

## OVERVIEW

### International Developments

**Data releases in August 2015 indicated that the US and UK economy maintained their growth momentum while the euro zone performed moderately.** The US economy grew at an annual rate of 3.7 per cent in 2015Q2 higher than the initial reading of 2.3 per cent. The July 2015 minutes of the Federal Open Market Committee (FOMC) revealed that US policymakers were in no hurry to raise interest rates, primarily due to the prevailing low inflation despite some improvement in the labour market. Real GDP growth in the euro zone slowed to 0.3 per cent in 2015Q2 from 0.4 per cent in 2015Q1 as France stagnated and Germany posted a tepid expansion. The European Central Bank (ECB) reaffirmed the need to fully implement its stimulus programme to bring inflation back to its target. In the UK, the Bank of England (BoE) revised its 2015 growth forecast up to 2.8 per cent, but lowered its near-term inflation outlook substantially due to low energy prices and the relative strength of the Pound sterling. At its meeting on 5 August 2015, the BoE Monetary Policy Committee maintained interest rate unchanged at 0.5 per cent and voted unanimously to keep its asset purchase programme unchanged at £375 billion.

**In August 2015, the currency markets were mainly influenced by the market turmoil that prompted the unwinding of carry trades and fears of "currency wars".** At the start of the month, the US dollar strengthened on better economic data that supported the case for a hike in US interest rates at the forthcoming FOMC meeting in September 2015. It fell, thereafter, following the release of the July 2015 FOMC minutes. The People Bank of China's surprise devaluation of the Renminbi in the midst of Chinese economic slowdown added uncertainty to the timing of the Federal Reserve's long-awaited increase in interest rates and raised fears of "currency wars". Global stocks tumbled over fears of China's economic slowdown, which could further undermine the fragile global economic recovery. The euro, which benefitted from robust manufacturing and services sector data, was also supported on its relative safe haven appeal amid a retreat from risky assets globally. The euro traded at an average of US\$1.1137 in August 2015 – having touched an intra-month low of US\$1.0862 – compared to US\$1.1002 in July 2015. The Pound sterling, which rallied during August 2015 after a pick-up in UK inflation that kept alive the prospects of a BoE interest rate hike, later tumbled on a poll that showed

lower inflation expectations. The Pound sterling traded at an average of US\$1.5596 in August 2015 – having touched an intra-month low of US\$1.5428 – compared to US\$1.5561 in July 2015.

**During August 2015, equity markets around the globe tumbled as a result of the turmoil in Chinese stock markets.** The MSCI Emerging Markets Index and MSCI Global Equity Index went down by 9.2 per cent and 6.8 per cent, respectively. The NASDAQ and Dow Jones retreated by 6.9 per cent and 6.6 per cent, respectively. Among the European market indices, DAX, CAC-40 and FTSE lost 9.3 per cent, 8.5 per cent and 6.7 per cent, respectively. In Asia, the Shanghai Exchange Composite, Hang Seng, NIKKEI and Bombay SENSEX tumbled by 12.5 per cent, 12.0 per cent, 8.2 per cent and 6.5 per cent, respectively. In Africa, the JSE All Share Index (JALSH) shed 4.0 per cent.

**Both international energy prices and food prices declined further in August 2015.** The drop in global oil prices reflected concerns about lower economic growth in emerging markets and the continuing growth in global petroleum inventories. ICE Brent Crude averaged US\$48.2 a barrel in August 2015, down from US\$56.7 a barrel in July 2015. NYMEX WTI (West Texas Intermediate crude oil) averaged US\$42.9 a barrel in August 2015, down from US\$51.2 a barrel in July 2015. The Food and Agriculture Organisation (FAO) Food Price Index went down further in August 2015, reaching its lowest value since September 2009 on account of ample supplies, decline in energy prices and concerns over China's economic slowdown. The August 2015 FAO Price Index averaged 155.7 points, down by 5.2 per cent from July 2015 and 21.5 per cent a year earlier.

### **Domestic Developments**

**Tourist arrivals rose by 16.6 per cent to 95,569 in July 2015, from 81,935 a year earlier.** The year-on-year growth in arrivals reflected mainly increases from Asia (+30.7 per cent) of which India and China recorded 12.5 per cent and 47.0 per cent growth, respectively, and Europe (+18.8 per cent). Tourist arrivals from UK, France and Germany rose by 18.5 per cent, 19.0 per cent and 27.0 per cent, respectively. Gross tourism earnings decreased by 4.6 per cent, from Rs3,237 million in July 2014 to Rs3,088 million in July 2015. For the twelve-month period ended July 2015, tourism earnings rose by 3.4 per cent while tourist arrivals recorded an increase of 7.8 per cent compared to the corresponding period of 2014.

**Latest CPI data for August 2015 released by Statistics Mauritius pointed to moderate inflationary pressures in the economy.** Headline inflation declined further from 1.5 per cent in July 2015 to 1.3 per cent in August 2015. Reflecting the hike in the price of vegetables, the year-on-year inflation rose to 1.1 per cent in August 2015, from 0.6 per cent in July 2015. The core measures of inflation kept their contained momentum in August 2015.

**Monetary aggregates grew at a faster pace in July 2015 compared to the previous month.** Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), accelerated to 11.3 per cent in July 2015, from 10.6 per cent in June 2015. Growth in banks' credit rose from 2.7 per cent in June 2015 to 3.8 per cent in July 2015. The monetary base grew at an annual growth rate of 6.1 per cent in July 2015, compared to 15.2 per cent in June 2015.

**All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in August 2015 were oversubscribed, albeit by a lower amount compared to the previous month.** This was reflected in the bid-cover ratio which ranged between 2.3 and 2.9 in August 2015 compared a range of 3.4 to 4.1 in July 2015. The weighted yields on the 91-Day and 364-Day GMTBs went down during the month, while the weighted yield on 182-Day GMTB edged up. The overall weighted yield on GMTBs went down from 1.79 per cent in July 2015 to 1.67 per cent in August 2015. The auctions for the Five-Year GoM Treasury Bonds (Re-opening) and the Three-Year GoM Notes were also oversubscribed with bid-cover ratios of 1.9 and 1.2, respectively. In order to absorb the excess liquidity in the banking system, the Bank conducted separate auctions for Two-Year and Four-Year Bank of Mauritius Notes, and 364-Day Bank of Mauritius Bills during the month for a total nominal amount of Rs4.0 billion.

**The weighted average dealt selling rates<sup>1</sup> of the rupee depreciated, on average, against the euro, but appreciated against the US dollar and Pound sterling between July and August 2015.** The average rupee exchange rates against the US dollar, euro and Pound sterling were Rs35.451/USD, Rs39.568/EUR and Rs55.556/GBP in August 2015 compared to Rs35.541/USD, Rs39.165/EUR and Rs55.623/GBP, respectively, in July 2015.

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<sup>1</sup> The rates are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies, undertaken by banks and foreign exchange dealers.

**The gross foreign exchange reserves of the Bank of Mauritius increased from Rs141,742 million at the end of July 2015 to Rs141,946 million at the end of August 2015.** Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-August 2015 level of gross official international reserves of the country represented 7.2 months of imports, up from 7.1 months as at end-July 2015.