OVERVIEW

International Developments

During November 2005, the US dollar, on average, appreciated across the board. As expected, on 1 November 2005 the US Federal Reserve at its FOMC meeting raised its federal funds rate for the 12th consecutive time by another quarter percentage point to 4.00 per cent. The US dollar, which gained ground on strong buying pressure, withstood the subsequent release of several weak economic data, including a record trade deficit of US$66.1 billion in September 2005. Even remarks from Federal Reserve Chairman Alan Greenspan that the United States' current account deficit "cannot persist indefinitely" as investors were likely to grow alarmed about the country's ability to pay its external debts, did little to rein in the bullish market sentiment towards the US dollar. Comments from Ben Bernanke, the nominee for Federal Reserve Chairman, who stated that he would carry on with the policies of Alan Greenspan, reinforced expectations for higher US interest rates and added support to the US dollar. The release of data showing net flows of foreign capital into US assets which surged to a record US$101.9 billion in September 2005, more than enough to finance the record trade deficit, kept the US currency well-bid. The US dollar, however, suffered a setback on expectations that the ECB was set to raise rates and after the release of the November 1 FOMC meeting's minutes, that were interpreted as an indication that US Federal Reserve policy-makers were less concerned about inflation and more wary of further hikes in interest rates. However, as investors reassessed that the US dollar's rate advantage remained intact given that an expected euro zone rate rise in December 2005 was not likely to herald an extended tightening campaign and the Bank of Japan was seen keeping rates near zero, the US currency regained ground. By the close of the month, the US dollar continued to stay firm as the release of upbeat data on US durable goods orders and consumer confidence suggested that the Federal Reserve might continue its policy of gradually raising interest rates, at least in the near term.

The euro, which traded at an average of US$1.2025 in October 2005, moved lower against the US dollar in November 2005, trading at an average of US$1.1767. From an intra-month high of US$1.2068 at the start of November 2005, the euro moved lower against the US dollar, disadvantaged by the euro zone's relatively low interest rate and weak economic fundamentals. As expected, the ECB, at its governing council meeting on 3 November 2005, left its key refinance rate unchanged at 2.0 per cent. Social disturbances prevailing in France and in some other European countries also undermined the single currency. On 17 November 2005, the euro reached its intra-month low of US$1.1671, the weakest level since November 2003. Subsequent remarks emanating from ECB officials, including the central bank's President, which hinted that the ECB stood ready to raise rates after having kept them steady for $2\frac{1}{2}$ years, provided some respite to the euro. Amid expectations that the ECB would boost its key rate by 25 basis points, the first rise in five years, at its December 2005 governing council meeting, the euro closed the month trading at around US$1.1776.

From an average of US$1.7639 in October 2005, the Pound sterling depreciated against the US dollar in November 2005, trading at an average of US$1.7310. The Pound sterling, which traded at its intra-month high of US$1.7745 at the start of November 2005, came under downward pressure, hurt by the release of weak data relating to house prices and manufacturing output, amongst others. As expected, the Bank of England left its repo rate unchanged at 4.5 per cent at the end of its two-day MPC meeting on 9-10 November 2005. The release of a dovish Bank of England quarterly inflation report, which showed that UK inflation profile was slightly weaker than in August 2005, thereby signaling no change in UK interest rates for the moment, but suggesting that a rate cut remained on the agenda, further undermined the Pound. On 28 November 2005, the Pound reached its intra-month low of US$1.7120 before closing at around US$1.7177.

The Japanese yen, on average, depreciated vis-à-vis the US currency, trading around ¥118.56 per US dollar in November 2005 as against ¥114.73 per US dollar in the previous month. From a high of ¥116.84 per US dollar at the start of November 2005, the Japanese yen maintained a generally declining trend and reached its intra-month low of ¥119.78 per US dollar on 28 November 2005. The yen suffered from ongoing demand by Japanese investors for foreign securities. Comments from Japanese Prime Minister that it was too early for the Bank of Japan to end its ultra-loose “quantitative easing” as the economy was still experiencing deflation, also weighed on the Japanese currency as they underscored the yen’s interest rate disadvantage relative to the US dollar.

Oil prices eased further during November 2005, trading on average within a range of US$55-US$60 a barrel. Mild temperatures in the US Northeast regions and forecast of such temperatures in the first two weeks of November that could reduce oil demand consistently, kept dragging oil prices down. Moreover, the US Energy Information Administration (EIA), week after week, kept reporting increases in crude oil stocks, ensuring the market of ample supply. In the last two weeks of the month, however, an unexpected fall was noted in US crude oil stocks and temperatures seemed to be growing colder. In the weeks ahead, oil prices will most likely trade around US$59 a barrel as the tight market conditions still remain.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$58.3 a barrel in November 2005, compared to US$62.3 a barrel in October 2005 and US$48.5 a barrel in November 2004. IPE Brent futures averaged US$56.2 a barrel during the period under review, down from US$59.5 a barrel in October 2005 and up from US$44.6 a barrel in November 2004.

COMEX gold futures, on average, moved higher during November 2005, trading in an intra-month closing range of US$457.9/Oz-US$499.1/Oz compared to a range of US$465.8/Oz-US$479.8/Oz in October 2005. Two discernible trends were noted during the period under review. In the first two weeks, lower oil prices, selling pressure and US dollar strength drove gold prices down while in the last two weeks, gold futures moved up, breaking new records. A report by World Gold Council showed that demand in the third quarter of 2005 rose by 7 per cent over the corresponding quarter a year earlier. The report induced investment fund buying. COMEX gold futures reached an 18-year high of US$499.1/Oz on 29 November as traders eyed a possible move to the psychological level of US$500/Oz. COMEX averaged US$476.7/Oz during November 2005, compared to an average of US$472.5/Oz in October 2005.

Domestic Developments

With a view to ensuring the development of a sound credit environment and assisting in fighting over-indebtedness, the Bank of Mauritius proceeded, on 30 November 2005, with the soft launch of The Mauritius Credit Information Bureau (MCIB). Lending institutions participating in the MCIB have to report to the Bank of Mauritius all credit facilities granted as from Rs100,000 for individual borrowers either singly or jointly and Rs500,000 for other borrowers. This information will be used to set up an electronic database on customers' credit exposures.

As from 1 December 2005, it is mandatory for all lending institutions participating in the MCIB to consult the database before approving, increasing or renewing any credit facility of customers. The actual lending decisions, however, rest on them. More detailed information on the MCIB is available on the website of the Bank of Mauritius.

With effect from 7 December 2005, the Bank of Mauritius increased the Lombard Rate by 100 basis points, from 10.50 per cent to 11.50 per cent per annum. The hike in the Lombard Rate is expected to enhance the attractiveness of rupee-denominated financial assets and contain emerging demand pressures on the foreign exchange market which are impinging adversely on the exchange rate of the rupee.

With effect from the week starting on 6 January 2006, the minimum cash ratio which banks are required to maintain will be reduced from 5.5 per cent to 4.0 per cent of their total deposits. However, with effect from the same week, cash balances shall consist exclusively of balances held by banks at the Bank of Mauritius for the purpose of computing the cash ratio.

Tourist arrivals increased by 0.3 per cent, from 70,793 in October 2004 to 70,999 in October 2005, while gross tourism receipts rose by 15.5 per cent, from Rs1,789 million in October 2004 to Rs2,066 million in October 2005. Cumulatively, over the period January to October 2005, tourist arrivals reached 599,751, representing an increase of 4.5 per cent on the 574,087 arrivals in the corresponding period of 2004. Tourism receipts for the period January to October 2005 grew by 7.7 per cent to reach Rs20,078 million compared to Rs18,636 million in the corresponding period of the previous year.

The Consumer Price Index (CPI) rose from 118.2 in October 2005 to 118.8 in November 2005. The rate of inflation for the twelve-month period ended November 2005 stood at 5.1 per cent as against 5.3 per cent for the twelve-month period ended October 2005.

Money supply M2 expanded by Rs3,789 million or 2.4 per cent, from Rs159,625 million at the end of June 2005 to Rs163,414 million at the end of October 2005, reflecting increases in both of its components. Narrow money supply M1 grew by Rs1,411 million or 6.3 per cent to Rs23,651 million while quasi-money went up by Rs2,378 million or 1.7 per cent to Rs139,763 million.

Net foreign assets of the banking system went up marginally by Rs49 million or 0.1 per cent, from Rs52,951 million at the end of June 2005 to Rs53,000 million at the end of October 2005. Net foreign assets of Bank of Mauritius fell by Rs831 million or 1.9 per cent to Rs41,865 million while net foreign assets of banks grew by Rs880 million or 8.6 per cent to Rs11,135 million.

Domestic credit expanded by Rs5,921 million or 4.1 per cent, from Rs145,973 million at the end of June 2005 to Rs151,894 million at the end of October 2005. Net credit to Government from the banking system fell by Rs20 million from Rs40,907 million at the end of June 2005 to Rs40,887 million at the end of October 2005. Net credit to Government from Bank of Mauritius rose by Rs82 million or 10.3 per cent to Rs886 million while net credit to Government from banks dropped by Rs102 million or 0.3 per cent to Rs40,001 million. Credit to the private sector from banks rose by Rs5,941 million from Rs105,066 million at the end of June 2005 to Rs111,007 million at the end of October 2005, or 5.7 per cent. Over that period, additional credit was directed to “Public Nonfinancial Corporations” (Rs1,704 million), “Traders” (Rs1,087 million), “Construction” (Rs986 million), “Tourism” (Rs780 million), “Personal” (Rs724 million), “Agriculture & Fishing” (Rs503 million), “Manufacturing” (Rs279 million), “Infrastructure” (Rs273 million), “Transport” (Rs156 million), “Financial and Business Services” (Rs110 million) and “Freeport Enterprise Certificate Holders” (Rs107 million). Over the same period, a drop in credit was registered in “Information, Communications and Technology” (Rs911 million).

Reserve money fell by Rs63 million or 0.3 per cent, from Rs22,941 million at the end of June 2005 to Rs22,878 million at the end of October 2005.

Taking into account liquidity conditions in the market in November 2005, the Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total amount of Rs1,796 million on the Primary Market. The Bank also carried out one reverse repurchase transaction for 3 days at a fixed rate of 2.50 per cent.

During November 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs444.8 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs0.1 million.

On 11 November 2005, the Bank undertook the second issue of Treasury Notes with maturities of 2, 3 and 4 years, and bearing interest at the rates of 7.25, 7.50 and 7.80 per cent per annum, respectively. Treasury Notes for a total nominal amount of Rs800 million were put on tender. Bids received for the three maturities totalled Rs1,969 million, of which an amount of Rs800 million was accepted. The weighted average yields on bids accepted were 7.25, 7.50 and 7.96 per cent per annum, respectively.

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

The Bank intervened and sold USD15.0 million to banks in November 2005. The weighted average dealt selling rates of the rupee, which are calculated on the basis of 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 October and November 2005.

At the end of October 2005, the net international reserves of the country amounted to Rs53,964 million. The end-October 2005 level of net international reserves of the country, based on the value of the revised import bill for fiscal year 2004-05, exclusive of the purchase of aircraft, represented 33.3 weeks of imports, down from 33.7 weeks at the end of September 2005. Reflecting mainly intervention on the foreign exchange market, the foreign exchange reserves of the Bank of Mauritius fell to Rs41,021 million at the end of November 2005, from Rs41,865 million at the end of October 2005.

Preliminary estimates for the balance of payments for the third quarter of 2005 suggest that the current account recorded a higher deficit of Rs3,536 million compared with a deficit of Rs366 million in the corresponding quarter of 2004. Despite the deterioration of the current account deficit year-on-year, the deficit in the third quarter of 2005 was lower than the deficit of Rs5,565 million in the preceding quarter of 2005. In the third quarter of 2005, the deficit in the merchandise account increased to Rs5,233 million, from Rs2,644 million a year earlier. The deficit in the merchandise account was however partly offset by surpluses in the services and current transfers accounts. The services account, on account of relatively high gross tourism earnings, registered a higher surplus of Rs2,024 million in the third quarter of 2005 compared with a surplus of Rs1,816 million in the corresponding quarter of 2004. The income account worsened to a deficit of Rs498 million from a surplus of Rs250 million in the corresponding quarter of last year. The capital and financial account, inclusive of reserve assets, recorded net inflows of Rs1,336 million in the third 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 Rs1,368 million.