# OVERVIEW

**International Developments**

During February 2008, the US dollar, on average, appreciated against the Pound sterling but lost ground vis-à-vis the euro and the Japanese yen. The US dollar started the month on a resilient note particularly after the release of a report from the Institute of Supply Management which showed that manufacturing index for January 2008 in the United States expanded more than expected. The release of stronger-than-expected January 2008 US retail sales data, which posted a 0.3 per cent increase, also helped the US dollar resist heavy selling pressure. However, the US currency was unable to secure further gains, undermined by the release of falling US consumer confidence that added to the woes of the declining US economy and as the Federal Reserve Chairman Bernanke continued to warn over the downside risks to the economy and stated that the Fed would take further action if needed. Minutes from the Fed's 29-30 January 2008 FOMC meeting pointed to the US downside economic risks and to lower growth forecasts with the Fed even stating that relatively low interest rates would be required for a time. The release of US core consumer price index, which strips out food and energy costs, rising by 0.3 per cent in January, its highest monthly rise since June 2006 provided some respite to the US dollar amid expectations of accelerated inflationary pressures. But the gains were short-lived, pressured by another series of bearish US data and ongoing fears of recessions. Moreover, Fed Chairman Bernanke's testimony on 28 February 2008 mirrored his recent speeches, in that downside risks to growth remained predominant, despite quite obvious upside risks to inflation.

The euro appreciated against the US dollar, trading at an average of US$1.4741 during February 2008 compared to an average of US$1.4728 during January 2008. On 7 February 2008, the ECB at its governing council meeting left its key refinancing rate unchanged at 4.0 per cent. At its post-meeting press conference, ECB President Jean Claude Trichet dropped the threat to act pre-emptively against rising prices and accepted that unusually high uncertainty in markets might hurt the real economy. As markets moved to price in a rate cut within the next few months, the euro lost ground to trade at its intra-month low of US$1.4480. With the ECB President reiterating that easing monetary policy was not on the bank's agenda as inflationary pressures persisted in the euro zone, the single currency managed to prop up against the US dollar. The euro thereafter maintained a generally upward trend amid a mixed picture on data releases. While the German ZEW index came in stronger than expected with a small recovery to -39.5 in February 2008 from -41.6 in the previous month, fourth quarter 2007 growth for Germany and the euro zone registered slowdowns. The single currency ultimately managed to close February 2008 beyond the US$1.50 level, trading at its intra-month high of US$1.5178, supported by comments attempting to downplay expectations of a near term interest rate cut in the euro zone.

The Pound sterling depreciated against the US dollar during February 2008, trading at an average of US$1.9628 from an average of US$1.9688 in January 2008. As expected, the Bank of England (BOE) Monetary Policy Committee, at the end of its two-day meeting on 7 February 2008, cut interest rate by a quarter percentage point to 5.25 per cent in a bid to head off a sharp consumer-led slowdown, and signaled further gradual policy easing ahead. The Pound, which lost ground after the rate decision, managed to recover after the release of UK January producer price inflation which surged to its highest level in 16 years, thereby dampening expectations that the central bank would soon follow up with rate cuts. The release of the hawkish BOE quarterly inflation report thereafter also forced market players to revise down their expectations of aggressive future UK interest rate cuts as the BOE found itself caught between high cost push price pressures and declining demand pull pressures. But the Pound came under pressure as investors remained downbeat on the health of Britain's dominant financial sector on news that the government would temporarily nationalise mortgage lender Northern Rock. Minutes of the BOE MPC meeting revealed an 8-1 vote in favour of the 25 basis points rate cut, with one member dissenting and calling for a more aggressive 0.50 per cent cut as a precaution against a severe slowdown further weighed on the Pound, which hit its intra-month low of US$1.9414 against the US dollar. However, the release of stronger than expected January UK retail sales data, which again tempered expectations of aggressive rate cuts, provided support to the Pound. The combination of a weaker US dollar and ongoing realization that the Bank of England would not be aggressive in lowering borrowing costs helped underpin the British currency, which closed February at its intra-month high of US$1.9874.

The Japanese yen appreciated against the US dollar, trading at an average of ¥107.24 per USD during February 2008 compared to an average of ¥107.74 per USD during January 2008. The yen rose broadly as investors grew more risk averse. The Japanese currency also benefited from sell-off in the equity market. Market unease helped the Japanese currency rise against the US dollar as traders unwound risky trades, financed with cheaply borrowed yen.

Oil prices moved higher during February 2008 mainly on supply and geopolitical concerns and persistent US dollar weakness. Turkey's incursion into Iraq, Iran's nuclear program, turmoil in Nigeria and Venezuela were keeping supply concerns in focus. NYMEX and IPE Brent settled record highs of US$102.6 a barrel and US$100.9 a barrel on 28 February, respectively. The International Energy Agency forecast world oil demand growth would average 1.67 million bpd, down by 310,000 bpd from its previous estimate. OPEC output is estimated to have been down by 200,000 bpd in February 2008 due to lower output from Saudi Arabia and Iran. Moreover, OPEC reported that current crude oil output should be enough to meet growing demand and boost global stocks. OPEC has indicated that it would boost supply at its future meeting in 5 March 2008.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$95.4 a barrel in February 2008, up from US$92.9 a barrel in January 2008 and US$59.4 a barrel in February 2007. IPE Brent futures averaged US$94.6 a barrel during the month under review, up from US$92.1 a barrel in January 2008 and US$58.8 a barrel in February 2007.

COMEX gold futures, on average, moved higher during February 2008, trading in an intra-month closing range of US$890.3/Oz–US$975.0/Oz compared to US$857.7/Oz–US$928.0/Oz in January 2008. Gold prices reached a record high of US$975.0/Oz on 29 February 2008, supported by a weak dollar and strong oil prices. The bullion averaged US$928.5/Oz during February 2008, compared to an average of US$893.1/Oz in January 2008.

**Domestic Developments**

Tourist arrivals rose by 3.2 per cent, from 91,628 in January 2007 to 94,579 in January 2008, while gross tourism receipts went up by 15.3 per cent, from Rs4,043 million in January 2007 to Rs4,662 million in January 2008. On a cumulative basis, over the period July 2007 to January 2008, tourist arrivals reached 569,437 representing an increase of 9.6 per cent over 519,767 arrivals recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2007 to January 2008 grew by 24.7 per cent to reach Rs25,597 million compared to Rs20,534 million recorded over the corresponding period of the previous fiscal year

The Consumer Price Index (CPI) increased from 109.6 in January 2008 to 110.7 in February 2008. The largest rise of 2.7 per cent was noted in the sub-Division “Restaurants and hotels” followed by “Food and non alcoholic beverages” (+2.6 per cent), “Education” (+0.8 per cent), “Clothing and footwear” (+0.7 per cent), “Health” (+0.7 per cent), “Furnishings, household equipment and routine household maintenance” (+0.6 per cent), “Miscellaneous goods and services” (+0.2 per cent) and “Alcoholic beverages and tobacco” (+0.1 per cent). The sub-Divisions “Housing, water, electricity, gas and other fuels” and “Communication” registered declines of 0.4 per cent and 0.1 per cent, respectively. “Recreation and culture” recorded no change in its sub-index. The main contributors to the rise in the index between January 2008 and February 2008 were bread and powdered milk, each registering an increase of 0.3 index point, trader’s rice, flour and flour preparations, chicken, other food products, cakes and snacks, food and drinks in bars and restaurants and other goods and services, each registering an increase of 0.1 index point. This was partially offset by a decrease of 0.1 index point in vegetables and interest payment on housing loan. The rate of inflation for the twelve-month period ended February 2008 stood at 9.0 per cent, up from 8.9 per cent for the twelve-month period ended January 2008

While headline inflation for February 2008 stood at 9.0 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 5.5 per cent, 5.7 per cent and 7.5 per cent, respectively. Consequently, for February 2008, core inflation was between 1.5 and 3.5 percentage points lower than the headline inflation

Net foreign assets of depository corporations expanded by Rs5,166 million or 6.2 per cent, from Rs83,162 million at the end of June 2007 to Rs88,328 million at the end of January 2008, on account of the increase in both net foreign assets of other depository corporations and those of the Bank of Mauritius.

Net foreign assets of other depository corporations grew by Rs4,611 million or 14.9 per cent to Rs35,550 million while those of the Bank of Mauritius rose by Rs555 million or 1.1 per cent to Rs52,778 million.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs17,096 million or 8.1 per cent, from Rs210,443 million at the end of June 2007 to Rs227,539 million at the end of January 2008. Net claims on budgetary central Government rose by Rs2,551 million or 6.0 per cent, from Rs42,235 million at the end of June 2007 to Rs44,786 million at the end of January 2008. Claims on other sectors, that is, credit to the private sector grew by Rs14,546 million or 8.6 per cent to Rs182,754 million in January 2008..

Net claims on budgetary central Government from the Bank of Mauritius went down by Rs1,271 million or 89.6 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs2,688 million at the end of January 2008. Net claims on budgetary central Government from other depository corporations rose by Rs3,821 million or 8.8 per cent, from Rs43,653 million to Rs47,474 million.

Claims on Other Sectors from the Bank of Mauritius rose by Rs38 million or 15.8 per cent, from Rs238 million at the end of June 2007 to Rs276 million at the end of January 2008 while claims on Other Sectors from other depository corporations expanded by Rs14,509 million or 8.6 per cent, from Rs167,969 million to Rs182,478 million

Broad Money Liabilities (BML) grew by Rs25,595 million or 11.9 per cent, from Rs215,408 million at the end of June 2007 to Rs241,003 million at the end of January 2008. Of the components of BML, currency with public rose by Rs1,576 million or 13.6 per cent to Rs13,173 million while transferable deposits rose by Rs5,954 million or 14.1 per cent to Rs48,103 million. Savings deposits rose by Rs2,424 million or 3.7 per cent to Rs67,768 million while time deposits went up by Rs15,988 million or 16.9 per cent to Rs110,466 million. Securities other than shares included in broad money fell by Rs348 million or 18.9 per cent to Rs1,492 million.

The monetary base, excluding Bank of Mauritius Bills, rose by Rs1,596 million, or 6.7 per cent, from Rs23,841 million at the end of June 2007 to Rs25,437 million at the end of January 2008. Currency in circulation grew by Rs2,334 million, or 17.3 per cent, from Rs13,512 million to Rs15,846 million while liabilities to other depository corporations decreased by Rs380 million or 4.0 per cent, from Rs9,480 million to Rs9,100 million.

Broad Money Liabilities multiplier rose from 9.0 at the end of June 2007 to 9.5 at the end of January 2008, reflecting a higher increase in Broad Money liabilities compared to the monetary base.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs3,400 million through the Primary Market in February 2008. Between end-January and end-February 2008, the weighted average yields of the 91-day, 182-day and 364-day Bills decreased from 8.72 per cent to 7.56 per cent, from 8.83 per cent to 7.64 per cent and from 9.77 per cent to 7.94 per cent respectively.

No repurchase transactions were carried out by the Bank during the month of February 2008. However, the Bank conducted special deposits for a period of 14 days in which two banks participated. The amount accepted was Rs1.0 billion at a rate of 7.75 per cent per annum. Interbank transactions in February 2008 totalled to Rs19,697 million with a high of Rs985 million and a trough of Rs210 million. The weighted average overnight interbank rate for February 2008 was 8.03 per cent compared to 8.21 per cent for the previous month.

During February 2008, total transactions in Government of Mauritius Treasury Bills/Bank of Mauritius Bills effected through primary dealers amounted to Rs149.3 million, while no Treasury Bills were traded on the Stock Exchange of Mauritius. A total amount of Rs35.75 million Treasury Bills/Treasury Notes was sold over the counter to 77 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 February 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 9.75, 9.90 and 10.05 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs5,502.0 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 9.45, 9.87 and 10.10 per cent per annum, respectively.

The fourth issue of Five-Year Government of Mauritius Bonds for 2007-08 was undertaken on 29 February 2008, through an auction held on 27 February 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 Rs2,573.5 million were received, of which an amount of Rs750 million was accepted. The weighted average yield on bids accepted was 9.99 per cent per annum and the coupon rate was set at 9.85 per cent per annum.

In February 2008, the Bank intervened and purchased US$35.0 million on the domestic interbank foreign exchange market.

Between January 2008 and February 2008, the rupee on average appreciated vis à vis all major trading partner currencies. 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 January and February 2008.

At the end of January 2008, the net international reserves of the country amounted to Rs 89,182 million. Following the release of external trade data for fourth quarter 2007, the end-January 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 39.2 weeks of imports, down from 39.3 weeks of imports at the end of December 2007. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs 53,010 million at the end of January 2008 to Rs 52,675 million at the end of February 2008.

Provisional estimates for the calendar year 2007 indicate that the current account of the balance of payments recorded a lower deficit of Rs12,497 million compared to a deficit of Rs19,399 million in 2006. The deficit in the merchandise account of the balance of payments, inclusive of the purchase of aircraft, surged to Rs44,182 million in 2007 from Rs34,532 million a year earlier. The deficit in the merchandise account was, however, partly offset by surpluses on the services, income and current transfers accounts. The capital and financial account, inclusive of reserve assets, recorded lower net inflows of Rs2,132 million in 2007 compared to Rs10,363 million in 2006. The overall balance of payments for 2007, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs13,880 million as against a deficit of Rs4,573 million in 2006. In relation to GDP, the deficit on the current account in 2007 represented 5.4 per cent compared to 9.4 per cent in 2006.