

## **OVERVIEW**

### **International Developments**

During November 2003, the US dollar, on average, depreciated against the Pound sterling and Japanese yen but appreciated vis-à-vis the euro in the international markets. Despite the excellent health of the US economy, as confirmed by the revised preliminary estimate of the third quarter GDP growth of 8.2 per cent, rising US business inventories and higher US housing starts, investor sentiment over the US dollar remained bearish. Moreover, news on the 18-19 November 2003 that the United States might impose import quotas on Chinese textiles dented US dollar sentiment as the market predicted that in desperation to protect its industries the US administration could weaken the US dollar in future and this might cause a capital flight from the United States, thereby, damaging the market's confidence in the US dollar. Furthermore, regular bad news from Iraq and bomb blasts in Istanbul also weighed on the US currency.

As widely expected, the ECB left its key refinancing interest rate unchanged at 2.00 per cent at its 6 November 2003 meeting, stating that euro zone interest rates were appropriate. In the first week of November 2003, the euro's movement against the US dollar was mixed, varying between US\$ 1.14 and US\$ 1.16. From the second week of November 2003, the euro started an upward trend on broad-based weakness of the US dollar. In addition, euro zone data released during November 2003 were quite encouraging. The euro zone economy grew at its fastest rate in a year in the third quarter of 2003. According to the Eurostat, GDP of the 12-member bloc rose by 0.4 per cent in the three months to September 2003 from the previous quarter, thereby reversing the 0.1 per cent contraction registered in the second quarter of 2003. The euro moved to a record high of US\$1.1977 in Tokyo trade on 18 November 2003 on news of possible US trade quotas against China and a sharp reduction of inflows into US securities. The euro closed the month of November 2003 at US\$1.1919.

The Pound sterling, favoured by its high yielding asset advantage, remained well supported against the US dollar. On 7 November 2003, in a widely expected move, the Bank of England Monetary Policy Committee (MPC) increased UK interest rates by a quarter percentage point to 3.75 per cent. The MPC stated that inflationary pressures were "likely to build gradually" and the "modest" quarter-point rise should keep inflation in line with the Bank's target of 2.5 per cent. However, the release of the MPC minutes on 19 November 2003, which showed a 8-1 vote in favour of hiking, suggested that members were not going to rush in to raise rates too quickly. On the economic data front, retail sales increased by 0.6 per cent in October 2003, the inflation rate fell to 2.7 per cent in October 2003 and the trade

deficit widened sharply to GBP 4.8 billion. The Pound sterling closed the month of November 2003 at US\$1.7146.

The Japanese yen, on average, appreciated vis-à-vis the US dollar, benefiting from the broad-based weakness of the US dollar. The general election results that left Japanese Prime Minister Junichiro Koizumi in power with a reduced majority had little impact on the Japanese yen. Japan's good economic performance was confirmed in the third quarter of 2003, with real GDP growing by 0.6 per cent in the three months to September 2003. The economy, in fact, expanded at a faster-than-expected pace, stretching its recovery to seven straight quarters. Moreover, for the first time in over five years, Japanese inflation was positive in October 2003, as core year-on-year Consumer Prices Index (CPI) rose by 0.1 per cent. The Bank of Japan held its two-day Policy Board Meeting on 20-21 November 2003 and, as expected, kept its monetary policy unchanged.

### **Domestic Developments**

Tourist arrivals fell by 0.6 per cent, from 65,291 in October 2002 to 64,917 in October 2003, while gross tourism receipts increased by 22.6 per cent, from Rs1,525 million to Rs1,869 million. Cumulatively for the period January to October, tourist arrivals increased by 3.3 per cent, from 547,876 in 2002 to 565,763 in 2003. Over the same period, gross tourism receipts rose by 1.8 per cent, from Rs14,855 million in 2002 to Rs15,122 million in 2003.

The Consumer Price Index (CPI) went up from 108.3 in October 2003 to 108.4 in November 2003. The rate of inflation for the 12-month period ended November 2003 stood at 4.1 per cent, down from 4.3 per cent for the 12-month period ended October 2003.

Money supply M2 increased by Rs3,204 million or 2.6 per cent, from Rs123,405 million at the end of June 2003 to Rs126,609 million at the end of October 2003. Narrow money supply M1 rose by Rs345 million or 2.0 per cent, from Rs17,439 million to Rs17,784 million while quasi-money expanded by Rs2,860 million or 2.7 per cent, from Rs105,966 million to Rs108,826 million.

Net foreign assets of the banking system went up by Rs1,154 million or 2.4 per cent, from Rs47,568 million at the end of June 2003 to Rs48,722 million at the end of October 2003. Net foreign assets of the Bank of Mauritius rose by Rs2,716 million or 6.9 per cent, from Rs39,584 million to Rs42,300 million. Net foreign assets of Category 1 banks, however, dropped by Rs1,562 million or 19.6 per cent, from Rs7,984 million to Rs6,422 million.

Domestic credit increased by Rs5,124 million or 4.8 per cent, from Rs106,927 million at the end of June 2003 to Rs112,051 million at the end of October 2003. Net credit to Government went up by Rs3,022 million or 14.1 per cent, from Rs21,476 million to Rs24,498 million, reflecting an increase of Rs3,157 million in credit from the Bank of Mauritius, that was partly offset by the drop of Rs135 million in credit from Category 1 banks.

Credit to the private sector from Category 1 banks rose by Rs2,126 million or 2.5 per cent, from Rs85,080 million at the end of June 2003 to Rs87,206 million at the end of October 2003. Credit was mainly channelled to “New Economy” (Rs1,141 million), “Construction” (Rs562 million), “Traders” (Rs501 million), “Financial & Business Services” (Rs399 million), and “Personal” (Rs367 million). A drop in credit was noted in “Agriculture & Fishing” (Rs372 million), “Manufacturing” (Rs316 million) and “Tourism” (Rs223 million).

Reserve money expanded by Rs3,984 million or 27.0 per cent, from Rs14,776 million at the end of June 2003 to Rs18,760 million at the end of October 2003, mainly on account of BoM Bills issued to Category 1 banks.

The Bank did not carry out any repurchase/reverse repurchase transaction during November 2003.

In line with the decision to lengthen the maturity structure of Government debt, the Bank carried out on 21 November 2003, an auction of Mauritius Development Loan Stocks (MDLS) for a total nominal amount of Rs2.0 billion. Three Stocks, namely 8-1/4% MDLS 2010 (21 Nov 2010), 8-1/2% MDLS 2014 (21 Nov 2014) and 8-3/4% MDLS 2018 (21 Nov 2018), were put on tender. The value of bids received was Rs1,736.2 million, of which an amount of Rs1,717.7 million was accepted. The weighted yields on bids accepted for each stock were 9.74 per cent, 10.05 per cent and 10.20 per cent, respectively.

The second quarterly auction of Five-Year Government Bonds for fiscal year 2003-04 will be held on 31 December 2003 for a total nominal amount of Rs500 million. The coupon rate has been fixed at 8.00 per cent for this issue.

Total transactions in eligible Government securities effected through the primary dealers during November 2003 amounted to Rs833.9 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during November 2003 amounted to an equivalent of US\$ 27.47 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank

intervened and purchased a total of US\$2.0 million from banks in November 2003. Between October 2003 and November 2003, the rupee, on average, appreciated vis-à-vis the euro, Pound Sterling, US dollar and Japanese yen.

At the end of October 2003, the net international reserves of the country amounted to Rs49,570 million. Based on the value of the import bill for fiscal year 2002-03, the end-October 2003 level of net international reserves of the country represented 39.5 weeks of imports, up from 38.9 weeks of imports at the end of September 2003. At the end of November 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs42,272 million, down from Rs42,346 million at the end of October 2003.

The SEMDEX reached 538.29 on 4 November 2003, breaking its previous high of 537.31 attained on 4 August 1998. On 11 November 2003, it reached an all-time high of 551.93. The rise is mainly attributed to successive reductions in interest rates, higher earnings in euro which are beneficial to the Leisure and Hotels sector, strong growth in the construction sector and more transparency on the Stock Exchange with the introduction of the SEMTRI.