

## **OVERVIEW**

### **Introduction of Primary Dealer System**

A gradual approach in relation to the implementation of the primary dealer arrangements in government securities is being adopted. In this respect, primary dealers have made their services available to corporate clients with effect from Monday 4 February 2002. As from Friday 1 March 2002, non-corporate customers and the general public will also be taken on by the primary dealers.

A Memorandum of Understanding has been drawn up between each primary dealer and the Bank of Mauritius. This Memorandum of Understanding, which was the subject of extensive discussions between the representatives of each primary dealer bank and the Bank of Mauritius, sets out the general operational framework for the primary dealer system. It includes, inter alia, the duties and privileges which a primary dealer is expected to discharge and earn, respectively.

Four banks, namely the Mauritius Commercial Bank Limited, State Bank of Mauritius Limited, Hongkong and Shanghai Banking Corporation Limited and Barclays Bank PLC, which had indicated in late 2001 their intent to assume the role of primary dealers, participate in the primary dealer system. These banks offer a secondary trading window in government securities to the public on a continuing basis.

### **International Developments**

Recent economic data released in the US have been relatively encouraging and suggest that the prospects for economic recovery have improved. The US Federal Reserve confirmed this view when it ended one of the most aggressive interest rate cutting campaigns in its history by leaving its key federal funds rate unchanged at a 40-year low of 1.75 per cent at its FOMC meeting on 30 January 2002. Indicators in the euro zone are also starting to turn upwards although the pace of economic recovery in the euro zone is expected to be modest compared to that in the US.

### **Domestic Developments**

Gross tourist earnings increased by 27.6 per cent, from Rs14,234 million in 2000 to Rs18,166 million in 2001. Tourist arrivals grew by 0.6 per cent to reach 660,318 in 2001.

In the wake of cyclone Dina, sugar production for 2002 is likely to register a shortfall, with some adverse impact on overall GDP growth. The estimates at this stage are tentative and the final crop will depend a lot on the climatic conditions that will prevail over the coming months.

The rate of inflation for the 12-month period ended January 2002 stood at 5.5 per cent. For the current fiscal year 2001-02, the Bank of Mauritius had initially announced that the rate of inflation would lie within a 5.0-5.5 per cent range. However, with the increase in electricity tariffs in January 2002 and the after-effects of the cyclone Dina, especially on agriculture, the rate of inflation for fiscal year 2001-02 is now expected at around 6.0 per cent. With a view to improving supply conditions in the vegetable market in the immediate post-Dina period, the authorities have decided to allocate permits for the import of vegetables over the next three months.

Money supply M2 increased by Rs7,516 million or 7.7 per cent, from Rs97,753 million at the end of June 2001 to Rs105,269 million at the end of December 2001. Narrow money supply M1 went up by Rs2,742 million or 21.6 per cent to Rs15,454 million and quasi-money rose by Rs4,774 million or 5.6 per cent to Rs89,816 million. Reserve money rose by Rs1,649 million or 14.5 per cent, from Rs11,343 million at the end of June 2001 to Rs12,992 million at the end of December 2001.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during January 2002 amounted to an equivalent of US\$13.1 million. The Bank did not intervene on the foreign exchange market in January 2002. Between December 2001 and January 2002, the rupee, on average, appreciated against the Pound sterling, euro and Japanese yen but depreciated vis-à-vis the US dollar. At the end of December 2001, the net international reserves of the country amounted to Rs35,764 million, equivalent to 33 weeks of imports. At the end of January 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs25,021 million, down from Rs25,220 million at the end of the preceding month.