OVERVIEW

International Developments

During May 2005, the US dollar, on average, appreciated against the euro and Pound sterling but depreciated vis-à-vis the Japanese yen. On 3 May 2005, as expected, the US Federal Open Market Committee raised its federal funds rate, for the third time this year, by another quarter percentage point to 3.0 per cent. In its accompanying statement, the US Federal Reserve, however, sounded less hawkish-than-expected by stating that long-term US inflation was likely to remain contained. The US dollar, weighed down by the dovish statement, regained footing on the release of surprisingly robust US jobs report for April 2005. The release of a series of positive US data thereafter showing an unexpected narrowing in the trade deficit in March 2005, a larger-than-expected budget surplus in April 2005 and upbeat retail sales, benefited the US dollar. By the end of the third week of May, the US dollar, however, came under pressure following the release of a weaker-than-expected US core consumer inflation report for April 2005. But with the release of a stronger second estimate of first quarter 2005 GDP, showing an annualised growth of 3.5 per cent, up from an initial estimate of 3.1 per cent, the US dollar rallied amid market optimism over US growth prospects.

The euro, which traded on average around US$1.2938 in April 2005, moved lower against the US dollar in May 2005, trading on average around US$1.2699. From an intra-month high of US$1.2958 at the start of May, the euro lost ground vis-à-vis the US dollar, pressured by ongoing concerns over widening interest rate differential between the euro zone and the United States and the sluggish euro zone growth. As expected, at its governing council meeting on 4 May 2005, the ECB left its key refinance rate unchanged at 2.0 per cent. In his news conference following the central bank's decision, the ECB President, while ruling out expectations of a near-term interest rate cut, offered a grim short-term outlook for the euro zone economy. By the end of May, the euro was further strained by political uncertainty, which added to worries about growth prospects in the euro zone. France's rejection of the European Union constitution, coupled with German Chancellor Gerhard Schroeder's call for an early federal election, hampered the single currency, which closed May 2005 at an intra-month low of US$1.2387.

Against the backdrop of the broad-based strength of the US dollar and the release of a series of weak UK data, the Pound sterling depreciated against the US dollar in May 2005, trading on average around US$1.8573, down from US$1.8947 in April 2005. From an intra-month high of US$1.9054 at the start of May 2005, the Pound came under selling pressure on the release of data supporting evidence of a slowing UK property market. At its Monetary Policy Committee meeting on 9 May 2005, the Bank of England left its key interest rate unchanged at 4.75 per cent for the ninth month running. In addition, the release of data showing a sharp fall in UK manufacturing output for March 2005, a drop in the annual rate of UK retail sales for April 2005 and a dovish inflation report from the Bank of England, reinforcing market expectations that the next British interest rate move would be a cut, added to the Pound's woes. The second reading of UK first quarter 2005 GDP data, which came out downwardly revised to show a rise of 0.5 per cent on the quarter from an initial estimate of 0.6 per cent, further hit the Pound. By the close of May 2005, the Pound had reached an intra-month low of US$1.8130.

Despite a rallying US dollar, the Japanese yen, on average, managed to appreciate vis-à-vis the US currency, trading on average around ¥106.62 per US dollar in May 2005 as against ¥107.30 per US dollar in the previous month. The Japanese yen benefited from the release of surprisingly higher-than-expected first quarter 2005 GDP growth, which posted an annual expansion of 5.3 per cent. By the close of May 2005, resurging expectations that China might revalue its currency also supported the Japanese yen.

During May 2005, oil prices eased as weekly reports from US Energy Administration showed major increases in US crude oil stock levels and OPEC President assured that the cartel would do its best to satisfy the growing oil demand. He stated that the OPEC's quota system had become irrelevant and that the 10 quota-bearing members would continue pumping 29.7 million barrels per day (bpd), that is 2 million bpd above the official quota, through June 2005. During the month under review, at various trading sessions, the price of oil fell below the US$50 a barrel level but later crawled back above the US$50 a barrel on short covering by traders. Refinery problems in the US added to the nervousness in the market. In the last week of May 2005, the US Energy Information Administration surprisingly reported a fall in US crude oil stock and cautioned that US refineries were expected to process around 16 million bpd of crude in June, July and August 2005, well above the five-year average, to meet US summer driving demand. Looking ahead, in spite of OPEC's assertions to keep supply unchanged, oil prices will most likely trade above US$50 a barrel as the market remains tight with the cartel's limited spare oil production capacity and world oil demand not seen to subside in the weeks ahead.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$49.9 a barrel in May 2005, compared to US$53.2 a barrel in April 2005 and US$40.3 a barrel in May 2004. IPE Brent futures averaged US$49.7 a barrel during the month under review, compared to US$53.3 a barrel in April 2005 and US$37.2 a barrel in May 2004. On the domestic front, the government has decided to postpone the review of prices of motor gasoline and diesel under the Automatic Price Mechanism, scheduled for start of July 2005, to the beginning of October 2005.

COMEX gold futures, on average, moved lower during May 2005, trading in an intra-month closing range of US$416.9/Oz-US$430.7/Oz compared to a range of US$425.6/Oz-US$439.0/Oz in April 2005. During the month under review, US dollar strength and fund liquidation drove gold prices down. COMEX averaged US$422.9/Oz in May 2005, compared to an average of US$431.4/Oz in April 2005.

Domestic Developments

Tourist arrivals fell by 4.7 per cent, from 55,599 in April 2004 to 52,971 in April 2005, while gross tourism receipts declined by 6.4 per cent, from Rs2,020 million in April 2004 to Rs1,891 million in April 2005. Cumulatively, over the period July 2004 to April 2005, tourist arrivals reached 636,506, representing an increase of 4.9 per cent on the 606,589 arrivals recorded in the corresponding period in 2003-04. Tourism receipts for the period July 2004 to April 2005 grew by 8.0 per cent to reach Rs20,480 million compared to Rs18,966 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 117.1 in April 2005 to 117.2 in May 2005. The rate of inflation for the twelve-month period ended May 2005 stood at 5.5 per cent compared with 5.3 per cent for the twelve-month period ended April 2005.

Money supply M2 grew by Rs10,566 million or 7.5 per cent, from Rs141,132 million at the end of June 2004 to Rs151,698 million at the end of April 2005. Narrow money supply M1, one of the components of M2, went up by Rs1,259 million or 5.9 per cent to Rs22,581 million while quasi-money, the other component of M2, rose by Rs9,306 million or 7.8 per cent to Rs129,117 million.

Net foreign assets of the banking system grew by Rs4,644 million or 9.5 per cent, from Rs49,120 million at the end of June 2004 to Rs53,764 million at the end of April 2005. Net foreign assets of Bank of Mauritius increased by Rs1,672 million or 3.9 per cent to Rs44,934 million while net foreign assets of former Category 1 banks went up by Rs2,972 million or 50.7 per cent to Rs8,830 million.

Domestic credit expanded by Rs11,374 million or 8.8 per cent, from Rs128,799 million at the end of June 2004 to Rs140,173 million at the end of April 2005. Net credit to Government from the banking system went up by Rs4,171 million or 11.8 per cent to Rs39,517 million. Net credit to Government from Bank of Mauritius grew by Rs1,058 million or 152.3 per cent to Rs363 million while net credit to Government from former Category 1 banks rose by Rs3,113 million or 8.6 per cent to Rs39,154 million. Credit to the private sector from former Category 1 banks expanded by Rs7,205 million or 7.7 per cent, from Rs93,120 million at the end of June 2004 to Rs100,325 million at the end of April 2005. Over that period, additional credit was directed to ‘Construction’ (Rs2,330 million), ‘Traders’ (Rs1,373 million), ‘Tourism’ (Rs1,075 million), ‘Manufacturing’ (Rs983 million), ‘Statutory & Parastatal Bodies’ (Rs778 million), ‘Personal’ (Rs714 million), ‘Infrastructure’ (Rs442 million), ‘Professional’ (Rs195 million), ‘Transport’ (Rs193 million) and ‘Financial and Business Services’ (Rs159 million). Over the same period, declines were registered at ‘Agriculture and Fishing’ (Rs801 million) and ‘New Economy’ (Rs513 million).

Reserve money fell by Rs1,059 million or 4.3 per cent, from Rs24,905 million at the end of June 2004 to Rs23,846 million at the end of April 2005.

Taking into account liquidity conditions in the market in May 2005, the Bank carried out two reverse repurchase transactions for 3 and 4 days, respectively. The weighted yield on bids accepted was 1.08 per cent.

During May 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs595.6 million while trading of Treasury Bills on the Stock Exchange amounted to Rs6.8 million.

With effect from 16 May 2005, the Mauritius Post and Cooperative Bank was appointed primary dealer within the Primary Dealer System for Mauritius, thereby bringing the total number of primary dealers to five.

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

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during May 2005 amounted to an equivalent of US$3.87 million. The Bank intervened and sold US$26.0 million to former Category 1 banks during the month. The weighted average dealt selling rates of the rupee, which are calculated on transactions of US$30,000 and above, or the equivalent in other foreign currencies, effected by former Category 1 banks, showed that the rupee, on average, depreciated against the US dollar but appreciated against the euro and Pound sterling between April and May 2005.

At the end of April 2005, the net international reserves of the country amounted to Rs54,773 million. The end-April 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 37.3 weeks of imports, unchanged from the previous month. At the end of May 2005, the foreign exchange reserves of the Bank of Mauritius amounted to Rs43,672 million, down from Rs44,982 million at the end of April 2005.

Provisional estimates for the first quarter of 2005 suggest that the current account of the balance of payments recorded a surplus of Rs643 million compared with a surplus of Rs788 million in the corresponding quarter of 2004, reflecting mainly a deterioration in the merchandise account. The deficit on the merchandise account of the balance of payments increased to Rs4,083 million, from Rs2,832 million a year earlier. The deficit on the merchandise account was, however, offset by higher surpluses on the services and current transfers accounts. The income account worsened to a deficit of Rs140 million from a surplus of Rs79 million in the corresponding quarter of last year. The capital and financial account, inclusive of reserve assets, recorded net outflows of Rs1,763 million in the first quarter of 2005. The overall balance of payments for the same quarter, measured as the change in reserve assets excluding valuation changes, registered a deficit of Rs617 million.