OVERVIEW

International Developments

During November 2002, the US dollar, on average, lost ground against all major currencies. With the release of a slew of weaker-than-expected US data at the start of November, doubts about the pace of the US economic recovery remained a dominant factor. On 6 November 2002, the US Federal Reserve reduced the federal funds rate by 50 basis points, twice the size expected, to 1.25 per cent. In its accompanying statement, the FOMC signalled that with economic risks balanced between weakness and inflation, this reduction should help the US economy work its way through its current soft point and that it planned no more cuts any time soon. US dollar's sentiment became depressed after the aggressive credit easing as worries about the US economic outlook intensified. However by the close of November, the US dollar somewhat managed to regain footing against the backdrop of relatively improving US data that re-ignited hopes that the US economy could be on a slow but steady path to recovery.

In contrast with the Federal Reserve's decision to cut rates, the ECB at its governing council meeting on 7 November 2002 opted to leave its key refinancing rate unchanged at 3.25 per cent. In his news conference following the rate decision, ECB President, Wim Duisenberg, admitted for the first time that there was pressure within the council for a cut but he defended the bank's stance by arguing that inflation was still at risk due to rising labour costs and oil prices. Financial markets immediately reacted with disappointment to the ECB's decision. European stocks tumbled but the euro managed to hold ground above parity to the dollar, mainly on account of the latter's weakness. Towards the close of November, the euro fell below the dollar-parity level following the release of better-than-expected data in the US.

In spite of mounting speculation that the Bank of England's Monetary Policy Committee, in the wake of the Federal Reserve's move, would be swayed to cut its repo rate, the Bank left its key interest rate unchanged at 4.0 per cent for the 12th month running. Data released in the UK suggested that the British economy was in good shape, with overall UK growth data for the third quarter of 2002 coming in at a relatively strong 0.7 per cent and both the services and retail sectors performing well in October. According to the Bank of England's quarterly inflation report released in November, inflation in the UK remained much under control although it might rise slightly above the 2.5 per cent target in the next few months due to temporary factors such as oil prices before falling back below target in a year's time. In the light of these positive data and with the UK economy clearly outperforming the US economy, the Pound maintained an edge over the US dollar.

The Japanese yen edged higher against the US dollar, mostly influenced by speculative deals rather than fundamentals.

Domestic Developments

After reviewing domestic economic conditions and international economic and financial developments, the Bank of Mauritius reduced, with effect from 13 November 2002, the Lombard Rate by 25 basis points, from 11.50 per cent to 11.25 per cent and further down to 11.00 per cent on 11 December 2002. The easing of the monetary policy stance of the Bank is expected to provide support to growth and enhance business and consumer sentiment.

Tourist arrivals increased by 10.1 per cent from 59,325 in October 2001 to 65,291 in October 2002, while gross tourism receipts decreased by 6.5 per cent, from Rs1,631 million to Rs1,525 million over the same period. However, cumulatively for the period January to October, gross tourism receipts went up by 2.4 per cent, from Rs14,500 million in 2001 to Rs14,854 million in 2002.

The Consumer Price Index (CPI) fell from 105.0 in October 2002 to 104.9 in November 2002. The rate of inflation for the 12-month period ended November 2002 stood at 6.4 per cent.

Money supply M2 went up by Rs2,531 million or 2.3 per cent, from Rs110,467 million at the end of June 2002 to Rs112,998 million at the end of October 2002. Over this period, quasi-money solely accounted for the increase in money supply M2 as money supply M1 was almost unchanged, falling by a mere Rs2 million to Rs15,133 million. Quasi-money increased by Rs2,534 million or 2.7 per cent to Rs97,865 million. Net foreign assets of the banking system expanded by Rs738 million or 1.8 per cent to Rs40,712 million. Net foreign assets of Bank of Mauritius went up by Rs3,399 million or 11.4 per cent to Rs33,311 million and fully offset the drop of Rs2,661 million or 26.4 per cent in the net foreign assets of Category 1 banks to Rs7,401 million, which resulted from the increase in the borrowings of one bank from abroad in October 2002. Net credit to Government rose by Rs832 million or 4.4 per cent to Rs19,812 million, driven by the increase of Rs4,331 million or 19.6 per cent in net credit to Government from Category 1 banks that fully offset the drop of Rs3,498 million in net credit to Government from Bank of Mauritius. Credit to the private sector from Category 1 banks rose by Rs2,644 million or 3.3 per cent to Rs82,620 million at the end of October 2002. Reserve money was almost unchanged, falling by Rs3 million to Rs12,922 million at the end of October 2002.

Taking into consideration liquidity conditions in the market, the Bank carried out one 2-day repurchase transaction and four reverse repurchase transactions for periods varying between 2 to 3 days. The lowest yield accepted for the repurchase transaction was 7.50 per cent while the highest yield accepted for the reverse repurchase transactions was 3.50 per cent.

As from November 2002, primary dealers started to deal actively in Treasury Bills with maturity exceeding 364 days. Inclusive of such deals, total transactions of primary dealers during that month amounted to Rs716 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during November 2002 amounted to an equivalent of US$30.0 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$10.0 million in November 2002. Between October 2002 and November 2002, the rupee, on average, appreciated against the US dollar but depreciated vis-à-vis the euro, Japanese yen and Pound sterling.

At the end of October 2002, the net international reserves of the country amounted to Rs41,279 million. Based on the value of the import bill for fiscal year 2001-02, the end-October 2002 level of net international reserves of the country represented 38.0 weeks of imports, down from 39.3 weeks at the end of September 2002. At the end of November 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs34,055 million, up from Rs33,311 million at the end of October 2002.