Overview

International Developments

During April 2004, the US dollar, on average, appreciated against the euro and Pound sterling but depreciated vis-à-vis the Japanese yen. US economic data released during the month were generally supportive of the US dollar, particularly the stronger-than-expected March 2004 non-farm payrolls released in early April. The data showed a rise of 308,000 in US employment, the biggest gain in 4 years and more than twice what the market was expecting. Other data released thereafter, including the ISM surveys and retail sales, also supported the view of a broad-based US economic recovery and the US currency gained impetus on firming expectations that the US cycle of easing interest rates had come to an end and rates would be raised this year. In his testimony before the Senate Banking Committee on 21 April 2004 and before the Congress' Joint Economic Committee on the following day, US Federal Reserve Chairman, Alan Greenspan expressed optimism over the US economy and prepared the market for an interest rate hike, although he gave no specific hints over the timing. Chances of a rate rise heightened after the release of the US GDP report on 29 April 2004. Although the report showed that the US economy grew at a less steamy than expected 4.2 per cent pace in the first quarter of 2004, it also revealed that the Fed's favoured inflation measure, the core personal consumption expenditures index, rose to 2.0 per cent from 1.2 per cent.

The persistently wide US-euro area growth gap and the prospective narrowing yield gap have been the major factors driving the euro down. From an intra-month high of US$1.2357 at the start of April 2004, the euro came under downward pressure against the US dollar. Although the German Ifo business survey index released during the last week of April showed an unexpected rise, analysts believed that the strong result might not significantly change the euro's future direction as it also showed that companies' expectations fell to the lowest level since August 2003. Meanwhile, ECB President, Jean-Claude Trichet in his testimony to the European Parliament Committee on 27 April 2004, despite acknowledging that recent economic data had been mixed, expressed confidence that the moderate recovery, which started in the euro area in the second half of 2003, would continue in 2004. By the close of April, the euro was trading around US$1.1965 vis-à-vis the US currency. The ECB, at its governing council meeting on 1 April 2004, kept its key interest rate unchanged at 2.0 per cent, stating that the monetary policy stance remained in line with maintenance of price stability.

From its intra-month high of US$1.8537 in early April, the Pound sterling reached a low of US$1.7699 towards the end of the month. The Pound sterling also weakened after the Bank of England, at its monthly Monetary Policy Committee meeting on 8 April 2004, left its key interest rate unchanged at 4.0 per cent. Minutes of the meeting released thereafter undermined the Pound further given that they were less hawkish than expected. The Pound also suffered from the release of UK's March 2004 consumer price inflation, which unexpectedly posted an annual growth of only 1.1 per cent, much below the Bank of England's 2.0 per cent target.

Despite increasing signs of economic recovery in Japan, the yen's gains vis-à-vis the US dollar were limited throughout April 2004 on account of the general rebound in the US currency.

April 2004 mirrored the profile of the Easter season of 2003 in terms of the turbulence and market volatility that permeated the world crude oil and petroleum products markets. This period is normally characterized by an interlude between the winter season peak demand for heating oil and the summer driving season when peak demand for gasoline in the US sets in. The recent comment by Fed Chairman Alan Greenspan advocating a renewed focus on long term energy prices when making investment decisions and geopolitical instability in the Middle East also weighed on oil prices. For the month of April 2004, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$36.6 a barrel, compared to US$36.7 a barrel in March 2004. IPE Brent futures averaged US$33.0 a barrel, compared to US$32.7 in March 2004, and traded at record highs of US$34.5 a barrel on 30 April 2004. The outlook for the near term into the summer peak demand for gasoline is still bullish.

COMEX gold futures exhibited mixed fortunes during April 2004, with an intra-month closing range between US$428.8/Oz. on 01 April 2004 and US$387.5/Oz. on 30 April 2004. The expectations of the US interest rate hike in the near term triggered a lacklustre performance of the bullion, ushering in a liquidation trend, although the persistent tensions in the Middle East diluted the speculative flight out of gold, as speculative positions were not poised to be short in a trend reversal. The announcement by the Chinese Premier of the adoption of forceful measures to cool its fast-growing economy spurred a second speculative liquidation of long positions, and pushed the bullion to an intra-month trough of US$385.9/Oz. COMEX averaged US$404.6/Oz. for the month of April 2004.

Domestic Developments

The latest forecasts of the Central Statistics Office show that the economy will grow by around 5.3 per cent in 2004, up from 4.4 per cent in 2003. Exclusive of sugar, the growth rate works out to 4.7 per cent compared to 4.4 per cent in 2003. The "Sugar cane and Sugar" sector is expected to expand by 15.4 per cent, based on a sugar production of 620,000 tonnes. Following contractions of 6.0 and 4.0 per cent in 2002 and 2003, respectively, the EPZ sector is expected to contract by a further 2.0 per cent this year. With tourist arrivals and tourist earnings estimated at 740,000 and Rs20,850 million respectively, the tourism sector is likely to grow by 5.4 per cent. Following an expansion of 10.1 per cent in 2003, the construction sector is estimated to grow by 4.7 per cent this year.

The investment rate, as measured by the ratio of GDFCF to GDP at market prices, is expected to decrease to 22.0 per cent from 22.7 per cent in 2003. In real terms, investment is expected to grow by 3.2 per cent. Public investment is expected to decline by 2.5 per cent after a high growth of 35.0 per cent in 2003. Private investment is expected to grow by 6.8 per cent, mainly on account of construction of hotels, compared to a decline of 1.8 per cent in 2003. The saving rate will most likely remain at the 2003 level of 26.0 per cent.

Tourist arrivals rose by 0.8 per cent, from 63,129 in March 2003 to 63,631 in March 2004, while gross tourism receipts increased by 69.7 per cent, from Rs1,515 million in March 2003 to Rs2,571 million in March 2004. During the first quarter of 2004, tourist arrivals rose by 1.5 per cent compared to the corresponding quarter in 2003, while gross tourism receipts increased by 40.2 per cent over the same period. Tourist arrivals from Europe increased by 1.6 per cent during the first quarter of 2004 compared to the corresponding quarter in 2003 with arrivals from Austria, France and Italy rising by 4.1 per cent, 6.6 per cent and 12.1 per cent, respectively, while arrivals from United Kingdom, Switzerland and Germany declined by 7.3 per cent, 9.8 per cent and 10.8 per cent, respectively. Tourist arrivals from Reunion Island, India and the Republic of South Africa went up by 2.5 per cent, 12.3 per cent and 25.1 per cent, respectively, during the first three months of 2004 compared to the corresponding period in the previous year.

Cumulatively for the period July 2003 to March 2004, tourist arrivals increased by 1.9 per cent to 550,990, from 540,479 in the corresponding period in 2002-03. Over the same period, gross tourism receipts rose by 24.0 per cent to Rs17,039 million in 2003-04 from Rs13,745 million in 2002-03.

The Consumer Price Index (CPI) rose from 110.1 in March 2004 to 110.4 in April 2004. The rate of inflation for the 12-month period ended April 2004 stood at 4.0 per cent, up from 3.9 per cent for the 12-month period ended March 2004.

Money supply M2 went up by Rs11,183 million or 9.1 per cent, from Rs123,405 million at the end of June 2003 to Rs134,588 million at the end of March 2004. Narrow money supply M1, one of the components of M2, rose by Rs2,118 million or 12.1 per cent to Rs19,557 million, while quasi-money, the other component of M2, increased by Rs9,066 million or 8.6 per cent to Rs115,032 million.

Net foreign assets of the banking system increased by Rs2,185 million or 4.6 per cent, from Rs47,568 million at the end of June 2003 to Rs49,753 million at the end of March 2004. Net foreign assets of Bank of Mauritius rose by Rs2,685 million or 6.8 per cent to Rs42,269 million, while the net foreign assets of Category 1 banks fell by Rs501 million or 6.3 per cent to Rs7,484 million.

Domestic credit went up by Rs12,010 million or 11.2 per cent, from Rs106,927 million at the end of June 2003 to Rs118,937 million at the end of March 2004. Net credit to Government increased by Rs9,097 million or 42.4 per cent to Rs30,573 million, solely driven by the increase of Rs9,308 million or 85.0 per cent in net credit to Government from the Bank of Mauritius as a result of Government running down its cash balances. Net credit to Government from Category 1 banks, however, fell by Rs211 million or 0.7 per cent to Rs32,221 million. Credit to the private sector from Category 1 banks went up by Rs2,979 million or 3.5 per cent, from Rs85,080 million at the end of June 2003 to Rs88,059 million at the end of March 2004. Over that period, credit was directed to “Construction” (Rs2,126 million), “New Economy” (Rs970 million), “Personal” (Rs616 million), “Traders” (Rs525 million), and “Financial and Business Services” (Rs316 million). A drop in credit was registered at “Agriculture & Fishing” (Rs848 million), “Tourism” (Rs371 million), “Manufacturing” (Rs274 million), “Statutory and Parastatal Bodies” (Rs222 million) and “Infrastructure” (Rs205 million).

Reserve money expanded by Rs9,483 million or 64.2 per cent, from Rs14,776 million at the end of June 2003 to Rs24,259 million at the end of March 2004, reflecting essentially the issue of BoM Bills to Category 1 banks.

Taking into account liquidity conditions in the market in April 2004, the Bank carried out four reverse repurchase transactions. The highest yield accepted for the 2-day reverse repo carried out on 6 April 2004 was 0.25 per cent. Effective 12 April 2004, reverse repurchase transactions were conducted with a maturity of 7 days at a fixed yield of 1.15 per cent.

During April 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,186 million while trading of Treasury/Bank of Mauritius Bills on the Stock Exchange totalled Rs34 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during April 2004 amounted to an equivalent of US$7.5 million.

Effective 19 April 2004, the Bank of Mauritius started to conduct foreign exchange swap transactions with banks with a view to balancing liquidity on the foreign exchange and money markets. The swap transactions are exchange rate neutral and are of a one-month maturity. As at 30 April 2004, the Bank swapped a total amount of US$20 million against rupees with banks.

Between March 2004 and April 2004, the rupee, on average, depreciated against all the major currencies.

At the end of March 2004, the net international reserves of the country amounted to Rs50,613 million. Based on the value of the import bill for calendar year 2003, exclusive of purchase of aircrafts, the end-March 2004 level of net international reserves of the country represented 40.3 weeks of imports, up from 38.4 weeks at the end of February 2004. At the end of April 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs42,606 million, up from Rs42,340 million at the end of March 2004.