OVERVIEW

International Developments

During November 2008, the US dollar, on average, appreciated against the euro and the Pound sterling but depreciated vis-à-vis the Japanese yen. The US dollar started the month on a good note with investors bracing for another round of interest rate cuts by the European Central Bank, the Bank of England and the Reserve Bank of Australia to support their struggling economies from the threat of a looming global recession. The US dollar benefited from risk aversion as dollar-based investors repatriated money and looked for safety in US Treasury debt. However, the US dollar then tumbled, posting its biggest one-day slide against the euro since its launch in 1999, as investors bet that global interest rate cuts would revive world growth and as data showed US employers cut 240,000 jobs in October 2008, pushing the jobless rate to a 14-year high, thereby adding more dark clouds to a gloomy economic horizon. A sell-off in stock markets worldwide further dampened investors' appetite for risk, boosting demand for the US dollar. The US dollar tumbled against the Japanese yen as investors shunned risky assets after comments by US Treasury Secretary Henry Paulson heightened concerns about the economy and sparked a global sell-off in equities. By mid-November 2008, the US dollar appreciated against the major currencies after a meeting of the Group of 20 major economies ended with lots of pledges of action but few actual proposals to combat a looming global recession. The summit also noted the need for broader policy responses, but left it to individual economies to take the appropriate monetary and fiscal policy measures. This, together with weak US manufacturing data, which deepened worries about the global economy, resulted in the depreciation of the US dollar against the Japanese yen. Risk aversion remained elevated on news Japan's economy slid into recession in the third quarter, joining that of the 15-country euro zone. By the last week of November 2008, the US dollar soared against the Japanese yen, buoyed by Wall Street's surge following reports that New York Federal Reserve Bank President Timothy Geithner has been tapped as the new Treasury secretary. He was instrumental in helping US Treasury Secretary Henry Paulson and his team to address the global financial crisis. Stock market gains prompted those who had lately sold risky assets in favour of the US and Japanese currencies to reverse course and move gingerly back into equities, commodities, and higher-yielding currencies such as the euro and sterling. Towards the end of November 2008, trading activity was thin as US markets closed for the Thanksgiving holiday.

The euro depreciated against the US dollar trading at an average of US$1.2720 in November 2008 compared to an average of US$1.3339 in October 2008. The euro started the month on a fairly weak note, due to a drop in risk appetite and pressured by expectations that the European Central Bank (ECB) would cut interest rates to prevent its economy from deteriorating further. At its governing council meeting held on 6 November 2008, the ECB lowered its benchmark lending rates by 50 basis points to 3.25 per cent. The European single currency slipped on growing evidence from the euro zone backing views that the economy had probably slipped into a recession already. Also the euro came under pressure despite a better-than-expected reading in a key German indicator survey, weighed down by steep losses in crude oil and US stocks. The euro further weakened against the US dollar, trading at its intra-month low of US$1.2472 on 21 November 2008, as worries about a worsening global slowdown prompted investors to shun stocks and other risky assets for the safety of US Treasuries. However, the euro started gaining on the Geithner news and it maintained its upward movement, trading at its intra-month high of US$1.2962 on 26 November 2008. At the close of the month, the euro was trading at US$1.2897.

The Pound Sterling depreciated against the US dollar during November 2008, trading at an average of US$1.5335, from an average of US$1.6990 in October 2008. The Pound lost ground after the Bank of England (BOE) cut its policy rate rate by a 1.5 percentage points to 3 per cent, at its MPC meeting held on 6 November 2008. The Pound continued its downward trend, pressured by fears that the recession in the UK would be deeper than in the euro zone and other countries. Weak UK housing and retail sales surveys which further fuelled the view that the economy was deteriorating added more pressure on the British currency. Sterling plunged to its lowest in more than six years after the BoE warned that the economy would shrink sharply next year. Nonetheless, the Pound Sterling managed to recoup some of its losses, as traders shrugged off soft housing data and a gloomy growth forecast from a UK business group to pick up the currency at cheap levels following its recent slide. Bank of England MPC minutes showed a unanimous vote to slash interest rates by 150 basis points, suggesting further aggressive moves might be on the way. However, data released earlier showed British factory orders continued to fall sharply in November, which came after figures showing October's CPI fell to 4.5 percent from a 16-year high of 5.2 percent in September. UK deteriorating economic outlook was turning attention towards the government's pre-budget report, which is widely expected to contain fiscal stimulus for the flagging economy. By the end of the month, the Pound Sterling gained support from buoyant stock markets and a report on the UK housing market that was not quite as bleak as economists had feared.

The Japanese yen appreciated against the US dollar, trading at an average of ¥96.91 per US dollar during November 2008 compared to an average of ¥100.35 per US dollar in October 2008. The Japanese Yen firmed against higher-yielding currencies as fears of a global recession prompted investors to unwind risky carry trades, prompting Japanese fund managers to dump overseas assets.

International oil prices, on average, continued to fall during November 2008 supported by stronger dollar and slowed global economy. Oil prices also felt pressure as U.S. stock prices fell after the weak economic data. The International Energy Agency, which said that oil prices will remain under downward pressure in 2009 as the weak global economy hits demand, expect demand to expand by only 350,000 barrels per day in 2009. Moreover, OPEC will cut its 2009 forecast for demand for its crude oil due to the slowing global economy, boosting the case for more supply cuts to bolster prices.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$57.4 a barrel in November 2008, down from US$76.7 a barrel in October 2008 and US$94.6 a barrel in November 2007. IPE Brent figures averaged US$54.9 a barrel during the month under review, down from US$73.7 a barrel in October 2008 and US$92.2 a barrel in November 2007.

COMEX gold futures, on average, moved down during November 2008, trading in an intra-month closing range of US$705.0/Oz–US$819.5/Oz compared to US$714.7/Oz–US$906.5/Oz in October 2008. Gold prices reached a peak of US$819.5/Oz on 24 November 2008, supported by a weak US dollar and high oil prices. The bullion averaged US$755.9/Oz during November 2008, compared to an average of US$804.8/Oz in October 2008.

Domestic Developments

Tourist arrivals rose by 2.8 per cent, from 81,244 in October 2007 to 83,524 in October 2008, while gross tourism receipts went down by 19.9 per cent, from Rs3,738 million in October 2007 to Rs2,996 million in October 2008. On a cumulative basis, over the period January 2008 to October 2008, tourist arrivals reached 757,688 representing an increase of 4.4 per cent over 726,065 arrivals recorded over the corresponding period of the previous year. Tourism receipts for the period January 2008 to October 2008 grew by 5.2 per cent to reach Rs33,797 million compared to Rs32,142 million recorded over the corresponding period of the previous year.

The Consumer Price Index (CPI) decreased from 117.2 in October 2008 to 116.5 in November 2008. The largest decline of 3.6 per cent was noted in the Division “Transport” followed by “Housing, water, electricity, gas and other fuels” (-1.0 per cent), “Recreation and culture” (-0.7 per cent), “Health” (-0.3 per cent) and Food and non alcoholic beverages” (-0.1 per cent). The divisions “Clothing and footwear”, “Furnishings, household equipment and routine household maintenance”, “Restaurants and hotels” and “Alcoholic beverages and tobacco” registered increases of 0.8 per cent, 0.5 per cent, 0.3 per cent and 0.2 per cent, respectively while “Communication”, “Education” and “Miscellaneous goods and services” recorded no change in their indices. The main contributors to the fall in the index between October 2008 and November 2008 were gasoline, diesel, rice and interest on housing loans, which registered decreases of 0.7 index point, 0.3 index point, 0.2 index point and 0.1 index point, respectively. Increases of 0.3 index point for motor vehicles, 0.2 index point for other food products and 0.1 index point for other goods and services were noted. The rate of inflation for the twelve-month period ended November 2008 stood at 9.9 per cent, unchanged from the previous month.

While headline inflation for November 2008 stood at 9.9 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 8.7 per cent, 6.1 per cent and 4.6 per cent, respectively. Consequently, for November 2008, core inflation was between 1.2 and 5.3 percentage points lower than the headline inflation.

Net foreign assets of depository corporations rose by Rs2,975 million, or 3.6 per cent, from Rs83,628 million at the end of June 2008 to Rs86,603 million at the end of October 2008, largely on account of the increase in the net foreign assets of the other depository corporations, offsetting the decrease in the net foreign assets of the Bank of Mauritius. Net foreign assets of other depository corporations rose by Rs3,892 million, or 14.6 per cent, to Rs30,493 million while those of the Bank of Mauritius fell by Rs916 million, or 1.6 per cent, to Rs56,110 million.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs12,766 million, or 4.9 per cent, from Rs258,704 million at the end of June 2008 to Rs271,470 million at the end of October 2008. Net claims on budgetary central Government fell by Rs6,315 million, or 11.9 per cent, from Rs53,171 million at the end of June 2008 to Rs46,856 million at the end of October 2008. Claims on other sectors, that is, credit to the private sector grew by Rs19,080 million, or 9.3 per cent, to Rs224,613 million in October 2008.

Net claims on budgetary central Government from the Bank of Mauritius fell by Rs3,290 million, or 75.4 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs7,651 million at the end of October 2008. Net claims on budgetary central Government from other depository corporations fell by Rs3,026 million, or 5.3 per cent, from Rs57,533 million to Rs54,507 million.

Claims on Other Sectors from the Bank of Mauritius rose by Rs2 million, or 1.4 per cent to Rs137 million at the end of October 2008 while claims on Other Sectors from other depository corporations expanded by Rs19,079 million, or 9.3 per cent, from Rs205,398 million to Rs224,477 million.

Broad Money Liabilities (BML) increased by Rs10,758 million, or 4.3 per cent, from Rs252,175 million at the end of June 2008 to Rs262,933 million at the end of October 2008. Of the components of BML, currency with public rose by Rs809 million, or 6.3 per cent, to Rs13,723 million while transferable deposits rose by Rs721 million, or 1.3 per cent, to Rs54,118 million. Savings deposits rose by Rs359 million, or 0.5 per cent, to Rs74,256 million while time deposits went up by Rs8,907 million, or 8.1 per cent, to Rs119,334 million. Securities other than shares included in broad money fell by Rs37 million, or 2.4 per cent, to Rs1,502 million.

The monetary base rose by Rs2,754 million, or 10.1 per cent, from Rs27,328 million at the end of June 2008 to Rs30,082 million at the end of October 2008. Currency in circulation grew by Rs1,095 million, or 7.3 per cent, from Rs15,008 million to Rs16,104 million while liabilities to other depository corporations increased by Rs1,880 million, or 15.8 per cent, from Rs11,933 million to Rs13,813 million.

Broad Money Liabilities multiplier fell from 9.2 at the end of June 2008 to 8.7 at the end of October 2008, reflecting a greater expansion of Monetary Base as compared to Broad Money Liabilities.

In November 2008, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,889 million through the weekly Primary Auctions. Between end-October and end-November 2008, the weighted average yields of the 91-day Bill increased from 9.23 per cent to 9.27 per cent whereas for the 182-day and 364-day Bills they decreased from 9.15 per cent to 9.10 per cent and from 9.48 per cent to 9.43 per cent respectively. During November 2008, the market preference remained skewed towards the 364-day Bills.

During the month, the Bank carried out three repurchase transactions for a total amount of Rs5,590 million on an auction basis for period of 7 days and the accepted rate was 9.00 per cent following the reduction of 50 basis points in the repo rate on the 31 October 2008. Transactions on the interbank money market in November 2008 amounted to Rs14,905 million with a daily average of Rs497 million, a high of Rs1,324 million and a trough of Rs59 million. The weighted average overnight interbank rate for November 2008 increased to 8.87 per cent from 8.76 per cent for the previous month.

Bills traded by primary dealers amounted to Rs519.0 million. There were no transactions of Bills on the Stock Exchange of Mauritius. A total amount of Rs23.0 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 November 2008, 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 8.25, 8.50 and 8.75 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs3,042.0 million. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 9.69, 10.24 and 10.95 per cent per annum, respectively. The market preference shifted towards the 2-year Note.

In November 2008, the Bank intervened on the domestic foreign exchange market and sold a total amount of USD55.0 million.

Between October 2008 and November 2008, the rupee, on average appreciated vis-à-vis the Pound sterling, while it depreciated against the Japanese yen, US dollar and euro. 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 October and November 2008 the rupee, on average, depreciated against the US dollar and the Euro but appreciated against the Pound sterling.

At the end of October 2008, the net international reserves of the country stood at Rs 86,947 million, which based on the value of the import bill for fiscal year 2007-08 and exclusive of the purchase of aircraft, represented 35.3 weeks of imports, up from 32.6 weeks of imports at the end of September 2008. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs 56,486 million at the end of October 2008 to Rs 53,956 million at the end of November 2008, reflecting essentially Bank of Mauritius intervention on the interbank foreign exchange market.

Provisional estimates for third quarter 2008 showed that the current account of the balance of payments surged to a higher deficit of Rs8,196 million compared to Rs4,810 million in the third quarter 2007. The deficit in the merchandise account of the balance of payments deteriorated to Rs14,460 million, from Rs11,873 million in third quarter 2007. The deficit on the merchandise account was however partly offset by surpluses on the services, income and current transfers accounts. The capital and financial account, inclusive of reserve assets, recorded higher net inflows of Rs5,799 million in the third quarter 2008 compared to Rs131 million in the third quarter 2007. The overall balance of payments for the third quarter 2008, measured as the change in reserve assets excluding valuation changes, registered a surplus of Rs824 million.