OVERVIEW

International Developments

During December 2007, the US dollar, on average, appreciated against all major currencies supported by data releases suggesting that the US economic slowdown might not be as bad as expected which together with strong inflation data scaled back expectations for an aggressive monetary easing. At its FOMC meeting on 11 December 2007, the Fed cut its key funds rate by 25 basis points, to 4.25 per cent to boost growth. In announcing the rate cut, the Fed said that US economic growth was slowing, reflecting the intensification of the housing market correction and some softening in business and consumer spending. However, investors generally viewed the move as being not enough to address the lack of liquidity crippling the interbank lending market and threatening to accelerate a broader slowdown. On 12 December, the Federal Reserve, in a concerted action with major central banks, launched a new temporary term auction facility designed to address elevated market pressures on short-term funding. By end-December 2007, however, the US dollar came under pressure from weak economic data and the increase in risk aversion following the assassination of Pakistani opposition leader Benazir Bhutto.

The euro lost ground against the US dollar, trading at an average of US$1.4564 during December 2007 compared to an average of US$1.4705 during November 2007. At its meeting on 6 December 2007, European Central Bank (ECB) President Trichet revealed that interest rates were maintained at 4 per cent. He stressed that the ECB was determined to prevent higher oil and commodity prices push up wage demands and the prices of unrelated goods. The ECB was seriously concerned about the unsatisfactory inflation outlook in the euro zone inflation, which stood at 3.1 per cent in December 2007 compared to the ECB's target of just below 2 per cent due to sharp rises in the price of oil and food.

The Pound sterling moved lower against the US dollar during December 2007, trading at an average of US$2.0206 from an average of US$2.0699 in November 2007, undermined by weak housing sector data as well as weaker-than-expected UK inflation release that left the door open for more interest rate cuts in early 2008. As expected, on 6 December 2007, the Monetary Policy Committee (MPC) members unanimously voted for interest rate cut by 25 basis points to 5.50 percent. This cut was prompted by the deterioration in the financial markets and the tightening of credit conditions rather than by worries about growth. The MPC however, noted that there were still near-term upside risks to inflation.

The Japanese yen depreciated against the US dollar, trading at an average of ¥112.26 per USD during December 2007 compared to an average of ¥110.58 per USD during November 2007. The Bank of Japan's quarterly Tankan survey released on 14 December 2007 showed that corporate sentiment had worsened more than expected in the past three months. The yen was also pressured by minutes from Bank of Japan policy meetings revealing that officials were worried about high oil prices and the impact of slower US growth on the Japanese economy.

Oil prices moved lower during December 2007 on worries that the credit crunch affecting the wider US economy would curb demand for oil and broad-based strength of the US dollar. The Energy Information Administration (EIA) projected that demand for oil worldwide would outstrip supplies in 2008 – pushing prices for heating oil, gasoline and diesel fuels to high levels. Oil prices were also pressured by falling US crude stocks and revival of geopolitical tensions. These developments caused oil prices to reach a lifetime high of $100 by end-December. Given the current tight market conditions, oil prices are expected to trade around US$95 a barrel in the weeks ahead. OPEC has indicated that it would raise oil output if needed at its future meetings, stressing that supply is enough for the time being.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$91.9 a barrel in December 2007, down from US$94.6 a barrel in November 2007 and US$62.1 a barrel in December 2006. IPE Brent futures averaged US$91.6 a barrel during the month under review, down from US$92.2 a barrel in November 2007 and US$62.3 a barrel in December 2006. For the year 2007 as a whole, NYMEX WTI and IPE Brent futures averaged US$72.3 a barrel and US$72.7 a barrel respectively, up from US$66.2 a barrel and US$66.1 in 2006.

COMEX gold futures, on average, moved higher during December 2007, trading in an intra-month closing range of US$794.7/Oz–US$862.7/Oz compared to US$778.0/Oz–US$837.5/Oz in November 2007. Gold prices reached a record high of US$862.7/Oz on 31 December 2007, supported by strong energy prices and market weariness about the impact of political tension in Pakistan. The bullion averaged US$814/Oz during December 2007, compared to an average of US$806.9/Oz. For the year 2007 as a whole COMEX averaged US$701.6/Oz compared to US$607.7/Oz in 2006.

Domestic Developments

In the December 2007 issue of its National Accounts Estimates, the Central Statistics Office has revised downwards the real growth rate of the economy for 2007 to 5.6 per cent from 5.8 per cent previously, mainly due to a lower sugar production estimated at 440,000 tonnes. Exclusive of sugar, the growth rate of the economy is estimated at 6.3 per cent in 2007. The main contributors to growth in 2007 were the 'Hotels and restaurants', 'Transport, storage and communications', 'Construction', 'Real estate, renting and business activities', 'Manufacturing' and 'Financial intermediation' industry groups. Based on an estimate of 900,000 tourist arrivals, the tourism industry registered a strong growth of 13.1 per cent in 2007 from 3.5 per cent in 2006. The construction industry registered an accelerated growth of 15.0 per cent, mainly due to the construction and renovation of hotels, projects under the Integrated Resort Scheme (IRS) as well as expansion of textile and wearing apparel industries. The 'Real estate, renting and business activities', 'Transport, storage and communications' and 'Financial intermediation' industries grew by 7.5 per cent, 7.7 per cent and 7.3 per cent, respectively. The manufacturing industry expanded by 3.5 per cent and, within this industry group, the textile sector recorded a growth of 10.1 per cent that was partly offset by a contraction of 12.8 per cent in the sugar sector.

Gross Domestic Fixed Capital Formation (GDFCF) in the economy grew, in real terms, by 4.2 per cent in 2007 after a high growth of 19.2 per cent in 2006. The investment rate, as measured by the ratio of GDFCF to GDP at market prices, improved slightly from 24.3 per cent in 2006 to 24.5 per cent in 2007. The high growth of private sector investment was sustained, expanding by a further 17.5 per cent - after a high growth of 15.3 per cent in 2006 - mostly attributable to substantial investment in hotels and IRS projects, and to a lesser extent to investment in textile and wearing apparel industries. Public sector investment contracted by 24.6 per cent, after a high growth of 28.4 per cent in 2006, mainly explained by lower expenditure on the purchase of aircraft in 2007 compared to 2006. The saving rate, as measured by the Gross National Savings to GDP ratio, increased to 17.6 per cent in 2007, from 17.0 per cent in 2006.

The economy is forecast to grow by around 6.0 per cent in 2008. Exclusive of sugar, the growth rate would be around 5.6 per cent. The manufacturing industry is forecast to expand by 5.5 per cent and, within this industry group, the textile sector would grow by around 5.0 per cent while the sugar sector would rebound by around 18.0 per cent, based on a close to normal sugar production of around 520,000 tonnes. The construction industry would grow by around 3.0 per cent after a high growth of 15.0 per cent in 2007. The 'Hotels and restaurants' industry would grow by around 8.0 per cent, based on a projection of 975,000 tourist arrivals. The financial sector would grow by around 7.6 per cent.

Tourist arrivals went up by 9.7 per cent, from 70,394 in November 2006 to 77,236 in November 2007, while gross tourism receipts grew by 20.7 per cent, from Rs3,349 million in November 2006 to Rs4,041 million in November 2007. On a cumulative basis, over the period January to November 2007, tourist arrivals reached 803,301 representing an increase of 16.1 per cent over 691,967 arrivals recorded over the corresponding period of the previous year. Tourism receipts for the period January to November 2007 rose by 29.2 per cent to reach Rs36,183 million compared to Rs28,007 million recorded over the corresponding period of the previous year.

The Consumer Price Index (CPI) increased from 107.6 in November 2007 to 108.2 in December 2007. The largest rise of 1.4 per cent was noted in the sub-Division "Food and non alcoholic beverages", followed by "Clothing and footwear" (+1.0 per cent), "Restaurants and hotels (+0.7 per cent), "Health"

(+0.2 per cent) and “Transport” (+0.2 per cent). The sub-Divisions “Alcoholic beverages and tobacco” and “Miscellaneous goods and services” each registered a decline of 0.3 per cent. “Housing, water, electricity, gas and other fuels”, “Furnishings, household equipment and routine household maintenance”, “Communication”, “Recreation and culture” and “Education” recorded no change in their sub-indices. The main contributors to the rise in the index between November 2007 and December 2007 were fresh vegetables and other goods and services, each registering an increase of 0.2 index point and trader’s rice and other food products, each registering an increase of 0.1 index point. The rate of inflation for the twelve-month period ended December 2007 stood at 8.8 per cent, down from 9.1 per cent for the twelve-month period ended November 2007.

While headline inflation for December 2007 stood at 8.8 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 5.0 per cent, 5.7 per cent and 7.0 per cent, respectively. Consequently, for December 2007, core inflation was between 1.8 and 3.8 percentage points lower than the headline inflation.

Net foreign assets of depository corporations expanded by Rs6,468 million or 7.8 per cent, from Rs83,162 million at the end of June 2007 to Rs89,630 million at the end of November 2007, on account of the increase in net foreign assets of other depository corporations offsetting the fall in those of the Bank of Mauritius. Net foreign assets of other depository corporations grew by Rs6,755 million or 21.8 per cent to Rs37,694 million while those of the Bank of Mauritius fell by Rs286 million or 0.5 per cent to Rs51,937 million. Claims on non-residents rose by Rs29,739 million or 9.3 per cent, from Rs319,995 million at the end of June 2007 to Rs349,734 million at the end of November 2007. Liabilities to non-residents increased by Rs23,271 million or 9.8 per cent, from Rs236,833 million at the end of June 2007 to Rs260,104 million at the end of November 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs7,726 million or 3.7 per cent, from Rs210,443 million at the end of June 2007 to Rs218,169 million at the end of November 2007. Net claims on budgetary central Government rose by Rs1,152 million or 2.7 per cent, from Rs42,235 million at the end of June 2007 to Rs43,387 million at the end of November 2007. Claims on other sectors, that is, credit to the private sector grew by Rs6,576 million or 3.9 per cent to Rs174,783 million in November 2007.

Net claims on budgetary central Government from the Bank of Mauritius fell by Rs204 million or 14.4 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs1,621 million at the end of November 2007. Net claims on budgetary central Government from other depository corporations rose by Rs1,355 million or 3.1 per cent, from Rs43,653 million to Rs45,008 million.

Claims on Other Sectors from the Bank of Mauritius declined by Rs64 million or 27.0 per cent, from Rs238 million at the end of June 2007 to Rs174 million at the end of November 2007 while claims on Other Sectors from other depository corporations expanded by Rs6,640 million or 4.0 per cent, from Rs167,969 million to Rs174,609 million.

Broad Money Liabilities (BML) grew by Rs17,745 million or 8.2 per cent, from Rs215,408 million at the end of June 2007 to Rs233,153 million at the end of November 2007. Of the components of BML, currency with public rose by Rs843 million or 7.3 per cent to Rs12,440 million while transferable deposits rose by Rs5,131 million or 12.2 per cent to Rs47,280 million. Savings deposits declined by Rs1,248 million or 1.9 per cent to Rs64,096 million while time deposits went up by Rs13,340 million or 14.1 per cent to Rs107,818 million. Securities other than shares included in broad money fell by Rs321 million or 17.4 per cent to Rs1,519 million.

The monetary base, excluding Bank of Mauritius Bills, rose by Rs482 million, or 2.0 per cent, from Rs23,841 million at the end of June 2007 to Rs24,323 million at the end of November 2007. Currency in circulation grew by Rs1,264 million, or 9.4 per cent, from Rs13,512 million to Rs14,776 million while liabilities to other depository corporations decreased by Rs411 million or 4.3 per cent, from Rs9,480 million to Rs9,070 million.

Broad Money Liabilities multiplier rose from 9.0 at the end of June 2007 to 9.6 at the end of November 2007, reflecting the increase in Broad Money Liabilities and the fall in the monetary base.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs3,800 million through the Primary Market in December 2007. Between end-November and end-December 2007, the weighted average yields of the 91-day, 182-day and 364-day Bills increased from 8.26 per cent to 9.14 per cent, from 8.57 per cent to 9.25 per cent and from 9.74 per cent to 10.23 per cent respectively.

Interbank transactions in December 2007 amounted to Rs8,113 million with a high of Rs570 million and a trough of Rs50 million. The weighted average overnight interbank rate for December 2007 was 8.63 per cent compared to 8.47 per cent for the previous month.

During December 2007, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs299.4 million, while no trade of Treasury Bills occurred on the Stock Exchange of Mauritius. A total amount of Rs22.55 million Treasury Bills/Treasury Notes was sold over the counter to 39 individual members of the public for individual amounts ranging from the minimum of Rs50,000 to a maximum amount of Rs2 million.

At the monthly auction of Treasury Notes held in December 2007, 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 9.75, 9.90 and 10.05 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs2,350 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 10.24, 10.20 and 10.55 per cent per annum, respectively.

The third issue of Five-Year Government of Mauritius Bonds for 2007-08 was undertaken on 21 December, through an auction held on 19 December 2007. 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 an amount of Rs1,019.7 million were received , of which an amount of Rs750 million was accepted. The weighted average yield on bids accepted was 10.71 per cent per annum and the coupon rate was set at 10.55 per cent per annum.

In December 2007, the Bank purchased 40.5 million euros on the domestic interbank foreign exchange market.

Between November and December 2007, the rupee, on average appreciated vis à vis the Pound sterling, the Japanese yen, euro and US dollar. 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 banks showed that the rupee, on average, appreciated against the U.S. dollar, the Pound sterling and the euro between November and December 2007.

At the end of November 2007, the net international reserves of the country amounted to Rs88,042 million. The end-November 2007 level of net international reserves of the country, based on the revised value of the import bill for fiscal year 2006-07, exclusive of the purchase of aircrafts, remained unchanged at 41.2 weeks of imports as at end of October 2007. The gross foreign exchange reserves of the Bank of Mauritius decreased from 52,067 million at the end of November 2007 to Rs51,089 million at the end of December 2007.