OVERVIEW

International Developments

During March 2003, the US dollar, on average, appreciated against the Pound sterling but depreciated vis-à-vis the euro and Japanese yen. The US Federal Reserve, at its regular FOMC meeting on 18 March, left its key federal funds rate unchanged at 1.25 per cent, stating that it believed that as geopolitical uncertainties were lifted, the accommodative stance of monetary policy coupled with ongoing growth in productivity, would provide support to economic activity sufficient to engender an improving economic climate over time. The Federal policymakers, however, could not gauge the looming war's economic impact, saying that they were initiating "heightened surveillance" as the balance of risks with respect to the prospects for long-run goals could not be characterised.

The Pound sterling incurred losses against the US dollar during March due to political risk with rising rebellion within the British's ruling government against the Prime Minister's support for the US-led attack on Iraq. At its monthly Monetary Policy Committee meeting on 5-6 March 2003, the Bank of England left its key repo rate unchanged at a 48-year low of 3.75 per cent despite growing evidence of a slowing economy and the spectre of war with Iraq. Minutes of the meeting released later showed that members voted 8-1 to keep rates unchanged, arguing that the recent fall in the Pound combined with signs that the housing market and consumer demand were beginning to slow might help in rebalancing the UK's economy. However, the minutes also revealed that the Bank of England even considered raising interest rates with some members arguing that the sterling's recent fall could feed through to higher inflation and add to demand for wage increases.

The euro, benefiting mostly from market aversion for the US dollar, managed to surge above US$1.10 at the start of March 2003, its highest level in four years. However, by the close of the month, the euro had shrugged some of its gains amid position adjustments as the market digested the US-led conflict in Iraq. As widely expected, the ECB, at its governing council meeting on 6 March, trimmed interest rates but limited the cut, to the market's disappointment, to 25 basis points, bringing the key refinancing rate to 2.50 per cent. The rate easing was associated with geopolitical tensions and rising oil prices, which were damaging confidence and undermining growth prospects in the euro area. The ECB President also said that the central bank stood ready to cut rates again if faltering growth worsened.

The Japanese yen gained ground on the dollar with Japanese investors buying yen ahead of the financial year-end on March 31 although fears of intervention limited its gains vis-à-vis the US currency. The Bank of Japan, in its March report, maintained its sombre view of the Japanese economy for the fourth straight month, saying that business conditions were unlikely to recover for some time.

Domestic Developments

Tourist arrivals increased by 6.1 per cent from 50,554 in February 2002 to 53,647 in February 2003, while gross tourism receipts decreased by 2.3 per cent, from Rs1,345 million in February 2002 to Rs1,314 million in February 2003. Cumulatively for the period July 2002 to February 2003, gross tourism receipts declined by 6.5 per cent to Rs12,230 million from Rs13,079 million for the corresponding period in 2001-02.

The Consumer Price Index (CPI) declined from 105.7 in February 2003 to 105.6 in March 2003. The rate of inflation for the 12-month period ended March 2003 stood at 5.8 per cent.

Money supply M2 increased by Rs7,819 million or 7.1 per cent, from Rs110,467 million at the end of June 2002 to Rs118,286 million at the end of February 2003. Narrow money supply M1, one of the components of M2, went up by Rs1,227 million or 8.1 per cent to Rs16,362 million and quasi-money, the other component of M2, rose by Rs6,592 million or 6.9 per cent to Rs101,924 million. Net foreign assets of the banking system went up by Rs3,484 million or 8.7 per cent, from Rs39,974 million at the end of June 2002 to Rs43,458 million at the end of February 2003. Net foreign assets of Bank of Mauritius increased by Rs5,209 million or 17.4 per cent to Rs35,121 million while net foreign assets of Category 1 banks decreased by Rs1,725 million or 17.1 per cent to Rs8,337 million. Domestic credit rose by Rs5,232 million or 5.3 per cent, from Rs99,396 million at the end of June 2002 to

Rs104,628 million at the end of February 2003. Net credit to Government from the banking system increased by Rs1,308 million or 6.9 per cent to Rs20,288 million, reflecting the increase of Rs7,391 million or 33.4 per cent in net credit to Government from Category 1 banks that was partly offset by the drop of Rs6,083 million in net credit to Government from Bank of Mauritius. Credit to the private sector from Category 1 banks went up by Rs3,967 million or 5.0 per cent, from Rs79,976 million at the end of June 2002 to Rs83,943 million at the end of February 2003. Over that period, additional credit was channelled to "Tourism" (Rs2,333 million), "New Economy" (Rs1,035 million), "Traders" (Rs820 million), "Personal & Professional (Rs447 million), "Construction" (Rs340 million), "Financial and Business Services" (Rs264 million) and "Agriculture & Fishing" (Rs246 million). Reserve money rose by Rs1,399 million or 10.8 per cent, from Rs12,925 million at the end of June 2002 to Rs14,324 million at the end of February 2003.

Taking into account liquidity conditions in the market, the Bank carried out a repurchase transaction for seven days at a yield of 6.75 per cent per annum in March 2003.

Total transactions in eligible Government securities effected through the primary dealers during March 2003 amounted to Rs2,219 million.

On 31 March 2003, the Bank undertook the third issue of Five-Year Government of Mauritius Bonds for a total nominal amount of Rs250 million. As for the first two issues, the coupon rate was fixed at 8.50 per cent per annum. Bids totalling Rs587.6 million were received and a total amount of Rs250 million was accepted. The weighted average yield on bids accepted was 10.12 per cent per annum, down from 10.75 per cent per annum at the previous auction, held on 31 December 2002.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during March 2003 amounted to an equivalent of US$17.6 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$6.0 million in March 2003. Between February 2003 and March 2003, the rupee, on average, appreciated against the Pound sterling, US dollar, euro and Japanese yen.

At the end of February 2003, the net international reserves of the country amounted to Rs44,005 million. Following the release of external trade data for the fourth quarter of 2002, import coverage has been revised and is now based on the value of the import bill for calendar year 2002, exclusive of purchase of aircraft. On this basis, the end-February 2003 level of net international reserves of the country represented 38.3 weeks of imports, down from 38.7 weeks at the end of January 2003. At the end of March 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs34,782 million, down from Rs35,121 million at the end of February 2003.

Provisional estimates of the balance of payments suggest that the current account recorded a surplus of Rs7,774 million in 2002. In relation to GDP, the surplus on the current account represented 5.5 per cent in 2002. The deficit on the merchandise account of the balance of payments, inclusive of transactions of the Freeport, amounted to Rs5,627 million. The services account posted a surplus of Rs10,432 million, stemming mainly from the travel account. Gross earnings from tourism amounted to Rs18,328 million while expenditure on foreign travel by residents reached Rs6,123 million in 2002. The income account recorded a net inflow of Rs295 million. The net surplus on the current transfers account is estimated at Rs2,674 million. The capital and financial account, inclusive of reserve assets, recorded a net outflow of Rs6,611 million in 2002. Overall balance of payments for 2002 showed a surplus of Rs10,198 million, representing the increase in reserve assets excluding valuation changes. Quarterly estimates of the Balance of Payments for 2002 are provided in Table 39 of this Bulletin.