OVERVIEW

International Developments

World output continues to face strong headwinds despite the use of unconventional monetary policies by major advanced economies' central banks. The US economy grew faster than previously expected in 2015Q4 amid strong consumer spending but poor corporate sector earnings. At its March 2016 FOMC meeting, the US Fed left its benchmark interest rates steady at 0.25-0.50 per cent due to weak inflationary pressures and announced a reduction in the number of potential rate hikes for 2016. Stimulating the Eurozone economy remained the priority of the European Central Bank (ECB). Thus, the ECB lowered the refinancing rate from 0.05 per cent to zero per cent and the deposit facility rate from -0.3 per cent to -0.4 per cent. ECB's quantitative easing programme was revamped through the launch of a new series of longer-term refinancing operations with maturities of four years, the inclusion of additional types of bonds and the extension of the monthly bond purchases from EUR60 billion to EUR80 billion. At its March 2016 MPC meeting, the Bank of England unanimously held borrowing costs unchanged at 0.5 per cent and kept its asset purchase programme untouched at £375 billion. The final estimate of 2015Q4 GDP growth was revised upward to 0.6 per cent.

In March 2016, global currency markets were mainly influenced by the dovish stance of major central banks amid a rebound in oil prices and equities. At the beginning of March, the US dollar fell after traders took profit of further skepticism in policy divergence among major central banks. The rally in the oil market kindled bids for riskier euro and commodity-sensitive currencies and dampened the demand for the safe-haven US dollar. Around mid-March, the greenback remained under pressure as investors further scaled back expectations on the pace and timing of any further interest rate hike following dovish policy turn from Federal Reserve Chair Janet Yellen. The euro traded at an average of US$1.1115 compared to US$1.1113 in February 2016. The single currency was supported by the US dollar's broad-based weaknesses, improvement in risk appetite and after the ECB's Chief Mario Draghi comments suggesting unlikely future cuts in the key rates. Moreover, data released showed that inflation in the Eurozone inched up in March 2016 to -0.1 per cent, from -0.2 per cent in February. In March 2016, the movement in the Pound sterling mirrored that of the single currency and rallied against the US dollar, boosted by a generally brighter mood on stock markets despite worries over a possible 'Brexit'. The Pound sterling traded at an average of US$1.4217 in March 2016 compared to US$1.4306 in February 2016.

Risk appetite improved due to aggressive stimulus measures, which lifted equities, commodities and emerging market assets. The MSCI Emerging Markets Index, MSCI Global Equity Index and MSCI Developed Markets Index increased by 13.0 per cent, 6.5 per cent and 6.0 per cent, respectively. The Dow Jones and NASDAQ gained 7.1 per cent and 6.8 per cent, respectively. Among the European market indices, DAX, FTSE and CAC-40 rose by 5.0 per cent, 1.3 per cent and 0.7 per cent, respectively. The Shanghai Exchange Composite, Bombay SENSEX, Hang Seng, JALSH and NIKKEI rose by 11.8 per cent, 10.2 per cent, 8.7 per cent, 5.7 per cent and 4.6 per cent, respectively.

International energy prices and food prices rose in March 2016. Improvement in global economic indicators and decline in oil production in US and non-OPEC economies have contributed to upward pressure in oil prices. ICE Brent Crude and West Texas Intermediate crude oil averaged 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 1.0 per cent, from 149.5 points in February 2016 to 151.0 points in March 2016, but was still 12.0 per cent below its level a year earlier. The increase in the FAO price index resulted from a rebound in sugar prices and increases in vegetable oil and meat prices, which more than offset the decline in the prices of dairy products and cereal.

Domestic Developments

Tourist arrivals sustained their rising trends across the European, African and Asian markets and rose on a year-on-year basis (y-o-y) by 12.5 per cent. This improvement was reflected mainly through the higher contribution from Europe (+16.6 per cent) as major source countries like UK and Germany recorded increases of 15.7 per cent and 14.6 per cent, respectively. Tourist arrivals from Africa went up by 8.9 per cent largely on account of the rise of 35.8 per cent in the number of visitors from South Africa. The Asian market grew by 5.7 per cent in March 2016 compared to the previous year.

Inflationary pressures remained benign in March 2016. Headline inflation edged down from 1.0 per cent in February 2016 to 0.9 per cent in March 2016, whereas y-o-y inflation went up from -0.5 per cent in February 2016 to 0.9 per cent in March 2016, reflecting the increase in the prices of vegetables. The core measures of inflation also remained tame in March 2016.

Broad money supply growth decelerated in February 2016. Broad Money Liabilities grew by 9.4 per cent y-o-y in February 2016, compared to 10.5 per cent in January 2016. Y-o-y growth in banks' credit was sustained and rose marginally from 4.6 per cent to 4.7 per cent. The annual growth rate of the monetary base dropped to 3.5 per cent in February 2016, from 8.1 per cent in January 2016, reflecting lower growth in banks' balances held at the central bank.

Auctions of Government of Mauritius Treasury Bills (GMTBs) held in March 2016 were oversubscribed, with bid-cover ratios ranging between 1.7 to 2.2 compared to a range of 1.5 to 2.4 in February 2016. During March 2016, the Bank issued GMTBs for a total nominal amount of Rs5,800 million, of which Rs2,600 million was issued for liquidity management purposes. Maturing GMTBs had amounted to Rs3,486 million. Between end-February and end-March 2016, the weighted yields on the 91-Day, 182-Day and 364-Day Bills increased by 10 basis points (bps), 7 bps and 7 bps, respectively. The overall weighted yield increased by 23 bps, from 2.52 per cent to 2.75 per cent.

During March 2016, the Bank carried out auctions of Three-Year Government of Mauritius Treasury Notes and Fifteen-Year Inflation Indexed Government of Mauritius Bonds. The Three-Year Note issued in February 2016 was re-opened for a nominal amount of Rs1,300 million. The auction was oversubscribed with a bid-cover ratio of 2.5 compared to 1.9 for the benchmark issue of February 2016. The weighted yield declined by 4 bps to 3.68 per cent. The Fifteen-Year Inflation Indexed Government of Mauritius Bond was also oversubscribed with a bid-cover ratio of 1.3 and the bid margin increased by 47 bps to 2.81 per cent compared to the last auction which was held in May 2015.

As part of its open market operations, the Bank also conducted one auction of Two-Year BOM Notes for a total nominal amount of Rs2,000 million. The auction was oversubscribed by Rs749.5 million, with a bid-cover ratio of 1.4. The weighted yield decreased by 18 bps, to 3.80 per cent, from 3.98 per cent registered at the last auction held in January 2016. To further absorb excess liquidity in the system, the Bank conducted sterilised intervention and issued one-year special deposits for a total nominal amount of Rs960 million at the rate of 2.70 per cent. The total value of securities issued for sterilisation purposes during March 2016 amounted to Rs5,560 million.

Between February and March 2016 and based on the weighted average dealt selling rate[1], the rupee appreciated against the three major currencies, namely the US dollar, the euro and the Pound sterling. The average rupee exchange rates were Rs35.692/USD, Rs39.740/EUR and Rs51.059/GBP in March 2016 compared to Rs35.815/USD, Rs39.801/EUR and Rs51.540/GBP, respectively, in February 2016.

The Gross Official International Reserves (GOIR) of the country stood at Rs158,669 million (equivalent to US$4,483.5 million) at the end of March 2016, up from Rs157,644 million (equivalent to US$4,408.6 million) at the end of February 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-March 2016, unchanged from end-February 2016.

[1] *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.*