Overview

International Developments

During May 2004, the US dollar, on average, appreciated against the Japanese yen and Pound sterling but depreciated marginally vis-à-vis the euro. At its FOMC meeting on 4 May 2004, the US Federal Reserve held its federal funds target rate unchanged at its 45-year low of 1.0 per cent and, in its accompanying statement, highlighted that it would take a "measured" approach to tightening monetary policy. Against the background of growing market confidence that an end to the historically low interest rates in the United States was within reach, the US dollar, in the first half of May 2004, also drew support from favourable US economic data. The release of strong April 2004 US jobs report, which showed that US jobless rate dipped to 5.6 per cent against expectations for an unchanged 5.7 per cent, further helped the US dollar as the market shifted its attention from the chances of monetary tightening to the timing and pace of US interest rate hikes. However, the US dollar could not sustain its gains vis-à-vis major currencies throughout the second half of May 2004, undermined mostly by a subsequent shift in market expectations over the timing of US interest rate hikes. The release of US consumer inflation data, which showed a rise of only 0.2 per cent in April 2004, while tempering worries of resurgent inflation, also scaled down market expectations of an interest rate hike in June 2004. Persistently high oil prices, which could damage the US oil-dependent economy, were also seen as determinant to making the Federal Reserve less eager to raise rates.

The expected narrowing yield gap between the United States and the euro area explained to a large extent the euro's downward movement vis-à-vis the US dollar at the start of the month. However by mid-May 2004, the euro was trading higher against the US dollar, benefiting from the release of a surprisingly strong GDP report, which showed that for the first three months of 2004, the euro zone economy grew by 0.6 per cent quarter-on-quarter and by 1.3 per cent year-on-year. Comments from an ECB official that the euro zone economy was on track for recovery and high oil prices would not have a dramatic effect on growth and inflation, further supported the euro, which managed to end May 2004 close to its intra-month high of US$1.2274. As widely expected, the ECB governing council at its meeting on 6 May 2004 kept its key interest rate unchanged at 2.0 per cent. According to the ECB minutes released thereafter, the widely anticipated decision to hold rates at their current level was driven primarily by "mixed evidence" of economic recovery and growth in the short term.

During the first half of May 2004, the Pound sterling, amid profit-taking and in the wake of a surprise fall in UK manufacturing output, which cast doubts over expectations of future interest rate hikes and raised concerns about the state of the economy, remained subdued against a surging US dollar. However, the Pound shrugged off some of its losses after the release of the Bank of England's quarterly inflation report. Commenting the report, the Bank of England Governor, Mervyn King made it clear that the 25 basis points interest rate hike to 4.25 per cent decided by the Monetary Policy Committee meeting on 6 May 2004 was unlikely to be sufficient to head off growing inflationary pressure. In addition, the Pound also drew support from the release of the "hawkish" May's Monetary Policy Committee meeting minutes, which revealed that members even considered the viability of a 50 basis points rate hike, when they decided the unanimous quarter percentage point rise. By the close of May 2004, the Pound sterling was trading around its intra-month high of US$1.8380, as the market priced in a higher gear tightening cycle by the Bank of England.

Against the backdrop of falling Japanese share prices and amid worries about rising US interest rates and a possible slowdown in China's economy, which might replace the United States as Japan's biggest export market, the yen moved lower against the US dollar. Analysts, however, pointed out that the recent plunge in the yen and Japanese stock prices did not reflect Japan's recovering economy.

During the month of May 2004, world crude oil prices registered several record highs as a result of both demand and supply conditions prevailing in the markets. On the demand side, US driving season, growing world demand stemming from the pickup in the world economy and China's high oil demand kept global oil demand buoyant. On the supply side, security concerns, geopolitical instability in the Middle East and emerging supply constraints of different producers also weighed on oil prices. OPEC was already pumping more than two million barrels per day (bpd) above its current official production ceiling of 23.5 million bpd, while Russian crude oil exports hit a ceiling as Russia, which is the world's second largest exporter, could no longer raise shipments without new infrastructure. On 3 June 2004, OPEC issued a formal communiqué confirming the decision of the ten-member group to raise crude output ceiling by 2 million bpd from 1 July 2004, taking it from the current level of 23.5 million bpd to 25.5 million bpd, as the first part of the agreement reached at its ministerial meeting in Beirut on the same day. The second part of the agreement, subject to review at a ministerial meeting in Vienna on 21 July 2004, would see a further 500,000 bpd increase in the ceiling from 1 August 2004.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$40.3 a barrel in May 2004, compared to US$28.0 a barrel in May 2003. On 17 May 2004, NYMEX hit a peak of US$41.85, the highest since NYMEX launched the crude oil contract 21 years ago. IPE Brent futures averaged US$37.2 a barrel in May 2004, compared to US$25.4 in May 2003, and traded at record highs above US$38 a barrel. OPEC has an official target range of US$22-28 a barrel, which was introduced in March 2000, but the basket has been above the band since the beginning of the year. These developments on the international oil markets will undoubtedly impact on the domestic price of motor gasoline and diesel with the next quarterly adjustment under the Automatic Price Mechanism due at the beginning of July 2004

COMEX gold futures appear to be on the decline from the recent levels above US$400 per ounce, with an intra-month closing range between US$393.8 and US$374.9. This is explained by the strength of the US dollar amid growing belief that US interest rates will increase soon. The lingering factor still supportive of gold is geopolitical insecurity in the Gulf area, which is keeping physical demand from the Middle East buoyant owing to its safe-heaven status. COMEX averaged US$384.0 per ounce in May 2004.

Domestic Developments

Tourist arrivals fell by 2.8 per cent, from 57,217 in April 2003 to 55,599 in April 2004, while gross tourism receipts rose by 38.7 per cent, from Rs1,469 million in April 2003 to Rs2,038 million in April 2004. On a cumulative basis, over the period July 2003 to April 2004, tourist arrivals reached 606,589, representing an increase of 1.5 per cent compared to 597,696 in the corresponding period in 2002-03. Tourism receipts for the period July 2003 to April 2004 grew by 25.4 per cent to reach Rs19,077 million compared to Rs15,214 million in the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) rose from 110.4 in April 2004 to 110.7 in May 2004. The rate of inflation for the 12-month period ended May 2004 stood at 3.9 per cent, down from 4.0 per cent for the 12-month period ended April 2004.

Money supply M2 went up by Rs13,196 million or 10.7 per cent, from Rs123,405 million at the end of June 2003 to Rs136,601 million at the end of April 2004. Narrow money supply M1, one of the components of M2, rose by Rs2,912 million or 16.7 per cent to Rs20,351 million, while quasi-money, the other component of M2, increased by Rs10,284 million or 9.7 per cent to Rs116,250 million.

Net foreign assets of the banking system increased by Rs1,662 million or 3.5 per cent, from Rs47,568 million at the end of June 2003 to Rs49,230 million at the end of April 2004. Net foreign assets of Bank of Mauritius rose by Rs2,952 million or 7.5 per cent to Rs42,535 million, while net foreign assets of Category 1 banks fell by Rs1,289 million or 16.1 per cent to Rs6,695 million.

Domestic credit went up by Rs14,955 million or 14.0 per cent, from Rs106,927 million at the end of June 2003 to Rs121,882 million at the end of April 2004. Net credit to Government from the banking system went up by Rs11,170 million or 52.0 per cent to Rs32,646 million, driven by the increase of Rs10,797 million or 98.5 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 Rs373 million or 1.2 per cent to Rs32,805 million. Credit to the private sector from Category 1 banks went up by Rs3,835 million or 4.5 per cent, from Rs85,080 million at the end of June 2003 to Rs88,915 million at the end of April 2004. Over that period, credit was directed to “Construction” (Rs2,351 million), “New Economy” (Rs1,004 million), “Traders” (Rs914 million), “Personal” (Rs719 million) and “Financial and Business Services” (Rs537 million). A drop in credit was registered at “Agriculture and Fishing” (Rs1,089 million), “Tourism” (Rs564 million), “Statutory and Parastatal Bodies” (Rs386 million), and “Manufacturing” (Rs296 million).

Reserve money expanded by Rs9,651 million or 65.3 per cent, from Rs14,776 million at the end of June 2003 to Rs24,427 million at the end of April 2004, reflecting essentially the issue of BoM Bills to Category 1 banks.

Taking into account liquidity conditions in the market, the Bank carried out five reverse repurchase transactions in May 2004. 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 with banks for a total amount of US$12.5 million in May 2004. The swap transactions, which are exchange rate neutral, were carried out for a period of two months.

During May 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs421.9 million while trading of Treasury/Bank of Mauritius Bills on the Stock Exchange totalled Rs7.4 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during May 2004 amounted to an equivalent of US$2.88 million. The Bank intervened and sold US$8.45 million to banks during the month.

Between April 2004 and May 2004, the rupee, on average, depreciated against the US dollar, euro and Pound sterling but appreciated vis-à-vis the Japanese yen.

At the end of April 2004, the net international reserves of the country amounted to Rs50,106 million. Based on the value of the import bill for calendar year 2003, exclusive of purchase of aircrafts, the end-April 2004 level of net international reserves of the country represented 39.9 weeks of imports, down from 40.3 weeks at the end of March 2004. At the end of May 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs43,894 million, up from Rs42,606 million at the end of April 2004.