

## International Developments

In April 2010, the US dollar, on average, appreciated against the euro and the Japanese yen but depreciated vis-à-vis the Pound sterling. The US dollar started the month on a soft note around US\$1.3500 vis-à-vis the euro but later strengthened as the March 2010 US jobs report showed 162,000 new jobs and data indicated a jump in pending home sales while Greece's fiscal problems fuelled bearish sentiment towards the euro. In the second week of the month, the US dollar dipped temporarily against the euro after eurozone finance ministers approved a 30 billion euros aid package for Greece, with EUR10 billion expected from the International Monetary Fund. The US currency recovered thereafter as the cost of insuring against a Greek default rose and the Greek/German government bond yield spread widened to near record levels.

The greenback thereafter rallied, supported by safe haven flows as risk aversion swept through the markets following the US Securities and Exchange Commission charging leading investment bank Goldman Sachs with fraud in relation to subprime-related financial products and on continued worries about Greece financing its debt obligations as well as the delay in putting together a financial aid package. The greenback touched a one-year high of US\$1.3200 against the euro on 28 March 2010 following credit ratings downgrades of Greece, Portugal and Spain by Standard & Poor's before paring some gains as the US Federal Reserve held its interest rates unchanged and reiterated the need to keep rates "exceptionally low" for an "extended period" and on hopes that the bailout package for Greece would be larger than earlier expected.

The Euro traded at an average of US\$1.3433 in April 2010 compared to an average of US\$1.3566 in March 2010. The European Central Bank, at its monthly policy meeting, left its key refinancing rate unchanged at 1 per cent, as widely expected.

The Pound sterling appreciated against the US dollar during April 2010, trading at an average of US\$1.5330 compared to an average of US\$1.5051 in March 2010. Despite the uncertainty surrounding the outcome of UK elections in May 2010, the Pound sterling gained against the US dollar during the first half of the month after a spate of brighter UK economic data helped to boost optimism about the economy. In addition, the Pound sterling brushed off the Bank of England's (BoE) decision to hold the Bank Rate at a record low of 0.50 per cent and to keep the Asset Purchase program at GBP200 billion. Strong British retail sales data and a pronounced narrowing in the trade deficit added to a run of figures that helped the UK currency reach a high of US\$1.5504 on 15 April. Thereafter, the Pound sterling eased to some extent after a historic first television debate between the leaders of the three major UK political parties highlighted the possibility that the upcoming general elections may leave no party in overall control. But the Pound sterling reversed its downward course following higher-than-expected rise in UK consumer prices, which raised speculation that the BoE may raise interest rates later in this year and solid UK labour market data, which brightened the outlook for the economy. However, the risk of contagion from Greece's deepening debt crisis put the focus back on the UK's fiscal problems and the Pound ended the month on a soft note after data showed that UK's economy grew by 0.2 per cent in the first three months of 2010, below forecasts of 0.4 per cent and in contrast with data showing rising UK house prices.

Overall, in April 2010, global equity markets were weighed down by charges against Goldman Sachs and credit ratings downgrades of Greece, Portugal and Spain. Markets tilted downwards with increased fears that Greece's debt crisis could spill over to commercial debt markets. Among major international stock markets, only US equity markets managed to post positive performances on the back of upbeat US economic data and positive corporate earnings results. Over the month, NASDAQ and DJIA rose by 2.44 per cent and 0.75 per cent, respectively, while NIKKEI and DAX declined by 1.66 per cent and 1.60 per cent,

respectively. Among emerging stock markets, Bombay SENSEX and JSE recorded negative returns of 0.76 per cent and 1.32 per cent, respectively. The Shanghai Stock Exchange Composite lost 8.80 per cent, mainly led by declining property shares after the government announced fresh measures to cool the sector. Looking ahead, the direction of international stock markets will hinge largely on the extent to which Greece's debt problems are effectively contained.

International oil prices rose during April 2010, mainly driven by the bullish sentiment of the market and improving expectations about global economic growth. NYMEX and IPE Brent settled at intra-month highs of US\$86.8 a barrel and US\$87.4 a barrel, respectively, on 6 April and 30 April 2010. NYMEX WTI (West Texas Intermediate crude oil) averaged US\$84.6 a barrel in April 2010, up from US\$81.3 a barrel in March 2010. IPE Brent averaged US\$85.7 a barrel during the month under review, up from US\$79.9 a barrel in March 2010

COMEX gold futures, on average, went up during April 2010, trading in an intra-month closing range of US\$1,126.1/Oz-1,180.7/Oz compared to US\$1,088.8/Oz-1,143.3/Oz in March 2010. Gold prices peaked at US\$1,180.7/Oz on 30 April 2010 amid optimism about the US economic recovery.

### **Domestic Developments**

Gross tourism receipts increased by 7.6 per cent, from Rs3,361 million in March 2009 to Rs3,617 million in March 2010. On a cumulative basis, over the period April 2009 to March 2010, tourism receipts declined by 7.8 per cent to reach Rs36,449 million.

The Consumer Price Index (CPI) increased from 118.8 in March 2010 to 119.3 in April 2010. The main contributors to the rise in the index between March 2010 and April 2010 were gasoline, which registered an increase of 0.3 index point, and food products and other goods and services, each registering an increase of 0.1 index point. The largest rise of 1.7 per cent was noted in the division "Transport" followed by "Furnishings, household equipment and routine household maintenance" (+0.7 per cent), "Clothing and footwear" (+0.5 per cent), "Food and non alcoholic beverages" (+0.2 per cent), "Restaurants and hotels" (+0.2 per cent), "Alcoholic beverages and tobacco" (+0.1 per cent), "Housing, water, electricity, gas and other fuels" (+0.1 per cent) and "Recreation and culture" (+0.1 per cent). The division "Health" recorded a decrease of 0.2 per cent while "Communication", "Education" and "Miscellaneous goods and services" registered no change in their indices.

The rate of inflation for the twelve-month period ended April 2010 dropped to 1.8 per cent, from 1.9 per cent for the twelve month period ended March 2010. Year-on-Year inflation rate went up to 2.7 per cent in April 2010, from 2.3 per cent in March 2010.

CORE1 inflation remained unchanged at 2.2 per cent for the twelve-month period ended April 2010. CORE2 inflation dropped to 3.0 per cent in April 2010, from 3.2 per cent for the twelve-month period ended March 2010. TRIM10 inflation stood at 2.2 per cent for the twelve-month period ended April 2010, down from 2.3 per cent in March 2010.

Net foreign assets of depository corporations went down by Rs1,400 million, or 1.3 per cent, from Rs104,939 million at the end of February 2010 to Rs103,539 million at the end of March 2010, reflecting decreases in both of its components. Net foreign assets of other depository corporations decreased by Rs950 million, or 2.3 per cent, to Rs40,217 million and those of the Bank of Mauritius fell by Rs449 million, or 0.7 per cent, to Rs63,322 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs4,435 million, or 1.6 per cent, from Rs275,710 million at the end of February 2010 to Rs280,145 million at the end of March 2010. Net claims on budgetary central Government rose by Rs1,087 million, or 2.2 per cent, from Rs49,754 million at the end of February 2010 to Rs50,841 million at the end of March 2010. Claims on other sectors, that is, credit to the private sector went up by Rs3,349 million, or 1.5 per cent, to Rs229,304 million in March 2010.

Net claims on budgetary central Government from the Bank of Mauritius increased by Rs4,566 million, or 41.3 per cent, from negative Rs11,050 million at the end of February 2010 to negative Rs6,484 million at the end of March 2010, reflecting drawdown of deposits by Government. Net claims on budgetary central Government from other depository corporations fell by Rs3,479 million, or 5.7 per cent, from Rs60,804 million to Rs57,325 million, as a result of net maturing Government securities.

Claims on Other Sectors from the Bank of Mauritius decreased by Rs16 million or 10.8 per cent to Rs131 million at the end of March 2010 while claims on Other Sectors from other depository corporations rose by Rs3,364 million, or 1.5 per cent, from Rs225,808 million to Rs229,172 million, reflecting additional loan disbursements during the month under review.

Broad Money Liabilities (BML) went up by Rs1,815 million, or 0.6 per cent, from Rs295,497 million at the end of February 2010 to Rs297,312 million at the end of March 2010. Of the components of BML, currency with public decreased by Rs135 million, or 0.8 per cent, to Rs15,845 million while transferable deposits increased by Rs751 million, or 1.1 per cent, to Rs71,003 million. Savings deposits went up by Rs1,639 million to Rs90,026 million while time deposits decreased by Rs451 million, or 0.4 per cent, to Rs119,631 million. Securities other than shares included in broad money increased by Rs11 million, or 1.4 per cent, to Rs806 million.

The monetary base went up by Rs834 million, or 2.4 per cent, from Rs34,277 million at the end of February 2010 to Rs35,111 million at the end of March 2010. Currency in circulation rose by Rs102 million, or 0.5 per cent, from Rs18,641 million to Rs18,743 million while liabilities to other depository corporations increased by Rs721 million, or 4.7 per cent, from Rs15,448 million to Rs16,169 million.

Broad Money Liabilities multiplier went down from 8.6 at the end of February 2010 to 8.5 at the end of March 2010, following a higher increase in BML compared to the rise in the monetary base.

In April 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs8,700 million through the weekly Primary Auctions. Between end-March 2010 and end-April 2010, the weighted average yields on the 91-day Bills and 182-day Bills decreased from 4.31 per cent to 4.22 per cent and from 4.67 per cent to 4.38 per cent, respectively, while the weighted average yield on the 364-day Bills increased from 4.29 per cent to 4.51 per cent. The overall weighted yield during April 2010 increased to 4.49 per cent, from 4.24 per cent in March 2010. During April 2010, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in April 2010 totalled Rs7,522 million with a daily average of Rs251 million, a high of Rs655 million and a trough of Rs20 million. The weighted average overnight interbank rate for April 2010 increased to 3.90 per cent from 3.80 per cent for the previous month.

A total amount of Rs9.75 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public for individual amounts ranging from the minimum of Rs50,000 to the maximum

amount of Rs2 million. Bills traded by primary dealers amounted to Rs721.0 million.

On 15 April 2010, the Bank conducted Special Deposits Facility for a period of 21 days at the rate of 4.75 per cent per annum for a total amount of Rs1,700 million.

During April 2010, the Bank conducted spot-to-one month forward swap transactions for a total amount of EUR2.5 million and GBP0.5 million and spot-to-three months forward swap transactions for a total amount of EUR4.5 million and GBP1.0 million.

The weighted average dealt selling rates of the rupee against the US dollar, Euro and Pound sterling, which are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies reported by banks, showed that between March and April 2010, the rupee, on average, depreciated against the US dollar and the Pound Sterling but appreciated against the Euro.

Based on the consolidated indicative selling rates of banks, the rupee, on average, appreciated vis-à-vis the Japanese yen and the euro but depreciated against the Pound sterling and the US dollar between March and April 2010.

At the end of March 2010, the net international reserves of the country stood at Rs104,346 million. The end-March 2010 level of net international reserves of the country, based on the value of import bill for the calendar year 2009 exclusive of the purchase of aircraft, represented 47.0 weeks of imports, down from 47.5 weeks of imports at the end of February 2010. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs67,413 million at the end of March 2010 to Rs67,890 million at the end of April 2010.