OVERVIEW

International Developments

During November 2006, the US dollar, on average, depreciated against all major currencies. At the start of the month, sentiment towards the US dollar was weak amid the release of soft data on business and manufacturing activity, which reinforced market expectations that the US Federal Reserve would keep interest rate steady for a while or might even go for a cut. The US dollar thereafter rebounded, supported by strong jobs and service sector data. But arguments that Democratic control of the lower house could be negative for the currency, given that it might lead to a rise in protectionist policies or to political deadlock that could slow reforms, again dented US dollar sentiment ahead of the results of the mid-term elections. Subsequently, the victory of the Democrats, followed by the resignation of Defence Secretary Donald Rumsfeld, suggested that defence spending could be reviewed, a scenario that could foster fiscal discipline, and that provided a brief respite to the US dollar. But, from then on, the US currency started on a general downward trend against major currencies, undermined by a soft University of Michigan consumer sentiment survey and in spite of a narrower-than-expected trade deficit. Worries that central banks might gradually shift their foreign exchange reserves away from the US currency brought additional concerns. Amid profit taking and benefiting from the release of the minutes of the Fed’s October 2006 policy meeting, where policy makers mentioned that inflation remained the "greatest concern", the US currency recouped some of its losses. The US dollar resumed its downward trend on international markets after the White House lowered its forecast of economic growth for this year to 3.1 per cent and next year to 2.9 per cent, saying that the economy was moderating. The US currency remained under pressure following the release of data showing a drop in housing starts in October 2006 to their lowest level in more than six years while building permits, which offer a signal on future construction plans, fell to their weakest level in nearly nine years. US dollar weakness was compounded by speculation that a large US hedge fund was in trouble and, although the talk died down, the US currency was unable to recover from its earlier losses. A softer-than-expected University of Michigan's final reading of its November 2006 index of consumer sentiment added to the US dollar's woes. Towards the end of November 2006, the US dollar was again plagued by persistent concerns about central banks diversifying their foreign exchange reserves and the US currency's narrowing interest rate advantage as well as worries about the US economic slowdown. A plunge in US durable goods orders for October 2006, the sharpest fall in six years, also kept the US dollar under heavy downward pressure, but it managed to recoup some of its losses on the final day of November 2006 amid the release of data showing a stronger pace of economic expansion than estimated initially.

The euro strengthened against the US dollar during November 2006, trading at an average of US$1.2883 from an average of US$1.2622 in October 2006. The euro started the month trading around US$1.2761. As expected, on 2 November 2006, the European Central Bank (ECB) left its key refinancing rate unchanged at 3.25 per cent at its governing council meeting. In his post-meeting conference, ECB

President Jean-Claude Trichet called for "strong vigilance" in maintaining price stability, a signal that market analysts interpreted as a near-term rate increase. The single currency hit its intra-month low of US$1.2705 on 6 November 2006 in the wake of the broad-based strength of the US dollar. From then on, the euro started on a general upward trend against the US currency, benefiting from the announcement by China that it had a clear plan to diversify its foreign exchange reserves as well as market forecasts indicating a further increase in rates in 2007, after a widely expected hike in December 2006. The release of upbeat German business sentiment survey and the apparent lack of concern about the Euro's strength of euro zone finance ministers at their meeting in Brussels added support to the single currency. The euro hit its intra-month high of US$1.3186 on 29 November 2006 before closing the month trading around US$1.3174.

The Pound sterling moved higher against the US dollar during November 2006, trading at an average of US$1.9108 from an average of US$1.8749 in October 2006. From US$1.9067 at the start of the month, the Pound sterling traded in tight ranges until mid-November 2006 despite the release of relatively upbeat data on British house prices and the service sector. As expected, on 9 November 2006, the Bank of England (BoE) raised its key repo rate to 5.0 per cent, its highest level in five years, but gave little sign that it would hike again next year. Explaining its second hike in three months, the BoE said that pricing pressures were on the rise and money supply was increasing rapidly although consumer spending was volatile and unemployment had gone up. The Pound sterling attained its intra-month low of US$1.8861 on 17 November 2006, as the US dollar rebounded on international markets. Thereafter, the Pound sterling resumed its upward movement against the US dollar, benefiting from strong house price and manufacturing data as well as merger and acquisition flows into the UK. The Pound sterling climbed to its intra-month high of US$1.9517 on 29 November 2006 before closing the month trading at US$1.9489.

The Japanese yen appreciated against the US dollar during November 2006, trading at an average of ¥117.24 per US dollar from an average of ¥118.63 per US dollar in October 2006. From ¥116.93 per US dollar on 1 November 2006, the Japanese yen thereafter moved slightly lower against the US currency and continued to trade in tight ranges. As expected, on 16 November 2006, the Bank of Japan (BOJ) left monetary policy unchanged, keeping the overnight call rate at 0.25 per cent. The BOJ also left its assessment of the economy unchanged in a monthly report, saying that it was expanding moderately. The Japanese yen hit its intra-month low of ¥118.37 per US dollar on 17 November 2006, but appreciated thereafter against the US currency, benefiting from the broad-based weakness of the US dollar on international markets as well as surprisingly strong Japanese industrial output data. The Japanese yen attained its intra-month high of ¥115.79 per US dollar on 29 November 2006 before closing the month trading at ¥116.12 per US dollar.

Oil prices were mixed during November 2006. In the first three weeks of November, oil prices eased mainly on encouraging reports from the US Energy Information Administration showing comfortable US crude stock levels. Moreover, a monthly report by the International Energy Agency showed that global inventories rose by more than expected in the third quarter of 2006 and higher non-OPEC production would lead to a lower call on OPEC crude oil supplies. News that Saudi Arabia told some of its Asian customers that it would supply them more crude oil in December 2006, despite OPEC's decision to cut output, also pressured oil prices. Mild weather conditions in the United States added further strain on oil prices. However, in the last week of November 2006, repeated calls from OPEC members to cut output quota further at the cartel's meeting on 14 December 2006 and forecast of colder weather conditions in the United States pushed oil prices up. Oil prices are expected to trade above US$60 a barrel in the weeks ahead.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$59.4 a barrel for November 2006, up from US$59.1 a barrel in October 2006 and US$58.3 a barrel in November 2005. IPE Brent futures averaged US$59.8 a barrel during the period under review, unchanged from October 2006 but up from US$56.2 a barrel in November 2005.

COMEX gold futures, on average, moved higher during November 2006, trading in an intra-month closing range of US$618.3/Oz-US$652.9/Oz compared to a range of US$566.7/Oz-US$607.4/Oz in October 2006. Gold prices continued to be influenced more by speculative moves than fundamental demand and supply factors. Strong seasonal demand for jewellery and US dollar weakness pushed prices up. COMEX averaged US$629.1/Oz during November 2006, compared to an average of US$589.6/Oz in October 2006.

Domestic Developments

Tourist arrivals went up by 6.3 per cent, from 70,999 in October 2005 to 75,451 in October 2006, while gross tourism receipts increased by 25.8 per cent, from Rs2,066 million in October 2005 to Rs2,600 million in October 2006. Cumulatively, over the period January to October 2006, tourist arrivals reached 621,573, representing a rise of 3.6 per cent over 599,751 arrivals recorded in the corresponding period of the previous year. Tourism receipts for the period January to October 2006 increased by 22.8 per cent to reach Rs24,658 million compared to Rs20,078 million recorded over the corresponding period in 2005.

The Consumer Price Index (CPI) increased from 132.3 in October 2006 to 133.3 in November 2006. Except for "Communication", "Recreation and Culture" and "Education", which recorded no change in their sub-indices and "Restaurants and Hotels" whose index declined by 0.1 per cent, all the remaining nine Divisions recorded increases in their sub-indices. Both "Food and Non-Alcoholic Beverages" and "Miscellaneous Goods and Services" registered the largest rise of 1.6 per cent followed by "Transport" (+0.8 per cent). The remaining Divisions registered increases in their sub-indices in the range of 0.2 per cent to 0.6 per cent. The main contributors to the change in the index between October and November 2006 were milk and milk preparations, cooking oil, frozen fish, frozen mutton, ginger, other food products, motor vehicles and their spare parts, airfare, goods for personal care and other goods and services, each registering an increase of 0.1 index point. The rate of inflation for the twelve-month period ended November 2006 stood at 8.3 per cent, up from 7.5 per cent for the twelve-month period ended October 2006.

While headline inflation for November 2006 stood at 8.3 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 7.0 per cent, 6.9 per cent and 6.2 per cent, respectively. Consequently, for November 2006, core inflation was between 1.3 and 2.1 percentage points lower than the headline inflation.

Money supply M2 went up by Rs2,248 million or 1.3 per cent, from Rs177,527 million at the end of June 2006 to Rs179,775 million at the end of October 2006 on account of the increase in quasi money offsetting the fall in narrow money supply. Narrow money supply M1 contracted by Rs203 million or 0.8 per cent to Rs24,866 million while quasi-money rose by Rs2,451 million or 1.6 per cent to Rs154,909 million.

Net foreign assets of the banking system expanded by Rs7,593 million or 12.4 per cent, from Rs61,435 million at the end of June 2006 to Rs69,028 million at the end of October 2006. Net foreign assets of Bank of Mauritius fell by Rs613 million or 1.4 per cent to Rs41,841 million, reflecting partly Government's decision to shift a significant portion of its foreign exchange balances from the Bank of Mauritius to a bank, while net foreign assets of banks grew by Rs8,206 million or 43.2 per cent to Rs27,187 million over the same period.

Domestic credit went up by Rs3,898 million or 2.4 per cent, from Rs164,961 million at the end of June 2006 to Rs168,859 million at the end of October 2006. Net credit to Government from the banking system contracted by Rs4,154 million or 9.1 per cent, from Rs45,490 million at the end of June 2006 to Rs41,336 million at the end of October 2006. Net credit to Government from Bank of Mauritius increased by Rs912 million or 55.6 per cent to Rs2,553 million while net credit to Government from banks fell by Rs5,066 million or 11.6 per cent to Rs38,783 million. Credit to the private sector expanded by Rs8,052 million or 6.7 per cent, from Rs119,471 million at the end of June 2006 to Rs127,523 million at the end of October 2006. Between end June 2006 and end October 2006, additional credit was extended to "Financial and Business Services" (Rs2,095 million), "Traders" (Rs1,526 million), "Public Nonfinancial Corporations" (Rs1,497 million), "Tourism" (Rs1,374 million), "Construction" (Rs882 million), "Personal" (Rs685 million), "Infrastructure" (Rs428 million), "Transport" (Rs238 million), "Education" (Rs61 million), "Manufacturing" (Rs49 million) and "Health" (Rs28 million) . Over the same period declines of Rs795 million and Rs77 million were recorded at the "Agriculture and Fishing" and "Freeport Enterprise Certificate Holders" sectors.

Reserve money contracted by Rs2,221 million or 9.1 per cent, from Rs24,543 million at the end of June 2006 to Rs22,322 million at the end of October 2006.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total amount of Rs2,202 million through the Primary Market in November 2006. No repurchase transaction was undertaken by the Bank.

During November 2006, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,222 million. There was no trading of Treasury Bills on the Stock Exchange of Mauritius.

At the monthly auction of Treasury Notes held in November 2006, a total nominal amount of Rs800 million of Treasury Notes with maturities of 2, 3, and 4 years, and with interest payable semi-annually at the rates of 8.50, 8.90, and 9.15 per cent per annum, respectively, was put on tender. Bids for a total amount of Rs540.3 million, were received and accepted. The weighted average yields on bids accepted were 11.20, 11.57, and 11.88 per cent per annum, respectively.

The second issue of Government of Mauritius Bonds for 2006-07 was undertaken on 24 November 2006, through an auction on 22 November 2006. Bonds with maturities of 7, 13 and 20 years for a total nominal amount of Rs1.0 billion were put on tender at coupon rates of 11.75, 12.00 and 12.25 per cent per annum, respectively. Bids received for the three maturities totalled Rs1,156.3 million, of which an amount of Rs1.0 billion was accepted. The weighted average yields on bids accepted were 12.19, 13.26 and 13.19 per cent per annum, respectively.

In November 2006, the Bank intervened and sold US dollars for a total amount of US$10.5 million on the interbank foreign exchange market.

Between October 2006 and November 2006, the rupee, on average, depreciated against all major currencies. 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 commercial banks, showed that the rupee, on average, depreciated against the US dollar, Euro, and the Pound sterling between October and November 2006.

At the end of October 2006, the net international reserves of the country amounted to Rs69,553 million. The end-October 2006 level of net international reserves of the country, based on the value of the revised import bill for fiscal year 2005-06, exclusive of the purchase of aircraft, represented 35.8 weeks of imports, up from 35.3 weeks of imports at the end of September 2006. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs41,841 million at the end of October 2006 to Rs43,685 million at the end of November 2006, reflecting essentially the net appreciation of the Bank of Mauritius foreign exchange holdings that more than offset its intervention on the interbank foreign exchange market.