

International Developments

During April 2007, the US dollar, on average, depreciated against the Pound sterling and euro but appreciated vis-à-vis the Japanese yen. The US dollar started the month under broad-based pressure after the US government said that it would impose duties on imports of coated paper from China, raising fears of protectionism and a rise in trade friction between the two economic superpowers. Data released subsequently were mixed. While housing and non-farm payroll data turned out to be strong, services sector activity fell to a four-year low in March 2007 such that there was no clear-cut indication of the future path of US interest rates. Profit taking by market players on the dollar's rally momentarily propped up the US currency, which, however, came under renewed pressure amid weakness in the housing sector, with the American Home Mortgage Investment Corp lowering its earnings forecast. In addition, trade tensions with China dented sentiment towards the US dollar, as the United States accused China at the World Trade Organisation of piracy and blocking access to US films, books and software. Concerns about the strength of US economic growth, as well as a smaller-than-expected rise in core consumer price inflation data, bolstered expectations that the Federal Reserve might be more inclined to cut interest rate this year. Falling mortgage applications and softer-than-expected data on sales of new homes, both highlighting the woes in the housing sector, as well as the release of a weaker-than-expected first quarter 2007 growth rate of 1.3 per cent, further undermined the US dollar at the end of April 2007.

The euro strengthened against the US dollar during April 2007, trading at an average of US\$1.3502 from an average of US\$1.3247 in March 2007. From an intra-month low of US\$1.3338 at the beginning of the month, the euro embarked on a generally upward trend against the US dollar. Comments by euro zone officials that there was no room for complacency on prices bolstered expectations that the European Central Bank (ECB) would push on raising interest rates. On 12 April 2007, the ECB kept its key refinancing rate unchanged at 3.75 per cent. But, in its post-meeting conference, ECB President Jean-Claude Trichet said that the central bank would monitor prices "very closely" – wording that has preceded rate rises in the past. The single currency remained well supported in the wake of comments by Yves Mersch, a member of the ECB's governing council, who said that the euro zone could absorb a hard landing by the US economy such that even if a US recession weakened the dollar by 10 per cent against the euro, the impact would not be that big. A larger-than-expected improvement in sentiment among German investors on the outlook for Europe's largest economy further firmed expectations for more euro area tightening. On 30 April 2007, the euro, for the first time since its launch in January 1999, rose above US\$1.3640 in New York trade following comments made by European Commission President that the strong euro was a sign of a robust European economy and not a cause for concern.

The Pound sterling appreciated against the US dollar during April 2007, trading at an average of US\$1.9865, up from US\$1.9478 in March 2007. Starting the month trading around US\$1.9686, the Pound sterling moved higher against the US dollar on expectations that the Bank of England would raise interest rates during the week. However, the Bank of England at its Monetary Policy Committee meeting on 5 April 2007 left its key repo rate unchanged at 5.25 per cent for the third month running, awaiting more signs of

inflationary pressures before deciding whether a fourth increase would be needed. The decision to leave the interest rate unchanged had only short-lived negative impact on the Pound, which resumed its upward movement against the US dollar, benefiting from the release of a report in the UK newspaper Financial Times that the UK Treasury was expected to issue a paper on the option to allow British-based companies to repatriate profits tax-free. Meanwhile, investors were looking into the Pound as a source of return given that the market was increasingly anticipating an interest rate hike by the Bank of England in May 2007 and was pricing in the possibility of more rate hikes, especially following the release of strong output prices and housing data. On 18 April 2007, the Pound sterling breached the US\$2.0 mark for the first time since Britain was forced to exit the Exchange Rate Mechanism in 1992, to attain US\$2.0133 in London trade after the release of strong data showing that consumer prices had risen by 3.1 per cent, above the target level. The British currency thereafter shed some of its gains as investors scaled back carry trade positions. The Pound sterling nonetheless remained well supported as a testimony from the Bank of England's Monetary Policy Committee to the Parliamentary Committee, reassuring investors that the Bank would do all it can to keep inflationary pressures under control, firmed up market expectations of higher interest rates. Slightly better-than-expected first quarter 2007 growth data also confirmed expectations of an interest rate hike in May 2007. The Pound sterling gained support from some central banks selling dollars and corporates buying sterling for dividend payments and closed April 2007 trading around US\$1.9944.

The Japanese yen weakened against the US dollar during April 2007, trading at an average of ¥118.80 per US dollar from an average of ¥117.23 per US dollar in March 2007. From its intra-month high of ¥117.71 per US dollar at the start of April 2007, the Japanese yen moved lower against the US dollar as Japanese investors resumed selling the currency in order to invest overseas. As widely expected, on 10 April 2007, the Bank of Japan (BOJ) left monetary policy unchanged, keeping the overnight call rate target at 0.50 per cent for two months in a row after its rate hike in February 2007. The BOJ's nine board members voted unanimously in favour of maintaining the rate. The Japanese yen continued on its general downward trend as the Group of Seven finance ministers did not single out the currency's weakness. According to traders, the G7's Washington meeting appeared to give a green light to carry trades. The Japanese yen hit its intra-month low of ¥119.65 per US dollar on 19 April 2007, but thereafter recouped some of its losses, as investors unwound their carry trades on solid data on service industry activity, signalling a rebound in consumption on the back of a steady recovery. The Japanese yen closed April 2007 on a soft tone, trading around ¥119.53 per US dollar following the release of a steeper-than-expected drop in Japan's core consumer prices that reinforced expectations that the Bank of Japan would take its time before raising interest rates further.

Oil prices, on average, moved higher during April 2007 mainly on tensions between Iran and the West. The issue of 15 British navy personnel captured by Iran lingered for some time and kept oil prices trading at levels above US\$64 a barrel. Iran finally released the British navy personnel on 8 April 2007, helping oil prices ease to some extent. But the world oil market remained edgy as weekly US stock reports were disappointing. The US Energy Information Administration, week after week, reported sharp falls in US gasoline stocks. Moreover, the International Energy Agency, in its latest report affirmed that OPEC had tightened supply too much. Concerns that Presidential elections in Nigeria could potentially disturb supply also supported oil prices upwards. In the weeks ahead, oil prices are expected to trade around US\$64 a barrel given current market conditions, in particular, the forthcoming US driving season.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US\$64.0 a barrel for April 2007, up from US\$60.7 a barrel in March 2007 but down from US\$70.2 a barrel in April 2006. IPE Brent futures averaged US\$67.6 a barrel during the period under review, up from US\$62.5 in March 2007 but down from US\$70.5 a barrel in April 2006. In its April 2007 World Economic Outlook (WEO), the IMF has revised down its forecasts of the average WTI crude oil price for 2007 to US\$60.75 a barrel, from the September 2006 WEO estimate of US\$75.50 a barrel. It is also projecting an average price of US\$64.75 a barrel for 2008.

COMEX gold futures, on average, moved higher during April 2007, trading in an intra-month closing range of US\$669.7/Oz-US\$695.8/Oz compared to a range of US\$639.2/Oz-US\$669.0/Oz in March 2007. A significant increase in demand was noted from China and India. COMEX averaged US\$684.2/Oz during April 2007, compared to an average of US\$655.6/Oz in March 2007.

Domestic Developments

Tourist arrivals went up by 37.5 per cent, from 58,136 in March 2006 to 79,965 in March 2007, while gross tourism receipts grew by 13.5 per cent, from Rs2,941 million in March 2006 to Rs3,337 million in March 2007. On a cumulative basis, over the period July 2006 to March 2007, tourist arrivals reached 672,070, representing an increase of 8.2 per cent over the 621,000 arrivals recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2006 to March 2007 rose by 23.0 per cent to reach Rs27,282 million compared to Rs22,188 million recorded over the corresponding period of the previous fiscal year.

Provisional data show that foreign direct investment flows to Mauritius amounted to Rs1,330 million in the first quarter of 2007. The tourism sector was the largest recipient of foreign direct investment, accounting for Rs607 million, reflecting essentially investments under the Integrated Resorts Scheme (IRS). Direct investment abroad stood at Rs111 million in the first quarter of 2007 and was essentially directed to the agricultural sector in Mozambique (Rs34 million), the manufacturing sector in Madagascar (Rs27 million) and the tourism sector in Seychelles (Rs19 million).

The Consumer Price Index (CPI) increased from 136.1 in March 2007 to 137.5 in April 2007. The largest rise was noted in the sub-Division "Recreation and culture", which went up by 2.4 per cent, followed by "Food and non alcoholic beverages" (+2.3 per cent), "Miscellaneous goods and services" (+1.1 per cent), "Furnishings, household equipment and routine household maintenance" (+0.7 per cent), "Transport" (+0.6 per cent), "Alcoholic beverages and tobacco" and "Clothing and footwear" (+0.3 per cent), "Health" (+0.2 per cent), "Housing, water, electricity, gas and other fuels" and "Restaurants and hotels" (+0.1 per cent). "Communication" and "Education" recorded no change in their sub-indices. The main contributors to the rise in the index between March 2007 and April 2007 were chicken, milk and milk preparations, each registering an increase of 0.3 index point, other food products and newspapers, each recording a rise of 0.2 index point and trader's rice, beef, oil, diesel and goods for personal care and hygiene, each registering an increase of 0.1 index point. This was partially offset by a decrease of 0.1 index point in fresh fruits. The rate of inflation for the twelve-month period ended April 2007 stood at 10.1 per cent, up from 9.7 per cent for the twelve-month period ended March 2007.

While headline inflation for April 2007 stood at 10.1 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 7.8 per cent, 7.9 per cent and 7.3 per cent, respectively. Consequently, for April 2007, core inflation was between 2.2 and 2.8 percentage points lower than the headline inflation.

Net foreign assets of depository corporations expanded by Rs16,202 million or 25.2 per cent, from Rs64,202 million at the end of June 2006 to Rs80,404 million at the end of March 2007. This growth stems from the rise in net foreign assets of both other depository corporations and the Bank of Mauritius. Net foreign assets of other depository corporations went up by Rs11,554 million or 52.8 per cent to Rs33,442 million while those of the Bank of Mauritius rose by Rs4,648 million or 11.0 per cent to Rs46,963 million. Claims on non-residents increased by Rs56,017 million or 22.9 per cent, from Rs245,127 million at the end of June 2006 to Rs301,144 million at the end of March 2007. Liabilities to non-residents rose by Rs39,815 million or 22.0 per cent, from Rs180,925 million at the end of June 2006 to Rs220,740 million at the end of March 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, grew by Rs5,022 million or 2.5 per cent, from Rs198,606 million at the end of June 2006 to Rs203,628 million at the end of March 2007. Net claims on budgetary central Government contracted by Rs5,724 million or 11.8 per cent, from Rs48,544 million at the end of June 2006 to Rs42,820 million at the end of March 2007. Claims on other sectors, exclusive of claims on GBL holders but inclusive of extra budgetary units, went up by Rs10,747 million or 7.2 per cent to Rs160,808 million over the first nine months of 2006-07.

Net claims on budgetary central Government from the Bank of Mauritius rose by Rs321 million or 31.8 per cent, from Rs1,011 million at the end of June 2006 to Rs1,332 million at the end of March 2007. Net claims on budgetary central Government from other depository corporations contracted by Rs6,046 million or 12.7 per cent, from Rs47,533 million to Rs41,487 million.

Claims on other sectors from the Bank of Mauritius edged up by Rs5 million or 1.9 per cent, from Rs244 million at the end of June 2006 to Rs249 million at the end of March 2007 while claims on other sectors, exclusive of claims on GBL holders but inclusive of claims on extra budgetary units, from other depository corporations expanded by Rs10,742 million or 7.2 per cent, from Rs149,817 million to Rs160,559 million.

Broad Money Liabilities (BML) went up by Rs12,799 million or 6.5 per cent, from Rs198,415 million at the end of June 2006 to Rs211,214 million at the end of March 2007. Of the components of BML, currency with public increased by Rs1,312 million or 12.6 per cent to Rs11,744 million while transferable deposits grew by Rs4,863 million or 13.5 per cent to Rs40,798 million. Savings deposits rose by Rs3,143 million or 5.2 per cent to Rs64,074 million while time deposits expanded by Rs4,338 million or 4.9 per cent to Rs93,009 million. Securities other than shares included in broad money fell by Rs856 million or 35.0 per cent to Rs1,590 million.

The monetary base went up by Rs1,508 million, or 6.9 per cent, from Rs22,015 million at the end of June 2006 to Rs23,523 million at the end of March 2007. Currency in circulation grew by Rs1,705 million, or 13.9 per cent, from Rs12,248 million to Rs13,953 million while liabilities to other depository corporations fell by Rs141 million or 1.6 per cent, from Rs9,048 million to Rs8,907 million.

At the end of March 2007, the Broad Money Liabilities multiplier stood at 9.0, unchanged from the end June 2006 figure.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs9,300 million through the Primary Market in April 2007. Between end-March and end-April 2007, the weighted average yields on the 91-day and 182-day Bills increased from 11.54 per cent to 11.82 per cent and 11.59 per cent to 11.95 per cent respectively whereas the weighted average yield on the 364-day Bill decreased from 11.59 per cent to 10.69 per cent.

During April 2007, the Bank carried out 10 reverse repos at the key Repo rate less 50 basis points, that is, at 8.00 per cent. No repo transaction was carried out. Overnight interbank transactions in April 2007 amounted to Rs6,620 million, with a high of Rs730 million and a trough of Rs18 million. The weighted average overnight interbank rate for April 2007 was 8.10 per cent compared to 8.18 per cent for the previous month.

During April 2007, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,569.5 million, while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs8.1 million.

At the monthly auction of Treasury Notes held in April 2007, a total nominal amount of Rs1,500 million with maturities of 2, 3, and 4 years, and with interest payable semi-annually at the rates of 11.00, 11.40 and 11.65 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs2,971.1 million, of which Rs1,500 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 9.88, 10.62 and 11.72 per cent per annum, respectively.

The fifth issue of Five-Year Government of Mauritius Bonds for 2006-07 was undertaken on 20 April 2007, through an auction held on 18 April 2007. Bonds for a total nominal amount of Rs500 million were put on tender at a coupon rate equal to or higher than the lowest accepted yield at the auction. Bids for an amount of Rs1,567.2 million were received, of which an amount of Rs500 million was accepted. The weighted average yield on bids accepted was 11.08 per cent per annum and the coupon rate was set at 10.95 per cent per annum.

In April 2007, the Bank purchased US\$113.5 million on the domestic interbank foreign exchange market.

Between March 2007 and April 2007, the rupee, on average, appreciated vis-à-vis the US dollar and Japanese yen but depreciated against the euro and Pound sterling.

At the end of March 2007, the net international reserves of the country amounted to Rs80,816 million. The end-March 2007 level of net international reserves of the country, based on the value of the import bill for calendar year 2006, exclusive of the purchase of aircraft and ship, represented 38.6 weeks of imports, up from 37.6 weeks at the end of February 2007. The gross foreign exchange reserves of the Bank of Mauritius rose from Rs47,337 million at the end of March 2007 to Rs50,736 million at the end of April 2007, reflecting essentially Bank of Mauritius intervention on the interbank foreign exchange market.