OVERVIEW

International Developments

During December 2005, the US dollar, on average, depreciated across the board. Starting December 2005, the US dollar staged higher vis-à-vis major currencies, benefiting from the release of upbeat economic growth and jobs data. The US economy grew by 4.3 per cent in the third quarter of 2005, higher than the initial estimate of 3.8 per cent, while the US Labor Department indicated robust growth in employment. However, as from the second week of December 2005, the US dollar, amid profit-taking, lost ground against major currencies. As widely expected, on 13 December 2005, the US Federal Reserve raised its federal funds rate for the 13th straight time to 4.25 per cent, but dropped reference to policy “accommodation” in its accompanying statement while stating that “some further measured policy firming is likely to be needed”. Amid market concerns that the US Federal Reserve might be nearing the end of its interest rate-tightening campaign, the release of data showing that the October 2005 trade deficit hit a record high of US$68.9 billion added further pressure on the US dollar. However, sentiment towards the US currency somewhat improved after the release of data showing record capital flows of US$106.8 billion in US assets in October 2005, which were more than enough to cover the record trade gap in the same month. The release, thereafter, of third quarter 2005 current account data which showed a deficit of US$195.8 billion had little impact on the US dollar as the latter benefited from the repatriation of US companies’ foreign earnings and thin market trading volume.

The euro, which traded at an average of US$1.1767 in November 2005, moved higher against the US dollar in December 2005, trading at an average of US$1.1856. On 1 December 2005, the European Central Bank (ECB), as widely expected, lifted its key refinancing rate by a quarter percentage point to 2.25 per cent. However, following the rate decision and as ECB President Jean Claude Trichet stressed that an ongoing rate-tightening campaign in the euro area was unlikely, the euro came under downward pressure, reaching its intra-month low of US$1.1691 on 5 December 2005. The single currency thereafter managed to rebound against the US dollar in the wake of hawkish comments from other euro zone officials stating that interest rates in the euro zone were at a very low level and that changes in inflation expectations could still prompt another rise in euro zone interest rates. By mid-December 2005, the euro had attained its intra-month high of US$1.2014 before closing the month trading around US$1.1874 amid year-end positions adjustments and thin trading volume.

From an average of US$1.7310 in November 2005, the Pound sterling appreciated against the US dollar in December 2005, trading at an average of US$1.7458. The Pound sterling, which was trading at around US$1.7282 at the beginning of December 2005, benefited from better-than expected trade figures as well as data indicating a soft landing for the housing market. Meanwhile, the Chancellor of the Exchequer downgraded Britain’s 2005 growth forecast to 1.75 per cent in his pre-Budget speech on 5 December 2005 while the Bank of England, as widely expected, kept its key repo rate on hold at 4.5 per cent on 8 December 2005 for the fourth month in a row. The British currency attained an intra-month high of US$1.7740 on 13 December 2005. Other data released showing lower-than-expected inflation figures as well as rising unemployment benefits claims bolstered the case for a cut in UK interest rate, undermining the Pound sterling. In addition, minutes of the latest Bank of England MPC meeting, released on 22 December 2005, showed that one member voted for a rate cut. Data showing record current account deficit in the third quarter of 2005 released on 23 December 2005 also dented sentiment towards the British currency, which fell to its intra-month low of US$1.7216 on 29 December 2005. Meanwhile, stronger-than-expected November 2005 retail sales figures towards month-end were largely ignored by the market on account of distortions due to seasonal factors.

The Japanese yen, on average, appreciated marginally vis-à-vis the US currency, trading around ¥118.51 per US dollar in December 2005 as against ¥118.56 per US dollar in the previous month. From a low of ¥121.36 per US dollar at the start of December 2005, the Japanese yen maintained a generally upward trend and reached its intra-month high of ¥115.73 per US dollar on 16 December 2005. The yen drew support from the release of a Bank of Japan survey showing an improvement in Japanese business confidence and as investors bought back the yen in year-end position adjustments, ignoring warnings by Japanese officials about the currency's recent rise. However, the Japanese yen, with the resumption of yen carry-trades, closed the month trading lower at around ¥117.22 per US dollar.

Oil prices moved higher during December 2005 on the back of colder temperatures in the US Northeast regions and forecast of even colder temperatures that could drive oil demand up consistently. At the OPEC's meeting on 12 December 2005 in Kuwait, the cartel decided to leave its official production quota of 28 million barrels per day unchanged, but decided to control output in excess of the quota to prepare for slacker demand in spring. The decision pushed prices further up as it implied that some 2 million barrels per day would have been taken off from the market. Reports from the US Energy Information Administration (EIA) on crude and distillate oil were mixed; while in some weeks they surprisingly increased, in others they fell unexpectedly. In the last week of the period under review, weather conditions were mild helping oil prices to ease a little. In the weeks ahead, oil prices will most likely trade over US$61 a barrel as the tight market conditions persist. OPEC's next meeting is scheduled for 31 January 2006 in Vienna.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$59.5 a barrel in December 2005, compared to US$58.3 a barrel in November 2005 and US$43.3 a barrel in December 2004. IPE Brent futures averaged US$57.6 a barrel during the period under review, up from US$56.2 a barrel in November 2005 and US$40.3 a barrel in December 2004. For the year 2005, NYMEX WTI and IPE Brent averaged US$56.6 and US$55.1 a barrel compared to US$41.4 and US$38.0 a barrel, respectively, in 2004.

COMEX gold futures, on average, moved higher during December 2005, trading in an intra-month closing range of US$495.3/Oz-US$531.5/Oz compared to a range of US$457.9/Oz-US$499.1/Oz in November 2005. Gold prices were more influenced by speculative moves than fundamental demand and supply factors. The fact that gold prices broke the key psychological level of US$500/Oz kept the market afloat and investors' interest in the bullion grew. COMEX gold futures reached a 23 3/4-year high of US$531.5/Oz on 12 December 2005. Thereafter many market players took profits on the gold contract and gold prices fell drastically. COMEX averaged US$512.4/Oz in December 2005, compared to an average of US$476.7/Oz in November 2005. For the year 2005, COMEX averaged US$447.0/Oz compared to US$410.4/Oz in 2004.

Domestic Developments

Tourist arrivals increased by 5.7 per cent, from 66,960 in November 2004 to 70,793 in November 2005, while gross tourism receipts rose by 16.1 per cent, from Rs2,130 million in November 2004 to Rs2,472 million in November 2005. Cumulatively, over the period January to November 2005, tourist arrivals reached 670,544, representing an increase of 4.6 per cent on the 641,047 arrivals in the corresponding period of 2004. Tourism receipts for the period January to November 2005 grew by 8.6 per cent to reach Rs22,550 million compared to Rs20,766 million in the corresponding period of the previous year.

The Consumer Price Index (CPI) rose from 118.8 in November 2005 to 119.5 in December 2005. The rate of inflation for calendar year 2005 stood at 4.9 per cent, compared to 4.7 per cent for calendar year 2004.

Money supply M2 increased by Rs7,697 million or 4.8 per cent, from Rs159,625 million at the end of June 2005 to Rs167,322 million at the end of November 2005, reflecting increases in both of its components. Narrow money supply M1 went up by Rs1,653 million or 7.4 per cent to Rs23,893 million while quasi-money increased by Rs6,044 million or 4.4 per cent to Rs143,429 million.

Net foreign assets of the banking system expanded by Rs1,010 million or 1.9 per cent, from Rs52,951 million at the end of June 2005 to Rs53,961 million at the end of November 2005. Net foreign assets of Bank of Mauritius fell by Rs1,675 million or 3.9 per cent to Rs41,021 million while net foreign assets of banks went up by Rs2,684 million or 26.2 per cent to Rs12,940 million.

Domestic credit went up by Rs7,954 million or 5.4 per cent, from Rs145,973 million at the end of June 2005 to Rs153,927 million at the end of November 2005. Net credit to Government from the banking system rose by Rs386 million or 0.9 per cent, from Rs40,907 million at the end of June 2005 to Rs41,293 million at the end of November 2005. Net credit to Government from Bank of Mauritius increased by Rs955 million or 118.9 per cent to Rs1,758 million while net credit to Government from banks contracted by Rs569 million or 1.4 per cent to Rs39,535 million. Credit to the private sector from banks rose by Rs7,567 million from Rs105,066 million at the end of June 2005 to Rs112,633 million at the end of November 2005, or 7.2 per cent. Over that period, additional credit was directed to “Public Nonfinancial Corporations” (Rs2,214 million), “Traders” (Rs1,810 million), “Construction” (Rs1,537 million), “Personal” (Rs769 million), “Tourism” (Rs697 million), “Agriculture & Fishing” (Rs278 million), “Infrastructure” (Rs273 million), “Financial and Business Services” (Rs188 million), “State and Local Government” (Rs156 million), “Manufacturing” (Rs131 million), “Freeport Enterprise Certificate Holders” (Rs124 million), “Transport” (Rs107 million) and “Education” (Rs59 million). Over the same period, a major drop in credit was registered at “Information, Communications and Technology” (Rs927 million).

Reserve money rose by Rs1,136 million or 5.0 per cent, from Rs22,941 million at the end of June 2005 to Rs24,077 million at the end of November 2005.

Taking into account liquidity conditions in the market in December 2005, the Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs4,280 million through the Primary Market. The Bank also carried out one repurchase transaction for 7 days at a fixed rate of 5.75 per cent.

During December 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,001.7 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs1.0 million.

The monthly auction of Treasury Notes was held on 30 November 2005 for settlement on 02 December 2005. Treasury Notes for a total nominal amount of Rs2,400 million, with maturities of 2, 3 and 4 years and bearing interest at the rate of 7.25, 7.50 and 7.80 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs2,411 million, of which an amount of Rs2,400 million was accepted. The weighted average yields on bids accepted were 7.30, 7.55 and 8.05 per cent per annum respectively.

On 16 December 2005, the Bank undertook the second of the three issues of Mauritius Development Loan Stocks (MDLS) for fiscal year 2005-06 with maturities ranging from 7 to 13 years. Three stocks, namely 8.50% MDLS 2012 (16 Dec 2012), 8.75% MDLS 2016 (16 Dec 2016) and 9.00% MDLS 2018 (16 Dec 2018) were put on tender for a total nominal amount of Rs1,100 million. Bids received for the three maturities totalled Rs1,665.5 million, of which an amount of Rs1,100 million was accepted. The weighted average yields on bids accepted were 9.53 per cent, 10.26 per cent and 10.53 per cent, respectively.

On 30 December 2005, the Bank undertook the third of a series of six issues of Five-Year Government of Mauritius Bonds for fiscal year 2005-06. Bonds for a total amount of Rs500 million were put on tender. Following the increase in the Lombard Rate on 7 December, the coupon rate was raised from 8.25 to 8.75 per cent per annum. Bids were received for a total nominal amount of Rs814.6 million, of which Rs500 million were accepted. The weighted average yield on bids accepted was 8.95 per cent per annum.

Between November 2005 and December 2005, the rupee, on average, depreciated against all major currencies.

The Bank intervened and sold US$6.50 million to banks in December 2005. 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, depreciated against the US dollar, Euro and Pound sterling between November and December 2005.

At the end of November 2005, the net international reserves of the country amounted to Rs54,916 million. The end-November 2005 level of net international reserves of the country, based on the value of the revised import bill for fiscal year 2004-05, exclusive of the purchase of aircraft, represented 33.9 weeks of imports, up from 33.3 weeks at the end of October 2005. The foreign exchange reserves of the Bank of Mauritius rose to Rs41,116 million at the end of December 2005, from Rs41,021 million at the end of November 2005.