OVERVIEW

International Developments

Higher-than-expected growth of the German economy in the fourth quarter of 2014, driven mainly by strong consumer spending, lifted Eurozone performance. Meanwhile, the European Central Bank (ECB) decided to no longer accept Greek bonds as collateral for its liquidity operations. However, the single currency was under pressure due to the lack of progress over a new deal for debt-burdened Greece and as investors braced for the ECB to start its full-scale quantitative easing programme in March 2015. Towards the end of February 2015, Eurozone partners approved Greece's reform plan and extended Greece's bail-out by four months.

The US dollar gained further support on the back of upbeat data releases and expectations that the US Federal Reserve would be raising interest rates in 2015. US Treasury yields increased despite the US economy slowing in the fourth quarter of 2014. Towards the end of the month, comments by Federal Reserve Chair Janet Yellen dampened beliefs that the US central bank would rush into raising interest rates.

Investors grew confident about the improving outlook for growth in the United Kingdom, fuelling expectations that the central bank could raise rates sooner than expected. On 5 February 2015, the Bank of England (BoE) Monetary Policy Committee kept its Bank Rate unchanged at 0.5 per cent. The BoE's February 2015 Inflation Report, released thereafter, pointed out that there were downside risks to the inflation outlook. The BoE also expected stronger GDP growth, supported by the fall in oil prices, and forecast that UK wages would rise at a faster pace. The Pound sterling gained further support from the release of the minutes of the BoE's latest policy meeting showing that two policymakers voted to increase rates in the second half of 2015.

Currency markets were mainly influenced by the row about whether to modify Greece's bail-out and the divergence in policies of major central banks. The euro was undermined on the possibility of Greece leaving the Eurozone and as German Bund yields tumbled with investors bracing for the ECB asset-purchase programme to start in March 2015. Rising US yields supported the US dollar by driving investment flows into the United States. The euro traded at an average of US$1.1360 in February 2015 compared to US$1.1612 in January 2015. The euro and Pound sterling slipped to intra-month lows of US$1.1211 and US$1.5076, respectively.

Equity markets in developed economies were the best performers as yields on core European government bonds tumbled into or close to negative territory with the ECB's imminent quantitative easing programme. The MSCI Global Equity Index, MSCI Developed Markets Index and MSCI Emerging Markets Index gained 5.7 per cent, 3.2 per cent and 3.0 per cent, respectively. The NASDAQ and Dow Jones rose by 7.1 per cent and 5.6 per cent, respectively. The European market indices CAC-40, DAX and FTSE increased by 7.5 per cent, 6.6 per cent and 2.9 per cent, respectively. The Nikkei, Shanghai Exchange Composite, Hang Seng and Bombay SENSEX rose by 6.4 per cent, 3.1 per cent, 1.3 per cent and 0.6 per cent, respectively.

While international energy prices picked up, food prices continued on its general downtrend in February 2015. After declining since July 2014, global oil prices rebounded in February 2014, reflecting announced reductions in capital expenditures by major oil companies and higher risks in global unplanned supply disruptions. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US$50.8 a barrel in February 2015, up from US$47.4 a barrel in January 2015. ICE Brent Crude averaged US$58.9 a barrel in February 2015, up from US$49.8 a barrel in January 2015. The Food and Agriculture Organisation's (FAO) Food Price Index continued to decline in February 2015, reaching its lowest value since July 2010. The current decline reflected favourable supply conditions and the continued strength of the US dollar. The February 2015 FAO Dairy Price Index dropped by 1.0 per cent, compared to the previous month, and was 14 per cent less than its February 2014 reading.

Domestic Developments

Gross tourism earnings rose by 3.6 per cent, from Rs4,190 million in January 2014 to Rs4,340 million in January 2015. Tourist arrivals increased by 7.6 per cent in January 2015 to 103,606 from 96,332 a year earlier. The year-on-year growth in arrivals for January 2015 reflected mainly increases from Europe (+11.9 per cent) and Africa (+10.5 per cent). For the twelve-month period ended January 2015, tourism earnings and tourist arrivals rose by 11.0 per cent and 5.0 per cent, respectively, compared with the corresponding period a year earlier.

Latest CPI data released by Statistics Mauritius showed that inflation moderated further in February 2015. Headline inflation dropped from 2.8 per cent in January 2015 to 2.5 per cent in February 2015. However, y-o-y inflation rose to 2.0 per cent in February 2015, from 0.7 per cent in January 2015, reflecting amongst others higher prices of fresh vegetables and air tickets. The core measures of inflation remained subdued in February 2015.

Monetary aggregates grew at a faster pace in January 2015 than in the previous month. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), rose from 8.7 per cent in December 2014 to 9.6 per cent in January 2015, while growth in banks' credit recovered further from 1.3 per cent in December 2014 to 1.6 per cent in January 2015. The annual growth rate of the monetary base was 17.4 per cent in January 2015 compared with 9.0 per cent in December 2014.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in February 2015 were oversubscribed given the significant level of excess liquidity on the domestic money market. The bid-cover ratio was in the range of 3.2 to 4.1 compared to a range of 1.2 to 4.6 in January 2015. The weighted yields on 91-Day, 182-Day, 273-Day and 364-Day GMTBs declined during the month. The overall weighted yield on GMTBs decreased to 2.36 per cent in February 2015, from 2.82 per cent in January 2015. The auctions of the Three-Year GoM Treasury Notes (Reopening) and the Five-Year GoM Bonds (Reopening) were also oversubscribed with bid cover ratios of 2.4 and 2.9, respectively. In order to manage the excess liquidity, the Bank intervened on the domestic money market by accepting deposit placements from banks as part of its sterilized intervention.

The weighted average dealt selling rates[1] of the rupee depreciated, on average, against the US dollar and Pound sterling but appreciated against the euro between January and February 2015. The rupee exchange rates against the US dollar and Pound sterling averaged Rs33.163/USD and Rs50.946/GBP, respectively, in February 2015 compared to Rs32.447/USD

[1] 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.

and Rs49.319/GBP, respectively, in January 2015. The average rupee exchange rate against the euro appreciated from Rs37.735/EUR in January 2015 to Rs37.697/EUR in February 2015.

At the end of February 2015, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs125,815 million, from Rs119,887 million as at end-January 2015. The end-February 2015 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 2014, represented 6.4 months of imports, compared to 6.1 months as at end-January 2015.