

## **OVERVIEW**

### **International Developments**

During May 2002, the US dollar remained under pressure against all major currencies, undermined by concerns over the performance of US assets, the pace of the US economic recovery and worries about further terrorist attacks in the United States. Investors, apparently, have become more reluctant to provide foreign capital to finance the large US current account deficit and have been looking for better returns elsewhere. Moreover, at the FOMC meeting held on 7 May 2002, the US Federal Reserve maintained its federal funds rate unchanged at 1.75 per cent. The euro, in the wake of the broad-based weakness of the US dollar, managed to consolidate its gains above the US\$0.90 level throughout May 2002. The ECB also left its key refinancing rate unchanged at 3.25 per cent in May. The Pound sterling as well benefited to a large extent from the weakening of the US dollar. At its Monetary Policy Committee Meeting in May 2002, the Bank of England left its 38-year low interest rate on hold at 4.0 per cent. The Japanese yen also recovered sharply against the weak US dollar supported partly by market optimism for Japan's economic recovery. However, after the yen attained its 5½-month high against the US dollar, the Bank of Japan intervened thrice in the market during the later part of May 2002 to address concerns expressed that the rapid rise in the Japanese currency might choke off improvements in the export sector.

### **Domestic Developments**

Tourist arrivals in April 2002 stood at 48,187, representing a 12.1 per cent decrease compared to April 2001. Gross tourism receipts, however, grew by 26.1 per cent from Rs1,316 million in April 2001 to Rs1,659 million in April 2002.

The Consumer Price Index (CPI) went up from 135.7 in April 2002 to 135.9 in May 2002. The rate of inflation for the 12-month period ended May 2002 stood at 6.3 per cent.

Money supply M2 increased by Rs9,950 million or 10.2 per cent, from Rs97,753 million at the end of June 2001 to Rs107,703 million at the end of April 2002. Narrow money supply M1 rose by Rs1,583 million or 12.5 per cent to Rs14,295 million and quasi-money went up by Rs8,367 million or 9.8 per cent to Rs93,408 million. Reserve money rose by Rs955 million or 8.4 per cent to Rs12,298 million at the end of April 2002. Credit to the private sector from commercial banks increased by 5.9 per cent to Rs78,411 million at the end of April 2002, reflecting partly net repayment of rupee borrowings to the banking system induced by the prevailing appreciation of the euro against the rupee, and also the more cautious approach adopted by commercial banks in the granting of credit.

Taking into consideration liquidity conditions in the market, the Bank carried out one repurchase transaction for 3 days and one reverse repurchase transaction for 2 days in May 2002. The lowest yield accepted for the repurchase transaction was 7.00 per cent while the highest yield accepted for the reverse repurchase transaction was 5.75 per cent.

Total transactions in eligible Government securities effected through the primary dealers during the month of May 2002 amounted to Rs73.3 million.

Well-supported domestic and foreign exchange conditions were reflected in continued inflows from tourism and EPZ exports. Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during May 2002 amounted to an equivalent of US\$4.5 million. The Bank did not intervene in the foreign exchange market in May 2002. Between April 2002 and May 2002, the rupee, on average, appreciated against the US dollar but depreciated vis-à-vis the Pound sterling, euro and Japanese yen.

At the end of April 2002, the net international reserves of the country amounted to Rs38,297 million. Based on the value of the import bill for calendar year 2001, the end-April 2002 level of net international reserves of the country represented 34.9 weeks of imports. At the end of May 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs27,860 million, up from Rs27,186 million at the end of April 2002.