OVERVIEW

International Developments

During March 2009, the US dollar, on average, appreciated vis-à-vis the Japanese yen and the Pound sterling but depreciated against the euro. The US dollar started the month on a strong footing as a new rescue attempt for Citigroup and a slew of gloomy financial news on AIG's record loss exacerbated worries about the global credit crisis, thereby boosting the US currency's safe-haven status. However, the US dollar shed some of its gains, as risk aversion eased in the wake of the release of US payrolls data showing that job losses were less severe than expected and on news that Citigroup was profitable in the first two months of 2009. Meanwhile, the Group of 20 finance ministers' meeting gave the market few trading incentives and the US currency's rebound was essentially driven by technical trading ahead of the US Federal Reserve policy meeting. The US dollar thereafter suffered some losses following rising global equity prices, which prompted investors to sell the US currency and to buy assets perceived to be riskier. On 18 March 2009, the US Federal Reserve decided to maintain the target range for the federal funds rate between 0 and 0.25 per cent. In its accompanying statement, the Fed anticipated that economic conditions were likely to warrant exceptionally low levels of the federal funds rate for an extended period. The decline of the US dollar accelerated after the Fed engineered a sharp fall in US bond yields by vastly expanding plans to buy assets, including government debt. In fact, the Fed stunned markets by announcing that it would buy US$300 billion of long-dated Treasuries over the next six months, its first purchases of government debt since the early 1960s. In addition, it said that it would expand the existing program to buy debt and securities issued by mortgage finance agencies to US$1.45 trillion. The decline in US yields after the Fed's move also dented demand for US dollars, although, according to traders, worries about dollar oversupply was the bigger drag on the US currency. The Fed's move also seemed to reduce widespread fear in financial markets, undermining the safe-haven bid that had been supporting the US dollar in recent months. The US dollar's losses were reversed as the government's release of details of the plan to get toxic assets off banks' balance sheets supported US stock market indices and on a growing view that the US Federal Reserve's quantitative easing would not undermine the US currency as had been thought initially. The US dollar came under pressure after US Treasury Secretary Timothy Geithner said that he was open to expanding the use of the International Monetary Fund's special drawing rights although the US currency rallied at the end of the month renewed amid safe-haven buying.

The euro appreciated against the US dollar trading at an average of US$1.3031 in March 2009 compared to an average of US$1.2782 in February 2009. At the start of the month, sentiment toward the euro was weak with losses on European stock markets, as investors shrugged off news that global central banks had launched a coordinated plan to lend up to 25 billion euros to shore up banks in crisis-hit eastern Europe. On 4 March 2009, the euro traded at its intra-month low of US$1.2487 as expectations of an imminent rate cut by the European Central Bank (ECB) mounted, amid ongoing worries about euro zone bank exposure to struggling Eastern European economies. As expected, on 5 March 2009, the ECB cut its key refinancing rate by a half-percentage point to a record low of 1.5 per cent and noted that the euro zone might shrink by as much as 3.2 per cent in 2009. ECB President, Jean-Claude Trichet, while not giving any clear hints about quantitative easing plans, did not rule out additional moves on interest rates, thereby suggesting that euro zone borrowing costs might yet fall further. The euro thereafter rose against the US dollar, indirectly benefiting from the foreign currency purchases by the Swiss National Bank combined with a rate cut. The single currency was also supported by the release of data indicating an improvement in German investor sentiment. On 23 March 2009, the euro hit its intra-month high of US$1.3664 amid broad-based weakness of the US currency. The euro came under renewed pressure, as euro zone policy-makers suggested that interest rates in the region could fall further, just as data showed manufacturing and services sector activity continued to contract significantly. The single currency was also undermined by rising expectations that the ECB might be the next to adopt quantitative easing and by the release of weaker-than-expected euro zone industrial orders data. Comments by German finance minister Peer Steinbrueck suggesting fiscal irresponsibility in Europe could put the euro's stability and credibility at risk also contributed to the euro's decline. Towards the end of the month, the euro pared losses against the US dollar after ECB President, Jean-Claude Trichet, said that policymakers have not decided on central bank buying of corporate bonds.

The Pound sterling depreciated against the US dollar during March 2009, trading at an average of US$1.4202, from an average of US$1.4399 in February 2009. The Pound sterling started the month on a soft note amid renewed concerns about the banking system after British bank Lloyds reported a massive loss for 2008 and as investors reassessed a UK government plan to insure banks' toxic assets. However, the Pound sterling bounced back against the US dollar after surveys showed an unexpected improvement in UK services sector activity and a pick-up in consumer confidence. As expected, the Bank of England (BOE) Monetary Policy Committee, at the end of its two-day meeting held on 4-5 March 2009, cut its key repo rate by 0.5 percentage point to a record low of 0.5 per cent and stated that it would be buying 75 billion pounds (US$106 billion) of assets, mostly medium- and long-dated gilts, to boost the UK economy. Thereafter, the Pound sterling fell sharply against the US dollar as more evidence of a deteriorating UK economy weighed on the British currency. Data released showed that British industrial output fell by more than twice as fast as expected in January 2009 and shrank at its fastest annual pace since January 1981. Meanwhile, surveys also indicated a 1.8 per cent fall in UK retail sales during February 2009, more than reversing January's 1.1 per cent rise, alongside evidence that house price falls accelerated. However, the Pound sterling managed to recoup some of its losses against the US dollar, as gains in share prices and news that British bank Barclays might sell a fund management unit to beef up its capital boosted the appetite for the British currency. The Pound sterling continued on its upward trend against the US dollar after UK inflation rose unexpectedly in February 2009 and Bank of England Governor Mervyn King said that the central bank's quantitative easing program might be reduced should it be successful. The Pound sterling thereafter shed some of its gains against the US dollar after a sharper than forecast fall in British retail sales gave furtherevidence of a contracting economy. By the end of the month, the Pound sterling was further undermined by the release of data showing that the UK suffered the biggest contraction in economic growth since 1980 during the final quarter of 2008.

International oil prices rose throughout March 2009 mainly on account of a weaker US dollar and a general rise in stock market indices. IPE Brent hits its intra-month high of US$53.5 a barrel on 24 March 2009 while NYMEX reached a peak of US$54.3 a barrel on 26 March 2009, spurred on by a rise in global stock markets as data showed that US economic activity was in line with expectations, raising hope that the economy was not falling much deeper. At its meeting held on 15 March 2009 in Vienna, Austria, OPEC reaffirmed its commitment to fully comply with its decision of December 2008 to cut output by 4.2 million barrels per day in order to stabilize the market, ensuring a regular supply of petroleum to consumers at price levels which were equitable not only for the world economy and consumers but also to ensure an adequate future supply. The next OPEC meeting will be held in Vienna, Austria on 9 September 2009. The US Energy Information Administration's (EIA) projection for 2009 global oil consumption is now 3 million barrels per day, lower than the projection made in September 2008. World oil consumption is expected to rebound in 2010, growing by 900,000 barrels per day, in response to an economic recovery which is projected to begin at the end of 2009.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$48.1 a barrel in March 2009, up from US$39.4 a barrel in February 2009. IPE Brent figures averaged US$47.4 a barrel during the month under review, up from US$43.9 a barrel in February 2009.

COMEX gold futures, on average, moved down during March 2009, trading in an intra-month closing range of US$889.1/Oz-US$958.8/Oz compared to US$892.5/Oz-US$1002.2/Oz in February 2009. Gold prices reached a peak of US$958.8 on 19 March 2009, after the US Federal Reserve stated that it would buy Treasury debt, which stirred inflation fears and sent the dollar sharply lower. The bullion averaged US$925.9 during March 2009, compared to an average of US$942.8 in February 2009.

Domestic Developments

Tourist arrivals declined by 13.5 per cent from 77,763 in February 2008 to 67,300 in February 2009, while gross tourism receipts went down by 14.0 per cent, from Rs3,561 million in February 2008 to Rs3,124 million in February 2009. On a cumulative basis, over the period July 2008 to February 2009, tourist arrivals reached 633,098, representing a decrease of 2.2 per cent over 647,200 arrivals recorded over the corresponding period of the previous year. Tourism receipts for the period July 2008 to February 2009 contracted by 11.0 per cent to reach Rs25,947 million compared to Rs29,158 million recorded over the corresponding period of the previous year.

In the March 2009 issue of its National Accounts Estimates, the Central Statistics Office revised the growth rate of the Mauritian economy for 2008 slightly upwards to 5.3 per cent compared to the 5.2 per cent estimated in December 2008 and 5.4 per cent registered in 2007. The main contributors to economic growth in 2008 remained “Financial intermediation”, “Real estate, renting and business activities”, “Transport, storage and communications”, “Construction”, “Wholesale and retail trade, and repairs” and “Manufacturing” with respective growth rates of 10.1 per cent, 7.6 per cent, 6.2 per cent, 11.1 per cent, 4.6 per cent and 3.2 per cent.

On the basis of information gathered on key sectors of the economy and taking into consideration measures announced in the stimulus package by Government to cushion the adverse effects of the international financial and economic crisis on the domestic economy as well as delays in implementing these measures, economic growth for 2009 is forecast at around 2.5 per cent, lower than the projection of 4.0 per cent made in December 2008. In the agricultural sector, sugar production is estimated at 480,000 tonnes (up from 452,972 tonnes in 2008). The manufacturing sector is forecast to grow by 0.1 per cent compared to 3.2 per cent in 2008 while the construction sector is expected to grow at a lower rate of 2.0 per cent as against 11.1 per cent in 2008. Tourist arrivals are forecast at 835,000 compared to 930,456 in 2008 and hence the tourism sector is projected to contract by 8.8 per cent. Final consumption expenditure is forecast to grow, in real terms, by 4.2 per cent compared to the growth of 6.0 per cent recorded in 2008. Gross Domestic Fixed Capital Formation is expected to expand by a meagre 1.5 per cent in 2009, compared to 3.2 per cent in 2008, with some of the public sector investments as announced in the government stimulus package offsetting to some extent the negative growth expected in the private sector.

The Consumer Price Index (CPI) increased from 115.8 in February 2009 to 116.1 in March 2009. The main contributors to the rise in the index between February 2009 and March 2009 were vegetables, fruits, cigarettes and other goods and services, each registering an increase of 0.1 index point. A decrease of 0.1 index point for milk was noted. The largest rise of 1.3 per cent was noted in the Division “Health” followed by “Alcoholic beverages and tobacco” (+1.1 per cent), “Miscellaneous goods and services” (+0.7 per cent), “Recreation and culture” (+0.3 per cent), “Food and non alcoholic beverages” (+0.2 per cent), “Furnishings, household equipment and routine household maintenance” (+0.2 per cent) and “Restaurants and hotels” (+0.2 per cent). The divisions “Communication”, “Clothing and footwear” and “Transport” registered declines of 1.2 per cent, 0.4 per cent and 0.3 per cent, respectively 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 March 2009 stood at 8.5 per cent, down from 8.8 per cent for the twelve month period ended February 2009. Year-on-Year inflation rate rose to 4.8 per cent in March 2009, from 4.6 per cent in February 2009.

CORE1 and CORE2 inflation maintained their downward path in March 2009. CORE1 inflation fell from 8.0 per cent in February 2009 to 7.6 per cent in March 2009. CORE2 inflation dropped to 5.8 per cent in March 2009, from 5.9 per cent for the twelve-month period ended February 2009. TRIM10 inflation rose marginally to 2.5 per cent in March 2009, from 2.4 per cent in February 2009.

Net foreign assets of depository corporations rose by Rs8,080 million, or 9.7 per cent, from Rs83,628 million at the end of June 2008 to Rs91,708 million at the end of February 2009, largely on account of the increase in both the net foreign assets of other depository corporations and the net foreign assets of the Bank of Mauritius. Net foreign assets of other depository corporations rose by Rs7,808 million, or 29.4 per cent, to Rs34,409 million while those of the Bank of Mauritius went up by Rs272 million, or 0.5 per cent, to Rs57,299 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs13,339 million, or 5.2 per cent, from Rs258,704 million at the end of June 2008 to Rs272,043 million at the end of February 2009. Net claims on budgetary central Government fell by Rs4,788 million, or 9.0 per cent, from Rs53,171 million at the end of June 2008 to Rs48,383 million at the end of February 2009. Claims on other sectors, that is, credit to the private sector, grew by Rs18,127 million, or 8.8 per cent, to Rs223,660 million at the end of February 2009.

Net claims on budgetary central Government from the Bank of Mauritius fell by Rs599 million, or 13.7 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs4,961 million at the end of February 2009. Net claims on budgetary central Government from other depository corporations fell by Rs4,189 million, or 7.3 per cent, from Rs57,533 million to Rs53,344 million.

Claims on Other Sectors from the Bank of Mauritius decreased by Rs0.3 million, or 0.2 per cent to Rs134 million at the end of February 2009 while claims on Other Sectors from other depository corporations expanded by Rs18,128 million, or 8.8 per cent, from Rs205,398 million to Rs223,526 million.

Broad Money Liabilities (BML) grew by Rs26,256 million, or 10.4 per cent, from Rs252,175 million at the end of June 2008 to Rs278,431 million at the end of February 2009. Of the components of BML, currency with public rose by Rs2,155 million, or 16.7 per cent, to Rs15,069 million while transferable deposits rose by Rs8,187 million, or 15.3 per cent, to Rs61,583 million. Savings deposits rose by Rs6,076 million, or 8.2 per cent, to Rs79,973 million while time deposits went up by Rs9,954 million, or 9.0 per cent, to Rs120,381 million. Securities other than shares included in broad money fell by Rs116 million, or 7.5 per cent, to Rs1,424 million.

The monetary base rose by Rs4,280 million, or 15.7 per cent, from Rs27,328 million at the end of June 2008 to Rs31,608 million at the end of February 2009. Currency in circulation grew by Rs2,566 million, or 17.1 per cent, from Rs15,008 million to Rs17,574 million while liabilities to other depository corporations increased by Rs1,951 million, or 16.4 per cent, from Rs11,933 million to Rs13,884 million.

Broad Money Liabilities multiplier fell from 9.2 at the end of June 2008 to 8.8 at the end of February 2009, reflecting a greater expansion of Broad Money Liabilities compared to Monetary Base.

In March 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs8,800 million through the weekly Primary Auctions. Between end-February and end-March 2009, the weighted average yields of the 91-day Bills, 182-day Bills and 364-day Bills decreased from 6.63 per cent to 5.15 per cent, from 6.80 per cent to 5.30 per cent and from 6.94 per cent to 5.66 per cent, respectively. The overall weighted yield during March 2009 fell to 6.07 per cent from 7.02 per cent for the previous month. During March 2009, the market preference continued to remain skewed towards the 364-day Bills. However, a shift to 91-day Bills was noted at the last auction held on 30 March 2009.

During March 2009, the Bank carried out one reverse repurchase transaction for a total amount of Rs500 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 March 2009 amounted to Rs12,545 million with a daily average of Rs405 million, a high of Rs1,020 million and a trough of Rs5 million. The weighted average overnight interbank rate for March 2009 decreased to 5.68 per cent, from 6.17 per cent for the previous month.

Bills traded by primary dealers amounted to Rs87.1 million. There was no transaction of Bills on the Stock Exchange of Mauritius. A total nominal amount of Rs39.0 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 March 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 Rs1,112.8 million and the amount accepted was Rs574.2 million. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 7.55, 8.08 and 9.02 per cent per annum, respectively. The market preference remained skewed towards the 2-year Treasury Notes.

The third issue of Long-Term Government of Mauritius Bonds for fiscal year 2008-2009 took place on 20 March 2009, through an auction held on 18 March 2009. Bids for a total nominal amount of Rs2,300.8 million were received against a tender amount of Rs1,000 million. No bid was, however, accepted by the Bank.

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

At the end of February 2009, the net international reserves of the country stood at Rs92,372 million. The end-February 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 36.4 weeks of imports, up from 36.1 weeks of imports at the end of January 2009. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs57,334 million as at end-February 2009 to Rs57,057 million at the end of March 2009.