OVERVIEW

International Developments

Growing concerns over a weakening Eurozone economy and the political situation in Greece, which hurt the euro broadly in December 2014, increased the chances of a monetary easing early in 2015. The single currency weakened after the European Central Bank's (ECB) second offering of almost zero-cost loans to banks has been, like the first one in September 2014, disappointing. Greek lawmakers' failure to elect a new president and the prospect of elections early in 2015, in which the anti-bailout party could come in power, put further pressure on the single currency. The ECB, at its policy meeting on 4 December 2014, kept its key refinancing rate unchanged at 0.05 per cent, as expected. It also indicated that it was increasingly ready to launch a programme of sovereign-bond buying in order to lift worryingly low inflation.

The US dollar demonstrated broad-based strength throughout the month, bolstered by solid data releases and a positive economic outlook. Better-than-expected nonfarm payrolls data and an unemployment rate that held steady at a six-year low boosted the US dollar. Data showing that third-quarter US gross domestic product rose at the fastest pace in 11 years at 5.0 per cent, and strong retail sales and declining jobless claims numbers also supported the dollar. The decline in oil prices was also viewed to be dollar-positive. The Federal Open Market Committee, following its meeting on 16-17 December 2014, indicated that the US economy remained on track for an interest rate hike early in 2015.

A slowing economy, sizeable fiscal and external deficits, and a worryingly tight national elections race next year undermined the Pound sterling in December 2014. A batch of weak data on industry and manufacturing added to a worsening outlook that is set to delay any rise in interest rates in 2015. The UK currency fell to its weakest since September 2013 when the annual GDP growth rate was revised down from 3.0 per cent to 2.6 per cent year-on-year in the third quarter. The Bank of England's Monetary Policy Committee, at its meeting on 4 December 2014, maintained its Bank Rate at 0.5 per cent.

The growing divergence between the monetary policy of the Federal Reserve on one hand and the European Central Bank and Bank of Japan on the other continued to push the US dollar higher against major currencies. The sharp decline in oil prices also widened the gap between the US dollar and other commodity-linked currencies. The euro traded at an average of US$1.2323 in December 2014 compared to US$1.2479 in November 2014. The euro and Pound sterling slipped to intra-month lows of US$1.2139 and US$1.5514, respectively. The Russian rouble went into free-fall despite the central bank's decision to raise interest rates from 10.5 per cent to 17 per cent on the back of tumbling oil prices and tougher US sanctions on Moscow.

Stock prices on global markets ended the year on a wary note as tumbling oil prices and Greece's possible exit from the euro zone hinted towards a bleak economic outlook and drove investors to safe-haven assets, including gold, the yen and low-risk government bonds. The MSCI Emerging Markets Index and MSCI Global Equity Index declined by 4.82 per cent and 1.71 per cent, respectively. The NASDAQ and Dow Jones fell by 1.16 per cent and 0.03 per cent, respectively. European shares dropped, with the DAX, FTSE and CAC-40 falling by 2.67 per cent, 2.33 per cent and 1.76 per cent, respectively. The Bombay SENSEX and the Hang Seng fell by 4.16 per cent and 1.59 per cent, respectively, while the Shanghai Exchange Composite INDEX shot up by 20.7 per cent. The JALSH and Nikkei declined by 0.28 per cent and 0.05 per cent, respectively.

Both international energy prices and food prices remained on a declining trend. Global oil prices dropped further, reflecting continuing growth in US oil production, strong global supply and a weakening outlook for the global economy. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US$59.3 a barrel in December 2014, down from US$75.7 a barrel in November 2014. ICE Brent Crude averaged US$63.3 a barrel in December 2014, down from US$79.6 a barrel in November 2014. The Food and Agriculture Organisation's (FAO) Food Price Index declined in December 2014, after remaining virtually stable in October and November 2014. The December 2014 FAO Dairy Price Index dropped by 1.7 per cent, compared to the previous month – and was 8.5 per cent less than December 2013. According to FAO, continued large supplies and record stocks combined with a stronger US dollar and falling oil prices contributed to the decline.

Domestic Developments

During the period January to November 2014, tourist arrivals and tourism earnings increased compared to the corresponding period of 2013. For the period January to November 2014, tourist arrivals totalled 918,184, representing a growth of 4.8 per cent over the corresponding period of 2013. The year-on-year growth in arrivals for November 2014 reflected mainly increases from Europe (+5.6 per cent). Gross tourism earnings fell to Rs3,621 million in November 2014, from Rs3,885 million in November 2013, representing a decline of 6.8 per cent. For the period January to November 2014, tourism earnings rose by 9.5 per cent to Rs39,556 million, from Rs36,116 million in the corresponding period of 2013.

Latest CPI data released by Statistics Mauritius showed that inflation eased further in December 2014. Headline inflation went down from 3.5 per cent in November 2014 to 3.2 per cent in December 2014, while y-o-y inflation fell significantly to 0.2 per cent in December 2014. The core measures of inflation remained at moderate levels in December 2014.

Monetary aggregates grew at a fairly strong pace through November 2014. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), fell from 10.3 per cent in October 2014 to 9.8 per cent in November 2014 while growth in banks' credit remained subdued. The annual growth rate of the monetary base was 17.9 per cent in November 2014 compared with 25.4 per cent in October 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) held in December 2014 were oversubscribed with the bid-cover ratio ranging between 1.5 and 3.2, as compared to a range of 2.4 to 4.7 in November 2014, reflecting a reduction in the level of excess rupee liquidity in the banking system. The weighted yields for all the four maturities of GMTBs issued during the month increased. The overall weighted yield on GMTBs increased to 2.44 per cent in December 2014, from 1.44 per cent in November 2014. The auctions of the benchmark Three-Year GoM Treasury Notes and the Five-Year GoM Bonds (Re-opening) were also oversubscribed, with bid-cover ratios of 2.1 and 2.0, respectively. In order to manage the excess liquidity, the Bank issued Bank of Mauritius securities for a nominal amount of Rs1,291.3 million in December 2014.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar, but appreciated against the euro and Pound sterling between November and December 2014. The rupee/USD rate depreciated, averaging Rs31.682/USD in December 2014 compared to Rs31.607/USD in November 2014, while the rupee exchange rates against the euro and Pound sterling averaged Rs39.087/EUR and Rs49.588/GBP in December 2014, respectively, compared to Rs39.470/EUR and Rs50.004/GBP, respectively, in November 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 and foreign exchange dealers.

At the end of December 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs122,576 million, from Rs117,680 million as at end-November 2014. The end-December 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 6.0 months as at end-November 2014.