OVERVIEW

International Developments

During May 2003, the US dollar, on average, depreciated against all major currencies, undermined by the release of rather weak US economic data and doubts on the 'strong dollar policy' traditionally adopted by the United States. The US currency suffered its major setback following comments made by US Treasury Secretary, John Snow at the G7 meeting which stoked the view that governments, including the United States, were not strongly opposed to the dollar's recent slide. As expected, at its regular FOMC meeting on 6 May 2003, the US Federal Reserve kept its key interest rate unchanged at 1.25 per cent. Although recognizing that recent data on employment and production had been disappointing, the Committee held on to the opinion that the conclusion of hostilities in Iraq should, over time, permit a resurgence in economic activity. Nonetheless, the Federal Reserve surprised the market by re-introducing an easing bias in its accompanying statement and by highlighting a possible "unwelcome substantial fall in inflation". In so doing, the Federal Reserve indicated that US monetary policy was likely to remain accommodative for a longer period of time and even left the door open to further rate cuts if necessary. Besides, the US Labor Department on 16 May 2003 reported that US core inflation, which excludes volatile food and energy prices, advanced by an unexpectedly weak rate of 1.5 per cent, its slowest year-on-year rate since March 1966.

The euro maintained its edge over the US dollar, deriving support mostly from the weak US dollar's outlook and ongoing capital outflows into higher-yielding euro zone assets. With the widespread market belief that the U.S. administration was satisfied with the dollar's fall, the single currency crossed its January 1999 launch level of US$1.1747 and even reached a level as high as $1.1932 on 28th May 2003. Member countries of the euro zone have, however, expressed concerns with the rise of the euro as they believed that this was hurting their international competitiveness. On 8 May 2003, the ECB, at its monthly governing council meeting, left its key interest rate unchanged at 2.50 per cent. However, the continued appreciation of the euro, the associated improvement in the region's inflation outlook and the disappointing GDP data for the euro zone made an interest rate cut highly likely at the next ECB meeting on 5 June. Growth outlook for the euro area remained gloomy with the release of the first quarter 2003 GDP data for Germany, the zone's largest economy, which shrank by 0.2 per cent quarter-on-quarter and by 0.9 per cent on an annualized basis. Italy's GDP also declined by 0.4 per cent, on a quarter-to-quarter basis, in the first quarter of 2003.

With UK economy data showing a brighter outlook than expected, the Pound sterling was much stronger against the US dollar. The Chartered Institute of Purchasing and Supply (CIPS) reported that UK April 2003 factory Purchasing Managers' Index (PMI) rose by 2 points to 48.3 from 46.3 in March 2003. Net consumer credit rose by 1.899 billion pounds in April 2003, the biggest increase since September 2002. British unemployment fell by 6,000 in first quarter of 2003 while average earnings rose by 3.4 per cent over the same period. On 8 May, at the MPC meeting, the Bank of England kept interest rates steady at a 48-year low of 3.75 per cent. Minutes of the meeting, released thereafter, showed a 5-4-split vote to keep rates unchanged.

The Japanese yen gained ground against the US dollar despite yen selling intervention by the Bank of Japan. Besides, Japan's vice finance minister for internal affairs, Zembei Mizoguchi, rejected suggestions that Japan was seeking a weaker yen to stimulate the economy, but stated that the only intent was to "prevent excessive moves".

Domestic Developments

Tourist arrivals increased by 18.7 per cent from 48,187 in April 2002 to 57,217 in April 2003, while gross tourism receipts decreased by 11.5 per cent, from Rs1,659 million in April 2002 to Rs1,469 million in April 2003. Cumulatively for the period July 2002 to April 2003, gross tourism receipts fell by 7.4 per cent to Rs15,214 million from Rs16,421 million for the corresponding period in 2001-02. However, total tourist arrivals over the period July 2002 to April 2003 increased by 4.1 per cent to 597,696 compared to 574,375 arrivals in the corresponding period of 2001-02.

The Consumer Price Index (CPI) rose from 105.8 in April 2003 to 106.5 in May 2003. The rate of inflation for the 12-month period ended May 2003 stood at 5.3 per cent.

Money supply M2 rose by Rs8,161 million or 7.4 per cent, from Rs110,467 million at the end of June 2002 to Rs118,628 million at the end of April 2003. Narrow money supply M1, one of the components of M2, went up by Rs902 million or 6.0 per cent to Rs16,037 million and quasi-money rose by Rs7,259 million or 7.6 per cent to Rs102,591 million.

Net foreign assets of the banking system expanded by Rs2,736 million or 6.8 per cent, from Rs39,974 million at the end of June 2002 to Rs42,710 million at the end of April 2003. Net foreign assets of the Bank of Mauritius rose by Rs5,461 million or 18.3 per cent to Rs35,373 million while net foreign assets of Category 1 banks fell by Rs2,725 million or 27.1 per cent to Rs7,337 million.

Domestic credit rose by Rs5,488 million or 5.5 per cent, from Rs99,396 million at the end of June 2002 to Rs104,884 million at the end of April 2003. Net credit to Government by the banking system increased by Rs1,004 million or 5.3 per cent to Rs19,984 million, reflecting the increase of Rs8,190 million or 37.0 per cent in net credit to Government from Category 1 banks that was partly offset by the drop of Rs7,186 million in net credit to Government from the Bank of Mauritius.

Credit to the private sector from Category 1 banks rose by Rs4,547 million or 5.7 per cent, from Rs79,976 million at the end of June 2002 to Rs84,523 million at the end of April 2003. Credit was mainly channelled to “Tourism” (Rs2,255 million), “New Economy” (Rs1,035 million), “Traders” (Rs864 million), “Financial and Business Services” (Rs657 million), “Personal & Professional” (Rs768 million), “Agriculture & Fishing” (Rs262 million) and "Construction" (Rs187 million). There was a drop in credit to “Statutory & Parastatal Bodies” (Rs851 million), “Manufacturing” (Rs486 million) and "Infrastructure (Rs114 million).

Reserve money increased by Rs752 million or 5.8 per cent, from Rs12,925 million at the end of June 2002 to Rs13,677 million at the end of April 2003.

Taking into account liquidity conditions in the market in May 2003, the Bank carried out one repurchase transaction for three days. The lowest yield accepted for the repurchase transaction was 5.50 per cent per annum.

Total transactions in eligible Government securities effected through the primary dealers during May 2003 amounted to Rs907 million.

On 19 May 2003, the Bank carried out an auction of Mauritius Development Loan Stocks (MDLS) for a total nominal amount of Rs1,130 million. Three Stocks, namely the 7 9/16 % MDLS 2010, 7 ¾ % MDLS 2014 and the 8.0% MDLS 2018, were put on tender. Bids received for the three Stocks totalled Rs534 million of which an amount of Rs522.2 million was accepted. The weighted yields on bids accepted for each Stock were 10.11 per cent, 10.41 per cent and 10.39 per cent, respectively.

In a press communiqué dated 27 May 2003, the Bank announced that, effective 2 June 2003, it would offer Government of Mauritius Treasury Bills for sale 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 May 2003 amounted to an equivalent of US$6.9 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$10.50 million in May 2003. Between April 2003 and May 2003, the rupee, on average, depreciated against the euro, the Pound Sterling, the US dollar and the Japanese yen.

At the end of April 2003, the net international reserves of the country amounted to Rs43,249 million. Based on the value of the import bill for calendar year 2002, the end-April 2003 level of net international reserves of the country represented 37.7 weeks of imports, down from 38.0 weeks at the end of March 2003. At the end of May 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs36,822 million, up from Rs35,373 million at the end of April 2003.