OVERVIEW

International Developments

In the United States, a fairly strong economic expansion with solid job growth, little inflation and falling unemployment raised the prospects of an interest rate hike by the US Federal Reserve in the first half of 2015. The Federal Open Market Committee (FOMC), at its meeting on 16-17 September 2014, announced another consecutive cut in its asset purchases by US$10 billion to US$15 billion. However, the Fed left its federal funds rate unchanged and signaled its plans to keep short-term rates low "for a considerable time" after it ends the monthly bond purchases in October 2014, as long as inflation remains under control.

A stagnating Eurozone economy and a persisting deflation threat combined with a dovish policy stance of the European Central Bank (ECB) weighed on the single currency in September 2014. On 4 September 2014, in a move that surprised financial markets, the ECB cut its key refinancing rate by 10 basis points to 0.05 per cent and announced new stimulus measures to support the Eurozone economy. The stimulus measures, which consist of buying financial assets from banks, are expected to add liquidity to the financial system and revive lending.

In the United Kingdom, the release of weak data added to doubts over the robustness of the economy. As widely expected, the Bank of England (BoE) Monetary Policy Committee, at its meeting on 4 September 2014, maintained the bank rate unchanged at 0.5 per cent and its bond-buying program at GBP375 billion. The Pound sterling was also undermined by the potential impact of a Scottish vote for independence. The Pound sterling bounced briefly following the release of better-than-expected data on industrial output and after BoE Governor Mark Carney said that an interest rate rise was possible next spring.

Currency movements on the international foreign exchange market throughout September 2014 reflected the sustained strength of the US dollar against the euro and Pound sterling. The euro depreciated against the US dollar trading at an average of US$1.2912 in September

2014 compared with an average of US$1.3318 in August 2014 while the Pound sterling dropped from an average of US$1.6709 in August 2014 to US$1.6315 in September 2014. The euro and Pound sterling fell to intra-month lows of US$1.2670 on 29 September 2014 and US1.6075 on 9 September 2014, respectively.

Weak economic data releases in Europe and emerging economies amid rising volatility in US interest rates and heightened geopolitical tensions pulled global equity markets down in September 2014. The MSCI Emerging Markets Index and MSCI Global Equity Index fell by 7.6 per cent and 2.9 per cent, respectively. The NASDAQ, S&P 500 and Dow Jones lost 1.9 per cent, 1.6 per cent and 0.3 per cent, respectively. In Europe, the CAC 40 rose by 0.8 per cent, while the FTSE 100 dropped by 2.9 per cent and the DAX remained unchanged. The Nikkei increased by 4.9 per cent. The Bombay SENSEX remained unchanged and the Shanghai Stock Exchange Composite Index rose by 7.0 per cent while the JALSH lost 3.2 per cent. The Hang Seng tumbled by 7.3 per cent on civil unrest in Hong Kong.

International energy prices and food prices both remained on a declining trend during September 2014. The resumption of significant Libyan oil production combined with the weakening outlook for global oil demand exerted downward pressure on global oil prices. Crude oil NYMEX WTI (West Texas Intermediate crude oil) declined from an average of US$96.0 a barrel in August 2014 to US$93.1 a barrel in September 2014. Over the same period, ICE Brent Crude fell from an average of US$103.6 a barrel to US$98.6 a barrel. The Food and Agriculture Organisation's (FAO) Food Price Index decreased further in September 2014 on expectations of improved supply prospects in the current and forthcoming seasons. The September slide brought the value of the index to its lowest level since August 2010. According to the latest edition of FAO's biannual Food Outlook report, 'global markets for most foodstuffs were characterized by abundant supplies and less uncertainty than in recent years'.

Domestic Developments

In its September 2014 National Accounts update, Statistics Mauritius maintained its forecast of annual GDP growth of 3.5 per cent for 2014, although there were some changes

at sectoral level between the June 2014 and the September 2014 forecasts. "Manufacturing' was expected to perform better with an improved growth rate of 1.9 per cent compared with the previous forecast of 1.7 per cent. 'Public administration and defense; compulsory social activity' is also expected to grow by a higher rate of 3.1 per cent, compared with the 2.0 per cent earlier projection. Weak economic conditions in the construction sector continued to prevail with real activity forecast to decline by 6.7 per cent in 2014 – an almost 2 percentage point change from the June 2014 forecast of negative 4.8 per cent.

Real GDP growth in 2014 is expected to reflect a positive contribution of external demand and final consumption to output growth, with growth of gross domestic fixed capital formation (GDFCF) projected to be negative. In 2014, final consumption is expected to grow, in real terms, by 2.7 per cent compared with 2.3 per cent in 2013. GDFCF is forecast to decline for the third consecutive year, by 1.0 per cent in 2014, following the 3.3 per cent contraction in 2013.

Despite subdued economic conditions, the unemployment rate fell from 8.0 per cent in 2014Q1 to 7.8 per cent in 2014Q2. On a seasonally-adjusted basis, the unemployment rate, however, remained unchanged at 7.4 per cent in 2014Q2 from the previous quarter. The unemployment rate is forecast to decrease to 7.8 per cent in 2014, from 8.0 per cent in 2013.

Tourist arrivals rose by 6.8 per cent year-on-year in August 2014 to 78,475, from 73,454 in August 2013. Tourist arrivals are continuously being propped up by an increase in arrivals from Europe (+12.8 per cent) and Asia (+8.1 per cent), with China recording a growth of 37.0 per cent. For the period January to August 2014, tourist arrivals stood at 651,107, or a growth of 4.6 per cent over the corresponding period of 2013. Gross tourism earnings rose to Rs3,363 million in August 2014, from Rs2,327 million in August 2013, representing a growth of 44.5 per cent. For the period January to August 2014, tourism earnings rose by 9.0 per cent to Rs29,177 million, from Rs26,760 million in the corresponding period of 2013.

Latest CPI data released by Statistics Mauritius showed that headline inflation remained broadly stable in September 2014, while y-o-y inflation fell significantly after prices of vegetables in the CPI basket slumped. The lower CPI in September 2014 was also due to downward changes in the price indices of motor vehicles, gasoline and ‘other goods and services’. Together, these changes more than offset the increase in the price index of ‘other food products’. The core measures of inflation remained at moderate levels in September 2014.

Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), continued to remain subdued, albeit showing a slight pick-up, in August 2014, while growth in banks’ credit continued to slow down in August 2014, reflecting decelerating economic activity. The annual growth rate of the monetary base was 29.3 per cent in August 2014 compared with 19.7 per cent in July 2014. The growth reflected mainly increases in liabilities to ‘Other Depository Corporations’ (reserve deposits) and currency in circulation.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) were oversubscribed in September 2014 with the bid-cover ratio ranging between 2.0 and 3.3, reflecting the significant excess liquidity prevailing in the banking system. The weighted yields for the three maturities issued during the month increased. Consequently, the overall weighted yield on GMTBs increased to 1.71 per cent in September 2014, from 1.17 per cent in August 2014. The auctions for the benchmark Three-Year GoM Treasury Notes (Re-opening) and the Five-Year GoM Bonds were also oversubscribed with bid-cover ratios at 3.0 and 4.8, respectively.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar but appreciated against the euro and Pound sterling between August and September 2014. The rupee depreciated from Rs30.730/USD to Rs31.274/USD but strengthened against the euro and Pound sterling from Rs40.936/EUR and Rs51.491/GBP to Rs40.421/EUR and Rs51.156/GBP, respectively, between August and September 2014. 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, foreign exchange dealers and the Bank of Mauritius.

At the end of September 2014, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs120,717 million from Rs123,218 million as at end-August 2014. The fall was attributable to valuation changes combined with net sales by the Bank on the domestic foreign exchange market and government external debt servicing. The end-September 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 6.1 months of imports compared to 6.2 months as at end-August 2014.