

OVERVIEW

International Developments

During August 2002, the US dollar managed to climb higher against all major currencies as investors reassessed the outlook for the US economy relative to that of other major economies. Despite continued weakness on Wall Street, market sentiment was that the worst of the recent equity rout could be over. Against the backdrop of mixed US data and US war threats on Iraq, the US dollar showed its resiliency and benefited from investors' renewed concerns over growth prospects in Europe and other parts of the world. The US Federal Reserve, at its FOMC meeting on 13 August 2002, left its federal funds rate unchanged at 1.75 per cent. However in its accompanying statement, the Fed changed its stance from neutral to risks for weakening – a signal that it was prepared to cut interest rate should the outlook deteriorate further. The Fed also expressed cautious optimism saying that the current accommodative monetary policy stance coupled with still-robust underlying growth in US productivity should be sufficient to foster an improving business climate over time. The euro was, on average, weaker against the US currency during August 2002 than in the preceding month. The weakness of the single currency was compounded by the fact that both the ECB, in its August 2002 monthly Bulletin, and the OECD had toned down their outlook for euro zone growth. However, the euro managed to recoup some of its losses towards the end of August, trading slightly below US\$0.99. Earlier on 1 August 2002, the European Central Bank at its governing council meeting had left its refinancing rate unchanged at 3.25 per cent for the ninth month running, while the Bank of England had kept its repo rate unchanged at a 38-year low of 4.0 per cent.

Domestic Developments

Tourist arrivals dropped by 1.0 per cent from 57,274 in July 2001 to 56,709 in July 2002, while gross tourism receipts decreased by 13.2 per cent, from Rs1,535 million in July 2001 to Rs1,332 million in July 2002.

The official CPI for July and August 2002, based on the consumption pattern stemming from the 2001-02 Household Budget Survey, will be published in October 2002. On an indicative basis, based on the consumption pattern drawn from the 1996-97 Household Budget Survey, it is estimated that the Consumer Price Index rose from 137.8 in July 2002 to 139.3 in August 2002. The rate of inflation for the 12-month period ended August 2002 is estimated at 6.3 per cent.

Money supply M2 went up by Rs414 million or 0.4 per cent, from Rs110,467 million at the end of June 2002 to Rs110,881 million at the end of July 2002. Narrow money supply M1 fell by Rs75 million or 0.5 per cent to Rs15,060 million, while quasi-money rose by Rs489 million or 0.5 per cent to Rs95,821 million. Credit to the private sector from Class A banks increased by Rs603 million or 0.8 per cent to Rs80,579 million at the end of July 2002. Reserve money declined by Rs65 million or 0.5 per cent to Rs12,860 million at the end of July 2002.

Taking into consideration liquidity conditions in the market, the Bank carried out two 1-day repurchase transactions and two 2-day reverse repurchase transactions in August 2002. The lowest yield accepted for the repurchase transactions was 7.25 per cent while the highest yield accepted for the reverse repurchase transactions was 4.75 per cent.

Total transactions in eligible Government securities effected through the primary dealers during the month of August 2002 amounted to Rs436.1 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during August 2002 amounted to an equivalent of US\$21.2 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US\$14.2 million in August 2002. Between July 2002 and August 2002, the rupee, on average, appreciated against the US dollar, Pound sterling, Japanese yen and euro.

At the end of July 2002, the net international reserves of the country amounted to Rs40,054 million. Based on the value of the import bill for calendar year 2001, the end-July 2002 level of net international reserves of the country represented 36.5 weeks of imports, compared to 29.4 weeks at the end of July 2001. At the end of August 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs31,590 million, up from Rs30,557 million at the end of July 2002.