O V E R V I E W

International Developments

During March 2006, the US dollar, on average, depreciated against the euro and Japanese yen but appreciated vis-à-vis the Pound sterling. Market expectations that the US Federal Reserve might be approaching the end of its monetary tightening cycle weighed on the US currency. Although there was almost a general consensus that the Fed would increase its federal funds rate by 25 basis points to 4.75 per cent at the end of its two-day meeting on 27-28 March 2006, the market remained cautious about more interest rate hikes ahead. US data releases during the period under review were weak. Retail sales fell by 1.3 per cent in February 2006. The trade deficit widened to US$68.5 billion in January 2006 from a revised US$65.1 billion in December 2005 while net capital flows were US$66 billion in January 2006, implying that for the second consecutive month net capital flows failed to finance the trade gap. In addition jobs data showed that the US economy created only 243,000 non-farm payroll jobs in February 2006. Towards the end of March 2006, however, an upbeat assessment of the US economy by Fed Chairman Ben Bernanke and the release of data showing core inflation rising by 0.3 per cent, higher than the expected 0.l per cent increase by Wall Street analysts, revived the view that US interest rate might soon rise to 5.00 per cent, thereby supporting the US dollar. On 27-28 March 2006, as expected, the Fed raised its federal funds rate by 25 basis points to 4.75 per cent. In its accompanying statement, the Fed stated that some further policy firming might be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.

The euro, on average, moved higher against the US dollar during March 2006. The ECB, as expected, raised its key refinance rate to 2.50 per cent at its governing council meeting on 2 March 2006. During the period under review, comments from various ECB officials indicated that the ECB would do whatever was necessary to ensure price stability in the euro zone. Data releases during that period pointed towards an improving euro zone economy. Euro zone manufacturing purchasing managers' index (PMI) was 54.5 in February 2006, higher than the 54.1 expected, while euro zone services PMI came in at 58.2 as against an expected 57.3. The index of IFO survey of German business sentiment for March 2006 rose to a 15-year high of 105.4 from 103.4 in February 2006.

The Pound sterling, on average, moved lower against the US dollar during March 2006. At the end of its two-day MPC meeting on 8-9 March 2006, the Bank of England (BoE), as expected, left its repo rate unchanged at 4.50 per cent. Minutes showed a vote of 8-1 to leave interest rate unchanged. Data releases were mixed during the period under review. According to the Halifax house price survey, UK house prices rose by 1.4 per cent in February 2006. British retail sales, down by 1.6 per cent in January 2006, rose by 0.5 per cent in February 2006. The UK Office for National Statistics showed that the trade deficit narrowed from GBP6.1 billion in December 2005 to GBP5.7 billion in January 2006.

The Japanese yen, on average, moved higher against the US dollar during March 2006. Earlier in the month, the Japanese currency was supported by expectations that the Bank of Japan (BOJ) would end its hyper-loose monetary policy. At the end of its meeting on 8-9 March 2006, the BOJ scrapped its quantitative easing policy. Nonetheless, with interest rate remaining near zero, the Japanese currency's gains were limited.

For March 2006, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$62.9 a barrel, compared to US$61.9 a barrel in February 2006 and US$54.6 a barrel in March 2005. IPE Brent futures averaged US$63.0 a barrel during the period under review, up from US$61.1 a barrel in February 2006 and US$53.3 a barrel in March 2005. On the domestic front, the Certification Committee of the Automatic Pricing Mechanism met on 2 April 2006 and decided to reduce the price of Mogas by 10.1 per cent to Rs31.30 per litre and to increase the price of Diesel by the maximum permissible 20 per cent to Rs28.50 per litre, effective 3 April 2006.

COMEX gold futures, on average, moved higher during March 2006, trading in an intra-month closing range of US$541.3/Oz-US$591.8/Oz compared to a range of US$542.1/Oz-US$576.8/Oz in February 2006. Gold prices, which continued to be influenced more by speculative moves than fundamental demand and supply factors, reached a new record high of US$591.8/Oz on 30 March 2006. COMEX averaged US$559.9/Oz during March 2006, compared to an average of US$558.4/Oz in February 2006.

Domestic Developments

The real growth rate of the economy in 2005 was 2.7 per cent, lower than the 3.0 per cent estimated in December 2005. This downward revision is explained by lower growth rates of 1.0 per cent and 7.2 per cent in the "Non-EPZ manufacturing" sector and in "Financial Intermediation" respectively, down from earlier estimates of 2.5 per cent and 7.6 per cent respectively. The lower growth in these two sectors was slightly offset by a marginal improvement in the EPZ sector, which registered a lower contraction of 12.3 per cent as opposed to 13.0 per cent estimated in December 2005.

A marked improvement was noted in the EPZ sector in the fourth quarter of 2005. At the end of December 2005, the number of enterprises amounted to 506, up from 497 at the end of September 2005. Total employment went up by 1,043 from 65,888 at the end of September 2005 to 66,931 at the end of December 2005. Female employment increased by 596 whereas male employment went up by 447. The number of foreigners working in the EPZ also went up, rising by 1,051 from 13,368 at the end of September 2005 to 14,419 at the end of December 2005. Total EPZ exports went up by 7.6 per cent from Rs7,197 million in the third quarter of 2005 to Rs7,743 million in the fourth quarter of 2005. EPZ imports, however, fell by 9.9 per cent from Rs3,993 million in the third quarter of 2005 to Rs3,599 million in the fourth quarter of 2005.

The real growth rate of the economy for 2006 is now estimated at 4.7 per cent, down from an earlier estimate of 5.1 per cent made in December 2005. The "Sugar Cane" sector is estimated to grow by 5.8 per cent, with sugar production estimated at 550,000 tonnes, down from 570,000 tonnes estimated in December 2005. The "Hotels and Restaurants" sector is estimated to grow by 7.8 per cent, with tourist arrivals and tourist earnings estimated at 825,000 and Rs29.4 billion respectively. The “Construction” sector is estimated to grow by 5.0 per cent with the construction of new hotels and the implementation of IRS projects. The “Financial Intermediation” sector is estimated to grow by 7.0 per cent. The EPZ sector, however, is still expected to contract by 4.0 per cent.

Tourist arrivals increased by 15.1 per cent, from 56,367 in February 2005 to 64,894 in February 2006, while gross tourism receipts rose by 20.7 per cent, from Rs2,251 million in February 2005 to Rs2,716 million in February 2006. On a cumulative basis, over the period July 2005 to February 2006, tourist arrivals reached 562,864, representing an increase of 9.2 per cent on the 515,604 arrivals recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2005 to February 2006 grew by 18.9 per cent to reach Rs19,247 million compared to Rs16,193 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) rose from 123.5 in February 2006 to 124.2 in March 2006. The main contributors to the increase were fish, other food products, beer, washing materials and softeners, newspapers and magazines, expenditure in bars and restaurants, and other goods and services, each registering an increase of 0.1 index point. The rate of inflation for the 12-month period ended March 2006 stood at 4.9 per cent, unchanged from the previous month.

Money supply M2 grew by Rs12,858 million or 8.1 per cent, from Rs159,625 million at the end of June 2005 to Rs172,483 million at the end of February 2006, on account of increases in both of its components. Narrow money supply M1 rose by Rs1,248 million or 5.6 per cent to Rs23,488 million while quasi-money went up by Rs11,610 million or 8.5 per cent to Rs148,995 million.

Net foreign assets of the banking system increased by Rs7,927 million or 15.0 per cent from Rs52,951 million at the end of June 2005 to Rs60,878 million at the end of February 2006. Net foreign assets of Bank of Mauritius fell by Rs1,321 million or 3.1 per cent to Rs41,375 million while net foreign assets of banks grew by Rs9,247 million or 90.2 per cent to Rs19,503 million.

Domestic credit went up by Rs10,038 million or 6.9 per cent, from Rs145,973 million at the end of June 2005 to Rs156,011 million at the end of February 2006. Net credit to Government from the banking system fell by Rs270 million or 0.7 per cent, from Rs40,907 million at the end of June 2005 to Rs40,637 million at the end of February 2006. Net credit to Government from Bank of Mauritius decreased by Rs762 million or 95.0 per cent to Rs41 million while net credit to Government from banks grew by Rs492 million or 1.2 per cent to Rs40,596 million. Credit to the private sector from banks rose by Rs10,309 million from Rs105,066 million at the end of June 2005 to Rs115,375 million at the end of February 2006, or 9.8 per cent. Over that period, additional credit was directed to “Public Nonfinancial Corporations” (Rs2,750 million), “Traders” (Rs2,129 million), “Construction” (Rs2,101 million), “Personal” (Rs1,018 million), “Financial and Business Services” (Rs931 million), “Infrastructure” (Rs587 million), “Manufacturing” (Rs515 million), “Tourism” (Rs493 million), “Transport” (Rs297 million), “Agriculture & Fishing” (Rs253 million), “Freeport Enterprise Certificate Holders” (Rs96 million) and “Education” (Rs82 million). Over the same period, declines were registered at “Information, Communications and Technology” (Rs882 million) and “Professional” (Rs319 million).

Reserve money went up by Rs843 million or 3.7 per cent, from Rs22,941 million at the end of June 2005 to Rs23,784 million at the end of February 2006.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs6,925 million through the Primary Market in March 2006. The Bank also carried out a reverse repurchase transaction for 2 days at a fixed rate of 3.50 per cent during the month.

During March 2006, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs724.6 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs0.5 million.

At the monthly auction of Treasury Notes held in March 2006, a total nominal amount of Rs1,200 million 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 put on tender. Bids received for the three maturities totalled Rs1,995.7 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted were 7.94, 8.26 and 8.62 per cent per annum.

Between February 2006 and March 2006, the rupee, on average, depreciated against all major currencies.

At the end of February 2006, the net international reserves of the country amounted to Rs61,442 million. The end-February 2006 level of net international reserves of the country, based on the value of the import bill for calendar year 2005, exclusive of the purchase of aircraft, represented 34.3 weeks of imports, up from 33.7 weeks of imports at the end of January 2006. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs41,384 million at the end of February 2006 to Rs41,421 million at the end of March 2006.

Provisional estimates suggest that the current account of the balance of payments worsened further in 2005 to record a higher deficit of Rs10,082 million compared with a deficit of Rs3,181 million in 2004. The marked deterioration in the current account deficit was largely due to a higher merchandise account deficit of Rs23,452 million in 2005 compared with a deficit of Rs16,006 million in 2004, which more than offset the combined surpluses on the services and current transfers accounts. Unfavourable movements in the country's terms of trade, with the index falling from 97 in 2004 to 87 in 2005, contributed to the widening of the merchandise account deficit. In relation to GDP, the deficit on the current account in 2005 represented 5.4 per cent compared to 1.8 per cent in 2004. Total imports (fob) increased significantly by 22.4 per cent, from Rs70,911 million in 2004 to Rs86,822 million in 2005. Total exports (fob) increased by 15.4 per cent, from Rs54,905 million in 2004 to Rs63,370 million in 2005. The surplus on the services account increased marginally by 0.3 per cent, from Rs11,841 million in 2004 to Rs11,876 million in 2005. The income account recorded a lower deficit of Rs272 million in 2005 compared to Rs390 million in 2004 against a backdrop of rising global interest rates. Current transfers recorded a higher surplus in 2005 increasing by 28.5 per cent to Rs1,766 million. The capital and financial account of the balance of payments, inclusive of reserve assets, recorded higher inflows of Rs5,742 million in 2005 compared to Rs884 million in 2004. The overall balance of payments, excluding valuation changes, registered a deficit of Rs4,888 million in 2005 compared to a deficit of Rs857 million in 2004.