

OVERVIEW

International Developments

During April 2003, the US dollar, on average, depreciated against the euro but appreciated vis-à-vis the Pound sterling and Japanese yen. With events in Iraq having taken a backseat, market focus shifted once more to US economic fundamentals. Data released in the United States throughout April were mixed. While the US March retail sales jumped beyond expectations and the University of Michigan's April preliminary index of consumer sentiment came out strong, US March industrial production and capacity utilization posted a decline. As the war in Iraq and the harsh winter impacted on spending and investment, US first-quarter 2003 GDP came out weaker-than-expected showing an expansion of only 1.6 per cent as against expectations of 2.3 per cent. Furthermore, labour market data released in April pointed to a dismal jobs picture with US unemployment rising to a four-month high of 6 per cent. Amid so much uncertainty clouding the US economy and with investors shying away from low-yielding US assets, there was little enthusiasm to buy the US currency.

The euro continued to attract demand from global investors, benefiting from a higher interest rate differential relative to US assets. The euro, on the back of a steady flow of capital throughout the month, appeared undeterred by the waning economic growth prospects in the euro zone. At the close of April, the euro was trading at US\$1.1105, its highest level attained since February 1999. At its monthly governing council interest rate-setting meeting on 3 April 2003, the ECB left its key interest rate unchanged at 2.50 per cent. Commenting on the current level of interest rates, ECB President, Wim Duisenberg, pointed out that any further reduction would not drive away the lack of confidence and high uncertainty shrouding the euro area.

The Pound sterling, on average, lost ground against the US dollar, dragged down by Britain's growing trade deficit, weakening consumer confidence, and political uncertainties. With an end to the war against Iraq without substantial global economic damage, the Pound, however, managed to close the month on a higher tone helped by the release of more optimistic UK

consumer and manufacturing data. At its monthly Monetary Policy Committee meeting on 10 April 2003, the Bank of England left its key repo rate unchanged at 3.75 per cent.

The Japanese yen weakened vis-à-vis the US dollar as renewed concerns over Japan's economic health and the near-zero interest rates on Japanese assets caused investors to flee the Japanese currency. Moreover, Bank of Japan Governor's bearish comments to the effect that bad loans were hampering the country's banking system and sharp declines in the Japanese stock market had placed Japan's financial system in a severe state, weighed on the yen.

Domestic Developments

After reviewing the latest economic and monetary developments, the Bank of Mauritius, taking into account the weaker-than-anticipated global demand growth projections and existing scope for bank credit growth, reduced the Lombard Rate by 25 basis points from 10.50 per cent to 10.25 per cent per annum effective noon 7 May 2003. Easing of monetary policy is expected to boost business confidence and support growth prospects of the economy by exerting a positive influence on the cost of funds.

Tourist arrivals decreased by 6.6 per cent from 67,554 in March 2002 to 63,129 in March 2003, while gross tourism receipts decreased by 10.0 per cent, from Rs1,683 million in March 2002 to Rs1,515 million in March 2003. Cumulatively for the period July 2002 to March 2003, gross tourism receipts fell by 6.9 per cent to Rs13,745 million from Rs14,762 million for the corresponding period in 2001-02.

The Consumer Price Index (CPI) rose from 105.6 in March 2003 to 105.8 in April 2003. The rate of inflation for the 12-month period ended April 2003 stood at 5.5 per cent.

Money supply M2 increased by Rs9,094 million or 8.2 per cent, from Rs110,467 million at the end of June 2002 to Rs119,561 million at the end of March 2003. Narrow money supply M1, one of the components of M2, went up by Rs1,600 million or 10.6 per cent to Rs16,736

million and quasi-money, the other component of M2, rose by Rs7,494 million or 7.9 per cent to Rs102,825 million.

Net foreign assets of the banking system went up by Rs3,065 million or 7.7 per cent, from Rs39,974 million at the end of June 2002 to Rs43,039 million at the end of March 2003. Net foreign assets of Bank of Mauritius increased by Rs4,871 million or 16.3 per cent to Rs34,782 million while net foreign assets of Category 1 banks decreased by Rs1,805 million or 17.9 per cent to Rs8,257 million.

Domestic credit rose by Rs5,234 million or 5.3 per cent, from Rs99,396 million at the end of June 2002 to Rs104,630 million at the end of March 2003. Net credit to Government from the banking system increased by Rs1,380 million or 7.3 per cent to Rs20,361 million, reflecting the increase of Rs7,934 million or 35.8 per cent in net credit to Government from Category 1 banks that was partly offset by the drop of Rs6,554 million in net credit to Government from Bank of Mauritius.

Credit to the private sector from Category 1 banks went up by Rs3,898 million or 4.9 per cent, from Rs79,976 million at the end of June 2002 to Rs83,874 million at the end of March 2003. Over that period, credit was mainly channelled to “Tourism” (Rs2,142 million), “New Economy” (Rs1,046 million), “Traders” (Rs822 million), “Personal & Professional” (Rs673 million), “Agriculture & Fishing” (Rs358 million) and “Financial and Business Services” (Rs310 million). There was a drop in credit to “Statutory & Parastatal Bodies” (Rs944 million) and “Manufacturing” (Rs444 million).

Reserve money increased by Rs1,764 million or 13.6 per cent, from Rs12,925 million at the end of June 2002 to Rs14,689 million at the end of March 2003.

Taking into account liquidity conditions in the market in April 2003, the Bank carried out one repurchase transaction for seven days at a yield of 6.75 per cent per annum and two reverse repurchase transactions for one and two days, respectively. The highest yield accepted for the reverse repurchase transactions was 2.00 per cent per annum.

Total transactions in eligible Government securities effected through the primary dealers during April 2003 amounted to Rs1,212 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during April 2003 amounted to an equivalent of US\$17.5 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank

intervened and purchased a total of US\$19.50 million in April 2003. Between March 2003 and April 2003, the rupee, on average, appreciated against the Pound sterling, US dollar and Japanese yen but depreciated marginally against the euro.

At the end of March 2003, the net international reserves of the country amounted to Rs43,578 million. Based on the value of the import bill for calendar year 2002, the end-March 2003 level of net international reserves of the country represented 38.0 weeks of imports, down from 38.3 weeks at the end of February 2003. At the end of April 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs35,373 million, up from Rs34,782 million at the end of March 2003.