O V E R V I E W

International Developments

During March 2008, the US dollar, on average, depreciated vis-à-vis all major trading currencies. The US dollar started the month on a soft note in the wake of ongoing worries about the health of US financial firms and fears of US recession which strengthened expectations of future aggressive rate cuts. The US currency, however, managed to rebound from lows amid relief that the US manufacturing activity had not deteriorated as sharply as expected. However, the positive note proved to be temporary, as data showing weakness in the US service sector kept alive fears that the US economy might tumble into recession. Credit market worries continued to grow after news that US home foreclosures rose to record highs in the fourth quarter of 2007. Surprisingly weak US jobs data showing that US employers had unexpectedly cut 63,000 non-farm jobs in February 2008, the steepest rate of job cuts in nearly five years, added to the US dollar bearish sentiment and heightened fears that the US economy had fallen into recession. The Federal Reserve, on 16 March 2008, took more emergency measures to stem the fast-spreading financial crisis, cutting its discount rate by 25 basis points to 3.25 per cent and opening up discount window lending to major investment banks, a tool not used since the Great Depression. The US dollar, however, continued to remain vulnerable on view that the Federal Reserve's recent actions to ease market strains would not work. At its two-day Federal Open Market Committee (FOMC) meeting on 18 March 2008, the Federal Reserve cut its federal funds rate by a less-than-expected 75 basis points to 2.25 per cent. Meanwhile, the US dollar managed to temporarily halt its decline, as investors sold commodities such as oil and gold and bought back the US currency before the end of the first quarter. However, by the close of the month, the release of surprisingly weak US durable goods orders coupled with remarks by European Central Bank (ECB) President that euro zone rates were at the right level, which left investors focusing on the widening interest rate differential between the United States and the euro zone, undermined the US dollar.

The euro appreciated against the US dollar during March 2008, trading at an average of US$1.5537 compared to an average of US$1.4741 during February 2008. At the end of its two-day governing council meeting on 6 March 2008, the ECB kept its key refinancing rate on hold but raised inflation forecasts for this year and 2009, thereby pushing back expectations for a near-term cut in interest rates. The euro also drew support from the release of data showing that euro zone industrial output rose more than expected in January 2008. Capitalising on the US dollar’s weakness, the single currency reached its intra-month high of US$1.5829 on 17 March 2008. However, the euro could not hold on to its gains after Credit Suisse group said that it might not make a profit in the first quarter of 2008 because of write-downs in debt securities. The single currency managed to close the month at US$1.5788, supported by hawkish comments from ECB Governing Council member Axel Weber and news that German consumer price inflation unexpectedly accelerated in March 2008, which further diminished hopes for ECB interest rate cuts in the near term.

The Pound sterling appreciated against the US dollar during March 2008, trading at an average of US$2.0012 from an average of US$1.9628 in February 2008. The Pound sterling started the month on a weak tone, affected by drooping UK consumer sentiment and falling house prices. The Pound, however, rose beyond the US$2.0 level for the first time this year after the Bank of England (BOE), at its MPC meeting on 7 March 2008, left its key repo rate on hold at 5.25 per cent, disappointing minority expectations for a cut. The release of February 2008 UK inflation data, showing that consumer prices rose by 0.7 per cent, taking the annual rate to 2.5 per cent - well above the BOE's 2.0 per cent target - further trimmed expectations for a near-term rate cut and provided additional support to the Pound. The British currency, however, suffered a temporary setback with the release of the BOE's February 2008 MPC minutes, which revealed a 7-2 split in the decision to hold rates unchanged as against market expectations of only one dissenter. The release thereafter of stronger-than-expected February 2008 UK retail sales data, which cast doubt over how quickly and deeply the Bank of England might cut interest rates this year, helped the Pound to bounce back against the US dollar. Although the Pound sterling maintained its upward movement vis-à-vis the dollar, BOE policymakers said that the British currency faced downside risks and reiterated a bias towards cutting interest rates. In his address to the UK Treasury Committee, BOE policymaker, Charles Bean, said that risks to sterling were on the downside, given the size of Britain's current account deficit. The Pound, however, closed the month on a softer note, trading below the US$2.0 level as soft house price and consumer confidence data pointed to a British economic slowdown.

The Japanese yen appreciated against the US dollar, trading at an average of ¥100.42 per US dollar during March 2008 compared to an average of ¥107.24 per US dollar during February 2008. The Japanese yen benefited from the broad-based weakness of the US dollar as well as on profit-taking.

Oil prices moved higher during March 2008, strongly influenced by simmering geopolitical tensions and the weakness of the US dollar. The dispute between Columbia and its neighbours Ecuador and Venezuela, Iran's nuclear program dispute and the fight in Iraq kept prices soaring. NYMEX and IPE Brent settled at a record high of US$110.3 a barrel and US$107.5 a barrel on 13 March 2008, respectively. However, oil prices declined in the wake of the rate cut announcement by the Fed on 18 March 2008. Oil prices nonetheless eased by the end of the month at just below US$102, as flows from the Iraqi-damaged pipelines resumed. At its meeting in Vienna on 5 March 2008, OPEC decided to maintain production quota unchanged in spite of seasonally low demand in the second quarter. In reviewing the outlook for the oil market, OPEC highlighted the economic slowdown in the US, which together with the deepening credit crisis in financial markets, has increased the downside risks for world economic growth and consequently demand for crude oil.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$105.4 a barrel in March 2008, up from US$95.4 a barrel in February 2008 and US$60.7 in March 2007. IPE Brent futures averaged US$102.9 a barrel during the month under review, up from US$94.6 a barrel in February 2008 and a US$62.5 a barrel in March 2007.

COMEX gold futures, on average, moved higher during March 2008, trading in an intra-month closing range of US$918.7/Oz-US$1004.3/Oz compared to US$890.3/Oz-US975.0/Oz in February 2008. Gold prices reached a record high of US$1004.3/Oz on 18 March 2008 on the back of the weakness of the US dollar and high oil prices. However, the gold prices fell towards the end of the month amid an easing of oil prices. The bullion averaged US$964.2/Oz during March 2008 compared to an average of US$928.5/Oz in February 2008.

Domestic Developments

Tourist arrivals rose by 7.5 per cent, from 72,338 in February 2007 to 77,763 in February 2008, while gross tourism receipts rose by 4.4 per cent, from Rs3,411 million in February 2007 to Rs3,561 million in February 2008. On a cumulative basis, over the period July 2007 to February 2008, tourist arrivals reached 647,200 representing an increase of 9.3 per cent over the 592,105 arrivals recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2007 to February 2008 grew by 21.8 per cent to reach Rs29,158 million compared to Rs23,945 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 110.7 in February 2008 to 110.8 in March 2008. The largest rise of 1.5 per cent was noted in the sub-Division “Restaurants and hotels”, followed by “Furnishings, household equipment and routine household maintenance” (+0.6 per cent), “Housing, water, electricity, gas and other fuels” (+0.5 per cent), “Food and non-alcoholic beverages” (+0.4 per cent), “Health” (+0.1 per cent) and “Miscellaneous goods and services” (+0.1 per cent). The sub-divisions “Transport”, “Clothing and footwear” and “Recreation and culture” registered declines of 0.7 per cent, 0.3 per cent and 0.2 per cent, respectively while “Education”, “Communication” and “Alcoholic beverages and tobacco” recorded no change in their sub-indices. The main contributors to the rise in the index between February 2008 and March 2008 were cooking oil, which registered an increase of 0.2 index point, and milk and waste water, each registering an increase of 0.1 index point. This was offset by decreases of 0.1 index point in fresh fruits, fresh vegetables and motor vehicles. The rate of inflation for the twelve-month period ended March 2008 stood at 9.0 per cent, unchanged from the previous month.

While headline inflation for March 2008 stood at 9.0 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 5.8 per cent, 5.7 per cent and 7.3 per cent, respectively. Consequently, for March 2008, the core measures of inflation were between 1.7 and 3.3 percentage points lower than the headline inflation.

Net foreign assets of depository corporations expanded by Rs5,522 million, or 6.6 per cent, from Rs83,162 million at the end of June 2007 to Rs88,684 million at the end of February 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 Rs5,303 million, or 17.1 per cent, to Rs36,242 million while those of the Bank of Mauritius rose by Rs220 million, or 0.4 per cent, to Rs52,442 million.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs23,328 million, or 11.1 per cent, from Rs210,443 million at the end of June 2007 to Rs233,771 million at the end of February 2008. Net claims on budgetary central Government rose by Rs4,377 million, or 10.4 per cent, from Rs42,235 million at the end of June 2007 to Rs46,612 million at the end of February 2008. Claims on other sectors, that is, credit to the private sector grew by Rs18,951 million, or 11.3 per cent, to Rs187,159 million in February 2008.

Net claims on budgetary central Government from the Bank of Mauritius went down by Rs869 million, or 61.3 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs2,287 million at the end of February 2008. Net claims on budgetary central Government from other depository corporations rose by Rs5,246 million, or 12.0 per cent, from Rs43,653 million to Rs48,899 million.

Claims on Other Sectors from the Bank of Mauritius rose by Rs23 million or 9.7 per cent, from Rs238 million at the end of June 2007 to Rs261 million at the end of February 2008 while claims on Other Sectors from other depository corporations expanded by Rs18,929 million, or 11.3 per cent, from Rs167,969 million to Rs186,898 million.

Broad Money Liabilities (BML) grew by Rs28,637 million, or 13.3 per cent, from Rs215,408 million at the end of June 2007 to Rs244,045 million at the end of February 2008. Of the components of BML, currency with public rose by Rs1,359 million, or 11.7 per cent, to Rs12,956 million while transferable deposits rose by Rs5,196 million, or 12.3 per cent, to Rs47,345 million. Savings deposits rose by Rs3,622 million, or 5.5 per cent, to Rs68,966 million while time deposits went up by Rs18,769 million, or 19.9 per cent, to Rs113,247 million. Securities other than shares included in broad money fell by Rs309 million, or 16.9 per cent, to Rs1,532 million.

The monetary base, excluding Bank of Mauritius Bills, rose by Rs1,976 million, or 8.3 per cent, from Rs23,841 million at the end of June 2007 to Rs25,817 million at the end of February 2008. Currency in circulation grew by Rs1,868 million, or 13.8 per cent, from Rs13,512 million to Rs15,380 million while liabilities to other depository corporations increased by Rs487 million, or 5.1 per cent, from Rs9,480 million to Rs9,967 million.

Broad Money Liabilities multiplier rose from 9.0 at the end of June 2007 to 9.5 at the end of February 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 Rs8,500 million through the Primary Market in March 2008. Between end-February and end-March 2008, the weighted average yields of the 91-day, 182-day and 364-day Bills decreased from 7.56 per cent to 6.97 per cent, from 7.64 per cent to 7.24 per cent and from 7.94 per cent to 7.32 per cent respectively. Market preference continued to be for the 364-day Bills.

No repurchase transaction was carried out by the Bank during March 2008. At its own initiative, the Bank accepted Special Deposits from banks for a period of 14 days at the rates of 7.75 per cent per annum on two occasions and 7.25 per cent per annum on one occasion and the total amount accepted was Rs7,675 million. Total transactions on the interbank money market in March 2008 amounted to Rs16,270 million with a high of Rs1,270 million and a trough of Rs40 million. The weighted average overnight interbank rate for March 2008 was 7.36 per cent compared to 8.03 per cent for the previous month.

During March 2008, total transactions in Government of Mauritius Treasury Bills/Bank of Mauritius Bills effected through primary dealers amounted to Rs23.3 million. Trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs5.0 million. A total amount of Rs29.90 million Treasury Bills/Treasury Notes was sold over the counter to 59 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 March 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 9.20, 9.35 and 9.50 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs4,884.0 million, out of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 8.80, 9.29 and 9.53 per cent per annum, respectively.

The auction for the third and last issue of Long-Term Government of Mauritius Bonds was held on 13 March 2008 with settlement on 14 March 2008. Bonds for a total nominal amount of Rs1,000 million were put on tender with maturities of 7,13 and 20 years, with interest payable semi-annually at the rates of 10.00, 10.15 and 10.30 per cent per annum, respectively. Bids for a total amount of Rs2,360.3 million were received, out of which an amount of Rs1,000 million was accepted. The weighted average yields on bids accepted for the 7, 13 and 20-year maturities were 9.77, 10.54 and 10.82 per cent per annum, respectively.

In March 2008, the Bank intervened on the domestic foreign exchange market and purchased US$120.0 million and EUR5.5 million.

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 reported by banks, showed that the rupee, on average, appreciated against the US dollar and Pound Sterling but depreciated against the Euro between February and March 2008.

Between February 2008 and March 2008, the rupee on average appreciated vis à vis the US dollar, the Pound sterling and the euro while it depreciated against the Japanese yen.

The Net International Reserve, which was being derived based on the data from the monetary survey, is now based on the data derived from the Depository Corporations Survey (DCS) and data has been cast backward until February 2007.

At the end of February 2008, the net international reserves of the country amounted to Rs88,954 million. The end-February 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 39.1 weeks of imports, down from 38.9 weeks of imports at the end of January 2008. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs52,675 million at the end of February 2008 to Rs54,006 million at the end of March 2008.

The sector wise classification of flows relating to Foreign Direct Investment in Mauritius (Table 41a) and Direct Investment abroad (Table 42a) has been recast based on the United Nation's International Standard Industrial Classification (ISIC), which is the international reference classification of productive economic activities recommended for the production of statistics.

The country-wise distribution recast in Tables 41b and 42b, respectively, also follow the United Nation's classification. The countries are grouped by economic criteria and the designations 'developed' and 'developing' used are only intended for statistical convenience and do not necessarily express a judgement about the stage reached by a particular country or area in the development process.