

OVERVIEW

International Developments

US economic data releases were mixed in March 2015 while the European Central Bank (ECB) started its long-awaited quantitative easing programme. The US Federal Reserve, at its FOMC meeting in March 2015, trimmed its forecasts for inflation and growth, and stated that unemployment could fall further without risking any spike in inflation. The Fed, however, also indicated that it would adopt a cautious approach while considering any hike in interest rate in future. At its meeting on 5 March 2015, the European Central Bank (ECB) left interest rates on hold at record lows just above zero but lifted its growth forecast for 2015 to 1.5 per cent, from 1.0 per cent predicted in December 2014. The UK economy grew at a faster pace of 2.8 per cent in 2014 compared to the earlier estimate of 2.6 per cent while better-than-expected economic data were released in March 2015. The Bank of England (BoE) Monetary Policy Committee, on 17 March 2015, kept both the Bank Rate and its asset purchase programme unchanged. The BoE Governor Mark Carney signalled that there was no rush to raise interest rates, and that the Bank was expected to make limited but gradual increases in rates over the next three years as inflation would return to target within two years.

Currency markets were mostly volatile during March 2015 and were influenced by the monetary policy decisions of the major central banks. The US dollar was bolstered amid the diverging monetary policy outlook in the United States compared to other major economies and worries about slower growth in China. Thereafter, the US currency surrendered some of its earlier gains as the Fed unexpectedly downgraded the outlook for the US economy and pushed back expectations of an early interest rate hike. The ECB's activation of the long-awaited €1.1 trillion bond-buying programme to tackle slowing growth and deflationary pressures pushed bond yields of nearly all the Euro zone countries to record lows, which drove investors away from the euro. Greece's failure to reach agreement with its European creditors to unlock bailout funds also weighed on the single currency. The euro traded at an average of US\$1.0850 in March 2015 – having touched an intra-month low of US\$1.0536 – compared to US\$1.1360 in February 2015. The British currency was undermined against the US dollar, as investors pushed back expectations of interest rate hikes amid speculation that inflation in Britain would stay low for some time to come as well as by worries over the outcome of the national elections in early May

2015. The Pound sterling traded at an average of US\$1.4991 in March 2015 – having touched an intra-month low of US\$1.4754 – compared to US\$1.5331 in February 2015.

Equity markets surrendered some of their previous gains mainly on fears of slowing global growth and profit-taking. The MSCI Global Equity Index, MSCI Developed Markets Index and MSCI Emerging Markets Index lost 1.8 per cent, 0.4 per cent and 1.6 per cent, respectively. The NASDAQ and Dow Jones fell by 1.3 per cent and 1.9 per cent, respectively. Among the European market indices, FTSE decreased by 2.5 per cent while CAC-40 and DAX shed 1.7 per cent and 4.9 per cent, respectively. The Nikkei, Shanghai Exchange Composite and Hang Seng rose by 2.2 per cent, 13.2 per cent and 0.3 per cent, respectively while Bombay SENSEX retreated by 4.3 per cent.

Commodity prices declined further in March 2015. Global oil prices fell, reflecting abundant world crude oil supply and weak global demand. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US\$47.8 a barrel in March 2015, down from US\$50.8 a barrel in February 2015. ICE Brent Crude averaged US\$56.8 a barrel in March 2015, down from US\$58.9 a barrel in February 2015. The Food and Agriculture Organisation's (FAO) Food Price Index reached its lowest value in almost five years given the ample supply of most food commodities. The March 2015 FAO Price Index averaged 173.8 points, down by 1.5 per cent from February 2015 and by 18.7 per cent compared to March 2014.

Domestic Developments

Tourist arrivals increased by 15.4 per cent to 91,128 in February 2015, from 78,984 a year earlier. The year-on-year growth in arrivals for February 2015 reflected mainly increases from Europe (+10.6 per cent) and Asia (+44.7 per cent). Gross tourism earnings dropped by 6.2 per cent, from Rs3,769 million in February 2014 to Rs3,534 million in February 2015. For the twelve-month period ended February 2015, tourism earnings rose by 9.7 per cent while tourist arrivals recorded an increase of 6.4 per cent compared to the corresponding period of 2014.

Latest CPI data released by Statistics Mauritius showed that inflationary pressures on the domestic economy moderated further in March 2015. Headline inflation edged down from

2.5 per cent in February 2015 to 2.4 per cent in March 2015. However, y-o-y inflation rose to 2.2 per cent in March 2015, from 2.0 per cent in February 2015. The core measures of inflation remained subdued in March 2015.

The annual growth rate of broad money liabilities stood unchanged at 9.6 per cent in February 2015 while banks' credit slowed from 1.6 per cent in January 2015 to 1.2 per cent in February 2015. The annual growth rate of monetary base stood at 9.9 per cent in February 2015, compared to 17.4 per cent in January 2015.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in March 2015 were oversubscribed as reflected by a higher bid-cover ratio and falling yields. Mirroring the excess liquidity in the banking system, the bid-cover ratio was in the range of 3.5-4.6 in March 2015 compared to 3.2-4.1 in February 2015. The overall weighted yield on GMTBs decreased to 1.88 per cent in March 2015, from 2.36 per cent in February 2015. The auctions for the Three-Year GoM Treasury Notes (Reopening) and the Fifteen-Year GoM Bonds were also oversubscribed with bid-cover ratios of 3.5 and 3.6, respectively. To contain the excess liquidity, the Bank conducted sterilised intervention in the domestic foreign exchange market via the placement of deposits with the Bank.

The weighted average dealt selling rates¹ of the rupee depreciated, on average, against the US dollar, euro and Pound sterling between February and March 2015. The average rupee exchange rates against the US dollar, the euro and Pound sterling were Rs35.711/USD, Rs38.784/EUR and Rs53.619/GBP in March 2015 compared to Rs33.163/USD, Rs37.697/EUR and Rs50.946/GBP, respectively, in February 2015. 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.

The gross foreign exchange reserves of the Bank of Mauritius increased from Rs125,815 million at the end of February 2015 to Rs138,778 million at the end of March 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-

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March 2015 level of gross official international reserves of the country represented 7.0 months of imports, compared to 6.4 months as at end-February 2015.