OVERVIEW

International Developments

During December 2003, the US dollar, on average, lost ground against all major currencies. The US dollar remained persistently under downward pressure throughout December, with the market discounting the release of fairly robust US data, amongst which, US November 2003 industrial production that posted its biggest monthly gain in 4 years and the Philadelphia Fed's business index for December 2003 that showed its highest reading in 10 years. Even the capture of former Iraqi President Saddam Hussein failed to provide an impetus to the US dollar, which remained plagued by investors' concerns about the United States widening current account deficit and the difficulty, given the current 45-year low interest rates, to attract enough foreign capital to finance this gap. By year-end, amid thin trading volumes, the US dollar, exposed to security concerns and ongoing weak investor sentiment, had plunged sharply to new record lows against the euro and an 11-year trough vis-à-vis the Pound sterling. The US Federal Reserve, at its regular FOMC meeting on 9 December 2003, held its key federal funds rate unchanged at 1.0 per cent and, in its accompanying statement, concluded that inflation being low enough, borrowing costs could be kept accommodative for a "considerable period", which according to analysts, left the US dollar's yield disadvantage intact.

The euro ended 2003 with yet another historic peak against the US dollar, breaking through US$1.26 level for the first time ever, to reach a record high of US$1.2650 during New York trade on 31 December 2003. The euro's strength so far, according to analysts, had been fuelled by the US dollar's broad-based weakness. Prominent ECB policymakers, on their part, had expressed the view that the single currency remained in line with its long-term average while the ECB had reiterated that it favoured a strong and stable currency. At its governing council meeting on 4 December 2003, the ECB left its key refinancing rate unchanged at 2.0 per cent and signalled that it was in no hurry to shift its monetary course despite the euro's climb. The euro, launched in January 1999, has gained more than 20 per cent in value against the US currency during 2003.

On 31 December 2003 in London trade, the Pound sterling reached a high of US$1.7937, a level last seen in October 1992 following Britain's exit from the European Union's Exchange Rate Mechanism (ERM). The Pound sterling, which had been tracking the euro's climb against the weakening US dollar, also drew support from more favourable interest rate differentials. At its Monetary Policy Committee meeting on 3-4 December 2003, the Bank of England left its key interest rate unchanged at 3.75 per cent. Minutes of the meeting released thereafter revealed that although members voted 8-1 to keep rates unchanged, they seemed to broadly agree to raise borrowing costs in 2004 if the economy grew in line with forecasts.

The yen continued its ascent vis-à-vis the weak US dollar despite fears and rumours of foreign exchange intervention by Japanese authorities to stem the yen's rise. The Bank of Japan at the end of its regular two-day policy board meeting on 16 December 2003 decided by a unanimous vote to leave its current accommodative monetary policy unchanged.

Domestic Developments

Tourist arrivals rose by 1.1 per cent, from 61,326 in November 2002 to 61,984 in November 2003, while gross tourism receipts increased by 8.3 per cent, from Rs1,613 million to Rs1,747 million. Cumulatively for the period January to November, tourist arrivals increased by 3.0 per cent, from 609,202 in 2002 to 627,747 in 2003. Over the same period, gross tourism receipts went up by 2.4 per cent, from Rs16,467 million in 2002 to Rs16,869 million in 2003.

The Consumer Price Index (CPI) went up from 108.4 in November 2003 to 108.9 in December 2003. The rate of inflation for calendar year 2003 stood at 3.9 per cent, down from 6.4 per cent for calendar year 2002.

Money supply M2 increased by Rs4,561 million or 3.7 per cent, from Rs123,405 million at the end of June 2003 to Rs127,966 million at the end of November 2003. Narrow money supply M1 rose by Rs1,281 million or 7.3 per cent, from Rs17,439 million to Rs18,720 million while quasi-money expanded by Rs3,280 million or 3.1 per cent, from Rs105,966 million to Rs109,246 million.

Net foreign assets of the banking system went up by Rs1,413 million or 3.0 per cent, from Rs47,568 million at the end of June 2003 to Rs48,981 million at the end of November 2003, solely driven by the increase in the net foreign assets of the Bank of Mauritius. Net foreign assets of the Bank of Mauritius rose by Rs2,618 million or 6.6 per cent, from Rs39,584 million to Rs42,202 million. Net foreign assets of Category 1 banks dropped by Rs1,206 million or 15.1 per cent, from Rs7,984 million to Rs6,778 million.

Domestic credit increased by Rs6,728 million or 6.3 per cent, from Rs106,927 million at the end of June 2003 to Rs113,655 million at the end of November 2003. Net credit to Government went up by Rs4,217 million or 19.6 per cent, from Rs21,476 million to Rs25,693 million, reflecting an increase of Rs5,199 million in net credit to Government from Bank of Mauritius that was partly offset by the drop of Rs982 million in net credit from Category 1 banks.

Credit to the private sector from Category 1 banks rose by Rs2,496 million or 2.9 per cent, from Rs85,080 million at the end of June 2003 to Rs87,576 million at the end of November 2003. Credit was mainly channelled to "New Economy" (Rs1,176 million), "Traders" (Rs907 million), "Construction" (Rs874 million), " Personal" (Rs427 million) and "Financial &

Business Services" (Rs416 million). A drop in credit was noted in "Agriculture & Fishing" (Rs569 million), "Manufacturing" (Rs363 million) and "Tourism" (Rs262 million).

Reserve money expanded by Rs5,738 million or 38.8 per cent, from Rs14,776 million at the end of June 2003 to Rs20,514 million at the end of November 2003, reflecting the issue of BoM Bills to Category 1 banks.

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

Effective 15 December 2003, the Bank of Mauritius, with the collaboration of the Stock Exchange of Mauritius and the Central Depository and Settlement Co Ltd, started selling Bills of 182-day, 364-day and 728-day maturities through licensed stockbroking companies on the Stock Exchange of Mauritius with a view to providing wider access of Government of Mauritius Securities/Bank of Mauritius Bills to the public. Purchase orders for these Bills on the Stock Exchange are restricted to Mauritian citizens and are limited to a maximum of 20 units (one unit = Rs100,000 nominal). As at 31 December 2003, Bills for a total nominal amount of Rs75.6 million had been transacted on the Stock Exchange.

On 31 December 2003, the Bank undertook the second issue of Five-Year Government of Mauritius Bonds for fiscal year 2003-04 for a total nominal amount of Rs500 million. As for the first issue, the coupon rate was fixed at 8.00 per cent per annum. Bids for a total nominal amount of Rs763.3 million were received, of which Rs500 million were accepted. Yields on bids received ranged from 8.98 per cent to 9.65 per cent while the weighted yield on bids accepted was 9.08 per cent compared to 9.49 per cent obtained at the auction held on 30 September 2003.

Total transactions in eligible Government securities effected through the primary dealers during December 2003 amounted to Rs1,636.4 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during December 2003 amounted to an equivalent of US$6.05 million. Between November 2003 and December 2003, the rupee, on average, appreciated vis-à-vis the US dollar, Pound Sterling, and Japanese yen, and remained virtually unchanged against the euro.

At the end of November 2003, the net international reserves of the country amounted to Rs49,828 million. On the basis of the revised data on imports for fiscal year 2002-03, exclusive of purchase of aircrafts, the end-November 2003 level of net international reserves of the country represented 39.9 weeks of imports, up from 39.6 weeks of imports as at the end of October 2003. At the end of December 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs40,848 million, down from Rs42,272 million at the end of November 2003.

Revised estimates of the balance of payments suggest that the current account recorded a surplus of Rs3,924 million during fiscal year 2002-03. In relation to GDP, the surplus on the current account represented 2.6 per cent in 2002-03. The deficit on the merchandise account of the balance of payments, inclusive of transactions of the Freeport, amounted to Rs8,287 million. The services account posted a surplus of Rs10,016 million, stemming mainly from the travel account. Gross earnings from tourism amounted to Rs17,998 million while expenditure on foreign travel by residents reached Rs5,411 million in 2002-03. The income account recorded a net outflow of Rs37 million. The net surplus on the current transfers account is estimated at Rs2,232 million. The capital and financial account, inclusive of reserve assets, recorded a net outflow of Rs6,047 million in 2002-03. Overall balance of payments for 2002-03 showed a surplus of Rs9,099 million, representing the increase in reserve assets excluding valuation changes. Quarterly estimates of the Balance of Payments for fiscal year 2002-03 are provided in Table 39 of this Bulletin.

The SEMDEX reached a new all-time high of 562.67 on 24 December 2003, breaking its previous high of 551.93 attained on 11 November 2003. For the period 3 January 2003 to 31 December 2003, the SEMDEX registered an increase of 37.68 per cent, closing the year at 549.58.