OVERVIEW

International Developments

During January 2005, the US dollar, on average, appreciated vis-à-vis the euro and Pound sterling but depreciated mildly against the Japanese yen. Beginning January 2005, the US dollar recouped its losses after sessions of heavy selling towards the end of 2004, when it reached all time lows against the single currency. Position adjustment by traders reassessing the US dollar outlook as it became clear that the US currency was largely oversold, pushed the US currency higher. Throughout the month, the US currency was supported by bullish comments by Fed officials on US growth prospects and the release of positive data relating to factory orders, retail sales and industrial production. Furthermore, preliminary estimates of US fourth quarter GDP showed that growth stood at 3.1 per cent. Minutes of Fed's last FOMC meeting in 2004, whereby the Fed said that US interest rates were likely to increase further, added to the bullish tone of the dollar.

The euro, which had reached a record high of USD1.3667 at the close of year 2004, lost ground against the US dollar in January 2005, on concerns expressed by ECB officials over the significant appreciation of the euro vis-à-vis the US dollar. In the first week of January 2005, the euro made small losses on position adjustment by traders on market belief that the single currency was overbought. On 13 January 2005, as expected, the ECB left its key refinancing rate unchanged at 2.0 per cent at its first governing council meeting for 2005. At the news conference after the meeting, ECB President Jean-Claude Trichet indicated that the consensus within the group of seven industrial countries was that Asian countries needed to appreciate their currencies against the US dollar. Amid market expectations that the interest rate gap between the euro zone and the United States would widen further, the euro, which was trading at around US$1.3485 at the beginning of January 2005, lost further ground to trade at US$1.3023 at close of January 2005.

The release of weak UK data in the first two weeks of January 2005 compounded by the broad-based recovery of the US dollar weighed on the Pound sterling. As expected, the Bank of England (BoE) left its key repo rate unchanged at 4.75 per cent on 13 January 2005 at its first MPC meeting for 2005. Minutes from the BoE MPC Committee's January 2005 meeting cemented expectations that borrowing costs would be steady for some time. Weak housing market data released in early January 2005 even suggested that the next move of the BoE would be a cut. However, in the third week of January 2005, various data released retracted those fears. A rise in UK CPI and improving UK labour market conditions restored some confidence in the Pound.

Throughout the month of January 2005, the Japanese yen remained well bid against the US dollar oscillating between Y104.61 – Y102.13 per US dollar. Speculation regarding the revaluation of the Chinese yuan as well as comments from both ECB and Fed officials that Asian currencies needed to appreciate against the US dollar were the main factors keeping the yen within narrow ranges. The Bank of Japan, as expected, left monetary policy unchanged on 19 January 2005.

After falling in November and December 2004, international oil prices rose during January 2005 as various factors in the market raised supply concerns. Saudi Arabia materialised its pledge to reduce output by cutting production levels by 500,000 barrels per day as from 1 January 2005. Furthermore, disruptions in Shell's Draugen field of the Norwegian Sea and in Nigeria weighed on the market. Weekly reports by US Energy Information Administration showing falls in crude oil stock level for three consecutive weeks added pressure on the market. Forecast of colder weather in the US Northeast region kept the oil market buoyant. The situation in Iraq ahead of the elections on the 30 January 2005 only made matters worst with frequent sabotage on oil infrastructure. All these factors made hedge funds turn bullish and they, in turn, kept the market afloat. On 30 January 2005, at its meeting in Vienna, Austria, OPEC left its output quota unchanged but oil prices could remain around US$45 a barrel in the weeks ahead unless the supply problems are resolved. The cartel decided to suspend its price band of US$22-28 a barrel as it found it 'unrealistic'.

For January 2005, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$46.9 a barrel, compared to US$43.3 a barrel in December 2004 and US$34.0 a barrel in January 2004. IPE Brent futures averaged US$44.2 a barrel for the same period, compared to US$40.3 a barrel in December 2004 and US$30.8 a barrel in January 2004. The OPEC basket price averaged US$36.00 per barrel in

2004, compared to US$28.10 per barrel in 2003, US$24.36 per barrel in 2002, and $23.12 per barrel in 2001.

COMEX gold futures weakened during January 2005, trading in an intra-month closing range between US$419.5/Oz and US$429.7/Oz compared to a range between US$435.3/Oz and US$457.8/Oz in December 2004. During the period under review, a firmer US dollar weighed on the market and gold prices retreated. COMEX averaged US$424.8/Oz during January 2005, compared to an average of US$444.1/Oz in December 2004.

Domestic Developments

On 10 February 2005, taking into account domestic as well as international economic conditions and with a view to dampening inflationary pressures in the economy and maintaining the attractiveness of domestic financial instruments, the Bank of Mauritius increased the Lombard Rate, which is used as the signalling mechanism of its monetary policy stance, by 25 basis points from 9.75 per cent to 10.00 per cent per annum.

Tourist arrivals rose by 4.8 per cent, from 74,271 in December 2003 to 77,814 in December 2004, while gross tourism receipts increased by 6.1 per cent, from Rs2,527 million in December 2003 to Rs2,682 million in December 2004. Tourist arrivals reached 718,861 in 2004, representing an increase of 2.4 per cent over the level of 702,018 in 2003 while gross tourism receipts went up by 20.8 per cent, from Rs19,415 million in 2003 to Rs23,448 million in 2004.

The Consumer Price Index (CPI) increased from 115.0 in December 2004 to 116.1 in January 2005. The rate of inflation for the twelve-month period ended January 2005 stood at 4.9 per cent compared with 4.7 per cent for calendar year 2004.

Money supply M2 grew by Rs7,500 million or 5.3 per cent, from Rs141,132 million at the end of June 2004 to Rs148,632 million at the end of December 2004, mainly reflecting seasonal factors. Narrow money supply M1, one of the components of M2, increased by Rs2,295 million or 10.8 per cent to Rs23,617 million while quasi-money, the other component of M2, went up by Rs5,204 million or 4.3 per cent to Rs125,014 million.

Net foreign assets of the banking system rose by Rs2,745 million or 5.6 per cent, from Rs49,120 million at the end of June 2004 to Rs51,865 million at the end of December 2004. Net foreign assets of Bank of Mauritius went up by Rs1,686 million or 3.9 per cent to Rs44,948 million while net foreign assets of Category 1 banks increased by Rs1,058 million or 18.1 per cent to Rs6,917 million.

Domestic credit grew by Rs7,908 million or 6.1 per cent, from Rs128,799 million at the end of June 2004 to Rs136,707 million at the end of December 2004. Net credit to Government from the banking system rose by Rs2,701 million or 7.6 per cent to Rs38,047 million. Net credit to Government from Bank of Mauritius increased by Rs674 million or 97.0 per cent to a negative figure of Rs21 million while net credit to Government from Category 1 banks rose by Rs2,027 million or 5.6 per cent to Rs38,068 million. Credit to the private sector from Category 1 banks went up by Rs5,238 million or 5.6 per cent, from Rs93,120 million at the end of June 2004 to Rs98,358 million at the end of December 2004. Over that period, additional credit was channelled to "Construction" (Rs1,562 million), "Tourism" (Rs1,405 million), "Statutory & Parastatal Bodies" (Rs808 million), "Traders" (Rs636 million), "Personal" (Rs497 million), "Financial and Business Services" (Rs288 million), "Transport" (Rs215 million), "Professional" (Rs123 million) and "Manufacturing" (Rs60 million). Over the same period, declines in credit were registered at "New Economy" (Rs446 million) and "Agriculture and Fishing" (Rs292 million).

Reserve money dropped by Rs283 million or 1.1 per cent, from Rs24,905 million at the end of June 2004 to Rs24,622 million at the end of December 2004.

Taking into account liquidity conditions in the market in January 2005, the Bank carried out one open reverse repurchase transaction for 3 days. The highest yield accepted was 1.50 per cent.

During January 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs636.9 million while trading of Treasury Bills on the Stock Exchange amounted to Rs9.3million.

A total amount of Rs1,743.4 million of maturing Treasury Bills was converted into Treasury Notes during January 2005.

An auction of Mauritius Development Loan Stocks (MDLS) for a total nominal amount of Rs1,500 million was held on 14 January 2005 for same day settlement. Three Stocks, namely 8.50% MDLS 2012 (14 Jan 2012), 8.75% MDLS 2016 (14 Jan 2016), and 9.00% MDLS 2020 (14 Jan 2020) were put on tender. Bids received for the three Stocks totalled Rs2,671.1 million, of which an amount of Rs1,500 million was accepted. The weighted yields on bids accepted were 8.66 per cent, 9.82 per cent and 10.0 per cent, respectively.

Between December 2004 and January 2005, the rupee, on average, appreciated vis-à-vis the Pound sterling and euro but depreciated against the US dollar and Japanese yen.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during January 2005 amounted to an equivalent of US$5.7 million. The Bank intervened and sold US$15.3 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 but appreciated against the euro and the Pound sterling between December 2004 and January 2005.

At the end of December 2004, the net international reserves of the country amounted to Rs52,824 million. Based on the value of the import bill for fiscal year 2003-04, exclusive of the purchase of aircraft, the end-December 2004 level of net international reserves represented 39.6 weeks of imports, unchanged from the level at the end of November 2004. At the end of January 2005, the foreign exchange reserves of the Bank of Mauritius amounted to Rs44,381 million, down from Rs45,008 million at the end of December 2004.

Provisional estimates for 2004 show that gross foreign direct investment in Mauritius was Rs1,796 million compared to Rs1,966 million in the preceding year. Gross foreign direct investment abroad, however, fell from Rs1,156 million in 2003 to Rs909 million in 2004. Tables 44 and 45 provide a sectoral breakdown of gross foreign direct investment in Mauritius and abroad, respectively.