should be assessed against the fact

Table III.5: Banks Survey

	Jun-08 (1)	Jun-09 (3)	Jun-10 (3)	Change Between (1) and (2) (Rs Mn)	(Per Cent)	Change Between (2) and (3) (Rs Mn)	(Per Cent)
1. Net Foreign Assets	**26,719.9**	**34,068.5**	**36,932.0**	**7,348.6**	**27.5**	**2,863.4**	**8.4**
Claims on Nonresidents	269,819.4	288,401.0	388,288.5	18,581.6	6.9	99,887.5	34.6
Liabilities to Nonresidents	243,099.5	254,332.5	351,356.5	11,233.0	4.6	97,024.0	38.1
2. Domestic Claims	**256,269.1**	**269,022.6**	**293,637.7**	**12,753.5**	**5.0**	**24,615.1**	**9.1**
A. Net Claims on Central Government	56,126.3	58,609.0	59,722.0	2,482.7	4.4	1,113.0	1.9
B. Claims on Other Sectors	176,763.8	191,518.7	210,158.2	14,754.9	8.3	18,639.5	9.7
C. Claims on Central Bank	20,170.3	15,042.8	20,178.1	-5,127.4	-25.4	5,135.3	34.1
D. Claims on NonBank Deposit-Taking Institutions	3,208.7	3,852.1	3,579.4	643.4	20.1	-272.7	-7.1
3. ASSETS = LIABILITIES	**282,989.0**	**303,091.2**	**330,569.7**	**20,102.1**	**7.1**	**27,478.5**	**9.1**
4. Liabilities to Central Bank	**838.4**	**453.9**	**993.5**	**-384.6**	**-45.9**	**539.6**	**118.9**
5. Deposits Included in Broad Money	**213,133.8**	**240,373.7**	**258,535.2**	**27,239.8**	**12.8**	**18,161.5**	**7.6**
A. Transferable Deposits	53,107.7	65,267.7	72,572.1	12,160.0	22.9	7,304.4	11.2
B. Savings Deposits	73,136.0	80,603.4	91,102.2	7,467.3	10.2	10,498.8	13.0
C. Time Deposits	86,890.1	94,502.6	94,860.9	7,612.5	8.8	358.3	0.4
6. Securities other than Shares included in Broad Money	**784.8**	**851.5**	**0.0**	**66.7**	**8.5**	**-851.5**	**-100.0**
7. Liabilities to NonBank Deposit-Taking Institutions	**4,285.8**	**4,179.8**	**5,586.5**	**-106.0**	**-2.5**	**1,406.7**	**33.7**
8. Other	**63,946.1**	**57,232.3**	**65,454.5**	**-6,713.8**	**-10.5**	**8,222.1**	**14.4**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

that one non-bank deposit-taking institution was granted a banking licence on 1 June 2010 and consequently, was statistically being treated as part of banks. Adjusting for this statistical treatment by including this institution as part of the NBDTIs population, the total assets (liabilities) of NBDTIs actually recorded an increase of 5.6 per cent in 2009-10.

Domestic claims decreased by Rs326 million, or 0.8 per cent, from Rs39,284 million at the end of June 2009 to Rs38,958 million at the end of June 2010, mainly driven by the contraction of Rs1,629 million or 4.8 per cent in claims on other sectors, more than offsetting the increase of claims on banks. However, adjusting for the statistical coverage, domestic claims recorded an increase of 6.0 per cent in 2009-10. Most of the claims on NBDTIs were on banks by way of deposits, which virtually increased by Rs1,999 million during the period under review while their claims on the private sector grew by 1.6 per cent in 2009-10 compared to an increase of 18.0 per cent in 2008-09.

Deposits included in broad money grew by Rs295 million, or 1.1 per cent, from Rs26,825 million at the end of June 2009 to Rs27,119 million at the end of June 2010. The growth in deposits can be explained by increases of Rs260 million, or 1.0 per cent, in time deposits and Rs35 million or 2.7 per cent in savings deposits. Again, adjusting for the statistical coverage, deposits included in broad money witnessed a rise of 8.6 per cent in 2009-10 on the back of an increase of 8.9 per cent in time deposits.

Securities other than shares included in broad money increased by Rs137 million, or 19.5 per cent, from Rs704 million at the end of June 2009 to Rs842 million at the end of June 2010.

Table III.6 shows the Non-Bank Deposit-Taking Institutions Survey as at end-June 2008 through end-June 2010.

Table III.6: Non-Bank Deposit-Taking Institutions' Survey							
	Jun-08 (1) *(Rs Mn)*	Jun-09 (2) *(Rs Mn)*	Jun-10 (3) *(Rs Mn)*	Change Between (1) and (2) *(Rs Mn)*	*(Per cent)*	Change Between (2) and (3) *(Rs Mn)*	*(Per cent)*
1. Net Foreign Assets	**-118.8**	**-204.6**	**-203.2**	**-85.8**	**72.3**	**1.5**	**-0.7**
Claims on Nonresidents	1.6	4.9	7.7	3.3	207.7	2.7	55.1
Liabilities to Nonresidents	120.4	209.6	210.8	89.2	74.1	1.2	0.6
2. Domestic Claims	**34,370.5**	**39,284.1**	**38,958.4**	**4,913.6**	**14.3**	**-325.7**	**-0.8**
A. Net Claims on Central Government	1,406.5	1,350.4	1,056.2	-56.1	-4.0	-294.2	-21.8
B. Claims on Other Sectors	28,634.2	33,786.6	32,157.7	5,152.4	18.0	-1,629.0	-4.8
C. Claims on Central Bank	0.4	1.8	1.2	1.4	401.3	-0.6	-31.6
D. Claims on Banks	4,329.4	4,145.4	5,743.3	-184.1	-4.3	1,598.0	38.5
3. ASSETS = LIABILITIES	**34,251.7**	**39,079.5**	**38,755.2**	**4,827.8**	**14.1**	**-324.3**	**-0.8**
4. Liabilities to Central Bank	**13.8**	**17.0**	**25.4**	**3.3**	**23.8**	**8.4**	**49.1**
5. Deposits Included in Broad Money	**24,201.1**	**26,824.5**	**27,119.4**	**2,623.5**	**10.8**	**294.9**	**1.1**
A. Transferable Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Savings Deposits	761.5	1,333.6	1,368.9	572.0	75.1	35.3	2.7
C. Time Deposits	23,439.5	25,491.0	25,750.5	2,051.4	8.8	259.5	1.0
6. Securities other than Shares included in Broad Money	**587.2**	**704.4**	**841.8**	**117.2**	**20.0**	**137.4**	**19.5**
7. Liabilities to Banks	**2,973.1**	**3,580.4**	**3,559.7**	**607.4**	**20.4**	**-20.7**	**-0.6**
8. Other	**6,476.6**	**7,953.1**	**7,209.0**	**1,476.5**	**22.8**	**-744.2**	**-9.4**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

BANKING SECTOR

Main Features

At the end of June 2010, the banking sector in Mauritius comprised nineteen banks licensed to carry out banking business. On 1 June 2010, the ABC Banking Corporation Ltd was granted a banking licence. The 19 banks operated 208 branches, 12 counters, 1 mobile van and 386 Automated Teller Machines (ATMs) in Mauritius and employed 6,641 people at the end of June 2010. The number of inhabitants per branch went down from 6,472 as at end-June 2009 to 6,158 as at end-June 2010. Besides traditional banking facilities, eleven banks offer card-based payment services such as credit and debit cards while twelve banks provide internet banking and one bank provides phone banking facilities. Between end-June 2009 and end-June 2010, the number of cards in circulation decreased by 13,502, from 1,207,011 to 1,193,509, with the number of credit cards rising by 11,125 and debit and other cards falling by 24,627.

The average balance per account for demand, savings, time and foreign currency deposits stood at Rs145,301, Rs60,049, Rs670,861 and Rs6,506,953 at the end of June 2010 compared to Rs141,723, Rs54,495, Rs647,736 and Rs5,354,301 at the end of June 2009.

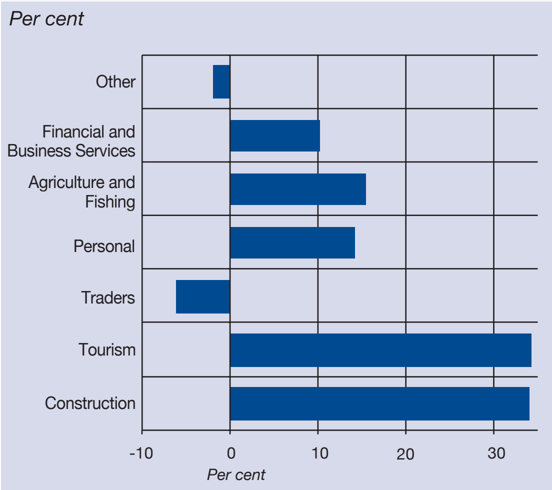
Sector-wise Distribution of Credit

Credit extended to the private sector by banks grew by Rs15,136 million, or 8.3 per cent, from Rs182,681 million at the end of June 2009 to Rs197,817 million at the end of June 2010, compared to an increase of 17.2 per cent registered over the preceding fiscal year. The increase in credit growth for fiscal year 2010 would have been lower to 7.1 per cent if one bank was not reclassified as a bank instead as a non-bank deposit taking institution in June 2010. Average private sector credit as a percentage of GDP at market prices went up from 64.5 per cent in 2008-09 to 64.9 per cent in 2009-10. The additional credit was principally directed towards Tourism and Construction sectors, which constituted about 34.2 per cent and 34.0 per cent, respectively, of the increase in credit expansion in 2009-10. The "Agriculture and Fishing", "Personal" and "Financial and Business Services" and "Transport" sectors were the other major recipients of additional credit with around 47.8 per cent of the increase channelled to them. Credit to the household sector remained buoyant with an increase of Rs5,820 million or representing 38.5 per cent of the increase in total credit expansion in 2009-10. Average household credit as a percentage of GDP at market prices stood at 14.9 per cent in 2009-10, up from 13.9 per cent a year earlier.

Loans and overdrafts facilities went up by Rs15,809 million, or 11.4 per cent, to Rs154,614 million at the end of June 2010, more than the increase of 16.8 per cent noted in 2008-09. They represented 78.2 per cent of total credit facilities at the end of June 2010, down from 76.0 per cent at the end of June 2009. Foreign currency financing of credit decreased by Rs1,076 million, or 3.4 per cent, to Rs30,683 million at the end of June 2010, in contrast to an increase of 26.4 per cent in 2008-09. The share of foreign currency lending in rupee terms out of total credit rose by 15.5 per cent at the end of June 2010, down from 17.4 per cent at the end of June 2009. Local Bills Purchased and Discounted declined by Rs610 million, or 59.4 per cent, to Rs1,638 million, compared to a fall of 10.2 per cent recorded in the preceding year. As a share of total credit, they accounted for 0.8 per cent at the end of June 2010, marginally higher than the share of 0.6 per cent at the end of June 2009. Bills Receivable fell by Rs14 million, or 0.5 per cent, to Rs2,930 million compared to an increase of 6.0 per cent registered in 2008-09. Their share in total credit was 1.5 per cent at the end of June 2010 compared to 1.6 per cent at the end of June 2009. Banks' investment in shares and debentures decreased by 2.4 per cent, from Rs8,147 million at the end of June 2009 to Rs7,951 million at the end of June 2010, compared to an increase of 2.0 per cent in the preceding year. As a percentage of total credit, they represented 4.0 per cent as at end-June 2010, lower than the share of 4.5 per cent as at end-June 2009.

Chart III.1 shows the sector-wise contribution to the increase in credit to the private sector by banks in 2009-10. Table III.7 gives the breakdown of the sector-wise distribution of credit to the private sector by banks as at end-June 2008, end-June 2009 and end-June 2010.

Chart III.1: Distribution of the increase in bank credit to the private sector – end-June 2009 to end-June 2010



Source: Statistics Division.

Maintenance of Cash Ratio

Except prior to the maintenance period starting 18 June 2010, the minimum cash ratio that banks were required to maintain during the year 2009-10 was 4.5 per cent of their average deposit liabilities held over the two-week period preceding the maintenance period. Effective the maintenance period starting 18 June 2010, the minimum cash ratio was raised to 5.0 per cent to absorb part of the excess liquidity prevailing on the money market. Concurrently, the minimum cash reserve ratio on any particular day during the maintenance period was raised from 3.0 per cent to 4.0 per cent. The minimum cash balances held by banks were to be maintained exclusively in the form of balances held by banks with the Bank of Mauritius.

Table III.7: Sectorwise Distribution of Credit to the Private Sector							
Sectors	Jun-08 (1) (Rs Mn)	Jun-09 (2) (Rs Mn)	Jun-10 (3) (Rs Mn)	Change between (1) and (2) (Rs Mn)	(Per cent)	Change between (2) and (3) (Rs Mn)	(Per cent)
Agriculture & Fishing	**9,248.1**	**12,221.6**	**14,560.2**	**2,973.5**	**32.2**	**2,338.6**	**19.1**
- of which							
Sugar Industry - Estates	5,487.7	7,036.4	6,584.1	1,548.6	28.2	-452.2	-6.4
Sugar Industry - Others	992.3	1,090.1	1,609.2	97.8	9.9	519.1	47.6
Agricultural Development Certificate Holders	18.2	62.6	14.1	44.5	244.7	-48.5	-77.4
Agro-based Industrial Certificate Holders	9.9	18.3	2.8	8.3	83.9	-15.4	-84.5
Sugarcane Planters	692.3	1,471.4	1,347.8	779.0	112.5	-123.5	-8.4
Other Plantation	114.2	135.1	138.7	20.9	18.3	3.6	2.7
Animal Breeding	553.3	742.4	709.4	189.1	34.2	-33.0	-4.4
Fishing	253.9	381.3	404.7	127.3	50.2	23.5	6.2
Other	1,126.4	1,284.2	3,749.2	157.8	14.0	2,465.0	191.9
Manufacturing	**17,304.5**	**18,042.5**	**17,667.3**	**738.0**	**4.3**	**-375.2**	**-2.1**
- of which							
Export Enterprise Certificate Holders	8,152.6	7,529.9	6,590.4	-622.7	-7.6	-939.5	-12.5
Export Service Certificate Holders	301.2	318.3	319.5	17.2	5.7	1.2	0.4
Pioneer Status Certificate Holders	122.3	144.0	132.7	21.7	17.8	-11.4	-7.9
Small and Medium Enterprise Certificate Holders	110.6	208.3	253.4	97.7	88.3	45.1	21.6
Strategic Local Enterprise Certificate Holders	1.8	5.0	2.4	3.3	184.6	-2.6	0.0
Furniture & Wood Products	435.8	285.7	294.6	-150.1	-34.4	8.9	3.1
Printing & Publishing	614.6	832.7	1,008.6	218.1	35.5	175.9	21.1
Steel/Metal Products	449.4	575.2	916.3	125.8	28.0	341.1	59.3
Food & Beverages	3,418.6	3,178.7	3,219.8	-239.9	-7.0	41.0	1.3
Plastic Products	150.5	186.1	222.4	35.6	23.6	36.3	19.5
Pharmaceuticals & Health Care	166.3	149.6	273.5	-16.7	-10.0	123.9	82.8
Jewellery & Precision Engineering	240.5	222.0	201.1	-18.5	-7.7	-20.9	-9.4
Electronics	69.2	136.9	146.0	67.7	97.9	9.1	6.6
Leather Products & Footwear	80.8	81.6	97.1	0.8	1.0	15.5	19.0
Paints	198.9	166.1	177.6	-32.9	-16.5	11.6	7.0
Cement	117.9	101.5	105.0	-16.4	-13.9	3.6	3.5
Other	2,673.6	3,920.8	3,706.9	1,247.2	46.6	-213.9	-5.5
Tourism	**24,037.6**	**30,133.7**	**35,310.9**	**6,096.1**	**25.4**	**5,177.3**	**17.2**
- of which							
Hotels	13,628.7	17,095.0	20,612.1	3,466.3	25.4	3,517.1	20.6
Tour Operators & Travel Agents	528.9	808.2	929.5	279.4	52.8	121.3	15.0
Hotel Development Certificate Holders	897.7	870.9	660.3	-26.8	-3.0	-210.6	-24.2
Hotel Management Service Certificate Holders	7,858.4	10,127.0	11,233.4	2,268.6	28.9	1,106.4	10.9
Restaurants	252.6	265.0	831.3	12.4	4.9	566.3	213.7
Duty-Free Shops	54.2	31.4	24.6	-22.8	-42.1	-6.8	-21.8
Other	817.1	936.1	1,019.8	119.1	14.6	83.7	8.9
Transport	**955.7**	**926.0**	**2,130.4**	**-29.7**	**-3.1**	**1,204.4**	**130.1**
- of which							
Airlines	15.8	8.2	0.5	-7.6	-47.9	-7.8	-94.3
Buses, Lorries, Trucks & Cars	494.1	502.4	995.7	8.3	1.7	493.3	98.2
Shipping & Freight Forwarders	221.2	211.4	777.3	-9.8	-4.4	565.9	267.7
Other	224.6	204.0	356.9	-20.7	-9.2	152.9	75.0
Construction	**29,957.0**	**38,248.2**	**43,400.8**	**8,291.1**	**27.7**	**5,152.6**	**13.5**
- of which							
Building & Housing Contractors	1,587.8	1,609.4	1,705.9	21.7	1.4	96.5	6.0
Property Development - Commercial	4,165.1	6,402.8	6,846.2	2,237.8	53.7	443.4	6.9
Property Development - Residential	2,653.7	2,829.7	4,366.1	176.0	6.6	1,536.4	54.3
Property Development - Land Parcelling	233.3	341.5	372.9	108.2	46.4	31.4	9.2
Housing	17,189.5	19,860.4	22,928.3	2,670.9	15.5	3,067.9	15.4
Housing - Staff	1,426.1	1,929.2	2,448.5	503.2	35.3	519.3	26.9
Housing Development Certificate Holders	4.5	2.3	3.5	-2.2	-49.0	1.2	51.3
Industrial Building Enterprise Certificate Holders	505.9	2,497.6	1,445.7	1,991.7	393.7	-1,051.9	-42.1
Building Supplies & Materials	216.1	250.4	279.5	34.3	0.0	29.1	0.0
Stone Crushing and Concrete Products	598.4	645.3	938.5	46.9	7.8	293.2	45.4
Other	1,376.8	1,879.4	2,065.6	502.6	36.5	186.2	9.9

Table III.7: Sectorwise Distribution of Credit to the Private Sector (cont)							
Sectors	Jun-08 (1) (Rs Mn)	Jun-09 (2) (Rs Mn)	Jun-10 (3) (Rs Mn)	Change between (1) and (2) (Rs Mn)	(Per cent)	Change between (2) and (3) (Rs Mn)	(Per cent)
Traders	**20,053.9**	**23,295.4**	**22,362.6**	**3,241.6**	**16.2**	**-932.9**	**-4.0**
- of which							
Marketing Companies	65.9	37.0	143.5	-28.9	0.0	106.5	0.0
Wholesalers	5,288.4	5,591.9	5,671.7	303.5	5.7	79.8	1.4
Retailers - Hypermarkets	33.5	88.4	22.0	54.9	163.9	-66.4	-75.1
Retailers - Supermarkets	494.4	474.9	450.7	-19.5	-3.9	-24.2	-5.1
Retailers - Shops & Snacks	739.9	888.5	909.6	148.6	20.1	21.1	2.4
Retailers - Pharmaceuticals and Chemists	175.2	171.1	298.8	-4.1	-2.3	127.7	74.6
Retailers - Others	3,197.7	2,963.7	3,533.2	-234.0	-7.3	569.5	19.2
Automobile Dealers & Garages	2,008.5	1,996.8	1,774.2	-11.7	-0.6	-222.6	-11.1
Petroleum and Energy Products	737.9	911.6	932.9	173.7	23.5	21.3	2.3
Tyre Dealers and Suppliers	17.7	26.1	115.6	8.4	47.7	89.5	342.9
Other	7,294.7	10,145.3	8,510.2	2,850.6	39.1	-1,635.1	-16.1
Information Communication and Technology	**924.9**	**1,244.7**	**1,237.3**	**319.8**	**34.6**	**-7.4**	**-0.6**
- of which							
Telecommunications	239.9	306.7	425.0	66.8	27.8	118.2	38.5
Internet	228.8	309.6	233.1	80.8	35.3	-76.5	-24.7
E-Commerce	226.6	204.0	184.1	-22.6	-10.0	-19.8	-9.7
Information Technology - Hardware	53.4	53.9	50.1	0.5	0.9	-3.8	-7.1
Information Technology - Software	84.2	67.6	77.8	-16.6	-19.7	10.2	15.1
Personal Computers	18.7	48.1	34.9	29.4	157.3	-13.2	-27.4
Other	73.4	254.8	232.3	181.4	247.3	-22.5	-8.8
Financial and Business Services	**18,819.7**	**18,928.4**	**20,470.6**	**108.7**	**0.6**	**1,542.2**	**8.1**
- of which							
Stockbrokers & Stockbroking Companies	19.3	61.8	42.2	42.5	219.5	-19.6	-31.7
Insurance Companies	415.7	207.5	168.6	-208.3	-50.1	-38.9	-18.8
Nonbank Deposit-Taking Institutions	2,879.4	4,213.5	3,514.2	1,334.1	46.3	-699.4	-16.6
Mutual Funds	85.0	128.6	8.2	43.6	51.3	-120.4	-93.6
Accounting & Consultancy Services	378.6	627.9	903.8	249.3	65.8	275.9	43.9
Investment Companies	4,989.9	3,576.0	4,407.1	-1,413.9	-28.3	831.1	23.2
Public Financial Corporations	739.9	759.5	820.6	19.7	2.7	61.1	8.0
Other	9,311.8	9,353.4	10,605.9	41.7	0.4	1,252.4	13.4
Infrastructure	**5,124.9**	**5,170.3**	**4,626.7**	**45.4**	**0.9**	**-543.6**	**-10.5**
- of which							
Airport Development	25.4	37.8	38.8	12.4	48.7	0.9	2.5
Port Development	0.8	0.9	0.8	0.1	10.0	-0.1	0.0
Power Generation	5,004.8	5,035.8	4,412.4	31.0	0.6	-623.4	-12.4
Water Development	7.6	20.4	17.4	12.9	170.2	-3.1	-15.0
Road Development	0.0	0.0	0.4	0.0	19.3	0.4	1,069.8
Other	86.3	75.3	156.9	-11.0	-12.7	81.6	108.4
State and Local Government	**47.7**	**49.0**	**7.1**	**1.3**	**2.7**	**-41.9**	**-85.4**
Public Nonfinancial Corporations	**7,768.1**	**12,136.7**	**10,248.1**	**4,368.7**	**56.2**	**-1,888.7**	**-15.6**
Regional Development Certificate Holders	**0.5**	**0.0**	**0.0**	**-0.5**	**0.0**	**0.0**	**0.0**
Regional Headquarters Certificate Holders	**0.5**	**0.0**	**0.0**	**-0.5**	**0.0**	**0.0**	**0.0**
Freeport Enterprise Certificate Holders	**488.4**	**650.5**	**707.8**	**162.2**	**33.2**	**57.3**	**8.8**
Health Development Certificate Holders	**72.0**	**465.9**	**557.2**	**393.9**	**546.9**	**91.3**	**19.6**
Modernisation & Expansion Enterprise Cert Holders	**0.1**	**0.0**	**0.6**	**-0.1**	**0.0**	**0.6**	**0.0**
Personal	**15,887.4**	**16,545.7**	**18,697.7**	**658.3**	**4.1**	**2,152.0**	**13.0**
Professional	**805.3**	**755.8**	**836.5**	**-49.4**	**-6.1**	**80.6**	**10.7**
Education	**499.3**	**591.0**	**1,154.4**	**91.7**	**18.4**	**563.4**	**95.3**
Human Resource Development Certificate Holders	**0.0**	**1.5**	**4.3**	**1.5**	**0.0**	**2.8**	**0.0**
Media, Entertainment and Recreational Activities	**1,013.9**	**534.7**	**725.9**	**-479.2**	**-47.3**	**191.2**	**35.8**
Other	**2,837.6**	**2,739.8**	**3,110.2**	**-97.8**	**-3.4**	**370.3**	**13.5**
Total	**155,847.0**	**182,681.4**	**197,816.5**	**26,834.4**	**17.2**	**15,135.0**	**8.3**

Source: Statistics Division.

The average cash balances held by banks at the Bank of Mauritius were in the range of Rs12.5-17.0 billion in 2009-10, higher than the range of Rs11.0-16.9 billion in 2008-09. Similarly, the average excess reserves held by banks were in the range of Rs1.0-5.0 billion in 2009-10 compared to Rs0.4-5.5 billion in 2008-09. The average cash ratio stood in the range of 4.90-6.39 per cent in 2009-10 compared to 4.86-7.09 per cent in the previous year.

Table III.8 gives details of the average cash ratio maintained by banks in 2008-09 and 2009-10.

Table III.8: Average Cash Ratio Maintained by Banks

	Average Cash Balances Held	Average Excess/ (Shortfall) Cash Balances	Average Cash Ratio
	(Rs million)		(Per cent)
2008-09			
Jul-Sep	10,966-14,936	399-2,843	4.89-6.60
Oct-Dec	12,522-16,362	846-2,512	5.37-7.09
Jan-Mar	12,869-14,710	1,830-3,782	5.25-6.06
Apr-Jun	12,173-16,909	901-5,521	4.86-6.68
2008-09	**10,966-16,909**	**399-5,521**	**4.86-7.09**
2009-10			
Jul-Sep	12,778-14,773	1,067-3,216	4.91-5.75
Oct-Dec	12,448-13,223	1,015-1,679	4.90-5.16
Jan-Mar	13,361-17,050	1,529-5,045	5.08-6.39
Apr-Jun	15,262-17,039	3,497-4,891	5.80-6.31
2009-10	**12,448-17,050**	**1,015-5,045**	**4.90-6.39**

Cash balances consist exclusively of balances held with the Bank of Mauritius.
Source: Statistics Division.

INTEREST RATES

The Bank uses the key Repo Rate to signal its monetary policy stance. The transmission of this policy rate changes to retail bank loan and deposits rates are effected through the change in banks' Prime Lending Rate (PLR) and Savings Deposits Rate (SDR).

Reflecting the MPC's decision at each of its meeting through 2009-10 to maintain the key Repo Rate on hold at 5.75 per cent, the PLR and SDR remained unchanged. Consequently, there was virtually no change in the interest rate structure of banks. Interest rates on loans granted and deposits received remained unchanged throughout the period.

Banks' SDR remained in the range of 4.00-4.75 per cent in 2009-10 compared to a range of 4.00-7.25 per cent in 2008-09. Their PLR also hovered in the range of 8.05-9.00 per cent during the period under review compared to a range of 8.05-11.75 per cent in 2008-09. The modal SDR and modal PLR stood at 4.50 per cent and 8.50 per cent, respectively, in 2009-10.

The weighted average lending rate of banks remained range-bound in 2009-10. From a peak of 10.16 per cent at the end of July 2009, it hit a trough of 9.99 per cent at the end of March 2010 before closing June 2010 at 10.06 per cent. Similarly, the weighted average deposits rate remained within tight ranges; from 4.75 per cent at the end of July 2009, it reached a trough of 4.57 per cent at the end of June 2010. The differential between the weighted average lending and deposits rate varied from 5.38 percentage points to 5.52 percentage points during 2009-10 compared to a range of

5.10-5.66 percentage points in 2008-09. On average, this spread stood at around 5.46 percentage points.

The real rate of interest on savings deposits moved into positive territory during 2009-10, from negative 1.5 per cent at the end of June 2009 to 2.8 per cent at the end of June 2010, largely benefitting from the decline in the rate of inflation as interest rate on savings deposits was unchanged.

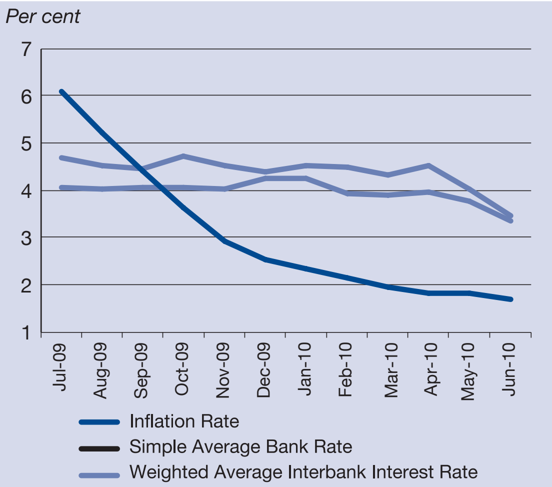
Table III.9 gives details of the interest rate structure of the banking sector, while Chart III.2 shows the movements in the rate of inflation, the simple average Bank Rate and the weighted average interbank interest rate during 2009-10. Chart III.3 shows the movements in the weighted average lending rate and the weighted average term deposits rate during 2009-10.

Table III.9: Other Interest Rates *(Per cent per annum)*

	Weighted Average Yield on Bills Accepted at Primary Auctions	Simple Average Bank Rate	Weighted Average Interbank Interest Rate	Prime Lending Rate	Interest Rate on Rupee Savings Deposits with Banks	Interest Rate on Rupee Term Deposits with Banks	Interest Rate on Rupee Loans and Advances by Banks	Weighted Average Rupee Deposits Rate of Banks	Weighted Average Rupee Lending Rate of Banks
2009									
Jul	4.66	4.69	4.05	8.05-9.00	4.00-4.75	4.00-15.00	6.00-21.00	4.75	10.16
Aug	4.50	4.51	4.02	8.05-9.00	4.00-4.75	4.00-15.00	6.00-21.00	4.74	10.12
Sep	4.45	4.44	4.06	8.05-9.00	4.00-4.75	4.00-15.00	6.00-21.00	4.66	10.09
Oct	4.71	4.73	4.04	8.05-9.00	4.00-4.75	4.00-15.00	6.00-21.00	4.65	10.15
Nov	4.49	4.53	4.02	8.05-9.00	4.00-4.75	4.00-15.00	6.00-21.00	4.66	10.08
Dec	4.40	4.40	4.26	8.05-9.00	4.00-4.75	4.00-15.00	6.00-21.00	4.57	10.08
2010									
Jan	4.52	4.51	4.26	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.53	10.05
Feb	4.48	4.50	3.91	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.55	10.01
Mar	4.24	4.31	3.88	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.52	9.99
Apr	4.49	4.51	3.94	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.56	10.03
May	3.91	4.04	3.74	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.52	10.02
Jun	3.48	3.47	3.36	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.57	10.06

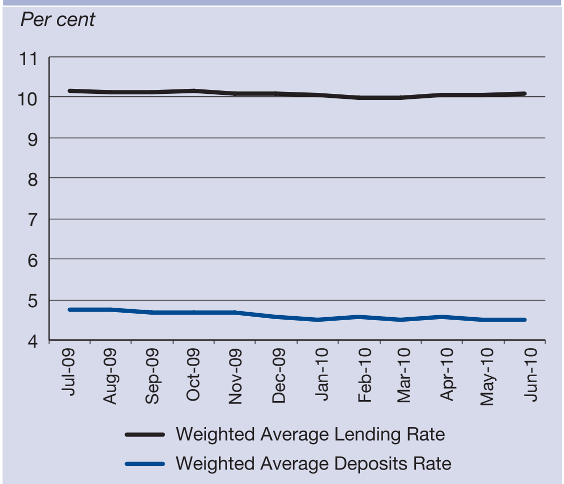
Source: Statistics Division.

Chart III.2: Simple Average Bank Rate, Weighted Average Interbank Interest Rate and Inflation Rate



Source: Statistics Division.

Chart III.3: Weighted Average Rupee Lending and Deposits Rates



Source: Statistics Division.

IV. GOVERNMENT FINANCE

In 2009, Government changed its budgetary accounting from fiscal year ending June to calendar year as part of its reforms. Consequently, it prepared a six-month budget, spanning from July to December 2009. The 2010 Budget was the first budget presented on a calendar year basis. In line with Government's commitment to adhere to international standards, fiscal statistics are compiled and presented in accordance with the IMF's Government Finance Statistics Manual 2001.

With Revenue and Expense amounting to Rs33,182.9 million and Rs34,096.2 million, respectively, for the period July-December 2009, the budgetary Central Government gross operating deficit, defined as Revenue minus Expense other than consumption of fixed capital, was Rs913.3 million. Taking into account additional outlays incurred by Government in respect of "Net Acquisition of Non-Financial Assets" (consisting mainly of investment in building and structures as well as machinery and equipment), which totalled Rs4,945.9 million, the budget deficit for the period under review amounted to Rs5,859.2 million, corresponding to 4.1 per cent of GDP. The borrowing requirements of budgetary Central Government for the period under review amounted to Rs5,450.1 million, representing 3.8 per cent of GDP, and was mainly financed from domestic sources to the tune of Rs5,250.7 million while foreign financing amounted to Rs199.4 million.

Revenue

Revenue totalled Rs33,182.9 million for the period July-December 2009 and as a percentage of GDP, it stood at 23.0 per cent. The share of Taxes, which amounted to Rs27,640.8 million, in Revenue was 83.3 per cent. Other contributors to Revenue were Grants (Rs3,182.4 million), reflecting disbursements under the European Union accompanying measures for economic restructuring, followed by 'Other Revenue' (Rs1,864.6 million) and Social Contributions (Rs495.1 million).

Table IV.1 gives details on Government Revenue for the fiscal periods 2008-09, July–December 2009 and estimates for 2010.

Table IV.1: Revenue *(Rs million)*

	2008-09 *Provisional Actual*	Jul-Dec 2009 *Provisional Actual*	2010 *Estimates*
Revenue	**62,216.1**	**33,182.9**	**66,770.0**
Taxes	52,332.6	27,640.8	52,697.0
Social Contributions	959.9	495.1	1,015.0
Grants	2,781.1	3,182.4	4,104.0
Other Revenue	6,142.5	1,864.6	8,954.0

Notes: (i) The figures have been compiled using the IMF's GFS Manual 2001.
(ii) Figures may not add up to totals due to rounding.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

Expense

Expense amounted to Rs34,096.2 million for the period July-December 2009 and represented 23.6 per cent of GDP. As in previous years, Grants accounted for the largest share of Expense (25.9 per cent) and totalled Rs8,836.6 million. The second major source of Expense was Compensation of Employees (Rs8,685.5 million) with a share of 25.5 per cent. Social Benefits stood at Rs6,729.1 million. Interest payments totalled Rs5,325.7 million, of which Rs5,135.2 million and Rs190.5 million represented interest on domestic and external debt, respectively. 'Use of Goods and Services', 'Other Expense' and 'Subsidies' amounted to Rs2,774.2 million, Rs1,290.9 million and Rs454.2 million, respectively.

Table IV.2: Expense			*(Rs million)*
	2008-09 *Provisional Actual*	**Jul-Dec 2009** *Provisional Actual*	**2010** *Estimates*
Expense	**65,102.5**	**34,096.2**	**69,178.0**
Compensation of Employees	16,247.4	8,685.5	18,863.0
Use of Goods and Services	5,124.4	2,774.2	6,970.0
Interest [1]	10,687.5	5,325.7	10,220.0
Internal	*10,334.0*	*5,135.2*	*9,510.0*
External	*353.5*	*190.5*	*710.0*
Subsidies	916.9	454.2	1,024.0
Grants	17,655.9	8,836.6	12,393.0
Social Benefits	11,692.2	6,729.1	13,451.0
Other expense	2,778.2	1,290.9	4,257.0
Contingencies			2,000.0

Notes: (i) The figures have been compiled using the IMF's GFS Manual 2001.
(ii) Figures may not add up to totals due to rounding.
[1] As from 2008/09, interest is computed on an accrual basis instead of cash basis.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

Table IV.2 gives details on Government Expense for the fiscal periods 2008-09, July–December 2009 and 2010.

Budgetary Central Government Operations

The budgetary Central Government gross operating deficit defined as the shortfall of Revenue relative to Expense, for the period July-December 2009, was Rs913.3 million. Taking into account additional outlays totalling Rs4,945.9 million in respect of “Net Acquisition of Non-Financial Assets” (consisting mainly of investment in building and structures as well as machinery and equipment), the budget deficit for the period amounted to Rs5,859.2 million, corresponding to 4.1 per cent of GDP. “Net Acquisition of Financial Assets”, which represents net flows on the Government loan account, net change in Government equity position as well as changes in respect of IMF transactions, was negative at Rs114.2 million for the period July-December 2009.

“Net Incurrence of Liabilities”, consisting mainly of net issuance of ‘Securities other than shares’ and ‘Loans’, stood at Rs5,745 million for July-December 2009 and, after adjustment for difference in cash and accrual, the borrowing requirements for the period turned out to be Rs5,450.1 million, representing 3.8 per cent of GDP. The bulk of budgetary Central Government borrowing requirements was financed domestically to the tune of Rs5,250.7 million while foreign financing amounted to Rs199.4 million.

The primary balance, which is the difference between Revenue and Expense excluding interest payments, was in deficit, amounting to Rs533.5 million, or 0.4 per cent of GDP, for the period July-December 2009.

Table IV.3 provides details about budgetary Central Government operations for the fiscal periods 2008-09, July–December 2009 and 2010.

2010 Budget

The 2010 Budget addressed the following main pillars for future development: (i) Shaping recovery to address the current employment issue; (ii) Improving and consolidating social progress; and (iii) Sustaining Green Mauritius. With a view to shaping the recovery, Government decided that the Additional Stimulus Package as well as training programmes would be

Table IV.3: Statement of Budgetary Central Government Operations *(Rs million)*

		2008-09 *Provisional Actual*	Jul-Dec 2009 *Provisional Actual*	2010 *Estimates*
1.	**Revenue**	**62,216.1**	**33,182.9**	**66,770.0**
2.	**Expense**	**65,102.5**	**34,096.2**	**69,178.0**
3.	**Gross Operating Balance (1-2)**	**-2,886.4**	**-913.3**	**-2,408.0**
4.	Net Acquisition of Non-Financial Assets	5,545.8	4,945.9	11,277.0
5.	Net Lending (+)/Borrowing (-): Budget Balance	-8,432.2	-5,859.2	-13,685.0
6.	*Net Lending (+)/Borrowing (-) as a % of GDP*	*-3.1%*	*-4.1%*	*-4.5%*
7.	Net Acquisition of Financial Assets	1,711.7	-114.2	-1,223.0
8.	Net Incurrence of Liabilities	10,143.9	5,745.0	12,462.0
9.	*Adjustment for difference in cash and accrual*	*219.1*	*294.9*	*245.0*
10.	**Borrowing Requirements**	**9,924.8**	**5,450.1**	**12,217.0**
	Borrowing Requirements as a % of GDP	*3.7%*	*3.8%*	*4.0%*
	Domestic	6,410.4	5,250.7	7,634.0
	Foreign	3,514.4	199.4	4,583.0
	Memo item:			
	Primary Balance	**2,255.3**	**-533.5**	**-3,465.0**
	Primary Balance as a % of GDP	0.8%	-0.4%	-1.1%

Notes: (i) The figures have been compiled using the IMF's GFS Manual 2001.
(ii) Figures may not add up to totals due to rounding.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

maintained, Small and Medium Enterprises would be provided with continued support and public infrastructure development would be enhanced. There would be major investments in roads, low-cost housing, the water sector and upgrading of the airport and the port. In order to achieve its growth targets and accelerate job creation, Government would be (i) consolidating traditional and emerging economic pillars of the economy and boosting the export- and domestic-oriented industries; (ii) improving further the business environment to increase investment; (iii) investing further in training; and (iv) providing the necessary infrastructure to do business.

While the gross operating deficit has been estimated at Rs2,408 million for 2010, the budget deficit has been projected at Rs13,685 million (representing 4.5 per cent of GDP), largely on account of "Net Acquisition of Non-Financial Assets" to the tune of Rs11,277 million. The borrowing requirements of Government would amount to Rs12,217 million, of which Rs7,634 million and Rs4,583 million would be financed domestically and externally, respectively. The primary deficit has been estimated at Rs3,465 million or 1.1 per cent of GDP.

Public Sector Debt

Outstanding public sector debt, comprising both domestic and external debt, increased by 4.2 per cent, from Rs159,610 million as at end of June 2009 to Rs166,321 million at the end of June 2010. However, as a percentage of GDP at market prices, total public sector debt remained unchanged at 59.1 per cent. Table IV.4 provides details on public sector debt.

Table IV.4: Public Sector Debt	as at end of period		(Rs million)
	Jun-09 *Actual*	**Dec-09** *Actual*	**Jun-10** *Provisional*
1. Short-term Domestic Obligations [1]	**37,022**	**39,322**	**40,159**
o/w: Treasury Bills	37,022	34,897	37,959
2. Medium-term Domestic Obligations [1]	**40,182**	**41,828**	**40,098**
o/w: Treasury Notes	40,171	41,810	40,075
3. Long-term Domestic Obligations [1]	**40,030**	**44,494**	**46,131**
o/w: (a) MDLS/Government of Mauritius Bonds	22,890	24,890	24,220
(b) Five-Year Government of Mauritius Bonds	17,139	19,603	21,911
4. Domestic Central Government Debt (1+2+3)	**117,234**	**125,644**	**126,388**
	(43.4)	*(45.8)*	*(44.9)*
5. Extra Budgetary Unit Debt	**83**	**82**	**81**
6. Local Government Debt	**44**	**5**	**4**
7. Public Enterprise Debt	**16,439**	**15,131**	**13,180**
8. Domestic Public Sector Debt	**133,800**	**140,862**	**139,653**
	(49.5)	*(51.3)*	*(49.6)*
9. External Government Debt	**17,701**	**16,990**	**16,707**
	(6.6)	*(6.2)*	*(5.9)*
(a) Foreign Loans	17,632	16,723	16,678
(b) Foreign Investment in Government Securities	69	267	29
10. External Public Sector Debt	**25,810**	**28,523**	**26,668**
	(9.6)	*(10.4)*	*(9.5)*
11. Total Public Sector Debt (8+10)	**159,610**	**169,385**	**166,321**
	(59.1)	*(61.7)*	*(59.1)*

[1] By original maturity.
Notes: (i) Short-term: Up to 12 months; Medium-term: Over 1 year but less than 5 years; Long-term: 5 years and above.
(ii) Figures in brackets are percentages to GDP.
(iii) Figures may not add up to totals due to rounding.
Sources: Ministry of Finance and Economic Development, Government of Mauritius, and Statistics Division, Bank of Mauritius.

Central Government Debt

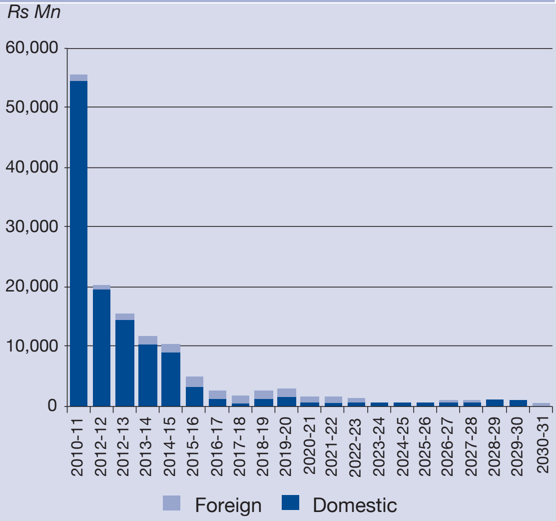
As at end-June 2010, total budgetary Central Government debt stood at Rs143,095.2 million, representing an increase of 6.0 per cent from its end-June 2009 level. As a percentage of GDP at market prices, Central Government debt increased from 50.0 per cent at the end of June 2009 to 50.8 per cent at the end of June 2010.

The redemption profile of total Government debt continued to be skewed towards the short term, with around 40 per cent of Government debt falling due within one year and about 54 per cent falling due within two years. The average time to maturity of total Government debt, which measures the average time to repayment of outstanding debt, was 3.2 years while the average time to re-fixing, which measures the average time to interest rate reset, was 2.8 years. Interest costs ratio to total debt stood at 6.1 per cent as at end-June 2010. Table IV.5 shows the composition of Government debt while Chart IV.1 shows the redemption profile of total Government debt.

Table IV.5: Composition of Debt			
	30-Jun-09	31-Dec-09	30-Jun-10
Outstanding Government Debt (Rs mn)	134,935	142,634	143,095
Domestic (Per cent)	86.9	88.1	88.3
External (Per cent)	13.1	11.9	11.7
of which: Fixed Rate (Per cent)	*46.4*	*50.7*	*49.5*
Floating Rate (Per cent)	*48.7*	*44.3*	*45.5*
Interest Free (Per cent)	*4.9*	*5.0*	*5.1*

Figures may not add up to totals due to rounding.
Source: Financial Markets Analysis Division.

Chart IV.1: Redemption Profile of Budgetary Central Government Debt



Source: Financial Markets Analysis Division.

Budgetary Central Government Domestic Debt

Budgetary Central Government domestic debt increased by Rs9,155.0 million, or 7.8 per cent, from Rs117,233.3 million as at end-June 2009 to Rs126,388.3 million as at end-June 2010. The share of domestic debt to total Government debt stood at 88.3 per cent, up from 86.9 per cent as at end-June 2009.

Of total new domestic debt amounting to Rs100,291 million issued between July 2009 and June 2010, 77.0 per cent consisted of Treasury Bills of up to one-year maturity. Treasury Notes of 2-, 3- and 4-Year maturities made up 14.4 per cent of total issues while 5-Year Bonds represented 6.6 per cent and Long-Term Government Bonds of 7-, 13- and 20-Year maturities represented 2.0 per cent of the total new debt issuance.

The outstanding amount of Treasury Bills, increased by Rs937.0 million, from Rs37,021.5 million at the end of June 2009 to Rs37,958.5 million at the end of June 2010, representing a rise of 2.5 per cent. The outstanding amount of Treasury Notes decreased by 0.2 per cent, from Rs40,171.4 million as at end-June 2009 to Rs40,074.5 million as at end-June 2010 while Five-Year Government of Mauritius Bonds went up by 27.8 per cent, from Rs17,138.9 million to Rs21,911.1 million.

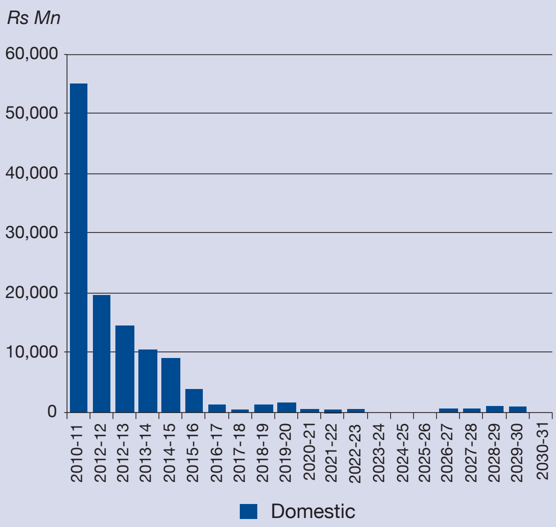
As a percentage of total domestic debt, the share of Treasury Bills decreased from 31.6 per cent at the end of June 2009 to 30.0 per cent at the end of June 2010 while that of Treasury Notes fell from 34.3 per cent to 31.7 per cent. The share of Five-Year Government of Mauritius Bonds rose from 14.6 per cent to 17.3 per cent while that of Mauritius Development Loan Stock (MDLS)/Long-Term Government of Mauritius Bonds fell slightly from 19.5 per cent as at end-June 2009 to 19.2 per cent as at end-June 2010. Chart IV.2 provides details on the redemption profile of budgetary central Government domestic debt.

External Government Debt

Total external debt of Government as at end-June 2010 stood at Rs16,706.9 million as compared to Rs17,701.2 million as at end-June 2009. As a percentage of GDP at market prices, external Government debt decreased from 6.6 per cent to 5.9 per cent over the same period. The main multilateral creditors to Mauritius were the World Bank Group comprising the International Bank for Reconstruction and Development

(IBRD) and the International Development Agency (IDA), the African Development Bank, Government of China and Agence Française de Développement.

Chart IV.2: Redemption Profile of Budgetary Central Government Domestic Debt

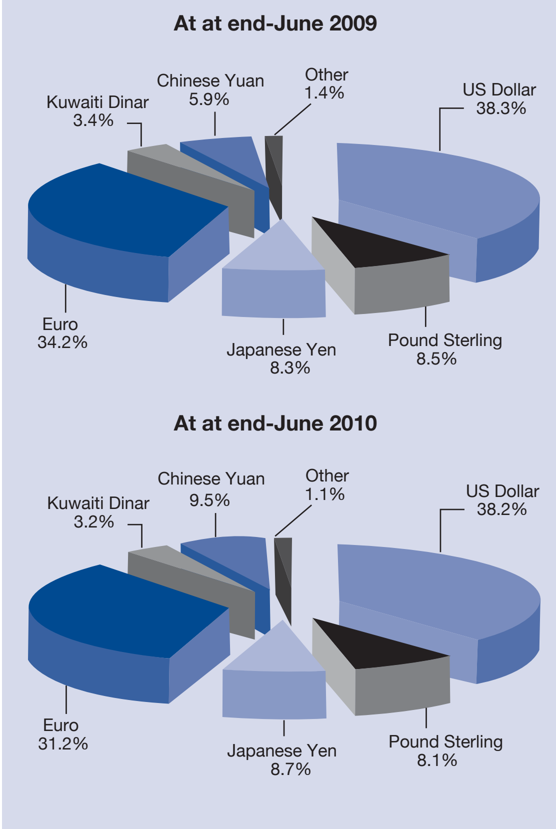


Source: Financial Markets Analysis Division.

Short- and medium-term external Government debt declined by Rs40.0 million whilst long-term debt decreased by Rs954.3 million during 2009-10. Disbursements for Rs965.5 million took place as against capital repayments of Rs938.9 million. Interest payments and service charges totalled Rs395.0 million.

The percentage of fixed-rate external debt increased from 46.4 per cent as at end-June 2009 to 49.5 per cent as at end-June 2010 while floating-rate external debt decreased from 48.7 per cent to 45.5 per cent over the same period. The percentage of interest free external debt rose marginally from 4.9 per cent as at end-June 2009 to 5.1 per cent as at end-June 2010. The currency composition of external Government debt as at end-June 2010 was dominated by the US dollar and Euro with respective shares of 38.2 per cent and 31.2 per cent, quite similar to the position as at end-June 2009. Chinese Yuan and Japanese Yen made up 9.5 per cent and 8.7 per cent of the total external debt, respectively, as at end-June 2010. Chart IV.3 shows the currency composition of external Government debt.

Chart IV.3: Currency Composition of External Government Debt



Source: Financial Markets Analysis Division.

Loans matured and fully repaid to the creditors during 2009-10 are shown in Table IV.6.

Table IV.6: Loans Matured and Fully Repaid

	Donor Entity	Amount of Loan
1.	IBRD	US$17,065,114
		CHF12,613,841
2.	Agence Française de Développement	EUR1,493,872
3.	Government of China	CNY22,800,000
4.	Nordic Investment Bank	US$9,504,046

Source: Financial Markets Operations Division.

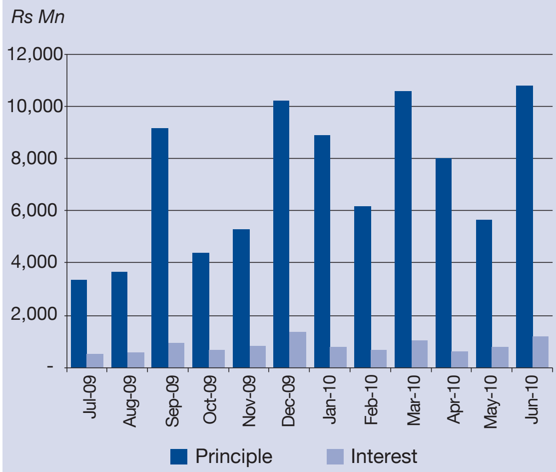
New Loan Agreements

New loan agreements that were signed by the Government of Mauritius during 2009-10 are shown in Table IV.7.

Table IV.7: New Loan Agreements		
	Creditor	Amount (million)
1.	OPEC Fund for International Development	US$8.07
2.	Agence Française de Développement	EUR230.0
3.	African Development Bank	US$420.0
		EUR186.0
4.	IBRD	US$100.0

Source: Financial Markets Operations Division.

Chart IV.4: Principal and Interest Payments during 2009-10



Source: Financial Markets Analysis Division.

Disbursements

Disbursements in rupee terms effected during 2009-10 amounted to Rs932,795,200 and are given in Table IV.8.

Budgetary Central Government Debt Service

Principal repayments and interest payments on total Government debt in 2009-10 amounted to Rs86,338.3 million and Rs10,217.3 million, respectively. During the year ended June 2010, principal repayments and interest payments on domestic debt amounted to Rs85,166.7 million and Rs9,8222.2 million, respectively, while those on external debt stood at Rs1,171.6 million and Rs395.0 million, respectively. External debt of servicing of Government, that is amortisation plus interest payments and other charges on Government external debt, during 2009-10 totalled Rs1,332 million, up from Rs1,190 million in 2008-09. Chart IV.4 shows the principal repayments and interest payments during 2009-10.

Table IV.8: Major Disbursements			
	Donor Entity	Amount of Loan	
		Foreign Currency	Rupee Equivalent
1.	Government of China	CNY117,993,998	535,903,500
2.	African Development Bank	US$4,798,690	148,373,300
		EUR851,252	37,629,200
3.	Agence Française de Développement	EUR3,849,393	162,128,400
4.	IBRD	US$1,089,909	33,504,500
		SDR287,506	14,056,900
5.	Kuwait Fund for Arab Economic Development	KWD11,180	1,199,400

Source: Financial Markets Operations Division.

V. BALANCE OF PAYMENTS AND EXTERNAL DEBT

In the face of the gradual improvement in the global economy, the country's balance of payments exhibited more resilience during 2009-10, characterised by a lower current account deficit and further accumulation of foreign reserves. The merchandise account in 2009-10 deteriorated, as imports of goods increased further and on account of a contraction in exports. However, higher surpluses in the services account coupled with larger net inflows in the income account managed to partly offset the marked goods deficit, leading to the narrowing down of the current account deficit.

Provisional estimates indicate that the current account deficit for the financial year 2009-10 improved to Rs22,586 million from a higher shortfall of Rs24,849 million registered in 2008-09. As a percentage of GDP, the current account deficit fell from 9.2 per cent in 2008-09 to 8.0 per cent in 2009-10.

The deficit on the merchandise account of the balance of payments deteriorated by 14.0 per cent, from Rs48,713 million in 2008-09 to Rs55,532 million in 2009-10. This higher deficit was on account of a rise in nominal imports (f.o.b.) and a decline in nominal exports. As a percentage of GDP, the merchandise trade deficit stood at 19.7 per cent in 2009-10, up from 18.0 per cent in 2008-09.

On a balance of payments basis, total nominal imports (f.o.b.) increased to Rs119,801 million in 2009-10 corresponding to a 3.6 per cent rise over 2008-09. The rise in the value of imports was largely attributable to higher import volume relative to the previous financial year on account of a pick up in domestic demand which more than offset the impact of the domestic currency's appreciation.

Nominal exports (f.o.b.) contracted by 3.9 per cent in 2009-10 to Rs64,269 million, down from Rs66,889 million in 2008-09. By commodity structure, exports of 'Machinery and transport equipment' recorded a decline of 40.6 per cent driven by a slowdown in re-exports. Exports of 'Food and live animals' fell by 5.1 per cent due to a pronounced drop in sugar proceeds on the back of lower price for our export of sugar in the European market as the final tranche cut took effect in October 2009.

The capital and financial account, inclusive of reserve assets, recorded lower net inflows of Rs13,000 million in 2009-10 compared to net inflows of Rs14,549 million in 2008-09. Exclusive of reserve assets, the capital and financial account recorded higher net inflows of Rs22,694 million in 2009-10 compared to net inflows of Rs17,033 million in 2008-09.

Table V.1 gives a summary of the balance of payments accounts for the years 2004-05 through 2009-10.

Services, Income and Current Transfers

The surplus on the services account rose by 31.6 per cent, from Rs17,002 million in 2008-09 to Rs22,370 million in 2009-10. This higher surplus reflected mainly a turnaround in the other services account, which recorded a surplus of Rs2,557 million in 2009-10 compared to deficit of Rs2,101 million in 2008-09. The decline in gross tourism receipts was marginal at 0.1 per cent in 2009-10 relative to a year ago, falling from Rs37,292 million in 2008-09 to Rs37,254 million. Tourist arrivals, however, recorded a slight increase of 1.0 per cent to 897,002 in 2009-10. Arrivals, which had showed signs of recovery starting November 2009, suffered a setback in April 2010 because of airspace closures due to the Eyjafjallajokull volcanic ash plume.

The income account posted considerably higher net inflows of Rs3,986 million in 2009-10 compared to Rs689 million registered in 2008-09, reflecting lower direct investment income paid out to non-residents and higher income earned by banks on assets abroad. The surplus on the current transfers account increased moderately from Rs6,173 million in 2008-09 to Rs6,590 million in 2009-10.

Table V.1: Balance of Payments Summary

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 [1]
						(Rs million)
Current Account	**-6,322**	**-10,188**	**-17,415**	**-22,232**	**-24,849**	**-22,586**
Goods	**-20,343**	**-25,533**	**-38,008**	**-55,313**	**-48,713**	**-55,532**
Exports f.o.b.	57,857	68,959	72,840	67,673	66,889	64,269
Imports f.o.b.	78,200	94,492	110,848	122,986	115,602	119,801
Imports c.i.f.	84,324	101,148	117,797	130,671	123,342	127,187
Services	**12,482**	**12,363**	**14,069**	**20,626**	**17,002**	**22,370**
Income	**-134**	**1,341**	**3,499**	**8,340**	**689**	**3,986**
Current Transfers	**1,673**	**1,641**	**3,025**	**4,115**	**6,173**	**6,590**
Capital and Financial Account	**3,380**	**4,141**	**13,727**	**12,781**	**14,549**	**13,000**
Capital Account	**-28**	**-98**	**-50**	**-49**	**-16**	**-169**
Financial Account	**3,408**	**4,239**	**13,777**	**12,830**	**14,565**	**13,170**
Direct Investment	-887	578	7,084	6,211	10,882	8,011
Portfolio Investment	-325	-1,679	2,949	-3,219	-4,662	-4,672
Other Investment	1,487	2,321	10,347	18,947	10,829	19,525
Reserve Assets	3,133	3,019	-6,603	-9,110	-2,484	-9,694
Net Errors and Omissions	**2,942**	**6,047**	**3,688**	**9,451**	**10,300**	**9,586**
						(US$ million)
Current Account	**-221**	**-335**	**-536**	**-773**	**-791**	**-730**
Goods	**-710**	**-839**	**-1,170**	**-1,922**	**-1,550**	**-1,794**
Exports f.o.b.	2,020	2,266	2,241	2,352	2,129	2,077
Imports f.o.b.	2,730	3,105	3,411	4,274	3,679	3,871
Imports c.i.f.	2,944	3,324	3,625	4,541	3,925	4,110
Services	**436**	**406**	**433**	**717**	**541**	**723**
Income	**-5**	**44**	**108**	**290**	**22**	**129**
Current Transfers	**58**	**54**	**93**	**143**	**196**	**213**
Capital and Financial Account	**118**	**136**	**422**	**444**	**463**	**420**
Capital Account	**-1**	**-3**	**-2**	**-2**	**-1**	**-5**
Financial Account	**119**	**139**	**424**	**446**	**464**	**426**
Direct Investment	-31	19	218	216	346	259
Portfolio Investment	-11	-55	91	-112	-148	-151
Other Investment	52	76	318	659	345	631
Reserve Assets	109	99	-203	-317	-79	-313
Net Errors and Omissions	**103**	**199**	**113**	**328**	**328**	**310**

[1] Estimates.

Notes: (a) Import data for 2004-05 are inclusive of import of aircraft (Rs120 million).
(b) Export data for 2005-06 are inclusive of sale of aircrafts (Rs670 million).
(c) Import data for 2005-06 are inclusive of import of aircraft (Rs125 million) and marine vessel (Rs21 million).
(d) Import data for 2006-07 are inclusive of import of aircrafts (Rs6,700 million).
(e) Export data for 2006-07 are inclusive of sale of aircrafts (Rs465 million).
(f) Import data for 2007-08 are inclusive of import of aircrafts (Rs3,700 million).
(g) Import data for 2008-09 are inclusive of import of ships (Rs583 million).
(h) Import data for 2009-10 are inclusive of import of aircrafts (Rs2,862 million).
(i) As from 2005-06, income data include interest income of banks.
(j) Figures for 2009-10 have been drawn from new monthly banking statements.

Chart V.1 shows the main components of the current account for the financial years 2004-05 through 2009-10. Chart V.2 shows the financing of the current account from 2004-05 through 2009-10.

Chart V.1: Main Components of the Current Account

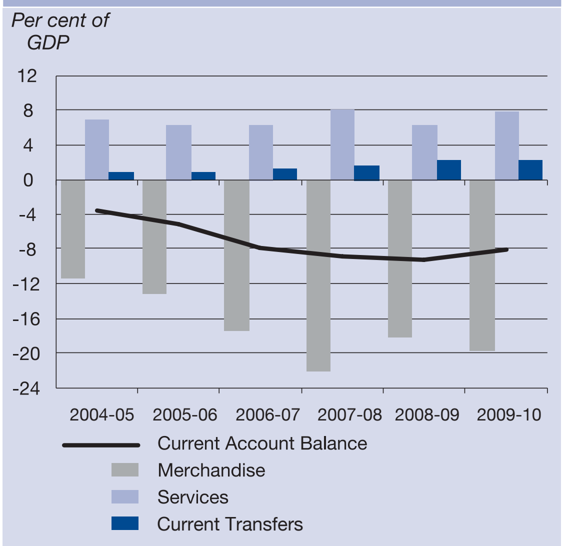
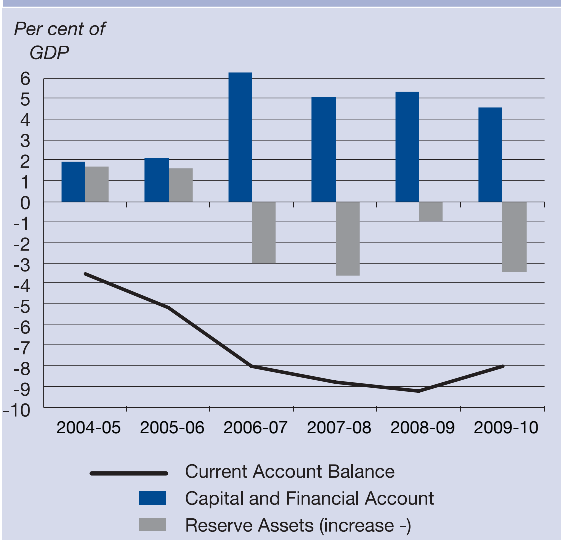


Chart V.2: Financing of the Current Account



Capital and Financial Account

Foreign Direct Investment (FDI) net inflows amounted to Rs8,011 million in 2009-10, compared to Rs10,882 million in 2008-09, a slowdown as foreign direct investment moderated while direct investment abroad went up significantly.

During 2009-10, FDI in Mauritius recorded lower net inflows of Rs11,222 million compared to net inflows of Rs11,940 million in 2008-09. Gross foreign direct investment in Mauritius stood at Rs12,227 million in 2009-10, with the bulk of the investment channelled into the services sector; the “Real estate activities” sector (Rs3,746 million) mainly under IRS/RES projects (Rs2,264 million), the “Financial and insurance activities” sector (Rs3,240 million), the “Human health and social work activities” sector (Rs2,732 million) and the “Accommodation and food service activities” sector (Rs1,099 million). Non-residents’ disinvestments from Mauritius amounted to Rs1,003 million in 2009-10.

Direct investment abroad by residents registered significant net outflows of Rs3,211 million in 2009-10 compared to net outflows of Rs1,058 million in the preceding financial year. Gross foreign direct investment by Mauritian residents stood at Rs3,413 million in 2009-10 and was mainly directed to the “Human health and social work activities” sector (Rs1,375 million) followed by the “Accommodation and food service activities” sector (Rs1,184 million) and the “Manufacturing” sector (Rs383 million). Residents’ repatriation of foreign direct investment from abroad amounted to Rs202 million.

With regard to debt-creating flows, portfolio investment recorded a net outflow of Rs4,672 million in 2009-10. It must be noted that data on portfolio investment in 2009-10 are not strictly comparable to 2008-09 as they have been drawn from new reporting returns for banks. Outward portfolio investment recorded higher net outflows of Rs13,200 million in 2009-10, on account mostly of acquisition of assets abroad by resident private administrators of equity funds. Non-residents’ portfolio investment recorded net inflows of Rs8,566 million in 2009-10. Reflective of renewed interest in holdings of domestic equity, non-resident net portfolio investment on the stock market recorded a net purchase of Rs897 million, a shift from a net sale of Rs1,528 million in the previous financial year 2008-09.

Transactions in the other investment account of the balance of payments resulted in higher net inflows of Rs19,525 million in 2009-10. The government sector registered net inflows of Rs27 million in 2009-10 on account of long-term loan receipts of Rs966 million and capital repayments of Rs939 million as against net inflows of Rs4,569 million in 2008-09. The increase in long-term liabilities of monetary authorities of Rs3,999 million in 2009-10 was on account of the Special Drawing Right allocations made by the IMF to the country. Loan disbursements to public corporations, both financial and non-financial, amounted to Rs4,600 million while capital repayments totalled Rs1,434 million, thus registering net inflows of Rs3,166 million in 2009-10 against net outflows of Rs1,554 million during 2008-09. Private long-term capital movements recorded net inflows of Rs1,085 million in 2009-10 against net outflows of Rs28 million in the preceding financial year.

Table V.2: Net International Reserves

	Bank of Mauritius Net Foreign Assets	Other Depository Corporations Net Foreign Assets [1]	Others [2]	Net International Reserves
2009				*(Rs million)*
Jan	54,839	36,238	646	**91,723**
Feb	57,299	34,409	664	**92,372**
Mar	57,042	31,468	652	**89,162**
Apr	60,371	33,456	671	**94,498**
May	60,458	33,224	659	**94,341**
Jun	63,282	33,864	656	**97,802**
2010				
Jan	62,412	40,048	611	**103,071**
Feb	63,772	41,167	619	**105,557**
Mar	63,322	40,217	807	**104,346**
Apr	63,869	38,966	805	**103,640**
May	66,521	39,656	862	**107,039**
Jun	65,004	36,729	1,040	**102,773**

[1] The Net Foreign Assets of Other Depository Corporations are adjusted for transactions of Global Business Licence Holders.

[2] Comprise Foreign Assets of the Government and the country's Reserve Position in the IMF.

Note: Figures may not add up to totals due to rounding.

Net International Reserves

The net international reserves of the country, made up of the net foreign assets of depository corporations, the foreign assets of the Government and the country's Reserve Position in the IMF, increased by Rs4,971 million, from Rs97,802 million at the end of June 2009 to Rs102,773 million at the end of June 2010.

Table V.2 shows the monthly level of net international reserves of the country during financial year 2009-10.

Of the components of net international reserves, net foreign assets of the Bank of Mauritius increased by Rs1,722 million, from Rs63,282 million at the end of June 2009 to Rs65,004 million at the end of June 2010 and those of other depository corporations went up by Rs2,865 million, from Rs33,864 million to Rs36,729 million.

In terms of import cover, the level of net international reserves of the country at the end of June 2010 represented around 9.9 months of imports based on the value of the import bill (c.i.f.) for financial year 2009-10, excluding imports of aircraft, compared with 9.6 months of imports at the end of June 2009.

External Debt

The stock of the country's external debt stood at Rs33,273 million as at end-June 2010, which represented an increase of Rs5,984 million, or 21.9 per cent compared to the outstanding amount of Rs27,289 million as at end-June 2009[1]. As a percentage of GDP at market prices, the stock of external debt rose to 11.8 per cent as at end-June 2010, from 10.1 per cent as at end-June 2009.

Component-wise, government external debt has declined from Rs17,701 million as at end-June 2009 to Rs16,707 million as at end-June 2010. This drop in budgetary central government debt was largely attributable to valuation gain during the financial year 2009-10 mostly on account of the sharp appreciation of the rupee vis-à-vis the euro.

Public enterprise government guaranteed and non-guaranteed external debt, inclusive of government guaranteed external debt of extra budgetary agencies, went up from Rs8,109 million as at end-June 2009 to Rs9,961 million as at end-June 2010. Capital repayments over the financial year 2009-10 amounted to Rs1,434 million while disbursement stood at Rs4,600 million.

Long-term private sector external debt registered an increase of Rs1,085 million, from Rs1,460 million at the end of June 2009 to Rs2,545 million at end of June 2010. Capital repayments totalled Rs1,468 million in 2009-10 while interest payments amounted to Rs46 million.

External debt servicing, that is, amortisation plus interest payments and other charges on total external debt, during the financial year 2009-10 stood at Rs4,889 million, down from Rs5,442 million in 2008-09. The debt service ratio which indicates how much of a country's export revenue will be used up in servicing its debt, stood at 3.5 per cent in 2009-10, lower than the 4.0 per cent registered in 2008-09.

Table V.3: Total External Debt and Debt Servicing *(Rs million)*

		2007-08	2008-09	2009-10
		Actual	*Actual*	*Actual*
1.	**Total External Debt Outstanding (as at end-June)**	**22,410**	**27,289**	**33,273**
	Government	*12,451*	*17,701*	*16,707*
	*Public Corporations**	*8,437*	*8,109*	*9,961*
	Private Sector	*1,489*	*1,460*	*2,545*
	Monetary Authorities	*33*	*19*	*4,060*
2.	**Amortisation of External Debt**	**8,642**	**4,674**	**4,286**
	Government	*5,134*	*2,163*	*1,384*
	Public Corporations	*2,502*	*1,604*	*1,434*
	Private Sector	*1,006*	*907*	*1,468*
3.	**Interest and Other Charges on External Debt**	**1,016**	**768**	**603**
	Government	*523*	*373*	*400*
	Public Corporations	*478*	*378*	*156*
	Private Sector	*8*	*13*	*46*
	Monetary Authorities	*7*	*4*	*1*
4.	**Total External Debt Servicing (2+3)**	**9,658**	**5,442**	**4,889**
5.	**Debt Service Ratio (per cent)**	**6.9**	**4.0**	**3.5**

Note: Figures may not add up to totals due to rounding. n.a. Not Available.
Sources: Statistcs Division, Bank of Mauritius; Ministry of Finance and Economic Development, Government of Mauritius.
** Including Extra Budgetary Units.*

[1] *The country's external debt excludes that of banks.*

Box I Coordinated Portfolio Investment Survey (CPIS)

The Coordinated Portfolio Investment Survey (CPIS) is an annual exercise jointly conducted by the Bank of Mauritius and the Financial Services Commission, under the initiative of the IMF. Information is collected on investment by Mauritian residents, including for this purpose, banks, global business companies, insurance companies, mutual funds, pension funds and investment companies, in securities issued by unrelated non-residents, both in terms of market value and geographical distribution.

Results of the 2009 CPIS in Mauritius

The 2009 CPIS indicated that residents' portfolio investment assets amounted to US$181,584.6 million, an increase of US$50,507 million from the position prevailing as at end 2008. The largest increase, amounting to US$44,832.5 million, was registered in holdings of equities, which reached a level of US$165,921.2 million, representing a share of 91.4 per cent out of total portfolio assets. The stock of long-term debt securities went up by US$2,309.2 million to attain US$10,588.7 million (representing a share of 5.8 per cent) while investment in short-term debt increased by US$3,365.2 million to stand at US$5,074.7 million (representing a share of 2.8 per cent) as at end of 2009.

The main country where our portfolio assets were invested in 2009 remained India as has been the case in previous years with a share of 77.5 per cent (or US$140,732.8 million). Other destinations were China with a share of 5.8 per cent (or US$10,568.7 million) followed by Singapore with a share of 2.7 per cent (or US$4,826.7 million).

Banks' investment in foreign securities rose from US$917.1 million at the end of December 2008 to US$1,197.6 million at the end of December 2009, out of which an amount of US$37.5 million was invested in equities (representing a share of 3.1 per cent), US$244.9 million was invested in short-term debt (representing a share of 20.5 per cent) and investment in long-term debt amounted to US$915.2 million (representing a share of 76.4 per cent).

The table below outlines the stock of equity and debt securities held over the period 2005-2009, as at end December.

Year	Equity securities	Long-term Debt securities	Short-term Debt securities	Total
	(US$ billion)			
2005	48.8	5.5	0.5	54.8
2006	70.5	10.5	0.6	81.6
2007	130.1	21.9	2.7	154.7
2008	121.1	8.3	1.7	131.1
2009	165.9	10.6	5.1	181.6

The IMF's 2008 CPIS Results

Total global portfolio investment assets decreased to US$30.7 trillion at the end of December 2008 from US$39.1 trillion at the end of December 2007, driven by significantly lower investment in equity securities. For the 2008 CPIS, securities held as reserve assets and holdings of international organisations amounted to US$3.6 trillion, up from US$3.1 trillion at the end of December 2007. The United States, France and the United Kingdom were the three largest investing countries with a total share of 30.1 per cent of total portfolio investment assets.

Of total global cross-border holdings, US$9.8 trillion were held as equity securities, US$18.2 trillion as long-term debt and US$2.7 trillion as short-term debt in the 2008 CPIS. As at end-December 2008, the top five economies that were the largest issuers of securities that traded internationally were the United States, United Kingdom, Germany, France and Netherlands while the top five economies that were the largest holders of such securities were the United States, France, United Kingdom, Japan and Germany.

The results of the 2001 through 2008 CPIS are available on the IMF's website (Portfolio Investment: CPIS Data Results; http://www.imf.org/external/np/sta/pi/datarsl.htm).

Box II International Investment Position of Mauritius as at Year-End 2009

The International Investment Position (IIP) is compiled annually by the Bank in line with international standards and conventions as laid down in the 5th edition of the Balance of Payments Manual (BPM5, 1993) of the International Monetary Fund. The IIP reports the stock of external financial assets and liabilities of the country at a point in time. However, owing to limited data sources, a partial coverage of the IIP is currently being compiled for Mauritius.

Mauritius's International Investment Position (End-period stocks)

US$ Million

	2008	2009 [1]
Assets	**11,679**	**12,103**
Portfolio investment	1,435	1,826
Financial derivatives	1,223	2,880
Other investment	7,236	5,200
Reserve assets	1,786	2,197
Liabilities	**9,545**	**9,589**
Portfolio investment	260	216
Financial derivatives	1,239	2,860
Other investment	8,047	6,512
Net International Investment Position	**2,134**	**2,514**
Net International Investment Position as a % of GDP	**25.6**	**27.8**

Figures may not add up to total due to rounding.
[1] Provisional.

The net International Investment Position of Mauritius, defined as the difference between external assets and liabilities, stood at US$2,514 million as at end-2009, up by 17.8 per cent compared to US$2,134 million as at end-2008. As at year end 2009, the value of Mauritian owned assets abroad continued to exceed liabilities to non-residents.

The US$380 million increase in the net IIP from year-end 2008 to year-end 2009 was driven by a larger expansion in external assets (US$424 million) relative to the slight increase of US$44 million in external liabilities. As a percentage of GDP, the net IIP was equivalent to 27.8 per cent at year-end 2009, up from 25.6 per cent at year-end 2008.

In 2009, the stock of Mauritian owned assets abroad broadened to US$12,103 million. This rise was mainly attributable to a significant increase in stock of financial derivatives assets of 135.5 per cent, followed by a 27.2 per cent expansion in the stock of portfolio investment assets. However, there was a 28.1 per cent decline in other investment assets. Other investment assets continued to remain the largest component of total external assets in 2009 although its share has declined considerably. The shares of the stocks of financial derivatives assets (23.8 per cent), reserve assets (18.2 per cent) and portfolio assets (15.1 per cent) within total external assets have all increased.

The stock of external liabilities as at end 2009 stood at US$9,589 million, a slight increase of US$44 million. The stock position of financial derivatives liabilities witnessed a significant increase of 130.8 per cent while the stock of both other investment and portfolio investment liabilities witnessed a drop of 19.1 per cent and 16.9 per cent, respectively. In terms of contribution, the stock of other investment liabilities in 2009 was the largest component (67.9 per cent) although its share has declined relative to 2008, followed by financial derivatives (29.8 per cent) and portfolio investment (2.3 per cent).

VI. MONETARY POLICY 2009-10

The accommodative monetary policy stance adopted with the onset of the global economic crisis was pursued in the year 2009-10. As per the statutory mandate, monetary policy focused on maintaining price stability and promoting orderly and balanced economic development. The Monetary Policy Committee (MPC) of the Bank of Mauritius unanimously agreed to maintain the key Repo Rate on hold at its four regular quarterly meetings held in 2009-10.

Decisions and assessments of the MPC continued to be communicated in a timely and transparent manner by way of the Communiqué issued in the evening immediately after a meeting, the post-meeting press conference held by the Governor, the publication of the Monetary Policy Statement a week after the meeting and the publication of the bi-annual Inflation Report.

Assessment and Decisions

Reports on economic activity worldwide provided clear indications of global recovery as the MPC met on 22 September 2009. Supported by unprecedented fiscal and monetary expansionary policies, almost all major advanced economies were emerging from recession and financial markets began improving. However, while growth prospects brightened, the pace and extent of recovery remained uncertain amid low global inflation. With domestic expansionary economic policies in place and most major export markets settling on the recovery path, the MPC anticipated a rebound in economic activity in the second half of 2009. Domestic inflation had continued to fall. The MPC expected economic slack as well as low price pressures from external sources to suppress short-term inflationary pressures: however, the medium-term inflation outlook was uncertain with potential risks stemming from the future course of international oil and food prices. The MPC unanimously decided to leave the key Repo Rate on hold at 5.75 per cent per annum.

By the time the MPC convened on 10 December 2009, the pace of global economic recovery had firmed up and financial markets conditions had strengthened further. Most major advanced economies had moved out of recession and growth was robust in many large emerging economies. Inflation was expected to remain low generally, but rising world demand was heightening pressure on commodity prices. There were indications of a strong pick-up in domestic economic activity in the second semester of 2009. Further, economic prospects had improved markedly on account of an expected rise in export demand from main markets, higher public expenditure and better business as well as consumer confidence. The rupee appreciation was considered as a cause for concern by the MPC, as it eroded export competitiveness. The MPC maintained its previous assessment on inflation and decided to leave the key Repo Rate unchanged.

While global economic activity intensified and growth prospects improved further, the MPC noted marked divergences in the pace of economic expansion across countries and regions at its meeting on 23 March 2010. Inflation had bottomed out in general but remained low. The accommodative monetary policy stance was maintained by most central banks, but a few had started removing monetary stimulus to preserve price stability. Domestic indicators pointed towards sustained improvement in economic activity, as soft external demand was partly offset by buoyant domestic demand. Demand for credit was sluggish. Overall, the MPC viewed real economic activity to stay below potential and it anticipated benign inflation in the short term with, however, potential upside risks over the medium to long term. The MPC agreed that the policy support to the economy should be maintained until growth becomes self-sustaining.

After weighing the risks to the inflation outlook and the growth prospects, the MPC chose to maintain the policy interest rate at its current level at its meeting held on 22 June 2010. The world economy continued to pick up, propelled by robust nearly pre-crisis output growth in most major emerging and developing economies. In contrast, economic revival in many advanced economies was still not firmly entrenched. Fiscal austerity measures, especially in Europe, could drag on the recovery in key export markets. Inflationary pressures building up in several major emerging and developing economies and in commodity-exporting economies induced more central banks to start raising interest rates. Economic activity indicators suggested sustained output growth in most domestic sectors in the first quarter of 2010. However, weaker-than-expected recovery in the euro area and the United Kingdom had diminished prospects of faster growth in the outward-looking sectors and the overall pace of economic expansion was projected to be lower than initial forecast. Inflation had remained subdued, in line with the Bank's projections, but the MPC judged that inflation had bottomed out and further ahead higher imported inflation could turn out to be a major upside risk.

Monetary Policy Operations

Money market conditions were liquid as banks' excess reserves averaged Rs2.7 billion in 2009-10 higher than in the preceding year. Subdued economic activity had led to significant slowdown in banks' lending activities resulting in a build-up of excess liquidity in the banking system, particularly as from late February 2010. The Bank had to initiate a series of monetary operations to absorb part of the surplus liquidity using instruments at its disposal, namely, by issuing Bank of Mauritius Bills, conducting Special Deposits Facility as well as reverse repurchase transactions, and raising the minimum Cash Reserve Ratio by 0.5 percentage point to 5.0 per cent in June 2010.

VII. REGIONAL COOPERATION

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

The SADC Summit of Heads of State and Government

The Twenty-Ninth SADC Summit of Heads of State and Government was held from 7-8 September 2009 in the Democratic Republic of Congo. The positive developments in the socioeconomic and political areas of SADC and the challenges facing the region, including the global financial and economic crisis, were highlighted. The Summit called on the international community to remove all forms of sanctions against Zimbabwe. The progress made in an effort to restore constitutional order in Madagascar was noted. The Summit also noted the progress made in the implementation of the SADC Free Trade Area (FTA) and in the preparations for the negotiations of the SADC Customs Union and urged the Ministerial Task Force (MTF) on Regional Economic Integration to ensure that outstanding issues are effectively addressed. It was noted that the Task Force would be meeting in a Strategic Forum to further examine the regional economic integration agenda. The Summit supported Malawi's candidature as the next chairperson of the African Union. The 2010 Ordinary Summit of Heads of State and Government would be held in the Republic of Namibia.

The SADC Council of Ministers

The SADC Council of Ministers met from 22-26 February 2010 in the Democratic Republic of Congo. The Council noted that, as mentioned at the September 2009 SADC Summit of Heads of State and Government, a Strategic Forum was held on 3 February 2010 and was followed by a meeting of the MTF on 4 February 2010 in South Africa. The Council also noted the update on the Global Economic Crisis. Economic activity in Africa is expected to increase by 4.3 per cent in 2010. By November 2009, most member states, including Mauritius, had recorded single digit inflation. The IMF estimated that the Region recorded an average inflation rate of 12.6 per cent in 2009, which would decline to 8 per cent in 2010. The external sector of the region benefited from an upward trend in commodity market prices in 2008. With depressed economic activity and a weak external sector performance in 2009, the fiscal sector was under pressure. The depressed performance also impacted negatively on the public resource envelopes of member states. This has in turn affected the ability of member states to carry out meaningful investments.

The Committee of Central Bank Governors in SADC

A meeting of the SADC Committee of Central Bank Governors (CCBG) was held on 11 September 2009 in South Africa. At the CCBG meeting held on 16 May 2010 in Mozambique, Governors noted that the document "Recent Economic Developments and Statistics for SADC Countries" had been renamed "Annual Statistics for SADC Countries" to avoid confusion with the "Integrated Paper on Recent Economic Developments in SADC". This paper was published on the SADC Central Bankers' website. In relation to the CCBG Fund Account, Governors approved that each SADC central bank would contribute US$10,000 for the year 2010.

Finance and Investment Protocol (FIP)

Nine SADC member states, including Mauritius, have deposited their instruments of ratification of the FIP with the SADC Secretariat. Following the FIP Implementation Workshop held in April 2009, the FIP Implementation Project undertook visits to various member states, including Mauritius, to introduce the project and engage in consultations regarding implementation. The FIP Project will also undertake consultation visits to the remaining countries and extend the same offer of assistance to all member states. A workshop will be convened at the end of July 2010 to consolidate input from member states on the implementation programme of the FIP. The workshop will also consider the review of SADC structures. In September 2009, Governors approved that the CCBG sub-committees should submit the funding needs for FIP implementation to the SADC Secretariat and, in May 2010, they noted that this had been done in the following areas: payment, clearing and settlement systems, legal drafting course, and CCBG Secretariat regional integration workshop.

SADC Free Trade Area (FTA)

The Ministerial Task Force on Regional Economic Integration, which met in February 2010, had reaffirmed the commitment of SADC to the establishment of the Common Market for Eastern and Southern Africa (COMESA)-East African Community (EAC)-SADC Tripartite FTA.

SADC Customs Union (CU)

At the February 2010 meeting, the Ministerial Task Force discussed the way forward for the SADC CU. The Task Force observed that the 2010 timeline for establishment of the SADC CU is unattainable and indicated that there is need to revise the timeline, taking into account the required preparatory work and the timeframe for negotiations.

SADC Macroeconomic Sub-committee

The SADC Macroeconomic Sub-committee hosted a workshop from 11-12 November 2009 in Botswana to assess the status of macroeconomic statistics and development of a macroeconomic statistical database. Following recommendations made at this workshop, a Macroeconomics Statistics Working Group composed of the relevant units in the SADC Secretariat and the CCBG Secretariat was established to co-ordinate the process of collecting and disseminating economic data from the SADC member states.

CCBG Macroeconomic Sub-committee

The CCBG Macroeconomic Sub-committee met on 9-10 March 2010 in Botswana and discussed, among other things, the SADC macroeconomic convergence (MEC) criteria and targets, country progress in respect of the MEC indicators, and research papers. At the September 2009 meeting, Governors agreed that the MEC indicators were not reasonable and advised that the issue should be revisited. Furthermore, they noted that the SADC Ministers responsible for national financial matters had underscored the need for the CCBG to provide guidance on the inclusion of exchange rate stability and interest rate divergence as secondary MEC indicators. At the May 2010 meeting, Governors noted that, since the current primary MEC indicators originate from the FIP, it will be necessary for the FIP to be reviewed.

SADC Banking Association

Twelve SADC Banking Association members, including the Mauritius Bankers Association, have signed the Memorandum of Understanding (MoU) on Co-operation among Member Banking Associations. The MoU would be submitted to the SADC Secretariat in July 2010 to be annexed to the FIP.

SADC Sub-committee of Banking Supervisors (SSBS)

The SSBS held its Annual Meeting from 7-8 April 2010 in Kinshasa, Democratic Republic of Congo. As a first step towards harmonisation, all member countries agreed to comply with International Accounting Standards/ International Financial Reporting Standards requirements by 2012, compute their Financial Soundness Indicators based on the definitions available in the IMF 2006 manual by 2012, implement a CAMELS (Capital; Asset quality; Management quality; Earnings; Liquidity; Sensitivity to market risk) rating system by the end of 2010, and implement at least the simplest approach of Basel II by 2014. The SSBS, with the assistance of the Legal and Operational Framework Steering Committee, would draft model banking laws in line with international best practices. All member countries agreed to start working on the following seven guidelines with the objective of coming up with at least a draft by July 2012, namely, corporate governance, general principles for maintenance of accounting and internal control system in financial institutions, credit risk management, credit impairment, measurement and income recognition, liquidity risk, large exposure limit, and related party transactions. Upon the recommendation of the Chairperson, the Sub-Committee would also look into the new Basel III.

CCBG Financial Markets Sub-committee

The Bank of Mauritius hosted the third meeting of the CCBG Financial Markets Sub-committee from 17-19 March 2010. The sub-committee started the investigation into the compliance or lack thereof, with the International Financial Reporting Standards (IFRS) with respect to the treatment of foreign exchange gains and losses by member central banks with a sample of SADC countries. The investigation into compliance of central banks to the IFRS has been extended to include all SADC member countries and the outcome would be submitted to the CCBG at its September 2010 meeting. Governors, at the May 2010 CCBG meeting, approved that the Annex on "Co-operation on Financial Markets" be submitted to the SADC Ministers responsible for national financial matters at their meeting in July 2010 in Zambia for endorsement to be annexed to the FIP. They also approved that the paper entitled "The Benefits of Obtaining Sovereign Rating in the SADC Region" be shared with the SADC Ministers responsible for national financial matters. A final position on the analysis on the improvement and harmonisation of market information infrastructure would be submitted to Governors at the September 2010 meeting. The next project of the sub-committee will be a paper on the "Promotion of Secondary Market Trading in the SADC Region with specific focus on distribution channels, e.g. primary dealership". The working group will comprise Mauritius, South Africa, Tanzania and Zambia. South Africa will be leading this project and a first draft is expected by September 2010.

SADC Information Technology (IT) Forum

The Bank of Mauritius hosted the SADC IT Forum Conference from 15-19 March 2010. The purpose of the conference was to review progress of the Information and Communication Technology (ICT) projects; update the ICT component of the Regional Indicative Strategic Development Plan (RISDP) programme; review ICT updates from various service providers and vendors; and re-assess the Payments Systems Project road map to establish ways in which the IT Forum could contribute to this project.

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

COMESA is the largest regional economic grouping in Africa, with 19 member countries. These are Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. Economic growth in the COMESA region attained 9.2 per cent in 2008. Intra-COMESA trade has grown from less than US$1.7 billion in 2000 to US$15.2 billion in 2008.

The Bank of Mauritius hosted the Fourteenth Meeting of the COMESA Committee of Governors of Central Banks from 29-30 October 2009, which was preceded by the Fourteenth Meeting of the COMESA Committee on Finance and Monetary Affairs during 26-28 October 2009. The Meeting was attended by representatives from Central Banks of Burundi, Comoros, Democratic Republic of Congo, Egypt, Kenya, Libya, Malawi, Mauritius, Madagascar, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. The Bank of Mauritius raised the profile of the COMESA Meeting by having two important presentations on "The evolving structure and role of Monetary Policy Committees" and "Issues of Governance in central banks". Governors decided that at future meetings, special arrangements should be made to allow interventions on topical subjects of direct interest to Central Bankers by key speakers from both public and private sectors.

Regional Payment and Settlement System (REPSS)

The Bank of Mauritius acts as the Settlement Bank for REPSS, which now makes it possible for exporters to get paid, at the latest, on the next day that importers deposit the money into their respective accounts at their central banks. At the Fourteenth Meeting of the COMESA Committee of Governors of Central Banks, Governors decided that all central banks should expedite the signature of the various agreements pertaining to REPSS and its operations and opening of Settlement Accounts at the Bank of Mauritius and to fully support the marketing of its operations, as directed by the COMESA Authority of Heads of State and Government, for the benefit of the region. Settlement accounts have been opened by the Bank of Mauritius for the central banks that have been active participants in the design and implementation of REPSS. These accounts will be activated immediately after signature of the agreement with the Bank of Mauritius and pre-funding of the respective accounts. Draft Agreements were resent to all central banks by the Chairman of the COMESA Committee of Governors of Central Banks and Malawi, Mauritius, Sudan, Swaziland, Uganda and Zambia have so far signed all the agreements. REPSS has been opened up to include additional currencies such as UK Pounds (GBP), Switzerland Francs (CHF), Japanese Yen (JPY) and South African Rand (ZAR). REPSS is being aggressively promoted in all member states through sensitisation workshops organised by central banks and with the participation of commercial banks, exporters, importers and other stakeholders. The Global Board of Trade (GBOT), an international multi-asset derivatives exchange that will be starting operations in derivatives trading in commodities and currencies in September 2010, has indicated that it will be using REPSS for funds transfer within COMESA.

Macroeconomic Convergence in 2008

In 2008, the fiscal criterion was missed by nine out of nineteen countries. Thirteen countries, including Mauritius, missed the inflation criterion. This was the result of the pass-through of high world energy and food prices. However, four countries, including Mauritius, experienced single-digit inflation rates. All countries used indirect monetary policy instruments. Interest rates are liberalised in all countries. Some COMESA member States have exceptionally high real lending rates and a wide margin between lending and deposit rates, which is a reflection of relative inefficiency of their banking system. The average import cover for COMESA countries was almost 4.0 months. Despite the downward trend in the second half of 2008, high energy and food prices resulted in rising current account deficits in most of the COMESA member countries. Most of the COMESA member countries have made significant progress in moving towards market determined exchange rates. The average real growth rate in the COMESA region was 9.2 per cent in 2008 compared with a growth rate of 11.3 per cent in 2007. The average overall investment as a percentage of GDP in COMESA fell from 19.4 per cent in 2007 to 18.9 per cent in 2008. The average external debt to GDP ratio decreased from 17.4 per cent in 2007 to 14.5 per cent in 2008. The COMESA Secretariat and African Development Bank organised a joint workshop, under the aegis of the Regional Multidisciplinary Centre of Excellence, on 'Establishing an Effective Multilateral Fiscal Surveillance Framework for COMESA Monetary Union" from 16-17 December 2009 at La Plantation Hotel in Mauritius.

Establishment of COMESA Monetary Institute

The Central Bank of Kenya and Bank of Zambia had submitted bids to host the COMESA Monetary Institute (CMI). Based on the findings and recommendations of a COMESA Evaluation Team, comprising experts from Central Banks of Egypt, Rwanda, Mauritius and Sudan, the decision was taken at the Fourteenth Meeting of the COMESA Committee of Governors of Central Banks held in October 2009 in Mauritius for Kenya to host the CMI. A revised Draft Charter of the CMI was also adopted at the

Fourteenth Meeting of the COMESA Committee of Governors of Central Banks.

Financial System Development and Stability

The Fourth Meeting of the Financial System Development and Stability Sub-committee, which was held from 5-7 October 2009 in Lusaka, Zambia, reviewed the Assessment Framework on Financial System Development and Stability. The Sub-committee made a number of recommendations, which were endorsed by Governors at the Fourteenth Meeting of the COMESA Committee of Governors of Central Banks, among which the adoption of a definition of Financial Stability for the COMESA Region and the adoption of the Reporting Format for the assessment of Financial System Development and Stability. It was also recommended that member countries send to the COMESA Secretariat by 31 July each year their Financial Stability Reports for the period ending 31 December of the previous year as well as the various monthly/quarterly financial stability indicators as per agreed timeframes for posting on the COMESA website. Thus, in April 2010, the Bank of Mauritius forwarded its Financial Stability Reports, which were released in June 2009 and February 2010, respectively, to the COMESA Secretariat.

Monetary and Exchange Rates Policies

The Seventh Meeting of the Monetary and Exchange Rates Policies Sub-committee, which was held from 12-14 October 2009 in Lusaka, Zambia, reviewed the Draft Charter of the CMI, which was adopted at the Fourteenth Meeting of the COMESA Committee of Governors of Central Banks. The Sub-committee also undertook studies on the choice of monetary policy regimes in selected COMESA member states, the extent and symmetry of shocks in selected COMESA member countries, and the impact of the global financial crisis on African economies, response and the way forward. Further to the recommendation made by the Sub-committee, member countries made presentations of their experiences on the impact of the global financial crisis on their respective economies at the Fourteenth Meeting of the COMESA Committee on Finance and Monetary Affairs. The Finance and Monetary Affairs Committee recommended that the Monetary and Exchange Rates Policies Sub-committee undertake in 2010 studies on the preparation of multilateral surveillance framework for macroeconomic convergence, and preparation of legal framework for multilateral surveillance.

At the Fourteenth Meeting of the COMESA Committee of Governors of Central Banks, the Bank of Mauritius also provided the GBOT, an international multi-asset derivatives exchange, a platform to make a presentation on “The need for currency derivatives in COMESA member states”.

The Governor of the Bank of Mauritius currently chairs the COMESA Committee of Governors of Central Banks. The Thirty First Meeting of the Bureau of the COMESA Committee of Governors of Central Banks was held on 4 August 2010 in Mauritius and was preceded by a Meeting of Technical Experts from Bureau member countries, from 2-3 August 2010.

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

Meeting of Governors of the AACB, Eastern Africa Sub-Region

The Eighth Meeting of Governors of the AACB, Eastern Africa Sub-region, was held on 5 August 2009 in Moroni, Comoros, and was preceded by the Technical Committee Meeting, from 3-4 August 2009. The purpose of the meeting was to review the progress made by the Sub-region in the implementation of the African Monetary Cooperation Programme (AMCP), to share experiences on the impact of the global financial crisis on the Sub-region, and to review the results of a study on the institutional frameworks of Monetary Policy Committees carried out by the Central Bank of Kenya, the Bank of Uganda and the National Bank of Rwanda.

Progress towards Implementation of the AMCP by Member Central Banks

Governors considered the progress made towards achieving the quantitative macroeconomic convergence primary criteria in the second phase of the AMCP covering the year 2008. The majority of member countries did not meet the criterion of overall budget deficit (excluding grants) target of less than 5 per cent of GDP, except Kenya, Mauritius and Uganda. It was decided that it was important to take into account the impact of the global financial crisis on countries in the region when interpreting the overall budget deficit criterion and provide escape clauses. Moreover, countries should compute fiscal deficits both with grants and without grants. With respect to the objective of single digit inflation rate, member countries experienced inflationary pressures due to supply shocks emanating from worldwide rising energy and food prices and most of them, except Comoros and Mauritius, did not meet this criterion. Three countries, including Mauritius, experienced single-digit underlying rates of inflation. It was decided that member countries' central banks should maintain appropriate monetary policy stance to limit the second-round effects of exogenous shocks, that central banks should step up their efforts towards producing and reporting core inflation data in order to better gauge the effectiveness of monetary policy, and that there was need to come up with a harmonised definition of core inflation to facilitate comparability among member central banks. There was mixed performance among countries in the attainment of the target minimisation of central bank financing of budget deficit to less than 10 per cent in 2008. Governors decided that member countries should maintain efforts to minimise and limit central bank financing of the budget deficit as stipulated in the AMCP. Most member countries recorded external reserves/ import cover of at least three months of imports of goods and non-factor services in 2008. It was decided that member countries should strive to observe the import coverage criterion to assist adjustments in the event of adverse external shocks.

Governors also assessed the progress made with respect to the secondary criteria. All member countries, except Kenya, did not satisfy the criterion of domestic fiscal receipts/ GDP ratio equal to or more than 20 per cent during 2008. Except Comoros and Burundi, the remaining countries met the criterion wage bill to total tax revenue ratio of less than 35 per cent during 2008. It was decided that member countries should strive to meet this criterion in order to release resources for investments in other sectors. Most countries met the criterion of public investments financed from internal resources to be kept to a minimum of 20 per cent. Member countries were encouraged to finance a larger share of their public investments domestically. All countries recorded negative real interest rates in 2008 mainly due to exceptionally high inflation rates during the year. Some countries, except Mauritius, Rwanda and Uganda, recorded a depreciation of the real effective exchange rate in 2008, which could be largely attributed to the impact of the global financial crisis. It was decided that while market forces should dictate the movements in the exchange rates, member countries should ensure the proper functioning of foreign exchange markets. They should also maintain sufficient reserves to allow interventions to smooth out excessive volatility in the foreign exchange market.

Status of Collaboration between AACB and African Union Commission (AUC)

At the Eighth Meeting of Governors of the AACB, Eastern Africa Sub-region, held on 5 August 2009, Governors were informed of the status of collaboration between AACB and AUC. Following the meeting of the Joint AUC-AACB in Addis-Ababa in November 2008, the Terms of Reference of the common strategy for the creation of the African Central Bank (ACB) have been drafted. Governors were also informed of the developments regarding the selection of a consultant to be appointed to undertake a study on ACB.

Chairmanship of the AACB, Eastern African Sub-region

The Central Bank of Kenya and Bank of Uganda were elected as the next Chair and Vice Chair of the AACB, Eastern Africa Sub-region, respectively.

Meeting of the Assembly of Governors of the AACB

The Assembly of Governors of the AACB held its Thirty-third Ordinary Meeting in Kinshasa, Democratic Republic of Congo, on 21 August 2009. The Assembly of Governors took note of the choice of the European Central Bank to conduct the study on the strategy for the creation of the African Central Bank. It also recommended that the study take into account the particularities of the African continent. In this respect and to facilitate the transfer of knowledge, it also recommended the supervision of the study by a committee of experts made up of representatives of AUC and AACB. It insisted on the need for the preparation by the AUC of a detailed budget on the activities of the said committee. Lastly, it commended the Central Bank of Nigeria for releasing the resources pledged (US$200,000) for the realisation of the study.

The Assembly of Governors selected “The role of African Central Banks in the regulation and stability of the financial system” as the theme for the 2010 AACB symposium. The assembly of Governors agreed on “Lessons Africa should learn from the international financial crisis: mechanisms for prevention and the coordination of responses” as the theme for the 2010 Continental Seminar.

The Assembly of Governors elected the Governor of the Banque Centrale du Congo as the Chairman of the AACB for the fiscal year 2009-10.

The Bureau of the AACB held its First Ordinary Meeting for the year 2010 on 24 February 2010. It adopted the report on the 2009 AACB Symposium and the report of the Thirty-Third Ordinary Meeting of the Assembly of Governors. It also took note of the progress made by the AACB-AUC Joint Committee, put in place to develop a strategy for the creation of the ACB and the progress achieved in the implementation of the AMCP.

A Technical Meeting of the AACB, Eastern Africa Sub-region, was held from 8-9 April 2010 in Nairobi, Kenya, to come up with the sub-region report and data on the implementation of the AMCP for 2009.

The continental seminar on “Lessons Africa should learn from the International Financial Crisis: Mechanisms for Prevention and the Co-ordination of Responses” was held from 10-12 May 2010 in Lilongwe, Malawi. The seminar proceeded with plenary sessions on the causes and implications of the international financial crisis, country experiences on management of the crisis and workshops on several themes. Some pertinent lessons and recommendations emerged from the generally rich and informative discussions.

VIII. INTERNATIONAL ECONOMIC DEVELOPMENTS[1]

Growth

Global economic recovery picked momentum in the second half of 2009 with signs of stabilisation in growth rates and industrial production for many economies. Emerging-market economies, especially in Asia, led the recovery with China, India, and Indonesia, avoiding outright recession and returning to more vigorous growth as world trade recovered. Growth in emerging economies was also supported by buoyant domestic demand, rising confidence and positive wealth effect. Activity in most advanced economies remained well below pre-crisis levels, and the pattern of recovery was uneven; output growth in the euro area and the United Kingdom was lower than in the United States and much of Asia. In the last two quarters of 2009, global equities rebounded strongly, with major stock indices rising to their highest levels since Lehman Brothers collapsed in mid-September 2008.

In the first semester of 2010, systemic risks in the world financial system decreased substantially, even though the outlook remained clouded by uncertainties over the sovereign debt problems in Europe. Financial market strains also eased considerably, while banks and other financial institutions managed to rebuild their capital. Capital inflows gradually returned to many developing economies, and commodity prices rebounded after experiencing steep declines during the crisis period. Notwithstanding evident signs of recovery, important weaknesses remained in the world economy. Despite the massive amount of liquidity injected by central banks into the financial system, credit flows to non-financial sectors in many economies were restrained. While higher equity prices eased the losses of many financial institutions, the process of de-leveraging was still on-going. At the same time, public finances of many developed countries deteriorated rapidly mainly on account of policy responses to the crisis. In some countries, such as in Greece, Portugal, Spain and Ireland, they led to a new source of financial instability. Even though joint EU-IMF initiatives to bail out Greece and prevent wider contagion comforted markets to some extent, credit conditions remained tight in major developed economies.

In July 2010, the IMF revised up its forecast of global growth to 4.6 per cent for 2010 from the 4.2 per cent it estimated in April, reflecting upward revisions in the United States, Japan and many emerging market economies. The revisions reflected stronger-than-expected growth in the first half of 2010, but the IMF also noted that downside risks to growth had risen sharply amid renewed financial turbulence and thus, the new forecasts centered on implementation of policies to rebuild confidence and stability, particularly in the Euro area.

The US economy began to grow again in the third quarter of 2009 and real GDP expanded by an annualised rate of 5.0 per cent in the fourth quarter of 2009, the biggest quarterly growth in six years. More than half of the growth in GDP in the last quarter of 2009 was attributed to the smaller drawdown in private inventory, while the rest of the growth came from revival in non-residential fixed investment and net exports. The US labour market was hard hit by the financial crisis and had been deteriorating since 2008, with the level of employment on a continuous decline. By the end of 2009, more than eight million people had lost their jobs, pushing the unemployment rate up to more than 10 per cent. The housing sector also remained under significant stress in 2009 but by mid-2010, some signs of a turnaround emerged, especially in construction activity and housing prices.

In the first half of 2010, the US economy continued to recover. It grew at an annualised rate of 3.7 per cent in the first quarter of 2010. The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, and non-residential fixed

[1]This section draws material from the IMF's July 2010 World Economic Outlook Update, World Trade Organisation's International Trade Statistics, United Nations' World Economic Situation and Prospects 2010 Update as well as United Nations Conference on Trade and Development's World Investment Report 2010.

investment. Growth was also supported by inventory restocking in response to growing demand. In the second quarter of 2010, the economy grew at an annualised rate of 1.6 per cent. The deceleration in the growth rate was on account of a sharp increase in imports coupled with a quick fall in private inventory investment. The manufacturing Purchasing Managers' Index (PMI) also fell from a cyclical high of 60.4 in April to 56.2 in June, its lowest level since December 2009. The housing sector remained turbulent in the second quarter. Existing home sales were in decline for a second month in a row in June and supply went up from 8.3 months to 8.9 months. The front-running indicator of pending home sales was 2.3 per cent lower in June, after a steep decline in May of 29.9 per cent, which came after tax credits for first-time home buyers expired at the end of April. The unemployment rate remained high at 9.5 per cent in June 2010. According to the IMF's July 2010 World Economic Outlook Update, the US economy is projected to grow by 3.3 per cent and 2.9 per cent in 2010 and 2011, respectively.

After four consecutive quarters of contraction, Japan's economy started to expand as from the second quarter of 2009 and GDP grew again (by 0.9 per cent on a quarter-on-quarter, seasonally-adjusted basis) in the fourth quarter of 2009 after contracting by 0.1 per cent in the third quarter. The expansion was largely driven by the completion of the destocking cycle and the expansionary fiscal policies implemented in Japan and overseas. Growth was also supported by improvements in private consumption, capital spending in the non-residential sector and net exports. In the first quarter of 2010, Japan's economy remained on its recovery path and grew by a quarter-on-quarter rate of 1.2 per cent. Exports were again the main driver of growth and marked their fifth-largest annual gain on record in April 2010. On the domestic side, private consumption continued to recover, supported by various government transfers and subsidy schemes. However, economic growth slowed significantly in the second quarter of 2010 to 0.4 per cent as the main forces that supported the economy – namely, exports and consumption – lost some of their dynamism. Nevertheless, during this period, business confidence considerably improved. According to the IMF, Japan's economy is expected to grow by 2.4 per cent in 2010 and 1.8 per cent in 2011 compared to a contraction of 5.2 per cent in 2009.

Most of the European economies exited recession by the third quarter of 2009. Nonetheless, the collapse in activity in the euro area earlier in the year resulted in a decline in GDP by 4.1 per cent for 2009 as a whole. By the end of 2009, unemployment surged and public debt rose to unprecedented levels. The euro zone economy posted a quarter-on-quarter growth of 0.3 per cent and 1.0 per cent in the first and second quarters of 2010, respectively. The manufacturing sector contributed significantly to GDP growth, bolstered by the ongoing recovery of the world economy and by the weak euro. While the economy recovered slowly, it faced significant headwinds. Retail sales and labour market conditions remained weak. The unemployment rate rose to 10 per cent in June 2010, the highest since 1998. The intensification of the sovereign debt crisis was also creating a real threat for the stability of the euro zone and invited bold policy actions from European policy makers. EU leaders announced the creation of a financial support package which could amount to EUR750 billion and which covered more than the funding needs of Portugal, Spain and Ireland over the next three years.

The European Central Bank (ECB) also took exceptional measures, such as the purchase of private and public debt securities in particularly dysfunctional market segments. Despite the weak economic data and growing concerns over the European sovereign debt problems, sentiment and other forward-looking indicators in the second quarter continued to suggest an improving outlook. Both the European Commission's economic confidence index and the German IFO index on business confidence rose in June 2010, while the composite PMI stood at 56.0 in June, remaining well above its long-run average of 53.4. However, difficulties in restoring competitiveness and sound public finances in some peripheral countries may complicate recovery. Persistently high unemployment in much of the euro area, and financial de-leveraging by indebted households and businesses could also weigh on domestic demand. In its July 2010 Update of the World Economic Outlook, the IMF projected the euro zone economy to grow by 1.0 per cent in 2010 and 1.3 per cent in 2011.

The UK economy was among the last major economies to emerge from recession with real GDP recording its first quarter-on-quarter growth of 0.4 per cent in the fourth quarter of 2009 after contracting by 0.2 per cent in the third quarter. The improvement in growth came mainly from the manufacturing sector but the unemployment rate surged significantly in the second half of 2009. In the first quarter of 2010, the economy grew by 0.3 per cent but the recovery remained fragile as most of the quarterly increase had been accounted for by an increase in the GDP deflator rather than in real activity, including a small impact from the restoration of the standard rate of VAT to 17½ per cent. In the second quarter of 2010, the economy grew by 1.2 per cent with growth being supported by a pick-up in household consumption, the inventory cycle and the strengthening of global trade. The Pound's weakening also made UK exports more competitive. The car industry in particular benefited from the growth of foreign demand and from the increasing tendency to "onshore" the production of automotive parts back to the UK. The manufacturing and services CIPS/Markit PMI in June 2010 had remained well above the level consistent with growth, and the construction index had increased further. The labour market remained weak and the unemployment rate stood at 7.9 per cent for the three months to April 2010. According to the IMF, the UK economy is expected to grow by 1.2 per cent in 2010 and 2.1 per cent in 2011.

Economic activity in emerging economies also gained strength from mid-2009 onwards, driven by fiscal stimulus measures and a gradual recovery in private sector demand. Growth remained stronger than elsewhere, especially in China where GDP rose by 9.1 per cent and 10.7 per cent in the third and fourth quarters of 2009, respectively. The rise in the growth rate was helped by the relative size and rapid implementation of the macroeconomic policy stimulus. Infrastructure expenditure rose by almost 6 per cent of GDP since the start of 2009 as a result of the two-year, investment-focused fiscal stimulus package, and private consumption became increasingly buoyant, aided by strong wage and credit growth. China's vigorous expansion continued in early 2010. Real GDP growth accelerated to 11.9 per cent year-on-year in the first quarter of 2010, partly reflecting the base effect. Private fixed-asset investment grew by over 30 per cent year-on-year in the same period and external trade continued to improve. However, overheating started to become more of a risk in 2010 and measures had to be taken to cool the property market. In the second quarter of 2010, annual GDP growth moderated to 10.3 per cent as the government steered monetary and fiscal policy back to normal. The Indian economy also exhibited clear momentum in recovery and, despite the impact of a deficient monsoon on agricultural production, GDP growth for 2009-10 was estimated at 7.2 per cent, up from 6.7 per cent recorded in 2008-09. Industrial growth in the economy showed sustained acceleration during fiscal year 2009-10 while leading indicators of services activities pointed to firmer recovery in this sector. Growth in private consumption demand was subdued in 2009-10, while growth in Government consumption expenditure decelerated. As a result, consumption demand, accounting for about 70 per cent of aggregate demand, was estimated to have grown by 4.8 per cent in 2009-10. Investment demand, in terms of growth in gross fixed capital formation, sustained the pace of recovery, though it remained below the growth rates seen during the pre-global crisis period. According to the IMF, emerging and developing economies are expected to grow by 6.8 per cent in 2010 and 6.4 per cent in 2011.

Inflation

Weak labour markets, lower global demand and excess capacity contributed to general downward pressures on prices in 2009, with global inflation declining from 4.7 per cent in 2008 to 1.4 per cent in 2009. In the first half of 2010, global inflation rates remained low, albeit some firming up mainly in emerging economies. Year-on-year consumer price inflation in OECD countries, which was negative during the period June-September 2009, increased to 1.5 per cent in June 2010 compared to -0.6 per cent in July 2009. Amongst major economies, inflation in the United States rose from -2.1 per cent in July 2009 to 1.1 per cent in June 2010. In Japan, the core consumer price index, which includes oil products but excludes volatile fresh fruit, vegetable and seafood prices, fell 0.7 per cent in the year to June, compared to a 2.2 per cent drop in July 2009. Euro area inflation rate rose from -0.7 per cent in July 2009 to 1.4 per cent in June 2010 but remained below the ECB's target. In the United Kingdom, inflation rose from 1.8 per cent in July 2009 to 3.2 per cent in June 2010. That in part reflected the temporary effects from a number of factors, including the restoration of the standard rate of VAT to 17.5 per cent, higher oil prices and the past depreciation of the Pound sterling. Among emerging economies, China's inflation rate rose to 2.9 per cent in June 2010 from -1.8 per cent in July 2009 while inflation in India rose from 11.9 per cent in July 2009 to 13.7 per cent in June 2010. According to the IMF, the still-low levels of capacity utilisation and well-anchored inflation expectations should contain inflation pressures in advanced economies, where inflation is expected to remain around 1.25-1.50 per cent in 2010 and 2011. In contrast, in emerging and developing economies, inflation is expected to edge up to 6.25 per cent in 2010 before subsiding to 5.0 per cent in 2011.

Unemployment

The number of unemployed worldwide rose by more than 34 million in 2009 as the estimated global rate of unemployment increased from 5.7 per cent at the end of 2007 to 6.6 per cent by the end of 2009. Labour markets in the developed economies and European Union region remained under severe strain in 2009, with the region's unemployment rate jumping to 8.4 per cent in 2009, from 6.0 per cent in 2008 and 5.7 per cent in 2007. However, the impact of the crisis on employment levels varied greatly across countries. In the United States, the unemployment rate stood at 9.5 per cent in June 2010, the lowest level since July 2009 when the unemployment rate was 9.4 per cent. The euro area's seasonally-adjusted unemployment rate was 10.0 per cent in June 2010, compared to 9.5 per cent in June 2009. The lowest unemployment rates were recorded in Austria (3.9 per cent) and the Netherlands (4.4 per cent), and the highest rates in Spain (20.0 per cent), Latvia (20.0 per cent in the first quarter of 2010) and Estonia (19.0 per cent in the first quarter of 2010). In the United Kingdom, the unemployment rate for the three months to May 2010 was 7.8 per cent, down from 7.9 per cent in July 2009. The rise in unemployment was less dramatic in Japan with the unemployment rate increasing to 5.6 per cent in July 2009 but then easing to 5.3 per cent in June 2010.

Monetary Policy

The major central banks conducted monetary policy in a coordinated way during the financial crisis by maintaining low interest rates to support growth and had adopted unconventional measures to alleviate strains in financial markets. Foreign currency swap agreements between central banks were conducted during the period under review until February 2010 to ease liquidity pressures in foreign exchange markets: however, the ECB decided to reactivate the temporary currency swap arrangement in May 2010 in coordination with other central banks to ease strains in US dollar short-term funding markets in Europe. A number of central banks continued to intervene through asset purchases to improve funding conditions in the money markets. The authorities continued to monitor economic developments that would signal appropriate conditions of self-sustaining growth in order to unwind the unprecedented stimulus measures implemented since the crisis began. According to the IMF, most advanced countries might need to maintain fiscal and monetary support in 2010.

The US Federal Reserve (Fed) maintained the target range for the federal funds rate at 0 to 0.25 per cent since December 2008 in an environment of low rates of resource utilisation and subdued inflation trends. The Fed continued to supply liquidity to support financial markets through a number of asset purchase schemes that expired on or before 30 June 2010. In total, it bought Treasury securities worth US$300 billion, US$1.25 trillion of agency mortgage-backed securities and about US$175 billion of agency debt. In May 2010, the Fed announced the setting up of temporary US dollar liquidity swap arrangements with a number of central banks in response to the re-emergence of strains in foreign exchange markets resulting from the euro zone debt problems.

The ECB maintained the interest rate on its main financing operations at 1 per cent since June 2009. Along with the accommodative monetary policy stance, the ECB conducted a EUR60 billion covered bond purchase programme over one year starting in July 2009 to provide liquidity to markets that have been affected by the crisis. The programme was aimed at bringing down money market term rates, easing conditions to encourage banks to lend and improving market liquidity in private debt securities markets. In May 2010, the Governing Council of the ECB announced a number of measures to ensure effectiveness of monetary policy following severe tensions in certain market segments arising from the euro debt crisis. The ECB established a Securities Markets Programme through which it could intervene in public and private debt securities markets in the euro area. It also issued longer-term refinancing operations at fixed rates and reactivated its foreign exchange swap arrangements with the Fed.

The Bank of England (BoE) kept its benchmark interest rate on hold at 0.5 per cent and continued its asset purchase programme to increase the supply of money in the economy and to ease conditions in corporate credit markets. The BoE has purchased £200 billion of assets, mostly in the form of government securities and smaller amounts of high-quality private sector assets, financed through the creation of central bank reserves.

The Bank of Japan (BoJ) left its key interest rate unchanged at 0.1 per cent and continued to provide funds sufficient to meet demand in financial markets. It conducted special funds-supplying operations and maintained its commercial paper and corporate bonds purchase programme with a view to restore market functioning. The BoJ continued to support corporate financing through the expansion in the range of corporate debt and asset-backed commercial paper eligible as collateral. In June 2010, the BoJ established a temporary fund-provisioning framework aimed at supplying long-term funds at a low interest rate to encourage lending and investment in an attempt to fight deflation and to achieve sustainable growth.

Budget Deficit

Many countries have implemented massive fiscal policy measures since late 2008 to support aggregate demand in a low interest rate environment. Tax cuts, higher government spending and infrastructure investment were among the variety of measures taken to boost consumption. As a result, the global economy has stabilised and several economies came out of recession. However, the combination of declining tax revenue and rising government spending in many countries had contributed to the widening of their fiscal deficits and increased debt levels.

The US Congressional Budget Office had projected a federal budget deficit of about 9.2 per cent of GDP in 2010, slightly lower than the 2009 level of 9.9 per cent. The large budget deficits in 2009 and 2010 were due to a combination of factors arising mainly from the effects of the recession and turmoil in financial markets, lower revenues and elevated spending resulting from those economic conditions, and the implementation costs of various policies in response to those conditions.

Major concerns over the sustainability of public finances in most euro area member states emerged during the first quarter of 2010 due to their excessive budget deficits and debt levels. In 2009, most euro area states posted budget deficits well above the limit of 3 per cent of GDP imposed under the EU Stability and Growth Pact. The worse fiscal deficits were recorded in Ireland (14.3 per cent), Greece (13.6 per cent) and Spain (11.2 per cent). The general government deficit in the euro area is projected to be about 6.5 per cent of GDP in 2010 compared to 0.6 per cent in 2007 before the crisis.

The United Kingdom recorded a high general government deficit of 11.4 per cent of GDP in 2009, which is projected to widen to about 11.6 per cent in 2010. In its 2010 budget presented in March, the British government announced plans to more than half the deficit over four years through a number of measures that included reduction in spending growth and prioritisation of spending.

Japan's fiscal deficit reached 10.3 per cent of GDP in 2009 due to the implementation of policy measures to address the economic slowdown. In June 2010, Japan's government announced the setting up of a Fiscal Management Strategy that laid out a medium-term fiscal consolidation path. The plan would aim at limiting government bond issuance, curb future spending growth and target primary budget balance by 2020. Japan's budget deficit for 2010 is projected to around 9.8 per cent of GDP.

Foreign Direct Investment

Global FDI flows began to bottom out in the latter half of 2009 but this was followed by a modest recovery in the first half of 2010. According to United Nations Conference on Trade and Development (UNCTAD), the current FDI recovery is taking place in the wake of a drastic decline in FDI flows worldwide in 2009. After a 16 per cent decline in 2008, global FDI inflows fell a further 37 per cent to US$1,114 billion, while outflows fell some 43 per cent to US$1,101 billion.

FDI inflows to developing and transition economies declined by 27 per cent to US$548 billion in 2009, following six years of uninterrupted growth. While their FDI contracted, this group appeared more resilient to the crisis than developed countries, as their decline was smaller than that for developed countries (44 per cent). Their share in global FDI inflows kept rising - for the first time ever, developing and transition economies are now absorbing half of global FDI inflows. Among the largest FDI recipients, China rose to second place after the United States in 2009. Half of the six top destinations for FDI flows are now developing or transition economies.

All the components of FDI flows – equity investment, intra-company loans and reinvested earnings – contracted in 2009. Depressed levels of cross-border merger and acquisition (M&A) transactions, as well as the lower profits of foreign affiliates, had a heavy impact on equity investments and reinvested earnings. Improved corporate profits had, however, supported a modest recovery in reinvested earnings since the second half of 2009. FDI showed renewed dynamism in the first quarter of 2010. Cross-border M&As – still low at US$250 billion in 2009 – rose by 36 per cent in the first five months of 2010 compared to the same period in the previous year.

FDI also declined across all three sectors – the primary, manufacturing and services sectors. Cyclical industries such as the automotive and chemical industries were not the only victims. FDI in industries that were initially resilient to the crisis – including pharmaceuticals and food processing – was also hit in 2009. Only a handful of industries attracted more FDI in 2009 than in 2008, namely electricity, gas and water distribution, as well as electronic equipment, construction and telecommunications. According to UNCTAD estimates, FDI in the manufacturing sector was the worst affected, reflecting a decline of 77 per cent in cross-border M&As compared to 2008. The contraction in such transactions in the primary and services sectors was less severe - at 47 per cent and 57 per cent respectively. UNCTAD expected global inflows to reach more than US$1.2 trillion in 2010, rise further to US$1.3-1.5 trillion in 2011, and head towards US$1.6–2 trillion in 2012. However, these FDI prospects are fraught with risks and uncertainties, including the fragility of the global economic recovery.

Oil

The global financial crisis also caused a collapse in energy prices. By mid-2009, oil prices plummeted by as much as 70 per cent from their peak levels of mid-2008. The declining trends had however been reversed since the second half of 2009. Crude prices rose on account of renewed optimism over the recovery of the global economy. From July through December 2009, the offsetting effects of greater optimism about the economic outlook and continued high levels of inventories kept crude oil prices in the range of US$65 to US$75 a barrel. In 2010, prices rebounded until late April, in tandem with signs of strengthening in world economic activity. However, the deepening euro zone crisis in May 2010 led to a shift in market sentiment and oil markets posted one of the most turbulent months in the past year, with prices tumbling US$18 per barrel in the first three weeks of May. WTI futures prices hit a 19-month high of US$86.19 a barrel on 3 May, then plummeted to US$68.01 a barrel by 20 May as concerns mounted over Europe's burgeoning debt woes. At the height of the freefall in prices, open interest in the NYMEX WTI contract reached the highest level in the past two years as money managers slashed their long positions and rebalanced their books. By the end of May, however, WTI futures had posted a modest recovery with prices in May on average down by US$10 a barrel from April levels. May WTI averaged just over US$74 a barrel and ICE Brent a higher US$77 a barrel. In June 2010, benchmark crude prices traded in a US$71-US$79 a barrel range, as continued negative sentiment tempered upside price moves. Financial and equity markets remained the focus of attention. According to the US International Energy Agency (IEA) estimates, stronger global economic growth during 2010 might increase oil consumption. While this could suggest possible firming of crude oil prices, availability of ample surplus capacity might dampen any significant pressure on oil prices.

Gold

As the global financial and economic crisis intensified, gold prices rose, benefitting from its safe-haven appeal. The financial market panic caused by the chaotic unwinding of complex securities contracts also indirectly benefitted gold prices. In the third quarter of 2009, a severe bout of US dollar weakness, fears of inflation and renewed caution about the outlook for the global economy saw gold prices rally to over US$1,000/oz in early and mid-September 2009. By the end of 2009, gold was still trading above the US$1,000/oz mark. In the first half of 2010, the price of gold continued to reach new highs on account of uncertainty in global markets. US gold futures raced up to a record level in June 2010 and settled at its highest close ever as investors continued to buy precious metals as an alternative asset after several weak economic readings and renewed worries about the pace of recovery. On 18 June, US gold futures for August delivery on the Commodity Exchange (COMEX) division of the New York Mercantile Exchange climbed to a record of US$1,263.70/oz, and settled at US$1,258.30/oz. The outlook for gold remained bullish, as it continued to provide a hedge against uncertainty about major currencies and further turmoil in the markets.

World Trade

According to the World Trade Organisation (WTO), world trade in volume terms fell by 12 per cent in 2009 mainly on account of a sharp contraction in global demand. All countries and regions registered declines in the volume of their merchandise exports in 2009. The United States (-13.9 per cent), European Union (-14.8 per cent) and Japan (-24.9 per cent) all registered declines larger than the world average of -12.2 per cent, while the smallest declines were recorded by the oil exporting regions of Middle East (-4.9 per cent), Africa (-5.6 per cent) and South/Central America (-5.7 per cent). Asia (-11.1 per cent) and China (-10.5 per cent) also saw their exports decline, but by slightly less than the world average. The value of world merchandise exports fell by 23 per cent to US$12.15 trillion in 2009, while world commercial services exports declined by 13 per cent to US$3.31 trillion. This marked the first time since 1983 that trade in commercial services declined year-on-year. Transport services recorded the largest drop among service categories, followed by travel and other commercial services.

According to UNCTAD, the fall in world trade was magnified by the product composition of the fall in demand, by the presence of global supply chains, and by the fact that the decline in trade was synchronised across countries and regions. The use of some protectionist measures by some countries contributed to the sharp fall. Limited availability of trade finance also played a role. Sharp falls in wealth during the recession caused households and firms to cut their spending on all types of goods, especially consumer durables (e.g. automobiles) and investment goods such as industrial machinery. The reduction in demand for these products fed through to markets that supply inputs for their production, particularly iron and steel. Falling demand for iron and steel was also linked to the slump in building construction in countries where property markets had been booming before the crisis (e.g., the United States, the United Kingdom, Ireland and Spain).

Without any further upheavals in the global economy, world merchandise trade should resume its normal upward trajectory through the end of 2010, although some deviation from its previous trend line would persist indefinitely. According to WTO Secretariat estimates, world exports in volume terms would grow by 9.5 per cent in 2010, while developed economies' exports would expand 7.5 per cent and the rest of the world (developing economies plus the Commonwealth of Independent States) would advance 11 per cent. However, the projection was based on the assumption that global GDP growth would resume in line with consensus estimates, i.e. 2.9 per cent at market exchange rates coupled with stability in oil prices and exchange rates.

Conclusion

Looking forward, there are significant downside risks to the growth outlook. In its July 2010 World Economic Outlook Update, the IMF said that the euro zone's sovereign financing problems and resulting financial market turbulence were significant challenges, especially with the web of financial and trade links connecting Europe to the world. Moreover, different growth and inflation conditions across economies could lead to asymmetry in the timing of exit strategies and might impact adversely on global growth pattern, besides influencing exchange rate and asset prices in emerging market economies through shifts in the pattern of capital flows. Another key risk to global growth was the renewed fiscal turbulence could spill over to the real economy through various channels leading to lower consumer and business confidence, which in turn could suppress private consumption. A further deterioration in labour market conditions especially in advanced economies could also restrain household consumption and hence undermine growth. On the inflation front, the still-low levels of capacity utilisation and well-anchored inflation expectations should contain inflation in advanced economies.

Box III IMF Executive Board Concludes 2009 Article IV Consultation with Mauritius

Public Information Notice (PIN) No. 10/13

January 26, 2010

On January 13, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[a]

Background

Economic growth has slowed sharply in the wake of the global financial crisis, but is expected to rebound next year. Output growth slowed from 4.2 percent year percent in 2008 to less than 2 percent in 2009 as key drivers of growth (tourism, textiles, and construction) contracted. Inflation has fallen to the low single digits as a result of lower global food and commodity prices and the slowdown of the domestic economy. The current account deficit has narrowed as lower imports have more than offset the contraction of external demand.

The authorities' policy response was commendably prompt and comprehensive, including a fiscal stimulus package of some 5 percent of Gross Domestic Product (GDP) over the period July 2009-December 2010. The well-targeted and temporary package is intended to cushion the economy against the impact of the global economic crisis. The government was prescient in having saved some 3 percent of GDP in special funds for such a rainy day. For the post-crisis strategy, the key challenge will be to resume fiscal consolidation without jeopardizing the recovery. Given the uncertain outlook, the government has rightly decided to keep some stimulus measures contingent; the 2010 deficit is now expected to be 4½ percent of GDP. Further fiscal consolidation of public debt is important to reduce risks inherent to a relatively high level of public debt. Forward-looking debt sustainability analyses show that public and external debt should remain sustainable over the medium term. The 2008 Public Debt Management Act will serve to instill fiscal discipline and help ensure debt remains sustainable.

With inflationary pressures subdued, and the economic outlook uncertain, the monetary policy stance appears appropriate. In the wake of the crisis, the Monetary Policy Committee of the Bank of Mauritius (BoM) reduced the key Repo rate to 5.75 percent per year in successive steps and has kept it unchanged over the past few months pending further indication of the state of the economy. The BoM has refrained from intervention since December 2008, and the floating exchange rate has remained stable against the U.S. dollar.

The Mauritian banking system has withstood the impact of the global financial turmoil. Banks' conservative business practices, their strong initial balance sheets, and the "Mauritius Approach"—providing temporary financial relief to firms hit by the crises—have kept the financial system sound. Capital adequacy, liquidity, and profitability of the banking system remain sound, and the system appears resilient.

Measures to enhance efficiency in the public sector and to meet Special Data Dissemination Standard (SDDS) subscription requirements are well under way. Labor market reforms have been enacted, and service delivery and efficiency of the public sector is improving, especially in regard to social protection. The authorities are on track to improve the coverage of external statistics and to apply for SDDS subscription by mid-2010.

The medium-term growth forecast remains benign, but there is significant uncertainty because Mauritius' growth prospects depend heavily on the global economy. Economic growth is projected to increase to 5 percent per year by 2011, reflecting a reversal of the growth contraction in the EU, Mauritius' main market for exports and tourism. But further deterioration of the external accounts cannot be ruled out if global demand remains sluggish and capital inflows dry up. And if world demand does begin to pick up too rapidly, there is a risk that a surge in oil prices could more than offset a rebound in demand for Mauritian exports, causing a deterioration of the trade deficit, larger financing requirements, and inflationary pressures.

Executive Board Assessment

Executive Directors commended the Mauritian authorities for their prompt and comprehensive policy response, which has been instrumental in cushioning the economy from the fallout of the global financial crisis. The size of the targeted and temporary fiscal stimulus package, and the extent of the monetary easing, were well-calibrated to the magnitude of the external shock. Directors commended the authorities' implementation of far-reaching reforms in recent years and their track record of strong policy responses to unexpected shocks.

Given the uncertain outlook, and the challenge of resuming fiscal consolidation without jeopardizing the recovery, Directors supported the authorities' decision to keep some stimulus measures in reserve, to be deployed only if the economy falters. While agreeing on the accommodative fiscal stance, Directors underscored that fiscal consolidation remains important for reducing the vulnerabilities inherent in a still-relatively high level of public debt, as well as for narrowing the current account deficit. Although immediate financing risks appear limited, reducing public debt further will help create fiscal space for meeting contingencies and the eventual costs of an aging population. In this context, Directors noted that the recent public debt management law will strengthen fiscal discipline and help ensure medium-term sustainability.

Directors welcomed the authorities' efforts to secure external financing while underscoring that this financing should not widen the deficit. They supported the authorities' intention to adopt a pragmatic combination of using external financing to the extent it corresponds to capital imports for public investment, limiting the substitution of domestic borrowing to what the market can absorb, and treating part of the external funds as precautionary.

Directors viewed the monetary and exchange rate framework as well-suited to the needs of the Mauritian economy. They encouraged the authorities to take advantage of the currently low inflationary pressures to help anchor inflationary expectations at a lower rate than previously. In this vein, Directors supported the authorities' intention to compile additional high-frequency indicators as well as to further develop analytical tools to better understand inflation dynamics and monetary policy transmission.

Directors noted that, despite the slowdown, the Mauritian banking system remains well-capitalized and appears resilient. They welcomed the move towards greater risk-based financial sector supervision and looked forward to the early implementation of the remaining recommendations of the 2007 Financial Sector Assessment Program.

Directors supported the recent improvements in service delivery and efficiency in the public sector, particularly with regard to the social protection system. They called for further efforts to rationalize social assistance to target the poor and to empower people to seize new labor market opportunities.

Directors considered that the key objectives for the medium term are to reduce further the level of public debt, refine the monetary policy framework, and sustain financial sector and structural reforms. Achieving these objectives would raise productivity, further improve the economy's resilience, and better position Mauritius to compete with other emerging market economies, including as a financial center. Directors also supported the authorities' efforts in pressing forward with data improvements, including to the balance of payments, so as to meet the SDDS requirements by mid-2010.

Directors welcomed the establishment of the new Fund regional technical assistance center, AFRITAC South, in Mauritius.

Mauritius: Selected Economic and Financial Indicators, 2005–2013									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
						Projections			
	(Annual percent change, unless otherwise indicated)								
National income, prices and employment									
Real GDP									
Market prices	1.5	3.9	5.4	4.2	1.5	4.1	4.7	4.9	5.0
Factor costs	2.4	5.2	5.5	5.2	2.7	4.1	4.7	5.1	5.2
Real GDP per capita	0.7	3.2	4.7	3.3	0.7	3.3	4.0	4.2	4.3
GDP deflator	4.0	7.2	8.3	8.1	4.0	5.0	5.0	5.0	5.0
Domestic demand at current prices [1]	13.0	17.8	14.2	12.2	7.8	9.5	8.4	7.2	9.3
Consumer prices (period average)	4.9	9.0	8.8	9.7	3.0	4.3	4.2	4.2	4.2
Consumer prices (end of period)	3.9	11.8	8.7	6.8	4.0	3.0	4.9	4.5	4.1
Unemployment rate (percent)	9.6	9.1	8.5	7.2	…	…	…	…	…
External sector									
Exports of goods, f.o.b.	7.3	8.9	-4.7	7.3	-23.5	7.2	3.1	3.6	2.9
Of which: tourism receipts	2.2	15.6	29.0	11.5	-24.4	5.1	5.0	7.1	9.1
Imports of goods, f.o.b.	14.0	16.4	6.0	20.6	-24.5	9.5	4.1	4.5	6.5
Nominal effective exchange rate (annual averages)	-7.4	-7.0	-4.4	7.8	-4.0	...	...	...	...
Real effective exchange rate (annual averages)	-3.8	-0.7	1.2	13.0	4.1	...	...	...	...
Terms of trade	-8.4	-5.8	-1.0	-1.1	1.6	...	...	...	...
	(Annual change in percent of beginning of period M2, unless otherwise indicated)								
Money and credit [2]									
Net foreign assets	6.9	48.8	13.1	8.1	3.7	13.7	6.9	7.0	7.1
Domestic credit	14.7	10.2	11.7	22.5	8.9	14.6	12.9	13.6	13.3
Net claims on government	1.6	0.5	-0.3	0.6	-1.3	4.9	0.3	-0.4	0.2
Credit to private sector [3]	13.0	9.7	12.0	21.9	10.3	9.6	12.6	14.0	13.2
Broad money (end of period, annual percentage change)									
Income velocity of broad money	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
	(Percent of GDP)								
Central government budget									
Overall balance (including grants)	-5.3	-4.6	-4.0	-3.4	-4.5	-4.5	-3.9	-3.0	-2.2
Primary Balance (including grants)	-1.8	-0.2	0.5	0.7	-1.1	-1.1	-0.7	0.2	0.7
Revenues and grants	20.1	19.3	22.0	22.5	21.1	21.9	20.9	20.3	20.6
Expenditure and net lending	25.8	23.6	25.7	26.1	25.6	25.9	24.7	23.1	22.7
Domestic debt of central government	51.4	46.6	45.6	43.8	42.6	41.4	38.5	34.2	31.1
External debt of central government	4.4	6.1	4.6	6.1	8.0	8.8	11.0	13.6	13.9
Investment and saving									
Gross domestic investment	21.4	24.3	25.1	24.6	26.3	26.2	24.6	24.6	24.8

Public	7.5	6.9	6.4	5.0	6.1	7.6	6.5	7.0	7.4
Private	14.0	17.3	18.7	19.6	20.2	18.5	18.1	17.6	17.4
Gross national savings	17.4	17.1	21.2	16.7	14.2	14.3	16.8	18.8	21.5
Public	-1.5	-1.1	-0.5	-1.1	-1.1	-0.8	-0.7	0.4	1.3
Private	18.8	18.2	21.7	17.9	15.3	15.1	17.5	18.4	20.1
External sector									
Balance of goods and services	-6.0	-11.3	-10.3	-14.7	-11.1	-11.4	-11.1	-10.4	-10.3
Exports of goods and services, f.o.b.	59.9	61.6	58.8	52.9	45.1	45.2	44.2	43.1	41.8
Imports of goods and services, f.o.b.	-65.9	-72.9	-69.0	-67.5	-56.2	-56.6	-55.3	-53.5	-52.1
Current account balance	-5.2	-9.4	-5.6	-10.4	-8.1	-8.5	-8.0	-7.5	-6.9
Overall balance	-2.6	-2.2	5.9	1.7	5.4	0.0	1.5	0.6	0.9
Total external debt [4]	13.9	12.7	11.4	12.0	13.8	12.2	15.9	18.0	17.3
Net international reserves, BOM (millions of U.S. dollars)	1,361	1,297	1,814	1,784	1,989	2,039	2,088	2,152	2,375
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.2	4.3	5.6	4.6	6.6	6.6	6.5	6.4	6.7
Memorandum item:									
GDP at current market prices (millions of Mauritian rupees)	185,349	206,328	235,519	265,196	280,264	305,219	334,500	367,400	408,760

Sources: Bank of Mauritius; Central Statistics Office; Ministry of Finance and Empowerment; and IMF staff estimates and projections.
[1] Excluding changes in stocks.
[2] Percent of beginning of period M2. End-2009 data refer to June.
[3] Includes credit to parastatals.
[4] Reported debt only, excluding private sector short-term debt.

[a] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

2 Regulation and Supervision

1. Overview

The Bank of Mauritius is empowered under the Banking Act 2004 and the Bank of Mauritius Act 2004 to regulate and supervise banks, non-bank deposit taking institutions, foreign exchange dealers and money-changers.

The banking sector proved resilient and emerged virtually unscathed from the global financial and economic crisis. The Bank continued in its endeavour to enhance the guidelines and guidance notes to incorporate changes in best practices as advocated by international standard-setting bodies like the Basel Committee on Banking Supervision (BCBS) and the International Accounting Standards Board. Revisions were also undertaken to incorporate suggestions made by the Financial Sector Assessment Programme and to plug gaps identified in the regulatory framework.

With a view to achieving greater transparency in the issue of guidelines, Working Groups comprising representatives of banks and the Bank were constituted to deliberate and finalise suggestions received on the drafts of some important guidelines. This arrangement enhanced the acceptability of the guidelines as the internal thought process was disseminated in the Working Group and across the banking industry.

2. New Regulations

(i) Guideline on Liquidity Risk Management

The Bank reviewed the guideline on Liquidity Risk Management to ensure that banks manage their liquidity risk in a sound manner and had put in place a robust liquidity risk management framework. The guideline takes on board the principles set out in the paper "Principles for Sound Liquidity Risk Management and Supervision" issued by BCBS.

(ii) Guideline on Fair Valuation of Financial Instruments

The BCBS published a guidance paper entitled ***"Supervisory guidance for assessing banks' financial instrument fair value practices"*** in April 2009. Concerns were raised over the major failures in the international financial sector and in financial regulation and supervision and the role played by fair value accounting in exacerbating the financial crisis through the promotion of pro-cyclicality. In this respect, the Bank issued for consultation, a guideline on Fair Valuation of Financial Instruments, which required institutions to establish strong governance and control processes around the fair valuation of financial instruments.

(iii) Guideline on Country Risk Management

The Bank issued a guideline on Country Risk Management which will be effective as from 1 October 2010. The guideline gives a broad framework for banks to assess, measure and monitor country risk and would be included in the Internal Capital Adequacy Assessment Process (ICAAP). However, while banks would be required to provide for country risk, the quantum of the provision would be left to banks for individual determination, based on their internal assessments. Banks shall have to establish internal policies for the management of country risk.

(iv) Guideline on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions (NBDTIs)

The Bank issued the guideline on Capital Adequacy Ratio for NBDTIs to bring about greater convergence in the regulatory framework for banks and NBDTIs, to prevent regulatory arbitrage and reinforce the safety and soundness of the financial sector.

3. Implementation of Basel II

(i) Guideline on Supervisory Review Process

In line with its objective for implementing Basel II framework, the Bank finalised the guideline on Supervisory Review Process and issued it to banks for implementation with effect from 1 July 2010. Banks will have the possibility to use the Internal Rating-Based (IRB) approach to credit risk for the limited purpose of drawing up the ICAAP document. They will have to submit their first ICAAP document to the Bank not later than five months after the end of their financial year. Bilateral meetings will be held with banks to discuss relevant aspects of the ICAAP document before submitting same to the Bank. With coming into effect of this guideline, the Bank will now have implemented all the three pillars of Basel II framework.

(ii) Guideline on Measurement and Management of Market Risk

The Bank undertook a review of the Proposal Paper on Measurement and Management of Market Risk and after further consultations with banks, issued the final guideline on Measurement and Management of Market Risk. The guideline captures the major sources of market risks and provides methodologies for measuring the capital requirements thereof. However, banks have to report foreign exchange risk and interest rate risk in the banking book because their trading book is considered small relative to the size of their on-balance sheet assets.

The guideline also provides for a reporting mechanism to enable the Bank to monitor the size of the trading book of banks. The full-fledged market risk framework will be triggered when a bank's trading book is more than 5 per cent of its total assets. At present, regulatory capital for market risk is required to be maintained for foreign exchange risk only.

(iii) Guideline on Public Disclosure of Information

The Bank reviewed its Guideline on Public Disclosure of Information to reflect changes in the revised International Accounting Standard (IAS) 1. The revised guideline makes it incumbent on financial institutions to comply with the new requirements in the presentation of their financial statements. However, financial institutions have been given a choice to present their income and expenses either in a single statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income).

4. Islamic Banking Services and Related Regulations

The first Islamic banking licence was granted in the Mauritian jurisdiction in October 2009 to a domestic investment holding company which was thereby authorised to conduct Islamic banking business exclusively and whose business operations were to remain in consonance with the principles of Sharia. In expectation of the proliferation of Islamic financial activities in the banking sector and an Islamic interbank money market being projected to be implemented shortly, the authorities undertook to cater for Sharia compliant Government paper namely Sovereign *Sukuks*. In this regard, an amendment was brought in the Public Debt Management Act 2008 that modifies the definition of Government securities to include Sovereign *Sukuks*. During the period under review, the Bank was also admitted as a full member of the Islamic Financial Services Board which indicated its commitment to promulgating Islamic finance and projecting Mauritius as a credible destination for Sharia compliant funds.

5. Memorandum of Understanding

The Bank entered into Memoranda of Understanding (MoU) with two agencies in Mauritius as part of its efforts to strengthen information sharing.

- On 12 November 2009, the Bank signed a MoU with the Financial Intelligence Unit to provide for mutual assistance in the national effort to combat threats posed by financial crime, in particular, money laundering and terrorist financing.

- On 31 December 2009, the Bank and the Mauritius Revenue Authority (MRA) signed a MoU setting out the framework of their co-operation in the interest of the economy. The MoU promotes mutual assistance between the Bank and the MRA in an effort to combat fiscal evasion, money laundering and terrorist financing.

6. Forensic Review

As the guarantor of the value of the currency, the Bank issued a communiqué on 11 June 2010 stating that it was not satisfied with the functioning of the market during mid-May 2010 suspecting that currency manipulations might have occurred in the wake of the Euro crisis. The currencies traded at rates off their expected values on some days during that period. The Bank considered that it was important to thoroughly investigate this matter, and thus commissioned a forensic expert to conduct a review on potential foreign exchange market irregularities and manipulations on the domestic foreign exchange market during the period 14 May to 26 May 2010.

7. Performance of the Banking Sector

As at 30 June 2010, the banking sector comprised 19 banks licensed to carry on banking business in Mauritius, of which 7 were local banks, 7 were subsidiaries of foreign banks and 5 were branches of international banks. A list of these banks is provided in Appendix XI.

During the year ended 31 March 2010, the performance of the banking sector grew at a lower pace. The on-balance sheet assets of banks increased by Rs13,835 million, or 1.8 per cent, from Rs762,755 million at end-March 2009 to Rs776,590 million at end-March 2010, compared to a growth of 10.0 per cent in the preceding year. However, during the same period, off-balance sheet items grew by 10.9 per cent, from Rs54,461 million to Rs60,395 million.

The growth in the assets of banks was mainly driven by the mobilisation of additional deposits. In fact, during the year, deposits rose by Rs29,427 million, representing an increase of 5.3 per cent from Rs556,797 million to Rs586,224 million.

The additional resources were mainly deployed towards granting of advances which expanded by Rs19,247 million, or 4.7 per cent, from Rs410,318 million as at end-March 2009 to Rs429,565 million a year later, compared to a growth of 19.6 per cent in the preceding year. Further, banks repaid Rs15,529 million or 14.7 per cent of their borrowings, which went down from Rs105,430 million to Rs89,901 million.

On a segmental basis, Segment B assets decreased marginally by 0.4 per cent to reach Rs486,574 million, from Rs488,548 million a year earlier while Segment A assets increased by 5.8 per cent to reach Rs290,016 million, from Rs274,207 million.

Segment B deposits increased by 2.9 per cent to reach Rs331,122 million as compared to a growth of 8.5 per cent in Segment A deposits which reached Rs255,103 million at the end-March 2010. However, borrowings from banks' abroad to fund Segment B activities went down to Rs86,629 million from Rs94,605 million a year earlier.

There was an increase in both Segment B and Segment A loans and advances by 5.0 per cent and 4.3 per cent to Rs248,447 million and Rs181,119 million, respectively, at the end of March 2010.

As at end-March 2010, banks maintained an average capital adequacy ratio of 16.7 per cent as compared to 17.0 per cent a year earlier. This decrease was the result of a higher growth of 6.3 per cent in the total risk weighted assets as opposed to a growth of 4.1 per cent in the aggregate capital base.

Total non-performing advances (impaired credits) of banks went up by 1.9 per cent from Rs9,901 million to Rs10,088 million. However, the ratio of non-performing advances to total advances improved marginally from 2.4 per cent at end-March 2009 to 2.3 per cent at end-March 2010 due to the increase in total advances.

Banks set aside a net amount of Rs602 million as specific provisions which increased from Rs4,475 million to Rs5,077 million. The coverage ratio, which represents the ratio of specific provision against impaired loans, improved from 45.2 per cent to 50.3 per cent.

The growth in profits was driven mainly by the exceptional trading income registered by a few foreign owned-banks on their international operations. The audited profit post tax stood at Rs12,367 million at end-March 2010 compared to Rs12,428 million at end-March 2009, representing a contraction of 0.5 per cent.

The pre-tax return on average assets stood at 1.8 per cent at end-March 2010, as compared to 1.7 per cent achieved a year earlier. The ratio achieved by individual banks ranged from 0.3 per cent to 7.9 per cent.

The post-tax return on equity declined from 21.2 per cent to reach 20.0 per cent during the financial year ended 31 March 2010 mainly due to lower profits realised by banks. For individual banks, the post-tax return on equity ranged from 3.2 per cent to 35.8 per cent with four banks achieving a return on equity of over 20 per cent during the same year.

8. Performance of Non-Bank Deposit Taking Institutions

At 31 March 2010, 12 NBDTIs were licensed under section 12 (2) of the Banking Act 2004. Their total assets amounted to Rs45,470 million at end-March 2010 and total deposits mobilised by these institutions stood at Rs28,109 million, representing 61.8 per cent of their resources.

Total credit facilities including finance leases extended by NBDTIs amounted to Rs32,034 million and accounted for 70.5 per cent of total assets. Securities, placements and other investments stood at Rs7,744 million at end-March 2010.

Investment in finance leases by the leasing companies contracted by 8.8 per cent over the year to reach Rs11,324 million as at 31 March 2010. On the other hand, loans granted by the NBDTIs grew by 8.4 per cent to reach Rs20,710 million as at 31 March 2010.

The operating profit (before bad and doubtful debts and taxation) of the NBDTIs amounted to Rs996 million as at end-December 2009, representing an increase of 49.4 per cent compared to 2008. The profit before tax went up by 23 per cent to reach Rs797 million in 2009 from Rs648 million a year earlier. A net additional amount of Rs111 million was set aside as provision for bad and doubtful debts in 2009.

The pre-tax return on average assets improved marginally from 1.8 per cent to 1.9 per cent. The post-tax return on equity improved from 10.6 per cent to 11.3 per cent in 2009.

A more detailed analysis on the performance of the banking sector and the non-bank deposit taking institutions will be given in the forthcoming Supervision Report 2010.

9. The Finance (Miscellaneous Provisions) Act 2009

The Finance (Miscellaneous Provisions) Act 2009 which was enacted on 30 July 2009, brought amendments to, inter alia, the Banking Act 2004 and the Bank of Mauritius Act 2004. The major changes brought to those acts are as follows:

A. The Banking Act 2004

1. *Section 2 - Interpretation*

   The definition of “cash dealer”, “foreign exchange dealer” and ‘money-changer’ was amended to enable only body corporates to carry out those businesses as opposed to any person.

2. *Section 5 - Application for a banking licence*

   A new subsection (8A) was introduced to allow the Bank to grant in-principle approvals where the central bank is satisfied that applicants are eligible for a licence and the applicants do not have a certificate of incorporation and a constitution. This amendment was made on the premise that applicants would be reluctant to incorporate a company without the necessary comfort from the Central Bank that they would be granted a licence.

3. *Section 12 - Licensing of deposit taking business*

   A new subsection (7) has been added to Section 12 to prevent NBDTIs from extending their network of branches in line with the policy to encourage NBDTIs to meet subsection (6) to the effect that central banks shall encourage proposals to sell or merge the deposit taking business of an existing non-bank deposit taking institution to another non-bank deposit taking institution, with the object of establishing a bank.

4. *Section 24 - Minimum Capital Requirements*

   Subsection (1) of this Section was repealed and replaced by the following subsection:

   Every cash dealer shall, at all times, maintain in Mauritius such amount paid as stated capital as may be approved by the central bank or such higher amount as may be prescribed, after deduction of accumulated losses of the cash dealer.

   Subsection (2)(a) was also amended by deleting the words "net-owned funds" and replacing them by the words "minimum capital".

   The rationale underlying these amendments was to do away with the concept of net-owned funds, the definition of which was repealed in the interpretation section of the Act.

5. *Section 54 - Internal Control Systems*

   The words "Every bank" were deleted in Section 54 in relation to Internal Control Systems and extended to all financial institutions falling under the purview of the Bank, that is NBDTI and cash dealers with a view to require all of them to have Internal Control Systems.

6. *Section 64(3) (j) and (k)*

   Section 63 in relation to bank holidays was extended to all financial institutions under the purview of the Bank. Accordingly, the word "bank" was deleted and replaced by the words 'financial institution'.

7. *Section 92 - Priority of deposit and other liabilities in case of winding up of a bank and non-bank deposit taking institution*

   The word "bank" was deleted wherever it appeared and replaced by the words "bank and non-bank deposit taking institution" to cure an omission which existed in the Act which did not cater for the event of the winding up of a NBDTI.

B. The Bank of Mauritius Act 2004

1. *Section 52 - Establishment of a Credit Information Bureau*

   A new subsection (2C) was inserted after subsection (2B) in section 52 of the Bank of Mauritius Act 2004 in relation to the Credit Information Bureau to empower utility bodies to require any customer to provide it with the necessary identification details.

2. *Section 54(1)(d) - Monetary Policy Committee*

   The number of members of the Monetary Policy Committee not being a director or employee of the Bank was increased from 3 to 4, thus bringing the total number of members of the MPC from 8 to 9.

3. *Financial Stability Committee*

A new part IXA was inserted in the Bank of Mauritius Act 2004 to provide for a Financial Stability Committee to review and ensure the soundness of the financial system, comprising the Minister who shall be the Chairperson of the Committee, the Governor of the Bank, the Financial Secretary and the Chief Executive of the Financial Services Commission established under the Financial Services Act.

In terms of section 16 of the Banking Act 2004 and by virtue of powers conferred upon the Bank under section 11(1)(a) of the Act, the Bank, on 30 November 2009, revoked the Money-Changer Licence granted to three of them, namely WHITE SAND FINANCE LTD, CHANGE PARTNERS LTD and ABANYB LTD for failure to comply with regulatory requirements, namely failure to commence business within the prescribed time frame.

SBM LEASE Limited, licensed by the Bank to conduct deposit taking business under the Banking Act 2004, merged with State Bank of Mauritius Ltd, its holding company on 7 December 2009, in line with section 12(6) of the Banking Act 2004. Following the merger, SBM LEASE Limited surrendered its Deposit-Taking Licence to the Bank on 23 December 2009.

On 17 December 2009, the Bank issued a Foreign Exchange Dealer Licence to ISLAND PREMIER TRADERS FX LTD.

In keeping with the spirit of section 12(6) of the Banking Act 2004 which envisages, inter alia, that non-bank deposit taking institutions be encouraged to become banks, ABC FINANCE & LEASING LTD applied for a banking licence in the name of ABC BANKING CORPORATION LTD. The application was approved by the Bank and a banking licence was issued on 1 June 2010 to ABC BANKING CORPORATION LTD. Consequent to the issue of the banking licence, the deposit taking activities of ABC FINANCE & LEASING LTD have been transferred to ABC BANKING CORPORATION LTD.

As at end-June 2010, 11 non-bank deposit taking institutions, 5 foreign exchange dealers and 13 money changers were operating in Mauritius. A list of authorised institutions as at 30 June 2010 is provided in the Appendix XI.

3 Financial Markets Developments

MONEY MARKET ACTIVITY

The Bank continued to use its daily liquidity-forecasting framework to monitor developments in liquidity conditions on the money market. During the year under review, the liquidity position of banks was on average higher at Rs2,700 million compared to Rs2,088 million in the previous year. As part of the measures taken to manage the excess liquidity in the system, the Bank, in addition to open market operations, decided, in terms of section 49 (1) of the Bank of Mauritius Act 2004, to raise the minimum Cash Reserve Ratio from 4.5 per cent to 5.0 per cent, with effect from the fortnight beginning 18 June 2010 resulting in the sterilising of an amount of Rs1.4 billion from the system.

Primary Auctions of Government of Mauritius Treasury Bills

The Bank pursued the smoothing exercise of determining the weekly amount of Government of Mauritius Treasury Bills (Treasury Bills) to be put on tender with a view to spreading out the Government financing requirements more evenly during the year. The Bank continued to inform the market of the range for the monthly issues of Treasury Bills.

From July 2009 to June 2010, 52 primary auctions were carried out and Treasury Bills totalling Rs74,000 million were put on tender. Bids totalling Rs150,133.1 million were received, out of which a total amount of Rs69,433.1 million was accepted. Given the excess liquidity conditions prevailing in the system, almost all auctions were oversubscribed with a bid-cover ratio ranging between 0.6 and 4.0. The total amount of bids accepted represented 93.8 per cent of the total tender amount compared to 84.0 per cent in 2008-09, and 46.2 per cent of the total value of bids received compared to 54.2 per cent in the preceding year.

The shares of banks and of the non-bank sector in total bids received were 94.2 per cent and 5.8 per cent, respectively, in 2009-10 compared to 96.4 per cent and 3.6 per cent in 2008-09. A total nominal amount of Rs1,790.0 million of Treasury Bills and Rs130.0 million of Treasury Notes were acquired at the primary auctions by the Secondary Market Cell of the Bank of Mauritius on a non-competitive basis.

In 2009-10, investors' preference were mainly skewed towards the shorter end of the yield curve with 91-day, 182-day and 364-day Treasury Bills accounting for 53.3 per cent, 27.2 per cent and 19.5 per cent, respectively, of total bids received. However, from February to April 2010 bidders' preference shifted slightly towards the 182-day and 364-day Bills.

Between July 2009 and June 2010, reflecting the excess liquidity situation, the weighted average yields on Treasury Bills for all the three maturities fell. The weighted average yield on 91-day Treasury Bills dropped by 221 basis points, from 6.45 per cent in 2008-09 to 4.24 per cent in 2009-10. The weighted average yield on 182-day Treasury Bills decreased by 236 basis points from 6.79 per cent in 2008-09 to 4.43 per cent in 2009-10 and the weighted average yield on 364-day Treasury Bills fell by 298 basis points, from 7.61 per cent in 2008-09 to 4.63 per cent in 2009-10.

The monthly overall weighted average yield on Treasury Bills, which stood at 4.66 per cent in July 2009, followed a downward trend with the exception of three hikes recorded in October 2009, January and April 2010. The overall weighted average yield decreased from 6.94 per cent in 2008-09 to 4.37 per cent in 2009-10, that is, by 257 basis points.

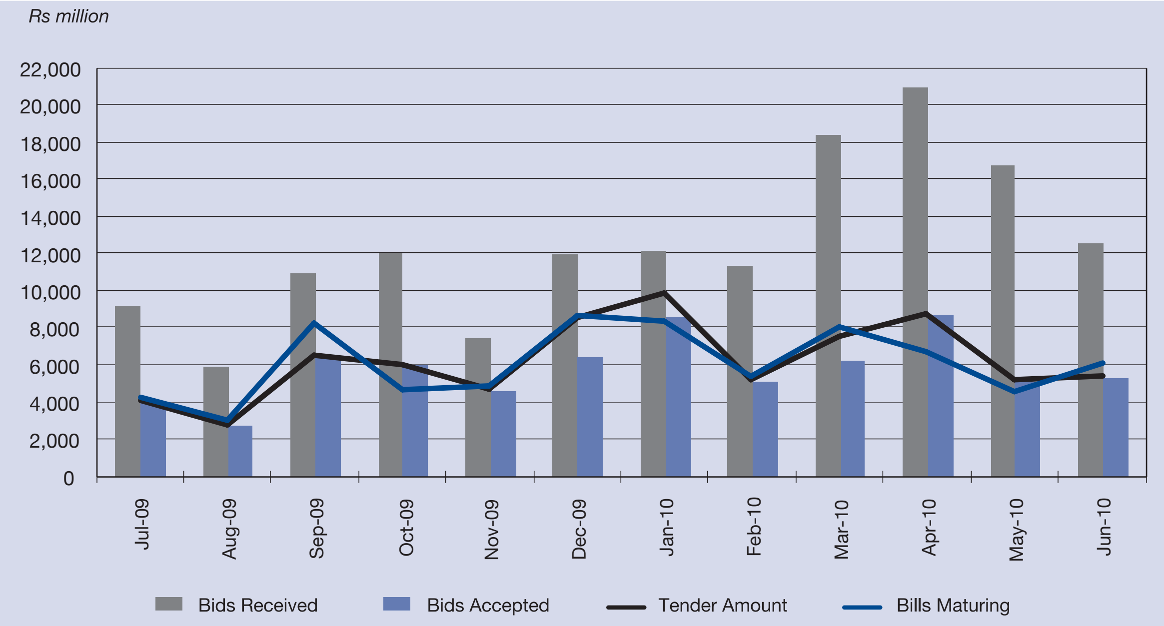
Table 3.1 and Charts 3.1 and 3.2 give detailed information on the auctioning of Treasury Bills in 2009-10.

Table 3.1: Auctioning of Government of Mauritius Treasury Bills

	Number of Auctions Held	Tender Amount	Amount Received	Amount Accepted [1]	Weighted Average Yield			
					91-Day	182-Day	364-Day	Overall
		(Rs million)			(Per cent per annum)			
2009								
Jul	5	4,000.0	9,240.6	4,000.0	4.55	4.60	5.03	**4.66**
Aug	4	2,800.0	5,997.6	2,800.0	4.40	4.46	4.78	**4.50**
Sep	4	6,500.0	10,938.7	6,500.0	4.38	4.51	4.67	**4.45**
Oct	5	6,000.0	12,082.5	6,000.0	4.67	4.77	4.84	**4.71**
Nov	4	4,600.0	7,482.5	4,600.0	4.43	4.57	4.68	**4.49**
Dec	4	8,500.0	11,937.0	6,481.5	4.33	4.42	4.60	**4.40**
2010								
Jan	5	9,900.0	12,230.6	8,569.6	4.37	4.62	4.76	**4.52**
Feb	4	5,100.0	11,368.0	5,100.0	4.33	4.52	4.70	**4.48**
Mar	4	7,500.0	18,462.0	6,282.0	4.07	4.24	4.46	**4.24**
Apr	5	8,700.0	20,958.6	8,700.0	4.39	4.52	4.63	**4.49**
May	4	5,100.0	16,795.0	5,100.0	3.85	3.89	4.09	**3.91**
Jun	4	5,300.0	12,640.0	5,300.0	3.30	3.99	4.29	**3.48**
2009-10	**52**	**74,000.0**	**150,133.1**	**69,433.1**	**4.24**	**4.43**	**4.63**	**4.37**
2008-09	**52**	**66,600.0**	**103,277.0**	**55,954.0**	**6.45**	**6.79**	**7.61**	**6.94**

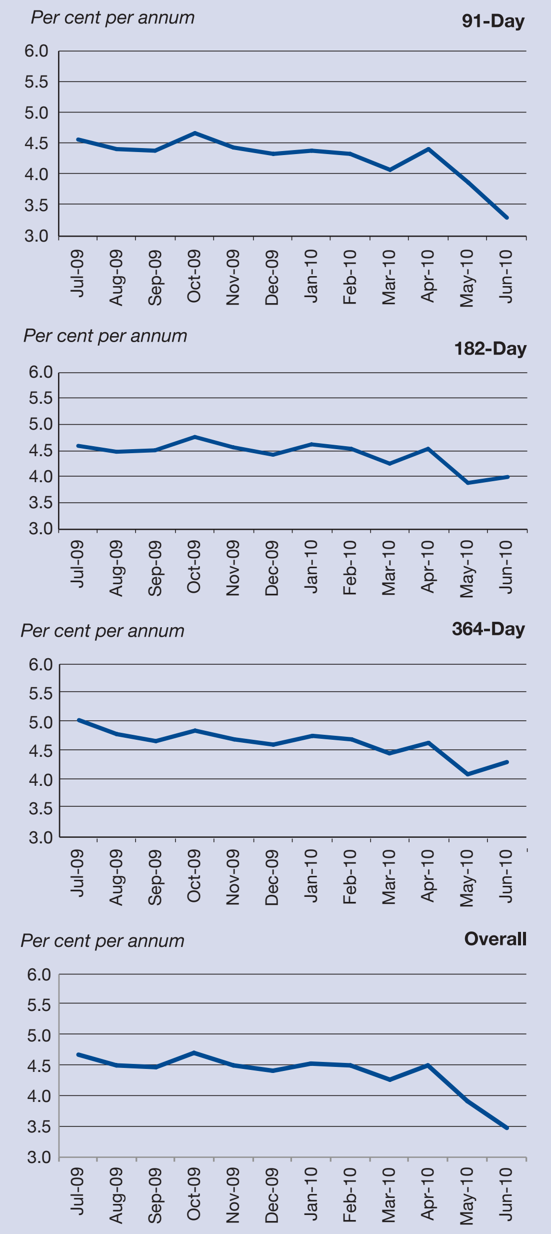
[1] Excludes non-competitive bids acquired by the Secondary Market Cell (SMC) of the Bank of Mauritius.
Source: Financial Markets Operations Division.

Chart 3.1: Auctioning of Treasury Bills



Source: Financial Markets Operations Division.

Chart 3.2: Weighted Average Yields on Treasury Bills at Primary Auctions

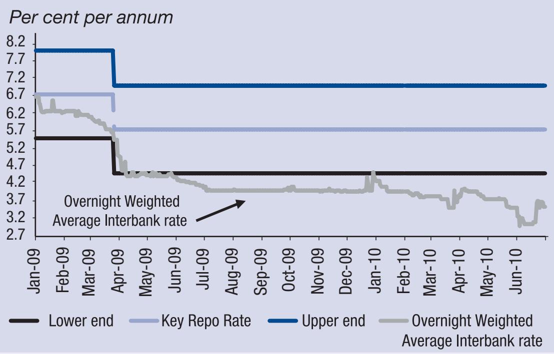


Source: Financial Markets Operations Division.

Liquidity Management

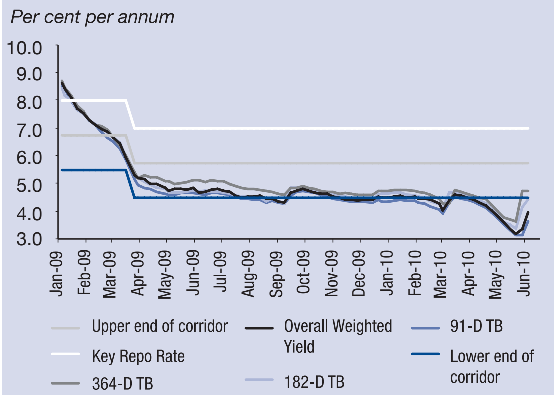
With the excess liquidity conditions prevailing in the domestic banking system, the overnight weighted interbank rate remained well below the lower bound of the corridor of the key Repo Rate during the period under review except in December 2009 when it came close to the lower end of the corridor. Despite the Bank's continued open market operations with a view to give the signal to the market and address the disconnect between the key Repo Rate and the other rates, the weighted yields on Treasury Bills with maturities of up to 364 days continued its downward trend except when the Bank conducted Special Deposits. The drop was more pronounced towards the end of the financial year. Charts 3.3 and 3.4 show the evolution of overnight interbank interest rates and yields on Treasury Bills, respectively, for the period January 2009 to June 2010.

Chart 3.3: Overnight Money Market Rates for the period January 2009 to June 2010



Source: Financial Markets Operations Division.

Chart 3.4: Yields on Government of Mauritius Treasury Bills at Primary Auctions for the period January 2009 to June 2010



Source: Financial Markets Operations Division.

Bank of Mauritius Bills

In May 2010, the Bank conducted an auction of Bank of Mauritius Bills with a maturity of 28 days. The total amount of bids received was Rs2,920.0 million, out of which Rs700.0 million was accepted and the weighted yield was 4.06 per cent per annum.

Repurchase Transactions

The Bank conducted a repo transaction on 29 December 2009 at the rate of 7.00 per cent for 7 days for a total amount of Rs1,200 million following the payment of tax by corporates that led to a temporary liquidity tightness in the banking system.

In June 2010, on account of the persistent liquidity in the domestic banking system, the Bank intervened in the market and carried out reverse repo transactions with banks on 21 June 2010 for an amount of Rs1.0 billion for a period of 7 days at the rate of 4.50 per cent per annum.

Table 3.2 gives detailed information on repurchase transactions carried out during 2009-10.

market and conducted Special Deposits on five occasions for a total amount of Rs9,185.0 million for periods ranging from 7 to 21 days.

Table 3.3 gives details of the Special Deposits carried out during 2009-10.

Interbank Transactions

In 2009-10, reflecting excess liquidity in the system, a drop of 20.3 per cent in total turnover was recorded in interbank transactions, which amounted to Rs159,444 million compared to Rs199,935 million in 2008-09. The daily average amount of interbank transactions decreased from Rs548 million in 2008-09 to Rs440 million in 2009-10.

Transactions were mainly carried out in

Table 3.2: Repurchase Transactions Between the Bank of Mauritius and Banks

	Repurchase Transactions Held							Reverse Repurchase Transactions Held						
	Number of Transactions	Amount Received	Amount Accepted	Repurchase Period	Range of Yields on Bids Received	Lowest Yield Accepted	Weighted Yield on Bids Accepted	Number of Transactions	Amount Received	Amount Accepted	Repurchase Period	Range of Yields on Bids Received	Highest Yield Accepted	Weighted Yield on Bids Accepted
		(Rs million)		*(Day/s)*	*(Per cent per annum)*				*(Rs million)*		*(Day/s)*	*(Per cent per annum)*		
2009														
Jul	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Aug	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Oct	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nov	-	-	-		-	-	-	-	-	-	-	-	-	-
Dec	1	1,200	1,200	7	7.00	7.00	7.00	-	-	-	-	-	-	-
2010														
Jan	-	-	-		-	-	-	-	-	-	-	-	-	-
Feb	-	-	-		-	-	-	-	-	-	-	-	-	-
Mar	-	-	-		-	-	-	-	-	-	-	-	-	-
Apr	-	-	-		-	-	-	-	-	-	-	-	-	-
May	-	-	-		-	-	-	-	-	-	-	-	-	-
Jun	-	-	-	-	-	-	-	1	3,900	1,000	7	4.50	4.50	4.50
2009-10	**1**	**1,200**	**1,200**	**7**	**7.00**	**7.00**	**7.00**	**1**	**3,900**	**1,000**	**7**	**4.50**	**4.50**	**4.50**
2008-09	**16**	**28,995**	**26,895**	**4-21**	**8.00-9.50**	**8.00**	**9.15**	**2**	**3,925**	**1,300**	**7**	**5.50**	**5.50**	**5.50**

Note: Effective 01 April 2008, the Bank implemented operational changes in Liquidity Management whereby repurchase transactions are conducted at the key Repo Rate ± 125 basis points.
Source: Financial Markets Operations Division.

Special Deposits

During the period July 2009 to June 2010, the Bank also intervened in the domestic money

the call money market where they totalled Rs102,073 million, representing an increase of 2.9 per cent compared to the previous year.

This represented a daily average transaction of Rs328 million compared to Rs290 million in 2008-09. Call money transactions peaked Rs1,410 million in December 2009 and were at a low of Rs5 million in March 2010.

Rates on the call money market fluctuated between 3.00 per cent and 4.50 per cent in 2009-10 compared to a range of 4.00-9.75 per cent in 2008-09. The range of interest rates on money at short notice varied between 3.25 per cent and 5.50 per cent in 2009-10 compared to a range of 4.10 per cent to 9.50 per cent in 2008-09 while the interest rate on transactions at term was in the range of 3.75-7.25 per cent in 2009-10 compared to a range of 4.85-9.30 per cent in 2008-09.

Table 3.3: Special Deposits Facility: July 2009 - June 2010

Period	Amount *(Rs million)*	Period *(days)*	Rate *(Per cent per annum)*
Jul-09	-	-	-
Aug-09	-	-	-
Sep-09	1,185	14	4.75
Oct-09	-	-	-
Nov-09	-	-	-
Dec-09	1,300	7	4.75
Jan-10	-	-	-
Feb-10	-	-	-
Mar-10	3,000	14-21	4.75
Apr-10	1,700	21	4.75
May-10	-	-	-
Jun-10	2,000	21	4.75
2009-10	**9,185**	**7-21**	**4.75**

Source: Financial Markets Operations Division.

Transactions at short notice on the interbank money market fell by 49.9 per cent from Rs88,286 million in 2008-09 to Rs44,198 million in 2009-10, representing a daily average amount of Rs220 million compared to Rs405 million during 2008-09. Transactions at short notice were at a peak and trough of Rs1,250 million and Rs25 million, respectively, in December 2009.

Transactions on the term money market accounted for a total amount of Rs13,172 million. This represented a daily average amount of Rs43 million during 2009-10 compared to Rs35 million during 2008-09, that is, an increase of 22.9 per cent. Term money transactions reached a peak of Rs348 million in December 2009 and at a trough of Rs5 million in July and August 2009.

Interest rates on the interbank market were mainly constrained by the excess liquidity conditions prevailing in the banking system. In 2009-10, interbank interest rates thus fluctuated within a range of 3.00-7.25 per cent compared to a range of 4.00-9.75 per cent in 2008-09.

The weighted average interest rate on transactions at call decreased by 301 basis points, from 6.91 per cent in 2008-09 to 3.90 per cent in 2009-10 while the weighted average interest rate on transactions at short notice decreased by 364 basis points, from 7.81 per cent in 2008-09 to 4.17 per cent in 2009-10. The weighted average interest rate on transactions at term decreased by 215 basis points from 6.42 per cent in 2008-09 to 4.27 per cent in 2009-10. Overall, the monthly weighted average interbank interest rate decreased by 326 basis points, from 7.27 per cent in 2008-09 to 4.01 per cent in 2009-10.

Tables 3.4 and 3.5 as well as Chart 3.5 give details on interbank transactions and interbank interest rates in 2009-10.

Table 3.4: Interbank Transactions *(Rs million)*

	Money at Call			Money at Short Notice			Money at Term			Total Transactions		
	Peak	Trough	Daily Average	Peak	Trough	Daily Average	Peak	Trough	Daily Average	Peak	Trough	Daily Average
2009												
Jul	840	10	301	300	100	167	5	5	5	**865**	**5**	**335**
Aug	740	45	305	800	50	405	55	5	33	**1,445**	**70**	**577**
Sep	685	30	378	550	50	175	25	25	25	**1,090**	**100**	**549**
Oct	1,055	50	397	550	50	177	70	25	38	**1,255**	**175**	**474**
Nov	850	25	242	675	29	266	45	20	22	**895**	**55**	**460**
Dec	1,410	25	308	1,250	25	312	348	20	152	**1,933**	**75**	**762**
2010												
Jan	1,225	15	343	920	29	380	220	20	85	**1,245**	**70**	**532**
Feb	1,225	164	503	350	30	133	70	20	29	**1,245**	**70**	**578**
Mar	750	5	210	30	30	30	70	20	27	**800**	**20**	**133**
Apr	580	45	281	75	50	56	20	20	20	**655**	**20**	**251**
May	895	50	286	70	70	70	20	20	20	**915**	**20**	**303**
Jun	1,245	15	337	855	50	128	75	20	35	**1,515**	**20**	**353**
2009-10	**1,410**	**5**	**328**	**1,250**	**25**	**220**	**348**	**5**	**43**	**1,933**	**5**	**440**
2008-09	**1,545**	**10**	**290**	**1,570**	**10**	**405**	**165**	**4**	**35**	**2,310**	**5**	**548**

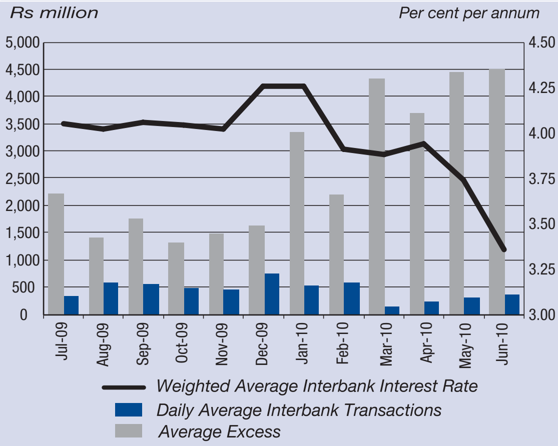
Source: Financial Markets Operations Division.

Table 3.5: Interbank Interest Rates *(Per cent per annum)*

	Money at Call		Money at Short Notice		Term Money		Total Transactions	
	Weighted Average Rate of Interest	Range of Interest Rates	Weighted Average Rate of Interest	Range of Interest Rates	Weighted Average Rate of Interest	Range of Interest Rates	Weighted Average Rate of Interest	Range of Interest Rates
2009								
Jul	4.01	4.00-4.10	4.09	4.00-4.10	5.81	4.50-7.25	**4.05**	**4.00-7.25**
Aug	4.00	3.95-4.10	4.03	4.00-4.10	4.07	4.00-4.50	**4.02**	**3.95-4.50**
Sep	4.01	3.90-4.25	4.13	4.00-4.35	4.50	4.50	**4.06**	**3.90-4.50**
Oct	4.00	3.90-4.20	4.23	4.00-4.50	4.14	4.10-4.20	**4.04**	**3.90-4.50**
Nov	3.97	3.90-4.10	4.05	4.00-4.35	4.15	4.15-4.20	**4.02**	**3.90-4.35**
Dec	4.08	3.95-4.50	4.48	3.95-5.50	4.17	4.05-4.65	**4.26**	**3.95-5.50**
2010								
Jan	3.96	3.95-4.25	4.65	3.95-5.50	4.54	4.15-4.65	**4.26**	**3.95-5.50**
Feb	3.89	3.80-3.95	3.91	3.85-4.00	4.23	4.10-4.28	**3.91**	**3.80-4.28**
Mar	3.80	3.50-4.00	3.61	3.50-4.05	4.24	4.10-4.28	**3.88**	**3.50-4.28**
Apr	3.90	3.75-4.10	4.05	4.05	4.28	4.28	**3.94**	**3.75-4.28**
May	3.69	3.50-3.90	3.75	3.75	4.28	4.28	**3.74**	**3.50-4.28**
Jun	3.26	3.00-4.00	3.37	3.25-3.75	3.98	3.75-4.28	**3.36**	**3.00-4.28**
2009-10	**3.90**	**3.00-4.50**	**4.17**	**3.25-5.50**	**4.27**	**3.75-7.25**	**4.01**	**3.00-7.25**
2008-09	**6.91**	**4.00-9.75**	**7.81**	**4.10-9.50**	**6.42**	**4.85-9.30**	**7.27**	**4.00-9.75**

Source: Financial Markets Operations Division.

Chart 3.5: Excess Liquidity, Interbank Transactions and Weighted Average Interbank Interest Rate



Source: Financial Markets Operations Division.

SECONDARY MARKET TRADING

Primary Dealer System

In its efforts to boost the development of the secondary market for securities and to enhance liquidity of the domestic market for these securities, the Bank of Mauritius had established effective 1 February 2002, a Primary Dealer System for Mauritius. As at 30 June 2010, twelve banks were granted primary dealer status.

During the period under review, transactions for a total nominal amount of Rs2,869.1 million were conducted by the primary dealers compared to a total value of Rs3,959.6 million during 2008-09. The transactions were mainly with corporates which represented 78.5 per cent of the total amount transacted. Deals conducted among primary dealer banks accounted for 20.8 per cent and transactions carried out with individuals represented 0.7 per cent of the total amount transacted.

Band 8, that is, with 301 to 364 days to maturity, accounted for the majority of the transactions, that is, 48.9 per cent for a total value of Rs1,401.6 million and the range of yields was between 3.30 per cent and 4.81 per cent. The number of transactions in other bands ranged between 13 and 30 for a total value of Rs1,467.5 million with band 3 accounting for Rs941.0 million. Yields varied between 3.30 per cent and 4.95 per cent during 2009-10 compared to a range of 4.45-10.00 per cent in 2008-09. The reduction in yields reflected the downward trend in yields in the primary market.

Table 3.6 gives details of transactions conducted by primary dealers from July 2009 to June 2010 while Table 3.7 shows purchases and sales effected over the same period.

Table 3.6: Primary Dealer Activities

Band	Days to Maturity	Number of Transactions	Value *(Rs million)*	Yield *(Per cent per annum)*
1	2 to 30	3	65.0	4.20-4.23
2	31 to 60	7	59.4	4.00-4.60
3	61 to 90	30	941.0	3.65-4.65
4	91 to 135	12	44.5	4.20-4.70
5	136 to 180	11	186.8	4.10-4.55
6	181 to 240	9	166.2	4.05-4.95
7	241 to 300	7	4.6	4.30-4.60
8	301 to 364	79	1,401.6	3.30-4.81
2009-10		**158**	**2,869.1**	**3.30-4.95**
2008-09		**434**	**3,959.6**	**4.45-10.00**

Source: Financial Markets Operations Division.

Table 3.7: Purchases and Sales of Treasury/Bank of Mauritius Bills By Primary Dealers [1]							
	Purchases		Sales		Total Transactions [1]		Range of Yields *(Per cent per annum)*
	Volume	Value *(Rs million)*	Volume	Value *(Rs million)*	Volume	Value *(Rs million)*	
2009							
Jul	6	16.6	8	202.0	**13**	**208.6**	**4.25-4.95**
Aug	3	33.7	12	333.9	**12**	**333.9**	**4.00-4.65**
Sep	3	30.1	13	120.7	**14**	**120.8**	**4.00-4.59**
Oct	-	-	18	91.7	**18**	**91.7**	**4.00-4.81**
Nov	-	-	16	256.5	**16**	**256.5**	**4.40-4.66**
Dec	-	-	23	117.8	**23**	**117.8**	**4.10-4.70**
2010							
Jan	-	-	16	69.9	**16**	**69.9**	**4.25-4.78**
Feb	5	156.3	9	171.9	**9**	**171.9**	**4.40-4.73**
Mar	-	-	10	142.6	**10**	**142.6**	**3.92-4.54**
Apr	2	160.0	8	721.0	**8**	**721.0**	**3.65-4.76**
May	-	-	6	356.9	**6**	**356.9**	**4.05-4.60**
Jun	3	205.5	13	277.5	**13**	**277.5**	**3.30-4.60**
2009-2010	**22**	**602.2**	**152**	**2,862.4**	**158**	**2,869.1**	**3.30-4.95**
2008-2009	**55**	**1,115.6**	**406**	**3,622.1**	**434**	**3,959.6**	**4.45-10.00**

[1] Figures do not add up to total purchases and sales as inter-primary dealer transactions, that is, purchases and sales of Treasury/BOM Bills among primary dealers, are accounted for only once.
Source: Financial Markets Operations Division.

Special Line of Credit to the Sugar Industry

In 2001, the Bank of Mauritius, with a view to enabling banks to support the restructuring of the Sugar Industry in the context of the Sugar Sector Strategic Plan 2001-2005, had introduced a Special Line of Credit for the sugar sector for an initial amount of Rs1.5 billion, which was subsequently increased to Rs2.45 billion.

During 2009-10, no disbursement was made under this facility. The principal amount outstanding as at close of business on 30 June 2010 under the Line of Credit stood at Rs267.70 million.

Equity Fund

To support the financing of the National Equity Fund set up in July 2003, the Bank of Mauritius made available to the Development Bank of Mauritius Ltd (DBM) a Special Line of Credit of Rs700 million to be drawn within two years of the setting up of the Fund. Out of the Rs700 million, an amount of Rs450 million was to be utilised by the DBM towards its own participation in the Fund and the balance of Rs250 million was for on-lending by the DBM to the State Investment Corporation (SIC) for its participation in the Equity Fund.

Since the drawdown period had expired, no disbursement was made under this facility in 2009-10. The total amount outstanding as at close of business on 30 June 2010 under the Special Line of Credit stood at Rs37.33 million.

Long-Term Government Securities

The Bank of Mauritius raised a total amount of Rs8,242.8 million through the issues of Five-Year and Long-Term Government of Mauritius Bonds in 2009-10 in addition to the issue of Treasury Bills with maturities of 91, 182 and 364 days and Treasury Notes with maturities of 2, 3 and 4 years, compared to Rs8,583.4 million in 2008-09. Of that amount, a total of Rs6,242.8 million was raised through Five-Year Government of Mauritius Bonds and Rs2,000.0 million through Long-Term Bonds with maturities ranging between 7 and 20 years.

Taking into consideration that Government has changed its financial year basis from July to June to January to December as from the year 2010, the auctions of Five-Year Government of Mauritius Bonds were not carried out on a bi-monthly basis as in previous years. Thus, during July 2009 to June 2010, the issues were broken down in two parts, i.e. from July to December 2009 and from January to June 2010. As such, two auctions of Five-Year Government of Mauritius Bonds were held during the period July to December 2009 and one auction during January to June 2010.

The three issues of Five-Year Government of Mauritius Bonds for 2009-10 were held on 7 August 2009, 13 November 2009 and 2 June 2010. As in the preceding year, the coupon rates for the issues of Five-Year Government of Mauritius Bonds were allowed to be market determined, and were generally set equal to or higher than the lowest accepted yield of the auctions.

The market determined coupon rates for the three issues held on 7 August 2009, 13 November 2009 and 2 June 2010 stood at 8.40 per cent, 8.08 per cent and 6.69 per cent per annum, respectively. The bid-cover ratio of the three auctions of Five-Year Government of Mauritius Bonds held in 2009-10 was in the range of 1.20 to 1.80. The total value of bids received amounted to Rs10,594.5 million compared to a total tender amount of Rs6,600 million, giving a total oversubscription of Rs3,994.5 million. The total nominal value of bids accepted stood at Rs6,242.8 million.

At the first auction held in August 2009, the weighted yield stood at 8.61 per cent per annum. It went up by 12 basis points at the second auction to 8.73 per cent per annum. However, at the auction held in June 2010 the weighted yield declined to 7.05 per cent per annum.

Table 3.8 provides details of the three auctions of Five-Year Government of Mauritius Bonds held in 2009-10.

Table 3.8: Auctions of Five-Year Government of Mauritius Bonds

	Auction held on		
	05-Aug-09[1]	11-Nov-09[2]	02-June-10[3]
1. Amount of Bonds put on Tender *(Rs mn)*	1,500.0	2,100.0	3,000.0
2. Value of Bids Received *(Rs mn)*	2,546.4	2,565.9	5,482.2
3. Value of Bids Accepted *(Rs mn)*	1,500.0	1,742.8	3,000.0
4. Interest Rate *(% p.a.)*	8.40	8.08	6.69
5. Highest Yield Accepted *(% p.a.)*	8.80	9.00	7.23
6. Weighted Yield on Bids Accepted *(% p.a.)*	8.61	8.73	7.05
7. Weighted Price of Bids Accepted *(%)*	99.161	97.411	98.505

[1] Issue of 07 August 2009. [2] Issue of 13 November 2009. [3] Issue of 04 June 2010.
Source: Financial Markets Operations Division.

Bonds with maturities of 7, 13 and 20 years were issued during the first half of 2009-10 for a total nominal amount of Rs2,000.0 million, split in two auctions held on 23 September 2009 and 2 December 2009. The two auctions were oversubscribed and bids were mostly received from pension funds and insurance companies which showed an appetite for long-term instruments. Banks merely participated in the two auctions. Total value of bids received at the first auction held on 23 September 2009 was Rs1,462.4 million compared to a total tender amount of Rs1,000 million and bids accepted were for an amount of Rs1,000 million. At the second auction held on 2 December 2009, the total value of bids received was Rs1,421.9 million compared to a tender amount of Rs1,000 million. The total amount of bids accepted was Rs1,000 million. During the second half of the financial year 2009-10, no auction of long-term bonds was held.

The interest rates on the 7, 13 and 20-year Bonds for the two auctions were fixed at 7.50 per cent, 7.65 per cent and 7.80 per cent per annum, respectively. The weighted yields on bids accepted at the first auction stood at 9.24 per cent, 10.15 per cent and 10.38 per cent per annum for the 7, 13 and 20-year Bonds, respectively. These yields increased to 9.44 per cent, 10.37 per cent and 10.70 per cent per annum, respectively, at the second auction.

Total value of bids received at the two auctions of Bonds thus amounted to Rs2,884.0 million and total amount of bids accepted was Rs2,000.0 million. The highest value of bids accepted was in the 7-Year Bonds, with a total accepted amount of Rs784.0 million compared to Rs636.0 million and Rs579.0 million in the 13-Year and 20-Year Bonds respectively.

Details of the auctions of Long-Term Bonds are given in Table 3.9.

Treasury Notes

During the year 2009-10, the Bank continued the monthly issues of 2, 3 and 4-year Treasury Notes. The total tender amount during 2009-10 for the three maturities was Rs14,300 million compared to Rs15,900 million in 2008-09 against a maturing amount of Rs14,398 million. The total value of bids received amounted to Rs33,019 million in 2009-10 compared to Rs20,073 million in 2008-09 reflecting the excess liquidity situation prevailing in the system. The total value of bids accepted was Rs14,134 million in 2009-10 compared to Rs9,904 million in 2008-09, in line with the Government's objective to lengthen the maturity profile of its debt.

The interest rates on the three types of Treasury Notes were fixed at 5.60 per cent, 5.85 per cent and 6.10 per cent respectively, for the first issue held in July 2009. There was no issue of Treasury Notes in August 2009. The interest rates for the issues from September 2009 to June 2010 were fixed at 5.50 per cent, 5.75 per cent and 6.00 per cent per annum.

At the auction held in July 2009, the weighted yield of bids accepted for the 2-Year Treasury Notes was 6.57 per cent which subsequently fell by 1 basis point to 6.56 per cent at the auction held in September 2009. Thereafter, the weighted yield of the 2-Year Treasury Notes increased slightly to 6.58 per cent for the October 2009 auction. At the subsequent auctions, the weighted yields of the 2-Year tenor fell continuously to reach 5.15 per cent at the June 2010 auction.

Table 3.9: Auctions of Long-Term Government of Mauritius Bonds

	Auction held on					
	23-September-09[1]			02-December-09[2]		
Amount of Bonds put on Tender	Rs 1,000.0 million			Rs 1,000.0 million		
Bonds	7-Yr Bonds	13-Yr Bonds	20-Yr Bonds	7-Yr Bonds	13-Yr Bonds	20-Yr Bonds
1. Value of Bids Received *(Rs mn)*	545.7	497.7	419.0	623.8	421.1	377.3
2. Value of Bids Accepted *(Rs mn)*	345.7	340.3	314.0	438.6	296.1	265.3
3. Interest Rate *(% p.a.)*	7.50	7.65	7.80	7.50	7.65	7.80
4. Highest Yield Accepted *(% p.a.)*	9.60	10.60	10.90	9.80	10.80	11.10
5. Weighted Yield on Bids Accepted *(% p.a.)*	9.24	10.15	10.38	9.44	10.37	10.70
6. Weighted Price of Bids Accepted *(%)*	91.175	82.169	78.429	90.224	80.817	76.267

[1] Issue of 25 September 2009: [2] Issue of 04 December 2009:
7-Yr Bonds : 7.50% 7-Year Government of Mauritius Bonds due 25 September 2016
7-Yr Bonds : 7.50% 7-Year Government of Mauritius Bonds due 04 December 2016
13-Yr Bonds : 7.65% 13 -Year Government of Mauritius Bonds due 25 September 2022
13-Yr Bonds : 7.65% 13 -Year Government of Mauritius Bonds due 04 December 2022
20-Yr Bonds : 7.80% 20 -Year Government of Mauritius Bonds due 25 September 2029
20-Yr Bonds : 7.80% 20 -Year Government of Mauritius Bonds due 04 December 2029
Source: Financial Markets Operations Division.

Regarding the 3-Year Treasury Notes, the weighted yield of bids accepted at the July 2009 auction stood at 6.98 per cent, and rose to 7.08 per cent for the September 2009 auction before declining by 2 basis points to 7.06 per cent for the October 2009 auction. The weighted yield of the 3-Year Treasury Notes increased to 7.15 per cent at the November 2009 auction but at the subsequent auctions held as from December 2009, it fell continuously to reach 5.75 per cent at the June 2010 auction.

For the 4-Year Treasury Notes, the weighted yield of bids accepted at the July 2009 auction was 7.37 per cent. It increased to 7.49 per cent for the September 2009 auction and further rose by 1 basis point to 7.50 per cent for the October 2009 auction. The weighted yield which was again at 7.50 per cent for the November 2009 auction dropped by 1 basis point to 7.49 per cent at the auction held in December 2009 auction and thereafter increased to 7.50 per cent at the January 2010 auction. However, as from February 2010 auction, the weighted yields of the 4-Year tenor fell continuously to reach 6.03 per cent at the June 2010 auction.

Details of the auctions of Treasury Notes during 2009-10 are given in Table 3.10.

Foreign Exchange Market

During the period July 2009 to June 2010, the domestic foreign exchange market was relatively comfortable and the Bank did not intervene to either sell or purchase foreign currencies. This was in line with the Bank's policy of allowing the free play of market forces

Table 3.10: Auctions of Treasury Notes

	Amount put on Tender	Value of Bids Received			Value of Bids Accepted			Interest Rate			Weighted Yield on Bids Accepted		
		2-Y TN	3-Y TN	4-YTN	2-Y TN	3-Y TN	4-Y TN	2-Y TN	3-Y TN	4-Y TN	2-YTN	3-Y TN	4-Y TN
	(Rs million)							*(Per cent per annum)*					
2009													
22-Jul	1,000	440.0	440.0	450.0	180.0	420.0	400.0	5.60	5.85	6.10	6.57	6.98	7.37
9-Sep	1,200	684.5	365.0	135.0	678.8	315.0	40.0	5.50	5.75	6.00	6.56	7.08	7.49
14-Oct	1,000	1,990.0	380.0	135.7	735.0	245.0	20.0	5.50	5.75	6.00	6.58	7.06	7.50
18-Nov	1,000	2,192.5	492.8	288.2	788.2	180.9	30.9	5.50	5.75	6.00	6.36	7.15	7.50
16-Dec	1,500	2,732.0	896.6	467.8	1,000.4	328.3	171.3	5.50	5.75	6.00	6.17	7.12	7.49
2010													
20-Jan	1,500	1,057.7	2,681.9	430.6	204.0	1,141.1	154.9	5.50	5.75	6.00	6.11	7.02	7.50
17-Feb	1,400	691.0	1,675.9	518.0	335.3	813.3	251.4	5.50	5.75	6.00	6.06	6.92	7.43
3-Mar	1,200	1,280.0	1,410.0	401.4	496.9	547.3	155.8	5.50	5.75	6.00	5.91	6.79	7.36
31-Mar	1,500	795.0	1,190.0	561.8	468.2	731.8	300.0	5.50	5.75	6.00	5.68	6.09	6.11
6-May	1,500	1,655.0	1,445.0	1,360.0	654.0	486.0	360.0	5.50	5.75	6.00	5.61	5.90	6.13
9-Jun	1,500	2,525.0	700.0	551.0	1,003.0	278.1	218.9	5.50	5.75	6.00	5.15	5.75	6.03
2009-10	**14,300.0**	**16,042.7**	**11,677.2**	**5,299.5**	**6,543.8**	**5,486.8**	**2,103.2**	**5.50-5.60**	**5.75-5.85**	**6.00-6.10**	**5.15-6.58**	**5.75-7.15**	**6.03-7.50**
2008-09	**15,900.0**	**10,308.6**	**3,257.6**	**6,506.7**	**5,123.4**	**1,749.8**	**3,030.8**	**6.00-8.75**	**6.25-9.00**	**6.50-9.25**	**6.52-10.18**	**7.05-10.50**	**7.70-11.13**

Source: Financial Markets Operations Division.

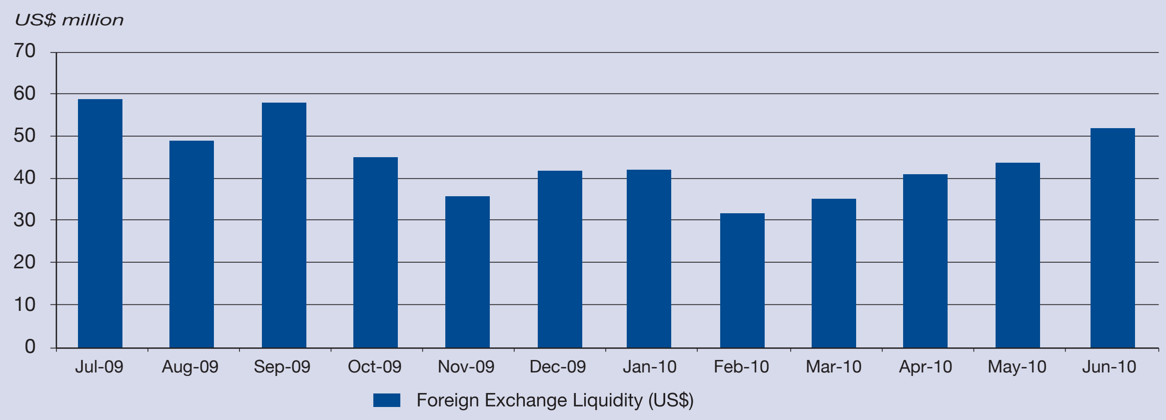
to determine the exchange rate of the rupee. The Bank has not intervened since November 2008. However, the Bank was on the market on a few occasions, but given that the amount requested for was more or less equal to the amount proposed to be sold to the Bank, no deals were entertained. Chart 3.6 shows the monthly average foreign exchange liquidity positions of banks during 2009-10.

Towards the end of 2009, it was observed that the volume of transactions in the foreign exchange market was on the low side compared to the same period in the previous year as exporters began to hoard their export proceeds. This lack of liquidity in the spot foreign exchange market created some volatility in the market and had a bearing on the orderly functioning of the market. Thus the Bank offered spot-to-three-month forward foreign currency swap transactions since 23 December 2009 with a view to injecting liquidity in the market and thereby avoiding the build up of uncertainties that would have financial stability implications. In order to mop up the excess liquidity generated by the swap transactions, that is, the resulting rupee proceeds, the Bank with the agreement of the Government issued warrants to banks/foreign exchange dealers giving them the option to invest the rupee proceeds in Treasury Bills of 91-day, 182-day and 364-day tenor on tap at a yield of 75 basis points, 60 basis points and 50 basis points below the key Repo Rate.

The swaps were initially conducted on every Wednesday for a minimum amount of US$1.0 million, EUR750,000 and GBP600,000 or for such other amounts as the Bank may have decided.

In February 2010, following a review of the developments after the introduction of the foreign currency swaps with representatives of some banks and foreign exchange dealers, the Bank started to offer the swap facility twice a week (on Mondays and Wednesdays) and for periods ranging from one to three months. The swaps with maturities of less than three months did not entitle the banks/foreign exchange dealers to a warrant to invest the rupee proceeds in Government of Mauritius Treasury Bills. During the period 23 December 2009 to end June 2010, the total amount of swap transactions amounted to an equivalent of US$89.2 million (Rs2.7 billion approximately) and the amount of swap outstanding as at end June 2010 was equivalent to US$20.3 million (Rs640.0 million approximately). Table 3.11 provides details of swap transactions conducted in US dollars, euro and Pound sterling from 23 December 2009 to end June 2010.

Chart 3.6: Monthly Average Foreign Exchange Liquidity Positions of Banks



Source: Financial Markets Operations Division.

Interbank Foreign Exchange Market

During 2009-10, turnover on the interbank foreign exchange market increased significantly to an equivalent amount of US$415.83 million compared to an equivalent amount of US$160.42

million in 2008-09. Out of this turnover, purchases of US dollars against the rupee amounted to US$216.57 million compared to a lower amount of US$51.19 million in 2008-09.

Table 3.11: Short Term Foreign Currency Swaps: 23 December 2009 - 30 June 2010

	Transactions in		
	US dollar (US$ million)	**Euro** (EUR million)	**Pound sterling** (GBP million)
23-31 Dec-09	0.0	0.0	0.0
Jan-10	1.0	1.0	0.5
Feb-10	1.8	23.6	0.0
Mar-10	0.0	18.5	0.0
Apr-10	0.0	7.0	1.5
May-10	0.0	11.2	0.0
Jun-10	0.0	0.0	0.0

Source: Financial Markets Operations Division.

Furthermore, in order to enable banks maintain their financing of international trade, the Bank made available to them since 24 December 2008 a Special Foreign Currency Line of Credit, aggregating US$125 million, equivalent to approximately Rs4 billion. The decision was taken to facilitate access to foreign currency credit lines in view of the difficulties faced by some local banks due to either non-availability, or inadequacy, of foreign exchange credit facilities from their usual sources. The Special Foreign Currency Line of Credit was maintained during 2009-10.

Table 3.12 gives details of monthly transactions on the interbank foreign exchange market and Table 3.13 provides the amount and range of intervention by the Bank of Mauritius during the period 2009-10.

Foreign Exchange Transactions by Banks

Banks report on a daily basis to the Bank of Mauritius transactions of US$30,000 and above or their equivalent in other foreign currencies.

Table 3.12: Interbank Foreign Exchange Market*

	Purchase of US dollar against Rupee *(US$ million)*	**Purchase of US dollar against Other Currencies** *(US$ million)*	**Purchase of Other Foreign Currencies** *(US$ million)*	**Total Purchases**		**Opening Interbank Min - Max Ask Rate[1]** *(Rs/US$)*
				US dollar Equivalent *(US$ million)*	**Rupee Equivalent** *(Rs million)*	
2009						
Jul	3.62	3.56	1.81	8.99	289.12	32.0750-32.6250
Aug	6.85	1.93	9.43	18.21	582.69	31.8875-32.3125
Sep	22.08	1.18	12.66	35.92	1,111.92	30.6125-31.9125
Oct	24.84	6.38	10.14	41.36	1,261.00	30.1375-30.6375
Nov	21.10	3.05	24.40	48.55	1,456.85	29.6875-30.3250
Dec	11.45	4.00	21.16	36.61	1,080.65	28.7625-30.0625
2010						
Jan	27.21	3.38	10.15	40.74	1,222.32	29.8000-30.2625
Feb	19.24	3.63	8.28	31.15	951.84	30.0000-30.7750
Mar	23.20	12.02	11.26	46.48	1,425.47	30.5250-30.7750
Apr	16.72	8.00	6.02	30.74	947.83	30.6625-30.9750
May	18.41	12.21	9.43	40.05	1,336.56	31.0000-34.3875
Jun	21.85	9.68	5.50	37.03	1,227.80	32.2125-33.9875
2009-10	**216.57**	**69.02**	**130.24**	**415.83**	**12,894.05**	**28.7625-34.3875**
2008-09	**51.19**	**89.65**	**19.58**	**160.42**	**5,015.15**	**26.7125-34.3625**

* *Includes transactions of banks and foreign exchange dealers.*
[1] *With effect from 23 October 2000, the Rs/US$ ask rate is based on the average of daily wholesale Rs/US$ ask rate of four major banks.*
Source: Financial Markets Operations Division.

Table 3.13: Intervention by the Bank of Mauritius on the Interbank Foreign Exchange Market

	Sale of US dollar (US$ million)	Range of Intervention (Rs/US$ Ask Rate)	Purchase of US dollar (US$ million)	Range of Intervention (Rs/US$ Bid Rate)	Purchase of EURO (EUR million)	Range of Intervention (Rs/EUR Bid Rate)	Purchase of GBP (GBP million)	Range of Intervention (Rs/GBP Bid Rate)
2009								
Jul	0.0	-	0.0	-	0.0	0.0	-	0.0
Aug	0.0	-	0.0	-	0.0	0.0	-	0.0
Sep	0.0	-	0.0	-	0.0	0.0	-	0.0
Oct	0.0	-	0.0	-	0.0	0.0	-	0.0
Nov	0.0	-	0.0	-	0.0	0.0	-	0.0
Dec	0.0	-	0.0	-	0.0	0.0	-	0.0
2010								
Jan	0.0	-	0.0	-	0.0	0.0	-	0.0
Feb	0.0	-	0.0	-	0.0	0.0	-	0.0
Mar	0.0	-	0.0	-	0.0	0.0	-	0.0
Apr	0.0	-	0.0	-	0.0	0.0	-	0.0
May	0.0	-	0.0	-	0.0	0.0	-	0.0
Jun	0.0	-	0.0	-	0.0	0.0	-	0.0
2009-10	**0.0**	**-**	**0.0**	**-**	**0.0**	**-**	**0.0**	**-**
2008-09	**172.0**	**27.95-31.90**	**0.0**	**-**	**0.0**	**-**	**0.0**	**-**

Source: Financial Markets Operations Division.

During 2009-10, there was a decrease in the total transactions reported by banks compared to 2008-09. Total turnover in 2009-10 amounted to US$4,461.05 million compared to US$4,822.8 million in 2008-09 i.e. a decrease of US$361.75 million or 7.50 per cent.

On a currency-wise basis, 58.6 per cent of total transactions were carried out in US dollar, 27.5 per cent in euro, 7.0 per cent in Pound sterling, 3.0 per cent in South African rand, 1.0 per cent in Japanese yen, 0.9 per cent in Australian dollar and 2.0 per cent in other foreign currencies. Total monthly transactions peaked at an equivalent of US$499.3 million in December 2009 and reached a trough equivalent to US$302.8 million in August 2009.

The Rs/US$ weighted average dealt ask rates at which transactions of US$30,000 and above were effected moved in line with developments on the international markets and the evolution of foreign exchange liquidity conditions in the domestic market. Between July 2009 and June 2010, the Rs/US$ weighted average dealt ask rates fluctuated between a low of Rs28.6806 in December 2009 and a high of Rs34.2394 in May 2010. Against the euro, the weighted average dealt ask rates varied between a peak of Rs46.0343 in October 2009 and a low of Rs39.3371 in June 2010 while against the Pound sterling, the weighted average dealt ask rates moved between a low of Rs46.1274 in August 2009 and a high of Rs54.9180 in March 2010.

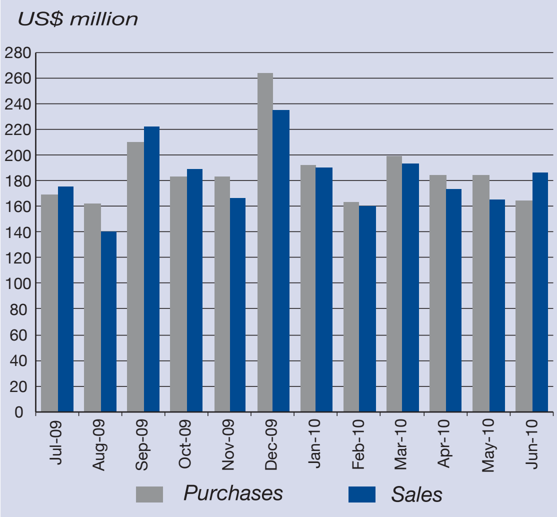
Charts 3.7 and 3.8 give details on transactions above US$30,000 effected by banks while Chart 3.9 and Table 3.14 show the weighted average dealt rates of the rupee against major currencies during 2009-10.

EXCHANGE RATE DEVELOPMENTS

International Developments

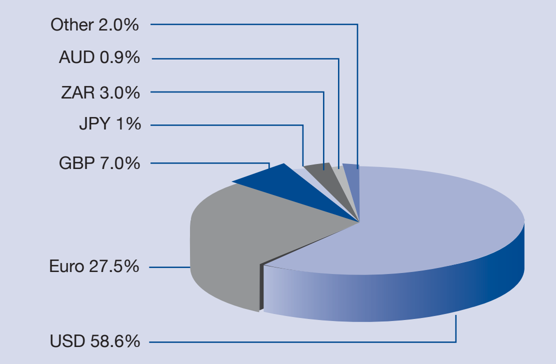
During 2009-10, the evolution of the US dollar was mainly influenced by the speed and sustainability of the global economic recovery, the timing of exit strategy from a near-zero interest rate environment, persistent investor anxiety regarding the debt problems of Greece and other peripheral euro zone countries as well as the degree of global risk aversion.

Chart 3.7: Banks' Transactions above US$30,000: Total Purchases and Sales



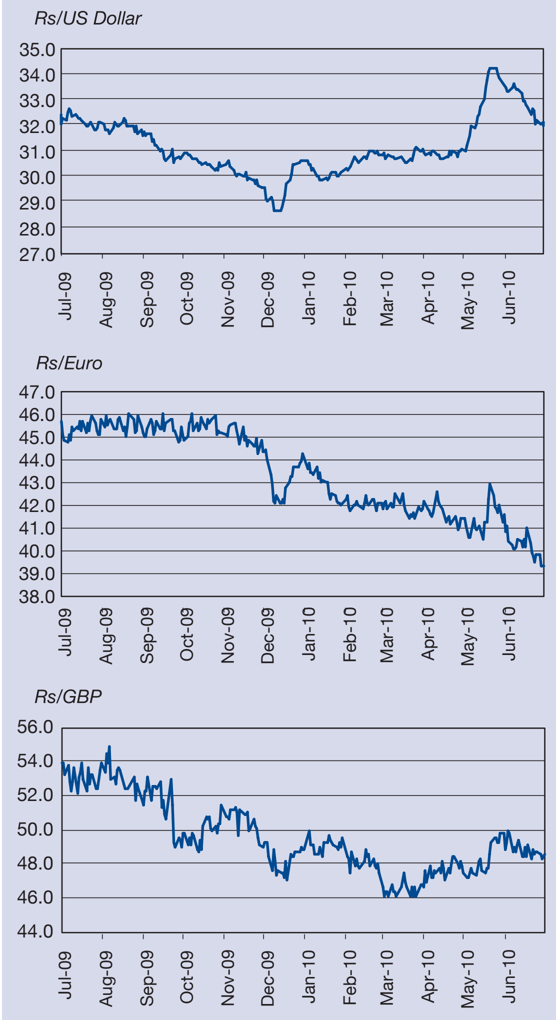
Source: Financial Markets Operations Division.

Chart 3.8: Banks' Transactions above US$30,000: Turnover by Currency



Source: Financial Markets Operations Division.

Chart 3.9: Weighted Average Dealt Ask Rates of the Rupee against Major Currencies[1]



[1]Daily Basis
Source: Financial Markets Operations Division.

Starting July 2009, the US dollar lost ground against major currencies as bullish global stock markets combined with upbeat economic data from around the world lifted investor risk appetite, denting the US currency's safe haven appeal. Positive comments from the IMF and US Federal Reserve Chairman Ben Bernanke pushed investors to take on riskier investments further in August 2009 while the US dollar continued to be undermined by ultra-low US interest rates and extensive quantitative easing activities undertaken by the Federal Reserve. Comments from US Federal Reserve officials indicating that the US currency's decline was orderly and reiterating that US interest rates would remain low for some time also contributed to weigh on the greenback which reached an intra-year low of US$1.5109 against the euro on 26 November 2009. For a brief period thereafter, investor appetite for higher-yielding currencies and assets was strongly questioned following Dubai World's intention to restructure its external liabilities. This allowed the US currency to recoup part of its losses before resuming its downtrend, ending November 2009 on a negative tone as the central bank of the United Arab Emirates pledged to provide emergency support to Dubai's banks.

Table 3.14: Weighted Average Dealt Selling Rates of the Rupee[1]

	Rs/USD	Rs/EUR	Rs/GBP	Rs/USD	Rs/EUR	Rs/GBP
	(End of Period)			(Period Average)		
2009						
Jul	32.110	45.779	53.860	32.179	45.328	53.109
Aug	31.835	45.387	52.000	31.927	45.509	53.086
Sep	30.737	45.381	49.462	31.094	45.343	51.346
Oct	30.393	45.126	51.458	30.561	45.434	49.889
Nov	29.568	44.844	48.948	30.036	44.973	50.427
Dec	30.604	44.253	48.864 [2]	29.552	43.174	48.204
2010						
Jan	30.118	42.019	49.550	30.097	42.893	49.120
Feb	30.838	42.101	47.555	30.692	42.054	48.121
Mar	31.038	41.752	47.135	30.784	41.887	46.595
Apr	31.047	41.380	47.493	30.856	41.608	47.682
May	33.610	41.247	49.769 [3]	32.980	41.407	48.305
Jun	31.967	39.337	48.638	32.874	40.225	48.858

[1] Calculated on spot transactions of USD30,000 and above, or equivalent, of banks.
[2] as at 30 December 2009.
[3] as at 28 May 2010.
Source: Financial Markets Operations Division.

As from the beginning of December 2009, investor sentiment towards the US dollar changed drastically on the back of positive United States jobs and retail sales data as well as better-than-expected consumer sentiment, which bolstered hopes that the US economy was on a stable path to recovery. The US dollar also benefited from investors unwinding positions in riskier assets ahead of the year-end in 2009, prompted in part by debt woes for Dubai and rising concerns over sovereign debt rating downgrades for Greece and other European nations. Improved economic conditions together with stronger US inflation data fuelled speculation that the Federal Reserve might begin to raise interest rates in early 2010. Though the Fed subsequently left the federal funds rate unchanged, in the range of 0-0.25 per cent, and reiterated its pledge to keep rates low for an extended period, it surprised the market by raising the discount rate, the interest rate charged for emergency loans, by 25 basis points in February 2010, which gave further support to the US dollar. The greenback continued on an upward trend in subsequent months on the back of the euro zone debt woes and contagion concerns. The minutes of the June 2010 Federal Open Market Committee meeting indicated that the Federal Reserve softened its view on the US economy, noting pockets of weakness in certain sectors and warned against volatile financial markets given the euro zone debt crisis. The revised US GDP growth came at 2.7 per cent in the first quarter of 2010 from an earlier estimate of 3.0 per cent, showing that the recovery was not picking up pace. Moreover, a raft of weak reports that suggested consumer spending, housing and factory activity were moderating led the US dollar to pare some gains in June 2010.

The euro strengthened against the US dollar over the period July 2009 to November 2009 on the back of a string of better-than-expected economic releases from the euro zone, including the confirmation that the euro zone emerged from recession in the third quarter of 2009, with a 0.4 per cent quarter-on-quarter growth after five quarters of falling output. Moreover, the revival in risk appetite in global markets induced investment in higher-yielding currencies like the euro. As from December 2009, however, the euro became heavily sold as risk aversion returned on the back of Dubai's debt problems and concerns about euro zone sovereign debt started. Data released in January 2010 showing the unemployment rate at 10 per cent, its highest since August 1998, also contributed to the euro's decline. As debt problems deteriorated further following relative inaction by euro zone authorities and the cost of insuring against a Greek default rose, the Greek/German government bond yield spread widened to near 12-year record levels. The fall in the euro was accentuated by the credit ratings downgrades of Greece, Portugal and Spain in April 2010. Despite agreement on a joint IMF-EU bail-out package of US$1 trillion in May 2010, fears that debt problems could spiral across borders led to heightened risk aversion and increased volatility in the markets.

The announcement of austerity measures by several euro zone governments fanned fears that the fragile recovery in the euro zone might be hampered. Moreover, Germany's move to ban naked short-selling of some securities gave evidence of the lack of harmony among member states, causing the euro to remain on the backfoot. The ECB left its key refinancing rate at 1 per cent, as expected, throughout this period and raised slightly its 2010 growth forecast at its June 2010 policy meeting, though the ECB President said three-month emergency loans to banks would continue until September 2010 and the pace of growth would be uneven in coming quarters. The single currency reached an intra-year low of US$1.19 on 7 June 2010, hurt by fears that the sovereign debt problems might spread to the banking system. It recovered slightly thereafter following solid demand at European debt auctions and ended the year at US$1.22.

The Pound depreciated against the US dollar during the period under review. The Pound initially rallied to reach an intra-year high of US$1.6990 against the US dollar in August 2009 following better-than-expected data in major economies, which boosted expectations of a strong economic recovery. Subsequently, the Pound weakened following the surprise extension of the quantitative easing programme by the Bank of England of £50 billion in August 2009 followed by another increase of £25 billion to a total of £200 billion in November 2009. It was also affected by the low interest rate outlook, deteriorating public finances and disappointing economic figures in the United Kingdom. It managed to recover some lost ground against the US dollar in November 2009 as data showed a rapid acceleration in activity in services and manufacturing while house prices began to rise alongside a jump in UK inflation. However, the recovery was short-lived and the Pound sterling moved lower in December 2009 on concerns about British banks' potential exposure to debt problems in Dubai and the retarded growth prospects of the UK economy. It remained on the backfoot despite data showing the UK economy came out of the recession, with a quarter-on-quarter growth of 0.3 per cent in the last quarter of 2009, weighed by increased risk aversion arising from European debt woes and political uncertainty in the UK amidst general elections in May 2010. In the second half of 2009-10, the Bank of England kept the scale of its asset purchase programme unchanged at £200 billion and left the Bank Rate at 0.50 per cent while assessing the impact of the massive stimulus injected into the economy. Towards the end of the year, however, some better economic figures coupled with hawkish comments from policymakers as well as tough fiscal measures outlined in the Emergency Budget of the new coalition government on 22 June 2010 brought some support to the UK currency, which ended the year 2009-10 at US$1.51.

The Japanese yen started the year at an average of ¥94.48 per US dollar in July 2009 and appreciated against the US dollar in the first half of 2009-10 as the Japanese economy grew by 1.2 per cent in the third quarter of 2009, supported by the fiscal stimulus package. However, the decline in consumer prices and return to a sustainable growth path with price stability represented critical challenges for Japan's economy. The Japanese currency reached a high of ¥86.37 per US dollar on 30 November 2009 before coming down on the back of renewed risk aversion in world markets and data showing that the Japanese economy was recovering at a slower pace in the fourth quarter of 2009. The Bank of Japan maintained its target for the uncollateralised overnight call rate at 0.10 per cent over the period July 2009 to June 2010 and further enhanced the easy monetary conditions in December 2009 by introducing a new funds-supplying operation to encourage a further decline in longer term interest rates. In that respect, in March 2010, the amount of loans to be provided was increased to approximately 20 trillion yen from 10 trillion yen and, at its June 2010 policy meeting, the Bank detailed a new loan scheme whereby it would lend up to US$33 billion to commercial banks to help redirect money to industries with growth potential. The Japanese currency recouped some losses in May and June 2010 as the economy started to recover moderately. Moreover, as the US economic recovery began to be questioned, investors sought safe haven refuge in the yen. The latter was trading at ¥88.53 per US dollar at the end of June 2010.

Chart 3.10 shows the movements in the US dollar vis-à-vis the euro, Japanese yen and Pound sterling.

Domestic Developments

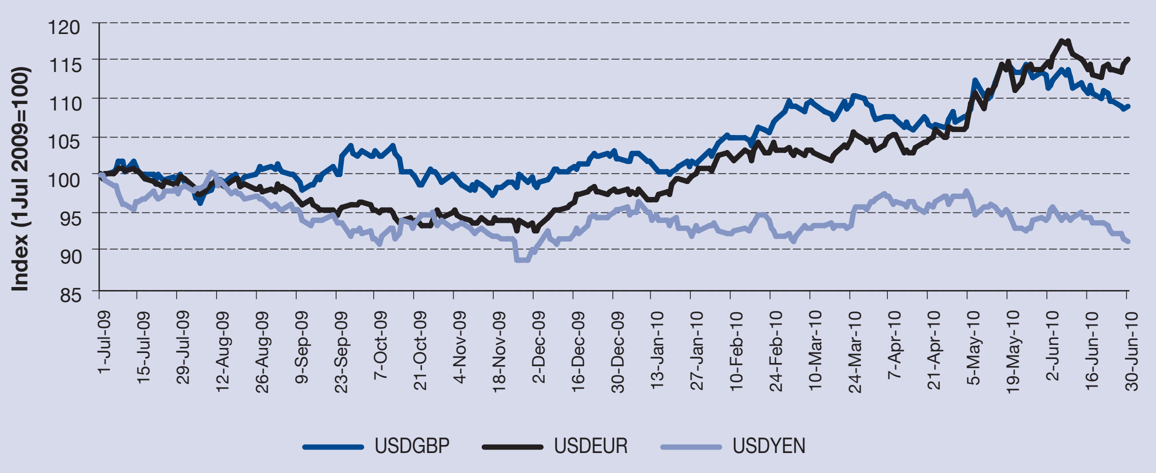
On the domestic market, the rupee appreciated against the US dollar and Pound sterling but depreciated vis-à-vis the euro during 2009-10. Comparing the average for the twelve-month period ended June 2009 to that of June 2010, the rupee appreciated against Pound sterling and US dollar by 2.1 per cent and 0.3 per cent, respectively, while it depreciated by 0.9 per cent and 6.4 per cent against the euro and Japanese yen, respectively.

The rupee started 2009-10 trading at Rs33.08 against the US dollar. Thereafter, the movements in the rupee mainly reflected those of the US dollar in international markets. The rupee gained ground vis-à-vis the US dollar briefly reaching a high of Rs29.58 on 11 December 2009 but subsequently depreciated, touching a low of Rs34.41 on 25 May 2010. However, in June 2010, it recovered some of its losses to end the period at Rs32.96 against the US dollar.

Against the Pound sterling, the rupee moved higher during the year 2009-10. Starting at Rs54.40 vis-à-vis the Pound in July 2009, the rupee consistently gained ground against the backdrop of slow growth prospects of the UK economy and reached a high of Rs46.80 on 22 March 2010. Thereafter, the rupee pared some gains till the end of June 2010 as the Pound sterling was supported by reassuring data from the UK as well as fiscal consolidation measures put forward by the UK new coalition government. The rupee ended the year at Rs49.65 against the Pound sterling.

The rupee started the year trading at Rs46.38 against the euro and moved within a tight range for the first four months of 2009-10. From November

Chart 3.10: US Dollar Movements against Major currencies



Source: Financial Market Analysis Division.

2009 onwards, the rupee strengthened against the single currency, amidst significant volatility at times, driven by the euro's weakness in international markets in the wake of the euro zone debt problems. Reflecting euro's sharp decline on the international market, on a point to point basis, between 1 July 2009 and 30 June 2010, the rupee appreciated by 15.86 per cent to close at Rs40.30 against the euro.

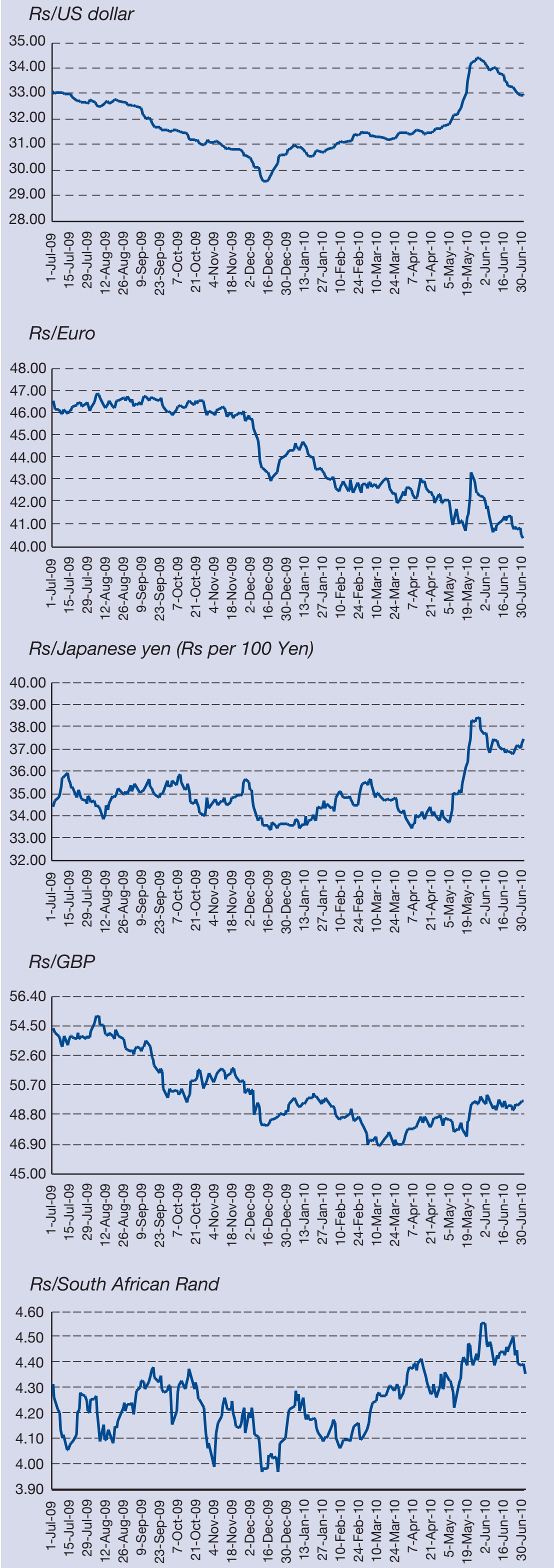
Against the Japanese yen, the rupee traded at Rs34.43 per 100 yen at the start of 2009-10 and remained extremely volatile given international developments. The rupee weakened and reached a low of Rs38.45 per 100 yen on 25 May due to the appreciation of the Japanese currency against the US dollar on international markets but was able to recoup some of its losses to close at Rs37.42 on 30 June 2010.

On a nominal effective basis, the rupee appreciated against the currencies of its main trading partners over the year 2009-10. MERI1, which uses the currency distribution of merchandise trade as weight, showed a rupee appreciation of 2.5 per cent while MERI2, which uses the currency distribution of trade combined with the currency distribution of tourism receipts as weight, showed an appreciation of 2.9 per cent during the year. In real effective terms, the rupee appreciated by 0.5 per cent over the period under review.

Chart 3.11 shows the trends in the daily exchange rates of the rupee against the US dollar, euro, Japanese yen, Pound sterling and South African rand.

Table 3.15 shows the exchange rate of the Mauritian rupee vis-a-vis major trading partners' currencies.

Chart 3.11: Movements of the Daily Exchange Rate of the Rupee vis-à-vis Major Currencies: 2009-10



Source: Financial Markets Analysis Division.

Table 3.15: Exchange Rate of the Rupee vis-à-vis Major Trading Partner Currencies

Indicative Selling Rates	Average for 12 Months ended June 2009 [1]	Average for 12 Months ended June 2010 [2]	Appreciation/ (Depreciation) of Rupee between [1] & [2] *Per Cent*
Australian dollar	23.8611	28.1976	(15.4)
Hong Kong dollar	4.1356	4.1254	0.2
Indian rupee (100)	67.6926	68.9188	(1.8)
Japanese yen (100)	32.7223	34.9561	(6.4)
Kenya shilling (100)	42.9047	42.2697	1.5
New Zealand dollar	19.2850	22.4624	(14.1)
Singapore dollar	21.8785	22.7426	(3.8)
South African rand	3.6233	4.2407	(14.6)
Swiss franc	28.5104	29.9446	(4.8)
US dollar	31.8708	31.7859	0.3
Pound sterling	51.3194	50.2702	2.1
Euro	43.7732	44.1669	(0.9)

Note: The daily average exchange rate of the Rupee is based on the average selling rates for T.T. & D.D. of banks.
Source: Financial Markets Analysis Division.

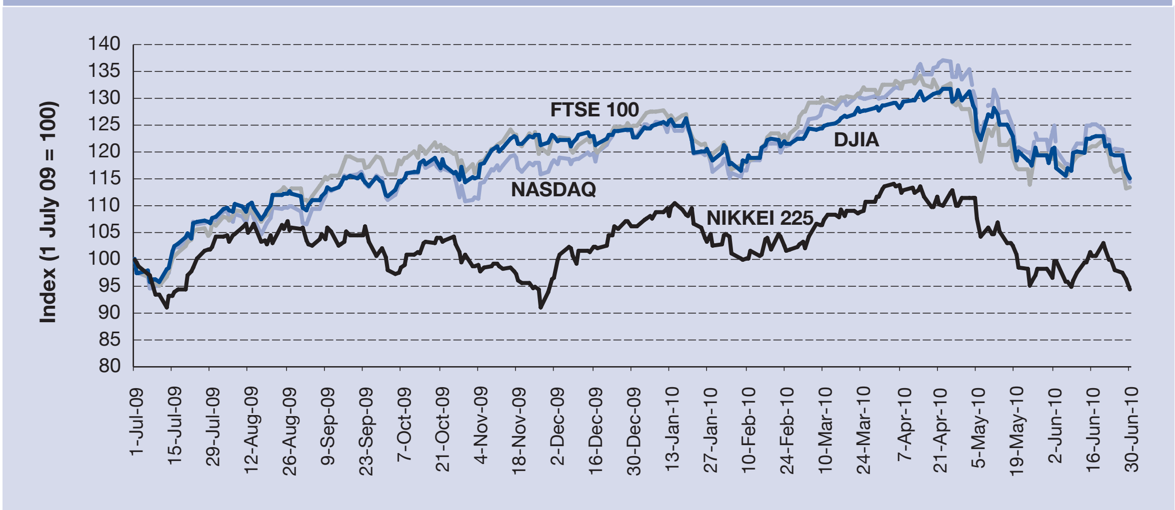
CAPITAL MARKET DEVELOPMENTS

International Equity Markets

From the beginning of July 2009 to mid-January 2010, developments on global stock markets were characterised by a strong recovery in equity prices and lower volatility arising from an improved global economic outlook along with better corporate results and firm commitment from G20 countries to support the recovery. In addition, the near-zero interest rate monetary policy stance in most advanced economies prolonged the appetite for risk and led an increasing number of investors back into equities. However, concerns over the impact of Chinese monetary tightening measures on global growth, US banking sector reform proposals and rising fears over euro zone sovereign debt problems, specifically in Greece and other peripheral countries, triggered a broad-based pull-back in equities at the start of 2010.

By mid-February 2010, however, stock markets had resumed their upward trend with risk sentiment turning positive following a European draft which showed that the euro zone and the IMF would share the load for debt-stricken Greece. Nonetheless, investor sentiment was hit hard on ratings downgrades of Portugal, Spain and Greece around end-April 2010, which prompted a sell-off not only in the euro area and US stock markets, but also in Asian equity markets. This equity sell-off accentuated thereafter, prompted by Moody's warning of contagion effect to Portugal, Spain, Italy, Ireland, and UK, and the Federal Reserve's downgrade of its assessment of US economic recovery. In particular, heightened market concerns regarding the implementation of the financial support package of $1 trillion and the enforceability of domestic austerity programmes by several European countries weighed on equity markets in May 2010. The negative sentiment further intensified in June 2010 on the back of persistent euro zone concerns and oil spill in the Gulf of Mexico. For the period under review, Shanghai Stock Exchange Composite index and NIKKEI posted negative performances of 20.3 per cent and 5.6 per cent, respectively, while DAX, Dow Jones Industrial Average, NASDAQ and FTSE 100 rose by 21.6 per cent, 14.9 per cent, 14.3 per cent and 13.3 per cent, respectively. Chart 3.12 shows the evolution of major stock markets.

Chart 3.12: Evolution of Major Stock Markets



Source: Reuters.

The Local Stock Market

During the twelve-month period ended June 2010, the stock market posted an overall positive performance, with the SEMDEX, SEMTRI (Rs) and SEMTRI (US$) reaching highs of 1,746.7, 4,959.5 and 2,537.9, respectively, in the first week of February 2010 before retreating to some extent till 30 June 2010. The SEM-7 peaked at 394.1 on 19 October 2009 before losing ground till end of June 2010.

Over the period July 2009 to June 2010, SEMDEX rose by 16.7 per cent, from 1,417.47 as at end of June 2009 to 1,654.16 at the end of June 2010 while SEM-7 advanced by 3.9 per cent from 321.20 at the end of June 2009 to 333.78 as at the end of June 2010. The DEMEX increased from 126.27 as at end June 2009 to 140.95 as at end June 2010. The SEMTRI, which includes price earning ratios and dividend earnings and measures daily price changes on listed stocks, rose by 20.7 per cent in rupee terms, from 3,921.82 as at end-June 2009 to 4,734.00 as at end-June 2010. In US dollar terms, it increased by 21.2 per cent, from 1,862.85 to 2,257.84. The significantly greater rise in the SEMDEX relative to the SEM-7 was accounted for by strong positive performances of non-blue chip companies from the Commerce, Industry and Insurance sectors. The SEM-7 was constrained by the bearish sentiment that characterised global stock markets in the second half of 2009-10 following prolonged euro zone debt problems which adversely hit the hotel sector in particular through reduced demand and euro depreciation.

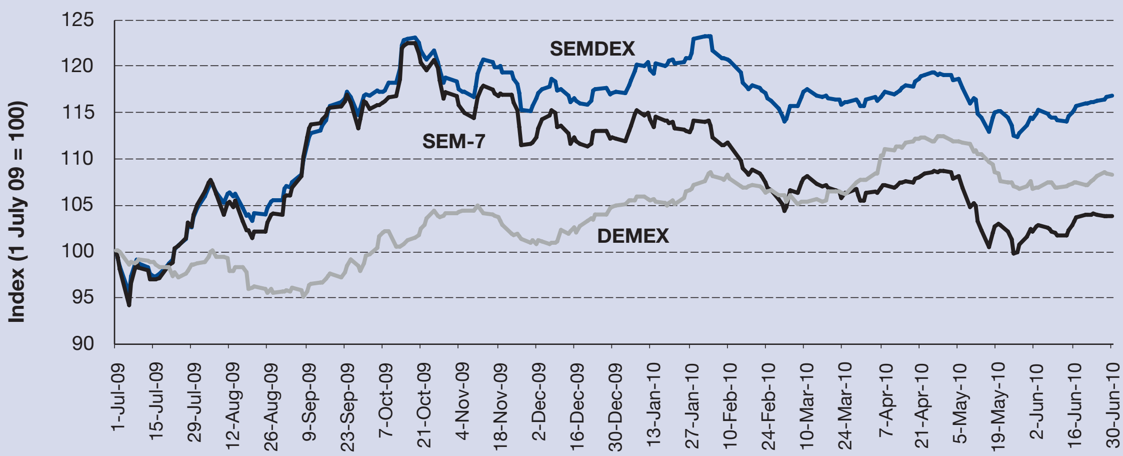
For the period under review, the number of domestic listed companies on the Official Market of the stock exchange totalled 38 at the end of June 2010 compared to 40 at the end of June 2009. Overall, there were 46 listed companies as at end-June 2010, comprising 27 local equities, 1 foreign equity and 10 investment funds. On the Development and Enterprise Market (DEM), the number of listed companies stood at 50 compared to 49 as at end of June 2009.

Market capitalisation on the Official Market as at 30 June 2010 stood at Rs150.8 billion compared to Rs130.8 billion as at end-June 2009. There were 251 trading sessions on the Official Market in 2009-10 compared to 249 trading sessions in 2008-09. The aggregate value of transactions amounted to Rs11.8 billion for a volume of 321.7 million shares compared to an aggregate value of Rs9.9 billion for a volume of 193.1 million shares transacted in the preceding year. On the DEM, market capitalisation reached Rs51.8 billion at the end of June 2010 compared to Rs45.4 billion as at end-June 2009. During 2009-10, a total volume of 452.5 million shares was traded for a total value of Rs3.0 billion compared to a volume of 156.3 million shares traded for a total value of Rs1.2 billion in 2008-09.

There was net investment by foreign investors on the local stock market. On the Official Market, foreigners made purchases amounting to Rs2,970.5 million and sold shares for Rs2,165.0 million, that is a net investment of Rs805.5 million compared to a net disinvestment of Rs1,332.1 million in the preceding twelve months. On the DEM, foreigners made purchases and sales of Rs102.2 million and Rs10.3 million, respectively, resulting into net foreign investment of Rs91.9 million as at 2009-10 compared to net foreign disinvestment of Rs194.8 as at 2008-09.

During 2009-10, Treasury Bills amounting to Rs10 million were listed on the stock exchange but no trading took place. Chart 3.13 shows the movements in the SEMDEX, SEM-7 and DEMEX during 2009-10.

Chart 3.13: Movements in the SEMDEX, SEM-7 and DEMEX



Source: Stock Exchange of Mauritius.

4 Financial Stability

The financial sector in Mauritius is dominated by banks and insurance companies which account for more than 70 per cent of the sector's total assets. Concentration in terms of total assets, loans and deposits as measured by the Herfindahl-Hirchmann Index is considered as moderate. Analysis of financial soundness indicators (FSIs), in the financial year 2009-10, pointed towards the soundness of the banking system.

The downturn in economic activity in 2009 has influenced risks on banks' balance sheets but not so adversely as to impact on their performance severely. As per quarterly reports, domestic banks and, subsidiaries and branches of foreign banks recorded sound profits which averaged Rs1.5 billion and Rs2.0 billion, respectively, over the four quarters ended March 2010.

Banks in Mauritius are well capitalised with capital adequacy ratios well above the regulatory minimum of 10 per cent and risks in the banking sector were well managed and kept within the prudential limits prescribed by the Bank.

Growth of credit to the private sector by banks slowed down markedly in 2009 and this contributed to the build-up of additional liquidity in the system. However, in the first three months of 2010, slight improvements in credit growth were noted. The Bank has initiated measures with a view to bringing liquidity to a reasonable level. Given current domestic economic cycle, risks to financial stability emanating from excess liquidity of banks are considered low in the short-to-medium term.

The drop in the level of non-performing loans fed through an improved non-performing loans ratio both on credit extended in and outside Mauritius. Compared to other sectors, the exposure of banks to the construction sector may pose relatively higher risk, since that sector is more vulnerable to cyclical behaviour as real estate assets are susceptible to price volatility. Further, the high exposures of banks to the external demand-led sectors, such as tourism and manufacturing remain areas where some vigilance would be required.

At end-March 2010, the coverage ratio, that is, extent to which banks' specific provision can cover delinquent assets, showed increases in the inherent strength of the balance sheet of banks which improves their ability to absorb losses arising from non-recoverability of non-performing loans. On the assumption that total non-performing loans net of provisions becomes irrecoverable, an impact analysis, where a linear shock is applied on uncovered credit risk losses and the impact on banks' capital is measured, showed that banks' capital would still be adequate to sustain the credit risks on their balance sheets.

Household financial conditions are considered sound although household indebtedness[1] as a ratio to GDP went up to 25.3 per cent in December 2009, from 24.4 per cent a year earlier. However, the gap between household indebtedness with banks and GDP growth appears to be widening and may require closer monitoring in the coming months.

New risks related to sovereign debts in parts of Europe which have materialised and spread to the financial sector there, did not impact on the soundness of the banking sector. Exposures of banks to the PIGS (Portugal, Italy, Greece and Spain) countries, and to the rest of euro area, were low and did not create any cause for concern.

Depositors' confidence in the banking sector was not affected by the global financial crisis and continued to remain strong. There were no indications that domestic and international banks faced any pressure to raise deposits to fund their lending activities. Continued interest of foreign investors in banking stocks is further evidence of confidence in the banking sector.

In the insurance sector, three large companies hold more than 80 per cent of total assets in that sector. The insurance industry also posted a reasonable performance as per latest data available although a general slowdown in their activities was noted.

On an overall basis, the financial sector has remained relatively healthy and continued to support the domestic economic recovery. Risks to financial stability arising from the activities of banking institutions are considered as low. Nevertheless, some downside risks to the revenues of most financial institutions remain due to stagnating activities.

[1] *Estimated from credit by depository corporations, insurance and leasing companies.*

5 Accounting and Budgeting

The responsibility for the maintenance and safekeeping of the Bank's accounting records and for the preparation of its financial statements is vested with the Accounting and Budgeting Division. The latter also provides back office services to the Bank's (a) Financial Markets Operations Division, (b) Corporate Services Division, (c) Banking and Currency Division and (d) Payment Systems and MCIB Division, thereby exercising a distinct and separate level of control.

The Bank's payroll system in respect of staff and directors, all payments related to goods and services provided to the Bank, the accounting pertaining to all staff loans including payments thereof and the maintenance of the Bank's fixed asset register are also vested with the Division.

The Division is also responsible for preparing the budget of the Bank and monitoring it after having it determined by the Board.

ACCOUNTING

The Division is responsible for maintaining accounting records pertaining to, *inter alia*, foreign exchange transactions, open market operations, Government of Mauritius Securities and Bank of Mauritius Bills.

By statute, the Bank is the banker to the Government. As such, the Division carries out, on behalf of the Government, foreign exchange transactions in respect of debt servicing, payments for services and contributions to international organisations. It also records foreign currency transactions (receipts and payments) of Government in their accounts maintained at the Bank.

All transactions with international financial organisations such as the IMF, IBRD and IDA are processed and recorded by the Division. The transactions with these organisations involve, *inter alia*, currency valuation adjustments, use of rupees under the operational budget and maintenance of value.

Transactions with IMF are carried out through the quarterly financial transactions plan, by means of which the IMF manages its usable resources. The Government of Mauritius has since 2003 been participating in the IMF quarterly financial transactions plan. Participation in the plan entails the obligation to provide currencies in exchange for Special Drawing Rights (SDRs) when designated, and grants the right to use SDRs should a balance of payments need arise.

Holders of Government of Mauritius Treasury Bills are provided with monthly statements for bids allotted at the auctions which the Bank conducts on the primary market on a weekly basis. The Division is responsible for recording in book-entry form transactions with respect to successful bids.

Transactions pertaining to Treasury Notes and long term Bonds which are issued in accordance with the Issuance Plan of Government are also recorded by the Division. Treasury Notes are recorded in book entry form. Certificates of holdings used to be issued for Five-Year Bonds and Mauritius Development Loan Stocks. With effect from 1 July 2008, such certificates are no longer issued following the enactment of the Public Debt Management Act 2008 and holdings are therefore also recorded in book entry form.

Under section 31 (1) of the Bank of Mauritius Act 2004, the Bank is required to carry out its accounting in accordance with accounting principles applicable to central banks and best international practices. The Bank prepares its accounts in accordance with International Financial Reporting Standards (IFRS) in so far as they are practically applicable to central banks. In line with international standards which require enhanced transparency, the Bank publishes financial statements in an elaborate format.

The net realised gains and/or losses in any financial year resulting from changes in the valuation of assets or liabilities, denominated in gold, SDR or foreign currencies following changes in market prices and in exchange rates vis-à-vis the domestic currency are taken to the Special Reserve Fund, in accordance with the terms of section 47 (1) of the Bank of Mauritius Act 2004. Such net gains or losses are not included in the computation of the annual income of the Bank. The Special Reserve Fund as at 30 June 2010 stood at Rs16,020 million after taking into consideration the net foreign exchange loss of Rs3,520 million.

The Bank's statements of financial position, comprehensive income and cash flows for the financial year ended 30 June 2010 together with notes thereon are presented in this report.

A statement of assets and liabilities is prepared on a monthly basis and is published in the Government Gazette and the Bank's monthly bulletin. The statement of assets and liabilities is also posted on the Bank's website. In addition, a copy of the assets and liabilities is submitted to the Minister in accordance with Section 32(6) of the Bank of Mauritius Act 2004 together with an explanation on the main changes having occurred during the month.

Profitability of the Bank

In terms of Section 11(1) of the Bank of Mauritius Act 2004, the Board of Directors of the Bank is required to determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies. The Bank's accounts for the year ended 30 June 2010 were considered by the Board on 28 September 2010 and the net profit for the year then ended were determined.

The Bank's foreign assets are mainly invested with the major central banks. In the wake of the global financial crisis, interest rates in major economies declined significantly, entailing a substantial reduction in the rate of interest payable on deposits. Consequently, income derived from interest on foreign investments has sharply gone down, thereby impacting negatively on profitability. Interest on foreign investments amounted to Rs866 million in financial year 2009-10, down from Rs2,101 million in the previous financial year. Likewise, the portfolio managed by the BIS underperformed by Rs465 million compared with the previous year.

On account of these two factors mainly, the Bank's operating profit for the financial year 2009-10 amounted to Rs72 million, as compared with Rs1.4 billion in the previous year. If such conditions continue to prevail, it is expected that the Bank may even incur a loss in the coming year.

Open Market Operations

Bank of Mauritius Bills

Bank of Mauritius Bills and Government of Mauritius Treasury Bills are issued by the Bank on the same terms and conditions. Whereas Government of Mauritius Treasury Bills are issued to meet the Government's expenditure, Bank of Mauritius Bills are issued for monetary policy purposes. The cost of servicing of the BOM Bills is accounted for as an expense in the accounts of the Bank.

During the last quarter of the financial year 2009-10, the Bank issued BOM Bills amounting to Rs700 million and the interest paid on BOM Bills amounted to Rs2.2 million as at end June 2010 compared to Rs168.5 million for the previous corresponding period.

In accordance with the requirements of International Financial Reporting Standards, Bank of Mauritius Bills issued and outstanding are revalued at the end of each month and are marked to market. There was no Bank of Mauritius Bill outstanding in the books of the Bank as at 30 June 2010.

Special Deposits Facility

The Bank provided Special Deposits Facility to banks in order to manage liquidity conditions in the banking system. The total amount of interest paid thereon amounted to Rs18.6 million.

Repurchase Transactions

In the Bank's books, repurchase transactions are treated as collateralised financing transactions and are recorded at the amounts of cash advanced or received plus accrued interest.

Securities received under repurchase agreements and securities delivered under reverse repurchase agreements are not accounted for in the Bank's books unless control of the contractual rights that comprise these securities is foregone.

Interest earned on repurchase agreements is recognised as interest income whereas interest incurred on reverse repurchase agreements is recognised as interest expense in the Bank's books over the life of each agreement. Interest on repurchase agreements is classified under Open Market Operations.

With effect from 1 April 2008, the repurchase transactions are conducted at the key Repo Rate ± 125 basis points. During the financial year 2009-10, the Bank carried out one repurchase transaction amounting to Rs1,200 million for 7 days, whereas one reverse repurchase transaction amounted to Rs1,000 million and was for 7 days.

Special Funds

Interest paid to Government over the period ended June 2010 amounted to Rs196 million as compared to Rs218 million for the previous corresponding period. A lower amount was paid as it was decided to remunerate the special funds held by the Government at a lower rate of interest and a ceiling was also put beyond which no interest was payable.

BUDGETING

The Division is also responsible for the preparation of the budget of the Bank as well as budgetary control. The budget is prepared in line with the policy of the Bank's Management for the budget year and is mainly directed towards the cost-effectiveness of the various areas of operations of the Bank.

The budgeting process takes on board the needs of all the Divisions of the Bank and inputs from all of them form the basis on which the master budget of the Bank is prepared. The budgetary submission of each Division is discussed and agreed with the respective Head. The items of expenditure are categorised under three groups namely, "Recurrent Expenditure-Personal Emoluments", "Recurrent Expenditure-Other Charges" and "Capital Expenditure". The budget is prepared on the zero-based principle.

After thorough discussion with Management, the budget is then presented to the Audit Committee of the Bank. The Audit Committee reviews the master budget and then recommends it to the Board of Directors for determination. The budget of the Bank for the year 2010-11 was presented to the Audit Committee on 7 June 2010 and determined by the Board on 11 June 2010.

The actual expenditure of the Bank is continuously monitored against the budget. Budget reports, which are prepared and submitted to Management, provide the necessary indications for appropriate actions. Material variances are highlighted so that corrective actions are taken in a timely manner. An Annual Budget Report comparing the actual results with the budget is prepared after the end of each financial year and submitted for the attention of the Board of Directors of the Bank.

The budget is also monitored at the level of the Division. Reports on the budget performance of each Division are prepared by the Accounting and Budgeting Division and submitted to the management of the Bank regularly. The reports compare actual against budgeted performance and also provide a basis for feed forward control. Heads of Divisions are also provided with actual figures pertaining to their respective divisions and these figures enable them to compare their expenditure and take appropriate control actions.

Abandoned Funds

Financial institutions falling under the regulatory purview of the Bank are required, under Section 59 of the Banking Act 2004, to transfer to the Bank of Mauritius deposits or monies lodged with them for any purpose that have been left untouched and not claimed for 10 years or more and the customer has not responded within 6 months to a letter from the financial institution about the dormant deposit or money. Once these funds are transferred to the Bank of Mauritius they do not carry interest and are only refunded to the financial institution for repayment to owners of the funds or their heirs or assigns on rightful claims being established to the satisfaction of the central bank.

In addition, under section 57 (6) of the Act, where a customer's deposit or money lodged with a financial institution for any purpose, falls to less than the minimum balance requirement in force in a financial institution from time to time and it has been left untouched for a period of one year and the customer has not responded within 6 months to a letter from the financial institution informing him of any service fees or charges that may be applicable on the deposit or money for having fallen below the minimum balance, the deposit or money shall without formality be handed over forthwith by the financial institution to the customer concerned in person, failing which it shall be transferred to the central bank to be dealt with in the manner referred to under section 59, as mentioned above.

The amounts that had been transferred to the Bank in respect of abandoned funds were to the tune of to Rs271.7 million, GBP22,065, US$410,008, EUR68 and CHF179 as at 30 June 2010 .

6 Payment Systems & Mauritius Credit Information Bureau

MAURITIUS AUTOMATED CLEARING AND SETTLEMENT SYSTEM (MACSS)

The Bank took a decision of strategic importance in 2008 to replace the software for MACSS, which was in operation since 2000 with one which is more resilient and based on best international practice. This decision proved to be instrumental in maintaining a sound payment system in the country at a time when changing market needs, increased demand for liquidity, changing international ties and technological innovations added pressure on the payment systems.

The new MACSS application came into live operation on 14 January 2009 and has functioned smoothly throughout the whole year without any technical incident reported. Compared to 2008, the MACSS has processed 59 per cent more transactions, with the settlement window increased by at least one hour per day.

In December 2009, MACSS started to carry out real time payments in three major foreign currencies: the US Dollar, the Great Britain Pound and the Euro. The Mauritius Revenue Authority is now able to collect taxes from companies holding Global Business Licences in their base currencies.

Table 6.1 gives the value of foreign currency transactions on MACSS between the date of launch December 2009 and June 2010.

The Mauritian payment system is recognised as a reference in Africa and the Bank is being increasingly solicited for study visits and placements in this area. Over the past year, the Bank has already hosted six delegations from central banks of the region, namely Kenya, Rwanda, Uganda, Ethiopia, Seychelles and Nigeria.

Table 6.1: Value of Foreign Currency Transactions on MACSS

	Value in Foreign Currency		
	US$	**GBP**	**EURO**
Dec-09	1,088,285	234	73,682
Jan-10	5,914	-	1,734
Feb-10	36,283	-	-
Mar-10	5,631,262	2,527	25,135
Apr-10	261,209	141,027	285,999
May-10	317,114	1,834	680
Jun-10	17,493,394	109,726	737,439

REGIONAL PAYMENT AND SETTLEMENT SYSTEM (REPSS)

The REPSS is the outcome of a regional initiative for a cross border fund transfer system for countries in the COMESA region whose intra-regional trade stood at US$15.2 billion in 2008. The associated cost of fund transfer is estimated at US$600 million per year. One of the objectives of REPSS is to enhance intra-regional trade by reducing the cost of transfer to US$75 million per year and the time taken for effective transfer from five days to one day.

REPSS offers the following benefits:

(i) guarantees prompt payment to the exporter - at the latest by the next day that the importer deposits the required amount at its central bank;

(ii) builds trust amongst traders that would lead to an increase in intra-regional trade;

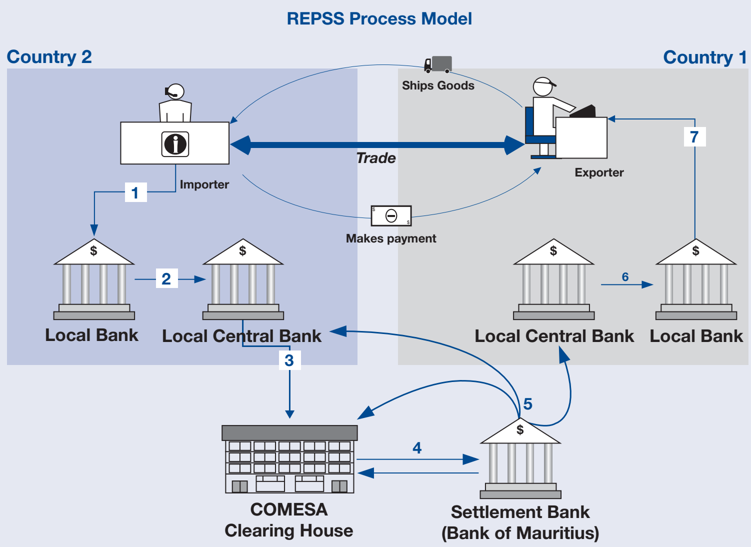
(iii) drastically reduces the cost of making intra-regional trade transactions;

(iv) levels the playing field by getting all commercial banks to deal directly with one another, without having to go through banks outside the region;

(v) eliminates the need for confirmed Letters of Credit and ultimately gets trade transactions to be effected on open accounts.

The REPSS settlement window is described below:

1. Request from importer to local bank to effect payment through REPSS
2. Local bank sends payment to local central bank
3. Payment instruction is sent to the COMESA Clearing House (CCH) by local central bank
4. Settlement exchanges between Bank of Mauritius and CCH
5. Notification of settlement by settlement bank to CCH and participating cental banks
6. Account of local bank in the books of central bank is credited
7. Beneficiary of funds is notified of funds receipt



At the thirteenth summit of the COMESA Authority of Heads of State and Government in Victoria Falls Town, Republic of Zimbabwe, on 7-8 June 2009, REPSS was officially launched and the Authority also commended governors of central banks and the COMESA Secretariat for coming up with the facility and thanked the Bank of Mauritius for agreeing to become the Settlement Bank of the COMESA REPSS, which now allows payments to be settled within 24 hours.

The application has undergone all necessary technical tests and once the agreements between participants are signed, the system can be used in live mode.

Cheque Truncation

The cheque is currently the most visible and significant mode of payment in Mauritius. Despite availability of several modes of electronic payments, the number of cheques cleared at the Port Louis Clearing House has been stable at about 21,000 per day and the value of cheques cleared is close to Rs1 billion per day. On the last day of the month, the number of intra-bank cheques cleared stood at about 29,000 per day for a value exceeding Rs1.5 billion.

Being debit instruments, cheques bear an intrinsic settlement risk and a large proportion of unpaid cheques in the payment system may lead to systemic risk. It is the responsibility of the central bank to ensure that such risks are contained. An ideal way to achieve this is through Truncation of Cheques where clearing is carried out electronically using the scanned images and the data code line of the physical cheques. This process reduces the time taken for clearing and helps combat fraud and forgery. The central bank together with commercial banks embarked on the Cheque Truncation Project in 2007. The project was scheduled to go live by end of 2008, but was delayed for reasons beyond the control of the Bank.

The Bank has decided to re-consider the Cheque Truncation project for a fast track implementation. In this context, a new proposal is being studied to implement Cheque Truncation within the ambit of a bulk clearing system, which was also a missing component of the national payment system.

Bulk Clearing System

It should be noted that the initial plan, dating back to 1997, for payment systems modernisation in the country included a separate system for clearing of low value transactions. The project did not materialise due to the prohibitive costs of such system at that time.

Banks in Mauritius use the informal system through mutual arrangements to complete low value payments, which is not considered to be a sound practice from a systemic point of view.

"Low Value Payments", which include direct credit, direct debit and cheque, underpin our economy. These payment types account for the bulk of all non-cash payment transactions by volume. Cheques alone account for 20 per cent of non-cash payments by value.

There is industry recognition of the need for system renewal. The ever-accelerating pace of economic life, rising customer expectations, the advent of new technologies and intense competition amongst service providers bring into question whether a purely "organic evolution" of low value payments will meet future economic needs.

The Bank is considering the implementation of a Bulk Clearing System for all high volume, low value transactions such as salary payments, standing orders direct debits, card and point of sale (POS) transactions. The bulk clearing system will also cater for clearing of cheques and truncation. This system will add the missing block in the Mauritian payment system.

This project will be implemented together with the forthcoming Cheque Truncation system.

Mauritius Credit Information Bureau (MCIB)

The MCIB plays an essential role in maintaining the robustness of the financial sector by bridging the gap of information asymmetries between borrowers and lenders, thus preventing adverse selection problems faced by lenders and borrowers' moral hazard. Tangible results are being perceived as measured from the number of borrowers calling the MCIB for information on overdue payments which they want to settle. To further reinforce its contribution to the financial stability of the economy, the Bank is now focusing its efforts on expanding the coverage of the MCIB to all credit-granting institutions and utility companies to allow the full benefits of credit information sharing to percolate through the whole economy. Another immediate positive fall-out of an extended coverage will be the elimination of the informational disadvantage of lenders as informal search from applicants may hide the real level of indebtedness. Lenders will thus have more comprehensive knowledge of applicants' characteristics and will be able to predict their repayment probabilities more accurately. The extended coverage will also reduce search costs incurred in collecting information from different sources for credit worthiness assessment and allow faster processing of applications based on more reliable and updated information.

Lack of information on overall consumer indebtedness is an area of concern from the perspective of financial stability. Borrowers may accumulate large debts through small facilities from credit providers other than those falling under the purview of the Bank. Related liabilities could remain hidden from lenders and lead to flawed creditworthiness assessment. In this respect, pooling of information from all credit-granting institutions including credit financing institutions which provide direct consumer financing to individuals is essential. The MCIB is therefore exploring the possibilities of extending its coverage to all institutions providing consumer facilities. Concurrently, MCIB Rules and application will be shortly modified to make the reporting of purpose for which facilities are granted to individuals compulsory.

The MCIB expansion project was launched following the amendment of the Bank of Mauritius Act 2004 in July 2008 to allow the coverage of the MCIB to credit providers other than institutions licensed by the Bank. The MCIB has achieved part of its expansion target. It started operating in December 2005 with 11 banks only as participants and its participation base today encompasses 14 banks, 10 leasing companies, the Mauritius Housing Company Ltd and 1 insurance company. All insurance companies, the Employees Welfare Fund, the Mauritius Civil Service Mutual Aid Association Ltd and the Development Bank of Mauritius Ltd are expected to join the MCIB by September

2010. The MCIB is currently working on the participation of factoring companies. This will formalise part of trade financing which has up to now remained outside the purview of regulators.

The inclusion of new participants has resulted in an increase in the number of borrowers covered as well as credit facilities reported. Table 6.2 shows the movement in the number of borrowers and reported facilities over the past two years as well as the evolution in the average number of facilities per borrower.

The average number of facilities tends to increase with the number of participants which may be partly attributed to multi-borrowing factor. This underscores the case for the expansion of the MCIB coverage to all credit providers.

Table 6.2: Number of borrowers and reported facilities for year ended: June 2008 - June 2010

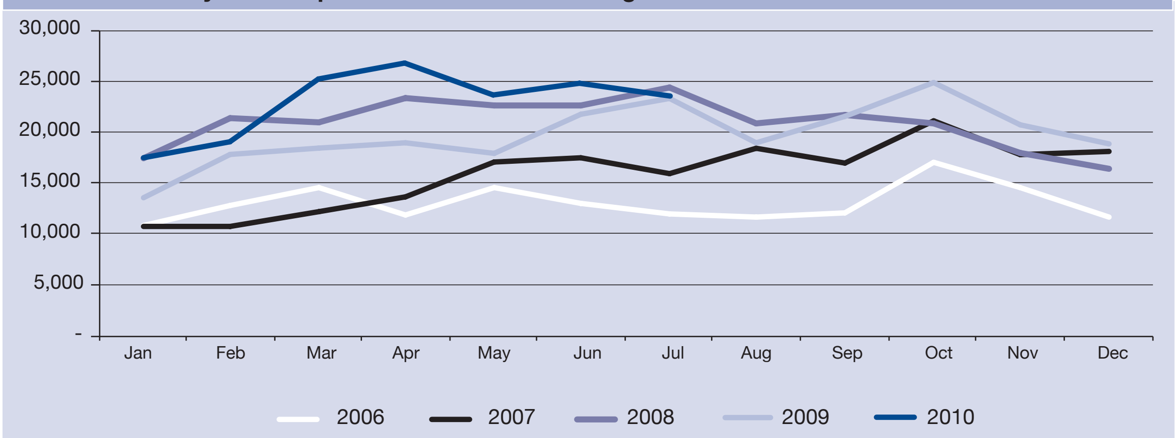
Year ended	Jun-08	Jun-09	Jun-10
Number of participants	13	23	26
Number of registered borrowers	292,515	362,572 *(+24%)*	407,160 *(+12%)*
Number of registered credit records	814,372	1,088,735 *(+34%)*	1,301,760 *(+20%)*
Average number of facilities per borrower	2.8	3	3.2

Note: Figures in brackets refer to annual change

The Bank is taking measures to improve the efficiency and effectiveness of the MCIB in preventing adverse selection and mitigate moral hazard problems from borrowers. According to current MCIB rules, participants report arrears as from 90 days from due date. The rules will be shortly amended following which participants will report arrears as from 30 days after due date. The new reporting requirements will also create incentives to discipline debtors.

The MCIB closely monitors the reliability, integrity and timeliness of information in its database as these are crucial factors for it to meet its main objective, namely, to contribute in the development of a safe and sound financial sector. It continually assesses participants' adherence to the Terms and Conditions of the MCIB, in particular section 5, which requires participants to consult the MCIB prior to approving, renewing or increasing credit facilities. Chart 6.1 shows the monthly evolution of credit report drawn for the period January 2006 through July 2010. While, on a year-on-year comparison, the monthly number of reports drawn increased, a general decline was noted in 2009, reflecting economic uncertainty that was prevailing in those months. With a return of confidence, a marked increase was observed over the first half of 2010. As a result of seasonal factors, in any calendar year, the lowest and highest number of reports drawn have been observed in January and October, respectively.

Chart 6.1: Monthly credit reports drawn for 2006 through June 2010



Source: MCIB

7 Banking and Currency

BANKING AND CURRENCY DIVISION

The Banking and Currency Division is made up of the Banking Office and the Currency Office. It is entrusted with the responsibilities relating to the issue and management of the domestic currency and the maintenance of accounts.

THE BANKING OFFICE

The Banking Office is responsible for providing banking services and for maintaining accounts for the Government, local and international financial institutions and staff members. It is also responsible for the sale of industrial gold to manufacturers of jewellery as well as the sale of Dodo Gold coins and commemorative coins to the public.

Sale of Gold

The Bank of Mauritius imports and sells gold of high quality, that is, 24 carats 999.9 assay in bar forms of 1,000 grams, 500 grams and 100 grams and in grain forms to industrialists and licensed jewellers. The selling prices of industrial gold, based on prevailing international gold market prices, are posted daily in the Banking Hall and on the website of the Bank.

Sale of Dodo Gold Coins

Dodo Gold coins of 22 carats are issued by the Bank of Mauritius in four denominations, namely, one ounce with a face value of Rs1,000, half an ounce with a face value of Rs500, quarter of an ounce with a face value of Rs250 and one-tenth of an ounce with a face value of Rs100. The coins are legal tender in Mauritius for the value stated thereon.

The Dodo Gold coins are on sale at the counters of the Bank of Mauritius, banks licensed by the Bank of Mauritius and Mauritius Duty Free Paradise at the SSR International Airport. They are also marketed overseas by the Royal Mint of the United Kingdom. The daily selling prices of coins, based on their gold content and on the international gold market prices, are posted in the Banking Hall and on the website of the Bank.

Sale of Commemorative Coins

The under mentioned commemorative coins are also on sale at the counters of the Bank of Mauritius to members of the public.

1. *Tenth Anniversary of the Independence of Mauritius*

   A silver commemorative coin of Rs25 denomination was issued to mark the 10th anniversary of the independence of Mauritius. The sale price of the coin is Rs250.

2. *1997 Golden Wedding Collector Coin Programme*

   A silver commemorative coin of Rs20 denomination was issued in May 1998 in proof condition to mark the 50th wedding anniversary of Queen Elizabeth II and Prince Philip. The sale price of the coin in presentation case is the rupee equivalent of GBP20.

3. *150th Anniversary of the Mauritius Chamber of Commerce & Industry Gold Coins*

   A gold commemorative coin of Rs1,000 denomination in proof condition was issued in January 2000 to mark the 150th anniversary of the Mauritius Chamber of Commerce & Industry. The sale price of the gold coin is based on the daily price of gold on the international market. The coin is available in presentation case.

4. *40th Anniversary of Bank of Mauritius*

   A silver proof commemorative coin of Rs200 denomination was issued in December 2007 to mark the 40th Anniversary of the Bank of Mauritius. The sale price of the coin in presentation case is Rs1,000.

5. *'Father of the Nation' Platinum Series - Rs1,500*

   A platinum commemorative coin of Rs1,500 denomination in proof condition was issued in October 2009. This was the first coin issued in the 'Father of the Nation' Platinum

Series to pay tribute to Sir Seewoosagur Ramgoolam in laying the foundation stone of the Mauritian nation. The sale price of the platinum coin is based on the daily price of platinum on the international market. The coin is available in presentation case.

THE CURRENCY OFFICE

The Currency Office discharges the Bank's statutory obligation to ensure an adequate supply of banknotes and coins to meet the demand of the public in Mauritius. Its key areas of work include:

- Ensuring the availability and supply of good quality banknotes and coins to commercial banks.
- Accepting deposits of banknotes and coins from commercial banks.
- Attending to the destruction of soiled banknotes.
- Exchange of soiled and mutilated banknotes for the public.

During the financial year 2009-10, banknotes and coins deposited at, and issued by, the Bank amounted to Rs21,941 million and Rs23,907 million respectively. From the deposits, banknotes amounting to Rs15,750 million were examined, out of which an amount of Rs2,286 million representing 14.5 per cent by value was found to be unfit for circulation and was withdrawn for destruction. The Bank examined about 33 million banknotes from which 24 per cent by volume were found to be unfit for circulation and were withdrawn for destruction.

During 2009-10, the value of banknotes in circulation rose by 9.9 per cent compared to 13.8 per cent in 2008-09, whereas the volume of banknotes rose by 10.4 per cent compared to 6.4 per cent in 2008-09.

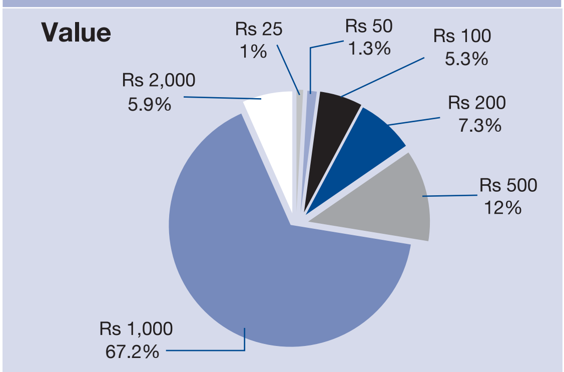
In terms of value, Rs1,000 denomination banknotes had the largest share representing 67.2 per cent of the total value of banknotes in circulation followed by Rs500 denomination banknotes with a share of 12.0 per cent. In volume terms, Rs1,000 denomination banknotes represented 27.0 per cent of all banknotes in circulation followed by Rs100 denomination banknotes with a share of 21.3 per cent. Charts 7.1 and 7.2 show the share of banknotes in value and volume respectively.

During 2009-10, the total value of coins in circulation increased by 9.9 per cent compared to 16.1 per cent in 2008-09. In volume terms, the increase was 5.3 per cent in 2009-10 compared to 5.9 per cent in 2008-09.

RODRIGUES OFFICE

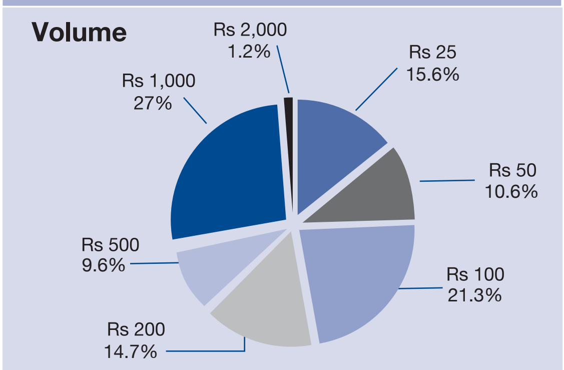
The Bank's Office in Rodrigues offers central banking services and maintains accounts for the Government, commercial banks, and staff members. The Office also conducts over-the-counter sales of Government of Mauritius Treasury Bills and Treasury Notes to individuals and non-financial corporations. It has the task of ensuring the availability and supply of coins and banknotes to meet the demands of banks in Rodrigues. Consignment of banknotes and coins are therefore made regularly to and from the Office in order to meet the needs of Rodrigues in cash and to maintain the good quality of banknotes and coins in circulation.

Chart 7.1: Share of Banknotes in Total Value



Source: Banking and Currency Division.

Chart 7.2: Share of Banknotes in Total Volume



Source: Banking and Currency Division.

8 Corporate Services

INTRODUCTION

The Corporate Services Division was set up in October 2007. Its core function is to provide services to other divisions/sections of the Bank, including logistical support for events/functions hosted by the Bank.

The Corporate Services Division comprises several units, including Knowledge Management Centre, Human Resource Unit, Facilities Management Unit, Information Technology Unit and Security Services Unit.

KNOWLEDGE MANAGEMENT CENTRE

The Knowledge Management Centre (KMC) was set up in early February 2008. The main objective of the KMC is to help the Bank capture, transfer, and create critical knowledge for long-term success.

The process of embedding Knowledge Management in work practices continued in 2009-10 in line with the Bank's intention to move forward as an organisation and in the application of new skills and knowledge by staff.

The intranet still remains the main communication channel through which the initiative of capturing explicit knowledge is happening. Along this line, a daily newsletter that covers both local and international news is prepared and posted on the KMC menu on the intranet. Furthermore, articles relevant to central banking issues and the economy in general are downloaded and posted on the intranet. Daily periodicals in circulation in the Documentation Centre are also posted on the intranet for users' awareness.

Furthermore, course materials by staff attending training, both local and overseas, are shared via the intranet. The Knowledge Management Centre has also been encouraging staff members to share their tacit knowledge among their peers through Powerpoint presentations. With a view to sensitising the public with the monetary policy decision-making process, the Knowledge Management Centre has also launched the fourth edition of the Monetary Policy Challenge, open to Mauritian residents aged 16 years and above.

The KMC will move to the Bank's old building which will soon be renovated. It will comprise a library and conference rooms to facilitate high-level discussions. The new library will be equipped to become a focal point in knowledge management.

HUMAN RESOURCE UNIT

The Human Resource Unit provides a range of services to attract, hire and retain the staff required to meet the Bank's objectives. These include policies covering employment conditions, remuneration and staff training and development.

Restructuring and Salaries Review

On 22 February 2008, the Board approved, following a tender exercise, the appointment of a Salaries Commissioner (HayGroup of South Africa) to review the salaries and conditions of service at the Bank. The Board also approved the undertaking of a job evaluation exercise by the HayGroup to examine the core activities of each job position and establish a fair differential of pay between the various levels of responsibilities.

The HayGroup produced a report in terms of its mandate. It was taken to the Board on 29 and 31 October 2008, but not considered. On 3 November 2008, the report was considered, but not approved. As an interim measure, it was decided to grant a 20 per cent increase on basic salary to all staff members holding a substantive post on the establishment, effective 1 July 2008.

On 17 November 2008, the Board met but did not approve the budgetary implications of the report and decided, by a majority on a motion, that the report be rejected in toto.

On 8 April 2009, the Bank, in consultation with its shareholder, appointed Mr B.C. Appanna, Director Pay Research Bureau, Consultant to review the HayGroup report. On 24 July 2009, Mr Appanna submitted his Report on the Review of Salary and Terms and Conditions of Service, based on the post-2006 structure. It was rejected by a majority of Board Members who argued that they could not consider a report which was based on a structure that they had not approved. They accordingly instructed Mr Appanna to reformulate his report on the basis of the pre-2007 structure i.e. excluding the promotion exercises carried out during the 2007 restructuring.

Mr Appanna submitted his reformulated report and it was approved by a majority of Board Members on 27 August 2009. The report was implemented. Employees were given the option to accept or reject the report. Except for two employees, all accepted the report.

With regard to the two employees who opted not to accept the report, one entered a case in the Supreme Court requesting for a judicial review of the decision to implement the report of Mr Appanna and the other reported a dispute to the Ministry of Labour and Employment on the basis that his position at the Bank did not appear in the report. As of 30 June 2010, both cases were still outstanding.

FACILITIES MANAGEMENT UNIT

The Facilities Management (FM) Unit is responsible for the Bank's properties and a range of facility services. It provides a functional, safe and flexible work environment for the Bank, ensuring effective management, use and maintenance of assets. It is also responsible for procurement and housekeeping services at the Bank.

The FM Unit supports and maintains the efficient operation of the Bank's premises through the Building section and the Maintenance section. The FM Unit was heavily involved in the organisation of the following functions during the year 2009-10:

(i) the 14th Meeting of the COMESA Committee of Governors of Central Banks, held at the Intercontinental Hotel, Balaclava, on 29 October 2009;

(ii) the Launching of the First Commemorative Platinum Coin of the "Father of the Nation-Platinum Series" on 30 October 2009, in the presence of the Honourable Prime Minister, Dr Navinchandra Ramgoolam, G.C.S.K., F.R.C.P.;

(iii) the Signing Ceremony of the MOU between the Bank and the Financial Intelligence Unit on 12 November 2009;

(iv) the Inter-Club/Region Youth Championships at the Maryse Justin Stadium, Reduit, on 14 and 15 November 2009;

(v) the Annual Dinner in honour of Economic Operators at the Sugar Beach Hotel, Flic en Flac, on 5 December 2009, where the special guest was His Excellency Tito Mboweni, former Governor of the South African Reserve Bank;

(vi) the Signing Ceremony of the MOu between the Bank and the Mauritius Revenue Authority on 31 December 2009;

(vii) a presentation by Mr Aditya Narain, Deputy Division Chief at the IMF, on "Recent Developments in Financial Sector Supervision" on 20 January 2010;

(viii) a presentation of the Regional Payment and Settlement System (REPSS) to the Mauritian Business Community by the COMESA Clearing House and the Bank on 10 February 2010;

(ix) the ceremony for the issue of a Banking Licence to ABC BANKING CORPORATION LTD on 1 June 2010;

(x) the meeting between the Governor of the Bank and a delegation of the Industrial and Commercial Bank of China, which was accompanied by Mr C. Clarkson, Regional Managing Director of Standard Bank (Mauritius) Limited on 3 June 2010;

(xi) Blood Donation organised by the Bank on 25 June 2010.

AFRITAC South

The AFRITAC's Initiative, launched by the IMF in 2002, is part of international efforts to provide technical assistance and strengthen institutional capacity in African countries in the area of economic and financial governance. It originated from a response to a call from African leaders to the international community to increase technical assistance to Africa and to focus such assistance more sharply on capacity building.

Three centres have been established on the continent; East AFRITAC based in Dar es Salaam, Tanzania; West AFRITAC in Bamako, Mali; and Central AFRITAC in Libreville, Gabon.

Mauritius proposed its candidature to host AFRITAC South in the face of strong regional contenders and it was accepted by the IMF. The Bank agreed to house this facility in its old building that is being renovated. The Facilities Management Unit was heavily involved in the two visits that an IMF Mission paid to the Bank prior to the selection of the venue for AFRITAC South.

INFORMATION TECHNOLOGY UNIT

Effective 4 January 2010, the Information Technology Unit was re-organised and split into three units as follows:

Governance and Policy

The main role of this unit is the implementation and oversight of best practices in the ICT Infrastructure, Developments and Operations sections. This includes the development of policies, standards and procedures across the IT function in regard to hardware/software acquisition and development, on-going operations management, information security and technical support.

ICT Infrastructure

This unit looks after the ICT hardware infrastructure of the Bank. Its responsibilities include recommendation for the acquisition of appropriate equipment, routine maintenance on equipment, implementation of new projects, deployment of new equipment, implementation of security controls on the Bank's network and equipment, technical support on various hardware and telephony.

Development and Operations

This unit oversees the computer software and systems that are deployed to end-users, both within and outside the Bank. The duties of this unit include daily operational tasks like start-of-day and end-of-day operations, back-ups and restore, end-user client configuration, installation procedures of systems. They also include the development of software to meet end-user requirements (such as web forms and oracle systems), software maintenance/change, security and access rights to systems, technical support to end-users regarding applications.

LIST OF APPENDICES

Appendix I	gives the composition of the Board of Directors as at 30 June 2010.
Appendix II	gives the composition of the Monetary Policy Committee as at 30 June 2010.
Appendix III	gives the Senior Management Officials as at 30 June 2010.
Appendix IV	gives the meetings attended by Governor, First Deputy Governor and Second Deputy Governor during the year 2009-10.
Appendix V	gives the names of officers who have followed training courses and attended seminars and workshops abroad during the year 2009-10.
Appendix VI	gives the names of officers who have followed training courses and attended seminars and workshops locally during the year 2009-10.
Appendix VII	gives the list of recruitments and appointments during the year 2009-10.
Appendix VIII	gives the list of retirements and resignations during the year 2009-10.
Appendix IX	gives the names of officers who have completed their studies during the year 2009-10.
Appendix X	gives the Organisation Chart of the Bank as at 30 June 2010.
Appendix XI	gives the list of banks and non-bank deposit-taking institutions, money-changes and foreign exchange dealers licensed by the Bank of Mauritius as at 30 June 2010.

9 Corporate Governance

BOARD OF DIRECTORS

The Board consists of the Governor as Chairperson, the two Deputy Governors and not less than five and not more than seven other Directors. During the year under review there were six other Directors.

Eighteen meetings of the Board of Directors were held during the period 1 July 2009 to 30 June 2010.

The contract of employment of the Governor Mr Rundheersing Bheenick expired on 13 February 2010 and was renewed with effect from 21 May 2010. The First Deputy Governor Mr Y. Googoolye was appointed Acting Governor for the period 16 February 2010 to 20 May 2010.

The contract of employment of Dr A.J. Khadaroo as Second Deputy Governor expired on 13 February 2010. Mr M.I. Belath was appointed Second Deputy Governor and assumed duty on 1 July 2010.

Table 9.1 shows details of Board of Directors Meetings held during 2009-10.

MONETARY POLICY COMMITTEE

In accordance with section 54 of the Bank of Mauritius Act 2004, the membership of the Monetary Policy Committee (MPC) of the Bank comprises the Governor as chairperson, the two Deputy Governors, two Board Directors and four external members. Two observers also sit on the MPC, one from the Treasury and one from the Bank. The MPC, which was established on 23 April 2007 pursuant to sections 54 and 55 of the Act to formulate and determine the monetary policy to be conducted by the Bank, convened four regular quarterly meetings during the year ended 30 June 2010.

With the expiry of the term of office of the Governor Mr Rundheersing Bheenick on 13 February 2010, the Acting Governor Mr Googoolye assumed the chairmanship of the MPC in the interim period until the re-appointment of the Governor Mr Rundheersing Bheenick on 21 May 2010.

Legislative amendment

The Bank of Mauritius Act 2004 was amended in July 2009, to provide for an increase in the number of MPC members to nine, with four external members as against three previously. The ninth MPC member was appointed in August 2009.

Table 9.2 provides details on meetings, attendance, remuneration of members and other associated costs incurred as well as changes in the key Repo Rate.

Table 9.1: Board of Directors Meetings

Board Directors	Date of first appointment	11.07.09	22.07.09	27.07.09	05.08.09	26.08.09	01.09.09	28.09.09	21.10.09	04.11.09
Governor-Mr R. Bheenick - Chairman	14.02.07	√	√	√	O.M.	√	√	O.M.	√	√
First Deputy Governor-Mr Y. Googoolye	13.07.06	√	√	√	√	√	√	√	√	√
Second Deputy Governor-Dr A.J. Khadaroo	14.02.07	√	√	√	√	√	√	√	√	√
Me K. Bhayat	05.09.07	√	X	√	√	√	√	X	√	√
Mr J.G.A. Lascie	23.11.05	√	√	√	√	√	√	√	√	√
Mr J. Li Wan Po	24.11.05	√	√	√	√	√	√	√	√	√
Mr M. Ramphul	01.09.04	X	X	√	√	√	√	√	√	√
Mr S.R. Seebun	21.11.05	√	√	√	√	√	√	√	√	√
Mr G. Vydelingum	05.09.07	√	√	√	√	√	√	√	√	√
Meeting Metrics: duration(hrs) minutes(pages)		3.25/(11)	1.5/(7)	2.5/(10)	2/(8)	25/(28)	4.5/(16)	7.5/(22)	3.5/(18)	5.5/(16)
Longest outstanding Board paper awaiting consideration		21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09

Board Directors	Date of first appointment	23.11.09	25.11.09	11.12.09	29.01.10	17.02.10	30.03.10	08.04.10	27.05.10	11.06.10
		#	#							
Governor-Mr R. Bheenick - Chairman	14.02.07	O.M.	O.M.	√	√				√	√
First Deputy Governor-Mr Y. Googoolye	13.07.06	X	X	√	O.M.	√	√	√	√	√
Second Deputy Governor-Dr A.J. Khadaroo	14.02.07	√	√	√	√	E.C.	E.C.	E.C.	E.C.	E.C.
Me K. Bhayat	05.09.07	X	X	√	√	√	√	√	√	√
Mr J.G.A. Lascie	23.11.05	√	√	√	√	√	√	√	√	√
Mr J. Li Wan Po	24.11.05	√	√	√	√	√	√	√	√	X
Mr M. Ramphul	01.09.04	√	√	√	√	√	√	√	√	√
Mr S.R. Seebun	21.11.05	√	√	√	√	√	√	√	√	√
Mr G. Vydelingum	05.09.07	√	√	√	√	√	√	√	√	√
Meeting Metrics: duration(hrs) minutes(pages)		0.25/(3)	1.5/(3)	2.5/(14)	2/(14)	2.5/(15)	2/(13)	0.75/(7)	1/(8)	1.5/(5)
Longest outstanding Board paper awaiting consideration		21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09	21.01.09

O.M. Overseas Mission. *√ Attended.* *X Not Attended.* *E.C. Expiry of the Contract.* *# Not Properly Constituted.*

Table 9.2: Monetary Policy Committee Meetings

		Meetings attended	22.09.09 *Quarterly meeting*	10.12.09 *Quarterly meeting*	23.03.10 *Quarterly meeting*	22.06.10 *Quarterly meeting*	Annual fees *Rs*	Other associated costs[5] *Rs*
Members								
Mr Rundheersing Bheenick[1]	Governor, Chairman	3	√	√		√	0	0
Mr Yandraduth Googoolye[2]	First Deputy Governor	3	X	√	√	√	0	0
Dr Ahmad Jameel Khadaroo[3]	Second Deputy Governor	2	√	√	E.C.	E.C.	0	0
Mr Jacques Tin Miow Li Wan Po	Board Director	4	√	√	√	√	240,000	0
Mr Shyam Razkumar Seebun	Board Director	3	√	√	√	X	240,000	0
Mr Jagnaden Padiaty Coopamah	External Member	4	√	√	√	√	240,000	0
Mr Pierre Dinan	External Member	2	X	√	√	X	240,000	0
Professor Stefan Gerlach	External Member	4	√	√	√	√	635,673	545,707
Dr Mario I. Blejer[4]	External Member	2	√	X	√	X	427,731	494,634
Observers								
Mr Hemraz Oopuddhye Jankee	Observer	3	√	X	√	√	0	0
Dr Streevarsen Narrainen	Observer	3	√	√	X	√	0	0
Decision on the Key Repo Rate[2]			Unchanged	Unchanged	Unchanged	Unchanged		
Key Repo Rate (*per cent per annum)*			5.75	5.75	5.75	5.75		

[1] *The term of office of Mr Rundheersing Bheenick expired on 13 February 2010 and he was re-appointed Governor of the Bank of Maurtius with effect from 21 May 2010.*

[2] *Mr Yandraduth Googoolye was appointed Acting Governor of the Bank of Mauritius and was Chairman of the MPC in the interim period.*

[3] *The term of office of Dr Ahmad Jameel Khadaroo expired on 13 February 2010.*

[4] *Dr Mario I. Blejer was appointed External Member on the MPC with effect from 21 August 2009.*

[5] *Other associated costs comprise travel and accommodation expenses.*

√ *: Attended.* X *: Not attended.* *E.C.: Expiry of the Contract.*

FACT-FINDING COMMITTEE

The Terms of Office of the Governor, Mr Rundheersing Bheenick, expired on 13 February 2010. On 17 February 2010, a Fact-Finding Committee (FFC), chaired by Sir Victor Glover, Kt, GOSK, was set up by Government, to inquire into the allegations of abuse of power and privileges made against Mr Rundheersing Bheenick. The Terms of Reference of the FFC were as follows:

(a) to look into whether the Governor of the Bank of Mauritius, in the performance of his duties as Governor, has committed acts which constitute:-

(i) an abuse of authority and power, and of privileges including overseas missions and related expenses, hospitality, remuneration or allowance;

(ii) oppression or victimisation of any employee; and

(iii) misuse of public funds

(b) to look into whether the Governor has refused to implement or comply with any decision of the Board of Directors of the Bank that was within the powers of the Board;

(c) to look into whether, following the enactment of the Bank of Mauritius Act, or otherwise, there are any areas of, or causes for, conflict between the functions and powers of the Governor and those of the Board, and, if so, whether changes ought to be made to the relevant provisions of the Bank of Mauritius Act to prevent the recurrence of such conflicts; and

(d) to make such recommendations, as are considered appropriate.

The Chairman of the FFC submitted his report in May 2010 wherein he concluded that the allegations of abuse of power and privileges made against Mr Rundheersing Bheenick, which were often repeated in the press, stemmed from incorrect or incomplete leaked information and that the Bank's records have shown that there was no abuse of privileges in connection with hospitality, remunerations and allowances by the former Governor. Sir Victor Glover, Kt, GOSK, also stated that the allegations made by the five non-executive Directors of the Board – namely Directors J.T.M. Li Wan Po, S.R. Seebun, M. Ramphul, G. Vydelingum and J.G.A. Lascie – regarding non-compliance by Mr Rundheersing Bheenick with the Board directives were also unfounded. The FFC has, *inter alia*, recommended that the Bank of Mauritius Act 2004 should be amended to, amongst others, avoid any future conflict between the functions of the Governor and those of the Board.

The matter was also discussed by the Cabinet of Ministers on 21 May 2010.

In the light of the Report of Sir Victor Glover, Kt, GOSK, Mr Rundheersing Bheenick was re-appointed Governor of the Bank of Mauritius as from 21 May 2010.

Mr Mohamed Iqbal Belath, Country Manager for Habib Bank (Mtius) and Associate Member of the Chartered Institute of Bankers, London, was also appointed Second Deputy Governor of the Bank on 21 May 2010 in replacement of Dr A.J. Khadaroo whose terms of office as Second Deputy Governor had expired on 13 February 2010.

Mr Mohamed Iqbal Belath assumed duty as Second Deputy Governor on 1 July 2010.

10 Financial Statements

BANK OF MAURITIUS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

CONTENTS	PAGE

INTRODUCTION

The Bank realized a profit of Rs72.4 million for the year ended 30 June 2010, as compared to a profit of Rs1,411.7 million in the previous financial year.

In the wake of the recent global financial crisis, central banks of most countries, including those in whose currencies we place our deposits, resorted to systematic cuts in their interest rates in order to mitigate the ensuing adverse economic impact. Consequently, our profitability was significantly affected as interest on foreign assets constitutes the main source of income of the Bank of Mauritius ("the Bank"). If this situation prevails, the Bank's profit will continue to be adversely impacted.

According to section 11 (1) of the Bank of Mauritius Act 2004 (the Act), the Board of Directors shall determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies. The Board met on 28 September 2010 to consider the Financial Statements of the Bank for the financial year 2009-10 and determined the net profits for the year ended 30 June 2010.

Assets

The Bank's foreign assets registered an increase following an allocation of Special Drawing Rights (SDR) by the International Monetary Fund (IMF) to member countries. Local assets went up as a result of an increase in the Bank's investment in Government securities.

Liabilities

Liabilities recorded an increase mainly on account of banks' demand deposits going up in line with the increase from 4.5% to 5.0% with effect from fortnight beginning 18 June 2010 in the prescribed minimum cash ratio required to be maintained by banks and the rupee equivalent of SDR received from IMF.

Capital and Reserves

The net decrease in Reserves resulted from loss on Revaluation of Foreign Currencies, Gold and SDR, the whole amount of which was transferred to the Special Reserve Fund in accordance with section 47(1) of the Act. As required under section 11(2) of the Act, part of the net profits was transferred to the General Reserve Fund.

Statement of Responsibilities

The Bank, which acts as the central bank for Mauritius, is set up under the Act as a body corporate. Section 3(4) of the Act spells out that the Companies Act 2001 shall not apply to the Bank.

The Board of Directors has, under section 12 of the Act, been entrusted with the general policy of the affairs and business of the Bank. Responsibility for the running of the operations and day-to-day management of the Bank has been entrusted, in terms of section 14(3) of the Act to the two Deputy Governors who shall act under the supervision of the Governor.

The Governor is the principal representative of the Bank and is responsible for the execution of the policy of the affairs and business of the Bank as decided by the Board. Further, he is responsible for the general supervision of the Bank. In the discharge of his functions, the Governor is answerable to the Board.

The Bank is responsible for the preparation and fair presentation of the financial statements in conformity with accounting principles applicable to central banks and best international practices in accordance with section 31(1) of the Act and the implementation of an internal control structure to maintain the reliability of the financial statements and to provide reasonable but not absolute assurance against the possibility of errors and irregularities that are material to the financial statements. The Board consists of the Governor as Chairperson, two Deputy Governors and six other Directors. The Act provides for not less than five but not more than seven other Directors. The Governor and Deputy Governors are appointed by the President of the Republic of Mauritius, on the recommendation of the Prime Minister and may hold office for a term not exceeding five years and are eligible for re-appointment. The Minister of Finance appoints the other Directors who may hold office for a term not exceeding three years. They are eligible for re-appointment at the end of their term of office.

KPMG
KPMG Centre
30 St George Street
Port Louis
Mauritius

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BANK OF MAURITIUS

Report on the Financial Statements

We have audited the financial statements of BANK OF MAURITIUS (the "Bank") on pages 140 to 178 which comprise the statement of financial position at 30 June 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements which include summary of significant accounting policies and other explanatory notes.

Bank's Responsibility for the Financial Statements

The Bank is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles applicable to central banks and best international practices pursuant to section 31(1) of the Bank of Mauritius Act 2004 and in accordance with International Financial Reporting Standards. This responsibility includes the implementation of an internal control structure to maintain the reliability of the financial statements and provide reasonable, but not absolute, assurance against the possibility of errors and irregularities that are material to the financial statements.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 140 to 178 give a true and fair view of the financial position of the Bank at 30 June 2010 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Bank of Mauritius Act 2004.

Other matter

This report, including the opinion, has been prepared for and only for, the Bank's shareholder and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

KPMG

KPMG

Public Accountants

Port Louis

28 September 2010

BANK OF MAURITIUS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	2010	2009
		Rs	Rs
ASSETS			
Foreign Assets:			
Cash and Cash Equivalents	6	**56,962,848,210**	30,783,234,720
Other Balances and Placements	7	**12,067,632,378**	32,354,319,155
Interest Receivable		**51,327,643**	156,075,378
Other Investments	8	**20,117,849**	20,286,659
		69,101,926,080	63,313,915,912
Domestic Assets:			
Loans and Advances	9	**426,329,335**	517,417,540
Investment in Government Securities	10	**1,827,122,374**	481,344,090
Computer Software	11	**15,457,915**	67,475
Property, Plant and Equipment	12	**1,894,208,074**	1,959,636,042
Other Assets	13	**198,657,263**	198,240,811
TOTAL ASSETS		**73,463,701,041**	66,470,621,870
LIABILITIES			
Currency in Circulation	14	**18,890,072,819**	17,185,099,624
Demand Deposits:			
Government		**10,447,964,698**	10,761,080,592
Banks		**16,558,544,007**	12,747,028,204
Other Financial Institutions		**89,769,237**	84,050,655
Others		**257,428,378**	229,319,300
		27,353,706,320	23,821,478,751
Other Liabilities:			
Other Financial Liabilities	15	**943,400**	943,400
Provisions	16	**100,000,000**	100,000,000
Employee Benefits	17	**135,031,784**	114,948,905
Other	18	**6,825,084,961**	1,579,927,839
TOTAL LIABILITIES		**53,304,839,284**	42,802,398,519
CAPITAL AND RESERVES	5		
Stated and Paid up Capital		**1,000,000,000**	1,000,000,000
Reserves		**19,158,861,757**	22,668,223,351
TOTAL CAPITAL AND RESERVES		**20,158,861,757**	23,668,223,351
TOTAL LIABILITIES, CAPITAL AND RESERVES		**73,463,701,041**	66,470,621,870

J.K. Ramtohul	M.I. Belath	R. Bheenick
Head-Accounting and Budgeting	Second Deputy Governor	Governor

BANK OF MAURITIUS STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010	2009
		Rs	Rs
INCOME			
Income from Financial Assets			
Interest and Similar Income on Foreign Assets	19 (a)	**865,984,182**	2,100,804,309
Interest and Similar Income on Local Assets	19 (b)	**40,623,776**	41,498,739
Others	19 (c)	**39,462,948**	80,447,765
	19	**946,070,906**	2,222,750,813
Gain on Foreign Exchange Transactions		**28,021,306**	26,745,971
Other Income	20	**52,636,859**	42,311,503
		1,026,729,071	2,291,808,287
EXPENDITURE			
Interest Expense and Similar Charges	21	**196,043,941**	218,304,738
Staff Salaries and Other Benefits	22	**281,691,393**	236,167,739
General Expenditure		**134,514,384**	106,178,676
Fees Payable		**11,816,019**	12,693,079
Coin Issue Expenses		**69,523,403**	45,039,486
Note Issue Expenses		**79,849,133**	2,424,179
Depreciation and Amortisation		**114,437,051**	108,889,263
Directors' Remuneration	23	**20,431,538**	10,508,785
IMF Charges	32	**8,746,215**	8,150,341
Other Expenditure	24	**17,118,793**	17,901,431
		934,171,870	766,257,717
OPEN MARKET OPERATIONS	25		
Interest on Bank of Mauritius Bills		**2,178,000**	168,511,691
Interest on Special Deposits Facility		**18,647,329**	-
Interest on Reverse Repurchase Transactions		**776,712**	1,234,109
Interest on Repurchase Transactions		**(1,449,863)**	(55,910,712)
		20,152,178	113,835,088
NET PROFIT FOR THE YEAR		**72,405,023**	1,411,715,482
OTHER COMPREHENSIVE INCOME			
(Loss)/Gain on revaluation of Foreign Currencies, Gold and SDR		**(3,520,222,347)**	3,982,327,818
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(3,447,817,324)**	5,394,043,300
Transfer from/(to) Special Reserve Fund in terms of section 47(1) of the Bank of Mauritius Act 2004		**3,520,222,347**	(3,982,327,818)
NET PROFIT FOR THE YEAR IN TERMS OF SECTION 11 (1) OF THE BANK OF MAURITIUS ACT 2004		**72,405,023**	1,411,715,482
Transfer to General Reserve Fund in terms of Section 11 (2) of the Bank of Mauritius Act 2004		**(10,860,753)**	(211,757,322)
PROFIT AVAILABLE TO THE GOVERNMENT OF MAURITIUS FOR TRANSFER TO CONSOLIDATED FUND IN TERMS OF SECTION 11(3) OF THE BANK OF MAURITIUS ACT 2004		**61,544,270**	1,199,958,160

BANK OF MAURITIUS STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Stated and Paid Up Capital	General Reserve Fund	Special Reserve Fund	Accumulated Profit	Other Reserves	Total
	Rs	Rs	Rs	Rs	Rs	Rs
Balance at 1 July 2008	1,000,000,000	1,233,905,694	15,557,946,271	-	1,682,286,246	19,474,138,211
Total Comprehensive income						
- Net profit for the year	-	-	-	1,411,715,482	-	1,411,715,482
Other Comprehensive Income						
- Gain on Revaluation of Foreign Currencies, Gold and SDR	-	-	3,982,327,818	-	-	3,982,327,818
Total Comprehensive Income for the year	-	-	3,982,327,818	1,411,715,482	-	5,394,043,300
Transaction with Owner, Recorded Directly in Equity						
- Profit available to the Government of Mauritius for transfer to Consolidated Fund	-	-	-	(1,199,958,160)	-	(1,199,958,160)
Transfer to General Reserve Fund	-	211,757,322	-	(211,757,322)	-	-
Balance at 30 June 2009	1,000,000,000	1,445,663,016	19,540,274,089	-	1,682,286,246	23,668,223,351
Balance at 1 July 2009	1,000,000,000	1,445,663,016	19,540,274,089	-	1,682,286,246	23,668,223,351
Total Comprehensive Income						
- Net Profit for the Year	-	-	-	72,405,023	-	72,405,023
Other Comprehensive Income						
- Gain on Revaluation of Foreign Currencies, Gold and SDR	-	-	(3,520,222,347)	-	-	(3,520,222,347)
Total Comprehensive Income for the year	-	-	(3,520,222,347)	72,405,023	-	(3,447,817,324)
Transaction with Owners, Recorded Directly in Equity						
- Profit available to the Government of Mauritius for transfer to Consolidated Fund	-	-	-	(61,544,270)	-	(61,544,270)
Transfer to General Reserve Fund	-	10,860,753	-	(10,860,753)	-	-
Balance at 30 June 2010	**1,000,000,000**	**1,456,523,769**	**16,020,051,742**	**-**	**1,682,286,246**	**20,158,861,757**

BANK OF MAURITIUS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	**2010**	2009
		Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Cash Generated from Operating Activities	26	**12,021,325,062**	4,655,336,501
CASH FLOWS FROM INVESTING ACTIVITIES			
Change in Other Balances and Placements		**20,286,686,777**	125,418,200
Change in Financial Assets		**(1,345,778,284)**	124,127,071
Additions to Intangible Assets		**(23,173,264)**	-
Acquisition of Property, Plant and Equipment		**(41,295,290)**	(135,578,402)
Proceeds from Sale of Property, Plant and Equipment		**1,128,309**	718,003
Dividend Received		**900,687**	1,018,245
Net Cash Generated from Investing Activities		**18,878,468,935**	115,703,117
Cash Flows from Financing Activities			
Balance made available to the Government of Mauritius		**-**	(559,823,879)
Profit paid to the Government of Mauritius		**(1,199,958,160)**	(1,325,465,601)
Net Increase in Cash and Cash Equivalents		**29,699,835,836**	2,885,750,138
Cash and Cash Equivalents at 1 July	6	**30,783,234,720**	23,915,156,764
Effect of exchange rate fluctuations on Cash and Cash Equivalents		**(3,520,222,347)**	3,982,327,818
Cash and Cash Equivalents at 30 June	6	**56,962,848,210**	30,783,234,720

BANK OF MAURITIUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

1. LEGAL FRAMEWORK

In terms of section 4 (2)(c) of the Bank of Mauritius Act 2004 ("the Act"), the Bank of Mauritius ("the Bank") is established to act as the Central Bank for Mauritius. Its main place of business is at Sir William Newton Street, Port Louis, and it operates an office in Rodrigues. The Bank is an independent institution with its own legal personality and submits a copy of its audited financial statements to the Minister of Finance who lays a copy thereof before the National Assembly.

The primary objective of the Bank is to maintain price stability and to promote orderly and balanced economic development.

To attain these objectives, the Bank's principal functions are to:

- conduct monetary policy and manage the exchange rate of the Mauritian Rupee, taking into account the orderly and balanced economic development of Mauritius;
- regulate and supervise financial institutions carrying on activities in, or from within, Mauritius;
- manage, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius; collect, compile, disseminate, on a timely basis, monetary and related financial statistics; and manage the foreign exchange reserves of Mauritius.

Under section 10 of the Act, the stated and paid up capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government of Mauritius. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve.

Under section 11(1) of the Act, the Board shall determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provision as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies.

Under section 11(2) of the Act, the Bank shall establish a General Reserve Fund to which shall be allocated, at the end of every financial year of the Bank, 15 per cent of the net profits of the Bank.

Under section 11(3) of the Act, the balance of the net profits for the financial year remaining after the allocation made under subsection 11(2) shall, subject to subsection 11(4), be paid into the Consolidated Fund as soon as practicable after the end of every financial year. Section 11(4) of the Act provides that subject to subsection 11(5), the balance in the General Reserve Fund shall be at least equivalent to the amount paid as capital of the Bank. Under section 11(5) of the Act, where, at any time, the balance in the General Reserve Fund is less than the amount paid as capital of the Bank, the Bank shall endeavour to bring the balance to the required level.

Further, under section 11(6) of the Act, no allocation under subsection 11(3) shall be made where, in the opinion of the Board:

(a) the assets of the Bank are, or after such allocation would be, less than the sum of its liabilities and paid up capital; or

(b) the Bank would not be in a financial position to conduct its activities properly.

2. BASIS OF PREPARATION

(a) Statement of Compliance

In terms of section 31(1) of the Act, the accounting of the Bank shall, at all times be carried out in conformity with accounting principles applicable to central banks and best international practices. In line with best practices, the Bank has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- the liability for defined benefit obligations is recognised as the present value of defined obligations less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

(c) Functional and Presentation Currency

These financial statements are presented in Mauritian Rupee ("Rs"), which is the Bank's functional currency. Where indicated, financial information presented in Rs has been rounded to the nearest million.

(d) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are described in Note 4.

(e) New Standards and Amendments effective for 2010

(i) Overview

The Bank has adopted the following standards and amendments as of 1 July 2009:

- IAS 1 (Revised 2007) Presentation of Financial Statements;
- Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments; and
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation.

(ii) IAS 1 (Revised 2007) Presentation of Financial Statements

The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the Statement of Changes in Equity all owner changes in equity, whereas all non-owner changes in equity are presented in the Statement of Comprehensive Income.

Comparative information has been re-presented so that it is also in conformity with the revised standard.

(iii) *Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*

The Bank has applied Improving *Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair value of financial instruments are included in Note 4.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

(iv) Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for annual periods beginning on or after 1 January 2009 with early application permitted. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity.

The Bank's shares do not meet the definition of puttable instruments classified as equity instruments under the amendments. Hence, the amendments to IAS 32 and IAS 1 had no material impact on the financial performance or position of the Bank.

(f) New Standards and Interpretations Effective for 2010 but which did not have an impact on the Financial Position or Performance of the Bank

The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Bank:

(i) IFRS 8 Operating Segments

(ii) Amendment to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

(iii) Amendment to IAS 23 Borrowing Costs

(iv) IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

(v) IFRIC 13 Customer Loyalty Programmes

(vi) IFRIC 15 Agreements for the Construction of Real Estate

(vii) IFRIC Interpretation 17 Distributions of Non-Cash Assets to Owners

(viii) IFRIC 16 Hedges of a Net Investment in a Foreign Operation

(ix) International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)

(x) IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

(xi) Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

(xii) Improvements to IFRS

In May 2008 the IASB has issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Plan to sell the controlling interest in a subsidiary
- IFRS 7 *Financial Instruments Disclosures*: Presentation of finance costs
- IAS 1 *Presentation of Financial Statements*: Current/non-current classification of derivatives
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Status of implementation guidance
- IAS 10 Events after the Reporting Period: Dividends declared after the end of the reporting period
- IAS 16 Property, Plant and Equipment: Recoverable amount; Sale of assets held for rental
- IAS 18 Revenue: Costs of originating a loan
- IAS 19 Employee Benefits: Curtailments and negative past service costs
- IAS 19 Employee Benefits: Plan administration costs
- IAS 19 Employee Benefits: Replacement of the term 'fall due'
- IAS 19 Employee Benefits: Guidance on contingent liability
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Government loans with a below-market rate of interest
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Consistency of terminology with other IFRSs
- IAS 23 Borrowing Costs: Components of borrowing costs
- IAS 27 Consolidated and Separate Financial Statements: Measurement of subsidiary held for sale in separate financial statements
- IAS 28 Investment in Associates: Required disclosures when investments in associates are accounted for at fair value through profit or loss
- IAS 28 Investment in Associates: Impairment of investment in associate
- IAS 29 Financial Reporting in Hyperinflationary Economies: Description of measurement basis in financial statements
- IAS 29 Financial Reporting in Hyperinflationary Economies:

Consistency of terminology with other IFRSs

- IAS 31 Interest in Joint ventures: Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
- IAS 34 Interim Financial Reporting: Earnings per share disclosures in interim financial reporting
- IAS 36 Impairment of Assets: Disclosure of estimates used to determine recoverable amount
- IAS 38 Intangible Assets: Advertising and promotional activities
- IAS 38 Intangible Assets: Unit of production method of amortisation
- IAS 39 Financial Instruments: Recognition and Measurement: Reclassification of derivatives into or out of the classification of at fair value through profit or loss
- IAS 39 Financial Instruments: Recognition and Measurement: Designation and documentation of hedges at the segment level
- IAS 39 Financial Instruments: Recognition and Measurement: Applicable effective interest rate on cessation of fair value hedge accounting
- IAS 40 Investment Property: Property under construction or development for future use as investment property
- IAS 40 Investment Property: Consistency of terminology with IAS 8, Investment property held under lease
- IAS 41 Agriculture: Discount rate for fair value calculations
- IAS 41 Agriculture: Additional biological transformations
- IAS 41 Agriculture: Examples of agricultural produce and products, Point-of-sale costs

(g) New Standards and Interpretations not yet Effective for 2010

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2010, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Bank, with the exception of:

(i) IFRS 9 Financial Instruments

IFRS 9, *Financial Instruments,* published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost at fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard is expected to have an impact on the Bank's financial statements.

3. ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank are as follows:

(a) Financial Instruments

(i) Initial Recognition

The Bank recognises all financial instruments on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. All regular transactions entered by the Bank are recognised on a trade date basis.

(ii) Classification

Assets or liabilities classified as Held-For-Trading, which is a subset of the Fair-Value-Through-Profit-or-Loss ("FVTPL") category, are those that are acquired or incurred principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin. A financial asset should be classified as Held-For-Trading if, regardless of why it was acquired, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These may include certain investments, certain purchased loans and derivative financial instruments. The Bank's Foreign Investment, Other Unquoted Investments and Investment in Government Securities fall under this classification. Foreign Investment of the Bank represents investment in Bank for International Settlement (''BIS") portfolio.

Loans and Receivables are non-derivative financial assets created by the Bank by providing money, other than those created with the intention of short-term profit taking. Loans and Receivables comprise of Cash and Cash Equivalents (excluding Gold Deposits), Deposit Accounts, loans and advances to commercial banks or other financial institutions under Special Lines of Credit and certain Other Assets of the Bank.

Available-For-Sale assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, Loans and Receivables or Held-To-Maturity. The Bank's investment in Gold Deposits falls under this classification.

The Bank has the possibility to designate any financial asset or financial liability at FVTPL, i.e. at fair value with changes in fair value recognised through profit or loss provided that the financial asset or financial liability satisfies certain conditions.

Management determines the appropriate classification of the Bank's financial assets and financial liabilities and re-evaluates such classification on a regular basis.

Disclosure about Financial Instruments are provided in Note 29.

(iii) Measurement

Financial instruments are initially measured at fair value, which is the value of the consideration given (in the case of an asset) or received (in the case of a liability) for it, including transaction costs. Subsequent to initial recognition, all Available-For-Sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case it is stated at amortised cost or cost, depending on whether there is a fixed maturity or not, less any impairment.

FVTPL (including Held-For-Trading) assets and liabilities are normally measured at fair value at subsequent reporting dates.

All non-trading financial liabilities are measured at amortised cost using the effective interest rate method.

Gold deposits have prudently been valued at 90% of the price of Gold on international market on the last working day of the month.

A financial asset is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount of a financial asset carried at amortised cost is the present value of expected future cash flows discounted at the original effective interest rate of the asset.

(iv) Fair Value Measurement Principles

The fair value of financial instruments is based on their quoted market price at the reporting date. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

Government of Mauritius Treasury Bills

Government of Mauritius Treasury Bills have been revalued based on the latest market data available for these instruments.

Other Government Securities

Other Government Securities comprise Mauritius Development Loan Variable Interest Rate stocks which have been revalued using the straight line revaluation method and Treasury Notes, Bonds and MDLS with maturities ranging between two to twenty years which have been revalued using the discounted cash flow techniques, based on the latest market data available for these instruments and other similar instruments as at the reporting date.

Bank of Mauritius Bills

Bank of Mauritius Bills have been revalued using the same valuation method as for Government of Mauritius Treasury Bills.

Unquoted Investments

The Bank may, from time to time, hold financial instruments that are not quoted on active markets. Fair values of such instruments are determined by using valuation techniques including third party transaction values, earnings, net asset value, or discounted cash flows, whichever is considered to be appropriate. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(v) Gains and Losses on Subsequent Measurement

Gains or losses on FVTPL (including Held-For-Trading) financial assets and financial liabilities arising from changes in their fair value are recognised in the Statement of Comprehensive Income in the period in which they arise. Gains or losses on Available-For-Sale financial assets are recognised in equity. For those financial instruments carried at amortised cost, gains or losses are recognised in the Statement of Comprehensive Income when the financial instrument is de-recognised or impaired and through the amortisation process.

(vi) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, cash balances, call deposits with other financial institutions and short-term highly liquid debt investments with remaining maturities of three months or less.

(b) Computer Software

Under revised IAS 38 - Intangible assets, Computer Software which does not form an integral part of computer hardware, is now classified as an intangible asset. Intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis at the rate of 33 $^{1}/_{3}$% per annum so as to write off the depreciable value of the assets over their estimated useful lives. A full year of amortisation is charged in the year of purchase.

(c) Property, Plant and Equipment

Property, Plant and Equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis so as to write off the depreciable value of the assets to their estimated residual values over their estimated useful lives. A full year of depreciation is charged in the year of purchase.

Depreciation is provided at the following annual percentage rates:

Buildings	- 2%
Furniture, equipment, fixtures and fittings	- 10%
Computer hardware/ software and cellular phones	- 33 $^{1}/_{3}$%
Motor vehicles	- 40% for 1st year then 20% for each of the three subsequent years

No depreciation is provided on freehold land and capital work in progress.

(d) Currency in Circulation

Notes and coins issued represent an unserviced liability of the Bank of Mauritius and are recorded at face value.

The Bank also issues a range of Mauritius commemorative coins. All costs associated with the production of these numismatic coins are expensed in the Statement of Comprehensive Income when incurred.

(e) Employee Benefits

Defined Benefit Pension Plan

The present value of funded obligations is recognised in the Statement of Financial Position as a non-current liability after adjusting for the fair value of plan assets, any unrecognised actuarial gains and losses and any unrecognised past service cost. The valuation of the funded obligations is carried out every year by a firm of actuaries. Currently, the Bank employs the State Insurance Company of Mauritius Ltd as its actuary.

The current service cost and any recognised past service cost are included as an expense together with the associated interest cost, net of expected return on plan assets.

A portion of the actuarial gains and losses will be recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous accounting period exceeded the greater of:

(i) 10% of the present value of the defined benefit obligation at that date; and

(ii) 10% of the fair value of plan assets at that date.

State Pension Plan

Contribution to the National Pension Scheme is expensed to the Statement of Comprehensive Income in the period in which it falls due.

(f) Income and Expenditure Recognition

Income and Expenditure are recognised as they are earned or incurred and are recorded in the financial statements on an accruals basis to accurately reflect the period to which they relate.

Dividend income from equity investments is accounted for in the Statement of Comprehensive Income as other income when the right to receive payment is determined.

(g) Foreign Currencies

Transactions in foreign currencies are recorded in Mauritian Rupee using the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated in Mauritian Rupee using the rate of exchange ruling at the reporting date. Foreign exchange differences arising on translation are included in the Statement of Comprehensive Income in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates). However, for the purpose of determining the net profit of the Bank in terms of section 11 of the Bank of Mauritius Act 2004, foreign exchange differences are excluded in accordance with section 47(2) of the Act. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transactions.

(h) Impairment

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Any impairment is recognised in the Statement of Comprehensive Income.

(i) Taxation

The Bank is exempted from any tax imposed on income, profits or capital gains under section 64 of the Bank of Mauritius Act 2004.

(j) Comparative Figures

Comparative figures have been restated or reclassified where necessary to conform to the current year's presentation.

(k) Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are determined by the Bank through their best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(l) Operating Leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Related Party Transactions

For the purpose of these financial statements, parties, whether individuals or other entities, are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank, or exercise significant influence over the Bank in making financial and operating decisions, or vice versa or where the Bank is subject to common control or common significant influence.

4. USES OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in accordance with IFRS requires management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Judgements and estimates are continuously evaluated and are based on historical experience and other factors, including expectations and assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results could, by definition therefore, often differ from the related accounting estimates.

Particular areas where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

Key Sources of Estimation Uncertainty

Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (a) (iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical Accounting Judgements in Applying the Bank's Accounting Policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Valuation of Financial Instruments

The Bank's accounting policy on fair value measurements is discussed under Note 3 (a) (iv).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2010	Note	Level 1	Level 2	Level 3	Total
		Rs	Rs	Rs	Rs
Financial Assets					
Gold Deposits	6	**4,485,730,688**	**-**	**-**	**4,485,730,688**
Foreign Investments	7	**-**	**12,000,657,540**	**-**	**12,000,657,540**
Other Investments	8	**-**	**-**	**20,117,849**	**20,117,849**
Investment in Government Securities	10	**-**	**1,827,122,373**	**-**	**1,827,122,373**
		4,485,730,688	**13,827,779,913**	**20,117,849**	**18,333,628,450**
Financial Liabilities					
Other Financial Liabilities	15	-	**943,400**	-	**943,400**
2009					
Financial Assets					
Gold Deposits	6	1,490,298,062	-	-	1,490,298,062
Foreign Investments	7	-	12,330,471,445	-	12,330,471,445
Other Investments	8	-	-	20,286,659	20,286,659
Investment in Government Securities	10	-	481,344,090	-	481,344,090
		1,490,298,062	12,811,815,535	20,286,659	14,322,400,256
Financial Liabilities					
Other Financial Liabilities	15	-	943,400	-	943,400

There have been no transfers during the year between levels 1 and 2. A reconciliation of fair value measurements in level 3 is set out below:

	Equity securities Rs
Opening balance at 1 July 2009	**20,286,659**
Change in fair value	**(168,810)**
Closing balance at 30 June 2010	**20,117,849**

Financial Asset and Liability Classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as *Held-for-Trading*, the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3 (a) (ii).
- In designating financial assets or liabilities at FVTPL, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy 3 (a) (ii).
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3 (a) (ii).

Details of the Bank's classification of financial assets and liabilities are given in Note 29 (b).

Determination of Functional Currency

Functional currency is the currency of the primary economic environment in which the Bank operates. When indicators of the primary economic environment are mixed, management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The management has determined that the functional currency of the Bank is Mauritian Rupees ("Rs"). The majority of the Bank's operating expenses and liabilities are denominated in Mauritian Rupees.

5. CAPITAL AND RESERVES

Stated and Paid up Capital

The Stated and Paid Up Capital of the Bank is Rs1 billion in accordance with section 10 of the Bank of Mauritius Act 2004. All amounts paid as Capital are subscribed and held solely by the Government of Mauritius (refer to Note 1).

General Reserve Fund

The General Reserve Fund is a reserve fund created in accordance with section 11 of the Bank of Mauritius Act 2004 (refer to Note 1).

Special Reserve Fund

In terms of section 47(1) of the Bank of Mauritius Act 2004, the Special Reserve Fund is a reserve built up from any net realised gains or losses in any financial year of the Bank arising from changes in the valuation of its assets or liabilities in, or denominated in gold, SDR, or foreign currencies subsequent to any change in the values or exchange rates of gold, SDR, or foreign currencies in terms of the domestic currency.

As per section 47 (2) of the Bank of Mauritius Act 2004, neither net gains nor net losses in any financial year of the Bank arising from changes in the valuation of its assets or liabilities in, or denominated in gold, SDR, or foreign currencies shall be included in the computation of annual income of the Bank.

The gains or losses referred to above are included in other comprehensive income for the year.

Other Reserves

Other Reserves are reserves that have been carried forward from previous years. They include Reserve for Contingencies of Rs 482,286,246 (2009: Rs 482,286,246) and Reserve for Open Market Operations of Rs 1,200,000,000 (2009: Rs 1,200,000,000).

6. CASH AND CASH EQUIVALENTS

	2010	2009
	Rs	Rs
Deposit Accounts	34,065,939,011	17,258,413,616
Special Drawing Rights (SDR)	4,691,231,171	939,976,670
Repurchase Agreement	4,198,279,920	4,970,266,320
Current Accounts with Foreign Banks	9,365,528,742	5,977,021,347
Foreign Currency Notes and Coins	1,585,899	2,498,625
Gold Deposits	4,485,730,688	1,490,298,062
Foreign Liquid Securities	154,552,779	144,760,080
	56,962,848,210	30,783,234,720

7. OTHER BALANCES AND PLACEMENTS

(a) Other Balances and Placements

	2010	2009
	Rs	Rs
Foreign Investments	12,000,657,540	12,330,471,445
Deposit Accounts	66,974,838	20,023,847,710
	12,067,632,378	32,354,319,155

Foreign Investments represents funds outsourced to Fund Managers and comprise investments in the following asset classes:

	2010	2009
	Rs	Rs
Cash	29,381,789	38,030,094
Bonds	11,799,189,045	12,292,441,351
Other investments	172,086,706	-
	12,000,657,540	12,330,471,445

8. OTHER INVESTMENTS

	2010	2009
	Rs	Rs
Unquoted Investments	20,117,849	20,286,659

(i) Basis of valuation

Unquoted Investments have been valued on the basis of the latest available prices provided by the investee entities

(ii) Impairment

The Bank considers that the net worth of the unquoted other investments approximate their fair values.

9. LOANS AND ADVANCES

	2010	2009
	Rs	Rs
Special Line of Credit - Sugar Industry	267,693,924	401,073,617
Special Line of Credit - National Equity Fund	50,508,260	70,679,874
Special Line of Credit in Foreign Currency	95,632,800	32,149,200
Others	12,494,351	13,514,849
	426,329,335	517,417,540

Advances under Special Lines of Credit are granted to banks and other financial institutions to support the economic development of the country. Advances under the Special Lines of Credit are guaranteed/ collateralised and are at variable interest rates.

10. INVESTMENT IN GOVERNMENT SECURITIES

	2010	2009
	Rs	Rs
Government of Mauritius Treasury Bills	1,528,506,526	246,966,800
Other Government Securities	298,615,848	234,377,290
	1,827,122,374	481,344,090

11. COMPUTER SOFTWARE

	Rs
Cost	
At 1 July 2008	83,818,995
Additions	-
At 30 June 2009	83,818,995
Additions	23,173,264
At 30 June 2010	106,992,259
Amortisation	
At 1 July 2008	83,645,320
Charge for the year	106,200
At 30 June 2009	83,751,520
Charge for the year	7,782,824
At 30 June 2010	91,534,344
Net book value	
At 30 June 2010	15,457,915
At 30 June 2009	67,475

12.. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings Rs	Capital Work in Progress Rs	Furniture, Equipment, Fixtures and Fittings Rs	Computer Equipment Rs	Motor Vehicles Rs	Total Rs
COST						
At 1 July 2008	1,434,824,602	-	623,115,864	54,598,311	24,956,858	2,137,495,635
Additions	63,090,710	13,781,416	54,106,839	1,027,955	3,571,482	135,578,402
Transfers	13,781,416	(13,781,416)	-	-	-	-
Disposals	-	-	-	-	(7,112,917)	(7,112,917)
At 30 June 2009	**1,511,696,728**	**-**	**677,222,703**	**55,626,266**	**21,415,423**	**2,265,961,120**
Additions	-	26,010,875	7,094,508	457,708	7,732,200	41,295,291
Transfers	24,505,064	(26,010,875)	1,505,811	-	-	-
Disposals	-	-	(973,567)	(500,333)	(2,621,000)	(4,094,900)
At 30 June 2010	**1,536,201,792**	**-**	**684,849,455**	**55,583,641**	**26,526,623**	**2,303,161,511**
DEPRECIATION						
At 1 July 2008	36,287,364	-	118,743,931	32,756,312	16,865,325	204,652,932
Charge for the year	27,647,934	-	65,343,612	11,435,042	4,356,475	108,783,063
Disposals	-		-	-	(7,110,917)	(7,110,917)
At 30 June 2009	63,935,298	-	184,087,543	44,191,354	14,110,883	306,325,078
Charge for the year	28,138,035	-	65,965,689	5,816,443	6,734,059	106,654,226
Disposals	-	-	(918,024)	(488,843)	(2,619,000)	(4,025,867)
At 30 June 2010	**92,073,333**	**-**	**249,135,208**	**49,518,954**	**18,225,942**	**408,953,437**
NET BOOK VALUE						
At 30 June 2010	**1,444,128,459**	**-**	**435,714,247**	**6,064,687**	**8,300,681**	**1,894,208,074**
At 30 June 2009	1,319,455,642	-	493,135,160	11,434,912	7,304,540	1,959,636,042

13. OTHER ASSETS

	2010 Rs	2009 Rs
Net cheques to be cleared	**83,444,219**	89,045,313
Staff Loans	**82,480,740**	61,851,574
Prepayments	**1,879,010**	11,807,317
Dodo Gold Coins with Banks	**12,942,150**	12,885,350
Interest Receivable	**9,913,421**	7,346,613
Pension Contributions receivable	**-**	7,449,335
Others	**7,997,723**	7,855,309
	198,657,263	198,240,811

Net cheques to be cleared are cheques collected and outstanding at close of business and which would be cleared on the next working day.

14. CURRENCY IN CIRCULATION

	2010 Rs	2009 Rs
Notes issued		
Face value		
2,000	**1,068,508,000**	1,086,338,000
1,000	**12,099,362,000**	10,762,807,000
500	**2,155,409,000**	1,990,668,500
200	**1,316,015,200**	1,243,494,000
100	**957,703,500**	928,054,300
50	**236,921,200**	203,241,900
25	**174,879,725**	144,261,100
Demonetised Notes	**219,608,770**	224,038,885
Total	**18,228,407,395**	16,582,903,685
Coins issued		
Face value		
20 rupees	**128,565,620**	95,204,280
10 rupees	**217,065,140**	208,973,260
5 rupees	**95,266,890**	89,145,390
1 rupee	**118,082,922**	110,786,665
50 cents	**27,834,886**	26,208,287
25 cents **	**6,346,297**	6,347,654
20 cents	**35,544,476**	33,556,341
10 cents **	**2,427,511**	2,428,806
5 cents	**8,411,031**	7,973,965
2 cents **	**330,517**	330,517
1 cent	**222,071**	221,961
Others***	**21,568,063**	21,018,813
Total	**661,665,424**	602,195,939
Total face value of Notes and Coins in Circulation	**18,890,072,819**	17,185,099,624

*** These denominations have ceased to be issued by the Bank.*
**** Others include Gold Coins and Commemorative Coins*

15. OTHER FINANCIAL LIABILITIES

	2010	2009
	Rs	Rs
Bank of Mauritius Savings Bonds	943,400	943,400

16. PROVISIONS

	2010	2009
	Rs	Rs
Balance at 30 June	100,000,000	100,000,000

The provision relates to the liquidation of the MCCB Limited. Under the MCCB Limited (Liquidation) Act 1996, the Bank may make additional funds available to the liquidator of MCCB Limited where the liabilities of the MCCB Limited exceed the proceeds from the realisation of its assets. The liquidation of MCCB Limited is still in progress.

17. EMPLOYEE BENEFITS

Amounts recognised in the Statement of Financial Position:

	2010	2009
	Rs	Rs
Defined benefit plan (Note (a))	60,794,701	51,582,553
Short term employee benefits (Note (b))	74,237,083	63,366,352
	135,031,784	114,948,905

(a) Defined benefit plan

The Bank operates a defined benefit plan for some of its employees and the plan is wholly funded. The assets of the funded plan are held independently and are administered by The State Insurance Company of Mauritius Ltd.

17. EMPLOYEE BENEFITS (CONT'D)

The report dated 30 June 2010 submitted by The State Insurance Company of Mauritius Ltd is produced hereunder.

Amounts recognised in the Statement of Comprehensive Income:

	2010	2009
	Rs	Rs
Current service cost	13,942,475	10,986,565
Scheme Expenses	585,973	352,554
Expected return on plan assets	45,447,436	(38,357,207)
Interest costs	(32,383,572)	41,837,559
Actuarial loss	1,152,263	-
Net periodic pension cost included in staff costs	28,744,575	14,819,471
Actual return on plan assets	30,298,787	(31,085,858)

Movements in liability recognised in the Statement of Financial Position:

	2010	2009
	Rs	Rs
At 1 July	51,582,553	54,390,781
Total expenses as per above	28,744,575	14,819,471
Employer contributions	(19,532,427)	(17,627,699)
At 30 June	60,794,701	51,582,553

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2010	2009
	Rs	Rs
At 1 July	(432,832,723)	(398,452,950)
Current service cost	(13,942,475)	(10,986,565)
Interest cost	(45,447,436)	(41,837,559)
Employee Contributions	(9,768,994)	(13,721)
Actuarial losses	(148,099,433)	(1,915,050)
Benefits paid	44,033,288	20,373,122
At 30 June	(606,057,773)	(432,832,723)

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined benefit plan (Cont'd)

Movements in the present value of the plan assets in the current period were as follows:

	2010	2009
	Rs	Rs
At 1 July	**316,073,892**	350,244,006
Expected return on plan assets	**32,383,572**	38,357,207
Actuarial gains	**22,300,211**	(69,443,065)
Contributions from the employer	**19,532,427**	17,627,699
Employee Contributions	**9,768,994**	13,721
Benefits paid	**(44,033,288)**	(20,373,122)
Scheme expenses	**(585,973)**	(352,554)
At 30 June	**355,439,835**	316,073,892

The major categories of plan assets, and the expected rate of return at the reporting date for each category, are as follows:

	Expected rate of return at	
	2010	2009
	%	%
Local equities	**23**	21
Overseas equities and bonds	**20**	14
Fixed interest	**56**	64
Others	**1**	1
Expected return on Plan Assets	**10.5**	11

Amounts recognised in the Statement of Financial Position:

	2010	2009
	Rs	Rs
Total market value of assets	**355,439,835**	316,073,892
Present value of plan liabilities	**(606,057,773)**	(432,832,723)
Deficit	**(250,617,938)**	(116,758,831)
Unrecognised actuarial losses	**189,823,237**	65,176,278
	(60,794,701)	(51,582,553)

The overall expected rate of return on plan assets is determined by reference to market yields on bonds and expected yields differences on other types of assets held based on historical return trends.

The actual return on Plan Assets was Rs 30.3 million (2009: (Rs 31.09) million).

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined benefit plan (Cont'd)

The history of experience adjustments is as follows:-

	2010	2009	2008	2007
	Rs	Rs	Rs	Rs
Present value of defined benefit obligation	**(606,057,773)**	(432,832,723)	(398,452,950)	(405,060,000)
Fair value of plan assets	**355,439,835**	316,073,892	350,244,006	309,850,000
Deficit	**(250,617,938)**	(116,758,831)	(48,208,944)	(95,210,000)
Experience (losses)/gains on plan liabilities	**(148,099,433)**	(1,915,050)	37,256,478	(14,500,000)
Experience (losses)/gains on plan assets	**22,300,210**	(69,443,065)	12,849,293	13,310,000

The Bank expects to make a contribution of Rs 21 million to the defined benefit plans during the next financial year. This estimate may be amended by the Bank of Mauritius on the basis of availability of more accurate information.

The principal actuarial assumptions used for accounting purposes were:

	2010 & 2009
Discount rate	10.5%
Expected return on plan assets	10.5%
Future long-term salary increases	7.5%
Post retirement mortality tables increases	5.5%

(b) Short term employee benefits

	2010	2009
	Rs	Rs
Provision for annual and sick leaves	**47,635,862**	37,680,204
Provision for air mileage	**26,601,221**	25,686,148
	74,237,083	63,366,352

An amount of Rs 10,870,731 representing the increase in provision from Rs 63,366,352 to Rs 74,237,083 has been recognised in the Statement of Comprehensive Income.

(c) Defined contribution pension fund

	2010	2009
	Rs	Rs
Contributions expensed	**25,124,055**	19,113,159

(d) State pension plan

	2010	2009
	Rs	Rs
National Pension Scheme contributions charged	**726,000**	710,103

18. OTHER LIABILITIES

	2010 Rs	2009 Rs
Profit Payable to the Government of Mauritius for transfer to Consolidated Fund in accordance with Section 11 (3) of the Bank of Mauritius Act 2004	**61,544,270**	1,199,958,160
Suppliers' Credits	**454,589,392**	79,710,109
Special Deposits	**2,000,000,000**	-
Abandoned Funds from Banks	**285,807,529**	237,212,845
Interests and Charges Payable	**9,585,971**	5,317,931
Foreign Bills sent for Collection Contra	**141,930**	793,068
Reserve for Repayment of Capital and Interest:		
- Bank of Mauritius Savings Bonds	**169,200**	169,200
Staff Salaries and Other Benefits Payable	**23,189,831**	56,663,776
Special Drawing Rights (SDR) (Note 32)	**3,999,369,638**	-
Others	**(9,312,800)**	102,750
	6,825,084,961	1,579,927,839

Others include Exchange Rate Difference on SWAP Transactions which reverse when the SWAP Transactions fall due.

19. INCOME FROM FINANCIAL ASSETS

(a) Interest and Similar Income on Foreign Assets

	2010 Rs	2009 Rs
Deposit Accounts	**432,448,456**	1,142,754,088
Fixed Income	**405,121,528**	869,916,092
Special Drawing Rights	**10,203,096**	12,276,580
Repurchase Agreements	**4,246,565**	18,787,539
Current Accounts	**13,964,537**	55,184,541
Gold Deposits	**-**	1,885,469
	865,984,182	2,100,804,309

(b) Interest and Similar Income on Local Assets

	2010 Rs	2009 Rs
Loans and Advances		
Special Line of Credit - Sugar Industry	**15,753,858**	29,561,190
Loans and Advances to Banks/Government	**16,438,785**	1,012,110
Special Line of Credit – National Equity Fund	**4,043,326**	4,494,346
	36,235,969	35,067,646
Other Government Securities	**2,334,301**	3,405,445
Other Loans	**2,053,506**	3,025,648
	40,623,776	41,498,739

19. INCOME FROM FINANCIAL ASSETS (CONT'D)

(c) Others

	2010 Rs	2009 Rs
Revaluation of Government Securities	**20,217,204**	44,724,646
Profit on Sale of Government of Mauritius Treasury Bills – Secondary Market Cell	**15,929,948**	29,497,308
Dividend Received	**900,687**	1,018,245
Loss on Sale of Industrial Gold and Dodo Gold Coins	**(1,655,035)**	(598,917)
Profit on Issue of Mauritius Commemorative Coins	**4,065,417**	5,804,944
Profit on Sale of Coins	**4,727**	1,539
	39,462,948	80,447,765
Total Income from Financial Assets	**946,070,906**	2,222,750,813

20. OTHER INCOME

	2010 Rs	2009 Rs
Processing and Licence Fees	**40,894,531**	28,200,920
MACSS & MCIB Fees	**9,895,167**	5,542,651
Commissions	**757,532**	354,444
Rent	**30,350**	48,150
Pension Contributions receivable	**-**	7,449,335
Profit on Sale of Fixed Assets	**1,059,279**	716,003
	52,636,859	42,311,503

21. INTEREST EXPENSE AND SIMILAR CHARGES

	2010 Rs	2009 Rs
Government of Mauritius Accounts	**196,043,941**	218,304,738

22. STAFF SALARIES AND OTHER BENEFITS

	2010 Rs	2009 Rs
Staff Salaries and Allowances	**211,377,258**	157,975,659
Staff Salaries and Allowances Payable	**23,189,831**	56,663,776
Pension Cost	**25,124,055**	16,304,931
Staff Family Protection Scheme	**21,274,249**	4,513,270
National Savings Fund	**726,000**	710,103
	281,691,393	236,167,739

The amount of Rs 211,377,258 includes an increase in provision for short term employee benefits amounting to Rs 10,870,731 (see Note 17(b)).

23. DIRECTORS' REMUNERATION

	2010 Rs	2009 Rs
Governor	**3,140,392**	3,885,212
Deputy Governors (2)	**3,831,146**	4,463,573
Other Directors (6)	**2,160,000**	2,160,000
Salaries and Allowances Payable	**11,300,000**	-
	20,431,538	10,508,785

Directors are paid a monthly fee of Rs30,000. Directors who are also members of the Monetary Policy Committee are, in addition, paid a fee of Rs20,000 per month.

24. OTHER EXPENDITURE

	2010 Rs	2009 Rs
Stationery and Library	**2,459,612**	3,613,966
Postage, Telephone and Reuters	**14,215,928**	14,168,800
Others	**443,253**	118,665
	17,118,793	17,901,431

25. OPEN MARKET OPERATIONS

The Bank, in the pursuit of its objectives to maintain price stability and to promote orderly and balanced economic development, undertakes open market operations to manage liquidity conditions in the domestic foreign exchange and money markets. As such, open market operations are broadly conducted through the issue of Bank of Mauritius Bills, outright sale and purchase of Government securities, conduct of repurchase transactions, special deposit facility and intervention in the domestic foreign exchange market to smooth out any unwarranted volatilities in the rupee exchange rate and improve the functioning of these markets.

Repurchase transactions are conducted under the umbrella of the Master Repurchase Agreement that has been signed by all Former Category 1 Banks with the Bank of Mauritius. The repurchase transactions are treated as secured loans received or granted with change of ownership of the portfolio of bills given as collateral.

26. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	2010 Rs	2009 Rs
Net Profit for the Year	**72,405,023**	1,411,715,482
Adjustments for:		
Non-Cash Increase in Employee Benefits	**20,082,879**	13,922,234
Amortisation of Intangible Assets	**7,782,824**	106,200
Depreciation of Property, Plant and Equipment	**106,654,226**	108,783,063
Profit on Sale of Property, Plant and Equipment	**(1,059,279)**	(716,003)
Dividend Received	**(900,687)**	(1,018,245)
Fair Value(decrease)/increase on Other Investments	**168,810**	(3,071,242)
Operating Profit Before Working Capital Changes	**205,133,796**	1,529,721,489
Change in Interest Receivable	**104,747,735**	556,850,166
Change in Loans and Advances	**91,088,205**	373,392,989
Change in Other Assets	**(416,452)**	77,549,391
Change in Notes and Coins in Circulation	**1,704,973,195**	2,097,421,584
Change in Government Demand Deposits	**(313,115,894)**	5,698,861,713
Change in Banks' Demand Deposits	**3,811,515,804**	814,271,973
Change in Other Financial Institutions' Demand Deposits	**5,718,582**	(14,673,632)
Change in Other Demand Deposits	**28,109,079**	(192,337,422)
Change in Other Liabilities	**6,383,571,012**	69,371,259
Change in Other Financial Liabilities	**-**	(6,355,093,009)
Net Cash Generated From Operating Activities	**12,021,325,062**	4,655,336,501

27. COMMITMENTS AND OTHER CONTINGENCIES

Commitment not otherwise provided for in the financial statements and which existed at 30 June 2010 is as follows:

Capital Subscription in the African Export - Import Bank

The Bank has a commitment to pay on call USD 918,000 for capital subscription in the African Export-Import Bank. This amount has not been accounted for as a liability in the financial statements.

There was no other contingent liability that existed at 30 June 2010.

28. OPERATING LEASE COMMITMENTS

	1 year Rs	1 - 5yrs Rs	Above 5 yrs Rs	Total Rs
New Staff Quarters - Rodrigues	24,000	120,000	384,000	528,000
New Office Building - Rodrigues	100	500	1,600	2,200
Archiving - Plaine-Lauzun DBM	330,000	110,000	-	440,000
Fallback Site – BPML	642,873	107,146	-	750,019
Others	10,000	40,000	-	50,000
	1,006,973	377,646	385,600	1,770,219

An amount of Rs1,030,650 (2009: Rs962,400) has been expensed in the Statement of Comprehensive Income for the year.

29. FINANCIAL INSTRUMENTS

(a) Introduction

A financial instrument, as defined by IAS 32 (Financial Instruments: Disclosure and Presentation), is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

As the monetary authority for Mauritius, the Bank's activities are policy orientated. In the course of carrying out its functions, the Bank is faced with financial risks, operational risks and reputational risks. The main financial risks to which the Bank is exposed to are credit risk, interest rate risk and foreign exchange risk. A significant proportion of these risks arise from the management of foreign exchange reserves of the Bank.

The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of currency portfolios in which the Bank invests. In the management of foreign exchange reserves, minimising liquidity risk and maximising safety and preservation of capital are the prime considerations in order to achieve its prime objectives.

The internal controls and risk management processes are audited regularly by the Internal Audit Division which submits its report to the Audit Committee of the Bank.

(b) Categories of financial instruments

	2010 Rs	2009 Rs
Financial Assets		
Fair value through profit or loss (FVTPL)	**13,847,897,762**	12,832,102,194
Available for sale	**4,485,730,688**	1,490,298,062
Loans and receivables	**53,127,085,650**	50,072,360,823
	71,460,714,100	64,394,761,079
Financial Liabilities		
Fair value through profit or loss(FVTPL)	**943,400**	943,400
Amortised cost	**34,178,649,351**	25,400,613,522
	34,179,592,751	25,401,556,922

(c) Credit Risk

Disclosure of credit risk enables the users of financial statements to assess the extent to which failures by counterparties to discharge their obligations could adversely impact on the Bank's future cash inflows from financial assets held at the reporting date.

The Bank is exposed to credit risk which is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. Credit risk on the securities held by the Bank is managed by holding only high quality marketable securities issued chiefly by Government of Mauritius. Credit risk also arises as a result of investment of foreign exchange reserves with foreign counterparties. Credit risk also arises when the Bank provides liquidity to financial institutions through open market operations as part of monetary policy implementation.

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (Cont'd)

(i) Concentration of Credit Exposure by Geographical Area

The Bank's significant end-of-year concentration of credit exposure by geographical area was as follows:

	2010	2009
	Rs	Rs
Mauritius	**2,360,481,212**	1,083,423,773
USA	**8,893,091,183**	5,915,248,187
United Kingdom	**4,948,336,986**	10,711,974,140
Europe	**55,071,770,183**	46,503,760,210
Others	**187,034,536**	180,354,769
	71,460,714,100	64,394,761,079

(ii) Concentrations of Credit Exposure by Counterparty Types

The Bank's significant end-of-year concentration of credit exposure by counterparty types was as follows:

	2010	2009
	Rs	Rs
Government	**6,189,868,493**	626,104,170
Supranational Financial Institutions	**4,691,231,170**	939,976,670
Foreign Banks and Financial Institutions	**60,036,051,170**	62,070,282,336
Other	**543,563,267**	758,397,903
	71,460,714,100	64,394,761,079

(iii) Credit Exposure by Credit Rating

The following table presents the credit ratings of respective financial assets based on the ratings of Moody's. The Bank's investment in the shares of Afreximbank and SWIFT which typically do not obtain ratings and in Gold are denoted as NR (Not Rated). The Bank's investments with foreign central banks are presented separately.

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (Cont'd)

(iii) Credit Exposure by Credit Rating

	Credit Rating	2010 Rs	%	2009 Rs	%
Cash & Cash Equivalents	Central Banks	**52,474,089,040**	**75.94**	29,291,540,861	46.26
	Aa3	**1,315,807**	**-**	18,245	0.00
	Aa2	**19,482**	**-**	1,297,572	0.00
	Baa2	**107,294**	**-**	79,980	0.00
	NR	**4,487,316,587**	**6.49**	1,490,298,062	2.35
Other Balances and Placements	Central Banks	**12,067,632,378**	**17.46**	32,354,319,155	51.11
	AA+	**-**	**-**	-	-
	AA	**-**	**-**	-	-
Interest Receivable	Central Banks	**47,282,946**	**0.07**	152,387,926	0.24
	Aa3	**1,186**	**-**	45	0.00
	Aa2	**18**	**-**	3,208	0.00
	Baa2	**97**	**-**	198	0.00
	NR	**4,043,396**	**0.01**	3,684,001	0.01
Other Investments	NR	**20,117,849**	**0.03**	20,286,659	0.03
Total External Assets		**69,101,926,080**	**100.00**	63,313,915,912	100.00

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (Cont'd)

(iii) Credit Exposure by Credit Rating

	Credit Rating	2010 Rs	%	2009 Rs	%
Loans and Advances	Aa3	**59,591,231**	**2.53**	12,953,226	1.20
	Baa2	**208,102,693**	**8.82**	433,222,818	40.08
	NR	**158,635,411**	**6.73**	71,241,496	6.59
Investment in Government Securities	NR	**1,827,122,374**	**77.45**	481,344,090	44.54
Other Assets	NR	**105,336,311**	**4.47**	82,083,537	7.59
Total Domestic Financial Assets		**2,358,788,020**	**100.00**	1,080,845,167	100.00
Summary by Major Credit Category					
External Assets	Central Banks	**64,589,004,364**	**93.47**	61,798,247,942	97.61
	Aa3	**1,316,993**	**-**	18,290	-
	Aa2	**19,500**	**-**	1,300,780	-
	Baa2	**107,391**	**-**	80,178	-
	NR	**4,511,477,832**	**6.53**	1,514,268,722	2.39
Total External Assets		**69,101,926,080**	**100.00**	63,313,915,912	100.00
Local Financial Assets	Aa3	**59,591,231**	**2.53**	12,953,226	1.20
	Baa2	**208,102,693**	**8.82**	433,222,818	40.08
	NR	**2,091,094,096**	**88.65**	634,669,123	58.72
Total Domestic Financial Assets		**2,358,788,020**	**100.00**	1,080,845,167	100.00
Total Financial Assets		**71,460,714,100**		64,394,761,079	

(d) Liquidity Risk

Liquidity risk is the difficulty that an entity will encounter in raising funds at short notice to meet financial commitments as and when they arise. Liquidity risk is also the risk arising from the possibility of an entity not realising the fair value of a financial asset that it may have to dispose of to meet a financial obligation. In order to reduce the level of liquidity risk arising out of open market operations, the Bank requires highly liquid marketable securities such as Government of Mauritius Treasury Bills as collateral for loans after applying a haircut.

The Bank manages liquidity of its foreign currency assets in order to settle commitments of the Bank and Government as and when they arise, as well as to intervene on the domestic foreign exchange market. The Bank has set limits with regard to currency and counterparty exposures to contain the risk.

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

The table below shows the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, net of interest receivable or payable on interest bearing non-derivative financial instruments.

Maturity Analysis

At 30 June 2010	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 9 months Rs	Above 9 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
Non Derivative Financial Assets							
Foreign Assets	52,322,843,970	31,925,536	35,150,015	12,000,657,540	4,691,231,171	20,117,848	69,101,926,080
Loans and Advances	128,785,492	33,443,240	48,989,239	38,737,803	176,373,561	-	426,329,335
Investment in Government Securities	90,809,226	57,541,360	30,834,964	1,353,425,230	294,511,594	-	1,827,122,374
Other Assets	9,913,421	-	-	12,942,150	36,301,235	46,179,505	105,336,311
Total Financial Assets	52,552,352,109	122,910,136	114,974,218	13,405,762,723	5,198,417,561	66,297,353	71,460,714,100
Non Derivative Financial Liabilities							
Demand Deposits	27,353,706,320	-	-	-	-	-	27,353,706,320
Other Financial Liabilities	943,400	-	-	-	-	-	943,400
Other Liabilities	2,477,949,644	61,544,270	-	-	4,285,279,917	169,200	6,824,943,031
Total Financial Liabilities	29,832,599,364	61,544,270	-	-	4,285,279,917	169,200	34,179,592,751
Net Liquidity Gap	22,719,752,745	61,365,866	114,974,218	13,405,762,723	913,137,644	66,128,153	37,281,121,349

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity Analysis (Cont'd)

At 30 June 2009	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 9 months Rs	Above 9 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
Non Derivative Financial Assets							
Foreign Assets	29,999,333,430	10,436,936,134	6,466,269,439	15,451,113,580	960,263,329	-	63,313,915,912
Loans and Advances	67,793,394	32,218,434	47,742,635	37,946,045	331,717,032	-	517,417,540
Investment in Government Securities	98,553,313	24,988,917	100,007,509	65,901,843	191,892,508	-	481,344,090
Other Assets	7,346,613	-	-	12,885,350	61,851,574	-	82,083,537
Total Financial Assets	30,173,026,750	10,494,143,485	6,614,019,583	15,567,846,818	1,545,724,443	-	64,394,761,079
Non Derivative Financial Liabilities							
Demand Deposits	23,821,478,751	-	-	-	-	-	23,821,478,751
Other Financial Liabilities	943,400	-	-	-	-	-	943,400
Other Liabilities	141,691,816	1,199,958,160	-	-	237,484,795	-	1,579,134,771
Total Financial Liabilities	23,964,113,967	1,199,958,160	-	-	237,484,795	-	25,401,556,922
Net Liquidity Gap	6,208,912,783	9,294,185,325	6,614,019,583	15,567,846,818	1,308,239,648	-	38,993,204,157

The Bank did not have any derivative financial assets and liabilities at 30 June 2010 (2009: Nil)

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk

Repricing Analysis

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with specific financial assets and financial liabilities, whose interest rates are periodically reset to market, as well as the fair values of other instruments on which the interest rates are fixed throughout the period of the contract. The policy pertaining to changes in fair values due to changes on exchange rates is explained at section (f) below.

The rates on financial assets and financial liabilities which are interest-bearing are set at or around current market levels.

The Bank's reserves management includes investments in a variety of foreign currency denominated cash, deposits and other securities. The Bank's objective is to maximise return within the constraints of liquidity and safety and these are effected through investments with sound financial institutions.

The following table demonstrates the sensitivity of the Bank's profit to interest rate changes, all other variables held constant.

	Change in yield (basis points)	**Effect on Profit 2010 Rs**	Effect on Profit 2009 Rs
Foreign Currency Portfolio	**+50**	**345,509,630**	316,569,580
	-50	**(258,743,973)**	(301,298,254)
Government Securities	**+50**	**(5,913,124)**	(685,873)
	-50	**5,964,454**	689,251

Government securities are marked to market in the Statement of Financial Position of the Bank of Mauritius as they are sold over the counter and traded on the Stock Exchange of Mauritius.

The tables below summarise the Bank's exposure to interest rate risk.

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk (Cont'd)

Repricing Analysis (Cont'd)

	Up to 3 months	Above 3 and up to 6 months	Above 6 and up to 9 months	Above 9 and up to 12 months	Over 12 months	Non-interest bearing	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
At 30 June 2010							
Financial Assets							
Foreign Assets	52,187,646,665	31,877,600	35,097,238	12,000,657,540	4,691,231,171	155,415,866	69,101,926,080
Loans and Advances	128,785,492	33,443,240	48,989,239	38,737,803	176,373,561	-	426,329,335
Investment in Government Securities	90,809,226	57,541,360	30,834,964	1,353,425,230	294,511,594	-	1,827,122,374
Other Assets	-	-	-	-	82,480,740	22,855,571	105,336,311
Total Financial Assets	52,407,241,383	122,862,200	114,921,441	13,392,820,573	5,244,597,066	178,271,437	71,460,714,100
Financial Liabilities							
Demand Deposits	-	-	-	-	-	27,353,706,320	27,353,706,320
Other Financial Liabilities	943,400	-	-	-	-	-	943,400
Other Liabilities	2,000,000,000	-	-	-	-	4,824,943,031	6,824,943,031
Total Financial Liabilities	2,000,943,400	-	-	-	-	32,178,649,351	34,179,592,751
Interest Sensitivity Gap	50,406,297,983	122,862,200	114,921,441	13,392,820,573	5,244,597,066	(32,000,377,914)	37,281,121,349

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk (Cont'd)

Repricing Analysis (Cont'd)

	Up to 3 months	Above 3 and up to 6 months	Above 6 and up to 9 months	Above 9 and up to 12 months	Over 12 months	Non-interest bearing	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
At 30 June 2009							
Financial Assets							
Foreign Assets	29,843,258,052	10,436,936,134	6,466,269,439	15,451,113,580	960,263,329	156,075,378	63,313,915,912
Loans and Advances	67,793,394	32,218,434	47,742,635	37,946,045	331,717,032	-	517,417,540
Investment in Government Securities	98,553,313	24,988,917	100,007,509	65,901,843	191,892,508	-	481,344,090
Other Assets	-	-	-	-	-	82,083,537	82,083,537
Total Financial Assets	30,009,604,759	10,494,143,485	6,614,019,583	15,554,961,468	1,483,872,869	238,158,915	64,394,761,079
Financial Liabilities							
Demand Deposits	-	-	-	-	-	23,821,478,751	23,821,478,751
Other Financial Liabilities	943,400	-	-	-	-	-	943,400
Other Liabilities	-	-	-	-	-	1,579,134,771	1,579,134,771
Total Financial Liabilities	943,400	-	-	-	-	25,400,613,522	25,401,556,922
Interest Sensitivity Gap	30,008,661,359	10,494,143,485	6,614,019,583	15,554,961,468	1,483,872,869	(25,162,454,607)	38,993,204,157

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk (Cont'd)

Effective Interest Rates

The interest-bearing Mauritian rupee denominated assets earn interest at rates ranging from 4.50% p.a. to 6.50% p.a. (2009: 4.50% p.a. to 6.50% p.a.) and from 0% p.a. to 4.50% p.a. (2009: 0% p.a. to 7.12% p.a.) for foreign currency denominated assets.

The interest-bearing Mauritian rupee denominated liabilities bear interest at rates ranging from 4.50% p.a. to 7.00% p.a. (2009: 4.50% p.a. to 7.00% p.a.) and from 0% p.a. to 0.20% p.a. (2009: 0% p.a. to 2.75% p.a.) for liabilities denominated in foreign currencies.

(f) Foreign Currency Risk

The Bank of Mauritius has monetary assets and liabilities denominated in foreign currencies, which consist mainly of currencies of the major trading partners of Mauritius. The liabilities represent mainly deposit accounts maintained by its customers.

The Bank does not hedge against risk of fluctuations in exchange rates. However, it has set aside a reserve called Special Reserve Fund, which is used to cater for movements due to appreciation/depreciation in foreign currencies, Gold and SDR.

The Bank considers it has a well diversified portfolio of foreign currencies which would mitigate any foreign currency risk that may arise from volatility in exchange rates. The composition of the Bank's External Assets based on the SDR Basket is as follows:

	2010 Rs million	2009 Rs million
SDR Basket	**50,141.34**	51,864.33
Non SDR Basket	**18,960.59**	11,449.58
	69,101.93	63,313.91

The SDR Basket comprises the following currencies: JPY, EUR, GBP and USD.

The following table demonstrates the sensitivity of the Bank's equity to exchange rate changes, all other variables held constant.

	Change in MUR Exchange Rate	**Effect on Equity Rs million 2010**	Effect on Equity Rs million 2009
Foreign Currency Portfolio	**+50 cents**	**1,211.79**	1,038.81
	-50 cents	**(1,211.79)**	(1,038.81)

29. FINANCIAL INSTRUMENTS (CONT'D)

(g) Fair Values and Carrying Amount

The fair value of the financial assets and financial liabilities approximate their carrying amounts at the reporting date.

(h) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity investment are disclosed in Note 3 (a) to the financial statements.

30. CAPITAL RISK MANAGEMENT

Under section 10 of the Bank of Mauritius Act 2004, the Stated and Paid Up Capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve. The paid up capital presently stands at Rs1 billion.

31. RELATED PARTY TRANSACTIONS

The balances and transactions with Government of Mauritius, the shareholder, are disclosed in Notes 10, 18, 19 and 21 to the financial statements.

Emoluments payable to Directors are disclosed in Note 23 as per their terms of appointment.

The Bank contributes for the post retirement benefits of its employees as disclosed in Note 17(c), including for the First Deputy Governor. The contribution for the First Deputy Governor was Rs 304,874 (2009: Rs 304,420).

32. TRANSACTIONS WITH THE INTERNATIONAL MONETARY FUND ("IMF")

As a member of IMF, Mauritius was initially allocated an amount of SDR 15,744,000. In August 2009, the IMF Board of Governors approved an additional allocation of Special Drawing Rights to member countries. Accordingly, a total amount of SDR 81,061,549 (Rs 3,999,369,638) was allocated to Mauritius, bringing the total holdings to SDR 96,805,549. The Fund charges the Bank on the SDR allocations and also remunerates it on the SDR holdings on a quarterly basis.

The Bank maintains two current accounts and one securities account for the IMF. The IMF No 1 and No 2 current accounts appear in the Statement of Financial Position under the heading "Demand Deposits from other Financial Institutions". The securities account is not included in the Statement of Financial Position and is kept separately.

The Government of Mauritius has since 2003 been participating in the IMF Quarterly Financial Transactions Plan. Participation in the plan entails the obligation to provide usable currencies in exchange for SDRs when designated, and accords the right to use SDRs in case of a balance of payment need.

List of Charts

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List of Acronyms

AACB	Association of African Central Banks
ACB	African Central Bank
AFRITAC	Africa Regional Technical Assistance Centre
AMCP	African Monetary Cooperation Programme
ATM	Automated Teller Machine
AUC	African Union Commission
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BML	Broad Money Liabilities
BoE	Bank of England
BoJ	Bank of Japan
BOM	Bank of Mauritius
CIF	Cost, insurance and freight
CBS	Central Bank Survey
CCBG	Committee of Central Bank Governors in SADC
CMI	COMESA Monetary Institute
COMESA	Common Market for Eastern and Southern Africa
COMEX	Commodity Exchange
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CSO	Central Statistics Office
CU	Customs Union
DBM	Development Bank of Mauritius Ltd
DCS	Depository Corporations Survey
DEM	Development and Enterprise Market
EAC	East African Community
ECB	European Central Bank
EOE	Export Oriented Enterprises
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FFC	Fact Finding Committee
FFPI	FAO Food Price Index
FIP	Finance and Investment Protocol
FM	Facilities Management
FOB	Free on board
FSC	Financial Services Commission
FTA	Free Trade Area
GBL	Global Business Licence
GBOT	Global Board of Trade
GDFCF	Gross Domestic Fixed Capital Formation
GDP	Gross Domestic Product
GNI	Gross National Income
GNS	Gross National Saving
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Process

ICE	Intercontinental Exchange
ICT	Information and Communication Technology
IDA	International Development Association
IEA	International Energy Agency
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRB	Internal Rating-Based
IT	Information Technology
KMC	Knowledge Management Centre
M&A	Merger and Acquisition
MACSS	Mauritius Automated Clearing and Settlement System
MCIB	Mauritius Credit Information Bureau
MDLS	Mauritius Development Loan Stocks
MEC	Macroeconomic Convergence
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MRA	Mauritius Revenue Authority
MTF	Ministerial Task Force
MTSP	Mechanism for Transitional Support for the Private Sector
NBDTI	Non-Bank Deposit-Taking Institutions
NFA	Net Foreign Asset
NIR	Net International Reserves
NML	Narrow Money Liabilities
NPL	Non-Performing Loans
NYMEX WTI	New York Mercantile Exchange West Texas Intermediate
ODCS	Other Depository Corporations Survey
ODCs	Other Depository Corporations
OECD	Organisation for Economic Cooperation and Development
PIGS	Portugal, Italy, Greece and Spain
PLR	Prime Lending Rate
PMI	Purchasing Managers' Index
POS	Point of Sale
PPI-A	Producer Price Index-Agriculture
PPI-M	Producer Price Index-Manufacturing
QML	Quasi Money Liabilities
REPSS	Regional Payment and Settlement System
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SDR	Special Drawing Rights
SEM	The Stock Exchange of Mauritius Ltd
SEMDEX	Stock Exchange Market Index
SEMTRI	SEM Total Return Index
SSBS	Subcommittee of Banking Supervisors
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-Added Tax
WTO	World Trade Organisation

Appendix I Board of Directors as at 30 June 2010

Chairman	Mr Rundheersing Bheenick, Governor
Director	Mr Yandraduth Googoolye, First Deputy Governor
Director	Second Deputy Governor (Vacant)
Director	Mr Mohunlall Ramphul
Director	Mr Shyam Razkumar Seebun
Director	Mr Jacques Tin Miow Li Wan Po
Director	Mr Jean George Archimede Lascie
Director	Mr Kader Bhayat S.C.
Director	Mr Gooroonaden Vydelingum

Appendix II Monetary Policy Committee as at 30 June 2010

Members

Mr Rundheersing Bheenick	Governor and Chairperson
Mr Yandraduth Googoolye	First Deputy Governor
Second Deputy Governor	(Vacant)
Mr Jacques Tin Miow Li Wan Po	Board Director of the Bank of Mauritius
Mr Shyam Razkumar Seebun	Board Director of the Bank of Mauritius
Mr Jagnaden Padiaty Coopamah	External Member
Mr Pierre Dinan	External Member
Professor Stefan Gerlach	External Member Professor of Monetary Economics at the Institute for Monetary and Financial Stability, Johann Wolfgang Goethe University of Frankfurt, Germany
Dr Mario I. Blejer	External Member Deputy Chairman of Banco Hipotecairo, the Argentine Mortgage Bank; Director and Member of the Board of YPF, the Argentine Petroleum Company, and the IRSA SA; and a Consultant

Observers

Mr Hemraz Oopuddhye Jankee	Chief Economist, Bank of Mauritius
Dr Streevarsen Narrainen	Senior Economic Adviser, Ministry of Finance and Economic Development

Appendix III Senior Management Officials as at 30 June 2010

Governor	Mr Rundheersing Bheenick
First Deputy Governor	Mr Yandraduth Googoolye
Second Deputy Governor	(Vacant)

Secretary	Mrs Hemlata Sadhna Sewraj-Gopal
Chief Economist	Mr Hemraz Oopuddhye Jankee
Director - Supervision	Mr Nurani Subramanian Vishwanathan
Head - Corporate Services Division	Mr Radhakrishnan Sooben
Head - Accounting & Budgeting Division	Mr Jayendra Kumar Ramtohul
Head - Regulation, Policy & Licensing Division	Mr Ramsamy Chinniah
Head - Financial Markets Operations Division	Mr Jaywant Pandoo
Head - Financial Markets Analysis Division	Mrs Marjorie Marie-Agnes Heerah Pampusa
Director - Change Management Office	Mr Mardayah Kona Yerukunondu
Head - Economic Analysis Division	Mr Mahendra Vikramdass Punchoo
Head - Statistics Division	Mr Jitendra Nathsingh Bissessur
Head - Internal Audit	Mr Anil Kumar Tohooloo
Head - Supervision, On-Site Division	Mrs Sudha Hurrymun
Head - Banking and Currency Division	Mr Yuntat Chu Fung Leung
Head - Payments System & MCIB Division	Mr Dhanesswurnath Thakoor
Head - Supervision, Off-Site Division	Mr Deenesh Ghurburrun

Appendix IV Meetings attended by Governor, First Deputy Governor and Second Deputy Governor during the year 2009-10

Governor attended:

- the 30th Meeting of the Bureau of COMESA Committee of Governors (Cairo, Egypt – July 2009)
- the 8th Meeting of the Governors of the AACB, Eastern African Sub-Region (Moroni, Comoros – August 2009)
- the 33rd Assembly of Central Bank Governors of the AACB (Kinshasa, Democratic Republic of Congo – August 2009)
- Meeting of the Committee of Central Bank Governors in SADC (Pretoria, South Africa – September 2009)
- the Commonwealth Central Bank Governors' Meeting, back-to-back with Commonwealth Ministers of Finance Meeting (Larcana, Nicosia) and IMF/World Bank Annual Meetings (Istanbul, Turkey – September-October 2009)
- the 15th Council Meeting of the IFSB (Kuala Lumpur, Malaysia), preceded by Meeting with Governor of the Central Bank and Minister of Finance of Qatar (Doha, Qatar – November 2009)
- Annual Meetings of the BIS in Basel, Switzerland, (June 2010), back-to-back with

(a) A Roundtable on "Building on Recovery: Finance for Scaling Investment" in Oxford, UK

(b) Meeting with Officials of the Royal Mint, Llantrisant, Pontyclun, South Wales

The First Deputy Governor attended:

- Offshore Group of Banking Supervisors Annual Plenary 2009 Meeting (Jersey – September 2009)
- Conference on Core Principles for Effective Deposit Insurance Systems (Basel, Switzerland – September 2009)
- High-Level Conference on Islamic Finance (Frankfurt, Germany – October 2009)
- Meeting to discuss issues relating to financial stability of the Islamic Financial Services Industry (Kuala Lumpur, Malaysia – January 2010)
- Meeting on Macroprudential Approach to Regulation and Supervision (Cape Town, South Africa – January 2010)
- 10th Annual International Seminar on Policy Challenges for the Financial Sector" (Washington DC, USA – June 2010)

The Second Deputy Governor attended:

- the Board Meeting of Afreximbank (Gaborone, Botswana – July 2009)
- the Meeting of the African Governors of the IMF and the World Bank (Freetown, Sierra Leone – August 2009)
- the Board Meeting of Afreximbank (Lusaka, Zambia – September 2009)
- the Board Meeting of Afreximbank (Douala, Cameroon – December 2009)

Appendix V Overseas Training Courses/ Seminars/Workshops

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Ramtohul, Mr J K	Head	Accounting and Budgeting	03 and 04 July 2009	16th General Meeting of Shareholders of Afrexibank preceded by a colloquium at Afrexibank	Gaborone, Botswana
			23 July 2009	1st meeting on Currency Issues and Exchange Risk Working Group	Kuala Lumpur, Malaysia
			28 and 29 September 2009	Final Meeting on Currency Issues and Exchange Risk Working Group	Kuala Lumpur, Malaysia
			20 to 25 November 2009	15th Council Meeting of IFSB	Kuala Lumpur, Malaysia
			05 March 2010	6th IFSB High Level Task Force on Liquidity Management Meeting	London, UK
Bastien Sylva, Mrs Lily Claude	Senior Bank Examiner	Policy Unit	06 and 07 July 2009	Conference on Sustaining Development in Small States in a Turbulent Global Economy	Commonwealth Secretariat, London
Khodabocus, Mr Y W	Chief	Monetary Policy Unit	13 to 17 July 2009	5th ECB Central Banking Seminar	Frankfurt am Main, Germany
Gopaul, Mr S	Chief	Accounting and Budgeting	29 to 31 July 2009	Committee of Central Bank Governors in SADC Financial Markets Subcommittee Meeting	Maseru, Lesotho

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Gopaul, Mr S	Chief	Accounting and Budgeting	07 to 08 June 2010	Conference on Accounting, Financial Reporting and Corporate Governance for Central Banks	Frankfurt, Germany
Thakoor, Mr D	Head	Payments System and MCIB	27 to 29 July 2009	30th Meeting of Bureau of COMESA Committee of Governors of Central Banks, preceded by a Meeting of Technical Experts	Cairo, Egypt
			07 to 11 September 2009	9th ECB Seminar on Payment and Settlement Issues	European Central Bank-Frankfurt, Germany
			22 to 23 February 2010	SADC Payment System Integration Project	Pretoria, South Africa
Ghurburrun, Mr D	Head	Banking Supervision-Off Site	12 to 13 August 2009	Meeting of SADC Subcommittee of Banking Supervisors (SSBS) Steering Committee	Pretoria, South Africa
			09 to 11 September 2009	Meeting of Committee of Central Bank Governors (CCBG) in SADC, preceded by the Officials Meeting (CCBO)	Pretoria, South Africa
			26 to 29 October 2009	Specialised training programme, Federal Reserve Bank of New York	New York, USA

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Ghurburrun, Mr D	Head	Banking Supervision- Off Site	28 to 29 January 2010	FSI High Level Meeting on Recent Developments in Financial Markets and Supervisory Responses	Cape Town, South Africa
			07 to 09 April 2010	SSBS Meeting	Kinshasa, Democratic Republic of Congo
			14 to 16 May 2010	CCBG Secretariat Meeting	Maputo, Mozambique
Gendoo, Mr M H	Analyst	Statistics	14 to 22 August 2009	57TH Session of the International Statistical Institute at SARB	Durban, South Africa
Jhamna, Miss M L J S	Analyst	Economic Analysis	03 to 23 August 2009	Seminar on Development of macro-economy	Beijing, China
			12 to 16 April 2010	Exchange Rate Economics, IMF Institute	IMF, Washington, D.C, USA
Kowlessur, Mr N	Chief	Economic Analysis	05 to 07 August 2009	Working Group of Committee of Central Bank Governors in SADC	Pretoria, South Africa
		Policy Unit	04 to 07 May 2010	Changing capital flows; Policy implications for central banks organised by the Committee of Central Bank Governors Training and Development Forum	SARB Conference Centre in Pretoria, South Africa

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Pandoo, Mr J	Head	Financial Markets Operations	10 to 14 August & 17 to 21 August 2009	BIS Management Programme- Advanced Asset Management Associate Programme	Lucerne and Basel, Switzerland
Sewraj- Gopal, Mrs H	Secretary	Secretary's Office	17 to 21 August 2009	Executive Development Programme Series for SADC Central Banks	Pretoria, South Africa
Haulkhory, Mr A	Analyst	Statistics	25 to 27 August 2009	Workshop on Coordinated Direct Investment Survey(CDIS)	Pretoria, South Africa
			09 to 20 November 2009	Course on Balance of Payments and International Investment Position Statistics	Tunis, Tunisia
Bacorisen, Dr D	Executive Assistant	SDG'S Office	31 August to 03 September 2009	Regional Seminar- Economic Modelling and Forecasting In collaboration with CCBS and Bank of England at Bank of Namibia	Windhoek, Namibia
		Economic Analysis	10 to 14 May 2010	Course on Forecasting in Macroeconomics, IMF Institute	Washington, D.C. USA
Ramlall, Mr I	Analyst	Financial Markets Analysis	31 August to 03 September 2009	Regional Seminar- Economic Modelling and Forecasting in collaboration with CCBS and Bank of England at Bank of Namibia	Windhoek, Namibia

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Ramlall, Mr I	Analyst	Financial Markets Analysis	10 to 19 May 2010	Pan-Commonwealth Workshop on Domestic Debt Management using CS-DRMS	Johannesburg, South Africa
Jankee, Mr H O	Chief Economist	Chief Economist's Office	01 Sept and 03 to 04 Sept 2009	Committee of Experts of the Bureau of COMESA preceded by the selection of a venue for the COMESA Monetary Institute	Nairobi, Kenya and Lusaka, Zambia
			19 to 20 November 2009	Expert Group Meeting of Governance of Financial Institutions in Southern Africa	Johannesburg, South Africa
Bhuckory, Miss R	Manager	Banking Supervision-Regulation, Policy and Licensing	06 to 18 September 2009	Small Countries Programme	Isle of Man
			26 May 2010	Small Countries, Financial Management Central Board Meeting, Isle of Man Round Table	Isle of Man
Seeballuck, Mr P	Chief	Payment Systems and MCIB	15 to 17 September 2009	Payment Systems Course	Maputo, Mozambique
			04 to 07 May 2010	Course on Payment System Policy and Oversight	FRB, New York
Hurree- Gobin Mrs P	Chief	Statistics	17 to 18 September 2009	Commonwealth Secretariat Workshop on Capturing Data on Private Sector External and Short-Term Debt	London, UK

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Hurree- Gobin Mrs P	Chief	Statistics	31 May to 02 June 2010	Meeting of COMESA Committee on Statistical matters	Lusaka, Zambia
Jutton-Gopy, Mrs R	Legal Officer	Policy Unit	24 to 25 September and 28 to 29 September 2009	Banking and Financial Law School Seminar on Legal Issues on IFSI	Bank Negara, Kuala Lumpur, Malaysia
			05 to 06 November 2009	SADC Central Bank Model Law and Explanatory Guide Meeting at South African Reserve Bank Conference Centre	Pretoria, South Africa
Daworaz, Mr N	Analyst	Financial Markets Analysis	28 September to 09 October 2009	Programmation et Politique Financiere	Tunis, Tunisia
Hurrymun, Mrs S	Head	Banking Supervision, On-Site	05 to 07 October 2009	4th Meeting of the Financial System Development and Stability Sub-Committee	Lusaka, Zambia
Baijnath, Mr B	Ag Senior Analyst Programmer	IT	05 to 15 October 2009	Course on Checkpoint Firewall	Dimension Data Learning Solution, Melbourne Australia
Nowbutsingh-Hurynag, Mrs K	Analyst	Chief Economist's Office	12 to 14 October 2009	7th Meeting of the Monetary and Exchange Rates Policies Sub-committee	Lusaka, Zambia
Vishwanathan, Mr N S	Director	Supervision	11 October 2009	Challenges in Governance of Banks: Lessons learned from the Financial crisis	Dubai, UAE

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Gonpot, Mr G	Chief	Banking Supervision, On –Site	19 to 30 October 2009	Word Bank/ IMF Seminar for Senior Bank Supervisors from Emerging Countries	Washington, D.C USA
Sooben, Mr R	Head	Corporate Services	26 to 29 October 2009	Management and Operations Specialized Training Programs	Federal Reserve Bank of New York, USA
			29 June to 02 July 2009	Latest trends and challenges in Central Bank Governance	Bank of England, London, UK
Gopy , Miss P N	Senior Accounts Officer	Internal Audit	28 to 30 October 2009	2eme Conférence des Chefs d'Audit des Banques centrales des Pays francophones	Rabat, Maroc
Ramanah, Mrs S D	Senior Bank Officer	Banking Supervision, On-Site	28 to 29 October 2009	Risk Management and Corporate Governance	Cairo, Egypt
Gungaram, Mrs B	Bank Officer Grade 1	Financial Markets Operations	27 October to 03 November 2009	Fixed income and Equities Morgan Stanley Investment Management Institute	London, UK
Nundoochan, Mrs H	Chief	Financial Markets Analysis	09 to 11 November 2009	Standard Bank's Inaugural African Central Bank Seminar	Johannesburg, South Africa
Ghoorah, Mrs PJ S	Bank Officer Grade 1	Financial Markets Operations	09 to 11 November 2009	Standard Bank's Inaugural African Central Bank Seminar	Johannesburg, South Africa
Ramnarainsingh, Mr S	Chief	Banking Supervision- Off-Site	10 to 12 November 2009	Seminar on Practical Techniques to implement Pillar 2	Basel, Switzerland

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Ramnarainsingh, Mr S	Chief	Banking Supervision- Off-Site	10 to 14 May 2010	Reserve Management Workshop	Lucerne and Basel, Switzerland
Beegoo, Mr G	Analyst	Statistics	02 to 06 Nov 2009	Course on Forecasting with structural models and real-time indicators organised by the IMF	Washington, D.C USA
Jugoo, Mr S	Analyst	Statistics	09 to 20 November 2009	Course on Balance of Payments and International Investment Position Statistics	Tunis, Tunisia
Ramnauth, Mr K	Chief	Knowledge Management Centre	02 to 04 Nov 2009	Training Workshop on Macroeconomic Analysis and Convergence in SADC Region	Gaborone, Botswana
Bissessur, Mr J	Head	Statistics	11 to 12 November 2009	Workshop to assess the status of macroeconomic Statistics and Development	Gaborone, Botswana
			07 to 11 June 2010	Planning session of macro economic Statistics Working Group	South African Reserve Bank Conference Centre, Pretoria, South Africa
Punchoo, Mr V	Head	Economic Analysis	22 to 26 November 2009	2ND Advanced Central Banking Seminar	Kuala Lumpur, Malaysia
			15 to 26 February 2010	Course on External Vulnerabilities	Joint Africa Institute, Tunis, Tunisia

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Heerah Pampusa, Mrs M	Head	Financial Markets Analysis	11 to 13 November 2009	4th Africa Economic Conference on Fostering Development in an era of financial and economic crisis	Addis Ababa, Ethiopia
			05 to 09 April 2010	Course on Extracting Information from Financial Markets	IMF-Washington, D.C. USA
Ellapah, Mr C	Chief	Statistics	03 to 04 December 2009	Donor's workshop	Tunis, Tunisia
			06 to 08 December 2009	AERC Conference on Rethinking African Economic Policy in light of Global Economic Crisis	Nairobi, Kenya
Lo Tiap Kwong, Mrs P	Chief	Statistics	07 to 11 December 2009	Workshop on Regional Harmonization of Monetary and Financial Statistics in SADC and EAC countries	Arusha, Tanzania
Daboo, Mr G	Research Officer	Statistics	07 to 11 December 2009	Workshop on Regional Harmonization of Monetary and Financial Statistics in SADC and EAC countries	Arusha, Tanzania
Mudhoo, Miss M	Analyst	Economic Analysis	18 to 29 January 2010	Workshop on Gestion Macroeconomique et la Politique des Finances Publiques	Tunis, Tunisia

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Soyjaudah, Mrs V	Chief	Financial Stability Unit	25 to 29 January 2010	Course on External Vulnerability in Developing Countries organised by IMF	Washington, D.C USA
Sultanti, Mr N	Ag Chief	Corporate Services	02 to 04 Feb 2010 and 08 to 09 Feb 2010	Annual Meeting on Talent Management in SADC Central Banks followed by a study visit of SARB	Pretoria, South Africa
Gungabisson, Mr S	Senior Bank Examiner	Banking Supervision, On-Site	15 to 26 Feb 2010	Course on Financial Market Analysis at SARB	Pretoria, South Africa
Lauricourt, Miss M M	Senior Bank Examiner	Banking Supervision, Regulation, Policy and Licensing	16 to 18 Feb 2010	Seminar on International Accounting and Auditing for Banks at Bank for International Settlements	Basel, Switzerland
Mihdidin, Mrs N	Analyst	Chief Economist's Office	01 to 18 March 2010	Course on Monetary Policy, Exchange Rates and Capital Flows at Study Center Gerzensee	Gerzensee, Switzerland
Chinniah, Mr R	Head	Banking Supervision, Regulation, Policy and Licensing	07 to 17 March 2010	3rd Intermediate Islamic Financial Course for Financial Regulators at Bank of Negara	Kuala Lumpur, Malaysia
Ramful, Mrs V	Analyst	Financial Markets Operations	17 to 19 March 2010	3rd BIS Meeting on Reserve Management in Africa	Kampala, Uganda
Ramphul, Miss Y	Bank Officer Grade 1	Banking Supervision, On-Site	22 to 26 March 2010	Operational Risk Assessment Seminar at Reserve Bank of India	New Delhi, India

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Kwok Chung Yee, Mr B	Senior Bank Examiner	Banking Supervision, On- Site	15 to 26 March 2010	Course on Financial Soundness Indicators(FSI) organised by Joint Partnership for Africa-	Tunis, Tunisia
Vadeevaloo, Mr S	Senior Bank Examiner	Banking Supervision, On-Site	12 to 16 April 2010	Seminar on Foreign Exchange market, Money Markets and Central Banks Markets Activities organised by Bank de France	Paris, France
Gobin, Miss A	Analyst Programmer	IT	12 to 16 April 2010	CS-DRMS- IT Training	Mbabane, Swaziland
Kallychurn, Mr R	Analyst Programmer	IT	04 to 05 May 2010	Bankmaster User Group Meeting	Kampala, Uganda
Christna, Mr C	Bank Officer Grade1	Accounting and Budgeting	04 to 05 May 2010	Bankmaster User Group Meeting	Kampala, Uganda
Nundlall, Mr P	Senior Bank Examiner	Banking Supervision- Regulation, Policy and Licensing	10 to 12 May 2010	Continental Seminar on AACB on “Lessons Africa should learn from the International Crisis: Mechanisms for Prevention and co-ordination of responses”	Liliongwe, Malawi
Audit, Mr D	Chief	Economic Analysis	10 to 12 May 2010	Continental Seminar on AACB on “Lessons Africa should learn from the International Crisis: Mechanisms for Prevention and co-ordination of responses”	Liliongwe, Malawi

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Rutah, Mr C	Chief	Internal Audit	11 to 14 May 2010	Operational Risk Management and Internal Audit Course at Federal Reserve Bank of New York	New York, USA
Budhna, Mr H	Senior Accounts Officer	Banking Supervision-On Site	31 May to 4 June 2010	11th MAS Banking Supervisors Training Programme	Singapore
Chu Fung Leung, Mr Y	Head	Banking and Currency	29 June to 02 July 2010	3rd Central Bank Seminar on Banknotes	Frankfurt am Main, Germany
Mohesh, Mr M	Analyst	Statistics	31 May to 04 June 2010	Econometric Analysis of Macroeconomic Policies	Lusaka , Zambia
Massafeer, Mr A	Senior Bank Examiner	Banking Supervision-Off Site	13 to 17 June 2010	Seminar on Risk Management	Beatenberg, Switzerland

Appendix VI Local Courses/Seminars/Workshops

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Rutah, Mr C S	Chief	Internal Audit	13 July 2009	Fraud Risk Management	Domaine Les Pailles
			09 to 10 September 2009	Strategic Risk Management	Domaine Les Pailles
Nabee, Mrs N,	Chief	Banking Supervision, Regulation, Policy and Licensing	13 to 15 July 2009	Islamic Accounting	Labourdonnais Hotel Caudan
Nundlall, Mr P	Senior Bank Examiner	Banking Supervision, Regulation, Policy and Licensing		Islamic Accounting	Labourdonnais Hotel Caudan
Bullyraz, Mr R	Senior Bank Examiner	Banking Supervision, Regulation, Policy and Licensing		Islamic Accounting	Labourdonnais Hotel Caudan
Dowlut, Mr A	Senior Analyst Programmer	IT	13 August 2009	Seminar on Smarter Planet Event	Labourdonnais Hotel Caudan
Kallychurn, Mr R	Analyst Programmer	IT	04 November 2009	Cisco Telepresence	Telecom Tower Port Louis
			22 to 26 March 2010	Windows 2008 Servers Course and the ITIL Foundation V 3 course	Formation Recrutement et Conseil Informatique Ltee Pailles
Ghoorah, Mrs P J S	Bank Officer Grade 1	Financial Markets Operations	07 and 08 September 2009	Course on Currency Risk Management	Domaine Les Pailles
Gopaul, Mr S	Chief	Accounting and Budgeting	21 October 2009	AFDB Disbursement Supervision Mission	Ministry of Finance and Empowerment

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Chamary, Mr J C B	Chief	Financial Markets Analysis	21 October 2009	AFDB Disbursement Supervision Mission	Ministry of Finance and Empowerment
Beegoo, Mr G	Analyst	Statistics	28 to 30 October 2009	Workshop on the use of Enterprise Surveys Data from 28 to 30 October 2009	Board of Investment
Mohesh, Mr M	Analyst	Statistics	28 to 30 October 2009	Workshop on the use of Enterprise Surveys Data from 28 to 30 October 2009	Board of Investment
Ramdhan, Mrs M	Chief	Banking Supervision, On-Site	05 November 2009	Forum on Risk Management	Swami Vivekanada International Convention Centre, Pailles
Gobin Jhurry Mrs T	Chief	Payment Systems & MCIB	29 October 2009	3rd Meeting of Project Coordinating Committee for METTAP	MOFEE Conference Room New Government Centre- Port Louis
		Payment Systems & MCIB	17 November 2009	Course on Basics on SWIFT	Labourdonnais Hotel Caudan
Baijnath, Mr B	Ag Senior Analyst Programmer	IT	4 November 2009	Cisco Telepresence	Telecom Tower, Port Louis
			3 December 2009	ISO 27001 Information Security Workshop	Ebene Cyber City
Ellapah, Mr C	Chief	Statistics	6 November 2009	Meeting on Opportunities in the ICT-BPO sector in Mauritius	Sheraton Four Points Ebene-

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Jhary, Mr A	Chief	Accounting and Budgeting	26 and 27 November 2009	Workshop II on Integrity Development: Enhancing Organisational Integrity at Mauritius Revenue Authority	Swami Vivekananda International Convention Centre Pailles
Seeballuck, Mr P	Chief	Payment Systems and MCIB	18 and 19 November 2009	Course on Payments and Cash Management-using FIN Messages	Labourdonnais Hotel Caudan
Padaruth, Mr P E	Bank Officer Grade 1	Payment Systems & MCIB	17 November 2009	Course on Basics on your Passport to SWIFT	Labourdonnais Hotel Caudan
Ackbarally, Mr A Z	Bank Officer Grade 1	Payment Systems & MCIB	20 November 2009	Mt 202 COV-Standard Release Seminar	Labourdonnais Hotel Caudan
Peerboccus,, Mr Y M	Bank Officer Grade 1	Payment Systems & MCIB	20 November 2009	Mt 202 COV-Standard Release Seminar	Labourdonnais Hotel Caudan
Thakoor, Mr D	Head	Payment Systems & MCIB	03 December 2009	ISO 27001 Information Security Workshop	Cyber City, Ebene
Mihdidin, Mrs N	Analyst	Chief Economist's Office	07 November 2009	Workshop on Bio Health Mauritius 2009	Hilton Resort & Spa Flic en Flac
			14 December 2009	Impact of the Global Economic Crisis on Business and Employment in Mauritius	MEF – MCCI Building Ebene
Nowbutsingh-Hurynag, Mrs K	Analyst	Policy	08 December 2009	Workshop on enhancing competition in Mauritius: A new competition regime	Swami Vivekananda Conference Centre, Pailles

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Nowbutsingh-Hurynag, Mrs K	Analyst	Policy	14 June 2010	Conference on Mauritius-European Union relations ; The role of European Development Finance Institutions organized by the Delegation of the European Union and the MCCI	Labourdonnais Hotel Port Louis
Mootoosamy, Mr K	Bank Officer Grade1	Legal	08 December 2009	Workshop on enhancing competition in Mauritius: A new competition regime	Swami Vivekananda Conference Centre Pailles
Sooklall, Mr F B K	Analyst	Economic Analysis	08 December 2009	Workshop on enhancing competition in Mauritius: A new competition regime	Swami Vivekananda Conference Centre Pailles
			01 and 02 April 2010	Workshop on Financial Derivatives organised by the Stock Exchange of Maurtius	Mauritius Chamber of Commerce and Industry
Hurrymun, Mrs S	Head	Banking Supervision-On Site	13 to 15 January 2010	Workshop on Doing Business Reform in Africa : A Peer Learning Experience	Grand Mauritian Hotel Balaclava
Kowlessur, Mr N	Chief	Policy	18 January 2010	Workshop for Investment Climate Assessment	Sheraton Four Points, Ebene
Gonpot, Mr G	Chief	Banking Supervision, On-Site	28 January 2010	Workshop on Broadening access to Financial Services	FSC Mauritius Ebene

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Sajadah-Aujayeb, Mrs N	Legal Officer	Legal	28 January 2010	Workshop on Broadening access to Financial Services	FSC Mauritius Ebene
Jutton Gopy, Mrs R	Legal officer	Policy	29 January 2010	The Hague Convention on Intermediated Securities organized by the Mauritius Bankers Association Ltd	Sheraton Hotel Flic en Flac
Heerah Pampusa, Mrs M M A	Head	Financial Markets Analysis	16 February 2010	"Positioning the SEM as Listing Venue for Global and Specialized Funds"	Swami Vivekananda Domaine Les Pailles
Beekun, Mr I F	Analyst	IT	22 to 26 March 2010	Windows 2008 Servers Course and the ITIL Foundation V 3 course	Formation Recrutement et Conseil Informatique Ltee Pailles
Choolun, Mr J K	Chief	Financial Markets Operations	09 April 2010	Meeting on roles/ responsibilities of MOFEE, Treasury and BOM on Debt matters	MOFEE
			23 and 24 April 2010	2 day conference on South Asian Capital markets	Maritim Hotel Balaclava
Seetohul, Mr I	Analyst Programmer	IT	06 April 2010	Swift Users of Mauritius Meeting	MCB Ltd Port Louis
Chinniah, Mr R	Head	Banking Supervision-Regulation, Policy and Licensing	23 and 24 April 2010	2 day conference on South Asian Capital markets	Maritim Hotel Balaclava
Nundoochan, Mrs H	Chief	Financial Markets Analysis	30 March 2010	Workshop on Financial Derivatives organized by the Stock Exchange	Mauritius Chamber of Commerce and Industry
			09 April 2010	Meeting on roles/ responsabiliies of MOFEE, Treasury and BOM on Debt matters	MOFEE

NAME	DESIGNATION	DIVISION/ UNIT	DATE	COURSE/ SEMINAR/ WORKSHOP	HOST/VENUE
Nundoochan, Mrs H	Chief		23 and 24 April 2010	Two- day conference on South Asian Capital Markets	Maritime Balaclava
Gungaram, Mrs B	Bank Officer Grade 1	Financial Markets Analysis	02 April 2010	Workshop on Financial Derivatives organized by the Stock Exchange	Mauritius Chamber of Commerce and Industry
Bacorisen, Dr D	Executive Assistant	Economic Analysis Division	01 April 2010	Workshop on Financial Derivatives organised by the Stock Exchange	Mauritius Chamber of Commerce and Industry
Mudhoo, Miss M	Analyst	Economic Analysis	23 and 24 April 2010	Two-day conference on South Asian Capital Markets	Maritim Hotel Balaclava
Boodhun, Mr R	Bank Attendant/ Tradesman	Facilities	01,03 and 07 June 2010	Course on Inspection and testing of electrical installations	Integral Training Institute Ltd Curepipe

Appendix VII Recruitments / Appointments

RECRUITMENTS

Mr Dhaneshwur Bhoosungur was appointed Security Manager with effect from 14 October 2009.

APPOINTMENTS

Mrs Basuntee Gowreesunkur, Bank Officer Grade III, was appointed Confidential Secretary with effect from 04 January 2010.

Mrs Indranee Ramburn, Bank Officer Grade III, was appointed Confidential Secretary with effect from 04 January 2010.

Mrs Rajeshpedi Sola Veeramundan, Bank Officer Grade III, was appointed Confidential Secretary with effect from 04 January 2010.

Mrs Jaymala Goburdhan, Bank Officer Grade III, was appointed Confidential Secretary with effect from 04 January 2010.

Appendix VIII Retirements / Resignations

RETIREMENTS

Mrs Marie Viviane Josette Sangaraille, Confidential Secretary, retired from the service of the Bank with effect from 17 July 2009.

Mr Somdath Gopal, Dealer, retired from the service of the Bank with effect from 28 November 2009.

Mrs Bibi Farozia Jhumka, Confidential Secretary, retired from the service of the Bank with effect from 01 January 2010.

Mrs Veermala Buckoreelall, Bank Officer Grade I, retired from the service of the Bank with effect from 01 January 2010.

Mr Ramchandradeo Naggea, Chief – Supervision, Off-Site Division, retired from the service of the Bank with effect from 01 January 2010.

Miss Leena Govendasamy, Bank Officer Grade III, retired from the service of the Bank with effect from 01 January 2010.

Mr Kaveeraj Kalee Nako, Senior Bank Officer, retired from the service of the Bank with effect from 01 February 2010.

Mr Noel Josue Cangy, Chief – Banking & Currency Divison, retired from the service of the Bank with effect from 01 March 2010.

Mr Krishnadutt Aunhachee, Administrative Officer, retired from the service of the Bank with effect from 01 March 2010.

Miss Lakshmi Appadoo, Chief - Governor's Office, retired from the service of the Bank with effect from 19 March 2010.

Mrs Rosida Bibi Lalmahomed-Jeetun, Junior Dealer, retired from the service of the Bank with effect from 01 May 2010.

Mrs Hewanti Devi Tylamma, Senior Bank Officer, retired from the service of the Bank with effect from 01 May 2010.

Mrs Saloni Kumari Boodhoo, Confidential Secretary, retired from the service of the Bank with effect from 01 June 2010.

Mrs Chandrowtee Jeetoo, Bank Officer Grade I, retired from the service of the Bank with effect from 01 June 2010.

RESIGNATIONS

Miss Priscilla Sheshma Muthoora, Research Officer, resigned from the service of the Bank with effect from 24 July 2009.

Mr Jeevendranath Thakoor, Research Officer, resigned from the service of the Bank with effect from 24 July 2009.

Appendix IX Completion of Studies

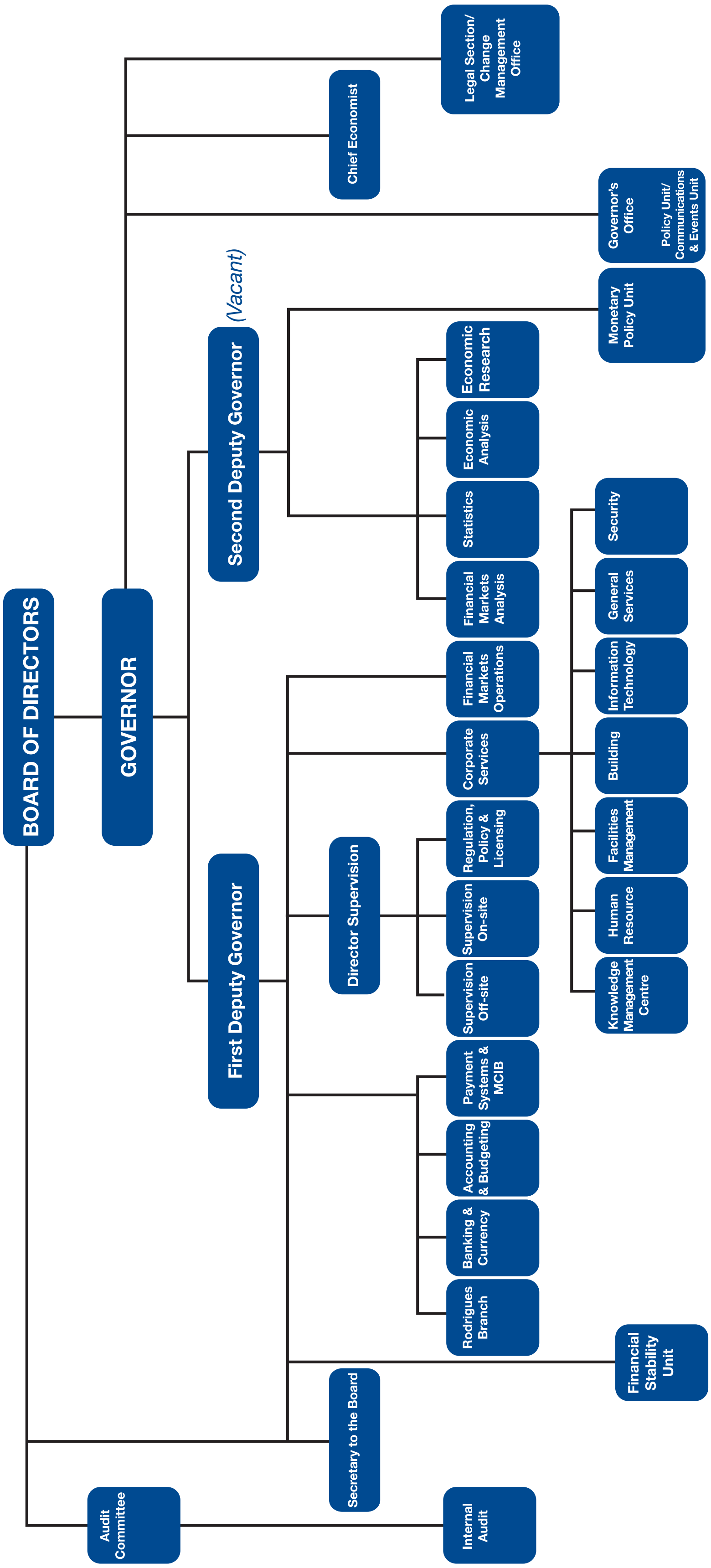
Mr Dooneshsingh Audit, Chief – Economic Analysis Division, has been awarded the degree of Master of Public Administration by the Columbia University, New York - USA in October 2009.

Mrs Sarita Devi Ramkooleea, Bank Officer Grade III, has been awarded the degree of Master of Business Administration by the Management College of Southern Africa in October 2009.

Mr Ghanish Beegoo, Research officer, has been awarded the Master of Financial Management by the Annamalai University, Chennai - India in December 2009.

Mr Dhaneshwur Doobree, Head – Banking & Currency Division, has been awarded the Doctor of Business Administration with a Specialisation in Human Resource Management by the University of Queensland in April 2010.

Appendix X Organisation Chart as at 30 June 2010



Appendix XI List of banks, non-bank deposit taking institutions, money-changers and foreign exchange dealers licensed by the Bank of Mauritius

The following is an official list of banks holding a Banking Licence, institutions other than banks which are licensed to transact deposit taking business and cash dealers licensed to transact the business of money-changer or foreign exchange dealer in Mauritius and Rodrigues as at 30 June 2010.

Banks Licensed to carry Banking Business

1. ABC Banking Corporation Ltd[1]
2. AfrAsia Bank Limited
3. Bank One Limited
4. Bank of Baroda
5. Banque des Mascareignes Ltée
6. Barclays Bank PLC
7. Bramer Banking Corporation Ltd
8. Deutsche Bank (Mauritius) Limited
9. Habib Bank Limited
10. HSBC Bank (Mauritius) Limited
11. Investec Bank (Mauritius) Limited
12. Mauritius Post and Cooperative Bank Ltd
13. P.T Bank Internasional Indonesia
14. SBI (Mauritius) Ltd
15. Standard Bank (Mauritius) Limited
16. Standard Chartered Bank (Mauritius) Limited
17. State Bank of Mauritius Ltd
18. The Hongkong and Shanghai Banking Corporation Limited
19. The Mauritius Commercial Bank Ltd.

Non-Bank Deposit Taking Institutions

1. AXYS Leasing Ltd
2. Barclays Leasing Company Limited
3. Cim Finance Ltd
4. Dölberg Asset Finance Limited
5. Finlease Company Limited
6. La Prudence Leasing Finance Co. Ltd
7. Mauritius Housing Company Ltd
8. Mauritian Eagle Leasing Company Limited
9. SICOM Financial Services Ltd
10. The Mauritius Civil Service Mutual Aid Association Ltd
11. The Mauritius Leasing Company Limited

Money-Changers (Bureaux de Change)

1. Abbey Royal Finance Ltd
2. Change Express Ltd.
3. Easy Change (Mauritius) Co LTD
4. EFK Ltd
5. InterCash Ltd
6. Iron Eagle Ltd
7. Jet Change Co Ltd
8. Max & Deep Co. Ltd
9. Moneytime Co. Ltd
10. Storm Rain Co Ltd
11. Unit E Co Ltd
12. Viaggi Finance Ltd
13. Vish Exchange Ltd
14. Gowtam Jootun Lotus Ltd[2]

Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Cim Forex Ltd
3. Forex Direct Ltd
4. Shibani Finance Co. Ltd
5. Thomas Cook (Mauritius) Operations Company Limited

[1]ABC Banking Corporation Ltd was issued a banking licence on 1 June 2010 and started operations as from that date.

[2]The Bank suspended the Licence granted to Gowtam Jootun Lotus Ltd to carry on the business of money-changer with effect from 26 January 2006.

Acknowledgements

The preparation of this Report was coordinated by a team comprising Mr V M Punchoo, Mr D Audit, Mr W Khodabocus, Mr F Sooklall, Dr D Bacorisen, Ms M Mudhoo, Ms M Jhamna and Mr M Mohesh.

Contributions for the various chapters in the Report were made by the following officers:

Mr V M Punchoo for *Review of the Economy;* Ms M Jhamna for *National Income and Production;* Ms M Mudhoo and Mr G Beegoo for *Labour Market* and *Prices,* respectively*;* Mr G Beegoo, Mr M Gendoo and Ms N Lo Tiap Kwong for *Money and Banking;* Mr M Mohesh, Mr N Kowlessur, Ms M Heerah-Pampusa, Ms H. Nundoochan, Mr C Ellapah, Mr I Ramlall and Mr N Daworaz for *Government Finance;* Ms P Huree Gobin, Mr S Jugoo and Dr D Mulliah for *Balance of Payments and External Debt;* Mr W Khodabocus for *Monetary Policy*; Ms N Mihdidin for *Regional Cooperation;* Mr F Sooklall and Dr D Bacorisen for *International Economic Developments;* Mr H Ramsurn, Mr S Ramnarainsing, Ms N Nabee, Ms R Bhuckory, Mr P Nundlall, Ms M Lauricourt, Mr Y Rughoobur, Mr R Bullyraz, Ms V Ramdonee and Ms S Golam Hossen for the chapter on *Regulation and Supervision*; Mr J Pandoo, Mr J K Choolhun, Mr J C Chamary, Mr V Koonjul, Ms V Ramful, Ms M Heerah-Pampusa, Ms H. Nundoochan, Mr C Ellapah, Mr I Ramlall and Mr N Daworaz for the Chapter on *Financial Market Developments;* Ms V Soyjaudah and Mr K Pitteea for the chapter on *Financial Stability;* Mr J Ramtohul, Mr A Jhary and Mr S Gopaul for the Chapter on *Accounting and Budgeting*; Mr D Thakoor, Ms T Gobin-Jhurry and Mr P Seebaluck for the Chapter *Payment Systems and Mauritius Credit Information Bureau*; Mr Y Chu Fung Leung, Mr H J C David, Mr R Gopaul, Mr A Ramkurrun and Mr L Mallet for the Chapter on *Banking and Currency;* Mr R Sooben, Mr K Ramnauth and Mr N Bakurally for the chapter on *Corporate Services*; Mrs H Sewraj-Gopal, Mr R Sooben and Mr W Khodabocus for the chapter on *Corporate Governance.*

The organisation of the Launching Ceremony of the first commemorative platinum coin of the ‘Father of the Nation’ Platinum Series organised by a team comprising officers from various divisions of the Bank.

The Sports Organising Committee was led by Mr J Pandoo and comprised Mr N Sultanti, Mr H Budhna, Mrs R Gopy, Mr K K Nako, Mr K Pittea, Mrs U Pratap-Gaya, Mrs K Seebaluck-Beerbul, Ms A D Gobin and Mr N Boojhawon.

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