

International Developments

During June 2007, the US dollar, on average, appreciated against the Japanese yen and euro but depreciated vis-à-vis the Pound sterling. The US dollar started the month on a soft note, undermined by comments from Fed Chairman Ben Bernanke that the housing market would continue to be a drag on growth. The US currency, however, regained ground on improving market sentiment over US economic growth outlook, with market players becoming increasingly convinced that the worst of the economic slowdown was over, which underscored the view that Fed rate cuts this year were unlikely. The release of data showing strong retail sales and a narrowing of the trade deficit reinforced such sentiment. Rising yields on US government bonds provided additional support to the US dollar, which also benefited from short period covering. However, a disappointing consumer sentiment survey for June 2007 and weaker-than-expected housing starts for May 2007 weighed on the US dollar. Ahead of the two-day Fed meeting that started on 27 June 2007, the US dollar remained relatively well supported. As widely expected, the US Federal Reserve left its benchmark federal funds rate unchanged at 5.25 per cent at its FOMC meeting. The Fed's accompanying statement was relatively neutral repeating worries about stubborn price pressures, which reinforced expectations that it would leave interest rate steady for some time. At the close of the month, the US dollar also drew support from a revision in first quarter 2007 GDP growth to 0.7 per cent from a preliminary reading of 0.6 per cent.

The euro moved lower against the US dollar during June 2007, trading at an average of US\$1.3418 from an average of US\$1.3512 in May 2007. From US\$1.3451 at the beginning of the month, the euro remained supported against the US dollar hitting its intra-month high of US\$1.3525 on 6 June 2007 amid expectations of higher interest rates in the euro zone. As expected, the European Central Bank (ECB) raised its key refinancing rate to 4.00 per cent on 6 June 2007. In his post-meeting press conference, ECB President Trichet said that monetary policy was still on the accommodative side, indicating ECB's readiness to hike again to combat inflationary dangers in a strongly expanding economy. The euro, however, did not draw support from the rate decision, losing ground on position adjustment. The single currency maintained its downward movement against the US dollar, hitting its intra-month low of US\$1.3303 on 13 June 2007. Although the euro managed to recoup some of its losses against the US dollar thereafter, comments by the newly elected French President on the strength of the euro put the single currency under renewed downward pressure. This trend was reversed with markets expecting two more euro zone interest rate hikes in 2007 and the euro closed June 2007 on a firm note trading around US\$1.3443.

The Pound sterling edged higher against the US dollar during June 2007, trading at an average of US\$1.9859, up from US\$1.9838 in May 2007. Starting the month trading around US\$1.9795, the Pound sterling rose against the US dollar amid expectations of higher UK interest rates in the coming months. The British currency however weakened against the US dollar after the Bank of England, on 7 June 2007, left its key repo rate unchanged at 5.5 per cent, prompting some investors to trim long positions amassed

beforehand on the basis of a potential surprise hike. The Pound sterling, however, regained its footing against the US dollar after Bank of England Governor Mervyn King said that British interest rates might need to rise again from the current 5.5 per cent if signs of price pressures and capacity constraints stayed high. The upward movement of the British currency was sustained after the minutes of the Bank of England MPC meeting revealed that Governor Mervyn King along with three MPC members voted for a rate rise, fuelling market expectations that an interest rate hike could come as soon as July 2007. Surprisingly strong housing data and Bank of England policymakers' comments that inflationary risks remained on the upside further supported the Pound, which managed to close June 2007 trading at its intra-month high of US\$2.0021.

The Japanese yen weakened against the US dollar during June 2007, trading at an average of ¥122.62 per US dollar from an average of ¥120.72 per US dollar in May 2007. Starting June 2007 around ¥121.86 per US dollar, the Japanese yen traded in tight ranges before hitting its intra-month high of ¥121.12 per US dollar on 7 June 2007. Thereafter, the Japanese currency embarked on a general downward trend against the US dollar following the release of a weaker-than-expected reading in machinery orders data. On 15 June 2007, the Bank of Japan kept interest rates unchanged at 0.50 per cent in a unanimous decision by its policy board. Governor Toshihiko Fukui's comments after the meeting giving no clear clues that the BOJ would tighten monetary policy any time soon put further downward pressure on the yen, which also continued to be undermined by its low interest rate. On 22 June 2007, the Japanese yen hit its intra-month low of ¥123.91 per US dollar, but managed to shrug off some of its losses following Japan's finance minister's warning that markets should be aware of the risks of one-way bets against the Japanese currency. The Japanese currency closed June 2007 trading around ¥123.39 per US dollar.

Oil prices moved higher during June 2007 as US oil stock data indicated that gasoline demand remained elevated in the United States. Week after week, the US Energy Information Administration reported declines in US gasoline stocks. Moreover, geopolitical concerns in the Middle East kept the market edgy. Disturbances in Nigeria also pushed oil prices up. OPEC President has so far confirmed that the cartel has no intention to raise output, claiming that supply was adequate and that bottlenecks were arising at the refinery level. IPE Brent, which is currently a better indication of world oil prices, has on average been trading above US\$70 a barrel since mid-June 2007. All these factors suggest that oil prices would most likely trade above US\$70 a barrel in the near-term, especially in view of the US summer driving season. NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US\$67.6 a barrel in June 2007, up from US\$63.5 a barrel in May 2007 but down from US\$71.0 a barrel in June 2006. IPE Brent futures averaged US\$70.5 a barrel during the period under review, up from US\$67.8 a barrel in May 2007 and US\$69.8 a barrel in June 2006. On the domestic front, the prices of mogas and diesel were increased by 20.0 per cent and 4.76 per cent to Rs39.00 per litre and Rs29.70 per litre, respectively, effective 3 July 2007.

COMEX gold futures, on average, moved lower during June 2007, trading in an intra-month closing range of US\$644.80/Oz-US\$676.9/Oz compared to a range of US\$653.3/Oz-US\$690.4/Oz in May 2007. Gold prices moved lower during the period under review on fund selling. COMEX averaged US\$659.0/Oz during June 2007, compared to an average of US\$669.5/Oz in May 2007.

Domestic Developments

In the June 2007 issue of its National Accounts Estimates, the Central Statistics Office has maintained the real growth rate of the economy for 2006 at 5.0 per cent. Exclusive of sugar, the growth of the economy is estimated at 5.3 per cent in 2006. The main contributors to growth in 2006 were the 'Transport, storage and communications', 'Financial intermediation', 'Real estate, renting and business services' and 'Wholesale and retail trade' industry groups, which grew by 7.3 per cent, 7.0 per cent, 6.3 per cent and 5.2 per cent, respectively. The tourism industry grew by 3.5 per cent with tourist arrivals reaching 788,276 in 2006. The EPZ sector grew by an estimated 4.6 per cent after four years of contraction. Following a contraction of 4.4 per cent in 2005, the construction industry rebounded in 2006, registering a growth of 5.2 per cent, mainly attributable to the construction and renovation of hotels and the implementation of projects under the Integrated Resort Scheme (IRS). The sugar industry contracted by 2.9 per cent in 2006, with sugar production at 504,857 tonnes.

Investment in the economy recovered, in real terms, by 19.2 per cent in 2006 following a contraction of 1.9 per cent in 2005. Exclusive of acquisition of aircrafts, investment grew by 5.6 per cent, against a contraction of 1.6 per cent in 2005. The investment rate, as measured by the ratio of GDFCF to GDP at market prices, increased from 21.4 per cent in 2005 to 24.4 per cent in 2006. Excluding purchase of aircrafts, however, the investment rate edged up from 21.4 per cent in 2005 to 21.6 per cent in 2006. Private sector investment grew by 15.4 per cent in 2006 after a decline of 0.3 per cent in 2005. Public sector investment expanded by 28.1 per cent in 2006, mainly as a result of investment in aircrafts, following a contraction of 5.4 per cent in 2005. The savings rate fell to 16.9 per cent in 2006 from 17.4 per cent in 2005.

The growth forecast for 2007 has been revised upward to 5.3 per cent in 2007 from the earlier forecast of 5.0 per cent, mainly due to higher projected growths of the EPZ manufacturing, construction and tourism industries, partly offset by an estimated decline in sugar output. Exclusive of sugar, the growth rate would be around 5.8 per cent compared with the previous estimate of 5.2 per cent. The EPZ sector is forecast to expand by 6.0 per cent, up from the earlier estimate of 2.5 per cent. The tourism sector is forecasted to grow by 10.2 per cent, based on tourist arrivals estimated now at 875,000, up from the earlier estimate of 850,000. The construction sector is expected to post a stronger performance in 2007, mainly due to the construction and renovation of hotels, IRS projects and expansion of textile and wearing apparel industries, with a growth of 10.7 per cent, revised upward from the earlier forecast of 7.5 per cent. The "Wholesale and Retail Trade" and "Financial Intermediation" sectors are projected to expand by 4.6 per cent and 7.3 per cent, respectively. Sugar output, hit by unfavourable climatic conditions prevailing after the passage of cyclone Gamede in February 2007, has been revised further downward to 465,000 tonnes, from the March 2007 estimate of 500,000 tonnes, representing a contraction of 7.9 per cent compared with the earlier estimate of a contraction of 1.0 per cent.

Tourist arrivals went up by 28.6 per cent, from 50,773 in May 2006 to 65,301 in May 2007, while gross tourism receipts grew by 28.3 per cent, from Rs2,314 million in May 2006 to Rs2,970 million in May 2007.

On a cumulative basis, over the period July 2006 to May 2007, tourist arrivals reached 807,668, representing an increase of 10.8 per cent over 729,134 arrivals recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2006 to May 2007 rose by 25.4 per cent to reach Rs33,720 million compared to Rs26,883 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 138.1 in May 2007 to 138.8 in June 2007. The largest rise was noted in the sub-Division "Food and non alcoholic beverages" which went up by 1.1 per cent followed by "Miscellaneous goods and services" (+0.7 per cent), "Health" (+0.6 per cent), "Restaurants and hotels" (+0.5 per cent), "Alcoholic beverages and tobacco" (+0.1 per cent), "Clothing and footwear" (+0.1 per cent), "Housing, water, electricity, gas and other fuels" (+0.1 per cent), "Furnishings, household equipment and routine household maintenance" (+0.1 per cent) and "Transport" (+0.1 per cent). The sub-division "Recreation and culture" registered a decline of 0.3 per cent. "Communication" and "Education" recorded no change in their sub-indices. The main contributors to the rise in the index between May 2007 and June 2007 were milk, which went up by 0.4 index point, other goods and services which rose by 0.2 index point and fruits and other food products, each registering an increase of 0.1 index point. This was partially offset by a decrease of 0.1 index point in ginger. The rate of inflation for the twelve-month period ended June 2007 stood at 10.7 per cent, up from 10.5 per cent for the twelve-month period ended May 2007.

While headline inflation for June 2007 stood at 10.7 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 7.6 per cent, 7.9 per cent and 7.6 per cent, respectively. Consequently, for June 2007, core inflation was between 2.8 and 3.1 percentage points lower than the headline inflation.

With effect from 02 July 2007, the Bank of Mauritius increased the key Repo Rate by 75 basis points, from 8.50 per cent to 9.25 per cent per annum. The hike in the key Repo Rate was effected taking into account upside risks to inflation against a backdrop of global interest rate tightening and high oil and commodity prices.

Net foreign assets of depository corporations grew by Rs14,131 million or 22.0 per cent, from Rs64,202 million at the end of June 2006 to Rs78,333 million at the end of May 2007. This increase stems from the rise in net foreign assets of both other depository corporations and the Bank of Mauritius. Net foreign assets of other depository corporations expanded by Rs6,985 million or 31.9 per cent to Rs28,873 million while those of the Bank of Mauritius rose by Rs7,145 million or 16.9 per cent to Rs49,460 million. Claims on non-residents went up by Rs57,904 million or 23.6 per cent, from Rs245,127 million at the end of June 2006 to Rs303,031 million at the end of May 2007. Liabilities to non-residents rose by Rs43,774 million or 24.2 per cent, from Rs180,925 million at the end of June 2006 to Rs224,699 million at the end of May 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs7,995 million or 4.0 per cent, from Rs198,606 million at the end of June 2006 to Rs206,601 million at the end of

May 2007. Net claims on budgetary central Government contracted by Rs5,577 million or 11.5 per cent, from Rs48,544 million at the end of June 2006 to Rs42,967 million at the end of May 2007. Claims on other sectors, exclusive of claims on GBL holders but inclusive of extra budgetary units, grew by Rs13,573 million or 9.0 per cent to Rs163,634 million over the same period.

Net claims on budgetary central Government from the Bank of Mauritius contracted by Rs577 million or 57.0 per cent, from Rs1,011 million at the end of June 2006 to Rs434 million at the end of May 2007. Net claims on budgetary central Government from other depository corporations fell by Rs5,001 million or 10.5 per cent, from Rs47,533 million to Rs42,532 million.

Claims on other sectors from the Bank of Mauritius declined by Rs19 million or 7.7 per cent, from Rs244 million at the end of June 2006 to Rs225 million at the May 2007 while claims on other sectors, exclusive of claims on GBL holders but inclusive of claims on extra budgetary units, from other depository corporations went up by Rs13,592 million or 9.1 per cent, from Rs149,817 million to Rs163,409 million.

Broad Money Liabilities (BML) expanded by Rs14,803 million or 7.5 per cent, from Rs198,415 million at the end of June 2006 to Rs213,218 million at the end of May 2007. Of the components of BML, currency with public increased by Rs988 million or 9.5 per cent to Rs11,420 million while transferable deposits grew by Rs4,493 million or 12.5 per cent to Rs40,428 million. Savings deposits rose by Rs3,325 million or 5.5 per cent to Rs64,256 million while time deposits went up by Rs6,408 million or 7.2 per cent to Rs95,078 million. Securities other than shares included in broad money fell by Rs411 million or 16.8 per cent to Rs2,036 million.

The monetary base, excluding Bank of Mauritius Bills, increased by Rs484 million, or 2.2 per cent, from Rs22,015 million at the end of June 2006 to Rs22,499 million at the end of May 2007. Currency in circulation grew by Rs1,305 million, or 10.7 per cent, from Rs12,248 million to Rs13,553 million while liabilities to other depository corporations contracted by Rs835 million or 9.2 per cent, from Rs9,048 million to Rs8,213 million.

Broad Money Liabilities multiplier rose from 9.0 at the end of June 2006 to 9.5 at the end of May 2007, reflecting the higher increase in Broad Money Liabilities as compared to the monetary base.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs8,650 million through the Primary Market in June 2007. Between end-May and end-June 2007, the weighted average yields of the 91-day and 182-day Bills decreased from 11.46 per cent to 10.96 per cent and from 11.70 per cent to 10.94 per cent respectively whereas the weighted average yield of the 364-day Bill increased from 11.00 per cent to 11.04 per cent.

No repurchase transactions were carried out by the Bank during the month. Overnight interbank transactions in June amounted to Rs5,366 million with a high of Rs430 million and a trough of Rs25 million. The weighted average overnight interbank rate for June 2007 was 8.11 per cent compared to 8.37 per cent for the previous month.

During June 2007, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,782.3 million, while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs10.6 million.

At the monthly auction of Treasury Notes held in June 2007, a total nominal amount of Rs1,200 million of Treasury Notes with maturities of 2, 3, and 4 years, and with interest payable semi-annually at 10.15 per cent, 10.55 per cent and 10.75 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs4,785.7 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 11.47, 11.38 and 11.90 per cent per annum, respectively.

The sixth issue of Five-Year Government of Mauritius Bonds for 2006-07 was undertaken on 22 June 2007, through an auction held on 20 June 2007. Bonds for a total nominal amount of Rs500 million were put on tender at a coupon rate equal to or higher than the lowest accepted yield at the auction. Bids for an amount of Rs1,457.6 million were received, of which an amount of Rs500 million was accepted. The weighted average yield on bids accepted was 11.25 per cent per annum, and the coupon rate was set at 11.25 per cent per annum.

Between May 2007 and June 2007, the rupee, on average, appreciated vis-à-vis the Japanese yen but depreciated against the US dollar, euro and Pound sterling. 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 effected by banks showed that the rupee, on average, depreciated against the US dollar, Euro and Pound Sterling between May and June 2007.

Provisional estimates for the first quarter 2007 suggest that the current account of the balance of payments registered a surplus of Rs333 million as against a deficit of Rs501 million in the corresponding quarter of 2006, reflecting mainly an improvement in the services account and on the income account. The deficit in the merchandise account of the balance of payments increased to Rs7,662 million, from Rs6,272 million in the first quarter of 2006. The deficit on the merchandise account was however partly offset by surpluses on the services, income and current transfers accounts. The capital and financial account, inclusive of reserve assets, recorded net outflows of Rs6,692 million in the first quarter of 2007 compared to net outflows Rs804 million in the corresponding quarter of 2006. The overall balance of payments for the first quarter of 2007, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs5,416 million compared with a surplus of Rs95 million in the first quarter of 2006.

At the end of May 2007, the net international reserves of the country amounted to Rs85,200 million. The end-May 2007 level of net international reserves of the country, based on the value of the import bill for calendar year 2006, exclusive of the purchase of aircraft and ship, represented 40.7 weeks of imports, down from 40.8 weeks of imports at the end of April 2007. The gross foreign exchange reserves of the Bank of Mauritius rose from Rs49,992 million at the end of May 2007 to Rs52,772 million at the end of June 2007.