OVERVIEW

International Developments

Amid heightened geopolitical tensions and worries about the US economic outlook, the US dollar, on average, lost ground against the major currencies during January 2003. A spate of disappointing US data released throughout the month, amongst which, weak jobs numbers, declining December 2002 industrial production, widening trade imbalance and souring consumer sentiment, have all underscored the fragile state of the US economy and reinforced the market's bias against the dollar. The pace of US economic growth slowed sharply in the fourth quarter of 2002 with US GDP expanding at an annual rate of 0.7 per cent compared with a robust 4.0 percent in the preceding quarter. On 29 January 2002, the US Federal Reserve at its scheduled FOMC meeting left the key federal funds rate unchanged at its 40-year low of 1.25 per cent. In its accompanying statement, the Federal Reserve, despite stating that risks to the US economy remained balanced between weakness and inflation, also warned that oil premiums and other aspects of geopolitical risks would continue to restrain spending and investment.

With the US dollar remaining under downward pressure, the euro, benefiting more by default than from increased optimism about the euro zone, staged higher vis-à-vis the US currency. Germany, once seen as the locomotive of the euro area growth, has been the key underperformer, posting an anaemic growth of 0.2 per cent in the last quarter of 2002. The German government has even cut its 2003 growth forecast to 1.0 per cent from 1.5 per cent. The euro area December 2002 headline inflation also showed a higher-than-expected rise of 2.3 per cent, surpassing the ECB's two per cent ceiling for the fifth consecutive month. The euro-dollar rate seemed well established above parity and with risk of war hanging over markets, the up-trend for the euro remained possible as the US dollar is set to weaken further. At its governing council meeting on 9 January 2002, the ECB held its key refinancing rate unchanged at 2.75 per cent but left the door open to future cuts by saying that chances that the sluggish recovery would unravel were mounting.

The Pound sterling, on average, remained well supported against the weak US dollar despite the release in January 2003 of gloomy UK economic data that had spread worries over Britain's deteriorating economic performance. Poor Christmas trading results have sparked fears that UK consumer spending, the economy's main prop, has given in to fatigue. UK November 2002 industrial and manufacturing data have been disappointing, declining month-on-month by 0.6 per cent and 0.5 per cent, respectively. British productivity growth also fell to its lowest level in nine months in December 2002 due to slower output growth in the services and manufacturing sectors. The Confederation of British Industry, by way of its manufacturing industry survey, has indicated that the number of manufacturers operating below capacity has hit a 20-year high with firms gloomier than ever about orders, output and investment. Overall, UK's fourth quarter 2002 GDP posted a growth of 0.4 per cent.

Britain's December 2002 underlying inflation, RPIX, however, surprisingly fell to 2.7 per cent, though it remained above the Bank of England's government-set target of 2.5 per cent for the second month running. The Bank of England, at its monthly Monetary Policy Committee (MPC) meeting on 9 January 2003 left its key interest rate unchanged, for the 14th month running, at 4.0 per cent, mainly because of concern about rampant borrowing by consumers and the annual house price inflation running at over 20.0 per cent. Minutes of the MPC meeting released later, however, showed a 2-7 vote for a 25 basis points rate cut.

The Japanese yen, despite ongoing threats of intervention, pushed higher against the US dollar. The Bank of Japan left its monetary policy unchanged at its January 2003 meeting, defying calls for bolder action to end deflation and Japan's struggling economy.

Domestic Developments

Against the backdrop of continuing uncertain prospects for world economic growth despite successive reductions of key European and American interest rates to current historically low levels and with domestic inflation rate expected to remain subdued in the medium term, the Bank of Mauritius reduced the Lombard Rate by 50 basis points, from 11.00 per cent to 10.50 per cent with effect from 5 February 2003.

Tourist arrivals increased by 5.4 per cent from 68,728 in December 2001 to 72,446 in December 2002, while gross tourism receipts decreased by 8.4 per cent, from Rs2,032 million in December 2001 to Rs1,861 million in December 2002. However, for calendar year 2002, gross tourism receipts amounted to Rs18,328 million, up by 0.9 per cent from Rs18,167 million for the year 2001, while tourist arrivals grew by 3.2 per cent to 681,648.

The Consumer Price Index (CPI) rose from 104.8 in December 2002 to 105.5 in January 2003. The rate of inflation for the 12-month period ended January 2003 stood at 6.3 per cent.

Money supply M2 increased by Rs7,918 million or 7.2 per cent, from Rs110,467 million at the end of June 2002 to Rs118,385 million at the end of December 2002, reflecting increases in both of its components. Narrow money supply M1 expanded by Rs3,023 million or 20.0 per cent to Rs18,159 million, largely on account of seasonal factors and quasi-money rose by Rs4,895 million or 5.1 per cent to Rs100,226 million. Net foreign assets of the banking system remained on an expansionary path, rising by Rs3,493 million or 8.7 per cent, from Rs39,974 million at the end of June 2002 to a record level of Rs43,467 million at the end of December 2002. Net foreign assets of Bank of Mauritius, which accounted for this increase, went up by Rs5,705 million or 19.1 per cent to Rs35,617 million. Net foreign assets of Category 1 banks dropped by Rs2,212 million or 22.0 per cent to Rs7,850 million. Domestic credit kept its growth momentum, rising by Rs4,983 million or 5.0 per cent, from Rs99,396 million at the end of June 2002 to Rs104,379 million at the end of December 2002. Net credit to Government from the banking system rose by Rs1,006 million or 5.3 per cent to Rs19,986 million, reflecting the increase of Rs5,410 million or 24.4 per cent in net credit to Government from Category 1 banks that was partly offset by the drop of Rs4,404 million in net credit to Government from Bank of Mauritius. Credit to the private sector from Category 1 banks grew by Rs4,001 million or 5.0 per cent to Rs83,977 million at the end of December 2002. Additional credit over that period was directed to "Tourism" (Rs2,580 million), "Agriculture & Fishing" (Rs674 million), "Traders" (Rs611 million), "Personal & Professional" (Rs473 million) and "Construction" (Rs324 million). Reserve money expanded by Rs1,998 million or 15.5 per cent, from Rs12,925 million at the end of June 2002 to Rs14,923 million at the end of December 2002, reflecting the seasonal increase in currency in circulation.

Taking into account liquidity conditions in the market, the Bank carried out only one reverse repurchase transaction for two days in January 2003. The highest yield accepted was 2.15 per cent.

Total transactions in eligible Government securities effected through the primary dealers during January 2003 amounted to Rs1,278.4 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during December 2002 amounted to an equivalent of US$20.4 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$32.5 million in January 2003. Between December 2002 and January 2003, the rupee, on average, appreciated against the US dollar and Pound sterling but depreciated vis-à-vis the euro and Japanese yen.

At the end of December 2002, the net international reserves of the country amounted to Rs44,042 million. Based on the value of the import bill for fiscal year 2001-02, the end-December 2002 level of net international reserves of the country represented 40.5 weeks of imports, up from 38.9 weeks at the end of November 2002. At the end of January 2003, the foreign exchange reserves of the Bank of Mauritius amounted to Rs35,833 million, up from Rs35,617 million at the end of December 2002.