OVERVIEW

International Developments

During October 2005, the US dollar, on average, appreciated against all major currencies. Starting October 2005, the US dollar remained well bid on growing expectations that the US Federal Reserve would pursue its tightening campaign. However, position adjustment amid consideration that US dollar purchases, on expectations of higher US interest rates might have been overdone, kept the US currency's gains in check. The publication on 11 October 2005 of the minutes of the US Federal Reserve's September 2005 policy-setting meeting, which reiterated the Fed's concern about inflation and its intention to keep raising the cost of borrowing, helped to revive the US dollar's rally. However, the release of a string of softer-than-expected data, amongst which retail sales and industrial production, pressured the US currency subsequently as they prompted currency traders to unwind long-dollar positions. The US Treasury's report, which showed that net flows of capital into US assets swelled to US$91.3 billion in August 2005, far higher than the US$59 billion trade gap for the same month, provided some respite to the US dollar. Even ongoing comments from several Federal Reserve officials reinforcing the view for more US interest rates hikes, did little to push the US dollar further up as they only confirmed what the market already expected. However, the release of US third quarter 2005 GDP data by the close of the month, which showed that the US economy grew by a robust annual rate of 3.8 per cent, provided a boost to the US dollar.

The euro, which traded at an average of US$1.2251 in September 2005, moved lower against the US dollar in October 2005, trading on average at US$1.2025. The single currency traded at its intra-month low of US$1.1920 at the start of October 2005, disadvantaged by its low interest rate and relatively weak economic outlook. The ECB, as expected, left its key refinance rate unchanged at 2.0 per cent at its governing council meeting of 6 October 2005. However, hawkish comments from ECB President Jean-Claude Trichet stating that the ECB governing council discussed raising interest rates but decided that the current level was "still appropriate" provided a boost to the euro, which climbed to its intra-month high of US$1.2169. The single currency did not hold up to its gains, weighed partly by market concerns that the coalition government in Germany might find it difficult to push forward reforms which economists believed to be vital for the biggest economy of the euro zone. However, the release thereafter of stronger-than-expected German Ifo business climate index, which rose to a five-year high of 98.7 in October 2005, managed to buoy the euro. Hawkish comments from several ECB officials, underlining the central bank's determination to be vigilant against inflation and supporting the view that euro zone interest rates might go up next year, also benefited the single currency. However, at the close of October 2005, the euro shrugged off some of its gains to trade at around US$1.2048 against the US dollar.

From an average of US$1.8081 in September 2005, the Pound sterling depreciated against the US dollar in October 2005 trading at an average of US$1.7639. The Pound sterling moved lower against the US dollar, pressured by weak British industrial output data which raised concerns that the Bank of England might cut interest rates sooner rather than later. On 12 October, the Pound sterling reached its intra-month low of US$1.7441 on news that August 2005 trade deficit unexpectedly hit a record high of GBP5.3 billion from GBP3.9 billion in July 2005. However, the Pound thereafter managed to recover against the US dollar. The release of the minutes of the Bank of England Monetary Policy Committee meeting held on 5-6 October 2005, which revealed that an interest rate cut had not been discussed as many in the market had thought, provided support to the Pound. The Pound's ascent vis-à-vis the US dollar was sustained by the release of stronger-than-expected retail sales, which rose by 0.7 per cent in September 2005, thereby dampening talk of a cut in interest rates. After reaching its intra-month high of US$1.7836 on 27 October 2005, the Pound fell against the US dollar at close of the month mainly on account of subdued British factory activity data.

The Japanese yen, on average, depreciated vis-à-vis the US currency, trading around ¥114.73 per US dollar in October 2005 as against ¥111.09 per US dollar in the previous month. The Japanese yen moved lower on growing demand for higher-yielding foreign bonds. With the second half of Japan's fiscal year kicking off in October, more portfolio managers and investment trusts were investing in overseas bonds. High oil prices and the release of a disappointing tankan survey of corporate sentiment at the beginning of the month also hurt the Japanese currency. In New York trade on 13 October 2005, the Japanese yen crossed above the ¥115 per US dollar barrier, for the first time since September 2003. The Japanese currency reached its intra-month low of ¥115.80 per US dollar on 19 October 2005 and remained above ¥115 per US dollar for the rest of the month.

Oil prices eased slightly during October 2005. Various reports showing that high oil prices were hurting demand weighed on the market. The US Energy Information Administration (EIA) affirmed that US demand for oil in October 2005 was down by 2.9 per cent from a year earlier. Weekly reports from EIA, on average, showed unsatisfactory US crude oil and gasoline stock levels. However, an unexpected large increase in US crude and gasoline stocks was recorded in the second and third weeks of October, driving prices down. In the weeks ahead, oil prices will most likely trade between US$55 and US$60 a barrel as the market conditions persist during the US winter season.

For October 2005, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$62.3 a barrel, compared to US$65.6 a barrel in September 2005 and US$53.1 a barrel in October 2004. IPE Brent futures averaged US$59.5 a barrel during the period under review, compared to US$63.8 a barrel in September 2005 and US$49.4 a barrel in October 2004.

On the domestic front, as prescribed under the Automatic Price Mechanism, prices of petroleum products were revised upwards with effect from 3 October 2005. The prices of diesel and motor gasoline were increased by the maximum of 15 per cent to Rs19.80 per litre and Rs29.00 per litre, respectively.

COMEX gold futures, on average, moved higher during October 2005, trading in an intra-month closing range of US$465.8/Oz-US$479.8/Oz compared to a range of US$446.5/Oz-US$475.8/Oz in September 2005. COMEX gold futures reached a fresh 18-year high of US$479.8/Oz on 11 October. During the period under review, fund and speculative buying drove gold prices up, despite US dollar strength. Gold prices were also supported by worries related to high oil prices and their potential effects on inflation. COMEX averaged US$472.5/Oz in October 2005, compared to an average of US$461.1/Oz in September 2005.

Domestic Developments

The real growth rate of the economy for 2004 has been revised slightly upwards to 4.3 per cent from the forecast of 4.1 per cent in July 2005. Exclusive of sugar, the real growth rate for 2004 is estimated at 4.2 per cent, compared with the previous estimate of 4.0 per cent.

The growth rate for 2005 has been revised downwards significantly and is now estimated at 3.1 per cent compared with the earlier forecast of 3.8 per cent. Exclusive of sugar, the growth rate is estimated at 3.6 per cent. The sugar sector is now expected to register a contraction of 6.5 per cent, up from an earlier forecast of a 3.9 per cent contraction, as sugar production is now estimated at around 535,000 tonnes, down from 550,000 tonnes forecast earlier. The EPZ sector is also expected to register a more severe contraction of 13.0 per cent compared to the 8.0 per cent contraction forecast earlier. The growth rate of the non-EPZ manufacturing sector has been revised downward to 2.5 per cent from the earlier estimate of 4.0 per cent. The construction sector is now expected to register a contraction of 3.7 per cent instead of a growth of 1.0 per cent. Tourist arrivals for 2005 are maintained at around 755,000 and the growth of the tourism sector at 4.8 per cent.

Investment in the economy is forecast to decline, in real terms, by 0.4 per cent, as opposed to a growth of 2.2 per cent in 2004. The investment rate, as measured by the ratio of GDFCF to GDP at market prices, is expected to decrease to 21.4 per cent, from 21.8 per cent in 2004. Investment by the private sector is expected to decrease by 2.2 per cent after a growth of 16.4 per cent in 2004. Public sector investment is expected to grow by 3.6 per cent in 2005 following a contraction of 19.9 per cent in 2004. The savings rate is expected to fall to 18.3 per cent in 2005 from 22.7 per cent in 2004.

The economy grew by 2.0 per cent in the second quarter of 2005, up from 0.5 per cent in the first quarter of 2005 as compared to the corresponding quarter of the previous year. As for the first quarter of 2005, growth was registered in all services industries and contraction in the main goods-producing industries, namely, agriculture, manufacturing and construction. The tourism sector expanded by 2.3 per cent in the second quarter compared with an increase of 6.0 per cent in the first quarter. “Wholesale and retail trade; repair of motor vehicles, motorcycles, personal and household goods” registered a growth of 11.9 per cent, way above the growth of 0.9 per cent in the first quarter. Financial intermediation expanded by 10.6 per cent, up from 4.2 per cent in the first quarter.

The sugar sector contracted by 6.5 per cent, or by the same rate as in the first quarter of 2005. The EPZ sector registered a contraction of 9.9 per cent compared with a more severe contraction of 21.2 per cent in the first quarter. The non-EPZ manufacturing sector contracted by 1.7 per cent compared with a 1.8 per cent contraction in the previous quarter. The construction sector declined further in the second quarter of 2005, contracting by 20.4 per cent after dropping by 15.4 per cent in the first quarter.

Tourist arrivals increased by 0.2 per cent, from 53,102 in September 2004 to 53,233 in September 2005, while gross tourism receipts rose by 11.7 per cent, from Rs1,592 million in September 2004 to Rs1,779 million in September 2005. Cumulatively, over the period January to September 2005, tourist arrivals reached 528,752, representing an increase of 5.1 per cent on the 503,294 arrivals in the corresponding period of 2004. Tourism receipts for the period January to September 2005 grew by 6.9 per cent to reach Rs18,012 million compared to Rs16,847 million in the corresponding period of the previous year.

The Consumer Price Index (CPI) rose from 117.3 in September 2005 to 118.2 in October 2005. The rate of inflation for the twelve-month period ended October 2005 stood at 5.3 per cent as against 5.5 per cent for the twelve-month period ended September 2005.

The Banking Act 2004 has removed the distinction between Category 1 banks and Category 2 banks and has provided for banking business to be conducted under a single banking licence regime. Currently, there are 20 banks that are licensed to carry on banking business in Mauritius.

A Guideline on Segmental Reporting under a Single Banking Licence Regime was issued to banks in June 2005 which provides, among other things, for the reporting of banking activities under Segment A and Segment B. Segment B relates to the banking business that gives rise to "foreign source income". All other banking business is classified under Segment A. Banks reported their statement of assets and liabilities based on segmental reporting as from end-June 2005. Consequently, effective June 2005, data for banks relate to 20 banks and are not strictly comparable with prior data relating to 11 banks only.

Money supply M2 expanded by Rs3,019 million or 1.9 per cent, from Rs159,625 million at the end of June 2005 to Rs162,644 million at the end of September 2005, reflecting increases in both of its components. Narrow money supply M1 grew by Rs1,039 million or 4.7 per cent to Rs23,279 million while quasi-money went up by Rs1,980 million or 1.4 per cent to Rs139,365 million.

Net foreign assets of the banking system rose by Rs666 million or 1.3 per cent, from Rs52,951 million at the end of June 2005 to Rs53,617 million at the end of September 2005. Net foreign assets of Bank of Mauritius fell by Rs486 million or 1.1 per cent to Rs42,210 million while net foreign assets of banks grew by Rs1,151 million or 11.2 per cent to Rs11,407 million.

Domestic credit expanded by Rs4,425 million or 3.0 per cent, from Rs145,973 million at the end of June 2005 to Rs150,398 million at the end of September 2005. Net credit to Government from the banking system rose by Rs347 million or 0.8 per cent, from Rs40,907 million at the end of June 2005 to Rs41,254 million at the end of September 2005. Net credit to Government from Bank of Mauritius rose by Rs131 million or 16.2 per cent to Rs934 million while net credit to Government from banks increased by Rs216 million or 0.5 per cent to Rs40,320 million. Credit to the private sector from banks rose by Rs4,078 million from Rs105,066 million at the end of June 2005 to Rs109,144 million at the end of September 2005, or 3.9 per cent. Over that period, additional credit was directed to "Construction" (Rs964 million), "Traders" (Rs724 million), "Personal" (Rs643 million), "Tourism" (Rs576 million), "Agriculture & Fishing" (Rs559 million), "Financial and Business Services" (Rs547 million), "Public Nonfinancial Corporations" (Rs453 million), "Infrastructure" (Rs268 million), "Freeport Enterprise Certificate Holders" (Rs136 million) and "Transport" (Rs118 million). Over the same period, declines were registered in "Information, Communications and Technology" (Rs917 million) and "Professional" (Rs 81 million).

Reserve money increased by Rs472 million or 2.1 per cent, from Rs22,941 million at the end of June 2005 to Rs23,413 million at the end of September 2005.

Taking into account liquidity conditions in the market in October 2005, no repurchase transaction was undertaken by the Bank.

During October 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs354.3 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs2.8 million.

On 7 October 2005, the Bank undertook the first issue of Treasury Notes on a monthly basis, 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 Rs2,100.1 million, of which an amount of Rs800 million was accepted. The weighted average yields on bids accepted for the three maturities were 7.24 per cent, 7.47 per cent and 8.06 per cent, respectively.

On 31 October 2005, the Bank undertook a second issue of Five-Year Government of Mauritius Bonds. Bonds for a total nominal amount of Rs500 million were put on tender at a coupon rate of 8.25 per cent per annum. Bids were received for a total amount of Rs1,717.2 million, of which Rs500 million was accepted. The weighted average yield on bids accepted was 8.34 per cent.

Between September 2005 and October 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 USD14.70 million to banks during the month. The weighted average dealt selling rates of the rupee, which are calculated on 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 September and October 2005.

At the end of September 2005, the net international reserves of the country amounted to Rs54,621 million. The end-September 2005 level of net international reserves of the country, based on the value of the import bill for fiscal year 2004-05, exclusive of the purchase of aircraft, represented 33.6 weeks of imports, down from 34.0 weeks at the end of August 2005. Reflecting mainly intervention on the foreign exchange market, the foreign exchange reserves of the Bank of Mauritius fell to Rs41,865 million at the end of October 2005, from Rs42,210 million at the end of September 2005.