OVERVIEW

International Developments

During January 2006, the US dollar, on average, depreciated across the board. Starting January 2006, the US dollar came under pressure against all major currencies amid growing expectations that the US Federal Reserve might soon end its 1½-year campaign of raising interest rates. Minutes of the Fed's 13 December 2005 policy meeting, released on 3 January 2006, suggested that Fed officials saw only a few more rate hikes before the end of the current tightening cycle, though future action would depend on incoming economic data. By the second week of January, the US dollar, after several days of heavy sell off, however, managed to recoup its losses due to position adjustment. The release of data showing a narrower-than-expected trade deficit of US$64.2 billion for November 2005, which was adequately financed by net capital flows in US assets to the tune of US$89.1 billion for the same month, also benefited the US dollar. The US currency drew further support from the release of data, namely, December 2005 industrial capacity data which came in at its highest in five years and December 2005 core consumer price index which rose at an annual rate of 2.2 per cent, its fastest since March 2005, thereby rekindling expectations that the US Federal Reserve might continue to raise rates. However, subsequent comments from several Federal Reserve officials reiterating that the United States was close to finishing the current cycle of monetary tightening capped the US dollar's gains. By the close of the month, the US dollar managed to move higher on profit-taking and as investors focused on expectations of robust US economic outlook in the first quarter of 2006. As widely expected, on 31 January 2006, the US Federal Reserve, at Alan Greenspan's last rate-setting FOMC meeting, raised its federal funds rate by 25 basis points to 4.5 per cent. The Fed, in its accompanying statement, however, dropped the word "measured", which had appeared in every statement since it started its series of 14 straight rate rises in June 2004, signifying that future rate rises would be conditional on US economic data remaining strong.

The euro, which traded at an average of US$1.1856 in December 2005, moved higher against the US dollar in January 2006, trading at an average of US$1.2119. From its intra-month low of US$1.1876 at the start of January, the euro staged higher against the US currency, benefiting from comments from European Central Bank officials pointing towards a strengthening of the euro zone economy. The single currency also drew support from the release of data showing an improvement in euro zone sentiment and strong service sector activity, which heightened expectations of further interest rate rises in the euro zone. As widely expected, the ECB, at its governing council meeting on 12 January 2006, left its key refinancing rate unchanged at 2.25 per cent. However, comments made by ECB President Jean-Claude Trichet at the post-meeting conference that the central bank would monitor prices "very closely" and was ready to raise rates when needed fell short of market expectations and somewhat hurt the euro. Remarks made thereafter by other ECB officials that the euro zone borrowing costs were quite low and monetary policy was expansive added to rising optimism that the ECB's rate hike in December 2005 could be the first in a series of hikes, thereby supporting the euro, which attained its intra-month high of US$1.2281 on 24 January 2006. The single currency later shed some of its gains on profit-taking to close the month trading around US$1.2092.

From an average of US$1.7458 in December 2005, the Pound sterling appreciated against the US dollar in January 2006, trading at an average of US$1.7658. The British currency, which started January 2006 trading at its intra-month low of US$1.7277, followed a general upward trend against the US dollar. Data released in the UK during the first half of the month were mixed. The British Retail Consortium indicated that retail sales recorded their biggest rise since May 2004 while the trade deficit hit a record high in November 2005. As widely expected, the Bank of England left its key repo rate unchanged at 4.5 per cent on 12 January 2006 after its two-day monthly MPC meeting. The release of data showing that December 2005 consumer price inflation fell back to the Bank of England's target of 2.0 per cent, from 2.1 per cent in November 2005, thereby leaving the door open to an interest rate cut this year, undermined the British currency. But the Pound sterling managed to resume its upward trend against the US dollar, benefiting from the release of stronger-than-expected December 2005 retail sales data and on the back of robust fourth quarter 2005 economic growth data, which helped to dent expectations for a near-term interest rate cut. Minutes of the Bank of England December 2005 MPC meeting also showed that only one member voted in favour of a rate cut. On 26 January 2006, the Pound reached its intra-month high of US$1.7852 before closing the month trading around US$1.7689.

The Japanese yen, on average, appreciated vis-à-vis the US currency, trading around ¥115.44 per US dollar in January 2006 as against ¥118.51 per US dollar in the previous month. From its intra-month high of ¥113.80 per US dollar on 9 January 2006, the yen maintained a general downtrend against the US dollar, mostly due to falling Japanese share prices. However, the yen managed to recoup its losses after Bank of Japan Governor Tohihiko Fukui sounded upbeat on the prospect of ending Japan's ultra-easy monetary policy, saying that his thoughts on a policy shift had "moved forward" since December 2005. With trading activity remaining subdued in Asia on account of the Lunar New Year holiday, the Japanese yen closed January 2006 at its intra-month low of ¥117.63 per US dollar.

Oil prices moved significantly higher during January 2006 on geopolitical concerns. A disagreement between the West and Iran over the latter's resumption on its nuclear programme and ongoing violence around oil facilities in Nigeria translated into fears of supply disruption in the world oil market. Moreover, Iran even made repeated calls for cutting output quota at OPEC's meeting scheduled at the end of January 2006. During the period under review, reports from the US Energy Information Administration (EIA) on crude and distillate oil were unsatisfactory, showing mostly large drops in stock levels. Mild weather conditions in the United States helped to contain oil prices to some extent. At OPEC's last meeting, on 31 January 2006 in Vienna, the cartel left its official output quota unchanged at 28 million barrels per day. In the weeks ahead, oil prices will most likely trade around US$62 a barrel as tight market conditions persist and the issue regarding Iran's nuclear programme does not look like being resolved soon.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$65.5 a barrel in January 2006, compared to US$59.5 a barrel in December 2005 and US$46.9 a barrel in January 2005. IPE Brent futures averaged US$63.8 a barrel in January 2006, up from US$57.6 a barrel in December 2005 and US$44.2 a barrel in January 2005. On the domestic front, the Government amended the Automatic Pricing Mechanism (APM) regulations to allow for a maximum price increase or decrease of 20 per cent instead of 15 per cent. The Certification Committee of the APM met on 3 January 2006 and decided to increase prices for Mogas and Diesel by the maximum permissible of 20 per cent to Rs34.80 per litre and Rs23.75 per litre, respectively, as from 4 January 2006.

COMEX gold futures, on average, moved higher during January 2006, trading in an intra-month closing range of US$527.8/Oz-US$575.5/Oz compared to a range of US$495.3/Oz-US$531.5/Oz in December 2005. Gold prices were persistently being influenced more by speculative moves than by fundamental demand and supply factors. Moreover, geopolitical tensions drove investors' interest further in the bullion on account of its safe-haven status. COMEX gold futures reached a new 25-year high of US$575.5/Oz on 31 January. COMEX averaged US$552.0/Oz in January 2006, compared to an average of US$512.4/Oz in December 2005.

Domestic Developments

Tourist arrivals increased by 16.3 per cent, from 77,814 in December 2004 to 90,519 in December 2005, while gross tourism receipts rose by 17.6 per cent, from Rs2,682 million in December 2004 to a record high of Rs3,154 million in December 2005. Tourist arrivals in 2005 reached 761,063, representing an increase of 5.9 per cent on the 718,861 arrivals in 2004. Tourism receipts for 2005 grew by 9.6 per cent to reach Rs25,704 million compared to Rs23,448 million recorded in 2004.

Provisional data show that gross foreign direct investment flows to Mauritius amounted to Rs2,349 million in 2005. The banking and tourism sectors were the largest recipients of foreign direct investment, with Rs435 million and Rs365 million, respectively. Significant FDI inflows were also recorded in the commercial (Rs502 million), services (Rs235 million), real estate (Rs226 million) and information and communication technology (Rs162 million) sectors. Direct investment abroad stood at Rs1,942 million in 2005. Investments in the tourism sector, mainly in the Maldives and the Seychelles, amounted to Rs967 million. Outward investment in the agricultural sector in Mozambique stood at Rs532 million while there was also significant outward investment in the manufacturing sector in Madagascar.

The Consumer Price Index (CPI) increased from 119.5 in December 2005 to 123.1 in January 2006. The rate of inflation for the twelve-month period ended January 2006 stood at 5.0 per cent compared to 4.9 per cent for calendar year 2005.

The real growth rate of the economy for 2005 has been revised downward to 3.0 per cent from the September 2005 estimate of 3.1 per cent. The major factor that led to this revision was a more severe contraction, of the order of 4.3 per cent, of the "Construction" sector than the 3.7 per cent forecast in September

2005. A lower sugar production, around 520,000 tons compared with the earlier estimate of 535,000 tons, resulted in a contraction of 9.1 per cent of the sugar sector, compared with the earlier estimate of a contraction of 6.5 per cent. The effect of this lower output on the overall growth rate was marginal as, exclusive of sugar, the real growth rate for 2005 was maintained at 3.6 per cent

Investment in the economy declined, in real terms, by 1.1 per cent, as opposed to a growth of 2.2 per cent in 2004. The investment rate, as measured by the ratio of GDFCF to GDP at market prices, decreased to 21.3 per cent in 2005 from 21.7 per cent in 2004. Investment by the private sector decreased by 1.2 per cent following a growth of 16.3 per cent in 2004. Public sector investment is estimated to have declined by 0.9 per cent in 2005 following a contraction of 19.9 per cent in 2004. The savings rate is estimated to have dropped from 22.7 per cent in 2004 to 16.7 per cent in 2005.

The economy is expected to recover in 2006 with growth forecast at 5.1 per cent. Exclusive of sugar, the growth rate is expected to be around 5.0 per cent.

Money supply M2 grew by Rs10,093 million or 6.3 per cent, from Rs159,625 million at the end of June 2005 to Rs169,718 million at the end of December 2005, reflecting increases in both of its components. Narrow money supply M1 went up by Rs3,718 million or 16.7 per cent to Rs25,958 million while quasi-money increased by Rs6,375 million or 4.6 per cent to Rs143,760 million.

Net foreign assets of the banking system expanded by Rs2,678 million or 5.1 per cent from Rs52,951 million at the end of June 2005 to Rs55,629 million at the end of December 2005. Net foreign assets of Bank of Mauritius fell by Rs1,580 million or 3.7 per cent to Rs41,116 million while net foreign assets of banks went up by Rs4,257 million or 41.5 per cent to Rs14,513 million.

Domestic credit went up by Rs11,117 million or 7.6 per cent, from Rs145,973 million at the end of June 2005 to Rs157,090 million at the end of December 2005. Net credit to Government from the banking system rose by Rs169 million or 0.4 per cent, from Rs40,907 million at the end of June 2005 to Rs41,076 million at the end of December 2005. Net credit to Government from Bank of Mauritius increased by Rs937 million or 116.6 per cent to Rs1,740 million while net credit to Government from banks contracted by Rs769 million or 1.9 per cent to Rs39,335 million. Credit to the private sector from banks rose by Rs10,948 million from Rs105,066 million at the end of June 2005 to Rs116,014 million at the end of December 2005, or 10.4 per cent. Over that period, additional credit was directed to “Public Nonfinancial Corporations” (Rs3,594 million), “Construction” (Rs1,655 million), “Traders” (Rs1,608 million), “Financial and Business Services” (Rs1,163 million), “Tourism” (Rs1,039 million), “Personal” (Rs861 million), “Agriculture & Fishing” (Rs644 million), “Infrastructure” (Rs419 million), “Manufacturing” (Rs355 million), “Transport” (Rs159 million), “Freeport Enterprise Certificate Holders” (Rs117 million), “Education” (Rs78 million) and “State and Local Government” (Rs20 million). Over the same period, declines were registered at “Information, Communications and Technology” (Rs896 million) and “Professional” (Rs79 million).

Reserve money rose by Rs2,108 million or 9.2 per cent, from Rs22,941 million at the end of June 2005 to Rs25,049 million at the end of December 2005.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total amount of Rs3,775 million through the Primary Market. Taking into account liquidity conditions in the market in January 2006, the Bank also carried out two reverse repurchase transactions for 3 days each at a fixed rate of 3.50 per cent.

During January 2006, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,182.5 million while trading of Treasury Bills on the Stock Exchange amounted to Rs6.9 million.

Two auctions of Treasury Notes with maturities of 2, 3 and 4 years and bearing interest at the rates of 7.60, 7.90 and 8.25 per cent per annum, respectively, were held in January 2006. At the first auction held on 4 January for settlement on 6 January, Treasury Notes for a total nominal amount of Rs1,600 million, were put on tender. Bids received for the three maturities totalled Rs1,043.1 million, of which an amount of Rs306.9 million was accepted. The weighted average yields on bids accepted were 7.92, 8.26 and 8.65 per cent per annum, respectively. At the second auction held on 31 January for settlement on 3 February 2006, Treasury Notes for a total nominal amount of Rs1,200 million, were put on tender. Bids received for the three maturities totalled Rs1,982.6 million, of which an amount of Rs1,200 million was accepted. The weighted average yields on bids accepted were 7.95, 8.26 and 8.59 per cent per annum, respectively.

Between December 2005 and January 2006, the rupee, on average, depreciated against all major currencies.

The weighted average dealt selling rates of the rupee, which are calculated on the basis of transactions of USD30,000 and above, or the equivalent in other foreign currencies, effected by commercial banks, showed that the rupee, on average, depreciated against the US Dollar, Euro and Pound Sterling between December 2005 and January 2006.

At the end of December 2005, the net international reserves of the country amounted to Rs56,397 million. The end-December 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 34.8 weeks of imports, up from 33.9 weeks at the end of November 2005. The foreign exchange reserves of the Bank of Mauritius rose to Rs41,948 million at the end of January 2006, from Rs41,116 million at the end of December 2005.