

O V E R V I E W

International Developments

During April 2006, the US dollar, on average, depreciated against all major currencies amid market expectations that the US Federal Reserve could be nearing the end of its rate tightening cycle and on renewed concerns over the ballooning US current account deficit. Minutes of the 27-28 March 2006 US Federal Reserve FOMC meeting released thereafter further reinforced this view as they showed that there was near consensus that the end of the tightening process was likely to be soon, with some members expressing concerns about the dangers of tightening too much, given the lags in the effect of policy. Data showing strong capital flows amounting to US\$86.9 billion into the United States in February 2006, which were more than enough to cover the country's US\$65.7 billion trade deficit in that month, failed to support the US currency. Renewed geopolitical concerns after Iran announced it had joined the group of countries possessing nuclear technology also damaged market sentiment towards the US currency. At their meeting in Washington on 22 April 2006, finance ministers of G-7 nations called for major exporting countries to allow their currencies to rise against the US dollar to help resolve global imbalances - a call that was later echoed by ECB President Jean-Claude Trichet and the IMF in its semi-annual World Economic Outlook of April 2006 - and that added to the negative sentiment towards the US currency. The US dollar was further undermined by comments from the Chinese central bank Governor, who hinted at further yuan revaluation and the Russian Finance Minister, who questioned the dollar's status as the world's main reserve currency, and moves by the Swedish and Qatar central banks to diversify their foreign exchange reserves away from the dollar. Toward the end of April 2006, Fed Chairman Ben Bernanke, in his congressional testimony, gave another blow to the US dollar when he stated that at some point in the future a pause in rate increases might happen and global imbalances might affect the US currency.

The euro, on average, moved higher against the US dollar during April 2006 trading on average at US\$1.2257 from an average of US\$1.2019 in March 2006. Starting the month at a trough of US\$1.2044 on 3 April 2006, the euro steadily gained ground against the US dollar throughout the month on growing expectations that the European Central Bank (ECB) would raise rates as from May 2006. As widely expected, on 6 April 2006, the ECB kept its key refinancing rate unchanged at 2.5 per cent with the market retaining the view that the ECB would gradually lift rates to 3.25 per cent by the end of the year. The euro also benefited from the release of a German business climate index, which hit a 15-year high. With the broad-based weakness of the US currency in sight towards the end of April 2006, the euro gathered strength against the US dollar and finished the month at its intra-month peak of US\$1.2525.

The Pound sterling, on average, strengthened against the US dollar during April 2006 trading at an average of US\$1.7649 as against US\$1.7449 in the preceding month. As widely expected, on 6 April 2006, the Bank of England left its key repo rate unchanged at 4.5 per cent. The British currency got a boost against the US dollar after the Nasdaq reported that it bought a near 15 per cent stake in the

London Stock Exchange to become its biggest shareholder, sparking speculation that a full takeover could be near. Corporate flows into UK assets also supported the Pound. In addition, the British currency benefited from the release of the minutes of the Bank of England March 2006 MPC meeting, which showed a 7-1 vote to keep rates steady at 4.5 per cent as well as from strong UK retail sales data. Mirroring the rise of the euro against the US dollar throughout the month, the Pound, from its low of US\$1.7304 on 3 April 2006 gained ground steadily against the US dollar to reach its intra-month peak of US\$1.8016 on 28 April 2006.

The Japanese yen, on average, remained well supported against the US dollar during April 2006 trading on average at ¥117.10 per US dollar, slightly higher when compared to March 2006. The Bank of Japan (BOJ) kept its near-zero rate policy unchanged after its two-day policy meetings on 11 April 2006 and 28 April 2006 adding to the market consensus that the BOJ would not raise overnight rates until the third quarter of 2006. The release of the April 2006 Japanese tankan survey of business confidence, up to its highest level since the survey began in June 1998, gave a boost to the Japanese yen, which closed the month at its intra-month peak of ¥114.28 per US dollar.

Oil prices moved higher during April 2006, mainly on supply fears emanating from disturbances in Nigeria and growing tension between Iran and the West regarding Iran's nuclear ambitions. Uncertainty about the return of around 500,000 barrels per day of Nigerian oil production, discontinued since February 2006 by rebel attacks, persisted during the period under review. The US Energy Information Administration's oil stock reports were, on average, unsatisfactory. Decreases in US gasoline stocks ahead of the US driving season added further nervousness to the oil market. The tension between Iran and the West rose continuously pushing oil prices higher on each new trading session. On 21 April 2006, NYMEX and IPE Brent reached all-time highs of US\$75.2 a barrel and US\$74.7 a barrel, respectively. Meanwhile, in its April 2006 World Economic Outlook (WEO), the IMF has revised its forecasts of the average WTI crude oil price for 2006 to US\$61.25 a barrel from US\$61.75 a barrel in the September 2005 WEO and has projected an average of US\$63.00 per barrel for 2007. In the weeks ahead, oil prices will most likely trade above US\$70 a barrel, as the market remains sensitive to supply disruption fears and as the disagreement between Iran and the West seems unlikely to be resolved soon.

For April 2006, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US\$70.2 a barrel, compared to US\$62.9 a barrel in March 2006 and US\$53.2 a barrel in April 2005. IPE Brent futures averaged US\$70.5 a barrel during the month under review, up from US\$63.0 a barrel in March 2006 and US\$53.3 a barrel in April 2005.

COMEX gold futures, on average, moved higher during April 2006, trading in an intra-month closing range of US\$590.6/Oz-US\$654.5/Oz compared to a range of US\$541.3/Oz-US\$591.8/Oz in March 2006. Gold prices continued to be influenced more by speculative moves than fundamental demand and supply factors, with fears associated with Iran's nuclear ambitions stimulating fund buying. Gold prices even settled at a new record high of US\$654.5/Oz on 28 April 2006. COMEX averaged US\$615.6/Oz during April 2006, compared to an average of US\$559.9/Oz in March 2006.

Domestic Developments

Tourist arrivals declined by 14.4 per cent, from 67,931 in March 2005 to 58,136 in March 2006, while gross tourism receipts rose by 22.7 per cent, from Rs2,396 million in March 2005 to Rs2,941 million in March 2006. Cumulatively, over the period July 2005 to March 2006, tourist arrivals reached 621,000, representing an increase of 6.4 per cent compared to 583,535 arrivals recorded over the corresponding period of the previous fiscal year. Gross tourism receipts for the period July 2005 to March 2006 grew by 19.4 per cent to reach Rs22,188 million compared to Rs18,589 million recorded over the corresponding period of the previous fiscal year.

Provisional data show that foreign direct investment flows to Mauritius amounted to Rs717 million in the first quarter of 2006. The tourism sector was the largest recipient of foreign direct investment to the tune of Rs476 million, mainly on account of the investments under the Integrated Resorts Scheme (IRS). Direct investment abroad stood at Rs429 million in the first quarter of 2006, of which some Rs141 million were directed to the tourism sector in the Maldives and the Seychelles. Some Rs254 million were directed to the agricultural sector in Mozambique and Rs30 million to the manufacturing sector in Madagascar.

The Consumer Price Index (CPI) fell from 124.2 in March 2006 to 124.0 in April 2006. The main contributors to the decrease were fruits and gasoline, which declined by 0.1 and 0.5 index point, respectively, offset by increases of 0.1 index point in both fresh beef and other food products and 0.2 index point in diesel oil. The rate of inflation for the 12-month period ended April 2006 stood at 4.9 per cent, unchanged from the previous month.

Money supply M2 went up by Rs15,253 million or 9.6 per cent, from Rs159,625 million at the end of June 2005 to Rs174,878 million at the end of March 2006, reflecting increases in both of its components. Narrow money supply M1 grew by Rs1,092 million or 4.9 per cent to Rs23,332 million while quasi-money rose by Rs14,161 million or 10.3 per cent to Rs151,546 million.

Net foreign assets of the banking system increased by Rs8,574 million or 16.2 per cent from Rs52,951 million at the end of June 2005 to Rs61,525 million at the end of March 2006. Net foreign assets of Bank of Mauritius fell by Rs1,284 million or 3.0 per cent to Rs41,412 million while net foreign assets of banks went up by Rs9,858 million or 96.1 per cent to Rs20,113 million.

Domestic credit grew by Rs10,908 million or 7.5 per cent, from Rs145,973 million at the end of June 2005 to Rs156,881 million at the end of March 2006. Net credit to Government from the banking system increased by Rs787 million or 1.9 per cent, from Rs40,907 million at the end of June 2005 to Rs41,694 million at the end of March 2006. Net credit to Government from Bank of Mauritius fell by Rs361 million or 44.9 per cent to Rs442 million while net credit to Government from banks rose by Rs1,147 million or 2.9 per cent to Rs41,251 million. Credit to the private sector from banks went up by Rs10,121 million from Rs105,066 million at the end of June 2005 to Rs115,187 million at the end of March 2006, or 9.6 per cent. Over that period, additional credit was directed to "Public Nonfinancial Corporations" (Rs3,678 million),

“Construction” (Rs1,964 million), “Traders” (Rs1,797 million), “Personal” (Rs1,100 million), “Financial and Business Services” (Rs816 million), “Infrastructure” (Rs731 million), “Manufacturing” (Rs285 million), “Agriculture & Fishing” (Rs229 million), “Transport” (Rs171 million), “Tourism” (Rs161 million), “Education” (Rs79 million), “Freeport Enterprise Certificate Holders” (Rs52 million) and “State and Local Government” (Rs28 million). Over the same period, declines were registered at “Information, Communications and Technology” (Rs896 million) and “Professional” (Rs294 million).

Reserve money went up by Rs968 million or 4.2 per cent, from Rs22,941 million at the end of June 2005 to Rs23,909 million at the end of March 2006.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total amount of Rs3,400 million through the Primary Market in April 2006. The Bank also carried out a reverse repurchase transaction for 3 days at a fixed rate of 3.50 per cent during the month.

During April 2006, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs417.4 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs0.4 million.

At the monthly auction of Treasury Notes held in April 2006, a total nominal amount of Rs1,400 million of Treasury Notes with maturities of 2, 3, and 4 years and bearing interest rates of 7.60, 7.90 and 8.25 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs1,446.5 million, of which Rs1,400 million was accepted. The weighted average yields on bids accepted were 7.94, 8.27 and 8.65 per cent per annum.

On 28 April 2006, the Bank undertook the fifth 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 8.75 per cent per annum. Bids were received for a total amount of Rs997 million, of which Rs500 million were accepted. The weighted average yield on bids accepted was 8.92 per cent per annum.

Between March 2006 and April 2006, the rupee, on average, depreciated against all major currencies. The weighted average dealt selling rates of the rupee, which are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies, effected by commercial banks, showed that the rupee, on average, depreciated against the US dollar, Euro and the Pound sterling between March and April 2006.

At the end of March 2006, the net international reserves of the country amounted to Rs62,091 million. The end-March 2006 level of net international reserves of the country, based on the value of the import bill for calendar year 2005, exclusive of the purchase of aircraft, represented 34.6 weeks of imports, up from 34.3 weeks of imports at the end of February 2006. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs41,421 million at the end of March 2006 to Rs42,315 million at the end of April 2006