International Developments

In May 2010, the US dollar, on average, appreciated against the euro and the Pound sterling but depreciated vis-à-vis the Japanese yen. The US dollar started the month trading around US$1.32 vis-à-vis the euro and gained significant ground on nagging worries that the euro zone's debt crisis would pull the world back into recession. In this highly risk-averse environment, the US dollar was broadly stronger as investors shunned riskier assets and bought currencies perceived as safe-havens.

The euro traded at an average of US$1.2557 in May 2010 compared to an average of US$1.3433 in April 2010. During the beginning of May 2010, the euro tumbled against the US dollar as fears of contagion stemming from a Greek debt crisis to Spain and Portugal escalated. As expected, the European Central Bank (ECB) left its key refinancing rate at a record low of 1 per cent for the 13th consecutive month and President Trichet said that the bank did not consider buying government debt to stop the euro's rout and that a Greek default was "out of the question." The decline in the single currency accelerated after stocks on Wall Street tumbled by nearly 9 per cent, briefly erasing most of this year's gains, but reversed course to some extent following the announcement of a 750-billion euro aid deal from the EU and IMF to prevent any default on sovereign debt in the euro zone over the next few years. Though improved sentiment helped lift the struggling currency temporarily, the euro resumed its downward trend as scepticism remained over Greece's ability to cut its large fiscal deficit smoothly and other European governments announced austerity measures, fanning fears that the fragile recovery in the euro zone might be hampered. The euro fell to a four-year low of US$1.2189 against the US dollar on 19 May 2010 after Germany imposed a ban on naked short-selling of some securities. Despite some marginal gains against the US dollar on speculation that European monetary officials might intervene to prop up the euro, the single currency ended the month trading around US$1.23, pressured after the Spanish central bank's takeover of a savings bank fuelled fears of systemic risk within the banking system, and Spain's credit rating was downgraded.

The Pound sterling depreciated against the US dollar during May 2010, trading at an average of US$1.4644 compared to an average of US$1.5330 in April 2010. At the beginning of the month, the Pound sterling came under pressure versus the US dollar amid uncertainty about the UK election and fears of contagion from the euro zone debt crisis. Thereafter, the British currency rallied briefly following the announcement of the EU/IMF aid package to Greece and as the conservatives formed an alliance with the Liberal Democrats while positive UK data releases provided additional support. The Bank of England (BoE) maintained the Bank Rate at a record low of 0.50 per cent and made no change to its quantitative easing policy, as expected, at its monthly policy meeting. Following the release of a dovish BoE outlook for UK growth and inflation, the Pound sterling fell against the US dollar and its decline accelerated as data showed the UK trade deficit widened more than expected and concerns grew about Britain's massive budget deficit. Following Germany's policy ban on naked short-selling of some securities, the Pound sterling hit a 14-month low at US$1.4278 versus the US dollar and continued to be weighed down by negative sentiment over fiscal tightening and its potential effects on Britain's growth. The British currency hovered within a range of US$1.4348-US$1.4534 towards the end of the month.

Overall, in May 2010, most stock markets posted their worst performance for the year on the back of heightened concerns over the euro zone debt problems. Stock markets dipped significantly on 7 May 2010, as investors became concerned about the dramatic plunge of the Dow Jones as well as spreading contagion effects within the euro zone area, but these losses were quickly reversed and markets recovered during the next few days up to 12 May 2010. Thereafter, the Spanish bank bailout and additional credit downgrades contributed to further depress the markets.

In May 2010, NASDAQ and DJIA fell by 9.67 per cent and 9.10 per cent, respectively, while NIKKEI and

DAX declined by 11.65 per cent and 3.29 per cent, respectively. Among emerging stock markets, JALSH and SENSEX recorded negative returns of 5.19 per cent and 2.54 per cent, respectively. The SSEC lost 9.70 per cent after the Chinese government unleashed a range of policy measures to tame speculation in the real estate market. Looking ahead, the direction of international stock markets would hinge largely on the developments in euro zone area following the ECB's warning that that the region's sovereign debt problems might spread to the banking system.

International oil prices fell during May 2010, amid concerns about the sovereign debt crisis in Greece with contagion risk and high oil inventories in the US. NYMEX and IPE Brent settled at intra-month highs of US$86.2 a barrel and US$88.9 a barrel, respectively, on 3 May 2010. NYMEX WTI (West Texas Intermediate crude oil) averaged US$74.1 a barrel in May 2010, down from US$84.6 a barrel in April 2010. IPE Brent averaged US$77.1 a barrel during the month under review, down from US$85.7 a barrel in April 2010.

COMEX gold futures, on average, went up during May 2010, trading in an intra-month closing range of US$1,169.2/Oz-1,243.1/Oz compared to US$1,126.1/Oz-1,180.7/Oz in April 2010. Gold prices peaked at US$1,243.1/Oz on 12 May 2010, benefiting from its safe-haven status.

Domestic Developments

Gross tourism receipts increased by 6.1 per cent, from Rs2,982 million in April 2009 to Rs3,163 million in April 2010. On a cumulative basis, over the period May 2009 to April 2010, tourism receipts stood at Rs36,630 million, representing a 5.5 per cent decline over the corresponding period of 2008-09.

The Consumer Price Index (CPI) edged down from 119.3 in April 2010 to 119.1 in May 2010. The main contributors to the fall in the index between April 2010 and May 2010 were gasoline and rice which registered decreases of 0.4 index point and 0.1 index point, respectively. A rise of 0.1 index point was recorded for alcoholic beverages, diesel and other goods and services. The largest contraction of 1.6 per cent was noted in the division "Transport" followed by "Food and non alcoholic beverages" (-0.2 per cent) and "Health" (-0.2 per cent). The divisions "Alcoholic beverages and tobacco", "Clothing and footwear", "Furnishings, household equipment and routine household maintenance", "Restaurants and hotels" and "Miscellaneous goods and services" recorded increases of 0.3 per cent, 0.1 per cent, 0.2 per cent, 0.2 per cent and 0.6 per cent, respectively, while "Housing, water, electricity, gas and other fuels", "Communication", "Recreation and culture" and "Education" recorded no change in their indices.

The rate of inflation for the twelve-month period ended May 2010 remained flat at 1.8 per cent for the second consecutive month. Year-on-Year inflation rate fell to 2.5 per cent in May 2010, from 2.7 per cent in April 2010.

CORE1 inflation remained unchanged at 2.2 per cent for the twelve-month period ended May 2010. CORE2 inflation dropped to 2.8 per cent in May 2010, from 3.0 per cent for the twelve-month period ended April 2010. TRIM10 inflation stood at 2.2 per cent for the twelve-month period ended May 2010, unchanged from previous month.

Net foreign assets of depository corporations went down by Rs741 million, or 0.7 per cent, from Rs103,539 million at the end of March 2010 to Rs102,798 million at the end of April 2010, mainly on account of the decrease in the net foreign assets of other depository corporations. Net foreign assets of other depository corporations fell by Rs1,251 million, or 3.1 per cent, to Rs38,966 million while those of the Bank of Mauritius increased by Rs509 million, or 0.8 per cent, to Rs63,832 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs1,712 million, or 0.6 per cent, from Rs280,145 million at the end of March 2010 to Rs281,856 million at the end of April 2010. Net claims on budgetary central Government decreased by Rs490 million, or 1.0 per cent, from Rs50,841 million at the end of March 2010 to Rs50,351 million at the end of April 2010. Claims on other sectors, that is, credit to the private sector went up by Rs2,202 million, or 1.0 per cent, to Rs231,505 million in April 2010.

Net claims on budgetary central Government from the Bank of Mauritius decreased by Rs2,584 million, or 39.8 per cent, from negative Rs6,484 million at the end of March 2010 to negative Rs9,067 million at the end of April 2010. Net claims on budgetary central Government from other depository corporations rose by Rs2,093 million, or 3.7 per cent, from Rs57,325 million to Rs59,418 million.

Claims on Other Sectors from the Bank of Mauritius decreased by Rs4 million, or 2.7 per cent, to Rs127 million at the end of April 2010 while claims on Other Sectors from other depository corporations rose by Rs2,205 million, or 1.0 per cent, from Rs229,173 million to Rs231,378 million.

Broad Money Liabilities (BML) went down by Rs624 million, or 0.2 per cent, from Rs297,312 million at the end of March 2010 to Rs296,688 million at the end of April 2010. Of the components of BML, currency with public increased by Rs191 million, or 1.2 per cent, to Rs16,036 million while transferable deposits decreased by Rs2,002 million, or 2.8 per cent, to Rs69,001 million. Savings deposits went up by Rs1,492 million, or 1.7 per cent, to Rs91,518 million while time deposits decreased by Rs316 million, or 0.3 per cent, to Rs119,315 million. Securities other than shares included in broad money increased by Rs11 million, or 1.3 per cent, to Rs817 million.

The monetary base went down by Rs1,044 million, or 3.0 per cent, from Rs35,111 million at the end of March 2010 to Rs34,067 million at the end of April 2010. Currency in circulation rose marginally by Rs8 million to Rs18,752 million while liabilities to other depository corporations decreased by Rs1,044 million, or 6.5 per cent, from Rs16,169 million to Rs15,125 million.

Broad Money Liabilities multiplier went up from 8.5 at the end of March 2010 to 8.7 at the end of April 2010 as a result of a lower decrease in Broad Money Liabilities compared to Monetary Base.

In May 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs5,100 million through the weekly Primary Auctions. Between end-April 2010 and end-May 2010, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills decreased from 4.22 per cent to 3.53 per cent, from 4.38 per cent to 3.60 per cent and from 4.51 per cent to 3.80 per cent respectively. The overall weighted yield during May 2010 decreased to 3.91 per cent from 4.49 per cent for the previous month. During May 2010, market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in May 2010 totalled Rs9,407 million with a daily average of Rs303 million, a high of Rs915 million and a trough of Rs20 million. The weighted average overnight interbank rate for May 2010 decreased to 3.69 per cent from 3.90 per cent for the previous month.

A total amount of Rs24.10 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 Rs356.9 million.

At the monthly auction of Treasury Notes held in May 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 Rs4,460 million and the amount accepted was Rs1,500 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 5.61, 5.90 and 6.13 per cent per annum, respectively. Market preference shifted to the 2-year maturity.

With a view to managing the excess liquidity in the Rupee market, the Bank issued through auction on 12 May 2010, 28-day Bank of Mauritius Bills (BOM Bills). A total amount of Rs2,920 million of bids was received and a total nominal amount of Rs700 million was accepted. The weighted yield on bids accepted was 4.06 per cent per annum.

During May 2010, the Bank conducted spot-to-one month forward swap transaction for an amount of EUR1.2 million and spot-to-three months forward swap transaction for an amount of EUR10.0 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 April and May 2010, the rupee, on average, depreciated against the US dollar and Pound Sterling but appreciated against the Euro.

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

At the end of April 2010, the net international reserves of the country stood at Rs103,602 million and, based on the value of import bill for the calendar year 2009 exclusive of the purchase of aircraft, this represented 46.7 weeks of imports, down from 47.0 weeks of imports at the end of March 2010. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs67,890 million at the end of April 2010 to Rs70,519 million at the end of May 2010.

The sector-wise classification of flows relating to Foreign Direct Investment (FDI) in Mauritius (Table 50a) and Direct Investment abroad (Table 51a) has been recast based on the United Nation’s International Standard Industrial Classification (ISIC) Rev. 4, which is the revised new structure. Compared to ISIC 3.1, ISIC Rev. 4 is more detailed, responding to the need to identify new industries separately, in particular, services. Moreover, the relevance of the classification has been enhanced with the introduction of new high-level categories to better reflect current economic phenomena.

Provisional estimates for the first quarter 2010 indicate that gross Foreign Direct Investment (FDI) flows in Mauritius stood at Rs4,555 million. Investment was mainly directed to the “Human health and social work activities” sector (Rs2,732 million), the “Real estate activities” sector (Rs642 million), of which the IRS/RES accounted for Rs296 million, and the “Construction” sector (Rs631 million). The main sources of FDI inflows were India (Rs2,732 million) followed by France (Rs809 million). Outward direct investment is estimated at Rs2,040 million for the first quarter 2010 with significant investment destined to the “Human health and social work activities” sector (Rs1,375 million).

BALANCE OF PAYMENTS DEVELOPMENTS

I 1st QUARTER 2010

The overall balance of payments for the first quarter of 2010, excluding valuation changes, recorded a deficit of Rs315 million.

I.1 Current Account

Provisional estimates for the first quarter of 2010 indicate that the current account deficit of the balance of payments widened significantly to Rs3,867 million, from Rs1,301 million registered in the first quarter of 2009. In the fourth quarter of 2009, the current account deficit stood at Rs5,632 million. The widening of the current account deficit in the first quarter 2010 resulted largely from a more pronounced deficit in the merchandise trade account, which outweighed the surpluses registered on the services, income and current transfers accounts.

The merchandise trade deficit stood at Rs12,796 million, 35.1 per cent higher than the shortfall of Rs9,471 million recorded in the first quarter of 2009. On a balance of payments basis, total imports (fob) increased considerably by 13.6 per cent from Rs23,733 million in the first quarter of 2009 to Rs26,953 million in the first quarter of 2010 relative to a marginal decline of 0.7 per cent in nominal exports.

The surplus on the services account rose by 23.3 per cent to Rs6,940 million in the first quarter of 2010, up from Rs5,628 million registered in the same corresponding period of last year. The improvement in the services account, originated mostly from an inflow in net other services coupled with an increase in net travel receipts.

In the quarter under review, the income account posted a net surplus of Rs1,893 million, of which other investment income registered a net inflow of Rs2,275 million. Direct investment recorded a marginal net inflow of Rs7 million while portfolio investment income showed a net outflow of Rs344 million. The current transfers account recorded a significantly lower surplus of Rs96 million in the first quarter of 2010 compared to Rs610 million registered in the corresponding quarter of 2009, due to higher private transfers in the form of claims remitted abroad.

I.1 Capital and Financial Account

The capital and financial account of the balance of payments, inclusive of reserve assets, recorded lower net inflows of Rs2,193 million in the first three months of 2010 compared to net inflows of Rs6,596 million registered for the same corresponding period, a year ago.

Net foreign direct investment inflows slowed to Rs1,997 million during the first quarter of 2010 compared to Rs2,363 million registered in the first quarter of 2009. Foreign direct investment in Mauritius, net of repatriation, climbed to Rs4,037 million during the first quarter of 2010 from Rs2,558 million recorded in the corresponding period of 2009. Direct investment abroad, net of repatriation, stood at Rs2,040 million compared to Rs195 million in the first quarter of 2009.

The net outflow on portfolio investment widened to Rs2,725 million during the first quarter of 2010, from Rs928 million recorded in the first quarter of 2009 attributable to higher residents' acquisition of assets abroad. Net inflows in the 'Other Investment' account amounted to Rs2,663 million in the first three months of 2010 compared to net inflows of Rs5,316 million in the corresponding period of 2009.