

OVERVIEW

International Developments

During September 2002, the US dollar depreciated against the Pound sterling and euro but appreciated vis-à-vis the Japanese yen. Amid continued weakness in US share prices, the dollar came under pressure against the major European currencies, hurt by investors' concerns that the US fragile economic recovery might be losing momentum. Weaker-than-expected manufacturing sector and unemployment data as well as anxiety over possible military action against Iraq weighed on the US currency. As widely expected, the US Federal Reserve, at its regular FOMC meeting on 24 September, left its federal funds rate unchanged at 1.75 per cent. However, for the first time since November 1995, there were two dissenting votes arguing for a rate cut. Although, in its accompanying statement, the Fed maintained that the current low rates coupled with strong growth in productivity should foster an improving business climate over time, it also warned against rising global tensions that might keep a damper on economic prospects. Against the backdrop of a weak US dollar, strong manufacturing data and buoyant consumer demand in the UK as well as a record low unemployment rate since October 1975 supported the Pound sterling. The Bank of England, at its Monetary Policy Committee meeting on 4-5 September, left as expected its key repo rate unchanged at 4.0 per cent. Official data showed UK underlying inflation rate falling to 1.9 per cent in the year to August 2002 from 2.0 per cent in July 2002. In the euro zone, data released during the month showed that growth was still sluggish but euro zone inflation was 2.1 per cent in the year to August 2002, above the 2.0 per cent target. In line with market expectations, the interest rate-setting committee of the European Central Bank at its meeting of 12 September left its refinancing rate unchanged at 3.25 per cent. The Japanese yen remained weak throughout most of the month on market scepticism about the Japanese government's policy options to boost up the economy, and a depressed stock market. Reflecting the gloomy state of the Japanese economy, the auction of the Japanese government's 10-year bonds was for the first time undersubscribed. Towards the end of the month, the yen recouped some of its losses on the back of a controversial Bank of Japan plan to buy shares directly from banks and a cabinet reshuffle, which saw the replacing of Japan's chief financial regulator seen as an obstacle to bank reform.

Domestic Developments

According to the latest National Accounts estimates put out by the Central Statistics Office (CSO), the economy is expected to grow by 4.0 per cent in 2002 compared to an initial forecast of 4.6 per cent. The downward revision in the growth rate for 2002 is mainly attributable to a lower estimate of sugar production, from 570,000 tonnes to 540,000 tonnes

on account of unfavourable climatic conditions prevailing during the pre-harvest season, a drop in the estimated number of tourist arrivals from 685,000 to 680,000 and a reduction in the anticipated growth rate for the EPZ sector, from 4.0 per cent to 2.0 per cent, reflecting the slower-than-expected recovery in Europe and the United States.

Gross tourism receipts decreased by 11.3 per cent, from Rs1,677 million in August 2001 to Rs1,488 million in August 2002. However, cumulatively for the period January to August, gross tourism receipts rose by 4.2 per cent, from Rs11,621 million in 2001 to Rs12,108 million in 2002.

The official Consumer Price Index (CPI) for July, August and September 2002, based on the consumption pattern stemming from the 2001-02 Household Budget Survey, will be published at the end of October 2002. On an indicative basis, based on the consumption pattern drawn from the 1996-97 Household Budget Survey, it is estimated that the CPI rose from 139.3 in August 2002 to 139.6 in September 2002. On this basis, the rate of inflation for the 12-month period ended September 2002 is estimated at 6.4 per cent.

Money supply M2 increased by Rs1,174 million or 1.1 per cent, from Rs110,467 million at the end of June 2002 to Rs111,641 million at the end of August 2002. Narrow money supply M1 fell by Rs146 million or 1.0 per cent to Rs14,989 million, while quasi-money rose by Rs1,320 million or 1.4 per cent to Rs96,651 million. Credit to the private sector from Category 1 banks went up by Rs1,797 million or 2.2 per cent to Rs81,772 million at the end of August 2002. Reserve money dropped by Rs392 million or 3.0 per cent to Rs12,533 million at the end of August 2002.

Taking into consideration liquidity conditions in the market, the Bank carried out two 1-day reverse repurchase transactions in September 2002. The highest yield accepted for the reverse repurchase transactions was 3.99 per cent.

Total transactions in eligible Government securities effected through the primary dealers during the month of September 2002 amounted to Rs201.7 million.

On 18 September 2002, the Bank announced that it would auction on a quarterly basis during the current fiscal year Five-Year Government of Mauritius Bonds for Rs250 million each time with coupon rates ranging between 8.50 per cent to 8.75 per cent per annum. The first auction was held on 30 September 2002 and the coupon rate was fixed at 8.50 per cent. Bids for a total nominal amount of Rs394.3 million were received and a total amount of Rs116.3 million was accepted. The highest yield accepted was 11.77 per cent.

Direct sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during September 2002 amounted to an equivalent of US\$44.2 million. As the comfortable liquidity situation in the domestic foreign exchange market continued to prevail, the Bank intervened and purchased a total of US\$16.0 million in September 2002. Between August 2002 and September 2002, the rupee, on average, appreciated against the US dollar and Japanese yen but depreciated vis-à-vis the Pound sterling and euro.

At the end of August 2002, the net international reserves of the country amounted to Rs41,036 million. Following the release of external trade data for the second quarter of 2002, import coverage has been revised and is now based on the value of the import bill for fiscal year 2001-02, exclusive of purchase of aircrafts. On this basis, the end-August 2002 level of net international reserves of the country represented 37.7 weeks of imports, compared to 30.4 weeks at the end of August 2001. At the end of September 2002, the foreign exchange reserves of the Bank of Mauritius amounted to Rs32,927 million, up from Rs31,590 million at the end of August 2002.