

## **OVERVIEW**

### **International Developments**

Data releases in the United States, Eurozone and the United Kingdom in August 2014, suggest that near-term prospects for a broad-based economic recovery continued to remain uncertain. In the US, the government's July 2014 employment report showed weaker-than-expected job growth, but thereafter upbeat US data releases bolstered expectations of solid economic growth in the third quarter of 2014. Minutes of the FOMC July 2014 meeting indicated that officials wanted further evidence before changing their views on when rates should be increased. At the annual gathering of central bankers in Jackson Hole, Wyoming, the Fed Chair Janet Yellen said that the US labour market had yet to fully recover and that the Fed should move cautiously in determining when interest rates should rise.

The Eurozone stagnated during the second quarter of 2014, while signs of deflation persist. Economic sentiment in the Euro zone weakened after data pointed to Italy falling back into recession in the second quarter of 2014 and German industrial performance slumped in June 2014. On 7 August 2014, the European Central Bank (ECB) kept its key refinancing rate at 0.15 per cent against the backdrop of a worsening economic climate in the Eurozone and amid rising tensions in Ukraine. ECB President Mario Draghi, at the Jackson Hole gathering, hinted that the ECB was ready to adjust monetary policy further to support the Eurozone economy in the context of negative growth and annual inflation rates at a five-year low of 0.3 per cent in August 2014. In the United Kingdom, a bigger-than-expected trade deficit was registered, while the Bank of England (BoE) in its August 2014 Inflation Report lowered average wage growth forecasts. As widely expected, the BoE's Monetary Policy Committee, at its meeting on 6 and 7 August 2014, maintained the bank rate unchanged at 0.5 per cent and its bond-buying programme at GBP375 billion.

Exchange rate movements of the euro and the Pound sterling against the US dollar reflected the strength of the US currency in August 2014 as geopolitical tensions in Ukraine led investors to

move out of the euro and the Pound sterling into the safe-haven US dollar. The Pound sterling was further undermined by the publication of the minutes of the August 2014 BOE Monetary Policy Committee meeting, which failed to boost expectations of an interest rate hike by year-end, and the uncertainty about the outcome of the referendum on Scottish independence.

In August 2014, the euro and Pound sterling depreciated against the US dollar, trading at an average of US\$1.3318 and US\$1.6709 respectively compared to an average of US\$1.3553 and US\$1.7088 respectively in July 2014. From intra-month highs of US\$1.3422 and US\$1.6871 reached beginning of the month, the euro and Pound sterling fell to intra-month lows of US\$1.3160 on 27 August 2014 and US\$1.6546 on 31 August 2014 respectively.

Global equity markets made modest gains in August 2014, deriving support from positive economic growth in the United States and hopes for more stimulus measures in Europe. US stocks rebounded in August 2014, while European stocks gained some ground despite worries about the Eurozone economic prospects and heightened geopolitical tensions. The MSCI Emerging Markets Index, MSCI Global Equity Index and MSCI Developed Markets Index rose by 2.1 per cent, 2.0 per cent and 0.7 per cent, respectively. The NASDAQ, S&P 500 and Dow Jones gained 4.8 per cent, 3.8 per cent and 3.2 per cent, respectively. In Europe, the CAC 40, FTSE 100 and DAX rose by 3.2 per cent, 1.3 per cent and 0.7 per cent, respectively. The Nikkei, however, fell by 1.3 per cent, suggesting April's sales tax increases may be weighing more heavily on economic growth than initially expected. The Bombay SENSEX and Shanghai Stock Exchange Composite Index rose by 2.9 per cent and 0.7 per cent, respectively, while JALSH and Hang Seng lost 0.9 per cent and 0.1 per cent, respectively.

International energy prices have remained volatile, while food prices continue to decline. Geopolitical tensions in Iraq and Ukraine/Russia and supply outages initially put upward pressures on global oil prices but market complacency about the risk of supply disruptions helped oil prices to subside in July 2014 and August 2014. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US\$96.0 a barrel in August 2014, down from US\$104.6 a barrel in July 2014. ICE Brent Crude averaged US\$103.6 a barrel in August 2014, down from US\$108.2 a barrel in July 2014. NYMEX and ICE Brent Crude traded at intra-month highs of

US\$98.3 a barrel and US\$105.4 a barrel, respectively, on 2 August 2014. The Food and Agriculture Organisation's (FAO) Food Price Index decreased for a fifth consecutive month in August 2014 on expectations of improved supply conditions in the current and forthcoming seasons. According to the World Bank Commodity Markets Outlook July 2014, agricultural prices are projected to moderate further in 2014 under the assumption that current crop conditions will reflect normal trends amid ample stock inventories.

### **Domestic Developments**

According to Statistics Mauritius's latest growth projections, the economy will grow by 3.5 per cent in 2014 instead of the 3.7 per cent forecast earlier. The performance of the construction sector continued to be a drag on GDP growth and the sector is expected to contract further in 2014, albeit at a lower rate of 4.8 per cent compared with a contraction of 9.4 per cent in 2013. Growth in the manufacturing sector is forecast to decelerate to 1.7 per cent from 4.4 per cent in 2013. Within the manufacturing sector, 'textile manufacturing' is forecast to grow by 1.5 per cent compared with 2.6 per cent in 2013, 'sugar milling' to recover by 3.8 per cent following a contraction of 1 per cent in 2013, 'food processing' to grow by 3.0 per cent as against a contraction of 0.3 per cent in 2013, and 'other manufacturing' to register no growth. On current trends, GDP growth in 2014 could fall below 3.5 per cent.

Tourist arrivals for July 2014 stood at 81,935, representing an expansion of 5.9 per cent compared to July 2013. The European markets were largely responsible for this positive performance for August 2014 (+12.8 per cent). The number of visitors from China went up by 37.0 per cent, while those from India fell by 1.3 per cent. For the period January to July 2014, tourist arrivals stood at 572,632, that is, a growth of 4.3 per cent over the corresponding period of 2013. Gross tourism earnings were, however, much higher at Rs3,237 million in July 2014, representing a growth of 36.1 per cent, from Rs2,378 million recorded in July 2013. On a cumulative basis, for the period January to July 2014, tourism earnings rose by 5.7 per cent to Rs25,814 million, from Rs24,433 million in the corresponding period of 2013.

Latest CPI data released by Statistics Mauritius showed that headline inflation remained broadly stable, albeit showing a slight pick-up in August 2014, while y-o-y inflation rose significantly on the back of a hike in the price of vegetables and other goods and services, more than offsetting the partial decline in the price of gasoline. The core measures of inflation remained at moderate levels in August 2014. The prices of petroleum products under the Petroleum Pricing Committee (PPC) were reviewed downwards on 23 August 2014, whereby the price of mogas and diesel oil fell by 4.02 per cent and 4.66 per cent, respectively.

Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), continued to remain subdued while growth in banks' credit slowed down in July 2014, reflecting sluggish economic activity. The annual growth rate of monetary base was 19.7 per cent in July 2014 compared with 17.0 per cent in June 2014. The growth reflected mainly increases in liabilities to Other Depository Corporations (reserve deposits) and currency in circulation.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) were oversubscribed in August 2014 with the bid cover ratio ranging between 3.5 and 4.7, reflecting the significant excess liquidity plaguing the banking system. Consequently, the weighted yields for the four maturities being issued registered considerable declines during the month. The overall weighted yield on GMTBs declined to 1.17 per cent in August 2014, from 2.10 per cent in July 2014. The auctions for the benchmark Three-Year GoM Treasury Notes (Re-opening) and the Five-Year GoM Bonds were also oversubscribed with bid cover ratios at 4.1 and 4.9, respectively.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar from Rs30.388/USD to Rs30.730/USD, but appreciated against the euro and Pound sterling, from Rs41.175/EUR and Rs52.063/GBP to Rs40.936/EUR and Rs51.491/GBP, respectively, between July and August 2014. The rates are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies, conducted by banks, foreign exchange dealers and the Bank of Mauritius,

The end-August 2014 level of gross official international reserves of the country, based on the value of imports of goods (fob) and non-factor services for the year 2013, represented 6.2 months of imports, compared to 6.1 months as at end-July 2014. In August 2014, the Bank intervened on the domestic foreign exchange market and purchased an amount equivalent to US\$41.3 million whilst it sold US\$32.9 million to its customers. Thus, the gross foreign exchange reserves of the Bank continued to increase, reaching Rs123,218 million, from Rs121,043 million as at end-July 2014.