Overview

International Developments

During July 2004, the US dollar, on average, depreciated against all major currencies. The US dollar remained somewhat vulnerable, weighed down by the release of softer-than-expected US data throughout July 2004, which eroded market expectations that the Federal Reserve might be gearing up for a more aggressive cycle of interest rate hikes. According to analysts, the unexpectedly weak reports on US jobs and factory orders, disappointing retail sales and industrial production data as well as softer-than-expected core inflation broadly confirmed the view that the U.S. Federal Reserve would stick to its "measured" pace of raising interest rates. However, the US dollar managed to regain some footing on improving market sentiment in the wake of Alan Greenspan's two-day upbeat Congressional testimony on 20-21 July 2004.

The euro, which opened July 2004 trading around US$1.2162, drew support from the underlying broad-based weakness of the US dollar to move to an intra-month high of US$1.2452 by the start of the third week of July. The single currency, however, shrugged off its gains vis-à-vis the resurgent US dollar following Alan Greenspan's bullish economic outlook for the United States and remained weak against the US dollar in the closing week of July 2004, reaching an intra-month low of US$1.2041. The ECB, at its governing council meeting on 1 July 2004, left its key interest rate unchanged at 2.0 per cent. According to the ECB President, the bank might not need to consider tightening credit for the time being despite the current rise in inflation due to higher oil prices.

The Pound sterling, which started July 2004 at an intra-month low of US$1.8156, surged against the US dollar, benefiting from its high yield advantage and the release of positive economic data in the UK that pointed towards continued strength in the British economy. Annual growth in UK business sentiment turned out to be 7.2 per cent, the highest rate registered since first quarter 2001. British manufacturing output grew for the second month in a row in May 2004, rising at 2.0 per cent, its fastest annual rate since October 2003. By the start of the third week of July, however, the Pound, which was trading at an intra-month high of US$1.8750, started to decline on improving market sentiment towards the US currency. The Pound also suffered from the release of UK second quarter 2004 GDP data, which fell short of expectations of a more robust growth given the release on 22 July 2004 of higher-than-expected June 2004 UK retail sales. UK second quarter 2004 GDP rose by 0.9 per cent after a 0.7 per cent gain in the previous quarter, taking the annual rate of expansion to 3.7

percent, the strongest since the third quarter of 2000. By the close of July 2004, the Pound sterling was trading around US$1.8174. At its monthly MPC meeting on 7-8 July 2004, the Bank of England held off further monetary tightening, maintaining its key repo rate at 4.50 per cent.

The Japanese yen, which was trading at around ¥108.01 against the US dollar in early July 2004, gained ground to reach its intra-month high of ¥107.94 on 12 July 2004 after Prime Minister Junichiro Koizumi's LDP kept the majority seats at the elections. However, the yen thereafter declined against the US dollar, weighed down by losses in Tokyo stocks and the release of weaker-than-expected Japanese economic data. By the close of July, the yen had reached its intra-month low of ¥111.90 vis-à-vis the US dollar.

After dropping to levels below US$40 a barrel during almost the whole month of June 2004, oil prices rose again to levels above US$40 a barrel almost throughout the month of July 2004, underpinned by weekly reports on US crude stocks reflecting supply constraints and rising demand in United States. Middle East instability that persisted also weighed on the market and kept oil prices at high levels. Against this background, OPEC cancelled the 21 July 2004 ministerial meeting in Vienna, but decided to go ahead with the second stage of the agreement reached at its 3 June 2004 meeting, under which supply quota would increase by a further 500,000 barrels per day with effect from 1 August 2004. The financial problems faced by Russian major oil-supplying company, Yukos and OPEC's President comments to the effect that OPEC had no extra oil to immediately supply the world market to cool record high prices, put further upward pressure on oil prices.

For July 2004, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$40.8 a barrel, compared to US$30.7 a barrel in July 2003. The record level attained by NYMEX in July 2004 was US$43.80 a barrel reached in overnight trade on the 30th, or 95 cents higher than the record of US$42.85 a barrel for June 2004 reached on the 1st. IPE Brent futures averaged US$37.7 a barrel in July 2004, compared to US$28.4 a barrel in July 2003.

COMEX gold futures gained further strength during July 2004, with an intra-month closing range between US$387.0/Oz and US$408.4/Oz compared to a range between US$384.2/Oz and US$403.5/Oz in June 2004. Gold prices rose further, particularly in the second week of July reflecting US dollar weakness and ongoing instability in the Middle East. COMEX averaged US$398.7/Oz in July 2004.

Domestic Developments

The growth rate of the economy for 2003 has been revised upward to 4.6 per cent from the March 2004 estimate of 4.4 per cent, following an upward adjustment in the growth rate of "Other Manufacturing" and "Construction" which was partly offset by a lower growth in "Transport, Storage and Communication".

In its latest forecasts, the Central Statistics Office has revised downwards the growth rate of the economy for 2004 from 5.3 per cent to around 4.7 per cent. Exclusive of sugar, the growth rate for 2004 is estimated at 4.4 per cent compared to 4.5 per cent in 2003. The growth rates of the sugar, tourism and "Financial Intermediation" sectors have been revised downwards while the EPZ sector is expected to contract, but by less than what was forecast earlier. The sugar sector is now estimated to grow by 9.8 per cent in 2004, based on a sugar production of 590,000 tonnes, lower than the previous estimate of 620,000 tonnes. The EPZ sector is expected to contract by 1.0 per cent compared to the earlier estimate of a contraction of 2.0 per cent. With tourist arrivals revised downwards to 725,000 and tourist earnings estimated at Rs23,500 million, the tourism sector will register a lower growth of 3.3 per cent in 2004. The construction sector and the "Financial Intermediation" sector are likely to expand by 3.4 per cent and 6.0 per cent, respectively, in 2004 compared to previous estimates of 4.7 per cent and 7.4 per cent, respectively.

The investment rate, as measured by the ratio of GDFCF to GDP at market prices, is forecast to decline from 22.7 per cent in 2003 to 22.2 per cent in 2004. In real terms, investment is expected to grow by 4.8 per cent compared to 10.3 per cent in 2003. Public sector investment is forecast to contract by 3.6 per cent in 2004 following a high growth of 35.7 per cent in 2003 while private sector investment is expected to grow by 10.1 per cent in 2004 after registering a decline of 1.2 per cent in 2003. The saving rate is likely to increase to 26.7 per cent in 2004, from 26.5 per cent in 2003.

Tourist arrivals declined by 7.2 per cent, from 41,841 in June 2003 to 38,826 in June 2004, while gross tourism receipts increased by 11.7 per cent, from Rs1,387 million in June 2003 to Rs1,549 million in June 2004. For 2003-04, tourist arrivals reached 699,389, representing an increase of 0.7 per cent compared to 694,247 arrivals in the previous fiscal year. Tourism receipts for 2003-04 grew by 25.1 per cent to reach Rs22,516 million compared to Rs17,998 million recorded during 2002-03.

The Consumer Price Index (CPI) increased from 111.3 in June 2004 to 112.5 in July 2004. The rate of inflation for the twelve-month period ended July 2004 stood at 3.9 per cent, unchanged from June 2004.

Money supply M2 went up by Rs17,727 million or 14.4 per cent, from Rs123,405 million at the end of June 2003 to Rs141,132 million at the end of June 2004. Narrow money supply M1, one of the components of M2, rose by Rs3,883 million or 22.3 per cent to Rs21,322 million, while quasi-money, the other component of M2, increased by Rs13,845 million or 13.1 per cent to Rs119,811 million.

Net foreign assets of the banking system increased by Rs1,552 million or 3.3 per cent, from Rs47,568 million at the end of June 2003 to Rs49,120 million at the end of June 2004. Net foreign assets of Bank of Mauritius rose by Rs3,678 million or 9.3 per cent to Rs43,262 million, while net foreign assets of Category 1 banks fell by Rs2,126 million or 26.6 per cent to Rs5,858 million.

Domestic credit went up by Rs21,872 million or 20.5 per cent, from Rs106,927 million at the end of June 2003 to Rs128,799 million at the end of June 2004. Net credit to Government from the banking system increased by Rs13,870 million or 64.6 per cent to Rs35,346 million, driven by the increase of Rs10,261 million or 93.7 per cent in net credit to Government from Bank of Mauritius as a result of Government running down its cash balances. Net credit to Government from Category 1 banks rose by Rs3,609 million or 11.1 per cent to Rs36,041 million. Credit to the private sector from Category 1 banks went up by Rs8,040 million or 9.4 per cent, from Rs85,080 million at the end of June 2003 to Rs93,120 million at the end of June 2004. Over that period, credit was directed to “Construction” (Rs2,727 million), “Financial and Business Services” (Rs2,471 million), “Traders” (Rs1,232 million), “New Economy” (Rs1,133 million) and “Personal” (Rs976 million). A drop in credit was registered at “Agriculture & Fishing” (Rs592 million), “Statutory and Parastatal Bodies” (Rs440 million), “Tourism” (Rs256 million) and “Infrastructure” (Rs148 million).

Reserve money expanded by Rs10,129 million or 68.6 per cent, from Rs14,776 million at the end of June 2003 to Rs24,905 million at the end of June 2004, reflecting essentially the issue of BOM Bills to Category 1 banks.

Taking into account liquidity conditions in the market in July 2004, the Bank carried out four reverse repurchase transactions. All the transactions were conducted for a period of 7 days at a fixed yield of 1.15 per cent.

The Bank also conducted foreign exchange swap transactions in respect of US dollar against Mauritian Rupee for a total amount of USD12.5 million in July 2004. The swap transactions, which are exchange rate neutral, were carried out for a period of two months. Swaps amounting to US$12.5 million became due in July 2004.

During July 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs687 million while trading of Treasury Bills on the Stock Exchange amounted to Rs2.9 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during July 2004 amounted to an equivalent of USD3.77 million. The Bank intervened and sold USD5.0 million to banks during the month.

Between June and July 2004, the rupee, on average, depreciated against all major currencies.

At the end of June 2004, the net international reserves of the country amounted to Rs50,021 million. Based on the value of the import bill for calendar year 2003, exclusive of purchase of aircrafts, the end-June 2004 level of net international reserves of the country represented 39.8 weeks of imports, down from 41.1 weeks of imports at the end of May 2004. At the end of July 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs43,521 million, up from Rs43,342 million at the end of June 2004.