

OVERVIEW

International Developments

In the United States, the continued strength in the broader economy and marginally higher-than-expected inflation data raised the prospect 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 28-29 October 2014, announced the end of the long-running bond-buying program in October 2014, as expected. However, the Fed left its federal funds rate unchanged and signalled its plans to keep short-term rates low for a considerable time although various labour market indicators suggested that labour market slack was gradually diminishing.

A fragile Eurozone economy and a dovish policy stance of the European Central Bank (ECB) kept the single currency under pressure in October 2014. On 2 October 2014, the ECB left its key refinancing rate unchanged at 0.05 per cent and the ECB President said the weakening growth momentum and inflation outlook in the Eurozone warranted two years worth of bond purchases. Weak economic numbers and concerns over the health of the European banking sector weighed on the euro.

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 7-8 October 2014, maintained the bank rate unchanged at 0.5 per cent and its bond buying program at GBP375 billion. The Pound sterling bounced briefly following the release of better-than-expected data on industrial output and after the BoE said that an interest rate rise was possible next spring.

In October 2014, the US dollar continued to strengthen against the euro and Pound sterling. The euro depreciated against the US dollar trading at an average of US\$1.2684 in October 2014 compared with an average of US\$1.2912 in September 2014 while the Pound sterling dropped from an average of US\$1.6315 in September 2014 to US\$1.6083 in October

2014. The euro and Pound sterling fell to intra-month lows of US\$1.2518 on 6 October 2014 and US\$1.5906 on 15 October 2014, respectively. The US currency was bolstered by safe-haven bids on worries about the health of the global economy with slowdowns evident in Europe, Japan and China.

Global equity markets managed to edge higher in October 2014 amid heightened growth concerns about the global economy. The MSCI Emerging Markets Index and MSCI Global Equity Index rose by 1.1 per cent and 0.6 per cent, respectively. The NASDAQ, S&P 500 and Dow Jones gained 3.1 per cent, 2.3 per cent and 2.0 per cent, respectively. In Europe, the CAC 40, DAX and FTSE 100 dropped by 4.1 per cent, 1.6 per cent and 1.2 per cent, respectively. The Nikkei increased by 1.5 per cent. The Bombay SENSEX and Hang Seng both gained 4.6 per cent while the Shanghai Stock Exchange Composite Index rose by 0.8 per cent.

Both international energy prices and food prices continued their decline in October 2014.

Global oil prices declined for the fourth consecutive month in October 2014, pressured by weak oil market fundamentals and a stronger dollar. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US\$84.3 a barrel in October 2014, down from US\$93.1 a barrel in September 2014. ICE Brent Crude averaged US\$88.1 a barrel in October 2014, down from US\$98.6 a barrel in September 2014. The Food and Agriculture Organisation's (FAO) Food Price Index decreased for a seventh consecutive month in October 2014 on expectations of improved supply prospects. The October 2014 slide brought the value of the index to its lowest level since August 2010.

Domestic Developments

Tourist arrivals and tourism earnings increased during the first nine months of 2014, compared to the same period in 2013. The growth in arrivals reflected mainly increases from Europe (+8.2 per cent) and Asia (+23.3 per cent). For the period January to September 2014, tourist arrivals stood at 725,623, representing a growth of 4.5 per cent over the corresponding period of 2013. Gross tourism earnings rose to Rs3,055 million in September 2014, from Rs2,345 million in September 2013, representing a growth of 30.3 per cent. For the period

January to September 2014, tourism earnings rose by 10.7 per cent to Rs32,232 million, from Rs29,105 million in the corresponding period of 2013.

The latest CPI data released by Statistics Mauritius showed that inflationary pressures on the domestic economy eased somewhat in October 2014. Headline inflation edged down from 3.9 per cent in September 2014 to 3.8 per cent in October 2014, while y-o-y inflation fell significantly to 1.9 per cent in October 2014 on the back of a decline in the price of vegetables and other food products, which more than offset the increase in the price of motor vehicles. The core measures of inflation remained at moderate levels in October 2014.

Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), picked up for the second month running and stood at 8.3 per cent in September 2014, while growth in banks' credit continued to slow down in September 2014. The annual growth rate of the monetary base was 27.1 per cent in September 2014 compared with 29.3 per cent in August 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 October 2014 with the bid cover ratio ranging between 2.5 and 5.1, reflecting the significant level of excess liquidity prevailing in the banking system. The weighted yields of GMTBs of the four maturities issued during the month fell. Consequently, the overall weighted yield on GMTBs declined to 1.47 per cent in October 2014, from 1.71 per cent in September 2014. The auctions for the benchmark Three-Year GoM Treasury Notes (Re-opening), the Five-Year GoM Bonds (Re-opening) and Fifteen Year GoM Bonds were also oversubscribed with bid cover ratios at 2.6, 4.6 and 3.9, 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 September and October 2014. The rupee/USD rate depreciated, trading at Rs31.451/USD in October 2014 compared with Rs31.274/USD in September 2014 but the rupee strengthened against the euro and Pound sterling, trading at Rs39.925/EUR and Rs50.721/GBP, respectively, in October 2014

compared with Rs40.421/EUR and Rs51.156/GBP, respectively, in 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 October 2014, the gross foreign exchange reserves of the Bank of Mauritius declined marginally to Rs119,549 million from Rs120,717 million as at end-September 2014. The end-October 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 6.0 months of imports compared to 6.1 months as at end-September 2014.