

OVERVIEW

International Developments

During December 2002, the US dollar, on average, lost ground against the euro and Pound sterling but appreciated marginally vis-à-vis the Japanese yen. Despite the release of relatively encouraging data, namely US retail sales and the University of Michigan stronger-than-expected preliminary consumer sentiment index for December, the US dollar remained under pressure against the major European currencies on renewed fears of a US war with Iraq. US dollar sentiment was broadly bearish as risk-averse investors increasingly concerned about the geo-political environment felt safer avoiding US denominated assets. Moreover, uncertainty as to whether the Bush administration's newly appointed US Treasury Secretary and White House Economic Adviser would keep the strong dollar policy that Washington had maintained for the past seven to eight years added to the dollar's woes. The US Federal Reserve, at its regular FOMC meeting on 10 December 2002, left the federal funds rate unchanged at its four-decade low of 1.25 per cent.

In line with market expectations, the ECB at its interest rate-setting meeting on 5 December 2002 cut its key refinancing rate by 50 basis points to 2.75 per cent giving a boost to the euro, which rose above parity level with the dollar. Against the backdrop of ongoing fears of a US military intervention in Iraq, the euro consolidated its gains vis-à-vis the US currency despite the scaling down by the ECB of its 2003 growth forecasts for the euro zone by a full percentage point to a range between 1.1 per cent and 2.1 per cent. At the close of the year 2002, the single currency traded at a high of over US\$1.05 in New York trade.

The Pound sterling maintained its firm footing against the US dollar, benefiting from relatively better interest rate and growth differentials. The Bank of England, at its monthly Monetary Policy Committee meeting on 5 December 2002 left its key repo rate unchanged at 4.0 per cent.

The yen, on average, depreciated marginally against the US dollar as currency traders remained cautious to push the US currency lower due to wariness over possible intervention by Japanese authorities.

Domestic Developments

Tourist arrivals increased by 7.0 per cent from 57,326 in November 2001 to 61,326 in November 2002, while gross tourism receipts decreased by 1.3 per cent, from Rs1,634 million in November 2001 to Rs1,613 million in November 2002. However, cumulatively

for the period January to November, gross tourism receipts went up by 2.1 per cent, from Rs16,134 million in 2001 to Rs16,467 million in 2002.

The Consumer Price Index (CPI) fell from 104.9 in November 2002 to 104.8 in December 2002. The rate of inflation for the year 2002 stood at 6.4 per cent, compared to 5.4 per cent in the year 2001.

Money supply M2 rose by Rs4,607 million or 4.2 per cent, from Rs110,467 million at the end of June 2002 to Rs115,074 million at the end of November 2002, drawing support from increases in both of its components. Narrow money supply M1 expanded by Rs1,239 million or 8.2 per cent to Rs16,374 million. Quasi-money maintained its trend growth, rising by Rs3,368 million or 3.5 per cent to Rs98,700 million. Net foreign assets of the banking system went up by Rs1,781 million or 4.5 per cent, from Rs39,974 million at the end of June 2002 to Rs41,755 million at the end of November 2002, resulting from the increase of Rs4,143 million or 13.9 per cent in net foreign assets of Bank of Mauritius that fully offset the drop of Rs2,362 million or 23.5 per cent in those of Category 1 banks. Domestic credit maintained its growth momentum, rising by Rs4,852 million or 4.9 per cent, from Rs99,396 million at the end of June 2002 to Rs104,248 million at the end of November 2002. Net credit to Government increased by Rs1,276 million or 6.7 per cent to Rs20,256 million reflecting the rise of Rs4,852 million or 21.9 per cent in net credit to Government from Category 1 banks that fully offset the drop of Rs3,576 million in net credit to Government from Bank of Mauritius. Credit to the private sector from Category 1 banks went up by Rs3,555 million or 4.4 per cent to Rs83,531 million, with additional credit being directed to “Tourism” (Rs2,151 million), “Traders” (Rs879 million), “Personal & Professional” (Rs447 million), “Agriculture & Fishing” (Rs403 million), “New Economy” (Rs312 million) and “Construction” (Rs311 million). Reserve money rose by Rs763 million or 5.9 per cent, from Rs12,925 million at the end of June 2002 to Rs13,688 million at the end of November 2002, mainly on account of the increase in currency in circulation.

Taking into account liquidity conditions in the market, the Bank carried out two reverse repurchase transactions for two and three days in December 2002. The highest yield accepted was 3.00 per cent.

Total transactions in eligible Government securities effected through the primary dealers during December 2002 amounted to Rs1,139.9 million.

On 31 December 2002, the Bank undertook the second issue of Five-Year Government of Mauritius Bonds for a total nominal amount of Rs250 million. As for the first issue, the coupon rate was fixed at 8.50 per cent per annum. Bids totalling Rs724 million were

received and a total amount of Rs250 million was accepted. The weighted average yield on bids accepted was 10.75 per cent, down from 11.59 per cent at the previous auction.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during December 2002 amounted to an equivalent of US\$24.3 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US\$27.5 million in December 2002. Between November 2002 and December 2002, the rupee, on average, appreciated against the US dollar and Japanese yen but depreciated vis-à-vis the euro and Pound sterling.

At the end of November 2002, the net international reserves of the country amounted to Rs42,319 million. Based on the value of the import bill for fiscal year 2001-02, the end-November 2002 level of net international reserves of the country represented 38.9 weeks of imports, up from 38.0 weeks at the end of October 2002. At the end of December 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs35,617 million, up from Rs34,055 million at the end of November 2002 and Rs25,220 million at the end of December 2001.