**International Developments**

In August 2009, the US dollar, on average, depreciated against the euro and Pound sterling but appreciated slightly against the Japanese yen. It initially lost ground against the euro, moving from US$1.4244 on 3 August to a 2009 low of US$1.4404 on 6 August, as data showed the U.S. economy contracted less than expected in the second quarter and as bullish global stock markets and upbeat economic data from around the world lifted investors' risk appetite, eroding the greenback's safe haven appeal. The US dollar thereafter briefly recouped some ground against the euro following the release of the July U.S. jobs report, which was less bleak than feared and underpinned further hopes of U.S. economic recovery.

The Federal Reserve left its funds rate unchanged at 0-0.25 per cent at its August 2009 FOMC meeting and viewed that economic activity was "leveling out," suggesting the economy was through the worst of the recession. After the Federal Reserve painted a less gloomy outlook for the economy, encouraging investors to return to riskier assets, the US dollar fell against the euro and was further pressured as data showed the euro zone's two biggest economies, Germany and France, returned to growth in the second quarter of 2009. The US dollar briefly recouped some of its losses following disappointing U.S. retail sales data and weak U.S. consumer confidence data for July which clouded the outlook for a quick recovery before losing ground again as global stock markets rallied further. The release of poor consumer confidence data towards end-August and the announcement by China to curb over-capacity in manufacturing industries gave some support to the US dollar.

The euro traded at an average of US$1.4255 in August 2009 compared to an average of US$1.4077 in July 2009. As expected, the European Central Bank left its refinancing rate at 1 per cent, and President Trichet mentioned that global activity seemed to be turning though the overall message for the euro zone was that of caution with unemployment remaining at high levels.

The Pound sterling appreciated against the US dollar during August 2009, trading at an average of US$1.6547 compared to an average of US$1.6363 in July 2009. The Pound appreciated to reach US$1.6990 on 6 August 2009 on the back of better than expected economic data releases but thereafter retreated following the decision of the Bank of England (BoE) to extend its quantitative easing programme from £125 billion to £175 billion and on news that UK public finances deteriorated sharply in July. The BoE kept its Bank Rate unchanged at 0.50 per cent in August, as widely expected.

The Japanese yen, on average, traded at ¥94.80 per USD in August compared to ¥94.48 per USD in July 2009. The Bank of Japan (BoJ) kept interest rates on hold and maintained its cautious view on the economy, as deepening deflation and weak corporate spending threatened its forecast for a modest economic pick-up later this year. The yen touched a high of ¥92.64 per USD on 31 August 2009 buoyed by a decisive opposition victory in Japanese elections.

International oil prices moved higher during August 2009, mainly attributable to a weaker US dollar and a general rise in stock market. IPE Brent hit its intra-month high of US$75.5 on 5 August 2009 while NYMEX reached a peak of US$74.4 a barrel on 24 August 2009, after encouraging economic data fueled global economic recovery hopes. According to the US Energy Information Administration's (EIA), OPEC crude oil production is estimated at 28.7 million barrels per day in the second quarter of 2009, mostly unchanged from first quarter levels, but down 3 million barrels per day from the peak in the third quarter of 2008

NYMEX WTI (West Texas Intermediate crude oil) averaged US$71.1 a barrel in August 2009, up from US$64.3 a barrel in July 2009. IPE Brent averaged US$73.1 a barrel during the month under review, up from US$65.8 in July 2009.

COMEX gold futures, on average, rose during the month of August 2009, trading in an intra-month closing range of US$935.8/Oz-969.7/Oz compared to US$909.3/Oz-955.8/Oz in July 2009. Gold prices reached a peak of US$969.7/Oz on 4 August 2009, on the back of a weaker dollar and growing investor risk appetite.

**Domestic Developments**

Gross tourism receipts declined by 17.4 per cent, from Rs3,059 million in July 2008 to Rs2,526 million in July 2009. On a cumulative basis, over the period January 2009 to July 2009, tourism receipts contracted by 17.7 per cent to reach Rs20,775 million compared to Rs25,229 million recorded over the corresponding period of the previous year.

The Consumer Price Index (CPI) dropped from 117.8 in July 2009 to 117.5 in August 2009. The main contributors to the fall in the index between July 2009 and August 2009 were gasoline which registered a decrease of 0.3 index point and milk, and diesel oil, each registering a decrease of 0.1 index point. An increase of 0.1 index point for both other food products and ready-made clothing was noted. The largest fall of 2.2 per cent was noted in the Division “Transport” followed by “Communication” (-0.3 per cent) and “Miscellaneous goods and services” (-0.3 per cent). The divisions “Food and non alcoholic beverages”, “Clothing and footwear”, “Furnishings, household equipment and routine household maintenance”, “Recreation and culture” and “Restaurants and hotels” recorded increases of 0.1 per cent, 1.2 per cent, 0.1 per cent, 0.2 per cent and 0.1 per cent, respectively while “Alcoholic beverages and tobacco”, “Housing, water, electricity, gas and other fuels”, “Health” and “Education” recorded no change in their indices. The rate of inflation for the twelve-month period ended August 2009 dropped to 5.2 per cent, from 6.1 per cent for the twelve month period ended July 2009. Year-on-Year inflation rate went down to 1.0 per cent in August 2009, from 1.9 per cent in July 2009.

CORE1 and CORE2 inflation also maintained their downward paths in August 2009. CORE1 inflation fell from 5.5 per cent in July 2009 to 4.6 per cent in August 2009. CORE2 inflation dropped to 5.1 per cent in August 2009, from 5.4 per cent for the twelve month period ended July 2009. TRIM10 inflation dropped to 2.7 per cent in August 2009, from 2.8 per cent for the twelve-month period ended July 2009.

Net foreign assets of depository corporations went down by Rs1,331 million, or 1.4 per cent, from Rs97,146 million at the end of June 2009 to Rs95,815 million at the end of July 2009, largely on account of decreases in net foreign assets of other depository corporations. Net foreign assets of other depository corporations fell by Rs1,374 million, or 4.1 per cent, to Rs32,490 million while those of the Bank of Mauritius increased by Rs43 million, to Rs63,325 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs1,950 million, or 0.7 per cent, from Rs275,223 million at the end of June 2009 to Rs277,173 million at the end of July 2009. Net claims on budgetary central Government rose by Rs1,171 million, or 2.4 per cent, from Rs49,785 million at the end of June 2009 to Rs50,956 million at the end of July 2009. Claims on other sectors, that is, credit to the private sector grew by Rs779 million, or 0.3 per cent, to Rs226,218 million in July 2009.

Net claims on budgetary central Government from the Bank of Mauritius went up by Rs61 million, or 0.6 per cent, from negative Rs10,175 million at the end of June 2009 to negative Rs10,114 million at the end of July 2009. Net claims on budgetary central Government from other depository corporations increased by Rs1,110 million, or 1.9 per cent, from Rs59,959 million to Rs61,070 million.

Claims on Other Sectors from the Bank of Mauritius contracted by Rs0.6 million, or 0.5 per cent to Rs134 million at the end of July 2009 while claims on Other Sectors from other depository corporations expanded by Rs778 million, or 0.3 per cent, from Rs225,305 million to Rs226,084 million.

Broad Money Liabilities (BML) rose by Rs236 million, or 0.1 per cent, from Rs283,778 million at the end of June 2009 to Rs284,014 million at the end of July 2009. Of the components of BML, currency with public increased by Rs352 million, or 2.4 per cent, to Rs15,200 million while transferable deposits fell by Rs2,466 million, or 3.8 per cent, to Rs62,903 million. Savings deposits went down by Rs720 million, or 0.9 per cent, to Rs81,213 million while time deposits went up by Rs3,055 million, or 2.5 per cent, to Rs123,128 million. Securities other than shares included in broad money rose by Rs14 million, or 0.9 per cent, to Rs1,570 million.

The monetary base rose by Rs762 million, or 2.5 per cent, from Rs30,033 million at the end of June 2009 to Rs30,795 million at the end of July 2009. Currency in circulation increased by Rs482 million, or 2.8 per cent, from Rs17,105 million to Rs17,587 million while liabilities to other depository corporations rose by Rs288 million, or 2.3 per cent, from Rs12,748 million to Rs13,036 million.

Broad Money Liabilities multiplier went down from 9.4 at the end of June 2009 to 9.2 at the end of July 2009, reflecting a greater expansion of Monetary Base as compared to Broad Money Liabilities.

In August 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs2,800 million through the weekly Primary Auctions. Between end-July and end-August 2009, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills decreased from 4.45 per cent to 4.32 per cent, from 4.50 per cent to 4.33 per cent and from 4.84 per cent to 4.74 per cent. The overall weighted yield fell to 4.50 per cent, from 4.66 per cent. During August 2009, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in August 2009 totalled Rs7,939 million with a daily average of Rs305 million, a high of Rs740 million and a trough of Rs45 million. The weighted average overnight interbank rate edged down marginally to 4.00 per cent, from 4.01 per cent.

A total amount of Rs13.85 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 Rs333.9 million. No Bills were traded on the Stock Exchange of Mauritius.

The first issue of Five-Year Government of Mauritius Bonds for the period July to December 2009 was undertaken on 7 August 2009 through an auction held on 5 August 2009. Bids for a total nominal amount of Rs2,546.4 million were received against a tender amount of Rs1,500 million. The amount accepted was Rs1,500 million and the coupon rate was set at 8.40 per cent per annum and the weighted average yield on bids accepted was 8.61 per cent per annum.

Between July and August and 2009, the rupee, on average appreciated vis-à-vis the US dollar, and Japanese yen, but depreciated vis-à-vis the Pound Sterling and the Euro.

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

At the end of July 2009, the net international reserves of the country stood at Rs96,466 million. Following the release of external trade data for second quarter 2009, the end-July 2009 level of net international reserves of the country, based on the value of import bill for the fiscal year 2008-09 exclusive of the purchase of marine vessel, represented 40.9 weeks of imports, down from 41.4 weeks of imports at the end of June 2009. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs63,344 million as at end-July 2009 to Rs67,000 million at the end of August 2009, reflecting additional SDR allocations by the IMF on 28 August 2009.

Provisional estimates for 2008-09 showed that the current account of the balance of payments deteriorated further to record a higher deficit of Rs25,466 million in 2008-09 compared with Rs22,232 million registered in 2007-08. In relation to GDP, the deficit on the current account represented 9.3 per cent in 2008-09, up from 8.8 per cent in 2007-08. The deficit on the merchandise account of the balance of payments dropped noticeably by 11.9 per cent, from Rs55,313 million in 2007-08 to Rs48,713 million in 2008-09. This reduction in the deficit essentially arose from a decline of 6.0 per cent in nominal imports (fob) compared to a drop of only 1.2 per cent in nominal exports during the period under review. However, the improving deficit on the merchandise account was offset by significantly lower surpluses recorded on the services and income accounts. The capital and financial account, inclusive of reserve assets, recorded lower net inflows of Rs9,697 million in 2008-09 compared to Rs12,589 million in 2007-08. The overall balance of payments for 2008-09, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs2,484 million.