OVERVIEW

International Developments

During January 2009, the US dollar, on average, appreciated against the Pound sterling and the euro but depreciated vis-à-vis the Japanese yen. The US dollar started the month on a good note supported by hopes of a fresh economic stimulus package from US President-elect Barack Obama, primarily designed to create 3 million jobs and resuscitate growth. But concerns about the US jobs market took centre-stage, after the report from ADP Employer Services which showed a decline of 693,000 in US private sector employment for December 2008, taking the wind out of the dollar's new year surge and nudging it lower. However, many of the bearish dollar bets were rapidly reversed, triggering a US dollar rally when the Labour Department reported job losses in December 2008, which came in slightly lower than expected. The US dollar's gains were short-lived after a government report showed that investors sold US Treasury bonds in November 2008 for the first time since August 2007, when the credit crunch began. News that Bank of America received $20 billion in new government capital suggesting that there could be more trouble to come also hurt the US dollar. However, the US currency managed to shrug off its losses, bolstered by its safe-haven status amid investors' concerns about global economic health and benefiting from comments by Treasury Secretary nominee Timothy Geithner, who said that a strong dollar was in the United States' interest. The US currency suffered a momentary setback thereafter since investors were reluctant to buy the dollar as data from the Conference Board showed that US consumer confidence was at an all-time low in December, while US home prices fell by a record 18.2 per cent in the year to November. At the conclusion of its two-day meeting on 28 January 2009, the Federal Reserve kept interest rates steady near zero and said it was prepared to buy long-term Treasury debt only when credit conditions would improve. The Fed's statement pacified markets because it suggested that the US central bank was pulling out all the stops to lift the economy out of recession. Against this backdrop, the US dollar closed the month rising across the board as deepening concerns over the global recession and a sharp fall in stock markets prompted investors to shed risky assets and seek the world's most liquid currency.

The euro depreciated against the US dollar trading at an average of US$1.3283 in January 2009 compared to an average of US$1.3491 in December 2008. The euro, which started January 2009 trading at its intra-month high of US$1.3873, lost ground against the US dollar, facing selling pressure amid mounting expectations that the European Central Bank (ECB) might have to cut interest rates further to counter falling prices and help a struggling euro zone economy. At its governing council meeting held on 15 January 2009, the ECB, as expected, lowered its key refinancing rate by 50 basis points to 2.00 per cent, matching its lowest ever rate, with comments from its President that inflation risks continued to diminish as the economy weakened. That prompted traders to sell the single currency on expectations the ECB would continue its rate easing cycle. Though negative news on the US dollar managed to help the euro rebound from its fall after ECB's interest rate cut, grim economic forecasts from the European Commission that the euro zone economy would contract by 1.9 per cent in 2009, dented euro sentiment. The single currency was also weighed down by three rating downgrades of euro-zone countries within a week. Standard & Poor's cut Portugal's sovereign rating after downgrading Spain and Greece. The euro closed January trading at its intra-month low of US$1.2879, after billionaire investor George Soros told in an Austrian newspaper that the currency might not survive without a European Union plan to deal with toxic assets. Comments from ECB President that the bank could push interest rates below 2 per cent and use other measures to boost growth also hit the euro.

The Pound sterling depreciated against the US dollar during the month of January 2009, trading at an average of US$1.4503, from an average of US$1.4928 in December 2008. The Pound sterling reached its intra-month high of US$1.5182 after the Bank of England (BoE), as expected, at the conclusion of its MPC meeting held on 7-8 January 2009 cut interest rates by 50 basis points to a record low of 1.5 per cent. In its accompanying statement, the BoE said that output was likely to continue falling in the first half of the year, although the recent sharp drop in the value of sterling would help to boost exports. However, the Pound sterling came under selling pressure as escalating worries that the global economy would be mired in recession this year raised risk aversion. The British currency managed to recoup some of its losses helped by the announcement of the UK government to provide 20 billion pounds in lending to small business and a 75 million pounds enterprise fund to invest in firms needing equity to stop cash-starved firms from going bust. But the gains were short-lived as the Pound sterling fell sharply as bank shares plunged after Britain's latest bank rescue plan did little to reassure investors and raised concerns about the government's ability to service its ballooning debt. Sterling extended its downtrend after shares of Barclays Plc tumbled by as much as a third in value to a 24-year low on fears that it needed to raise funds or could be nationalised. Figures showing a tumble in UK factory orders and a drop in automobile output also gave investors reason to sell sterling, as they bolstered the view that the Bank of England would have to do more than cut interest rates to salvage the economy. By the end of the month, the Pound managed to regain some ground as investors' risk appetite improved after British bank Barclays said it would report a 2008 pretax profit and thus, would not need new funding. Shares in Barclays soared by more than 70 percent, driving a steep rally in other British bank shares and supporting sterling. The Pound also benefited further from a UK government auto sector package and better-than-expected UK retail sales survey.

International oil prices witnessed a decline during January 2009, trading at high level only at the start of the month on account of Russia's energy dispute with Ukraine and the intensifying conflict in Gaza. At the start of the month, both NYMEX and IPE settled at highs of US$48.8 a barrel and US$50.5 respectively. Thereafter, oil prices declined due to waning global demand on account of intensifying economic recession. According to the U.S Energy Information, global economic downturn points to declining oil consumption in 2009, while additional production capacity from both OPEC and non-OPEC nations should boost surplus production capacity, thereby reducing the likelihood of a renewed strong upward pressure on prices.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$41.7 a barrel in January 2009, down from US$42.1 a barrel in December 2008 and US$92.9 barrel in January 2008. IPE Brent figures averaged US$45.6 a barrel during the month under review, up from US$43.0 a barrel in December 2008 and US$92.9 barrel in January 2008.

COMEX gold futures, on average, moved up during the month of January 2009, trading in an intra-month closing range of US$807.3/Oz-US$928.4/Oz compared to US$752.2/Oz-US$884.3/Oz in December 2008. Gold prices reached a peak of US$928.4 on 30 January 2009, supported by fears over the potential inflationary impact of the massive U.S economy stimulus plan, and safe-haven demand stemming from equity. The bullion averaged US$861.3/Oz during January 2009, compared to an average of US$824.1 in December 2008.

Domestic Developments

Tourists arrivals declined by 6.1 per cent, from 103,670 in December 2007 to 97,388 in December 2008, while gross tourism receipts went down by 1.0 per cent, from Rs4,504 million in December 2007 to Rs4,461 million in December 2008. On a cumulative basis, tourists arrivals for the calendar year 2008 reached 930,456 representing an increase of 2.6 per cent over 906,971 arrivals recorded in 2007. Tourism receipts for 2008 grew by 1.3 per cent to Rs41,213 million.

The Consumer Price Index (CPI) decreased from 115.5 in December 2008 to 115.3 in January 2009. The main contributors to the fall in the index between December 2008 and January 2009 were gasoline which registered a decrease of 0.3 index point and bread, milk, cooking gas, motor vehicles, diesel oil and airfare, each registering a decrease of 0.1 index point. Increases of 0.2 index point for other goods and services and 0.1 index point for fish, vegetables, other food products, alcoholic beverages and private school fees were noted. The largest decline of 3.4 per cent was noted in the Division “Transport” followed by “Housing, water, electricity, gas and other fuels” (-0.6 per cent) and “Restaurants and hotels” (-0.5 per cent). The divisions “Education”, “Recreation and culture”, “Miscellaneous goods and services”, “Furnishings, household equipment and routine household maintenance”, “Alcoholic beverages and tobacco”, “Food and non alcoholic beverages”, “Clothing and footwear” and “Health” registered increases of 3.0 per cent, 1.0 per cent, 0.9 per cent, 0.7 per cent, 0.5 per cent, 0.3 per cent, 0.2 per cent and 0.1 per cent, respectively, while “Communication” recorded no change in its index. The rate of inflation for the twelve-month period ended January 2009 stood at 9.3 per cent, down from 9.7 per cent for the twelve month period ended December 2008.

While headline inflation for January 2009 stood at 9.3 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 8.4 per cent, 6.0 per cent and 2.3 per cent, respectively.

Net foreign assets of depository corporations rose by Rs5,893 million, or 7.1 per cent, from Rs83,628 million at the end of June 2008 to Rs89,521 million at the end of December 2008, 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 Rs6,895 million, or 25.9 per cent, to Rs33,496 million while those of the Bank of Mauritius fell by Rs1,002 million, or 1.8 per cent, to Rs56,025 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs13,722 million, or 5.3 per cent, from Rs258,704 million at the end of June 2008 to Rs272,426 million at the end of December 2008. Net claims on budgetary central Government fell by Rs6,213 million, or 11.7 per cent, from Rs53,171 million at the end of June 2008 to Rs46,958 million at the end of December 2008. Claims on other sectors, that is, credit to the private sector grew by Rs19,935 million, or 9.7 per cent, to Rs225,468 million in December 2008.

Net claims on budgetary central Government from the Bank of Mauritius rose by Rs565 million, or 13.0 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs3,797 million at the end of December 2008. Net claims on budgetary central Government from other depository corporations fell by Rs6,778 million, or 11.8 per cent, from Rs57,533 million to Rs50,755 million.

Claims on Other Sectors from the Bank of Mauritius decreased by Rs0.4 million, or 0.3 per cent to Rs135 million at the end of December 2008 while claims on Other Sectors from other depository corporations expanded by Rs19,935 million, or 9.7 per cent, from Rs205,398 million to Rs225,333 million.

Broad Money Liabilities (BML) grew by Rs22,306 million, or 8.8 per cent, from Rs252,175 million at the end of June 2008 to Rs274,481 million at the end of December 2008. Of the components of BML, currency with public rose by Rs3,409 million, or 26.4 per cent, to Rs16,323 million while transferable deposits rose by Rs5,527 million, or 10.4 per cent, to Rs58,924 million. Savings deposits rose by Rs2,990 million, or 4.1 per cent, to Rs76,888 million while time deposits went up by Rs10,384 million, or 9.4 per cent, to Rs120,811 million. Securities other than shares included in broad money fell by Rs5 million, or 0.3 per cent, to Rs1,535 million.

The monetary base rose by Rs3,334 million, or 12.2 per cent, from Rs27,328 million at the end of June 2008 to Rs30,662 million at the end of December 2008. Currency in circulation grew by Rs5,103 million, or 34.0 per cent, from Rs15,008 million to Rs20,111 million while liabilities to other depository corporations decreased by Rs1,540 million, or 12.9 per cent, from Rs11,933 million to Rs10,393 million.

Broad Money Liabilities multiplier fell from 9.2 at the end of June 2008 to 9.0 at the end of December 2008, reflecting a greater expansion of Monetary Base as compared to Broad Money Liabilities.

In January 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs5,700 million through the weekly Primary Auctions. Between end- December 2008 and end-January 2009, the weighted average yields of the 91-day Bills, 182-day Bills and 364-day Bills decreased from 8.65 per cent to 7.50 per cent, 8.70 per cent to 7.50 per cent and 8.91 per cent to 7.60 per cent respectively. During January 2009, the market preference remained skewed towards the 364-day Bills.

During the month, the Bank carried out one repurchase transaction for a total amount of Rs2,500 million on an auction basis for a period of 14 days and the accepted rate was 8.00 per cent. Transactions on the interbank money market in January 2009 amounted to Rs19,368 million with a daily average of Rs625 million, a high of Rs1,504 million and a trough of Rs15 million. The weighted average overnight interbank rate for January 2009 decreased to 6.53 per cent, from 7.23 per cent for the previous month.

Bills traded by primary dealers amounted to Rs562.9 million. There were no transactions of Bills on the Stock Exchange of Mauritius. A total amount of Rs82.45 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 January 2009, a total nominal amount of Rs1,500 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 Rs4,273.5 million. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 8.77, 8.99 and 8.88 per cent per annum, respectively. The market preference shifted towards the 2-year Note.

Between December 2008 and January 2009, the rupee, on average appreciated vis-à-vis the Pound sterling and the euro, but depreciated against the Japanese yen and the US dollar. 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 December 2008 and January 2009 the rupee, on average, depreciated against the US dollar but appreciated against the Pound sterling and the Euro.

At the end of December 2008, the net international reserves of the country stood at Rs90,164 million, which based on the value of the import bill for the fiscal year 2007-08 and exclusive of the purchase of aircraft, represented 36.6 weeks of imports, up from 34.4 weeks of imports at the end of November 2008. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs56,060 million at the end of December 2008 to Rs54,873 million at the end of January 2009.

Provisional estimates for the year 2008 indicate that foreign direct investment (FDI) in Mauritius stood at Rs11,419 million. Investment was mainly directed to the “Financial Intermediation” sector (Rs4,564 million) and the “Hotels and Restaurants” sector (Rs3,985 million), mainly under the Integrated Resorts Scheme (IRS). The main source of FDI inflows to Mauritius was the United Kingdom (Rs2,044 million) and India (Rs1,921 million). Outward FDI is estimated at Rs1,612 million for the year 2008 with significant investment destined to the “Hotels and Restaurants” sector in Maldives and the “Manufacturing” sector in Madagascar.