

OVERVIEW

International Developments

In July 2012, the US dollar, on average, appreciated vis-à-vis the euro but depreciated against the Pound sterling and the Japanese yen. Concerns that the euro zone debt crisis was weighing on global growth bolstered safe-haven demand for the US dollar.

The euro depreciated against the US dollar in July 2012, trading at an average of US\$1.2302 compared to an average of US\$1.2549 in June 2012. The euro slumped to five-week lows against the dollar after the ECB, as expected, cut its key interest rate on 5 July 2012 - by 25 basis points to a record low of 0.75 per cent - but refrained from bolder moves such as reviving its bond-buying programme. The single currency fell to a two-year low of \$1.2067 after a meeting of euro zone finance ministers offered no positive surprise. A downgrade of Italy's credit rating and mounting fears that debt-ridden Spain would need a bailout together with the release of minutes of the Federal Reserve meeting, which dampened expectations of further U.S. monetary easing in the near term, also weighed on the euro. The single currency rallied at the end of the month after comments from ECB chief Mario Draghi boosted hopes of more steps to tackle the debt crisis.

The Pound sterling appreciated slightly against the US dollar in July 2012, trading at an average of US\$1.5593 compared to an average of US\$1.5552 in June 2012. Sterling got some support from safe-haven demand from investors concerned about the debt crisis and slowing global growth even as it was undermined by growing evidence of a weakening economy that could prompt further monetary easing by the Bank of England.

Global equities gained in July 2012. The major stock markets, with the exception of some Asian markets, posted gains as expectations for more monetary stimulus and forecast-beating corporate results outweighed worries about the debt crisis and sluggish global growth. Over the month, the Dow Jones Industrial Average, NASDAQ, FTSE, CAC-40 rose by 1.0 per cent, 0.2 per cent, 1.2 per cent and 3.0 per

cent, respectively, while the Nikkei dropped by 3.5 per cent. Among emerging stock markets, Shanghai SEC and Bombay SENSEX lost 5.5 per cent and 1.1 per cent respectively, while JALSH added 2.6 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$87.9 a barrel in July 2012, up from US\$82.4 a barrel in June 2012. ICE Brent Crude averaged US\$102.7 a barrel during the month under review, up from US\$95.9 a barrel in June 2012. Both NYMEX and ICE Brent Crude settled at intra-month highs of US\$92.7 a barrel and US\$ 107.8 a barrel, respectively, on 19 July 2012.

COMEX gold futures, on average, went down from US\$1,601.9/Oz in June 2012 to US\$1,593.1/Oz in July 2012 and traded in an intra-month closing range of US\$1,565.3/Oz-1,621.8/Oz compared to US\$1,550.4/Oz-1,634.2/Oz in the preceding month. Gold prices peaked at US\$1,621.8/Oz on 03 July 2012.

Domestic Developments

June 2012 data of tourist arrivals showed an increase of 0.1 per cent to 54,625 from 54,591 a year earlier. Gross tourist receipts increased by 1.4 per cent, from Rs2,916 million in June 2011 to Rs2,957 million in June 2012. For the year ended June 2012, tourist arrivals increased by 0.7 per cent from 960,281 in 2011 to 967,191. Tourist receipts for the year ended June 2012 rose by 9.8 per cent to Rs44,961 million, from Rs40,951 million in the previous corresponding period.

The Consumer Price Index (CPI) rose from 132.8 in June 2012 to 133.0 in July 2012. The main contributors to the rise in the index between June 2012 and July 2012 were bread, fish, washing materials and softeners and doctors' fees, each registering an increase of 0.1 index point. Vegetables and motor vehicles each registered a decrease of 0.1 index point. Division-wise, an increase of 2.3 per cent was recorded for "Health" followed by "Furnishings, household equipment and routine household maintenance" (+1.1 per cent), "Miscellaneous goods and services" (+0.5 per cent), "Food and non alcoholic beverages" (+0.1 per cent), "Clothing and footwear" (+0.1 per cent) and "Restaurants and hotels" (+0.1 per cent). "Alcoholic beverages and tobacco", "Transport" and "Recreation and culture" recorded decreases of 0.1 per

cent, 0.4 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 July 2012 stood at 4.9 per cent, down from 5.1 per cent for the twelve-month period ended June 2012. Year-on-Year inflation rate eased from 3.9 per cent in June 2012 to 3.7 per cent in July 2012.

Between June 2012 and July 2012, for the twelve month period, CORE1 inflation fell from 4.4 per cent to 4.1 per cent, while CORE2 inflation decreased from 3.6 per cent to 3.4 per cent. TRIM10 inflation stood at 3.3 per cent in July 2012, down from 3.6 per cent for the twelve-month period ended June 2012.

Net foreign assets of depository corporations went down by Rs60,489 million, or 14.6 per cent, from Rs415,259 million at the end of May 2012 to Rs354,770 million at the end of June 2012, solely as a result of the decrease in the net foreign assets of the other depository corporations. Net foreign assets of other depository corporations went down by Rs67,380 million to Rs273,457 million as at end-June 2012 while the net foreign assets of the Bank of Mauritius increased by Rs6,891 million to Rs81,313 million as at end-June 2012.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs8,990 million, or 2.4 per cent, from Rs369,465 million at the end of May 2012 to Rs378,455 million at the end of June 2012. Net claims on budgetary central Government decreased by Rs1,955 million, or 4.1 per cent, from Rs48,012 million at the end of May 2012 to Rs46,057 million at the end of June 2012. Claims on other sectors, that is, credit to the private sector went up by Rs10,945 million, or 3.4 per cent, to Rs332,398 million in June 2012.

Broad Money Liabilities (BML) went up by Rs4,027 million, or 1.2 per cent, from Rs338,675 million at the end of May 2012 to Rs342,702 million at the end of June 2012.

The monetary base increased by Rs1,260 million, or 2.8 per cent, from Rs44,756 million at the end of May 2012 to Rs46,016 million at the end of June 2012. Currency in circulation went down by Rs337 million, or 1.5 per cent, from Rs22,082 million to Rs21,745 million while liabilities to other depository corporations went up by Rs1,501 million, or 6.7 per cent, from Rs22,476 million to Rs23,977 million.

In July 2012, the Bank issued Government of Mauritius Treasury Bills (GMTB) for a total nominal amount of Rs1,242.1 million against a total tender amount of Rs3,200 million through the auctions of single maturity instruments. There was a net maturing of Treasury Bills for Rs2,613.1 million in July 2012 compared to an amount of Rs559.3 million in June 2012. All auctions of GMTB were undersubscribed. Three auctions of 182-Day and 364-Day GMTB were carried out whilst only two auctions for 273-Day GMTB Treasury Bills were held during the month. The Bank continued its offer to buy-back Bank of Mauritius Notes from banks.

As compared to the last auctions held in July 2012 for the various maturities, the weighted yield of the 182-Day GMTB and 364-Day GMTB increased by 4 basis points and 1 basis point to reach 3.33 per cent and 3.84 per cent, respectively. As for the weighted yield of the 273-Day GMTB, it decreased by 1 basis point from end-June 2012 to 3.38 per cent as at end-July 2012.

The overall weighted yield for July 2012 stood at 3.55 per cent up from 3.44 per cent for June 2012.

The Three-Year Government of Mauritius Treasury Notes with coupon rate of 5.50 per cent which was first issued on 25 November 2011 was reopened for the first time at an auction held on 25 July 2012 for issue on 27 July 2012. Out of the 23 bids received for a total nominal amount of Rs1,530.0 million at the auction, 14 bids for a total nominal amount of Rs1,045.0 million were accepted. The lowest yield received and the highest yield accepted stood at 4.90 per cent and 5.03 per cent, respectively, whilst the weighted yield on accepted bids was 4.99 per cent.

During the month under review, Rs1.45 million worth of Government Securities were sold over the counter at the Bank to members of the public. On the secondary market,

the amount transacted by primary dealers declined from Rs891.5 million in June 2012 to Rs424.3 million in July 2012.

Transactions on the overnight interbank money market in July 2012 totalled Rs15,565 million down from Rs25,770 million in June 2012. The daily average amount transacted stood at Rs502 million in July 2012 compared to Rs859 million in June 2012. Transactions with a high of Rs1,625 million and a trough of Rs25 million were recorded in July 2012. The weighted average overnight interbank rate rose to 1.91 per cent in July 2012, from 1.65 per cent in June 2012.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD40.1 million whilst it sold USD32.3 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, an amount of Rs122.5 million was disbursed during the month of July 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 and the Pound sterling, but depreciated against the euro between June and July 2012.

At the end of July 2012, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs86,307 million from Rs85,089 million as at end-June 2012. The end-July 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 5.0 months of imports, compared to the 4.9 months at the end of June 2012.