Overview

International Developments

During February 2004, the US dollar, on average, depreciated against the euro and Pound sterling but appreciated vis-à-vis the yen. The Group of Seven Finance Ministers' meeting held on 6-7 February at Boca Raton, Florida was expected to tackle the US dollar's decline, which had accentuated following the September 2003 meeting in Dubai. The statement released after the meeting, warning that "excess volatility and disorderly movements in exchange rates were undesirable for economic growth", however, fell short of expectations and failed to pump more confidence in the US dollar, which continued to be pressured by the low yield on dollar denominated assets and the US twin deficits. Moreover, US Federal Reserve Chairman, Alan Greenspan, semi-annual testimony on 11 February 2004 in which he showed little concern over the US dollar's slide and instead pointed to the benefits for the United States from a cheap currency, dented the US currency further. By the close of the month, however, after the US Federal Reserve Chairman had delivered a positive outlook on the US economy in his testimony before the US House of Budget Committee on 25 February 2004, the US dollar broadly recovered vis-à-vis the major European currencies, supported by expectations that US interest rates might be raised sooner than expected.

The euro continued its ascent against the dollar in the first half of February as the G7 meeting failed to come up with any joint effort to stem its rise. It surged to a lifetime high of $1.2927 in New York trade on 18 February 2004. The strength of the euro prompted stronger verbal intervention from euro zone politicians, namely German Chancellor Gerhard Schroeder and his French counterpart Jean-Pierre Raffarin who called for the ECB to cut rates since the euro's strength was posing a risk to the euro zone's economic recovery, while ECB President Jean Claude Trichet reiterated his warning against excessive volatility in the foreign exchange market. The recovery of the US dollar by the end of February 2004 pulled the euro down to around $1.2437 as traders pondered over the comments of euro zone politicians and locked in profits. At its governing council meeting on 5 February 2004, the ECB left its key interest rate unchanged at 2.0 per cent.

The Pound sterling strengthened noticeably against the US dollar, benefiting from a global appetite for higher yields and positive growth prospects. On 18 February 2004, in London trade, the Pound sterling set a new eleven-year high of $1.9140 as investors continued to dump the US dollar in favour of currencies with higher interest rates. The Pound sterling, however, ended February 2004 slightly lower amid profit taking. As widely expected, the Bank of England raised its key interest rate by 25 basis points to 4.0 per cent at its monthly Monetary Policy Committee meeting on 4-5 February 2004, citing recovery in the global economy and continued strength in UK consumer debt and house prices. Minutes of the meeting, released thereafter, revealed that the nine MPC members voted unanimously for a quarter point increase.

The Japanese yen set a three-and-a-half year high of 105.22 yen to the dollar in post-Asian trading hours in London early in the month on 3 February 2004 and remained well bid against the US currency, trading slightly above 105 yen to the US dollar throughout most of February 2004 despite repeated foreign exchange intervention by the Japanese authorities. Towards the end of the month, the yen lost ground against the US dollar to trade at around 109.52 yen to the dollar.

During the month of February 2004, world oil prices maintained an underlying bullish trend due to an array of factors, namely the seasonal demand pressures arising out of the consumption of heating oil in the Northern winter season, OPEC decision on 10 February 2004 to curb OPEC output quota by 1 million barrels per day effective as from 01 April 2004 (whilst mopping up the oil production leakage above the 24.5 million barrels per day quota amounting to around 1.5 million barrels per day since November 2003), the tightness of US and OECD crude oil stocks, and heightened concerns about gasoline supplies scheduled for the summer driving season peak demand towards the end of the second quarter of 2004. IPE Brent and NYMEX crude oil futures averaged US$30.4 and US$34.5 per barrel, respectively, compared to US$30.8 and US$34.0 in January 2004. Gold continued to maintain its negative correlation with the US dollar, which neared record lows against the euro during the second week of February 2004, and boosted European interest for the bullion. However, the US dollar staged several recoveries against all currencies towards the end of February 2004, and softened gold futures prices on average. COMEX gold averaged US$404.4 per ounce in February 2004 compared to US$415.1 per ounce in January 2004.

Domestic Developments

Tourist arrivals rose by 2.8 per cent, from 64,762 in January 2003 to 66,543 in January 2004, while gross tourism receipts increased by 14.0 per cent, from Rs1,876 million in January 2003 to Rs2,138 million in January 2004. Cumulatively for the period July 2003 to January 2004, tourist arrivals increased by 2.3 per cent to 433,255, from 423,703 for the corresponding period in 2002-03. Over the same period gross tourism receipts rose by 15.2 per cent to Rs12,579 million in 2003-04 from Rs10,916 million in 2002-03.

The Consumer Price Index (CPI) rose from 109.7 in January 2004 to 110.1 in February 2004. The rate of inflation for the 12-month period ended February 2004 stood at 3.8 per cent, unchanged from the previous month.

Money supply M2 went up by Rs9,225 million or 7.5 per cent, from Rs123,405 million at the end of June 2003 to Rs132,630 million at the end of January 2004. Narrow money supply M1, one of the components of M2, rose by Rs2,048 million or 11.7 per cent to Rs19,487 million while quasi-money, the other component of M2, increased by Rs7,177 million or 6.8 per cent to Rs113,143 million.

Net foreign assets of the banking system declined by Rs259 million or 0.5 per cent, from Rs47,568 million to Rs47,309 million. Net foreign assets of Bank of Mauritius went up by Rs636 million or 1.6 per cent to Rs40,220 million, while the net foreign assets of Category 1 banks fell by Rs895 million or 11.2 per cent to Rs7,090 million.

Domestic credit went up by Rs10,931 million or 10.2 per cent, from Rs106,927 million at the end of June 2003 to Rs117,858 million at the end of January 2004. Net credit to Government increased by Rs6,463 million or 30.1 per cent to Rs27,939 million, solely driven by the increase of Rs7,801 million or 71.2 per cent noted in net credit from the Bank of Mauritius as a result of Government running down its cash balances. Net credit to Government from Category 1 banks, however, dropped by Rs1,338 million or 4.1 per cent to Rs31,094 million. Credit to the private sector from Category 1 banks rose by Rs4,519 million or 5.3 per cent, from Rs85,080 million at the end of June 2003 to Rs89,599 million at the end of January 2004. Over this period, credit was directed to “Construction” (Rs1,522 million), “New economy” (Rs1,102 million), “Traders” (Rs1,079 million), “Financial and Business Services” (Rs393 million) and “Personal” (Rs340 million). A drop in credit was registered at “ Statutory and Parastatal Bodies” (Rs190 million), “Tourism” (Rs181 million) and “Infrastructure” (Rs110 million).

Reserve money expanded by Rs8,156 million or 55.2 per cent, from Rs14,776 million at the end of June 2003 to Rs22,932 million at the end of January 2004, mainly reflecting the issue of BOM Bills to Category 1 banks.

Taking into account liquidity conditions in the market in February 2004, the Bank carried out two reverse repurchase transactions for one and two days, respectively. The highest yield accepted was 0.50 per cent per annum.

During February 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,196.1 million while trading on the Stock Exchange totalled Rs25.7 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during February 2004 amounted to an equivalent of US$21.1 million.

The Bank will carry out an auction of Mauritius Development Loan Stocks (MDLS) for a total nominal amount of Rs1,282.3 million on 19 March 2004. Three Stocks, namely 8¼% MDLS 2011, 8½% MDLS 2015 and 8¾% MDLS 2019 will be put on tender.

In addition, the third quarterly auction of Five-Year Bonds for fiscal year 2003-04 will be held on 31 March 2004 for a total nominal amount of Rs500.0 million. The coupon rate for this third issue has been fixed at 8.00 per cent.

Between January and February 2004, the rupee, on average, appreciated vis-à-vis the Japanese yen, US dollar, and euro but depreciated against the Pound sterling.

At the end of January 2004, the net international reserves of the country amounted to Rs48,137 million. The end-January 2004 level of net international reserves of the country, based on the value of the import bill for calendar year 2003, exclusive of purchase of aircrafts, represented 38.3 weeks of imports, down from 38.9 weeks of imports as at end December 2003. At the end of February 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs40,689 million, up from Rs40,282 million at the end of January 2004.