

OVERVIEW

International Developments

In June 2012, the US dollar, on average, appreciated vis-à-vis the euro and the Pound sterling but depreciated against the Japanese yen. Concerns about the euro zone fuelled broad demand for the safe haven US currency while the monetary stimulus delivered by the US Federal Reserve by way of an expansion of its ‘Operation Twist’ had almost no impact on the dollar.

The euro depreciated against the US dollar in June 2012, trading at an average of US\$1.2549 compared to an average of US\$1.2798 in May 2012. The euro hit an eleven-month low of \$1.2362 at the start of the month on worries over Spain’s struggling banking sector. The European Central Bank left its key refinancing rate on hold at 1.00 per cent on 6 May. The common currency rose to an intra-month high of \$1.2676 after Greek pro-bailout parties won a slim parliamentary majority. The euro also got some support after European leaders agreed to take emergency action to lower borrowing costs of Italy and Spain and to create a single supervisory body for euro area banks.

The Pound sterling depreciated against the US dollar in June 2012, trading at an average of US\$1.5552 compared to an average of US\$1.5921 in May 2012. Sterling slipped against the dollar on concerns that the euro zone debt crisis would spill over the UK economy, following the release of data confirming that the UK economy was mired in a recession in the first three months of this year.

Global equities posted significant gains in June 2012 as some stronger-than-expected US economic data outweighed worries about the debt crisis and slowing global growth. Over the month, the Dow Jones Industrial Average, NASDAQ, FTSE, CAC-40 and Nikkei rose by 3.9 per cent, 3.8 per cent, 5.0 per cent, 6.0 per cent and 5.4 per cent, respectively. Among emerging stock markets, Bombay SENSEX and JALSH added 8.2 per cent and 1.9 per cent respectively, while Shanghai SEC shed 6.2 per cent.

On the New York Mercantile Exchange, crude oil averaged US\$82.4 a barrel in June 2012, down from US\$94.7 a barrel in May 2012. In London, ICE Brent Crude, on average, fell from US\$110.4 a barrel in May 2012 to US\$95.9 a barrel in June 2012. Both NYMEX and ICE Brent Crude settled at intra-month peaks of US\$85.0 a barrel and US\$ 100.6 a barrel, respectively, on 6 June 2012.

COMEX gold futures averaged US\$1,601.9/Oz in June 2012, up from US\$1,587.9/Oz in May 2012. Gold prices varied in an intra-month closing range of US\$1,550.4/Oz-1,634.2/Oz in June 2012 compared to US\$1,538.9/Oz-1,662.4/Oz in the preceding month. US Gold achieved its high of US\$1,634.2/Oz on 6 June 2012.

Domestic Developments

In the June 2012 issue of National Accounts published by Statistics Mauritius, the growth rate of the economy for 2011 has been revised downward to 3.9 per cent from 4.0 per cent estimated in March 2012. For 2012, the growth rate has been forecast at 3.5 per cent, slightly lower than the initial estimation of 3.6 per cent. Lower growth is expected in 'Hotels and restaurants' (1.6 per cent), 'Manufacturing Industries' (1.9 per cent), 'Transport, storage and communications' (4.8 per cent) and 'Financial Intermediation' (4.8 per cent), while the 'Construction' sector is expected to contract further by 1.2 per cent after a negative growth of 2.0 per cent in 2011.

May 2012 data on tourist arrivals showed an increase of 4.7 per cent to 71,396 from 68,214 a year earlier. Gross tourist receipts decreased by 1.1 per cent, from Rs3,078 million in May 2011 to Rs3,045 million in May 2012. In the year June 2011 to May 2012, tourist arrivals increased by 0.8 per cent to 967,157 compared to 959,017 recorded in the previous corresponding period. Tourist receipts for the period June 2011 to May 2012 rose by 10.9 per cent to Rs45,099 million as against Rs40,649 million registered in the previous corresponding period.

The Consumer Price Index (CPI) rose from 132.5 in May 2012 to 132.8 in June 2012. The main contributors to the rise in the index between May 2012 and June 2012 were bread (+0.1 index point) and other food products (+0.2 index point). Division-wise,

an increase of 0.7 per cent was recorded for “Food and non alcoholic beverages” followed by “Clothing and footwear” (+0.4 per cent), “Housing, water, electricity, gas and other fuels” (+0.2 per cent), “Furnishings, household equipment and routine household maintenance” (+0.2 per cent), “Alcoholic beverages and tobacco” (+0.1 per cent), “Transport” (+0.1 per cent), “Restaurants and hotels” (+0.1 per cent) and “Miscellaneous goods and services” (+0.1 per cent). “Recreation and culture” recorded a decrease of 0.1 per cent while “Health”, “Communication” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended June 2012 stood at 5.1 per cent, down from 5.3 per cent for the twelve-month period ended May 2012. Year-on-Year inflation rate edged up from 3.8 per cent in May 2012 to 3.9 per cent in June 2012.

Between May 2012 and June 2012, for the twelve month period, CORE1 inflation fell from 4.6 per cent to 4.4 per cent while CORE2 inflation decreased from 3.8 per cent to 3.6 per cent. TRIM10 inflation stood at 3.6 per cent in June 2012, down from 3.8 per cent for the twelve-month period ended May 2012.

Net foreign assets of depository corporations went up by Rs18,051 million, or 4.5 per cent, from Rs397,208 million at the end of April 2012 to Rs415,259 million at the end of May 2012, solely as a result of the increase in the net foreign assets of the other depository corporations. Net foreign assets of the other depository corporations went up by Rs18,989 million to Rs340,836 million as at end-May 2012 while the net foreign assets of the Bank of Mauritius decreased by Rs938 million to Rs74,423 million as at end-May 2012.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs8,173 million, or 2.3 per cent, from Rs361,292 million at the end of April 2012 to Rs369,465 million at the end of May 2012. Net claims on budgetary central Government increased by Rs1,102 million, or 2.3 per cent, from Rs46,910 million at the end of April 2012 to Rs48,012 million at the end of May 2012. Claims on other sectors, that is, credit to the private sector went up by Rs7,071 million, or 2.2 per cent, to Rs321,453 million in May 2012.

Net claims on budgetary central Government from the Bank of Mauritius rose by Rs73 million, from negative Rs3,058 million at the end of April 2012 to negative Rs2,985 million at the end of May 2012 and net claims on budgetary central Government from other depository corporations rose by Rs1,029 million, or 2.1 per cent, from Rs49,968 million to Rs50,997 million.

Broad Money Liabilities (BML) went up by Rs3,010 million, or 0.9 per cent, from Rs335,665 million at the end of April 2012 to Rs338,675 million at the end of May 2012.

The monetary base increased by Rs102 million, or 0.2 per cent, from Rs44,654 million at the end of April 2012 to Rs44,756 million at the end of May 2012. Currency in circulation went up by Rs143 million, or 0.7 per cent, from Rs21,939 million to Rs22,082 million and liabilities to other depository corporations went slightly up by Rs13 million, or 0.1 per cent, from Rs22,463 million to Rs22,476 million.

In June 2012, the Bank issued Government of Mauritius Treasury Bills (GMTB) for a total nominal amount of Rs2,261 million against a total tendered amount of Rs4,000 million through the auctions of single maturity instruments. There was a net maturing of GMTB for Rs559 million in June 2012 compared to net issue of Rs435 million in May 2012. Except for two auctions, all other auctions of GMTB were undersubscribed in June 2012. Three auctions of 273-Day and 364-Day GMTB were carried out whilst only one auction for 91-day GMTB and two auctions for 182-Day maturity were held during the month. The Bank continued its offer to buy-back Bank of Mauritius Notes from commercial banks.

As compared to the last auctions held in May 2012 for the various maturities, the weighted yield of the 91-day, 182-day and 273-day decreased by 26 basis points, 28 basis points and 25 basis points to 3.04 per cent, 3.29 per cent and 3.39 per cent, respectively, at the last auctions held in June 2012. As for the weighted yield of the

364-day Treasury Bills, it increased by 8 basis points at the end of May 2012 to 3.83 per cent as at end-June 2012.

The overall weighted yield for June 2012 stood at 3.44 per cent down from 3.71 per cent for May 2012.

A new issue of the Three-Year Government of Mauritius Treasury Notes with coupon rate of 4.90 per cent took place on 15 June 2012. Out of the 31 bids received for a total nominal amount of Rs2,550 million at the auction, 18 bids for a total nominal amount of Rs1,725 million were accepted. The lowest yield received and the highest yield accepted stood at 4.90 per cent and 5.05 per cent, respectively, whilst the weighted yield on accepted bids was 5.01 per cent similar to that at the previous auction of Treasury Notes held in May 2012.

The Five-Year Government of Mauritius Bonds with coupon rate of 6.00 per cent which was first issued on 20 April 2012 was reopened at an auction on 20 June 2012 for issue on 22 June 2012. Out of the 29 bids received for a total nominal amount of Rs2,537 million at the auction, 20 bids for a total nominal amount of Rs1,812 million were accepted. The lowest yield received and the highest yield accepted stood at 6.00 per cent and 6.25 per cent, respectively, whilst the weighted yield on accepted bids was 6.18 per cent.

Ten-Year Government of Mauritius Bonds, with coupon rate of 7.75 per cent and maturing on 29 June 2022 were put on auction on Wednesday 27 June 2012 for an amount of Rs1,000 million for settlement on Friday 29 June 2012. Out of the 76 bids received for a total nominal amount of Rs4,579.1 million at the auction, 10 bids for a total nominal amount of Rs1,451 million were accepted. The lowest yield received and the highest yield accepted stood at 7.75 per cent and 8.05 per cent, respectively, whilst the weighted yield on accepted bids was 7.94 per cent in June 2012.

During the month under review, Rs15.9 million worth of Treasury Bills and Treasury Notes 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 Rs394.8 million in May 2012 to Rs891.5 million in June 2012.

Transactions on the overnight interbank money market in June 2012 totalled Rs25,770 million up from Rs15,375 million in May 2012. The daily average amount transacted stood at Rs859 million in June 2012 compared to a daily average of Rs496 million in May 2012. Transactions with a high of Rs2,170 million and a trough of Rs80.0 million were recorded in June 2012. The weighted average overnight interbank rate rose to 1.65 per cent in June 2012 from 1.59 per cent in May 2012.

During the month of June 2012, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD92.8 million whilst it sold USD53.5 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, an amount of Rs1.3 billion will be made available to the Mauritius Sugar Syndicate (MSS) as from 1 July 2012. The Protocole D'Accord was signed between the Bank and the MSS on 28 June 2012 at the Ministry of Finance and Economic Development.

The Bank introduced a Special Foreign Currency Line of Credit effective 21 June 2012 for an amount of up to EUR600 million. The facility is meant for refinancing existing Mauritian Rupee loans for operators in the export and tourism sectors. The facility may also be extended to operators who have foreign currency earnings.

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, depreciated, on average, against the US dollar, the Euro and the Pound sterling between May and June 2012.

At the end of June 2012, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs85,089 million from Rs78,081 million as at end-May 2012. The end-June 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 4.9 months of imports compared to the 4.5 months coverage at the end of May 2012.