

OVERVIEW

International Developments

Economic growth in US and UK improved further in 2015Q2 while growth in the Eurozone remained modest. The US economy is estimated to have grown at an annual rate of 2.3 per cent in 2015Q2 while growth for 2015Q1 was revised up to 0.6 per cent from an initial reading of negative 0.2 per cent. The Federal Open Market Committee, at its meeting on 28-29 July 2015, kept its policy stance unchanged and stated that the US economy and job market continued to strengthen, ramping up expectations of an interest rate hike in September 2015. Euro zone growth and inflation remained relatively modest. The European Central Bank (ECB) held its main refinancing rate unchanged at 0.05 per cent and the €1 trillion sovereign-bond buying programme steady. In the UK, recent economic data releases suggested that economic growth firmed further in 2015Q2. At its meeting on 8 July 2015, the Bank of England's (BoE) Monetary Policy Committee unanimously maintained both its Bank Rate and asset purchase programme unchanged at 0.5 per cent and £375 billion, respectively. BoE's Governor Mark Carney suggested that a rise in interest rates was nearing due to the ongoing progress in economic recovery.

Currency markets remained influenced by the divergent outlook between the US and European monetary policy stances, as investors refocused on economic fundamentals. At the start of July 2015, the US dollar strengthened on account of risk aversion from the Greek debt crisis and the collapse in Chinese equity prices, adding support to the safe haven appeal of the US currency. The US dollar was further reinforced after the Fed Chair Janet Yellen reiterated that US interest rates would probably be lifted later in the year and strong US economic data reinforced that view. Thereafter, the US currency lost some ground on profit taking following a drop in US share prices and bond yields. The euro weakened on Greek debt worries after the ECB tightened lending conditions for Greek banks. Towards the end of the month, the single currency recouped some of its losses after Greek authorities agreed to a debt deal with its creditors and the ECB provided greater liquidity to Greece's banking sector. The euro traded at an average of US\$1.1002 in July 2015 – having touched an intra-month low of US\$1.0820 – compared to an average US\$1.1214 in June 2015. The British currency fell at the start of the month on broad-based strength of the US dollar amid

mounting risk aversion. But, towards the end of the month, the Pound sterling recovered on better economic data releases and the expectations of a rate hike by the BoE towards the end of year. The Pound sterling traded at an average of US\$1.5561 in July 2015 – having touched an intra-month low of US\$1.5389 – compared to an average US\$1.5559 in June 2015.

During July 2015, the performance of equity markets was better for developed markets than for emerging markets while volatility indices dropped after the “Grexit” was averted. The MSCI Global Equity Index went up by 1.7 per cent whereas the MSCI Emerging Markets Index dropped by 7.3 per cent. The NASDAQ and Dow Jones rose by 2.8 per cent and 0.4 per cent, respectively. Among the European market indices, CAC-40, DAX and FTSE gained 6.1 per cent, 3.3 per cent and 2.7 per cent, respectively. The NIKKEI and JSE All Share Index (JALSH) rose by 1.7 per cent and 0.5 per cent, respectively. The Shanghai Exchange Composite and Hang Seng retreated by 14.3 per cent and 6.1 per cent, respectively, whereas the Bombay SENSEX rose by 1.2 per cent.

Both international energy prices and food prices declined in July 2015. Global oil prices fell on average in July 2015, reflecting concerns about lower economic growth in emerging markets and on-going build-up in global petroleum inventories. ICE Brent Crude averaged US\$56.7 a barrel in July 2015, down from US\$63.8 a barrel in June 2015. NYMEX WTI (West Texas Intermediate crude oil) averaged US\$51.2 a barrel in July 2015, down from US\$59.9 a barrel in June 2015. The Food and Agriculture Organisation's (FAO) Food Price Index continued to decline in July 2015, reaching its lowest level since September 2009 on account of ample supplies. The July 2015 FAO Price Index averaged 164.6 points, down by 1.0 per cent from June 2015 and as much as 19.4 per cent below its level a year earlier.

Domestic Developments

Tourist arrivals increased by 8.3 per cent to 65,459 in June 2015, from 60,445 a year earlier. The year-on-year growth in arrivals for June 2015 reflected mainly increases from Europe (+6.4 per cent) and Asia (+27.1 per cent). Gross tourism earnings dropped by 12.0 per cent, from Rs3,376 million in June 2014 to Rs2,971 million in June 2015. For the twelve-month period ended June 2015,

tourism earnings rose by 5.9 per cent while tourist arrivals recorded an increase of 6.9 per cent compared to the corresponding period of 2014.

Latest CPI data released by Statistics Mauritius showed that inflationary pressures in the domestic economy remained contained in July 2015. Headline inflation went down from 1.7 per cent in June 2015 to 1.5 per cent in July 2015, while y-o-y inflation rose to 0.6 per cent in July 2015, from 0.4 per cent in June 2015. The core measures of inflation remained subdued in July 2015.

Monetary aggregates grew at a faster pace in June 2015. Monetary expansion, measured by the year-on-year growth rate in Broad Money Liabilities (BML), accelerated to 10.6 per cent in June 2015, from 10.0 per cent in May 2015. The annual growth in banks' credit rose from 2.5 per cent in May 2015 to 2.7 per cent in June 2015. The annual growth rate of monetary base rose to 15.2 per cent in June 2015, from 13.1 per cent in May 2015.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) that were held in July 2015 were oversubscribed and reflected a high bid-cover ratio and the lingering excess liquidity. The bid-cover ratio ranged from 3.4 to 4.1, as compared to a range of 2.1 to 4.6 in June 2015. The weighted yields of the 91-Day and 182-Day GMTBs went down during the month while the weighted yield for the 364-Day GMTB increased. The overall weighted yield on GMTBs increased marginally to 1.79 per cent in July 2015, from 1.78 per cent in June 2015. The auctions for the Three-Year GoM Treasury Notes (Re-opening) and the Fifteen-Year GoM Bonds were also oversubscribed with bid-cover ratios of 2.5 and 1.8, respectively. In order to absorb the excess liquidity in the system, the Bank conducted three auctions of Four-Year Bank of Mauritius Notes during the month for a total nominal amount of Rs2.0 billion.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar and Pound sterling, but appreciated against the euro between June and July 2015. The average rupee exchange rates against the US dollar, the euro and Pound sterling were Rs35.541/USD, Rs39.165/EUR and Rs55.623/GBP in July 2015 compared to Rs35.211/USD, Rs39.550/EUR and Rs55.050/GBP, respectively, in June 2015. 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 Rs138,325 million at the end of June 2015 to Rs141,742 million at the end of July 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-July 2015 level of gross official international reserves of the country represented 7.1 months of imports, compared to 7.0 months as at end-June 2015.