

OVERVIEW

International Developments

During June 2003, the US dollar, on average, depreciated against the euro and Pound sterling but appreciated vis-à-vis the Japanese yen. Data released in June painted a mixed picture of the US economy. Strong manufacturing and services data, and less worse-than-expected US employment report contrasted with lower-than-expected University of Michigan consumer sentiment index and poor US retail sales figures. In addition, US inflation data indicated that US May core consumer price index, excluding food and energy prices, rose 0.03 per cent while the main headline inflation was unchanged. The Fed at its FOMC meeting on June 24-25 reduced its key interest rates by 25 basis points to a 45-year low of 1.00 per cent. In its accompanying statement, the Fed said that it saw firmer spending, improved financial conditions and signs of a stabilising labour market, though it also noted that the economy had yet to show sustainable growth. The previously reported figure of 1.9 per cent for first quarter 2003 US GDP growth rate was revised downwards to 1.4 per cent with inventories bearing the brunt of the revision.

As widely expected, the ECB lowered its key refinancing rate by 50 basis points to 2.00 per cent on 5 June. ECB President Wim Duisenberg attributed the aggressive easing to inflationary pressures having declined “significantly over recent months”, with inflation possibly falling below the euro zone’s 2 per cent ceiling in 2004, thus allowing the ECB to cut rates to spur growth. The euro hit all time highs above \$ 1.19 in May 2003 and June 2003 but it started retreating to levels around \$ 1.14 in the last week of June 2003 following the 25 basis points rate cut by the Fed. Moreover, data released by the ECB on 27 June showed that capital started pouring out of the euro zone in April. The European Central Bank, in its June monthly bulletin, slashed its growth forecasts for the euro zone. The growth figures were revised down from December's forecasts of a range of 1.1 to 2.1 per cent in 2003 and 1.9 to 2.9 per cent in 2004 to a range of 0.4 to 1.0 per cent in 2003 and 1.1 to 2.1 per cent in 2004.

The Pound sterling, during the month of June 2003, benefited from the higher interest rate differentials, as the Bank of England at its MPC meeting on 5 June 2003 left its key repo rate unchanged at a 48-year low of 3.75 per cent. The Chancellor of the Exchequer Gordon Brown indicated that Britain was not yet ready to join the euro zone, but added that a referendum could come in 2004. The Office of National Statistics in UK revised its first

quarter GDP growth of the British economy to 0.1 per cent from a previous estimate of 0.2 per cent, which was the weakest growth rate since the second quarter of 1992 when the economy was struggling out of recession. On an annualised basis, GDP growth rate has been brought down to 2.1 per cent from 2.2 per cent.

The Japanese yen weakened against the US dollar on the back of suspected yen-selling intervention by the Japanese Authorities. The Japanese government downgraded its assessment of the economy in its June monthly report, attributing the decline to further deterioration in the nation's exports and capital expenditures. With Japan's unemployment rate hovering near record highs at 5.4 per cent and worsening income conditions expected to keep weighing on consumer sentiment, a return to growth in Japan looked increasingly dependent on overseas economies. This view was also shared by the Bank of Japan, which stated that the economy remained flat with lingering uncertainties over its economic outlook. With the bulk of Japan's recovery stemming from exports, the 3.1 per cent decline in the export index for April highlighted the worries expressed in the government's economic assessment.

Domestic Developments

Tourist arrivals increased by 1.7 per cent from 53,813 in May 2002 to 54,710 in May 2003, while gross tourism receipts decreased by 3.0 per cent, from Rs1,438 million in May 2002 to Rs1,395 million in May 2003. Cumulatively for the period July 2002 to May 2003, gross tourism receipts fell by 7.0 per cent to Rs16,609 million from Rs17,859 million for the corresponding period in 2001-02. However, total tourist arrivals over the period July 2002 to May 2003 increased by 3.9 per cent reaching 652,406 compared to 628,188 in the corresponding period of 2001-02.

The Consumer Price Index (CPI) rose from 106.5 in May 2003 to 106.9 in June 2003. The rate of inflation for fiscal year 2002-03 was 5.1 per cent, down from 6.3 per cent in 2001-02.

Money supply M2 rose by Rs9,413 million or 8.5 per cent, from Rs110,467 million at the end of June 2002 to Rs119,880 million at the end of May 2003. Narrow money supply M1, one

of the components of M2, went up by Rs1,294 million or 8.5 per cent to Rs16,429 million and quasi-money rose by Rs8,119 million or 8.5 per cent to Rs103,451 million.

Net foreign assets of the banking system expanded by Rs4,653 million or 11.6 per cent, from Rs39,974 million at the end of June 2002 to Rs44,627 million at the end of May 2003. Net foreign assets of the Bank of Mauritius rose by Rs6,910 million or 23.1 per cent to Rs36,822 million while net foreign assets of Category 1 banks fell by Rs2,257 million or 22.4 per cent to Rs7,805 million.

Domestic credit rose by Rs6,344 million or 6.4 per cent, from Rs99,396 million at the end of June 2002 to Rs105,740 million at the end of May 2003. Net credit to Government by the banking system increased by Rs1,169 million or 6.2 per cent to Rs20,149 million, reflecting the increase of Rs8,015 million or 36.2 per cent in net credit to Government from Category 1 banks that was partly offset by the drop of Rs6,846 million in net credit to Government from the Bank of Mauritius.

Credit to the private sector from Category 1 banks rose by Rs5,242 million or 6.6 per cent, from Rs79,976 million at the end of June 2002 to Rs85,218 million at the end of May 2003. Credit was mainly channelled to "Tourism" (Rs2,218 million), "New Economy" (Rs1,086 million), "Financial and Business Services" (Rs983 million), "Traders" (Rs948 million), "Personal & Professional" (Rs886 million), "Agriculture & Fishing" (Rs481 million) and "Construction" (Rs170 million). There was a drop in credit to "Statutory & Parastatal Bodies" (Rs986 million) and "Manufacturing" (Rs443 million).

Reserve money increased by Rs1,336 million or 10.3 per cent, from Rs12,925 million at the end of June 2002 to Rs14,261 million at the end of May 2003.

Taking into account liquidity conditions in the market in June 2003, the Bank carried out two reverse repurchase transactions for 2 and 3 days respectively. The highest yield accepted was 2.00 per cent per annum.

Total transactions in eligible Government securities effected through the primary dealers during June 2003 amounted to Rs1,532 million.

On 30 June 2003, the Bank undertook the fourth and last issue of Five-Year Government of Mauritius Bonds for fiscal year 2002-03 for a total nominal amount of Rs250 million. As for the three previous issues, the coupon rate was fixed at 8.50 per cent per annum. Bids totalling Rs597.6 million were received and a total amount of Rs250 million was accepted. The weighted average yield on bids accepted was 9.73 per cent per annum, down from 10.12 per cent per annum at the previous auction held on 31 March 2003.

Effective 2 June 2003, the Bank of Mauritius started to sell Government of Mauritius Treasury Bills over the counter to individuals and non-financial corporations at its Rodrigues Office in Port Mathurin.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during June 2003 amounted to an equivalent of US\$18.08 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US\$19.85 million in June 2003. Between May 2003 and June 2003, the rupee, on average, depreciated against the euro, the Pound Sterling, the US dollar and the Japanese yen.

At the end of May 2003, the net international reserves of the country amounted to Rs45,183 million. Based on the value of the import bill for calendar year 2002, the end-May 2003 level of net international reserves of the country represented 39.4 weeks of imports, up from 37.7 weeks at the end of April 2003. At the end of June 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs39,632 million, up from Rs36,822 million at the end of May 2003.