OVERVIEW

International Developments

During February 2009, the US dollar, on average, appreciated vis-à-vis the euro, Japanese yen and the Pound sterling. The US dollar started the month on a good note as evidence of a prolonged slump in Europe added to the US currency's appeal as a safe haven for investors. The release of data showing that the US economy shrank by 3.8 per cent in the last three months of 2008 gave the US dollar a boost because that was not as bleak as the 5.4 per cent contraction markets had expected. In fact although economists expect the US downturn to accelerate in the first half of 2009, currency strategists said that would simply weaken global growth further, adding to the appeal of the US dollar over other major currencies. However, the US dollar lost momentum after an unexpected jump in US pending home sales and fresh stimulative measures by central banks worldwide eroded safe-haven flows into the US currency. Despite a rise in risk appetite on hopes that a US stimulus package and a bank rescue plan would bolster the economy and ease worries about the financial sector, the US dollar maintained its downtrend after the US Labor Department said employers slashed 598,000 jobs in January, the deepest cut in payrolls in 34 years. The dollar extended losses amid concerns that the bank rescue plan might not be enough to revive the ailing financial sector. However, towards mid-February, the US dollar benefited from Congress' approval of a $787 billion stimulus bill that aimed at reviving activity in the world's largest economy. The US dollar also drew support from President Barack Obama's pledge up to $275 billion to stem US home foreclosures, which analysts believed would help stabilise the battered US housing market. Towards end-February, the US Federal Reserve Chairman Ben Bernanke, in his testimony to the Senate Banking Committee, warned that unless government efforts succeeded in restoring financial stability, the nation's recession could drag into 2010. The US dollar, seen as a flight-to-safety bid amid worries about the global economic outlook, closed the month on a good note.

The euro depreciated against the US dollar trading at an average of US$1.2782 in February 2009 compared to an average of US$1.3283 in January 2009. The euro, which started the month trading at its intra-month high of US$1.3010, came under heavy pressure after Fitch Ratings downgraded Russia's sovereign credit ratings to 'BBB', which sparked concerns that a sharp downturn in Eastern Europe could hit the euro zone economy hard. At its governing council meeting held on 5 February 2009, as widely expected, the European Central Bank (ECB) left its interest rates unchanged at 2.00 per cent. The euro maintained its downward movement, weighed down by comments from Moody's Investors Service, which threatened to downgrade euro zone banks' with significant exposure to the weakening economies in Eastern and Central Europe, and Standard & Poor's said it might review emerging Europe bank ratings. The single currency remained under pressure, undermined by growing expectations for a deeper cut in interest rates by the ECB in March. On 19 February 2009, the euro had attained its intra-month low of US$1.2583. However, the euro managed to regain ground after German Finance Minister Peer Steinbrueck indicated that euro zone countries might be forced to help a fellow member state if it encountered serious financial problems, which markets took as a signal that the help might be on the way for some struggling Eastern European economies. The single currency could not cling to its gains, undermined by release of data showing that Germany's economy contracted by a record 2.1 per cent in the fourth quarter, dragged down by foreign trade. The euro, at the close of the month, eased further against the dollar as fears of a global recession prompted investors to further cut risky bets.

The Pound Sterling depreciated against the US dollar during the month of February 2009, trading at an average of US1.4399, from an average of US1.4503 in January 2009. The Pound started the month on a strong note supported by the release of mortgage data, which showed lending rose by more than three times in December 2008, together with a surprise increase in home loan approvals. The Pound also benefited from data showing that the deterioration in the UK service sector slowed. The Bank of England's expected decision to slash its policy rate by 50 basis points to a record low of 1 per cent, at its MPC meeting held on 4-5 February 2009, to blunt the impact of a deep recession also added to the Pound's advantage. The British currency reached its intra-month high of US$1.4815, as investors took solace from stronger than expected earnings from Barclays bank. The Pound, however, suffered its setback following the release of the Bank of England quarterly inflation report which opened the way for further monetary easing. The report showed the central bank's projection of inflation receding sharply below target and Governor Mervyn King comments on the need of further monetary easing -- possibly including buying gilts -- might be required. The Pound remained weak after the finance ministers from the Group of Seven (G7) countries made no mention about the British currency's weakness, suggesting British authorities were comfortable with its recent slide. However, the Pound managed to recoup some of its losses, after consumer price inflation for January 2009 fell less than expected. But the gains were short lived as the release of dovish minutes from the Bank of England showed a unanimous vote to begin unconventional monetary easing measures. The Bank of England rate setters voted to seek government approval for a policy of quantitative easing where central bankers start raising the monetary base in an effort to boost demand. The Pound fell further as data showed that the UK economy shrank by an unrevised 1.5 per cent in the last quarter of 2008, confirming deep recession. Losses steepened after the head of sovereign ratings at Standard & Poor's said he expected more downgrades than upgrades this year compared with a year earlier. At the close of the month, the Pound managed to edge higher boosted by stock market gains, a UK government plan to insure banks' toxic assets and losses at Royal Bank of Scotland that were less than feared. The British government announced a scheme under which it could end up insuring more than 500 billion pounds of bad assets in an attempt to get lending flowing again.

International oil prices dropped during February 2009, largely on account of declining demand. Both NYMEX and IPE Brent reached intra-month highs on 26 February 2009 at US$45.2 a barrel and US$46.5 a barrel respectively on signals that OPEC might cut output further when the group meets next month. According to the U.S Energy Information Administration, the worsening global economy and a weak oil consumption outlook are keeping the world oil market well supplied, despite two downward revisions in production targets by the Organization of the Petroleum Exporting Countries (OPEC) within the past few months. Lower global oil demand and rising surplus production capacity through at least mid-year 2009 reduce the possibility for a strong and sustained rebound in oil prices over that period.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$39.4 a barrel in February 2009, down from US$41.7 a barrel in January 2009. IPE Brent figures averaged US$43.9 a barrel during the month under review, down from US$45.6 a barrel in January 2009 and US$94.6 a barrel in February 2008.

COMEX gold futures, on average, moved up during the month of February 2009, trading in an intra-month closing range of US$892.5/Oz-US$1002.2 compared to US$807.3/Oz-US$928.4 in January 2009. Gold prices reached a peak of US$1002.2 on 20 February 2009, supported by fall in oil prices and a decline in stock markets. The bullion averaged US$942.8/Oz during February 2009, compared to an average of US$861.3 in January 2009.

Domestic Developments

Gross tourism receipts declined by 18.9 per cent, from Rs4,662 million in January 2008 to Rs3,780 million in January 2009. On a cumulative basis, tourists receipts for the period July 2008 to January 2009 contracted by 10.8 per cent to reach Rs22,823 million compared to Rs25,597 million recorded over the previous corresponding period.

The Consumer Price Index (CPI) increased from 115.3 in January 2009 to 115.8 in February 2009. The main contributors to the rise in the index between January 2009 and February 2009 were gasoline which registered an increase of 0.3 index point, sugar which rose by 0.2 index point and vegetables, motor vehicle insurance and other goods and services, each registering an increase of 0.1 index point. Decreases of 0.1 index point for milk, cooking oil and diesel were noted. The largest rise of 2.0 per cent was noted in the Division "Miscellaneous goods and services" followed by "Transport" (+1.4 per cent), "Clothing and footwear" (+0.7 per cent), "Health" (+0.5 per cent), "Recreation and culture" (+0.4 per cent), "Food and non alcoholic beverages" (+0.3 per cent), "Alcoholic beverages and tobacco" (+0.3 per cent), "Furnishings, household equipment and routine household maintenance" (+0.3 per cent) and "Communication" (+0.1 per cent). The division "Restaurants and hotels" registered a decline of 0.1 per cent while "Housing, water, electricity, gas and other fuels" and "Education" recorded no change in their indices.

The rate of inflation for the twelve-month period ended February 2009 stood at 8.8 per cent, down from 9.3 per cent for the twelve month period ended January 2009.

While headline inflation for February 2009 stood at 8.8 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 8.0 per cent, 5.9 per cent and 2.4 per cent, respectively.

Net foreign assets of depository corporations rose by Rs7,448 million, or 8.9 per cent, from Rs83,628 million at the end of June 2008 to Rs91,076 million at the end of January 2009, largely on account of the increase in the net foreign assets of the other depository corporations, offsetting the decrease in the net foreign assets of the Bank of Mauritius. Net foreign assets of other depository corporations rose by Rs9,637 million, or 36.2 per cent, to Rs36,238 million while those of the Bank of Mauritius fell by Rs2,188 million, or 3.8 per cent, to Rs54,839 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs10,369 million, or 4.0 per cent, from Rs258,704 million at the end of June 2008 to Rs269,073 million at the end of January 2009. Net claims on budgetary central Government fell by Rs5,809 million, or 10.9 per cent, from Rs53,171 million at the end of June 2008 to Rs47,362 million at the end of January 2009. Claims on other sectors, that is, credit to the private sector grew by Rs16,178 million, or 7.9 per cent, to Rs221,711 million in January 2009.

Net claims on budgetary central Government from the Bank of Mauritius fell by Rs282 million, or 6.5 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs4,644 million at the end of January 2009. Net claims on budgetary central Government from other depository corporations fell by Rs5,526 million, or 9.6 per cent, from Rs57,533 million to Rs52,007 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs0.3 million, or 0.2 per cent to Rs135 million at the end of January 2009 while claims on Other Sectors from other depository corporations expanded by Rs16,178 million, or 7.9 per cent, from Rs205,398 million to Rs221,576 million.

Broad Money Liabilities (BML) grew by Rs23,373 million, or 9.3 per cent, from Rs252,175 million at the end of June 2008 to Rs275,548 million at the end of January 2009. Of the components of BML, currency with public rose by Rs2,392 million, or 18.5 per cent, to Rs15,306 million while transferable deposits rose by Rs5,980 million, or 11.2 per cent, to Rs59,377 million. Savings deposits rose by Rs3,443 million, or 4.7 per cent, to Rs77,340 million while time deposits went up by Rs11,691 million, or 10.6 per cent, to Rs122,118 million. Securities other than shares included in broad money fell by Rs133 million, or 8.6 per cent, to Rs1,407 million.

The monetary base rose by Rs4,198 million, or 15.4 per cent, from Rs27,328 million at the end of June 2008 to Rs31,526 million at the end of January 2009. Currency in circulation grew by Rs2,976 million, or 19.8 per cent, from Rs15,008 million to Rs17,984 million while liabilities to other depository corporations decreased by Rs1,451 million, or 12.2 per cent, from Rs11,933 million to Rs13,384 million.

Broad Money Liabilities multiplier fell from 9.2 at the end of June 2008 to 8.7 at the end of January 2009, reflecting a greater expansion of Monetary Base as compared to Broad Money Liabilities.

In February 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,950 million through the weekly Primary Auctions. Between end-January and end-February 2009, the weighted average yields of the 91-day Bills, 182-day Bills and 364-day Bills decreased from 7.50 per cent to 6.63 per cent, 7.50 per cent to 6.80 per cent and 7.60 per cent to 6.94 per cent respectively. During February 2009, the market preference continued to remain skewed towards the 364-day Bills.

During the month, the Bank carried out one reverse repurchase transaction for a total amount of Rs800 million on an auction basis for a period of 7 days and the accepted rate was 5.50 per cent. Transactions on the interbank money market in February 2009 amounted to Rs11,511 million with a daily average of Rs411 million, a high of Rs1,230 million and a trough of Rs5 million. The weighted average overnight interbank rate for February 2009 decreased to 6.17 per cent from 6.53 per cent for the previous month.

Bills traded by primary dealers amounted to Rs334 million. There were no transactions of Bills on the Stock Exchange of Mauritius. A total amount of Rs35.1 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 February 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 7.25, 7.50 and 7.75 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs2,952 million. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 7.74, 8.09 and 9.05 per cent per annum, respectively. The market preference remained skewed towards the 2-year Note.

The fourth issue of Five-Year Government of Mauritius Bonds for fiscal year 2008-2009 was undertaken on 20 February 2009, through an auction held on 18 February 2009. Bids for a total nominal amount of Rs1,534.6 million were received against a tender amount of Rs1,000 million and the amount accepted was Rs1,000 million. The weighted average yield on bids accepted was 9.65 per cent per annum and the coupon rate was set at 9.25 per cent per annum.

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

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 January and February 2009 the rupee, on average, depreciated against the US dollar and the Pound sterling but appreciated against the Euro.

At the end of January 2009, the net international reserves of the country stood at Rs91,723 million. Following the release of external data for the fourth quarter of 2008, the end-January 2009 level of net international reserves of the country, based on the value of the import bill for the calendar year 2008, exclusive of the purchase of marine vessel, represented 36.1 weeks of imports, up from 35.5 weeks of imports at the end of December 2008. The gross foreign exchange reserves of the Bank of Mauritius rose from Rs54,873 million as at end January 2009 to Rs57,334 million at the end of February 2009

Provisional estimates for the calendar year 2008 showed that the deficit in the current account of the balance of payments more than doubled from Rs13,442 million in 2007 to Rs27,728 million. The deterioration resulted from a higher deficit of Rs56,516 million on the merchandise account together with lower surpluses on both the services and income accounts. The Capital and Financial Account, inclusive of reserve assets, recorded higher net inflows of Rs20,857 million in 2008 compared to Rs1,883 million in 2007. The overall balance of payments for 2008, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs4,624 million. As a percentage of GDP, the deficit on the current account in 2008 represented 10.5 per cent compared to 5.7 per cent in 2007.