

# OVERVIEW

## Monetary Developments

Net foreign assets of the banking system increased further by Rs899 million or 2.7 per cent, from Rs32,853 million at the end of September 2001 to Rs33,752 million at the end of October 2001. Net foreign assets of Bank of Mauritius rose by Rs806 million or 3.4 per cent, from Rs23,720 million to Rs24,526 million. Net foreign assets of commercial banks edged up by Rs93 million or 1.0 per cent, from Rs9,133 million to Rs9,226 million.

Domestic credit fell marginally from Rs94,802 million at the end of September 2001 to Rs94,766 million at the end of October 2001, largely on account of the drop in net credit to Government, which more than offset the rise in commercial banks' credit to the private sector.

Net credit to Government went down by Rs1,024 million or 5.5 per cent, from Rs18,507 million at the end of September 2001 to Rs17,483 million at the end of October 2001. Net credit to Government from Bank of Mauritius dropped by Rs1,713 million or 86.6 per cent, from Rs1,978 million to Rs265 million. Net credit to Government from commercial banks increased by Rs689 million or 4.2 per cent, from Rs16,529 million to Rs17,218 million.

Commercial banks' credit to the private sector expanded by Rs1,001 million or 1.3 per cent, from Rs75,762 million at the end of

September 2001 to Rs76,763 million at the end of October 2001. Additional credit was directed to "Manufacturing" sector (Rs410 million), "Construction" sector (Rs250 million), "Tourism" sector (Rs201 million) and "Traders" (Rs199 million).

Money supply M2 increased slightly from Rs101,219 million at the end of September 2001 to Rs101,260 million at the end of October 2001. Narrow money supply M1 fell by Rs136 million or 1.0 per cent, from Rs13,374 million to Rs13,238 million. Quasi-money rose by Rs177 million or 0.2 per cent, from Rs87,845 million to Rs88,022 million.

The level of reserve money went up by Rs664 million or 5.8 per cent, from Rs11,542 million at the end of September 2001 to Rs12,206 million at the end of October 2001, reflecting repurchase operations carried out by the Bank towards the end of the month.

Taking into consideration liquidity conditions in the market, the Bank carried out in November 2001, for periods varying from 1 to 2 days, one variable-yield reverse repo transaction, two fixed-yield reverse repo transactions and two variable-yield repo transactions with commercial banks. The highest yield accepted for the variable-yield reverse repo transaction was 6.25 per cent and the lowest yield accepted for the

variable-yield repo transactions was 7.00 per cent. The two fixed-yield reverse repo transactions were carried out at 5.75 per cent.

### **Mauritius Automated Clearing and Settlement System (MACSS)**

The number of transactions routed through the Mauritius Automated Clearing and Settlement System (MACSS) in November 2001 was 3,217, involving a total amount of Rs32,700 million, compared to 3,485 transactions for a total amount of Rs34,685 million in October 2001.

On an average basis, the number of transactions routed daily through the MACSS increased from 152 in October 2001 to 169 in November 2001 while the daily value of transactions rose from Rs1,508 million in October 2001 to Rs1,721 million in November 2001.

### **Electronic Banking Transactions**

Between end-September 2001 and end-October 2001, the number of Automated Teller Machines (ATMs) in operation in Mauritius increased by 1, from 240 to 241, and the number of cards in circulation went up by 7,404 from 711,492 to 718,896.

The number of transactions involving the use of credit cards, debit cards, ATMs and Merchant Points of Sale increased from 1.593 million in September 2001 to 1.857 million in October 2001. The value of the

transactions increased from Rs2,406 million to Rs2,855 million over that period.

Outstanding advances on credit cards fell from Rs694 million at the end of September 2001 to Rs690 million at the end of October 2001.

### **International and Domestic Foreign Exchange Markets**

On the international foreign exchange market, during November 2001, the US dollar, on average, appreciated against all the major currencies. A series of better-than-expected US economic indicators released throughout the month and positive developments in the US-led military campaign in Afghanistan contributed to improve dollar sentiment. On 7 November 2001, in a widely anticipated move, the Federal Reserve at its FOMC meeting reduced its key federal funds rate by 50 basis points to a four decade low of 2.0 per cent, its tenth cut for this year. In its accompanying statement, the Federal Reserve highlighted the risk not only of a worsening US downturn but also of a possible slide in global activity. According to the Fed, weak growth, rather than price pressures, was the main threat to the U.S. economy -- a sign that it was ready to cut rates further.

The euro, which started the month trading around US\$0.8976, came under downward pressure against the US dollar to close the month trading around US\$0.8864. The single currency failed to derive support from

the ECB's surprise decision on 8 November 2001 to reduce its key interest rate by 50 basis points to 3.25 per cent as currency traders associated the larger-than-expected cut with scepticism over the ECB's policy. Continued pessimism over the euro zone's economic prospects in the light of little convincing evidence of strengthening fundamentals also weighed on the single currency.

The Pound sterling, which was trading above the US\$1.45 level at the start of November, eased against the US dollar to attain its intra-month low of US\$1.4107, hurt by expectations that the UK might join the euro zone. However the release of UK Chancellor of the Exchequer's pre-budget report highlighting the country's relatively bright economic outlook provided support to the Pound which recovered against the US dollar to close the month trading around US\$1.4233. At its monthly Monetary Policy Committee meeting held on 8 November 2001, the Bank of England reduced its key repo rate by 50 basis points to 4.00 per cent – its seventh cut for this year.

The yen remained under downward pressure vis-à-vis the US dollar, undermined by mounting worries about Japan's banking sector and negative economic outlook after Standard and Poor's credit agency downgraded Japan's yen-denominated long term debt.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate (MSS) to the banking sector during November 2001 amounted to an equivalent of US\$26.8

million. The Bank of Mauritius intervened on the interbank foreign exchange market selling a total amount of US\$5.0 million in November 2001.

Reflecting international trends and local market conditions, the rupee, on average, depreciated between October 2001 and November 2001 vis-à-vis the US dollar by 0.8 per cent but appreciated against the Japanese yen, the Pound sterling and the euro by 0.1 per cent, 0.4 per cent, and 1.3 per cent, respectively. During November 2001, the Mauritian rupee eased against the US dollar to trade at an average rate of Rs30.436 compared with an average rate of Rs30.179 in October 2001. The rupee, however, appreciated vis-à-vis the Japanese yen to trade at an average rate of Rs24.936 per 100 Yen in November 2001 compared with an average rate of Rs24.964 per 100 Yen in October 2001. The rupee edged higher against the Pound sterling to trade at an average rate of Rs43.681 in November 2001 as against an average rate of Rs43.846 in October 2001. The rupee gained ground against the euro to trade at an average rate of Rs27.003 in November 2001 compared with an average rate of Rs27.366 in October 2001.

On an average basis, between January 1999 and November 2001, the Indonesian rupiah, Mauritian rupee, Thailand baht, Singapore dollar, Korean won, Taiwan dollar and Hong Kong dollar appreciated against the euro by 6.5 per cent, 7.3 per cent, 7.6 per cent, 19.9 per cent, 20.0 per cent, 22.2 per cent and 29.7 per cent, respectively. The

Philippines peso and the South African rand, however, depreciated vis-à-vis the euro by 3.6 per cent and 19.2 per cent, respectively.

The foreign exchange reserves of the Bank of Mauritius increased by Rs156 million, from Rs24,526 million at the end of October 2001 to Rs24,682 million at the end of November 2001.

### **Net International Reserves**

The net international reserves of the country, made up of the net foreign assets of the banking system, the foreign assets of the Government and the country's Reserve Position in the International Monetary Fund (IMF), increased by Rs904 million, from Rs33,408 million at the end of September 2001 to Rs34,312 million at the end of October 2001. Based on the value of the import bill for fiscal year 2000-01, the end-October 2001 level of net international reserves of the country represented 31.7 weeks of imports, up from 30.8 weeks at the end of September 2001.

### **Offshore Banking Sector Developments**

Total resources of offshore banks went up by US\$27 million or 0.7 per cent, from US\$3,695 million at the end of September 2001 to US\$3,722 million at the end of October 2001. The increase in total resources was mainly attributable to additional borrowings by offshore banks.

Borrowings from banks rose by US\$66 million or 4.0 per cent, from US\$1,649 million at the end of September 2001 to US\$1,715 million at the end of October 2001. Non-bank deposits mobilised by offshore banks dropped by US\$33 million, from US\$1,609 million to US\$1,576 million.

Funds were mainly deployed by way of placements with banks and loans and advances extended to both citizens and non-citizens.

Offshore banks' cash in hand and placements with banks went up by US\$75 million, from US\$2,138 million at the end of September 2001 to US\$2,213 million at the end of October 2001. Loans and advances (inclusive of bills purchased and discounted) by offshore banks registered a decrease of US\$57 million, from US\$1,279 million to US\$1,222 million during the month.

Standard Bank (Mauritius) Offshore Banking Unit Limited, was licensed on 16 November 2001, bringing the total number of offshore banks operating in the financial sector of Mauritius to twelve.