OVERVIEW

International Developments

During April 2008, the US dollar, on average, appreciated against the Pound sterling and the Japanese Yen but depreciated vis-à-vis the euro. The US dollar started the month on a relatively good note as investors bought back the US currency on optimism that the worst of the credit crisis might be over. The release of a better-than-expected report on US manufacturing activity for March 2008 also benefited the US dollar. The positive note, however, proved to be temporary after US March 2008 jobs data showed that the US economy had shed a more-than-expected 80,000 non-farm jobs, the biggest drop in five years, thereby rekindling worries about US recession and adding to expectations of sharper interest rate cut. The dollar's weakness was also associated to investors' focus on interest rate differentials and the rise in oil prices. The Group of Seven nations' concern, in their post-meeting statement, about sharp swings in major currencies that could undermine economic and financial stability, managed to reverse the US dollar's decline. In addition, data showed that US producers price rose by a faster-than-expected 1.1 per cent in March, prompting investors to scale back expectations for the Fed to lower interest rates sharply at its coming policy meeting. The US dollar's rise was, however, capped by the release of unexpectedly weak profits for Bank of America, which dampened investors' optimism that US financial companies might have escaped the pinch of the crisis in global credit markets. Selling pressure of the US dollar heightened as investors continued to fret about the inflationary effect of surging oil prices. Yet, by the close of the month, the US dollar managed to move higher amid market perception that although the US Federal Reserve was expected to cut its key rate by 25 basis points, it might also state that rate cuts would be put on hold in the face of mounting global energy and food inflation pressure. As expected, at the conclusion of its two-day Federal Open Market Committee (FOMC) meeting on 30 April 2008, the US Federal Reserve cut its federal funds rate by 25 basis points to 2.00 per cent so as to calm market turmoil and prevent the US economy from deteriorating sharply.

The euro appreciated against the US dollar during April 2008, trading at an average of US$1.5761 compared to an average of US$1.5537 during March 2008. The single currency started the month on a rather resilient note although it faced headwinds from soft data showing slower-than-expected German retail sales, as well as French, Italian and Spanish manufacturing sector dipping. European Central Bank (ECB) President Jean Claude Trichet's warning that financial market tensions could last longer and hurt the euro zone economy more than expected also affected the euro. However, prospects for steady euro zone interest rates and concerns expressed by other European officials about strong euro zone inflationary pressures, sluggish growth and foreign exchange volatility managed to put an end to the euro's slide. At the end of its two-day governing council meeting on 10-11 April 2008, the ECB left its key lending rate steady at 4 per cent. As market players remained willing to test the resolve of authorities and with the euro zone inflation attaining a record high of 3.6 per cent in March 2008, suggesting no near-term interest rate cut, the single currency scaled to fresh highs of US$1.5799 in New York trading on 16 April 2008. The single currency, on 22 April 2008 in New York trading, briefly climbed above the US$1.60 level, for the first time since its 1999 inception, boosted by comments from ECB governing council members that stirred talks that the ECB's next move might be to hike interest rates. Following remarks that the comments had been misinterpreted by the market and in the wake of data release showing the biggest monthly fall in German business sentiment since September 2001, the euro came under selling pressure. At the close of April 2008, the euro was trading at US$1.5577, undermined by a fall in euro zone manufacturing Purchasing Managers Index to near contraction levels, suggesting that the euro zone might not be immune to a US-led global economic slowdown.

The Pound sterling depreciated against the US dollar during April 2008, trading at an average of US$1.9803 from an average of US$2.0012 in March 2008. The Pound sterling started the month on a relatively firm tone, supported by some return of investor confidence that encouraged a move back into the high-yielding currency. However, the Pound shrugged off its gains, hammered by the release thereafter of surprisingly weak British Halifax home prices, which suggested that the deterioration in UK housing market might be speeding up. As expected, the Bank of England, for the third time in five months, eased borrowing costs by 25 basis points to 5.00 per cent against the backdrop of poor economic data and increasing fallout from the global credit crunch. Despite the interest rate cut, the Pound remained weak as investors remained downbeat about prospects for the UK economy following the release of data showing a fall in Royal Institute of Chartered Surveyors survey of house price index to a 30-year low, a decrease in UK retail sales and a surprisingly steady reading of consumer prices. The Pound, however, managed to move to its intra-month high of US$2.0005 on 21 April 2008, amid hopes that the Bank of England's coming rescue plan would help banks manoeuvre through the credit squeeze. With the plan failing to impact on the market, the British currency shrugged off its gains. Expectations of further interest rate cuts driven by fears over the UK economy also drove sterling lower. The Pound closed the month trading around US$1.9675, hurt by the Bank of England Governor's testimony, which disappointed some investors who had been anticipating reassurance that the central bank was not planning to cut interest rates aggressively.

The Japanese yen depreciated against the US dollar, trading at an average of ¥100.52 per US dollar during April 2008 compared to an average of ¥100.42 per US dollar during March 2008. The yen fell after the Bank of Japan's quarterly tankan survey showed that business sentiment among big Japanese manufacturers sank to a four-year low. In addition, Japanese investors were buying more foreign assets pulling the yen further down.

Oil prices moved higher during April 2008 mainly on the back of supply concerns and the weak US dollar. US crude oil futures rose sharply, lifted by supply disruptions in Nigeria and strike at the Grangemouth refinery in Scotland. NYMEX and IPE Brent settled at record highs of US$119.4 a barrel and US$116.7 a barrel on 22 April 2008 and 28 April 2008, respectively. However, oil prices declined on 29 April 2008 due to a rise in the US dollar. The International Energy Agency highlighted a combination of different factors driving this phenomenon of higher oil prices, namely, strong demand growth in the developing world coupled with constraints on the supply side and spare capacity likely to remain tight.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$112.5 a barrel in April 2008, up from US$105.4 a barrel in March 2008 and US$64.0 a barrel in April 2007. IPE Brent figures averaged US$110.4 a barrel during the month under review, up from US$102.9 a barrel in March 2008 and US$67.6 a barrel in April 2007.

COMEX gold futures, on average, moved down during April 2008, trading in an intra-month closing range of US$865.1/Oz–US$948.3/Oz compared to US$918.7/Oz–US$1,004.3/Oz in March 2008. Gold prices reached a peak of US$948.3/Oz on 16 April 2008, supported by a stronger US dollar and weaker oil prices. The bullion averaged US$913.1/Oz during April 2008, compared to an average of US$964.2/Oz in March 2008.

Domestic Developments

Tourist arrivals rose by 11.5 per cent, from 79,965 in March 2007 to 89,152 in March 2008, while gross tourism receipts went up by 11.7 per cent, from Rs3,337 million in March 2007 to Rs3,728 million in March 2008. On a cumulative basis, over the period July 2007 to March 2008, tourist arrivals reached 736,352 representing an increase of 9.6 per cent over the 672,070 arrivals recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2007 to March 2008 grew by 20.5 per cent to reach Rs32,886 million compared to Rs27,282 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 110.8 in March 2008 to 111.9 in April 2008. The largest rise of 4.5 per cent was noted in the sub-Division “Housing, water, electricity, gas and other fuels” followed by “Food and non alcoholic beverages” (+0.8 per cent), Alcoholic beverages and tobacco” (+0.5 per cent), “Health” (+0.5 per cent), “Furnishings, household equipment and routine household maintenance” (+0.4 per cent), “Transport” (+0.4 per cent), “Restaurants and hotels” (+0.3 per cent) and “Recreation and culture” (+0.2 per cent). The sub-divisions “Clothing and footwear” and “Miscellaneous goods and services” registered declines of 0.4 per cent and 0.1 per cent, respectively, while “Education” and “Communication” recorded no change in their sub-indices. The main contributors to the rise in the index between March 2008 and April 2008 were electricity, which registered an increase of 0.8 index point, trader’s rice which rose by 0.2 index point and vegetables, other food products, air tickets and other goods and services, each registering an increase of 0.1 index point. This was offset by decreases of 0.1 index point in powdered milk, interest payment on housing loan and motor vehicles. The rate of inflation for the twelve-month period ended April 2008 stood at 8.9 per cent, down from 9.0 per cent for the twelve-month period ended March 2008.

While headline inflation for April 2008 stood at 8.9 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 5.9 per cent, 5.6 per cent and 7.0 per cent, respectively. Consequently, for April 2008, core inflation was between 1.9 and 3.3 percentage points lower than the headline inflation.

Net foreign assets of depository corporations fell by Rs1,683 million, or 2.0 per cent, from Rs83,162 million at the end of June 2007 to Rs81,479 million at the end of March 2008, on account of the decrease in the net foreign assets of other depository corporations offsetting the increase in those of the Bank of Mauritius. Net foreign assets of other depository corporations fell by Rs3,320 million, or 10.7 per cent, to Rs27,619 million while those of the Bank of Mauritius rose by Rs1,637 million, or 3.1 per cent, to Rs53,860 million.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs26,085 million, or 12.4 per cent, from Rs210,443 million at the end of June 2007 to Rs236,528 million at the end of March 2008. Net claims on budgetary central Government rose by Rs6,670 million, or 15.8 per cent, from Rs42,235 million at the end of June 2007 to Rs48,905 million at the end of March 2008. Claims on other sectors, that is, credit to the private sector grew by Rs19,416 million, or 11.5 per cent, to Rs187,623 million in March 2008.

Net claims on budgetary central Government from the Bank of Mauritius rose by Rs1,139 million, or 80.4 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs278 million at the end of March 2008. Net claims on budgetary central Government from other depository corporations rose by Rs5,530 million, or 12.7 per cent, from Rs43,653 million to Rs49,183 million.

Claims on Other Sectors from the Bank of Mauritius rose by Rs18 million or 7.5 per cent, from Rs238 million at the end of June 2007 to Rs256 million at the end of March 2008 while claims on Other Sectors from other depository corporations expanded by Rs19,398 million, or 11.5 per cent, from Rs167,969 million to Rs187,367 million.

Broad Money Liabilities (BML) grew by Rs26,508 million, or 12.3 per cent, from Rs215,408 million at the end of June 2007 to Rs241,916 million at the end of March 2008. Of the components of BML, currency with public rose by Rs1,306 million, or 11.3 per cent, to Rs12,904 million while transferable deposits rose by Rs6,288 million, or 14.9 per cent, to Rs48,437 million. Savings deposits rose by Rs4,293 million, or 6.6 per cent, to Rs69,637 million while time deposits went up by Rs14,971 million, or 15.8 per cent, to Rs109,449 million. Securities other than shares included in broad money fell by Rs349 million, or 19.0 per cent, to Rs1,491 million.

The monetary base rose by Rs3,623 million, or 15.2 per cent, from Rs23,841 million at the end of June 2007 to Rs27,464 million at the end of March 2008. Currency in circulation grew by Rs1,594 million, or 11.8 per cent, from Rs13,512 million to Rs15,106 million while liabilities to other depository corporations increased by Rs2,321 million, or 24.5 per cent, from Rs9,480 million to Rs11,801 million.

Broad Money Liabilities multiplier fell from 9.0 at the end of June 2007 to 8.8 per cent at the end of March 2008, reflecting a greater expansion of monetary base as compared to Broad Money Liabilities.

With effect from April 2008, the Bank of Mauritius has announced a series of operational changes in its management of liquidity with a view to strengthen its Monetary Policy Framework. Bank of Mauritius Bills (BOM Bills) and Government of Mauritius Treasury Bills (GOM Bills) are henceforth auctioned separately. Auctions of BOM Bills are held on Wednesdays when liquidity conditions so require and auctions of GOM Bills are held every week on Fridays. BOM Bills with maturities of 28 days and 56 days have also been introduced. BOM Bills will be issued either at fixed rates and/ or through auction on a yield basis quoted to two decimal places. The minimum allowable bid shall be for Rs10.0 million and in multiples thereof. As a transitionary measure, the Special Deposits Facility introduced in November 2007 will be maintained and the maximum period has been extended from 14 days to 21 days and will henceforth be conducted at 100 basis points below the Key Repo Rate. Repurchase transactions will continue to be held at +/- 125 basis points below or above the Key Repo Rate. A new overnight collateralized facility at 150 basis points above the Key Repo Rate has been introduced.

During the month, the Bank issued 28-day and 56-day BOM Bills for a total nominal amount of Rs6,900 million at fixed rates of 7.60 per cent per annum and 7.75 per cent per annum, respectively, of which Rs2,700 million was issued for the 28-day Bills.

The Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs1,700 million through the Primary Market in April 2008. Between end-March and end-April 2008, the weighted average yields of the 91-day, 182-day and 364-day Bills increased from 6.97 per cent to 7.60 per cent, from 7.24 per cent to 7.67 per cent and from 7.32 per cent to 7.71 per cent, respectively. During April 2008, the market preference shifted for the 91-day Bills.

No repurchase transaction was carried out by the Bank during April 2008. However, under the Special Deposits Facility, the Bank accepted Deposits from banks for a period of 21 days at the rate of 7.50 per cent per annum for a total amount accepted of Rs2,000 million. Transactions on the interbank money market in April 2008 amounted to Rs3,832 million with a high of Rs673 million and a trough of Rs23 million. The weighted average overnight interbank rate for April 2008 was 6.79 per cent compared to 7.36 per cent for the previous month.

During April 2008, total transactions in Government of Mauritius Treasury Bills/Bank of Mauritius Bills effected through primary dealers amounted to Rs185.8 million. Trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs0.3 million. A total amount of Rs12.15 million Treasury Bills/Treasury Notes was sold over the counter to 35 individual 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 2008, 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 the rates of 8.80, 8.95 and 9.10 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs4,375.2 million, out of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 8.28, 8.70 and 9.01 per cent per annum, respectively.

The fifth issue of Five-Year Government of Mauritius Bonds for 2007-08 was undertaken on 23 April 2008 with settlement on 25 April 2008. Bonds for a total nominal amount of Rs750 million were put on tender at a coupon rate equal to or higher than the lowest accepted yield of the auction. Bids for a total amount of Rs2,264.0 million were received, out of which an amount of Rs750.0 million was accepted. The weighted average yield on bids accepted was 9.12 per cent per annum and the coupon rate was set at 9.08 per cent per annum.

In April 2008, the Bank purchased US$54.0 million from the domestic foreign exchange market.

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 reported by banks, showed that between March and April 2008 the rupee, on average, appreciated against the US dollar, Euro and Pound Sterling.

At the end of March 2008, the net international reserves of the country amounted to Rs81,742 million. The end-March 2008 level of net international reserves of the country, based on the value of the import bill for calendar year 2007, exclusive of the purchase of aircraft, represented 35.9 weeks of imports, down from 39.1 weeks of imports at the end of February 2008. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs54,006 million at the end of March 2008 to Rs54,768 million at the end of April 2008.

Between March 2008 and April 2008, the rupee, on average, appreciated vis-à-vis the Japanese yen, the Pound sterling, the US dollar and the euro.