O V E R V I E W

International Developments

On average, the US dollar, depreciated against the euro, Pound Sterling and Japanese Yen in May 2009. Growing optimism that the world had already endured the worst of the recession improved risk appetite and the demand for higher-yielding currencies, thereby putting pressure on the US dollar. Generally, upbeat manufacturing PMI reports from the euro zone, UK and China all added to that optimism that fuelled a further rally in stocks and a sell-off in the dollar.

The greenback started the month strongly with the pending results of the US bank stress tests accompanied by the news that Chrysler was filing for Chapter 11 bankruptcy along with the growing fears the swine virus becoming a pandemic disease. The stress tests results instructed leading banks to raise $74.6 billion to build a capital cushion, less than investors once feared. The battered banking sector recovered after the reassuring stress tests results and some better-than-expected economic data releases led the US dollar to lose ground. US Federal Reserve chairman Ben Bernanke said that he detected signs that demand might be stabilizing, pointing to the recovery in consumer spending and signs of bottoming in the housing market. Around mid-month, the dollar rallied broadly following an unexpected decline of 0.4 per cent in April's US retail sales which raised concerns about the economy and rekindled demand for the greenback as a safe haven. In addition, the Chrysler bankruptcy led to an increase in weekly unemployment claims and the federal budget recorded a deficit for the first time while the trade deficit widened in April. Increased sell-off of equities around that period highlighted the continued nervousness of investors and the idea that the market may be premature in buying into the "green shoot" scenario. The dollar came under renewed pressure when minutes of the last Fed policy meeting showed that the Fed had considered further asset purchases. Adding to the dollar woes, were rising concerns about ballooning US government debt and the possible downgrade of its AAA-rating status by S&P following the ratings outlook downgrade for UK. By the end of the month, however, the US dollar crept back towards a five-month low against a basket of major currencies and reached 1.3997 against the euro on another round of reassuring signs of economic recovery as consumers confidence index rose to 54.9 and new orders for durable goods gained the most in 16 months in April.

The euro appreciated vis-à-vis the US dollar, trading at an average of US$1.3640 in May 2009 compared to an average of US$1.3187 in April 2009. The European Central Bank (ECB) cut its refinancing rate by 25 basis points to 1.00 per cent in May and announced plans to spend about 60 billion euros on purchases of covered bank bonds in a bid to stem the euro zone's economic decline. The euro was able to gain on the news as market viewed Quantitative Easing in a more positive light, after the Fed's and BoE's success. Data released showed that euro zone economy shrank by 2.5 per cent in the first quarter of 2009, from the previous quarter and by 4.6 per cent from the same period a year ago, driven by a plunge in German output.

The Pound Sterling appreciated significantly against the US dollar during May 2009, trading at an average of US$1.5417, from an average of US$1.4692 in April 2009. The pound started the month on a rather weak tone, undermined by the data which showed the British economy shrank at its fastest pace in 30 years in the first quarter, by 1.9 per cent quarter-on-quarter and more than the expected negative 1.5 per cent quarter-on-quarter. Thereafter, the Pound edged up slightly against the weak US dollar, trading above US$1.50, gaining support from the Halifax released house price data for April which fell more than expected but less than the drop in March 2009 and the construction managers index which showed a sharp rise from 30.9 in March to 38.1 in April. The Pound flattened with the release of the Bank of England (BoE) quarterly Inflation Report downgrading the economic growth outlook, as expected, to 4.5 per cent decline in real GDP for 2009. The BoE expects inflation to fall to around 0.5 per cent by the end of 2009 before rising to just above 1 per cent in two years' time, while the economy is seen shrinking sharply in the coming months before recovering at a slower pace than previously thought. The forecasts suggest interest rates will stay at their current very low level of 0.5 per cent for a while yet, and the report also left the door open to extending the Bank's asset purchases under its QE programme. At its last MPC meeting, the BoE kept the official rate unchanged but surprisingly increased the size of its Asset Purchase Facility (APF) by £50 billion to £125 billion while remaining under the maximum possible size of the APF of £150 billion and warned that the timing and strength of any recovery in the economy was "highly uncertain". Thereafter, the Pound sterling recovered strongly against the US dollar helped by the ongoing optimism that the global economy is on the road to recovery which weighed on the US currency and stoked demand for riskier assets. After credit ratings firm Standard & Poor's lowered its outlook on Britain from 'stable' to 'negative', the Pound Sterling tumbled broadly but rallied quickly afterwards to a 6 1/2-month high against the dollar as traders dumped the US currency on speculation that ongoing weakness in the US fiscal position may put the nation's sovereign rating at risk.

International oil prices rose during the month of May 2009 largely on account of a weaker US dollar, and a general rise in stock indices. Both IPE Brent and NYMEX reached their intra-month high at US$65.5 a barrel and US$66.3 a barrel, respectively, on 29 May 2009. At its extraordinary meeting held on 28 May 2009 in Vienna, Austria, OPEC decided to maintain current production levels unchanged for the time being. Member countries reiterated their firm commitment to the individually agreed production allocations, as well as their readiness to respond swiftly to any developments which might place the oil market stability and their interest in jeopardy.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$59.2 a barrel in May 2009, up from US$49.9 a barrel in April 2009. IPE Brent figures averaged US$58.6 a barrel during the month under review, up from US$51.4 in April 2009.

COMEX gold futures, on average, moved higher during the month of May 2009, trading in an intra-month closing range of US$888.2/Oz-980.3/Oz compared to US$867.9/Oz-927.7/Oz in April 2009. Gold prices reached a peak of US$980.3/Oz on the 29 May 2009, as growing appetite for risk flushed investors out of the dollar and into gold. COMEX averaged US$930.3/Oz during May 2009, compared to an average of US$893.6/Oz in April 2009.

Domestic Developments

Gross tourism receipts declined by 20.3 per cent, from Rs3,740 million in April 2008 to Rs2,982 million in April 2009. On a cumulative basis, tourists receipts for the period July 2008 to April 2009 contracted by 11.8 per cent to reach Rs32,290 million compared to Rs36,626 million recorded over the previous corresponding period.

The Consumer Price Index (CPI) remained unchanged at 116.2 in May 2009. Increases of 0.1 index point for 'other food products' and 'other goods and services' were fully offset by decreases of 0.1 index point for milk and for motor vehicles. The largest rise of 0.5 per cent was noted in the Division “Miscellaneous goods and services” followed by “Clothing and footwear” (+0.4 per cent), “Furnishings, household equipment and routine household maintenance” (+0.2 per cent), “Alcoholic beverages and tobacco” (+0.1 per cent) and “Restaurants and hotels” (+0.1 per cent). The Divisions “Transport” and “Communication” registered declines of 0.6 per cent and 0.1 per cent, respectively while “Food and non alcoholic beverages”, “Housing, water, electricity, gas and other fuels”, “Health”, “Recreation and culture” and “Education” recorded no change in their indices. The rate of inflation for the twelve-month period ended May 2009 stood at 7.4 per cent, down from 8.0 per cent for the twelve month period ended April 2009. Year-on-Year inflation rate dropped to 2.8 per cent in May 2009, from 3.8 per cent in April 2009.

CORE1 and CORE2 inflation maintained their downward paths in May 2009. CORE1 inflation fell from 7.1 per cent in April 2009 to 6.5 per cent in May 2009. CORE2 inflation dropped to 5.6 in May 2009, from 5.7 per cent for the twelve month period ended April 2009. TRIM10 inflation rose marginally to 2.7 per cent in May 2009, from 2.6 per cent in April 2009.

Net foreign assets of depository corporations edged up by Rs10,199 million, or 12.2 per cent, from Rs83,628 million at the end of June 2008 to Rs93,827 million at the end of April 2009, largely on account of the increase in both the net foreign assets of the other depository corporations and those of the Bank of Mauritius. Net foreign assets of other depository corporations rose by Rs6,855 million, or 25.8 per cent, to Rs33,456 million while those of the Bank of Mauritius increased by Rs3,345 million, or 5.9 per cent, to Rs60,371 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs16,325 million, or 6.3 per cent, from Rs258,704 million at the end of June 2008 to Rs275,029 million at the end of April 2009. Net claims on budgetary central Government fell by Rs4,905 million, or 9.2 per cent, from Rs53,171 million at the end of June 2008 to Rs48,266 million at the end of April 2009. Claims on other sectors, that is, credit to the private sector grew by Rs21,230 million, or 10.3 per cent, to Rs226,762 million in April 2009.

Net claims on budgetary central Government from the Bank of Mauritius went down by Rs3,866 million, or 88.6 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs8,228 million at the end of April 2009. Net claims on budgetary central Government from other depository corporations fell by Rs1,039 million, or 1.8 per cent, from Rs57,533 million to Rs56,494 million.

Claims on Other Sectors from other depository corporations expanded by Rs21,235 million, or 10.3 per cent, from Rs205,398 million to Rs226,633 million. Claims on Other Sectors from the Bank of Mauritius decreased by Rs5.5 million, or 4.1 per cent, to Rs129 million at the end of April 2009.

Broad Money Liabilities (BML) rose by Rs27,745 million, or 11.0 per cent, from Rs252,175 million at the end of June 2008 to Rs279,920 million at the end of April 2009. Of the components of BML, currency with public rose by Rs2,045 million, or 15.8 per cent, to Rs14,960 million while transferable deposits rose by Rs9,272 million, or 17.4 per cent, to Rs62,668 million. Savings deposits rose by Rs5,963 million, or 8.1 per cent, to Rs79,860 million while time deposits went up by Rs10,568 million, or 9.6 per cent, to Rs120,994 million. Securities other than shares included in broad money fell by Rs102 million, or 6.6 per cent, to Rs1,438 million.

The monetary base rose by Rs2,107 million, or 7.7 per cent, from Rs27,328 million at the end of June 2008 to Rs29,434 million at the end of April 2009. Currency in circulation went up by Rs2,415 million, or 16.1 per cent, from Rs15,008 million to Rs17,424 million while liabilities to other depository corporations fell by Rs95 million, or 0.8 per cent, from Rs11,933 million to Rs11,838 million.

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

In May 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,800 million through the weekly Primary Auctions. Between end-April and end-May 2009, the weighted average yields of the 91-day Bills, 182-day Bills and 364-day Bills decreased from 4.68 per cent to 4.65 per cent, 4.83 per cent to 4.68 per cent and 5.25 per cent to 5.06 per cent respectively. The overall weighted yield during May 2009 fell to 4.79 per cent from 5.09 per cent for the previous month. During May 2009, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in May 2009 totalled Rs10,282 million with a daily average of Rs332 million, a high of Rs840 million and a trough of Rs145 million. The weighted average overnight interbank rate for May 2009 decreased to 4.44 per cent from 4.49 per cent for the previous month.

A total amount of Rs13.25 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 Rs10.3 million. There was no transaction of Bills on the Stock Exchange of Mauritius.

At the monthly auction of Treasury Notes held in May 2009, a total nominal amount of Rs1,200 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, were put on tender. Bids received for the three maturities totalled Rs1,125.5 million and the amount accepted was Rs600.0 million. The weighted average yields on bids accepted for the 2-year and 4-year maturities were 6.52 and 7.77 per cent per annum, respectively. No bid was accepted in the 3-year maturity. The market preference remained skewed towards the 2-year Treasury Notes.

An issue of Long-Term Government of Mauritius Bonds with maturities ranging from 7 to 20 years took place on 22 May 2009, through an auction held on 20 May 2009. Bids for a total nominal amount of Rs2,033.4 million were received against a tender amount of Rs1,000 million. The amount accepted was Rs583.4 million. The weighted average yields on bids accepted for the 7-year, 13-year and 20-year maturities were 9.08, 9.93 and 10.18 per cent per annum, respectively.

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

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

At the end of April 2009, the net international reserves of the country stood at Rs94,498 million. The end-April 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, up from 35.5 weeks as at end of March 2009. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs60,387 million as at end-April 2009 to Rs60,473 million at the end of May 2009.

Provisional estimates for the first quarter 2009 indicate that the current account of the balance of payments posted a lower deficit of Rs1,745 million from Rs5,215 million registered in the first quarter of 2008. The sharp contraction of the current account mostly came from the merchandise trade deficit which narrowed to Rs9,471 million, from Rs14,613 million recorded in the first quarter of 2008. Lower surpluses were also recorded in the services, income account and current transfers account. The capital and financial account, inclusive of reserve assets, recorded lower net inflows of Rs3,523 million in the first quarter 2009 compared to Rs5,233 million in the first quarter 2008. The overall balance of payments for the first quarter 2009, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs154 million.