

OVERVIEW

International Developments

In December 2012, the US dollar, on average, depreciated vis-à-vis the euro and the Pound sterling but appreciated against the Japanese yen. The US dollar fell after the U.S. Federal Reserve unveiled a fresh bond-buying programme and explicitly linked its policy path to unemployment and inflation. However, concerns about the lack of progress in talks aimed at avoiding the U.S. “fiscal cliff” of tax hikes and spending cuts weighed on risk sentiment, providing some support to the safe-haven dollar.

The euro traded at an average of US\$1.3113 in December 2012 compared to an average of US\$1.2839 in November 2012. It rose to a seven-week high as upbeat data on the Chinese economy and efforts to tackle the debt problems of Greece and Spain boosted risk sentiment. Later, the single currency came under pressure, dropping to an intra-month low of US\$1.2898, after the European Central Bank, at its policy meeting on 6 December 2012, kept its key interest rate steady at 0.75 per cent and disclosed a bleak economic outlook for the euro zone. Political uncertainty in Italy after Prime Minister Mario Monti offered to resign also pressured down the euro. The latter, thereafter, rose to an intra-month high of US\$1.3246 on strong German and Chinese economic data.

The Pound sterling appreciated against the US dollar in December 2012, trading at an average of US\$1.6135 compared to an average of US\$1.5970 in November 2012. The Pound was supported by the broad weakening of the US dollar, and persistent UK inflation that added to expectations the Bank of England would avoid further easing of monetary policy in the near term.

Global equities rose in December 2012, as bold measures from central banks improved the macroeconomic situation in the major economies. Over the month, the NASDAQ, Dow Jones Industrial Average, CAC-40, FTSE and the NIKKEI rose by 0.7 per cent, 0.3 per cent, 2.4 per cent, 0.5 per cent and 11.7 per cent, respectively.

Among emerging stock markets, Shanghai SEC, Bombay SENSEX and JALSH gained 14.6 per cent, 0.4 per cent and 3.0 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$88.2 a barrel in December 2012, up from US\$86.7 a barrel in November 2012. ICE Brent Crude averaged US\$109.2 a barrel during the month under review, down from US\$109.5 a barrel in November 2012. Both NYMEX and ICE Brent Crude settled at intra-month highs of US\$91.8 a barrel and US\$111.1 a barrel, respectively, on 31 December 2012.

COMEX gold futures, on average, went down from US\$1,722.0/Oz in November 2012 to US\$1,685.6/Oz in December 2012 and traded in an intra-month closing range of US\$1,645.9/Oz-1,721.1/Oz compared to US\$1,675.2/Oz-1,751.4/Oz in the preceding month.

Domestic Developments

According to the latest issue of National Accounts Estimates released on 21 December 2012, real economic activity expanded by 3.5 per cent in 2011, down from a previous estimate of 3.9 per cent released in September 2012. For 2012, the September 2012 forecast of an economic growth rate of 3.2 per cent has been upgraded to 3.3 per cent in the December 2012 issue. Manufacturing and the financial and insurance activities were forecast to perform better than expected, outweighing a sharper decline in the construction sector. Preliminary forecasts by Statistics Mauritius for 2013 indicate that the economy would grow at a higher rate of around 3.7 per cent.

November 2012 data on tourist arrivals showed a decrease of 3.4 per cent to 84,398 from 87,348 a year earlier. Gross tourist receipts decreased by 5.1 per cent, from Rs4,280 million in November 2011 to Rs4,063 million in November 2012. In the period December 2011 to November 2012, tourist arrivals decreased by 0.5 per cent to 962,271 from 967,196 arrivals recorded over the previous corresponding period. Tourist receipts for the period December 2011 to November 2012 rose by 5.8 per cent to Rs44,634 million, from Rs42,174 million in the previous corresponding period.

The Consumer Price Index (CPI) rose from 134.4 in November 2012 to 134.6 in December 2012. The main contributors to the rise in the index between November 2012 and December 2012 were cigarettes (+0.2 index point), alcoholic beverages (+0.2 index point), fish (+0.1 index point), furniture (+0.1 index point) and other goods and services (+0.1 index point). Negative contributions came from other food products, which declined by 0.3 index point, meat and goods for personal care and hygiene, which registered a decrease of 0.1 index point each. Division-wise, an increase of 2.5 per cent was recorded for “Alcoholic beverages and tobacco” followed by “Furnishings, household equipment and routine household maintenance” (+0.8 per cent), “Restaurants and hotels” (+0.7 per cent), “Transport” (+0.2 per cent), “Health” (+0.1 per cent) and “Recreation and culture” (+0.1 per cent). “Food and non alcoholic beverages”, “Clothing and footwear” and “Miscellaneous goods and services”, recorded decreases of 0.7 per cent, 0.1 per cent and 1.1 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 2012 stood at 3.9 per cent, down from 4.0 per cent for the twelve-month period ended November 2012. Year-on-Year inflation rate edged up from 3.1 per cent in November 2012 to 3.2 per cent in December 2012.

Between November 2012 and December 2012, for the twelve month period, CORE1 inflation decreased from 3.4 per cent to 3.3 per cent while CORE2 inflation edged down from 3.1 per cent to 3.0 per cent. TRIM10 inflation stood at 2.5 per cent in December 2012, down from 2.6 per cent for the twelve-month period ended November 2012.

Net foreign assets of depository corporations went up by Rs2,415 million, or 0.6 per cent, from Rs390,390 million at the end of October 2012 to Rs392,805 million at the end of November 2012, mainly as a result of the increase in the net foreign assets of the Bank of Mauritius. Net foreign assets of the Bank of Mauritius went up by Rs2,427 million to Rs86,633 million as at end-November 2012 while the net foreign assets of the other depository corporations decreased slightly by Rs12 million to Rs306,172 million as at end-November 2012.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs1,426 million, or 0.4 per cent, from Rs389,210 million at the end of October 2012 to Rs390,636 million at the end of November 2012. Net claims on budgetary central Government decreased by Rs2,221 million, or 5.0 per cent, from Rs44,023 million at the end of October 2012 to Rs41,802 million at the end of November 2012. Claims on other sectors, that is, credit to the private sector went up by Rs3,647 million, or 1.1 per cent, to Rs348,834 million at end-November 2012.

Broad Money Liabilities (BML) rose by Rs3,226 million, or 0.9 per cent, from Rs347,836 million at the end of October 2012 to Rs351,062 million at the end of November 2012.

The monetary base decreased by Rs919 million, or 2.0 per cent, from Rs46,534 million at the end of October 2012 to Rs45,615 million at the end of November 2012. Currency in circulation went up by Rs183 million, or 0.8 per cent, from Rs23,033 million to Rs23,216 million but liabilities to other depository corporations fell by Rs1,036 million, or 4.5 per cent, from Rs23,168 million to Rs22,132 million over the same period.

In December 2012, the Bank issued Government of Mauritius Treasury Bills (GMTB) for a total nominal amount of Rs3,385 million against a total tender amount of Rs3,600 million through the auctions of single maturity instruments. There was a net issue of Treasury Bills for Rs369 million in December 2012 compared to Rs1,730 million in November 2012. Given the comfortable liquidity level in the banking system, all auctions of GMTB were oversubscribed with the bid cover ratio ranging between 1.28 and 2.36. One auction for 91-Day GMTB, three auctions for 182-Day GMTB and two auctions for 273-Day GMTB and 364-Day GMTB each, were held during the month. In view of the sporadic shortage of rupee liquidity, the Bank continued its offer to buy-back Bank of Mauritius Notes from banks.

On a point-to-point basis, compared to the last auctions held in November 2012, the weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day GMTB went down by

6 basis points, 16 basis points, 5 basis points and 12 basis points, respectively, to 2.74 per cent, 2.80 per cent, 2.95 per cent and 3.05 per cent.

The overall weighted yield for December 2012 stood at 2.92 per cent, down from 3.09 per cent for November 2012.

The average excess reserves in the banking sector during December 2012 stood at Rs3.0 billion up from Rs1.9 billion in November 2012.

A total nominal amount of Rs380 million of 182-Day Bank of Mauritius Bills were issued during the month.

The Three-Year Government of Mauritius Treasury Notes (GMTN) issued on 12 October 2012 and bearing a coupon rate of 4.90 per cent, was re-opened at an auction held on 12 December 2012 for issue on 14 December 2012. Out of the 27 bids received for a total nominal amount of Rs2,476.5 million at the auction, 5 bids for a total nominal amount of Rs440 million were accepted. The lowest yield received and the highest yield accepted stood at 4.38 per cent and 4.55 per cent, respectively, whilst the weighted yield on accepted bids was 4.42 per cent.

The Five-Year Government of Mauritius Treasury Bonds issued on 26 October 2012 and bearing a coupon rate of 5.70 per cent, was re-opened at an auction held on 19 December 2012 for issue on 21 December 2012. Out of the 30 bids received for a total nominal amount of Rs3,435 million at the auction, 13 bids for a total nominal amount of Rs1,400 million were accepted. The lowest yield received and the highest yield accepted stood at 5.40 per cent and 5.61 per cent, respectively, whilst the weighted yield on accepted bids was 5.58 per cent.

During the month under review, Government Securities for an amount of Rs 2.85 million were sold over the counter at the Bank to members of the public. On the secondary market, the amount transacted by primary dealers increased from Rs62.4 million in November 2012 to Rs406.7 million in December 2012.

Transactions on the overnight interbank money market in December 2012 totalled Rs26,110 million compared to Rs37,495 million in November 2012. The daily average amount transacted stood at Rs842 million in December 2012 compared to a daily average of Rs1,250 million in November 2012. Transactions with a high of Rs1,650 million and a trough of Rs160 million were recorded in December 2012. The weighted average overnight interbank rate went up from 1.53 per cent in November 2012 to 1.61 per cent in December 2012.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of US\$149.9 million whilst it sold US\$39.2 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, disbursement amounted to Rs84.1 million during the month under review and an amount of Rs1,022.3 million was outstanding as at end of December 2012. For the Special Line of Credit in Foreign Currency, a total amount of EUR10 million was disbursed and an amount of EUR18.9 million was outstanding as at end of December 2012.

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, foreign exchange dealers and Bank of Mauritius, appreciated, on average, against the US dollar but depreciated against the Euro and the Pound sterling between November and December 2012.

At the end of December 2012, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs91,409 million from Rs90,363 million as at end-November 2012. The end-December 2012 level of gross official international reserves of the country, based on the value of imports of goods, *fob* and non-factor services for the year 2011, represented 5.3 months of imports, compared to 5.2 months as at end of November 2012.