OVERVIEW

International Developments

During October 2003, the US dollar, on average, depreciated against the major currencies in the international markets. The US dollar weakened in the first week of October 2003 following the release of the report on the US manufacturing sector, which showed a decline in the US Institute of Supply Management (ISM) index from 54.7 in August 2003 to 53.7 in September 2003, and of data showing a fall in August 2003 US factory orders. Another factor contributing to the fall of the US dollar was the growing market perception that the United States was prepared to see a weaker US currency despite statements by different US officials of their commitment to the 'strong dollar' policy. On 28 October 2003, the US Federal Reserve, at its Federal Open Market Committee (FOMC), kept its fed fund rate at 1.00 per cent. In its accompanying statement, the US Federal Reserve repeated its belief that credit costs could be kept low for a "considerable" period and that the labour market "appears to be stabilising". At the close of October 2003, with the release of preliminary data showing an estimated GDP growth of 7.2 per cent in the third quarter of 2003, the dollar gained some ground over major currencies in the international markets.

The euro made impressive gains against the US dollar, reaching highs of US$1.18 and trading mostly above the US$1.15 level during October 2003 as it drew support mostly from the broad-based weakness of the US currency. As widely expected, the ECB left its key refinancing interest rate at 2.00 per cent at its rate-setting meeting on 2 October 2003. Comments from ECB officials that interest rates in the euro zone were low enough to support economic growth led the market to believe that the ECB would not cut its key rate further down. The euro zone economic picture was mixed, with businesses much more confident about the future than consumers. The euro-area manufacturing Purchasing Managers' Index (PMI) for September 2003 went for the first time since February 2003 just above the 50 level, which separates contraction from expansion, and the September 2003 services PMI reached its highest level since April 2002. The euro closed at US$1.1621 on 31 October 2003.

Favoured by a spell of positive UK economic data and coupled with its highest yielding asset advantage, the Pound sterling was much stronger against the US dollar. The preliminary UK third quarter GDP growth stood at 0.6 per cent on a quarterly basis and UK retail sales were up by 0.6 per cent. The Pound sterling hit its five-year peak of around US$1.6965 against the US dollar on 22 October 2003 after the Bank of England released the minutes of its October MPC meeting, which surprised the markets by revealing that the Committee had come within one vote of a 25 basis points hike in its key repo rate. In Asian trade on 24 October 2003, the Pound crossed the psychological level of $1.70 after the release of strong UK GDP and better-than-expected retail sales data, which also reinforced expectations of a near-term rate hike as early as November 2003. The Pound sterling closed the month at US$1.6959.

The surge in the Japanese yen against the US dollar was particularly significant as the currency had broken out of a narrowly trading range to a new three-year high of JPY108.20 per dollar despite a record amount of foreign exchange intervention by the Japanese authorities. Japan spent 2.723 trillion yen ($25 billion) to try to check its currency's rise in October 2003, nearly half of what it spent in September 2003, but still the third-largest yen-weakening intervention on record. According to currency traders, the Japanese authorities would undoubtedly continue to resist a dramatic strengthening in the yen. The Bank of Japan eased its monetary policy at its board meeting held on 10 October 2003 by raising the ceiling for liquidity it provides to the banking sector in order to encourage banks to lend and invest to get the economy moving faster.

Domestic Developments

Tourist arrivals rose by 1.0 per cent, from 49,774 in September 2002 to 50,293 in September 2003 while gross tourism receipts increased by 24.7 per cent, from Rs1,221 million to Rs1,522 million. Cumulatively for the period January to September, tourist arrivals increased by 3.8 per cent, from 482,585 in 2002 to 500,846 in 2003. However, over the same period, gross tourism receipts declined by 0.6 per cent, from Rs13,330 million in 2002 to Rs13,253 million in 2003.

The Consumer Price Index (CPI) rose from 107.9 in September 2003 to 108.3 in October 2003. The rate of inflation for the 12-month period ended October 2003 stood at 4.3 per cent.

Money supply M2 increased by Rs2,753 million or 2.2 per cent, from Rs123,405 million at the end of June 2003 to Rs126,158 million at the end of September 2003. Narrow money supply M1 rose by Rs26 million or 0.1 per cent, from Rs17,439 million to Rs17,465 million while quasi-money expanded by Rs2,726 million or 2.6 per cent, from Rs105,966 million to Rs108,692 million.

Net foreign assets of the banking system went up by Rs382 million or 0.8 per cent, from Rs47,568 million at the end of June 2003 to Rs47,950 million at the end of September 2003, solely driven by the increase in the net foreign assets of the Bank of Mauritius. Net foreign assets of the Bank of Mauritius rose by Rs1,514 million or 3.8 per cent, from Rs39,584 million to Rs41,098 million. Net foreign assets of Category 1 banks dropped by Rs1,132 million or 14.2 per cent, from Rs7,984 million to Rs6,852 million.

Domestic credit increased by Rs3,759 million or 3.5 per cent, from Rs106,927 million at the end of June 2003 to Rs110,686 million at the end of September 2003. Net credit to Government went up by Rs2,156 million or 10.0 per cent, from Rs21,476 million to Rs23,632 million, reflecting increases of Rs1,446 million and Rs710 million at the Bank of Mauritius and Category 1 banks, respectively.

Credit to the private sector from Category 1 banks rose by Rs1,625 million or 1.9 per cent, from Rs85,080 million at the end of June 2003 to Rs86,705 million at the end of September 2003. Credit was mainly channelled to "New Economy" (Rs1,134 million), "Traders" (Rs483 million), "Financial & Business Services" (Rs446 million), "Construction" (Rs427 million) and " Personal" (Rs241 million). A drop in credit was noted at "Statutory & Parastatal Bodies" (Rs594 million), "Agriculture & Fishing" (Rs335 million) and "Manufacturing" (Rs220 million).

Reserve money expanded by Rs2,236 million or 15.1 per cent, from Rs14,776 million at the end of June 2003 to Rs17,012 million at the end of September 2003, mainly on account of BoM Bills issued to Category 1 banks.

The Bank did not carry out any repurchase/reverse repurchase transactions during October 2003.

Total transactions in eligible Government securities effected through the primary dealers during October 2003 amounted to Rs1,514.7 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during October 2003 amounted to an equivalent of US$20.15 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$ 30.70 million from banks in October 2003. Between September 2003 and October 2003, the rupee, on average, appreciated vis-à-vis the US dollar but depreciated against the euro, Pound sterling and the Japanese yen.

At the end of September 2003, the net international reserves of the country amounted to Rs48,806 million. Based on the value of the import bill for fiscal year 2002-03, the end-September 2003 level of net international reserves of the country represented 38.9 weeks of imports, up from 38.1 weeks of imports as at the end of August 2003. At the end of October 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs42,346 million, up from Rs41,098 million at the end of September 2003.