

OVERVIEW

International Developments

Economic growth in the US and UK continued to be relatively more robust than in the euro zone while advanced economies' central banks maintained their accommodative policy stance.

The US economy grew at an annual rate of 3.9 per cent in 2015Q2, faster than previously estimated. The US Federal Open Market Committee (FOMC), at its meeting on 16-17 September 2015, left its target range for the Fed funds rate unchanged between 0 and 0.25 per cent. The decision rested on concerns that the surge in financial market volatility globally, following troubling economic conditions in China, could restrain economic activity and put further downward pressure on inflation. At its Governing Council meeting on 3 September 2015, the European Central Bank (ECB) held its main refinancing rate unchanged at 0.05 per cent and kept its €1 trillion sovereign-bond buying programme steady. The ECB lowered the euro zone growth and inflation forecasts for 2015, 2016 and 2017 on account of the economic slowdown in China and major emerging economies. In the UK, policymakers remained upbeat about UK growth prospects despite downside risks to the global economic environment. At its meeting on 9 September 2015, the Bank of England (BoE) Monetary Policy Committee maintained the Bank Rate at 0.5 per cent and its asset purchase programme of £375 billion. The BoE Governor Mark Carney said that there was a chance that interest rates could be increased in early 2016 if the UK growth remained robust and inflation picked up.

In September 2015, currency markets were mainly influenced by changes in global risk appetite, in particular with respect to Chinese economic data and volatile stock markets.

At the start of the month, the US dollar strengthened as global investors tentatively stepped back into equities. Thereafter, the US dollar fell on weaker-than-expected US economic data releases. After the US FOMC meeting, the US currency gained some ground following a speech by US Fed Chair Janet Yellen saying that an initial increase in the Fed funds rate later this year would still be appropriate depending on economic developments. The euro came under broad pressure at the beginning of the month after the ECB gave a sobering assessment of the euro zone economy and suggested that it might have to beef up its already massive stimulus program. However, the single currency got support from its relative safe haven appeal amid a retreat from risky assets as economic conditions in some emerging

economies deteriorated. In the second half of the month, the single currency tumbled on broad based strength of the US dollar and as inflation in the euro zone turned negative again, in September 2015. The euro traded at an average of US\$1.1231 in September 2015 – having touched an intra-month low of US\$1.1127 – compared to an average of US\$1.1137 in August 2015. The British currency rebounded after a weak start on the back of BoE policymakers' optimistic comments, but retreated towards the end of the month, as data revealed UK inflation fell back to zero in August 2015, prompting expectations that the BoE would wait until the second half of next year to raise interest rates. The Pound sterling traded at an average of US\$1.5335 in September 2015 – having touched an intra-month low of US\$1.5165 – compared to an average of US\$1.5596 in August 2015.

During September 2015, equity markets around the globe retreated on concerns relating to the economic slowdown in China. The MSCI Developed Markets Index, MSCI Global Equity Index and MSCI Emerging Markets Index went down by 4.9 per cent, 3.9 per cent and 3.3 per cent, respectively. The NASDAQ and Dow Jones shed 3.3 per cent and 1.5 per cent, respectively. Among the European market indices, DAX, CAC-40 and FTSE lost 5.8 per cent, 4.2 per cent and 3.0 per cent, respectively. In Asia, the NIKKEI, Shanghai Exchange Composite, Hang Seng and Bombay SENSEX tumbled by 8.0 per cent, 4.8 per cent, 3.8 per cent and 0.5 per cent, respectively, while in Africa, the JSE All Share Index (JALSH) gained 0.2 per cent.

Energy and food prices remained at moderate levels in September 2015, albeit edging up marginally from their August 2015 levels. Global oil prices rose on average, reflecting uncertainty about economic and oil demand growth in emerging market countries. ICE Brent Crude averaged US\$48.5 a barrel in September 2015, slightly up from US\$48.2 a barrel in August 2015. NYMEX WTI (West Texas Intermediate) crude oil averaged US\$45.5 a barrel in September 2015, up from US\$42.9 a barrel in August 2015. Global food prices remained subdued on account of ample supplies, amid broad based retreat in commodities. The Food and Agriculture Organisation's (FAO) Food Price Index inched up from its August low of 155.1 to 156.3 in September 2015 - still 18.9 per cent below its level a year earlier.

Domestic Developments

Tourist arrivals rose by 13.9 per cent to 89,422 in August 2015, from 78,475 a year earlier. The year-on-year growth in arrivals reflected mainly increases from Asia (+32.5 per cent) of which India and China recorded 6.7 per cent and 63.6 per cent growth, respectively, and Europe (+15.1 per cent). Tourist arrivals from UK, France and Germany rose by 19.8 per cent, 5.8 per cent and 24.6 per cent, respectively. For the twelve-month period ended August 2015, tourist arrivals recorded an increase of 8.4 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 subdued in September 2015. Headline inflation edged down from 1.3 per cent in August 2015 to 1.2 per cent in September 2015. Year-on-year inflation rose to 2.0 per cent in September 2015, from 1.1 per cent in August 2015, due to increases in the price of vegetables and other goods and services. The core measures of inflation remained contained in September 2015.

Monetary aggregates grew at a faster pace in August 2015 than in the previous month. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), accelerated to 12.3 per cent in August 2015, from 11.3 per cent in July 2015. Banks' credit grew at an annual rate of 5.5 per cent in August 2015, up from 3.8 per cent in July 2015. The annual growth rate of monetary base was 0.1 per cent in August 2015, compared to 6.1 per cent in July 2015.

Effective September 2015, the Bank of Mauritius (Bank) started issuing Government of Mauritius Treasury Bills (GMTBs) of 91-Day, 182-Day and 364-Day maturities simultaneously, both for government cash flow requirements and liquidity management purposes. The issue of the 273-Day Bills was discontinued. All the auctions of GMTBs held in September 2015 were oversubscribed. During the month, the Bank issued GMTBs for a total nominal amount of Rs3,600 million, of which Rs1,200 million was for liquidity management purposes. Net redemption of GMTBs for the period under review amounted to Rs570 million. The bid-cover ratio for the month ranged between 2.0 and 3.3 compared to a range of 2.3 to 2.9 for August 2015. The weighted yields on all three maturities, namely 91-Day, 182-Day and 364-Day, went up during September 2015. The overall weighted yield increased by 29 basis points from 1.67 per cent in August 2015 to 1.96 per cent in

September 2015. The auctions of the Ten-Year GoM Treasury Bonds and Three-Year GoM Notes (Re-opening) were also oversubscribed with bid-cover ratios of 2.2 and 1.2, respectively. The weighted yield on the Ten-Year GoM Treasury Bonds went up from 5.95 per cent in May 2015 to 6.03 per cent in September 2015. As for the Three-Year GoM Notes (Re-opening), the weighted yield increased from 4.09 per cent in August 2015 to 4.24 per cent in September 2015.

The weighted average dealt selling rates¹ of the rupee depreciated, on average, against the euro and US dollar, but appreciated against the Pound sterling between August and September 2015.

The average rupee exchange rates against the US dollar, the euro and Pound sterling were Rs35.461/USD, Rs39.864/EUR and Rs54.687/GBP, respectively, in September 2015 compared to Rs35.451/USD, Rs39.568/EUR and Rs55.556/GBP, respectively, in August 2015.

The gross foreign exchange reserves of the Bank of Mauritius increased from Rs141,946 million at the end of August 2015 to Rs144,099 million at the end of September 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-September 2015 level of gross official international reserves of the country represented 7.3 months of imports, up from 7.2 months of imports as at end-August 2015.

¹ The rates are calculated on the basis of transactions of US\$20,000 and above, or the equivalent in other foreign currencies, undertaken by banks and foreign exchange dealers.