# OVERVIEW

## International Developments

In June 2009, the US dollar, on average, depreciated against the euro and the Pound sterling. The US dollar started the month at its lowest level in 2009 against a basket of currencies as stronger-than-expected US data and sharp gains in equities reduced the safe-haven demand for the greenback. Furthermore, a multitude of economic data releases continued to point that the US economy might be turning a corner. Financial markets took in stride the General Motors Corp's bankruptcy filing, the largest ever in the US manufacturing sector. Upbeat manufacturing reports from the euro zone, Britain and China added to the optimism about the global economy. The Institute of Supply Management (ISM) surveys for manufacturing and services showed that both sectors declined at a slower pace in May 2009.

The US dollar rebounded subsequently amid doubts about an economic turnaround and following comments from several Asian monetary officials that Asian central banks would keep buying Treasuries even if the US' credit rating were to be cut. The dollar even posted its largest one-day gain in more than five months on 8 June 2009 following the release of data showing that the pace of US job losses slowed sharply in May 2009 and stoking expectations for a Federal Reserve rate rise later this year. The greenback later pared some of its earlier gains after the benchmark US Treasury yield hit its highest point in eight months. By mid-June 2009, the dollar had again risen as investors took profits on other major currencies which had climbed to multi-months highs and the G8 finance ministers meeting helped temper recent optimism about the economy, encouraging bets in riskier assets to be cut further. The US dollar also drew some support from comments of the Russian Finance Minister Alexei Kudrin, who said that the US dollar's role as the world's main reserve currency was unlikely to change in the near future.

Investors' appetite for risk fell, sustaining the safe-haven appeal of the US dollar, as the World Bank said that prospects for the global economy remained "unusually uncertain," and trimmed its 2009 growth forecasts for most economies. On 24 June 2009, the Fed, at its two-day policy meeting, decided to leave the federal funds rate at its current low level of 0.0-0.25 per cent and kept to its debt buyback programme. The Fed signalled that it was less concerned about deflation, but that inflation would remain subdued for some time and interest rates would stay low for an extended period. The dollar also got a boost after the Swiss National Bank intervened by selling the Swiss franc for US dollars and euros. By the end of the month, the US dollar tumbled again as gains in oil prices and US stocks along with better-than expected sentiment in Europe rekindled hopes of a global economic recovery.

The euro appreciated vis-à-vis the US dollar, trading at an average of US$1.4024 in June 2009 compared to an average of US$1.3640 in May 2009. The euro rose against the US dollar after the ECB left its key refinancing rate steady at 1.0 per cent and also reiterated plans to buy 60 billion euros in covered bonds, which analysts said seemed to bolster expectations that it would not cut interest rates soon. The ECB also forecast that the euro zone economy would now shrink by 5.1 per cent in 2009 and would also struggle to grow in 2010. However, the euro zone Purchasing Managers Index surveys for May 2009 showed some slowing in the rate of contraction in both services and manufacturing. The euro was led downwards following the cut in Ireland's sovereign credit rating to AA, its second downgrade in three months by ratings agency Standard & Poor's. The euro hit its lowest level in almost a month against the US dollar after the ECB said that euro zone banks would probably need to write down another US$283 billion and data released showed a record 1.22 million job losses in the first quarter of 2009 and as the ECB, in a move to improve liquidity flows, lent 442.24 billion euros of one-year money at a fixed 1 per cent rate to banks, higher than the projected 300 billion euros. The euro, however, gained some ground by the end of the month as euro zone economic sentiment strengthened for the third month running in June 2009, sending European stocks up as hopes grew that the worst economic crisis in decades might be easing, albeit slightly.

The Pound sterling appreciated significantly against the US dollar during June 2009, trading at an average of US$1.6357, from an average of US$1.5417 in May 2009. It started the month on a strong tone against the US dollar on the back of better-than expected data releases and strengthened after the Halifax survey showed an unexpected rise in UK house prices. The Bank of England (BoE) kept its key repo rate at a record low of 0.5 per cent, and said that it was on track to complete 125 billion pounds of quantitative easing by August 2009. The Pound sterling fell to near two-week low against the US dollar on political uncertainty. The British currency, however, pared some of its losses as UK Prime Minister Gordon Brown announced a cabinet reshuffle and finance minister Alistair Darling was kept in office. The Pound sterling later rose sharply against a broadly weaker US dollar and the euro, helped by further signs that the UK housing market was stabilising. Positive UK industrial output data and an unexpected rise in manufacturing output in April 2009 for the first time in a year helped to reinforce the belief that the UK economy might be emerging from the worst of the recession. Investor sentiment was also supported by encouraging data showing that house prices in England and Wales fell at their slowest annual pace in 1-1/2 years in the three months to May 2009. The BoE/GfK NOP Inflation Attitudes Survey showed that British inflation expectations for the coming year increased to 2.4 per cent in May 2009 from 2.1 per cent in February 2009, the first rise since August 2008. The Pound sterling, however, fell as investors booked profit ahead of the Group of Eight finance ministers' meeting and dovish comments from BoE policymaker Paul Fisher as he warned against complacency despite signs of a recovery, saying that economic output was likely to fall in the second quarter. UK finance minister Alistair Darling struck a similar cautious note, warning that rising oil prices had the potential to be a "huge problem" for any recovery. Thereafter, the Pound sterling fluctuated within a tight range of US$1.632 to US$1.663. The UK annual consumer price index fell to 2.2 per cent in May 2009, encouraging the belief that the risk of deflation in the UK economy was now very low and this boosted the Pound sterling against a basket of currencies. The Pound sterling pared some gains as UK retail sales fell in May 2009 from the previous month, raising doubts about economic recovery. The Pound ended the month positively after the UK Nationwide building society said that house prices rose 0.9 per cent in June 2009 but dismal first-quarter GDP data, which posted their biggest fall in 50 years on a quarterly basis, clipped the Pound's rally.

International oil prices rose during June 2009, mainly attributable to a weaker dollar and upbeat economic reports which boosted stock markets. Both IPE Brent and NYMEX reached their intra-month highs at US$71.8 a barrel and US$72.7 a barrel, respectively, on 11 June 2009. According to the US Energy Information Administration's (EIA), OPEC crude oil production is estimated to have averaged approximately 28.7 million barrels per day in the first quarter of 2009 and is projected to average 28.6 million barrels per day in the second quarter of 2009. Total non-OPEC supply is projected to rise by 400,000 barrels per day in 2009 and to remain almost flat at the 2009 level in 2010.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$69.7 a barrel in June 2009, up from US$59.2 a barrel in May 2009. IPE Brent averaged US$69.3 a barrel during the month under review, up from US$58.6 a barrel in May 2009.

COMEX gold futures, on average, moved higher during June 2009, trading in an intra-month closing range of US$921.0/Oz-984.4/Oz compared to US$888.2/Oz-980.3/Oz in May 2009. Gold prices reached a peak of US$984.4/Oz on 2 June 2009, as a weakening US dollar prompted investors to pile onto the bullion as a hedge against US dollar-denominated portfolios.

**Domestic Developments**

Gross tourism receipts declined by 31.4 per cent, from Rs3,530 million in May 2008 to Rs2,422 million in May 2009. On a cumulative basis, tourists receipts for the period July 2008 to May 2009 contracted by 13.6 per cent to reach Rs34,712 million compared to Rs40,156 million over the previous corresponding period.

In its June 2009 issue of National Accounts Estimates, the Central Statistics Office has maintained the economic growth for the Mauritian economy at 5.3 per cent for 2008 and at 2.5 per cent for 2009. However, some changes in the projected growth rates in some sectors have been noted. The manufacturing sector is projected to grow at a higher rate of 0.9 per cent instead of 0.1 per cent, explained by a lower contraction of the export-oriented enterprises as a result of the lower decline of 5.0 per cent in “Textiles” instead of 7.5 per cent coupled with a higher growth of 15.0 per cent in “Fish processing” instead of 10.0 per cent. The “Wholesale and retail trade” sector is projected to grow at a rate of 1.8 per cent instead of 3.5 per cent, based on the lower volume of imports noted since the beginning of the year. The impact of delays in the implementation of a number of public sector projects is expected to be offset by higher expenditure on construction in the private sector and hence the growth in the construction sector has been kept at 2.0 per cent. The 8.8 per cent contraction in the tourism sector has also been maintained amid sustained marketing and promotional efforts by various stakeholders to attract tourists in the face of the global economic slowdown.

The Consumer Price Index (CPI) increased from 116.2 in May 2009 to 117.1 in June 2009 and the main contributors to the rise were gasoline and diesel oil which registered an increase of 0.3 index point, other food products and other goods and services, each registering an increase of 0.2 index point and rice and ready made clothing, each registering an increase of 0.1 index point. The largest rise of 2.1 per cent was noted in the Division “Transport” followed by “Clothing and footwear” (+1.6 per cent), “Food and non alcoholic beverages” (+0.9 per cent), “Furnishings, household equipment and routine household maintenance” (+0.5 per cent), “Health” (+0.5 per cent), “Miscellaneous goods and services” (+0.5 per cent), “Alcoholic beverages and tobacco” (+0.3 per cent), “Recreation and culture” (+0.3 per cent) and “Restaurants and hotels” (+0.2 per cent). The Division “Housing, water, electricity, gas and other fuels” registered a decline of 0.1 per cent while “Communication” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended June 2009 dropped to 6.9 per cent, from 7.4 per cent for the twelve month period ended May 2009. However, the year-on-year inflation rate rose to 3.3 per cent in June 2009, from 2.8 per cent in May 2009. CORE1 and CORE2 inflation maintained their downward paths in June 2009. CORE1 inflation fell from 6.5 per cent in May 2009 to 6.1 per cent in June 2009. CORE2 inflation dropped to 5.5 per cent in June 2009, from 5.6 per cent for the twelve month period ended May 2009. TRIM10 inflation rose marginally to 2.8 per cent in June 2009, from 2.7 per cent in May 2009.

Net foreign assets of depository corporations increased by Rs10,054 million, or 12.0 per cent, from Rs83,628 million at the end of June 2008 to Rs93,682 million at the end of May 2009, largely on account of increases in net foreign assets of both other depository corporations and the Bank of Mauritius. Net foreign assets of other depository corporations rose by Rs6,623 million, or 24.9 per cent, to Rs33,224 million while those of the Bank of Mauritius increased by Rs3,431 million, or 6.0 per cent, to Rs60,458 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs19,466 million, or 7.5 per cent, from Rs258,704 million at the end of June 2008 to Rs278,170 million at the end of May 2009. Net claims on budgetary central Government fell by Rs2,912 million, or 5.5 per cent, from Rs53,171 million at the end of June 2008 to Rs50,259 million at the end of May 2009. Claims on other sectors, that is credit to the private sector, went up by Rs22,378 million, or 10.9 per cent, to Rs227,910 million at the end of May 2009.

Net claims on budgetary central Government from the Bank of Mauritius went down by Rs3,638 million, or 83.4 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs8,000 million at the end of May 2009. Net claims on budgetary central Government from other depository corporations rose by Rs726 million, or 1.3 per cent, from Rs57,533 million to Rs58,259 million.

Claims on Other Sectors from the Bank of Mauritius decreased by Rs4.7 million, or 3.5 per cent, to Rs130 million at the end of May 2009 while claims on Other Sectors from other depository corporations expanded by Rs22,383 million, or 10.9 per cent, from Rs205,398 million to Rs227,781 million.

Broad Money Liabilities (BML) rose by Rs31,360 million, or 12.4 per cent, from Rs252,175 million at the end of June 2008 to Rs283,535 million at the end of May 2009. Of the components of BML, currency with public rose by Rs2,207 million, or 17.1 per cent, to Rs15,121 million while transferable deposits rose by Rs9,676 million, or 18.1 per cent, to Rs63,072 million. Savings deposits rose by Rs6,776 million, or 9.2 per cent, to Rs80,674 million while time deposits went up by Rs12,707 million, or 11.5 per cent, to Rs123,134 million. Securities other than shares included in broad money fell by Rs7 million, or 0.4 per cent, to Rs1,533 million.

The monetary base rose by Rs2,520 million, or 9.2 per cent, from Rs27,328 million at the end of June 2008 to Rs29,848 million at the end of May 2009. Currency in circulation went up by Rs2,248 million, or 15.0 per cent, from Rs15,008 million to Rs17,256 million while liabilities to other depository corporations rose by Rs503 million, or 4.2 per cent, from Rs11,933 million to Rs12,436 million.

Broad Money Liabilities multiplier went up from 9.2 at the end of June 2008 to 9.5 at the end of May 2009, reflecting a greater expansion of Broad Money Liabilities as compared to Monetary Base.

In June 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs8,984 million through the weekly Primary Auctions. Between end-May and end-June 2009, the weighted average yield on the 91-day Bills remained unchanged at 4.65 per cent. For the 182-day Bills and 364-day Bills, the weighted average yields increased from 4.68 per cent to 4.69 per cent and from 5.06 per cent to 5.14 per cent, respectively. The overall weighted yield during June 2009 fell to 4.72 per cent from 4.79 per cent for the previous month. During June 2009, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in June 2009 totalled Rs11,690 million with a daily average of Rs390 million, a high of Rs1,120 million and a trough of Rs105 million. The weighted average overnight interbank rate for June 2009 decreased to 4.21 per cent from 4.44 per cent for the previous month.

A total amount of Rs7.9 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 Rs42.5 million. Bills traded on the Stock Exchange of Mauritius amounted to Rs0.1 million.

At the monthly auction of Treasury Notes held in June 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 6.00, 6.25 and 6.50 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs660.3 million and the amount accepted was Rs561.6 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 6.80, 7.35 and 7.72 per cent per annum, respectively. The market preference remained skewed towards the 2-year Treasury Notes.

The sixth and last issue of Five-Year Government of Mauritius Bonds for fiscal year 2008-09 was undertaken on 26 June 2009, through an auction held on 24 June 2009. Bids for a total nominal amount of Rs3,730.0 million were received against a tender amount of Rs2,527.6 million. The amount accepted was Rs2,527.6 million and the coupon rate was set at 8.40 per cent per annum and the weighted average yield on bids accepted was 8.72 per cent per annum.

In a prospectus dated 19 June 2009, the Bank invited applications from the general public including banks and non-financial institutions for the purchase of Seven-Year Inflation-Indexed Government of Mauritius Bonds on 22 June 2009 for settlement on 23 June 2009. Applications for a total amount of Rs150.6 million were received and accepted.

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

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

At the end of May 2009, the net international reserves of the country stood at Rs94,341 million. The end-May 2009 level of net international reserves of the country, based on the value of import bill for the calendar year 2008 exclusive of the purchase of marine vessel, represented 37.2 weeks of imports. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs60,473 million as at end-May 2009 to Rs63,301 million as at end-June 2009.