OVERVIEW

International Developments

During November 2007, the US dollar, on average, depreciated against all major currencies on concern related to the subprime market and its potential implications for the US economy. Worries about US financial institutions' losses from the subprime mortgage crisis, and ensuing credit market turmoil, were renewed during the second week of November 2007, when Wachovia Corp. reported a potential US$1.7 billion loss on mortgage-related debt. Separately, a report showed that falling US house prices and high energy costs had pushed US consumer confidence to its lowest level in two years, adding to the dollar's woes. Expectations grew in the market that the Fed would cut interest further, thereby dragging the US currency further down. Even minutes of the Fed's October 2007 meeting, which indicated that the Fed's decision to lower interest rates was a close call, did not dent those expectations. Moreover, speculation that countries in the Gulf region were preparing to revalue their currency pegs to the US currency pushed the dollar to multi-months low. At the end of November 2007, in remarks prepared for delivery to the Charlotte Chamber of Commerce, Fed Chairman Bernanke said that resurgence in financial strains in recent weeks have dimmed the outlook for the US economy, signalling an openness to again lower interest rates.

The euro moved higher against the US dollar, trading at an average of US$1.4705 during November 2007 compared to an average of US$1.4225 during October 2007 mainly on persistent US dollar weakness. The European Central Bank (ECB) left its benchmark borrowing rate unchanged at 4.0 per cent at its governing council meeting on 8 November. In his post-meeting press conference, ECB President Jean-Claude Trichet indicated that risks to price stability were on the upside and the ECB Governing Council were ready to act to guard against those risks. Benefiting from its anti-dollar status, the euro broke the key psychological levels of US$1.47, US$1.48 and finally US$1.49 and reached an intra-month high of US$1.4921 on 23 November 2007. Euro zone officials denounced the recent exchange rate shifts, making clear that they were increasingly unhappy with the euro's relentless rise against everything from the dollar and yen to the state-controlled Chinese yuan. Luxembourg Finance Minister Jean-Claude Juncker, in his capacity as Chairman of the Eurogroup, said that recent sharp moves in foreign exchange rates were unwelcome.

Benefiting mainly from persistent weakness of the US dollar, the Pound sterling moved higher against the US dollar, trading at an average of US$2.0699 during November 2007 compared to an average of US$2.0432 during October 2007. At the end of the two-day Monetary Policy Committee (MPC) meeting on 7-8 November, the Bank of England (BoE) left its key repo rate unchanged at 5.75 per cent. Nonetheless, there were growing indications that the BoE might soon cut interest rates. The BoE's Quarterly Inflation Report signalled that interest rates would need to fall in coming months. The report showed inflation would hit its 2 per cent target in two years' time if rates moved in line with market expectations, and that would imply two cuts from 5.75 per cent during 2008. Minutes from BoE's MPC showed a vote of 7-2 in favour of leaving borrowing cost unchanged at 5.75 per cent firmed investor conviction that interest rates were set to fall.

The Japanese yen moved higher against the US dollar, trading at an average of ¥110.58 per USD during November 2007 compared to an average of ¥115.76 per USD during October 2007. After more trouble in the US subprime mortgage and credit markets kept investors cautious about risky carry trades, unwinding of those positions supported the Japanese yen. The Japanese yen even reached an intra-month high of ¥107.68 per USD on 23 November 2007.

Oil prices moved higher during November 2007 mainly on supply concerns and persistent US dollar weakness. The US dollar reached multi-months lows' against major currencies, prompting market players to buy oil futures further and pushing oil prices further up. Effective 1 November 2007, OPEC increased its output quota by 500,000 barrels to 26.8 million barrels per day. However, the additional output did not have much impact on oil prices. NYMEX and IPE Brent settled at new record highs of US$98.2 a barrel and US$96.0 a barrel on 23 November, respectively. Meanwhile, the US-based International Energy Agency issued a report indicating that high oil prices were already hurting consumption. News that OPEC member countries might discuss output increases eased oil prices to some extent. At its meeting on 5 December 2007, OPEC decided to leave output unchanged. In the weeks ahead, oil prices would most likely trade around US$90 a barrel in particular if the current US dollar weakness persists.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$94.6 a barrel in November 2007, up from US$85.6 a barrel in October 2007 and US$59.4 a barrel in November 2006. IPE Brent futures averaged US$92.2 a barrel during the month under review, up from US$82.5 a barrel in October 2007 and US$59.8 a barrel in November 2006.

COMEX gold futures, on average, moved sharply higher during November 2007, trading in an intra-month closing range of US$778.0/Oz-US$837.5/Oz compared to a range of US$735.7/Oz-US$795.4/Oz in October 2007. Gold prices moved higher during the month under review on US dollar weakness and high oil prices. Moreover, after the bullion breached the psychological US$800/Oz-mark, investors indulged heavily in fund buying. The bullion settled at a fresh 26-year high of US$837.5/Oz on 8 November 2007. COMEX averaged US$806.9/Oz during November 2007, compared to an average of US$761.0/Oz in October 2007.

Domestic Developments

Tourist arrivals went up by 7.7 per cent, from 75,451 in October 2006 to 81,244 in October 2007, while gross tourism receipts grew by 43.8 per cent, from Rs2,600 million in October 2006 to Rs3,738 million in October 2007. On a cumulative basis, over the period January to October 2007, tourist arrivals reached 726,065 representing an increase of 16.8 per cent over 621,573 arrivals recorded over the corresponding period of the previous year. Tourism receipts for the period January to October 2007 rose by 30.4 per cent to reach Rs32,142 million compared to Rs24,658 million recorded over the corresponding period of the previous year.

The Consumer Price Index (CPI) increased from 106.8 in October 2007 to 107.6 in November 2007. The largest rise of 1.5 per cent was noted in the sub-Divisions “Food and non alcoholic beverages” and “Restaurants and hotels”, followed by “Miscellaneous goods and services” (+0.9 per cent), “Furnishings, household equipment and routine household maintenance” (+0.8 per cent), “Transport” (+0.6 per cent), “Alcoholic beverages and tobacco” (+0.5 per cent), “Housing, water, electricity, gas and other fuels” (+0.5 per cent), “Clothing and footwear” (+0.5 per cent), “Health” (+0.2 per cent), and “Recreation and culture” (+0.2 per cent). The sub-Division “Communication” registered a decline of 0.2 per cent. “Education” recorded no change in its sub-index. The main contributors to the rise in the index between October 2007 and November 2007 were fresh vegetables which rose by 0.2 index point and cooking oil, milk and milk preparations, other food products, interest payment on housing loan, airfare and food and drinks in bars and restaurants, each registering an increase of 0.1 index point. The rate of inflation for the twelve-month period ended November 2007 stood at 9.1 per cent, down from 9.4 per cent for the twelve-month period ended October 2007.

Effective July 2007, CORE1, CORE2 and TRIM10 inflation rates are compiled using the 2006-07 Household Budget Survey (HBS). The new HBS revised the weights of all divisions in the CPI basket and introduced a new group ‘Mortgage interest on housing loan’ which carries a weight of 37 in the basket of goods and services.

While headline inflation for November 2007 stood at 9.1 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 5.4 per cent, 6.0 per cent and 7.0 per cent, respectively. Consequently, for November 2007, core inflation was between 2.1 and 3.7 percentage points lower than the headline inflation.

Net foreign assets of depository corporations expanded by Rs5,019 million or 6.0 per cent, from Rs83,162 million at the end of June 2007 to Rs88,181 million at the end of October 2007, on account of the increase in net foreign assets of other depository corporations and those of the Bank of Mauritius. Net foreign assets of other depository corporations grew by Rs4,546 million or 14.7 per cent to Rs35,485 million while those of the Bank of Mauritius rose by Rs474 million or 0.9 per cent to Rs52,696 million.

Claims on non-residents rose by Rs18,917 million or 5.9 per cent, from Rs319,995 million at the end of June 2007 to Rs338,912 million at the end of October 2007. Liabilities to non-residents increased by Rs13,897 million or 5.9 per cent, from Rs236,833 million at the end of June 2007 to Rs250,730 million at the end of October 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs6,397 million or 3.0 per cent, from Rs210,443 million at the end of June 2007 to Rs216,840 million at the end of October 2007. Net claims on budgetary central Government fell by Rs200 million or 0.5 per cent, from Rs42,235 million at the end of June 2007 to Rs42,035 million at the end of October 2007. Claims on other sectors, that is, credit to the private sector grew by Rs6,598 million or 3.9 per cent to Rs174,805 million in October 2007.

Net claims on budgetary central Government from the Bank of Mauritius went up by Rs162 million or 11.4 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs1,255 million at the end of October 2007. Net claims on budgetary central Government from other depository corporations fell by Rs364 million or 0.8 per cent, from Rs43,653 million to Rs43,289 million.

Claims on Other Sectors from the Bank of Mauritius declined by Rs48 million or 20.2 per cent, from Rs238 million at the end of June 2007 to Rs190 million at the end of October 2007 while claims on Other Sectors from other depository corporations expanded by Rs6,646 million or 4.0 per cent, from Rs167,969 million to Rs174,615 million.

Broad Money Liabilities (BML) grew by Rs11,938 million or 5.5 per cent, from Rs215,408 million at the end of June 2007 to Rs227,346 million at the end of October 2007. Of the components of BML, currency with public rose by Rs734 million or 6.3 per cent to Rs12,331 million while transferable deposits rose by Rs2,752 million or 6.5 per cent to Rs44,901 million. Savings deposits declined by Rs2,644 million or 4.0 per cent to Rs62,700 million while time deposits went up by Rs11,433 million or 12.1 per cent to Rs105,911 million. Securities other than shares included in broad money fell by Rs337 million or 18.3 per cent to Rs1,503 million.

The monetary base, excluding Bank of Mauritius Bills, rose by Rs2,404 million, or 10.1 per cent, from Rs23,841 million at the end of June 2007 to Rs26,245 million at the end of October 2007. Currency in circulation grew by Rs1,166 million, or 8.6 per cent, from Rs13,512 million to Rs14,678 million while liabilities to other depository corporations increased by Rs1,488 million or 15.7 per cent, from Rs9,480 million to Rs10,968 million.

Broad Money Liabilities multiplier dropped from 9.0 at the end of June 2007 to 8.7 at the end of October 2007, reflecting a greater expansion of monetary base as compared to Broad Money Liabilities.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs5,200 million through the Primary Market in November 2007. Between end-October and end-November 2007, the weighted average yields of the 91-day and 182-day Bills decreased from 8.32 per cent to 8.26 per cent and from 8.98 per cent to 8.57 per cent respectively while the weighted average yield of the 364-day Bills increased from 9.33 per cent to 9.74 per cent.

No repurchase transactions were carried out by the Bank during the month of November. The Bank conducted a special deposit for a period of fourteen days, at a rate of 8.00 per cent, for a total amount of Rs550 million. Interbank transactions in November amounted to Rs7,274 million with a high of Rs765 million and a trough of Rs15 million. The weighted average overnight interbank rate for November 2007 was 8.47 per cent compared to 8.84 per cent for the previous month.

During November 2007, total transactions in Government of Mauritius Treasury Bills/Bank of Mauritius Bills effected through primary dealers amounted to Rs91.8 million, while no trade of Treasury Bills occurred on the Stock Exchange of Mauritius. A total amount of Rs14.45 million Treasury Bills/Treasury Notes was sold over the counter to 33 individual members of the public for individual amounts ranging from the minimum of Rs100,000 to a maximum amount of Rs2 million.

At the monthly auction of Treasury Notes held in November 2007, 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 9.75, 9.90 and 10.05 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs3,064.4 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 9.75, 10.02 and 10.36 per cent per annum, respectively.

Between October and November 2007, the rupee, on average appreciated vis à vis the US dollar but depreciated against the Japanese yen, euro and Pound sterling. 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 effected by banks showed that the rupee, on average, appreciated against the U.S. dollar and depreciated against the Pound sterling and the euro between October and November 2007.

At the end of October 2007, the net international reserves of the country amounted to Rs88,050 million. The end-October 2007 level of net international reserves of the country, based on the revised value of the import bill for fiscal year 2006-07, exclusive of the purchases of aircrafts, represented 41.2 weeks of imports, up from 40.0 weeks of imports at the end of September 2007. The gross foreign exchange reserves of the Bank of Mauritius decreased from 52,977 million at the end of October 2007 to Rs52,067 million at the end of November 2007.

Provisional estimates for the period January 2007 to September 2007 indicated that foreign direct investment (FDI) in Mauritius stood at Rs9,001 million. Investment was mainly directed to the tourism sector (Rs4,610 million), mainly under the Integrated Resorts Scheme (IRS). The main source of FDI inflows to Mauritius was the United Kingdom (Rs2,614 million) and USA (Rs2,276 million). Outward FDI is estimated at Rs880 million for the nine months of 2007 with significant investment destined to the tourism sector in Maldives and Seychelles and the agricultural sector in Mozambique. Madagascar also benefited from investment in its manufacturing sector from Mauritius to the tune of Rs103 million.

Provisional estimates for the third quarter of 2007 indicate that the current account of the balance of payments posted a lower deficit of Rs4,922 million compared to a deficit of Rs6,644 million registered in the third quarter of 2006. Higher surpluses on the services, income and current transfers accounts in the third quarter of 2007 have partly offset the worsening deficit in the merchandise account of the balance of payments. The deficit in the merchandise account increased to Rs12,048 million in the third quarter of 2007, from Rs6,986 million a year earlier. The income account turned around to post a surplus of Rs2,413 million in the third quarter of 2007 as against a deficit of Rs1,554 million in the corresponding period of 2006. The capital and financial account, inclusive of reserve assets, recorded net inflows of Rs5,373 million in the third quarter of 2007 compared to Rs1,025 million in the third quarter of 2006. The overall balance of payments for the third quarter of 2007, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs1,105 million.