Overview

International Developments

During January 2004, the US dollar, on average, lost ground against all major currencies. The US economy entered 2004 with considerable momentum with most economic indicators, except non-farm employment, pointing towards continuing recovery. Even US fourth quarter 2003 GDP data released at the end of January, despite showing a surprisingly lower-than-expected annualized growth rate of 4.0 per cent, confirmed that the US economic recovery was well on track. Yet those data were generally uninspiring to the US dollar, which remained somewhat vulnerable to market concerns about the United States ultra-low interest rates and US officials' relaxed approach towards the US currency's declining trend. On 28 January 2004, at its scheduled FOMC meeting, the US Federal Reserve, as expected, left its federal funds rate unchanged at 1.0 per cent, its lowest level since 1958, but in its accompanying statement, dropped its 5-month old pledge to keep interest rates low "for a considerable period" and instead stated that "it can be patient in removing the accommodative stance".

The euro marked the start of 2004 by maintaining remarkably its uptrend against the US dollar and reached its all-time high of US$1.2898 on 12 January 2004 in New York trade. Euro zone politicians and central bankers, who had appeared to be indifferent to the rise of the euro, started expressing concerns over the strength of the single currency. ECB President, Jean-Claude Trichet, on his part, abandoned his usual mantra of stable and strong currency to warn against "excessive moves in exchange rates". The change in stance, considered by market players as verbal intervention to tone down the euro, managed to ease the single currency significantly towards the US$1.24-1.27 level. At the close of the month, the euro was trading around US$1.2419 amid ongoing belief that European officials would seek the help of the Group of Seven (G7) nations to cap the euro's surge against the US dollar. At its governing council meeting on 8 January 2004, the ECB left its key interest rate unchanged at 2.0 per cent.

The Pound sterling strengthened noticeably against the US dollar at the start of 2004, benefiting from ongoing global appetite for higher yields and expectations that the UK economy would outperform other major economies. On 12 January 2004, in London trade, the Pound sterling staged to US$1.8577, its highest level attained since Britain's exit from Europe's Exchange Rate Mechanism in September 1992. By end of January 2004, the Pound sterling was off earlier gains, trading around US$1.8166, mostly due to profit-taking. At its monthly Monetary Policy Committee meeting on 7-8 January 2004, the Bank of England left its key interest rate unchanged at 3.75 per cent. Minutes of the meeting released thereafter revealed an 8-1 vote to keep rates on hold, but reported that if the British economy evolved as the Bank had forecast in November 2003, then “a gradual rise in interest rates would be necessary”.

The Japanese yen continued its ascent vis-à-vis the weak US dollar despite foreign exchange intervention by Japanese authorities. The Bank of Japan, at its policy board meeting on 20 January 2004, surprised the market by its monetary easing, widely seen by analysts as a sign of concern about the potentially harmful impact on the Japanese economy of the recent strength of the yen. The Bank of Japan raised its target for excess liquidity in the banking system, as measured by banks’ current account deposits held at the central bank, to 30-35 trillion yen from 27-32 trillion yen. In its official statement, the Bank said that the further easing was meant to reaffirm its policy stance on overcoming deflation and ensuring a continued recovery.

During the month of January 2004, world oil prices maintained a bullish trend due to the seasonal demand pressures arising out of the consumption of heating oil in the Northern winter season. IPE Brent and NYMEX crude oil futures averaged US$30.8 and US$34.0 per barrel respectively, up from US$29.6 and US$32.2 in December 2003. Gold continued to maintain its inverse correlation with the US dollar, which reached record lows against the euro, and boosted European interest for the bullion. COMEX gold averaged US$415.1 per ounce in January 2004, up from US$409.5 in December 2003.

Domestic Developments

Tourist arrivals rose by 2.5 per cent, from 72,446 in December 2002 to 74,271 in December 2003, while gross tourism receipts increased by 35.8 per cent, from Rs1,861 million in December 2002 to Rs2,528 million in December 2003. Between 2002 and 2003, tourist arrivals increased by 3.0 per cent, from 681,648 to 702,018. Gross tourism receipts went up by 5.8 per cent, from Rs18,328 million in 2002 to Rs19,397 million in 2003.

The Consumer Price Index (CPI) rose from 108.9 in December 2003 to 109.7 in January 2004. The rate of inflation for the 12-month period ended January 2004 stood at 3.8 per cent.

Money supply M2 went up by Rs7,894 million or 6.4 per cent, from Rs123,405 million at the end of June 2003 to Rs131,299 million at the end of December 2003, largely reflecting seasonal factors. Narrow money supply M1, one of the components of M2, rose by Rs2,964 million or 17.0 per cent to Rs20,403 million while quasi-money, the other component of M2, increased by Rs4,931 million or 4.7 per cent to Rs110,897 million.

Net foreign assets of the banking system increased by Rs485 million or 1.0 per cent, from Rs47,568 million to Rs48,053 million, principally on account of the increase noted at Bank of Mauritius. Net foreign assets of Bank of Mauritius expanded by Rs1,221 million or 3.1 per cent to Rs40,805 million, while the net foreign assets of Category 1 banks fell by Rs736 million or 9.2 per cent to Rs7,248 million.

Domestic credit went up by Rs7,892 million or 7.4 per cent, from Rs106,927 million at the end of June 2003 to Rs114,819 million at the end of December 2003. Net credit to Government increased by Rs4,596 million or 21.4 per cent to Rs26,072 million, solely driven by the increase of Rs6,060 million or 55.3 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 Rs1,464 million or 4.5 per cent to Rs30,969 million. Credit to the private sector from Category 1 banks rose by Rs3,344 million or 3.9 per cent, from Rs85,080 million at the end of June 2003 to Rs88,424 million at the end of December 2003. Over this period, credit was directed to "New economy" (Rs1,187 million), "Construction" (Rs960 million), "Traders" (Rs748 million), "Financial and Business Services" (Rs525 million) and "Personal" (Rs390 million). A drop in credit was registered at " Statutory and Parastatal Bodies" (Rs231 million), "Agriculture & Fishing" (Rs218 million), "Manufacturing" (Rs130 million) and "Infrastructure" (Rs113 million).

Reserve money expanded by Rs7,087 million or 48.0 per cent, from Rs14,776 million at the end of June 2003 to Rs21,863 million at the end of December 2003, mainly reflecting the issue of BOM bills to Category 1 banks.

The Bank of Mauritius reduced the Lombard Rate, which is used as the signalling mechanism of its monetary policy stance, by 25 basis points, from 9.75 per cent to 9.50 per cent on 29 January 2004. This easing of the monetary policy stance of the Bank is expected to further reduce the costs of funds and positively impact on growth prospects of the economy. Category 1 banks made a downward adjustment in their interest rate structure by more or less the same quantum at the beginning of February 2004. The prime lending rate of Category 1 banks fell from a range of 8.25-8.75 per cent at the end of December 2003 to a range of 8.00-8.50 per cent in February 2004 while the rate of interest paid on savings deposits fell from 4.75 per cent to 4.50 per cent.

Taking into account liquidity conditions in the market in January 2004, the Bank carried out a reverse repurchase transaction for 3 days. The highest yield accepted was 0.35 per cent per annum.

During January 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,820 million while trading in Treasury / Bank of Mauritius Bills on the Stock Exchange of Mauritius totalled Rs41.4 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during January 2004 amounted to an equivalent of US$ 9.11 million.

Between December 2003 and January 2004, the rupee, on average, appreciated vis-à-vis the US dollar, euro, and Japanese yen, but depreciated against the Pound Sterling.

At the end of December 2003, the net international reserves of the country amounted to Rs48,902 million. Based on the value of the import bill for fiscal year 2002-03, exclusive of purchase of aircrafts, the end-December 2003 level of net international reserves of the country represented 39.1 weeks of imports, down from 39.9 weeks of imports as at the end of November 2003. At the end of January 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs40,282 million, down from Rs40,848 million at the end of December 2003.