International Developments

During April 2005, the US dollar, on average, appreciated vis-à-vis all major currencies, benefiting mostly from ongoing prospects of widening interest rate differentials between the United States and Europe and Japan and in the wake of relatively hawkish remarks from various US Federal Reserve officials. The US dollar was even resilient to the release of data showing a record February 2005 US trade deficit of US$61.04 billion. The release thereafter of data on US capital flows for February 2005 showed net purchases of US$84.5 billion, which were more than sufficient to cover the US trade deficit. By the third week of April, the US dollar, however, came under pressure amid fleeting concerns about the potential threat of inflation on US consumption, the key driver of US economic growth. Data released by the US Commerce Department revealed that, excluding volatile food and energy prices, US core CPI rose by 0.4 per cent in March 2005, the highest monthly rise since August 2002. US first quarter 2005 GDP released towards the close of April 2005 also came in at a lower annualised growth rate of 3.1 per cent against expectations of 3.6 per cent. Yet, the US dollar managed to limit its losses as strong expectations of aggressive US interest rate hike resurfaced.

The euro, which traded on average around US$1.3191 in March 2005, moved lower, trading on average around US$1.2938 in April 2005, hampered by relatively lower interest rates and a lacklustre euro zone growth. Starting April 2005, the European Commission downgraded its growth forecasts for the euro zone for 2005 from an initial estimate of 2.0 per cent to 1.6 per cent due to high oil prices and the euro's relative strength. The downward revised forecast highlighted the sluggishness of the euro zone economy and reinforced market view that the ECB would find it hard to raise interest rates soon. As expected, the ECB left its key refinance rate unchanged at 2.0 per cent on 7 April 2005, although in his news conference, the ECB President stated that if needed, the ECB would raise rates. As expectations that the US Federal Reserve would move on with an aggressive monetary tightening intensified, the euro lost ground vis-à-vis the surging US dollar. By mid April, the euro had reached its intra-month low of US$1.2783 against the US currency before recovering amid profit-taking. By the close of the month, the euro traded within narrow ranges against the US dollar as currency traders focused on the sluggish state of the euro zone economy in the wake of the release of weak business sentiment survey for the euro area.

The Pound sterling depreciated against the US dollar in April 2005, trading on average around US$1.8947, down from an average of around US$1.9044 in March 2005. By the end of the first week, the Pound sterling reached its intra-month low of US$1.8692 vis-à-vis the US dollar following the release of data showing UK February 2005 manufacturing output dropped by 0.5 per cent, its first fall since August 2004. The Bank of England, as expected, left its key interest rate unchanged at 4.75 per cent at its MPC meeting. With the release of data showing an improvement in Britain's trade position and a pick-up in house and producer price inflation, the Pound sterling managed to move higher against the

US dollar. The release of data showing a sharp rise in UK March 2005 inflation sustained the growing view that the Bank of England would soon raise interest rates and further supported the Pound. By the close of April 2005, the Pound sterling's gains were, however, trimmed down by the release of weak UK data on retail sales and factory orders.

The Japanese yen depreciated against the US dollar in April 2005, trading on average around ¥107.30 per US dollar against an average of ¥105.24 per US dollar in the previous month. The Japanese yen was initially pressured by the broad-based strength of the US dollar. The release of data showing that Japan posted a larger-than-expected current account surplus in February 2005, however, managed to provide support to the yen. In the wake of losses in Asian stock prices partly due to strained tensions between Japan and its largest trade partner China, yen gains vis-à-vis the US dollar became less pronounced. Nonetheless, the Japanese yen closed April at its intra-month high of ¥105.61 per US dollar, benefiting from enduring expectations that China would soon revalue the yuan.

During April 2005, oil prices eased slightly as weekly reports from US Energy Administration showed major increases in US crude oil stock levels. Oil prices also went down following heavy selling by hedge funds as many in the market had earlier built up long positions in the oil futures following a report by investment bank Goldman Sachs that pointed out that oil markets have entered a “super-spike” period that could see prices as high as US$105 a barrel. Nevertheless oil prices remained persistently high above US$50 a barrel. OPEC President reassured the market that OPEC would supply an additional 500,000 barrels per day (bpd) from the beginning of May 2005, although the OPEC quota would remain unchanged at 27.5 million bpd, until the cartel's meeting on 15 June 2005 and Saudi Arabia confirmed that it would supply the totality of the 500,000 bpd. In its latest monthly market report, OPEC said that its capacity would grow by 1.6 million bpd to 32.7 million bpd this year as new big facilities would start in Kuwait, Nigeria and the UAE and smaller expansions would emerge in Algeria, Iran and Venezuela. Looking ahead, oil prices will remain around US$50 a barrel as the market remains tight with world oil demand not seen to subside in the weeks ahead. However, with latest GDP data from industrialized countries indicating that high oil prices have adversely affected their economies, global oil demand might ease in future if prices continue to remain high.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$53.2 a barrel in April 2005, compared to US$54.6 a barrel in March 2005 and US$36.6 a barrel in April 2004. IPE Brent futures averaged US$53.3 a barrel during April 2005, unchanged from March 2005 and up from US$33.0 a barrel in April 2004. In its April 2005 World Economic Outlook, the IMF has assumed an average cost of US$46.50 a barrel for the year 2005. The IMF suggested that the recent oil price increases might contribute to slow world GDP growth by 0.7-0.8 percentage point in 2005 and 2006 relative to 2004 and that the impact could be stronger in the developing countries and emerging markets facing external financial constraints

COMEX gold futures, on average, moved lower during April 2005, trading in an intra-month closing range of US$425.6/Oz - US$439.0/Oz compared to a range of US$424.8/Oz - US$446.8/Oz in March 2005. During the period under review, US dollar strength drove gold prices down. Nevertheless, in the third week of April an increase in physical demand of the precious metal was noted. Meanwhile, US Treasury Secretary John Snow dismissed chances that the proposal to sell IMF gold stocks to help fund relief for the world's poorest countries could succeed. COMEX averaged US$431.4/Oz during April 2005, compared to an average of US$435.1/Oz in March 2005.

Domestic Developments

Tourist arrivals rose by 6.8 per cent, from 63,631 in March 2004 to 67,931 in March 2005, while gross tourism receipts declined by 6.0 per cent, from Rs2,548 million in March 2004 to Rs2,396 million in March 2005. Cumulatively, over the period July 2004 to March 2005, tourist arrivals reached 583,535, representing an increase of 5.9 per cent compared to arrivals of 550,990 in the corresponding period in 2003-04. Tourism receipts for the period July 2004 to March 2005 grew by 9.7 per cent to reach Rs18,589 million compared to Rs16,946 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) for April 2005 was 117.1, unchanged from the previous month. The rate of inflation for the twelve-month period ended April 2005 stood at 5.3 per cent compared with 5.2 per cent for the twelve-month period ended March 2005.

Money supply M2 grew by Rs9,286 million or 6.6 per cent, from Rs141,132 million at the end of June 2004 to Rs150,418 million at the end of March 2005. Narrow money supply M1, one of the components of M2, went up by Rs709 million or 3.3 per cent to Rs22,031 million while quasi-money, the other component of M2, rose by Rs8,577 million or 7.2 per cent to Rs128,387 million.

Net foreign assets of the banking system grew by Rs4,713 million or 9.6 per cent, from Rs49,120 million at the end of June 2004 to Rs53,833 million at the end of March 2005. Net foreign assets of Bank of Mauritius increased by Rs1,544 million or 3.6 per cent to Rs44,806 million while net foreign assets of former Category 1 banks went up by Rs3,169 million or 54.1 per cent to Rs9,027 million.

Domestic credit expanded by Rs8,946 million or 6.9 per cent, from Rs128,799 million at the end of June 2004 to Rs137,745 million at the end of March 2005. Net credit to Government from the banking system went up by Rs2,771 million or 7.8 per cent to Rs38,118 million. Net credit to Government from Bank of Mauritius grew by Rs668 million or 96.2 per cent to a negative figure of Rs27 million while net credit to Government from former Category 1 banks rose by Rs2,103 million or 5.8 per cent to Rs38,144 million. Credit to the private sector from former Category 1 banks expanded by Rs6,182 million or 6.6 per cent, from Rs93,120 million at the end of June 2004 to Rs99,302 million at the end of March 2005. Over that period, additional credit was directed to ‘Construction’ (Rs2,031 million), ‘Traders’ (Rs1,451 million), ‘Manufacturing’ (Rs1,039 million), ‘Tourism’ (Rs946 million), ‘Personal’ (Rs588 million), ‘Statutory & Parastatal Bodies’ (Rs532 million), ‘Infrastructure’ (Rs424 million), ‘Transport’ (Rs208 million), ‘Professional’ (Rs149 million) and ‘Financial and Business Services’ (Rs129 million). Over the same period, declines were registered at ‘Agriculture and Fishing’ (Rs1,007 million) and ‘New Economy’ (Rs504 million).

Reserve money fell by Rs1,301 million or 5.2 per cent, from Rs24,905 million at the end of June 2004 to Rs23,604 million at the end of March 2005.

Taking into account liquidity conditions in the market in April 2005, the Bank carried out two reverse repurchase transactions for 2 and 3 days, respectively. The weighted average yield on bids accepted was 1.31 per cent.

During April 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,118.2 million while trading of Treasury Bills on the Stock Exchange amounted to Rs5.6 million.

Effective 18 April 2005, the weekly issue of 3-Year Treasury Notes to existing holders of Treasury Bills wishing to convert part or the full amount of their maturing Treasury Bills into Treasury Notes was discontinued. A total amount of Rs2,750 million of maturing Treasury Bills was converted into 3-Year Treasury Notes from 1 to 15 April 2005.

Between March 2005 and April 2005, the rupee, on average, appreciated vis-à-vis the euro, Pound sterling and Japanese yen but depreciated against the US dollar.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to former Category 1 banks during April 2005 amounted to an equivalent of USD15.1 million. The Bank intervened and sold USD15.3 million to former Category 1 banks during the month.

At the end of March 2005, the net international reserves of the country amounted to Rs54,837 million. The end-March 2005 level of net international reserves of the country, based on the value of the import bill for calendar year 2004, exclusive of the purchase of aircraft, represented 37.3 weeks of imports, up from 36.8 weeks of imports at the end of February 2005. At the end of April 2005, the foreign exchange reserves of the Bank of Mauritius amounted to Rs44,982 million, up from Rs44,820 million at the end of March 2005.