OVERVIEW

International Developments

During April 2009, the US dollar, on average, appreciated against the Japanese yen but lost ground vis-à-vis the Pound sterling and the euro. The US dollar started the month on a good note helped by its safe haven status after the G20 agreed to spend more to fight the global economic crisis and the United States said it would change accounting rules for handling bad assets. Rising stocks on Wall Street and Europe also supported the US currency. The US dollar then rose broadly as stocks in Europe and on Wall Street fell on fading optimism about a global economic recovery, which prompted investors to buy the US dollar as a safe haven. Adding to the dollar's safe-haven allure were comments by billionaire investor George Soros that the US economy was in for "a lasting slowdown" and would not recover this year. He also said "the banking system as a whole is basically insolvent." This was then followed by an appreciation of the US dollar against the major currencies, buoyed by a rally in US stocks following positive earnings guidance from US bank Wells Fargo. The US dollar then fell with markets waiting to see how US corporations, especially banks, fared in the first quarter, amid signs that the financial sector might be starting to stabilise after news that Goldman Sachs posted a higher-than-expected USD$1.7 billion profit helped lift sentiment. The US dollar depreciated versus the major currencies as market players said that investors were reluctant to aggressively expand their risk-taking as they awaited the US authorities' unveiling of the stress test methodology for banks, and Chrysler tries for a deal with Fiat. Towards the end of April 2009, the US dollar fell to its lowest level in a month against the yen as concerns about the spread of swine flu from Mexico sent investors into perceived safe-haven currencies such as the yen. The US dollar also dropped against the euro as improving US data trimmed demand for the US dollar as a safe haven and comments by an ECB official that damped expectations for quantitative easing also weighed on the dollar against the euro. The Federal Reserve Bank kept benchmark overnight interest rates unchanged in the range of zero to 0.25 per cent on April 29. In a statement after the two-day policy meeting, the Federal Reserve said that it would keep short-term interest rates exceptionally low for an extended period but it noted that the economic outlook had improved modestly since its March 2009 meeting. The Fed statement contributed to improving sentiment and boosted risk appetite, easing demand for the yen and US dollar as safe havens.

The euro appreciated against the US dollar trading at an average of US$1.3187 in April 2009 compared to an average of US$1.3031 in March 2009. At its governing council meeting held on 2 April 2009, the European Central Bank (ECB) cut its key refinancing rate by 25 basis points to 1.25 per cent as against expectations of a 50 basis points rate cut. The euro came under selling pressure after data showed that the euro zone economy recorded its deepest-ever quarterly fall in the fourth quarter of 2008. The Group of 20 summit of world leaders in London gave a boost to risk appetite, inching the euro up. But, the euro could not hold on to its gain, dented by holiday trade and a view the ECB may be edging closer to unconventional easing. ECB President Jean-Claude Trichet stated that the central bank still had some leeway to cut its main interest rate from its record low of 1.25 percent. Afterwards, the euro gained much support after data showed that the euro zone's services and manufacturing sectors managed their best performance in six months in April 2009, suggesting that the severe recession was no longer worsening. The euro, at the close of the month, rose further amid broad-based weakness of the US currency.

The Pound sterling appreciated against the US dollar during April 2009, trading at an average of US$1.4692, from an average of US$1.4202 in March 2009. The Pound started the month on a soft note, as data showed that British services sector output fell by 0.2 per cent in January 2009, while productivity fell by 1.5 per cent in the fourth quarter of 2008, the fastest quarterly rate in almost 30 years. Meanwhile, the Organisation for Economic Cooperation and Development (OECD) announced that Britain's economy would shrink by 3.7 per cent in 2009, its fastest pace of decline since World War Two. The Pound sterling, however, edged up after data showed that the rate of decline in British manufacturing eased more than expected last month, in a possible sign that record low interest rates might be having some impact. As expected, the Bank of England (BOE) Monetary Policy Committee, at the end of its two-day meeting held on 8-9 April 2009, maintained its key repo rate at 0.5 per cent. The Pound continued on its upward trend, hitting a three-month high after a report showed the pace of decline in house prices in England and Wales moderated to its slowest in a year and sales volumes picked up from record low levels. Thereafter, the Pound sterling was pressured down on the view that the UK government would slash its economic forecast and crank up borrowing when it announces its annual budget later. But the Pound gained some support on relief that UK inflation data suggested that the economy had not yet fallen into deflation. However, the gain was short-lived, as the Pound tumbled to a three-week low with the UK government projecting a massive increase in public debt and announcing a tax rise for high earners in its annual budget. The Pound slumped further after data showed the UK economy's fall in the first quarter was its fastest in 30 years, casting doubt on the government's economic outlook. Britain's first-quarter gross domestic product of 2009 fell by 4.1 per cent year-on-year, the biggest annual drop since the end of 1980. By the end of the month, the Pound Sterling inched up after unexpectedly strong UK retail sales prompted a rebound from early losses.

International oil prices moved higher during April 2009, mainly attributable to a weaker dollar and a general rise in stock market. IPE Brent hits its intra-month high of US$54.1 a barrel on 9 April 2009 while NYMEX reached a peak of US$52.6 a barrel on 2 April 2009, on optimism that the steps agreed to by the world leaders at the G20 meeting in London would restore global economic growth. According to the US Energy Information Administration's (EIA), world oil consumption is expected to drop by 1.35 million barrels per day in 2009 compared with year-earlier levels, due to the global economic recession.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$49.9 a barrel in April 2009, up from US$48.1 a barrel in March 2009. IPE Brent figures averaged US$51.4 a barrel during the month under review, up from US$47.4 a barrel in March 2009.

COMEX gold futures, on average, moved down during the month of April 2009, trading in an intra-month closing range of US$867.9/Oz-927.7/Oz compared to US$889.1/Oz-US$958.8/Oz in March 2009. Gold prices reached a peak of US$927.7 on the 1 April 2009, on strong investment demand and after the European Central Bank completed a gold sale. The bullion averaged US$893.6 during April 2009, compared to an average of US$925.9 in March 2009.

Domestic Developments

Tourist arrivals declined by 13.3 per cent, from 89,152 in March 2008 to 77,324 in March 2009, while gross tourism receipts went down by 9.8 per cent, from Rs3,728 million in March 2008 to Rs3,361 million in March 2009. On a cumulative basis, over the period July 2008 to March 2009, tourist arrivals reached 710,397, representing a decrease of 3.5 per cent over the 736,352 arrivals recorded in the corresponding period of the previous year. Tourism receipts for the period July 2008 to March 2009 contracted by 10.9 per cent to Rs29,308 million compared to Rs32,886 million recorded in the corresponding period of the previous year.

The Consumer Price Index (CPI) increased from 116.1 in March 2009 to 116.2 in April 2009. The main contributors to the rise in the index between March 2009 and April 2009 were gasoline and diesel oil which registered an increase of 0.3 index point and fish and washing materials and softeners, each registering an increase of 0.1 index point. Decreases of 0.3 index point for interest rate on housing loans and 0.1 index point for rice were recorded. The largest rise of 2.2 per cent was noted in the Division “Transport” followed by “Furnishings, household equipment and routine household maintenance” (+1.1 per cent), “Health” (+0.8 per cent), “Food and non alcoholic beverages” (+0.2 per cent) and “Communication” (+0.1 per cent). The divisions “Housing, water, electricity, gas and other fuels” and “Clothing and footwear” registered declines of 2.2 per cent and 0.4 per cent, respectively while “Alcoholic beverages and tobacco”, “Recreation and culture”, “Education”, “Restaurants and hotels” and “Miscellaneous goods and services” recorded no change in their indices. The rate of inflation for the twelve-month period ended April 2009 stood at 8.0 per cent, down from 8.5 per cent for the twelve month period ended March 2009. Year-on-Year inflation rate dropped to 3.8 per cent in April 2009, from 4.8 per cent in March 2009.

CORE1 and CORE2 inflation maintained their downward path in April 2009. CORE1 inflation fell from 7.6 per cent in March 2009 to 7.1 per cent in April 2009. CORE2 inflation dropped to 5.7 in April 2009, from 5.8 per cent for the twelve month period ended March 2009. TRIM10 inflation rose marginally to 2.6 per cent in April 2009, from 2.5 per cent in March 2009.

Net foreign assets of depository corporations edged up by Rs5,894 million, or 7.1 per cent, from Rs83,628 million at the end of June 2008 to Rs89,522 million at the end of March 2009, largely on account of the increase in the net foreign assets of the other depository corporations. Net foreign assets of other depository corporations rose by Rs5,879 million, or 22.1 per cent, to Rs32,480 million while those of the Bank of Mauritius increased by Rs16 million to Rs57,042 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs15,717 million, or 6.1 per cent, from Rs258,704 million at the end of June 2008 to Rs274,421 million at the end of March 2009. Net claims on budgetary central Government fell by Rs3,690 million, or 6.9 per cent, from Rs53,171 million at the end of June 2008 to Rs49,481 million at the end of March 2009. Claims on other sectors, that is, credit to the private sector grew by Rs19,407 million, or 9.4 per cent, to Rs224,939 million in March 2009.

Net claims on budgetary central Government from the Bank of Mauritius went down by Rs2,036 million, or 46.7 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs6,398 million at the end of March 2009. Net claims on budgetary central Government from other depository corporations fell by Rs1,653 million, or 2.9 per cent, from Rs57,533 million to Rs55,880 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs0.2 million to Rs135 million at the end of March 2009 while claims on Other Sectors from other depository corporations expanded by Rs19,407 million, or 9.5 per cent, from Rs205,398 million to Rs224,805 million.

Broad Money Liabilities (BML) grew by Rs26,986 million, or 10.7 per cent, from Rs252,175 million at the end of June 2008 to Rs279,161 million at the end of March 2009. Of the components of BML, currency with public rose by Rs2,052 million, or 15.9 per cent, to Rs14,966 million while transferable deposits rose by Rs8,522 million, or 16.0 per cent, to Rs61,918 million. Savings deposits rose by Rs7,077 million, or 9.6 per cent, to Rs80,974 million while time deposits went up by Rs9,437 million, or 8.6 per cent, to Rs119,864 million. Securities other than shares included in broad money fell by Rs101 million, or 6.5 per cent, to Rs1,439 million.

The monetary base rose by Rs2,818 million, or 10.3 per cent, from Rs27,328 million at the end of June 2008 to Rs30,145 million at the end of March 2009. Currency in circulation grew by Rs2,223 million, or 14.8 per cent, from Rs15,008 million to Rs17,231 million while liabilities to other depository corporations increased by Rs813 million, or 6.8 per cent, from Rs11,933 million to Rs12,746 million.

Broad Money Liabilities multiplier went up from 9.2 at the end of June 2008 to 9.3 at the end of March 2009, reflecting a greater expansion of Broad Money Liabilities as compared to Monetary Base.

In April 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,000 million through the weekly Primary Auctions. Between end-March and end-April 2009, the weighted average yields of the 91-day Bills, 182-day Bills and 364-day Bills decreased from 5.15 per cent to 4.68 per cent, 5.30 per cent to 4.83 per cent and 5.66 per cent to 5.25 per cent respectively. The overall weighted yield during April 2009 fell to 5.09 per cent from 6.07 per cent for the previous month. During April 2009, the market preference shifted towards the 91-day Bills.

Transactions on the interbank money market in April 2009 totalled Rs9,120 million with a daily average of Rs304 million, a high of Rs620 million and a trough of Rs45 million. The weighted average overnight interbank rate for April 2009 decreased to 4.49 per cent from 5.68 per cent for the previous month.

Bills traded by primary dealers amounted to Rs79.2 million. There were no transactions of Bills on the Stock Exchange of Mauritius. A total amount of Rs6.65 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.

At the monthly auction of Treasury Notes held in April 2009, 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 6.25, 6.50 and 6.75 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs941.1 million and the amount accepted was Rs304.0 million. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 6.67, 7.05 and 7.70 per cent per annum, respectively. The market preference remained skewed towards the 2-year Treasury Notes.

Between March and April 2009, the rupee, on average appreciated vis-à-vis the Japanese yen and the US dollar, but depreciated against the euro and the Pound sterling.

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 March and April 2009 the rupee, on average, appreciated against the US dollar but depreciated against the euro and the Pound sterling.

At the end of March 2009, the net international reserves of the country stood at Rs90,174 million. The end-March 2009 level of net international reserves of the country, based on the value of import bill for the calendar year 2008 exclusive of the purchase of marine vessel, represented 35.5 weeks of imports, down from 36.4 of imports at the end of February 2009. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs57,057 million as at end-March 2009 to Rs60,387 million at the end of April 2009.

Provisional estimates for the first quarter 2009 indicate that Foreign Direct Investment (FDI) in Mauritius stood at Rs1,338 million. Investment was mainly directed to the “Hotels and Restaurants” sector (Rs448 million), and the main sources of FDI inflows were France (Rs325 million) followed by China (Rs171 million). Outward FDI is estimated at Rs220 million for the first quarter 2009 with significant investment destined to the “Hotels and restaurants” sector.