ANNUAL REPORT

Year ended 30 June 2011

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Letter of Transmittal

The Governor

Bank of Mauritius
Port Louis

25 October 2011

The Honourable Charles Gaëtan Xavier-Luc Duval, G.C.S.K.,
Vice-Prime Minister,
Minister of Finance and Economic Development,
Government House,
Port Louis.

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

Annual Report and Audited Accounts 2010-11

In accordance with the provision of Section 32 (3) of the Bank of Mauritius Act 2004, I transmit herewith the forty-fourth Annual Report of the Bank, which also contains audited Accounts of the Bank for the year ended 30 June 2011.

Yours sincerely

Rundheersing Bheenick

Statement from the Governor

As I settled down to write this, it struck me that what I had described as "stressful and extraordinary times" in my previous Statement seem set to last for quite some time. The global economy has become even more unpredictable and much of the traditional thinking is being put to the test as long-held paradigms are thrown overboard. Hopes of a quick and easy recovery faded away rapidly. New threats have emerged. Persistent Eurozone sovereign debt concerns have thrown markets into turmoil, driving bond-yields of vulnerable economies to record highs.

The situation has been no less alarming on the other side of the Atlantic where Standard & Poor's downgraded the credit rating of the US, a debt default was averted *in extremis*, and financial markets plunged. Business sentiment and consumer confidence have nosedived as businesses and households postpone spending and consumption. All these, together with jittery markets hungry for good news that, when they come, prove all-too-fleeting, make this super-cycle one of the most volatile ever witnessed.

In most advanced economies, the global recession had a negative impact on budgetary conditions, with many governments gradually adopting austerity measures. Under the pressure of market sentiment, fiscal consolidation and structural adjustments have become the order of the day.

Emerging economies could not long survive unscathed. So it has been for Mauritius. As we engaged to deal with these snowballing challenges, the Bank remained alert and nimble, taking decisive and timely action to protect the interest of the Mauritian economy.

As in years past, let me recapture the highlights of the year gone by and briefly comment on the present and future outlook.

- The financial health of our banks was at the top of our agenda. They remained resilient and profitable, with aggregate pre-tax profits standing at Rs13.3 billion in 2010/11, as against Rs13.9 billion in the preceding year.

- A sure sign of the fine health of our banking sector was the entry of additional operators on the banking scene, with (i) the conversion of a non-bank deposit taking institution into a full-fledged bank in June 2010 and (ii) the first Islamic bank starting operations in March 2011.

- The Monetary Policy Committee (MPC) took a number of proactive measures during the year. When the economic climate showed signs of losing momentum, the MPC decided unanimously in September 2010 to lower the Key Repo Rate (KRR) by a full 100 basis points, to support the on-going restructuring of enterprises. This policy decision went in the opposite direction of the stance that most central banks were adopting at the time. We were vindicated in our decision when domestic data releases in the first half of 2011 indicated that the economy was performing well despite the uncertain global economic environment. However, since inflationary pressures started building up, the MPC adjusted its monetary policy stance and proceeded to two successive hikes in the KRR in March and June 2011. Inflation rose sharply from 1.7 per cent in June 2010 to 5.1 per cent in June 2011.

- The year was characterised by a system plagued with excess liquidity, a situation diametrically opposite to what prevailed in many leading economies. The Bank innovated by issuing instruments of longer maturity, namely Bank of Mauritius Notes of 2-Year, 3-Year and 4-Year maturities. To complement these measures, we raised the Cash Reserve Ratio in successive steps from 5.0 per cent to 7.0 per cent. The measures were so successful that the excess reserves disappeared, with the system even experiencing short bouts of liquidity stress.

- Faced with the impact of the low interest rates on our investments in the major currencies, we actively pursued our reserves diversification strategy – you will remember that we had more than doubled our gold holdings to around 6 per cent of our reserves. We reduced our percentage holdings of US dollars which stood at around 70 per cent in 2001 down to around 30 per cent currently. We increased our holdings in high-yielding currencies – namely New Zealand dollars, Australian dollars as well as the Danish krone and the Swedish krona – and our investment in Fixed Income Securities. We entrusted a new mandate for the management of 150 million euros to the Bank for International Settlements. We added the Sovereign Investment Partnership of the World Bank as a portfolio manager for an initial tranche of 100 million US dollars. These initiatives are already bringing results and have strengthened our balance sheet. Discussions are on-going for the investment of part of our reserves in the securities of some BRICS, namely India, South Africa and China.

- We have consolidated our foreign exchange reserves during the year. The gross official international reserves of the country increased from Rs70.1 billion at the end of June 2010 to Rs81.7 billion at the end of June 2011. Furthermore, the import coverage of the country's net international reserves increased from 39.5 weeks at the end of June 2010 to 41.5 weeks at the end of June 2011.

- Currency markets showed very high volatility throughout Financial Year 2010/2011. In spite of this turbulence, we succeeded in maintaining a fairly stable exchange rate during the year under review. As observed by the International Monetary Fund in its Article IV Consultation Report of February 2011, our currency was broadly in line with economic fundamentals.

- While in most advanced economies, there was a marked deterioration in the public accounts, our public finances have proved to be quite resilient to shocks. Public sector debt remained quite close to the statutory level of 60 per cent of GDP. From 57.7 per cent as at end-December 2010, it fell to 55.9 per cent at end-June 2011. Moody's rating of Baa2 and stable outlook for Government of Mauritius bonds reflected the healthy state of our public finances.

- We struck a major blow for transparency when we took the bold decision to publish the CAMEL Ratings of all banks in the country. The first ratings were published in April 2011 and it is hoped that making these ratings widely available will lead to a better-informed consumer while encouraging banks to keep up their performance.

- The Bank, now a full member of the Islamic Financial Services Board, pursued its efforts to consolidate the enabling environment for Islamic finance. We joined in the global initiative to launch the International Islamic Liquidity Management Corporation as a founder-member in October 2010, along with ten other central banks and two multilateral organizations. We provided for staff training in Islamic finance under the Memorandum of Understanding (MoU) which we signed with Bank Negara Malaysia in October 2010.

- We also joined the International Association of Deposit Insurers as an Associate member as we are actively working towards the establishment of a deposit insurance scheme for Mauritius.

- During the year in review, in collaboration with the banking sector, we put in significant efforts to accelerate the upgrading of our national payment system to enable the clearing of cheques electronically. I am pleased to report that the cheque truncation system is now a reality in Mauritius and cheques are cleared in real time. I shall come back on this development in my next Statement.

- We made much headway in consolidating our position on the regional front. The Bank of Mauritius was appointed as the Settlement Bank of REPSS, the Regional Payment and Settlement System, to assist the cross-border payment and settlement needs of exporters and importers of COMESA member-states through their respective Central Banks. We are all set for REPSS to go live soon. The System will allow for same day settlement at much lower cost as compared to the current system which relies on settlement via universal banks established in money centres. We are also looking into the possibility of extending the REPSS platform to countries beyond COMESA.

- In our endeavour to strengthen relations and bilateral ties with peers in the region, we welcomed Governor Laporte of the Central Bank of Seychelles at the head of a delegation to share our experience in certain areas of central banking. We hosted the 31st Meeting of the Bureau of the COMESA Committee of Governors of Central Banks in August 2010.

- A further focus this year was our enhanced Communication and Outreach Programme. The most direct form of communication was through a program of regular speeches by senior Bank officials, including myself. In fact, a record number of speeches have been uploaded on the Bank's website to inform the public on the thinking of the Bank on various issues of topical interest. The MPC Statement and the post-MPC press conference have become reference points for the media and the public at large, including Mauritius-watchers overseas. The decision-making process of the MPC has thus become more transparent, enhancing its accountability.

- We also received the visit of eminent speakers from abroad, namely Paul Collier, Professor of Economics and Director of the Centre for African Studies, University of Oxford who delivered a talk on "Central Banking Challenges in Africa", and Mr Steven Barrow, Head of G10 Strategy at Standard Bank London, who addressed the topic of "Making Policy in a Difficult Global Environment".

- As indicated in my previous Statement, we concluded and signed an MoU with the Competition Commission of Mauritius to promote and maintain a competitive and sound financial environment in Mauritius.

- As a responsible citizen, the Bank brought its contribution for a greener Mauritius with the creation of a Bamboo Garden in the Midlands region situated in the central part of the island. We sought the expertise of the Agricultural Research and Extension Unit of the Ministry of Agro-Industry and Food Security to assist us in developing the Bamboo Garden and we accordingly entered into an MoU with them. At the time of writing this Statement, the project is under implementation.

- Still in the context of its programme of Corporate Social Responsibility, the Bank sponsored the National Inter Club Youth Championship for the fourth consecutive year in Mauritius and for the second time in Rodrigues.
- Tenders were launched for the construction, on a D&B basis, of the Bank's regional office at Rodrigues.
- We pursued our policy to enhance the professional competence of our staff to respond to the new exigencies facing central banks. Human resource development continued to be one of our top priorities. Training was mainly in the fields of bank supervision and macroeconomic modelling.

Looking Ahead

Our monetary policy framework has achieved commendable credibility in a short period and has even been held up as a model for similar countries by the IMF. But after four years of operation, our MPC was ripe for a review. Sir Alan Budd, a well-known figure in the world of finance in the UK and a founder-member of the Monetary Policy Committee of the Bank of England, conducted an in-depth review of the MPC. One of the areas he was specifically asked to look into was how to enhance transparency and communication. Sir Alan Budd's recommendations took on board our proposals to publish both the minutes of meetings and the pattern of individual votes. The recommendations will take effect as from the next MPC meeting (December 2011). So we will be looking at a still more transparent MPC, which will without doubt enhance its credibility.

We also have plans in the year ahead to deepen our financial market through the listing of Government securities on the stock market and conducting single-maturity auctions. By the time this Report would be in the public domain, we would be holding the online auctioning of Government paper.

The global financial crisis has highlighted the issue of systemically important financial institutions. In our case, the concern is the high degree of concentration in the banking sector, which I have raised in recent public addresses. In view of the likely implications on financial stability, the Bank intends to deal with this issue in collaboration with the banking industry.

Our country has garnered considerable praise internationally for what we have achieved so far. We continued with top rankings in leading league tables such as the Index of Economic Freedom, the Corruption Index of the Mo Ibrahim Foundation, the World Bank's Ease of Doing Business index, the Global Competitiveness Report etc. But, as investment advisers are supposed to warn their customers, past performance is no guarantee of future results. The heightened uncertainty and the turbulent external environment mean that the winners of to-morrow will be those who can adapt and evolve faster than the competition to the changing environment.

My gratitude goes to Dr the Honourable Navinchandra Ramgoolam, GCSK, FRCP, our Prime Minister, for his unstinting support during my second term of office. The year under review started with Hon. Pravind K. Jugnauth, MLA heading the Treasury. I record my thanks to him for the cordial working relations that we enjoyed during his tenure of office. After the Cabinet re-shuffle of August 2011, Hon. Charles Gaëtan Xavier-Luc Duval, GCSK, MLA, took over as Vice-Prime Minister and

Minister of Finance and Economic Development. I look forward to a fruitful working relationship with him as the Treasury and the Central Bank, with collective resolve, move the country forward.

I seize the opportunity to thank the Chairman and the Chief Executive of the Mauritius Bankers Association, the Chief Executives of banks and all the stakeholders with whom I had the pleasure of working and thank them for their collaboration and contribution to the considerable work undertaken by the Bank during this past year.

I also extend my appreciation to my two Deputy Governors and to the staff of the Bank for their contribution to the Bank's work.

As this Annual Report goes to press, the crisis is very much on and no one can really say for sure where the global economy is heading. Against this brittle setting, we will put in every effort to shore up our economy, particularly the banking sector, to make it less sensitive to external shocks. We will ensure that we will not compound these external shocks by domestic policy mistakes. The challenges on the horizon call for an exceptional degree of vigilance and enlightened policymaking. I trust that our countrymen will live up to these expectations.

Rundheersing Bheenick
7 October 2011

Glimses of Event during the year

Launch of the second commemorative coin of the "Father of the Nation" Platinum series

Momento of first Mauritian note printed by De la Rue presented to Governor Bheenick by Mr Keith Brown, Managing Director of De la Rue

Review of the MPC: Sir Alan Budd and Governor Bheenick meet with the press

Governor Bheenick welcomes Governor Pierre Laporte of the Central Bank of Seychelles, at the Bank

Gold Medal presented by former Governor Maraye to Mr Takesh Luckho, Best Student of the University of Mauritius in MSc Applied Economics programme

Winners of the fourth edition of the Monetary Policy Challenge

The Bank promotes the young sporting talents

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 fourth consecutive year, sponsored the National Inter Club Youth Championship, which was held during the week-end 13-14 November 2010 at the Maryse Justin Stadium in Réduit. Some 700 athletes from 33 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 6 November 2010 in Rodrigues and was also sponsored by the Bank. Some 350 athletes took part in the games in Rodrigues.

FSI Seminar on Risk-Based Supervision for SADC countries hosted by the Bank

SADC CCBG Macroeconomic Subcommittee meeting hosted by the Bank

1 Review of the Economy: 2010-11

Over the period under review, the global economy continued to recover although there remained a high degree of uncertainty surrounding the economic recovery in the wake of lingering concerns over the euro area sovereign debt crisis and greater than expected weakness in US activity. The second semester of 2010 was characterised by subdued economic activity in the major advanced economies, fuelling expectations that central banks would introduce further accommodative measures. Since early November 2010, concerns about sovereign debt risks in several euro area economies have resurfaced. The devastating earthquake and tsunami in Japan in early March 2011 weighed on short-term growth prospects while geopolitical worries linked to unrest in the Middle East and North Africa contributed to strong increases in global oil prices, fuelling inflationary pressures across the world. Economic activity in the major advanced economies remained fragile while emerging economies sustained a firm recovery, although the rate of expansion showed signs of moderation due to weaker external demand. Renewed concerns about inflation and overheating pressures prompted a number of central banks in emerging countries to tighten policy and implement various measures to limit the appreciation of their currencies.

Global economic growth is estimated to have slowed sharply in the second quarter of 2011 from an annualised rate of 4.3 per cent in the first quarter. Leading indicators showed growth moderating in both advanced economies and emerging market economies under the impact of high oil and other commodity prices, the spillover from the Japanese natural disasters and monetary tightening in emerging economies to contain inflationary pressures. In September 2011, the IMF revised down its forecast of global growth to 4.0 per cent in 2011, from 4.3 per cent expected in June, noting that downside risks to the economic outlook have increased substantially mainly on account of Europe's debt woes and sluggish economic conditions in the US. Growth is set to be weak in advanced economies facing fiscal and financial sector balance sheet problems, which will continue to be a drag on employment. On the other hand, activity will continue to expand strongly in many emerging and developing economies although the pace of growth may moderate.

Global inflation rates started rising in the latter half of 2010 as increases in commodity prices spilled over to headline inflation. By June 2011, most inflation targeting countries had headline inflation above the target zone. The rise in inflation was more pronounced in emerging economies due to the higher share of food and fuel in the consumption basket.

The FAO Food Price Index (FFPI) recorded significant increases over the year, reflecting in part concerns about future supply given weather-related declines in global production, low inventories and prolonged uncertainty in financial markets. The FFPI hit an all-time high of 238 points in February 2011. Overall, the FFPI surged by 38.7 per cent between June 2010 and June 2011.

Oil prices rose considerably in 2010 in response to strong global demand although doubts about the global growth at times caused oil prices to fall. Heightened concerns over supply disruptions following political unrest in a number of countries in the Middle East and North African region together with a generally weak US dollar also pushed prices higher. NYMEX WTI crude and ICE Brent averaged US$89.5 and US$96.7, respectively, in 2010-11 compared to both averaging US$75.3 in 2009-10.

The Mauritian economy recovered in 2010 and posted a real Gross Domestic Product (GDP) growth rate of 4.2 per cent compared to 3.1 per cent in 2009, driven by fairly buoyant activity in key sectors of the economy. All sectors registered positive growth rates except the agricultural sector. Among the external demand-led sectors, the textile sector recorded zero growth while the hotels and restaurants sector rebounded from a sharp contraction a year ago. Fiscal stimulus measures implemented by the government together with an accommodative monetary policy stance in the second half of 2010, against the backdrop of the global economic recovery, provided support to domestic economic activity.

In the first and second quarters of 2011, the economy grew by 4.2 per cent and 3.9 per cent, respectively, year-on-year, indicating an easing of the growth momentum, compared to growth of above 5.0 per cent in the second semester of 2010. The construction sector contracted sharply while other key sectors - manufacturing, transport, storage and communications, financial intermediation and real estate, renting and business activities - recorded fairly buoyant growth. On a seasonally-adjusted quarter-on-quarter basis, the economy grew by 0.2 per cent in the second quarter of 2011 as against a contraction of 1.2 per cent in the first quarter of 2011. Looking ahead, the main risks to the growth outlook would stem mainly from subdued consumer sentiment in main export markets and further increases in commodity prices.

The labour market in Mauritius showed a mixed picture in 2010, with some sectors registering gains in employment while other sectors shed off workers. In the hotels and restaurants sector, employment increased as a result of positive growth rate registered by the sector following the recovery in main markets. In the manufacturing sector, job losses were recorded partly as a result of the continuing restructuring exercise carried out in the textile sector, which lost around a thousand jobs in 2010. The unemployment rate, which stood at 7.6 per cent in the third quarter of 2010, declined to 7.2 per cent in the last quarter of 2010 before rising to 8.3 per cent in the first quarter of 2011. It thereafter declined to 8.0 per cent in the second quarter of 2011. The unemployment rate for 2011 is estimated at 7.8 per cent, unchanged from the 2010 level. In the short-to medium-term, there is need for more re-skilling and re-training programmes to bring about sustained improvements in the labour market.

Consumer price inflation surged from a low of 1.7 per cent in 2009-10 to 5.1 per cent in 2010-11, partly as a result of the surge in global food and energy prices and partly as a result of domestic factors, in particular, higher excise duties on cigarettes, alcoholic and non-alcoholic beverages and hikes in the administered prices of electricity and transport tariffs in December 2010. Year-on-year inflation rose sharply from 2.4 per cent in June 2010 to 6.6 per cent in June 2011. The underlying measures of inflation namely, CORE1 and CORE2, on an annual average basis, also picked up during the year under review. CORE1 inflation rose from 2.2 per cent in the preceding year to 4.8 per cent in the year ended June 2011 while CORE2 increased from 2.6 per cent to 4.3 per cent over the same period.

The country's balance of payments during 2010-11 was characterised by a higher current account deficit on account of a growing merchandise trade deficit partly offset by greater net inflows in the income account and higher surpluses in the services and current transfers accounts. Higher financial flows, led mostly by 'other investment', largely met the financing needs of the current account. In relation to GDP at market prices, the deficit on the current account during 2010-11 was slightly lower at 7.9 per cent compared to 8.0 per cent in the previous year.

As per the Bank's 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 held four regular meetings during the year under review. During the second half of the year 2010, the accommodative monetary policy stance adopted by the Bank since the onset of the global crisis was pursued. When the MPC convened on 27 September 2010, domestic inflation was subdued. However, there were indications that the economy could slow significantly in 2011, especially given the weakening growth prospects in the country's main export markets. Against the backdrop of below trend inflation over the forecast horizon and downside risks to the domestic growth outlook, the MPC unanimously decided to cut the key Repo Rate by 100 basis points to 4.75 per cent at its September 2010 meeting. At the meeting held on 6 December 2010, the Repo Rate was left unchanged given continued uncertainty about global economic prospects and the potential impact on the Mauritian economy, even though inflation might rise faster than anticipated.

During the first half of 2011, the MPC noted that, against a background of improving global economic outlook, the pace of domestic economic growth had firmed with the output gap nearing zero. There were still significant downside risks to growth arising mainly from high food and energy prices. But, given increasing underlying inflation pressures in the economy, the MPC judged that the balance of risks had tilted towards the inflation outlook. The MPC accordingly raised the Key Repo Rate by 50 basis points and 25 basis points at its March 2011 and June 2011 meetings, respectively, as part of the process to normalise the key policy rate to anchor inflation expectations and prevent the high consumer price inflation from generating second-round effects.

Budgetary central government operations were presented for the first time on a calendar year basis in 2010. The budget deficit for 2010 amounted to Rs9,579.8 million, representing 3.2 per cent of GDP at market prices, and was financed from both foreign and domestic sources. The budget deficit is projected to rise to 4.3 per cent of GDP in 2011, reflecting mainly increases in "Net Acquisition of Non-Financial Assets". The primary deficit has been estimated at Rs2,580.0 million, representing 0.8 per cent of GDP at market prices. Public sector debt, as a percentage of GDP at market prices, decreased from 57.6 per cent at the end of June 2010 to 55.9 per cent as at end-June 2011 while external public sector debt rose from 9.3 per cent to 11.0 per cent over the same period.

Broad Money Liabilities (BML) went up by 5.9 per cent in 2010-11 compared to growth of 6.8 per cent in the preceding year. Credit extended to the private sector by banks grew by 9.5 per cent compared to an increase of 8.3 per cent registered over the preceding year.

The net international reserves of the country, made up of the net foreign assets of the banking system, the foreign assets of the Government and the country's Reserve Position in the IMF, increased by Rs5,306 million, from Rs102,773 million at the end of June 2010 to Rs108,079 million at the end of June 2011. In terms of import cover, the level of net international reserves of the country at the end of June 2011 represented 9.1 months of imports based on the value of the import (c.i.f) bill for 2010-11, excluding imports of marine vessels.

Over the financial year 2010-11, the Bank continued to monitor developments in the money market and the daily liquidity position of banks to ensure that the banking system performed efficiently. In view of the rapid build-up of excess liquidity, the approach to monetary operations was revisited. New instruments, which were of a longer duration, were issued by the Bank. The Cash Ratio was raised by a cumulative 2.0 percentage points. The average monthly excess liquidity over the period July 2010 to June 2011 stood at Rs2,278 million compared to Rs2,700 million in the corresponding period of the previous year.

During 2010-11, liquidity on the domestic foreign exchange market was comfortable. The Bank purchased foreign currencies for the equivalent amount of US$813 million and sold the equivalent of US$10.7 million to the market. On an average basis for the twelve months ended June 2011, the rupee appreciated against the euro, US dollar and Pound sterling by 6.8 per cent, 4.7 per cent and 4.2 per cent, respectively, but depreciated by 4.8 per cent against the Japanese yen compared to the twelve-month period ended June 2010.

The financial sector remained resilient and profitable during the year 2010-11. Risk indicators closely monitored by the Bank were at reasonably sound levels during the year under review. The financial landscape was enriched with the coming into operation of the first full-fledged Islamic bank in March 2011. The Bank also adopted a revised methodology with regard to CAMEL ratings in order to produce consistent and comparable ratings. As from March 2011, the central bank, in consultation with banks, initiated the disclosure of the overall CAMEL rating for individual banks – an initiative aimed at encouraging banks to improve their performance.

The foregoing economic and financial developments during the year 2010-11 are reviewed in greater detail in the following chapters of the report, which covers official data up to 23 September 2011, the date on which it was sent to print.

I. NATIONAL INCOME AND PRODUCTION

In 2010, the real Gross Domestic Product (GDP) of the Mauritian economy grew at 4.3 per cent compared to 3.1 per cent in 2009, driven by a rebound in key sectors of the economy. All sectors registered positive growth rates in 2010 except for the Agricultural sector, which contracted. The Hotels and Restaurants sector rebounded to 6.0 per cent in 2010 after registering negative growth a year earlier, following the recovery in the global economy. The fiscal stimulus measures implemented by the government together with the accommodative monetary policy stance adopted by the Bank provided support to economic activity in 2010. The relatively weaker performance in the first half of 2010 was followed by a steady improvement in the third and fourth quarters of 2010, with growth rates of 5.4 per cent and 5.1 per cent, respectively, as key sectors of the economy improved, reflecting better economic performance of major export markets.

In the first quarter of 2011, the economy grew by 3.8 per cent year-on-year. However, on a seasonally-adjusted quarter-on-quarter basis, the economy contracted by 1.7 per cent in the first quarter of 2011 compared to a negative growth of 0.8 per cent in the corresponding period of the previous year. The performance of the Mauritian economy over the coming quarters would depend to a large extent on development in external demand conditions. The economic recovery in the euro area, our major export market, remained fragile as lingering concerns over the euro zone sovereign debt and fiscal austerity measures weighed on consumer and business confidence. Economic activity in other advanced and emerging economies was also slowing down and this would affect domestic economic growth. The Central Statistics Office (CSO) forecast economic growth for 2011 at 4.5 per cent.

In nominal terms, GDP at market prices increased by 6.1 per cent to Rs299,343 million in 2010 compared to a growth of 2.8 per cent in 2009. Per capita GNI at market prices increased by 7.6 per cent to Rs236,494 in 2010 compared to 0.9 per cent in 2009.

Table I.1 shows the main national accounts aggregates and ratios for the years 2008 through 2011.

Table I.1: Main National Accounts Aggregates and Ratios: 2008 - 2011

			2008	2009 [1]	2010 [1]	2011 [2]
A.	**Aggregates (Rs million)**					
	1.	GDP at basic prices	243,115	251,314	265,387	290,235
		Annual Real Growth Rate (Per cent)	*+5.5*	*+3.1*	*+4.3*	*+4.5*
	2.	GDP at market prices	274,316	282,053	299,343	327,666
	3.	GNI at market prices	276,389	280,762	302,999	334,603
	4.	Per capita GNI at market prices (Rupees)	217,826	219,715	236,494	259,744
	5.	Aggregate Consumption Expenditure	235,549	248,587	261,930	287,162
	6.	Compensation of Employees	92,419	96,220	101,927	109,975
	7.	Gross Domestic Fixed Capital Formation	67,529	74,430	74,395	81,272
	8.	Gross Capital Formation	74,881	59,920	71,380	83,609
	9.	Gross Domestic Saving	38,767	33,466	37,413	40,504
	10.	Resource Balance (9 - 8)	-36,114	-26,454	-33,967	-43,105
	11.	Gross National Disposable Income	282,798	287,671	308,629	341,507
B.	**Ratios: As a Percentage of GDP at market prices**					
	1.	Gross Domestic Saving	14.1	11.9	12.5	12.4
	2.	Aggregate Consumption Expenditure	85.9	88.1	87.5	87.7
	3.	Gross Domestic Fixed Capital Formation	24.6	26.4	24.9	24.8
	4.	Resource Balance	-13.2	-9.4	-11.3	-13.2
C.	**Ratio: As a Percentage of GDP at basic prices**					
	1.	Compensation of Employees	38.0	38.3	38.4	37.9

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

Table 1.2: Expenditure on GDP-Growth Rates (% over previous year), 2008-2011				
	2008	2009 [1]	2010 [1]	2011 [2]
1. Final consumption expenditure	**+5.2**	**+2.4**	**+2.7**	**+3.0**
Households	+6.7	+2.1	+2.6	+2.9
General government	-1.4	+5.1	+3.4	+3.4
Individual	*-0.8*	*+3.5*	*+4.0*	*+3.2*
Collective	*-1.8*	*+6.3*	*+3.0*	*+3.5*
2. Gross domestic fixed capital formation	**+1.3**	**+8.9**	**-0.7**	**+3.6**
Private sector	+7.2	-1.3	+0.0	+0.6
Public sector	-20.2	+59.5	-2.8	+12.9
3. Gross domestic fixed capital formation exclusive of aircraft and marine vessel	**+4.6**	**+5.5**	**+3.7**	**+3.5**
Private sector	+5.9	-0.3	+0.0	+0.3
Public sector	-1.3	+33.4	+18.9	+11.0
4. Exports of goods & services	**+4.0**	**-3.5**	**+16.3**	**+4.0**
Goods (f.o.b)	-0.6	-9.3	+16.6	+4.5
Services	+8.5	+1.6	+16.1	+3.6
5. Less Imports of goods & services	**+1.8**	**-9.1**	**+7.1**	**+7.2**
Goods (f.o.b)	-0.4	-8.9	+7.1	+9.4
Services	+6.6	-9.3	+7.0	+2.7

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

EXPENDITURE

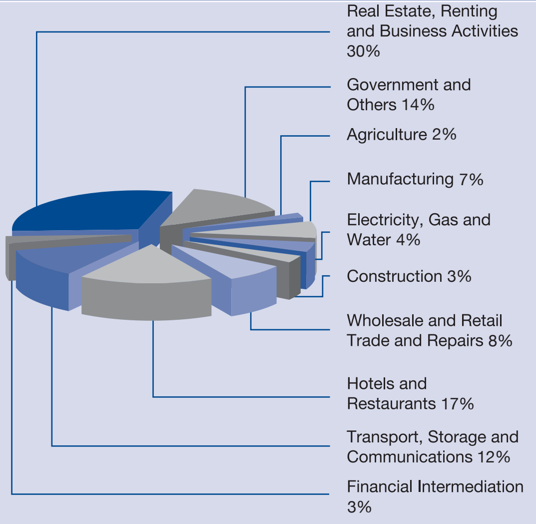
Household consumption expenditure picked up to 2.6 per cent in 2010 while consumption spending by general government slowed to 3.4 per cent. Overall, final consumption expenditure grew at a higher pace of 2.7 per cent in 2010, compared to 2.4 per cent in 2009. For 2011, final consumption expenditure is forecast to grow by 3.0 per cent.

Gross Domestic Fixed Capital Formation (GDFCF) contracted by 0.7 per cent in 2010, after having expanded at a robust rate of 8.9 per cent in the preceding year. These figures mainly reflect the purchase of aircraft, which led public sector investment to grow at 59.5 per cent in 2009. Excluding aircraft and marine vessel, GDFCF slowed to 3.7 per cent in 2010, from 5.5 per cent in 2009. Public sector investment exclusive of aircraft and marine vessel grew by 18.9 per cent in 2010, supported by the implementation of infrastructural projects. Private sector investment stagnated in 2010 after contracting in 2009. The subdued performance of private investment is mainly explained by the completion of some major projects and the lack of new ones. GDFCF is projected to expand by 3.6 per cent in 2011 reflecting a rise in both private and public sector investment of 0.6 per cent and 12.9 per cent, respectively.

Investment in 2010 was mostly geared towards the Real Estate, Renting and Business Activities sector (30 per cent), followed by Hotels and Restaurants (17 per cent), Government and Others (14 per cent), Transport, Storage and Communications (12 per cent), Wholesale and Retail Trade and Repairs (8 per cent) and Manufacturing (7 per cent). Chart I.1 shows investment by sector in 2010.

Exports of goods and services grew by 16.3 per cent in 2010 against a contraction of 3.5 per cent in 2009, mainly as a result of a recovery in external demand. In line with the pick-up in domestic economic activity, imports of goods and services grew by 7.1 per cent in 2010 compared to a contraction of 9.1 per cent in 2009. Table I.2 shows the year-on-year growth rates of expenditure on GDP for the years 2008 through 2011.

Chart I.1: Investment by Sector in 2010

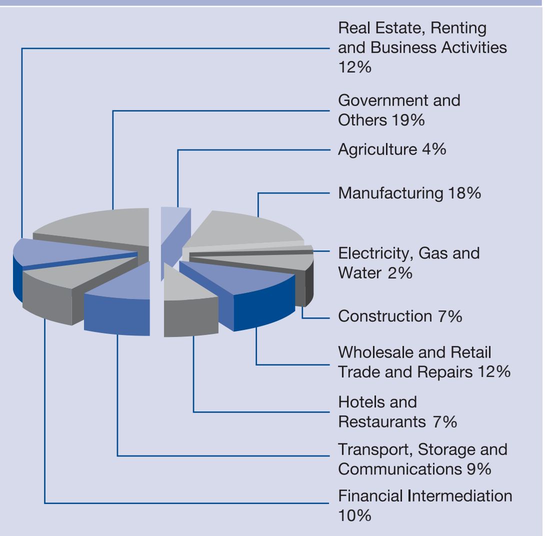


Source: Central Statistics Office, Government of Mauritius.

PRODUCTION

All key sectors of the economy recorded positive growth rates in 2010. Outward-looking sectors posted commendable real growth rates and economic activity in domestic market-oriented sectors was also buoyant. The respective shares of agriculture, manufacturing, utilities, construction and financial intermediation in GDP declined in 2010, while the remaining sectors recorded a higher share in GDP compared to 2009.

Chart I.2: Sectoral Distribution of GDP at Basic Prices in 2010



Source: Central Statistics Office, Government of Mauritius.

Chart I.2 shows the sectoral distribution of GDP at basic prices in 2010.

Agriculture

The agricultural sector recorded negative growth of 1.3 per cent in 2010 after growing by 8.8 per cent in the previous year. The fall in 2010 is explained by a decline of 6.4 per cent in "Sugarcane" that offset the growth of 1.4 per cent in "Other agriculture". Sugarcane accounted for around 31 per cent of the agricultural sector. The non-sugar agricultural sector, which includes activities related to hunting, forestry and fishing, grew by 1.4 per cent in 2010 after expanding by 6.2 per cent a year earlier. The share of sugar exports in total domestic exports increased marginally from 14.9 per cent in 2009 to 15.2 per cent in 2010.

In the first quarter of 2011, the agricultural sector contracted by 2.3 per cent compared to a contraction of 7.4 per cent in the first quarter of 2010, while the sugar sector, comprising mostly refined and special sugars, registered a negative growth of 1.5 per cent following a contraction of 9.4 per cent over the same period. Based on sugar production of 420,000 tonnes, the sugar sector is projected to contract at a lower rate of 5.1 per cent in 2011 compared to a contraction of 6.4 per cent in 2010. Overall, the agricultural sector is forecast to grow by 0.8 per cent in 2011.

Manufacturing

The manufacturing sector recorded a growth rate of 2.1 per cent in 2010, same as in 2009. Within the sector, the growth of 4.4 per cent in food processing almost offset the contraction of 4.0 per cent in sugar milling. Zero growth was registered in textile while other manufacturing expanded by 2.1 per cent. The manufacturing sector added 0.4 percentage point to the overall economic growth rate in 2010, same as in 2009.

After contracting sharply in the first two quarters of 2010, the textile sector bounced back to positive territory and posted robust growth rates, reflecting the marked improvement in global demand. For 2011, the textile sector is projected to grow by 6.0 per cent compared to the zero growth rate registered in 2010. Overall, growth in the manufacturing sector strengthened in the first quarter of 2011 to 4.7 per cent compared to more moderate growth rates in the third and fourth quarters of 2010. Activity in the manufacturing sector is expected to be buoyant in 2011, with a growth rate of 3.6 per cent.

Hotels and Restaurants

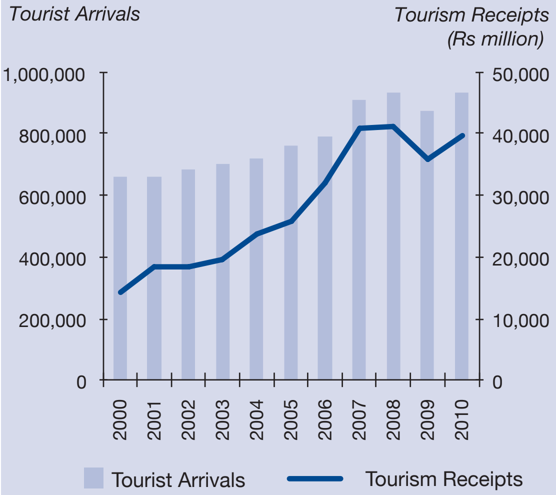
In 2010, according to the World Tourism Barometer, world tourism recovered more strongly than expected from the adverse impact of the global financial crisis and economic recession of 2008 and 2009. International tourist arrivals increased by 6.7 per cent over the 2009 figure to stand at around 935 million in 2010. In Mauritius, the number of tourists who visited the country increased by 7.3 per cent, from 871,356 in 2009 to 934,827 in 2010, on the back of the economic recovery in main tourist markets.

Gross tourism receipts increased by 10.5 per cent, from Rs35.7 billion in 2009 to Rs39.5 billion in 2010. The hotels and restaurants sector grew by 6.0 per cent in 2010 as against a contraction of 5.9 per cent recorded a year earlier when the sector suffered from weak economic conditions prevailing in the main source markets. The sector thus contributed 0.5 percentage point to overall GDP growth rate in 2010 compared to a negative contribution in 2009.

Total tourist arrivals for the first semester of 2011 amounted to 464,604 representing an increase of 5.8 per cent over the corresponding period of 2010, while gross tourism receipts increased by 7.5 per cent, from Rs19.8 billion to Rs21.3 billion, over the same period. Growth in the hotels and restaurants sector is forecast at 4.0 per cent in 2011.

In the first semester of 2011, tourist arrivals from major source markets such as France and

Chart I.3: Tourist Arrivals and Tourism Receipts: 2000 - 2010



Source: Central Statistics Office, Government of Mauritius.

Reunion Island increased by 5.6 per cent and 4.3 per cent compared to the first half of 2010. Contractions were, however, recorded in other markets such as United Kingdom (8.3 per cent) and Italy (7.7 per cent).

Chart I.3 shows tourist arrivals and tourism receipts for the years 2000 through 2010.

Financial Intermediation

Growth in the financial intermediation sector picked up to 4.3 per cent in 2010 from 3.8 per cent in 2009. Real activity in banking and insurance increased by 3.9 per cent and 4.5 per cent, respectively, higher than the growth rates of 3.0 per cent and 4.0 per cent registered a year ago. The financial intermediation sector added 0.5 percentage point to real GDP growth in 2010 compared to 0.4 per cent in 2009.

Growth momentum in the financial intermediation sector strengthened as from the second quarter of 2010, with an expansion of 6.6 per cent recorded in the first quarter of 2011, substantially higher compared to the same quarter of the preceding year. For the year 2011, the growth rate of the financial intermediation sector is forecast at 5.7 per cent, mainly due to higher growth expected in global business activities.

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 6.5 per cent in 2010 compared to 6.1 per cent in 2009. Within the sector, owner occupied dwellings expanded by 1.2 per cent while activities other than owner occupied dwellings grew by a robust 9.6 per cent. Overall, the real estate, renting and business activities sector added 0.8 percentage point to growth in 2010.

In the first quarter of 2011, the real estate, renting and business activities sector registered a real growth rate of 6.6 per cent, marginally higher than the 6.5 per cent recorded in the first quarter of 2010. For 2011, the sector is expected to grow by 6.8 per cent.

Construction

The rate of growth of the construction sector slowed down to 4.3 per cent in 2010, from 6.2 per cent in the previous year. The sector added 0.3 percentage point to overall growth in real GDP compared to 0.4 percentage point in 2009. In the first quarter of 2011, the construction sector contracted severely by 11.7 per cent as a result of a significant decrease in “Non-residential building”, partly offset by growth in “Other construction work” and “Residential building”, respectively. For the year 2011, the growth rate in the construction sector is forecast at 1.0 per cent.

Transport, Storage, and Communications

Real activity in the transport, storage and communications sector gathered momentum in 2010, with a growth rate of 5.3 per cent compared to 4.8 per cent in 2009. The sector added 0.5 percentage point to GDP growth in 2010, same as in the preceding year. In the first quarter of 2011, the transport, storage and communications sector grew by 4.4 per cent compared to 5.3 per cent in the corresponding period of the previous year. Real activity in the sector is projected to expand further by 5.5 per cent in 2011.

Wholesale and Retail Trade

The distributive trade sector grew by 4.1 per cent in 2010 compared to a growth rate of 1.1 per cent in 2009. The contribution of the distributive trade sector to overall GDP growth rate stood at 0.4 per cent in 2010 compared to 0.1 per cent in 2009. In the first quarter of 2011, the distributive trade sector posted a real growth rate of 3.1 per cent. It is forecast to expand at an annual rate of 3.4 per cent in 2011.

Other Sectors

In 2010, the electricity, gas and water supply sector grew by 3.4 per cent, up from 0.1 per cent growth in 2009 and added 0.1 percentage point to overall GDP growth. In the first quarter of 2011, the sector expanded by 4.5 per cent and is forecast to pick up to 3.9 per cent in 2011. Growth in the public administration and defence; compulsory social security sector was 3.3 cent in 2010 compared to 1.0 per cent in the previous year. The contribution of this sector to the overall growth rate was 0.2 percentage point. In the first quarter of 2011, the sector expanded at the rate of 2.6 per cent and overall growth for 2011 is projected at 3.1 per cent. The education sector recorded a positive growth rate of 4.1 per cent in 2011, up from 2.5 per cent in 2010, and added 0.2 percentage point to GDP growth. In the first quarter of 2011, real activity in the sector was robust, with growth of 6.3 per cent. Growth for 2011 is forecast at 3.4 per cent. Growth in the health and social work sector stood at 6.3 per cent in 2010, lower than the 7.5 per cent recorded in the preceding year. The sector contributed 0.2 percentage point to real GDP growth in 2010. In the first quarter of 2011, the sector expanded by 9.0 per cent and is projected to grow by 7.3 per cent in 2011.

II. LABOUR MARKET AND PRICE DEVELOPMENTS

The labour market in Mauritius showed a mixed picture in 2010, with some sectors registering gains in employment while other sectors shed off workers. In the hotels and restaurants sector, employment increased as a result of positive growth rate registered by the sector following the recovery in main markets. In the manufacturing sector, job losses were recorded partly as a result of the continuing restructuring exercise carried out in the textile sector, which lost around a thousand jobs in 2010. The unemployment rate increased sharply to 8.4 per cent in the first quarter of 2010 before dropping to 7.2 per cent in the fourth quarter.

The labour force increased by 11,700, from 572,400 in first quater of 2010 to 584,100 in first quarter of 2011. Employment rose by 11,200 and unemployment increased by 500 over the same period. The unemployment rate stood at 7.7 per cent in the first quarter of 2011 compared to 7.8 per cent in the first quarter of 2010.

Unemployment in Mauritius is currently characterised by: (i) a predominance of females among the unemployed (ii) many unemployed young people, often less than 25 years of age, (iii) many singles who have never been employed, (iv) people who do not have the Certificate of Primary Education or secondary education level, and (v) people who do not have any vocational or technical training. Unemployment is thus mostly of a structural nature in Mauritius as there is a mismatch between the job aspiration of the labour force and the type of jobs available. Due to the labour shortage, some sectors are compelled to import foreign labour from countries like China and India, while the number of unfilled skilled-job vacancies, especially in the financial services sector and in the Information and Communication Technology (ICT) sector has been increasing.

The population of the Republic of Mauritius, including Agalega and St. Brandon, is estimated at 1,286,340, comprising 633,916 males and 652,424 females, as at mid-year 2011, that is a sex ratio of 97.2 males to 100 females. The population grew by 0.4 per cent in mid-year 2011, compared to a growth rate of 0.5 per cent in the corresponding period of the previous year.

In 2010, the labour force in Mauritius, inclusive of foreign workers, grew by 2.3 per cent to 603,300, up from 587,300 in 2009. There were 22,000 foreign workers employed in Mauritius in 2010. The labour force comprised 375,500 men and 227,800 women. Employment increased by 12,300 from 545,800 in 2009 to 558,100 in 2010, with female employment increasing faster than male employment. Female employment increased by 4.6 per cent while male employment increased by only 1.0 per cent. During the period 2001 to 2010, male activity rate increased much more than female activity rate, but the gap between the two is closing.

Between first quarter 2010 and first quarter 2011, employment rose by 11,200 or 2.1 per cent to 535,600, with male and female employment increasing respectively by 8,700 to 347,100 and by 2,500 to 188,500. Table II.1 shows labour market indicators for the years 2001 through 2010.

Table II.1: Main Labour Market Indicators *(Thousand)*

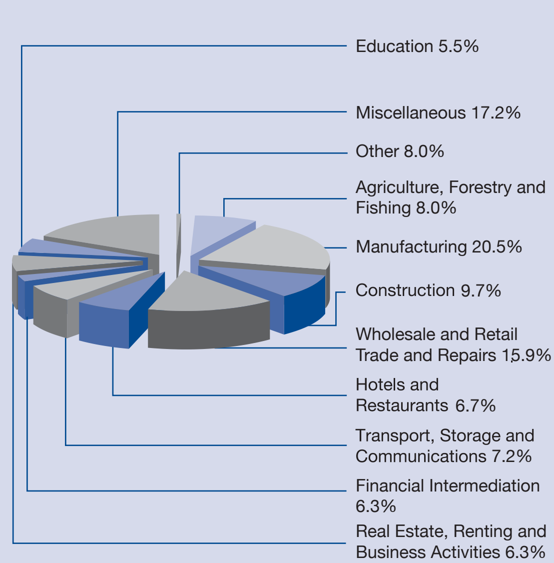
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Labour force	526.8	530.0	539.1	548.8	559.1	565.1	570.5	583.4	587.3	603.3
Employment	492.1	493.2	499.0	504.2	507.2	515.3	523.7	543.0	545.8	558.1
Unemployment	34.7	36.8	40.1	44.6	51.9	49.8	46.8	40.4	41.5	45.2
Unemployment rate (%)	6.8	7.2	7.7	8.4	9.6	9.1	8.5	7.2	7.3	7.8

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.

Employment by Sector

In 2010, the tertiary sector employed 61.1 per cent of the workforce, while the primary and secondary sectors accounted for 8.1 per cent and 30.8 per cent, respectively. The manufacturing sector employed 114,500 workers, representing 20.5 per cent of total employment compared to 21.2 per cent in 2009. 'Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles, Personal and Household Goods' employed 88,800 workers, that is, 15.9 per cent of total employment compared to 15.6 per cent in 2009. Employment in other sectors ranged from 200 to 54,000. Chart II.1 shows employment by sector in 2010.

Chart II.1: Employment by Sector



Source: Central Statistics Office, Government of Mauritius.

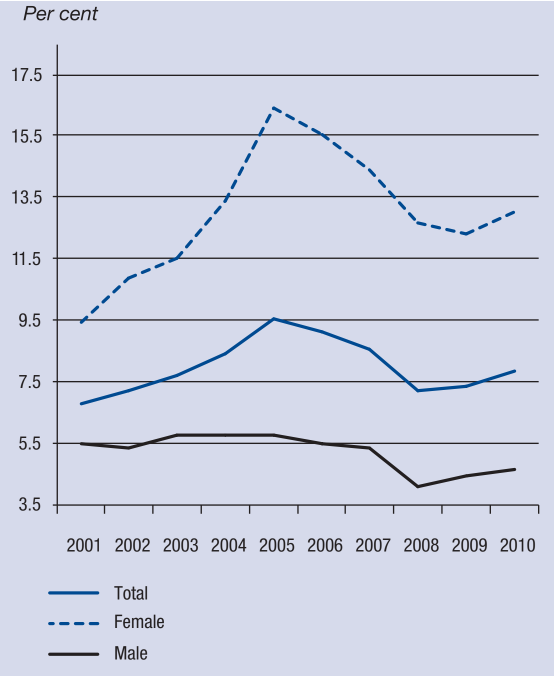
Employment in the Export-Oriented Enterprises (EOE)

As at end-June 2011, the number of enterprises in EOE was 369, down from 387 as at end-June 2010. Employment in EOE dropped by 1,564 from 58,084 at the end of June 2010 to 56, 520 at the end of June 2011. Male employment declined by 729, while female employment decreased by 835 between June 2010 and June 2011. Expatriate employment dropped by 154 over the same period. The 'Wearing Apparel' group registered a drop of 2,451 in employment, from 40,691 to 38,240.

Unemployment

The unemployment rate increased to 7.8 per cent in 2010, from 7.3 per cent in 2009. The number of unemployed persons increased from 41,500 (15,800 males and 25,700 females) in 2009 to 45,200 (16,700 males and 28,500 females) in 2010. The male unemployment rate increased from 4.4 per cent in 2009 to 4.6 per cent in 2010, while the female unemployment rate increased from 12.3 per cent to 13.0 over the same period. In first quarter 2011, the unemployment rate was 8.3 per cent compared to 8.4 per cent in the corresponding quarter of 2010. On a seasonally-adjusted basis, the unemployment rate was 7.7 per cent in the first quarter of 2011 compared to 7.8 per cent in the first quarter of 2010. Chart II.2 shows the unemployment rate from 2001 to 2010.

Chart II.2: Unemployment Rate



Source: Central Statistics Office, Government of Mauritius.

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 Rs18,247 to Rs20,050, or 9.9 per cent, between March 2010 and March 2011 compared to an increase of 8.1 per cent between March 2009 and March 2010. Adjusted for the twelve-month running inflation rate, the average monthly earnings for all industrial groups increased by 5.7 per cent between March 2010 and March 2011 compared to 6.1 per cent between March 2009 and March 2010.

An analysis by industrial group shows that in March 2011, 'Financial Intermediation' recorded the highest average monthly earnings (Rs36,414) while 'Mining and Quarrying' registered the lowest average monthly earnings (Rs7,409). The highest increase in average monthly earnings between March 2010 and March 2011 was registered in 'Construction' (13.6 per cent) followed by 'Transport storage and communication' (13.3 per cent), 'Real Estate, Renting and Business Activities' (12.7 per cent), 'Public administration and defence; compulsory social security' (11.1 per cent) and 'Hotels and restaurants' (11.0 per cent). The remaining sectors recorded increases in average monthly earnings in the range of 0.4 per cent to 10.3 per cent.

Table II.2 shows the average monthly earnings in large establishments by industrial group over the period March 2009 through March 2011.

Table II.2: Average Monthly Earnings[1] in Large Establishments

	Industrial Group	Mar-09 Rs	Mar-10 Rs	Mar-11 [2] Rs	% Nominal Change between Mar-10 and Mar-11	% Change Adjusted for Increase in Price Level
1.	Agriculture, Hunting, Forestry and Fishing	12,757	13,841	14,736	6.5	2.4
	of which: Sugarcane	*11,108*	*12,445*	*13,852*	*11.3*	*7.0*
2.	Mining and Quarrying	6,870	6,946	7,409	6.7	2.6
3.	Manufacturing	10,008	10,810	11,919	10.3	6.0
	of which: Sugar	*15,703*	*16,023*	*17,703*	*10.5*	*6.2*
	Food	*10,024*	*11,151*	*12,361*	*10.9*	*6.6*
	Textiles	*8,275*	*8,647*	*9,479*	*9.6*	*5.4*
	Other	*11,971*	*13,001*	*14,286*	*9.9*	*5.7*
4.	Electricity, Gas and Water	26,385	29,527	30,978	4.9	0.9
5.	Construction	16,521	18,276	20,757	13.6	9.2
6.	Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	16,528	17,558	19,071	8.6	4.4
	of which: Wholesale and Retail Trade	*16,450*	*17,434*	*18,876*	*8.3*	*4.1*
7.	Hotels and Restaurants	13,317	14,297	15,875	11.0	6.8
8.	Transport, Storage and Communications	20,281	21,527	24,391	13.3	8.9
9.	Financial Intermediation	29,044	33,078	36,414	10.1	5.9
	of which: Insurance	*25,863*	*28,316*	*31,184*	*10.1*	*5.9*
10.	Real Estate, Renting and Business Activities	16,764	18,768	21,154	12.7	8.4
11.	Public Administration and Defence; Compulsory Social Security	22,039	22,078	24,533	11.1	6.8
12.	Education	22,374	23,204	24,733	6.6	2.5
13.	Health and Social Work	23,413	23,892	23,980	0.4	-3.5
14.	Other Services	14,242	15,736	16,604	5.5	1.5
	Total	**16,883**	**18,247**	**20,050**	**9.9**	**5.7**

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

Compensation of Employees

Compensation of employees went up, in nominal terms, by 5.9 per cent, from Rs96,220 million in 2009 to Rs101,927 million in 2010. Compensation of employees as a percentage of GDP at basic prices increased slightly from 38.3 per cent in 2009 to 38.4 per cent in 2010. Compensation of employees in the General Government sector, which accounts for around 24.0 per cent of total compensation, grew, in nominal terms, by 4.5 per cent in 2010 compared to 12.6 per cent in 2009. In the rest of the economy, compensation of employees increased by 6.4 per cent in 2010 compared to 1.6 per cent in 2009.

Cost of Living Compensation

In 2011, a cost of living compensation of 3.2 per cent was awarded to employees receiving a monthly compensation of up to Rs5,000, while a compensation of Rs175 was awarded to those earning between Rs5,000 and Rs12,000. Employees earning between Rs12,000 and Rs30,000 received Rs190 as compensation. No salary compensation was awarded to those employees earning above Rs30,000.

Wage Rate Index

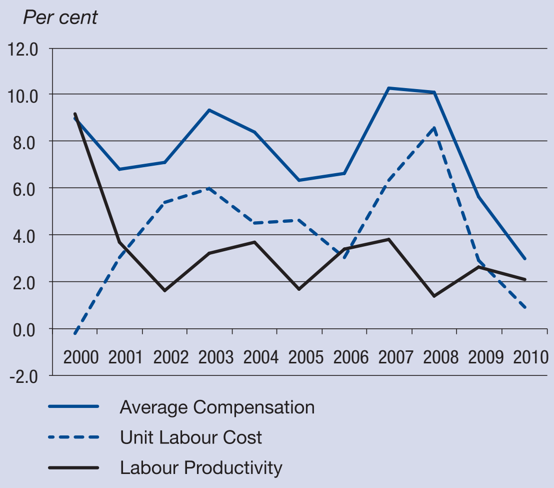
A general upward movement in the quarterly wage rate index was noted during the four quarters in 2010. The average wage rate index for 2010 was 140.2, up from 132.0 in 2009, on account of increases in the wage rates across all industry groups. The highest increase was registered in 'Real Estate, Renting and Business Activities' (14.9 per cent) followed by 'Agriculture, hunting, forestry and fishing' (11.1 per cent). The overall wage rate index increased by 6.6 index point, or 4.8 per cent, from 137.2 in the first quarter of 2010 to 143.8 in the first quarter of 2011. All industry groups have shown increases in the wage rates with percentage increases ranging from 0.1 per cent to 9.8 per cent. The largest increases were recorded in 'Real Estate, Renting and Business Activities' (9.8 per cent) and in 'Agriculture, hunting, forestry and fishing' (9.2 per cent).

UNIT LABOUR COST AND PRODUCTIVITY

The unit labour cost for the whole economy rose by 0.9 per cent in 2010 compared to 2.9 per cent in 2009, mainly as a result of a lower increase in compensation of employees of 3.0 per cent in 2010 compared to 5.6 per cent in 2009. Labour productivity, defined as the ratio of real output to labour input, grew by 2.1 per cent in 2010 compared to 2.6 per cent in 2009. In 2010, capital productivity declined by 0.6 per cent compared to a contraction of 2.5 per cent in 2009. Multifactor productivity contracted by 0.1 per cent in 2010 compared to a decline of 0.9 per cent in 2009. Chart II.3 shows the growth rates of average compensation, unit labour cost and labour productivity for the total economy for the years 2000 through 2010.

In the manufacturing sector, labour productivity increased by 4.1 per cent in 2010, lower than the growth of 8.7 per cent registered in 2009. In the Export-Oriented Enterprises (EOE), labour productivity rose by 8.5 per cent in 2010 compared to a growth of 8.6 per cent in 2009. Labour productivity in the textile sub-sector of the EOE rose by 9.1 per cent in 2010 compared to 7.4 per cent in 2009, while in the non-textile sub-sector of the EOE, labour productivity increased by 5.2 per cent in 2010 compared to 7.4 per cent in 2009.

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



Source: Central Statistics Office, Government of Mauritius.

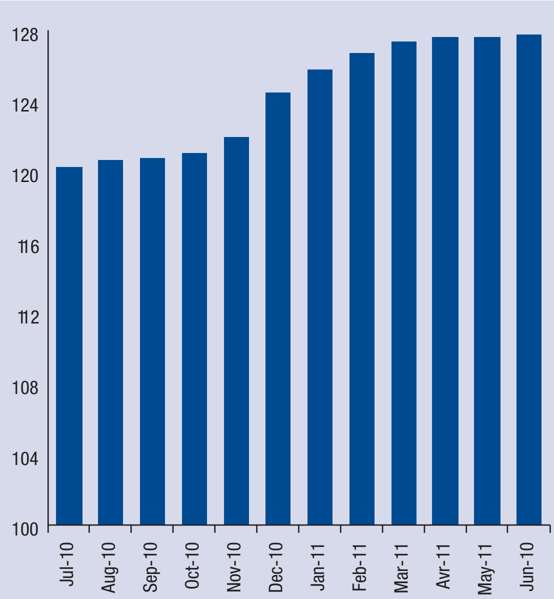
PRICES

Headline inflation, as measured by the percentage change in the yearly average Consumer Price Index (CPI), which had dropped to a low of 1.7 per cent for the year ended June 2010, picked up strongly to 5.1 per cent for the year ended June 2011. The rise in the inflation rate was partly attributable to external developments, namely, the recovery in global food and energy prices. On the domestic front, higher excise duties on cigarettes, alcoholic and non-alcoholic beverages as well as hikes in the administered prices of electricity and transport in December 2010 weighed heavily on the consumer price index. While external factors continued to influence domestic price developments in the first half of 2011, Government's decision in April 2011 to reduce the hedging charge on the prices of gasoline and diesel and its call to the private sector to temporarily lower the prices of several food items contributed to limit the increases in the CPI, which went up only marginally in the final quarter of year 2010-11.

Overall for the year, the CPI increased by 7.9 points, or 6.6 per cent, from 119.9 in June 2010 to 127.8 in June 2011. Division-wise, 'Food and non-alcoholic beverages', which has the greatest weight in the consumer basket, contributed 2.5 points followed by Alcoholic beverages and tobacco' (1.9 points), 'Transport' (1.5 points) 'Restaurants and hotels' (0.6 point), 'Clothing and footwear' (0.4 point), 'Housing, water, electricity, gas and other fuels' (0.3 point), 'Health' (0.3 point), 'Furnishings, household equipment and routine household maintenance (0.2 point), 'Education' (0.2 point) and 'Miscellaneous goods and services' (0.1 point). The contribution of both 'Communication' and 'Recreation and culture' was negligible.

Item-wise, notable price increases were recorded for several food products including sugar and its derived products, meat, milk, oils and fats, reflecting substantial price increases of these food items on the world market. Price increases were also recorded for motor vehicles, petroleum products, tuition fees and, following the increase in excise duties, for alcoholic beverages and cigarettes. Chart II.4 shows the monthly evolution of CPI during the year 2010-11. Table II.3 shows the weighted contributions to change in CPI by Divisions. Charts II.5 and II.6 depict the monthly evolution of the twelve Divisions of the CPI basket of goods and services during 2010-11.

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



Source: Central Statistics Office, Government of Mauritius.

CORE INFLATION

The underlying measures of inflation namely, CORE1[1], CORE2[2] and TRIM10[3] also picked up on an annual average basis during the fiscal year 2010-11. CORE1 inflation rose from 2.2 per cent in the preceding year to 4.8 per cent in the year ended June 2011 while CORE2, which reflects second-round effects, increased from 2.6 per cent to 4.3 per cent over the same period. TRIM10 was higher at 4.7 per cent compared to 2.1 per cent in the year ended June 2010.

[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 on housing loan, energy prices and administered prices from the CPI basket.*

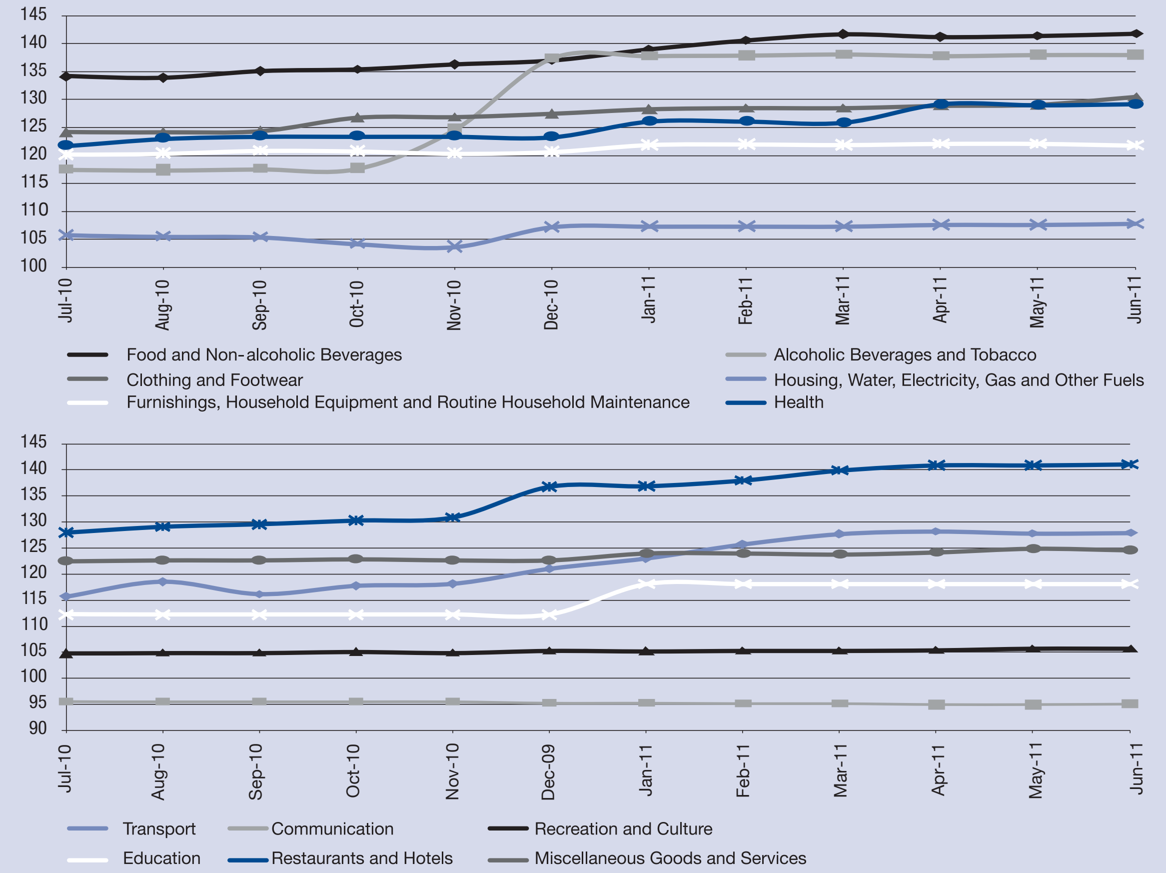
[3] *TRIM10 truncates 5 per cent of each tail of the distribution of price changes.*

Table II.3 : Weighted contributions to Change in CPI in terms of Divisions

DIVISIONS	Weights	Jun-10	Jun-11	Change *(index point)*	Weighted Contribution: June 2010-June 2011 *(index point)*
1. Food and Non-alcoholic Beverages	286	133.2	141.8	8.6	2.5
2. Alcoholic Beverages and Tobacco	92	117.5	138.0	20.5	1.9
3. Clothing and Footwear	51	122.9	130.5	7.6	0.4
4. Housing, Water, Electricity, Gas and Other Fuels	131	105.5	107.8	2.3	0.3
5. Furnishings, Household Equipment and Routine Household Maintenance	64	119.0	121.8	2.8	0.2
6. Health	30	120.3	129.2	8.9	0.3
7. Transport	147	117.7	127.9	10.2	1.5
8. Communication	36	95.5	95.0	-0.5	0.0
9. Recreation and Culture	48	105.3	105.7	0.4	0.0
10. Education	32	112.2	118.1	5.9	0.2
11. Restaurants and Hotels	43	127.6	141.1	13.5	0.6
12. Miscellaneous Goods and Services	40	121.3	124.6	3.3	0.1
ALL GROUPS	**1000**	**119.9**	**127.8**	**7.9**	**7.9**

Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.
Figures may not add up to total due to rounding.

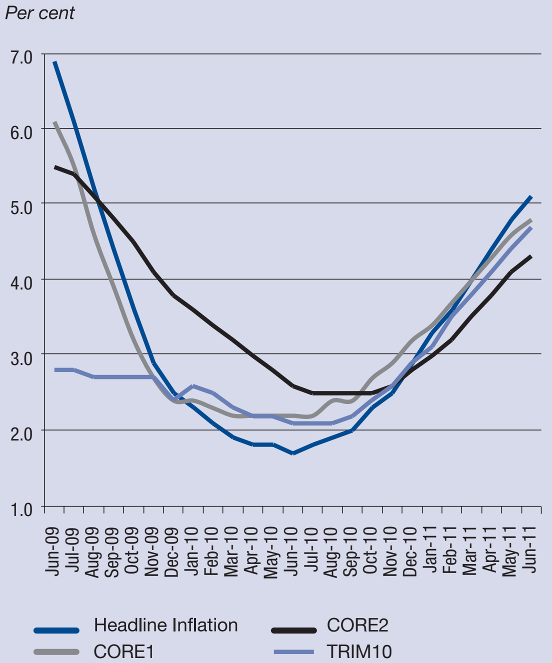
Chart II.5: Evolution of the Divisions of the CPI Basket of Goods and Services during 2010-11 (Base: July 2006 – June 2007 = 100)



Source: Central Statistics Office. Government of Mauritius.

Chart II.6 shows the movements of headline inflation and the three measures of core inflation over the period June 2009 through June 2011.

Chart II.6: Headline and Core Inflation

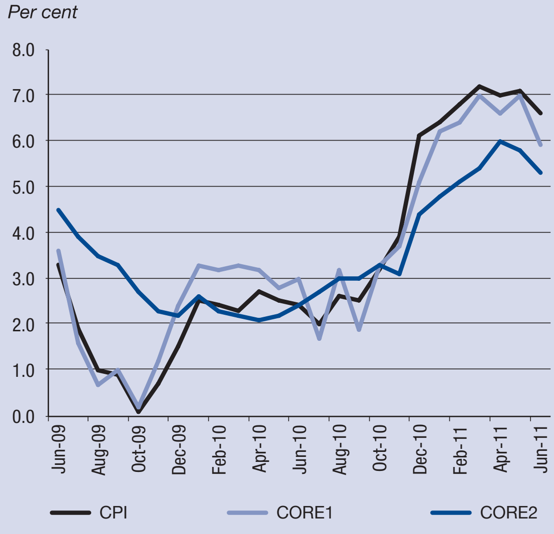


Sources: Central Statistics Office, Government of Mauritius, and Statistics Division, Bank of Mauritius.

Year-on-year measures of inflation generally trended upwards during the year ended June 2011. Year-on-year CPI inflation, which had risen moderately from 2.4 per cent in June 2010 to 3.9 per cent in November 2010, shot up to 6.1 per cent in December 2010 following the increase in excise duties on several products and the hikes in the administered prices of electricity and transport. It rose further to an intra-year peak of 7.2 per cent in March 2011 before gradually declining to 6.6 per cent in June 2011, largely due to base effects and Government intervention to cut prices of selected food items and reduce petroleum prices in April 2011. CORE1 inflation rose from 3.0 per cent in June 2010 to 5.9 per cent in June 2011 while CORE2 went up from 2.4 per cent in June 2010 to 5.3 per cent in June 2011.

Chart II.7 shows the year-on-year movements of CPI inflation and core inflation rates over the period June 2009 through June 2011.

Chart II.7: Year-on-Year CPI Inflation and Core Inflation



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 sold on the domestic market, which reflects the price trends of a constant basket of goods, representative of the output of manufacturing industries; and Producer Price Index-Agriculture (PPI-A), which gives a measure of the average change in the selling prices that producers receive for their agricultural products.

Using both the 12-month moving average and year-on-year methodology, producer price inflation rates firmed up during the fiscal year 2010-11.

The PPI-A rose from 100.2 in June 2010 to 100.6 in June 2011, or 0.4 per cent, compared to a decrease of 7.8 per cent in 2009-10. 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 4.0 per cent for the year 2010-11 while the index for the other sub-group 'Animals and Animal Products' rose by 8.8 per cent. PPI-A inflation, which is calculated as the percentage change in the yearly average

PPI-A index, rose from -7.2 per cent in 2009-10 to -0.5 per cent for the 12-month period ended June 2011. Based on year-on-year methodology, PPI-A inflation went up from -7.8 per cent in June 2010 to 0.4 per cent in June 2011.

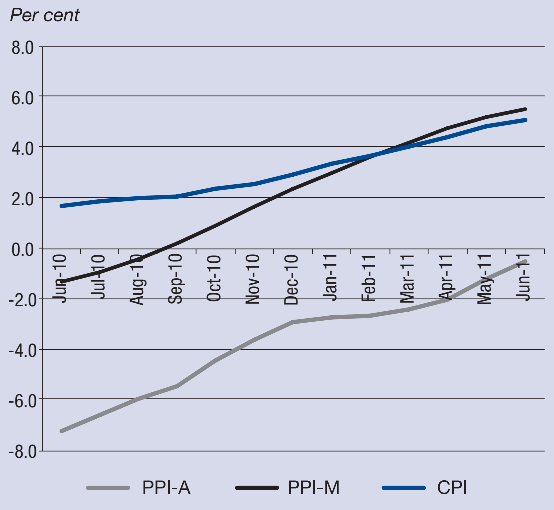
PPI-M went up from 114.6 in June 2010 to 123.0 in June 2011, or 7.3 per cent, compared to an increase of 3.1 per cent in 2009-10. The growth largely reflects the increase in the sub-index for "Manufacture of food products and beverages" which accounts for nearly 50 per cent of the overall weight. PPI-M inflation, which is calculated as the percentage change in the yearly average PPI-M index, rose continuously from -1.3 per cent in 2009-10 to 5.5 per cent for the 12-months period ended June 2011. The year-on-year PPI-M inflation rose from 3.1 per cent in June 2010 to 7.3 per cent in June 2011.

Chart II.8 and Chart II.9 show PPI-A inflation, PPI-M inflation and CPI inflation from June 2010 to June 2011, based on both methodologies.

Inflation Outlook

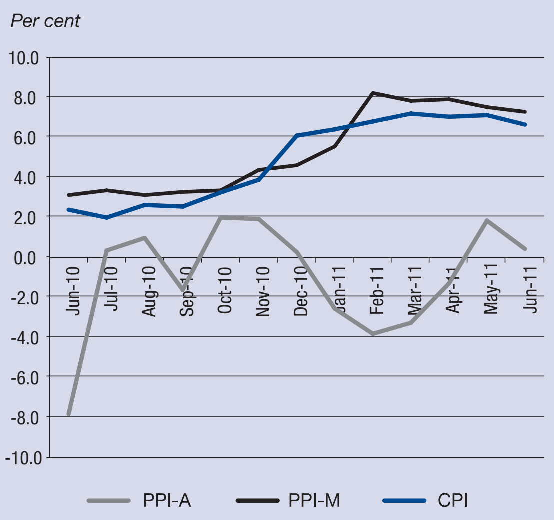
While headline inflation is expected to remain strong until the end of 2011, recent global economic developments in the wake of the sovereign debt crisis in the United States and Europe could signal diminishing external price pressures. However, external factors are expected to remain a major driver of domestic inflation dynamics in the short to medium term against the backdrop of rather tame domestic demand and muted wage pressures. Much of the future course of inflation would also depend on the domestic exchange rate outlook, which appeared relatively stable.

Chart II.8: Inflation Indicators: 12-month Moving Average



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

Chart II.9: Inflation Indicators -Year-on-Year Methodology



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

III. MONEY AND BANKING

DEPOSITORY CORPORATIONS SURVEY

The Depository Corporations Survey (DCS) consolidates the balance sheets of the Bank of Mauritius and Other Depository Corporations (ODCs), which comprised 20 banks and 11 non-bank deposit-taking institutions as at end-June 2011.

Net foreign assets of depository corporations increased by Rs5.1 billion, from Rs101.7 billion at the end of June 2010 to Rs106.8 billion at the end of June 2011, or by 5.0 per cent, higher than the increase of 4.7 per cent recorded in the previous year. The net foreign assets of the Bank of Mauritius rose by 17.3 per cent in 2010-11 compared to an increase of 2.7 per cent in the preceding year while the net foreign assets of other depository corporations contracted by 16.7 per cent after having expanded by 8.5 per cent in 2009-10.

Domestic claims of depository corporations, excluding claims on Global Business Licence (GBL) holders, increased by Rs17.0 billion, from Rs294.7 billion at the end of June 2010 to Rs311.7 billion at the end of June 2011, or by 5.8 per cent, lower than the growth rate of 7.1 per cent recorded in 2009-10. Net claims on budgetary Central Government fell by Rs4.5 billion, from Rs52.3 billion at the end of June 2010 to Rs47.8 billion at the end of June 2011 as a result of a significant drop in depository corporations' claims more than offsetting the increase in Government deposits at the Bank. Claims on other sectors posted a higher growth rate of 8.9 per cent, or an increase of Rs21.5 billion, relative to a growth rate of 7.5 per cent in the preceding year.

Broad Money Liabilities (BML) went up by Rs17.9 billion, from Rs302.9 billion at the end of June 2010 to Rs320.8 billion at the end of June 2011, or by 5.9 per cent, compared with a growth rate of 6.8 per cent in the preceding year. Of the main components of BML, currency with public expanded at a higher rate of 10.1 per cent over the year to June 2011 compared with a growth rate of 8.3 per cent in the preceding year. Transferable deposits contracted by 4.6 per cent over the year to June 2011 after having increased by 11.2 per cent in the year to June 2010. Savings deposits increased at its fastest annual pace of 19.2 per cent in June 2011 since the new data series started to be compiled, while time deposits contracted by 1.1 per cent following a marginal increase of 0.8 per cent in the year ended June 2010.

Table III.1 shows the Depository Corporations Survey data as at end-June for the years 2009 to 2011.

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 Rs6.6 billion, or by 18.4 per cent, from Rs35.8 billion at the end of June 2010 to Rs42.3 billion at the end of June 2011, compared to an increase of 19.7 per cent in the year ended June 2010. The expansion in the monetary base was largely explained by the increase in the central bank's liabilities to other depository corporations, which contributed 14 percentage points to the growth in the monetary base while currency in circulation added 5 percentage points. Other deposits made a negative contribution of 0.6 percentage point. The Bank's intervention on the domestic foreign exchange market was a major source of monetary base expansion.

On the sources side of the monetary base, net foreign assets of the Bank increased significantly by Rs11.2 billion, largely as a result of the Bank's net foreign exchange purchases, to reach Rs76.2 billion at the end of June 2011. With the significant rise in the Bank's holdings of Government securities, which more than offset the negligible reduction in Government deposits at the Bank, net claims on budgetary central Government increased by Rs4.1 billion at the end of June 2011.

Table III.1: Depository Corporations Survey							
	Jun-09 (1)	Jun-10 (2)	Jun-11 (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	**97,145.7**	**101,733.2**	**106,826.0**	**4,587.5**	**4.7**	**5,092.8**	**5.0**
Bank of Mauritius	63,281.8	65,004.4	76,240.3	1,722.6	2.7	11,235.9	17.3
Other Depository Corporations	33,863.9	36,728.8	30,585.7	2,864.9	8.5	-6,143.1	-16.7
Banks	*34,068.5*	*36,932.0*	*30,804.1*	2,863.4	8.4	-6,127.9	-16.6
Non-Bank Deposit-Taking Institutions	*-204.6*	*-203.2*	*-218.4*	1.5	-0.7	-15.2	7.5
2. Domestic Claims	**275,223.5**	**294,720.7**	**311,741.8**	**19,497.3**	**7.1**	**17,021.1**	**5.8**
A. Net Claims on Central Government	***49,784.8***	***52,271.7***	***47,808.6***	**2,486.9**	**5.0**	**-4,463.1**	**-8.5**
Bank of Mauritius	-10,174.6	-8,506.5	-4,414.9	1,668.1	-16.4	4,091.6	-48.1
Other Depository Corporations	59,959.4	60,778.2	52,223.4	818.8	1.4	-8,554.8	-14.1
Banks	*58,609.0*	*59,722.0*	*50,987.7*	1,113.0	1.9	-8,734.3	-14.6
Non-Bank Deposit-Taking Institutions	*1,350.4*	*1,056.2*	*1,235.7*	-294.2	-21.8	179.5	17.0
B. Claims on Other Sectors	***225,438.7***	***242,449.0***	***263,933.3***	**17,010.3**	**7.5**	**21,484.3**	**8.9**
Bank of Mauritius	133.3	133.1	130.3	-0.2	-0.1	-2.9	-2.2
Other Depository Corporations	225,305.4	242,315.9	263,803.0	17,010.5	7.5	21,487.1	8.9
Banks	*191,518.7*	*210,158.2*	*227,603.0*	18,639.5	9.7	17,444.7	8.3
Non-Bank Deposit-Taking Institutions	*33,786.6*	*32,157.7*	*36,200.0*	-1,629.0	-4.8	4,042.3	12.6
3. ASSETS = LIABILITIES	**372,369.1**	**396,453.9**	**418,567.8**	**24,084.8**	**6.5**	**22,113.9**	**5.6**
4. Broad Money Liabilities	**283,613.3**	**302,943.8**	**320,818.1**	**19,330.6**	**6.8**	**17,874.2**	**5.9**
A. Currency with Public	***14,683.4***	***15,904.6***	***17,516.6***	**1,221.1**	**8.3**	**1,612.0**	**10.1**
B. Transferable Deposits	***65,368.7***	***72,695.0***	***69,322.7***	**7,326.3**	**11.2**	**-3,372.2**	**-4.6**
Bank of Mauritius	101.0	122.9	113.3	21.9	21.7	-9.5	-7.8
Other Depository Corporations	65,267.7	72,572.1	69,209.4	7,304.4	11.2	-3,362.7	-4.6
Banks	*65,267.7*	*72,572.1*	*69,209.4*	7,304.4	11.2	-3,362.7	-4.6
Non-Bank Deposit-Taking Institutions	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
C. Savings Deposits	***81,932.9***	***92,471.1***	***110,210.6***	**10,538.1**	**12.9**	**17,739.6**	**19.2**
Bank of Mauritius	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Depository Corporations	81,932.9	92,471.1	110,210.6	10,538.1	12.9	17,739.6	19.2
Banks	*80,599.4*	*91,102.2*	*108,771.7*	10,502.8	13.0	17,669.6	19.4
Non-Bank Deposit-Taking Institutions	*1,333.6*	*1,368.9*	*1,438.9*	35.3	2.7	70.0	5.1
D. Time Deposits	***120,072.4***	***121,031.5***	***119,723.6***	**959.1**	**0.8**	**-1,307.9**	**-1.1**
Bank of Mauritius	78.8	420.1	216.5	341.3	433.1	-203.6	-48.5
Other Depository Corporations	119,993.6	120,611.4	119,507.1	617.9	0.5	-1,104.3	-0.9
Banks	*94,502.6*	*94,860.9*	*91,022.6*	358.3	0.4	-3,838.3	-4.0
Non-Bank Deposit-Taking Institutions	*25,491.0*	*25,750.5*	*28,484.5*	259.5	1.0	2,734.0	10.6
E. Securities other than Shares	***1,555.9***	***841.8***	***4,044.5***	**-714.1**	**-45.9**	**3,202.7**	**380.5**
Bank of Mauritius	0.0	0.0	3,093.0	0.0	100.0	3,093.0	100.0
Other Depository Corporations	1,555.9	841.8	951.5	-714.1	-45.9	109.8	13.0
Banks	*851.5*	*0.0*	*0.0*	-851.5	0.0	0.0	0.0
Non-Bank Deposit-Taking Institutions	*704.4*	*841.8*	*951.5*	137.4	19.5	109.8	13.0
5. Other	**88,755.9**	**93,510.1**	**97,749.7**	**4,754.2**	**5.4**	**4,239.6**	**4.5**

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

Table III.2: Central Bank Survey							
	Jun-09 (1)	Jun-10 (2)	Jun-11 (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	**63,281.8**	**65,004.5**	**76,240.3**	**1,722.7**	**2.7**	**11,235.8**	**17.3**
Claims on Nonresidents	63,300.9	69,064.7	80,413.9	5,763.8	9.1	11,349.2	16.4
Liabilities to Nonresidents	19.1	4,060.2	4,173.6	4,041.1	21,143.9	113.4	2.8
2. Domestic Claims	**-9,518.9**	**-7,926.6**	**-4,052.5**	**1,592.3**	**16.7**	**3,874.1**	**48.9**
A. Net Claims on Budgetary Central Government	-10,174.6	-8,506.6	-4,414.9	1,668.0	16.4	4,091.7	48.1
B. Claims on Other Sectors	133.3	133.1	130.3	-0.2	-0.2	-2.8	-2.1
C. Claims on Other Depository Corporations	522.4	446.9	232.1	-75.5	-14.5	-214.8	-48.1
3. ASSETS = LIABILITIES	**53,762.9**	**57,077.9**	**72,187.8**	**3,315.0**	**6.2**	**15,109.9**	**26.5**
4. Monetary Base	**29,868.0**	**35,751.6**	**42,340.9**	**5,883.6**	**19.7**	**6,589.3**	**18.4**
A. Currency in Circulation	16,940.1	18,649.4	20,453.8	1,709.3	10.1	1,804.4	9.7
B. Liabilities to Other Depository Corporations	12,748.1	16,559.3	21,557.3	3,811.2	29.9	4,998.0	30.2
C. Deposits Included in Broad Money	179.8	542.9	329.8	363.1	202.0	-213.1	-39.3
5. Securities other than Shares Included in Broad Money	**0.0**	**0.0**	**3,093.0**	**0.0**	**0.0**	**3,093.0**	**100.0**
6. Other	**23,894.9**	**21,326.3**	**26,753.9**	**-2,568.7**	**-10.7**	**5,427.6**	**25.5**

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

Table III.2 shows the Central Bank Survey as at end-June 2009 through end-June 2011.

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. The ODCS is derived from the sectoral balance sheets of other depository corporations, which include banks and non-bank deposit-taking institutions. The classification of the various aggregates in the ODCS complies with the provisions of the IMF's Monetary and Financial Statistics Manual.

Net foreign assets of ODCs fell by Rs6.1 billion to stand at Rs30.6 billion at the end of June 2011. Claims on nonresidents rose by Rs62.9 billion to Rs451.2 billion while liabilities to nonresidents increased by Rs69.0 billion to Rs420.6 billion at the end of June 2011.

Domestic claims rose by Rs22.4 billion to Rs347.6 billion at the end of June 2011, boosted by an increase in ODCs' claims on other sectors, which expanded by 8.9 per cent to Rs263.8 billion after an increase of 7.5 per cent noted in the year ended June 2010. In contrast, ODCs' net claims on Central Government contracted by Rs8.6 billion to Rs52.2 billion while a positive growth rate was recorded for the year ended June 2010. Claims on the central bank rose by Rs9.4 billion to Rs31.6 billion at the end of June 2011.

Claims on GBL Holders expanded by Rs2.5 billion, or by 12.8 per cent to Rs21.7 billion at the end of June 2011. A year ago, the growth rate was lower at 3.2 per cent.

Deposits included in broad money grew by Rs13.3 billion, or by 4.6 per cent, to Rs298.9 billion at the end of June 2011, lower than the rise of 6.9 per cent recorded in the year to end-June 2010. Transferable deposits decreased by Rs3.4 billion to Rs69.2 billion, or by 4.6 per cent compared to an increase of 11.2 per cent a year ago. Savings deposits continued to expand strongly – savings were up by Rs17.7 billion, or by 19.2 per cent, to Rs110.2 billion – while time deposits shrank by 0.9 per cent to Rs119.5 billion compared to a growth of 0.5 per cent in the year to June 2010.

Table III.3 provides data on the Other Depository Corporations Survey as at end-June for the years 2009 through 2011.

Table III.3: Other Depository Corporations Survey

	Jun-09 (1) (Rs Mn)	Jun-10 (2) (Rs Mn)	Jun-11 (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	**33,863.9**	**36,728.8**	**30,585.7**	**2,864.9**	**8.5**	**-6,143.1**	**-16.7**
Claims on Nonresidents	288,406.0	388,296.1	451,174.4	99,890.2	34.6	62,878.2	16.2
Liabilities to Nonresidents	254,542.1	351,567.3	420,588.7	97,025.3	38.1	69,021.3	19.6
2. Domestic Claims	**300,309.4**	**325,279.6**	**347,644.1**	**24,970.3**	**8.3**	**22,364.4**	**6.9**
A. Net Claims on Central Government	59,959.4	60,778.2	52,223.4	818.8	1.4	-8,554.8	-14.1
B. Claims on Other Sectors	225,305.4	242,315.9	263,803.0	17,010.5	7.5	21,487.1	8.9
C. Claims on Central Bank	15,044.6	22,185.5	31,617.7	7,140.9	47.5	9,432.1	42.5
3. Claims on Global Business Licence Holders Sector	**18,644.9**	**19,242.2**	**21,697.2**	**597.3**	**3.2**	**2,455.1**	**12.8**
4. ASSETS = LIABILITIES	**352,818.1**	**381,250.6**	**399,927.0**	**28,432.4**	**8.1**	**18,676.5**	**4.9**
5. Liabilities to Central Bank	**470.9**	**1,018.9**	**208.4**	**548.0**	**116.4**	**-810.5**	**-79.5**
6. Deposits Included in Broad Money	**267,194.2**	**285,654.6**	**298,927.2**	**18,460.4**	**6.9**	**13,272.6**	**4.6**
A. Transferable Deposits	65,267.7	72,572.1	69,209.4	7,304.4	11.2	-3,362.7	-4.6
B. Savings Deposits	81,932.9	92,471.1	110,210.6	10,538.1	12.9	17,739.6	19.2
C. Time Deposits	119,993.6	120,611.4	119,507.1	617.9	0.5	-1,104.3	-0.9
7. Securities other than Shares included in Broad Money	**1,555.9**	**841.8**	**951.5**	**-714.1**	**-45.9**	**109.8**	**13.0**
8. Other	**83,597.2**	**93,735.4**	**99,839.9**	**10,138.2**	**12.1**	**6,104.6**	**6.5**

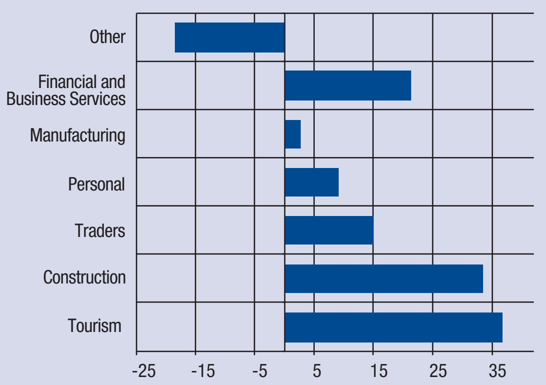
Figures may not add up to totals due to rounding.
Source: Statistics Division.

Sector-wise Distribution of Banks' Credit

Credit extended to the private sector by banks grew by Rs18.8 billion, or by 9.5 per cent, from Rs197.8 billion at the end of June 2010 to Rs216.6 billion at the end of June 2011, compared to an increase of 8.3 per cent registered in the preceding year. Average private sector credit as a percentage of GDP at market prices went up from 64.6 per cent in 2009-10 to 66.2 per cent in 2010-11. The additional credit was mainly directed towards the Tourism and Construction sectors, which constituted 36.8 per cent and 33.6 per cent of the rise in credit expansion in 2010-11. The "Financial and Business Services", "Traders", "Personal" and "Manufacturing" sectors were the other major recipients of additional credit with around 48.2 per cent of the increase channelled to them. Credit to the household sector remained strong with an increase of Rs7.1 billion, representing 37.7 per cent of the increase in total credit expansion in 2010-11. Average household credit as a percentage of GDP at market prices stood at 15.6 per cent in the year 2010-11, up from 14.5 per cent a year ago.

Chart III.1 shows the sector-wise contribution to the increase in credit to the private sector by banks in 2010-11.

Chart III.1: Contribution to the increase in bank credit to the private sector – end-June 2010 to end-June 2011



Source: Statistics Division.

Maintenance of Cash Ratio

In a bid to stem the distortionary impact of excess liquidity on the money market, the Bank, with effect from the maintenance period starting 8 October 2010, raised the cash ratio that banks were required to maintain from 5.0 per cent to 6.0 per cent of their average deposits liabilities held over the two week-period preceding the maintenance period. Concurrently, the minimum cash reserve ratio on any particular day during the maintenance period was raised from 4.0 per cent to 4.5 per cent. The cash ratio was raised a second time during the year under review in February 2011 to 7.0 per cent while the minimum cash reserve ratio on any particular day during the maintenance period was concurrently raised from 4.5 per cent to 5.0 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.

The average cash balances held by banks at the Bank of Mauritius were in the range of Rs17.8-24.3 billion in 2010-11, higher than the range of Rs12.4-17.0 billion in 2009-10. Similarly, the average excess reserves held by banks were in the range of Rs1.8-6.9 billion in 2010-11 compared to Rs1.0-5.0 billion in 2009-10. Banks held, on average, cash reserves in the range of 6.42-8.47 per cent of their eligible deposits in 2010-11 compared to 4.90-6.39 per cent in the previous year.

Table III.4: Average Cash Ratio Maintained by Banks

	Average Cash Balances Held	Average Excess/ (Shortfall) Cash Balances	Average Cash Ratio
	(Rs million)		(Per cent)
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[1]	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
2010-11			
Jul-Sep	17,763-20,434	3,941-6,743	6.42-7.46
Oct-Dec[2]	17,950-22,146	2,791-5,082	6.49-7.79
Jan-Mar[3]	22,077-24,326	3,365-6,896	7.64-8.47
Apr-Jun	21,702-24,180	1,771-4,108	7.62-8.43
2010-11	17,763-24,326	1,771-6,896	6.42-8.47

Cash balances consist exclusively of balances held with the Bank of Mauritius.
[1] With effect from the maintenance period starting 18 June 2010, the cash ratio that banks were required to maintain was raised from 4.5 per cent to 5.0 per cent.
[2] With effect from the maintenance period starting 8 October 2010, the cash ratio that banks were required to maintain was raised from 5.0 per cent to 6.0 per cent.
[3] With effect from the maintenance period starting 25 February 2011, the cash ratio that banks were required to maintain was raised from 6.0 per cent to 7.0 per cent.
Source: Statistics Division.

Table III.4 gives details of the average cash ratio maintained by banks in 2009-10 and 2010-11.

INTEREST RATES

During 2010-11, banks in general adjusted their deposit and lending rates in line with the changes in the Key Repo Rate (KRR). The KRR was reduced by 100 basis points to 4.75 per cent on 23 September 2010 but was kept unchanged on 6 December 2010. On 28 March 2011, the KRR was hiked by 50 basis points to 5.25 per cent and on 13 June 2011 by another 25 basis points to 5.50 per cent.

As at end-June 2011, the range for the savings deposits rate and Prime Lending Rate was 3.50-4.25 per cent and 7.30-9.00 per cent compared to a range of 4.00-4.75 per cent and 8.05-9.00 per cent in the corresponding period of the preceding year, respectively.

The weighted average lending rate of banks remained range-bound in 2010-11. From a peak of 9.98 per cent at the end of July 2010, it reached a trough of 9.12 per cent at the end of February 2011 before closing June 2011 at 9.58 per cent. Similarly, the weighted average deposits rate remained within tight ranges. From 4.58 per cent at the end of July 2010, it hit a low of 3.56 per cent at the end of February 2011 before closing June 2011 at 4.25 per cent. The differential between the weighted average lending and deposits rates varied between 5.33 percentage points and 5.58 percentage points during 2010-11 compared to a range of 5.38-5.52 percentage points in 2009-10.

The real rate of interest on savings deposits moved into negative territory during 2010-11, from 2.8 per cent at the end of June 2010 to negative 1.1 per cent at the end of June 2011 on account of rapidly rising inflation.

Table III.5 gives details of the interest rate structure in the banking sector.

Table III.5: 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
2010									
Jul	3.77	3.87	3.45	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.58	9.98
Aug	2.92	3.02	2.52	8.05-9.00	4.00-4.75	4.00-15.00	6.00-19.75	4.56	9.91
Sep	2.81	2.73	2.07	7.05-9.00	3.40-4.75	3.25-15.00	6.00-19.75	4.50	9.90
Oct	4.42	4.31	2.27	7.05-8.50	3.00-4.00	3.25-15.00	5.00-19.75	3.85	9.23
Nov	3.85	3.95	2.17	7.05-8.50	3.00-4.00	3.00-16.50	4.70-19.75	3.78	9.26
Dec	3.07	3.11	2.04	7.05-8.50	3.00-4.00	3.00-16.50	4.70-19.75	3.65	9.22
2011									
Jan	3.04	3.02	2.01	7.05-8.50	3.00-4.00	3.00-16.50	4.70-19.75	3.59	9.17
Feb	2.77	2.83	1.86	7.05-8.50	3.00-4.00	3.00-16.50	4.70-19.75	3.56	9.12
Mar	2.39	2.41	1.64	7.05-9.00	3.00-4.00	3.00-16.50	4.70-19.75	3.81	9.14
Apr	4.15	4.12	1.51	7.05-9.00	3.00-4.00	3.00-16.50	4.70-19.75	4.13	9.47
May	4.06	4.06	1.40	7.30-9.00	3.00-4.00	3.00-16.50	4.70-19.75	4.12	9.45
Jun	4.33	4.29	2.63	7.30-9.00	3.50-4.25	3.00-16.50	4.70-19.75	4.25	9.58

Source: Statistics Division.

IV. GOVERNMENT FINANCE

Budgetary central government operations were presented for the first time on a calendar year basis in 2010. With Revenue and Expense amounting to Rs65,479.5 million and Rs66,983.2 million, respectively, the budgetary Central Government gross operating deficit, defined as Revenue minus Expense other than consumption of fixed capital, amounted to Rs1,503.7 million in 2010. 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 road development), which totalled Rs8,076.1 million, the budget deficit for 2010 amounted to Rs9,579.8 million, representing 3.2 per cent of GDP at market prices. The borrowing requirements of budgetary Central Government was financed from both foreign and domestic sources.

Revenue

Revenue totalled Rs65,479.5 million in 2010 and, as a percentage of GDP at market prices, stood at 21.8 per cent. The share of Taxes, which amounted to Rs55,209.1 million, in Revenue was 84.3 per cent. 'Other Revenue', amounting to Rs7,271.2 million, was the second major source of Revenue, driven by Property Income to the tune of Rs3,671.0 million. The other components of Revenue were Grants (Rs1,991.0 million), largely reflecting loan disbursements from the European Union under the accompanying measures for the sugar industry and Social Contributions (Rs1,008.2 million).

Table IV.1 gives details on Government Revenue for the fiscal periods 2008-09, July–December 2009, 2010 and estimates for 2011.

Expense

Expense totalled Rs66,983.2 million in 2010 and represented 22.3 per cent of GDP at market prices. Compensation of Employees, which stood at Rs17,541.0 million, accounted for the largest share of Expense (26.2 per cent). The second major component of Expense was Grants (Rs15,428.7 million) with a share of 23.0 per cent. Social Benefits stood at Rs13,539.8 million. Interest payments totalled Rs10,261.9 million, of which Rs9,898.6 million and Rs363.3 million represented interest paid on domestic and external debt, respectively. 'Use of Goods and Services', 'Other Expense' and 'Subsidies' amounted to Rs6,149.6 million, Rs3,083.0 million and Rs979.1 million, respectively.

Table IV.2 gives details on Government Expense for the fiscal periods 2008-09, July–December 2009, 2010 and estimates for 2011.

Budgetary Central Government Operations

Budgetary Central Government gross operating deficit, which represents the shortfall of Revenue relative to Expense, was Rs1,503.7 million in 2010. Taking into account additional outlays totalling Rs8,076.1 million with respect to "Net Acquisition of Non-Financial Assets", the budget deficit amounted to Rs9,579.8 million, corresponding to 3.2 per cent of GDP at market

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

	2008-09 *Actual*	Jul-Dec 2009 *Actual*	2010 *Provisional Actual*	2011 *Estimates*
Revenue	62,216.1	33,182.9	65,479.5	70,300.0
Taxes	52,332.6	27,640.8	55,209.1	59,708.0
Social Contributions	959.9	495.1	1,008.2	1,075.0
Grants	2,781.1	3,182.4	1,991.0	2,885.0
Other Revenue	6,142.5	1,864.6	7,271.2	6,632.0

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.

prices. "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 Rs127.9 million.

Table IV.2: Expense *(Rs million)*

	2008-09 *Actual*	Jul-Dec 2009 *Actual*	2010 *Provisional Actual*	2011 *Estimates*
Expense	65,102.5	34,096.2	66,983.2	72,593.6
Compensation of Employees	16,247.4	8,685.5	17,541.0	19,361.7
Use of Goods and Services	5,124.4	2,774.2	6,149.6	7,609.4
Interest [1]	10,687.5	5,325.7	10,261.9	11,150.0
Internal	*10,305.9*	*5,135.2*	*9,898.6*	*10,420.0*
External	*381.6*	*190.5*	*363.3*	*730.0*
Subsidies	916.9	454.2	979.1	1,177.7
Grants	17,655.9	8,836.6	15,428.7	13,245.2
Social Benefits	11,692.2	6,729.1	13,539.8	14,402.2
Other Expense	2,778.2	1,290.9	3,083.0	3,847.4
Contingencies				1,800.0

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

		2008-09 *Actual*	Jul-Dec 2009 *Actual*	2010 *Provisional Actual*	2011 *Estimates*
1.	Revenue	62,216.1	33,182.9	65,479.5	70,300.0
2.	Expense	65,102.5	34,096.2	66,983.2	72,593.6
3.	Gross Operating Balance (1-2)	-2,886.4	-913.3	-1,503.7	-2,293.6
4.	Net Acquisition of Non-Financial Assets	5,545.8	4,945.9	8,076.1	11,436.3
5.	Net Lending (+)/Borrowing (-): Budget Balance	-8,432.2	-5,859.2	-9,579.8	-13,729.9
6.	*Net Lending (+)/Borrowing (-) as a % of GDP*	*-3.0%*	*-3.9%*	*-3.2%*	*-4.3%*
7.	Net Acquisition of Financial Assets	1,424.7	-114.2	127.9	3,890.0
8.	Net Incurrence of Liabilities	9,856.9	5,745.0	9,707.7	17,619.9
9.	Adjustment for difference in cash and accrual	219.1	294.9	449.8	499.0
10.	Borrowing Requirements	9,637.8	5,450.1	9,257.9	17,120.9
	Borrowing Requirements as a % of GDP	*3.5%*	*3.7%*	*3.1%*	*5.3%*
	Domestic	6,123.4	5,250.7	3,821.9	10,170.9
	o/w: Banking Sector	*-2,882.9*	*1,448.1*	*2,204.5*	*0.0*
	Foreign	3,514.4	199.4	5,436.0	6,950.0
	Memo item:				
	Primary Balance	2,255.3	-533.5	682.1	-2,580.0
	Primary Balance as a % of GDP	*0.8%*	*-0.4%*	*0.2%*	*-0.8%*

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.

"Net Incurrence of Liabilities", consisting mainly of net issuance of 'Securities other than shares' and 'Loans', stood at Rs9,707.7 million in 2010 and, after adjustment for difference in cash and accrual, the borrowing requirement turned out to be Rs9,257.9 million, representing 3.1 per cent of GDP at market prices. The budgetary Central Government borrowing requirement was financed by external borrowing to the tune of Rs5,436.0 million while domestic financing amounted to Rs3,821.9 million.

The primary balance, which is the difference between Revenue and Expense excluding interest payments, was positive at Rs682.1 million, representing 0.2 per cent of GDP at market prices in 2010.

Table IV.3 provides details about budgetary Central Government operations for the fiscal periods 2008-09, July–December 2009, 2010 and estimates for 2011.

2011 Budget

The 2011 Budget addressed the following main pillars for future development, namely: (i) Rebalancing Growth; (ii) Making a Great Leap

Table IV.4: Public Sector Debt *(as at end of period)* *(Rs million)*

	Jun-09 *Actual*	Dec-09 *Actual*	Jun-10 *Actual*	Dec-10 *Actual*	Jun-11 *Provisional*
1. Short-term Domestic Obligations [1]	**37,022**	**39,322**	**40,159**	**33,909**	**33,753**
o/w: Treasury Bills	37,022	34,897	37,959	31,809	31,453
2. Medium-term Domestic Obligations [1]	**40,182**	**41,828**	**40,098**	**44,049**	**41,973**
o/w: Treasury Notes	40,171	41,810	40,075	44,023	41,943
3. Long-term Domestic Obligations [1]	**40,030**	**44,494**	**46,131**	**50,599**	**54,077**
o/w: MDLS/Government of Mauritius Bonds	22,890	24,890	24,220	29,631	31,337
Five-Year Government of Mauritius Bonds	17,139	19,603	21,911	20,967	22,740
4. Domestic Central Government Debt (1+2+3)	**117,234**	**125,644**	**126,388**	**128,557**	**129,803**
	(42.0)	*(44.5)*	*(43.7)*	*(42.9)*	*(41.4)*
5. External Central Government Debt	**17,701**	**16,990**	**16,819**	**22,201**	**25,201**
	(6.3	*(6.0)*	*(5.8)*	*(7.4)*	*(8.0)*
(a) Foreign Loans	17,669	16,753	16,790	22,095	25,186
(b) Foreign Investment in Government Securities	32	237	29	106	15
6. Extra Budgetary Unit Domestic Debt	**83**	**82**	**81**	**109**	**108**
7. Extra Budgetary Unit External Debt	**280**	**270**	**211**	**225**	**208**
8. Local Government Domestic Debt	**43**	**5**	**4**	**4**	**4**
9. Public Enterprise Domestic Debt	**16,439**	**15,131**	**13,180**	**11,859**	**10,908**
10. Public Enterprise External Debt	**7,829**	**10,011**	**9,750**	**9,814**	**9,205**
11. Domestic Public Sector Debt	**133,800**	**140,861**	**139,653**	**140,528**	**140,822**
	(47.9)	*(49.9)*	*(48.3)*	*(46.9)*	*(44.9)*
12. External Public Sector Debt	**25,810**	**27,271**	**26,780**	**32,240**	**34,614**
	(9.2)	*(9.7)*	*(9.3)*	*(10.8)*	*(11.0)*
13. Total Public Sector Debt (11+12)	**159,610**	**168,132**	**166,434**	**172,768**	**175,436**
	(57.1)	(59.6)	(57.6)	(57.7)	(55.9)

[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.

Source: Financial Markets Analysis Division; Ministry of Finance and Economic Development, Government of Mauritius.

Table IV.5: Composition of Budgetary Central Government Debt					*(end-of-period)*
	Jun-09 *Actual*	Dec-09 *Actual*	Jun-10 *Actual*	Dec-10 *Actual*	Jun-11 *Provisional*
Outstanding Government Debt (Rs million)	**134,935**	**142,634**	**143,207**	**150,758**	**155,004**
Domestic (Rs million)	**117,233**	**125,643**	**126,388**	**128,557**	**129,803**
Share of Total (Per cent)	86.9	88.1	88.3	85.3	83.7
External Government Debt (Rs million)	**17,701**	**16,990**	**16,819**	**22,201**	**25,201**
Share of Total (Per cent)	13.1	11.9	11.7	14.7	16.3

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

Forward on Productivity; and (iii) Consolidating Social Justice. With a view to shaping the recovery, Small and Medium Enterprises would be provided with continued support and public infrastructure development would be enhanced. There would be major investment in roads, water sector and upgrading of the airport and the Mauritius Container Terminal port. Government would also be (i) promoting the medical hub; (ii) investing in human resource development; and (iii) eradicating absolute poverty.

While the gross operating deficit has been estimated at Rs2,293.6 million in 2011, the budget deficit has been projected at Rs13,729.9 million (representing 4.3 per cent of GDP at market prices), reflecting "Net Acquisition of Non-Financial Assets" to the tune of Rs11,436.3 million. The borrowing requirement of Government would amount to Rs17,120.9 million, of which Rs10,170.9 million and Rs6,950.0 million would be financed domestically and externally, respectively. The primary deficit has been estimated at Rs2,580.0 million, representing 0.8 per cent of GDP at market prices.

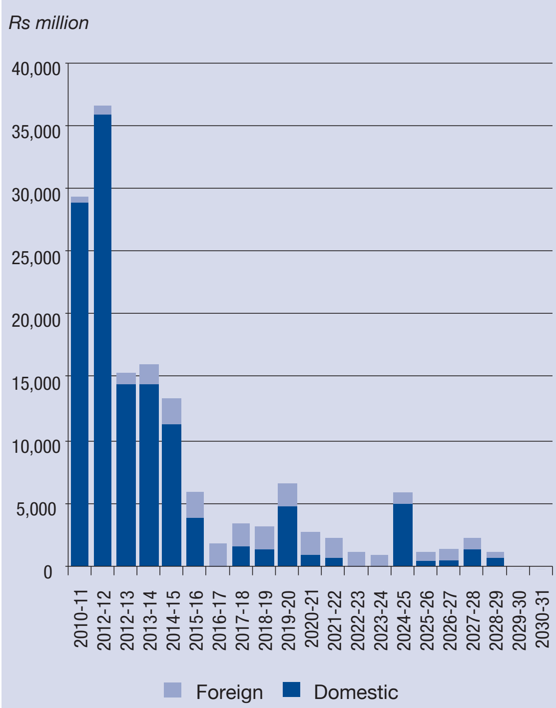
Public Sector Debt

Public sector debt, comprising both public sector domestic and external debt, increased from Rs168,132 million as at end-December 2009 to Rs172,768 million as at end-December 2010 and further to Rs175,436 million as at end-June 2011. However, as a percentage of GDP at market prices, total public sector debt decreased from 59.6 per cent to 57.7 per cent and further to 55.9 per cent over the same period. Table IV.4 provides details on public sector debt.

Budgetary Central Government Debt

Total budgetary central Government debt increased by 8.2 per cent, from Rs143,207 million as at end-June 2010 to Rs155,004 million as at end-June 2011. As a percentage of GDP at market prices, it went down from 49.6 per cent to 49.4 per cent over the same period. The share of domestic debt in total debt has been steadily trending downward, from 88.3 per cent as at end-June 2010 to 83.7 per cent as at end-June 2011. Conversely, the share of external debt in total debt rose from 11.7 per cent to 16.3 per cent over the same period.

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



Source: Financial Markets Analysis Division.

Government has endeavoured to lengthen the maturity profile of its debt by way of issuance of domestic securities with longer term maturities and having recourse to long-term foreign financing of its deficit. While Government debt still remained skewed towards the short term, Government debt falling due within one year fell from 39.5 per cent as at end-June 2010 to 33.6 per cent as at end-June 2011. Likewise, Government debt falling due within two years went down from 54.1 per cent to 49.0 per cent over the same period. Table IV.5 shows the composition of Government debt while chart IV.1 shows the redemption profile of total Government debt.

Budgetary Central Government Domestic Debt

Budgetary central Government domestic debt increased by Rs3,415 million, or 2.7 per cent, from Rs126,388 million as at end-June 2010 to Rs129,803 million as at end-June 2011. Reflecting the higher net issuance of longer-term government securities, the share of medium- and long-term domestic obligations by original maturity in total government domestic debt went up from 68.2 per cent as at end-June 2010 to 74.0 per cent as at end-June 2011. Conversely, the share of short-term domestic obligations declined from 31.8 per cent to 26.0 per cent over the same period. Table IV.6 shows the evolution and composition of budgetary central Government domestic debt.

Budgetary Central Government External Debt

Total external debt of Government went up by Rs8,382 million, from Rs16,819 million as at end-June 2010 to Rs25,201 million as at end-June 2011. As a percentage of GDP at market prices, Government external debt increased from 5.8 per cent to 8.0 per cent over the same period. The main multilateral creditors to Mauritius remain the International Bank for Reconstruction and Development (IBRD), African Development Bank (ADB), the Exim Bank of China, Exim Bank of India, China Development Bank and Agence Française de Développement (AFD).

The percentage of fixed-rate external debt decreased from 49.1 per cent as at end-June 2010 to 29.2 per cent as at end-June 2011 while floating-rate external debt increased from 45.8 per cent to 65.7 per cent over the same period. The percentage of interest-free external debt stood unchanged at 5.1 per cent as at end-June 2011 compared to a year earlier. Table IV.7 provides details about the interest rate mix of budgetary central Government external debt.

Table IV.6: Budgetary Central Government Domestic Debt by Obligation

(as at end of period) *(Rs million)*

By Original Maturity	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Change Between End Jun-10 & End Jun-11
Short-term Obligations (1)	**37,021.5**	**39,321.7**	**40,158.5**	**33,909.2**	**33,753.2**	**(6,405.3)**
Treasury Bills	37,021.5	34,896.5	37,958.5	31,809.2	31,453.2	(6,505.3)
Other [1]	-	4,425.2	2,200.0	2,100.0	2,300.0	100.0
Medium- and Long-term Obligations (2)	**80,211.8**	**86,321.7**	**86,229.8**	**94,648.2**	**96,050.1**	**9,820.3**
MDLS/GoM Bonds	22,890.2	24,890.2	24,219.8	29,631.2	31,336.6	7,116.7
Five-Year GoM Bonds	17,138.9	19,603.3	21,911.1	20,967.4	22,740.0	828.9
Treasury Notes	40,171.4	41,810.0	40,074.5	44,022.9	41,942.7	1,868.2
Other	11.3	18.2	24.3	26.6	30.4	6.4
Central Government Domestic Debt (3)=(1+2)	**117,233.3**	**125,643.4**	**126,388.3**	**128,557.4**	**129,803.3**	**3,415.0**

[1] *Include borrowings from Road Development Authority and Special Funds.*
Source: Financial Markets Analysis Division.

Table IV.7: Budgetary Central Government External Debt by Interest Rate Mix *(Per cent)*

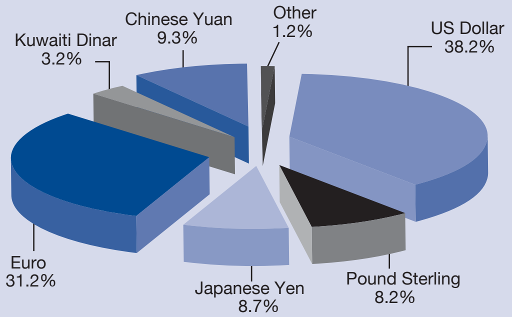
	Jun-09 *Actual*	Dec-09 *Actual*	Jun-10 *Actual*	Dec-10 *Actual*	Jun-11 *Provisional*
Fixed Rate	46.4	50.7	49.1	34.1	29.2
Floating Rate	48.7	44.3	45.8	62.3	65.7
Interest-Free	4.9	5.0	5.1	3.6	5.1

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

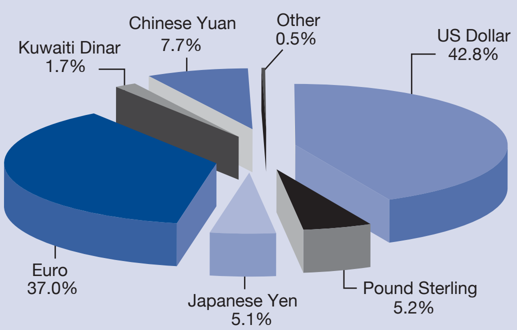
The currency composition of Government exernal debt continued to be dominated by the US dollar and Euro with respective shares of 42.8 per cent and 37.0 per cent as at end-June 2011. The Chinese Yuan and Pound Sterling made up 7.7 per cent and 5.2 per cent of the total external debt, respectively. Chart IV.2 shows the currency composition of external Goverment debt.

Chart IV.2: Currency Composition of Government External Debt

As at end-June 2010



As at end-June 2011



Source: Financial Markets Analysis Division.

External Loans Agreements

External loan agreements totalling Rs4.0 billion were signed by the Government of Mauritius during 2010-11 as shown in Table IV.8.

Table IV.8: External Loan Agreements signed in 2010-11

	Creditor	External Loan Agreements: Foreign Currency *(million)*	External Loan Agreements: Rupee Equivalent *(million)*
1.	Japan International Cooperation Agency	JPY 7,012	2,520
2.	EXIM Bank of China	CNY 20	89
3.	EXIM Bank of India	USD 48.5	1,414
	Total		**4,023**

Source: Financial Markets Analysis Division.

External Loan Disbursement

External loan disbursements, as provided in Table IV.9, totalled Rs10.1 billion in 2010-11 and the major creditors were the ADB (Rs4.45 billion), AFD (Rs3.20 billion) and IBRD (Rs1.56 billion).

Budgetary Central Government Debt Servicing

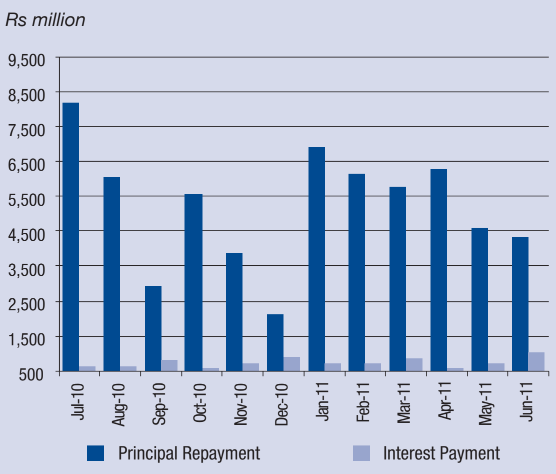
Principal repayment and interest payment on central Government debt in 2010-11 totalled Rs62,737.9 million and Rs8,950.6 million, respectively. Principal repayment and interest payment on domestic debt amounted to Rs61,964.3 million and Rs8,587.2 million, respectively, while those on external debt stood at Rs773.6 million and Rs363.4 million, respectively. Chart IV.3 shows the monthly evolution of principal repayment and interest payment during 2010-11.

Table IV.9: Disbursement of External Loans

Creditor		External Loan Amount Disbursed		
		Foreign Currency		Rupee Equivalent
1.	African Development Bank	EUR	485,686	20,324,551
		MUR	100,695,418	100,695,418
		USD	149,999,946	4,328,713,442
2.	Agence Française de Développement	EUR	76,495,641	3,201,120,738
3.	China Development Bank	CNY	23,780,000	106,275,198
4.	EXIM Bank of China	CNY	79,961,743	357,357,025
5.	EXIM Bank of India	USD	5,000,000	144,290,500
6.	IBRD	USD	53,955,901	1,557,064,785
7.	Other Disbursement			289,080,642
	TOTAL			**10,104,922,300**

Source: Financial Markets Analysis Division.

Chart IV.3: Principal Repayment and Interest Payment during 2010-11



Source: Financial Markets Analysis Division.

V. BALANCE OF PAYMENTS

The country's balance of payments during 2010-11 was characterised by a higher current account deficit where the growing merchandise trade deficit was partly offset by greater net inflows in the income account and higher surpluses in the services and current transfers accounts. Higher financial flows, led mostly by 'other investment', have largely met the financing needs of the current account.

Provisional estimates indicate that the current account deficit for 2010-11 deteriorated to Rs24,483 million, from a lower shortfall of Rs23,023 million registered in 2009-10. In relation to GDP at market prices, the deficit on the current account during 2010-11 was slightly lower at 7.9 per cent compared to 8.0 per cent in the previous year.

The deficit on the merchandise account of the balance of payments deteriorated by 8.9 per cent, from Rs55,911 million in 2009-10 to Rs60,878 million in 2010-11. As a percentage of GDP, the merchandise trade deficit remained more or less unchanged at 19.5 per cent in 2010-11.

On a balance of payments basis, nominal exports growth outpaced that of imports (f.o.b) in 2010-11. Nominal exports, excluding ship's stores and bunkers, grew by 13.4 per cent. By commodity structure, exports of 'Manufactured goods classified chiefly by material' and of 'Miscellaneous manufactured articles' increased respectively by 20.0 per cent and 10.0 per cent, driven mainly by the better performance of the textile industry. In addition, exports of 'Food and live animals' went up by 16.0 per cent mainly due to higher sugar proceeds.

Total nominal imports (f.o.b) increased by 12.6 per cent, from Rs120,040 in 2009-10 to Rs135,161 million in 2010-11. Within imports, 'Mineral fuels, lubricants, & related products' rose by 34.4 per cent, 'Manufactured goods classified chiefly by material' by 18.2 per cent and 'Food and live animals' by 13.2 per cent.

Services, Income and Current Transfers

The surplus on the services account rose by 4.8 per cent, from Rs22,031 million in 2009-10 to Rs23,089 million in 2010-11, largely reflecting a rise in gross tourism receipts of 9.9 per cent from Rs37,254 million in 2009-10 to Rs40,950 million in 2010-11.

The income account posted higher net inflows of Rs6,569 million in 2010-11 compared to Rs4,271 million in 2009-10 due to rising net inflows in 'other investment income' largely generated by banks. The surplus on the current transfers account increased slightly from Rs6,586 million in 2009-10 to Rs6,737 million in 2010-11.

Chart V.1 shows the main components of the current account for the years 2005-06 through 2010-11. Chart V.2 shows the financing of the current account deficit for the same period.

Capital and Financial Account

Direct investment posted net inflows of Rs5,921 million in 2010-11 compared to Rs8,011 million in 2009-10.

Foreign direct investment (FDI) in Mauritius posted lower net inflows of Rs8,509 million in 2010-11 compared to Rs11,222 million in 2009-10. Gross foreign direct investment in Mauritius stood at Rs9,105 million in 2010-11, with major investments to the tune of Rs2,840 million, Rs2,771 million and Rs663 million directed to the "Real estate activities", "Financial and insurance activities" and "Accommodation and food service activities" sectors, respectively. Non-residents' repatriation from Mauritius amounted to Rs596 million in 2010-11.

Direct investment abroad registered lower net outflows of Rs2,589 million in 2010-11 compared to Rs3,211 million in the preceding fiscal year. Gross foreign direct investment abroad stood at Rs2,601 million in 2010-11 and was mainly directed to the "Financial and insurance activities" sector amounting to Rs1,309 million, followed by "Accommodation and food service activities" and "Agriculture, forestry and fishing" sectors to the extent of Rs498 million and Rs448 million, respectively. Residents' repatriation of direct investment from abroad amounted to Rs12 million.

Table V.1: Balance of Payments Summary

	2005-06	2006-07	2007-08	2008-09	2009-10 [1]	2010-11 [2]
	(Rs million)					
Current Account	**-10,188**	**-17,415**	**-22,232**	**-24,771**	**-23,023**	**-24,483**
Goods	**-25,533**	**-38,008**	**-55,313**	**-48,633**	**-55,911**	**-60,878**
Exports f.o.b.	68,959	72,840	67,673	66,926	64,129	74,283
Imports f.o.b.	94,492	110,848	122,986	115,559	120,040	135,161
Imports c.i.f.	101,148	117,797	130,671	123,300	127,417	142,038
Services	**12,363**	**14,069**	**20,626**	**17,000**	**22,031**	**23,089**
Income	**1,341**	**3,499**	**8,340**	**689**	**4,271**	**6,569**
Current Transfers	**1,641**	**3,025**	**4,115**	**6,173**	**6,586**	**6,737**
Capital and Financial Account	**4,141**	**13,727**	**12,781**	**14,549**	**12,854**	**18,388**
Capital Account	**-98**	**-50**	**-49**	**-16**	**-169**	**-57**
Financial Account	**4,239**	**13,777**	**12,830**	**14,565**	**13,023**	**18,445**
Direct Investment	578	7,084	6,211	10,882	8,011	5,921
Portfolio Investment	-1,679	2,949	-3,219	-4,662	-4,672	-629
Other Investment	2,321	10,347	18,947	10,829	19,378	21,552
Reserve Assets	3,019	-6,603	-9,110	-2,484	-9,694	-8,399
Net Errors and Omissions	**6,047**	**3,688**	**9,451**	**10,222**	**10,169**	**6,095**
	(US$ million)					
Current Account	**-335**	**-536**	**-773**	**-788**	**-744**	**-828**
Goods	**-839**	**-1,170**	**-1,922**	**-1,548**	**-1,807**	**-2,060**
Exports f.o.b.	2,266	2,241	2,352	2,130	2,072	2,514
Imports f.o.b.	3,105	3,411	4,274	3,678	3,879	4,574
Imports c.i.f.	3,324	3,625	4,541	3,924	4,117	4,806
Services	**406**	**433**	**717**	**541**	**712**	**781**
Income	**44**	**108**	**290**	**22**	**138**	**222**
Current Transfers	**54**	**93**	**143**	**196**	**213**	**228**
Capital and Financial Account	**136**	**422**	**444**	**463**	**415**	**622**
Capital Account	**-3**	**-2**	**-2**	**-1**	**-5**	**-2**
Financial Account	**139**	**424**	**446**	**464**	**421**	**624**
Direct Investment	19	218	216	346	259	200
Portfolio Investment	-55	91	-112	-148	-151	-21
Other Investment	76	318	659	345	626	729
Reserve Assets	99	-203	-317	-79	-313	-284
Net Errors and Omissions	**199**	**113**	**328**	**325**	**329**	**206**

[1] Estimates. [2] Provisional.

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

Chart V.1 : Main Components of the Current Account

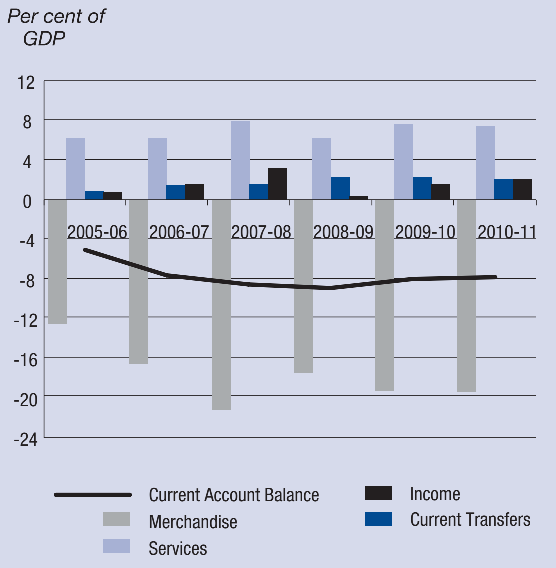
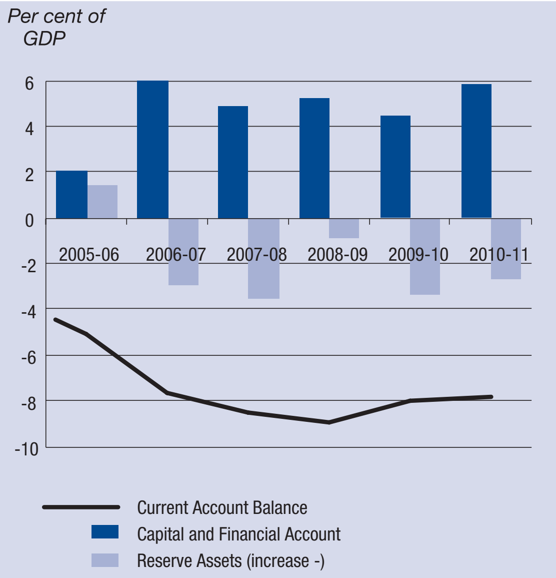


Chart V.2 : Financing of the Current Account Balance



Portfolio investment recorded net outflows of Rs629 million in 2010-11 compared to net outflows Rs4,672 million in 2009-10. Non-residents net purchases of equity on the Stock Exchange amounted to Rs996 million in 2010-11 compared to Rs897 million in 2009-10. Net sales of money market instruments by non-residents amounted to Rs8 million in 2010-11 compared to net sales of Rs38 million in the previous fiscal year.

Other investment recorded higher net inflows of Rs21,552 million in 2010-11 compared to Rs19,378 million in 2009-10. The general government sector registered net inflows of Rs9,332 million in 2010-11 on account of long-term external loan disbursements of Rs10,105 million offsetting capital repayments of Rs774 million. Net inflows of Rs26 million were recorded in 2009-10. External loan disbursements to public corporations, both financial and non-financial, amounted to Rs994 million while capital repayments totalled Rs1,502 million. These were thus net outflows of Rs508 million in 2010-11 as against net inflows of Rs3,165 million during 2009-10. Private long-term capital movements recorded net inflows of Rs967 million in 2010-11 compared to net inflows of Rs1,040 million in the preceding year.

Net International Reserves

The net international reserves of the country, made up of the net foreign assets of the banking system, the foreign assets of the Government and the country's Reserve Position in the International Monetary Fund (IMF), increased by Rs5,306 million, from Rs102,773 million at the end of June 2010 to Rs108,079 million at the end of June 2011.

Of the components of net international reserves, net foreign assets of the Bank of Mauritius, increased by Rs11,236 million, from Rs65,004 million at the end of June 2010 to Rs76,240 million at the end of June 2011 but those of other depository corporations went down by Rs6,143 million, from Rs36,729 million to Rs30,586 million.

In terms of import cover, the level of net international reserves of the country at the end of June 2011 represented 9.1 months of imports, based on the value of the import (c.i.f) bill in 2010-11 excluding imports of marine vessels, compared to 9.9 months as at end-June 2010.

Box I IMF Data Initiatives: Coordinated Portfolio Investment Survey (CPIS) 2010 and Coordinated Direct Investment Survey (CDIS) 2009

I. CPIS 2010

The CPIS, an initiative of the International Monetary Fund (IMF), is to collect information on the stock of cross-border holdings of securities; equity securities and long and short-term debt securities and broken down by the economy of residence of the issuer of the securities. The CPIS 2010 was jointly conducted by the Bank of Mauritius and Financial Services Commission for data as at end-December 2010. Information is collected on investment by Mauritian residents, including for this purpose, banks, global business companies, insurance companies, mutual funds, pension funds and investments companies, in securities issued by unrelated nonresidents, both in terms of market value and geographical distribution.

Results of the 2010 CPIS in Mauritius

The 2010 CPIS survey indicated that residents' cross-border portfolio investment assets reached US$155.6 billion, lower than the US$181.6 billion registered for the 2009 CPIS. This was accounted mostly by the fall in investment in equity securities to US$136.5 billion, causing its share to drop from 91.4 per cent as at end-December 2009 to 87.7 per cent as at end-December 2010.

Investment in long-term debt fell to US$8.3 billion, representing a drop to 5.3 per cent of total portfolio investment from 5.8 per cent a year earlier. However, investment in short- term debt increased significantly to US$10.8 billion. At the end of 2010, the latter constituted 6.9 per cent of residents' portfolio investment assets held abroad compared to only 2.8 per cent a year earlier. This surge in short term debt securities reflected substantial investment into India amounting to US$8.1 billion.

As at end of December 2010, India remained the main destination of Mauritius portfolio investment with its share climbing from 77.5 per cent to 82.2 per cent. However, China and Singapore, the next two major destinations, witnessed a fall in their respective shares to 5.8 per cent and 4.0 per cent. It is also worth noting that debt securities (both short-term and long-term) in these three countries represented 9.4 per cent of the total portfolio investment as at end of December 2010 compared to only 4.0 per cent a year earlier.

The global business sector still represented the major portion of foreign portfolio investment, accounting to US$153.2 billion, although its share has decreased marginally from 99.2 per cent as at end December 2009 to 98.5 per cent as at end December 2010.

Banks' investment in foreign securities increased from US$1.2 billion at the end of December 2009 to US$2.0 billion at the end of December 2010, out of which an amount of US$0.03 billion was invested in equities (representing a share of 1.3 per cent); US$0.61 billion was invested in short-term debt (representing a share of 29.8 per cent) and investment in long term debt amounted to US$1.4 billion (representing a share of 68.9 per cent).

The table below outlines the stock of equity and debt securities as at end-December held over the period 2006-2010.

Year	Equity securities	Long- term Debt securities	Short-term Debt securities	Total
	(US$ billion)			
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
2010	136.5	8.3	10.8	155.6

II. CDIS 2009

The CDIS is a worldwide statistical data collection effort led by the IMF designed to improve the availability and quality of data on foreign direct investment (FDI), both overall and by immediate counterpart economy. It collects information for a country's inward foreign direct investment (liabilities) and outward direct investment (assets) split between equity and debt positions. The CDIS is conducted on an annual basis and the first CDIS was undertaken for year-end 2009. Mauritius was among the 84 countries which participated in the first CDIS. Data coverage was, however, partial and includes the results drawn from the Foreign Assets and Liabilities Survey 2009. The FALS 2011, which has extended coverage, is expected to improve on the CDIS reporting.

Data released by the IMF included "mirror data" for the first time, i.e., data on direct investment positions from the perspective of the counterpart economy, which are shown side-by-side to the given economy's own reported data to identify inconsistencies. New and/or revised results from the 2009 CDIS were released in July 2011 (http://cdis.imf.org).

Box II International Investment Position of Mauritius as at Year-End 2010

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 Payment 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 compiled for Mauritius.

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

		US$ Million
	2009	**2010 [1]**
Assets	**12,426**	**16,353**
Portfolio investment	1,632	2,559
Financial derivatives	3,019	6,449
Other investment	5,472	4,751
Reserve assets	2,303	2,594
Liabilities	**10,360**	**14,355**
Portfolio investment	471	425
Financial derivatives	2,999	6,431
Other investment	6,890	7,499
Net International Investment Position	**2,066**	**1,998**
Net International Investment Position as a % of GDP	**23.4**	**20.5**

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

As at end December 2010, the International Investment Position (IIP) of Mauritius results showed overall external financial assets outstanding at US$16,353 million. Corresponding liabilities stood at US$14,355 million. The net International Investment Position of Mauritius, defined as the difference between external assets and liabilities, was US$1,998 million as at end of year 2010 - a decline of US$68 million over end of year 2009. As a percentage of GDP at market prices, the net IIP was equivalent to 20.5 per cent at year-end 2010, down from 23.4 per cent at year-end 2009.

In 2010, the stock of Mauritian owned assets abroad rose by US$3,927 million. This rise was due to a significant increase in stock of financial derivatives assets of 114 per cent combined with a 56.8 per cent increase in portfolio investment assets. The stock of other investment showed a decline of 13 per cent while the stock of reserve assets increased by US$291 million to US$2,594 million in 2010.

The stock of external liabilities as at year-end 2010 had increased by US$3,995 million on account of an equivalent increase of 114 per cent in the stock of financial derivatives liabilities combined with a rise of 9 per cent in the other investment liabilities.

As at end of year 2010, it may be observed that financial derivatives constituted the largest component of external financial assets while external liabilities are still dominated by other investment, although the share of financial derivatives has also increased sharply.

VI. MONETARY POLICY 2010-11

As per the Bank's statutory mandate, monetary policy focused on maintaining price stability and promoting orderly and balanced economic development in 2010-11. During the second half of 2010, the accommodative monetary policy stance adopted by the Bank since the onset of the global crisis was pursued. At its meeting on 27 September 2010, the MPC unanimously agreed to cut the Key Repo Rate (KRR) by a 100 basis points. At the MPC meeting held on 6 December 2010, the KRR was left unchanged. During the first half of 2011, the MPC observed that while the outlook for domestic growth had improved, upside risks to the inflation outlook had increased and the KRR was raised at both the March 2011 and June 2011 meetings.

Assessment and Decisions

Reports on economic activity worldwide indicated that the global growth momentum seemed to have moderated when the MPC met on 27 September 2010. There were several risks threatening the fragile global recovery in advanced countries. Concerns were raised about the possibility of the sovereign debt crisis in the peripheral Euro zone economies spreading to core European countries. The possibility of fiscal consolidation and austerity measures in the euro zone and UK also threatened to depress the nascent fragile global recovery. The impact of earlier fiscal stimulus seemed to be fading. In the United States, the fiscal deficit and public debt were worryingly high. On the domestic front, economic conditions in the first semester of 2010 were better than expected but real output growth was forecast to cool down in the second semester. External demand-dependent sectors were resilient despite difficult international economic conditions but lower domestic demand reflecting weak investment and a slowdown in household consumption were seen as an economic drag going forward. Business sentiment was expected to worsen further. With inflation at low levels and the weakening prospects in economies of partner countries, the MPC unanimously agreed to cut the KRR by a 100 basis points to 4.75 per cent.

At its meeting on 6 December 2010, the MPC noted that the global economy had evolved as expected at the September 2010 meeting. In its October 2010 World Economic Outlook, the International Monetary Fund (IMF) had marginally upgraded global growth prospects for 2010 but downgraded the outlook for 2011. In Mauritius, the latest data then available supported the view that the economy was gradually recovering and real activity was likely to expand at a pace below trend average for a prolonged period. Growth was expected to be around 4.2 per cent in 2010. It was pointed out that inflation might have risen faster than anticipated at the September 2010 meeting. However, global economic prospects appeared uncertain and there were potential downside risks to the Mauritian economy. MPC members felt that the balance of risks did not warrant a change in the KRR and unanimously voted to leave it unchanged at 4.75 per cent.

When the MPC met on 28 March 2011, it noted that the global economy had continued to improve since the December 2010 meeting, although the pace of growth across regions remained uneven. In its January 2011 World Economic Outlook Update, the IMF had raised the global growth estimate for 2010. It had also slightly upgraded the global growth forecast for 2011 to 4.4 per cent. It was also noted that global inflation had increased broadly across regions mainly on higher food and energy prices. Many central banks, in both advanced and emerging economies, had either already tightened monetary policy or were considering starting the process of normalisation soon. On the domestic front, the latest data available then pointed to better than earlier expected growth in 2010, at an estimated 4.4 per cent and the real economy was forecast to grow by around 4.6 per cent in 2011. The MPC observed that while the pace of economic expansion had firmed, risks to growth outlook remained. However, the MPC judged that the balance of risks had tilted towards higher inflation outlook. While concerns were expressed that the recovery was not entrenched enough, the MPC, taking into consideration the expected narrowing of the output gap, gauged it important to start the process of normalising the KRR to anchor inflation expectations. The MPC voted with a majority of 5 to 3 to raise the KRR by 50 basis points to 5.25 per cent.

When the MPC met on 13 June 2011, it noted that the global economic recovery had slowed since the last MPC meeting, mainly as a result of high energy prices and the disruptive effects of the Japanese earthquake on production and spending. However, growth was expected to be sustained in 2011, with uneven progress across regions. In its April 2011 World Economic Outlook, the IMF had maintained the global growth projection for 2011 at 4.4 per cent. However, global inflation had remained high and several central banks in emerging economies had further tightened monetary policy. In Mauritius, the economy had evolved as broadly anticipated at the previous MPC meeting, driven by healthy activity in key sectors of the economy. The MPC, however, noted that there was evidence of underlying inflationary pressures. The Inflation Expectations Survey carried out by the Bank in May 2011 had shown that expectations for higher prices one year ahead had risen. Given such conditions, the Bank forecast headline inflation to remain strong until the end of this year. The MPC judged that the balance of risks remained tilted towards the higher inflation outlook and voted with a majority of 5 to 3 to raise the KRR by another 25 basis points to 5.50 per cent.

VII. REGIONAL COOPERATION

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

Establishment of the Tripartite Free Trade Area (FTA)

In February 2010, the Ministerial Task Force on Regional Economic Integration 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 Free Trade Area (FTA). The Heads of State and Government of COMESA, EAC and SADC met at the Tripartite Summit on 12 June 2011 and signed the Declaration Launching the negotiations for the establishment of the COMESA-EAC-SADC Tripartite FTA; adopted the Roadmap for Establishing the Tripartite FTA and the Tripartite FTA Negotiating Principles, Processes and Institutional Framework. A Tripartite FTA Roadmap providing the timelines for key activities relating to the negotiations, the implementation of their outcome and the institutional framework for the negotiations over the period January 2011 to January 2016 have also been established.

The Committee of Central Bank Governors in SADC

A meeting of the SADC Committee of Central Bank Governors (CCBG) was held on 1 October 2010 in Harare, Zimbabwe. At the CCBG meeting held on 8 April 2011 in Lilongwe, Malawi, Governors approved that all SADC member states adopt the minimum standards for the compilation of macroeconomic statistics. The main issues discussed at the level of different Sub-committees and approved by Governors at the CCBG meetings are highlighted in the following paragraphs:

CCBG Macroeconomic Sub-committee (MES)

The CCBG MES had met in Kinshasa, Democratic Republic of Congo, from 3-5 August 2010. The *"Integrated Paper on Recent Economic Developments"*, country progress in respect of the Macroeconomic Convergence (MEC) indicators and research papers were the main issues discussed. At the October 2010 CCBG meeting, Governors directed that the MEC criteria should be reviewed by the MES in order to determine whether the targets were realistic. Governors also approved that the Sub-committee's membership be expanded to include the Heads of Research of all SADC central banks to discuss pertinent economic issues. The CCBG MES met in November 2010 in Pretoria, South Africa, and in February 2011 in Maseru, Lesotho, where all member states were represented. At the April 2011 CCBG meeting, Governors approved that the chairperson of the MES would rotate alphabetically every two years. To this effect, the next chair and deputy chair would be Zambia and Zimbabwe, respectively. As directed at the May 2010 CCBG meeting, the Research Review Panel had been established and made fully accountable to the MES.

SADC Sub-committee of Banking Supervisors (SSBS)

The SSBS has not held any meeting since the May 2010 CCBG meeting. In May 2010, Governors had advised that the SSBS should investigate Basel III recommendations as it had serious implications for central banks. The Supervision Department of the South African Reserve Bank had assisted the CCBG Secretariat to prepare notes on Basel III for circulation to Governors at the CCBG meeting held in October 2010.

CCBG Financial Markets Sub-committee (FMS)

The fourth meeting of the CCBG FMS was held in Maputo, Mozambique from 16-18 February 2011. At the CCBG meeting held in April 2011, Governors noted that the Annex on *"Co-operation in the Area of Financial Markets"* would be resubmitted to SADC Ministers responsible for national financial matters at their next meeting. Governors also noted that the paper entitled *"The Benefits of Obtaining Sovereign Ratings in the SADC Region",* which had been submitted to SADC Ministers for national financial matters, needed further research. Moreover, Governors noted the paper on the International Financial Reporting Standards (IFRS), entitled *"Report in survey conducted among central banks to assess whether they comply with the provisions of the IFRS and if it is so, to what extent".* Governors commented that, in general, central banks did not comply with all the provisions of the IFRS.

SADC Information Technology (IT) Forum

The Annual Meeting of the SADC IT Forum was held in Seychelles from 21-25 February 2011. Governors noted that the IT Forum would coordinate the management of CCBG Business Continuity Management processes and would report back to Governors on progress made. Governors noted a presentation by the CCBG Secretariat on its website and directed that the website be launched at their September 2011 meeting.

Legal and Operational Frameworks Steering Committee

In May 2010, Governors noted that the *Explanatory Guide* (*Guide)* to the *SADC Central Bank Model Law (Model Law)* would now be translated into French and Portuguese. Governors approved the draft work programme of the Legal Steering Committee to include the (i) development of a regional guideline document on the post-termination demobilization period for executives of SADC central banks; (ii) drafting of a Model National Payments Systems Law; (iii) drafting of a Model Banking Supervisory Law; (iv) preparatory work towards a Common Central Bank; and (v) an investigation into the CCBG as a legal entity. Governors noted that Botswana, Malawi, Mauritius, Namibia, Seychelles and Zimbabwe have started to incorporate the principles espoused by the *Model Law* in domestic legislation. Progress made will be reviewed annualy at the CCBG meetings.

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

The Bank of Mauritius hosted the 31st Meeting of the Bureau of the COMESA Committee of Governors of Central Banks in August 2010. At the Fifteenth Meeting of the COMESA Committee of Governors of Central Banks held in Sudan from 3-4 November 2010, the Governor of the Bank of Mauritius handed over the chairmanship to the Governor of the Central Bank of Sudan. The Governor of the Bank of Mauritius is currently the first Vice-Chairman and the Governor of the Central Bank of Swaziland the second Vice-Chairman. The Committee of Governors was preceded by the Fifteenth Meeting of the COMESA Committee on Finance and Monetary Affairs from 31 October to 2 November 2010.

Regional Payment and Settlement System (REPSS)

At the Fifteenth Meeting of the COMESA Committee of Governors of Central Banks, Governors noted with concern that some central banks had still not signed the various agreements pertaining to REPSS and its operations and prefunded the Settlement accounts at the Bank of Mauritius.

Macroeconomic Convergence in 2010

The fiscal criterion was missed by ten out of nineteen countries in 2010. While ten countries missed the inflation target, most member states registered single digit inflation. The average inflation rate in COMESA decreased from 19.5 per cent in 2009 to 6.1 per cent in 2010 on account of declining world commodity prices, good harvests in some African countries, lower demand pressures in the face of weakening economic activity and extension of government subsidies on basic food production in some countries. The assessment of COMESA member states in respect of compliance with the secondary criteria, namely, the use of indirect monetary policy instruments, adherence to the 25 Core Principles of Bank Supervision and to the Core Principles for Systemically Important Payment Systems were in the right direction. Interest rates are liberalized in all countries. In 2010, the fiscal deficit excluding grants to GDP ratio for most COMESA member countries was more than 5 per cent. The average import cover for COMESA countries was 3.0 months, compared to the required level of 4.0 months. 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 5.6 per cent in 2010 compared to 5.2 per cent in 2009. The average overall investment as a percentage of GDP in COMESA increased from 22.5 per cent in 2009 to 23.6 per cent in 2010. The average external debt to GDP ratio decreased from 25.4 per cent in 2009 to 19.0 per cent in 2010.

Establishment of the COMESA Monetary Institute (CMI)

The Charter of the CMI was endorsed by the Twenty Seventh Meeting of the Council of Ministers which was held in Lusaka, Zambia in December 2009. The CMI was officially launched on 7 March 2011 within the premises of the Kenyan School of Monetary Studies in Nairobi, Kenya. The COMESA Secretariat has provided funds for implementing the 2011 work plan of the CMI and continues to mobilise funding for the CMI. The work plan of the CMI is derived from the annual work plans of the two Sub-committees, namely, the Monetary and Exchange Rates Policies Sub-committee and the Financial System Development and Stability Sub-committee.

Financial System Development and Stability Sub-committee

The Fifth Meeting of the Financial System Development and Stability Sub-committee, which was held from 11-12 October 2010 in Lusaka, Zambia, reviewed the Assessment Framework on Financial System Stability and adopted the Sub-committee's workplan for 2011. The Sub-committee made a number of recommendations, which were endorsed by Governors at the Fifteenth Meeting of the COMESA Committee of Governors of Central Banks.

Monetary and Exchange Rates Policies Sub-committee

The Eighth Meeting of the Monetary and Exchange Rates Policies Sub-committee was held from 18-19 October 2010 in Lusaka, Zambia. The Sub-committee reviewed the activities that were undertaken based on its 2010 workplan and prepared a workplan for 2011. Among the main activities discussed were the promotion of monetary integration and capacity building. It equally discussed the trends of fiscal reforms in COMESA member countries, challenges to be addressed to implement Multilateral Fiscal Surveillance, the promotion of monetary integration in COMESA, EAC and SADC as well as the case for Tripartite Arrangement for Fiscal Policy Cooperation in the three regional economic communities.

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

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

The Ninth Meeting of the Governors of the AACB, Eastern Africa Sub-region, was held on 14 July 2010 at Nairobi, Kenya, and was preceded by the Technical Committee Meeting, from 12-13 July 2010. The purpose of the meeting was to review progress of the Sub-region in the implementation of the African Monetary Cooperation Programme (AMCP) and consider the status of the execution of the decisions of the Eighth meeting of Governors of the Sub-region.

Progress towards Implementation of the AMCP by Member Central Banks

Governors considered the progress made towards the achievement of the primary criteria in the second phase of the AMCP covering the year 2009. All countries missed the target of overall budget deficit (excluding grants) of less than 3 per cent of GDP. It was decided that the target for budget deficit be reviewed to take into account the developmental needs of member countries and the effects of exogenous shocks. The countries also need to compute fiscal deficits with grants and without grants. Finally, the design of the appropriate fiscal deficit target should take into account fiscal sustainability and debt sustainability. Inflationary pressures had eased in 2009 in some countries compared with 2008. Only Comoros and Mauritius achieved the target of 5 per cent in 2009. It was decided that central banks should maintain appropriate stance of monetary policy to mitigate the effects of exogenous shocks. The member countries should report headline and core/underlying inflation. Central banks should also harmonise the definition of core inflation to facilitate comparability among member central banks and adopt common methodology for computing inflation. Apart from Comoros and Burundi, the performance on the elimination of central bank financing of the budget deficit was generally met by member countries. It was decided that the criteria for central bank financing of the budget deficit should be reviewed for clarity. Member countries should harmonise the law on central bank financing of the budget deficit. It was also noted that most countries were close to achieving external reserves/ import cover of at least 6 months.

Governors also reviewed the progress achieved with respect to the secondary criteria. Except for Kenya, the other countries did not meet the criterion of domestic fiscal receipts/ GDP ratio equal to or more than 20 per cent. It was decided that member countries should take appropriate measures to broaden their tax base and improve tax compliance. Comoros, Burundi and Tanzania were the only countries that did not meet the criterion of wage bill to total tax revenue ratio of less than 35 per cent. It was decided that member countries should strive to meet the criterion in order to release resources for investments in other sectors. There was mixed performance regarding the achievement of the criterion of public investment 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 investment domestically without crowding out private sector. With the exception of Kenya and Mauritius, all other countries recorded negative real interest rates in 2009. It was decided that member countries should strive to promote the achievement and maintenance of real positive interest rates by sticking to a policy of low inflation and general overall macroeconomic stability. In addition, competition in the financial sector should be encouraged. It was decided that market forces should dictate the movements in exchange rates, but member countries should ensure the proper functioning of foreign exchange markets. Member countries should also maintain sufficient reserves to allow interventions to smooth out excessive volatility in the foreign exchange market.

In general, Governors noted the need to (i) review the AMCP targets taking into account the experiences in implementing the programme and prevailing circumstances; (ii) establish the Convergence Council comprising of Finance Ministers and Central Bank Governors, provided for under the AMCP; and (iii) synchronize targets of Regional Economic Communities and AACB.

Chairmanship of the AACB, Eastern African Sub-region in FY 2010-11

The Bank of Uganda and Bank of the Republic of Burundi 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-Fourth Ordinary Meeting in Dakar, Senegal, on 20 August 2010. The Assembly of Governors chose *"Impact of the International financial crisis on monetary unions: the challenge of coordinating budgetary and monetary policies in Africa"* as the theme for the 2011 AACB Symposium. The Assembly of Governors agreed on *"Financing development in Africa: What role for central banks?"* as the theme for the 2011 continental seminar. The Assembly of Governors elected the Governor of the Reserve Bank of Malawi as the Chairman of the AACB for the fiscal year 2010-11.

The Bureau of the AACB held its First Ordinary Meeting for the year 2011 on 23 February 2011 in Senegal, Dakar, and adopted the report on the 2010 AACB Symposium on *"Formulation of the monetary policy in Africa: the relevance of inflation targeting"* and the report of the Thirty-Fourth Ordinary Meeting of the Assembly of Governors held in Dakar, Senegal, in August 2010. 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 African Central Bank and the progress achieved in the implementation of the AMCP.

The continental seminar on *"Financing development in Africa: What role for Central Banks?"* was held from 30 May to 1 June 2011 in Kigali, Rwanda. The seminar underscored the need for central banks to go beyond the traditional functions and facilitate the mobilization of resources for economic development. Specifically, the initiatives should include the promotion of financial markets, institutions and products to deepen the financial systems.

VIII. INTERNATIONAL ECONOMIC DEVELOPMENTS[1]

Growth

The world economy continued to recover during 2010-11, although growth remained uneven across regions. Economic activity in the major advanced economies remained fragile amid the waning effects of policy support while emerging economies sustained a firm recovery, although the rate of expansion showed signs of moderation due to weaker external demand and dissipating low base effect. Disturbance in North Africa, natural disaster in Japan, mixed economic performance in the US and lingering concerns over the euro zone sovereign debt weighed on consumer and business confidence, holding back prospects of a firm global recovery.

In June 2011, the IMF revised down its forecast of global growth to 4.3 per cent in 2011, from the 4.4 per cent it expected in April, reflecting mainly the effect of the earthquake and tsunami on the Japanese economy, with supply disruptions weighing heavily on industrial production and consumer sentiment. Following a weak second quarter 2011 and release of disappointing economic data, the forecast was revised down further in September with the IMF expecting the global economy to grow by 4.0 per cent in both 2011 and 2012. The IMF also noted that downside risks to the economic outlook have increased substantially mainly on account of Europe's debt woes and sluggish economic conditions in the US.

The US economy improved during 2010 with encouraging signs of recovery particularly evident in the second half of the year. The economy grew at a 2.3 per cent annual rate in the fourth quarter of 2010, after expanding at a 2.5 per cent pace in the third quarter. Although overall credit growth remained weak and household deleveraging continued, financial conditions generally improved. However, the economy stumbled badly in the first half of 2011. US growth eased in the first quarter of 2011 to an annualised 0.4 per cent while in the second quarter real GDP increased by 1.0 per cent. According to the IMF's September 2011 World Economic Outlook, the US economy is projected to grow by 1.5 per cent and 1.8 per cent in 2011 and 2012, respectively.

Japan's growth performance in 2010 was one of the fastest among the advanced economies, driven by sizable fiscal stimulus and a rebound in exports. On a year-on-year basis, the economy grew by 4.8 per cent and 2.5 per cent in the third and fourth quarters of 2010, respectively. However, the earthquake in March 2011 led to a severe drag on the economy, with a decrease in exports, especially of motor vehicles. Official estimates of the damage to the capital stock are about 3 to 5 per cent of GDP. The economy contracted by 0.7 per cent in the first quarter of 2011. By June 2011, indicators suggested that the supply disruptions were coming to an end and that a pick-up in domestic demand and exports should mitigate the massive output decline from the previous months. According to the IMF, Japan's economy is expected to grow by 2.3 per cent in 2012 after contracting by 0.5 per cent in 2011.

In the euro area, real GDP expanded by a quarter-on-quarter rate of 0.4 per cent and 0.3 per cent in the third and fourth quarters of 2010, respectively. Growth was sustained by the improvement in both exports and domestic demand for the core economies, in particular in first quarter of 2011 when it registered a robust growth of 0.8 per cent. GDP picked up in most countries through 2010 but there were marked differences in performance. Germany was especially the one leading the economic recovery. Greece was weighed down by austerity measures; Ireland contracted sharply in late 2010; and Spain's economy barely grew. Concerns about banking sector losses and fiscal sustainability led to widening sovereign spreads in these countries, complicating further economic difficulties. Real GDP growth

[1]This section draws material from the IMF's September 2011 World Economic Outlook, United Nations' World Economic Situation and Prospects 2011, World Trade Organisation's Press Release on World Trade 2010 and Prospects for 2011 as well as United Nations Conference on Trade and Development's World Investment Report 2011.

decelerated to 0.2 per cent in the second quarter of 2011. In its September 2011 World Economic Outlook, the IMF projected the euro zone economy to grow by 1.6 per cent in 2011 and 1.1 per cent in 2012.

After experiencing a quarter-on-quarter growth rate of 0.6 per cent in the third quarter of 2010 on account of strong growth in the construction and services sectors, the UK economy experienced a quarter-on-quarter contraction of 0.5 per cent in the fourth quarter of 2010 as bad weather conditions severely affected economic activity. Private consumption also weakened. In the first quarter of 2011, the economy experienced a quarter-on-quarter expansion of 0.5 per cent. The improvement in growth came mainly from the services sector and private consumption as well as a rebound in exports. However, the improvement in economic indicators moderated in the second quarter of 2011, with consumer confidence weakening due to the impact of fiscal austerity measures and higher inflation. According to the IMF, the UK economy is expected to grow by 1.1 per cent in 2011 and 1.6 per cent in 2012.

Economic activity in most emerging economies improved in 2010 along with the recovery in international trade and the rebound in many commodity prices. However, the rate of expansion moderated in the second half of 2010, reflecting a more modest improvement in external demand and slower inventory restocking activity. China experienced a growth rate of 9.6 per cent in the third quarter of 2010 and 9.8 per cent in the fourth quarter. Growth was led by robust domestic demand in spite of a series of tightening measures from the central bank. Indian economic growth has also been strong with GDP growing by 8.9 per cent and 8.3 per cent in the third and fourth quarters of 2010, respectively. The agricultural sector made a strong contribution to overall economic performance. In the first half of 2011, strong export performance, buoyant private domestic demand and, in some cases, rapid credit growth continued to support emerging economies. Growth remained robust in China where GDP grew by 9.7 per cent and 9.5 per cent in the first and second quarters of 2011, respectively. A continued expansion in the manufacturing sector supported growth. India's economy continued to grow in the first quarter of 2011, albeit with some moderation. GDP expanded by 7.8 per cent in the first three months of 2011 with agriculture contributing significantly to the growth rate. According to the IMF, emerging and developing economies are expected to grow by 6.4 per cent in 2011 and 6.1 per cent in 2012.

Inflation

Global inflation rates started rising in the second half of 2010 as increases in commodity prices spilled over to headline inflation. By June 2011, most inflation targeting countries had headline inflation above target. The rise in inflation was more pronounced in emerging economies due to the higher share of food and fuel in their consumption basket. Amongst major economies, headline inflation rate in the US rose from 1.2 per cent in July 2010 to 3.6 per cent in June 2011. Euro area headline inflation rate rose from 1.7 per cent in July 2010 to 2.7 per cent in June 2011, leading the ECB to increase interest rates in April 2011. In the UK, inflation rose from 3.1 per cent in July 2010 to 4.2 per cent in June 2011. Among emerging economies, China's headline inflation rate rose to 6.4 per cent in June 2011, from 3.3 per cent in July 2010, while inflation in India fell from 11.3 per cent in July 2010 to 8.6 per cent in June 2011. According to the IMF, headline inflation is projected to return below 2 per cent in 2012 in advanced economies. In emerging and developing economies, assuming broadly stable food and energy prices, the IMF sees headline inflation at around 7.5 per cent in 2011, and at below 6 per cent in 2012.

Monetary Policy

Rising global inflation together with improving global growth led many central banks, in particular in emerging economies, to start raising interest rates during 2010-11. However, as the year progressed and growth in major advanced economies remained sluggish while concerns relating to fiscal sustainability multiplied, a majority of central banks gradually moved to an unchanged monetary policy stance.

The Federal Reserve (Fed) maintained the target range for the federal funds rate between zero and 0.25 per cent throughout 2010-11 as the US economy depicted mixed performance. It also implemented its second plan to purchase US$600 billion worth of longer-term Treasuries to promote a stronger pace of recovery. The ECB, caught in the dilemma of euro area inflation above its 2 per cent target and lingering euro area sovereign debt worries, finally raised interest rate twice by 25 basis points, in April and July 2011. In spite of persistent high inflation, much above BoE's target of 2 per cent, the BoE kept its policy rate unchanged at 0.5 per cent and maintained its asset purchase programme to support the vulnerable UK economy.

In contrast, central banks in emerging economies have been raising interest rate more aggressively. They also resorted to raising the cash reserve ratio. Between July 2010 and June 2011, the Reserve Bank of India raised interest rate eight times while the Chinese central bank raised interest rate four times. Other emerging economy central banks like the Brazilian central bank and Bank of Korea have also demonstrated during 2010-11 their determination to combat inflation.

Budget Deficit

Budget deficits especially in advanced economies widened sharply in the aftermath of the financial crisis. The average deficit for developed economies had soared to 10 per cent of GDP by the end of 2009, with public debt reaching over 80 per cent. According to the World Economic Prospects and Situation 2011 report from the United Nations, the deficit is estimated to have declined to about 9 per cent in 2010, mainly on account of the phasing-out of government spending associated with the bailout of the financial sector in the United States. The projected deficit for 2011 suggest an improvement by 1 percentage point of GDP, premised on continued GDP growth, smooth implementation of announced fiscal consolidation plan and accommodative capital markets. Under conservative assumptions, the public debt of developed countries will continue to increase, surpassing 100 per cent of GDP, on average, in the next few years.

Foreign Direct Investment

According to the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment (FDI) flows rose to $1.24 trillion in 2010, but were still 15 per cent below their pre-crisis average. Developing and transition economies together attracted more than half of global FDI flows in 2010. Outward FDI from those economies also reached record highs, with most of their investment directed towards other countries in the South. In contrast, FDI inflows to developed countries continued to decline. Flows to Africa, South Asia, least developed countries, landlocked developing countries and Small Island Developing States also fell. However, major emerging regions, such as East and South-East Asia and Latin America experienced strong growth in FDI inflows. UNCTAD's World Investment Report 2011 forecasts that, barring any economic shocks, FDI flows will recover to pre-crisis levels over the next two years.

World Trade

Following the record-breaking 14.1 per cent surge in the volume of exports in 2010, world trade growth should settle to a more modest 5.8 per cent expansion in 2011, according to the World Trade Organisation (WTO). The sharp rise in 2010 trade volumes enabled world trade to recover to its pre-crisis level but not its long-term trend. Asia exhibited the fastest real export growth of any region in 2010 with a jump of 23.1 per cent, led by China and Japan, whose shipments to the rest of the world each rising roughly by 28 per cent. Meanwhile, the United States and the European Union saw their exports growing more slowly at 15.4 per cent and 11.4 per cent, respectively. Imports were up 22.1 per cent in real terms in China, 14.8 per cent in the United States, 10.0 per cent in Japan and 9.2 per cent in the European Union.

Oil

Oil prices rose considerably in 2010 in response to strong global demand but also as a result of supply disturbances. As the global economy continued to grow during much of 2010-11, propelled by emerging economies, oil demand remained buoyant keeping prices on an upward trend. Heightened concerns over supply disruptions following political unrest in a number of countries in the Middle East and North Africa region also caused prices to soar. Moreover, higher oil prices were supported by a generally weak US dollar. Nonetheless, doubts about global growth at times caused oil prices to fall. NYMEX WTI crude and ICE Brent averaged US$89.5 a barrel and US$96.7 a barrel, respectively, in 2010-11 compared to both averaging US$75.3 a barrel in 2009-10.

Gold

Gold prices rose to record highs during most of 2010-11, in particular during the second quarter of 2011. Globally, investors remained concerned about uncertainty in the macro-economic environment and turned to gold as a hedge against US dollar weakness and rising inflation in many economies. Increased investment activity by China, driven in part by innovative new gold investment vehicles offering improved access to the gold market and a rebound in jewellery consumption in India also contributed to the rise in gold prices. COMEX gold averaged US$1,373.2 an ounce in 2010-11 compared to US$1,092.7 an ounce in 2009-10.

Conclusion

While the global economy has bounced back solidly from the trough hit in 2009, the recovery remains uneven and subject to downside risks - reflecting persistent fiscal and financial stresses in the European periphery, uncertain progress toward fiscal consolidation in Japan and the United States and possible overheating in some emerging market economies. It is uncertain, however, whether emerging economies can sustain the same robust pace of growth in 2011 and beyond. Despite strengthened trade ties amongst these countries, they remain highly dependent on demand in the developed countries for their exports. A faltering recovery in those economies should thus be expected to moderate growth prospects for developing economies as well.

2 Regulation and Supervision

Compared to other jurisdictions, the Mauritian banking sector remained resilient in 2010-11, with banks maintaining strong balance sheets and stable profitability. With a view to countering any spill-over effect of the recent financial turmoil, the Bank took pre-emptive measures towards improving the resilience of the domestic financial system. Accordingly, the Bank adopted several broad policy measures to lend support to vulnerable sectors, specifically the export industries which were more exposed to the strains of the economic slowdown worldwide.

During the year, the Bank focussed on strengthening the regulatory framework to further enhance the governance structure and risk management practices of financial institutions falling under its supervisory purview. The Bank maintained a high degree of interaction with the regulatees. Microprudential oversight was conducted on the basis of an overall assessment of the risk profile of individual financial institutions.

New Regulations

i) Guideline on Public Disclosure of Information

In March 2011, the Bank issued a set of distinctive disclosures that financial institutions conducting Islamic banking business or those providing Islamic financial services through a 'window' should make in their annual financial statements and their annual reports. While the relevant existing disclosures of the Guideline on Public Disclosure issued in 2009 are still applicable to Islamic banking institutions (IBIs), a new set of disclosures has been devised in light of the tenets of Islamic banking.

Under the new set of disclosures, IBIs are required to make, among others, a separate disclosure on their Sharia Committee and zakat obligations. When submitting their financial statements, IBIs are also required to submit a report from the Sharia Committee to the shareholders of the IBIs or to the head office of the IBIs.

ii) Guidelines pertaining to Section 46(2) of the Banking Act 2004 - Appointment and Re-appointment of Senior Officers

In view of deficiencies observed in certain financial institutions with regard to the appointment or re-appointment of senior officers, the Bank issued a guideline thereon. The guideline is intended to clarify the expectations of the Bank in relation to the appointment and re-appointment of senior officers by financial institutions.

iii) Foreign Exchange Exposure Limit

The Bank has, after consultation with banks, restored the daily overall foreign exchange exposure limit of banks to 15 per cent of their Tier 1 Capital with effect from 4 January 2011. A single currency exposure limit not exceeding 10 per cent of the Tier 1 capital of banks has also been introduced.

Islamic Banking Services

Following the change of name of Deen Banking Corporation Ltd, the Islamic banking licence that was issued to the company in 2009 was cancelled and a new licence was issued in the name of Century Banking Corporation Ltd in September 2010. The full-fledged Islamic bank commenced operations in March 2011. With HSBC Bank (Mauritius) Limited currently undertaking Islamic banking business through its Amanah window and other Sharia-compliant financial products being offered to the public, the Islamic financial services sector in Mauritius is set for further expansion in the coming years.

Another milestone was laid in October 2010 when the Bank of Mauritius became a founding member of the International Islamic Liquidity Management Corporation, a supranational body that is engaged in the issuance of Islamic liquidity instruments for facilitating liquidity management by Islamic banking institutions.

Deposit Insurance Scheme

The global financial crisis of 2008 has underlined the need for greater visibility and increased efficiency of financial safety-net players, notably regulatory and supervisory bodies and central banks, in conducting systemic oversight and promoting financial stability. In the same vein, Deposit Insurance Entities have been called upon to play a more aggressive role in the protection of depositors and enhancement of financial stability.

In Mauritius, the Bank is actively working towards the establishment of a Deposit Insurance Scheme (DIS). This endeavour has been motivated, firstly, by the enabling provisions in the Banking Act 2004 and the Bank of Mauritius Act 2004 and secondly, by the stable and resilient local financial environment. The predominance of banks also contributes to creating an appropriate platform for the creation of a deposit insurance fund that will ensure the protection of depositors' interests.

A joint Bank of Mauritius/Mauritius Bankers Association Ltd Working Group has been set up to look into the development of a DIS framework for Mauritius. The Bank has, effective November 2010, been admitted as an associate of the International Association of Deposit Insurers and will thus be able to draw on professional advice and capacity-building technical assistance in the deposit insurance field.

Evolution of Financial Sector

i) Non-Bank Deposit Taking Institutions

With a view to creating a level playing field in the financial sector, the Bank has set up a committee with compliance officers of Non-Bank Deposit-Taking Institutions (NBDTIs). This committee serves as a platform for interaction with the regulator on compliance issues. Discussions pertain to AML/CFT issues, guidelines issued by the Bank and their interpretation, as well as clarifications on observations made during the course of on-site examinations.

ii) CAMEL Rating

The Bank has adopted a revised methodology with regard to CAMEL ratings in order to produce consistent and comparable ratings in bank disclosure. In line with that methodology, the Bank has, in consultation with banks, initiated the disclosure of the composite CAMEL ratings as from the quarter ended 30 September 2010, with a view to encouraging banks to improve their performance. The CAMEL ratings will be published on a bi-annual basis, in June and December of each year.

iii) Financial Soundness Indicators

The Financial Soundness Indicators (FSIs) which are compiled to support macroprudential analysis and assessing strengths and vulnerabilities of financial systems, have gradually been brought in line with the Financial Soundness Indicators Compilation Guide of the International Monetary Fund (IMF). These FSIs are, since January 2011, available on the website of the IMF.

iv) Electronic Banking

With the evolution of banking services towards enhancing the accessibility and convenience of customer services, focus is now being laid on innovations in electronic delivery channels, specifically with the introduction of prepaid cards and mobile banking. In this regard, prepaid cards which are very common in countries like the USA and UK are now being issued by a few banks in Mauritius. In addition, the concept of mobile banking has been introduced. Mobile banking is a means through which the customer has access to banking facilities via his or her cell phone and/or other mobile devices.

Performance of the Banking Sector

The banking sector comprised 20 banks licensed to carry out banking business in Mauritius as at end-June 2011. Of these, 8 were local banks, 7 were subsidiaries of foreign-owned banks and 5 were branches of international banks. A new bank started operations effective 31 March 2011, namely Century Banking Corporation Ltd, which was licensed to conduct Islamic banking business.

The twenty banks operated a total of 215 branches, 8 counters, 1 mobile van and 416 Automated Teller Machines (ATMs) and employed 6,926 staff as at 30 June 2011. Besides traditional banking facilities, thirteen banks offer card-based payment services, such as credit and debit cards as well as Internet banking facilities. One bank provides phone banking facilities.

Between end-June 2010 and end-June 2011, the on-balance sheet assets of banks expanded by 3.8 per cent to Rs875,108 million, compared to a higher growth of 13.4 per cent recorded in the corresponding period of the preceding year. The share in total on-balance sheet assets of the five largest banks was 67.6 per cent as at end-June 2011. Off-balance sheet assets dropped by 0.9 per cent to Rs78,346 million at end-June 2011 compared to a rise of 50.1 per cent at end-June 2010.

Total advances increased by 6.2 per cent to Rs520,182 million at end-June 2011, compared to a growth of 19.5 per cent in 2009-10. The ratio of advances to total assets rose slightly from 58.1 per cent at the end of June 2010 to 59.4 per cent in June 2011.

The deposit base of banks grew by 3.1 per cent to Rs641,102 million at end-June 2011, lower than a growth rate of 13.5 per cent recorded in the previous year. During the year 2010-11, Segment B deposits decreased by 0.3 per cent while Segment A deposits increased by 7.7 per cent.

Camel Rating Framework

The CAMEL rating framework is a standard bank-rating system which bank supervisory authorities use to rate institutions based on the following key components; Capital Adequacy, Asset Quality, Management, Earnings and Liquidity. While these components cover the financial, operational and managerial performance of a financial institution, the rating for each of them is based on the assessment of several sub-components. A rating ranging from 1 to 5 – (1 for 'Strong'; 2+ and 2- for 'Satisfactory'; 3+ and 3- for 'Fair'; 4 for 'Marginal' and 5 for 'Unsatisfactory') – is assigned to each of the components of the CAMEL as well as to the overall performance of the banks. A standardized methodology is used in order to produce consistent and comparable ratings.

Since the beginning of 2004, the Bank has used the CAMEL framework, in its off-site surveillance of banks, for the periodic assessment of the overall condition and soundness of individual banks. The latter are informed of their respective ratings. The computation of the CAMEL ratings is based on information submitted by banks for off-site surveillance, the latest on-site examination report and other available supervisory information. The ratings constitute an expression of the opinion of the Bank, as regulator, on the performance of a bank at a particular point in time.

The CAMEL framework is prone to evolve in a manner that improves the appraisal, from the regulator's point of view, of a bank's overall performance. In light of the recommendations made by the Financial Stability Board, the Bank has upgraded the framework in 2010 by incorporating new information culled from banks to derive additional ratios to enhance the evaluation process. The comprehensive and thorough review was completed during the year and the framework now better reflects a bank's performance. For instance, stress testing in specific areas of a bank's financial structure was introduced in the Capital and Earnings components.

As from March 2011, the Bank, in consultation with banks, started to disclose the overall CAMEL rating for individual banks – an initiative aimed at encouraging banks to improve their performance. The ratings for individual banks for the quarters ended September 2010 and December 2010 were released on the Bank's website on 31 March and 30 June 2011, respectively. As shown in Table 2.1, fifteen out of eighteen banks were assigned a 'Satisfactory' rating in September 2010 while, in the following quarter, sixteen out of nineteen banks were awarded a similar rating.

Table 2.1: CAMEL Rating of Banks

Composite CAMEL rating	Number of Banks awarded the Respective Ratings	
	September 2010	December 2010
2+	10	11
2-	5	5
3+	3	3

Source: Off-site and Licensing Division, Supervision.

The CAMEL ratings are now published on a semi-annual basis, that is, the rating for the quarter ending June are published in December of the same year while that for the quarter ending December are released in June of the following year. The Bank does not establish any ranking of individual banks along the lines of the CAMEL rating framework. In the communiqué released by the Bank on its website, banks are classified in ascending alphabetical order.

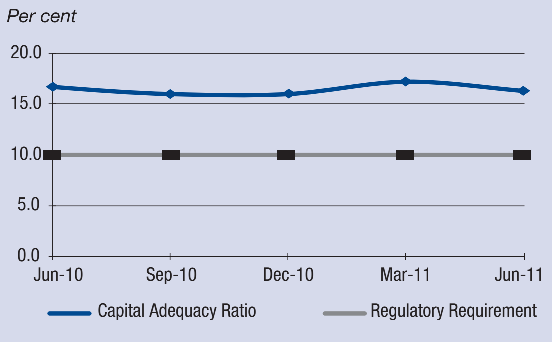
Capital Adequacy

The capital adequacy ratio measures the adequacy of a bank's capital resources in relation to its risk-weighted assets. At the outset, the on- and off-balance sheet exposures are weighed according to their perceived level of risk in order to derive the aggregate risk-weighted assets. The capital base is then evaluated against the risk-weighted assets. A strong capital reduces the risk of failure because it provides cushion against potential losses to protect depositors' interest in the financial system.

Banks in Mauritius are required to maintain at all times a minimum capital adequacy ratio of 10 per cent. Branches of foreign-owned banks are, however, exonerated from this requirement for their operations conducted outside Mauritius (Segment B Banking activity).

The capital adequacy ratio declined slightly from 16.6 per cent at end-June 2010 to 16.3 per cent at end-June 2011 due to growth of 9.5 per cent in total risk-weighted assets compared to a relatively lower growth of 7.9 per cent in the net capital base of banks. The capital adequacy ratio ranged from 10.1 per cent to 403.7 per cent at end-June 2011. Chart 2.1 depicts on a quarterly basis from end-June 2010 through end-June 2011 the risk-weighted capital adequacy ratio maintained by the banking sector.

Chart 2.1: Capital Adequacy Ratio against Minimum Regulatory Requirement



Source: Off-site and Licensing Division, Supervision.

Capital Base

Table 2.2 shows the risk-weighted capital adequacy ratio maintained by banks from end-June 2010 through to end-June 2011 together with the components of capital and risk-weighted assets.

Banks' aggregate gross capital increased by Rs6,253 million, or 8.8 per cent, from Rs70,970 million at end-June 2010 to Rs77,223 million at end-June 2011. During the year under review, Tier 1 capital grew by Rs5,423 million or 9.1 per cent, from Rs59,510 million to Rs64,933 million and represented 84.1 per cent of gross capital at end-June 2011. The increase was mainly due to the fact that banks retained a higher proportion of their profits (retained earnings) to sustain their operations.

Table 2.2: Risk-Weighted Capital Adequacy Ratio *(Rs million)*

As at end of period	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Tier 1 capital	59,510	57,865	61,074	65,478	64,933
Tier 2 capital	11,460	11,269	11,802	11,784	12,290
Total Gross Capital	**70,970**	**69,134**	**72,876**	**77,262**	**77,223**
Deductions	3,849	3,752	4,971	4,853	4,833
Total Net Capital (A)	**67,121**	**65,382**	**67,905**	**72,409**	**72,390**
Total Risk-Weighted Assets (B)	**405,050**	**409,796**	**423,750**	**419,925**	**443,691**
Risk- weighted on-balance sheet assets	*334,887*	*342,089*	*356,613*	*358,642*	*378,009*
Risk- weighted off-balance sheet assets	*35,314*	*34,692*	*32,045*	*28,331*	*29,374*
Foreign exchange rate and interest rate related contracts	*3,338*	*3,349*	*3,950*	*2,427*	*6,144*
Foreign currency exposure	*1062*	*633*	*1,042*	*1,473*	*959*
Risk-weighted assets for operational risk	*30,449*	*29,033*	*30,100*	*29,052*	*29,205*
Capital Adequacy Ratio (A/B)	**16.57%**	**15.95%**	**16.02%**	**17.24%**	**16.32%**

Source: Off-site and Licensing Division, Supervision.

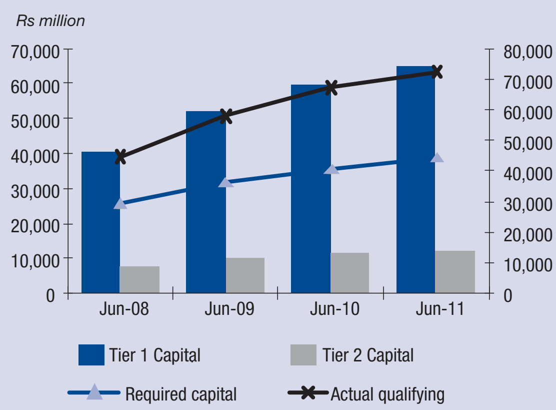
Tier 2 capital increased by 7.2 per cent from Rs11,460 million at end-June 2010 to Rs12,290 million at end-June 2011 and represented 15.9 per cent of gross capital. Subordinated debt accounted for Rs4,749 million of the total Tier 2 capital at end-June 2011.

The capital buffer, defined as the difference between the minimum required capital and the actual capital of the banking sector continued to increase during the year under review. This buffer provides the banking system with the resilience to deal with stresses as well as crisis situations, and reflects the sound risk management practices of banks. The higher proportion of Tier 1 capital in the capital base also indicates greater permanence and sustainability of the capital base. Chart 2.2 illustrates the evolution of the capital base and its components in terms of Tier 1 and Tier 2 capital from end-June 2008 through to end-June 2011.

Risk Profile of On and Off-Balance Sheet Assets

Total on-balance sheet assets of banks increased by 2.6 per cent, from Rs749,395 million at end-June 2010 to Rs769,209 million at end-June 2011. Comparatively, the corresponding total risk-weighted on-balance sheet assets grew by 12.9 per cent, from Rs334,887 million to Rs378,009 million, over the same period as a result of an increase in advances recorded during this period.

Chart 2.2: Minimum Required Capital v/s Actual Capital



Source: Off-site and Licensing Division, Supervision.

Table 2.3 compares movements in the riskiness of banks' total on-balance sheet assets at end-June 2010 and end-June 2011. The three largest risk-weight buckets were 100 per cent, 20 per cent and 0 per cent with 42.3 per cent, 21.6 per cent and 17.3 per cent of total on-balance sheet assets at end-June 2011 compared to 40.1 per cent, 25.0 per cent and 18.2 per cent at end-June 2010, respectively.

The average combined risk weighting ratio moved from 38.3 per cent at end-June 2010 to 37.3 per cent at end-June 2011 as the growth of 12.5 per cent in total on-and-off balance sheet assets during this period out-weighted the growth of 9.5 per cent in total risk-weighted assets on account of risk diversification.

Table 2.3 : Comparative change in the riskiness of banks' portfolios of on-balance sheet assets				
Risk Weights (%)	On-balance sheet assets *(Rs million)*	Percentage to total on-balance sheet assets	On-balance sheet assets *(Rs million)*	Percentage to total on-balance sheet assets
	June 2010		June 2011	
0	136,290	18.2	133,168	17.3
10	-	-	-	-
20	187,602	25.0	166,431	21.6
35	22,333	3.0	24,867	3.2
50	69,670	9.3	81,722	10.6
75	25,966	3.5	28,216	3.7
100	300,713	40.1	324,963	42.3
150	6,821	0.9	9,842	1.3
	749,395	**100.0**	**769,209**	**100.0**

Source: Off-site and Licensing Division, Supervision.

Table 2.4 sets out a comparison of the total on-and-off-balance sheet assets of banks with corresponding risk-weighted values and average combined risk weighting over the period ended June 2010 to June 2011.

Table 2.4: Total On and Off-Balance Sheet Assets of Banks, Equivalent Risk-Weighted Assets and Average Combined Risk Weighting			
		Jun-10	Jun-11
A	Total On-Balance Sheet Assets (Rs million)	749,395	769,209
B	Total Off-Balance Sheet Assets (Rs million)	308,633	421,569
C	Total On and Off-Balance Sheet Assets (A + B) (Rs million)	1,058,028	1,190,778
D	Total Risk-Weighted Assets (Rs million)	405,050	443,691
E	Average Combined Risk Weighting (D/C) (Per cent)	**38.3**	**37.3**

Source: Off-site and Licensing Division, Supervision.

Asset Quality

Banks are required to maintain sound asset quality as the latter impacts on many facets of their operations and is a critical factor in the assessment of their soundness. Asset quality is generally reflected in the liquidity, profitability and the overall financial strength of a bank.

Total assets of banks stood at Rs875,108 million at end-June 2011 compared to Rs843,167 million at end-June 2010, that is an increase of 3.8 per cent. Five banks experienced drops ranging from -4.0 per cent to -27.2 per cent in their total assets in 2010-11, while the remaining 14 banks, excluding the new bank that started operations effective 31 March 2011, recorded increases ranging from 4.8 per cent to 85.3 per cent in their total assets.

Acceptances, guarantees and documentary credits, which form part of off-balance sheet assets, fell by 0.9 per cent to Rs78,346 million at end-June 2011 compared to Rs79,090 million at end-June 2010.

Advances

Total advances, including debentures and fixed-dated securities, increased by 6.2 per cent in 2010-11 to Rs520,182 million compared to a higher rise of 19.5 per cent in the preceding financial year. Total advances at end-June 2011 represented 81.1 per cent and 59.4 per cent of total deposits and total assets, respectively. The corresponding ratios at end-June 2010 were 78.8 per cent and 58.1 per cent, respectively.

Loans and other financing in foreign currencies outside Mauritius stood at Rs229,202 million at end-June 2011 and represented 44.1 per cent of total advances. Loans and overdrafts in Mauritian rupees amounted to Rs172,888 million, or 33.2 per cent of total advances, while loans and other financing in foreign currencies in Mauritius amounted to Rs50,245 million, or 9.7 per cent of total advances. The remaining credit facilities consisted of foreign bills purchased and discounted and other fixed dated securities.

Concentration of Risks

Credit risk concentration, one of the major risk for banks in Mauritius, refers to the risk of loss attributed to the magnitude of a bank's exposure to a single entity and its related parties, sectors of the economy and entities dependent on single commodities.

Large exposures for the banking sector amounted to Rs163,238 million, representing 27.5 per cent of the total fund and non-fund based facilities extended at end-June 2011. The aggregate large exposures to borrowers represented 227.5 per cent of the capital base of banks at end-June 2011 as compared to 196.5 per cent at end-June 2010.

Sectorwise Distribution of Credit to the Private Sector in Mauritius

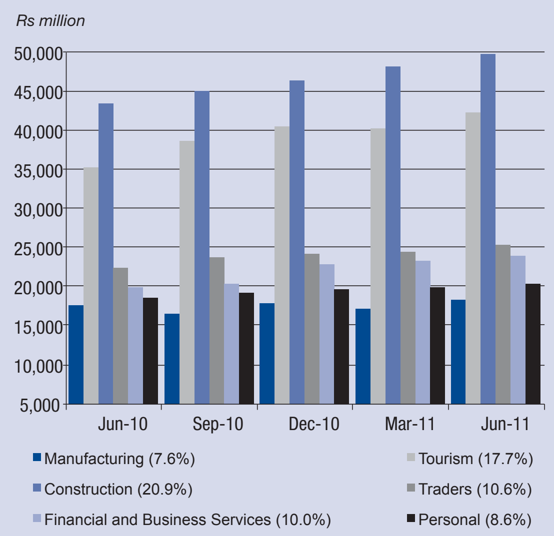
Banks are also exposed to credit concentration in certain sectors of the economy. The 'construction' sector accounted for the highest share (20.9 per cent) of total credit to the private sector at end-June 2011, followed by 'tourism' (17.7 per cent). The comparative figures at end-June 2010 were 19.9 per cent and 16.2 per cent, respectively. As a share of total credit to the private sector, the exposures of banks to the 'personal' and 'traders' sectors stood at 8.6 per cent and 10.6 per cent, respectively, at end-June 2011 compared to 8.5 per cent and 10.3 per cent in the previous year.

Chart 2.3 shows the sectorwise distribution of credit to the private sector from June 2010 through to June 2011.

Non-Performing Advances and Provisioning

Total non-performing advances that is, impaired credits of banks rose by Rs2,724 million, or 27.1 per cent, from Rs10,049 million at end-June 2010 to Rs12,773 million at end-June 2011. Impaired credit on facilities extended in Mauritius and outside Mauritius went up by 26.8 per cent and 28.8 per cent, respectively in 2010-11. During the same period, the ratio of non-performing advances to total advances deteriorated from 2.1 per cent to 2.5 per cent.

Chart 2.3: Sectorwise Distribution of Credit to Private Sector



Source: Off-site and Licensing Division, Supervision.

Specific provisions for loan losses made by banks increased by Rs1,360 million, or 30.2 per cent, from Rs4,506 million at end-June 2010 to Rs5,866 million at end-June 2011. Specific provisions made on the impaired accounts on the facilities extended in and outside Mauritius increased by Rs1,215 million and Rs145 million, respectively. The ratio of specific provisions to non-performing advances (cover ratio) improved slightly from 44.8 per cent at end-June 2010 to 45.9 per cent at end-June 2011. On the other hand, provision on portfolio-assessed advances grew from Rs2,183 million at end-June 2010 to Rs3,139 million at end-June 2011.

Deposits

Deposits continue to be the principal source of funding and constitute the highest share of total liabilities of banks. The share of deposits in total liabilities decreased marginally from 73.7 per cent at end-June 2010 to 73.3 per cent at end-June 2011. During the year under review, total deposits increased by 3.1 per cent to Rs641,102 million, from Rs621,675 million at end-June 2010. The rise in the deposit base of the banking sector was largely driven by the expansion in Segment A deposits of 7.7 per cent, which offset the contraction of 0.3 per cent in Segment B deposits.

The share of foreign currency deposits to total deposits fell to 64.1 per cent at end-June 2011, from 65.1 per cent at end-June 2010. Demand, savings and time deposits accounted for 34.9 per cent, 20.7 per cent and 44.4 per cent of the total deposits, respectively. The corresponding ratios for 2010 were 34.4 per cent, 19.0 per cent and 46.6 per cent.

The advances-to-deposits ratio, which indicates the extent to which funds mobilised by way of deposits have been utilised to finance lending activities, went up from 78.8 per cent at end-June 2010 to 81.1 per cent at end-June 2011. This ratio stood at 73.1 per cent for Segment A activities and 87.6 per cent for Segment B activities at end-June 2011 compared to 72.1 per cent and 83.7 per cent, respectively at end-June 2010.

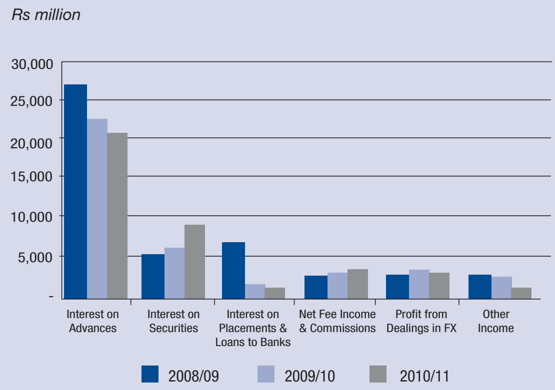
Profitability

The consolidated profitability figures are based on audited results of banks operating during 2010/11 and cover financial years ended 30 June, 31 December and 31 March. Aggregate pre-tax profit of banks declined to Rs13,283 million in 2010/11, from Rs13,878 million in 2009/10. Table 2.5 shows the consolidated profit and loss account of the banking sector for the past three years.

Income

Total income of banks decreased by 3.2 per cent, from Rs41,882 million in 2009/10 to Rs40,531 million in 2010/11. The two main sources of income remain interest on advances and interest on securities, which account on average for 71.7 per cent of total income through the years 2008/09 to 2010/11. Net fee and commission income, which accounted for 9.0 per cent of total income in 2010/11, outpaced interest on placements and loans to banks as the third main source of income since 2009/10. Chart 2.4 provides a comparison of the components of income for the periods 2008/09 through 2010/11.

Chart 2.4: Components of Income of Banks



Source: Off-site and Licensing Division, Supervision.

Interest Income

Interest income increased slightly by 0.02 per cent to Rs32,567 million in 2010/11, as opposed to a decline of 22.1 per cent in 2009/10. Non-interest income, amounting to Rs7,964 million in 2010/11, declined by 14.6 per cent in contrast to a growth of 11.3 per cent in 2009/10. Table 2.6 shows the change in interest and non-interest income in 2009/10 and 2010/11.

Table 2.6: Change in Interest Income and Non-Interest Income of Banks

per cent

	2009/10	2010/11
Growth in Interest Income	(22.1)	0.02
Growth in Non-Interest Income	11.3	(14.6)

Source: Off-site and Licensing Division, Supervision.

Interest earned from advances, representing 65.6 per cent of total interest income, dropped by 9.9 per cent to Rs21,375 million in 2010/11. Similarly, interest received from placements and loans to banks declined by 14.6 per cent to Rs1,584 million in 2010/11. In contrast, interest earned on securities increased by 41.4 per cent to Rs9,243 million in 2010/11. Table 2.7 indicates the growth rate of the components of interest income during the periods 2009/10 and 2010/11.

Table 2.5: Consolidated Profit and Loss Account of Banks			(Rs million)
	2008/09	2009/10	2010/11
Interest Income	**41,810**	**32,559**	**32,567**
Interest on Advances	*28,366*	*23,722*	*21,375*
Interest on Securities	*5,437*	*6,536*	*9,243*
Interest on Placements and Loans to banks	*7,291*	*1,854*	*1,584*
Other Interest Income	*716*	*447*	*365*
Interest Expense	**26,231**	**17,310**	**15,270**
Interest on Deposits	*19,294*	*13,437*	*11,306*
Interest on Borrowings from banks	*5,809*	*3,424*	*3,579*
Other Interest Expenses	*1,128*	*449*	*385*
Net Interest Income	**15,579**	**15,249**	**17,297**
Non-Interest Income	**8,373**	**9,323**	**7,964**
Net Fee Income and Commission	*2,937*	*3,033*	*3,663*
Profit from Dealings in Foreign Currencies	*3,003*	*3,665*	*3,215*
Other Non-Interest Income	*2,433*	*2,625*	*1,086*
Operating Income	**23,952**	**24,572**	**25,261**
Non-Interest Expense	**8,703**	**9,170**	**9,967**
Staff Costs	*4,304*	*4,699*	*5,379*
Other Operating Expenses	*4,399*	*4,471*	*4,588*
Operating Profit before Provisions	**15,249**	**15,402**	**15,294**
Provision and Adjustments to Income from Credit Losses	*1,811*	*1,524*	*2,070*
Operating Profit after Provisions	**13,438**	**13,878**	**13,224**
Exceptional Items	*30*	*-*	*59*
Profit before Tax	**13,468**	**13,878**	**13,283**
Provision for Income Taxes	*1,040*	*1,511*	*1,365*
Profit after Tax	**12,428**	**12,367**	**11,918**

Source: Off-site and Licensing Division, Supervision.

Table 2.7: Change in Interest Income on Advances, Securities, Placements and Loans to Banks		
		per cent
	2009/10	2010/11
Growth in Interest on Advances	(16.4)	(9.9)
Growth in Interest on Securities	20.2	41.4
Growth in Interest on Placements and Loans to banks	(74.6)	(14.6)

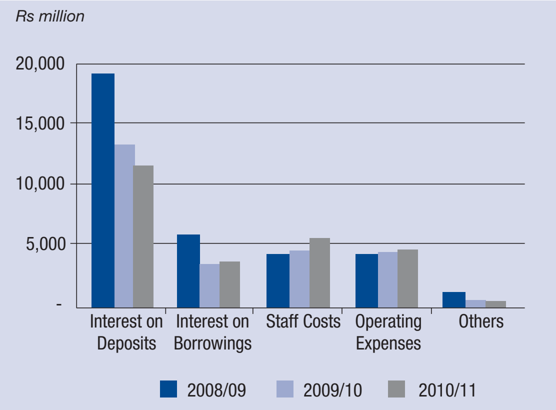
Source: Off-site and Licensing Division, Supervision.

Interest Expense

Total interest expense, comprising mainly interest paid on deposits and borrowings from banks and financial institutions, fell by 11.8 per cent to Rs15,270 million in 2010/11. The drop was mainly driven by a decrease of Rs2,131 million in interest paid on deposits during 2010/11 despite a rise of 2.1 per cent in the deposit base of the banking sector. The transmission of the decrease of 100 basis points in the Key Repo Rate in September 2010, partly offset by the hike of 50 basis points in March 2011, to banks' deposit interest rates was the main reason behind explaining the lower amount of interest expense. On the other hand, the cost of borrowings from banks, constituting 23.4 per cent of total interest expense, rose by Rs155 million to Rs3,579 million in 2010/11. Chart 2.5 shows the main components of expense for the periods 2008/09 through 2010/11.

As shown in Table 2.8, both interest earned on Rs100 of advances and the cost to banks per Rs100 of deposits dropped down by Rs1.23 and Rs0.62, respectively. The overall impact was a contraction in interest spread from Rs3.29 to Rs2.68.

Chart 2.5: Components of Expense of Banks



Source: Off-site and Licensing Division, Supervision.

Table 2.8: Interest Spread of Banks

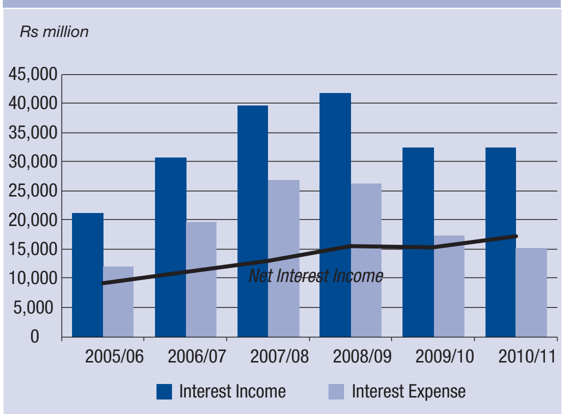
		Rupees
	2009/10	**2010/11**
Interest Earned on Rs100 of Advances	5.91	4.68
Cost per Rs100 of Deposits	2.62	2.00
Interest Spread	3.29	2.68

Source: Off-site and Licensing Division, Supervision.

Net Interest Income

Net interest income increased by Rs2,048 million, or 13.4 per cent, to Rs17,297 million in 2010/11, from Rs15,249 million in 2009/10. Chart 2.6 depicts the trend in net interest income and Chart 2.7 shows the evolution of net interest income, non-interest income, operating income and operating profit during the periods 2005/06 through 2010/11.

Chart 2.6: Trend in Net Interest Income of Banks

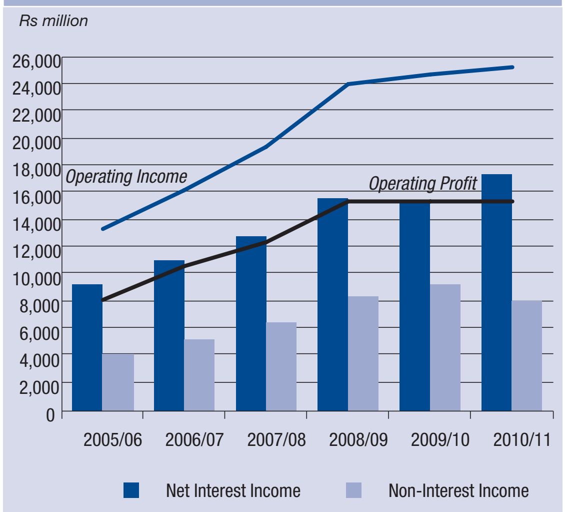


Source: Off-site and Licensing Division, Supervision.

Non-Interest Income

Non-interest income, which constitutes an important portion of banks' revenue, decreased by Rs1,359 million from Rs9,323 million in 2009-10 to Rs7,964 million in 2010-11. The two main drivers, net fee income and commission and profit from dealings in foreign currencies, accounted for 86.4 per cent of total non-interest income in 2010/11 compared to 71.8 per cent in 2009/10. During the year under review, fee-related income increased by 20.8 per cent while profit arising from dealings in foreign currencies declined by 12.3 per cent.

Chart 2.7: Net Interest Income, Non-Interest Income, Operating Income and Operating Profit of Banks



Source: Off-site and Licensing Division, Supervision.

Non-Interest Expense

Non-interest expense, comprising staff costs and other operating expenses, grew by 8.7 per cent, from Rs9,170 million in 2009/10 to Rs9,967 million in 2010/11 compared to an increase of 5.4 per cent recorded a year earlier. The workforce in the banking sector increased by 5.6 per cent from 6,544 to 6,913 while staff costs rose by 14.5 per cent in 2010/11. During this period, other operating expenses increased by 2.6 per cent to Rs4,588 million.

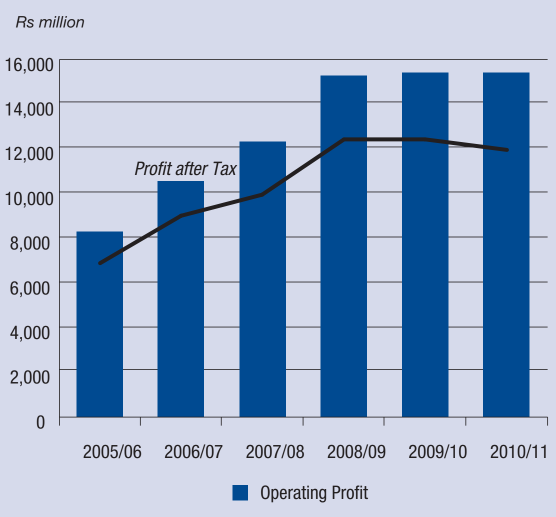
The cost-to-income ratio for the banking sector stood at 39.5 per cent in 2010/11, up from 37.3 per cent recorded in 2009/10.

Operating Profit

Banks realised lower operating profit before provision for credit losses of Rs15,294 million in 2010/11, compared to Rs15,402 million in the preceding year.

Profit after tax recorded by banks decreased by 3.6 per cent to Rs11,918 million in 2010/11 compared to a lower drop of 0.5 per cent in 2009/10. Chart 2.8 depicts the evolution of banks' operating profit and profit after tax for the periods 2005/06 through 2010/11.

Chart 2.8: Operating Profit and Profit after Tax of Banks



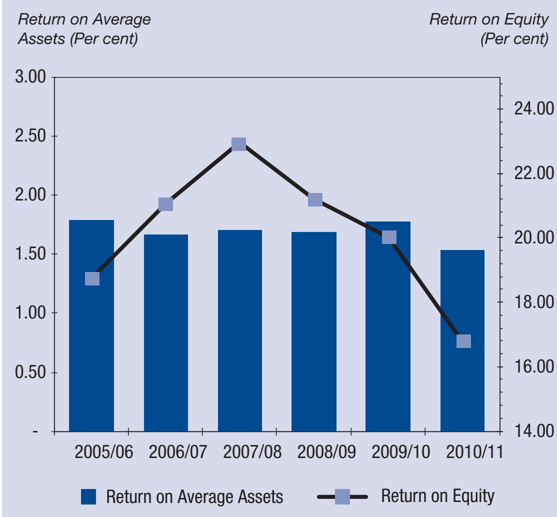
Source: Off-site and Licensing Division, Supervision.

Return on Average Assets and Equity

Return on average assets and return on equity are key performance indicators of the efficiency of banks. The pre-tax return on average assets declined from 1.8 per cent in 2009-10 to 1.5 per cent in 2010-11. All banks recorded a positive return on average assets in 2010/11, with individual ratios ranging from 0.2 per cent to 2.7 per cent. Five banks achieved a pre-tax return on average assets of over 2.0 per cent in 2010/11 compared to four banks in 2009/10. Chart 2.9 shows the return on average assets and equity over the periods 2005/06 to 2010/11.

The post-tax return on equity for the banking sector declined from 20.0 per cent in 2009-10 to 16.8 per cent in 2010/11. The post-tax return on equity ranged from 1.5 per cent to 27.0 per cent in 2010/11 compared to a range of 3.2 per cent and 35.8 per cent in 2009/10. Four banks achieved a return on equity of over 20 per cent in 2010/11, similar as in 2009/10.

Chart 2.9: Return on Average Assets and Equity of Banks



Source: Off-site and Licensing Division, Supervision.

Electronic Banking

Thirteen banks were providing electronic banking services at end-June 2011 compared to twelve at end-June 2010. The monthly average number of transactions increased from 4.0 million in 2009-10 to 4.3 million in 2010/11 as the number of credit and debit cards in circulation increased from 1,193,509 at end-June 2010 to 1,276,338 at end-June 2011. With a view to facilitating and increasing access to electronic banking services, the number of Automated Teller Machines (ATMs) in operation in Mauritius and Rodrigues have increased from 386 at end-June 2010 to 416 at end-June 2011.

The value of transactions resulting from the use of credit and debit cards at ATMs and Merchant Points of Sale increased from a twelve month average of Rs7,769 million in 2009/10 to Rs8,440 million in 2010/11, or 8.6 per cent. Outstanding advances granted on credit cards stood at Rs1,673 million at end-June 2011, with a monthly average credit per card of Rs7,945 in 2010/11 compared to an average of Rs8,026 in 2009/10.

Table 2.9: Electronic Banking Transactions					
	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Number of ATMs in operation at end of quarter	386	390	399	407	416
Monthly average number of transactions for the quarter	4,018,907	4,022,494	4,638,094	4,202,242	4,338,380
Monthly average value of transactions[1] for the quarter (Rs million)	7,532	7,503	9,534	8,350	8,374
Number of Credit Cards in circulation at end of quarter	202,219	202,980	207,266	203,285	210,572
Number of Debit & Other Cards in circulation at end of quarter	991,290	1,012,735	1,021,931	1,044,669	1,065,766
Total Number of Cards in circulation at end of quarter	1,193,509	1,215,755	1,299,197	1,247,954	1,276,338
Outstanding Advances on Credit Cards at end of quarter (Rs million)	1,623	1,645	1,650	1,592	1,673

Source: Off-site and Licensing Division, Supervision.
[1] *Involving the use of Credit Cards at ATMs and Merchant Points of Sale.*

Table 2.9 provides a summary of the evolution of electronic banking transactions for the quarters ended June 2010 through June 2011.

The number of Internet banking users increased from 131,648 at end-June 2010 to 176,553 at end-June 2011. Banks are encouraging more customers to use Internet banking by providing an increasing range of services via the internet. While the number of Internet banking transactions has decreased from 197,452 at end-June 2010 to 192,964 at end-June 2011, the average value of Internet banking transactions has increased from Rs40,426 million in June 2010 to Rs41,971 million in June 2011. Table 2.10 gives details of Internet banking transactions.

Performance of Non-Bank Deposit-Taking Institutions

As at 30 June 2011, there were eleven non-bank deposit taking institutions (NBDTIs) in operation in Mauritius. Out of the eleven NBDTIs, six were involved in leasing activities, two in lending business and the remaining three in both leasing and lending operations. Five of the NBDTIs were subsidiaries/related companies of banking institutions or insurance companies.

NBDTIs are on a level playing field with banks and are subject to the same prudential regulations with the promulgation of section 12(5) of the Banking Act 2004 in June 2007. As at end-June 2011, all NBDTIs met the minimum required capital of Rs200 million. In addition, they are required to maintain a Capital Adequacy Ratio of 10 per cent as per the Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions and to comply with the Guidelines on Credit Concentration of Risk and Related Party Transactions.

Balance Sheet Structure

The assets of NBDTIs grew by 10.6 per cent, from Rs44,139 million at end-June 2010 to Rs48,844 million at end-June 2011. The share of loans to total assets rose slightly from 48.0 per cent in 2010 to 48.9 per cent in 2011, whereas the share of investment in finance leases in total assets dropped by 0.9 per cent, from 20.9 per cent to 20.0 per cent.

Deposits continued to be the main source of funding, accounting for 61.0 per cent of NBDTIs' liabilities at end-June 2010 and 61.4 per cent at end-June 2011. During the year under review, deposits went up by 11.4 per cent, from Rs26,916 million to Rs29,984 million. Charts 2.10a and 2.10b illustrate the composition of assets and liabilities of NBDTIs at end-June 2010 and end-June 2011.

Table 2.10: Internet Banking Transactions

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Number of banks offering Internet banking services	12	12	12	13	13
Number of customers at end of quarter	131,648	147,863	133,508	158,791	176,553
Number of transactions at end of quarter	197,452	213,171	171,088	171,990	192,964
Average value of transactions (Rs million)	40,426	45,113	44,744	39,416	41,971

Source: Off-site and Licensing Division, Supervision.

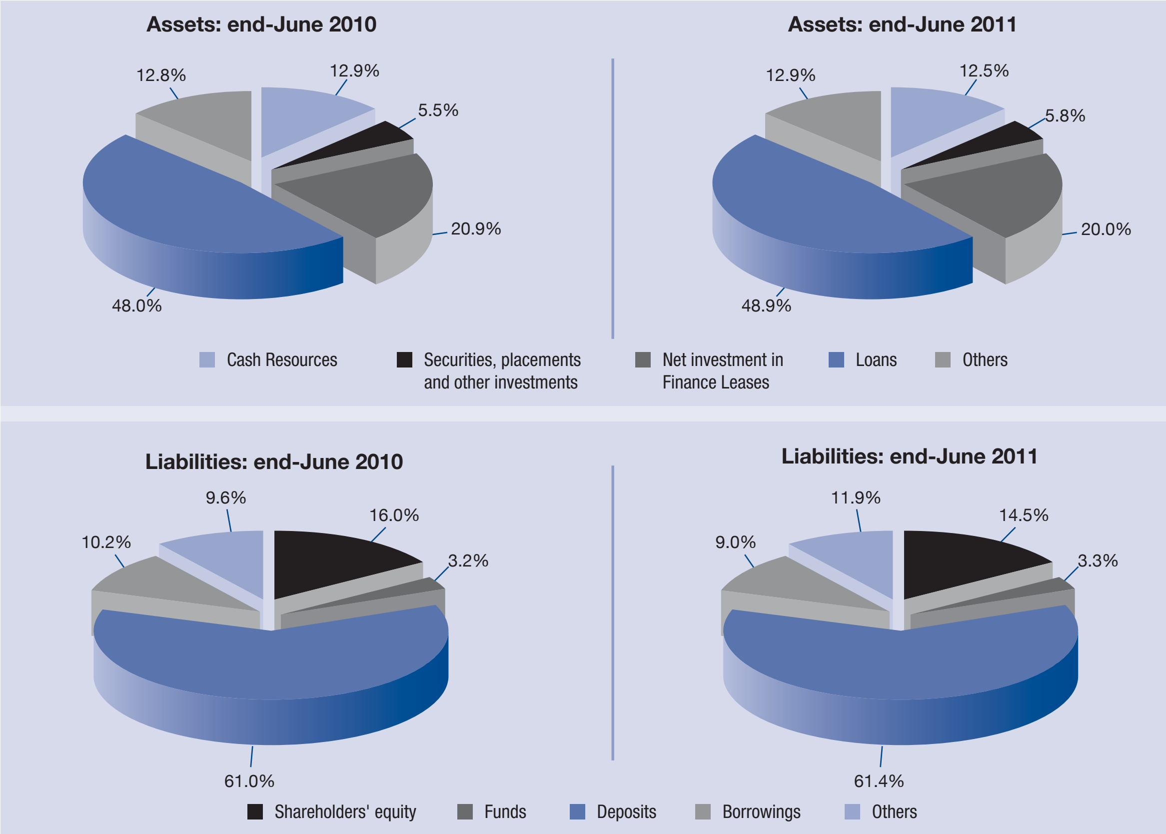
The advances to deposits ratio, which measures the extent to which deposits mobilised have been utilised to finance lending and leasing activities, remained high for NBDTIs. The ratio contracted slightly from 112.9 per cent at end-June 2010 to 112.2 per cent at end-June 2011.

Leases to deposits ratio (based on activities of leasing companies only) increased from 66.8 per cent at end-June 2010 to 67.4 per cent at end-June 2011. The loans to deposits ratio increased marginally from 103.2 per cent at end-June 2010 to 103.6 per cent at end-June 2011.

Capital Adequacy

With effect from 1 October 2009, NBDTIs are required to risk weight credit exposures that form part of their balance sheet assets and maintain a capital adequacy ratio of 10 per cent. The capital adequacy ratio rose from 20.7 per cent at end-June 2010 to 22.0 per cent at end-June 2011, driven by a higher increase of 17.0 per cent in the aggregate capital base compared to an increase of 10.8 per cent in total risk-weighted assets.

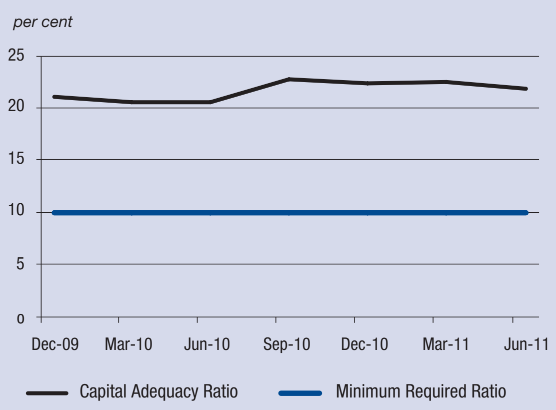
Charts 2.10 a & 2.10 b: Balance Sheet Structure of NBDTIs



Source: Off-site and Licensing Division, Supervision.

At end-June 2011 the capital adequacy ratio maintained by NBDTIs ranged from 11.3 per cent to 84.3 per cent. Chart 2.11 shows the risk-weighted capital adequacy ratio maintained by the sector on a quarterly basis from end-December 2009 to end-June 2011.

Chart 2.11: Capital Adequacy Ratio Against Minimum Requirement - NBDTIs



Source: Off-site and Licensing Division, Supervision.

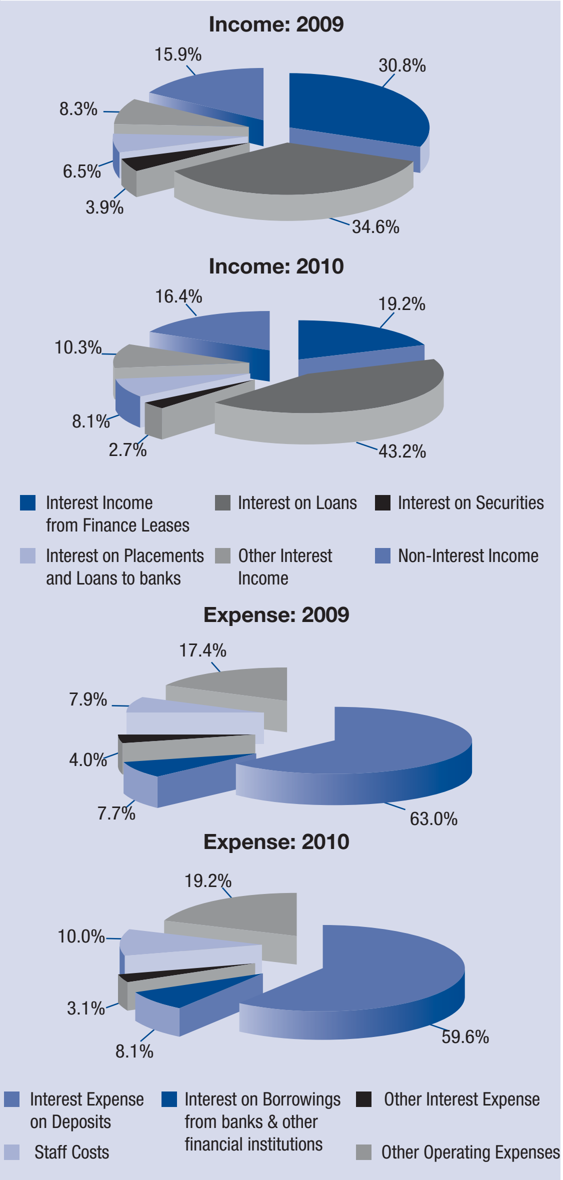
Profitability

The consolidated profitability figures for NBDTIs are based on the audited results covering financial years ended 30 June, 30 September and 31 December 2010. One NBDTI, namely ABC Finance & Leasing Ltd, ceased its operations in June 2010 as it changed its status to that of a bank.

In 2010, all NBDTIs, with the exception of three leasing companies, realised profits. Aggregate profit before tax grew by 31.5 per cent, from Rs798 million in 2009 to Rs1,049 million in 2010. Chart 2.12 shows the main components of income and expense for 2009 and 2010. Table 2.11 summarises the performance of NBDTIs over the last three financial years.

Total income of NBDTIs registered a marginal contraction of 0.6 per cent, from Rs4,844 million in 2009 to Rs4,813 million in 2010. Interest on loans, which constituted the highest share of total income, increased by Rs404 million in 2010 compared to a decrease of Rs29 million in 2009. On the other hand, interest earned on finance leases fell by Rs567 million due mainly to one leasing company merging with its parent bank and another one being granted a banking licence. Aggregate interest income fell by Rs49 million, or 1.2 per cent, from Rs4,075 million in 2009 to Rs4,026 million in 2010. Total interest expense registered a larger decrease of Rs281 million, or 9.8 per cent. The smaller decline in total interest income impacted positively on net interest income, which went up by Rs232 million, or 19.3 per cent, from Rs1,203 million in 2009 to Rs1,435 million in 2010.

Chart 2.12: Components of Income and Expense: 2009 and 2010 - NBDTIs



Source: Off-site and Licensing Division, Supervision.

Table 2.11: Consolidated Profit and Loss Account of NBDTIs			(Rs million)
	2008	2009	2010
Interest Income	**3,776**	**4,075**	**4,026**
Interest on Finance Leases	*1,476*	*1,494*	*927*
Interest on Loans	*1,706*	*1,677*	*2,081*
Interest on Securities	*197*	*189*	*132*
Interest on Placements and Loans to banks	*329*	*313*	*392*
Other Interest Income	*68*	*402*	*494*
Interest Expense	**2,967**	**2,872**	**2,591**
Interest on Deposits	*2,462*	*2,424*	*2,181*
Borrowings from banks & other financial institutions	*403*	*295*	*296*
Other Interest Expense	*102*	*153*	*114*
Net Interest Income	**809**	**1,203**	**1,435**
Non-Interest Income	**435**	**769**	**787**
Operating Income	**1,244**	**1,972**	**2,222**
Non-Interest Expense	**577**	**974**	**1,066**
Staff Costs	*192*	*305*	*365*
Other Operating Expenses	*385*	*669*	*701*
Operating Profit	**667**	**998**	**1,156**
Other Non-Operating Profit / (Loss)	**82**	**11**	**10**
Profit before Provision & Adjustments for credit losses	**749**	**1,009**	**1,166**
Provision & Adjustments for credit losses	*100*	*211*	*117*
Profit before tax	**649**	**798**	**1,049**
Provision for taxes / (credit)	*38*	*62*	*57*
Profit after tax	**611**	**736**	**992**

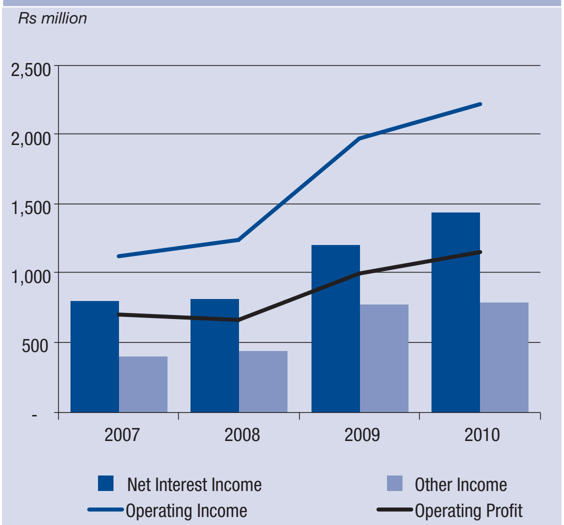
Source: Off-site and Licensing Division, Supervision.

Non-interest income, inclusive of operating lease rentals and other fee income, constituted 16.4 per cent of total income and grew by 2.3 per cent in 2010. Non-interest expense, comprising staff costs and other operating expenses, increased by 9.4 per cent over the year under review from Rs974 million to Rs1,066 million.

Chart 2.13 shows the evolution of net interest income, non-interest income, operating income and operating profit over the years 2007 to 2010.

Interest earned on Rs100 of advances and finance leases and interest paid on Rs100 of deposits declined by Re0.05 and Rs1.18, respectively, mainly caused by the exclusion of the operating results of two leasing companies with one company merging with its parent bank and the other being granted a banking licence. However, the interest spread improved from Re0.69 in 2009 to Rs1.82 in 2010. The higher margin may be explained by an increase in the spread of three NBDTIs over the two comparative years. Table 2.12 shows the interest spread over the years 2009 and 2010.

Chart 2.13: Evolution of Net Interest Income, Non-Interest Income, Operating Income and Operating Profit - NBDTIs



Source: Off-site and Licensing Division, Supervision.

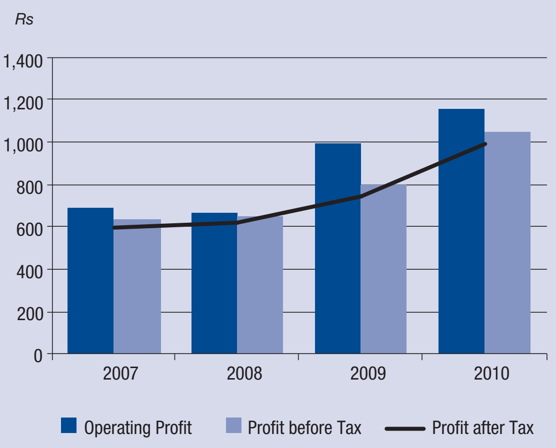
Table 2.12: Interest Spread of NBDTIs		
		Rupees
	2009	**2010**
Interest earned on Rs100 of Advances & Finance Leases	10.26	10.21
Cost per Rs100 of deposits	9.57	8.39
Interest Spread	0.69	1.82

Source: Off-site and Licensing Division, Supervision.

Operating Profit

NBDTIs posted operating profit, before provision and adjustments for credit losses and taxation, of Rs1,156 million during 2010, slightly higher than Rs998 million registered in 2009. Profit before tax increased by 31.4 per cent from Rs798 million in 2009 to Rs1,049 million in 2010. The provision and adjustments for credit losses decreased from Rs211 million in 2009 to Rs117 million in 2010. Chart 2.14 shows the evolution of profits generated by NBDTIs over the years 2007 to 2010.

Chart 2.14: Operating Profit, Profit before Tax and Profit after Tax - NBDTIs



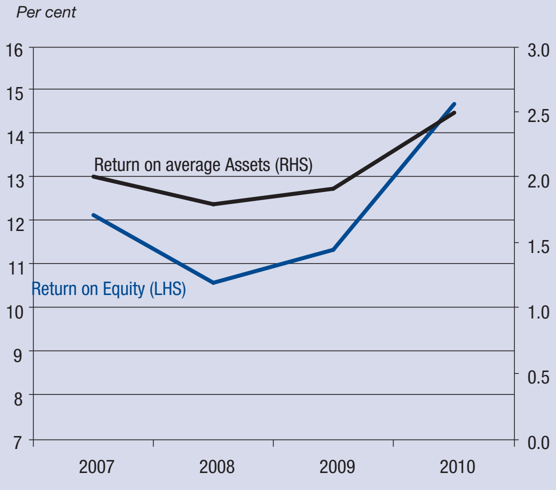
Source: Off-site and Licensing Division, Supervision.

Return on Average Assets and Equity

The pre-tax return on average assets improved from 1.9 per cent in 2009 to 2.5 per cent in 2010. Individual NBDTIs posted pre-tax return on average assets in the range of negative 1.5 per cent to positive 4.8 per cent in 2010. Three NBDTIs posted negative returns on average assets in 2010 compared to one in 2009.

The post-tax return on equity increased from 11.3 per cent in 2009 to 14.7 per cent in 2010 and varied from negative 7.4 per cent to positive 31.9 per cent in 2010. Chart 2.15 shows the return on average assets and equity over the years 2007 to 2010.

Chart 2.15: Return on Average Assets and Equity of NBDTIs



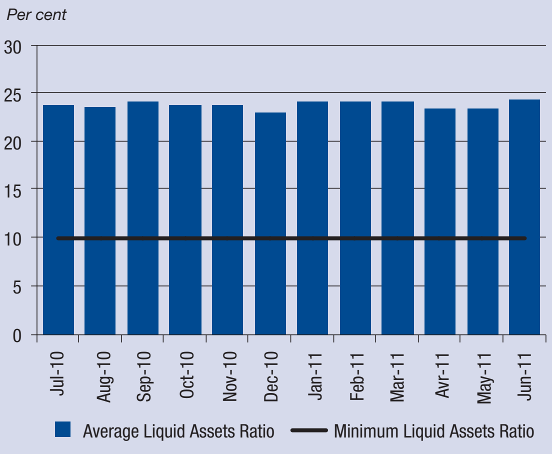
Source: Off-site and Licensing Division, Supervision.

Liquidity

Liquidity risk is defined as the risk arising from the inability to honour cash flow commitments as they fall due. As stipulated in the Guidelines on Capital Adequacy Ratio for Non-Bank Deposit-Taking Institutions, NBDTIs shall, at all times, maintain liquid assets equivalent to not less than 10 per cent of their deposit liabilities or such higher percentage as may be prescribed from time to time by the Bank. Liquid assets of NBDTIs comprise cash in hand, deposits held with Bank of Mauritius and authorised banks and non-cash liquid assets such as investment in Treasury Bills and Government Securities.

As at 30 June 2011, liquid assets held by NBDTIs amounted to Rs7,323 million, much higher than the required minimum of 10 per cent of the deposit liabilities to the tune of Rs2,998 million. The liquid assets ratio ranged from 23.1 per cent to 24.4 per cent. Chart 2.16 depicts the liquid assets ratio maintained by NBDTIs during the period July 2010 to June 2011.

Chart 2.16: Average Liquid Assets



Source: Off-site and Licensing Division, Supervision.

Cash Dealers

With a view to promoting competition in the money-changing business and ultimately reducing the spread between the buying and selling rates of foreign currencies, the Bank of Mauritius granted additional money-changers and foreign exchange dealers licences as from 2008. The conditions were, however, made more stringent to limit the entry to credible operators.

The main amendments to the conditions regulating cash dealers relate to the minimum capital requirements and the obligation to invest part of the capital in Treasury Bills / Government Securities. The capital of money-changers, which was previously Rs1 million was raised to Rs3 million. As for foreign exchange dealers, they should now maintain a capital of Rs25 million compared to Rs15 million earlier. One new condition imposed on cash dealers consists of the statutory obligation to invest in Treasury Bills / Government Securities to meet contingencies. In this respect, money changers are required to invest Rs1 million outright in these instruments and Rs300,000 for each branch while foreign exchange dealers are required to invest Rs8 million at the outset and Rs1 million for each branch.

As at 30 June 2011, there were 10 money changers and 6 foreign exchange dealers, collectively known as cash dealers, in operation. The total assets of these institutions amounted to Rs626.5 million as at the same period, with foreign exchange dealers accounting for Rs534.6 million. The bulk of the assets of these institutions consisted of cash in hand and at bank (46.5%), investment in Treasury Bills / Government Securities (15.7 %) and inventories of foreign currencies (11.3%).

During the year ended 30 June 2011, cash dealers sold foreign currencies for an aggregate amount of Rs19.0 billion while the cost of sales amounted to Rs18.7 billion. Operating expenses incurred by cash dealers amounted to Rs237.2 million during the period under review, out of which staff costs represented the most important component at Rs117.8 million.

Unlike money changers which deal principally in the exchange of foreign currency notes and coins, foreign exchange dealers are authorized to carry out other activities in addition to the money changing business. A non-negligible part of their business comprises the provision of remittance facilities and the conduct of forward transactions.

As cash dealers rely greatly on walk-in customers for their business, there is heightened risk of such institutions being used to launder funds. Consequently, licencees are exhorted to have a robust system in place for the identification of suspicious transactions and for ensuring that the transactions they undertake with their customers are commensurate with their normal business activities. As an additional control, on an annual basis, the external auditors are required to provide a certificate that the institutions have complied with the provisions of money laundering legislation.

Against the background of the potential risk involved in the money-changing business, the Bank is adopting a proactive approach towards improving the regulation and supervision of cash dealers. The implementation of a Cash Dealers Management System, an online reporting system to facilitate the monitoring of cash dealers, is in the pipeline. With such arrangements, all transactions of cash dealers will be captured in real time at the Bank.

The Finance (Miscellaneous Provisions) Act 2010

The Finance (Miscellaneous Provisions) Act 2010 which was enacted in December 2010 brought amendments to, inter-alia , the Bank of Mauritius Act 2004 and the Banking Act 2004 as follows:

I. Bank of Mauritius Act 2004

1. *Interpretation Section*

   A new definition of securities has been included in the Act to capture Bank of Mauritius Bills, Notes, Bonds and Shariah compliant instruments.

2. *Section 6 - Powers of the Bank*

   (i) The development of Islamic Financial Services entails the development of the Islamic Money Market in Mauritius. Just as for conventional banks, Islamic banks also require liquidity management. Accordingly, the Bank of Mauritius Act has been amended in section 6 to (a) empower the Bank to also promote the Islamic money market through the issue of such Shariah-compliant instruments as it may consider appropriate ; and to (b) allow the Bank to enter into such agreement; purchase or otherwise acquire such immovable property or any right therein; lease such movable or immovable property; and generally engage in such activities as may be reasonably necessary for the purpose of establishing an Islamic money market in Mauritius.

   (ii) The Bank has also been empowered in section 6(n) of the Act to grant advances for fixed periods not exceeding 6 months to customers, against securities other than those already prescribed in the Act, as the Bank may determine and in Section 6(o) to grant, in exceptional circumstances, in addition to financial institutions, advances to such other entities on such terms and conditions and against such security as may be determined by the Board.

II. Banking Act 2004

1. *Section 2 – Interpretation*

   With a view to allowing the Bank to license stand-alone private and investment banks, the definition of bank has been amended to read as follows:

   "bank" means a company incorporated under the Companies Act, or a branch of a company incorporated abroad, which is licensed by the central bank to carry on any or all of the following –

   (a) banking business;

   (b) Islamic banking business;

   (c) private banking business;

   (d) investment banking business;

2. *Section 5 – Application for banking licence*

   For the sake of consistency, information has to be sought on senior officers of a bank as opposed to only the chief executive officer and managers formerly, the more so as a definition of *"senior officer"* already exists in the Act. Accordingly

   (i) in subsection (4)(d) and (g), the word *"managers"* has been deleted and replaced by the words *"other senior officers";* and

   (ii) in subsection (8C), the words *"managers or officers"* have been replaced by the words *"or other senior officers".*

3. *Section 18 - Limitations on management and remuneration*

   The rule is for financial institutions to have a board of directors with at least 40% independent directors. Section 18(4) has been amended by adding a new paragraph to empower the Bank, having regard to the size, complexity and ownership of a bank or non-bank deposit taking institution, to require the bank or non-bank deposit taking institution to have more than 40 per cent independent directors and the appointment of any such additional director or directors being subject to the prior approval of the central bank.

4. *Section 34 – Financial Statements*

   Financial institutions were required to cause to be published in the

   government gazette and in at least 3 newspapers in wide circulation in Mauritius the full or abridged version of its latest audited balance sheet, income statement, cash flow statement, statement of changes in equity, and auditors report. The requirement of publication in 3 newspapers has been done away with. Posting thereof on the website of the financial institution will suffice. Money changers will be exempt from abiding with this requirement altogether.

5. *Section 39 – Appointment, powers and duties of auditors*

   Clarification has been brought to the word *"Board"* in subsection (9)(c) to mean the *"board of directors of the financial institution".*

6. *Section 40 – Audit Committee*

   With a view to ensuring that non-independent directors do not outnumber the independent directors and exert undue influence on them which might lead to impairment of the overall independence, subsection (1) has been amended to provide that an audit committee shall comprise only independent directors which shall not be less than 3 in number.

   In line with good corporate governance principles, some of the responsibilities of the internal auditor have been specified in the Act. Subsection (4) has accordingly been repealed and replaced by the following:

   (4) (a) The internal auditor of the bank or the non-bank deposit taking institution shall report to the audit committee.

   (b) Subject to paragraph (c), the internal auditor and the external auditor shall be available to the audit committee to attend its meetings.

   (c) The audit committee shall meet the internal auditor and the external auditor at least once annually.

7. *Section 52 – Electronic Delivery Channel*

   The security systems put in place by banks providing services through electronic delivery channels had to be approved by the Bank. The Bank had to cast an opinion on the adequacy of those systems based merely on documents made available to it. The Bank will no longer give its approval in this respect. Henceforth, banks will have to assume their responsibility for those systems put in place. Accordingly, the words *', as the central bank considers adequate"* have been deleted from subsection (2).

8. *Section 64 – Confidentiality*

There was no provision in the confidentiality clauses of the Banking Act to allow persons to have access to information from financial institutions for the purpose of carrying out due diligence, with a view to acquiring a shareholding in the financial institution. A new subsection (8A) has been added to require financial institutions to seek the prior approval of the central bank before providing any confidential information to any person who intends to carry out due diligence on the financial institution with a view to acquiring a shareholding in the financial institution.

9. *Section 70 – Procedures to go into voluntary liquidation*

Subsection (4), has been amended and references to the Companies Act 1984 has been replaced by relevant references to the Insolvency Act 2009.

10. *Section 90 – Winding up of financial institution*

Similarly, former reference to the Companies Act 1984 has been replaced by relevant sections of the Insolvency Act.

11. *Section 91 – Priority of deposit liabilities*

Reference to the Companies Act 1984 has been replaced by that to the Insolvency Act 2009.

12. *Section 100 – Guidelines or instructions*

(i) For the sake of completeness, the word *“instructions”* has been added after the words *“specified in the guidelines”*.

(ii) In order to have a more holistic approach towards the financial sector, the Bank has been empowered to issue specific instructions to financial institutions which shall become effective on the date of their issue or on such later date as may be specified in the instructions.

3 Financial Markets Developments

MONEY MARKET ACTIVITY

In the financial year 2010-11, the Bank continued to monitor developments in the money market and the daily liquidity position of banks to ensure that the banking system functioned efficiently. In view of the rapid build-up of excess liquidity, which peaked at nearly Rs8 billion on 19 August 2010, the approach to monetary operations was revisited with the issuance of new instruments of a longer duration, namely Bank of Mauritius Bills of 91-Day, 182-Day and 364-Day maturities as well as Bank of Mauritius Notes of 2-Year, 3-Year and 4-Year maturities. The Bank also raised the Cash Reserve Ratio (CRR) from 5.0 per cent to 6.0 per cent with effect from the fortnight beginning 8 October 2010 and further to 7.0 per cent with effect from the fortnight beginning 25 February 2011. These hikes reduced liquidity by around Rs5.6 billion.

Over the year 2010-11, banks' excess reserves stood at Rs2,278 million compared to Rs2,700 million in 2009-10.

Primary Auctions of Government of Mauritius Treasury Bills

With a view to mitigating volatility in the borrowing requirements of Government, the Bank continued the smoothing exercise in determining the weekly amount of Government of Mauritius Treasury Bills to be put on tender. The Bank kept the market informed of the range of monthly issues of Treasury Bills at the beginning of each period.

From July 2010 to June 2011, 52 primary auctions were carried out and Treasury Bills totalling Rs47,500 million were put on tender. Bids totalling Rs125,480.1 million were received and the value of bids accepted amounted to Rs44,955 million. Most of the auctions were oversubscribed with a bid-cover ratio ranging between 1.34 and 6.80. The total amount of bids accepted represented 94.6 per cent of the total tender amount and 35.8 per cent of the total value of bids received compared to 93.8 per cent and 46.2 per cent, respectively, for the preceding year.

The shares of banks and non-banks in total bids received were 89.4 per cent and 10.6 per cent, respectively, in 2010-11 compared to 94.2 per cent and 5.8 per cent in 2009-10. Over the period under review, a total nominal amount of Rs4,185.0 million of Treasury Bills, Rs1,297.3 million of Treasury Notes and Rs311.2 million of Bonds were underwritten at the primary auctions by the Secondary Market Cell of the Bank of Mauritius on a non-competitive basis.

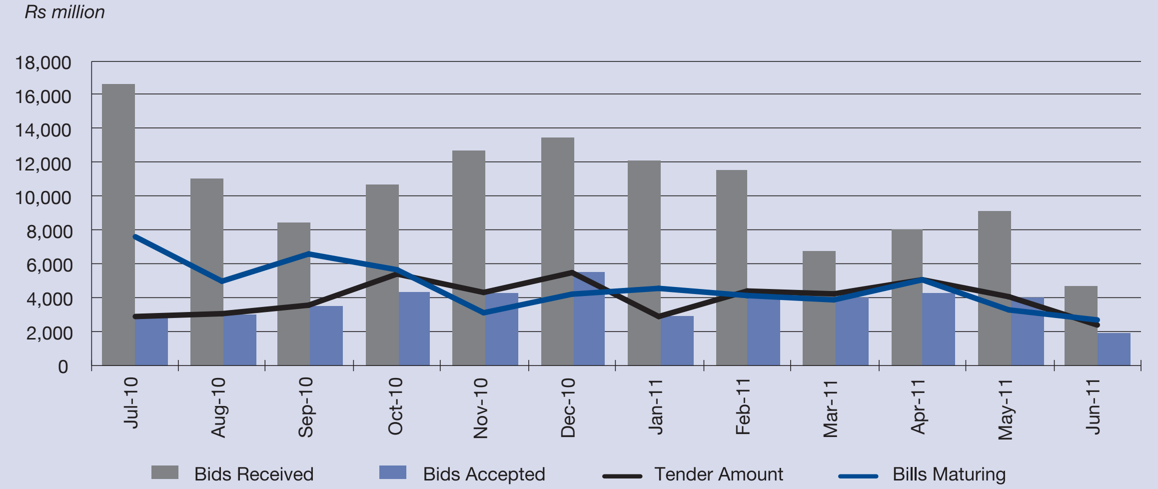
During 2010-11, investors' preference for Government of Mauritius Treasury Bills was mainly skewed towards the shorter-end of the yield curve, with 91-Day Bills accounting for 38.5 per cent, 182-Day Bills for 32.1 per cent and 364-Day Bills for 29.4 per cent of total bids received.

The weighted average yields on Treasury Bills peaked in October 2010 at 4.21 per cent, 4.52 per cent and 4.85 per cent for the 91-Day, 182-Day and 364-Day tenors, respectively, on account of tight liquidity conditions before resuming their downtrend. Following the 50 basis points hike in the Key Repo Rate in March 2011, the weighted yields on the 91-Day, 182-Day and 364-Day tenors reversed trend and ended the year at 4.18 per cent, 4.44 per cent and 4.69 per cent, respectively. The weighted average yield on 91-Day Treasury Bills went down by 93 basis points, from 4.24 per cent in 2009-10 to 3.31 per cent in 2010-11.

The overall weighted average yield dropped by 93 basis points from 4.37 per cent in 2009-10 to 3.44 per cent in 2010-11.

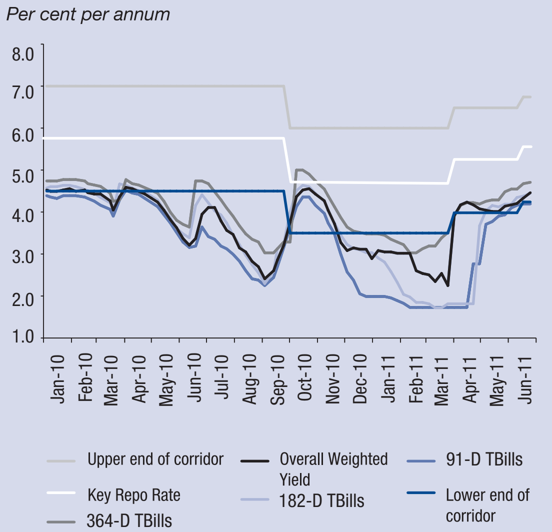
Charts 3.1 and 3.2 give detailed information on the auctioning of Treasury Bills in 2010-11.

Chart 3.1: Auctioning of Treasury Bills



Source: Financial Markets Operations Division.

Chart 3.2: Yields on Government of Mauritius Treasury Bills at Primary Auctions



Source: Financial Markets Operations Division.

Bank of Mauritius Securities

In view of mopping up the excess liquidity for a longer period, the Bank issued instruments of a longer maturity namely the 91-Day, 182-Day and 364-Day Bank of Mauritius Bills and 2-Year, 3-Year, and 4-Year Bank of Mauritius Notes at the weighted average yields accepted on Treasury Bills and Treasury Notes at respective auctions, to unsuccessful bidders. Bank of Mauritius Bills and Notes were issued for a total amount of Rs7.9 billion and Rs6.0 billion, respectively, in 2010-11.

Other money market operations that were conducted during the period under review included two Reverse Repurchase transactions for a total amount of Rs2.9 billion for a period of 14 days at a yield of 4.50 per cent.

Interbank Transactions

Total turnover on the interbank money market increased significantly by 19.8 per cent during 2010-11, from Rs159,444 million to Rs190,978 million or a daily average of Rs549 million compared to Rs440 million in 2009-10.

Transactions were mainly carried out in the call money market for a total amount of Rs125,623 million, an increase of 23.1 per cent over the previous year. On a daily average basis, transactions amounted to Rs395 million in 2010-11 compared to Rs328 million in 2009-10. Call money transactions were at a high of Rs1,900 million in April 2011 and at a low of Rs5 million in July 2010.

Total transactions at short notice on the interbank money market fell by 18.1 per cent from Rs44,198 million in 2009-10 to Rs36,220 million in 2010-11 and represented a daily average of Rs238 million compared to Rs220 million during 2009-10. Transactions at short notice peaked at Rs2,000 million in March 2011 and were at a trough of Rs25 million in October 2010.

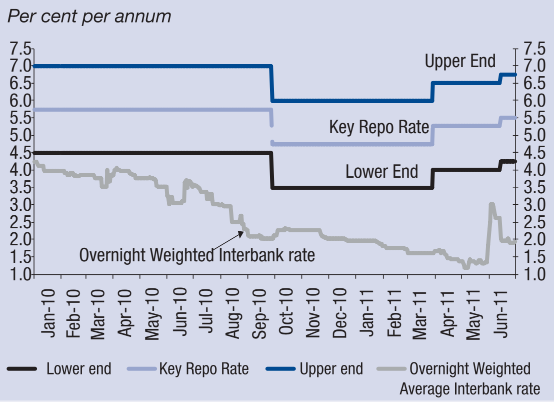
Transactions on the term money market totalled Rs29,135 million and represented a daily average amount of Rs222 million during 2010-11 compared to Rs43 million during 2009-10. Term money transactions reached a peak of Rs710 million in January and February 2011 and a trough of Rs50 million in December 2010.

With the rising level of excess liquidity in the first half of the financial year, the weighted overnight interbank rate was pressured further down. However, around end-June 2011, the weighted overnight interbank rate rose considerably. Interbank interest rates fluctuated within a range of 1.20-4.00 per cent in 2010-11 compared to a range of 3.00-7.25 per cent in 2009-10. Rates on the call money market fluctuated in the range 1.20-3.75 per cent in 2010-11 compared to a range of 3.00-4.50 per cent in 2009-10 while the range of interest rates on money at short notice varied in the range of 1.35-4.00 per cent compared to a range of 3.25-5.50 per cent in 2009-10. Interest on term transactions were in the range of 1.65-3.75 per cent compared to a range of 3.75-7.25 per cent in 2009-10.

Overall, the monthly weighted average interbank interest rate decreased by 210 basis points, from 4.01 per cent in 2009-10 to 1.91 per cent in 2010-11.

Chart 3.3 gives details on interbank transactions and interbank interest rates in 2010-11.

Chart 3.3: Overnight Money Market Rates



Source: Financial Markets Operations Division.

SECONDARY MARKET TRADING

Primary Dealer System

Effective 1 February 2002, the Bank of Mauritius established a Primary Dealer System for Mauritius with a view to boosting the development of the secondary market for securities and enhancing liquidity for these securities on the domestic market. The Bank has, during 2010-11, initiated actions to review the Memorandum of Understanding of the Primary Dealer System. As at 30 June 2011, twelve banks have been granted the primary dealer status.

During the period under review, transactions for a total nominal amount of Rs2,316.6 million were conducted by primary dealers compared to a total value of Rs2,869.1 million during 2009-10. The transactions were mainly carried out with corporates, which represented 70.4 per cent of the total amount transacted compared to 78.5 per cent in 2009-10. Deals conducted among primary dealer banks accounted for 26.3 per cent of the total amount transacted and transactions carried out with individuals represented 0.3 per cent while transactions with non-primary dealer banks represented 3.0 per cent of total amount.

The majority of the transactions were carried out in Band 3 (61 to 90 days to maturity) which represented 29.3 per cent for a total value of Rs679.4 million. This was closely followed by Band 4 (91 to 135 days to maturity) with a share of 20.7 per cent for a total value of Rs480.1 million. In general, yields varied between 1.75 per cent and 4.80 per cent during 2010-11 compared to a range of 3.30 per cent to 4.95 per cent in 2009-10. The reduction in yields on the secondary market reflected the downward trend in yields on the primary market.

Special Line of Credit to the Mauritius Sugar Syndicate

In order to accelerate reforms in the sugar industry and protect stakeholders, in particular, the small planters, the Bank had made available a Special Line of Credit to the extent of Rs1,500 million to banks for on-lending to the Mauritius Sugar Syndicate (MSS). The purpose of the facility was to enable MSS to pay small and medium planters 80 per cent of the estimated net MSS price upfront as from their first consignment as this would facilitate the procurement and use of fertilizers, thereby ensuring the viability of future crops. A total amount of Rs733.6 million was disbursed during the year. There was no outstanding borrowing as at end-June 2011 by the MSS under this facility.

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 2010-11, no disbursement was made under this facility. The principal amount outstanding as at close of business on 30 June 2011 under the Line of Credit stood at Rs133.5 million.

National Equity Fund

To support the financing of the National Equity Fund set up in July 2003, the Bank had made available to the Development Bank of Mauritius Ltd (DBM) a Special Line of Credit of Rs700 million to be drawn down within 2 years of the setting up of the National Equity Fund (NEF). As at 30 June 2011, an amount of Rs30.3 million was still outstanding.

Long-Term Government of Mauritius Bonds

Between end-June 2010 and end-June 2011, the Government raised a net amount of Rs9,820.3 million through the issuance of medium and long-term Government of Mauritius Bonds as against a net redemption of Rs6,405.3 million of Treasury Bills. A total of Rs3,257 million was raised through the issuance of Five-Year Bonds, Rs3,250.3 million through the issuance of Ten-Year Bonds, Rs4,440.8 million through the issuance of Fifteen-Year Bonds and Rs621.1 million through the issuance of the Fifteen-Year Inflation Indexed Bonds.

During 2010-11, Five-Year Government of Mauritius Bonds, which had been first issued in June 2010, were re-opened on 26 November 2010, 18 February 2011 and 22 April 2011, with tender amount of Rs2,000 million in November 2010 and Rs1,500 million subsequently.

At the auctions held in 2010-11, the coupon rates for the issues of Five-Year Government of Mauritius Bonds were kept at 6.69 per cent per annum. The weighted yield for the three issues stood at 6.81, 6.65 and 6.57 per cent per annum, respectively. The bid-cover ratios were in the range of 1.4 to 2.2. The total value of bids received amounted to Rs8,859.3 million compared to a total tender amount of Rs5,000 million, that is, an oversubscription of Rs3,859.3 million. The total nominal value of bids accepted stood at Rs3,257.0 million.

Table 3.1 provides details of the three auctions of Five-Year Government of Mauritius Bonds held in 2010-11.

Government of Mauritius Bonds with maturities of 7, 13 and 20 years were discontinued as from December 2009 and were replaced by 10-Year and 15-Year Government of Mauritius Bonds. A 15-Year Inflation Indexed Government of Mauritius Bond was also issued.

The first auction of the 10-Year Bond was held on 7 July 2010 for issue on 9 July 2010. It was subsequently re-opened on 3 December 2010 and 18 March 2011. The amount put on tender at each auction was Rs2,000 million. At the first auction in July 2010, bids received and accepted amounted to Rs3,197.6 million and Rs2,000 million, respectively, with a coupon rate of 8.75 per cent per annum while the weighted yield stood at 9.66 per cent. At the re-opening in December 2010, bids received and accepted amounted to Rs2,732.1 million and Rs311.2 million, respectively. The weighted yield fell

Table 3.1: Auctions of Five-Year Government of Mauritius Bonds			
	Auction held on		
	24-Nov-10[1]	16-Feb-11[2]	20 April 11[3]
1. Amount of Bonds put on Tender (Rs mn)	2,000.0	1,500.0	1,500.0
2. Value of Bids Received (Rs mn)	2,836.8	2,687.2	3,335.3
3. Value of Bids Accepted (Rs mn)	257.0	1,500.0	1,500.0
4. Coupon Rate (% p.a.)	6.69	6.69	6.69
5. Highest Yield Accepted (% p.a.)	6.84	6.74	6.74
6. Weighted Yield on Bids Accepted (% p.a.)	6.81	6.65	6.57
7. Weighted Price of Bids Accepted (%)	99.555	100.134	100.417

[1] Issue of 26 November 2010.(Re-opening). [2] Issue of 18 February 2011 (Re-opening). [3] Issue of 22 April 2011 (Re-opening).
Source: Financial Markets Operations Division.

to 8.46 per cent while the coupon rate was kept unchanged. At the re-opening in March 2011, bids received and accepted amounted to Rs3,076.6 million and Rs939.1 million, respectively. The weighted yield declined to 8.23 per cent while the coupon rate was again kept unchanged at 8.75 per cent per annum.

Details of the auctions of 10-Year Government of Mauritius Bonds are given in Table 3.2.

Two auctions of 15-Year Government of Mauritius Bonds were held in August 2010 and May 2011. An amount of Rs2,000 million was put on tender at each auction. Bids received amounted to Rs3,555.2 million and Rs2,787.4 million while bids accepted stood at Rs2,892.3 million and Rs1,548.5 million, respectively. The coupon rate at both auctions was set at 9.25 per cent. The weighted yield on bids accepted at the first auction stood at 9.88 per cent. It went up to 10.05 per cent at the second auction held in May 2011.

Details of the auctions of 15-Year Government of Mauritius Bonds are given in Table 3.3.

A single auction of the 15-Year Inflation-Indexed Bond was held on 13 December 2010 for issue on 15 December 2010. This Bond was issued with interest based on the weighted accepted bid margin plus the 12-month average inflation rate published by the Central Statistics Office at the end of July every year.

Table 3.2: Auctions of Ten-Year Government of Mauritius Bonds			
	Auction held on		
	07-July-10 [1]	01-Dec-10 [2]	16-Mar-11[3]
1. Amount of Bonds put on Tender (Rs mn)	2,000.0	2,000.0	2,000.0
2. Value of Bids Received (Rs mn)	3,197.6	2,732.1	3,076.6
3. Value of Bids Accepted (Rs mn)	2,000.0	311.2	939.1
4. Interest Rate (% p.a.)	8.75	8.75	8.75
5. Highest Yield Accepted (% p.a.)	9.95	9.00	9.00
6. Weighted Yield on Bids Accepted (% p.a.)	9.66	8.46	8.23
7. Weighted Price of Bids Accepted (%)	94.247	101.939	103.316

[1] 1 Issue of 09 July 2010 [2] Issue of 03 December 2010 (Re-Opening) [3] Issue of 18 March 2011 (Re-Opening).
Source: Financial Markets Operations Division.

Table 3.3: Auctions of Fifteen -Year Government of Mauritius Bonds		
	Auction held on	
	18-Aug-10[1]	18-May-11[2]
1. Amount of Bonds put on Tender (Rs mn)	2,000 *	2,000.0
2. Value of Bids Received (Rs mn)	3,555.2	2,787.4
3. Value of Bids Accepted (Rs mn)	2,892.3	1,548.5
4. Interest Rate (% p.a.)	9.25	9.25
5. Highest Yield Accepted (% p.a.)	10.50	10.25
6. Weighted Yield on Bids Accepted (% p.a.)	9.88	10.05
7. Weighted Price of Bids Accepted (%)	95.124	93.979

[1] Issue of 20 August 2010 [2] Issue of 20 May 2011 (Re-opening)
** Tender Amount was Rs2,000 mn with the option to accept a higher amount*
Source: Financial Markets Operations Division.

The amount put on tender was Rs1,000 million. Bids received amounted to Rs1,615.6 million and bids accepted totalled Rs621.1 million. The weighted bid margin accepted was 2.50 per cent.

Details of the auctions of 15-Year Inflation Indexed Bonds are given in Table 3.4.

Table 3.4: Auction of Fifteen -Year Inflation-Indexed Government of Mauritius Bonds	
	Auction held on
	13-Dec-10[1]
1. Amount of Bonds put on Tender (Rs mn)	1,000.0
2. Value of Bids Received (Rs mn)	1,615.6
3. Value of Bids Accepted (Rs mn)	621.1
4. Highest Bid Margin Received (% p.a.)	13.00
5. Lowest Bid Margin Received (% p.a.)	1.50
6. Weighted Bid Margin Accepted (% p.a.)	2.50

[1] Issue of 15 December 2010
Source: Financial Markets Operations Division.

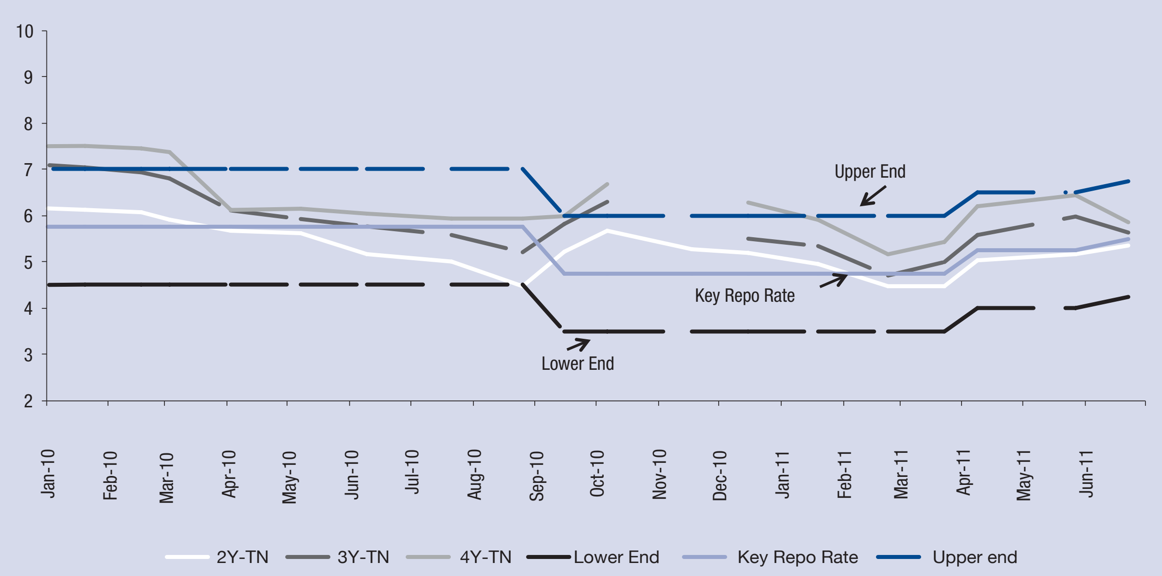
Treasury Notes

During 2010-11, the Bank continued the monthly issues of 2-Year, 3-Year and 4-Year Treasury Notes. The total tender amount during 2010-11 for the three maturities was Rs15,700 million compared to Rs14,300 million in 2009-10. Maturing Treasury Notes during the period under review totalled Rs13,832 million. Most of the auctions were oversubscribed with the total value of bids received amounting to Rs35,280 million, essentially reflecting the excess liquidity situation. The total value of bids accepted was Rs14,403 million. Market preference was skewed towards the 2-Year maturity with 57.1 per cent of bids received in that tenor while of bids received in the 3-Year and 4-Year tenor accounted for 24.5 per cent and 18.4 per cent, respectively, of total bids received.

The interest rates on the three types of Treasury Notes were fixed at 5.50, 5.75 and 6.00 per cent per annum, respectively, for the first three issues held over the period July to September 2010. Following the cut in the Key Repo Rate by 100 basis points in September 2010, the coupon rates on Treasury Notes were brought down to 4.50, 4.75 and 5.00 per cent per annum, respectively. These coupon rates were kept unchanged for the subsequent issues from October 2010 to March 2011. After the hike of 50 basis points in the Key Repo Rate in March 2011, the coupon rates were raised to 5.00, 5.25 and 5.50 per cent per annum, respectively, in April 2011 and kept unchanged in May 2011. At the last auction of Treasury Notes in 2010-11, following the hike of 25 basis points in the Key Repo Rate in June 2011, the coupon rates were raised to 5.25, 5.50 and 5.75 per cent per annum for the 2-Year, 3-Year and 4-Year maturities, respectively.

Chart 3.4 shows movement of yields on Treasury Notes during 2010-11.

Chart 3.4: Yields on Treasury Notes at Primary Auctions



Source: Financial Markets Operations Division.

Foreign Exchange Market

Over the period July 2010 to June 2011, liquidity on the domestic foreign exchange market was comfortable.

The Bank purchased foreign currencies for the equivalent amount of US$813 million and sold the equivalent of US$10.7 million to the market over the period July 2010 to June 2011. The intervention rate for the sale of US dollars to the market ranged from Rs28.00 to Rs28.48, while for the purchase of US dollars and Euro the rates were in the range of Rs27.30 to Rs31.30 and Rs39.25 to Rs41.85, respectively. For the Pound Sterling, the rate of intervention was Rs46.38.

Foreign currency swap transactions which were offered by the Bank for Spot to one and three months since 23 December 2009 thinned considerably in 2010-11. In July 2010, swap transactions amounted to an equivalent US$5.7 million compared to an equivalent of US$89.2 million in 2009-10.

Table 3.5 shows the swap transactions carried out in US dollars, Euro and Pound sterling from 23 December 2009 till 30 June 2011.

Table 3.5: Short Term Foreign Currency Swaps: 23 December 2009 - June 2011

	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 to Jun-10	2.8	61.3	2.0
Jul-10 to Jun-11	0.0	4.6	0.0

Source: Financial Markets Operations Division.

Interbank Foreign Exchange Market

During 2010-11, the turnover on the interbank foreign exchange market increased significantly to an equivalent amount of US$491.18 million compared to an equivalent amount of US$415.83 million in 2009-10. Out of this turnover, purchases of US dollar against the rupee amounted to US$281.77 million compared to US$216.57 million in 2009-10 while purchases of US dollar against other currencies totalled US$110.94 million as against US$69.02 million in 2009-10. Transactions were carried out at rates ranging between Rs/US$27.3625 and Rs/US$32.1875 compared to Rs/US$28.7625 and Rs/US$34.3875.

Table 3.6: 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)	
2010						
Jul	16.60	28.12	10.13	54.85	1714.26	30.3625-32.1875
Aug	13.24	11.83	5.63	30.70	939.88	30.1250-31.1125
Sep	20.89	6.03	8.75	35.67	1097.56	30.3500-30.9750
Oct	18.71	5.26	11.04	35.01	1046.91	29.6250-30.2750
Nov	29.44	5.84	7.07	42.35	1280.38	29.7125-30.5500
Dec	35.69	5.16	15.37	56.22	1728.30	30.5000-30.7125
2011						
Jan	23.73	7.69	8.20	39.62	1204.47	29.7500-30.7250
Feb	24.14	6.37	6.49	37.00	1096.36	29.4750-29.7000
Mar	24.19	13.15	7.86	45.20	1310.50	28.6250-29.4375
Apr	21.19	6.92	5.11	33.22	929.43	27.6250-28.5750
May	23.22	7.60	5.46	36.28	1014.25	27.3625-28.2875
Jun	30.73	6.97	7.36	45.06	1273.55	27.7500-28.5625
2010-11	**281.77**	**110.94**	**98.47**	**491.18**	**14,635.85**	**27.3625-32.1875**
2009-10	**216.57**	**69.02**	**130.24**	**415.83**	**12,894.05**	**28.7625-34.3875**

** 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.

Given that conditions in the foreign exchange market normalised during 2010-11 and that only a few banks have made use of this facility, the Special Foreign Currency Line of Credit, aggregating US$125 million, made available to banks since 24 December 2008, was discontinued from 30 June 2011.

Table 3.6 gives details of monthly transactions on the interbank foreign exchange market in 2010-11.

Foreign Exchange Transactions by Banks

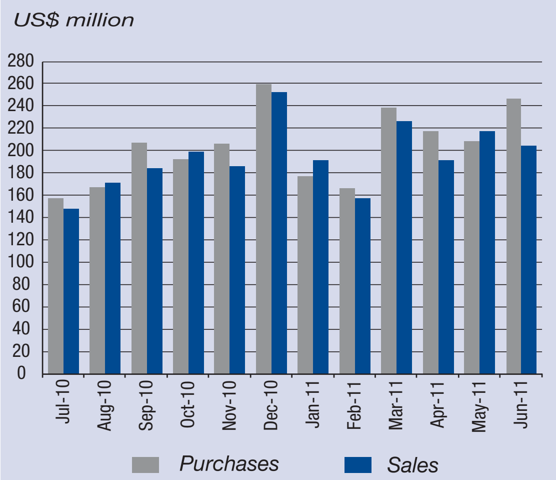
Banks report on a daily basis to the Bank of Mauritius transactions of US$30,000 and above or their equivalent in other foreign currencies. During 2010-11, total turnover increased by 7.27 per cent to an equivalent of US$4,785.57 million compared to an equivalent of US$4,461.05 million in 2009-10.

On a currency-wise basis, 57.4 per cent of total spot transactions was carried out in US dollar, 27.5 per cent in Euro, 7.9 per cent in Pound sterling, 3.4 per cent in South African rand, 1.1 per cent in Australian dollar, 0.9 per cent in Japanese yen and 1.8 per cent in other foreign currencies. Total monthly transactions peaked at an equivalent of US$512.9 million in December 2010 and reached a trough equivalent to US$306.1 million in July 2010.

The Rs/US$ weighted average dealt ask rates at which transactions of US$30,000 and above were effected moved in line with developments on the international markets and the evolution of foreign exchange liquidity conditions on the domestic market. Between July 2010 and June 2011, the daily Rs/US$ weighted average dealt ask rate fluctuated between a high of Rs31.9145 in July 2010 and a low of Rs27.2376 in May 2011. Against the euro, the weighted average dealt ask rate varied between a peak of Rs42.2038 in November 2010 and a low of Rs39.3870 in August 2010 while against the Pound sterling, the weighted average dealt ask rate moved between a high of Rs49.6300 in November 2010 and a low of Rs44.9301 in May 2011.

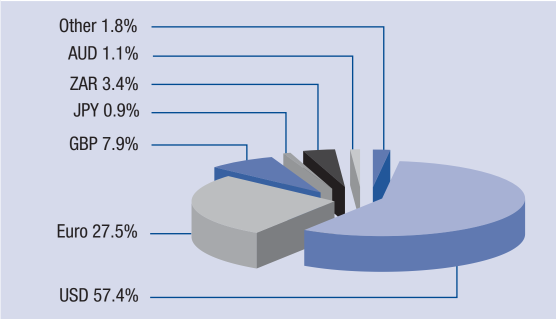
Charts 3.5 and 3.6 give details on transactions above US$30,000 effected by banks while Chart 3.7 show the weighted average dealt ask rate of the rupee against major currencies during 2010-11.

Chart 3.5: Banks' Transactions above US$30,000: Total Purchases and Sales



Source: Financial Markets Analysis Division.

Chart 3.6: Banks' Transactions above US$30,000: Turnover by Currency



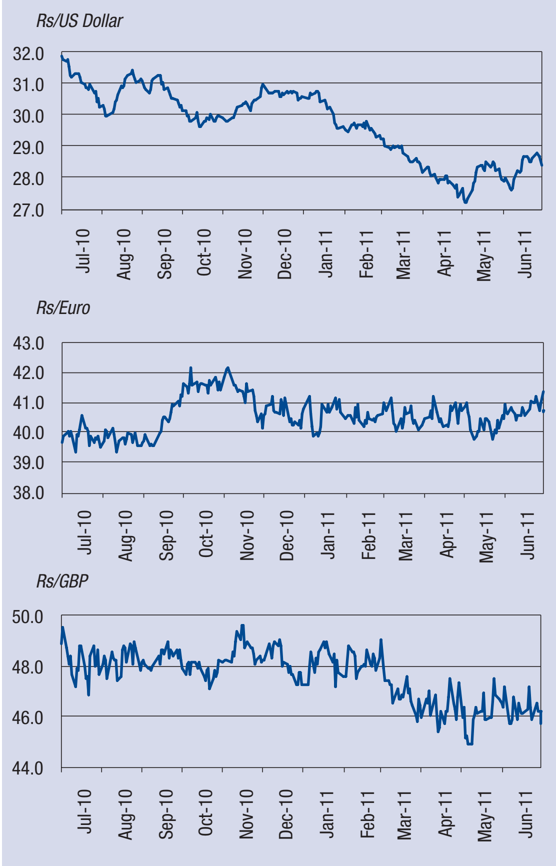
Source: Financial Markets Analysis Division.

EXCHANGE RATE DEVELOPMENTS

International Developments

During 2010-11, the US dollar tumbled against major currencies on the back of weak US growth, the Fed's decision to maintain interest rates at record lows and a revival in global risk appetite, which outweighed investors' persistent concerns about the debt problems of peripheral euro zone countries. The US dollar remained under pressure

Chart 3.7: Weighted Average Dealt Ask Rates of the Rupee against Major Currencies[1]



[1]*Daily Basis.*
Source: Financial Markets Analysis Division.

against major currencies as soft data releases raised concerns about the sustainability of US economic growth. The US currency was further undermined on renewed geopolitical tensions in the Middle East. Growing worries about the ballooning US budget deficit and expectations that the Fed would significantly lag behind central banks worldwide in raising interest rates also weighed on the greenback.

The euro started 2010-11 on a weak note, trading at US$1.2212, its intra-year low. From July 2010 to October 2010, the euro rallied against a broadly weaker US dollar while also benefiting from strong demand for European bonds and better economic data observed in the euro zone countries. From November 2010 till early January 2011, the euro pared some gains on risk aversion caused by the euro zone debt crisis, but it resumed its rally against the US dollar thereafter after successful securities

Table 3.7: Exchange Rate of the Rupee vis-à-vis Major Trading Partner Currencies			
Indicative Selling Rates	Average for 12 Months ended June 2010 [1]	Average for 12 Months ended June 2011 [2]	Appreciation/ (Depreciation) of Rupee between [1] & [2] *Per Cent*
Australian dollar	28.1976	30.1247	(6.4)
Hong Kong dollar	4.1254	3.9257	5.1
Indian rupee (100)	68.9188	67.3473	2.3
Japanese yen (100)	34.9561	36.7118	(4.8)
Kenya shilling (100)	42.2697	37.4864	12.8
New Zealand dollar	22.4624	23.0390	(2.5)
Singapore dollar	22.7426	23.5765	(3.5)
South African rand	4.2407	4.3781	(3.1)
Swiss franc	29.9446	31.9151	(6.2)
US dollar	31.7859	30.3696	4.7
Pound sterling	50.2702	48.2512	4.2
Euro	44.1669	41.3367	6.8

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.

auctions by indebted euro zone members helped to calm jittery markets. At its Governing Council meeting on 7 April 2011, the ECB, as expected, raised its key refinancing rate by 25 basis points to 1.25 per cent, the first hike since July 2008. The euro eventually hit a 17-month high of US$1.4940 on 4 May 2011 although, with the uncertainty about the Greek debt crisis resolution and the ability to execute austerity measures, the single currency moved lower and closed June 2011 trading at US$1.4501.

The Pound sterling was volatile in 2010-11. Starting July 2010, the Pound sterling rallied against the US dollar given the latter's broad-based weakness and optimism that Britain would be able to cut its budget deficit and emerge from recession. During the course of the year, while the Pound sterling lost ground following the release of weak data and fears about economic growth, it was supported by expectations of a policy tightening by mid-2011, and by the weak US dollar. The British currency ended June 2011 trading at US$1.6101.

From July through October 2010, the Japanese yen posted strong gains against the US dollar, reflecting the weakening of the latter on international markets. In November 2010, the Japanese yen depreciated to the 84-85 yen level against the US dollar amid the release of US economic indicators showing steady developments stabilising the greenback. Thereafter, the Japanese currency regained some support amid declines in US yields to reach around 80.5 yen against the US dollar at the end of June 2011.

Domestic Developments

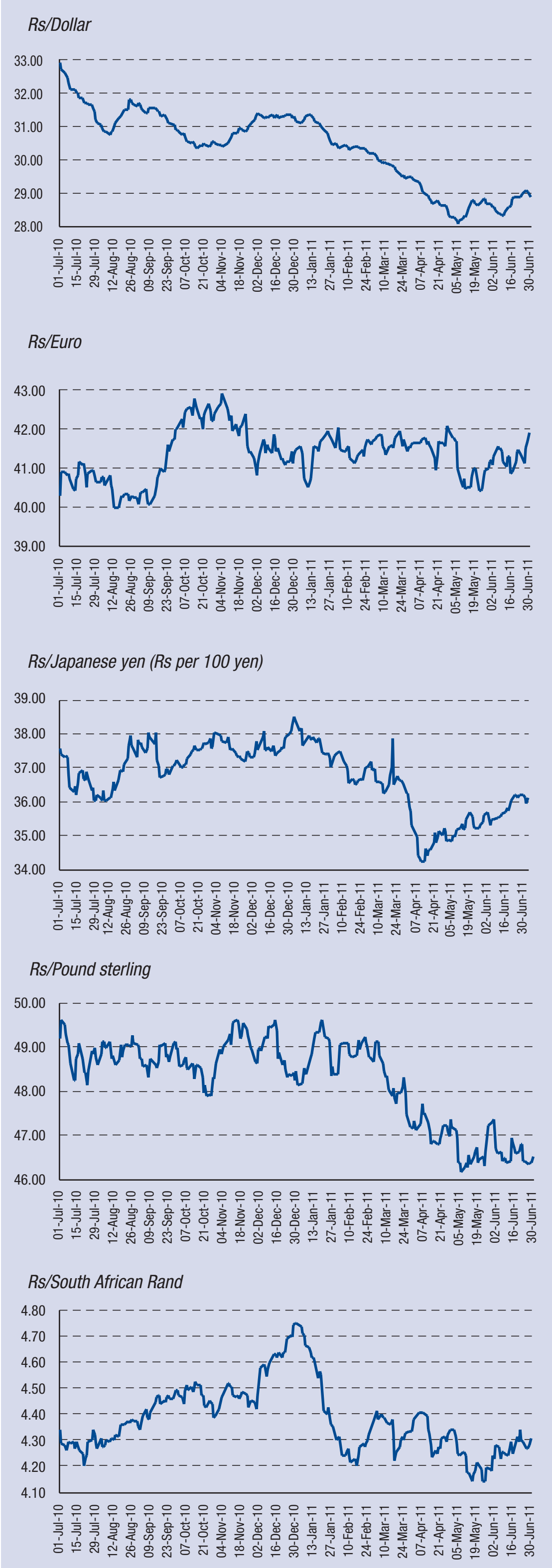
The exchange rate of the rupee reflected international exchange rate movements as well as demand and supply conditions on the domestic foreign exchange market. On a point-to-point basis, between end-June 2010 and end-June 2011, the rupee appreciated against the US dollar, Pound sterling and Japanese yen by 14.1 per cent, 6.7 per cent and 3.6 per cent, respectively, but depreciated vis-à-vis the euro by 3.9 per cent. On an average basis for the twelve months ended June 2011, the rupee appreciated against the euro, US dollar and Pound sterling by 6.8 per cent, 4.7 per cent and 4.2 per cent, respectively, but depreciated by 4.8 per cent against the Japanese yen compared to the twelve-month period ended June 2010.

The rupee closed 2010-11 at Rs28.90 against the US dollar, and ended trading at Rs46.55 against the Pound sterling and at Rs41.93 against the euro. It closed at Rs36.12 per 100 yen on 30 June 2011.

On a nominal effective basis, the rupee appreciated during 2010-11. MERI1, which uses the currency distribution of trade as weights, showed a rupee appreciation of 9.7 per cent while MERI2, which uses the currency distribution of trade combined with the currency distribution of tourism receipts as weights, posted an appreciation of 9.1 per cent during the year. The rupee appreciated in real effective terms by 9.1 per cent in 2010-11.

Table 3.7 shows the exchange rate of the Mauritian rupee vis-à-vis major trading partner currencies while Chart 3.8 shows the trend in the daily exchange rates of the rupee against the US dollar, euro, Japanese yen, Pound sterling and South African rand.

Chart 3.8: Movements of the Daily Exchange Rate of the Rupee vis-à-vis Major Currencies: 2010-11



Source: Financial Markets Analysis Division.

CAPITAL MARKET DEVELOPMENTS

International Equity Markets

Global equity markets continued to recover in the second half of 2010 and, albeit at a lower pace, in the first quarter of 2011. In the second quarter of 2011, the outlook downgrade of the US sovereign credit ratings by Standard & Poor's, further monetary tightening in some emerging markets, a spate of weak US economic data and fear of flagging Chinese growth, compounding worries about the global economic recovery, all weighed on markets. Concerns that a Greek default could spark another global credit freeze had been a major headwind for stocks in May and June, before the temporary resolution of Greece's debt crisis at the end of June. Chart 3.9 shows the evolution of major stock markets.

Local Stock Market

During the twelve-month period ended June 2011, the stock market posted an overall positive performance, with the SEMDEX, SEMTRI (Rs) and SEM-7 reaching all-time highs of 2,113.6, 6,206.1 and 397.9, respectively, on 16 May 2011 before retreating to some extent towards the end of June 2011. The SEMTRI

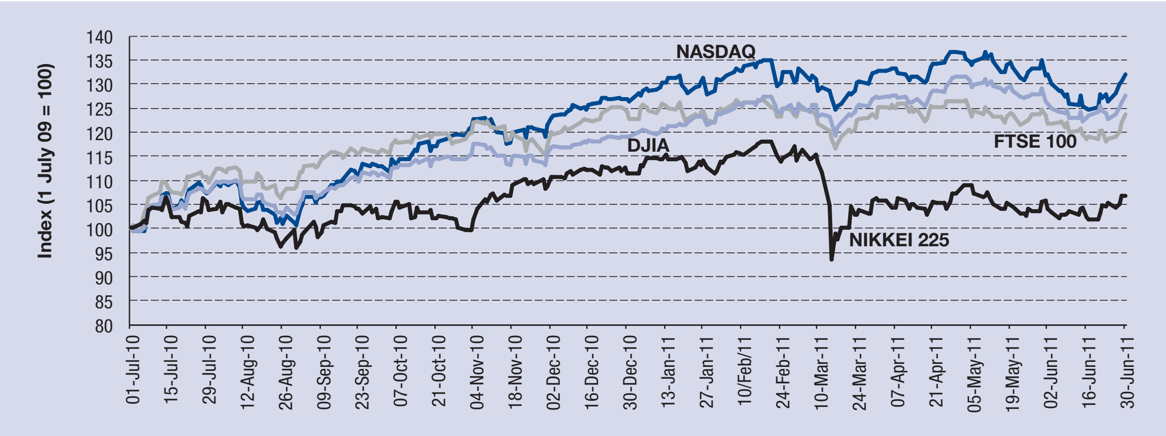
(USD) peaked at 3,422.0 on 11 May 2011 before losing ground thereafter.

The number of domestic listed companies on the Official Market of the stock exchange totalled 37 at the end of June 2011 compared to 38 at the end of June 2010. Overall, there were 49 listed companies as at end-June 2011, including 27 local equities, 1 foreign equity and 12 investment funds. On the Development and Enterprise Market (DEM), the number of listed companies stood at 50, unchanged from a year ago.

Market capitalization on the Official Market as at 30 June 2011 stood at Rs190.1 billion compared to Rs150.8 billion as at end-June 2010. 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 fiscal year.

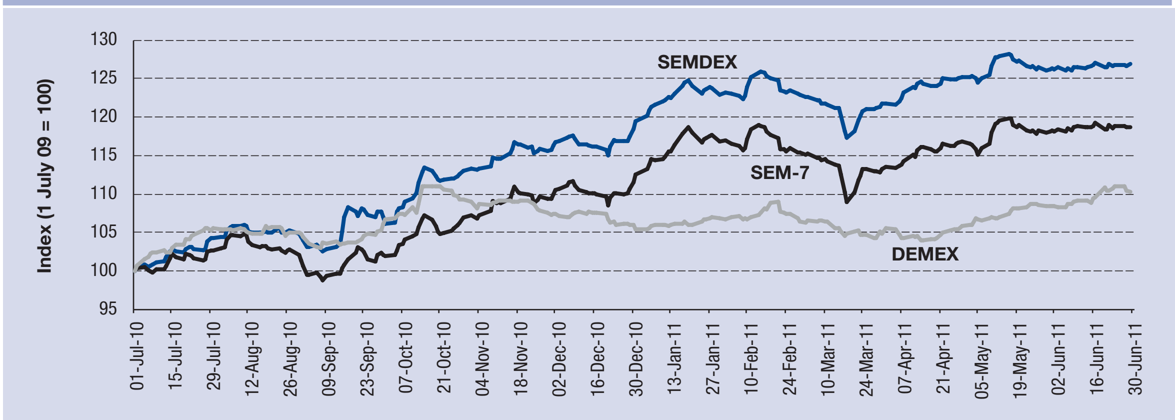
During 2010-11, there was net investment by foreign investors on the local stock market. On the Official Market, foreigners made purchases amounting to Rs3,264.9 million and sold shares for Rs2,355.4 million, that is, a net investment of Rs909.5 million compared with a net investment of Rs805.5 million in the preceding twelve months. On the DEM, foreigners made purchases and sale of Rs 138.6 million and Rs94.6 million respectively resulting into net foreign investment of Rs44.0 million as at at end-June 2011 compared to net foreign investment of Rs91.9 million as at end-June 2010. Chart 3.10 shows the movements in the SEMDEX, SEM-7 and DEMEX during 2010-11.

Chart 3.9: Evolution of Major Stock Markets



Source: Reuters.

Chart 3.10: Movements in the SEMDEX, SEM-7 and DEMEX



Source: Stock Exchange of Mauritius.

4 Financial Stability

The financial sector remained resilient and profitable during the year 2010-11 despite the uncertain economic conditions that persisted on the international front. The financial sector witnessed a new entrant in the first semester of 2011 with the coming into operation of the first full-fledged Islamic bank, bringing the number of banks to 20 as at end-June 2011. The banking sector, which is the largest component of the financial sector, is considered as stable and sound. This is largely the consequence of the on-going and sustained efforts put in by banks and the Bank in that regard and over several years. The sound prudential regulatory and supervisory framework that the Bank has put in place is based on international norms and standards and is constantly reviewed and upgraded to cater for new developments and concerns. The Bank closely monitors the risk indicators, which stood at reasonable levels during the year under review.

Banks remained profitable during the year 2010-11 despite a slight decline in profits registered over the year. The banking sector profitability was largely driven by local banks which recorded relatively better performance than foreign banks. The revenue of the latter was impacted largely by the prolonged period of low interest rates abroad.

Capital adequacy ratios for the sector stood comfortably well above the regulatory minimum of 10 per cent and risks in the banking sector were well managed and kept within the limits prescribed by the Bank. Banks relied mostly on their profits to generate capital to sustain balance sheet growth.

While lending is the main line of business of banks in Mauritius, growth of banking sector credit was found to decelerate over the period under review largely because of foreign-owned banks. In fact, domestic banks registered a slightly improved year-on-year credit growth rate as at end-June 2011 compared to end-June 2010. Credit growth of foreign-owned banks decelerated to almost one third of the growth rate recorded at end-June 2010.

Asset quality in the sector did not raise any concern as the level of non-performing loans (NPLs) was relatively low and stood at less than 5 per cent at end-March 2011. The ability of banks to absorb losses arising from non-recoverability of NPLs, measured by the coverage ratio, has improved and is considered adequate. The ratio of non-performing loans extended to customers outside Mauritius has declined consistently over the period June 2010 to March 2011.

The largest share of cross-border exposures is mainly to customers in Asia and stood around 70 per cent and almost no impairment was registered at end-March 2011. Loans granted to customers in Europe represented around 10 per cent of total cross-border loans and recorded 1.4 per cent of impaired loans as at the same date.

Concentration in the banking sector, as measured by the Herfindahl-Hirschmann Index (HHI) for total assets, loans and deposits, improved but remained in the ‘moderate concentration’ band.

Indebtedness of households, measured by households’ liabilities with the banking sector, registered a faster year-on-year growth rate as at end-June 2011 compared to a year earlier and outpaced the growth of nominal GDP. As a result, the gap between the growth of household indebtedness and nominal GDP widened further. Household indebtedness is principally geared towards the construction and purchase of housing units, which record a relatively low rate of default.

Depositors’ confidence was maintained and banks continued to rely on deposits as the main source of funding. Growth rate of deposits in the banking sector decelerated but banks in Mauritius did not face any pressure to raise funds to support their lending activities. On the local stock market, preference for banking stocks was observed showing continued investors' confidence in the banking sector.

The insurance sector is regulated by the Financial Services Commission and based on latest published information the sector was still highly concentrated. The HHIs computed both for total assets and gross premium for the year 2010 confirmed that view as the indices were in the 'high concentration band'. The data also suggested that the insurance sector is in a sound condition and remains a profitable sector, although the sector registered a lower growth of assets in 2010 compared to 2009.

Overall, based on available information, the financial sector is considered to be sound and profitable. However, developments in Europe, our main export market, and in the global economy as a whole together with the potential consequences on the domestic banking sector, are closely monitored by the Bank.

5 Accounting and Budgeting

The Accounting and Budgeting Division is primarily responsible for treasury management, maintenance of the Bank's accounting records and the preparation of financial statements. The Division provides back office services to other divisions of the Bank namely, Financial Markets Operations Division, Corporate Services Division, Banking and Currency Division, Supervision Division and Payment Systems and MCIB Division.

ACCOUNTING

The Division maintains accounting records pertaining to, *inter alia*, foreign exchange transactions, open market operations and the issuance and redemption of Government of Mauritius Securities.

Foreign currency transactions in respect of government foreign debt servicing, payments for consultancy services and contributions to international organisations are carried out by the Bank on behalf of the Government. Foreign currency receipts in favour of the Government are also recorded in their accounts maintained at the Bank.

The Division undertakes the processing and recording of transactions of Government with international financial organisations such as the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA).

Transactions with the IMF are carried out through the quarterly financial transactions plan, by means of which the Fund manages its usable resources. The Government of Mauritius has, since 2003, participated 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.

The Bank issues Government of Mauritius Treasury Bills/Bank of Mauritius Bills on the primary market on a weekly basis through auctions. Upon allotment of bids, the cash accounts of the successful bidders are debited and the Accountant General's account credited. Successful bids are recorded in book entry form at the Bank. Further, holders of Bills whose transactions are kept in book entry form at the Bank are provided with monthly statements.

Financial Statements

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 and with a view to enhancing transparency, the Bank publishes financial statements in a more elaborate format.

The profit of the Bank over the past two years has been on the low side, attributable mainly to low interest income earned on the Bank's foreign investments and an increase in the cost of Open Market Operations. However, for the year ended 30 June 2011, the Bank realised a profit of Rs258 million compared to Rs72 million for the financial year 2009-10.

Open Market Operations

The Bank conducts Open Market Operations (OMO) through repo transactions, special deposits and Bank of Mauritius Instruments to manage liquidity in the banking system. The cost of conducting OMO is accounted for as an expense in the accounts of the Bank. For the financial year ended 30 June 2011, the cost of OMO increased to Rs254 million from Rs20 million in the previous year.

BUDGETING

The Division is also responsible for the preparation of the Bank's budget and the payment of salaries and allowances, disbursement and repayment of staff loans, payments to service providers as well as remittances to the Mauritius Revenue Authority. The accounting and recording pertaining to these payments and the maintenance of the Bank's fixed assets register are vested with the Division.

In terms of section 32 (1) of the Bank of Mauritius Act 2004, the budget of the Bank in respect of a financial year is determined by the Board not later than 15 June immediately preceding that financial year.

The budget of the Bank is prepared in line with the policy of the Bank's Management for the budget year. As part of the budgeting process, following submissions by Heads of Divisions, meetings are held bilaterally to assess each Division's needs.

The inputs from all divisions are then consolidated to form the master budget of the Bank. Items of expenditure are grouped under three main items, namely, "Recurrent Expenditure-Personal Emoluments", "Recurrent Expenditure-Other Charges" and "Capital Expenditure".

After thorough discussion with Management, the master budget is reviewed by a Sub-Committee of the Board which then recommends it to the Board for determination. The budget for the financial year 2011-12 was submitted to the Sub-Committee on 23 May 2011 and determined by the Board at its meeting held on 26 May 2011.

The actual expenditure incurred by the Bank is continuously monitored against the budget. Budget reports highlighting variances are prepared and submitted to management on a regular basis.

6 Payment Systems & Mauritius Credit Information Bureau

The Bank is mandated under section 48 of the Bank of Mauritius Act 2004 to organize a clearing house in conjunction with banks to facilitate the clearing of cheques and other payment and credit instruments and to set up such electronic system for the settlement of payments. The Bank pursued the modernization of payment systems during the year 2010-11 and a major milestone was realized with the implementation of the Cheque Truncation System. On the regional front, the Bank has actively participated in the relocation and testing of the Regional Payment and Settlement System (REPSS), an initiative of the COMESA Clearing House (CCH).

Mauritius Automated Clearing and Settlement System

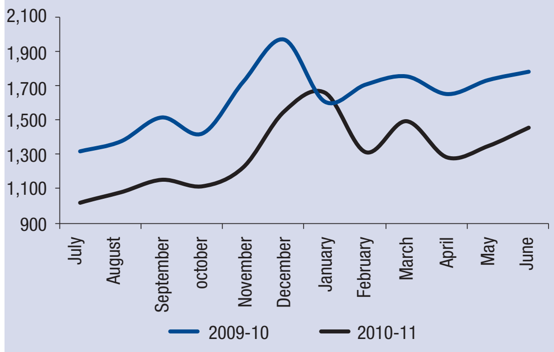
The Mauritius Automated Clearing and Settlement System (MACSS) is the real time gross settlement system (RTGS) for interbank funds transfers, settlement for money market instruments and Government securities in Mauritius. The MACSS is also used to settle cheque clearing positions of the Port Louis Automated Clearing House (PLACH), the final settlements of the Contribution Network Project (CNP) to the accounts of the Mauritius Revenue Authority (MRA) and settlements for the Central Depository System (CDS).

Compared to the year 2009-10, there was an increase of 29.5 per cent in volume terms and 12.7 per cent in value terms in transactions processed through the MACSS during the year under review.

Charts 6.1 and 6.2 depict the daily average volume and value of MACSS transactions during 2010-11 compared to 2009-10.

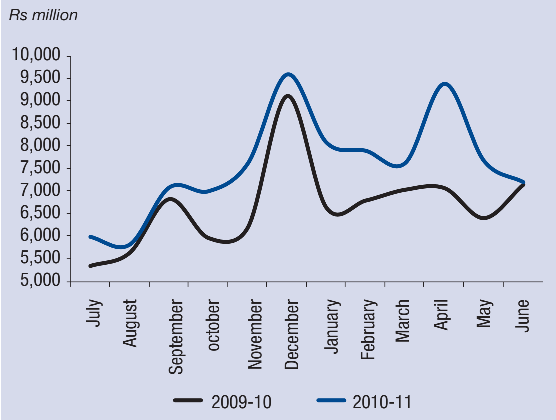
The MACSS processed 411,296 transactions for a total value of Rs1.9 trillion during the period under review compared to 317,679 transactions for a total value of Rs1.7 trillion a year earlier. This represented around 6 times the annual nominal GDP. Despite a few outages of the SWIFT Network, which were beyond the control of the Bank, MACSS remained resilient and all transactions were processed with finality. The foreign currency feature of MACSS also allowed the processing of a higher number of foreign currency transactions to reach an amount equivalent to USD1.9 billion. It is expected that there will be an increase in the usage of this multi-currency feature for interbank payments.

Chart 6.1: Daily Average Number of MACSS Transactions



Source: Payment Systems & MCIB Division.

Chart 6.2: Daily Average Value of MACSS Transactions



Source: Payment Systems & MCIB Division.

Cheque Clearing

The landscape of the payment system has evolved over the past two decades. However, in spite of the fact that there has been a shift from paper-based instruments, in particular cash and cheque, to electronic-based instruments over time, cheque payment still plays a prominent role in the payment system. During the period 2010-11, the total value of cheque transactions an increased by 5.3 per cent over the preceding year.

An average of 21,000 cheques for a total value of about Rs1 billion are cleared daily at the PLACH. Total cheques cleared inched up by 1.5 per cent in terms of volume during 2010-11 and increased by 5.3 per cent in terms of value compared to the previous year. The increasing value of cheque transactions heightens the inherent settlement risk associated with cheques in the payment system. In keeping with its statutory responsibility to promote, regulate and organise an efficient and secure operation of the payment system in Mauritius and to meet international standards and best practice, the Bank re-embarked on the Cheque Truncation Project, which was initiated in 2007, but, subsequently, stalled for reasons beyond its control. The Cheque Truncation System came into operation on 6 September 2011.

Regional Payment and Settlement System (REPSS)

REPSS, an initiative of the CCH, will enable cross-border payments among central banks in the COMESA region. Central banks exchange payment instructions directly among themselves through a settlement bank. As a result, the settlement time will be reduced from up to 5 days with a correspondent banking arrangement to same day settlement. Importers and exporters will pay and receive payments in their respective domestic currencies. Commercial banks in participating countries can access the payment system through their respective central banks, by using their national payment system.

The Bank of Mauritius is the settlement bank in the REPSS set-up and also hosts the software. The REPSS was scheduled to go on live mode at the end of 2010 but was delayed due to some operational difficulties. The CCH took the decision to transfer the SWIFT as well as the application, which were originally hosted in South Africa, to the Bank of Mauritius. Currently, the application is running from the premises of the Bank and is undergoing technical tests.

A workshop was held at the premises of the Bank from 13 to 15 September 2011 and 30 delegates from 15 countries (including Mauritius) and the COMESA Clearing House attended. Only Djibouti, Eritrea, Libya and Ethiopia were not represented. During the workshop, delegates were walked through the procedures for operating REPSS from their respective central banks. Delegates were also presented with the hardware and network environment in which the REPSS software is operating and a live session was organised for the benefit of attendees where payments from Egypt and Mauritius were sent and successfully settled. At the end of the workshop, participants were invited to raise issues with respect to the operations of REPSS and a number of suggestions were discussed and agreed upon. The most important one being that it was unanimously agreed that the REPSS software was operating under optimal conditions at the Bank as per the objectives of the workshop.

REPSS can then go live with the group of countries that have already signed the relevant agreements and prefunded their accounts. Accounts of all central banks have been opened in the books of the Bank in euro and US dollar. Eight countries, namely, the Democratic Republic of Congo, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Uganda and Zambia, have signed the agreements. Malawi, Mauritius, Sudan, Swaziland, Uganda and Zambia have also prefunded their accounts.

Mauritius Credit Information Bureau (MCIB)

During the year ended 30 June 2011, the Bank continued to reinforce the MCIB's role in bridging the gap of asymmetric information in the credit market and enhance its contribution to the stability of the financial sector.

Lending decisions are not optimised and the probability of adverse selection is high in an environment of fragmented borrower credit history. To minimise adverse selection risks, the Bank continued to extend the MCIB coverage in terms of number of participants as well as sectors in which they operate. As at 30 June 2011, the number of participants stood at 31 and comprised 14 banks, 10 leasing companies, 5 insurance companies, the Mauritius Housing Company Ltd and the Development Bank of Mauritius Ltd.

Large-span coverage has an important effect on the credit market. In the absence of an institutional information-sharing system, lenders relied on information provided by applicants while the latter could have easy access to facilities from different lending institutions without the obligation to reveal the actual level of their indebtedness. As a result, lenders could not accurately assess borrower risk. It is observed that the inclusion of each additional participant to the MCIB results in an increase in the number of requests enquiring about unpaid facilities. The MCIB currently receives a daily average of 4 to 5 cases relating to enquiries on unpaid facilities. The MCIB has improved discipline among borrowers as the latter become aware that their creditworthiness among lending institutions is being verified and that consequently, their access to lending might be affected. Expanded coverage therefore reduces both lenders' adverse selection risks and borrowers' moral hazard. Consequently ,the credit market benefits in terms of sounder lending institutions through a better assessment of borrowers' risks, an improved pool of creditworthy borrowers and lower credit costs.

Monitoring of account activities is crucial in credit risk management. Access to information on borrowers' overall indebtedness management enables lenders to adopt early risk mitigating actions in case of deterioration of borrowers' financial standing. The MCIB provides lenders with updated information from a broadening spectrum of lenders which supports a more efficient account monitoring.

Table 6.1 shows the number of borrowers and reported facilities over the past four years as well as the evolution in the average number of facilities per borrower.

The change in the number of registered borrowers varies with the type of lending institutions. The participation of certain institutions may not necessarily impact significantly on the number of borrowers as their customers may be common to existing institutions. However, some institutions such as the Development Bank of Mauritius Ltd, which provides facilities under special schemes put in place by the Government, brings in new categories of borrowers.

Future behaviour of borrowers largely reflects their past behaviour. Since the MCIB became operational, participants were reporting arrears on facilities as from 90 days after the due date and the number of days in arrears in bands of 90 to 180 days, exceeding 180 to 360 days and exceeding 360 days, using codes for the three bands. There were instances where some wilful defaulters were abusing the system and escaping the reporting requirement by settling their arrears on the eve of Day 90 and falling in arrears again for another 90-day cycle. Effective from 1 September 2010, participants are required to report arrears on facilities as from 30 days from due date and the actual number of days in arrears. This contributes to more discipline among borrowers and provides lenders with a better insight on account activity and borrowers' repayment behaviour.

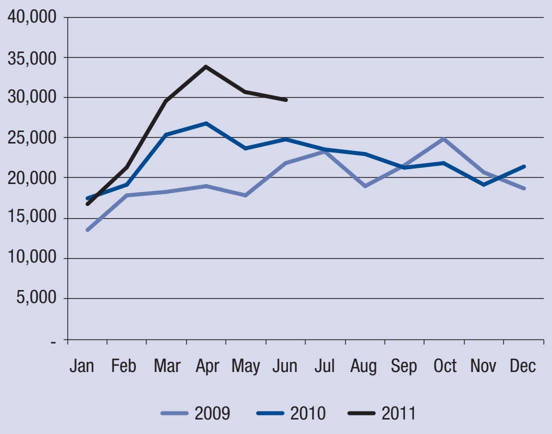
For better monitoring of consumer loans, MCIB rules were modified to make reporting of purpose of facilities compulsory for individuals. As from 1 November 2010, participants are reporting accordingly.

Participant discipline is a key factor for the efficiency and effectiveness of the MCIB which maintains an on-going monitoring of participants' activities in terms of the reliability, integrity and timeliness of information. Some participants were not operating in strict compliance with the MCIB Terms and Conditions and this was impinging on the work of the MCIB.

The Bank introduced a fee of Rs100 for each amendment of credit information effective from 10 January 2011. The quality and reliability of data has improved since the introduction of the amendment fee.

The MCIB continued to monitor participants' adherence to the Terms and Conditions of the MCIB, particularly Section 5.0 which requires participants to consult the MCIB prior to approving, renewing or increasing credit facilities. Chart 6.3 shows the monthly number of reports drawn for the period January 2009 through June 2011.

Chart 6.3: Monthly credit reports drawn for 2009 through June 2011



Source: Payment Systems & MCIB Division.

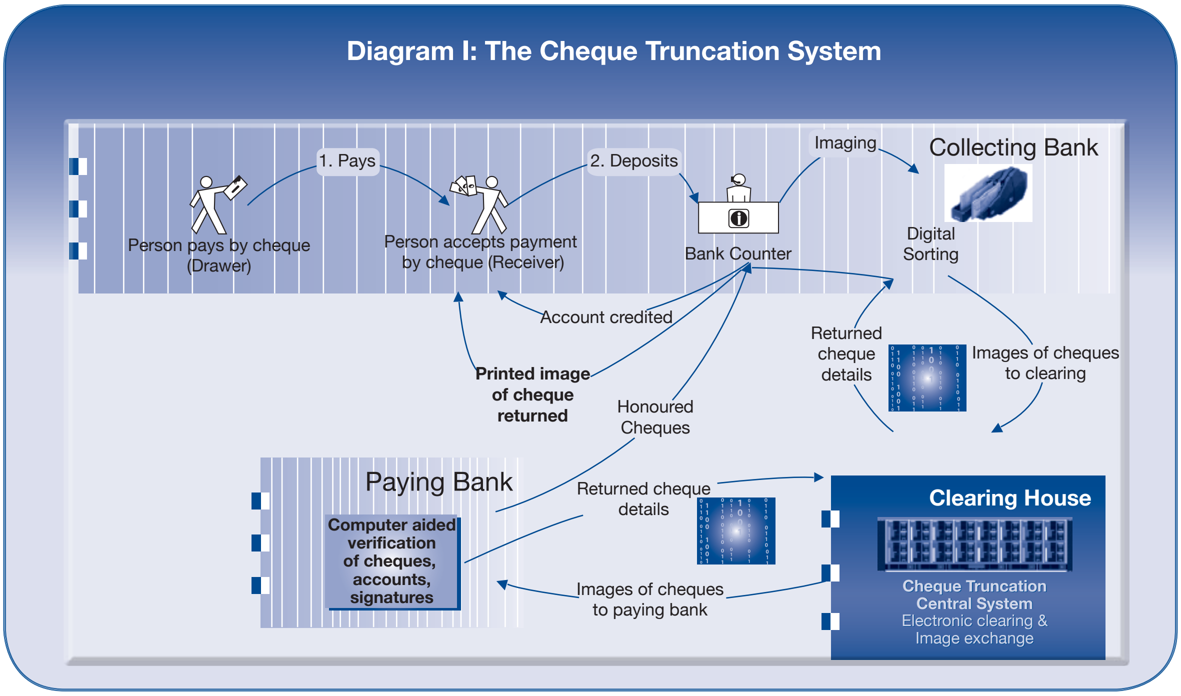
The number of reports drawn may reflect to some extent the demand for credit. The number of reports which had been declining in the second half of 2010 rose sharply during the first half of 2011, from 17, 000 in January to a peak of about 34,000 reports in April, before declining to about 30,000 at end-June 2011. This was 20 per cent higher than the corresponding figure a year earlier. This increase may be partly attributed to the aggressive marketing for home loans and credit card facilities carried out by certain banks during that period coupled with greater demand for facilities.

Table 6.1: Number of borrowers and reported facilities for year ended: June 2008 – June 2011

Year ended	No. of participants	No. of registered borrowers	No. of registered credit records	Average No. of facilities per borrower
Jun 2008	13	292,515	814,372	2.8
Jun 2009	23	362,572 *(+24%)*	1,088,735 *(+34%)*	3.0
Jun 2010	26	407,160 *(+12%)*	1,301,760 *(+20%)*	3.2
Jun 2011	31	477,627 *(+17%)*	1,688,442 *(+30%)*	3.5

Source: Payment Systems & MCIB Division.

Box III The Cheque Truncation System



Cheque truncation is the clearing of cheques based on digital images of cheques transmitted by the collecting bank to the paying bank through the clearing house. Diagram I depicts the clearing process under cheque truncation.

Cheque truncation will contribute to the improvement of the long-run efficiency of the payment system due to relatively shorter clearing cycle and reduction in costs associated with physical movement of cheques and their manual verification. The manual cheque clearing system has potential fraud and forgery risks as physical cheques are handled manually throughout the whole clearing process. In the cheque truncation system, physical cheques are retained by the collecting bank, which sends scanned images of the cheques through a secured network to the clearing house and eventually to the paying bank. Each image is digitally signed and encrypted and will bear the endorsement of the collecting bank. The system also detects any tampering of cheque images and invalidates such images. It will also identify high value cheques, that is, cheques for an amount exceeding Rs1 million, which will undergo a fast track clearing.

While the system has entailed a complete change in the internal processes of banks, there will be no impact on users of cheques provided these are in order and the account of the person drawing the cheque is adequately funded at the time the cheque is presented for payment. Cheques will be deposited in the usual way and if a cheque is in order, it will be honoured and funds will be made available to the beneficiary at the close of business on the day following the clearing of the cheque.

When a cheque is returned as unpaid, the collecting bank will provide the customer with a Cheque Return Advice that contains the reason(s) for the return and a detachable image of the original cheque. This image, called the 'Image Return Document' (IRD), and can be used for presentation again for payment. The IRD is a legal copy of the original cheque and evidence that the cheque has not been honoured. The physical cheque will remain with the collecting bank.

The IRD may be used for presentation again in case the cheque does not require any modification. However, a cheque which needs corrections cannot be modified since the original cheque is kept with the collecting bank. The IRD cannot be used for presentation again and a new cheque has to be issued. Until 31 December 2011, cheques which require corrections after first presentation will be accepted and cleared manually.

7 Banking and Currency

BANKING AND CURRENCY DIVISION

The Banking and Currency Division comprises the Banking Office and the Currency Office. It is entrusted with the responsibility relating to the issue and management of the domestic currency and the maintenance of records.

THE BANKING OFFICE

The Banking Office is responsible for providing banking services and for maintaining accounts for the Government, local and international financial institutions, public corporations 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 price of industrial gold, based on prevailing international gold market prices is 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 and on the website of the Bank of Mauritius, banks licensed by the Bank of Mauritius and Mauritius Duty Free Paradise, SSR International Airport. They are also marketed overseas by the Royal Mint of the United Kingdom. The daily selling prices of the 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 and on the website 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 10^{th} anniversary of the independence of Mauritius.

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 50^{th} wedding anniversary of Queen Elizabeth II and Prince Philip. The coin is available in presentation case.

3. *150^{th} Anniversary of the Mauritius Chamber of Commerce & Industry Gold Coin*

   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 and 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 coin is available in presentation case.

5. *'Father of the Nation' Platinum Series - Rs1,500 & Rs1,200*

   Platinum commemorative coins were 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. A first coin of Rs1500 denomination was issued in October 2009 and a second coin of Rs1200 denomination was issued in November 2010. The selling price of the platinum coins is based on the daily price of platinum on the international market. The coins are 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 banks;
- Accepting deposits of banknotes and coins from banks;
- Attending to the destruction of soiled banknotes; and
- Exchanging soiled and mutilated banknotes.

During 2010-11, banknotes and coins deposited at, and issued by, the Bank amounted to Rs24,083 million and Rs25,924 million respectively. The Bank examined banknotes amounting to Rs17,424 million, of which an amount of Rs3,627 million representing 20.8 per cent by value was found to be unfit for circulation and was destroyed. In terms of volume, about 43.7 million banknotes were examined, of which 40.3 per cent were found to be unfit for circulation and were destroyed.

During 2010-11, the value of banknotes in circulation rose by 9.8 per cent compared to 9.9 per cent in 2009-10, whereas the volume of banknotes rose by 5.6 per cent compared to 10.4 per cent in 2009-10.

In terms of value, Rs1,000 denomination banknotes had the largest share representing 68.6 per cent of the total value of banknotes in circulation followed by Rs500 denomination banknotes with a share of 11.6 per cent. In volume terms, Rs1,000 denomination banknotes represented 28.7 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 depict the share of banknotes in total value and total volume.

Chart 7.1: Share of Banknotes in Total Value

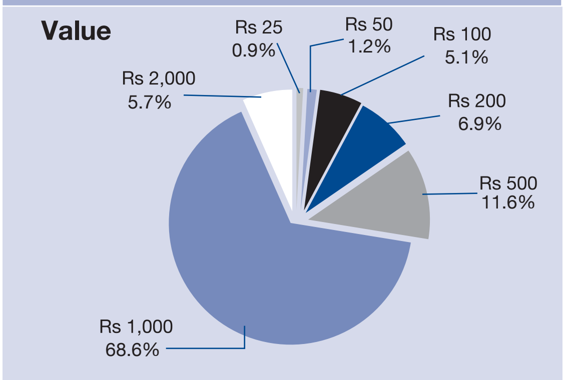
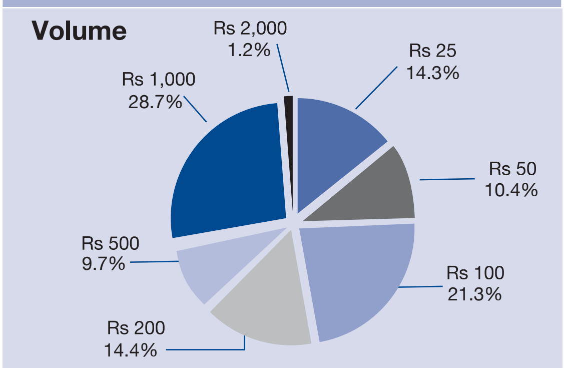


Chart 7.2: Share of Banknotes in Total Volume



During 2010-11, the total value of coins in circulation increased by 3.8 per cent compared to 9.9 per cent in 2009-10. In volume terms, the increase was 4.7 per cent in 2010-11 compared to 5.3 per cent in 2009-10.

RODRIGUES OFFICE

The Bank's Office in Rodrigues offers central banking services and maintains accounts for the Government, banks, and staff members. The Office also conducts over-the-counter sale 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 demand of banks in Rodrigues. Consignment of banknotes and coins are, therefore, made regularly to maintain the good quality of banknotes and coins in circulation in Rodrigues.

8 Corporate Services

The Corporate Services Division was set up in October 2007 in the wake of a major restructuring exercise undertaken by the Bank. It is designed to provide a more effective and efficient level of service. Its core function is to provide services to other divisions/sections of the Bank, including logistical support for events and functions hosted by the Bank.

The Knowledge Management Centre, Human Resource Unit, Facilities Management Unit, Information Technology Unit and Security Services Unit fall under the Corporate Services Division.

KNOWLEDGE MANAGEMENT CENTRE

The Knowledge Management Centre (KMC), set up in early February 2008, is poised to acquire a new dimension upon its transfer to the Bank's old building once the latter's refurbishment is completed.

The KMC will occupy a whole floor of the building and will be equipped with modern systems of data information storage, dissemination and retrieval. The focus will be on digitalisation of data. One room will be dedicated to video projection.

The initiative reflects the Bank's commitment to capture, transfer and create critical knowledge for long-term success. Members of the banking community will be able to partake of the information available at the KMC.

The KMC continues in its endeavour to share knowledge through the intranet. Course materials from staff attending local and overseas training are shared via the intranet. Staff members are also encouraged to share knowledge acquired during courses with their colleagues through presentations after office hours.

HUMAN RESOURCE UNIT

The Human Resource Unit was reorganised at the beginning of the year and additional staff were recruited with a view to providing a more efficient and effective service and to meet the needs of the human resource functions at the Bank.

Besides being responsible for the hiring and retaining of staff required to meet the Bank's objectives, the Human Resource Unit is also engaged in several initiatives aimed at rewarding staff in line with their commitment. It is also working on a Performance Management System.

Restructuring and Salaries Review

On 17 November 2008, the Board rejected by a majority the Hay Group report on salaries and conditions of service of the Bank. On 8 April 2009, the Bank, in consultation with its shareholder, appointed Mr B.C. Appanna, then Director – Pay Research Bureau to produce another report. When Mr Appanna submitted the report based on the post 2006 structure, a majority of Board members rejected the report on the grounds that they had not approved the restructure. They instructed Mr Appanna to reformulate his report on the basis of the pre-2007 structure, in disregard of the promotion exercise having being carried out in 2007.

On 27 August 2009, the reformulated report of Mr Appanna was approved by a majority of Board members and it was implemented. This created an anomalous situation whereby staff members who had been promoted in the year 2007 continued to earn salaries and benefits based on their previous posts. One staff member entered a case in the Supreme Court in September 2009 requesting for a judicial review of the decision to implement the report of Mr Appanna on the old structure.

The judgment delivered by Honorable K.P. Matadeen, Senior Puisne Judge on 24 March 2010 clarified the powers of Board and Management. It was held that in the provisions of the Bank of Mauritius Act, the responsibility for the running of the operations and day-to-day management of the Bank has now been removed from the purview of the Board and entrusted to the two Deputy Governors who shall act under the supervision of the Governor.

The judgment vindicated the restructure exercise undertaken by Management in 2007. Meanwhile, representations were made to the Ministry of Labour, Industrial Relations and Employment (the Ministry) regarding the review of salaries, terms and conditions of employment of staff who had been appointed during the restructure exercise.

On 31 August 2010, the Ministry issued a notice to the Bank requiring it to comply with Section 20(1) of the Act on "equal remuneration for the work of equal value". The Bank instantly complied with the notice of the Ministry, thereby restoring the rights of all staff members.

FACILITIES MANAGEMENT UNIT

The Facilities Management (FM) Unit is responsible for the Bank's properties and a range of facility services. It provides the necessary safe and flexible work environment for the Bank and ensures effective management, use and maintenance of assets. It is also responsible for procurement of goods and services and housekeeping services at the Bank.

In ensuring the efficient operation of the Bank's premises, the FM unit is assisted by the Building section and the Maintenance section. In addition, the FM Unit was also involved in the organization of the following functions during the year 2010-11:

(i) the 31st Meeting of Bureau of the COMESA Committee of Governors of Central Banks from 2 to 4 August 2010;

(ii) a presentation by Mr Steven Barrow, Head of G10 Strategy at Standard Bank London on 'Making Policy in a difficult Global Environment' on 22 September 2010;

(iii) a presentation by Professor Collier, Professor of Economics and Director of the Centre for the Study of African Economies, University of Oxford on 'Central Banking Challenges in Africa' on 22 November 2010;

(iv) the Inter-Club/Region Youth Championships on 13 and 14 November 2010;

(v) the Annual Dinner in honour of Economic Operators on 27 November 2010;

(vi) launching of the Second issue of the "Father of the Nation' Platinum Commemorative Coin Series on 27 November 2010;

(vii) the Banking Committee Reception at the Bank on 10 December 2010; and

(viii) the End of Year Staff Dinner on 11 December 2010.

AFRITAC SOUTH

With a view to providing technical assistance and enhancing capacity building in African countries in the field of economic and financial governance, the IMF launched the AFRITAC's initiative in the year 2002. Since then, the IMF set up three regional centres in Africa.

Several regional countries vied with each other to host the fourth centre, namely, AFRITAC South. The candidature of Mauritius was accepted by the IMF. In this respect, the Bank has agreed to house the outfit within its compound once the renovation work of its old building is completed.

Meanwhile, it was mutually agreed that AFRITAC South be temporarily located on the 15th level Floor of the Bank of Mauritius Tower. To this end, the Facilities Management Unit was heavily involved in bringing out all the modifications/ partitioning needed to enable AFRITAC South to start its operation in Mauritius.

INFORMATION TECHNOLOGY

New ICT Infrastructure

The Bank undertook a major overhaul of its ICT Infrastructure during 2011. The main data centre in Port Louis has been upgraded using latest technology blade server and virtual machine technology. Identical equipment has been set up at the Disaster Recovery site.

The new data centre will host, among others, new payment system applications namely the Bulk Clearing system, the Cheque Truncation system and the COMESA Clearing and Settlement System. All the applications currently in use at the Bank have been migrated to the new environment.

Secure Wireless Network

The Bank has set up a Wireless Network to interconnect banking institutions participating in cheque clearing in Mauritius. The network provides high bandwidth and will be the main vehicle for transferring cheque images in the Cheque Truncation System. The Wireless Network is fully owned and operated by the Bank of Mauritius.

Disaster Recovery Site

The Bank of Mauritius has relocated its Disaster Recovery (DR) site from Mer Rouge to Ebene. The new DR site is a central component in the Bank's Business Continuity Management strategy.

LIST OF APPENDICES

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. Initially during the year under review there were six other Directors. One of the Board Directors Mr. M. Ramphul resigned with effect from 11 January 2011. As at the close of the year under review, there were five other Directors.

Eleven meetings of the Board of Directors were held during the period 1 July 2010 to 30 June 2011.

The Second Deputy Governor, Mr. M.I. Belath assumed duty on 1 July 2010.

Table 9.1 shows details of Board of Directors Meetings held during 2010-11

REPORT OF THE AUDIT COMMITTEE TO THE BANK OF MAURITIUS

The Audit Committee for the year ended 30 June 2011 comprised the following members:

Mr. G. Vydelingum	(Chairman – w.e.f. 19 January 2011)
Mr. J.G.A Lascie	(Member)
Mr. K. Bhayat	(Member)
Mr. S.R. Seebun	(Resigned as Chairman and Member w.e.f. 10 August 2010)

ACTIVITIES OF THE COMMITTEE

The Committee met on six occasions during the year under review and in accordance with its terms of reference undertook a review of the Audit reports submitted by the Internal Audit Division of the Bank.

The Committee also approved the Annual Work Plan for the year ended 2011 for the Internal Audit Division of the Bank.

(sd) G. Vydelingum	(sd) K. Bhayat	(sd) J.G.A. Lascie
Chairman	**Member**	**Member**

Table 9.1: Board of Directors Meetings

Board Directors	Date of first appointment	30.08.10	28.09.10	21.10.10	17.11.10	09.12.10	25.01.11	21.02.11	29.03.11	28.04.11	26.05.11	10.06.11
Governor-Mr R.Bheenick-Chairman	14.02.07	√	√	√	√	√	√	√	√	√	√	√
First Deputy Governor-Mr Y.Googoolye	13.07.06	√	√	√	√	√	√	√	√	√	√	√
Second Deputy Governor-Mr M.I.Belath	01.07.10	√	√	√	√	√	√	√	√	√	√	√
Me K.Bhayat	05.09.07	√	√	A	√	A	√	√	√	√	A	√
Mr J.G.A.Lascie	23.11.05	√	√	A	√	√	√	√	√	√	√	√
Mr J.Li Wan Po	24.11.05	A	O	√	A	√	√	√	√	√	√	√
Mr S.R.Seebun	21.11.05	A	√	√	A	√	√	√	√	√	√	A
Mr G.Vydelingum	05.09.07	√	√	√	√	√	√	√	√	√	√	√
Mr M.Ramphul*	01.09.04	A	√	A	A	A						
Meeting metrics:duration(hours)		1.5	0.333	0.666	0.333	0.5	1	0.5	1	1.333	2	0.833
Minutes of proceedings (pages)		6	2	5	4	4	4	5	5	8	10	5
*Resigned w.e.f. 11 January 2011	A: Absent		O:Overseas		√:Attended							

MONETARY POLICY COMMITTEE

The Monetary Policy Committee of the Bank, established on 23 April 2007 pursuant to sections 54 and 55 of the Bank of Mauritius Act 2004 to formulate and determine the monetary policy to be conducted by the Bank, convened four regular quarterly meetings during the year ended 30 June 2011.

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 9.2: Monetary Policy Committee Meetings

		Meetings attended	27.09.10 *Quarterly meeting*	6.12.10 *Quarterly meeting*	28.03.11 *Quarterly meeting*	13.06.11 *Quarterly meeting*	Annual fees *Rs*	Other associated costs[1] *Rs*
Members								
Mr Rundheersing Bheenick	Governor, Chairman	4	√	√	√	√	0	0
Mr Yandraduth Googoolye	First Deputy Governor	4	√	√	√	√	0	0
Mr Mohamed Iqbal Belath	Second Deputy Governor	4	√	√	√	√	0	0
Mr Jacques Tin Miow Li Wan Po	Board Director	3	X	√	√	√	240,000	0
Mr Shyam Razkumar Seebun	Board Director	4	√	√	√	√	240,000	0
Mr Jagnaden Padiaty Coopamah	External Member	3	√	X	√	√	240,000	0
Mr Pierre Dinan	External Member	4	√	√	√	√	240,000	0
Professor Stefan Gerlach	External Member	4	√	√	√	√	805,875	854,015
Dr Mario I. Blejer	External Member	0	X	X	X	X	0	0
Observers								
Mr Hemraz Oopuddhye Jankee	Observer	4	√	√	√	√	0	0
Dr Streevarsen P. Narrainen	Observer	4	√	√	√	√	0	0
Decision on the Key Repo Rate			-100 bps	Unchanged	+50 bps	+25 bps		
Key Repo Rate (*per cent per annum*)			4.75	4.75	5.25	5.50		

[1] Other associated costs comprise travel and accommodation expenses.

√ : Attended. *X : Not attended.*

bps stands for basis points

10 Financial Statements

BANK OF MAURITIUS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

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INTRODUCTION

The net profits for the financial year ended 30 June 2011 in terms of section 11(1) of the Bank of Mauritius Act 2004 (the Act) was Rs258.4 million, up from Rs72.4 million for the previous financial year. The improved performance which was attributable mainly to the operational efficiency was, however, mitigated by the intervention in the domestic money and foreign exchange markets to mop up excess liquidity. The Bank issued Bank of Mauritius Bills and Notes with maturities of up to four years.

According to section 11 (1) of 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 13 September 2011 to consider the Financial Statements of the Bank for the financial year ended 30 June 2011 and determined the net profits for the year then ended.

Assets

Foreign assets of the Bank increased mainly due to purchases from the domestic foreign exchange market and interest income on foreign investments. Domestic assets increased mainly as a result of purchases of Government of Mauritius securities.

Liabilities

Liabilities recorded an increase mainly on account of banks' demand deposits going up as a result of the increase in the prescribed minimum cash ratio required to be maintained by banks from 5.0% to 7.0% during the year.

Capital and Reserves

The net increase in Reserves resulted from gain 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, an amount of Rs38.7 million representing 15% of the net profits for the year in terms of section 11(1) of the Act 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. One Director resigned in January 2011. 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
31, Cybercity
Ebène
Mauritius

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF THE BANK OF MAURITIUS

Report on the Financial Statements

We have audited the financial statements of Bank of Mauritius (the "Bank") on pages 112 to 146 which comprise the statement of financial position at 30 June 2011 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.

This report, including the opinion, has been prepared for and only for, the Bank's shareholder and for no other purpose. Our audit work has been undertaken so that we might state to the Bank's shareholder those matters that are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank's shareholder, for our audit work, for this report, or for the opinions we have formed.

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 112 to 146 give a true and fair view of the financial position of the Bank at 30 June 2011 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.

KPMG

KPMG
Licensed Auditors
Ebène
13 September 2011

John Chung
Signing Partner

BANK OF MAURITIUS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	2011	2010	2009
		Rs	Rs	Rs
ASSETS				
Foreign Assets:				
Cash and Cash Equivalents	6	**56,590,976,768**	56,962,848,210	30,783,234,720
Other Balances and Placements	7	**24,104,155,689**	12,067,632,378	32,354,319,155
Interest Receivable		**61,757,828**	51,327,643	156,075,378
Other Investments	8	**160,363,091**	20,117,849	20,286,659
		80,917,253,376	69,101,926,080	63,313,915,912
Domestic Assets:				
Loans and Advances	9	**204,678,979**	426,329,335	517,417,540
Investment in Government Securities	10	**5,756,781,889**	1,827,122,374	481,344,090
Computer Software	11	**17,956,273**	15,457,915	67,475
Property, Plant and Equipment	12	**1,839,191,508**	1,894,208,074	1,959,636,042
Other Assets	13	**242,291,641**	198,657,263	198,240,811
TOTAL ASSETS		**88,978,153,666**	73,463,701,041	66,470,621,870
LIABILITIES				
Currency in Circulation	14	**20,694,737,699**	18,890,072,819	17,185,099,624
Demand Deposits:				
Government		**10,286,321,482**	10,447,964,698	10,761,080,592
Banks		**21,557,310,005**	16,558,544,007	12,747,028,204
Other Financial Institutions		**133,953,037**	89,769,237	84,050,655
Others		**624,382,399**	257,428,378	229,319,300
		32,601,966,923	27,353,706,320	23,821,478,751
Bank of Mauritius Securities	15	**10,461,795,182**	943,400	943,400
Provisions	16	**100,000,000**	100,000,000	100,000,000
Employee Benefits	17	**163,025,361**	135,031,784	114,948,905
Other Liabilities	18	**4,579,753,851**	6,825,084,961	1,579,927,839
TOTAL LIABILITIES		**68,601,279,016**	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	1,000,000,000
Reserves		**19,376,874,650**	19,158,861,757	22,668,223,351
TOTAL CAPITAL AND RESERVES		**20,376,874,650**	20,158,861,757	23,668,223,351
TOTAL LIABILITIES, CAPITAL AND RESERVES		**88,978,153,666**	73,463,701,041	66,470,621,870

J. Pandoo
Head-Accounting and Budgeting

M.I. Belath
Second Deputy Governor

R. Bheenick
Governor

Date: 13 September 2011

BANK OF MAURITIUS STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		Rs	Rs
INCOME			Restated
Income from Financial Assets			
Interest and Similar Income on Foreign Assets	19 (a)	**730,429,701**	865,984,182
Interest and Similar Income on Domestic Assets	19 (b)	**58,045,721**	40,623,776
Others	19 (c)	**202,971,089**	39,462,948
	19	**991,446,511**	946,070,906
Gain on Foreign Exchange Transactions		**103,635,363**	28,021,306
Other Income	20	**55,291,416**	52,636,859
Gain on Financial Instruments at Fair Value Through Profit or Loss		**915,080,276**	863,833,293
		2,065,453,566	1,890,562,364
EXPENDITURE			
Interest Expense and Similar Charges	21	**680,139**	196,043,941
Staff Salaries and Other Benefits	22	**241,357,808**	281,691,393
General Expenditure		**119,965,166**	134,514,384
Fees Payable		**18,816,791**	11,816,019
Coin Issue Expenses		**71,908,377**	69,523,403
Note Issue Expenses		**881,897**	79,849,133
Depreciation and Amortisation		**130,606,234**	114,437,051
Directors' Remuneration	23	**22,269,740**	20,431,538
IMF Charges	32	**14,823,134**	8,746,215
Other Expenditure	24	**16,444,227**	17,118,793
		637,753,513	934,171,870
OPEN MARKET OPERATIONS	25		
Interest on Bank of Mauritius Instruments		**247,904,733**	2,178,000
Interest on Special Deposits Facility		**1,821,918**	18,647,329
Interest on Reverse Repurchase Transactions		**4,504,932**	776,712
Interest on Repurchase Transactions		**-**	(1,449,863)
		254,231,583	20,152,178
NET PROFIT FOR THE YEAR		**1,173,468,470**	936,238,316
OTHER COMPREHENSIVE INCOME			
Loss on revaluation of Foreign Currencies and SDR		**(735,825,612)**	(4,384,055,640)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**437,642,858**	(3,447,817,324)
Transfer (to)/from Special Reserve Fund in terms of section 47(1) of the Bank of Mauritius Act 2004		**(179,254,664)**	3,520,222,347
NET PROFIT FOR THE YEAR IN TERMS OF SECTION 11 (1) OF THE BANK OF MAURITIUS ACT 2004		**258,388,194**	72,405,023
Transfer to General Reserve Fund in terms of Section 11 (2) of the Bank of Mauritius Act 2004		**(38,758,229))**	(10,860,753)
BALANCE OF NET PROFITS PAYABLE INTO THE CONSOLIDATED FUND IN TERMS OF SECTION 11(3) OF THE BANK OF MAURITIUS ACT 2004		**219,629,965**	61,544,270

BANK OF MAURITIUS STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	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 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	-	-	-	936,238,316	-	936,238,316
Other Comprehensive Income						
- Loss on Revaluation of Foreign Currencies and SDR	-	-	-	(4,384,055,640)	-	(4,384,055,640)
Total Comprehensive Income for the year	-	-	-	(3,447,817,324)	-	(3,447,817,324)
Transfer from Special Reserve Fund	-	-	(3,520,222,347)	3,520,222,347	-	-
Transfer to General Reserve Fund	-	10,860,753	-	(10,860,753)	-	-
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-	-	(61,544,270)	-	(61,544,270)
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
Balance at 1 July 2010	1,000,000,000	1,456,523,769	16,020,051,742	-	1,682,286,246	20,158,861,757
Total Comprehensive Income						
- Net Profit for the Year	-	-	-	1,173,468,470	-	1,173,468,470
Other Comprehensive Income						
- Loss on Revaluation of Foreign Currencies and SDR	-	-	-	(735,825,612)	-	(735,825,612)
Total Comprehensive Income for the year	-	-	-	437,642,858	-	437,642,858
Transfer to Special Reserve Fund	-	-	179,254,664	(179,254,664)	-	-
Transfer to General Reserve Fund	-	38,758,229	-	(38,758,229)	-	-
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-	-	(219,629,965)	-	(219,629,965)
Balance at 30 June 2011	**1,000,000,000**	**1,495,281,998**	**16,199,306,406**	**-**	**1,682,286,246**	**20,376,874,650**

BANK OF MAURITIUS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Cash Generated from Operating Activities	26	**15,705,774,468**	12,021,325,062
CASH FLOWS FROM INVESTING ACTIVITIES			
Change in Other Balances and Placements		**(12,036,523,311)**	20,286,686,777
Change in Investment in Government Securities		**(3,929,659,515)**	(1,345,778,284)
Additions to Intangible Assets		**(15,332,243)**	(23,173,264)
Acquisition of Property, Plant and Equipment		**(62,782,770)**	(41,295,290)
Acquisition of Other Investment		**(152,764,000)**	-
Proceeds from Sale of Property, Plant and Equipment		**717,222**	1,128,309
Dividend Received		**988,313**	900,687
Net Cash Generated from Investing Activities		**(16,195,356,304)**	18,878,468,935
Cash Flows from Financing Activities			
Balance of net profits paid into the Consolidated Fund		**(61,544,270)**	(1,199,958,160)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(551,126,106)**	29,699,835,837
Cash and Cash Equivalents at 1 July		**56,962,848,210**	30,783,234,720
Effect of exchange rate fluctuations on Cash and Cash Equivalents		**179,254,664**	(3,520,222,347)
Cash and Cash Equivalents at 30 June	6	**56,590,976,768**	56,962,848,210

BANK OF MAURITIUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

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.

(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 not yet effective for 2011

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2011, 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 will be adopted by the Bank for the first time for its financial reporting period ending 30 June 2014. The standard will be applied retrospectively, subject to transitional provisions.

IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39.

Under IFRS 9 there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host.

The impact on the financial statements of the Bank has not yet been estimated.

(ii) Additions to IFRS 9: Financial Instruments

The additions to IFRS 9 will be adopted by the Bank for the first time for its financial reporting period ending 30 June 2014. The standard will be applied retrospectively, subject to transitional provisions.

Under IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39, barring the following two aspects:

- fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining change is recognised in profit or loss. However, if the requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed.
- Under IFRS 9 (2010) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.

IFRS 9 (2010) incorporates, the guidance in IAS 39 dealing with fair value measurement, derivatives embedded in host contracts that are not financial assets, and the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

The impact on the financial statements for the Bank has not yet been estimated.

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.

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 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 is 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.

Loans and Advances and non-trading financial liabilities are measured at amortised cost using the straight line method.

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.

Investment in Gold

Gold is held by the Bank for reserve management purposes and it was previously classified as a financial asset under the category of *"Available-for-sale asset"* with all gains and losses on its revaluation recognised in Other Comprehensive Income.

In 2011, the Bank changed its accounting policy with respect to the classification and valuation of gold. With regard to the set characteristics of the monetary gold, the Bank considers that IFRS does not provide a reliable base for the reporting of this asset. Therefore, pursuant to the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors,* the Bank defines the recognition and valuation of the gold as a financial asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this financial asset. Accordingly, all gains and losses on revaluation of gold are recognised in the Statement of Comprehensive Income. Gold is valued at its full price ruling on the international market as from this year.

This change in accounting policy has been applied retrospectively. The effect of this change is that an amount of Rs863,833,293 representing fair value gain on gold in prior year ended 30 June 2010, has been reclassified from other comprehensive income to profit or loss. However, the change in accounting policy has not impacted on the total comprehensive income for 2010 nor on the balance of net profits payable into the Consolidated Fund in terms of Section 11(3) of the Bank of Mauritius Act 2004.

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 theses instruments and other similar instruments as at the reporting date.

Bank of Mauritius Securities

Bank of Mauritius securities, which are issued for liquidity management, are measured at amortised cost using the straight line method.

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 IAS 38-Intangible assets, Computer Software which does not form an integral part of computer hardware, is 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. Depreciation methods, useful lives and residual values if not insignificant, are reviewed at each reporting date.

(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 Equipment, Cellular Phones and ICT Systems	-	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. Depreciation methods, useful lives and residual values if not insignificant, are reviewed at each reporting date.

(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 profits 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 reclassified and restated 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:

2011	Note	Level 1	Level 2	Level 3	Total
		Rs	Rs	Rs	Rs
Financial Assets					
Gold Deposits	6	**5,400,780,730**	**-**	**-**	**5,400,780,730**
Foreign Investments	7	**-**	**20,016,268,269**	**-**	**20,016,268,269**
Other Investments	8	**-**	**-**	**160,363,091**	**160,363,091**
Investment in Government Securities	10	**-**	**5,756,781,889**	**-**	**5,756,781,889**
		5,400,780,730	**25,773,050,158**	**160,363,091**	**31,334,193,979**
Financial Liabilities					
Bank of Mauritius Securities	15	-	**10,461,795,182**	-	**10,461,795,182**

2010					
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	-	1,827,122,374	-	1,827,122,374
		4,485,730,688	13,827,779,914	20,117,849	18,333,628,451
Financial Liabilities					
Bank of Mauritius Securities	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 2010	**20,117,849**
Addition during the year	**152,764,000**
Change in fair value	**(12,518,758)**
Closing balance at 30 June 2011	**160,363,091**

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.

Other Reserves

Other Reserves are reserves that have been carried forward from previous years. They include Reserve for Contingencies of Rs 482,286,246 (2010: Rs 482,286,246) and Reserve for Open Market Operations of Rs 1,200,000,000 (2010: Rs 1,200,000,000).

6. CASH AND CASH EQUIVALENTS

	2011	2010
	Rs	Rs
Deposit Accounts	**40,037,634,911**	34,065,939,011
Special Drawing Rights (SDR)	**4,540,854,570**	4,691,231,171
Repurchase Agreement	**3,040,425,120**	4,198,279,920
Current Accounts	**3,491,285,905**	9,365,528,742
Foreign Currency Notes and Coins	**2,104,431**	1,585,899
Gold Deposits	**5,400,780,730**	4,485,730,688
Foreign Liquid Securities	**77,891,101**	154,552,779
	56,590,976,768	56,962,848,210

7. OTHER BALANCES AND PLACEMENTS

	2011	2010
	Rs	Rs
Foreign Investments	**20,016,268,269**	12,000,657,540
Deposit Accounts	**4,087,887,420**	66,974,838
	24,104,155,689	12,067,632,378

Foreign Investments represent funds outsourced to Fund Managers and comprise investments in cash, securities and bonds.

8. OTHER INVESTMENTS

	2011	2010
	Rs	Rs
Unquoted Investments	**160,363,091**	20,117,849

(i) Basis of valuation

Unquoted Investments have been valued on the basis of the latest available prices in respect of the investee entities

(ii) Impairment

The Bank considers that the carrying values of the unquoted investments approximate their fair values.

9. LOANS AND ADVANCES

	2011	2010
	Rs	Rs
Special Line of Credit - Sugar Industry	**133,542,564**	267,693,924
Special Line of Credit - National Equity Fund	**30,336,645**	50,508,260
Special Line of Credit in Foreign Currency	**28,468,400**	95,632,800
Others	**12,331,370**	12,494,351
	204,678,979	426,329,335

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

	2011	2010
	Rs	Rs
Government of Mauritius Treasury Bills	**3,886,703,162**	1,528,506,526
Other Government Securities	**1,870,078,727**	298,615,848
	5,756,781,889	1,827,122,374

11. COMPUTER SOFTWARE

	Rs
Cost	
At 1 July 2009	83,818,995
Additions	23,173,264
At 30 June 2010	106,992,259
Additions	15,332,243
At 30 June 2011	**122,324,502**
Amortisation	
At 1 July 2009	83,751,520
Charge for the year	7,782,824
At 30 June 2010	91,534,344
Charge for the year	12,833,885
At 30 June 2011	**104,368,229**
Net book value	
At 30 June 2011	17,956,273
At 30 June 2010	15,457,915

12.. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Capital Work in Progress	Furniture, Equipment, Fixtures and Fittings	Computer Equipment	Motor Vehicles	Total
	Rs	Rs	Rs	Rs	Rs	Rs
COST						
At 1 July 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**
Additions	190,000	862,500	6,050,937	55,679,333	-	62,782,770
Transfers	-	-	(92,550)	92,550	-	-
Disposals	-	-	(12,332,947)	-	-	(12,332,947)
At 30 June 2011	**1,536,391,792**	**862,500**	**678,474,895**	**111,355,524**	**26,526,623**	**2,353,611,334**
DEPRECIATION						
At 1 July 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
Charge for the year	28,138,035	-	64,349,107	20,795,702	4,489,504	117,772,348
Transfers	-	-	(37,180)	37,180	-	-
Disposals	-	-	(12,305,959)	-	-	(12,305,959)
At 30 June 2011	**120,211,368**	**-**	**301,141,176**	**70,351,836**	**22,715,446**	**514,419,826**
NET BOOK VALUE						
At 30 June 2011	**1,416,180,424**	**862,500**	**377,333,719**	**41,003,688**	**3,811,177**	**1,839,191,508**
At 30 June 2010	1,444,128,459	-	435,714,247	6,064,687	8,300,681	1,894,208,074

13. OTHER ASSETS

	2011 Rs	2010 Rs
Net cheques to be cleared	**69,895,527**	83,444,219
Staff Loans	**99,890,731**	82,480,740
Prepayments	**19,677,562**	1,879,010
Dodo Gold Coins with Banks	**12,996,150**	12,942,150
Interest Receivable	**31,202,285**	9,913,421
Others	**8,629,386**	7,997,723
	242,291,641	198,657,263

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

	2011 Rs	2010 Rs
Notes issued		
Face value		
2,000	**1,136,470,000**	1,068,508,000
1,000	**13,573,590,000**	12,099,362,000
500	**2,285,115,000**	2,155,409,000
200	**1,367,531,600**	1,316,015,200
100	**1,009,760,400**	957,703,500
50	**246,410,300**	236,921,200
25	**169,759,200**	174,879,725
Demonetised Notes	**218,962,420**	219,608,770
Total	**20,007,598,920**	18,228,407,395
Coins issued		
Face value		
20 rupees	**131,573,060**	128,565,620
10 rupees	**223,785,140**	217,065,140
5 rupees	**100,633,940**	95,266,890
1 rupee	**124,682,928**	118,082,922
50 cents	**28,895,255**	27,834,886
25 cents **	**6,344,110**	6,346,297
20 cents	**37,428,722**	35,544,476
10 cents **	**2,427,091**	2,427,511
5 cents	**8,940,022**	8,411,031
2 cents **	**330,517**	330,517
1 cent	**222,675**	222,071
Others***	**21,875,319**	21,568,063
Total	**687,138,779**	661,665,424
Total face value of Notes and Coins in Circulation	**20,694,737,699**	18,890,072,819

*** These denominations have ceased to be issued by the Bank.*
**** Others include Gold Coins and Commemorative Coins*

15. BANK OF MAURITIUS SECURITIES

	2011	2010
	Rs	Rs
Bank of Mauritius Savings Bonds	940,900	943,400
Bank of Mauritius Bills	4,403,656,213	-
Bank of Mauritius Notes	6,057,198,069	-
	10,461,795,182	943,400

16. PROVISIONS

	2011	2010
	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:

	2011	2010
	Rs	Rs
Defined benefit plan (Note (a))	81,618,086	60,794,701
Short term employee benefits (Note (b))	81,407,275	74,237,083
	163,025,361	135,031,784

(a) Defined benefit plan

The Bank operates a defined benefit plan for most 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.

The report dated 30 June 2011 submitted by The State Insurance Company of Mauritius Ltd is produced hereunder.

Amounts recognised in the Statement of Comprehensive Income:

	2011	2010
	Rs	Rs
Current Service Cost	14,630,184	13,942,475
Employee Contributions	(9,282,988)	-
Scheme Expenses	577,950	585,973
Interest Costs	63,636,066	45,447,436
Expected Return on Plan Assets	(35,823,722)	(32,383,572)
Actuarial Loss	6,800,919	1,152,263
Net periodic pension cost included in staff costs	40,538,409	28,744,575
Actual return on plan assets	24,997,259	30,298,787

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined benefit plan (Cont'd)

Movements in liability recognised in the Statement of Financial Position:

	2011	2010
	Rs	Rs
At 1 July	**60,794,701**	51,582,553
Total Expenses as per above	**40,538,409**	28,744,575
Bank of Mauritius share of pension(topping-up)	**(100,510)**	-
Employer Contributions	**(19,614,514)**	(19,532,427)
At 30 June	**81,618,086**	60,794,701

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2011	2010
	Rs	Rs
At 1 July	**(606,057,773)**	(432,832,723)
Current Service Cost	**(14,630,184)**	(23,711,469)
Interest Cost	**(63,636,066)**	(45,447,436)
Actuarial Losses	**(75,153,694)**	(148,099,433)
Benefits Paid	**56,943,121**	44,033,288
At 30 June	**(702,534,596)**	(606,057,773)

Movements in the present value of the plan assets in the current period were as follows:

	2011	2010
	Rs	Rs
At 1 July	**355,439,835**	316,073,892
Expected Return on Plan Assets	**35,823,722**	32,383,572
Actuarial (Losses)/Gains	**(10,826,463)**	22,300,211
Contributions from the Employer	**19,614,514**	19,532,427
Employee Contributions	**9,282,988**	9,768,994
Benefits Paid	**(56,842,611)**	(44,033,288)
Scheme Expenses	**(577,950)**	(585,973)
At 30 June	**351,914,035**	355,439,835

The major categories of plan assets at the reporting date are as follows:

	2011	2010
	%	%
Major categories of Plan Assets		
Local Equities	**25**	23
Overseas Equities and Bonds	**14**	20
Fixed Interest	**60**	56
Others	**1**	1
Expected return on Plan Assets	**10.5**	10.5

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined benefit plan (Cont'd)

Amounts recognised in the Statement of Financial Position:

	2011	2010
	Rs	Rs
Total market value of assets	**351,914,035**	355,439,835
Present value of plan liabilities	**(702,534,596)**	(606,057,773)
Deficit	**(350,620,561)**	(250,617,938)
Unrecognised actuarial losses	**269,002,475**	189,823,237
	(81,618,086)	(60,794,701)

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 Rs25 million (2010: Rs 30.3 million).

The history of experience adjustments is as follows:-

	2011	2010	2009	2008
	Rs	Rs	Rs	Rs
Present value of defined benefit obligation	**(702,534,596)**	(606,057,773)	(432,832,723)	(398,452,950)
Fair value of plan assets	**351,914,035**	355,439,835	316,073,892	350,244,006
Deficit	**(350,620,561)**	(250,617,938)	(116,758,831)	(48,208,944)
Experience (losses)/gains on plan liabilities	**(75,153,694)**	(148,099,433)	(1,915,050)	37,256,478
Experience (losses)/gains on plan assets	**(10,826,463)**	22,300,211	(69,443,065)	12,849,293

The Bank expects to make a contribution of Rs17.4 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:

	2011 & 2010
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

	2011	2010
	Rs	Rs
Provision for annual and sick leaves	**51,633,651**	47,635,862
Provision for Passage Benefits	**29,773,624**	26,601,221
	81,407,275	74,237,083

An amount of Rs8,472,007 representing the increase in provision for the year has been recognised in the Statement of Comprehensive Income.

17. EMPLOYEE BENEFITS (CONT'D)

(c) Defined contribution pension fund

	2011 Rs	2010 Rs
Contributions expensed (Note 22)	**19,381,583**	25,124,055

(d) State pension plan

	2011 Rs	2010 Rs
National Pension Scheme contributions charged (Note 22)	**783,466**	726,000

18. OTHER LIABILITIES

	2011 Rs	2010 Rs
Balance of net profit payable into the Consolidated Fund in terms of Section 11 (3) of the Bank of Mauritius Act 2004	**219,629,965**	61,544,270
Suppliers' Credits	**216,476,593**	454,589,392
Special Deposits	**-**	**2,000,000,000**
Abandoned Funds from Financial Institutions	**352,335,623**	285,807,529
Interests and Charges Payable	**104,812,882**	9,585,971
Foreign Bills sent for Collection	**25,013**	141,930
Reserve for Repayment of Capital and Interest:		
- Bank of Mauritius Savings Bonds	**164,200**	169,200
Staff Salaries and Other Benefits Payable	**-**	**23,189,831**
Special Drawing Rights (SDR) (Note 32)	**3,686,291,451**	3,999,369,638
Others	**18,124**	(9,312,800)
	4,579,753,851	6,825,084,961

19. INCOME FROM FINANCIAL ASSETS

(a) Interest and Similar Income on Foreign Assets

	2011 Rs	2010 Rs
Deposit Accounts	**542,321,399**	432,448,456
Fixed Income	**134,741,804**	405,121,528
Special Drawing Rights	**18,178,998**	10,203,096
Repurchase Agreements	**7,905,236**	4,246,565
Current Accounts	**27,282,264**	13,964,537
	730,429,701	865,984,182

(b) Interest and Similar Income on Domestic Assets

	2011 Rs	2010 Rs
Loans and Advances		
Special Line of Credit - Sugar Industry	**19,088,744**	15,753,858
Loans and Advances to Banks/Government	**5,588,473**	16,438,785
Special Line of Credit – National Equity Fund	**2,832,237**	4,043,326
	27,509,454	36,235,969
Other Government Securities	**27,742,724**	2,334,301
Other Loans	**2,793,543**	2,053,506
	58,045,721	40,623,776

(c) Others

	2011 Rs	2010 Rs
Revaluation of Government Securities	**187,636,477**	20,217,204
Profit on Sale of Government of Mauritius Treasury Bills – Secondary Market Cell	**2,951,360**	15,929,948
Dividend and Other Income	**1,003,155**	900,687
Loss on Sale of Industrial Gold and Dodo Gold Coins	**(1,318,470)**	(1,655,035)
Profit on Issue of Mauritius Commemorative Coins	**2,608,700**	4,065,417
Profit on Sale of Coins	**10,089,867**	4,727
	202,971,089	39,462,948
Total Income from Financial Assets	**991,446,511**	946,070,906

20. OTHER INCOME

	2011 Rs	2010 Rs
Processing and Licence Fees	**41,156,921**	40,894,531
MACSS & MCIB Fees	**12,890,307**	9,895,167
Commissions	**529,354**	757,532
Rent	**24,600**	30,350
Profit on Sale of Fixed Assets	**690,234**	1,059,279
	55,291,416	52,636,859

21. INTEREST EXPENSE AND SIMILAR CHARGES

	2011 Rs	2010 Rs
Government of Mauritius Accounts	**680,139**	196,043,941

22. STAFF SALARIES AND OTHER BENEFITS

	2011	2010
	Rs	Rs
Staff Salaries and Allowances	**213,548,138**	211,377,258
Staff Salaries and Allowances Payable	**-**	23,189,831
Pension Cost	**19,381,583**	25,124,055
Staff Family Protection Scheme	**7,644,621**	21,274,249
National Savings Fund	**783,466**	726,000
	241,357,808	281,691,393

The amount of Rs213,548,138 includes an increase in provision for short term employee benefits amounting to Rs8,472,007 (see Note 17(b))

23. DIRECTORS' REMUNERATION

	2011	2010
	Rs	Rs
Governor	**7,556,370**	3,140,392
Deputy Governors (2)	**12,703,370**	3,831,146
Other Directors (6)	**2,010,000**	2,160,000
Salaries and Allowances Payable	**-**	11,300,000
	22,269,740	20,431,538

Directors are paid a monthly fee of Rs 30,000. Directors who are also members of the Monetary Policy Committee are, in addition, paid a fee of Rs 20,000 per month.

24. OTHER EXPENDITURE

	2011	2010
	Rs	Rs
Stationery and Library	**2,409,805**	2,459,612
Postage, Telephone and Reuters	**12,967,655**	14,215,928
Others	**1,066,767**	443,253
	16,444,227	17,118,793

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 and money markets. As such, open market operations are broadly conducted through the issue of Bank of Mauritius securities, 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

	2011 Rs	2010 Rs Restated
Net Profit for the Year	**1,173,468,470**	936,238,316
Adjustments for:		
Non-Cash Increase in Employee Benefits	**27,993,577**	20,082,879
Amortisation of Intangible Assets	**12,833,885**	7,782,824
Depreciation of Property, Plant and Equipment	**117,772,349**	106,654,226
Profit on Sale of Property, Plant and Equipment	**(690,234)**	(1,059,279)
Dividend Received	**(988,313)**	(900,687)
Fair Value Decrease on Other Investments	**12,518,758**	168,810
Gain on Financial Instruments at Fair Value Through Profit or Loss	**(915,080,276)**	(863,833,293)
Operating Profit Before Working Capital Changes	**427,828,216**	205,133,796
Change in Interest Receivable	**(10,430,185)**	104,747,735
Change in Loans and Advances	**221,650,356**	91,088,205
Change in Other Assets	**(43,634,378)**	(416,452)
Change in Notes and Coins in Circulation	**1,804,664,880**	1,704,973,195
Change in Government Demand Deposits	**(161,643,216)**	(313,115,894)
Change in Banks' Demand Deposits	**4,998,765,998**	3,811,515,804
Change in Other Financial Institutions' Demand Deposits	**44,183,800**	5,718,582
Change in Other Demand Deposits	**366,954,021**	28,109,079
Change in Bank of Mauritius Instruments	**10,460,851,782**	-
Change in Other Liabilities	**(2,403,416,806)**	6,383,571,012
Net Cash Generated From Operating Activities	**15,705,774,468**	12,021,325,062

27. COMMITMENTS AND OTHER CONTINGENCIES

Commitment not otherwise provided for in the financial statements and which existed at 30 June 2011 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 2011.

28. OPERATING LEASE COMMITMENTS

	1 year Rs	1 - 5yrs Rs	Above 5 yrs Rs	Total Rs
New Staff Quarters - Rodrigues	24,000	96,000	384,000	504,000
New Office Building - Rodrigues	100	400	1,600	2,100
Archiving - Plaine-Lauzun DBM	100,242	-	-	100,242
Fallback Site – Cyber Tower	807,507	3,892,184	-	4,699,691
Others	250,000	30,000	-	280,000
	1,181,849	4,018,584	385,600	5,586,033

An amount of Rs1,317,664 (2010: Rs1,030,650) 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

	2011 Rs	2010 Rs
Financial Assets		
Fair value through profit or loss (FVTPL)	**31,334,193,979**	18,333,628,450
Loans and receivables	**55,688,609,432**	53,127,085,650
	87,022,803,411	71,460,714,100
Financial Liabilities		
Fair value through profit or loss (FVTPL)	**-**	943,400
Amortised cost	**47,643,490,943**	34,178,649,351
	47,643,490,943	34,179,592,751

(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.

(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:

	2011 Rs	2010 Rs
Mauritius	**6,107,823,123**	2,360,481,212
USA	**10,452,886,658**	8,893,091,183
United Kingdom	**5,607,862,397**	4,948,336,986
Europe	**64,597,079,336**	55,071,770,183
Others	**257,151,897**	187,034,536
	87,022,803,411	71,460,714,100

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (Cont'd)

(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:

	2011 Rs	2010 Rs
Government	**8,906,300,395**	6,189,868,493
Supranational Financial Institutions	**7,408,473,115**	4,691,231,170
Foreign Banks and Financial Institutions	**70,370,169,861**	60,036,051,170
Other	**337,860,040**	543,563,267
	87,022,803,411	71,460,714,100

(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.

	Credit Rating	2011 Rs	%	2010 Rs	%
Cash & Cash Equivalents	Central Banks	**51,188,791,693**	**63.26**	52,474,089,040	75.94
	Aa3	**1,216,489**	**0.00**	1,315,807	0.00
	Aa2	**-**	**-**	19,482	0.00
	Baa2	**168,659**	**0.00**	107,294	0.00
	NR	**5,400,799,928**	**6.67**	4,487,316,587	6.49
Other Balances and Placements	Central Banks	**24,104,155,689**	**29.79**	12,067,632,378	17.46
Interest Receivable	Central Banks	**55,862,414**	**0.07**	47,282,946	0.07
	Aa3	**1,328**	**0.00**	1,186	0.00
	Aa2	**-**	**-**	18	0.00
	Baa2	**184**	**0.00**	97	0.00
	NR	**5,893,902**	**0.01**	4,043,396	0.01
Other Investments	NR	**160,363,091**	**0.20**	20,117,849	0.03
Total External Assets		**80,917,253,377**	**100.00**	69,101,926,080	100.00

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (Cont'd)

(iii) Credit Exposure by Credit Rating (Cont'd)

	Credit Rating	2011 Rs	%	2010 Rs	%
Loans and Advances	Aa3	**29,160,609**	**0.48**	59,591,231	2.53
	Baa2	**104,381,955**	**1.71**	208,102,693	8.82
	NR	**71,136,415**	**1.17**	158,635,411	6.73
Investment in Government Securities	NR	**5,756,781,889**	**94.28**	1,827,122,374	77.45
Other Assets	NR	**144,089,166**	**2.36**	105,336,311	4.47
Total Domestic Financial Assets		**6,105,550,034**	**100.00**	2,358,788,020	100.00
Summary by Major Credit Category					
External Assets	Central Banks	**75,348,809,796**	**93.12**	64,589,004,364	93.47
	Aa3	**1,217,817**	**0.00**	1,316,993	0.00
	Aa2	**-**	**-**	19,500	0.00
	Baa2	**168,843**	**0.00**	107,391	0.00
	NR	**5,567,056,921**	**6.88**	4,511,477,832	6.53
Total External Assets		**80,917,253,377**	**100.00**	69,101,926,080	100.00
Local Financial Assets	Aa3	**29,160,609**	**0.48**	59,591,231	2.53
	Baa2	**104,381,955**	**1.71**	208,102,693	8.82
	NR	**5,972,007,470**	**97.81**	2,091,094,096	88.65
Total Domestic Financial Assets		**6,105,550,034**	**100.00**	2,358,788,020	100.00
Total Financial Assets		**87,022,803,411**		71,460,714,100	

(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 2011	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	Between 1 and 5 years	Above 5 years	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Non Derivative Financial Assets							
Foreign Assets	52,106,158,642	4,062,221,227	-	24,588,510,416	-	160,363,092	80,917,253,377
Loans and Advances	60,861,994	28,041,229	40,687,732	24,018,987	51,069,037	-	204,678,979
Investment in Government Securities	920,137,389	1,331,413,118	799,921,389	883,057,694	1,500,897,843	321,354,456	5,756,781,889
Other Assets	31,202,286	-	-	12,996,150	51,649,141	48,241,589	144,089,166
Total Financial Assets	53,118,360,311	5,421,675,574	840,609,121	25,508,583,247	1,603,616,021	529,959,137	87,022,803,411
Non Derivative Financial Liabilities							
Demand Deposits	32,601,966,923	-	-	-	-	-	32,601,966,923
Bank of Mauritius Securities	3,106,619,247	82,849,651	-	1,215,128,215	6,057,198,069	-	10,461,795,182
Other Liabilities	436,106,559	-	-	104,812,882	4,038,809,397	-	4,579,728,838
Total Financial Liabilities	36,144,692,729	82,849,651	-	1,319,941,097	10,096,007,466	-	47,643,490,943
Net Liquidity Gap	16,973,667,582	5,338,825,923	840,609,121	24,188,642,150	(8,492,391,445)	529,959,137	39,379,312,468

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity 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	Between 1 and 5 years	Above 5 years	Total
At 30 June 2010	Rs	Rs	Rs	Rs	Rs	Rs	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
Bank of Mauritius Securities	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

The Bank did not have any derivative financial assets and liabilities at 30 June 2011 (2010: 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 2011 Rs**	Effect on Profit 2010 Rs
Foreign Currency Portfolio	**+50**	**404,586,267**	345,509,630
	-50	**(290,926,938)**	(258,743,973)
Government Securities	**+50**	**(13,626,839)**	(5,913,124)
	-50	**11,139,732**	5,964,454

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 2011							
Financial Assets							
Foreign Assets	52,036,910,790	4,056,543,712	-	24,588,466,547	-	235,332,328	80,917,253,377
Loans and Advances	60,861,993	28,041,229	40,687,732	24,018,987	38,737,668	12,331,370	204,678,979
Investment in Government Securities	920,137,389	1,331,413,118	799,921,389	883,057,694	1,822,252,299	-	5,756,781,889
Other Assets	-	-	-	-	99,890,732	44,198,434	144,089,166
Total Financial Assets	53,017,910,172	5,415,998,059	840,609,121	25,495,543,228	1,960,880,699	291,862,132	87,022,803,411
Financial Liabilities							
Demand Deposits	-	-	-	-	-	32,601,966,923	32,601,966,923
Bank of Mauritius Securities	3,106,619,247	82,849,651	-	1,215,128,215	6,057,198,069	-	10,461,795,182
Other Liabilities	-	-	-	-	-	4,579,728,838	4,579,728,838
Total Financial Liabilities	3,106,619,247	82,849,651	-	1,215,128,215	6,057,198,069	37,181,695,761	47,643,490,943
Interest Sensitivity Gap	49,911,290,925	5,333,148,408	840,609,121	24,280,415,013	(4,096,317,370)	(36,889,833,629)	39,379,312,468

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
Bank of Mauritius Securities	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)

Effective Interest Rates

The interest-bearing Mauritian rupee denominated assets earn interest at rates ranging from 3.00% p.a. to 8.90% p.a. (2010: 4.50% p.a. to 6.50% p.a.) and from 0% p.a. to 4.50% p.a. (2010: 0% p.a. to 4.50% 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 6.00% p.a. (2010: 4.50% p.a. to 7.00% p.a.) and from 0% p.a. to 0.27% p.a. (2010: 0% p.a. to 0.20% 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:

	2011 **Rs**	2010 Rs
SDR Basket	**56,358,027,314**	50,141,335,425
Non SDR Basket	**24,559,226,063**	18,960,590,655
	80,917,253,377	69,101,926,080

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 2011 Rs**	Effect on Equity 2010 Rs
Foreign Currency Portfolio	**+50 cents**	**1,493,746,832**	1,211,786,551
	-50 cents	**(1,493,746,832)**	(1,211,787,809)

29. FINANCIAL INSTRUMENTS (CONT'D)

(g) Fair Values and Carrying Amounts

The fair values 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 of Rs1,141,668 includes arrears for the years 2008 to 2010 for the First Deputy Governor (2010: Rs304,874).

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 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. IMF charges for the current year amounted to Rs14,823,134 (2010: Rs8,746,215).

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 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.

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List of Acronyms

AACB	Association of African Central Banks
ADB	African Development Bank
AFD	Agence Française de Développement
AFRITAC	Africa Regional Technical Assistance Centre
AMCP	African Monetary Cooperation Programme
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ATM	Automated Teller Machine
AUC	African Union Commission
BIS	Bank for International Settlements
BML	Broad Money Liabilities
BoE	Bank of England
BOM	Bank of Mauritius
CCH	COMESA Clearing House
CDS	Central Depository System
CIF	Cost, Insurance and Freight
CBS	Central Bank Survey
CCBG	Committee of Central Bank Governors in SADC
CMI	COMESA Monetary Institute
CNP	Contribution Network Project
COMESA	Common Market for Eastern and Southern Africa
COMEX	Commodity Exchange
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CRR	Cash Reserve Ratio
CSO	Central Statistics Office
DBM	Development Bank of Mauritius Ltd
DCS	Depository Corporations Survey
DEM	Development and Enterprise Market
DIS	Deposit Insurance Scheme
DR	Disaster Recovery
EAC	East African Community
ECB	European Central Bank
EOE	Export Oriented Enterprises
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FED	Federal Reserve
FFPI	FAO Food Price Index
FM	Facilities Management
FOB	Free on Board
FSC	Financial Services Commission
FSI	Financial Soundness Indicators
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
HHI	Herfindahl-Hirschmann Index
IAS	International Accounting Standard
IBI	Islamic Banking Institutions
IBRD	International Bank for Reconstruction and Development
ICE	Intercontinental Exchange
ICT	Information and Communication Technology
IDA	International Development Association
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRD	Image Return Document
IT	Information Technology
KMC	Knowledge Management Centre
KRR	Key Repo Rate
MACSS	Mauritius Automated Clearing and Settlement System
MCIB	Mauritius Credit Information Bureau
MDLS	Mauritius Development Loan Stocks
MEC	Macroeconomic Convergence
MES	Macroeconomic Sub-committee
MPC	Monetary Policy Committee
MRA	Mauritius Revenue Authority
MSS	Mauritius Sugar Syndicate
NBDTI	Non-Bank Deposit-Taking Institutions
NPL	Non-Performing Loan
NYMEX WTI	New York Mercantile Exchange West Texas Intermediate
ODCS	Other Depository Corporations Survey
ODCs	Other Depository Corporations
OMO	Open Market Operations
PLACH	Port-Louis Automated Clearing House
PLR	Prime Lending Rate
PPI-A	Producer Price Index-Agriculture
PPI-M	Producer Price Index-Manufacturing
REPSS	Regional Payment and Settlement System
RTGS	Real Time Gross Settlement System
SADC	Southern African Development Community
SDR	Special Drawing Rights
SEMDEX	Stock Exchange Market Index
SEMTRI	SEM Total Return Index
SIC	State Investment Corporation
SSBS	Subcommittee of Banking Supervisors
STC	State Trading Corporation
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

Appendix I Board of Directors as at 30 June 2011

Chairman	Mr Rundheersing Bheenick, Governor
Director	Mr Yandraduth Googoolye, First Deputy Governor
Director	Mr Mohammed Iqbal Belath, Second Deputy Governor
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 2011

Members

Mr Rundheersing Bheenick	Governor and Chairperson
Mr Yandraduth Googoolye	First Deputy Governor
Mr Mohammed Iqbal Belath	Second Deputy Governor
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 Hipotecario, 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 2011

Governor	Mr Rundheersing Bheenick
First Deputy Governor	Mr Yandraduth Googoolye
Second Deputy Governor	Mr Mohammed Iqbal Belath

Secretary	Mrs Hemlata Sadhna Sewraj-Gopal
Chief Economist	Mr Hemraz Oopuddhye Jankee
Director - Supervision	Mr Uma Shankar Paliwal
Head - Corporate Services Division	Mr Jayendra Kumar Ramtohul
Head - Supervision, On-Site Division	Mr Ramsamy Chinniah
Head - Accounting & Budgeting Division	Mr Jaywant Pandoo
Head - Economic Analysis Division	Mrs Marjorie Marie-Agnes Heerah-Pampusa
Head - Regulation, Policy & Compliance Division	Mr Mardayah Kona Yerukunondu
Head - Statistics Division	Mr Mahendra Vikramdass Punchoo
Head - Financial Markets Analysis Division	Mr Jitendra Nathsingh Bissessur
Head - Internal Audit Division	Mr Anil Kumar Tohooloo
Head - Supervision, Off-Site & Licensing Division	Mrs Sudha Hurrymun
Head - Banking & Currency Division	Mr Yuntat Chu Fung Leung
Head - Payments System & MCIB Division	Mr Dhanesswurnath Thakoor
Head - Financial Markets Operations Division	Mr Deenesh Ghurburrun

Appendix IV Meetings attended by Governor, First Deputy Governor and Second Deputy Governor during the year 2010-11

Governor Rundheersing Bheenick attended:

- the 9th Meeting of the Association of African Central Banks (AACB) Eastern Africa Sub-region (Nairobi, Kenya - July 2010)

- the Annual Meeting of the Association of African Central Banks (Dakar, Senegal - August 2010)

- the Annual General Meetings of the IMF/ World Bank, Washington DC, USA, followed by several meetings in London, United Kingdom (October 2010)

- (a) First meeting of the Board and signing of Articles of the Agreement of the International Islamic Liquidity Management Corporation (Kuala Lumpur, Malaysia);

  (b) Meeting at Reserve Bank of India, India;

  (c) Official Monetary & Financial Institutions Forum (Abu Dabi, Dubai); and

  (d) 15th Meeting of the COMESA Committee of Governors of Central Banks, Khartoum, Sudan (October-November 2010)

- the 2nd Governing Board Meeting of ILLM and 17th Meeting of the Islamic Financial Services Board Council (Jeddah - Kingdom of Saudi Arabia - December 2010)

- the Future of Financial Markets (FOFM) Forum Leadership Summit 2011 (Powai, India - January 2011)

- the Enterprise Africa Conference (Oxford, United Kingdom - February 2011)

- the "International Symposium" organized by Banque de France in Paris (February 2011)

- the African Sovereign Funds Roundtable (Morocco - March 2011)

- the IMF/World Bank Spring Meeting and Executive Forum for Senior Central Banks conducted by World Bank Treasury (Washington, USA - April 2011)

- the BIS Meeting of Central Bank Governors in Basel and 18eme Conference des Gouverneurs des Banques Centrales des Pays Francophones (Cambodia - May 2011)

- the Annual General Meeting of the BIS in Basel and 4th Annual High level Roundtable for Central Bank Governors in Oxford (United Kingdom – June - July 2011)

First Deputy Governor
Yandraduth Googoolye attended:

- the IFSB Meeting on "Establishment of the International Islamic Liquidity Management Board" Kuala Lumpur, Meeting of the Offshore Group of Banking Supervisors (Singapore)- September 2010

- the FSI High – Level Meeting on "The Emerging Framework to Strengthen Banking

Regulation and Financial Stability" (Cape Town, South Africa - January 2011)

- the Offshore Group of Banking Supervisors Meeting at the Financial Services Authority (FSA) in London (United Kingdom - March 2011)

- the 11th Annual International Seminar on Policy Challenges in Washington, and HSBC Global College organised by FSA in London (United Kingdom May – June 2011)

Second Deputy Governor
Mohammed Iqbal Belath attended:

- the 2nd Pre-Incorporation Meeting of the International Islamic Liquidity Management Board in Kuala Lumpur, Malaysia (July - August 2010)

- the Regional Seminar on "Board Level Governance" at South African Reserve Bank Conference Centre (Pretoria, South Africa - September 2010)

- the Meeting of the Committee of Central Bank Governors in SADC (Harare, Zimbabwe - October 2010)

- the Meeting of the Representatives of the Members of the Governing Board of the International Islamic Liquidity Management Corporation (Doha, Qatar - November 2010)

- the 18th Meeting of the Council, 9th General Assembly of the Islamic Financial Services Board and the Third Governing Board Meeting and First General Assembly of the International Liquidity Management Corporation (Amman, Jordan - March-April 2011)

- the Meetings of the Committees of Central Bank Governors (CCBG) and Central Bank Officials (Lilongwe, Malawi - April 2011)

- the 8th Islamic Financial Services Board Summit (Luxembourg - May 2011)

Appendix V Overseas Training Courses/ Seminars/Workshops

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Chinniah, Mr Ramsamy	Head	Supervision Off-Site	5-Jul-10	6-Jul-10	HSBC Group - Asia Regional College of Supervisors	Hong Kong	Hong Kong Monetary Authority (HKMA) HSBC Group-Asia Regional College of Supervisors
	Head	Supervision Off-Site	29-Mar-11	31-Mar-11	Applied Seminar on Capital Adequacy and Basel III	Pretoria, South Africa	FSI & SADC
Koonjul, Mr Ved Prakash Anand	Analyst	Financial Markets Operation	12-Jul-10	19-Jul-10	Reserve Management Workshop	Switzerland (Lucerne and Basel)	Bank for International Settlements
Lo Tiap Kwong, Mrs Powkeem	Chief	Statistics Division	19-Jul-10	23-Jul-10	Modern Monetary Economics	U.S.A, Washington	IMF
Bacorisen, Dr Dnyansingh	Executive Secretary	Economic Analysis	26-Jul-10	8-Aug-10	Economic Modelling (Monetary Policy Analysis)	Austria,Vienna	IMF
Sooklall, Mr Feisal Bin Khalid	Analyst	Economic Analysis	26-Jul-10	8-Aug-10	Economic Modelling (Monetary Policy Analysis)	Austria,Vienna	IMF
	Analyst	Economic Analysis	10-Jan-11	06-Feb-11	42nd International central Banking Course	Pakistan	National Institute of Banking and Finance of the State Bank of Pakistan
Lauricourt, Miss Marie Medgee	Senior Bank Examiner	Regulation, Policy and Licensing	29-Jul-10	31-Jul-10	Conference on the Benefit of Deposit Insurance in Africa	Tanzania	International Association of Deposit Insurers Africa Region
	Analyst	Regulation, Policy and Compliance	26-Apr-11	27-Apr-11	3rd Seminar on Islamic Deposit Insurance Building an Effective Islamic Deposit Insurance System	Sudan	Malaysia Deposit Insurance Corporation & Bank Deposit Security Fund
Ramful, Mrs Vijayantimala	Analyst	Financial Markets Operation	29-Jul-10	31-Jul-10	Conference on the Benefit of deposit insurance in Africa	Tanzania	International Association of Deposit Insurers Africa Region
Nundoochan, Mrs Hemlata	Chief	Financial Markets Analysis	2-Aug-10	6-Aug-10	Asset Management Workshop	Switzerland (Lucerne and Basel)	Bank for International Settlements

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Nundoochan, Mrs Hemlata	Chief	Financial Market Operations	30-May-11	01-Jun-11	AACB's Continental Seminar - Financing Development in Africa: What Role for Central Banks?"	Kigali, Rwanda	Association des Banques Centrales Africaines
Kowlessur, Mr Neetyanand	Chief	Economic Analysis	5-Aug-10	7-Aug-10	Working Group of Committee of Central Bank Governors in SADC	Pretoria, South Africa	SADC
	Chief	Economic Analysis	02-Feb-11	03-Feb-11	Technical Committee of the EA Sub Region of the Association of African Central Banks	Kampala, Uganda	Sub regional Committee for East Africa
	Chief	Economic Analysis	02-May-11	06-May-11	Macroeconomic Modelling and forecasting for Senior experts in Min. of Finance & Central banks	Nairobi, Kenya	COMESA
Audit, Mr Dooneshsingh	Chief	Economic Analysis	16-Aug-10	17-Aug-10	African Caucus Meeting	Sierra Leone	IMF and World Bank
	Chief	Economic Analysis	27-Jun-11	08-Jul-11	Macroeconomic Diagnostics	Cape Town, South Africa	IMF Institute & Stellenbosch University
Bissessur, Mr Jitendra Nathsingh	Head	Statistics Division	25-Aug-10	26-Aug-10	Fifth IFC Conference on Central Bank Statistics	Switzerland	IFC
	Head	Financial Markets Analysis	13-Jun-11	15-Jun-11	RAMP - Africa Forum on Governance and Oversight of Investment Management	Cape Town, South Africa	World Bank Treasury & SIP
Jankee, Mr Hemraz Oopuddhye	Chief Economist	Chief Economist's Office	1-Sep-10	1-Sep-10	Committee of Experts of the Bureau of COMESA preceded with selection of a venue for the COMESA Monetary Institute	Nairobi, Kenya and Zambia	COMESA
	Chief Economist	Chief Economist's Office	3-Sep-10	4-Sep-10	Committee of Experts of the Bureau of COMESA preceded with selection of a venue for the COMESA Monetary Institute	Nairobi, Kenya and Zambia	COMESA

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Jankee, Mr Hemraz Oopuddhye	Chief Economist	Chief Economist's Office	27-Oct-10	29-Oct-10	Fifth African Economic Conference on setting the Agenda for Africa's Economic Recovery and Long –term Growth	Tunisia	African Development Bank
Bastien Sylva, Mrs Marie Lily Claude	Senior Bank Examiner	Policy Unit	2-Sep-10	3-Sep-10	Private Sector Consultation of FATF Standards and Promotion of Financial Inclusion in the ESAAMLG Region	Malawi, Lilongwe	-
	Analyst	Policy Unit	15-Mar-11	17-Mar-11	Assessment of Capital Adequacy under Basel III	Mumbai, India	Reserve Bank of India
Jutton-Gopy, Mrs Rajshri	Legal Officer	Policy Unit	6-Sep-10	10-Sep-10	Board Level Governance	Pretoria- South Africa	SADC Training and Development Forum and Bank of England Centre for Central Banking Studies(CCBS)
	Legal Officer	Policy Unit	25-Jan-11	26-Jan-11	SADC Central Banks Steering Committee	Pretoria, SA	SADC
Punchoo, Mr Mahendra Vikramdass	Head	Economic Analysis	13-Sep-10	17-Sep-10	Financial Stability: an overview	UK	Bank of England
	Head	Statistics	26-Apr-11	28-Apr-11	Balance of Payment Statistics Module Workshop	Accra, Ghana	IMF
Ghurburrun, Mr Deenesh	Head	Supervision - Off Site	20-Sep-10	23-Sep-10	Meeting of International Conference of Banking Supervisors	Singapore	Monetary Authority of Singapore
	Head	Supervision - Off Site	17-Nov-10	19-Nov-10	Central Bank of Seychelles Sensitisation Workshop	Seychelles	SADC
	Head	Financial Market Operations	28-Mar-11	30-Mar-11	Workshop of Snr Treasury Officials and Committee of Central Bank Officials	Johannesburg, South Africa	SADC
Luchmun, Mr Rajiv	Bank Officer Grade 1	Financial Markets Operations	27-Sep-10	1-Oct-10	Workshop on Money Market Investment and Fundamentals of Enhanced Indexation-RAMP-Africa Program	South Africa, Cape Town	World Bank

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Gonpot, Mr Gunness	Chief	Supervision-On Site	29-Sep-10	1-Oct-10	Meetings of the Committee of Central Banks Governors(CCBG) and the Central Bank Officials at the Reserve Bank of Zimbabwe	Zimbabwe	CCBG
Bhuckory, Miss Rajpriya	Chief	Regulation, Policy and Licensing	4-Oct-10	8-Oct-10	Assessment of Financial System Stability	Zambia, Lusaka	COMESA
	Chief	Supervision - On Site	15-Mar-11	17-Mar-11	Assessment of Capital Adequacy under Basel III	Mumbai, India	Reserve Bank of India
Ramsurn, Mr Harryram	Chief	Regulation, Policy and Licensing	4-Oct-10	8-Oct-10	Assessment of Financial System Stability	Zambia, Lusaka	COMESA
	Chief	Regulation, Policy and Compliance	23-May-11	27-May-11	Regional Banking Leadership Seminar on dealing with problem Banks	Mombasa, Kenya	Deposit Protection Fund Board of Kenya in collab. With Toronto Leadership Centre
Pitteea, Mr Karankumar	Analyst	Financial Stability Unit	4-Oct-10	15-Dec-10	Distance learning course - Prior to on-site course on Financial Programming		IMF
	Analyst	Financial Stability Unit	24-Jan-11	04-Feb-11	Distance Learning on Financial Programming and Policies Course	Washington, US	IMF
Gopaul, Mr Manod Saive	Senior Bank Examiner	Supervision On Site	5-Oct-10	8-Oct-10	Anti-Money Laundering Course	Pretoria- South Africa	SARB College
Ramtohul, Mr Jayendra Kumar	Head	Accounting and Budgeting	5-Oct-10	8-Oct-10	Strategic issues in business continuity management	UK	Bank of England
	Head	Corporate Services	7-Jun-11	7-Jun-11	Seminar on Strategies for the Development of Islamic Capital Markets	Singapore	Islamic Financial Services Board & Monetary Authority of Singapore
Jugoo, Mr Satishingh	Analyst	Statistics Division	18-Oct-10	19-Oct-10	Monetary and Exchange Rate	Lusaka-Zambia	COMESA
	Analyst	Statistics	16-Mar-11	18-Mar-11	Workshop on the Coordinated Direct Investment Survey	Pretoria, South Africa	IMF
Jhary, Mr Atmanand	Chief	Accounting and Budgeting	18-Oct-10	22-Oct-10	RAMP- Africa Workshop on Accounting, Settlement and Internal Controls	Windhoek-Namibia	World Bank Treasury

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Tohooloo, Mr Anil Kumar	Head	Internal Audit	8-Nov-10	12-Nov-10	Heads of Audit Forum	UK	CCBG, Bank of England
Rughoobur, Mr Yashwantsingh	Senior Bank Examiner	Regulation, Policy and Licensing	8-Nov-10	12-Nov-10	Foundations of Macro-Financial Surveillance	USA,Washington, DC	IMF
	Analyst	Regulation, Policy and Compliance	28-Apr-11	29-Apr-11	Workshop - The African Approach to the International Standards for Banking Supervision and The Basle Capital Framework	Kampala, Uganda	MFW4A & AACB
Bakar Khan, Mrs Rafika Parveen	Bank Officer Grade 1	Accounting and Budgeting	8-Nov-10	12-Nov-10	IFSB-FIS Workshops for Regulatory and Supervisory Authorities of the IFSB Member	Kuala Lumpur-Malaysia	Islamic Financial Services Board
Pandoo, Mr Jaywant	Head	Financial Markets Operations	14-Nov-10	17-Nov-10	Standard Bank's African Bank Seminar 2010	South Africa, Johnnesburg	Standard Bank
	Head	Accounting and Budgeting	16-Feb-11	18-Feb-11	Committee of Central Bank Governors in SADC Financial Markets Subcommittee	Maputo, Mozambique	SADC
Daworaz, Mr Nandkumar	Analyst	Financial Markets Analysis	22-Nov-10	26-Nov-10	Reserve Management workshop	UK	Crown Agents Investment Management
Mulliah-Hurchand, Dr Devianee	Analyst	Statistics Division	22-Nov-10	3-Dec-10	Balance of payments and External Debt	Tunisia	ADB Group/ Joint Partnership for Africa
Nowbutsing-Hurynag, Mrs Kaveeta	Analyst	Policy Unit	29-Nov-10	30-Nov-10	Committee of Central Bank Governors in SADC	Pretoria- South Africa	SADC
	Analyst	Policy Unit	15-Feb-11	17-Feb-11	SADC Macroeconomic Subcommittee	Lesotho	SADC
Mudhoo, Miss Mahima	Analyst	Economic Analysis	1-Dec-10	3-Dec-10	CCBG Strategic Planning Session	Pretoria- South Africa	SADC
Ramdhan, Mrs Malini	Chief	Supervision, On-Site	6-Dec-10	10-Dec-10	12th MAS Banking Supervisors Training Programme	Singapore	Monetary Authority of Singapore
Ramsohok, Mr Ramanand	Senior Bank Examiner	Supervision, On-Site	6-Dec-10	10-Dec-10	12th MAS Banking Supervisors Training Programme	Singapore	Monetary Authority of Singapore
Jhamna, Miss Monysha Lyna Jany Singh	Analyst	Economic Analysis	07-Feb-11	09-Feb-11	Invitation to a Joint Meeting of the COMESA Committee	Nairobi, Kenya	COMESA

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Beegoo, Mr Ghanish	Analyst	Statistics Division	08-Feb-11	11-Feb-11	Macroeconomics Statistics Harmonization Workshop	Johannesburg, South Africa	SADC
Heerah-Pampusa, Mrs Marjorie Marie Agnes	Head	Economic Analysis	14-Feb-11	18-Feb-11	Empirical Modelling of Macroeconomic Time Series	Washington, US	IMF
Massafeer, Mr Abdool Anwar	Analyst	Supervision, Off-Site	21-Feb-11	23-Feb-11	International Programme on Central Banking	Chennai-India	Reserve Bank of India
Nabelah, Mr Suresh	Bank Officer Grade 1	Banking and Currency Division	21-Feb-11	23-Feb-11	International Programme on Central Banking	Chennai-India	Reserve Bank of India
Dowlut, Mr Arvind Kumar	Senior Analyst Programmer	IT	21-Feb-11	25-Feb-11	SADC Central Banks Information Technology Forum(16thAnnual Conference)	Seychelles	Central Bank of Seychelles
Beekun, Mr Ibne Faraz	Analyst	IT	21-Mar-11	25-Mar-11	IT Infrastructure Library & Val IT	Johannesburg , South Africa	SADC
Kallychurn, Mr Ranjeet	Analyst	IT	21-Mar-11	25-Mar-11	IT Infrastructure Library & Val IT	Johannesburg , South Africa	SADC
Thakoor, Mr Dhanesswurnath	Head	Payment Systems and MCIB	22-Mar-11	24-Mar-11	SADC Payment Systems Integration Workshop	Pretoria, SA	SADC
	Head	Payment Systems and MCIB	25-Mar-11	25-Mar-11	Study Tour @ SARB - Oracle System	Pretoria, SA	-
Philibert, Miss Marie-Line Gilberte	Senior Bank Examiner	Supervision, Off-Site	29-Mar-11	30-Mar-11	Financial Service Authority Int. Meeting - Standard Chartered Supervisory College	London, UK	FSA
Hurrymun, Mrs Sudha	Head	Supervision, Off-Site	06-Apr-11	08-Apr-11	Meeting of the Committee of Central Bank Governors in SADC	Lilongwe, Malawi	SADC
Hurree Gobin, Mrs Padma Sandhya	Chief	Statistics	26-Apr-11	28-Apr-11	Balance of Payment Statistics Module Workshop	Accra, Ghana	IMF
Rughoobur, Mr Dhirajsingh	Analyst	Supervision Off-Site	02-May-11	19-May-11	Banking Regulation and Supervision	Gerzensee-Switzerland	Gerzensee
Jawaheer, Mr Beemalsing	Analyst	Supervision, On-Site	16-May-11	20-May-11	Anti - Money Laundering Examination Seminar	Bangalore, India	Federal Reserve System & Reserve Bank of India
Mihdidin, Mrs Nitisha	Analyst	Payment Systems and MCIB	22-May-11	3-Jun-11	31st Intermediate Central Banking Course	Kuala Lumpur, Malaysia	Bank Negara Malaysia

Name	Designation	Division / Unit	Date From	Date To	Course / Seminar / Workshop	Venue	Host
Purryag, Mrs Sharony Devi	Analyst	Supervision Off-Site	23-May-11	27-May-11	13th MAS Banking Supervisors Training Programme	Singapore	Monetary Authority of Singapore
Bullyraz, Mr Ravishin	Analyst	Supervision Off-Site	23-May-11	27-May-11	13th MAS Banking Supervisors Training Programme	Singapore	Monetary Authority of Singapore
Mohesh, Mr Mahendra	Analyst	Financial Markets Analysis	23-May-11	27-May-11	An Introduction to Futures and Options	Washington DC	IMF
Gobin-Jhurry Mrs Tilotma	Chief	Payment Systems and MCIB	30-May-11	01-Jun-11	AACB's Continental Seminar - Financing Development in Africa: What Role for Central Banks?"	Kigali, Rwanda	Association des Banques Centrales Africaines
Rutah, Mr Chandradeo Sharma	Chief	Internal Audit	13-Jun-11	15-Jun-11	RAMP - Africa Forum on Governance and Oversight of Investment Management	Cape Town, South Africa	World Bank Treasury & SIP
Ellapah, Mr Chitananda	Chief	Financial Market Analysis	13-Jun-11	17-Jun-11	SIP Workshop on Fundamentals of Fixed Income Risk Management	Paris, France	World Bank Treasury & SIP
Keerodhur, Mrs Pratima	Analyst	Accounting and Budgeting	13-Jun-11	17-Jun-11	SIP Workshop on Fundamentals of Fixed Income Risk Management	Paris, France	World Bank Treasury & SIP
Ramful, Mr Leckraz	Analyst	Supervision - On Site	20-Jun-11	24-Jun-11	IS Vulnerability Management	Chicago, Illinois	Federal Reserve System

Appendix VI Local Courses/Seminars/Workshops

Name	Designation	Division/Unit	Date From	Date To	Course/Seminar/ Workshop	Host/Venue
Gonpot, Mr Gunness	Chief	Regulation, Policy and Licensing	01-Jul-10	01-Jul-10	Sharia Audit for Islamic Financial Institution	Global Management &Business Consulting Ltd, Les Jamalacs, Port Louis
	Chief	Regulation, Policy and Licensing	17-Jan-11	17-Jan-11	Meeting on World Consumer Rights Day 2011	Ministry of Business Enterprise, Cooperatives and Consumer Protection
Ramdhan, Mrs Malini	Chief	Banking Supervision	01-Jul-10	01-Jul-10	Sharia Audit for Islamic Financial Institution	Global Management &Business Consulting Ltd, Les Jamalacs, Port Louis
Ramall, Mr Indranarain	Analyst	Financial Markets Analysis	19-Jul-10	27-Sep-10	Commonwealth Secretariat E-learning Course on Debt Management	E-learning course by the Commonwealth of Learning Vancouver Canada
Chamary, Mr Jean Claude Benoit	Chief	Banking Supervision	19-Jul-10	27-Sep-10	Commonwealth Secretariat E-learning Course on Debt Management	E-learning course by the Commonwealth of Learning, Vancouver, Canada
	Chief	Financial Markets Analysis	13-May-11	13-May-11	Seminar on “The Role of European Development Finance Institutions in Infrastructure related Activities - Change of Time”	European Union/ The Labourdonnais Waterfront Hotel
Mulliah - Hurchand Dr Devianee	Analyst	Statistics	20-Oct-10	20-Oct-10	World Statistics Day Workshop	La Plantation, Balaclava
	Analyst	Statistics	25-May-11	25-May-11	Trade Forecast Committee	Central Statistical Office, Mauritius
Beegoo, Mr Ghanish	Analyst	Statistics	20-Oct-10	20-Oct-10	World Statistics Day Workshop	La Plantation, Balaclava
	Analyst	Statistics	22-Jun-11	22-Jun-11	Performance of the Economy	Central Statistics Office- Port Louis / 1st floor, LIC Centre John Kennedy Street, Port Louis
Veerapatren, Mrs Perly Grace Deanna	Bank Officer Grade1	Human Resources	26-Oct-10	26-Oct-10	Seminar fro HR Managers employed in Statutory Bodies	Ministry of Labour, Industrial Relations & Employment, Victoria House , Port Louis
Audit, Mr Dooneshsingh	Chief	Economic Analysis	23-Nov-10	25-Nov-10	Expert Group Meeting on Harmonization of National Accounts	La Plantation, Balaclava
	Chief	Economic Analysis	25-May-11	25-May-11	Trade Forecast Committee	Central Statistical Office, Mauritius
Sajadah Aujayeb, Mrs Nivedita	Legal Officer	Legal Dept	25-Nov-10	25-Nov-10	Workshop on Competition regime in Mauritius- One Year On	Intercontinental Mauritius Resort, Balaclava
	Analyst	Legal Unit	13-May-11	13-May-11	Meeting on Hire Purchase & Credit Sale Act	Ministry of Industry & Commerce / Ministry of Industry & Commerce, 7th floor, Air Mauritius Building, Port Louis

Name	Designation	Division/Unit	Date From	Date To	Course/Seminar/ Workshop	Host/Venue
Sajadah Aujayeb, Mrs Nivedita	Analyst	Legal Unit	08-Jun-11	08-Jun-11	ROSC Review Report on Accounting & Auditing	Registrar of Companies & World Bank / Grand Ocean City Restaurant, Caudan Waterfront
Lauricourt, Miss Marie Medgee	Senior Bank Examiner	Banking Supervision	25-Nov-10	25-Nov-10	Workshop on Competition regime in Mauritius- One Year On	Intercontinental Mauritius Resort, Balaclava
Kowlessur, Mr Neetyanand	Analyst	Statistics	20-Dec-10	20-Dec-10	Performance of the Economy	Central Statistics Office- Port Louis
	Chief	Economic Analysis	17-Feb-11	17-Feb-11	Public expenditure and Financial Accountability	Ministry of Finance and Economic Development
	Chief	Economic Analysis	07-Mar-11	07-Mar-11	Half day workshop on Statistics	Ministry of Finance & Economic Development
	Chief	Economic Analysis	28-Apr-11	28-Apr-11	COMESA Negotiations on Trade in Services	Min. of Foreign Affairs, Regional Integration and Intern. Trade / Conference room, Min. of Foreign Affairs, 3rd floor, Fooks House, Port Louis
	Chief	Economic Analysis	30-Jun-11	30-Jun-11	Meeting on Free Trade Agreement with Singapore	Ministry of Foreign Affairs, Regional Integration and International Trade / 3rd floor, Fooks House, Bourbon Street, Port Louis
Ramrup, Mrs Deepmala	Analyst Programmer	IT	13-Jan-11	13-Jan-11	NICTSP Review Workshop	National Computer Board
	Analyst	IT - Development and Operations	24-Mar-11	24-Mar-11	CERT - MU - Mobile Security	National Computer Board
Massafeer, Mr Abdool Anwar	Analyst	Banking Supervision	17-Jan-11	19-Jan-11	Auditing Derivatives	Le Sirius Labourdonnais Waterfront Hotel, Port Louis
Vadeevaloo, Mr Sandiren	Analyst	Banking Supervision	17-Jan-11	19-Jan-11	Auditing Derivatives	Le Sirius Labourdonnais Waterfront Hotel, Port Louis
	Analyst	Supervision, on Site	05-May-11	06-May-11	Training Event on Derivatives	MBA/ Hilton MauritiusResort & Spa, Flic en Flac
Hurree Gobin, Mrs Padma Sandhya	Chief	Statistics	24-Jan-11	28-Jan-11	Trade in Services Statistics Workshop	Mauritius
	Chief	Statistics	25-May-11	25-May-11	Trade Forecast Committee	Central Statistical Office, Mauritius
	Chief	Statistics	28-Jun-11	28-Jun-11	Accelerated Data Program (ADP)/ Capacity Building	Central Statistical Office, Mauritius
Atchia, Mrs Falzana	Analyst	Statistics	24-Jan-11	28-Jan-11	Trade in Services Statistics Workshop	Commonwealth Secretariat and Common Market for Eastern and South Africa
Jugoo, Mr Satishingh	Analyst	Statistics	24-Jan-11	28-Jan-11	Trade in Services Statistics Workshop	Commonwealth Secretariat and Common Market for Eastern and South Africa
Nundlall, Mr Premchand	Analyst	Regulation, Policy and Licensing	24-Jan-11	27-Jan-11	Strengthening AML/ CFT Domestic Cooperation	Ministry of Finance and Economic Development
Dawonath, Mr Rajcoomasing	Analyst	Supervision/On Site	24-Jan-11	27-Jan-11	Strengthening AML/ CFT Domestic Cooperation	Ministry of Finance and Economic Development

Name	Designation	Division/Unit	Date From	Date To	Course/Seminar/ Workshop	Host/Venue
Goolam Hossen, Mrs Sheik Sooraya Bibi	BOG1	Supervision/Off Site	24-Jan-11	27-Jan-11	Strengthening AML/ CFT Domestic Cooperation	Ministry of Finance and Economic Development
Rughoobur, Mr Yashwantsing	Analyst	Regulation, Policy and Licensing	24-Jan-11	27-Jan-11	Strengthening AML/ CFT Domestic Cooperation	Ministry of Finance and Economic Development
Mootoosamy, Mr Kumaravel	BOG1	Regulation, Policy and Licensing	24-Jan-11	27-Jan-11	Strengthening AML/ CFT Domestic Cooperation	Ministry of Finance and Economic Development
Mudhoo, Miss Mahima	Analyst	Economic Analysis	17-Feb-11	17-Feb-11	Seminar on Knowledge Sharing in Applying Japanese Productivity Improvement Techniques to Mauritian Enterprises	National Productivity and Competitiveness Council
	Analyst	Economic Analysis	05-Apr-11	22-Apr-11	SADC Macroeconomic Modelling Project	Ministry of Finance and Economic Development
	Analyst	Economic Analysis	24-Jun-11	06-Jul-11	SADC Macroeconomic Modelling Project	Ministry of Finance & Economic Development / MOFED, Conference Room, Level 5, Port Louis
Jawant, Mr Pandoo	Head	Accounting and Budgeting	10-Mar-11	10-Mar-11	Meeting of the Joint Technical Working Group on Euro Crisis	Ministry of Finance & Economic Development
Punchoo, Mr Mahendra Vikramdass	Head	Economic Analysis	10-Mar-11	10-Mar-11	Meeting of the Joint Technical Working Group on Euro Crisis	Ministry of Finance & Economic Development
Bullyraz, Mr Ravishin	Analyst	Regulation, Policy and Compliance	24-Mar-11	24-Mar-11	CERT - MU - Mobile Security	National Computer Board
Mohesh, Mr Mahendra	Analyst	Financial Markets Analysis	05-Apr-11	22-Apr-11	SADC Macroeconomic Modelling Project	Ministry of Finance and Economic Development
	Analyst	Financial Markets Analysis	24-Jun-11	06-Jul-11	SADC Macroeconomic Modelling Project	Ministry of Finance & Economic Development / MOFED, Conference Room, Level 5, Port Louis
Sooklall, Mr Feisal Bin Khalid	Analyst	Economic Analysis	11-Apr-11	22-Apr-11	Macroeconomic Management and Financial Sector Issues	IMF - In Mauritius - International Conference Centre
Jhamna, Ms Monysha Lyna Jany Singh	Analyst	Economic Analysis	11-Apr-11	22-Apr-11	Macroeconomic Management and Financial Sector Issues	IMF - In Mauritius - International Conference Centre
Nowbutsing - Hurynag, Mrs Kaveeta	Analyst	Policy Unit	13-Apr-11	13-Apr-11	Workshop on "Aid for Trade" Challenges and Prospects for Developing Countries	University of Mauritius - WTO Chair Programme / The Link Ebene City Hotel
Seeballuck, Mr Prithviraj	Chief	Human Resources	26-Apr-11	27-Apr-11	Workshop on Principles of Negotiations	WTO Chairs Programme & University of Mauritius The Link Ebene City Hotel, Ebene

Name	Designation	Division/Unit	Date From	Date To	Course/Seminar/ Workshop	Host/Venue
Chinniah, Mr Ramsamy	Head	Supervision - On Site	28-Apr-11	28-Apr-11	COMESA Negotiations on Trade in Services	Min. of Foreign Affairs, regional integration and international Trade together with COMESA/ Conference room, Min. of Foreign Affairs, 3rd floor, Fooks House, Port Louis
	Head	Supervision, on Site	08-Jun-11	08-Jun-11	ROSC Review Report on Accounting & Auditing	Registrar of Companies & World Bank / Grand Ocean City Restaurant, Caudan Waterfront
Daworaz, Mr Nandkumar	Analyst	Financial Markets Analysis	04-May-11	04-May-11	Inaugural Seminar: Risk Management for Export Market	GBOT in collaboration with MEXA / The Link, Ebene
Mihdidin, Mrs Nitisha	Analyst	Payment System and MCIB	04-May-11	04-May-11	Inaugural Seminar: Risk Management for Export Market	GBOT in collaboration with MEXA / The Link, Ebene
Pitteea, Mr Karankumar	Analyst	Economic Analysis	25-May-11	25-May-11	Trade Forecast Committee	Central Statistical Office/ CSO Office
Gopaul, Mr Shardanand	Chief	Accounting and Budgeting	08-Jun-11	08-Jun-11	ROSC Review Report on Accounting & Auditing	Registrar of Companies & World Bank / Grand Ocean City Restaurant, Caudan Waterfront
Lo Tiap Kwong, Mrs Powkeem	Chief	Statistics	22-Jun-11	22-Jun-11	Performance of the Economy	Central Statistics Office- Port Louis / 1st floor, LIC Centre John Kennedy Street, Port Louis

Appendix VII Recruitments, Appointments and Promotions

RECRUITMENTS / APPOINTMENTS

Mr Mohammed Iqbal Belath was appointed Second Deputy Governor with effect from 01 July 2010.

Mrs Falzana Atchia was appointed Analyst with effect from 01 October 2010.

Mr Sunil Kumar Betun (former Security Officer) and **Mr Mohammed Zaid Jehangur** were appointed Bank Attendant/Drivers with effect from 01 October 2010.

Mr Bhye Jaabir Barahim was appointed Bank Attendant/Driver with effect from 15 October 2010.

Mr Veekash Singh Busgeeth was appointed Analyst with effect from 15 November 2010.

Miss Anuja Nababsing, Mr Minesh Bhundoo and Miss Nandeeta Reetoo were appointed Analyst with effect from 17 January 2011.

Mrs Oumey Shaheen Burtally was appointed as part-time Safety & Health Officer with effect from 01 June 2011.

RECRUITMENTS / APPOINTMENTS

The following officers were promoted with effect from 01 June 2011.

	NAME	APPOINTED AS
1.	Mr Narendraduth Sultanti	Chief
2.	Mr Jean Frederic Laval Mallet	Chief
3.	Mr Razcoomar Ramtale	Analyst
4.	Mr Krishnaduth Kissoon	Analyst
5.	Mr Grooduth Daboo	Chief
6.	Mr Deojeet Gowreeah	Bank Attendant Grade I
7.	Mrs Usha Pratap Gaya	Analyst
8.	Mrs Ujala Devi Chuttoorgoon	Bank Officer Grade I
9.	Mrs Sarita Devi Ramkooleea	Bank Officer Grade I
10.	Mrs Jaiwantee Koosha Burumdoyal	Bank Officer Grade I
11.	Mr Sivapragassen Ramasawmy	Technical Officer Grade B
12.	Mr Ravindranath Boodhun	Technical Officer Grade B
13.	Mrs Bibi Nasreen Begum Mustun	Confidential Secretary
14.	Mrs Indira Ramdhian	Confidential Secretary
15.	Mr Arvind kumar Dowlut	Chief
16.	Mr Bavesh Baijnath	Chief
17.	Mr Mohammad Naeem Bakurally	Bank Officer Grade I

Appendix VIII Retirements, Resignations and Termination of Employment

RETIREMENTS

Mr Janayswur Moosoohur, Analyst, retired from the service of the Bank with effect from 01 July 2010.

Mr Abdool Zahed Ackbarally and Mr Ramess Beekaree, Bank Officers Grade I, retired from the service of the Bank with effect from 01 July 2010.

Mrs Devika Dookia, Bank Officer Grade III, retired from the service of the Bank with effect from 01 July 2010.

Mr Darmayash Dev Belut, Chief – Banking & Currency Division, retired from the service of the Bank with effect from 06 July 2010.

Mr Louis Raymond Clency Rayapoulle, Bank Attendant Grade II, retired from the service of the Bank with effect from 18 January 2011.

Mr Radhakrishnan Sooben, Head – Corporate Services Division, retired from the service of the Bank with effect from 01 March 2011.

Mrs Gowrie Shaktimala Juggernauth, Bank Officer Grade I, retired from the service of the Bank with effect from 01 March 2011.

RESIGNATIONS

Dr Dnyansing Bacorisen, Executive assistant, resigned from the service of the Bank with effect from 01 January 2011.

Mr Indranarain Ramlall, Research Officer, resigned from the service of the Bank with effect from 01 January 2011.

TERMINATION OF EMPLOYMENT

The contract of employment of **Mr Nurani Subramanian Vishwanathan,** Director – supervision, expired with effect from 27 November 2011.

The Bank terminated the appointment of **Mr Bhye Jaabir Barahim,** Bank Attendant/Driver with effect from 01 January 2011.

The Bank terminated the appointment of **Mr Dev Kumar Daworaz**, Senior Bank Examiner with effect from 04 January 2011.

Appendix IX Completion of Studies

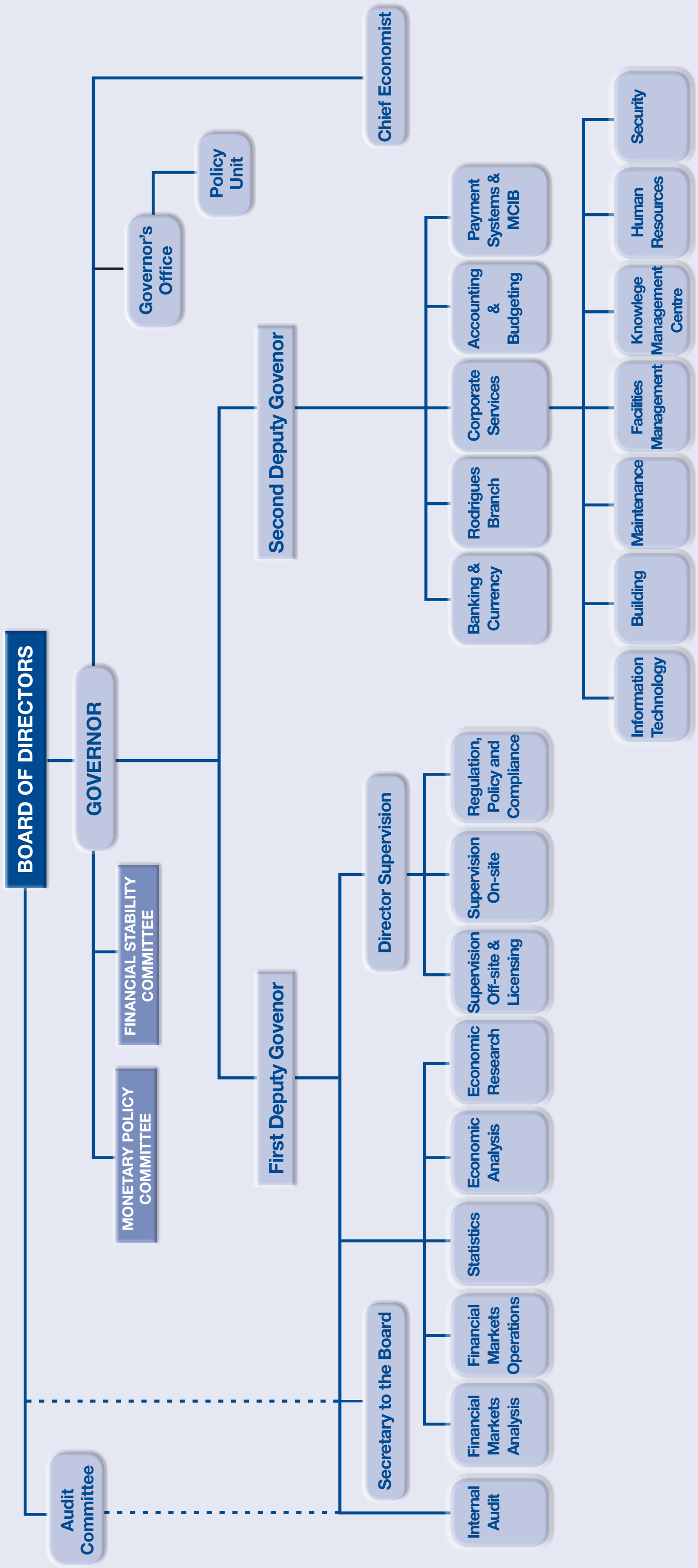
Mrs Sheik Sooraya BiBi Goolam Hossen, Analyst, completed her ACCA in June 2010.

Mr Chitananda Ellapah, Chief – Financial Markets Analysis Division, has been awarded the degree of Master of Business Administration by the Management College of Southern Africa (MANCOSA) in October 2010

Mrs Rajwantee Lulith, Bank Officer Grade I, has been awarded the degree of Bachelor in Management with Specialisation in Human Resourse Managament (with Honours) by the University of Mauritius in May 2011.

Appendix X

Organisation Chart as at 30 June 2011



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 2011.

Banks Licensed to carry Banking Business

1. ABC Banking Corporation Ltd
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. Century Banking Corporation Ltd
9. Deutsche Bank (Mauritius) Limited
10. Habib Bank Limited
11. HSBC Bank (Mauritius) Limited
12. Investec Bank (Mauritius) Limited
13. Mauritius Post and Cooperative Bank Ltd
14. P.T Bank Internasional Indonesia
15. SBI (Mauritius) Ltd
16. Standard Bank (Mauritius) Limited
17. Standard Chartered Bank (Mauritius) Limited
18. State Bank of Mauritius Ltd
19. The Hongkong and Shanghai Banking Corporation Limited
20. 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. Iron Eagle Ltd
6. Max & Deep Co. Ltd
7. Moneytime Co. Ltd
8. Unit E Co Ltd
9. Viaggi Finance Ltd
10. Vish Exchange Ltd
11. Gowtam Jootun Lotus Ltd[1]

Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Cim Forex Ltd
3. Forex Direct Ltd
4. Island Premier Traders FX Ltd
5. Shibani Finance Co. Ltd
6. Thomas Cook (Mauritius) Operations Company Limited

[1]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 Ms M Heerah-Pampusa, Mr K Ramnauth, Mr D Audit, Ms V Soyjaudah, Mr F Sooklall and Ms M Jhamna.

Contributions for the various chapters in the Report were made by the following officers:

Mr N Kowlessur for *Review of the Economy;* Ms M Bhurtha for *National Income and Production;* Ms M Jhamna for *Labour Market;* Mr G Beegoo for *Prices;* Ms N Lo Tiap Kwong, Mr G Beegoo and Mr H Gendoo, for *Money and Banking;* Mr C Ellapah and Mr M Mohesh for *Government Finance;* Ms N Lo Tiap Kwong and Mr H Gendoo for the section on *Interest Rates*; Ms D Mulliah-Hurchand for the section on *Cash Ratio*; *Ms P Hurree Gobin, Mr V Busgeeth and Ms F Atchia for Balance of Payments;* Ms M Jhamna for *Monetary Policy*; Ms K Nowbutsing-Hurynag for *Regional Cooperation*; Mr F Sooklall for *International Economic Developments*; Mr B Kwok Chung Yee, Ms S D Purryag, Mr D Rughoobur, Mr A Massafeer, Ms M Philibert, Ms S Goolam Hossen, Ms T Gokool, Ms R Bhuckory, Mr W Khodabocus, Mr P Nundlall, Mr Y Rughoobur, Mr K Mootoosamy, Ms M Lauricourt and Ms N Nabee for the chapter on *Regulation and Supervision*; Mr J Bissessur, Mr S Ramnarainsing, Ms H Nundoochan, Mr J C Chamary, Mr C Ellapah, Mr S Ramrutton, Ms V Ramful, Mr V Koonjul and Mr N Daworaz for the chapter on *Financial Markets Developments*; Ms V Soyjaudah and Mr K Pitteea for the chapter on *Financial Stability*; Mr J Pandoo, Mr A Jhary and Mr S Gopaul were involved in the chapter on *Accounting and Budgeting*; Mr D Thakoor, Ms T Gobin Jhurry, Mr J Choolhun and Ms N Mihdidin for the chapter on *Payment Systems and Mauritius Credit Information Bureau*; Mr Y Chu Fung Leung, Mr F Laval Mallet, Mr G Daboo, Mr R Ramtale and Mr R Gopaul for the chapter on *Banking and Currency*; Ms H Sewraj-Gopal and Mr Kowlessur for the chapter on *Corporate Governance;* Mr J Ramtohul, Mr P Seeballuck, Mr N Bakurally, Mr M Bundhoo and Ms I Ramdhian for the chapter on *Corporate Services.*

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