International Developments

In February 2010, the US dollar, on average, appreciated against the euro and Pound sterling but depreciated against the Japanese yen. The US dollar strengthened vis-à-vis the euro on deepening investors' concern over fiscal problems in the euro zone. The greenback also derived support from the strength of the recovery in the U.S., recording a faster-than-expected 5.9 per cent annualised GDP growth in the fourth quarter of 2009, which is the quickest pace in over six years as businesses reduced inventories less aggressively. By mid-month, the speculation of a possible European Union bailout for debt-strapped Greece weighed on the US dollar but a lack of clarity in the pledge to help Greece fanned fears of a wider euro zone debt crisis which further supported the greenback. The U.S. dollar posted additional gain when the Federal Reserve surprisingly raised its discount rate, which is the interest rate it charges banks for emergency loans, a sign that the market took as indicative of a future hike in U.S. interest rates. The dollar gains were later capped following a fall in U.S. consumer confidence to a 10-month low. U.S. Federal Reserve chairman Ben Bernanke's testimony to Congress dampened speculation of monetary tightening in the near future, as a weak jobs market and low inflation were likely to allow to keep interest rates very low for "an extended period".

The euro traded at an average of US$1.3681 in February 2010 compared to an average of US$1.4282 in January 2010. At the start of the month, as widely expected, the European Central Bank left its refinancing rate at 1 per cent, and its President Jean-Claude Trichet said that many euro zone countries have large, and sharply rising fiscal imbalances and it was of paramount importance to define fiscal exit strategies. The euro remained under pressure, reaching a low of US$1.3466 on 25 February 2010, on the back of heavy selling as persistent worries about the euro zone's fiscal stability pushed investors further away from the single currency.

The Pound sterling depreciated against the US dollar during February 2010, trading at an average of US$1.5632 compared to an average of US$1.6166 in January 2010. The Pound, which started the month at US$1.5937, tumbled against the US dollar on political concerns and weak UK services sector activity data highlighting the fragility of the domestic economy. At its monetary policy committee meeting, the Bank of England (BoE) left the Bank Rate unchanged at 0.5 per cent, but voted for a pause in its asset purchase programme at £200 billion. However, the Pound lost ground as risk-aversion selling was triggered by jitters about the fiscal health of some euro zone countries and the BoE's dovish inflation forecasts indicating the possibility to expand quantitative easing and rates to stay at record lows for longer than previously thought. The Pound recovered slightly around mid-month on improved risk appetite and as BoE's minutes showed the decision to pause its asset purchase programme was unanimous. However, the pick-up in the Pound was limited as data showed an unexpected rise in UK jobless claims, weak gross mortgage lending, and worsening of public finances in January, which added to concerns over the government's borrowing targets.

In the first week of February, most stock markets were dragged down by spiking risk aversion arising over concerns of escalating sovereign debt problems in Europe, US proposed banking reforms and tightening measures to be brought in China. On 8 February 2010, Dow Jones Industrial Average (DJIA) closed below 10,000 for the first time since November 2009 on worries over fiscal stability in Greece, Spain and Portugal. However, on the next trading day, DJIA posted its largest one-day percentage gain in three months on the back of a European Union aid plan for the heavily indebted Greece. By the end of the month, US stocks were higher as Federal Reserve Chairman Ben Bernanke reassured that interest rates will remain low while most European shares were down on disappointing eurozone macro-economic numbers and persistent concerns over Greece's fiscal condition forced investors to shed equity positions. Over the month, among the developed countries' stock markets, DJIA and Nasdaq rose by 1.37 per cent and 3.09 per cent, respectively, while CAC-40 registered a decrease of 1.41 per cent. Among emerging stock markets, Bombay SENSEX, JSE and Shanghai Stock Exchange Composite recorded positive returns of 0.45 per cent, 1.05 per cent and 3.76 per cent, respectively. Looking ahead, choppy conditions are expected to prevail on international stock markets unless there are clearer signs of improvement for the euro zone debt problems.

International oil prices went down during February 2010, largely on account of a stronger dollar and large inventories of crude oil. Both IPE Brent and NYMEX reached their intra-month high at US$78.6 a barrel and US$80.2 a barrel, respectively, on 22 February 2010. According to the US Energy Information Administration's (EIA), the world oil market should gradually tighten in 2010 and 2011, as the global economic recovery continues and world oil demand begins to grow again. Continuation of the production targets set by the Organization of the Petroleum Exporting Countries (OPEC), as well as lower overall growth in non-OPEC supply over the year 2010-2011, will also contribute to a firming of crude oil prices to above $80 per barrel this year.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$76.5 a barrel in February 2010, down from US$78.4 a barrel in January 2010. IPE Brent averaged US$74.8 a barrel during the month under review, down from US$77.0 in January 2010.

COMEX gold futures, on average, went down in February 2010, trading in an intra-month closing range of US$1,052.8/Oz-1,122.1/Oz compared to US$1,083.8/Oz-1,151.4/Oz in January 2010. Gold prices reached a peak of US$1,122.1/Oz on 19 February 2010 fuelled by a stronger dollar, as investors bought the metal to hedge against currencies volatility and debt default risks in Europe.

Domestic Developments

Tourist arrivals rose by 3.7 per cent, from 88,591 in January 2009 to 91,857 in January 2010, while gross tourism receipts increased by 8.0 per cent, from Rs3,780 million in January 2009 to Rs4,081 million in January 2010. On a cumulative basis, over the period February 2009 to January 2010, tourist arrivals contracted by 5.4 per cent to reach 874,622 compared to 924,468 tourists arrivals recorded over the previous corresponding period. Tourism receipts for period February 2009 to January 2010 declined by 10.8 per cent to reach Rs35,994 million compared to Rs40,331 million registered over the previous corresponding period.

The Consumer Price Index (CPI) increased from 118.2 in January 2010 to 118.6 in February 2010, with the main contributors to the rise in the index being food products and gasoline, which went up by 0.1 index point and 0.3 index point, respectively. Over the month, the largest rise of 1.8 per cent was noted in the Division "Transport" followed by "Food and non alcoholic beverages" (+0.2 per cent), "Clothing and footwear" (+0.2 per cent), "Health" (+0.2 per cent), "Housing, water, electricity, gas and other fuels" (+0.1 per cent), "Furnishings, household equipment and routine household maintenance" (+0.1 per cent), "Recreation and culture" (+0.1 per cent) and "Restaurants and hotels" (+0.1 per cent). The division "Communication" recorded a decrease of 0.1 per cent while "Alcoholic beverages and tobacco", "Education" and "Miscellaneous goods and services" recorded no change in their indices.

The rate of inflation for the twelve-month period ended February 2010 dropped to 2.1 per cent, from 2.3 per cent for the twelve-month period ended January 2010. Year-on-Year inflation rate edged down to 2.4 per cent in February 2010, from 2.5 per cent in January 2010.

CORE1 inflation went down from 2.4 per cent for the twelve-month period ended January 2010 to 2.3 per cent for the twelve-month period ended February 2010. CORE2 inflation dropped to 3.4 per cent in February 2010, from 3.6 per cent for the twelve-month period ended January 2010. TRIM10 inflation stood at 2.5 per cent for the twelve-month period ended February 2010, down from 2.6 per cent in January 2010.

Net foreign assets of depository corporations fell by Rs2,664 million, or 2.5 per cent, from Rs105,124 million at the end of December 2009 to Rs102,460 million at the end of January 2010, on account of decreases in both of its components. Net foreign assets of other depository corporations went down by a mere Rs2 million to Rs40,048 million while those of the Bank of Mauritius decreased by Rs2,662 million or 4.1 per cent, to Rs62,411 million.

Domestic claims of depository corporations, excluding claims on GBL holders, decreased by Rs392 million or 0.1 per cent, from Rs277,412 million at the end of December 2009 to Rs277,020 million at the end of January 2010. Net claims on budgetary central Government declined by Rs872 million, or 1.8 per cent, from Rs49,843 million at the end of December 2009 to Rs48,971 million at the end of January 2010. Claims on private sector went up by Rs481 million or 0.2 per cent, to Rs228,050 million at the end of January 2010.

Net claims on budgetary central Government from the Bank of Mauritius decreased by Rs1,730 million or 16.8 per cent, from negative Rs10,289 million at the end of December 2009 to negative Rs12,019 million at the end of January 2010, reflecting additional build-up of Government deposits at the Bank. Net claims on budgetary central Government from other depository corporations rose by Rs857 million or 1.4 per cent, from Rs60,132 million to Rs60,989 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs2 million or 1.2 per cent to Rs146 million at the end of January 2010 while claims on Other Sectors from other depository corporations went up by Rs479 million, or 0.2 per cent, from Rs227,425 million to Rs227,904 million. Over the month, banks granted additional credit to “Construction” (Rs380 million), “Traders” (Rs325 million), “Education” (Rs314 million), Agriculture and Fishing (Rs289 million), and “Transport” (Rs168 million). Over the same period, declines were recorded at the following sectors “Tourism” (Rs605 million), “Public Nonfinancial Corporations” (Rs409 million) and “Manufacturing” sectors (Rs305 million).

Broad Money Liabilities (BML) went down by Rs1,881 million or 0.6 per cent, from Rs296,480 million at the end of December 2009 to Rs294,599 million at the end of January 2010, reflecting seasonal considerations. Of the components of BML, currency with public decreased by Rs981 million or 5.7 per cent to Rs16,172 million while transferable deposits decreased by Rs905 million or 1.3 per cent to Rs69,265 million. Savings deposits went up by Rs1,886 million, or 2.2 per cent to Rs88,388 million while time deposits fell by Rs1,894 million or 1.6 per cent to Rs119,989 million. Securities other than shares included in broad money increased by Rs12 million or 1.5 per cent to Rs784 million.

The monetary base went down by Rs3,548 million or 9.9 per cent, from Rs35,934 million at the end of December 2009 to Rs32,386 million at the end of January 2010. Currency in circulation fell by Rs2,117 million or 10.0 per cent from Rs21,069 million to Rs18,952 million while liabilities to other depository corporations decreased by Rs1,545 million, or 10.5 per cent, from Rs14,729 million to Rs13,184 million.

Broad Money Liabilities multiplier went up from 8.3 at the end of December 2009 to 9.1 at the end of January 2010 as a result of a lower decline in Broad Money Liabilities compared to Monetary Base.

In February 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs5,100 million through the weekly Primary Auctions while maturing Treasury Bills stood at Rs5,350 million. Between end-January 2010 and end- February 2010, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills decreased from 4.40 per cent to 4.25 per cent, from 4.64 per cent to 4.46 per cent and from 4.78 per cent to 4.66 per cent respectively. The overall weighted yield during February 2010 decreased to 4.48 per cent from 4.52 per cent for the previous month. During February 2010, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in February 2010 totalled Rs16,179 million with a daily average of Rs578 million, a high of Rs1,245 million and a trough of Rs70 million. The weighted average overnight interbank rate for February 2010 decreased to 3.89 per cent, from 3.96 per cent for the previous month.

A total amount of Rs0.35 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public. Bills traded by primary dealers amounted to Rs171.9 million. No Bills were traded on the Stock Exchange of Mauritius.

A total nominal amount of Rs1,400 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 in February 2010. Bids received for the three maturities totalled Rs2,884.9 million and the amount accepted was Rs1,400.0 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 6.06, 6.92 and 7.43 per cent per annum, respectively. The market preference of bids received for Treasury Notes remained skewed towards the 3-year maturity.

During February 2010, the Bank conducted spot-to-one month forward swap transactions for amounts of USD1.8 million and EUR23.6 million.

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

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 January and February 2010, the rupee, on average, depreciated against the US dollar but appreciated against the euro and the Pound sterling.

At the end of January 2010, the net international reserves of the country stood at Rs103,071 million. The end-January 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 46.4 weeks of imports, down from 47.6 weeks of imports at the end of December 2009. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs66,490 million as at end-January 2010 to Rs67,833 million at the end of February 2010.