OVERVIEW

International Developments

During March 2005, the US dollar, on average, depreciated against the euro and Pound sterling but appreciated vis-à-vis the Japanese yen. The US dollar moved higher against major currencies in the first week of March 2005, helped by the release of positive data, particularly lower weekly initial jobless claims data and a greater-than-expected rise in February payrolls number. However, news from the BIS that Asian central banks had reduced the share of their foreign currency reserves held in US dollars in favour of other currencies held back the US dollar's gains. The release of data showing a wider-than-expected January 2005 US trade deficit of US$58.3 billion further strained the US dollar. January 2005 data on net capital flows into US assets reported at US$91.5 billion provided some respite. However, following the release of data showing a larger-than-expected US current account deficit of US$665.9 billion for year 2004, the US dollar came under renewed pressure. The US Federal Reserve Bank, at its FOMC meeting held on 22 March 2005, raised its federal funds rate for the seventh consecutive month by a quarter percentage point to 2.75 per cent. The rate hike, coupled with expectations that the Federal Reserve might speed up the pace of interest rate rises to counter inflationary pressures as US core CPI in February 2005 rose at its fastest year-on-year pace since 2002, thereafter provided a boost to the US dollar.

The euro, which traded on average at around US$1.3028 in February 2005, moved higher trading on average around US$1.3191 in March 2005. At its governing council meeting on 3 March 2005, as expected, the ECB left its key refinancing rate unchanged at 2.0 per cent. The euro reached its intra-month high of US$1.3450 by mid-March 2005, benefiting from hawkish comments from ECB officials on euro zone inflation and growth, better-than-expected January 2005 German industrial production data and news that Asian central banks were diversifying their foreign currency reserves. The single currency, however, did not hold up to its gains vis-à-vis the US dollar amid position adjustment and as EU finance ministers reached an agreement of limited flexibility of the Stability and Growth Pact. The US Federal Reserve's decision to hike interest rates, which widened the interest rate differential of the United States over the euro zone, further undermined the euro. By the close of the month, the euro traded around US$1.2916.

The Pound reached an intra-month high of US$1.9284 by the second week of March 2005 on expectations that the Bank of England would raise its interest rate at its March 2005 Monetary Policy Committee meeting. However, following the release of data showing a widening of the UK trade deficit and the Bank of England's decision to leave its key interest rates unchanged at 4.75 per cent for the seventh month in a row, the Pound fell against the US dollar. The release thereafter of data showing weaker-than-expected UK producer prices and slowing UK price inflation also weighed on the Pound. The British Chancellor of the Exchequer's upbeat economic outlook for UK during his ninth budget speech on 16 March 2005 only provided short-lived support to the Pound. The publication of the Bank of England Monetary Policy Committee minutes revealing a 7-2 vote to leave interest rates unchanged at 4.75 per cent did not relieve the Pound. By the close of March 2005, the UK currency was trading around US$1.8790.

The Japanese yen, which traded on average around ¥104.94 per US dollar in February 2005, weakened, trading on average around ¥105.24 per US dollar in March 2005. Better-than-expected Japanese industrial production data and a revision of Japanese fourth quarter GDP growth from -0.1 to 0.1 per cent initially supported the yen. However, by the end of March 2005, the yen had declined against the US dollar, undermined by data showing that big Japanese firms were less upbeat about business conditions. A disappointing February 2005 reading for Japanese industrial output as well as a weaker-than-expected first quarter 2005 Tankan survey also weighed on the Japanese yen.

During March 2005, persistent cold weather and strong global demand pushed crude oil prices to record high levels, closing at an all-time high of US$56.70 per barrel on 18 March 2005. Distillate heating oil demand was strong globally, particularly in the US North East region, Asia and Europe, where temperatures were below seasonal norms. Oil prices have been trading above US$50 a barrel since 22 February 2005 and remained persistently above US$53 a barrel for most of March 2005. The latest report of the International Energy Agency forecast global demand for 2005 to around 84.3 million barrels per day (bpd), up by 330,000 bpd from its previous forecast, with annual growth now averaging 1.8 million bpd compared to initial estimates of 1.5 million bpd. The revision was attributed primarily to very cold weather in late February 2005 and early March 2005 and growing US and China oil demand. The report kept oil prices on the high side. Hedge funds pushed oil prices further up by indulging in technical buying. Even an additional 500,000 bpd increase in production quota agreed upon by all OPEC members at a meeting in Iran on 16 March 2005 and effective immediately, did not ease oil prices. The agreement also gave OPEC President power to consult ministers to trigger an additional 500,000 bpd should prices remain persistently high. With high oil prices posing a risk to the US economy, US President George Bush urged the US Congress to allow drilling in Alaska's Arctic National Wildlife Refuge and approval was finally granted. However, this measure may be helpful only in the long run. In the near term, prices may still remain high at around US$50 a barrel.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$54.6 a barrel in March 2005, compared with US$48.1 a barrel in February 2005 and US$36.7 a barrel in March 2004. IPE Brent futures averaged US$53.3 a barrel in March 2005, compared with US$45.9 a barrel in February 2005 and US$32.7 a barrel in March 2004.

On the domestic front, as prescribed under the Automatic Price Mechanism, prices of petroleum products were reviewed with effect from 2 April 2005. The price of diesel was reduced by 6.76 per cent to Rs17.25 per litre whereas that of motor gasoline was kept unchanged at Rs25.25 per litre.

COMEX gold futures firmed during March 2005, trading in an intra-month closing range of US$424.8/Oz - US$446.8/Oz compared with a range of US$414.3/Oz - US$437.6/Oz in February 2005. During the period under review, high oil prices and temporary US dollar weakness supported gold prices. Hedge funds, buying the gold contract on speculative motive, also helped prices to remain high. COMEX averaged US$435.1/Oz during March 2005, compared with an average of US$425.5/Oz in February 2005.

Domestic Developments

Tourist arrivals rose by 4.2 per cent, from 54,104 in February 2004 to 56,367 in February 2005, while gross tourism receipts increased by 23.0 per cent, from Rs1,830 million in February 2004 to Rs2,251 million in February 2005. Cumulatively, for the period July 2004 to February 2005, tourist arrivals reached 515,604, representing an increase of 5.8 per cent over the 487,359 arrivals registered in the corresponding period in 2003-04, while gross tourism receipts went up by 12.5 per cent, from Rs14,398 million for the period July 2003 to February 2004 to Rs16,193 million for the period July 2004 to February 2005.

The Consumer Price Index (CPI) increased from 116.7 in February 2005 to 117.1 in March 2005. The rate of inflation for the twelve-month period ended March 2005 stood at 5.2 per cent compared with 5.0 per cent for the twelve-month period ended February 2005.

Money supply M2 grew by Rs8,007 million or 5.7 per cent, from Rs141,132 million at the end of June 2004 to Rs149,139 million at the end of February 2005. Narrow money supply M1, one of the components of M2, went up by Rs661 million or 3.1 per cent to Rs21,983 million while quasi-money, the other component of M2, rose by Rs7,345 million or 6.1 per cent to Rs127,156 million.

Net foreign assets of the banking system grew by Rs3,893 million or 7.9 per cent, from Rs49,120 million at the end of June 2004 to Rs53,013 million at the end of February 2005. Net foreign assets of Bank of Mauritius increased by Rs1,718 million or 4.0 per cent to Rs44,980 million while net foreign assets of Category 1 banks went up by Rs2,175 million or 37.1 per cent to Rs8,033 million.

Domestic credit expanded by Rs8,423 million or 6.5 per cent, from Rs128,799 million at the end of June 2004 to Rs137,222 million at the end of February 2005. Net credit to Government from the banking system went up by Rs1,857 million or 5.3 per cent to Rs37,204 million. Net credit to Government from

Bank of Mauritius grew by Rs668 million or 96.1 per cent to a negative figure of Rs27 million while net credit to Government from Category 1 banks rose by Rs1,190 million or 3.3 per cent to Rs37,231 million. Credit to the private sector from Category 1 banks expanded by Rs6,578 million or 7.1 per cent, from Rs93,120 million at the end of June 2004 to Rs99,698 million at the end of February 2005. Over that period, additional credit was directed to ‘Construction’ (Rs 1,861 million), ‘Traders’ (Rs 1,367 million), ‘Tourism’ (Rs 988 million), ‘Manufacturing’ (Rs 956 million), ‘Statutory & Parastatal Bodies’ (Rs 740 million), ‘Financial and Business Services’ (Rs 589 million), ‘Personal’ (Rs 570 million), ‘Infrastructure’ (Rs 440 million), ‘Transport’ (Rs 178 million) and ‘Professional’ (Rs 141 million). Over the same period, declines were registered at ‘Agriculture and Fishing’ (Rs 865 million) and ‘New Economy’ (Rs 485 million).

Reserve money fell by Rs1,298 million or 5.2 per cent, from Rs24,905 million at the end of June 2004 to Rs23,607 million at the end of February 2005.

During March 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,111.2 million while trading of Treasury Bills on the Stock Exchange amounted to Rs7.1 million.

A total amount of Rs1,873.0 million of maturing Treasury Bills was converted into 3-Year Treasury Notes during March 2005.

Between February 2005 and March 2005, the rupee, on average, depreciated against all major currencies.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during March 2005 amounted to an equivalent of USD4.931 million. The Bank intervened and sold USD7.5 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, the Euro and the Pound sterling between February and March 2005.

At the end of February 2005, the net international reserves of the country amounted to Rs53,980 million. The end-February 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 36.8 weeks of imports, up from 35.9 weeks of imports at the end of January 2005. At the end of March 2005, the foreign exchange reserves of the Bank of Mauritius amounted to Rs44,820 million, down from Rs45,028 million at the end of February 2005.