OVERVIEW

International Developments

During December 2004, the US dollar, on average, depreciated against all major currencies. The US dollar started the month on a soft tone undermined by the release of disappointing US November 2004 non-farm payroll report and amid market perception that the US authorities were in no hurry to stem the dollar's fall. By the second week of December, selling pressure on the US dollar eased following verbal intervention by Japanese and European officials, which fuelled expectations that the ECB and the Japanese authorities could step into the market to halt the US currency's slide. The US dollar also benefited from the widely anticipated decision of the Fed to raise its federal funds rate to 2.25 per cent at its upcoming FOMC meeting. On 14 December 2004, the Fed hiked the US federal funds rate in line with expectations but the US dollar did not garner further support as the accompanying statement failed to provide clear-cut evidence of how aggressive the Fed would be on interest rates in future. The release, thereafter, of better-than-expected US current account data, however, managed to provide a short-lived respite to the US dollar but renewed worries over the funding of the huge US current account deficit in the medium term resurfaced to curb the US dollar's recovery. Even the release of relatively good US economic data, including revised third quarter 2004 GDP indicating sustained solid growth in the United States, could not provide any major motivation to buy the US dollar.

The euro, which started the month trading around US$1.3304, consolidated its gains vis-à-vis the weak US dollar during the first week of December 2004. At its governing council meeting on 2 December 2004, the ECB left its interest rates unchanged at a historical low of 2.0 per cent for the 18th month running. The ECB, however, surprised financial markets by revealing that it had considered raising interest rates over worries about inflationary risks even though the euro zone economy had slowed. The release of a joint statement from the euro zone finance ministers underlining that excessive volatility and disorderly movements in exchange rates were undesirable for economic growth and that they would monitor the situation closely somehow limited the euro's gains against the US dollar. However, with market focus on the US huge deficits, the euro strengthened against the US dollar, breaking above the key psychological US$1.35 level for the first time ever in Tokyo trade on 24 December 2004. Amid thin trade ahead of year-end holidays and the view that the euro zone economy could tolerate current euro levels, the market pushed the single currency further and on 30 December 2004, the euro reached a new record high of US$1.3667.

The Pound sterling opened the month at its intra-month low of US$1.9109. On the back of strong UK economic data in early December, the Pound surged to trade above US$1.95, its highest level against the US dollar since Britain left the ERM in 1992. The release of strong UK November 2004 CPI and retail sales data as well as better-than-expected UK labour market data consolidated sterling's gains against the US dollar. Although the Pound suffered a temporary setback following the release of the minutes of the December 2004 Monetary Policy Committee (MPC) meeting which surprised markets by revealing that some MPC members felt that the next move in UK interest rates might be down, the British currency remained well bid above US$1.90 towards the end of the month.

The yen, which started December 2004 at around ¥102.73 per US dollar, gradually lost ground against the US currency to trade at an intra-month low of ¥105.39 per US dollar on verbal intervention from Japanese officials and weaker-than-expected economic data. But with US dollar weakness underlying market sentiment, the yen was back trading at levels of the beginning of the month

International oil prices declined further during December 2004 as supply concerns eased with the US Energy Information Administration (EIA) showing satisfactory US crude inventory levels in its weekly reports. OPEC members met in Cairo on 10 December 2004 and agreed to cut their respective output levels so as to limit OPEC's supply to 27 million barrels per day (bpd) as from 1 January 2005. That essentially meant a supply reduction of approximately 1 million bpd to the market. Although that decision initially did not have any effect on the market, the market reacted to OPEC's decision after Saudi Arabia stated that it was reducing its supply to Japan by 8 per cent as from January 2005, and oil prices rose above US$45 a barrel. For the year 2005, the growth rate of oil consumption is expected to decelerate to 1.5 million bpd compared to a growth rate of 2.5 million bpd in 2004. Amid persistent US dollar weakness, oil prices might stay around US$40 a barrel for quite some time still in 2005 depending particularly on how the situation will evolve in Iraq. OPEC is scheduled to meet again on 30 January 2005 to decide whether further cuts are required.

In December 2004, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$43.3 a barrel, compared to US$48.5 a barrel in November 2004 and US$32.2 a barrel in December 2003. IPE Brent futures averaged US$40.3 a barrel in December 2004, compared to US$44.6 a barrel in November 2004 and US$29.6 a barrel in December 2003. For the year 2004, NYMEX WTI and IPE Brent futures averaged US$41.4 a barrel and US$38.0 a barrel, respectively, compared to US$30.9 a barrel and US$28.4 a barrel, respectively, in 2003.

On the domestic front, as prescribed under the Automatic Price Mechanism, prices of petroleum products were adjusted with effect from 5 January 2005. The price of motor gasoline was reduced by 3.26 per cent to Rs25.25 per litre while that of diesel was raised by 7.25 per cent to Rs18.50 per litre.

COMEX gold futures strengthened further during December 2004, trading in an intra-month closing range between US$435.3/Oz and US$457.8/Oz compared to a range between US$420.8/Oz and US$453.7/Oz in November 2004. Supported by persistent US dollar weakness, the price of gold reached a peak of US$457.8/Oz on 3 December 2004, the highest ever since July 1988. COMEX averaged US$444.1/Oz in December 2004, compared to an average of US$439.1/Oz in November 2004. The average price of gold for the year 2004 was US$410.4/Oz compared to US$363.0/Oz in 2003, representing an increase of 13.1 per cent.

Domestic Developments

Tourist arrivals rose by 8.0 per cent, from 61,984 in November 2003 to 66,960 in November 2004, while gross tourism receipts increased by 21.0 per cent, from Rs1,760 million in November 2003 to Rs2,130 million in November 2004. Cumulatively, for the period January to November, tourist arrivals reached 641,047 in 2004, representing an increase of 2.1 per cent on the 627,747 arrivals recorded in the corresponding period of 2003 while gross tourism receipts went up by 23.0 per cent, from Rs16,888 million in 2003 to Rs20,766 million in 2004.

The Consumer Price Index (CPI) increased from 114.7 in November 2004 to 115.0 in December 2004. The rate of inflation for calendar year 2004 stood at 4.7 per cent, compared to 3.9 per cent for calendar year 2003.

Money supply M2 increased by Rs3,394 million or 2.4 per cent, from Rs141,132 million at the end of June 2004 to Rs144,526 million at the end of November 2004. Narrow money supply M1, one of the components of M2, went up by Rs771 million or 3.6 per cent to Rs22,093 million while quasi-money, the other component of M2, rose by Rs2,623 million or 2.2 per cent to Rs122,434 million.

Net foreign assets of the banking system went up by Rs2,868 million or 5.8 per cent, from Rs49,120 million at the end of June 2004 to Rs51,988 million at the end of November 2004. Net foreign assets of Bank of Mauritius rose by Rs1,822 million or 4.2 per cent to Rs45,084 million while net foreign assets of Category 1 banks increased by Rs1,046 million or 17.9 per cent to Rs6,904 million.

Domestic credit rose by Rs4,845 million or 3.8 per cent, from Rs128,799 million at the end of June 2004 to Rs133,644 million at the end of November 2004. Net credit to Government from the banking system rose by Rs502 million or 1.4 per cent to Rs35,848 million. Net credit to Government from Bank of Mauritius went up by Rs212 million or 30.5 per cent to a negative figure of Rs483 million while net credit to Government from Category 1 banks rose by Rs290 million or 0.8 per cent to Rs36,331 million. Credit to the private sector from

Category 1 banks rose by Rs4,374 million or 4.7 per cent, from Rs93,120 million at the end of June 2004 to Rs97,494 million at the end of November 2004. Over that period, additional credit was directed to “Construction” (Rs1,317 million), “Tourism” (Rs1,041 million), “Statutory & Parastatal” (Rs928 million), “Personal” (Rs557 million), “Traders” (Rs472 million), “Financial and Business Services” (Rs445 million), “Professional” (Rs112 million) and “Transport” (Rs102 million). Over the same period, declines were registered at “Agriculture and Fishing” (Rs773 million) and “Manufacturing” (Rs139 million).

Reserve money dropped by Rs1,157 million or 4.6 per cent, from Rs24,905 million at the end of June 2004 to Rs23,748 million at the end of November 2004.

During December 2004, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs968.8 million while trading of Treasury Bills on the Stock Exchange amounted to Rs12.5million.

A total amount of Rs1,407.8 million of maturing Treasury Bills was converted into Treasury Notes during December 2004.

In line with the decision to lengthen the maturity structure of Government debt, the Bank carried out on 23 December 2004 for settlement on 24 December 2004, an auction of Mauritius Development Loan Stocks (MDLS) for a total nominal amount of Rs1,500 million. Three Stocks, namely 8.50% MDLS 2011 (24 Dec 2011), 8.75% MDLS 2015 (24 Dec 2015), and 9.00% MDLS 2019 (24 Dec 2019) were put on tender. The value of bids received for the three Stocks totalled Rs2,023.5 million, of which an amount of Rs1,500 million was accepted. The weighted yields on bids accepted were 8.58 per cent, 9.66 per cent and 9.98 per cent, respectively.

The Bank undertook the second quarterly auction of Five-Year Government of Mauritius Bonds for fiscal year 2004-05 on 30 December 2004 for settlement on 31 December 2004. Bonds for a total nominal amount of Rs500 million were put on tender at a coupon rate of 8.00 percent per annum. Bids were received for a total nominal amount of Rs1,271.7 million, of which Rs500 million were accepted. The weighted yield on bids accepted was 8.03 per cent.

Between November and December 2004, the rupee, on average, appreciated against the US dollar but depreciated against the Pound sterling, euro and Japanese yen.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during December 2004 amounted to an equivalent of US$5.1 million. The Bank intervened and sold US$6.0 million to banks during the month. The weighted average dealt selling rates of the rupee, which are calculated on transactions of US$30,000 and above, or the equivalent in other foreign currencies, effected by Category 1 banks, showed that the rupee, on average, appreciated against the US dollar and depreciated against the euro and the Pound sterling between November and December 2004.

At the end of November 2004, the net international reserves of the country amounted to Rs52,946 million. Based on the value of the import bill for fiscal year 2003-04, exclusive of the purchase of aircraft, the end-November 2004 level of net international reserves represented 39.6 weeks of imports, up from 38 weeks of imports at the end of October 2004. At the end of December 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs45,008 million, down from Rs45,187 million at the end of November 2004.

Revised estimates of the balance of payments show that the current account of the balance of payments recorded a surplus of Rs1,467 million during fiscal year 2003-04. In relation to GDP, the surplus on the current account represented 0.9 per cent in 2003-04. The deficit on the merchandise account of the balance of payments, inclusive of transactions of the Free port, amounted to Rs10,506 million. The services account posted a surplus of Rs11,275 million reflecting mainly higher earnings on the travel account. Gross earnings from tourism amounted to Rs22,394 million while expenditure on foreign travel by residents reached Rs6,591 million in 2003-04, yielding net inflows of Rs15,803 million on the travel account. The income account registered a deficit of Rs1,002 million while a net surplus of Rs1,700 million is estimated on the current transfers account. The capital and financial account, inclusive of reserve assets, recorded a net outflow of Rs1,165 million in 2003-04. The overall balance of payments for 2003-04, measured as the change in reserve assets excluding valuation changes, showed a surplus of Rs3,225 million.

Provisional estimates for the third quarter of 2004 suggest that the current account of the balance of payments recorded a deficit Rs363 million compared with a surplus of Rs1,962 million in the corresponding quarter of 2003, reflecting mainly a deterioration in the merchandise account. The deficit on the merchandise account of the balance of payments increased to Rs2,651 million, from Rs567 million a year earlier. The deficit on the merchandise account was partly offset by surpluses on the services, income and current transfers accounts. The capital and financial account, inclusive of reserve assets, recorded net outflows of Rs2,126 million in the third quarter of 2004. The overall balance of payments for third quarter 2004, measured as the change in reserve assets excluding valuation changes, registered a deficit of Rs286 million.