OVERVIEW

International Developments

During October 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 after the US Senate approved the US$700 billion bank bailout plan, seen as crucial to help resolve the year-long credit crisis. Meanwhile the release of the minutes from the last Federal Reserve's policy meeting suggested that the central bank was open to cutting benchmark interest rates if the financial turmoil hurt growth. Even though Federal Reserve Chairman Ben Bernanke confirmed that the Fed was prepared to cut rates, the US currency managed to keep its momentum, benefiting from strong demand pressure as banks scrambled to buy the US currency for their funding needs due to the severe strains plaguing the money market. On 8 October 2008, in an attempt to stem the worst financial crisis since the 1930s, central banks around the world cut interest rates by half-percentage point in the first coordinated move since the September 11, 2001 attacks. That cut lowered, among others, the Fed's federal funds rate to 1.5 per cent, the ECB's refinancing rate to 3.75 per cent and the Bank of England's key repo rate to 4.5 per cent. While the coordinated move failed to relieve investor doubts, the fear of further bank failures continued to deter inter-bank lending and led corporations, funds and banks to hoard cash, especially in US dollars. The persistent market turmoil continued to favour the US currency as the deteriorating global economy and concern that financial market stability was still too far away spurred investors to liquidate risky assets and even saw US-based investors selling their assets in both developed and emerging markets and bringing the money back home. On 29 October 2008, the Federal Reserve lowered its key interest rate by another half-percentage point to 1.0 percent, the lowest level since 2004, in a move to prevent a widening financial market crisis from tipping the US economy into a prolonged recession. Following the rate cut decision, the US dollar posted its biggest one-day fall in 23 years, easing investor concern about the world economy and reducing the need to repatriate dollars from riskier markets.

The euro depreciated against the US dollar trading at an average of US$1.3339 in October 2008 compared to an average of US$1.4381 in September 2008. The euro, which started October 2008 at its intra-month high of US$1.3964, after the ECB President Jean-Claude Trichet signaled that the ECB governing council at its meeting discussed cutting interest rate, for the first time in five years as growth slowed and price pressures abated. The single currency was also weighed down by investors scrambling to put US dollars back on their balance sheets. However, the euro gained ground with a rally in shares as investor appetite slowly improved after top central banks, including the ECB, jointly slashed interest rates on 8 October 2008 to stem the financial crisis. Although the initial euphoria over the half percentage point rate cuts by the banks tapered off, the euro rose against the US dollar as European leaders agreed to guarantee some bank debt and inject public funds into individual banks if necessary to rescue the banking sector, in a bid to unfreeze the credit markets. However, with the market favouring the US dollar, the euro could not hold onto its gains. More so, the single currency was hit by concerns that the euro zone economy would receive further impact from deteriorating economic conditions in the surrounding emerging markets. The euro maintained its downward movement, trading at its intra-month low of US$1.2600 on 27 October 2008 as concerns about the worsening global economy prompted investors to dump risky assets. At the close of the month, the euro was trading at US$1.2851 as a sharp rally in oil prices overnight encouraged investors to pick up currencies that had been battered.

The Pound sterling depreciated against the US dollar during the month of October 2008, trading at an average of US$1.6990 from an average of US$1.8004 in September 2008. The Pound sterling started the month on rather weak tone, undermined by a survey which showed UK manufacturing activity contracted in September, serving as a reminder of wider domestic economic stress. The Pound lost further ground as its outlook remained weak in the wake of the financial market turmoil and sharply slowing British economic growth raised pressure on the Bank of England to cut UK rates from 5.0 per cent. In addition, a survey revealed Britain's services sector contracted at the fastest rate in at least 12 years in September, while Bank of England MPC member David Blanchflower again pressed for UK rate cuts. On 8 October 2008, the Bank of England was among the central banks which reduced its interest rate to 4.5 per cent. The Pound did not gain much of the coordinated move as doubts began to emerge on its effectiveness and the release of UK banking sector bailout package. However, the Pound managed to recoup its losses after governments in Britain, France, and Germany announced plans to recapitalize their banking systems. The British currency could not hold onto its gains as weakness of the UK economy was highlighted by the release of a Royal Institution of Chartered Surveyors report, which showed that the decline in UK house prices accelerated in September and sales fell to their lowest in at least 30 years, indicating a further deterioration in the housing market. A rise in UK jobless rate reflected deepening domestic problems and cemented calls for further monetary easing. Data showed Britain's budget deficit swelled to its largest in at least 60 years in the six months to September. The Pound slid further after a dismal reading of the UK manufacturing sector highlighted ongoing deterioration in the economy. A quarterly poll from the Confederation of British Industry which showed that conditions in the manufacturing sector were at their weakest in nearly 30 years and unlikely to improve anytime soon, further weigh on the British currency. On 27 October 2008, the Pound reached its intra-month low of US$1.5747, after data showed that the UK economy contracted by 0.5 per cent quarter-on-quarter in the three months to September 2008, the first fall in GDP in 16 years. However, the Pound managed to close the month on a higher note after Britain's FTSE 100 index surged as investors eyed further interest rate cuts to help stimulate flagging economies around the world.

International oil prices, on average, declined significantly during October 2008, as fears of global demand declining in an economic recession pressured the oil markets. NYMEX and IPE Brent both started October 2008 trading at intra-month highs of US$98.5 a barrel and US$95.3 a barrel, respectively. However, towards the end of the month NYMEX and IPE Brent have already fallen to 19-month lows of US$62.7 and US$60.3 on account of deeply anchored fears about the global recession which even overshadowed OPEC's decision at its emergency meeting on 24 October 2008, to cut output by 1.5 million barrels per day in an effort to halt a deep oil price slide. Underlining the impact of the financial crisis on fuel use, the U.S. Energy Information Administration cut its oil demand growth outlook for 2009 by 15 per cent from a forecast made in September, blaming the "deteriorating" global economy.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$76.7 a barrel in October 2008, down from US$103.8 a barrel in September 2008 and US$85.6 a barrel in October 2007. IPE Brent figures averaged US$73.7 a barrel during the month under review, down from US$100.4 a barrel in September 2008 and US$82.5 a barrel in October 2007.

COMEX gold futures, on average, moved down during October 2008, trading in an intra-month closing range of US$714.7/Oz–US$906.5/Oz compared to US$745.0/Oz–US$909.0/Oz in September 2008. Gold prices reached a peak of US$906.5/Oz on 8 October 2008, supported by a weak US dollar. The bullion averaged US$804.8/Oz during October 2008, compared to an average of US$833.9/Oz in September 2008.

Domestic Developments

Tourist arrivals rose by 0.1 per cent, from 65,542 in September 2007 to 65,632 in September 2008, while gross tourism receipts increased by 12.1 per cent, from Rs2,495 million in September 2007 to Rs2,798 million in September 2008. On a cumulative basis, over the period January 2008 to September 2008, tourist arrivals reached 674,164 representing an increase of 4.6 per cent over 644,821 arrivals recorded over the corresponding period of the previous year. Tourism receipts for the period January 2008 to September 2008 grew by 8.4 per cent to reach Rs30,801 million compared to Rs28,404 million recorded over the corresponding period of the previous year.

The Consumer Price Index (CPI) increased from 116.7 in September 2008 to 117.2 in October 2008. The largest rise of 1.2 per cent was noted in the Division “Clothing and footwear” followed by “Health” (+0.9 per cent), “Food and non alcoholic beverages” (+0.7 per cent), “Transport” (+0.7 per cent), “Restaurants and hotels” (+0.7 per cent), “Housing, water, electricity, gas and other fuels” (+0.1 per cent), “Furnishings, household equipment and routine household maintenance” (+0.1 per cent), “Recreation and culture” (+0.1 per cent) and “Miscellaneous goods and services” (+0.1 per cent). The division “Alcoholic beverages and tobacco” registered a decline of 0.2 per cent while “Communication” and “Education” recorded no change in their indices. The main contributors to the rise in the index between September 2008 and October 2008 were diesel and other goods and services, each registering an increase of 0.2 index point and meat, milk and milk preparation, vegetables, taxi fare and motor vehicles, each registering an increase of 0.1 index point. A drop of 0.3 index point and 0.1 index point for gasoline and air ticket, respectively were noted. The rate of inflation for the twelve-month period ended October 2008 stood at 9.9 per cent, up from 9.8 per cent for the twelve month period ended September 2008.

While headline inflation for October 2008 stood at 9.9 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 8.5 per cent, 6.1 per cent and 5.1 per cent, respectively. Consequently, for October 2008, core inflation was between 1.4 and 4.8 percentage points lower than the headline inflation.

Net foreign assets of depository corporations fell by Rs3,578 million, or 4.3 per cent, from Rs83,628 million at the end of June 2008 to Rs80,050 million at the end of September 2008, on account of the decrease in both the net foreign assets of Bank of Mauritius and those of the other depository corporations. Net foreign assets of other depository corporations fell by Rs1,940 million, or 7.3 per cent, to Rs24,661 million while those of the Bank of Mauritius fell by Rs1,637 million, or 2.9 per cent, to Rs55,389 million.

Domestic claims of depository corporations, excluding claims on GBL holders, fell by Rs266 million, or 0.1 per cent, from Rs258,704 million at the end of June 2008 to Rs258,438 million at the end of September 2008. Net claims on budgetary central Government decreased by Rs2,898 million, or 5.5 per cent, from Rs53,171 million at the end of June 2008 to Rs50,273 million at the end of September 2008. Claims on other sectors, that is, credit to the private sector increased by Rs2,633 million, or 1.3 per cent, to Rs208,166 million in September 2008.

Net claims on budgetary central Government from the Bank of Mauritius fell by Rs2,721 million, or 62.4 per cent, from negative Rs4,362 million at the end of June 2008 to negative Rs7,083 million at the end of September 2008. Net claims on budgetary central Government from other depository corporations fell by Rs178 million, or 0.3 per cent, from Rs57,533 million to Rs57,355 million.

Claims on Other Sectors from the Bank of Mauritius rose by Rs3 million, or 1.9 per cent to Rs137 million at the end of September 2008 while claims on Other Sectors from other depository corporations expanded by Rs2,631 million, or 1.3 per cent, from Rs205,398 million to Rs208,029 million.

Broad Money Liabilities (BML) rose by Rs7,826 million, or 3.1 per cent, from Rs252,175 million at the end of June 2008 to Rs260,001 million at the end of September 2008. Of the components of BML, currency with public rose by Rs703 million, or 5.4 per cent, to Rs13,618 million while transferable deposits fell by Rs1,190 million, or 2.2 per cent, to Rs52,207 million. Savings deposits rose by Rs484 million, or 0.7 per cent, to Rs74,382 million while time deposits went up by Rs7,878 million, or 7.1 per cent, to Rs118,305 million. Securities other than shares included in broad money fell by Rs49 million, or 3.2 per cent, to Rs1,490 million.

The monetary base rose by Rs4,819 million, or 17.6 per cent, from Rs27,328 million at the end of June 2008 to Rs32,147 million at the end of September 2008. Currency in circulation increased by Rs775 million, or 5.2 per cent, from Rs15,008 million to Rs15,783 million while liabilities to other depository corporations increased by Rs4,233 million, or 35.5 per cent, from Rs11,933 million to Rs16,166 million.

Broad Money Liabilities multiplier fell from 9.2 at the end of June 2008 to 8.1 at the end of September 2008, reflecting a greater expansion of the monetary base as compared to Broad Money Liabilities.

Effective for the two-week monitoring period starting 7 November 2008, the minimum Cash Reserve Ratio (CRR) was reduced from 6.0 per cent to 5.0 per cent while the minimum cash reserve ratio that banks have to maintain on any particular day was maintained at 4.0 per cent. The Bank of Mauritius took this decision in order to ease monetary conditions.

In October 2008, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs1,986 million through the weekly Primary Auctions. Between end-September and end-October 2008, the weighted average yields of the 91-day Bills increased from 9.09 per cent to 9.23 per cent whereas for the 182-day and 364-day Bills they decreased from 9.29 per cent to 9.15 per cent and from 9.74 per cent to 9.48 per cent respectively. During October 2008, the market preference shifted towards the 364-day Bills.

During the month, the Bank carried out five repurchase transactions for a total amount of Rs12,255 million on an auction basis for period ranging between 4 to 14 days and the accepted rate was 9.50 per cent. Transactions on the interbank money market in October 2008 amounted to Rs25,466 million with a daily average of Rs821 million, a high of Rs2,310 million and a trough of Rs125 million. The weighted average overnight interbank rate for October 2008 decreased to 8.76 per cent from 8.79 per cent for the previous month.

Bills traded by primary dealers amounted to Rs728.8 million. There were no transactions of Bills on the Stock Exchange of Mauritius. A total amount of Rs31.9 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 October 2008, 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 8.75, 9.00 and 9.25 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs812.3 million only. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 10.18, 10.50 and 11.13 per cent per annum, respectively. The market preference was for the 4-year Note.

In October 2008, the Bank intervened on the domestic foreign exchange market and sold USD70.0 million.

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

At the end of September 2008, the net international reserves of the country amounted to Rs80,362 million. The end-September 2008 level of net international reserves of the country, based on the value of the import bill for fiscal year 2007-08, exclusive of the purchase of aircraft, represented 32.6 weeks of imports, down from 33.9 weeks of imports at the end of August 2008. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs55,784 million at the end of September 2008 to Rs56,486 million at the end of October 2008.

Provisional estimates for the period January 2008 to September 2008 indicate that foreign direct investment (FDI) in Mauritius stood at Rs7,247 million. Investment was mainly directed to the ‘Hotels and restaurants’ sector (Rs3,049 million), mainly under the Integrated Resorts Scheme (IRS), and the ‘Financial Intermediation’ sector (Rs2,343 million). The main source of FDI inflows to Mauritius was India (Rs1,892 million) and the United Kingdom (Rs1,165 million). Outward FDI is estimated at Rs1,198 million for the period of January 2008 to September 2008 with significant investment destined to the ‘Hotels and restaurants’ sector in Maldives and the ‘Manufacturing’ sector in Madagascar.