OVERVIEW

International Developments

During October 2004, the US dollar, on average, depreciated against all major currencies, amid ongoing worries that the US economy was not growing enough to support its currency. The US dollar, which remained range-bound against major currencies until the third week of October, came under pressure thereafter as the market focused on fundamental issues relating to the US economy and in the wake of soaring oil prices. Besides the release of relatively weak US data which stoked market concerns that the Federal Reserve might pause in hiking rates, the US Treasury also reported lower capital inflows in August 2004 with a net US$59.0 billion, compared to US$63.1 billion in July 2004, suggestive of a slowdown in foreign demand for US assets. Uncertainty over the US presidential elections also did not help the US dollar and the US currency broke through several key technical levels, which in turn sparked further selling. China's decision on 28 October 2004 to raise its interest rates also pressured the US currency as investors assessed the potential impact of the rate rise on both the US dollar and the US economic outlook. By the close of the month, the release of weaker-than-expected US third quarter 2004 GDP data, which showed a growth of 3.7 per cent as against a forecast of 4.2 per cent, further undermined investors' confidence in the US economy and the dollar.

Against the US dollar's broad-based weakness, the euro emerged as a currency of choice as it opened the month crossing the US$1.24 level. Comments made by ECB officials to the effect that the euro's strength was not worrying and it might help to soften the impact of oil prices, further supported the single currency's ascent. By the third week of October, the euro, taking advantage of the selling pressure on the US dollar, reached its intra-month high of US$1.2822 on 26 October 2004. The single currency was also partly helped by the fact that the ECB President did not mention the rising euro in his address to the European Union parliament, which contrasted with his comments in January last when he had called the euro's surge as "brutal". The euro, however, retreated to close the month trading around US$1.2743 when ECB Governing Council member, Axel Weber, offered the ECB's first hint of concern over the euro level. At its governing council meeting held on 7 October 2004, the ECB held its key interest rate steady at 2.0 per cent for the 16th month in a row.

The Pound sterling managed to move higher against the generally weak US dollar as expectations that Britain was at or near the end of its rate-tightening cycle became increasingly priced into the UK currency. According to analysts, the release of relatively weak UK data throughout the month had limited impact on the Pound. Moreover, minutes of the 6-7 October 2004 Bank of England's Monetary Policy Committee meeting released later during the month revealed a unanimous vote to leave the repo rate unchanged at 4.75 per cent and fuelled ongoing expectations that UK rates would have peaked.

The Japanese yen, which was trading at around ¥110.11 in early October, capitalized on the broad wave of US dollar selling to push higher against the US currency. By the close of October 2004, the yen was trading at its intra-month high of ¥106.10. According to analysts, however, the yen's gains were somewhat limited by fears that the Japanese authorities, alarmed by the steep rise in its currency, would intervene in the market.

International oil prices rose sharply during October 2004 as supply concerns persisted ahead of the winter season in the Northern Hemisphere and as oil production levels in the Gulf of Mexico recovered very slowly after the considerable damage caused by Hurricane Ivan. Adding strain on the market were threats by Nigerian rebels to attack oil operations and recurrent strikes in that country. Amid these supply fears, the ongoing Norwegian strike impacted psychologically on the market, though in terms of output, the impact was not significant. The US Energy Information Administration (EIA) brought further bad news as its weekly reports showed unsatisfactory US oil stocks, including heating oil and diesel fuel. However, in the last week of October 2004, the EIA reported that crude stocks levels rose by more than expected easing oil prices temporarily. Looking ahead, prices in the oil market are likely to remain high for some time as insecurity in the Middle East will remain a concern and oil demand in the forthcoming Northern Hemisphere winter months may rise.

During October 2004, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$53.1 a barrel, compared to US$46.1 a barrel in September 2004 and US$30.4 a barrel in October 2003. NYMEX closed above US$50 a barrel at each trading session except on 4th of October when it stood at US$49.9 a barrel. Thereafter, NYMEX broke several record highs above US$50 a barrel, the highest level reached being US$55.67 a barrel on 25 October 2004. IPE Brent futures averaged US$49.4 a barrel in October 2004, compared to US$42.9 a barrel in September 2004 and US$29.0 a barrel in October 2003.

COMEX gold futures strengthened further during October 2004, trading in an intra-month closing range between US$414.6/Oz and US$429.9/Oz compared to a range between US$399.4/Oz and US$420.4/Oz in September 2004. During October 2004, US dollar weakness and soaring oil prices supported the precious metal. COMEX averaged US$422.3/Oz in October 2004, compared to an average of US$407.9/Oz in September 2004.

Domestic Developments

The real growth rate of the economy for 2003 has been revised downward to 4.3 per cent from the June 2004 estimate of 4.6 per cent as a result of an upward revision of the contraction of the EPZ sector from 4.0 per cent to 6.0 per cent. Exclusive of sugar, the real growth rate for 2003 works out to 4.3 per cent, down from 4.5 per cent estimated in June 2004.

In its latest forecasts, the Central Statistics Office has revised downward the real growth rate of the economy for 2004 to 4.6 per cent from its June estimate of 4.7 per cent. Exclusive of sugar, the real growth rate for 2004 is maintained at 4.4 per cent. The sugar sector is expected to register a growth of 7.0 per cent in 2004, based on a sugar production of around 575,000 tonnes, revised downward from the previous estimate of 590,000 tonnes, due to prevailing unfavourable climatic conditions. The EPZ sector is projected to contract by 1.0 per cent, unchanged from the June estimate. The tourism sector is expected to grow by 1.1 per cent with tourist arrivals reaching 710,000 compared to an earlier estimate of 725,000. The “Financial Intermediation” sector is forecast to expand by 2.6 per cent compared to a previous estimate of 6.0 per cent as a result of lower growth in both banking (1.7 per cent compared to 5.7 per cent) and insurance (5.0 per cent compared to 6.7 per cent) activities. The construction sector is expected to register a growth of 3.8 per cent in 2004 compared to the prior estimate of 3.4 per cent.

Investment in the economy is forecast to grow, in real terms, by 5.8 per cent in 2004 compared to 9.7 per cent in 2003. The investment rate, as measured by the ratio of GDFCF to GDP at market prices, is projected to fall from 22.6 per cent in 2003 to 22.4 per cent in 2004. Private sector investment is expected to register a growth of 12.2 per cent in 2004 following a contraction of 2.6 per cent in 2003. Public sector investment is expected to decline by 4.3 per cent in 2004 following a growth of 36.9 per cent in 2003. The savings rate is expected to fall marginally to 25.2 per cent in 2004 from 25.4 per cent in 2003.

Tourist arrivals rose by 5.6 per cent, from 50,293 in September 2003 to 53,102 in September 2004, while gross tourism receipts increased by 8.3 per cent, from Rs1,470 million in September 2003 to Rs1,592 million in September 2004. Cumulatively for the period January to September, tourist arrivals increased by 0.5 per cent, from 500,846 in 2003 to 503,294 in 2004. Over the same period, gross tourism receipts went up by 27.2 per cent, from Rs13,242 million in 2003 to Rs16,847 million in 2004.

The Consumer Price Index (CPI) increased from 113.1 in September 2004 to 114.6 per cent in October 2004. The rate of inflation for the twelve-month period ended October 2004 stood at 4.4 per cent, compared to 4.1 per cent in September 2004.

Money supply M2 expanded by Rs1,003 million or 0.7 per cent, from Rs141,132 million at the end of June 2004 to Rs142,135 million at the end of September 2004. Narrow money supply M1, one of the components of M2, fell by Rs122 million or 0.6 per cent to Rs21,200 million while quasi-money, the other component of M2, went up by Rs1,124 million or 0.9 per cent to Rs120,935 million.

Net foreign assets of the banking system increased by Rs1,170 million or 2.4 per cent, from Rs49,120 million at the end of June 2004 to Rs50,290 million at the end of September 2004. Net foreign assets of Bank of Mauritius went up by Rs734 million or 1.7 per cent to Rs43,996 million and net foreign assets of Category 1 banks rose by Rs435 million or 7.4 per cent to Rs6,293 million.

Domestic credit went up by Rs2,384 million or 1.9 per cent, from Rs128,799 million at the end of June 2004 to Rs131,183 million at the end of September 2004. Net credit to Government rose by Rs350 million or 1.0 per cent, from Rs35,346 million at the end of June 2004 to Rs35,696 million at the end of September 2004. Net credit to Government from Category 1 banks increased by Rs1,007 million or 2.8 per cent to Rs37,048 million and offset the drop of Rs657 million in net credit to Government from Bank of Mauritius, which fell by 94.5 per cent to a negative figure of Rs1,352 million. Credit to the private sector from Category 1 banks increased by Rs2,068 million or 2.2 per cent, from Rs93,120 million at the end of June 2004 to Rs95,188 million at the end of September 2004. Over that period, additional credit was directed to the following sectors: “Tourism” (Rs701 million), “Construction” (Rs537 million), “Statutory & Parastatal Bodies” (Rs516 million), “Personal” (Rs421 million), “Financial and Business Services” (Rs300 million), “Professional” (Rs97 million) and “Transport” (Rs85 million). However, declines were noted in the following sectors: “Agriculture and Fishing” (Rs382 million) and “Manufacturing” (Rs364 million).

Reserve money declined by Rs1,113 million or 4.5 per cent, from Rs24,905 million at the end of June 2004 to Rs23,792 million at the end of September 2004.

With a view to dampening inflationary pressures and maintaining the attractiveness of domestic financial instruments, the Bank of Mauritius increased the Lombard Rate, which is used as the signalling mechanism of its monetary policy stance, by 25 basis points, from 9.50 per cent to 9.75 per cent on 21 October 2004. Category 1 banks made an upward adjustment in their interest rate structure by more or less the same quantum at the end of October 2004. The prime lending rate of Category 1 banks rose from a range of 7.50-8.00 per cent at the end of September 2004 to a range of 7.75-8.00 per cent at the end of October 2004 while the rate of interest paid on savings deposits rose from a range of 4.00-4.50 per cent to a range of 4.25-4.50 per cent.

Taking into account liquidity conditions in the market in October 2004, the Bank carried out two repurchase transactions for 1 and 2 days respectively. The lowest yield accepted for the repurchase transactions was 1.75 per cent per annum.

During October 2004, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs575 million while trading of Treasury Bills on the Stock Exchange amounted to Rs15 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during October 2004 amounted to an equivalent of US$18.6 million. The Bank intervened and sold US$15.6 million to banks during the month. Between September and October 2004, 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 Category 1 banks, showed that the rupee, on average, depreciated against the US dollar, the euro and the Pound sterling.

Effective 22 October 2004, the rate of interest offered on Treasury Notes was increased from 7.30 per cent per annum to 7.50 per cent per annum. A total amount of Rs1,109 million of maturing Treasury Bills was converted into Treasury Notes during October 2004.

Between September and October 2004, the rupee, on average, depreciated against the US dollar, Pound sterling, euro and Japanese yen.

At the end of September 2004, the net international reserves of the country amounted to Rs51,209 million. Based on the value of the import bill for fiscal year 2003-04, exclusive of the purchase of aircraft, the end-September 2004 level of net international reserves represented

38.3 weeks of imports, up from 37.5 weeks of imports at the end of August 2004. At the end of October 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs44,142 million, slightly down from Rs44,150 million at the end of September 2004.