OVERVIEW

International Developments

During October 2002, the US dollar, on average, depreciated against the Pound sterling and euro but appreciated vis-à-vis the Japanese yen. For most of October, the US dollar was well supported against the major currencies on the back of impressive gains in US share prices and growing conviction that economic weakness in the United States was less pronounced than in Europe and Japan. Towards the close of October, however, the release of lower-than-expected third quarter 2002 GDP growth and deteriorating consumer sentiment data, which prompted analysts to question the robustness of economic recovery in the US, heavily weighed on the US dollar. Amid ongoing speculation that the Federal Reserve would have to cut interest rates before year-end, the US dollar lost ground across the board. In contrast, reasonably strong UK domestic data, namely a relatively strong 0.7 per cent third quarter GDP growth, and robust services and retail data, which continued to highlight the resilience of the British economy in the face of the global slowdown, benefited the Pound sterling. The Bank of England, at its Monetary Policy Committee meeting on 9-10 October, left as expected its key repo rate unchanged at 4.0 per cent. However, minutes of the meeting released later in the month revealed that for the first time since February 2002, there were three dissenting votes arguing for a rate cut. In the euro zone, sluggish growth and slow progress on structural reforms as well as ongoing arguments over budgetary discipline under the Stability and Growth Pact limited the single currency's gains vis-à-vis the US dollar. The ECB, despite calls for further interest rate cuts, stood firm and left its key refinancing rate unchanged at 3.25 per cent at its governing council meeting on 10 October arguing that euro zone inflation remained above the bank's ceiling of 2.0 per cent. The yen remained weak throughout most of the month on persistent concerns about the Japanese economy's health. Even the release of the long-awaited report on banking reforms at the close of October failed to boost the yen with dealers arguing that the package fell short of implementation details.

Domestic Developments

Tourist arrivals increased by 1.7 per cent from 48,953 in September 2001 to 49,774 in September 2002, while gross tourism receipts decreased by 2.2 per cent, from Rs1,248 million in September 2001 to Rs1,221 million in September 2002. However, cumulatively for the period January to September, gross tourism receipts went up by 3.6 per cent, from Rs12,869 million in 2001 to Rs13,329 million in 2002.

As from July 2002, the Consumer Price Index (CPI) is calculated on the basis of an updated basket of goods and services derived from the 2001-02 Household Budget Survey. The base period for this new CPI series is the twelve-month period July 2001 to June 2002. The official CPI for the months of July, August and September 2002 are 103.1, 103.6 and 104.0, respectively. The rate of inflation for the 12-month period ended July, August and September 2002 stood at 6.2 per cent, 6.2 per cent and 6.1 per cent, respectively.

Money supply M2 went up by Rs2,528 million or 2.3 per cent, from Rs110,467 million at the end of June 2002 to Rs112,995 million at the end of September 2002. Narrow money supply M1 rose by Rs517 million or 3.4 per cent to Rs15,653 million, and quasi-money increased by Rs2,011 million or 2.1 per cent to Rs97,342 million. Net foreign assets of the banking system increased by Rs2,243 million or 5.6 per cent to Rs42,217 million. While net foreign assets of Category 1 banks declined by Rs773 million or 7.7 per cent to Rs9,290 million, net foreign assets of the Bank of Mauritius expanded by Rs3,015 million or 10.1 per cent to Rs32,927 million. Domestic credit maintained its growth momentum, rising by Rs2,755 million or 2.8 per cent to Rs102,151 million. Net credit to Government went up by Rs1,133 million or 6.0 per cent to Rs20,113 million, with net credit to Government from Category 1 banks rising by Rs4,547 million or 20.5 per cent to Rs26,697 million and fully offsetting the drop of Rs3,415 million in net credit to Government from Bank of Mauritius. Credit to the private sector from Category 1 banks increased by Rs1,567 million or 2.0 per cent to Rs81,542 million. Reserve money dropped by Rs119 million or 0.9 per cent to Rs12,806 million at the end of September 2002.

Taking into consideration liquidity conditions in the market, the Bank carried out one 3-day and one 1-day repurchase transactions in October 2002. The lowest yield accepted for the repurchase transactions was 7.50 per cent.

Total transactions in eligible Government securities effected through the primary dealers during the month of October 2002 amounted to Rs859.5 million.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during October 2002 amounted to an equivalent of US$23.6 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US$3.4 million in October 2002. Between September 2002 and October 2002, the rupee, on average, appreciated against the US dollar and Japanese yen, depreciated vis-à-vis the Pound sterling and remained unchanged against the euro.

At the end of September 2002, the net international reserves of the country amounted to Rs42,785 million. Based on the value of the import bill for fiscal year 2001-02, the end-September 2002 level of net international reserves of the country represented 39.3 weeks of imports, compared to 30.7 weeks at the end of September 2001. At the end of October 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs33,311 million, up from Rs32,927 million at the end of September 2002.