OVERVIEW

International Developments

During February 2003, the US dollar, on average, depreciated against the euro but appreciated vis-à-vis the Pound sterling and Japanese yen. With heightened geopolitical tensions dominating the markets, the US dollar remained under pressure although its depreciation remained somewhat modest because of few alternative investment opportunities. In his semi-annual testimony on the state of the US economy on 11 February 2003, the US Federal Reserve Chairman, Alan Greenspan, pointed out that the intensification of geopolitical risks made discerning the US economic path ahead especially difficult. He stated that it would be possible for the Federal Reserve to assess whether the US business sector and the economy overall were poised to grow more rapidly or were still labouring under persisting strains and imbalances only if these uncertainties diminished considerably in the near term.

Despite uninspiring economic news for the euro zone, the single currency, amid geopolitical tensions, benefited mostly from market dislike for the US dollar. At its monthly governing council meeting on 6 February 2003, the ECB, despite growing calls for a cut, left its key refinancing rate unchanged at 2.75 per cent, confident that inflation pressures were easing though wary that Iraq war fears could hamper growth. Commenting on the current level of interest rates in the euro zone, the ECB President said that their already low level should help to counterbalance the negative effects on economic activity currently stemming from the high degree of worldwide uncertainty and should contribute to a sustainable economic recovery in the course of 2003.

The Pound sterling suffered a major setback after the Bank of England at its monthly Monetary Policy Committee meeting on 6 February 2003 unexpectedly cut, for the first time since November 2001, its key repo rate by 25 basis points to 3.75 per cent, its lowest level since 1955, stating that the prospects for demand, both globally and domestically, were somewhat weaker than previously anticipated. Although the decision came as a relief to UK's struggling manufacturing industry, the surprise move took financial markets off guard and the reaction on the Pound was quite negative as the Bank of England dented the appeal of short-term sterling deposits. Moreover, the release of further gloomy UK economic data throughout the month, the British government's support for a war in Iraq and terrorist alert in London weighed on the Pound.

The Japanese yen, on average, lost ground against the US dollar. The second half of February 2002, however, was marked by the strengthening of the yen despite ongoing verbal intervention from Japanese officials aimed at talking down the currency. The nomination of the new Bank of Japan governor also provided support to the yen on expectations that he would not promote aggressive deflation-fighting steps that would weaken the Japanese currency.

Domestic Developments

Tourist arrivals increased by 1.9 per cent from 63,551 in January 2002 to 64,762 in January 2003, while gross tourism receipts decreased by 5.1 per cent, from Rs1,977 million in January 2002 to Rs1,876 million in January 2003. Cumulatively for the period July 2002 to January 2003, gross tourism receipts declined by 7.0 per cent to Rs10,916 million from Rs11,734 million for the corresponding period in 2001-02.

The Consumer Price Index (CPI) rose from 105.5 in January 2003 to 105.7 in February 2003. The rate of inflation for the 12-month period ended February 2003 stood at 6.1 per cent.

Money supply M2 went up by Rs7,090 million or 6.4 per cent, from Rs110,467 million at the end of June 2002 to Rs117,557 million at the end of January 2003. Narrow money supply M1, one of the components of M2, rose by Rs1,667 million or 11.0 per cent to Rs16,802 million and quasi money increased by Rs5,423 million or 5.7 per cent to Rs100,755 million. Net foreign assets of the banking system rose by Rs3,962 million or 9.9 per cent, from Rs39,974 million at the end of June 2002 to Rs43,936 million at the end of January 2003. Net foreign assets of Bank of Mauritius expanded by Rs5,921 million or 19.8 per cent to Rs35,833 million while net foreign assets of Category 1 banks dropped by Rs1,959 million or 19.5 per cent to Rs8,103 million. Domestic credit edged up by Rs4,423 million or 4.4 per cent, from Rs99,396 million at the end of June 2002 to Rs103,819 million at the end of January 2003. Net credit to Government from the banking system went up by Rs676 million or 3.6 per cent to Rs19,656 million, reflecting the increase of Rs7,350 million or 33.2 per cent in net credit to Government from Category 1 banks that was partly offset by the drop of Rs6,674 million in net credit to Government from Bank of Mauritius. Credit to the private sector from Category 1 banks rose by Rs3,775 million or 4.7 per cent to Rs83,751 million at the end of January 2003. Additional credit over that period was directed to "Tourism" (Rs2,534 million), "New Economy" (Rs1,072 million), "Traders" (Rs776 million), "Personal & Professional" (Rs342 million) and "Construction" (Rs266 million). Reserve money increased by Rs948 million or 7.3 per cent to Rs13,873 million.

Taking into account liquidity conditions in the market, the Bank carried out one repurchase transaction for one day in February 2003. The lowest yield accepted was 6.75 per cent.

Total transactions in eligible Government securities effected through the primary dealers during February 2003 amounted to Rs957 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during February 2003 amounted to an equivalent of US$4.8 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$4.0 million in February 2003. Between January 2003 and February 2003, the rupee, on average, appreciated against the Japanese yen, Pound sterling, US dollar and euro.

At the end of January 2003, the net international reserves of the country amounted to Rs44,493 million. Based on the value of the import bill for fiscal year 2001-02, the end-January 2003 level of net international reserves of the country represented 40.9 weeks of imports, up from 40.5 weeks at the end of December 2002. At the end of February 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs35,121 million, down from Rs35,833 million at the end of January 2003.