International Developments

During June 2005, the US dollar, on average, appreciated against all major currencies. Despite starting the month on a soft note, the US dollar managed to keep a firm footing across the board, boosted by ongoing prospects of widening interest rate differential in favour of US assets. In his testimony before the US Congress on 9 June 2005, the US Federal Reserve Chairman, Alan Greenspan, while signalling optimism over the US economy, also reinforced expectations of more hikes ahead in US interest rates. The release of data, which showed a narrower-than-expected trade deficit of US$56.96 billion in April 2005, also benefited the US dollar. However, the US dollar suffered a brief bout of weakness after the release, by the third week of June, of data showing a record current account deficit of US$195.1 billion in the first three months of 2005. Amid mounting pressure on the euro and on the release of a higher-than-expected annualised GDP growth rate of 3.8 per cent for the first quarter 2005, the US dollar remained well bid. At its FOMC meeting on 29-30 June 2005, as widely expected, the US Federal Reserve raised its federal funds rate by another 25 basis points to 3.25 per cent – its ninth such move since July 2004. In its accompanying statement, the US Federal Reserve signalled that more interest rate rises were likely ahead.

The euro, which traded on average around US$1.2699 in May 2005, moved lower against the US dollar in June 2005, trading on average around US$1.2166. From an intra-month high of US$1.2316 at the start of June, the euro lost ground vis-à-vis the US dollar, pressured by a crisis triggered after the Netherlands rejected the proposed EU constitution. On 2 June 2005, at its governing council meeting, the ECB rejected calls for an interest rate cut to help reverse the economic slowdown in the euro area and kept its key refinancing rate unchanged at 2.0 per cent. The no-change interest rate move did not benefit the euro as traders remained reluctant to hold the single currency. By mid June 2005, the euro, undermined by heavy selling pressure, had already attained its nine-month low against the US dollar. The bigger-than-expected 50 basis points interest rate cut decision by Sweden's Riksbank on 21 June 2005 further pressured the euro as traders believed that a trimming in euro zone's refinancing rate might not be far ahead. Towards the end of June 2005, expectations of an interest rate cut for the euro zone were reinforced after German Economy Minister Wolfgang Clement said that borrowing costs were too high for Europe's biggest economy. The euro closed June 2005 trading around US$1.2081.

The Pound sterling depreciated against the US dollar in June 2005, trading on average around US$1.8194, down from US$1.8573 in May 2005. The British currency moved lower vis-à-vis the US dollar on the back of weak UK manufacturing and consumer credit data. The UK Chartered Institute of

Purchasing and Supply said that Britain's manufacturing sector shrank at its fastest pace for over two years. The Bank of England said that British consumer credit rose by its smallest amount in $1^1/_2$ years in April 2005. Data released also showed that Britain's global goods trade deficit widened to GBP4.8 billion in April 2005 from a revised GBP4.6 billion in March 2005. On 14 June 2005, the Pound sterling reached an intra-month low of US$1.8059 on further evidence of a slowdown in the once-booming housing sector. The British currency, however, managed to move higher against the US dollar thereafter, drawing support from mounting speculation of a cut in euro zone interest rates, which underscored the Pound's relative interest rate advantage within Europe. Nonetheless, the Pound could not hold up to its gains as subsequent weak data on factory order books, mortgage approvals and retail sales started to fuel expectations of a near-term interest rate cut. At the close of the month, the Pound traded around US$1.8071.

Against a rallying US dollar, the Japanese yen depreciated, trading on average around ¥108.59 per US dollar in June 2005 as against ¥106.62 per US dollar in the previous month. During the first week of June 2005, the Japanese yen moved higher on the release of strong capital expenditure figures for the first quarter of 2005. However, towards end-June 2005, the Japanese yen, undermined by record high oil prices and China's insistence that it would not be rushed into loosening the yuan's peg, weakened against the generally strong US dollar. The Japanese currency closed the month at an intra-month low of 110.34.

During June 2005, oil prices rose sharply, trading consistently above US$50 a barrel. Weekly reports from US Energy Information Administration (EIA), showing unsatisfactory US crude oil stock levels, supported oil prices upward. Growing worries that the US refiners' focus on meeting the summer gasoline demand could worsen a winter supply crunch of heating oil and diesel impacted on the market. Forecast that this year's hurricane season could be more severe than usual and thus disturb oil production in the Gulf of Mexico also contributed to the surge in oil prices. At its meeting on 15 June, OPEC decided to raise its formal crude output ceiling by 1 million barrels per day (bpd) in two stages. Effective beginning July 2005, the ceiling of 27.5 million bpd, which excludes supply from Iraq, was raised by 500,000 bpd to 28 million bpd. A second 500,000 bpd increase would be implemented at a later stage, at the discretion of OPEC president. The market ignored the decision as the increase was viewed as insufficient to erase the prevailing supply concerns. Refinery problems in the US added to the nervousness in the market. The head of the US EIA said at a Reuters Energy summit on 21 June that world oil prices would remain higher than US$50 a barrel on average for the next 18 months, adding that fundamental supply and demand factors were the real driving force behind high oil prices. Oil prices will most likely continue to trade above US$50 a barrel in the weeks ahead.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$56.4 a barrel in June 2005, compared to US$49.9 a barrel in May 2005 and US$38.1 a barrel in June 2004. IPE Brent futures averaged US$55.4 a barrel during the month under review, compared to US$49.7 a barrel in May 2005 and US$35.6 a barrel in June 2004. NYMEX and IPE Brent reached a new all-time record high of US$60.5 a barrel and US$59.2 a barrel, respectively, on 27 June 2005.

COMEX gold futures, on average, moved higher during June 2005, trading in an intra-month closing range of US$417.7/Oz-US$443.2/Oz compared to a range of US$416.9/Oz-US$430.7/Oz in May 2005. During the month under review, fund and speculative buying drove gold prices up. Supply concerns in view of declining production in the world's top three producers, namely South Africa, United States and Australia influenced the market. In the third week of June 2005, amid a bout of fund buying, the usual positive correlation between gold prices and the euro seemed temporarily non-existent. Goldman Sachs forecast that diversification away from the euro due to the prevailing political uncertainty could support gold prices over the coming fiscal year. COMEX averaged US$433.4/Oz during June 2005, compared to an average of US$422.9/Oz in May 2005.

Domestic Developments

Tourist arrivals increased by 3.7 per cent, from 53,974 in May 2004 to 55,995 in May 2005, while gross tourism receipts increased by 11.9 per cent, from Rs1,859 million in May 2004 to Rs2,080 million in May 2005. Cumulatively, over the period July 2004 to May 2005, tourist arrivals reached 692,501, representing an increase of 4.8 per cent on the 660,589 arrivals recorded in the corresponding period in 2003-04. Tourism receipts for the period July 2004 to May 2005 grew by 8.3 per cent to reach Rs22,560 million compared to Rs20,825 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 117.2 in May 2005 to 117.3 in June 2005. The rate of inflation for the fiscal year 2004-05 stood at 5.6 per cent compared with 3.9 per cent for the fiscal year 2003-04.

Money supply M2 expanded by Rs10,507 million or 7.4 per cent, from Rs141,132 million at the end of June 2004 to Rs151,639 million at the end of May 2005. Narrow money supply M1, one of the components of M2, grew by Rs771 million or 3.6 per cent to Rs22,093 million while quasi-money, the other component of M2, went up by Rs9,735 million or 8.1 per cent to Rs129,546 million.

Net foreign assets of the banking system rose by Rs4,406 million or 9.0 per cent, from Rs49,120 million at the end of June 2004 to Rs53,526 million at the end of May 2005. Net foreign assets of Bank of Mauritius went up by Rs371 million or 0.9 per cent to Rs43,633 million while net foreign assets of former Category 1 banks expanded by Rs4,035 million or 68.9 per cent to Rs9,893 million

Domestic credit grew by Rs12,629 million or 9.8 per cent, from Rs128,799 million at the end of June 2004 to Rs141,428 million at the end of May 2005. Net credit to Government from the banking system went up by Rs4,833 million or 13.7 per cent to Rs40,179 million. Net credit to Government from Bank of Mauritius rose by Rs756 million or 108.8 per cent to Rs61 million while net credit to Government from former Category 1 banks increased by Rs4,077 million or 11.3 per cent to Rs40,118 million. Credit to the private sector from former Category 1 banks expanded by Rs7,795 million or 8.4 per cent, from Rs93,120 million at the end of June 2004 to Rs100,915 million at the end of May 2005. Over that period, additional credit was directed to 'Construction' (Rs2,726 million), 'Traders' (Rs1,491 million), 'Manufacturing' (Rs1,298 million), 'Personal' (Rs939 million), 'Tourism' (Rs805 million), 'Statutory & Parastatal Bodies' (Rs590 million), 'Infrastructure' (Rs451 million), 'Financial and Business Services' (Rs275 million), 'Transport' (Rs171 million) and 'Professional' (Rs140 million). Over the same period, declines were registered at 'Agriculture and Fishing' (Rs743 million) and 'New Economy' (Rs599 million).

Reserve money fell by Rs1,694 million or 6.8 per cent, from Rs24,905 million at the end of June 2004 to Rs23,211 million at the end of May 2005.

Taking into account liquidity conditions in the market, the Bank did not carry out any repurchase transaction in June 2005.

During June 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs939.6 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs4.7 million.

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

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during June 2005 amounted to an equivalent of USD3.05 million. The Bank intervened and sold USD42.5 million to banks during the month. The weighted average dealt selling rates of the rupee, which are calculated on 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 but appreciated against the Euro and Pound sterling between May and June 2005.

At the end of May 2005, the net international reserves of the country amounted to Rs54,515 million. The end-May 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 37.1 weeks of imports, down from 37.3 weeks at the end of April 2005. Reflecting mainly intervention by the Bank on the foreign exchange market, the foreign exchange reserves of the Bank of Mauritius declined to Rs42,721 million at the end of June 2005, from Rs43,672 million at the end of May 2005.