

## OVERVIEW

### International Developments

**The global economic outlook remained fragile given higher downside risks to growth.** In the US, real GDP growth slowed sharply in 2015Q4 as both consumer and business expenditure fell and US exports were hurt by economic weakness in overseas markets. The minutes of the Federal Reserve's January 2016 meeting highlighted the increased risks facing the US economy amid a sharp fall in commodity prices and worries over Chinese growth performance. The Eurozone economy grew by 0.3 per cent in 2015Q4 in line with expectations, though economic growth for 2016 looked challenging with the sluggish global demand. The minutes of the February 2016 ECB's governing council meeting showed the current policy stance of the ECB "needed to be reviewed and possibly reconsidered" in March 2016 to boost flagging growth and weak inflation, amid fresh warnings about the outlook for the global economy. At its meeting on 4 February 2016, the Bank of England (BoE) Monetary Policy Committee unanimously kept borrowing costs unchanged at 0.5 per cent and asset purchase programme at £375 billion. UK's real GDP growth was confirmed at 0.5 per cent in 2015Q4 but the BoE downgraded its expectations for growth and inflation due to the gloomier global outlook.

**In February 2016, global currency markets were mainly influenced by risk aversion amid slowing global growth, and the falls in commodity prices and equities.** At the beginning of the month, the US dollar declined on the back of weak US economic data releases as well as dovish comments from a Federal Reserve official, which tempered expectations on the timing of future US interest rate increases. In her testimony before the US Congress, the Federal Reserve Chair Janet Yellen said that the Fed was unlikely to reverse its plan to raise interest rates further this year as the labour market and economy continued to improve, but said that tighter credit markets, volatile financial markets, and uncertainty over Chinese economic growth have raised risks for the US economy. The US currency recovered somewhat in the second half of the month. The euro traded at an average of US\$1.1113 compared to an average of US\$1.0865 in January 2016. The single currency was supported during the first half of the month given the US dollar's broad-based weakness but shed its earlier gains afterwards, as the ECB remained geared towards further monetary easing given poor economic data releases and deflation fears. The Pound sterling hit a 7-year low against the US dollar on worries about a possible British exit from the European Union. Moreover, weaker economic data pushed back the horizon for a

BoE interest rate rise. The Pound sterling traded at an average of US\$1.4306 in February 2016 compared to an average of US\$1.4413 in January 2016.

**Equity markets remained under pressure during February 2016 given their strong correlation with crude oil futures and fears of an economic slowdown in China.** The MSCI Developed Markets Index, MSCI Global Equity Index and MSCI Emerging Markets Index retreated by 4.9 per cent, 1.0 per cent and 0.3 per cent, respectively. The NASDAQ fell by 1.4 per cent while the Dow Jones gained 0.4 per cent. Among the European market indices, DAX and CAC-40 lost 3.1 per cent and 1.4 per cent, respectively, while the FTSE edged up by 0.2 per cent. The NIKKEI, Bombay SENSEX, Hang Seng, and Shanghai Exchange Composite fell by 8.5 per cent, 7.5 per cent, 2.9 per cent and 1.8 per cent, respectively, while JALSH increased by 0.6 per cent.

**Both international energy prices and food prices rose in February 2016.** Market reactions to news of a potential OPEC and non-OPEC supply freeze put some upward pressure on Brent crude oil spot prices in February 2016. ICE Brent Crude averaged US\$33.7 a barrel in February 2016, up from US\$31.9 a barrel in January 2016. The Food and Agriculture Organisation's (FAO) Food Price Index rose marginally from 150.0 points in January 2016 to 150.2 points in February 2016, or by 0.1 per cent, but was still 14.5 per cent lower than its level a year ago. The increase in the index resulted from a surge in vegetable oil prices, which more than offset the decline in the prices of sugar, dairy and cereal.

## **Domestic Developments**

**Tourist arrivals increased by 10.4 per cent, from 91,128 in February 2015 to 100,649 in February 2016.** This performance was led by higher growth in arrivals from Europe (18.7 per cent) with source countries like Germany and France recording growths of 31.8 per cent and 7.0 per cent, respectively. Tourist arrivals from Asia dropped by 3.9 per cent largely on account of the decline of 17.5 per cent in the number of visitors from China. For the first two months of 2016, tourist arrivals grew by 12.5 per cent to 219,075, from 194,734 in the corresponding period of 2015.

**Latest CPI data showed that inflationary pressures in the domestic economy subsided further in February 2016.** Headline inflation declined from 1.3 in January 2015 to 1.0 per cent in February 2016,

while year-on-year inflation fell from 0.4 per cent in January 2016 to -0.5 per cent in February 2016. The core measures of inflation remained at moderate levels in February 2016.

**The annual growth rate of Broad Money Liabilities (BML) accelerated in January 2016.** The year-on-year growth rate of BML rose to 10.5 per cent in January 2016, from 10.2 per cent in December 2015. Year-on-year growth in banks' credit went up from 4.2 per cent in December 2015 to 4.6 per cent in January 2016. The annual growth rate of the monetary base dropped to 8.1 per cent in January 2016, from 8.3 per cent in December 2015.

**All auctions of Government of Mauritius Treasury Bills (GMTBs) held in February 2016 were oversubscribed with tighter bid-cover ratios.** During February 2016, the Bank issued GMTBs for a total nominal amount of Rs6,800.0 million, of which Rs3,400.0 million was issued for liquidity management purposes. Over the same period, maturing GMTBs amounted to Rs4,718.2 million. Between end-January and end-February 2016, the weighted yields on 91-Day and 182-Day Bills increased by 23 basis points and 1 basis point, respectively, while the weighted yield on 364-Day Bills fell by 5 basis points. The overall weighted yield decreased by 66 basis points, from 3.18 per cent to 2.52 per cent.

**During February 2016, the Bank carried out auctions of Three-Year Government of Mauritius Notes and Ten-Year Government of Mauritius Bonds.** The Three-Year Notes auction was oversubscribed, with a bid-cover ratio of 1.9 compared to 1.3 for the previous new benchmark Treasury Notes auction held in November 2015. The weighted yield went down by 84 basis points to 3.72 per cent. The Ten-Year Government of Mauritius Bonds were also oversubscribed with a bid-cover ratio of 2.7 compared to 2.2 in September 2015. The weighted yield fell by 28 basis points to 5.75 per cent.

**As part of its open market operations, the Bank also conducted one auction of Four-Year BOM Notes for a total nominal amount of Rs1,500.0 million.** The auction was oversubscribed with a bid-cover ratio of 2.2 and the weighted yield decreased by 34 basis points to 3.95 per cent compared to the last issue effected in August 2015. To further absorb excess liquidity, the Bank conducted sterilised intervention during the month, issuing one-year Special Deposits for a total nominal amount of Rs1,193.2 million at the rate of 2.50 per cent. The total value of securities issued for sterilisation purpose during February 2016 amounted to Rs6,093.2 million.

**Between January and February 2016 and based on the weighted average dealt selling rate<sup>1</sup>, the rupee, on average, appreciated against the US dollar and the Pound sterling but depreciated vis-à-vis the euro.** The average rupee exchange rates were Rs35.815/USD, Rs39.801/EUR and Rs51.540/GBP in February 2016 compared to Rs36.175/USD, Rs39.371/EUR and Rs52.426/GBP, respectively, in January 2016.

**The Gross Official International Reserves (GOIR) of Mauritius stood at Rs157,644 million (equivalent to US\$4,408.6 million) at the end of February 2016, up from Rs154,969 million (equivalent to US\$4,303.6 million) at the end of January 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 8.0 months of imports as at end-February 2016, up from 7.8 months as at end-January 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.*