

## OVERVIEW

### International Developments

**The global economic recovery remained sluggish as major economies recorded subdued growth in 2015Q4, despite their central banks' coordinated accommodative monetary policy actions.**

The US economy grew at a 0.5 per cent annual rate in 2016Q1, the slowest pace in two years, as businesses slashed investment by the steepest amount since the Great Recession. The US Federal Reserve, at its FOMC meeting on 26-27 April 2016, left its benchmark interest rates steady at 0.25-0.50 per cent, as expected, but kept open the option of an interest rate hike later during the year. The Eurozone economy grew by 0.6 per cent in 2016Q1, faster than expected, but inflation in the single currency bloc fell back into negative territory. On 21 April 2016, the Governing Council of the European Central Bank (ECB) left the refinancing rate at zero per cent, the deposit rate at minus 0.4 per cent but started to expand its monthly securities purchase to EUR80 billion. At its April 2016 MPC meeting, the Bank of England maintained the Bank Rate unchanged at 0.5 per cent and kept its asset purchase programme untouched at £375 billion, underpinned by a potential "softening of growth" in early 2016 and subdued inflation in the UK.

**During April 2016, global currency markets were mainly influenced by the continued dovish policy stance of major central banks and economic data releases.** During the first half of April, the US dollar remained under pressure and moved in a very tight range against the euro on the dovish view of the US Federal Reserve and lower US Treasury yields. Around mid-April, the US dollar rallied due to improved risk sentiment following upbeat Chinese trade data and a pick-up in commodity prices. Towards the end of the month, the greenback came under renewed pressure as weaker-than-expected US economic growth dimmed prospects for any early interest-rate hike. The euro traded at an average of US\$1.1335 compared to US\$1.1115 in March 2016. The single currency lost some ground initially amidst some negative data releases in the Eurozone but recovered towards the end of the month as the US dollar faded on the Fed's dovish outlook. At the start of the month, the Pound sterling fell against the US dollar on the back of soft economic data releases amid persistent concerns over a possible British exit from the European Union. Thereafter, the British currency rallied on the broad-based weakness of the US dollar and data showing that UK inflation rose at a faster-than-expected

pace in March 2016. The Pound sterling traded at an average of US\$1.4309 in April 2016 compared to US\$1.4217 in March 2016.

**Equity market posted a mixed performance on the back of diverse economic data and earnings reports releases.** The MSCI Global Equity Index and MSCI Emerging Markets Index went up by 1.5 per cent and 0.5 per cent, respectively, while MSCI Developed Markets Index fell by 1.3 per cent. The Dow Jones gained 0.5 per cent, while NASDAQ went down by 2.1 per cent. Among the European market indices, FTSE, CAC-40 and DAX increased by 1.1 per cent, 1.0 per cent and 0.8 per cent, respectively. The Hang Seng, JALSH and Bombay SENSEX rose by 1.5 per cent, 1.4 per cent, and 1.2 per cent, respectively. The Shanghai Exchange Composite and NIKKEI lost 2.4 per cent and 1.6 per cent, respectively.

**Global commodity prices rose in April 2016.** Monthly average oil prices hit peaks in April on the back of improving global demand coupled with ongoing decline in the US rig count and crude oil production. ICE Brent Crude and West Texas Intermediate crude oil averaged US\$43.3 and US\$41.2 a barrel in April 2016, up from US\$39.8 and US\$38.0 a barrel, respectively in March 2016. The Food and Agriculture Organisation's (FAO) Food Price Index rose by 0.7 per cent, from 150.6 points in March 2016 to 151.8 points in April 2016, but was still almost 10 per cent below its level a year earlier. The increase in the index resulted from an increase in vegetable oil, meat and cereal prices, which more than offset the decline in the prices of dairy products and sugar.

## **Domestic Developments**

**Tourist arrivals rose by 1.8 per cent to 91,992 in April 2016, from 90,327 a year earlier.** The European market posted growth of 7.6 per cent in arrivals as major source countries like Germany and France recorded increases of 20.7 per cent and 13.2 per cent, respectively. The Asian market recorded an annual growth rate of 2.1 per cent. Tourist arrivals from Africa went down by 11.9 per cent, largely on account of the drop in the number of visitors from South Africa and Reunion. For the first four months of 2016, tourist arrivals increased by 10.0 per cent to 419,828, from 381,656 in the corresponding period of 2015.

**Inflationary pressures remained benign in April 2016.** Headline inflation edged down further to 0.8 per cent in April 2016, from 0.9 per cent in March 2016, while y-o-y inflation subsided from 0.9 per cent in March 2016 to 0.2 per cent in April 2016, reflecting mostly the decrease in the price of vegetables. The core measures of inflation also remained subdued in April 2016.

**Broad money supply growth decelerated further in March 2016.** Broad Money Liabilities grew by 7.7 per cent y-o-y in March 2016, compared to 9.4 per cent in February 2016. Y-o-y growth in banks' credit decelerated sharply from 4.7 per cent in February 2016 to 2.1 per cent in March 2016. The annual growth rate of monetary base contracted by 5.6 per cent in March 2016, as against an annual growth of 3.5 per cent in February 2016.

**All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in April 2016 were oversubscribed, with bid-cover ratios ranging between 1.8 to 2.9 compared to a range of 1.7 to 2.2 in March 2016.** During April 2016, the Bank issued GMTBs for a total nominal amount of Rs4,600 million, of which Rs2,100 million was issued for liquidity management purposes. Maturing GMTBs amounted to Rs4,061 million. Between end-March and end-April 2016, the weighted yields on the 91-Day, 182-Day and 364-Day Bills went up by 13 basis points (bps), 29 bps and 15 bps, respectively. The overall weighted yield increased by 9 bps, from 2.75 per cent to 2.84 per cent.

**During April 2016, the Bank carried out auctions for the re-opening of both Three-Year Government of Mauritius Treasury Notes and Five-Year Government of Mauritius Bonds and an auction of Twenty-Year Government of Mauritius Bonds.** The 3.59 per cent Three-Year Notes issued in February 2016 was re-opened for a nominal amount of Rs1,300 million. The auction was oversubscribed by Rs1,321 million and the weighted yield went down by 5 bps to 3.63 per cent. The 4.85 per cent Five-Year Government of Mauritius Bond issued in December 2015 was re-opened for a nominal amount of Rs1,400 million. Bids for a total nominal amount of Rs2,310 million was received and the weighted yield went down by 23 bps to 4.30 per cent, from the last re-opening in January 2016. The Twenty-Year Government of Mauritius Bond issued on 15 April 2016 for a nominal amount of Rs1,500 million was oversubscribed with a bid-cover ratio of 1.8 and the coupon was set at 6.95 per cent.

**Between March and April 2016, based on the weighted average dealt selling rate<sup>1</sup>, the rupee appreciated against the US dollar and the Pound sterling but depreciated against the euro.** The average rupee exchange rates were Rs35.208/USD, Rs40.023/EUR and Rs50.735/GBP in April 2016 compared to Rs35.692/USD, Rs39.740/EUR and Rs51.059/GBP, respectively, in March 2016.

**The Gross Official International Reserves (GOIR) of the country stood at Rs158,509 million (equivalent to US\$4,531 million) at the end of April 2016, down from Rs159,175 million (equivalent to US\$4,498 million) at the end of March 2016.** Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2015, the level of GOIR represented 8.0 months of imports as at end-April 2016, down from 8.1 months of imports as at end-March 2016.

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<sup>1</sup> *The rates are calculated on the basis of transactions of US\$20,000 and above, or the equivalent in other foreign currencies, conducted by banks and foreign exchange dealers and reported to the Bank of Mauritius.*