International Developments

In March 2010, the US dollar, on average, appreciated against the euro, Pound sterling and the Japanese yen. The US dollar started the month on a soft note trading around US$1.3600 vis-à-vis the euro but retreated as investors awaited new plans from the European Union to address Greece's debt crisis. The greenback gave up ground against the euro after Greece announced austerity plans for $6.5 billion in pay cuts and tax hikes to reduce its deficit and eased worries about the country's debt crisis. The US dollar dropped further as risk appetite improved following the biggest monthly increase on record in euro zone industrial output in January 2010 and an upward revision of the figure for December 2009. The US dollar reached a low of US$1.3783 against the euro on 17 March 2010 after the US Federal Reserve held interest rates unchanged and reiterated to keep rates "exceptionally low for an extended period" and downbeat comments in the Fed's policy statement on the U.S. housing and employment sectors.

Thereafter, the greenback strengthened against the euro drawing support from better-than- expected US data releases and on news that Greece saw limited prospects for euro-zone assistance. The US dollar reached a 10-month high of US$1.3297 against the euro on 25 March 2010 before paring some gains after Euro-zone policy-makers agreed on an aid package under which Greece would receive bilateral loans from euro-zone partners and the International Monetary Fund (IMF). The US dollar broke higher against all currencies at the end of the month after a rise in consumer confidence index in March and as investors remained anxious about Greece's and other euro zone countries' fiscal health.

The euro traded at an average of US$1.3566 in March 2010 compared to an average of US$1.3681 in February 2010. At the start of the month, the European Central Bank (ECB) left its refinancing rate unchanged at 1 per cent, as widely expected, for the tenth month running. However, the ECB took a small step toward unwinding some extraordinary support and extended until October 2010 a program that provides unlimited funds to banks at flat rates, longer than most analysts had expected.

The Pound sterling depreciated against the US dollar during March 2010, trading at an average of US$1.5051 compared to an average of US$1.5632 in February 2010. The Pound remained extremely volatile over the month trading in the range of US$1.4871-1.5281 against the US dollar. At the start of the month, the Pound tumbled against the US dollar as the prospect of a hung parliament and concerns over a weak economy continued to pressure the currency. It reversed its course due to an unexpected jump in UK services sector activity in February 2010 and a solid rise in consumer confidence. At its monetary policy meeting, the Bank of England (BoE) left the Bank Rate unchanged at 0.5 per cent and kept its asset purchase programme on hold while assessing the impact of the massive stimulus injected into the economy. In the second week, after a brief downturn, the Pound gained ground on robust UK housing data and an unexpected fall in UK jobless claims which sent the Pound to a near three-week high versus the dollar on 17 March 2010. From then on, the Pound fell as a slowdown in UK consumer price inflation reinforced expectations that monetary policy would stay loose for some time while the UK budget did little to temper concerns over Britain's mounting deficit. The UK currency recovered some of its losses by the end of the month after a spate of brighter UK economic data and revised growth figures showed the economy grew by 0.4 per cent in 2009Q4, slightly above forecasts of a 0.3 per cent rise.

Global equity markets posted an exuberant performance during March with nearly all stock markets attaining fresh highs for 2010 after a European draft showed that the euro zone and the IMF would share the load for debt-stricken Greece. Other bullish factors during the month comprised global economic recovery picking strength, vigour in banking stocks in Europe and drugmakers stocks gaining in US after the passing of a healthcare bill. Nonetheless, stock markets were dragged down temporarily when Fitch Ratings lowered Portugal's sovereign credit rating to AA-minus from AA, together with a negative outlook.

Among the developed stock markets, NIKKEI rose by 9.02 per cent while DAX, NASDAQ and DJIA registered increases of 7.70 per cent, 5.47 per cent and 4.35 per cent, respectively. Among emerging stock markets, Bombay SENSEX, JSE and Shanghai Stock Exchange Composite recorded positive returns of 6.68 per cent, 6.37 per cent and 0.69 per cent, respectively. Looking ahead, the future health of stock markets will be heavily dependent on the bailout strategy for debt-stricken Greece.

International oil prices rose during March 2010, mainly on account of a weaker US dollar and a general rise in stock indices. Both IPE Brent and NYMEX settled intra-month highs of US$82.7 a barrel and US$83.8 a barrel, respectively, on 31 March 2010. At its meeting held on 17 March 2010 in Vienna, Austria, OPEC again decided to maintain the current oil production ceiling unchanged. Member countries reiterated their commitment to their individually agreed production allocations, just as they reaffirmed their readiness to swiftly respond to any developments which might place oil market stability in jeopardy.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$81.3 a barrel in March 2010, up from US$76.5 a barrel in February 2010. IPE Brent averaged US$79.9 a barrel during the month under review, up from US$74.8 a barrel in February 2010.

COMEX gold futures, on average, went up during the month of March 2010, trading in an intra-month closing range of US$1,088.8/Oz-1,143.3/Oz compared to US$1,052.8/Oz-1,122.1/Oz in February 2010. Gold prices reached a peak of US$1,143.3/Oz on 3 March 2010 as the US dollar extended losses against the euro.

Domestic Developments

Tourist arrivals rose by 6.6 per cent, from 67,892 in February 2009 to 72,366 in February 2010, while gross tourism receipts increased by 6.4 per cent, from Rs3,124 million in February 2009 to Rs3,323 million in February 2010. On a cumulative basis, over the period March 2009 to February 2010, tourist arrivals contracted by 3.9 per cent to reach 879,096 while tourism receipts declined by 9.3 per cent to reach Rs36,193 million.

In the March 2010 issue of its National Accounts Estimates, the Central Statistics Office revised the growth rate of the Mauritian economy for 2009 upwards to 3.1 per cent, from the 2.8 per cent forecast in December 2009. This upward revision resulted from: (i) a higher growth of 4.0 per cent in “Food manufacturing”; (ii) a higher growth of 6.5 per cent in “Construction” as a result of higher-than-expected expenditure in public infrastructure, and (iii) a lower contraction of 2.9 per cent in “Textile manufacturing”.

On the basis of information gathered on key sectors of the economy and taking into consideration measures announced in the last budget, economic growth has been projected at 4.6 per cent in 2010, higher than the forecast of 4.3 per cent made in December 2009.

The Consumer Price Index (CPI) increased from 118.6 in February 2010 to 118.8 in March 2010. The main contributors to the rise in the index between February 2010 and March 2010 were vegetables and other food products, each registering an increase of 0.1 index point. The largest rise of 0.5 per cent was noted in the Division “Food and non alcoholic beverages” followed by Recreation and culture” (+0.3 per cent), “Clothing and footwear” (+0.2 per cent), Health” (+0.2 per cent), “Alcoholic beverages and tobacco” (+0.1 per cent), “Housing, water, electricity, gas and other fuels” (+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). The divisions “Furnishings, household equipment and routine household maintenance” and “Communication” recorded decreases of 0.2 per cent and 0.1 per cent, respectively while “Education” recorded no change in its index.

The rate of inflation for the twelve-month period ended March 2010 dropped to 1.9 per cent, from 2.1 per cent for the twelve-month period ended February 2010. Year-on-Year inflation rate stood at 2.3 per cent in March 2010, down from 2.4 per cent in February 2010.

CORE1 inflation edged down from 2.3 per cent for the twelve-month period ended February 2010 to 2.2 per cent for the twelve-month period ended March 2010. CORE2 inflation dropped to 3.2 per cent in March 2010, from 3.4 per cent for the twelve-month period ended February 2010. TRIM10 inflation stood at 2.3 per cent for the twelve-month period ended March 2010, down from 2.5 per cent in February 2010.

Reflecting increases in both of its components, the net foreign assets of depository corporations rose by Rs2,479 million, or 2.4 per cent, from Rs102,460 million at the end of January 2010 to Rs104,939 million at the end of February 2010. Net foreign assets of other depository corporations went up by Rs1,119 million, or 2.8 per cent, to Rs41,167 million while those of the Bank of Mauritius increased by Rs1,360 million, or 2.2 per cent, to Rs63,772 million.

Domestic claims of depository corporations, excluding claims on GBL holders, decreased by Rs1,311 million, or 0.5 per cent, from Rs277,021 million at the end of January 2010 to Rs275,710 million at the end of February 2010. Net claims on budgetary central Government rose by Rs783 million, or 1.6 per cent, from Rs48,971 million at the end of January 2010 to Rs49,754 million at the end of February 2010. Claims on other sectors, that is, credit to the private sector went down by Rs2,095 million, or 0.9 per cent, to Rs225,955 million in February 2010.

Net claims on budgetary central Government from the Bank of Mauritius increased by Rs969 million, or 8.1 per cent, from negative Rs12,019 million at the end of January 2010 to negative Rs11,050 million at the end of February 2010. Net claims on budgetary central Government from other depository corporations fell by Rs185 million, or 0.3 per cent, from Rs60,989 million to Rs60,804 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs1 million or 0.8 per cent to Rs147 million at the end of February 2010 while claims on Other Sectors from other depository corporations fell by Rs2,096 million, or 0.9 per cent, from Rs227,904 million to Rs225,808 million.

Broad Money Liabilities (BML) went up by Rs898 million, or 0.3 per cent, from Rs294,599 million at the end of January 2010 to Rs295,497 million at the end of February 2010. Of the components of BML, currency with public decreased by Rs192 million, or 1.2 per cent, to Rs15,980 million while transferable deposits increased by Rs987 million, or 1.4 per cent, to Rs70,252 million. Savings deposits went down marginally by Rs1 million, to Rs88,387 million while time deposits rose by Rs93 million, or 0.1 per cent, to Rs120,082 million. Securities other than shares included in broad money increased by Rs11 million, or 1.5 per cent, to Rs795 million.

The monetary base went up by Rs1,891 million, or 5.8 per cent, from Rs32,386 million at the end of January 2010 to Rs34,277 million at the end of February 2010. Currency in circulation fell by Rs311 million, or 1.6 per cent, from Rs18,952 million to Rs18,641 million while liabilities to other depository corporations increased by Rs2,264 million, or 17.2 per cent, from Rs13,184 million to Rs15,448 million.

Broad Money Liabilities multiplier went down from 9.1 at the end of January 2010 to 8.6 at the end of February 2010, as the monetary base increased by a higher amount than Broad Money Liabilities.

In March 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs6,282 million through the weekly Primary Auctions. Between end-February 2010 and end-March 2010, the weighted average yields on the 91-day Bills and 182-day Bills increased from 4.25 per cent to 4.31 per cent and from 4.46 per cent to 4.67 per cent, respectively, while the weighted average yield of the 364-day

Bills decreased from 4.66 per cent to 4.29 per cent. The overall weighted yield during March 2010 decreased to 4.24 per cent, from 4.48 per cent for the previous month. During March 2010, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in March 2010 totalled Rs4,135 million with a daily average of Rs133 million, a high of Rs800 million and a trough of Rs20 million. The weighted average overnight interbank rate for March 2010 decreased to 3.80 per cent, from 3.89 per cent for the previous month.

A total amount of Rs13.55 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public for individual amounts ranging from the minimum of Rs50,000 to the maximum amount of Rs2 million. Bills traded by primary dealers amounted to Rs192.6 million. No Bills were traded on the Stock Exchange of Mauritius.

At the auction of Treasury Notes held on 3 March 2010 for issue on 5 March 2010, a total nominal amount of Rs1,200 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. Bids received for the three maturities totalled Rs3,091.4 million and the amount accepted was Rs1,200.0 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 5.91, 6.79 and 7.36 per cent per annum, respectively.

For the auction of Treasury Notes held on 31 March 2010 for issue on 2 April 2010, a total nominal amount of Rs1,500 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. Bids received for the three maturities totalled Rs2,546.8 million and the amount accepted was Rs1,500.0 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 5.68, 6.09 and 6.11 per cent per annum, respectively. The market preference of bids received for Treasury Notes for the two auctions remained skewed towards the 3-year maturity.

On 25 March 2010, the Bank conducted Special Deposits Facility for periods of 14 and 21 days at the rate of 4.75 per cent per annum. A total amount of Rs3,000 million was accepted.

During March 2010, the Bank conducted spot-to-one month forward swap transactions for a total amount of EUR2.0 million and spot-to-three months forward swap transactions for a total amount of EUR16.5 million.

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

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

At the end of February 2010, the net international reserves of the country stood at Rs105,557 million, which based on the value of import bill for the calendar year 2009 exclusive of the purchase of aircraft, represented 47.5 weeks of imports, up from 46.4 weeks of imports at the end of January 2010. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs67,833 million as at end-February 2010 to Rs67,413 million at the end of March 2010.