International Developments

In December 2009, the US dollar, on average, appreciated against the Japanese Yen, euro and Pound Sterling. Although the US dollar started the month on a soft note as Dubai's debt problems eased and stock and commodity prices rose, it began to gain strongly against majors after positive data emerged from the United States. Reports showing that the US lost far fewer jobs than expected in the previous month, as well as strong US retail sales data and better than expected consumer sentiment bolstered hopes that the economy was on a stable path to recovery. The US dollar also benefited from investors' unwinding positions in riskier assets ahead of the year-end, prompted in part by debt woes for Dubai and concerns over sovereign debt rating downgrades for Greece and other European nations.

Improved economic conditions together with stronger U.S. inflation data fuelled speculation that the Federal Reserve might begin to raise interest rates early next year. At its December monetary policy meeting as expected, the Fed left the federal funds rate unchanged in the range of 0-0.25 per cent and highlighted that focus remained on how and when to remove liquidity facilities in the light of ongoing improvements in the functioning of financial markets. The US dollar thus remained supported and hit a 3 1/2 month high of US$1.4246 against the euro on 23 December 2009 following the release of even more positive data. In the last week of the month, as traders took profits ahead of the year-end in holiday-thinned trade, the US dollar hovered around US$1.4300.

The Euro traded at an average of US$1.4609 in December 2009 compared to an average of US$1.4931 in November 2009. The European Central Bank left its refinancing rate unchanged at 1 per cent, as expected, and also agreed to start unwinding some of the measures designed to boost liquidity and encourage lending.

The Pound sterling depreciated against the US dollar during December 2009, trading at an average of US$1.6242 compared to an average of US$1.6618 in November 2009. At the beginning of the month, the Pound appreciated slightly against the broadly weak US dollar but could not resist the latter's surge thereafter. The Pound weakened to a low of US$1.5884 on 30 December 2009, pressured by a weaker-than-forecast UK services sector survey, banking sector concerns and a government's pre-budget report highlighting Britain's dire fiscal position. The prospect of low UK interest rates well into next year also weighed on the Pound as the Bank of England (BoE) kept the Bank Rate unchanged at 0.50 per cent in December 2009, as widely expected, and maintained its quantitative easing programme at £200 billion. Moreover, a surprise fall in UK retail sales suggested that consumer demand remained sluggish while data showing the economy contracted by more than was expected in the third quarter of 2009 stoked concerns that the UK was poised for an anemic recovery. The release of the minutes of the BoE's monetary policy meeting leaving the door open to a further expansion of the asset buying programme also weighed on the Pound towards the end of December.

In global equity markets, Dubai World's debt problems caused some drags on major stock markets as concerns were raised about the banking sector exposure. However, by mid-December, these concerns evaporated following a loan of US$10 billion from UAE member, Abu Dhabi. Furthermore, better-than-expected sales data from US retailers, a surge in existing home sales, drop in initial job claims, improved consumer spending and US Federal Reserve reiterating that interest rates would be kept low for an extended time period, led nearly all major international stock markets to post fresh highs for 2009. Over the month, among the developed stock markets, US Nasdaq and France's CAC-40 registered increases of

4.29% and 4.25%, respectively, while among emerging stock markets, Bombay Stock Exchange Sensex, Johannesburg Stock Exchange and Shanghai Stock Exchange Composite recorded returns of 1.55%, 1.43% and 1.29%, respectively.

International oil prices witnessed a decline during December 2009, largely on account of a stronger dollar and continued concern for the US economy. IPE Brent hit its intra-month high of US$79.4 a barrel on 1 December 2009 while NYMEX reached its peak of US$79.4 a barrel on 31 December 2009. The US Energy Information Administration (EIA) has forecast that in 2010 world oil consumption would grow by 1.1 million barrels per day to 85.2 million barrels per day. At its meeting held on 22 December 2009 in Luanda, Angola, OPEC decided to maintain current oil production levels unchanged for the time being. The next OPEC meeting will be held in Vienna, Austria, on 17 March 2010.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$74.6 a barrel in December 2009 compared to US$78.1 a barrel in November 2009. IPE Brent averaged US$75.2 a barrel during the month under review, compared to US$77.6 in November 2009.

COMEX gold futures, on average, rose during the month of December 2009, trading in an intra-month closing range of US$1,086.7/Oz-US$1,218.3/Oz compared to US$1,054.0/Oz-US$1,187.0/Oz in November 2009. Gold prices reached a peak of US$1,218.3/Oz on 3 December 2009 as worries about central banks withdrawing excess liquidity from the financial system pressured the bullion.

Domestic Developments

In the December 2009 issue of its National Accounts Estimates, the Central Statistics Office revised upwards the growth rate of the Mauritian economy for 2009 to 2.8 per cent, from 2.7 per cent forecast in September 2009. This revision is due to: (i) higher growth in sugar cane/sugar milling as a result of higher sugar production and higher prices of refined and special sugars; (ii) higher growth in ‘other agriculture’ in view of higher production of food crops; (iii) no growth in ‘other manufacturing’ amid stagnation in the production of goods for the domestic market; (iv) higher growth in ‘construction’ resulting from higher investment in private sector projects such as RES, residential complexes and telecommunication ; (v) higher growth in ‘hotels and restaurants’ with tourist arrivals estimated at 860,000 compared to 835,000 earlier; and (vi) lower growth in ‘financial intermediation’ explained by lower growths in both insurance and banking activities.

On the basis of information gathered on key sectors of the economy and taking into consideration measures announced in the last budget, economic growth has been projected at 4.3 per cent in 2010. This improved performance is driven by: (i) an estimated higher sugar production of 480,000 tonnes; (ii) higher growth in ‘Manufacturing industries’, with the ‘food processing’, ‘textile’ and ‘other manufacturing’ sub-sectors picking up by 3.0 per cent, 1.0 per cent and 1.0 per cent, respectively; (iii) an expansion of 8.0 per cent in the ‘Construction’ sector due to the frontloading of public sector investment projects like road infrastructure, hospitals, airport, housing and schools, amongst others; (iv) a growth of 5.0 per cent in the tourism sector with tourist arrivals projected at 900,000; (v) a pick-up of 6.0 per cent in ‘Transport, storage and communications’ with better performance in air transport and tourism-related activities; and (vi) a growth of 6.0 per cent in ‘Financial intermediation’.

Tourist arrivals went up by 4.2 per cent, from 75,380 in November 2008 to 78,544 in November 2009, while gross tourism receipts rose by 6.4 per cent, from Rs2,955 million in November 2008 to Rs3,143 million in

November 2009. On a cumulative basis, over the period January 2009 to November 2009, tourist arrivals reached 767,626 representing a decrease of 7.9 per cent over the 833,068 arrivals recorded in the corresponding period of the previous year. Tourism receipts contracted by 13.7 per cent from Rs36,752 million to Rs31,720 million.

The Consumer Price Index (CPI) edged down from 117.3 in November 2009 to 117.2 in December 2009. The main contributors to the fall in the index between November 2009 and December 2009 were '*rice'*, *'other food products'*, '*alcoholic beverages'*, '*diesel oil'* and *'air tickets'*, each registering a drop of 0.1 index point. A rise of 0.1 index point for *'ready-made clothing'* and 0.3 index point for *'gasoline'* were noted. The largest contraction of 0.6 per cent was noted in the Division "Food and non alcoholic beverages" followed by "Alcoholic beverages and tobacco" (-0.5 per cent) and "Recreation and culture" (-0.2 per cent). The divisions "Clothing and footwear", "Restaurants and hotels", "Transport", "Miscellaneous goods and services", "Furnishings, household equipment and routine household maintenance" and "Health" recorded increases of 1.4 per cent, 0.6 per cent, 0.4 per cent, 0.4 per cent, 0.3 per cent and 0.1 per cent, respectively while "Housing, water, electricity, gas and other fuels", "Communication", and "Education", recorded no change in their indices.

The rate of inflation for the twelve-month period ended December 2009 dropped to 2.5 per cent, from 2.9 per cent for the twelve-month period ended November 2009. Year-on-Year inflation rate rose to 1.5 per cent in December 2009, from 0.7 per cent in November 2009.

CORE1 and CORE2 inflation continued to trend downward in December 2009. CORE1 inflation fell from 2.7 per cent in November 2009 to 2.4 per cent in December 2009. CORE2 inflation dropped to 3.8 per cent in December 2009, from 4.1 per cent for the twelve-month period ended November 2009. TRIM10 inflation stood at 2.4 per cent for the twelve-month period ended December 2009, down from 2.7 per cent in November 2009.

Net foreign assets of depository corporations rose by Rs4,352 million, or 4.6 per cent, from Rs95,517 million at the end of October 2009 to Rs99,869 million at the end of November 2009, largely on account of increases in both net foreign assets of the Bank of Mauritius and those of other depository corporations. Net foreign assets of other depository corporations went up by Rs2,767 million, or 8.3 per cent, to Rs35,904 million while those of the Bank of Mauritius increased by Rs1,585 million, or 2.5 per cent, to Rs63,965 million.

Domestic claims of depository corporations, excluding claims on GBL holders, decreased by Rs2,498 million, or 0.9 per cent, from Rs274,391 million at the end of October 2009 to Rs271,893 million at the end of November 2009. Net claims on budgetary central Government fell by Rs2,318 million, or 4.7 per cent, from Rs49,693 million at the end of October 2009 to Rs47,375 million at the end of November 2009. Claims on other sectors, that is, credit to the private sector went down by Rs181 million, or 0.1 per cent, from Rs224,699 million in October 2009 to Rs224,518 million in November 2009.

Net claims on budgetary central Government from the Bank of Mauritius decreased by Rs2,955 million, or 25.7 per cent, from negative Rs11,519 million at the end of October 2009 to negative Rs14,474 million at the end of November 2009. Net claims on budgetary central Government from other depository corporations rose by Rs 637 million, or 1.0 per cent, from Rs61,212 million to Rs61,849 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs2 million or 1.2 per cent to Rs139 million at the end of November 2009 while claims on Other Sectors from other depository corporations went down by Rs183 million, or 0.1 per cent, from Rs224,562 million to Rs224,379 million.

Broad Money Liabilities (BML) went up by Rs2,840 million, or 1.0 per cent, from Rs284,851 million at the end of October 2009 to Rs287,691 million at the end of November 2009. Of the components of BML, currency with public increased by Rs46 million, or 0.3 per cent, to Rs15,463 million while transferable deposits increased by Rs2,215 million, or 3.5 per cent, to Rs65,850 million. Savings deposits went up by Rs591 million, or 0.7 per cent, to Rs83,978 million while time deposits decreased by Rs24 million, or 0.02 per cent, to Rs121,640 million. Securities other than shares included in broad money increased by Rs12 million, or 1.6 per cent, to Rs760 million.

The monetary base fell by Rs315 million, or 1.0 per cent, from Rs30,105 million at the end of October 2009 to Rs29,790 million at the end of November 2009. Currency in circulation went up by Rs240 million, or 1.4 per cent, from Rs17,725 million to Rs17,965 million while liabilities to other depository corporations fell by Rs587 million, or 4.8 per cent, from Rs12,204 million to Rs11,617 million.

Broad Money Liabilities multiplier went up from 9.5 at the end of October 2009 to 9.7 at the end of November 2009, reflecting a greater expansion of Broad Money Liabilities.

In December 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs6,482 million through the weekly Primary Auctions. Between end-November and end-December 2009, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills decreased from 4.38 per cent to 4.31 per cent, from 4.50 per cent to 4.38 per cent and from 4.67 per cent to 4.59 per cent respectively. The overall weighted yield during December 2009 decreased to 4.40 per cent from 4.49 per cent for the previous month. During December 2009, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in December 2009 totalled Rs23,619 million with a daily average of Rs762 million, a high of Rs1,933 million and a trough of Rs75 million. The weighted average overnight interbank rate for December 2009 increased to 4.08 per cent from 3.97 per cent for the previous month.

A total amount of Rs7.85 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 Rs117.8 million. No Bills were traded on the Stock Exchange of Mauritius.

At the auction of Treasury Notes held in December 2009, a total nominal amount of Rs1,500 million of Treasury Notes with maturities of 2, 3 and 4 years with interest payable semi-annually at the rates of 5.50, 5.75 and 6.00 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs4,096.4 million and the amount accepted was Rs1,500.0 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 6.17, 7.12 and 7.49 per cent per annum, respectively. The market preference of bids received for Treasury Notes was skewed towards the 2-year maturity.

The second issue of Long-Term Government of Mauritius Bonds for the period July to December 2009 with maturities of 7, 13, and 20 years and interest payable semi-annually at the rates of 7.50, 7.65 and 7.80 per cent per annum was undertaken on 4 December 2009 through an auction held on 2 December 2009. Bids for a total nominal amount of Rs1,422.2 million were received against a tender amount of Rs1,000 million. The amount accepted was Rs1,000.0 million. The weighted average yields on bids accepted for the 7-year, 13-year and 20-year maturities were 9.44, 10.37 and 10.70 per cent per annum, respectively.

In December 2009, the Bank conducted Special Deposits Facility for a period of 7 days at the rate of 4.75 per cent per annum. A total amount of Rs1,300 million was received and accepted. The Bank also carried out one repurchase transaction for a total amount of Rs1,200 million on an auction basis for a period of 7 days at the rate of 7.00 per cent per annum.

As from 23 December 2009, the Bank has offered to conduct short-term foreign currency swaps for three months in USD, EUR and GBP for a target amount of USD100 million or its equivalent. The swaps will be conducted on Wednesdays. These transactions are being undertaken to enable banks/foreign exchange dealers to cover similar transactions with eligible operators in the export and tourism sectors. The terms of the swap transactions between the banks/foreign exchange dealers and the operators would be mutually agreed between them. In order to mop up the excess liquidity that will be generated by the swap transactions, the Bank will offer an option to the banks/foreign exchange dealers to invest in Treasury Bills of 91-day, 182-day or 364-day tenor at a yield respectively of 75 basis points, 60 basis points and 50 basis points below the key Repo Rate. On the day of the swap transactions, the Bank will issue warrants to the banks/foreign exchange dealers concerned authorizing them to invest the equivalent in Treasury Bills. The warrants have to be exercised within a period of 30 days from the date of issue thereof, failing which they shall lapse. As at end December 2009, no transactions were effected.

Based on the consolidated indicative selling rates of banks, the rupee, on average, appreciated vis-à-vis the Pound sterling, euro, Japanese yen and the US dollar, between November and December 2009.

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 November and December 2009, the rupee, on average, appreciated against the US dollar, euro and Pound sterling.

At the end of November 2009, the net international reserves of the country stood at Rs100,493 million. The end-November 2009 level of net international reserves of the country, based on the value of import bill for the fiscal year 2008-09 exclusive of the purchase of marine vessel, represented 42.6 weeks of imports, up from 40.7 weeks of imports at the end of October 2009. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs67,980 million as at end-November 2009 to Rs69,136 million at the end of December 2009.