

## OVERVIEW

### International Developments

**Global economic growth remains moderate and below potential in 2016.** The US economy grew at an annualised pace of 0.8 per cent in 2016Q1, up from a previous estimate of 0.5 per cent but still lower compared to 1.4 per cent recorded for 2015Q4. The Eurozone's economic growth in 2016Q1 was revised downward to 0.5 per cent, from 0.6 per cent despite the strongest performance by Germany. Notwithstanding the massive stimulus unleashed by the European Central Bank, the persistence of negative inflation rate across the single currency area remained a serious challenge for the region's monetary policymakers. The UK economy slowed in 2016Q1, partly attributed to the uncertainty about the UK's European Union membership. In its May 2016 Inflation Report, the Bank of England (BoE) provided a detailed assessment of the risks surrounding a 'Brexit', judging that it could lead to a prolonged period of uncertainty, hurt capital inflows, raise risk premia, increase bank funding costs and threaten financial stability. At its May 2016 MPC meeting, the BoE cut its growth forecast and noted that inflation could remain subdued. It unanimously maintained the Bank Rate unchanged at 0.5 per cent. The BoE also reiterated its belief that Britain's European Union referendum is the "*most significant risk*" to the British economy.

**In May 2016, global currency markets were mainly influenced by the renewed strength in the US dollar and political developments in both the US and UK.** The US dollar rallied against major currencies amid expectations for an interest rate hike from the Fed in the near term. Economic recovery in the US remained quite robust and consumer prices jumped to its fastest pace in more than three years in April 2016. Moreover, the hawkish statements from Fed Governors and the April 2016 FOMC meeting minutes signalling an interest rate hike in June 2016 also supported the US dollar. The euro traded at an average of US\$1.1304 in May 2016 compared to US\$1.1335 in April 2016. The single currency lost ground on the back of the US dollar's broad-based strength, widening interest rate differentials and continued negative inflation rate in the single currency area. The Pound sterling fell in the first half of the month amid persistent concerns over a possible British exit from the European Union ahead of the referendum scheduled on 23 June 2016. The lower-than-expected UK inflation data also pressured the British currency. Thereafter, the Pound sterling advanced as polls showed growing support for Britain to remain in the European Union. Moreover, strong retail sales data

reduced chances of an interest rate cut by the Bank of England. The Pound sterling traded at an average of US\$1.4530 in May 2016 compared to US\$1.4309 in April 2016.

**In May 2016, equities in developed markets fared better than those in emerging markets against the backdrop of a strengthening US economy and a recovery in oil prices.** The MSCI Developed Markets Index and MSCI Global Equity Index went up by 2.3 per cent and 0.2 per cent, respectively, whereas MSCI Emerging Markets Index fell by 3.9 per cent. The NASDAQ and Dow Jones gained 3.6 per cent and 0.1 per cent, respectively. Among the European market indices, DAX, CAC-40 and FTSE increased by 2.2 per cent, 1.7 per cent and 0.5 per cent, respectively. The Hang Seng and Shanghai Exchange Composite lost 1.4 per cent and 0.7 per cent, respectively, whereas the SENSEX and JALSH gained 4.1 per cent and 1.8 per cent, respectively. The NIKKEI rose by 3.4 per cent.

**Global commodity prices rose in May 2016.** Monthly average oil prices hit 2016 peaks in May as supply disruptions, increased global demand and falling U.S. crude oil production continued to fuel a recovery. ICE Brent Crude and West Texas Intermediate crude oil averaged US\$47.7 and US\$46.9 a barrel in May 2016, up from US\$43.3 and US\$41.2 a barrel, respectively, in April 2016. The Food and Agriculture Organisation's (FAO) Food Price Index rose by 2.2 per cent from 152.5 points in April 2016 to 155.8 points in May 2016, but was still almost 7.0 per cent below its level a year earlier. Prices rose across all the sub-indices, except for vegetable oil which declined by 1.9 per cent in May 2016.

## **Domestic Developments**

**Tourist arrivals went up by 8.9 per cent from 87,067 in May 2015 to 94,830 in May 2016.** This performance was led by higher growth in arrivals from Europe (17.2 per cent) with major source countries like Germany and UK recording increases of 52.1 per cent and 13.0 per cent, respectively. Tourist arrivals from Asia rose by 4.4 per cent. The African market contracted by 0.3 per cent, with a decline of 7.9 per cent in the number of visitors from South Africa but an increase of 1.1 per cent in arrivals from Reunion island, which is ranked among the top five source markets. For the first five months of 2016, tourist arrivals increased by 9.8 per cent to 514,658, from 468,723 in the corresponding period of 2015.

**Domestic price pressures remained subdued in May 2016.** Headline inflation stood at 0.8 per cent in May 2016, unchanged from the previous month, while year-on-year inflation edged up from 0.2 per cent in April 2016 to 0.8 per cent in May 2016. The core measures of inflation also remained at moderate levels in May 2016.

**Broad money supply growth gained some momentum in April 2016.** Broad Money Liabilities rose by 9.0 per cent y-o-y in April 2016 compared to 7.7 per cent in March 2016. Y-o-y growth in banks' credit accelerated from 2.1 per cent in March 2016 to 3.4 per cent in April 2016. However, the annual growth rate of monetary base contracted by 10.3 per cent in April 2016 compared to a contraction of 5.6 per cent in March 2016.

**Auctions of Government of Mauritius Treasury Bills (GMTBs) held in May 2016 were oversubscribed with bid-cover ratios ranging between 2.9 to 4.2 compared to 1.8 to 2.9 for April 2016.** During May 2016, the Bank issued GMTBs for a total nominal amount of Rs3,900 million, of which an amount of Rs2,100 million was issued for liquidity management purposes. Maturing GMTBs amounted to Rs6,116 million. Between end-April and end-May 2016, the weighted yields on the 91-Day, 182-Day and 364-Day Bills went down by 49 basis points (bps), 51 bps and 46 bps, respectively. The overall weighted yield decreased by 19 bps, from 2.84 per cent to 2.65 per cent.

**During May 2016, the Bank carried out auctions for the re-opening of Three-Year Government of Mauritius Treasury Notes, Five-Year Government of Mauritius Bonds and Ten-Year Government of Mauritius Bonds.** The 3.59 % Three-Year Notes issued in February 2016 was re-opened for a nominal amount of Rs1,400 million. The auction was oversubscribed by Rs1,035 million and the weighted yield went down by 15 bps to 3.48 per cent. The new benchmark Five-Year Government of Mauritius Bond for a nominal amount of Rs1,400 million was oversubscribed by Rs1,612 million. The weighted yield went down by 7 bps to 4.23 per cent and the coupon rate was set at 4.10 per cent. The Ten-Year Government of Mauritius Bond for a nominal amount of Rs1,500 million was put on tender on 11 May 2016. Bids for a total nominal amount of Rs3,282 million were received and the coupon rate was set at 5.46 per cent.

**As part of its open market operations, the Bank issued Four-Year BoM Notes for a total nominal amount of Rs2,000 million.** Bids for a total nominal amount of Rs4,850 million were received representing a bid-cover ratio of 2.4. The weighted yield went down by 25 bps, from 3.95 per cent registered at the last auction held in February 2016. To further absorb excess liquidity in the system, the Bank conducted sterilised intervention during the month and issued three-year special deposits for a total nominal amount of Rs1,000 million at 3.70 per cent. The total value of securities issued for the mopping up of excess liquidity in the banking system during the month of May 2016 amounted to Rs5,100 million.

**Between April and May 2016, based on the weighted average dealt selling rate<sup>1</sup>, the rupee, on average, depreciated against the US dollar and the Pound sterling but appreciated against the euro.** The average rupee exchange rates were Rs35.301/USD, Rs39.968/EUR and Rs51.647/GBP in May 2016 compared to Rs35.208/USD, Rs40.023/EUR and Rs50.735/GBP, respectively, in April 2016.

**The Gross Official International Reserves (GOIR) of the country stood at Rs161,691 million (equivalent to US\$4,565 million) at the end of May 2016, up from Rs158,451 million (equivalent to US\$4,529 million) at the end of April 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 8.2 months of imports as at end-May 2016, up from 8.0 months of imports as at end-April 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.*