

OVERVIEW

International Developments

During June 2002, the US dollar remained under continuous selling pressure, dragged down by losses in US asset markets amid accounting scandals in big corporates in the United States. The US currency was also hurt by remarks from US officials that the US dollar would seek its level based on market forces, which raised doubts about the US commitment to its official strong dollar policy. Moreover, at the FOMC meeting held on 26 June 2002, the US Federal Reserve maintained its current policy stance and kept the federal funds rate unchanged at 1.75 per cent. The euro, in the wake of the broad-based weakness of the US dollar, maintained a bullish trend throughout June 2002 and, for the first time since February 2000, rose above US\$ 0.99, just short of the psychologically key parity level with the US currency. The ECB also left its key refinancing rate unchanged at 3.25 per cent at its interest-rate setting meeting on 6 June 2002. The Pound sterling, during June 2002, rose to a 17-month high against the US dollar, benefiting to a large extent from the weakening of the US dollar. The Bank of England left its 38-year low key repo rate on hold at 4.0 per cent at the MPC meeting on 6 June 2002. In spite of intervention by the Japanese authorities to weaken their currency, the yen moved higher against the US dollar.

Domestic Developments

Tourist arrivals in May 2002 stood at 53,813, representing a 3.5 per cent increase over the corresponding figure for May 2001. Gross tourism receipts also went up by 3.5 per cent from Rs1,389 million in May 2001 to Rs1,438 million in May 2002.

The Consumer Price Index (CPI) stood at 135.9 in June 2002, unchanged from the previous month's level. The rate of inflation for fiscal year 2001-02 was 6.3 per cent, up from 4.4 per cent in the previous fiscal year.

Money supply M2 went up by Rs12,144 million or 12.4 per cent, from Rs97,753 million at the end of June 2001 to Rs109,898 million at the end of May 2002. Narrow money supply M1 increased by Rs1,872 million or 14.7 per cent to Rs14,583 million and quasi-money rose by Rs10,272 million or 12.1 cent to Rs95,315 million. Credit to the private sector from commercial banks increased by Rs5,037 million or 6.8 per cent to Rs79,053 million at the end of May 2002. Reserve money went up by Rs1,096 million or 9.7 per cent to Rs12,439 million.

Taking into consideration liquidity conditions in the market, the Bank carried out, for 2-day periods, one repurchase transaction and three reverse repurchase transactions in

June 2002. The lowest yield accepted for the repurchase transaction was 7.25 per cent while the highest yield accepted for the reverse repurchase transactions was 5.25 per cent.

Total transactions in eligible Government securities effected through the primary dealers during the month of June 2002 amounted to Rs628.5 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during June 2002 amounted to an equivalent of US\$14.7 million. In the light of the comfortable situation prevailing in the foreign exchange market in June 2002, the Bank intervened and purchased a total of US\$21.1 million. Between May 2002 and June 2002, the rupee, on average, appreciated against the US dollar but depreciated vis-à-vis the euro, Pound sterling and Japanese yen.

At the end of May 2002, the net international reserves of the country amounted to Rs39,389 million. Based on the value of the import bill for calendar year 2001, the end-May 2002 level of net international reserves of the country represented 35.9 weeks of imports, up from 34.9 weeks at the end of April 2002. At the end of June 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs29,912 million, up from Rs27,860 million at the end of May 2002.