

OVERVIEW

Monetary Developments

Net foreign assets of the banking system maintained their upward trend, increasing by Rs801 million or 2.5 per cent, from Rs31,731 million at the end of July 2001 to Rs32,532 million at the end of August 2001. Net foreign assets of Bank of Mauritius went up by Rs923 million or 4.1 per cent, from Rs22,373 million to Rs23,296 million, while net foreign assets of commercial banks fell by Rs122 million or 1.3 per cent, from Rs9,358 million to Rs9,236 million.

Domestic credit maintained its rising trend, increasing by Rs1,118 million or 1.2 per cent, from Rs93,106 million at the end of July 2001 to Rs94,224 million at the end of August 2001, reflecting increases in both net credit to Government and commercial banks' credit to the private sector.

Net credit to Government rose by Rs359 million or 2.0 per cent, from Rs17,637 million at the end of July 2001 to Rs17,996 million at the end of August 2001. Net credit to Government from commercial banks went up for the second consecutive month, increasing by Rs662 million or 4.3 per cent, from Rs15,561 million to Rs16,223 million. Net credit to Government from Bank of Mauritius went down for the second consecutive month, falling by Rs303

million or 14.6 per cent, from Rs2,076 million to Rs1,773 million.

Credit to the private sector from commercial banks increased by Rs769 million or 1.0 per cent, from Rs74,917 million at the end of July 2001 to Rs75,686 million at the end of August 2001. Additional credit was directed to "Construction" sector (Rs277 million), "Tourism" sector (Rs230 million), "Manufacturing" sector (Rs153 million) and "Traders" (Rs138 million).

Money supply M2 expanded by Rs1,766 million or 1.8 per cent, from Rs98,866 million at the end of July 2001 to Rs100,632 million at the end of August 2001. Narrow money supply M1 rose by Rs270 million or 2.2 per cent, from Rs12,527 million to Rs12,797 million. Quasi-money increased by Rs1,496 million or 1.7 per cent, from Rs86,339 million to Rs87,835 million, mainly on account of the crediting of interest to savings accounts by banks.

The level of reserve money dropped slightly by Rs21 million or 0.2 per cent, from Rs10,913 million at the end of July 2001 to Rs10,892 million at the end of August 2001.

Taking into consideration liquidity conditions in the market, the Bank

carried out in September 2001, for periods varying from 1 to 2 days, three variable-yield repo transactions and one fixed-yield repo transaction with commercial banks. The lowest yield accepted for the variable repo transactions was 7.25 per cent, which was also the yield at which the fixed-yield repo transaction was carried out.

Mauritius Automated Clearing and Settlement System (MACSS)

The number of transactions routed through the Mauritius Automated Clearing and Settlement System (MACSS) in September 2001 was 2,963, involving a total amount of Rs26,963 million, compared to 3,153 transactions for a total amount of Rs29,610 million in August 2001.

The average number of transactions routed daily through the MACSS increased from 143 in August 2001 to 148 in September 2001. The average daily value of transactions also went up slightly from Rs1,346 million in August 2001 to Rs1,348 million in September 2001.

On an average basis, the number of transactions routed daily through the MACSS has gone up significantly from 72 in December 2000 when the MACSS was launched, to 148 in September 2001. The average daily value of transactions

routed through the MACSS during the period December 2000 to September 2001 varied between Rs1,279 million and Rs1,888 million.

Electronic Banking Transactions

Between end-July 2001 and end-August 2001, the number of Automated Teller Machines (ATMs) in operation in Mauritius increased by 2, from 237 to 239 and the number of cardholders (that is to say the number of cards in circulation) went up by 5,658 from 701,236 to 706,894.

The number of transactions involving the use of credit cards, debit cards, ATMs and Merchant Points of Sale decreased from 1.752 million in July 2001 to 1.699 million in August 2001. The value of such transactions decreased from Rs2,654 million to Rs2,589 million over that period.

Outstanding advances on credit cards rose from Rs655 million at the end of July 2001 to Rs688 million at the end of August 2001.

International and Domestic Foreign Exchange Markets

On the international foreign exchange market, during September 2001, the US dollar, on average, depreciated against all major currencies. The US dollar

incurred heavy losses in the wake of the attacks on the World Trade Center in New York and the Pentagon in Washington DC on 11 September 2001 which further worsened the US economic outlook. In an attempt to soothe the financial markets, the world's major central banks, in response to these attacks, injected substantial liquidity into the financial system. On 17 September 2001, in a bid to stabilise the US economy and financial markets, the US Federal Reserve, just before Wall Street opened after a four-day shutdown, cut its closely watched federal funds rate by 50 basis points to 3.0 per cent, its eighth cut for this year. This move was supported by coordinated interest rate cuts by other major central banks, namely, the ECB, Bank of Canada, Swiss National Bank and Sweden's Riksbank. The ECB reduced its key refinancing rate by 25 basis points to 4.0 per cent. The Bank of England and Bank of Japan, on their part, to bolster confidence and boost growth, joined the wave of global rate cuts on 18 September 2001. UK's central bank cut its key repo rate by a quarter percentage point to 4.75 per cent while the Bank of Japan slashed its official discount rate to a record low of 0.10 per cent from 0.25 per cent.

Against the backdrop of the US dollar's broad-based weakness, the euro, which started the month trading around

US\$0.9088, managed to push higher against the US currency to reach an intra-month high of US\$0.9266. The single currency, however, shed off some of its gains to close the month at US\$0.9141.

The Pound sterling, which was trading around US\$1.4527 at the start of September, strengthened against the US dollar to touch its intra-month high of US\$1.4738. Analysts, however, pointed out that the Pound, this time, did not really benefit from safe-haven flows due to UK's political rapprochement with the US.

The Japanese yen, which opened September 2001 at 119.03 Yen per US dollar, firmed up against the US dollar to reach an intra-month high of 116.37 Yen. To curb the yen's rise, the Bank of Japan intervened on the market six times in two weeks, enlisting the aid of the New York Federal Reserve once and the ECB thrice. The Japanese yen closed the month on a softer note, trading at 119.22 Yen per US dollar.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate (MSS) to the banking sector during September 2001 amounted to an equivalent of US\$39.6 million. The Bank of Mauritius did not intervene on the interbank foreign exchange market in September 2001.

Reflecting international trends and local market conditions, the rupee, on average, depreciated between August 2001 and September 2001 against the US dollar, euro, Pound sterling and Japanese yen by 0.7 per cent, 2.0 per cent, 2.6 per cent and 3.1 per cent, respectively. During September 2001, the Mauritian rupee eased against the US dollar to trade at an average rate of Rs29.841 compared with an average rate of Rs29.620 in August 2001. Reflecting the euro's recovery on the international foreign exchange markets, the rupee lost ground vis-à-vis the single currency to trade at an average rate of Rs27.210 in September 2001 compared with an average rate of Rs26.666 in August 2001. The rupee weakened vis-à-vis the Pound sterling to trade at an average rate of Rs43.667 in September 2001 as against an average rate of Rs42.534 in August 2001. The rupee also depreciated vis-à-vis the Japanese yen to trade at an average rate of Rs25.188 per 100 Yen in September 2001 compared with an average rate of Rs24.408 per 100 Yen in August 2001.

On an average basis, between January 1999 and September 2001, the Thailand baht, Mauritian rupee, Korean won, Indonesian rupiah, Taiwan dollar, Singapore dollar, and Hong Kong dollar appreciated against the euro by 5.0 per cent, 6.5 per cent, 15.3 per cent, 17.7 per cent, 18.5 per cent, 22.2 per cent and

26.2 per cent, respectively. The Philippines peso and the South African rand, however, depreciated vis-à-vis the euro by 4.9 per cent and 11.3 per cent, respectively.

The foreign exchange reserves of the Bank of Mauritius increased by Rs424 million, from Rs23,296 million at the end of August 2001 to Rs23,720 million at the end of September 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 Rs818 million, from Rs32,267 million at the end of July 2001 to Rs33,085 million at the end of August 2001. Based on the value of the import bill for fiscal year 2000-01, excluding the purchase of marine vessel, the end-August 2001 level of net international reserves of the country represented 30.5 weeks of imports, up from 29.8 weeks at the end of July 2001.

Offshore Banking Sector Developments

Total resources of offshore banks increased slightly by US\$5 million or

0.1 per cent, from US\$3,728 million at the end of July 2001 to US\$3,733 million at the end of August 2001. The increase in total resources is mainly attributable to additional borrowings by offshore banks.

Borrowings from banks went up by US\$48 million or 3.0 per cent from US\$1,602 million at the end of July 2001 to US\$1,650 million at the end of August 2001. Non-bank deposits mobilised by offshore banks dropped by US\$33 million, from US\$1,650 million to US\$1,617 million.

The total funds were mainly deployed by way of placements with banks abroad and loans and advances extended to non-residents and residents in Mauritius.

Offshore banks' cash in hand and placements with banks abroad rose by US\$108 million, from US\$2,026 million at the end of July 2001 to US\$2,134 million at the end of August 2001. Loans and advances (inclusive of bills purchased and discounted) extended by offshore banks registered a decrease of US\$101 million, from US\$1,428 million to US\$1,327 million.