OVERVIEW

International Developments

During January 2008, the US dollar, on average, appreciated against the Pound sterling but lost ground vis-à-vis the euro and the Japanese yen. The US dollar started the month on a soft note, hurt by weak U.S. indicators, including data showing a contraction in the manufacturing sector in December, thereby prompting investors to bet the Fed has little choice but to ease monetary policy further to shelter the economy. In fact, in a pre-emptive manner, the US Federal Reserve announced an emergency rate cut of 75 basis points to 3.50 per cent at an unscheduled meeting on 22 January 2008 to quell fears of a U.S. recession that have triggered a wave of panic selling in global stock markets. This move, which was precipitated by a global equity market tumult, did not have long lasting effect on the US dollar that stayed on the back foot as US economic weakness remained a serious concern. As expected, on 31 January 2008, at the end of its two-day scheduled FOMC meeting, the US Federal Reserve, as part of an ongoing aggressive effort to help promote moderate growth over time and mitigate the risks to economic activity, cut its target for the Federal funds rate by another 50 basis points bringing it to 3.0 per cent.

The euro appreciated against the US dollar, trading at an average of US$1.4728 during January 2008 compared to an average of US$1.4564 during December 2007, supported by strong business confidence data and tough inflation comments by European Central Bank officials. German Bundesbank President, Axel Weber, following the US Federal Reserve's surprise decision to cut interest rates by 75 basis points, stated that this has not shifted the ECB focus on euro zone inflation, thereby knocking back mounting expectations that it too would have to cut rates soon and giving the euro a lift. President Jean Claude Trichet, on his part, reiterated that controlling inflation was ECB’s main goal. Meanwhile, the chairman of euro zone finance ministers, Jean Claude Juncker, added that while Europe was not sheltered from a US recession, contrary to previous financial crises, it was better placed to develop defence mechanisms.

The Pound sterling lost ground against the US dollar during January 2008, trading at an average of US$1.9688 from an average of US$2.0206 in December 2007. The British currency was pressured by increased risk aversion and ongoing market views that UK interest rates were set to fall, leading investors to sell the Pound. On 24 January 2008, the Bank of England governor, Mervyn King, added to expectations that there would be a February rate cut, eroding the currency’s yield appeal despite data showing consumer inflation was still running above the Bank of England’s 2.0 per cent target in December 2007.

The Japanese yen appreciated against the US dollar, trading at an average of ¥107.74 per USD during January 2008 compared to an average of ¥112.26 per USD during December 2007, drawing support from the unwinding of risky carry trades. The release of relatively weak US economic data throughout January 2008 that have added to fears of US recession have in fact led investors to move into safer, low-yielding assets.

Oil prices moved higher during January 2008 mainly on supply concerns. News of unrest in Nigeria caused prices to rise. The Energy Information Administration (EIA) projected that world oil demand will continue to grow faster than oil supply outside of the Organisation of the Petroleum Exporting Countries (OPEC) in 2008, leaving OPEC and inventories to offset the upward pressure on prices. The West Texas Intermediate (WTI) crude oil spot price approached $100 per barrel, reaching $99.64 per barrel, a record price in nominal terms, on 2 January, before falling below the $90 per barrel level on 23 January. OPEC has indicated that it would unlikely boost oil supply at its future meeting in February 2008.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$92.9 a barrel in January 2008, up from US$91.9 a barrel in December 2007 and US$54.3 a barrel in January 2007. IPE Brent futures averaged US$92.1 a barrel during the month under review, up from US$91.6 a barrel in December 2007 and US$54.7 a barrel in January 2007.

COMEX gold futures, on average, moved higher during January 2008, trading in an intra-month closing range of US$857.7/Oz–US$928.0/Oz compared to US$794.7/Oz–US$862.7/Oz in December 2007. Gold prices reached a record high of US$928.0/Oz on 31 January 2008, explained by strong oil prices and a weakness US dollar. The bullion averaged US$893.1/Oz during January 2008, compared to an average of US$814.0/Oz in December 2007.

Domestic Developments

Tourist arrivals went up by 7.6 per cent, from 96,309 in December 2006 to 103,670 in December 2007, while gross tourism receipts grew by 14.5 per cent, from Rs3,935 million in December 2006 to Rs4,504 million in December 2007. On a cumulative basis, for the calendar year 2007, tourist arrivals reached 906,971 representing an increase of 15.1 per cent over 788,276 arrivals recorded in 2006. Tourism receipts for the year 2007 rose by 27.4 per cent to reach Rs40,687 million compared to Rs31,942 million registered in 2006.

The Consumer Price Index (CPI) increased from 108.2 in December 2007 to 109.6 in January 2008. The largest rise of 3.2 per cent was noted in the sub-Division "Education", followed by "Restaurants and hotels" (+2.7 per cent), "Food and non alcoholic beverages" (+2.2 per cent), "Transport" (+1.0 per cent), "Clothing and footwear" (+0.9 per cent), "Recreation and culture" (+0.9 per cent), "Furnishings, household equipment and routine household maintenance" (+0.7 per cent), "Miscellaneous goods and services" (+0.7 per cent), "Alcoholic beverages and tobacco" (+0.4 per cent), "Housing, water, electricity, gas and other fuels" (+0.4 per cent) and "Health" (+0.2 per cent). The sub-Division "Communication" recorded no change in its sub-index. The main contributors to the rise in the index between December 2007 and

January 2008 were other goods and services which registered an increase of 0.3 index point, bread and other food products, each registering an increase of 0.2 index point and fish, vegetables, fresh fruits, diesel, school and tuition fees, cakes and snacks and prepared food, each registering an increase of 0.1 index point. The rate of inflation for the twelve-month period ended January 2008 stood at 8.9 per cent, up from 8.8 per cent for the twelve-month period ended December 2007.

While headline inflation for January 2008 stood at 8.9 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 5.2 per cent, 5.7 per cent and 7.4 per cent, respectively. Consequently, for January 2008, core inflation was between 1.5 and 3.7 percentage points lower than the headline inflation.

Net foreign assets of depository corporations expanded by Rs2,358 million or 2.8 per cent, from Rs83,162 million at the end of June 2007 to Rs85,520 million at the end of December 2007, on account of the increase in net foreign assets of other depository corporations offsetting the fall in those of the Bank of Mauritius. Net foreign assets of other depository corporations grew by Rs3,701 million or 12.0 per cent to Rs34,640 million while those of the Bank of Mauritius fell by Rs1,343 million or 2.6 per cent to Rs50,880 million. Claims on non-residents rose by Rs25,071 million or 7.8 per cent, from Rs319,995 million at the end of June 2007 to Rs345,066 million at the end of December 2007. Liabilities to non-residents increased by Rs22,712 million or 9.6 per cent, from Rs236,833 million at the end of June 2007 to Rs259,545 million at the end of December 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs14,240 million or 6.8 per cent, from Rs210,443 million at the end of June 2007 to Rs224,683 million at the end of December 2007. Net claims on budgetary central Government rose by Rs3,281 million or 7.8 per cent, from Rs42,235 million at the end of June 2007 to Rs45,516 million at the end of December 2007. Claims on other sectors, that is, credit to the private sector grew by Rs10,960 million or 6.5 per cent to Rs179,168 million in December 2007.

Net claims on budgetary central Government from the Bank of Mauritius rose by Rs1,147 million or 80.9 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs270 million at the end of December 2007. Net claims on budgetary central Government from other depository corporations rose by Rs2,133 million or 4.9 per cent, from Rs43,653 million to Rs45,786 million.

Claims on Other Sectors from the Bank of Mauritius rose by Rs13 million or 5.4 per cent, from Rs238 million at the end of June 2007 to Rs251 million at the end of December 2007 while claims on Other Sectors from other depository corporations expanded by Rs10,948 million or 6.5 per cent, from Rs167,969 million to Rs178,917 million.

Broad Money Liabilities (BML) grew by Rs23,910 million or 11.1 per cent, from Rs215,408 million at the end of June 2007 to Rs239,318 million at the end of December 2007. Of the components of BML, currency with public rose by Rs2,663 million or 23.0 per cent to Rs14,260 million while transferable deposits rose by Rs7,903 million or 18.7 per cent to Rs50,051 million. Savings deposits rose by Rs1,311 million or 2.0 per cent to Rs66,655 million while time deposits went up by Rs12,528 million or 13.3 per cent to Rs107,006 million. Securities other than shares included in broad money fell by Rs494 million or 26.8 per cent to Rs1,347 million.

The monetary base, excluding Bank of Mauritius Bills, rose by Rs4,170 million, or 17.5 per cent, from Rs23,841 million at the end of June 2007 to Rs28,011 million at the end of December 2007. Currency in circulation grew by Rs4,186 million, or 31.0 per cent, from Rs13,512 million to Rs17,698 million while liabilities to other depository corporations increased by Rs378 million or 4.0 per cent, from Rs9,480 million to Rs9,858 million.

Broad Money Liabilities multiplier fell from 9.0 at the end of June 2007 to 8.5 at the end of December 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 Rs5,800 million through the Primary Market in January 2008. Between end-December 2007 and end-January 2008, the weighted average yields of the 91-day, 182-day and 364-day Bills decreased from 9.14 per cent to 8.72 per cent, from 9.25 per cent to 8.83 per cent and from 10.23 per cent to 9.77 per cent respectively.

No repurchase transactions were carried out by the Bank during the month of January. Interbank transactions in January 2008 amounted to Rs9,109 million with a high of Rs494 million and a trough of Rs100 million. The weighted average overnight interbank rate for January 2008 was 8.21 per cent compared to 8.63 per cent for the previous month.

During January 2008, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs223.6 million, while no trade of Treasury Bills occurred on the Stock Exchange of Mauritius. A total amount of Rs33.60 million Treasury Bills/Treasury Notes was sold over the counter to 65 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 January 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 9.75, 9.90 and 10.05 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs3,502.2 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3 and 4-year maturities were 10.23, 10.15 and 10.45 per cent per annum, respectively.

The second issue of Long-Term Government of Mauritius Bonds for 2007-08 was undertaken on 25 January 2008, through an auction held on 23 January 2008. Bonds with maturities of 7, 13 and 20 years for a total nominal amount of Rs1.0 billion were put on tender at coupon rates of 10.60, 10.75 and 10.90 per cent per annum respectively. Bids for a total amount of Rs2,402.6 million were received, of which an amount of Rs1.0 billion was accepted. The weighted average yield on bids accepted for the three maturities were 10.98, 11.30 and 11.62 per cent per annum respectively.

In January 2008, the Bank intervened and purchased US$21.0 million and GBP1.0 million on the domestic interbank foreign exchange market.

Between December 2007 and January 2008, the rupee, on average appreciated vis à vis the Pound sterling, the US dollar and euro but depreciated against the Japanese yen. 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, the Pound Sterling and the euro between December 2007 and January 2008.

At the end of December 2007, the net international reserves of the country amounted to Rs 89,512 million. The end-December 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 41.9 weeks of imports, up from 41.2 weeks of imports at the end of November 2007. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs51,089 million at the end of December 2007 to Rs53,010 million at the end of January 2008.

Provisional estimates for the year 2007 indicated that foreign direct investment (FDI) in Mauritius stood at Rs10,956 million. Investment was mainly directed to the tourism sector (Rs5,979 million), mainly under the Integrated Resorts Scheme (IRS). The main source of FDI inflows to Mauritius was the United Kingdom (Rs2,802 million) and USA (Rs2,379 million). Outward FDI is estimated at Rs1,794 million for the year 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 Rs206 million.