

OVERVIEW

International Developments

In March 2014, the US dollar depreciated against the euro and Pound sterling but appreciated against the Japanese yen. The US currency was under pressure against major currencies at the start of the month following the downward revision of the US fourth-quarter 2013 economic growth rate to 2.4 per cent from an estimated 3.2 per cent. This combined with other weak economic data releases fuelled expectations that the US Federal Reserve could temporarily halt its tapering plan, causing investors to reduce long positions on the US dollar in the first half of the month. Russia's warning of dropping the US dollar as a reserve currency over the crisis in Ukraine also impacted negatively on the US dollar. However, the US dollar got a boost after Fed Chief Janet Yellen hinted, following the Federal Open Market Committee (FOMC) meeting on 19 March 2014, that the Fed's stimulus program might end later this year followed by a sooner-than-expected rise in interest rates in 2015. Towards the end of the month, the US dollar rose further on strong economic data from the US.

The euro appreciated against the US dollar, trading at an average of US\$1.3827 in March 2014 compared to an average of US\$1.3659 in February 2014. In the first half of March 2014, the euro gained support after the European Central Bank (ECB) indicated that banks in the region would repay a large amount of their emergency three-year loans. On 6 March 2014, the ECB kept its key refinancing rate unchanged and highlighted signs of a continuing modest recovery in the euro zone. ECB President Mario Draghi said that economic conditions in the region did not require any shift in monetary policy. The ECB's apparent lack of concern over the impact of a strong euro on deflation further boosted the single currency, which touched an intra-month high of US\$1.3937 on 13 March 2014. Thereafter, the common currency shed some of its earlier gains on the US dollar's broad-based strength and a drop in German business sentiment. The euro dropped to US\$1.3704 at the end of the month.

The Pound sterling strengthened against the US dollar in March 2014, trading at an average of US\$1.6619 compared to an average of US\$1.6561 in February 2014. The UK currency started

the month on a weak note as the rise in UK industrial production for January 2014 was below expectations. On 6 March 2014, as widely expected, the Bank of England (BoE) maintained the extent of its bond-buying and kept its Bank Rate unchanged at 0.5 per cent. The Pound sterling hit an intra-month high of US\$1.6746 on 7 March 2014 as signs of increased economic activity raised expectations that the BoE might begin to hike rate next year. The Pound sterling then fell, reaching an intra-month low of US\$1.6487 on 24 March 2014, as the US dollar gained in international markets. Towards the end of the month, the Pound sterling recouped some of its losses against the US dollar on good UK retail sales data and comments about the favourable prospects for the UK economy. The Pound sterling closed the month at US\$1.6618.

In March 2014, global equity markets posted a mixed performance on the back of the uncertainties in the global economy. Signs of economic slowdown in China combined with mixed economic data from the US and tensions from the Ukraine crisis brought some volatility in global financial markets. The MSCI Emerging Market and Developed Market indices rose by 2.9 per cent and 3.0 per cent, respectively while the MSCI Global Equity index fell by 0.1 per cent. European indices, namely the CAC 40, DAX and FTSE100 fell by 0.38 per cent, 1.4 per cent and 3.1 per cent, respectively. In the US, the S&P 500 and DJIA increased by 0.7 per cent and 0.8 per cent, respectively, while the NASDAQ fell by 2.5 per cent. Among emerging markets, the JALSH and the Bombay SENSEX gained 0.9 per cent and 6.0 per cent, respectively while the Shanghai Stock Exchange Composite Index and Hang Seng fell by 1.1 per cent and 3.0 per cent, respectively. The Nikkei 225 dropped by 0.09 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$100.5 a barrel in March 2014, down from US\$100.7 a barrel in February 2014. ICE Brent Crude averaged US\$107.7 a barrel during the month under review, down from US\$108.8 a barrel in February 2014. NYMEX and ICE Brent Crude touched intra-month highs of US\$104.9 and US\$111.2 a barrel, respectively, on 3 March 2014.

COMEX gold futures, on average, rose from US\$1,301.0/Oz in February 2014 to US\$1,336.4/Oz in March 2014 and traded in an intra-month closing range of US\$1,283.4/Oz - US\$1,379.0/Oz compared to US\$1,251.7/Oz - US\$1,343.0/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,379.0/Oz on 14 March 2014.

Domestic Developments

February 2014 data on tourist arrivals showed a decrease of 2.7 per cent to 78,984 from 81,185 a year earlier. Gross tourism receipts rose by 7.7 per cent, from Rs3,501 million in February 2013 to Rs3,769 million in February 2014. For the period March 2013 to February 2014, tourist arrivals increased by 3.4 per cent to 994,343 from 961,352 recorded over the previous corresponding period. Gross tourism receipts for the period March 2013 to February 2014 decreased by 6.2 per cent to Rs40,314 million from Rs43,000 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) fell from 108.5 in February 2014 to 107.7 in March 2014. The fall in the index between February 2014 and March 2014 was attributable to vegetables and other goods and services, which registered decreases of 0.8 index point and 0.1 index point, respectively, more than offsetting the increase of 0.1 index point in motor vehicles. Division-wise, the largest decrease was registered in 'Food and non alcoholic beverages', which contributed 0.8 index point to the decrease of the CPI.

The rate of inflation for the twelve-month period ended March 2014 stood at 4.0 per cent, up from 3.9 per cent for the twelve-month period ended February 2014. Year-on-year inflation rate went down from 5.6 per cent in February 2014 to 4.5 per cent in March 2014.

CORE1 and CORE2 inflation for the twelve-month period ended March 2014 were unchanged at 2.9 per cent and 2.7 per cent, respectively, relative to the twelve-month period ended February 2014. TRIM10 inflation, which trims 5% of the most volatile items in the CPI on both sides of the distribution, edged up from 3.2 per cent in February 2014 to 3.3 per cent in March 2014.

Net foreign assets of depository corporations rose by Rs3,045 million, or 0.8 per cent, from Rs371,419 million at the end of January 2014 to Rs374,464 million at the end of February 2014. Net foreign assets of the Bank of Mauritius increased by Rs5,623 million to Rs108,544 million at

the end of February 2014 while the net foreign assets of the other depository corporations fell by Rs2,578 million to Rs265,920 million at the end of February 2014.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs3,213 million, or 0.7 per cent, from Rs432,659 million at the end of January 2014 to Rs435,872 million at the end of February 2014. Net claims on Central Government rose by Rs757 million, or 2.2 per cent, from Rs34,060 million at the end of January 2014 to Rs34,818 million at the end of February 2014. Claims on other sectors increased by Rs2,456 million, or 0.6 per cent, to Rs401,054 million in February 2014.

Broad Money Liabilities (BML) went up by Rs4,086 million, or 1.1 per cent, from Rs364,981 million at the end of January 2014 to Rs369,067 million at the end of February 2014.

The monetary base increased by Rs5,423 million, or 9.2 per cent, from Rs58,669 million at the end of January 2014 to Rs64,092 million at the end of February 2014. Currency in circulation decreased by Rs398 million, or 1.0 per cent, from Rs27,336 million to Rs26,937 million whereas liabilities to other depository corporations rose by Rs5,798 million, or 18.5 per cent, from Rs31,264 million to Rs37,062 million.

During the month of March 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,500.0 million through the auctions of single maturity instruments. For the month, there was a net redemption of Treasury Bills to the tune of Rs200.0 million compared to Rs1,277.0 million in February 2014.

All auctions of the GMTBs were oversubscribed with the bid cover ratio ranging between 3.23 and 4.50 reflecting the level of excess liquidity prevailing in the system. Four auctions, one for each of 91-Day, 182-Day, 273-Day and 364-Day GMTBs, were held during the month of March 2014.

On a point-to-point basis, the weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day GMTBs at the respective last auction held in March 2014 decreased by 26, 13, 17 and 16 basis

points, respectively, relative to the respective last auction held in February 2014. The weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day GMTBs stood at 2.78 per cent, 3.07 per cent, 3.05 per cent and 3.30 per cent, respectively, in March 2014. The overall weighted yield on GMTBs in March 2014 decreased to 3.05 per cent from 3.23 per cent in February 2014.

The benchmark 4.50% Three-Year Government of Mauritius Treasury Notes (GMTN) due 20 January 2017, was re-opened for a nominal amount of Rs1,400.0 million, through an auction held on Wednesday 19 March 2014 for settlement on Friday 21 March 2014. The auction was oversubscribed with bid yields ranging from 4.19 per cent to 4.99 per cent. Bids for a total nominal amount of Rs4,040.0 million were received and a nominal amount of Rs1,400.0 million was accepted, with a highest yield of 4.32 per cent and a weighted yield of 4.28 per cent. An additional amount of Rs1.0 billion nominal GMTN was accepted at the weighted yield of 4.28 per cent.

An issue of Fifteen-Year Government of Mauritius Bonds due 7 March 2029 was held through auction on 5 March 2014 for issue on 7 March 2014. Out of the 59 bids received for a total nominal amount of Rs3,296.0 million, 32 bids were accepted for the full tender amount of Rs1,400.0 million. The lowest yield received and the highest yield accepted stood at 6.95 per cent and 7.90 per cent, respectively, whilst the weighted yield on accepted bids was 7.60 per cent. The coupon rate, based on market-determined rates, was set at 6.95 per cent.

To manage the excess liquidity prevailing in the banking system, Bank of Mauritius Securities for a total nominal amount of Rs3,070.0 million were issued during the month against Rs730.0 million nominal maturing.

During the month under review, the amount transacted by primary dealers on the secondary market increased from Rs527.2 million in February 2014 to Rs830.0 million. No sale of Government Securities was carried out over the counter at the Bank to members of the public.

Transactions on the overnight interbank money market in March 2014 totalled Rs1,660 million compared to Rs6,385 million in February 2014. The daily average amount transacted dropped to Rs111 million in March 2014 from a daily average of Rs228 million in February

2014. Transactions with a high of Rs260 million and a trough of Rs10 million were recorded in March 2014. The weighted average overnight interbank rate fell to 2.35 per cent in March 2014 from 2.60 per cent in February 2014.

In March 2014, the Bank intervened on the domestic foreign exchange market and purchased an equivalent amount of US\$85.8 million whilst it sold US\$30.7 million to its customers.

The weighted average dealt selling rates of the rupee, which are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies, conducted by banks, foreign exchange dealers and the Bank of Mauritius depreciated, on average, against the Euro but appreciated against the US dollar and Pound sterling between February and March 2014.

At the end of March 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs110,261 million, from Rs108,445 million as at end-February 2014. The end-March 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 5.6 months of imports, compared to 5.5 months as at end-February 2014.