

OVERVIEW

Primary Dealer System

Effective 1 March 2002, prospective investors (corporate and non-corporate) are able to either purchase or sell a range of eligible Government securities through the primary dealers of their choice at all times during normal banking hours. Trading by primary dealers amounted to Rs84.0 million during February 2002.

International Developments

Optimism over the US economic recovery continued to prevail after the release of generally encouraging economic data in the US. Moreover, in his semi-annual testimony on 27 February 2002, the Federal Reserve Chairman expressed confidence that the U.S. recession was coming to an end although he warned that the recovery would likely be moderate, boosting hopes for a stretch of stable US interest rates. The euro traded within a relatively narrow range against the US dollar, unable to push above the resistance level of US\$0.88 though it managed to avoid a decline below the US\$0.86 level. Confidence in the euro-zone remained subdued with recent economic data released showing that recovery in the euro area would lag behind that in the US.

Domestic Developments

Economic prospects of Mauritian EPZ firms operating in Madagascar are currently clouded by the political turmoil in that country. The EPZ firms operating in Madagascar are stated to be operating below productive capacity. Their problems appear to be compounded by difficulties of moving both inbound and outbound cargo. Some firms are trying to circumvent their current difficulties by relocating export orders to their Mauritian base. Some of them also state that they are confronted with the difficulties of recruiting qualified employees locally and that recourse to foreign labour is one of the options being considered. Moreover, apprehension has been expressed in some EPZ

circles that with the latest turn of political events, Madagascar could lose its eligibility under the African Growth and Opportunity Act (AGOA). The major challenge for the EPZ is to come out of this difficult situation and reassert a sustainably positive and profitable image of the sector.

Tourist arrivals in January 2002 stood at 63,551, representing a 2.4 per cent decrease compared to January 2001. The decline in tourist arrivals in January 2002 can be attributed to the cancellation of a number of flights due to cyclone Dina. Gross tourism receipts, however, grew by 3.2 per cent, from Rs1,915 million in January 2001 to Rs1,977 million in January 2002.

The Consumer price Index (CPI) rose from 133.5 in January 2002 to 134.7 in February 2002, mainly on account of the increase in the price of vegetables and fruits in the wake of cyclone Dina. The rate of inflation for the 12-month period ended February 2002 stood at 5.6 per cent. An expected improvement in supply conditions in the coming months is likely to have a dampening effect on the prices of vegetables and fruits.

Money supply M2 went up by Rs8,985 million or 9.2 per cent, from Rs97,753 million at the end of June 2001 to Rs106,738 million at the end of January 2002. Narrow money supply M1 rose by Rs2,258 million or 17.8 per cent to Rs14,970 million and quasi-money increased by Rs6,727 million or 7.9 per cent to Rs91,768 million. Reserve money rose by Rs1,464 million or 12.9 per cent, from Rs11,343 million at the end of June 2001 to Rs12,807 million at the end of January 2002.

Taking into consideration liquidity conditions in the market, the Bank carried out four reverse repo transactions in February 2002, for periods ranging between 1 and 4 days. The highest yield accepted for the reverse repurchase transactions varied between 5.45 per cent and 5.75 per cent.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during February 2002 amounted to an equivalent of US\$30.5 million. The Bank did not intervene on the foreign exchange market in February 2002. Between January 2002 and February 2002, the rupee, on average, appreciated against the euro, Japanese yen and Pound sterling but depreciated vis-à-vis the US dollar. At the end of January 2002, the net international reserves of the country amounted to Rs35,465 million, equivalent to 32.7 weeks of imports. At the end of February 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs26,105 million, up from Rs25,021 million at the end of the preceding month.