OVERVIEW

International Developments

During February 2005, the US dollar, on average, appreciated vis-à-vis the euro and Japanese yen but depreciated against the Pound sterling. As widely expected, the US Federal Reserve Bank, at its FOMC meeting on 1-2 February 2005, raised its federal funds rate for the sixth straight time by a quarter percentage point to 2.5 per cent. In its accompanying statement, the US Federal Reserve retained its assessment that economic risks were balanced between slower growth and rising prices and asserted that rates would be raised at a "measured" pace. The US dollar remained strong, benefiting from optimistic comments from the US Federal Reserve Chairman and the US Administration's efforts to tighten fiscal policy. The release, however, of US trade data, which showed that the trade deficit surged to a record US$617.7 billion in 2004, held up the US dollar's rally. Even the Federal Reserve Chairman Alan Greenspan's twice-yearly testimony to congressional committees on 16-17 February 2005 did not provide support to the US dollar. US fourth quarter 2004 GDP growth released by the close of February also disappointed currency traders as it came in at 3.8 per cent, lower than the expected 4.0 per cent.

The euro, which started the month trading around US$1.3078, moved lower vis-à-vis the US dollar to reach its intra-month low of US$1.2761 by the second week of February 2005. The single currency did not draw any support from the widely expected ECB's decision to keep interest rate unchanged at its governing council meeting on 3 February 2005. The release, thereafter, of lower-than-expected euro zone January 2005 inflation data, which further dampened expectations of any near-term interest rate hike also weighed on the euro. The single currency, however, managed to recoup its losses as ECB policymakers expressed optimism about the euro zone's prospects despite the release of weak euro zone GDP data for the fourth quarter of 2004. Eurostats reported that quarter-on-quarter GDP growth for the euro zone stood at 0.2 per cent, with Germany and Italy both registering negative growth rates of 0.2 per cent and 0.3 per cent, respectively. By the close of the month, the euro had attained its intra-month high of US$1.3260.

The Pound sterling, which traded on average around US$1.8780 in January 2005, moved higher trading on average around US$1.8880 in February 2005. The Bank of England, as expected, left its key repo rate unchanged at 4.75 per cent at its Monetary Policy Committee (MPC) meeting on 10 February 2005. The release of UK input data, which showed that British raw material costs rose by a seasonally adjusted 3.4 per cent in January 2005 and prompted talk of a potential rise in UK interest rates later this year, provided a boost to the Pound. The Bank of England's quarterly inflation report, however, disappointed market players as it revealed that the central bank considered that risks to both economic growth and inflation were on the downside. Nonetheless, the release thereafter of healthy January 2005 UK retail sales data and MPC's minutes, which showed that one member of the Committee had voted for a rate hike, helped to drive the British currency higher. The Pound closed February 2005 at its intra-month high of US$1.9211.

The Japanese yen, which traded on average around ¥103.27 per US dollar in January 2005, weakened against the US dollar trading on average around ¥104.94 per US dollar in February 2005. The G7 communiqué released after the 4-5 February 2005 meeting, which repeated that exchange rate must reflect economic fundamentals and excessive volatility was undesirable, had little effect on the Japanese yen. Weak Japanese GDP growth data, however, dragged down the Japanese currency against the US dollar. Japanese quarter-on-quarter GDP growth for the fourth quarter of 2004 stood at –0.1 per cent.

During February 2005, international oil prices, on average, moved higher though initially they eased slightly. OPEC's decision to leave its output quota unchanged at its meeting in Vienna, Austria on 30 January 2005, positive US inventory report, and mild weather conditions and forecast of warmer than normal temperature in the US North East region helped to stabilize the market in the first two weeks of February though oil prices remained well above US$45 a barrel. In its latest report released on 10 February 2005, the International Energy Agency raised its forecast for global oil demand growth in 2005 by 80,000 barrels per day (bpd) to 1.52 million bpd and showed that commercial OECD oil stocks had dropped by 85 million barrels in December 2004. The report supported oil prices on the high side. Moreover, comments on 14 February 2005 from OPEC Acting Secretary General saying that members of the cartel were leaning towards cutting output at their 16 March 2005 meeting to defend prices against a second-quarter stock build-up kept the oil market buoyant. Meanwhile, persistent cold weather and forecast of heavy storm for the US North East region pushed oil prices further up, crossing the level of US$50 a barrel. With oil prices hovering around US$50 a barrel, OPEC President and Acting Secretary General reacted by indicating that the cartel may consider increasing its production at its forthcoming meeting on 16 March 2005 in Iran, if such action proved to be necessary.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$48.1 a barrel in February 2005 compared to US$46.9 a barrel in January 2005 and US$34.5 a barrel in February 2004. IPE Brent futures averaged US$45.9 a barrel for the same period, compared to US$44.2 a barrel in January 2005 and US$30.4 a barrel in February 2004.

COMEX gold futures firmed slightly during February 2005, trading in an intra-month closing range between US$414.3/Oz and US$437.6/Oz compared to a range between US$419.5/Oz and US$429.7/Oz in January 2005. Gold prices in the first week of February 2005 eased slightly on the strength of the US dollar. Furthermore, the precious metal came under pressure from the prospects of the IMF selling bullion from its reserves for Third World debt relief. In the last two weeks of February 2005, gold futures went up on a combination of factors, namely geopolitical tensions between the United States and Iran, temporary softness in the US dollar and mounting inflation fears amid high oil prices. The contract broke a key resistance level at US$430/Oz on 22 February 2005 and averaged US$425.5/Oz during February 2005, compared to an average of US$424.8/Oz in January 2005.

Domestic Developments

Tourist arrivals rose by 9.8 per cent, from 66,543 in January 2004 to 73,053 in January 2005, while gross tourism receipts increased by 15.2 per cent, from Rs2,109 million in January 2004 to Rs2,429 million in January 2005. Cumulatively, for the period July 2004 to January 2005, tourist arrivals reached 459,237, representing an increase of 6.0 per cent compared to arrivals of 433,255 in the corresponding period in 2003-04 while gross tourism receipts went up by 10.9 per cent, from Rs12,568 million for the period July 2003 to January 2004 to Rs13,942 million for the period July 2004 to January 2005.

The Consumer Price Index (CPI) increased from 116.1 in January 2005 to 116.7 in February 2005. The rate of inflation for the twelve-month period ended February 2005 stood at 5.0 per cent compared with 4.9 per cent for the twelve-month period ended January 2005.

Money supply M2 expanded by Rs6,689 million or 4.7 per cent, from Rs141,132 million at the end of June 2004 to Rs147,821 million at the end of January 2005. Narrow money supply M1, one of the components of M2, went up by Rs1,082 million or 5.1 per cent to Rs22,404 million while quasi-money, the other component of M2, rose by Rs5,606 million or 4.7 per cent to Rs125,417 million.

Net foreign assets of the banking system grew by Rs2,602 million or 5.3 per cent, from Rs49,120 million at the end of June 2004 to Rs51,722 million at the end of January 2005. Net foreign assets of Bank of Mauritius increased by Rs1,060 million or 2.4 per cent to Rs44,322 million while net foreign assets of Category 1 banks went up by Rs1,542 million or 26.3 per cent to Rs7,401 million.

Domestic credit expanded by Rs7,130 million or 5.5 per cent, from Rs128,799 million at the end of June 2004 to Rs135,929 million at the end of January 2005. Net credit to Government from the banking system went up by Rs1,764 million or 5.0 per cent to Rs37,110 million. Net credit to Government from Bank of Mauritius grew by Rs505 million or 72.6 per cent to a negative figure of Rs190 million while net credit to Government from Category 1 banks rose by Rs1,259 million or 3.5 per cent to Rs37,300 million. Credit to the private sector from Category 1 banks expanded by Rs5,386 million or 5.8 per cent, from Rs93,120 million at the end of June 2004 to Rs98,506 million at the end of January 2005. Over that period, additional credit was channelled to "Construction" (Rs1,694 million), "Traders" (Rs1,236 million), "Tourism" (Rs981 million), "Statutory & Parastatal Bodies" (Rs819 million), "Personal" (Rs501 million), "Manufacturing" (Rs351 million), "Financial and Business Services" (Rs330 million), "Infrastructure" (Rs316 million), "Transport" (Rs184 million) and "Professional" (Rs128 million). Over the same period, declines in credit were registered at “Agriculture and Fishing” (Rs774 million) and “New Economy” (Rs494 million).

Reserve money fell by Rs1,017 million or 4.1 per cent, from Rs24,905 million at the end of June 2004 to Rs23,888 million at the end of January 2005.

Taking into account liquidity conditions in the market in February 2005, the Bank carried out two repurchase transactions for 2 and 3 days, respectively, at a fixed yield of 5.00 per cent.

During February 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs309.5 million while trading of Treasury Bills on the Stock Exchange amounted to Rs9.0 million.

A total amount of Rs2,252.6 million of maturing Treasury Bills was converted into 3-Year Treasury Notes during February 2005.

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

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during February 2005 amounted to an equivalent of US$3.20 million. The Bank intervened and sold US$10.5 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, depreciated against the US dollar, the Euro and the Pound sterling between January and February 2005.

At the end of January 2005, the net international reserves of the country amounted to Rs52,674 million. Following the release of external trade data for the fourth quarter of 2004, the end-January 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 35.9 weeks of imports, down from 36.0 weeks of imports at the end of December 2004. At the end of February 2005, the foreign exchange reserves at the Bank of Mauritius amounted to Rs45,028 million, up from Rs44,381 million at the end of January 2005.

Provisional estimates for calendar year 2004 show that the current account of the balance of payments recorded a deficit of Rs3,183 million, reflecting mostly a deterioration in the merchandise account. The deficit on the merchandise account, inclusive of transactions of the Freeport, amounted to Rs15,875 million. The services account posted a surplus of Rs11,819 million, reflecting higher earnings on the travel account. Gross earnings from tourism amounted to Rs23,448 million while expenditure on foreign travel by residents reached Rs7,001 million in 2004, yielding net inflows of Rs16,447 million on the travel account. The income account registered a deficit of Rs377 million while a net surplus of Rs1,250 million is estimated on the current transfers account. The capital and financial account, inclusive of reserve assets, recorded a net outflow of Rs1,513 million in 2004. The overall balance of payments for 2004, measured as the change in reserve assets excluding valuation changes, showed a deficit of Rs857 million.