

OVERVIEW

International Developments

The US economy contracted at an annualized rate of 0.7 per cent in the first quarter of 2015, whereas the Euro zone economy and the UK posted growth of 0.4 per cent and 0.3 per cent, respectively, during 2015Q1. Economic data releases in the US were rather mixed during May 2015. Janet Yellen, the Chair of the US Federal Reserve stated that the US was “well-positioned” for continued growth even if the expansion was likely to be moderate on account of a slow improvement in the housing market, modest business investment and persistent weakness in the energy sector. In the Euro zone, Germany’s GDP growth was below expectations, while some weaker southern economies unexpectedly recorded better growth. The European Central Bank (ECB) reassured markets about its commitment to fully implement the massive bond-buying program. In the UK, the low growth rate recorded in the first quarter of 2015, casted doubt on the strength of Britain's previous robust recovery. At its meeting on 11 May 2015, the Bank of England’s (BoE) Monetary Policy Committee, unanimously kept the Bank Rate at 0.5 per cent and its asset purchase programme unchanged at £375 billion amid low inflation and the slack labour market. The BoE cut its 2015 growth forecast and pointed out that interest rates would increase in around a year's time.

Currency markets in May 2015 were influenced by the contrast in monetary policy outlook of major central banks and economic data releases in major economies. At the start of the month, the US dollar was on the defensive after US trade deficit widened unexpectedly and private sector job growth slowed in April 2015. This prompted investors to scale back their expectations of a US rate hike to September 2015, which lowered US debt yields. Thereafter, the US currency rallied after stronger-than-expected underlying US inflation, consumer confidence and new home sales data, which bolstered the case for a hike in interest rate towards year-end. The euro, which was initially supported by rising German 10-year Bund yields, shed its gains in the second half of the month on the back of ongoing anxiety over Greece's debt crisis and ECB’s accommodative monetary policy. The euro traded at an average of US\$1.1164 in May 2015 – having touched an intra-month low of US\$1.0906 – compared to US\$1.0792 in April 2015. The British currency rallied after the centre-right conservatives won the general elections with an overall majority. However, the Pound surrendered some of its gains amid the dovish stance of the BoE and worries about a possible "Brexit" from the European Union. The

Pound sterling traded at an average of US\$1.5476 in May 2015 – having touched an intra-month low of US\$1.5124 – compared to US\$1.4935 in April 2015.

During May 2015, equity markets performances were rather positive for advanced economies, reflecting their ultra-loose monetary policies and better economic data while emerging markets' results were mixed on the back of concerns about the growth in China. The MSCI Global Equity Index and MSCI Developed Markets Index went up by 0.1 per cent and 4.6 per cent, respectively while MSCI Emerging Markets Index shed 4.6 per cent. The NASDAQ and Dow Jones rose by 2.6 per cent and 1.0 per cent, respectively. Among the European market indices, FTSE gained 0.3 per cent while CAC-40 lost 0.8 per cent. NIKKEI increased by 5.3 per cent. The Shanghai Exchange Composite and Bombay SENSEX rose by 3.8 per cent and 3.0 per cent, respectively while Hang Seng and JALSH retreated by 2.5 per cent and 4.0 per cent, respectively.

International energy prices firmed up while food prices declined further in May 2015. Global oil prices rose in May 2015, reflecting expectations of a higher global oil demand growth and the growing risk of unplanned supply outages in the Middle East and North Africa. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US\$59.4 a barrel in May 2015, up from US\$54.5 a barrel in April 2015. ICE Brent Crude averaged US\$65.6 a barrel in May 2015, up from US\$61.0 a barrel in April 2015. In May 2015, the Food and Agriculture Organisation's (FAO) Food Price Index reached its lowest value since September 2009 amid a favourable outlook for this year's harvests. The May 2015 FAO Price Index averaged 166.8 points, down 1.4 per cent from April 2015 and 20.7 per cent below its level a year earlier.

Domestic Developments

Tourist arrivals maintained momentum in April 2015, rising by 2.2 per cent to 90,327 in April 2015, from 88,404 a year earlier. The year-on-year growth in arrivals for April 2015 reflected mainly increases from Asia (+21.9 per cent) and America (+12.7 per cent). Gross tourism earnings decreased by 5.5 per cent, from Rs3,886 million in April 2014 to Rs3,671 million in April 2015. For the twelve-month period ended April 2015, tourism earnings rose by 11.1 per cent while tourist arrivals recorded an increase of 6.6 per cent compared to the corresponding period of 2014.

Latest CPI data released by Statistics Mauritius showed that inflationary pressures in the economy eased further in May 2015. Headline inflation went down from 2.2 per cent in April 2015 to 2.0 per cent in May 2015, while y-o-y inflation subsided to 0.5 per cent in May 2015, from 2.1 per cent in April 2015. The core measures of inflation remained at moderate levels in May 2015.

Monetary aggregates grew at a slightly lower pace in April 2015, albeit posting double-digit growth. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), slowed to 10.0 per cent in April 2015, from 10.5 per cent in March 2015 while growth in banks' credit fell from 2.6 per cent in March 2015 to 1.6 per cent in April 2015. The annual growth rate of monetary base stood at 21.1 per cent in April 2015 compared with 17.8 per cent in March 2015.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) were oversubscribed in May 2015 and were characterised by a high bid-cover ratio and falling overall weighted yields mirroring the excess liquidity in the banking system. The bid-cover ratio ranged between 2.1 and 4.4 compared to 3.0 and 4.6 in April 2015. The weighted yields of the 91-Day and 182-Day declined during the month while the weighted yields for the 273-Day and 364-Day maturities of GMTB increased following the issue of Bank of Mauritius Securities. The overall weighted yield on GMTBs decreased to 1.44 per cent in May 2015, from 1.47 per cent in April 2015. The auctions for the Ten Year GoM Bonds and Fifteen Year Inflation Indexed GoM Bonds were also oversubscribed with bid cover ratios of 2.0 and 2.4, respectively.

In order to contain the growing excess liquidity in the banking system, the Bank conducted two auctions for Bank of Mauritius Notes with maturities of two and three years during May 2015 for a total nominal amount of Rs6.0 billion. It may be noted that the Bank has embarked on a programme of effective liquidity management in the banking system since 18 May 2015¹.

Between April and May 2015, the weighted average dealt selling rates of the rupee appreciated, on average, against the US dollar, but, depreciated against the euro and Pound sterling. The average rupee exchange rates against the US dollar, the euro and Pound sterling were

¹ [Please refer to News Release dated 21 May 2015.](#)

Rs35.105/USD, Rs39.226/EUR and Rs54.551/GBP in May 2015 compared to Rs36.152/USD, Rs39.084/EUR and Rs54.256/GBP, respectively, in April 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 Rs137,255 million at the end of April 2015 to Rs137,874 million at the end of May 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-May 2015 level of gross official international reserves of the country represented 7.0 months of imports, up from 6.9 in end-April 2015.