OVERVIEW

International Developments

During September 2005, the US dollar, on average, appreciated against the euro and Japanese yen but depreciated against the Pound sterling. At the start of September 2005, the US dollar remained somewhat vulnerable due to market uncertainty over the extent to which hurricane Katrina would curb US economic growth and further US interest rates hikes. However, pressure on the US dollar eased after US Treasury Secretary John Snow soothed market concerns by stating that economic stimulus from rebuilding efforts in the wake of Katrina would likely boost US GDP in 2006. US Federal Reserve officials' comments that the best way to help the US economy to recover would be to keep inflation in check also benefited the US dollar, as they were interpreted as an indication that the US Federal Reserve might raise rates again. The release of the US Treasury International Capital report which showed that a net US$87.4 billion flowed into US securities in July 2005, more than enough to cover the month's trade deficit of US$57.9 million, further helped the US dollar. As expected, at its FOMC meeting on 20 September 2005, the US Federal Reserve raised its federal funds rate by another 25 basis points for the 11th consecutive time since 30 June 2004, to 3.75 per cent. In its accompanying statement the FOMC left the door open for even higher borrowing costs. Comments from US Federal officials towards the end of the month reinforcing views that the less-than-feared damage to the US economy from Hurricane Rita would allow the US Federal Reserve to continue raising rates, provided support to the US dollar.

The euro, which traded at an average of US$1.2288 in August 2005, moved lower against the US dollar in September 2005, trading on average at US$1.2251. On 1 September 2005 at its governing council meeting, the ECB, as expected, left its key refinance rate unchanged at 2.0 per cent. From an intra-month high of US$1.2571 in early September, the euro declined steadily against the US dollar mostly on profit-taking and in the wake of the release of weak July 2005 euro area retail sales data, which showed a drop of 0.5 per cent. Uncertainty over the outcome of Germany's election also hampered the euro. The indecisive results from the German election, which revealed no clear winner, thus clouding the outlook for reform in Europe's biggest economy, added to the bearishness of the single currency. Towards the close of the month, the euro managed to recoup some of its losses against the US dollar, partly helped by the release of German's September 2005 Ifo business climate index, which unexpectedly rose to an eight-month high of 96.0.

From an average of US$1.7920 in August 2005, the Pound sterling appreciated slightly against the US dollar on average in September 2005 trading at US$1.8081. The Pound sterling reached its intra-month high of US$1.8474 on 5 September 2005 but moved lower against the US dollar undermined by the release of weak data on business activity and trade deficit. The Pound, thereafter, managed to trade above US$1.82 until mid September 2005. The Bank of England, at its monthly MPC meeting on

7-8 September 2005, left interest rates unchanged at 4.50 per cent. By the second week of September, the release of data showing an inflation rate of 2.4 per cent for August 2005 managed to provide some respite to the Pound as it supported views that the Bank of England might not rush to cut interest rates. However, the British currency could not hold on to its gains as weaker-than-expected retail sales data for August 2005 rekindled market expectations of plausible interest rate cuts. The Pound by the close of the month had reached an intra-month low of US$1.7622 after data releases showed unexpected weakness in economic growth. Final GDP data for the second quarter of 2005 showed annual growth at its weakest rate in 12 years at 1.5 per cent, compared with a previous reading of 1.8 per cent.

The Japanese yen, on average, depreciated vis-à-vis the US currency, trading around ¥111.09 per US dollar in September 2005 as against ¥110.70 per US dollar in the previous month. In the first week of September 2005, the yen benefited from optimism over the Japanese economy and expectations that the Japanese Prime Minister Junichiro Koizumi would be re-elected at the election of 11 September 2005. The election results, which came in as expected, added support to the yen and spurred hopes for more foreign buying of Tokyo shares. Data released showing that Japan's economy grew by 0.8 per cent in April-June 2005, higher than an initial estimate of 0.3 per cent, further helped the yen. However, the yen could not sustain its gains vis-à-vis the US dollar as surging oil prices undermined the Japanese currency given the country's high dependence over imported oil.

Oil prices remained at high levels, trading consistently above US$63 a barrel. The new record high levels reached by oil prices in August 2005, amid the immediate consequences of hurricane Katrina, prompted some decisions at the international level. The International Energy Agency (IEA) confirmed on 2 September 2005 that its 26 members would release 2 million barrels of oil per day (bpd) for 30 days to offset the impact of Katrina. At the same time, US Energy Secretary Samuel Bodman unveiled a plan to sell 30 million barrels of crude oil from the Strategic Petroleum Reserve. Weekly reports from US Energy Information Administration (EIA), on average, showed unsatisfactory US crude oil and gasoline stock levels. OPEC and IEA revised their global growth demand forecast down, suggesting that high oil prices were impacting on demand growth. Though oil prices eased from record levels, they nevertheless remained high as fears related to hurricane Rita kept the market edgy. At the end of its two-day meeting on 19-20 September 2005, OPEC stated that it would make 2 million bpd of its spare oil capacity available to buyers when required, although it left its official quota unchanged at 28 million bpd. In its September 2005 World Economic Outlook, the IMF revised its forecast of oil prices for 2005 and 2006 to US$54.23 a barrel and US$61.75 a barrel respectively, up from US$46.50 a barrel and US$43.75 a barrel in the April 2005 World Economic Outlook. In the weeks ahead, oil prices will most likely continue to trade above US$60 a barrel as the tight market conditions look unlikely to ease in the short term.

For September 2005, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$65.6 a barrel, compared to US$65.0 a barrel in August 2005 and US$46.1 a barrel in September 2004. IPE Brent futures averaged US$63.8 a barrel during the period under review, unchanged from August 2005 and up from US$42.9 a barrel in September 2004.

COMEX gold futures, on average, moved higher during September 2005, trading in an intra-month closing range of US$446.5/Oz-US$475.8/Oz compared to a range of US$435.5/Oz-US$451.5/Oz in August 2005. COMEX gold futures reached a 17-year high of US$475.8/Oz on 29 September. During the period under review, fund and speculative buying drove gold prices up after the contract broke a key psychological level of US$450/Oz and remained above that level for various trading sessions. Gold prices were also supported by inflation concerns, high oil prices and worries related to the effect of Hurricane Katrina on the US economy. COMEX averaged US$461.1/Oz during September 2005, compared to an average of US$443.0/Oz in August 2005.

Domestic Developments

Tourist arrivals increased by 9.8 per cent, from 55,342 in August 2004 to 60,746 in August 2005, while gross tourism receipts rose by 24.6 per cent, from Rs1,648 million in August 2004 to Rs2,053 million in August 2005. Cumulatively, over the period January to August 2005, tourist arrivals reached 475,519, representing an increase of 5.6 per cent on the 450,192 arrivals in the corresponding period of 2004. Tourism receipts for the period January to August 2005 grew by 6.4 per cent to reach Rs16,233 million compared to Rs15,255 million in the corresponding period of the previous year.

The Consumer Price Index (CPI) decreased from 118.0 in August 2005 to 117.3 in September 2005. The rate of inflation for the twelve-month period ended September 2005 stood at 5.5 per cent, compared to 5.6 per cent for the twelve-month period ended August 2005.

Taking into account liquidity conditions in the market, the Bank carried out in September 2005 two reverse repurchase transactions for 2 and 3 days at a fixed yield of 2.50 per cent.

During September 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs577.3 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs5.2 million.

On 13 September 2005, the Bank announced the issue of 2-Year Treasury Notes, in addition to 3- and 4-Year Treasury Notes, on a monthly basis as from 07 October 2005.

On 16 September 2005, the Bank undertook the first of the three issues of Mauritius Development Loan Stocks (MDLS) for fiscal year 2005-06 with maturities ranging from 7 to 13 years. Three Stocks, namely 8.50% MDLS 2012 (16 Sep 2012), 8.75% MDLS 2016 (16 Sep 2016), and 9.00% MDLS 2018 (16 Sep 2018) were put on tender for a total nominal amount of Rs1,100 million. Bids received for the three maturities totalled Rs2,138.8 million, of which an amount of Rs1,100 million was accepted. The weighted average yields on bids accepted were 8.87 per cent, 10.15 per cent and 10.22 per cent, respectively.

Between August 2005 and September 2005, the rupee, on average, depreciated against all major currencies.

The Bank intervened and sold USD23.5 million to banks in September 2005. The weighted average dealt selling rates of the rupee, which are calculated on transactions of USD30,000 and above effected by commercial banks, or the equivalent in other foreign currencies, showed that the rupee, on average, depreciated against the US dollar, the Euro and Pound sterling between August and September 2005.

The foreign exchange reserves of the Bank of Mauritius fell to Rs42,210 million at the end of September 2005, from Rs42,305 million at the end of August 2005.

Provisional estimates for 2004-05 show that the current account of the balance of payments recorded a deficit of Rs5,347 million as against a surplus of Rs1,334 million in 2003-04, reflecting mainly a deterioration in the merchandise account. The deficit on the merchandise account of the balance of payments almost doubled to Rs20,041 million, from Rs10,506 million a year earlier. The deficit on the merchandise account was partly offset by higher surpluses on the services and current transfers accounts. The income account improved to a lower deficit of Rs133 million in 2004-05 from a deficit of Rs1,002 million recorded in the previous fiscal year. The capital and financial account, inclusive of reserve assets, recorded a net inflow of Rs3,386 million in 2004-05 as against a net outflow of Rs1,168 million in 2003-04. The overall balance of payments for 2004-05, measured as the change in reserve assets excluding valuation changes, registered a deficit of Rs3,133 million, as against a surplus of Rs3,225 million in 2003-04.