OVERVIEW

International Developments

In December 2010, the US dollar, on average, appreciated against the euro, Japanese yen and Pound sterling. At the start of the month, the US dollar came under pressure despite the generally positive economic data releases as investors increased their risk appetite for non-US dollar assets. Thereafter, the US currency regained ground following the US Government's decision to extend tax cuts, lifting hopes of an economic recovery in 2011 and a lesser reliance on any additional monetary stimulus from the Federal Reserve. At the Federal Open Market Committee (FOMC) meeting on 14 December 2010, the Fed kept its benchmark interest rate at a record low of 0-0.25 per cent. In its accompanying statement, the Fed reiterated its concerns that the labour market was not improving fast enough amid tight credit, lower house prices and modest income growth and said that it would maintain the federal funds rate within its current range for an "extended period" and leave quantitative easing (QE2) unchanged at US$600 billion through to June 2011. From then on, the US dollar trended upward after upbeat US economic data helped to send US Treasury yields higher and rising tensions in the Korean Peninsula triggered safe-haven buying of the US currency.

The euro tumbled in December 2010, trading at an average of US$1.3213 against the US dollar compared to an average of US$1.3642 in November 2010. At its Governing Council meeting on 2 December 2010, the European Central Bank (ECB) left its key refinancing rate unchanged at 1 per cent, as widely expected, and extended its liquidity safety net to support vulnerable euro zone banks at least until April 2011. Moreover, the ECB decided to purchase Portuguese and Irish debt, which helped calm investor panic over euro zone debt and support the euro against the US dollar. Subsequently, the single currency reversed its upward trend on profit-taking after views diverged among European Union leaders on how to contain the euro zone's fiscal crisis. The euro recouped its previous losses and reached an intra-month high of US$1.3387 on 14 December 2010 with traders citing solid buying, including from Asian central banks. A multi-notch downgrade of Ireland's credit rating highlighted the severity of the euro zone debt crisis, and worries of more downgrades added further pressure on the euro. European Union leaders' agreement to lengthen the maturities of new sovereign bond issues, and bring on private investors in the future euro zone rescue mechanism supported the euro to some extent but overall, the news disappointed investors who had hoped for more details and more active measures. The euro ended the month trading around US$1.3292 as sentiment towards the single currency remained bearish amid worries about Portugal's and Spain's debt.

The Pound sterling depreciated against the US dollar during December 2010, trading at an average of US$1.5599 compared to an average of US$1.5955 in the previous month. The UK currency strengthened against the US dollar in the first half of the month on the back of the release of above-forecast UK manufacturing data, which weakened the case for more quantitative easing by the Bank of England (BoE). The Pound sterling was also supported by news of a surge in industrial orders, which was a further indication that UK economic recovery was gaining momentum. On 9 December 2010, the BoE maintained its Bank Rate at 0.5 per cent and made no new quantitative easing purchases, in line with market expectations. The Pound sterling reached an intra-month high of US$1.5859 on 14 December 2010, benefiting from the US currency's broad-based weakness. Thereafter, the British currency shed some of its earlier gains against the US dollar after weaker-than-forecast UK jobs data pointed to a patchy economic recovery while a very weak UK consumer confidence survey added to worries that the government's planned public spending cuts could hit the UK economy hard. Thereafter, disappointing third-quarter UK GDP data, accompanied by a downward revision to second-quarter growth, higher-than-expected UK current account deficit and unemployment data sent the Pound sterling to an intra-month low of US$1.5398 on 29 December 2010. Bearish comments from a BoE policymaker saying that the British economy could suffer another period of contraction in 2011, continued to weigh on the Pound sterling, which closed the month trading around US$1.5433.

Overall, major stock markets continued on their uptrend in December 2010 on the back of improving economic data, additional stimulus from the Federal Reserve and the renewal of the tax cut agreement, which kept equities in demand. Moreover, solid earnings and a flurry of merger activity also underpinned the steady upward movement, reinforcing investors' optimism for the coming year while news of a surprise interest rate hike from China's central bank around the end of December 2010 was shrugged off by the market.

Over the month, FTSE, NASDAQ, CAC-40 and Dow Jones Industrial Average advanced by 4.56 per cent, 4.06 per cent, 3.72 per cent and 2.86 per cent, respectively. Among emerging stock markets, JALSH and Bombay SENSEX rose by 4.33 per cent and 3.32 per cent, respectively, while Hang Seng and Shanghai SEC posted negative returns of 0.92 per cent and 0.54 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$89.2 a barrel in December 2010, up from US$84.3 a barrel in November 2010. ICE Brent Crude averaged US$92.3 a barrel during the month under review, up from US$86.2 a barrel in November 2010. NYMEX and ICE Brent Crude settled at intra-month highs of US$91.5 a barrel on 23 December 2010 and US$94.8 a barrel on 31 December 2010, respectively.

COMEX gold futures, on average, went up during December 2010, trading in an intra-month closing range of US$1,371.0/Oz-US$1,421.4/Oz compared to US$1,336.9/Oz-US$1,410.1/Oz in November 2010. Gold prices peaked at US$1,421.4/Oz on 31 December 2010.

Domestic Developments

In the December 2010 issue, the Central Statistics Office has revised the National Accounts estimates for the period 2007 to 2010 and provided a first forecast for 2011. The revised estimates have been rebased on the 2007 Census of Economic Activities and incorporate some conceptual and methodological improvements as well as improvements in data sources.

The growth rate for 2010 was estimated at 4.2 per cent, up from 3.1 per cent in 2009. The economy was projected to grow at a similar rate of 4.2 per cent in 2011. Sugar production was expected to yield 450,000 tonnes and the slowdown in the 'Manufacturing', 'Construction' and 'Hotels and restaurants' sectors with growth rates of 2.6 per cent, 2.0 per cent, 3.4 per cent, respectively would be offset by buoyant growth in 'Transport, storage and communication', 'Financial intermediation' and 'Business activities' sectors at growth rates of 5.7 per cent, 5.2 per cent and 9.0 per cent, respectively, in 2011.

Tourist arrivals went up by 9.5 per cent, from 78,544 in November 2009 to 85,982 in November 2010. On a cumulative basis, for the period January to November 2010, tourist arrivals reached 819,978 representing an increase of 6.8 per cent compared to the corresponding period last year.

The Consumer Price Index (CPI) rose from 121.9 in November 2010 to 124.4 in December 2010. The main contributors to the rise in the index between November 2010 and December 2010 were cigarettes and alcoholic beverages (+0.6 index point each), electricity (+0.4 index point), bus fares and expenditure in bars and restaurants (+0.2 index point each) and vegetables, cooking oil, taxi fares, motor vehicles and other goods and services (+0.1 index point each). Division-wise, the largest rise of 10.2 per cent was noted in “Alcoholic beverages and tobacco” followed by “Restaurants and hotels” (+4.5 per cent), “Housing, water, electricity, gas and other fuels” (+3.4 per cent), “Transport” (+2.5 per cent), “Food and non alcoholic beverages” (+0.5 per cent), “Clothing and footwear” (+0.5 per cent), “Recreation and culture” (+0.4 per cent) and “Furnishings, household equipment and routine household maintenance” (+0.2 per cent). The divisions “Communication” and “Health” recorded decreases of 0.3 per cent and 0.1 per cent, respectively while “Miscellaneous goods and services” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended December 2010 stood at 2.9 per cent, up from 2.5 per cent for the twelve-month period ended November 2010. Year-on-Year inflation rate went up to 6.1 per cent in December 2010, from 3.9 per cent in November 2010.

CORE1 inflation went up to 3.2 per cent for the twelve-month period ended December 2010, from 2.9 per cent for the twelve-month period ended November 2010. CORE2 inflation went up from 2.6 per cent for the twelve-month period ended November 2010 to 2.8 per cent for the twelve-month period ended December 2010. TRIM10 inflation stood at 2.9 per cent in December 2010, up from 2.6 per cent for the twelve-month period ended November 2010.

Net foreign assets[1] of depository corporations went up by Rs5,478 million, or 5.5 per cent, from Rs99,674 million at the end of October 2010 to Rs105,152 million at the end of November 2010. The increase reflected the rise in both net foreign assets of the Bank of Mauritius and those of other depository corporations. Net foreign assets of the Bank of Mauritius rose by Rs2,327 million, or 3.4 per cent to Rs70,938 million and those of the other depository corporations increased by Rs3,151 million, or 10.1 per cent, to Rs34,214 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs780 million, or 0.3 per cent, from Rs298,354 million at the end of October 2010 to Rs299,134 million at the end of November 2010. Net claims on budgetary central Government decreased by Rs570 million, or 1.1 per cent, from Rs49,984 million at the end of October 2010 to Rs49,414 million at the end of November 2010. Claims on other sectors, that is, credit to the private sector went up by Rs1,350 million, or 0.5 per cent, to Rs249,720 million in November 2010.

Net claims on budgetary central Government from the Bank of Mauritius went down by Rs1,796 million, or 47.1 per cent, from negative Rs3,812 million at the end of October 2010 to negative Rs5,608 million at the end of November 2010. Net claims on budgetary central Government from other depository corporations rose by Rs1,226 million, or 2.3 per cent, from Rs53,796 million to Rs55,022 million.

Claims on Other Sectors from the Bank of Mauritius increased marginally by 1.1 per cent to Rs138 million at the end of November 2010 while claims on Other Sectors from other depository corporations increased by Rs1,348 million, or 0.5 per cent, from Rs248,233 million to Rs249,581 million.

Broad Money Liabilities (BML) went up by Rs1,900 million, or 0.6 per cent, from Rs306,352 million at the end of October 2010 to Rs308,252 million at the end of November 2010. Of the components of BML, currency with public increased by Rs248 million, or 1.5 per cent, to Rs16,722 million while transferable deposits decreased by Rs854 million, or 1.3 per cent, to Rs65,406 million. Savings deposits went up by Rs17 million or 0.02 per cent, to Rs101,118 million while time deposits increased by Rs2,478 million, or 2.1 per cent, to

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[1]. *Kindly note that the review on monetary developments and net international reserves is based on the provisional estimates as at end - October 2010 and end - November 2010.*

Rs122,022 million. Securities other than shares included in broad money increased by Rs11 million or 0.4 per cent, from Rs2,972 million at the end of October 2010 to Rs2,983 million at the end of November 2010.

The monetary base went up by Rs1,169 million, or 3.0 per cent, from Rs38,966 million at the end of October 2010 to Rs40,135 million at the end of November 2010. Currency in circulation increased by Rs388 million, or 2.0 per cent, from Rs19,127 million to Rs19,515 million while liabilities to other depository corporations rose by Rs760 million, or 3.9 per cent, from Rs19,602 million to Rs20,362 million.

Broad Money Liabilities multiplier went down from 7.9 at the end of October 2010 to 7.7 at the end of November 2010 as a result of a higher expansion in Monetary Base as compared to Broad Money Liabilities.

In December 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs5,500 million through the weekly Primary Auctions. Between end-November and end-December 2010, the weighted yields across the three maturities, namely, 91-Day Bills, 182-Day Bills and 364-Day Bills declined from 3.00 per cent, 3.44 per cent and 3.87 per cent to 2.02 per cent, 3.04 per cent and 3.49 per cent, respectively.

The overall weighted yield in December 2010 stood at 3.07 per cent down from 3.85 per cent in the previous month. The market preference was slightly skewed towards the 91-Day Bills in December 2010 with bids in 91-Day, 182-Day and 364-Day maturities representing around 61.9 per cent, 21.9 per cent and 16.2 per cent, respectively, of total bids received.

At the monthly auction of Government of Mauritius Treasury Notes (GMTN) held in December 2010, Treasury Notes for a total nominal amount of Rs1,500 million with maturities of 2, 3 and 4 years and bearing interest at the rate of 4.50, 4.75 and 5.00 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs3,021 million and the amount accepted was Rs1,500 million. Bids accepted in the three maturities of 2, 3 and 4 years respectively were Rs993.1million, Rs283.5 million and Rs223.4 million, respectively. The weighted yields were 5.20 per cent, 5.48 per cent and 6.27 per cent, respectively. The market preference remained skewed towards the 2-Year maturity with bids accounting for 58.0 per cent of total bids received.

On 15 December 2010 an auction of Fifteen Year Inflation Indexed Government of Mauritius Bonds was held. An amount of Rs1,000 million was put on tender and bids received amounted to Rs1,615.6 million. An amount of Rs621.1 million was accepted and the weighted bid margin accepted stood at 2.50 per cent.

During the month under review, Rs8.6 million worth of Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public. Bills traded by primary dealers during the month amounted to Rs276.6 million.

Transactions on the interbank money market in December 2010 totalled Rs15,575 million with a daily average of Rs502 million compared to Rs332 million for the previous month. A high of Rs772 million and a trough of Rs235 million were recorded in December 2010. The weighted average overnight interbank rate in December 2010 stood at 1.99 per cent down from 2.17 per cent in November 2010.

Under the Special Line of Credit made available to Small and Medium Planters, the outstanding amount, as at end-December 2010, stood at Rs733.6 million. There has been no disbursement under the Special Line of Credit to the Small and Medium Hotels.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased a total amount of US$72.025 million and €15.337 million from the Government, banks and foreign exchange dealers and sold US$27.743 million to its customers.

The weighted average dealt selling rates of the rupee, which are calculated on the basis of transactions of US$30,000 and above, or the equivalent in other foreign currencies conducted by banks and Bank of Mauritius, appreciated, on average, against the Euro and the Pound sterling but depreciated against the US dollar between November and December 2010.

At the end of November 2010, the net international reserves of the country stood at Rs106,176 million compared to Rs100,708 million at the end of October 2010. The end-November 2010 level of net international reserves of the country, based on the value of import bill for the fiscal year 2009-10 exclusive of the purchase of aircraft, represented 44.3 weeks of imports, up from 42.0 weeks of imports at the end of October 2010. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs75,061 million as at end-November 2010 to Rs78,031 million at the end of December 2010.