Quarterly Economic Report

June 2019

BANK OF MAURITIUS

QUARTERLY ECONOMIC REPORT

June 2019

In accordance with section 4(1) of the Bank of Mauritius Act 2004, the primary object of the Bank of Mauritius is to maintain price stability and to promote orderly and balanced economic development. The formulation and determination of monetary policy is entrusted to the Monetary Policy Committee (MPC) as set out in sections 54 and 55 of the Bank of Mauritius Act 2004. The MPC determines the appropriate monetary policy stance through changes in the Key Repo Rate. The MPC usually meets four times during a year, but stands ready to meet in between its regular meetings. In their decision-making process, MPC members assess the balance of risks between economic growth and inflation by considering a wide range of domestic and international economic and financial data and information. Given the time lags before monetary policy takes effect, the MPC is pre-emptive and forward-looking, and relies on a number of indicators, namely forecasts of relevant economic variables and assumptions.

This second issue of the Quarterly Economic Report presents macroeconomic developments during the second quarter of 2019. Consideration is also given to general economic policies that support price stability and sustainable economic growth. This Report aims to enhance the public's understanding of the policies applied to achieve the mandates of the Bank of Mauritius. The analysis in this Report is based on macroeconomic data available at the date of its preparation. Unless otherwise stated, this edition relies on information and data available as at end-June 2019.

This Report is available on the Bank of Mauritius' website at https://www.bom.mu under the URL item *Publications and Statistics*. The Bank of Mauritius welcomes feedback from readers. Please forward comments and suggestions to *communications@bom.mu*.

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1. SUMMARY

At its meeting held on 17 May 2019, the Monetary Policy Committee (MPC) of the Bank of Mauritius unanimously voted to keep the Key Repo Rate unchanged at 3.50 per cent per annum. The MPC stated that the global economic environment was still fraught with uncertainty while the domestic economic momentum was strengthening in a low inflation environment. Based on an assessment of the risks to the growth and inflation outlook, the MPC was of the view that the prevailing stance of monetary policy would continue to bolster economic activity, while at the same time, maintaining price stability.

Most major multilateral institutions, notably the IMF, OECD, World Bank and the United Nations have continued to downgrade their forecasts of global growth in their latest global economic outlook. Factors prompting the downward revision were moderating growth in a number of countries in the second half of last year, with spillover effects in 2019, reflecting to some extent a slowdown in trade. Inflation over the medium term would remain broadly contained in both advanced economies and Emerging Market and Developing Economies.

In Mauritius, inflation remained muted on the back of moderate global economic activity, low global inflation and domestic spare capacity. Headline inflation, computed as the change in the 12-month average CPI, stood at 1.0 per cent in May 2019, 1.8 percentage points lower compared to January 2019. After being in negative territory in February and March 2019, year-on-year inflation picked up to 0.6 per cent in April and further to 0.8 per cent in May, mainly due to base effects arising from the much sharper drop in vegetables prices a year earlier. The softening bias in core inflation measures, as reflected in the Bank's CORE1 and CORE2 inflation, pointed to weaker underlying inflationary pressures. The Bank revised downward its inflation projection from 2.1 per cent for calendar year 2019 to below 1.5 per cent and to about 2 per cent in 2020 in the absence of major supply shocks.

The domestic economy was projected to maintain its growth momentum in 2019, expanding at a similar pace to 2018. Real GDP growth at market prices was forecast at about 3.9 per cent in 2019 and 4 per cent in 2020, notwithstanding higher uncertainty due to increasing downside risks. Growth would be driven by domestic demand, as the contribution from net exports would be negative. The dynamism in aggregate demand, as reflected in sustained private consumption growth and resurging government investment, would help to sustain the growth impetus. Favourable domestic conditions, including strong labour market conditions and accommodative policy stances continued to create a conducive economic environment for growth. At the sectoral level, domestic economic activity remained supported by the services sector.

Labour market conditions improved in 2019Q1, as the labour force expanded by 5,400 while employment rose by 6,000 when compared to 2018Q1. As a result, the number of unemployed declined by 600, leading to a fall in the unemployment rate from 7.1 per cent in 2018Q1 to 6.9 per cent in 2019Q1. On an annual basis, the unemployment rate for 2019 is projected to edge down to 6.8 per cent, from 6.9 per cent in 2019.

Growth of broad money supply moderated slightly since December 2018. Broad Money Liabilities (BML) increased by 6.0 per cent year-on-year in April 2019, slightly lower than the expansion of 6.3 per cent recorded in December 2018. Bank loans to Other Nonfinancial Corporations, households and other sectors (excluding GBC) rose by 0.8 per cent to Rs300.3 billion in April 2019 compared to December 2018, largely supported by an increase in household borrowings and loans to Other Financial Corporations.

The current account deficit was expected to increase in 2019, reflecting a higher deficit on the goods account stemming from higher imports linked to major infrastructure projects. This would, however, be wholly funded from higher net inflows on the capital and financial account. As a ratio to GDP, the current account deficit was estimated to increase from around 5.8 per cent in 2018 to around 6.5 per cent (excluding the purchase of aircraft) in 2019. The improved performance of both the services and primary income accounts would limit, to some extent, the goods account deficit.

The Bank maintained its efforts to keep excess liquidity in the banking system at a reasonable level by issuing its own instruments in excess of those maturing and sterilising the proceeds as a result of foreign exchange interventions. Rupee liquidity maintained by banks above the minimum cash ratio requirement increased to an average of Rs12 billion between 22 February and end-May 2019. Short-term yields stayed rather range bound between the February 2019 and May 2019 MPC meetings but declined markedly in the latter part of May amid higher excess liquidity.

2. Recent Global Economic and Financial Developments

The pace of growth of global economic activity slowed in 2019H1. The major leading indicators on global economic growth and trade as well as business confidence indicators in many developed countries weakened during the past few months, pointing towards dampened economic growth momentum in the short term. This performance reflected to a large extent the ongoing trade tensions between the US and China and the lack of agreement on Brexit. The major central banks have expressed their intention to keep monetary policy rather accommodative to support their economies. Overall, inflationary pressures remained weak.

2.1 Economic Activity

The major multilateral institutions, including the IMF, OECD, World Bank and United Nations lowered their global growth projections in their latest publications related to the global economic outlook. Growth in a number of countries, including our trading partners, moderated in 2018H2 and, further eased in 2019Q1. The growth deceleration reflected, to some extent, a substantial slowdown in global trade, affecting mostly the manufacturing sector and trade-oriented economies in Asia and the euro area. The IMF revised down, for the third consecutive time, global growth projections for 2019 in its April 2019 World Economic Outlook (WEO) on the back of an anticipated weak economic performance in 2019H1, amidst persistent headwinds across countries, including US, China, Germany, Italy, France and UK. However, the IMF predicted a gradual recovery in 2019H2. Accordingly, it was expecting the global economy to grow at 3.3 per cent in 2019, before recovering to 3.6 per cent in 2020, down by 0.4 percentage point and 0.1 percentage point, respectively, compared to forecasts made in October 2018 (Tables 2.1 and 2.2 and Chart 2.1).

The OECD also revised down global growth forecasts in line with latest developments that are shaping the global economic landscape. The OECD Economic Outlook released in May 2019 has set world growth at a below-trend rate of 3.2 per cent in 2019, down from 3.5 per cent in 2018 and 0.1 percentage point lower compared to projections made in March 2019. For 2020, global growth was maintained at 3.4 per cent. The growth downgrade was motivated by an intensification of policy uncertainty, lingering trade conflicts and lower business and consumer confidence prevailing especially in the euro area and Japan. According to the OECD, around 40 per cent of the fall in global growth over the period 2017 to 2019 and the expected pick-up in 2020 are attributed to the fact that the economies of Turkey and Argentina lost substantial steam but would steadily recover the next year.

In its June 2019 Global Economic Prospects, the World Bank trimmed few basis points from its earlier global growth forecasts. The institution projected global growth at 2.6 per cent and 2.7 per cent for 2019 and 2020, respectively, down by 0.3 percentage point and 0.1 percentage point compared to projections made in January 2019. Analogous to the IMF and the OECD, the World Bank also pointed to a gloomier economic outlook resulting from a loss of momentum in 2019H1 that was reflected in further easing of investment and global volume of trade against the backdrop of intensifying trade conflict. Nonetheless, the slight recovery anticipated for 2020 emanates from accommodative global financing conditions, coupled with some recovery in major commodity exporting countries and in Emerging Market and Developing Economies (EMDEs) earlier plagued with financial market distress.

Table 2.1: Real GDP Growth Rates in Selected Economies

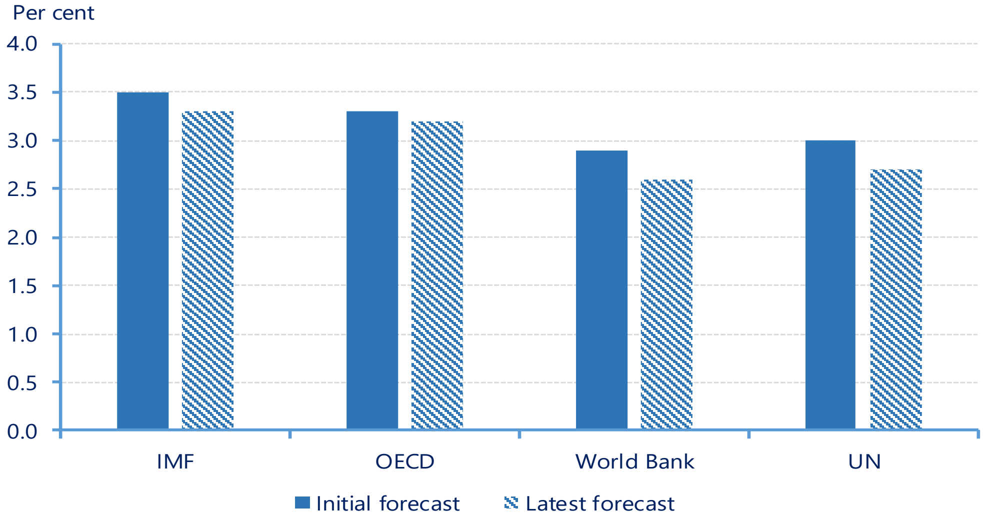
	IMF				OECD				World Bank				United Nations			
	April 2019 World Economic Outlook Projections		Difference from January 2019 World Economic Outlook Update Projections		May 2019 Economic Outlook Projections		Difference from March 2019 Interim Economic Outlook Projections		June 2019 Global Economic Prospects Projections		Difference from January 2019 Global Economic Prospects Projections		World Economic Situation and Prospects Mid-2019 Projections		Difference from World Economic Situation and Prospects 2019 Projections	
	Per cent		*Percentage point*		*Per cent*		*Percentage point*		*Per cent*		*Percentage point*		*Per cent*		*Percentage point*	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
World Output	**3.3**	**3.6**	**-0.2**	**0.0**	**3.2**	**3.4**	**-0.1**	**0.0**	**2.6**	**2.7**	**-0.3**	**-0.1**	**2.7**	**2.9**	**-0.3**	**-0.1**
Advanced Economies	**1.8**	**1.7**	**-0.2**	**0.0**	**n.a**	**n.a**	**n.a**	**n.a**	**1.7**	**1.5**	**-0.3**	**-0.1**	**1.8**	**1.8**	**-0.3**	**-0.1**
United States	2.3	1.9	-0.2	0.1	2.8	2.3	0.2	0.1	2.5	1.7	0.0	0.0	2.3	2.1	-0.2	0.1
Euro Area	1.3	1.5	-0.3	-0.2	1.2	1.4	0.2	0.2	1.2	1.4	-0.4	-0.1	1.4	1.6	-0.5	-0.3
Japan	1.0	0.5	-0.1	0.0	0.7	0.6	-0.1	-0.1	0.8	0.7	-0.1	0.0	0.8	1.0	-0.6	-0.2
Emerging Market and Developing Economies	**4.4**	**4.8**	**-0.1**	**-0.1**	**n.a**	**n.a**	**n.a**	**n.a**	**4.0**	**4.6**	**-0.3**	**0.0**	**4.1**	**4.5**	**-0.2**	**-0.1**
China	6.3	6.1	0.1	-0.1	6.2	6.0	0.0	0.0	6.2	6.1	0.0	-0.1	6.3	6.2	0.0	0.0
India	7.3	7.5	-0.2	-0.2	7.2	7.4	0.0	0.1	7.5	7.5	0.0	0.0	7.0	7.1	-0.6	-0.4

n.a not available.
Sources: IMF, OECD, World Bank and United Nations.

Table 2.2: Key Developments

Developments anticipated for the year in March 2019	**Developments anticipated for the year in June 2019**
Advanced economies	Revised down slightly
Economic activity in the US to grow moderately at 2.5 per cent in 2019.	Growth in the US to decelerate to 2.3 per cent.
Euro area growth to stand at 1.6 per cent.	Growth forecast lowered by 0.3 percentage point to 1.3 per cent in 2019.
The UK economy was foreseen to grow by 1.5 per cent.	Activity growth now expected at 1.2 per cent in 2019.
Emerging economies	Broadly stable
GDP in China expected to grow by 6.2 per cent.	Slightly better outlook for China, with GDP growth now expected at 6.3 per cent.
Robust growth rate of 7.5 per cent in India.	Softer growth momentum, with economic growth revised down to 7.3 per cent in 2019.
Oil and commodity prices	Revised up
Oil prices were expected to trade around US$61 a barrel, on expectations of higher oil production by the US and a slowdown in global demand.	Oil prices are now foreseen slightly higher at around US$65 a barrel, owing to more stringent sanctions imposed on Iran and high compliance among oil producing countries.

Chart 2.1: Real GDP Growth Rate for 2019



Sources: IMF, OECD, World Bank and United Nations.

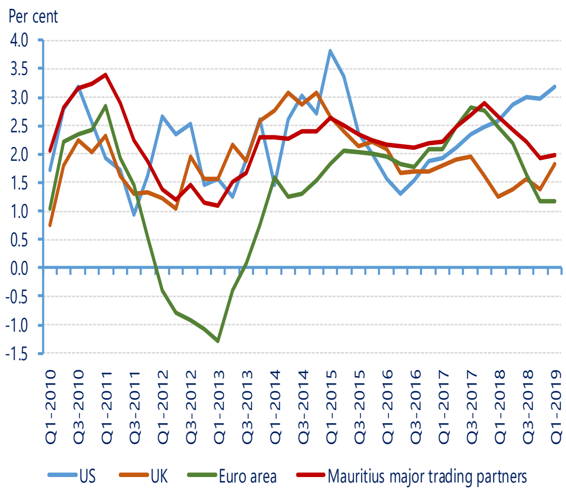
In its Mid-2019 World Economic Situation and Prospects (WESP) published in May 2019, the UN emulated the above three institutions by revising down its global growth projections. World economic growth was now forecast to moderate from 3.0 per cent in 2018 to 2.7 per cent and 2.9 per cent in 2019 and 2020, down by 0.3 percentage point and 0.1 percentage point, respectively, from the January 2019 projections. The UN also related the lower global growth rates to heightened trade strains, and sharp rise in policy uncertainty hitting both business and consumer confidence. The slowdown was broad-based across both developed and developing economies.

Economic activity in the US was sustained on the back of favourable labour market conditions and robust consumption growth. Real GDP grew at an annual rate of 3.2 per cent in 2019Q1, slightly up from 3.0 per cent in the previous quarter and benefitting from positive contributions from personal consumption expenditure, private inventory investment, exports, state and local government spending, and non-residential fixed investment (Chart 2.2). As reflected in a negative contribution, residential fixed investment was a drag to economic growth. Growth was upheld by favourable labour market conditions, with the lowest unemployment rate of 3.6 per cent recorded in May 2019 since December 1969, which continued to bolster consumption expenditure. However, the US manufacturing sector underperformed, with the IHS Markit US Manufacturing PMI falling from 52.4 in March 2019 to 50.5 in May 2019, its lowest level since September 2009, thus reflecting moderation in output growth and decline in new orders for the first time since August 2009. However, the index ticked up to 50.6 in June 2019, supported by a renewed increase in new orders. The US Services PMI mirrored the same trend, declining from 55.3 in March 2019 to 50.9 in May 2019, the lowest since February 2016, as a result of weak domestic and external demand. In June, however, the index picked up to 51.5, buoyed by growth of new businesses.

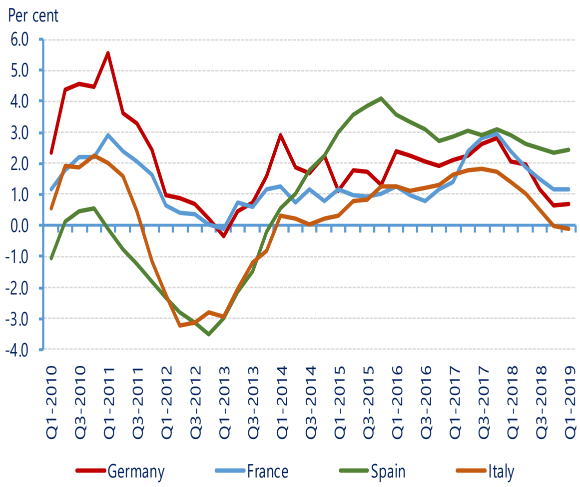
In the euro area, real GDP growth remained flat. Economic activity expanded by 1.2 per cent in 2019Q1, same as in the previous quarter but half the rate of 2018Q1. Among the bloc's largest economies, growth stagnated in France but edged up in Germany and Spain. In contrast, real output contracted marginally in Italy. Challenges facing the euro area include muted business and consumer confidence, lower exports and high sovereign spreads. Domestic demand has also eased, although to a lower extent, as it was partly supported by conducive labour market conditions, with the unemployment rate declining to 7.5 per cent in May 2019, the lowest since July 2008. Worries over a no-deal Brexit also had an adverse impact on investment spending. The manufacturing sector remained in contraction zone for the fifth consecutive month, with the Eurozone Manufacturing PMI of 47.6 in June 2019, broadly stable from 47.5 in March 2019, but remained dragged down by dwindling order books and output. Albeit an improvement to a four-month high, the performance of Germany continued to be the weakest. In contrast, the services sector continued to grow, with an increase in the Eurozone Services PMI from 53.3 in March 2019 to 53.6 in June 2019, the highest since October 2018 and bolstered by a rise in new business.

UK's real GDP accelerated in 2019Q1, aided by positive contributions from both private and government consumption spending and investment, albeit net trade constituted a drag. The UK economy expanded by an annual rate of 1.8 per cent in 2019Q1, the highest since 2017Q3 and up from 1.4 per cent in 2018Q4 and 1.2 per cent a year earlier. According to the UK's Office for National Statistics, the higher momentum in economic activity occurred as factories were in a hurry to complete orders as the 29 March 2019 deadline for Brexit was nearing. The unemployment rate dropped to 3.8 per cent in the three months to April 2019, the lowest since 1974. For the first time since July 2016, the manufacturing PMI entered in contraction territory in May 2019 and posted 49.4, down from 55.1 in March 2019. It remained in negative zone at 48.0 in June 2019, reflecting a drop in new orders and business confidence. In contrast, the PMI for the services sector bounced out of contraction zone from 48.9 in March 2019 to a three-month high of 51.0 in May 2019, helped by an increase in new business, staffing levels and business optimism. However, the index retreated to 50.2 in June 2019, weighed down by subdued domestic economic conditions and higher risk aversion emanating from lingering uncertainty surrounding Brexit.

Chart 2.2: Global GDP Growth



Source: OECD.



Source: OECD.

China's economy held steady in early 2019, dampening concerns over a probable economic downturn. Economic activity expanded by 6.4 per cent in 2019Q1, same as in the previous quarter but down from 6.8 per cent a year earlier. Domestic demand largely benefitted from ongoing stimulus measures, including tax cuts for businesses, infrastructure spending and looser monetary policy, as reflected in buoyant industrial production, retail sales and fixed-asset investment. Likely progress in the US-China trade negotiations also contributed in lifting Chinese manufacturing activity and exports. The manufacturing sector slid in contraction zone for the first time in four months, with the Manufacturing PMI at 49.4 in June 2019, from 50.8 in March 2019, dragged down by trade tensions with the US which hit total sales, export orders and production. The Services PMI retreated to a four-month low of 52.0 in June 2019, from 54.4 in March.

Economic activity in India continued to lose steam in 2019Q1, lagging behind China's growth momentum for the first time in almost two years. Real GDP growth slowed steadily from 7.8 per cent in 2018Q1 to 6.6 per cent in 2018Q4 and further to 6.0 per cent in 2019Q1. Moderation in consumer spending and private investment weighed on output. Net external trade also constituted a drag. Nonetheless, economic activity was supported by government spending amid the general elections. The Manufacturing PMI dropped from 52.6 in March 2019 to 52.1 in June 2019, as new work intakes eased and total sales moderated. The services sector contracted for the first time since May 2018, with the Services PMI decreasing to 49.6 in June 2019, from 52.0 in March 2019, pinned down by muted sales, competitive pressures, unfavourable taxation and deceleration in job creation to a 22-month low.

The real GDP growth of major trading partner countries for Mauritius picked up marginally in 2019Q1 after steadily declining since 2018Q1. The Trading Partner Countries' Growth (TPG) rate for Mauritius, derived on the basis of the country's export destination, dropped steadily from 2.9 per cent in 2017Q4 to 1.9 per cent in 2018Q4 but recovered slightly to 2.0 per cent in 2019Q1. TPG improved on the back of increasing economic activity in some countries, notably US, UK, Germany and Spain. Nonetheless, the current TPG growth environment remains subdued and TPG weak growth momentum is expected to persist in 2019.

Leading indicators such as the Purchasing Managers Index have signalled a marked slowdown in global economic activity in the months ahead. The JPMorgan's Global Composite PMI declined to 51.2 in June 2019, from 52.7 in March 2019, pinned down by the underperformance of both manufacturing and service providers. The Services PMI eased from 53.7 in March 2019 to 51.9 in June 2019, reflecting a significant deceleration in services activities in the US, China and India. The Manufacturing PMI, being hit by the impact of rising global trade tensions on international trade flows, moved further in contraction territory in June 2019 (Table 2.3).

Table 2.3: Markit Composite PMI Heatmap

	Developed Markets								Developing Markets	
	World	US	Euro Zone	France	Germany	Italy	Spain	UK	China	India
Jun-18	54.2	56.2	54.9	55.0	54.8	53.9	54.8	55.2	53.0	53.3
Jul-18	53.7	55.7	54.3	54.4	55.0	53.0	52.7	53.6	52.3	54.1
Aug-18	53.4	54.7	54.5	54.9	55.6	51.7	53.0	54.2	52.0	51.9
Sep-18	52.8	53.9	54.1	54.9	55.6	51.7	53.0	54.1	52.1	51.6
Oct-18	53.0	54.9	53.1	54.1	53.4	49.3	53.7	52.1	50.5	53.0
Nov-18	53.2	54.7	52.7	54.2	52.3	49.3	53.9	50.8	51.9	54.5
Dec-18	52.7	54.4	51.1	48.7	51.6	50.0	53.4	51.4	52.2	53.6
Jan-19	52.1	54.4	51.0	48.2	52.1	48.8	54.5	50.3	50.9	53.6
Feb-19	52.6	55.5	51.9	50.4	52.8	49.6	53.5	51.4	50.7	53.8
Mar-19	52.7	54.6	51.6	48.9	51.4	51.5	55.4	50.0	52.9	52.7
Apr-19	52.1	53.0	51.5	50.1	52.2	49.5	52.9	50.9	52.7	51.7
May-19	51.2	50.9	51.8	51.2	52.6	49.9	52.1	50.7	51.5	51.7
Jun-19	51.2	51.5	52.2	52.7	52.6	50.1	52.1	49.2	50.6	50.8

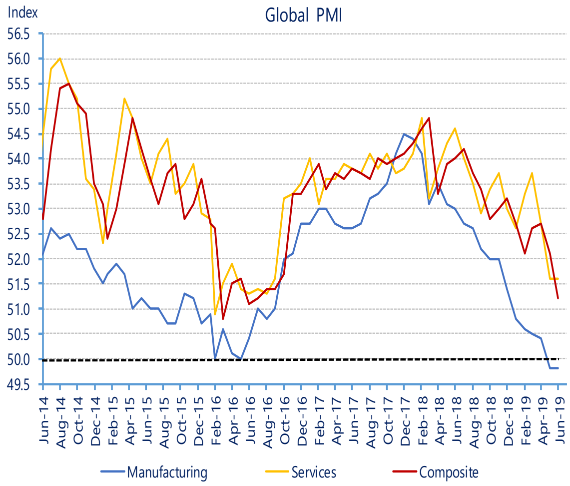
≤ 48 | 49 | 50 | 51 | ≥ 52

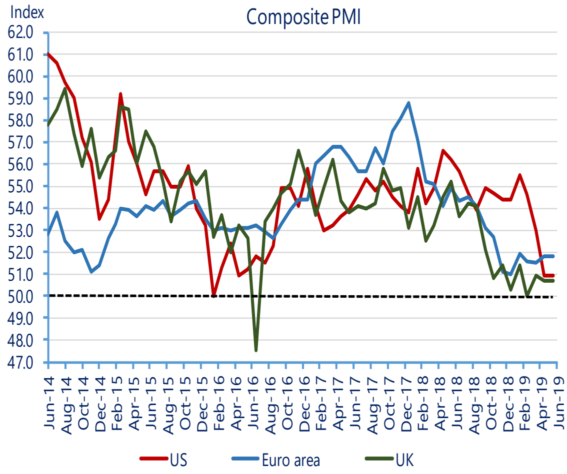
World trade was mostly flat in April 2019, while the Baltic Dry Index (BDI) maintained its upward trajectory following a low attained in February 2019. The annual growth of world trade volume declined from 1.4 per cent in March 2019 to an anaemic 0.1 per cent in April 2019. World imports rose by 1.1 per cent, but world exports contracted by 0.9 per cent, with negative growth registered across both advanced and emerging economies. Short-term trade dynamics revealed that world trade contracted by 0.7 per cent in April on a month-on-month basis. The forthcoming data was expected to point towards a further deterioration in the volume of merchandise trade, knocked down by the intensification of the trade dispute between US and China and the prevalence of prolonged uncertainty. The BDI increased by nearly 130 per cent, from 595 on 11 February 2019 to 1,354 on 28 June 2019. Gains in the BDI were partly attributed to higher Capesize and Panamax freight rates. Heightened geopolitical tensions, in particular, the row between the US and Iran also raised the BDI (Chart 2.3).

2.2 Global Commodity Prices

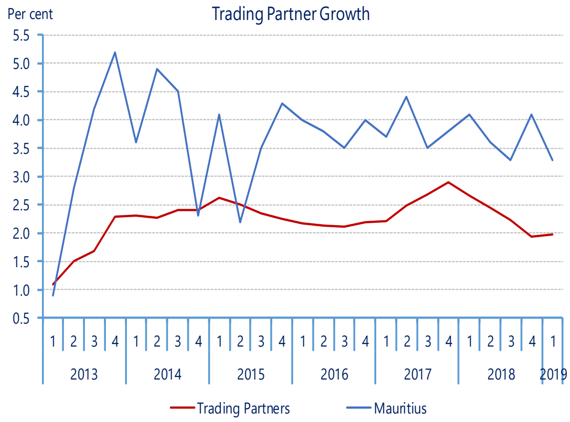
Crude oil prices recovered from the trough in December 2018 amid demand-supply concerns and the end of waivers on import of Iranian oil by the US to peak in April but subsequently dropped in June 2019 amidst the deteriorating global economic outlook. Brent crude oil increased by 24 per cent from US$57.7 per barrel in December 2018 to US$71.6 per barrel in April 2019 but decreased by more than 10 per cent to US$63.0 per barrel in June 2019. NYMEX West Texas Intermediate mirrored Brent's trend, rising by 30 per cent from US$49.0 per barrel in December 2018 to US$63.9 per barrel in April 2019 but lost 10 per cent to average US$54.7 per barrel in June 2019. The sharp increase in oil prices was largely ascribed to the OPEC's oil supply disruption and the US sanctions on Iran's and Venezuela's crude oil exports. US decision to remove the exemption of sanctions for Iranian oil exports also raised oil prices. However, the deteriorating global economic performance eased the pressure on oil prices which could dent the demand for oil as global economic sentiment weakened (Chart 2.4).

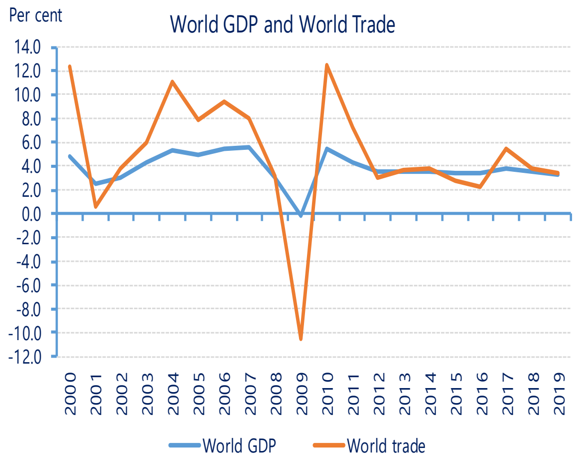
Chart 2.3: PMI, Real GDP Growth and World Trade





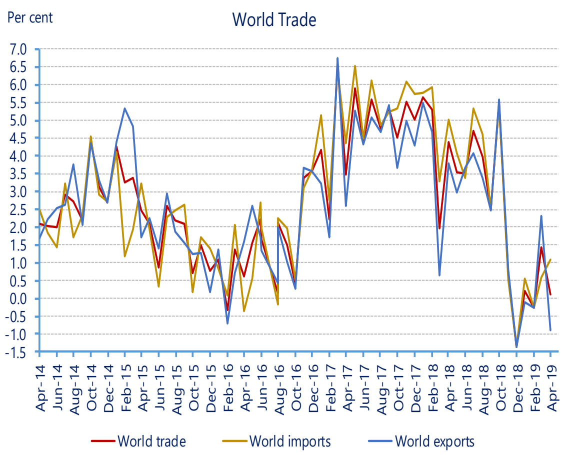
Source: Markit.

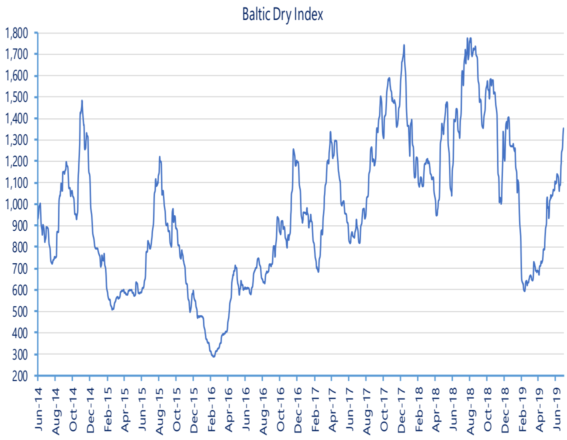




Source: Bank staff calculations.

Source: IMF.





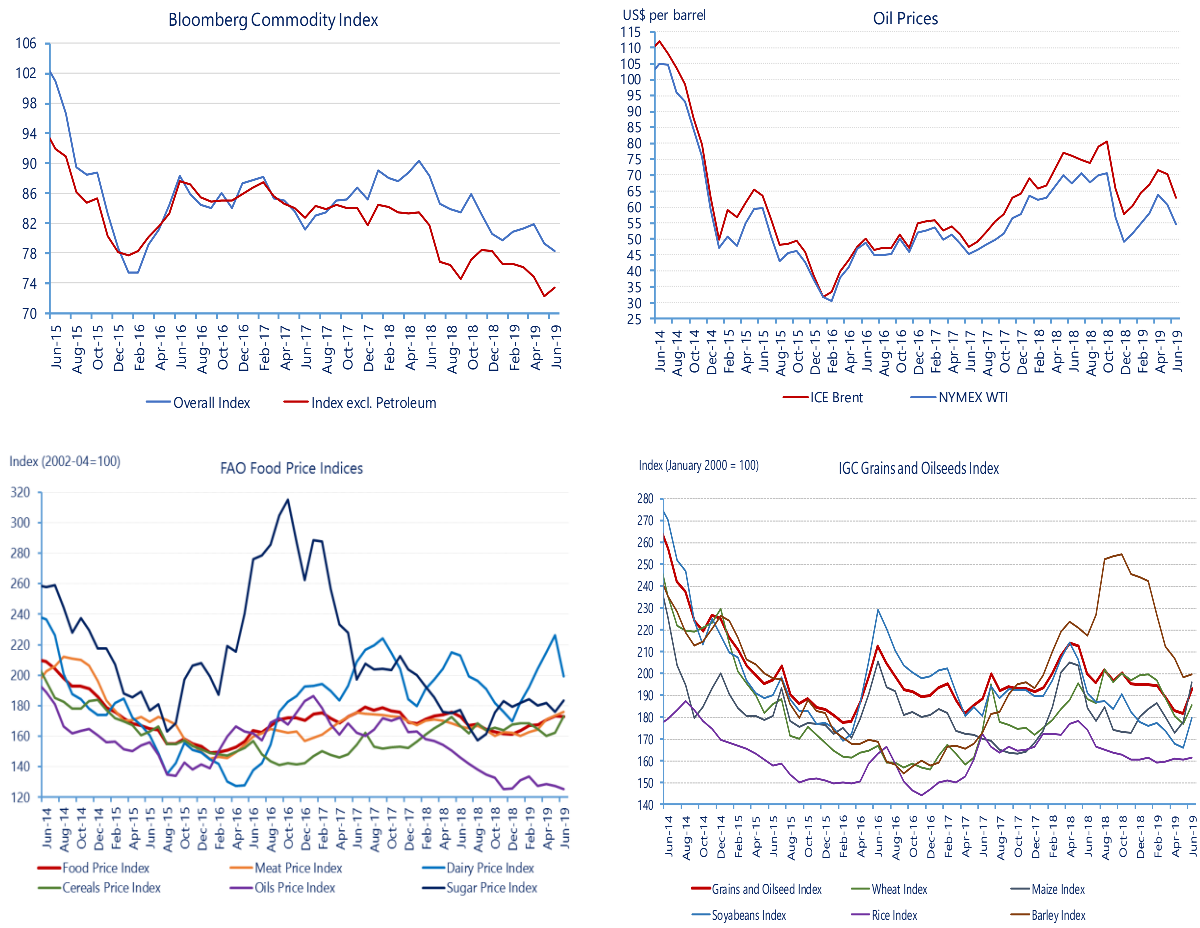
Source: CPB Netherlands Bureau of Economic Research.

Source: Reuters.

International food prices, gauged by FAO Food Price index, moderated somewhat in June 2019, though remaining higher compared to March 2019. The index rose by 3.2 per cent from 167.6 in March 2019 to 173.0 in June 2019, driven mainly by higher prices for meat, cereal and sugar amid adverse supply conditions and higher import demand. The International Grains Council's (IGC)

Grains and Oilseed Index increased moderately from 189 points in March 2019 to 193 points in June 2019. Most of the sub-indices rose, with the exception of wheat and barley, whose prices were down by 1.7 per cent and 6.0 per cent, respectively. The highest increase of 8.9 per cent pertained to maize, followed by soyabeans (3.3 per cent) and rice (1.2 per cent). The April 2019 World Bank Commodity Markets Outlook projects agricultural prices to drop, on average, by 2.6 per cent in 2019 on the back of adequate supply but to turn around by 1.7 per cent in 2020, reflecting anticipated lower crop production in the US and higher costs for energy and fertilisers.

Chart 2.4: Global Commodity Prices



Sources: Bloomberg, Reuters, FAO and IGC.

2.3 Global Inflation Developments

The IMF has, in its April 2019 World Economic Outlook, forecast that inflation over the medium term would remain broadly contained in both advanced economies and EMDEs. Thus, inflation in advanced economies was expected to drop from 2.0 per cent in 2018 to 1.6 per cent in 2019, while inflation in EMDEs was foreseen to tick up to 4.9 per cent in 2019, up from 4.8 per cent in 2018 (Table 2.4). Consumer price inflation in the major advanced economies has been rather mixed in the recent months, mainly due to the movements in energy prices. In the US, CPI inflation declined from 1.9 per cent in March 2019 to 1.8 per cent in May 2019. Inflation in the Eurozone dropped from 1.4 per cent to 1.2 per cent over the same period, amid lower price pressures for energy and services. Consumer prices in the UK, in contrast, were marginally up from 1.9 per cent in March 2019 to 2.0 per cent in May 2019 but remained below the average for 2018. Inflation in China and India rose from 2.3 per cent and 2.9 per cent in March 2019 to 2.7 per cent and 3.0 per cent, respectively, in May 2019 driven by higher food prices and transport costs. In South Africa, inflation remained unchanged at 4.5 per cent over the same period amid offsetting forces in the CPI basket.

Inflation in the main trading partners of Mauritius have been broadly on an upward trend since the beginning of 2019. The Trading Partner Countries' Consumer Price Inflation (TCPI), based on the source import countries, increased from 2.8 per cent in March 2019 to 2.9 per cent in May. On average, the TCPI has remained below 3 per cent since March 2015 and is projected to remain subdued over the medium term (Chart 2.5).

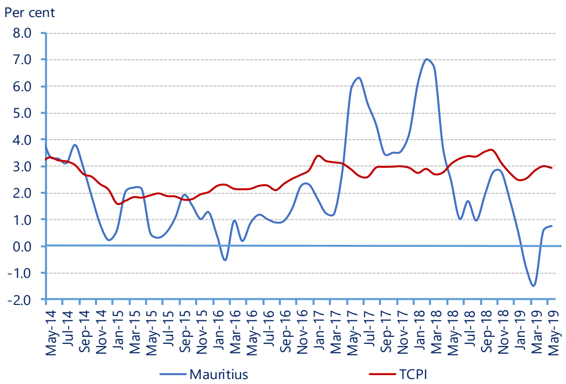
Table 2.4: Consumer Price Inflation in Selected Economies

Per cent

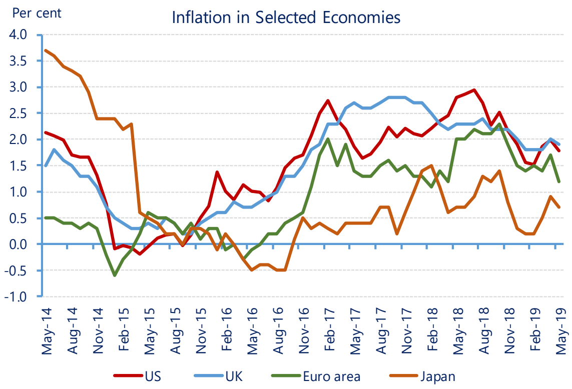
				April 2019 WEO Projections		October 2018 WEO Projections		Difference from October 2018 WEO projections	
	2016	2017	2018	2019	2020	2019	2020	2019	2020
Advanced Economies	**0.8**	**1.7**	**2.0**	**1.6**	**2.1**	**1.9**	**2.0**	**-0.3**	**0.0**
of which									
United States	1.3	2.1	2.4	2.0	2.7	2.1	2.3	-0.1	0.4
Euro Area	0.2	1.5	1.8	1.3	1.6	1.7	1.8	-0.4	-0.3
Germany	*0.4*	*1.7*	*1.9*	*1.3*	*1.7*	*1.8*	*2.1*	*-0.4*	*-0.4*
France	*0.3*	*1.2*	*2.1*	*1.3*	*1.5*	*1.8*	*1.8*	*-0.5*	*-0.2*
Italy	*-0.1*	*1.3*	*1.2*	*0.8*	*1.2*	*1.4*	*1.5*	*-0.7*	*-0.3*
Spain	*-0.2*	*2.0*	*1.7*	*1.2*	*1.6*	*1.8*	*1.9*	*-0.6*	*-0.2*
United Kingdom	0.7	2.7	2.5	1.8	2.0	2.2	2.0	-0.3	0.0
Japan	-0.1	0.5	1.0	1.1	1.5	1.3	1.7	-0.2	-0.1
Emerging Market and Developing Economies	**4.2**	**4.3**	**4.8**	**4.9**	**4.7**	**5.2**	**4.6**	**-0.2**	**0.0**
Sub Saharan Africa	11.2	11.0	8.5	8.1	7.4	8.5	7.8	-0.4	-0.4
South Africa	6.3	5.3	4.6	5.0	5.4	5.3	5.4	-0.3	0.0
Emerging and Developing Asia	2.8	2.4	2.6	2.8	3.1	3.2	3.3	-0.4	-0.2
of which									
China	2.0	1.6	2.1	2.3	2.5	2.4	2.7	-0.1	-0.1
India	4.5	3.6	3.5	3.9	4.2	4.9	4.6	-1.0	-0.3

Source: IMF.

Chart 2.5: Trading Partner Inflation



Source: Bank staff calculations.



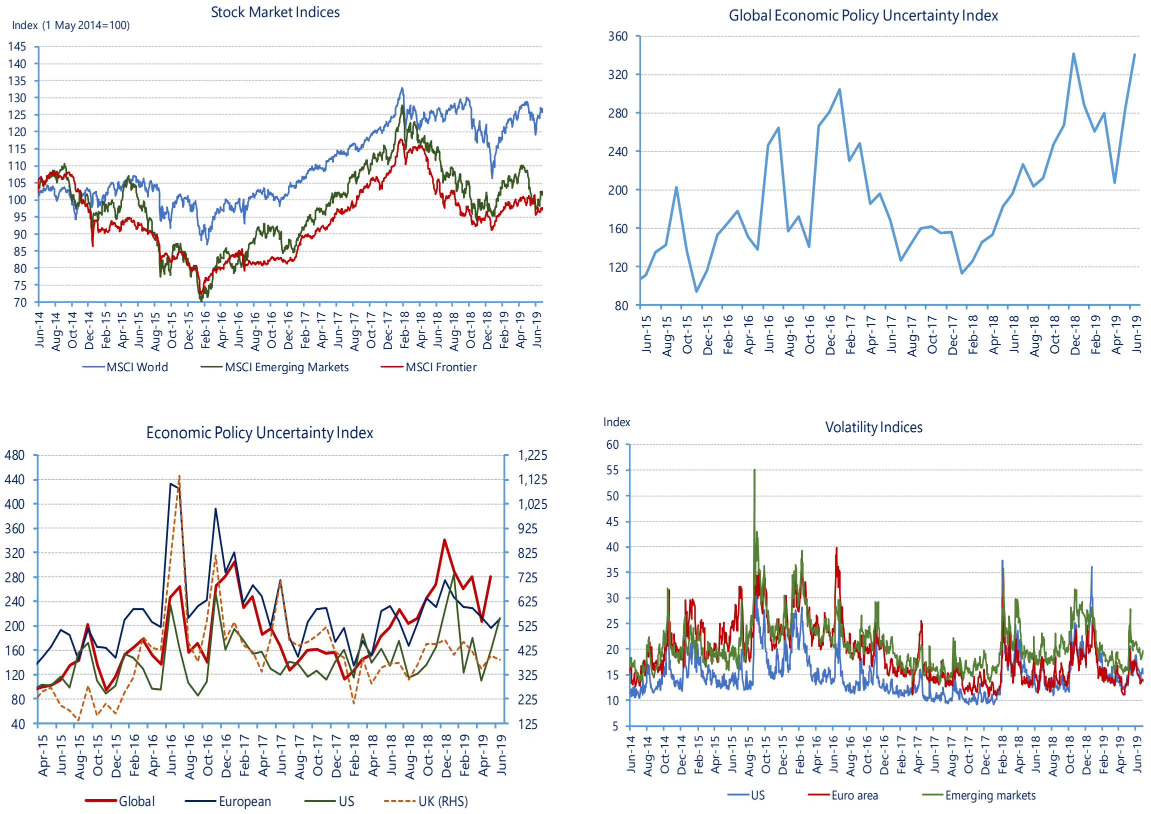
Source: OECD.

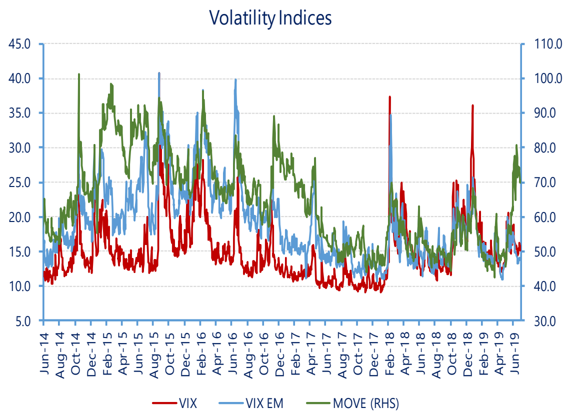
2.4 Global Equity Markets

Returns across global equity markets have been quite mixed since March 2019. The MSCI World Index rose by 2.1 per cent between March and June 2019, underpinned by encouraging economic data and improved risk appetite amid the ongoing dovish stance adopted by major central banks. The MSCI Emerging Market Index, in contrast, declined by 2.3 per cent over the same period, reflecting a shift towards perceived safe assets as investors remained concerned about the ongoing trade dispute between the US and China. The MSCI Frontier Market Index, on its part, increased by 4.2 per cent in June 2019 compared to March 2019 (Chart 2.6).

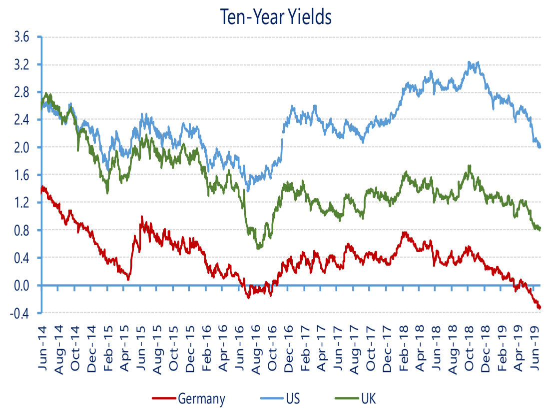
Uncertainty over economic policy continued to create negative externalities for the global economy. The Global Economic Policy Uncertainty Index, which gauges policy-related economic uncertainty through textual analysis, increased by 21.5 per cent from 280 in March 2019 to 340 in June 2019, reflecting intensified trade tensions between the US, China and other partners. In the US, policy uncertainty rose by 17.8 per cent over the same period as threats by the US President to impose new tariffs of about US$300 billion on additional Chinese goods raised concerns about its implications for the US economy. The indices for the UK and Europe, in contrast, decreased by 8.1 per cent and 7.3 per cent, respectively, notwithstanding persisting uncertainties. Concurrently, uncertainty in financial markets, as gauged by VIX and VIX-Emerging Markets also increased amid concerns over the US-China trade dispute, and rose from 14.5 and 17.9 to 15.8 and 19.5, respectively, in June 2019.

Chart 2.6: Stock Market and Volatility





Source: Reuters.



Source: Reuters.

Box 1: Global Economic Uncertainty

Global growth has lost momentum in the wake of mounting uncertainty stemming primarily from the ongoing US-China trade conflict. Beyond the trade conflict, headwinds persisted on the back of more accommodative monetary policy stances by major central banks, weaker global economic activity, moderating international trade, geopolitical tensions, deterioration in business and consumer confidence and easing financial market conditions. In light of the current global economic conditions, growth projections for advanced and developing economies have been revised down for 2019.

Persistent trade disputes remained a major cause for concern to the world economy. Trade, business sentiment and investment had been undermined by the intensification of trade restrictions between the two largest economies, namely the US and China. Global trade volume growth has fallen to about 0.75 per cent in 2019Q1, from almost 5.5 per cent in 2017. Higher tariff has weighed on the cost of production of businesses while investment decreased as investors remained cautious of further increases in tariff. Moreover, the US has signalled its plan to impose additional tariffs on European Union goods, which further strained trade relationships. Further escalation of the trade conflict could have severe impact on new orders, trade and global growth.

Global growth projections were revised down in 2019. In 2018H1, global growth was strong, but it slowed sharply in 2018H2. Consumer and business confidence dampened as trade restrictions led to increased businesses production costs and consumer goods were more expensive. Moreover, elevated trade-related headwinds curtailed investment, compelling investors to adopt a wait-and-see attitude. In response to the fall in economic activity, central banks across developed and emerging market economies had shifted towards more accommodative monetary policy while governments implemented fiscal stimulus programmes to support growth.

Financial market conditions were strained in 2018H2 amid uncertainty over global trade tensions that casted a cloud over global economic outlook and financial stability. In the beginning of 2019, global financial market conditions improved, supported by easing monetary policy stances in many economies. However, financial market strains could lead to risk aversion, encouraging investors to shift towards safer haven assets and intensifying the imbalances in emerging markets.

Concerns that a withdrawal agreement between the UK and the European Union would not be reached before October 2019, dampened sentiment over the UK and EU economic outlook. Moreover, the UK Prime Minister announced her resignation without a clear road map for the Brexit deal, further clouding uncertainty over the UK economy. Failure to reach an agreement between the two parties, could lead to depressed trading activities, closure of some businesses, and a slowdown in economic activity.

Prolonged global tensions could adversely impact on business sentiment, trade, investment and global growth, particularly for advanced economies, leading to spillover effects on emerging countries.

2.5 Exchange Rates

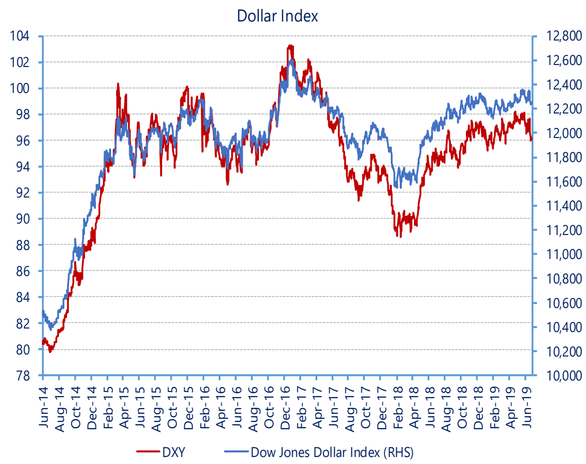
Global currency markets remained under the influence of the ongoing trade dispute between the US and China and the dovish monetary policy stance adopted by major central banks. The US dollar appreciated slightly against major currencies, underpinned by positive economic data and safe-haven demand amid heightened global economic policy uncertainty. However, prospects that the US Federal Reserve would cut interest rates before the end of the year restrained, to some extent, the gains of the US dollar. Between March and June 2019, the US Dollar Index remained broadly unchanged while the Dow Jones Dollar Index appreciated by 0.5 per cent (Chart 2.7). The euro remained broadly stable over the same period while the Pound sterling weakened by around 3.8 per cent weighed down by the clouded economic outlook for the UK amid protracted uncertainties surrounding Brexit.

2.6 Monetary Policy Stances

Monetary policy stances have been mixed globally. At its June 2019 Federal Open Market Committee (FOMC) meeting, the US Fed decided to hold the target range for the federal funds rate unchanged at 2.25-2.50 per cent amid strong labour market conditions. However, in light of slowing global growth, trade turmoil and weak inflation, the US Fed switched to a more dovish nature. The FOMC would monitor upcoming economic data and their implications before considering any rate cuts in the future. In the same vein, other major central banks have signalled their readiness to cut interest rates. The Governing Council of the ECB left its policy rate unchanged in June 2019 and announced that it would leave the rate unchanged, although it hinted that interest rates might increase by the second half of 2020. Furthermore, the ECB also revealed that it might restart its asset purchasing programme to stimulate inflation.

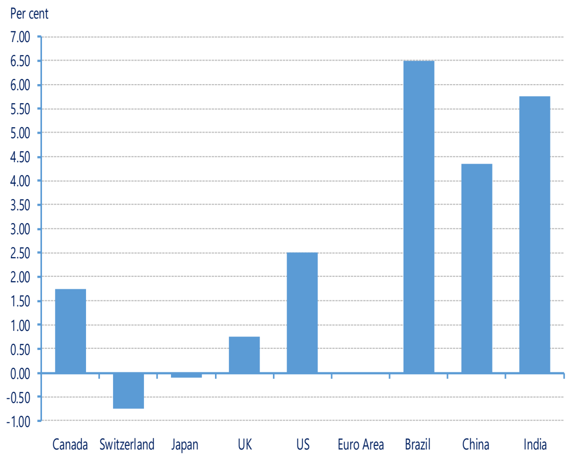
Other central banks such as the Reserve Bank of Australia, Central Bank of the Russian Federation and Reserve Bank of India have cut their policy rates to support economic activity. The Bank of England (BoE) kept its Bank Rate unchanged at 0.75 per cent and maintained its assets purchase programme at £435 billion, while the Committee still judged that the current monetary policy stance was appropriate. The future actions of the BoE would largely depend on the Brexit outcome (Chart 2.8).

Chart 2.7: Exchange Rate



Source: Reuters.

Chart 2.8: Policy Rate



Source: Central banks' website.

3. Recent Domestic Economic Developments

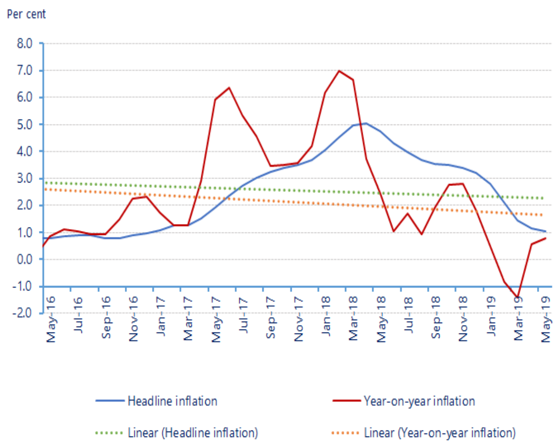
Domestic inflation remained low against the background of moderate global economic activity, low global inflation and subdued domestic demand conditions. Soft underlying inflation developments, as reflected in the Bank's CORE1 and CORE2 measures, would point towards contained underlying inflationary pressures.

3.1 Inflation

Headline inflation has trended down since March 2018 and dropped to 1.0 per cent in May 2019, a level last seen some two years ago. After being in negative territory in February and March 2019, year-on-year (y-o-y) inflation picked up to 0.6 per cent in April 2019 and further to 0.8 per cent in May 2019, mostly on account of base effects arising from the much sharper drop in the prices of vegetables a year earlier (Chart 3.1).

The CPI rose by 0.6 index point, from 103.8 in January 2019 to 104.4 in May 2019. Different components contributed to the rise in the index, notably an increase in prices of vegetables (+0.9 index point), followed by motor vehicles (+0.1 index point) and other food products (+0.1 index point), which more than offset decreases of 0.2 index point in university fees and other goods and services, respectively and 0.1 index point in Gasoline (Chart 3.2). The momentum of price changes, as indicated by the three-month moving average (seasonally-adjusted) inflation eased somewhat in May 2019, from its peak witnessed in December 2018, reflecting some ebbing in price pressures in recent months, as suggested by sequential inflation (Charts 3.3 and 3.4).

Chart 3.1: Headline and Y-o-y Inflation



Source: Statistics Mauritius.

Chart 3.2: Contribution of CPI items: Jan 19-May 19, Index Point

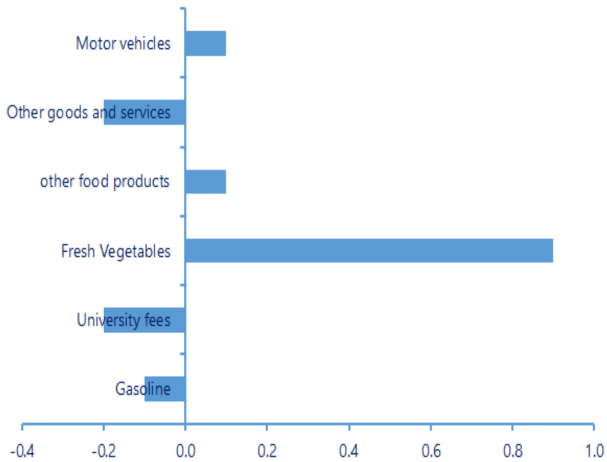


Chart 3.3: 3-Month Moving Average Inflation (Seasonally adjusted)

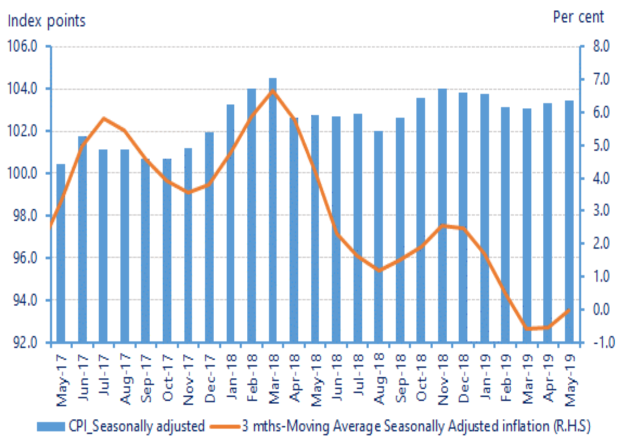
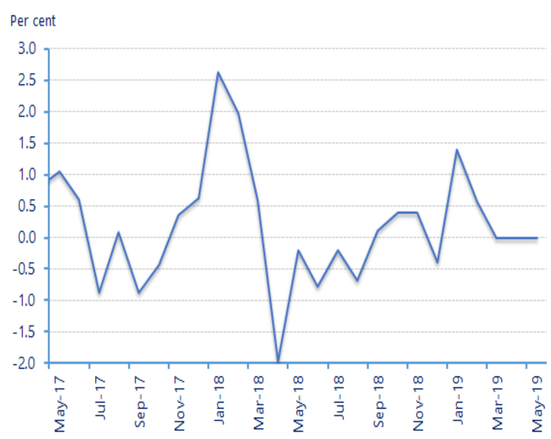


Chart 3.4: Sequential Inflation



Source: Bank staff calculations.

The structure of the evolution of both y-o-y and headline inflation is analysed through the contribution by each division, as shown in Table 3.1. '*Food and non-alcoholic beverages*' and '*Transport*' accounted for more than half of headline inflation in May 2019. The '*Food and non-alcoholic beverages*' division contributed 0.1 percentage point to headline inflation on account of the gyrations in the prices of vegetables while the '*Transport*' division contributed 0.5 percentage point, reflecting the lingering effects of the net increase in the prices of petroleum products under the Petroleum Pricing Committee. With the exception of '*Transport*' and '*Education*', all the remaining divisions contributed to the y-o-y inflation in May 2019.

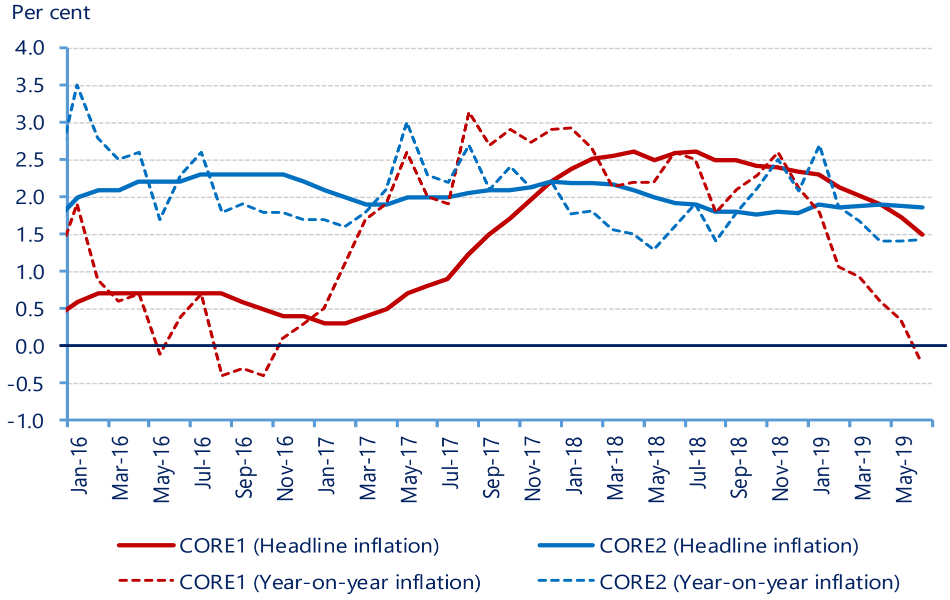
Table 3.1: Weighted Contribution to Y-o-y and Headline Inflation: May 2019

DIVISION	Weights	Consumer Price Index		CPI-Average		Contribution to inflation	
		May-18	May-19	12-Mths Av. to May-18	12-Mths Av. To May-19	Year-on-Year Inflation *(per cent)*	Headline Inflation *(per cent)*
Food and non-alcoholic beverages	248.0	108.0	109.5	104.3	104.9	0.4	0.1
Alcoholic beverages and tobacco	110.0	103.9	104.9	104.0	104.5	0.1	0.1
Clothing and footwear	46.0	101.5	104.5	100.7	103.0	0.1	0.1
Housing, water, electricity, gas and other fuels	112.0	98.0	98.2	99.3	98.0	0.0	-0.2
Furnishings, household equipment and routine household maintenance	59.0	102.0	103.5	101.1	102.5	0.1	0.1
Health	38.0	102.9	105.0	101.3	104.1	0.1	0.1
Transport	147.0	105.0	104.4	101.8	105.3	-0.1	0.5
Communication	44.0	99.1	99.2	100.1	99.2	0.0	0.0
Recreation and culture	42.0	100.6	101.4	100.6	101.1	0.0	0.0
Education	50.0	103.3	100.0	101.4	103.0	-0.2	0.1
Restaurants and hotels	54.0	101.7	104.4	100.8	103.8	0.1	0.1
Miscellaneous goods and services	50.0	102.6	103.2	100.5	102.4	0.1	0.1
Consumer Inflation	**1,000.0**	**103.6**	**104.4**	**102.1**	**103.2**	**0.8**	**1.0**

Note: av.: average
Figures may not add up to totals due to rounding.
Source: Statistics Mauritius

The softening tone in core inflation measures revealed a muted picture of underlying inflationary pressures and remained broadly contained and stable below 3 per cent. Y-o-y CORE1 inflation eased from 1.8 per cent in January 2019 to 0.4 per cent in May 2019 while y-o-y CORE2 inflation went down from 2.7 per cent to 1.4 per cent. On a 12-month average period, CORE1 inflation subsided from 2.3 per cent to 1.7 per cent whereas CORE2 inflation remained flat at 1.9 per cent in May 2019, compared to January 2019 (Chart 3.5).

Chart 3.5: CORE1 and CORE2 Inflation



The majority of other derived inflation measures also depicted a fair degree of stability and did not point, at this stage, to any upside price pressures (Tables 3.2 and 3.3). Y-o-y food price inflation picked up from -1.3 per cent in January 2019 to 1.5 per cent in May 2019. On a 12-month average period, food price inflation, in contrast, receded from 4.8 per cent in January 2019 to 0.5 per cent in May 2019. Y-o-y goods inflation settled at 0.7 per cent in May 2019, up from 0.0 per cent in January 2019 while services inflation dropped from 2.1 per cent in January 2019 to 0.9 per cent in May 2019. On a 12-month average period, goods inflation dropped from 3.4 per cent to 1.0 per cent while services inflation inched down from 1.5 per cent to 1.3 per cent. Excluding mortgage interest from the CPI basket, y-o-y CPIX_M inflation remained steady at 0.7 per cent vis-à-vis January 2019 while based on the 12-month average period, CPIX_M inflation fell from 3.1 per cent in January 2019 to 1.2 per cent in May 2019. Y-o-y imported inflation moved in the negative territory from 0.8 per cent in January 2019 to -0.1 per cent in May 2019 while based on the 12-month average period, imported inflation also edged down from 2.3 per cent to 1.2 per cent over the same period.

Table 3.2: Y-o-y Inflation Indicators

Per cent

	CPI Inflation	Food price inflation	CPI excl. mortgage payments inflation	Imported inflation	Goods inflation	Services inflation	CORE1 inflation	CORE2 inflation	CPI Inflation excl. Vegetables
Dec-17	4.2	5.6	4.6	5.3	5.6	1.6	2.9	2.2	3.6
Jan-18	6.2	12.7	6.4	5.2	8.3	1.6	2.9	1.8	3.6
Feb-18	7.0	16.7	7.3	4.4	9.5	1.8	2.7	1.8	3.2
Mar-18	6.7	16.2	7.0	3.4	9.0	1.8	2.1	1.6	2.7
Apr-18	3.7	6.9	4.2	3.4	5.2	1.3	2.2	1.5	2.5
May-18	2.4	2.0	2.9	3.9	3.5	0.7	2.2	1.3	2.7
Jun-18	1.0	-1.8	1.4	3.4	1.4	0.5	2.6	1.6	2.2
Jul-18	1.7	0.8	2.0	2.5	2.0	1.3	2.5	1.9	2.1
Aug-18	0.9	0.8	1.3	1.0	1.1	0.8	1.8	1.4	1.1
Sep-18	1.9	4.0	2.2	1.2	2.3	1.2	2.1	1.8	1.3
Oct-18	2.8	6.4	2.9	1.2	3.1	2.3	2.3	2.1	1.7
Nov-18	2.8	5.4	3.0	1.5	3.0	2.5	2.6	2.5	2.0
Dec-18	1.8	2.4	1.9	1.0	1.6	2.2	2.1	2.1	1.7
Jan-19	0.5	-1.3	0.7	0.8	0.0	2.1	1.8	2.7	1.7
Feb-19	-0.8	-4.4	-0.8	0.9	-1.4	0.8	1.1	1.9	1.4
Mar-19	-1.4	-5.8	-1.4	0.8	-2.1	0.6	0.9	1.7	1.3
Apr-19	0.6	0.1	0.5	0.6	0.5	0.6	0.6	1.4	1.3
May-19	0.8	1.5	0.7	-0.1	0.7	0.9	0.4	1.4	0.9

Note: excl.: excluding

Table 3.3: Twelve-month Average Inflation Indicators

Per cent

	Headline Inflation	Food price inflation	CPI excl. mortgage payments inflation	Imported inflation	Goods inflation	Services inflation	CORE1 inflation	CORE2 inflation	CPI Inflation excl. Vegetable
Dec-17	3.7	3.6	3.9	4.2	4.4	2.2	2.2	2.2	3.4
Jan-18	4.0	4.6	4.2	4.5	4.9	2.2	2.4	2.2	3.5
Feb-18	4.5	6.2	4.7	4.6	5.7	2.2	2.5	2.2	3.6
Mar-18	5.0	8.0	5.2	4.6	6.3	2.2	2.5	2.2	3.6
Apr-18	5.0	8.4	5.3	4.6	6.5	2.1	2.6	2.1	3.5
May-18	4.7	7.6	5.0	4.6	6.2	1.9	2.5	2.0	3.4
Jun-18	4.3	6.4	4.6	4.4	5.6	1.7	2.6	1.9	3.2
Jul-18	4.0	5.9	4.3	4.2	5.2	1.6	2.6	1.9	3.1
Aug-18	3.7	5.5	4.0	3.9	4.8	1.5	2.5	1.8	2.8
Sep-18	3.5	5.7	3.9	3.6	4.7	1.3	2.5	1.8	2.6
Oct-18	3.5	6.0	3.8	3.3	4.6	1.4	2.4	1.8	2.5
Nov-18	3.4	6.2	3.7	3.0	4.5	1.4	2.4	1.8	2.4
Dec-18	3.2	6.0	3.5	2.6	4.1	1.5	2.3	1.8	2.2
Jan-19	2.8	4.8	3.1	2.3	3.4	1.5	2.3	1.9	2.1
Feb-19	2.1	3.0	2.4	2.0	2.5	1.5	2.1	1.9	1.9
Mar-19	1.4	1.1	1.7	1.8	1.6	1.4	2.0	1.9	1.8
Apr-19	1.2	0.5	1.4	1.6	1.2	1.3	1.9	1.9	1.7
May-19	1.0	0.5	1.2	1.2	1.0	1.3	1.7	1.9	1.6

Note: excl.: excluding

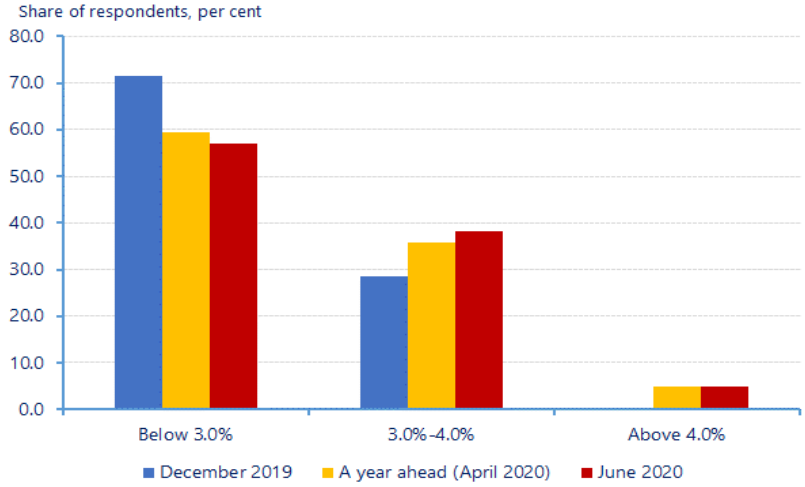
Inflation expectations (headline) assessed in the May 2019 Bank's Survey remained skewed to the downside, in line with the prevailing low headline inflation (Table 3.4). Inflation expectations for the mean inflation rates outturn expected by respondents in the survey month of May 2019 were 2.4 per cent for December 2019 and 2.8 per cent a year ahead (i.e. April 2020). Inflation expectations from the May 2019 round of the Bank's Survey vis-à-vis the last round (February 2019) softened by 80 basis points for December 2019 expectations and by 50 basis points for one-year ahead expectations. For the horizon period ended December 2019, 71.4 per cent of respondents were anticipating the headline inflation rate to be below 3.0 per cent (Chart 3.6).

Table 3.4: Inflation Expectations

Per cent

Expectations		1-year ahead	Dec-19
Survey Period	**Feb-19**	3.3	3.2
	May-19	2.8	2.4

Chart 3.6: Sample Respondents' Expectations of Headline Inflation – May 2019 Survey

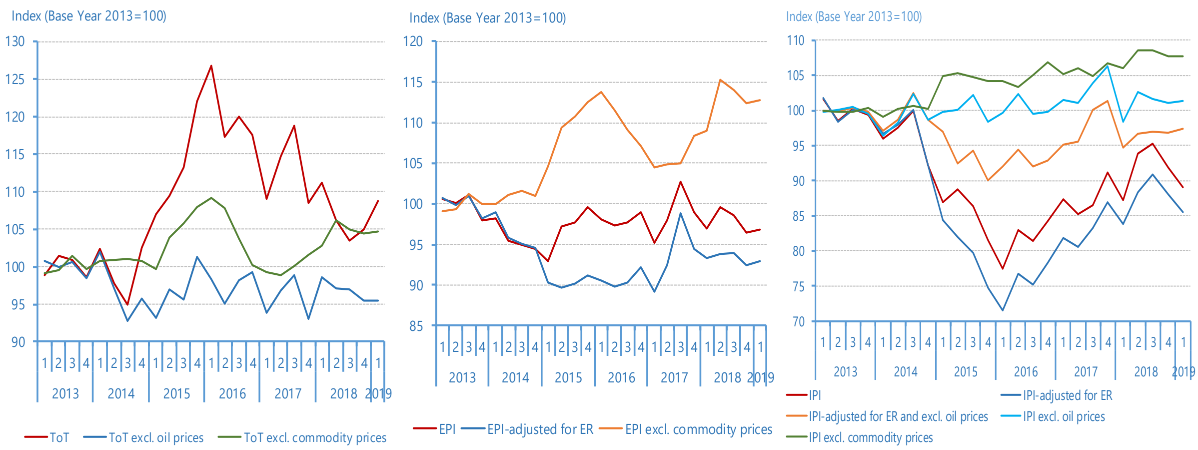


The ebbing of domestic input cost pressures in 2019Q1 reflected the drop in both Producer Price Inflation-Agriculture (PPI-A) and Producer Price Inflation-Manufacturing (PPI-M). Y-o-y PPI-A inflation rate dropped from -10.3 per cent in December 2018 to -12.8 per cent in March 2019, reflecting decreases in the prices of both its main components, i.e. *Crop products* and *Animals and animal products*. Over the 12-month period, PPI-A inflation rate subsided significantly from -0.4 per cent in December 2018 to -5.4 per cent in March 2019. Y-o-y Producer Price Inflation-Manufacturing (PPI-M) inflation rate fell from 3.0 per cent in December 2018 to 1.7 per cent in March 2019, reflecting subdued prices in the manufacturing of food products and beverages. Over the 12-month period, PPI-M inflation rate inched down from 3.2 per cent to 2.9 per cent.

International Terms of Trade

The Terms of Trade (ToT) improved in 2019Q1 compared to the previous quarter but was down y-o-y. The ToT rose by 3.6 per cent q-o-q in 2019Q1 but compared to 2018Q1, ToT declined by 2.2 per cent. Excluding the import price of '*Mineral fuels, lubricants and related materials*', the ToT deteriorated by 3.1 per cent y-o-y. Export prices went up by 0.3 per cent in 2019Q1 compared to 2018Q4, on account of higher export prices of '*Food and live animals*' (+0.4 per cent) and '*Miscellaneous manufactured articles*' (+0.3 per cent), offsetting the decrease in the prices of '*Manufactured goods classified chiefly by material*' (-1.5 per cent). Over the year, the decrease of 0.2 per cent in the export prices was mainly due to the fall in the price of '*food and live animals*' of 5.1 per cent driven by the significant decrease in the price of '*Sugar, sugar preparations and honey*' (-9.6 per cent). Similarly, import prices fell by 3.3 per cent q-o-q due to the notable drop in the price of '*Mineral fuels, lubricants and related materials*' (-9.8 per cent). Y-o-y, import prices rose by 2.1 per cent owing to a rise in the price of "*Food and live animals*" (+5.5 per cent) and "*Manufactured goods classified chiefly by material*" (+4.8 per cent), partly offset by decreases in the prices of "*Animal and vegetable oils, fats and waxes*" (-6.6 per cent), "*Beverages and Tobacco*" (-1.5 per cent) and "*Chemical materials & related products, n.e.s*" (-1.4 per cent). In volume terms, imports rose significantly by 15.8 per cent in 2019Q1 compared to 2018Q1 while exports went up by 9.2 per cent (Chart 3.7).

Chart 3.7: Terms of Trade, Export Price Index and Import Price Index



Source: Statistics Mauritius and Bank staff calculations.

3.2 GDP by Sector

The domestic economy performed rather commendably in 2019Q1, after a strong performance in the previous quarter. Real GDP advanced by 3.3 per cent y-o-y in 2019Q1, compared to 4.1 per cent in both 2018Q4 and 2018Q1. The growth momentum was underpinned by a synchronised expansion in most sectors of the economy, barring the contraction in the tourism sector (Table 3.5). On a seasonally adjusted q-o-q basis, real GDP grew at 0.1 per cent in 2019Q1, from 1.7 per cent in 2018Q4.

Growth in 2019Q1 was supported mainly by continued strong performance of the construction and key services sectors, except the tourism sector. The *'construction'* sector grew by 8.7 per cent, benefitting mostly from on-going public infrastructure projects. Among the key services sectors, the '*information and communication*' and *'financial and insurance activities'* registered solid growth rates of 5.7 per cent and 5.0 per cent, respectively. The *'wholesale and retail trade'* sector drew support from the buoyancy in household expenditure, expanding by 3.6 per cent in 2019Q1. Growth in the *'agriculture'* sector accelerated to 2.6 per cent in 2019Q1, as against a contraction of 7.3 per cent in 2018Q1. Activity in the manufacturing sector moderated amidst closure of some textile firms and difficult operating conditions, registering a mild growth of 0.4 per cent. The '*textile*' sub-sector contracted for the seventh consecutive quarter, by a further 7.5 per cent in 2019Q1 while the '*sugar*' sub-sector rebounded to a positive growth of 7.5 per cent. Meanwhile, the '*accommodation and food service activities*' sector underperformed with a negative growth of 1.1 per cent, mainly explained by the drop in tourist arrivals and earnings.

Table 3.5: GDP - Sectoral Real Growth Rates (Year-on-year)

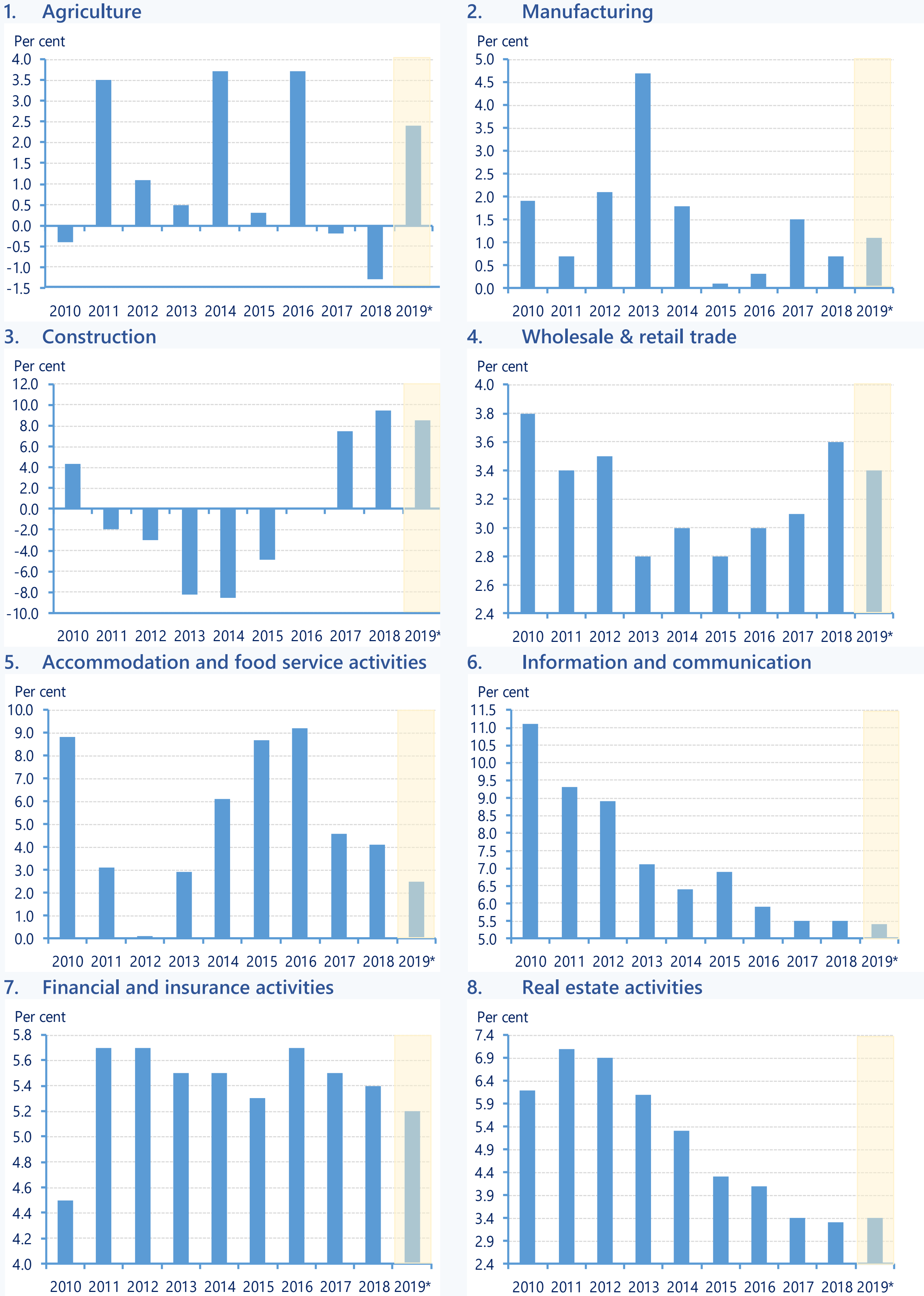
Per cent

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Primary Sector									
Agriculture forestry & fishing	3.4	-0.6	-0.4	-1.6	-7.3	-5.3	1.7	1.7	2.6
Mining & quarrying	2.7	1.9	0.8	1.2	-0.9	2.9	3.0	2.7	3.2
Secondary Sector									
Manufacturing	0.3	2.2	1.6	1.5	1.3	0.2	-1.2	2.3	0.4
Electricity, gas, steam & AC	4.9	3.8	2.4	2.0	4.2	3.9	1.4	1.2	4.7
Water supply	1.9	-0.7	2.1	7.5	5.1	4.4	2.0	6.5	3.6
Construction	5.7	8.9	8.7	6.6	11.2	11.1	6.6	9.9	8.7
Tertiary Sector									
Wholesale & retail trade	3.3	2.9	2.6	3.3	3.8	3.4	3.7	3.7	3.6
Transportation & storage	4.1	3.6	3.3	3.9	3.9	3.5	3.3	3.4	3.2
Accommodation & food service activities	3.4	9.2	4.3	3.1	4.8	1.1	5.7	4.2	-1.1
Information and communication	5.6	5.6	5.3	5.6	5.8	5.6	5.3	5.3	5.7
Financial & insurance	5.3	5.9	5.3	5.6	5.6	5.5	5.1	5.2	5.0
Real estate	3.3	2.8	3.5	3.4	3.7	3.5	2.6	3.1	3.1
Professional, scientific & technical activities	5.7	5.4	5.2	5.1	4.8	5.2	5.2	5.3	5.0
Administrative & support service activities	5.7	5.8	5.6	6.0	5.6	5.6	5.8	5.7	5.4
Public administration	1.7	1.8	-1.4	0.4	-2.2	3.6	2.2	3.0	2.6
Education	2.5	1.2	1.6	2.0	2.2	2.2	2.2	2.8	0.3
Health	4.1	6.4	5.0	2.6	4.1	3.7	3.5	5.4	3.4
Art, entertainment & recreation	5.5	4.7	4.0	4.9	4.1	4.4	4.3	5.4	4.4
Other service activities	3.5	2.9	3.4	3.0	4.0	3.1	3.6	3.3	3.5
GDP at basic prices	**3.6**	**4.0**	**3.3**	**3.3**	**3.7**	**3.3**	**3.3**	**4.0**	**3.2**
Taxes on products (net of subsidies)	4.1	6.7	4.4	7.8	7.4	5.3	3.3	4.1	3.4
GDP at market prices	**3.7**	**4.4**	**3.5**	**3.8**	**4.1**	**3.6**	**3.3**	**4.1**	**3.3**

Source: Statistics Mauritius.

In its June 2019 National Accounts Estimates, Statistics Mauritius maintained its forecast for real GDP growth at market prices at 3.9 per cent in 2019, despite downward revisions for some key sectors. The *'manufacturing'* sector is expected to grow by 1.1 per cent in 2019, up from 0.7 per cent in 2018. The *'construction'* sector would continue to experience a strong performance, with a growth of 8.5 per cent, supported by new and existing projects. Growth in the *'financial and insurance activities'* and *'information and communication'* sectors is expected to remain buoyant in 2019. The *'accommodation and food service activities'* sector is now projected to expand by a mere 2.5 per cent in 2019 based on revised forecast for tourist arrivals of around 1,435,000. The agricultural sector is expected to rebound in 2019 and grow by 2.4 per cent based on a sugar production of around 325,000 tonnes (Chart 3.8).

Chart 3.8: Annual Growth Rates for Selected Sectors



Source: Statistics Mauritius. ** Forecast.*

3.3 GDP by Expenditure

Well supported by both of its components, final consumption expenditure continued to grow around trend. Final consumption expenditure rose by 3.2 per cent y-o-y in 2019Q1, lower than the 3.4 per cent growth in 2018Q4 and 2018Q1 (Table 3.6). Household consumption expanded by 3.3 per cent in 2019Q1 while general Government consumption expenditure rose by 2.5 per cent compared to a growth of 4.0 per cent in the previous quarter. Gross fixed capital formation (GFCF) grew remarkably by 8.3 per cent in 2019Q1 compared to 2.6 per cent in 2018Q1. The significant increase was due to robust investment growth of 9.2 per cent and 6.4 per cent in *'Building and construction work'* and *'Machinery and equipment'*, respectively (Chart 3.9).

Net external demand remained a drag on domestic economic performance in 2019Q1. Exports of goods and services contracted by 3.1 per cent in 2019Q1, due to a fall of 8.3 per cent in exports of services, albeit exports of goods grew by 5.1 per cent. Imports of goods and services grew by 10.1 per cent in 2019Q1, following an increase of 11.7 per cent in imports of goods and 6.2 per cent in imports of services.

However, the domestic economic outlook remains fraught with uncertainty. The fragile economic environment in our major trading partners, exacerbated by the ongoing US-China trade tensions, together with a sluggish performance of the UK due to Brexit, could pose some downside risks to the export sector. However, household consumption and the hefty public investment expenditure should continue to support growth.

Table 3.6: Domestic and External Demand

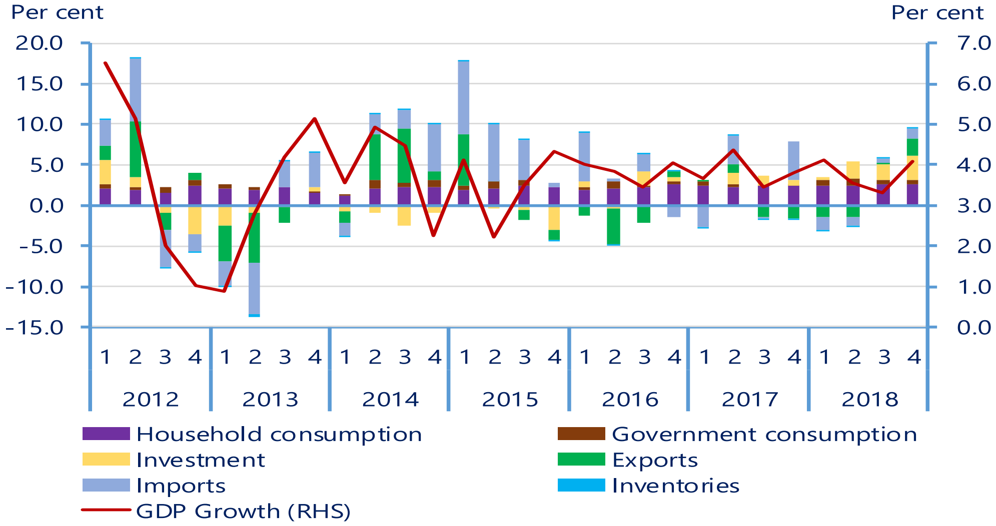
Per cent

	2016				2017				2018[1]				2019[2]
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
I. Domestic Demand													
Final consumption expenditure	**2.6**	**3.2**	**2.7**	**3.2**	**3.4**	**3.0**	**2.7**	**2.8**	**3.4**	**3.7**	**3.4**	**3.4**	**3.2**
Households	2.6	2.8	2.9	3.4	3.4	3.2	3.1	3.2	3.4	3.3	3.3	3.3	3.3
General Government	2.4	5.1	1.5	2.3	3.3	2.1	0.5	0.4	3.6	5.6	3.5	4.0	2.5
GFCF	**3.5**	**-2.3**	**9.8**	**3.8**	**0.1**	**8.1**	**6.4**	**3.8**	**2.6**	**12.4**	**9.9**	**18.6**	**8.3**
Building & construction work	-3.8	-6.3	9.3	6.4	5.7	7.9	7.8	5.8	10.3	11.5	8.3	11.4	9.2
Machinery & equipment	16.1	4.7	10.7	-1.0	-8.1	8.2	4.2	0.5	-9.3	13.5	13.0	33.0	6.4
II. Net External Demand	-13.0	-9.6	-8.1	4.2	5.6	-3.9	-3.1	-12.6	1.9	0.6	1.0	5.1	-13.2
Exports of Goods & Services	**-2.6**	**-8.9**	**-4.4**	**1.6**	**0.4**	**2.7**	**-3.4**	**-3.6**	**-1.5**	**-1.1**	**2.9**	**8.5**	**-3.1**
Exports (goods)	-11.5	-14.5	-11.0	-4.5	-2.2	-4.9	-7.8	-5.7	-10.0	-2.1	6.3	9.2	5.1
Exports (services)	5.5	-3.1	2.2	6.5	2.4	9.5	0.5	-2.1	4.7	-0.2	0.2	8.0	-8.3
Imports of Goods & Services	**10.4**	**0.7**	**3.7**	**-2.6**	**-5.2**	**6.6**	**-0.3**	**9.0**	**-3.4**	**-1.7**	**1.9**	**3.4**	**10.1**
Imports (goods)	12.6	1.0	3.9	-0.5	-5.7	5.5	-1.4	9.6	-5.1	0.4	7.4	2.4	11.7
Imports (services)	3.9	-1.4	2.9	-6.6	-2.7	11.1	2.7	5.3	1.2	-7.6	-12.5	6.5	6.2
III. GDP at market prices	**4.0**	**3.8**	**3.5**	**4.0**	**3.7**	**4.4**	**3.5**	**3.8**	**4.1**	**3.6**	**3.3**	**4.1**	**3.3**

[1] *Revised Estimates.* [2] *First Estimates.*

Source: Statistics Mauritius.

Chart 3.9: Demand Contribution to GDP Growth



Source: Statistics Mauritius.

3.4 Labour Market and Unit Labour Costs

Labour market conditions improved in 2019Q1 compared to 2018Q1, as the labour force expanded by 5,400 while employment rose by 6,000. As a result, the number of unemployed declined by 600, pushing down the unemployment rate from 7.1 per cent in 2018Q1 to 6.9 per cent in 2019Q1.

The Wage Rate Index (WRI) in 2019Q1 rose by 3.7 per cent compared to 2018Q1, reflecting increases in private sector and public sector indices by 4.9 per cent and 2.3 per cent, respectively. All industrial groups in the private sector recorded increases in wages, with the manufacturing and wholesale and retail trade sectors accounting for nearly 50 per cent of the rise. In the public sector, the '*information and communication*', '*transportation and storage activities*', '*education*', and '*electricity and gas*' sectors recorded increases ranging from 2.5 per cent to 7.7 per cent.

Wage trends relative to productivity changes determine competitiveness and cost pressures in the economy and warrant monitoring. The growth in unit labour cost decelerated from 2.3 per cent in 2017 to 1.4 per cent in 2018 mainly due to an acceleration in labour productivity growth, from 2.4 per cent in 2017 to 3.7 per cent in 2018, which offset the slight increase in compensation growth to 5.2 per cent. The loss of competitiveness was more pronounced for the EOE and manufacturing sectors, which recorded an increase in unit labour cost of 6.9 per cent and 2.4 per cent, respectively, in 2018 (Charts 3.10 and 3.11).

Chart 3.10: Competitiveness Indicators for Economy

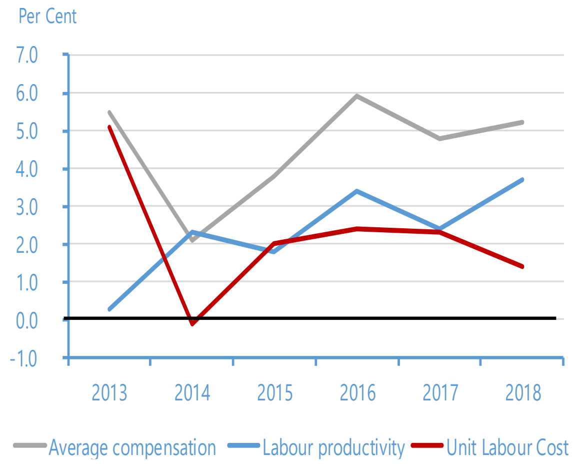
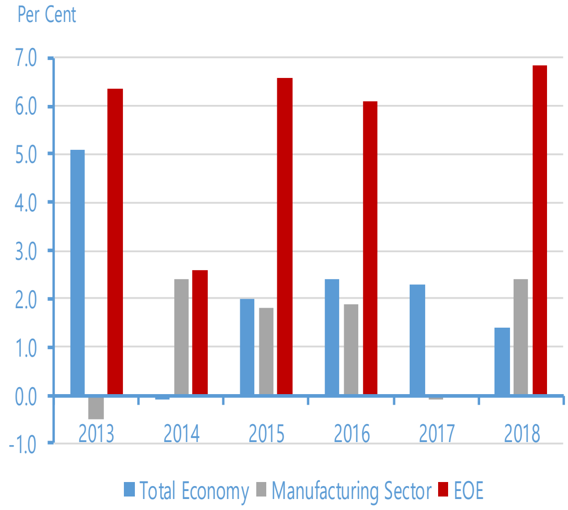


Chart 3.11: Unit Labour Costs in Rupees



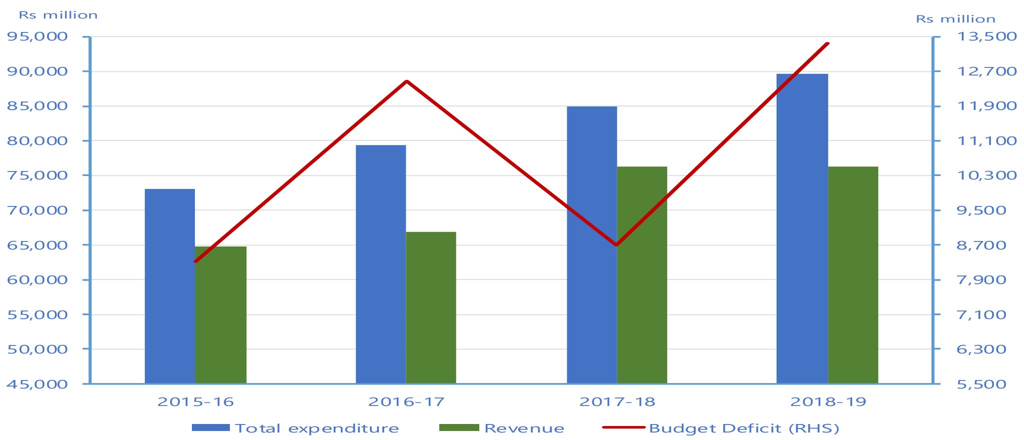
Source: Statistics Mauritius.

3.5 Fiscal and Debt Developments

Fiscal upturn, over the period July 2018 to March 2019, was rather tight on account of lower external grants than expected and higher expenditure. Total revenue of Government remained unchanged at Rs76.3 billion, compared to the corresponding period of FY2017-18 (Chart 3.12). The increase in tax revenue (9.0 per cent) was mainly offset by the decline in grants (Table 3.7). Total expenditure rose by 5.4 per cent to Rs89.6 billion, driven mainly by increases in interest payments, compensation of employees and grants. Net acquisition of non-financial assets rose by 7.4 per cent to Rs4.5 billion, representing around 39 per cent of the total budgeted amount for FY2018-19.

The budget deficit widened from Rs8.7 billion over the period July 2017 to March 2018 to Rs13.3 billion over the period July 2018 to March 2019. As a share of GDP, fiscal deficit rose from 2.5 per cent to 3.6 per cent. The budget deficit was financed through domestic sources. The primary deficit, which is computed by deducting interest payments from the budget deficit, increased from 0.1 per cent of GDP to 1.0 per cent of GDP.

Chart 3.12: Total Revenue, Expenditure and Budget Deficit: July to March



Source: Statistics Mauritius.

Table 3.7: Statement of Government Operations, July to March

July to March	Rs Million			Annual Percentage Change, Per cent	
	2016-17	2017-18	2018-19	2017-18	2018-19
Total Revenue	66,867	76,289	76,254	14.1	0.0
	(20.0)	(21.8)	(20.8)		
Tax Revenue	60,309	64,471	70,248	6.9	9.0
Of which					
Taxes on income, profits, and capital gains	14,786	15,340	17,761	3.7	15.8
Taxes on property	4,483	4,412	4,612	-1.6	4.5
Taxes on goods & services	39,028	42,682	45,718	9.4	7.1
Taxes on international trade & transactions	892	1,018	1,053	14.1	3.4
Other taxes	1,120	1,019	1,105	-9.0	8.4
Social contributions	1,030	1,001	986	-2.9	-1.4
Grants	1,039	6,215	1,039	498.3	-83.3
Other Revenue	4,490	4,602	3,981	2.5	-13.5
Total Expenditure	79,332	84,979	89,591	7.1	5.4
	(23.8)	(24.3)	(24.4)		
Compensation of employees	21,577	22,105	22,986	2.4	4.0
Use of goods & services	6,114	6,422	6,721	5.0	4.7
Interest	8,154	8,384	9,529	2.8	13.7
Subsidies	1,090	1,191	1,111	9.2	-6.7
Grants	15,906	16,448	17,922	3.4	9.0
Social benefits	20,527	23,306	23,720	13.5	1.8
Other expense	2,466	2,942	3,111	19.3	5.7
Net acquisition of nonfinancial assets	3,498	4,181	4,491	19.5	7.4
Budget balance	-12,464	-8,690	-13,337	30.3	-53.5
	(3.7)	(2.5)	(3.6)		

Figures in bracket represent share of GDP.
Source: Statistics Mauritius.

Public Debt

Public sector debt grew by 9.0 per cent, from Rs292 billion as at end-March 2018 to Rs318 billion as at end-March 2019, reflecting an increase in domestic debt which more than offset the decline in external debt. As a share to GDP, public sector debt increased by 1.8 percentage points, from 63.0 per cent to 64.8 per cent. Budgetary Central Government (BCG) domestic debt was up by 11.1 per cent y-o-y to Rs242 billion as at end-March 2019, and as a ratio to GDP, BCG domestic debt rose from 47.0 per cent to 49.3 per cent. However, BCG external debt continued on its downtrend to Rs40 billion, representing 8.2 per cent of GDP. Public enterprises total debt rose by about 22 per cent to Rs36 billion as at end-March 2019, driven mainly by an increase in domestic debt liabilities (Table 3.8).

Table 3.8: Public Sector Debt

Rs million

	Mar-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
1. Budgetary Central Government Domestic Debt	**217,000**	**217,587**	**223,719**	**232,486**	**234,258**	**241,820**
- Short Term	*24,932*	*25,060*	*25,856*	*27,938*	*26,283*	*29,088*
- Medium Term	*51,549*	*54,899*	*54,393*	*55,362*	*56,791*	*57,691*
- Long Term	*125,601*	*138,318*	*144,640*	*150,525*	*153,194*	*158,688*
Government securities issued for mopping up excess liquidity	*15,947*	*1,021*	*894*	*894*	*894*	*893*
Consolidation adjustment (iro Government Securities held by non-financial public corporations)	*-1,029*	*-1,711*	*-2,064*	*-2,233*	*-2,904*	*-4,540*
As percentage to GDP	***49.3%***	***47.0%***	***47.6%***	***48.9%***	***48.5%***	***49.3%***
Budgetary Central Government Domestic Debt excluding Government securities issued for mopping up excess liquidity	201,053	216,566	222,825	231,592	233,364	240,927
As percentage to GDP	***45.7%***	***46.8%***	***47.4%***	***48.7%***	***48.4%***	***49.1%***
2. Budgetary Central Government External Debt	**46,103**	**44,544**	**44,538**	**42,078**	**41,414**	**40,256**
- Short Term	*39*	*29*	*14*	*12*	*17*	*12*
- Medium and Long Term	*41,417*	*39,838*	*39,823*	*37,422*	*36,786*	*35,573*
- Long term debt liability - IMF SDR Allocations	*4,647*	*4,677*	*4,701*	*4,644*	*4,611*	*4,671*
As percentage to GDP	***10.5%***	***9.6%***	***9.5%***	***8.8%***	***8.6%***	***8.2%***
3. Budgetary Central Government Total Debt	**263,103**	**262,130**	**268,257**	**274,564**	**275,672**	**282,076**
As percentage to GDP	***59.8%***	***56.6%***	***57.0%***	***57.7%***	***57.1%***	***57.5%***
4. Public Enterprises Total Debt	**24,468**	**29,458**	**29,751**	**30,387**	**37,193**	**35,893**
Public Enterprises Debt as percentage to GDP	***5.6%***	***6.4%***	***6.3%***	***6.4%***	***7.7%***	***7.3%***
Public Sector Domestic Debt	229,622	235,375	240,758	250,022	258,629	265,332
Public Sector Domestic Debt as percentage to GDP	*52.2%*	*50.8%*	*51.2%*	*52.5%*	*53.6%*	*54.1%*
Public Sector External Debt	58,074	56,317	57,342	55,020	54,327	52,717
Public Sector External Debt as percentage to GDP	*13.2%*	*12.2%*	*12.2%*	*11.6%*	*11.3%*	*10.7%*
5. Public Sector Debt	**287,696**	**291,691**	**298,100**	**305,042**	**312,956**	**318,049**
As percentage to GDP	**65.4%**	**63.0%**	**63.4%**	**64.1%**	**64.9%**	**64.8%**
Public Sector Debt excluding government securities issued for mopping up excess liquidity	271,749	290,670	297,206	304,148	312,062	317,156
As percentage to GDP	**61.8%**	**62.8%**	**63.2%**	**63.9%**	**64.7%**	**64.7%**

Source: Ministry of Finance and Economic Development.

3.6 Monetary Aggregates

The annual growth rate in broad money supply moderated slightly since December 2018. Broad Money Liabilities (BML) rose by 6.0 per cent y-o-y in April 2019, lower than the increase of 6.3 per cent recorded in December 2018. The contribution of rupee deposits in the y-o-y growth in BML edged up from 1.9 percentage points in December 2018 to 2.6 percentage points in April 2019 while the contribution of foreign currency deposits in y-o-y BML rose from 1.7 percentage points to 1.9 percentage points over the same period. The contribution of debt securities in y-o-y BML fell from 2.8 percentage points to 1.5 percentage points. Excluding foreign currency deposits, the y-o-y growth rate of BML fell from 5.4 per cent to 4.9 per cent. The velocity of circulation of broad money remained broadly unchanged at around 0.9 in April 2019 (Table 3.9).

The annual growth rate of Net Foreign Assets (NFAs) of depository corporations gathered pace and increased by 5.1 per cent in April 2019, from 0.7 per cent in December 2018. This was largely attributed to an increase in the y-o-y growth of the NFA of other depository corporations (ODCs). The NFA of ODCs grew by 3.9 per cent y-o-y in April 2019, as against a contraction of 3.6 per cent y-o-y in December 2018. The annual growth of NFA of the Bank of Mauritius decreased from 8.5 per cent to 6.9 per cent over the same period.

Y-o-y, depository corporations' claims on other sectors (excluding financial derivatives) grew by 5.4 per cent in April 2019, unchanged compared to December 2018. Between end-December 2018 and end-April 2019, claims on other sectors (excluding financial derivatives) rose by Rs9.6 billion, or by 2.1 per cent to Rs469 billion. Net claims on central government rose by 8.8 per cent y-o-y in April 2019, slightly up from 8.1 per cent in December 2018.

The monetary base increased by 7.0 per cent y-o-y in April 2019, as against a contraction of 1.3 per cent in December 2018. Growth in Liabilities to ODCs, one of the major components of the monetary base rose to 8.0 per cent in April 2019, up from a contraction of 3.0 per cent in December 2018. The broad money multiplier remained broadly stable at 5.5 in April 2019.

Table 3.9: Components and Sources of Broad Money Liabilities[1]

Rs million

Components of Broad Money Liabilities [2]	Dec-17	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
I. Currency with Public	**32,218**	**31,636**	**29,894**	**29,612**	**29,987**	**29,809**
II. Deposit Liabilities	**482,668**	**501,478**	**503,229**	**506,831**	**508,195**	**510,403**
II.I Rupee Deposits	402,595	412,277	413,955	415,348	416,746	416,906
II.2. Foreign Currency Deposits	80,072	89,201	89,275	91,483	91,449	93,497
III. Debt securities	**7,197**	**21,900**	**21,850**	**23,249**	**24,829**	**25,147**
BROAD MONEY LIABILITIES (I+II+III)	**522,083**	**555,014**	**554,973**	**559,691**	**563,011**	**565,359**
Sources of Broad Money Liabilities	Dec-17	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
I. Net Foreign Assets	**566,913**	**570,677**	**555,739**	**612,169**	**580,722**	**601,793**
Bank of Mauritius	200,039	217,004	218,847	219,967	226,577	229,226
Other Depository Corporations	366,873	353,672	336,892	392,202	354,146	372,567
1. Net Claims on Central Government	***69,678***	***75,333***	***77,578***	***79,130***	***81,328***	***81,462***
Bank of Mauritius	(24,932)	(19,273)	(20,935)	(19,289)	(20,773)	(18,967)
Other Depository Corporations	94,611	94,606	98,513	98,419	102,101	100,430
2. Claims on Other Sectors [3]	***504,900***	***460,262***	***459,857***	***465,278***	***465,124***	***469,943***
Bank of Mauritius	3,843	3,927	3,916	3,920	3,923	3,927
Other Depository Corporations	501,057	456,335	455,941	461,358	461,201	466,016
2.1 Claims on other sectors, excluding financial derivatives	*435,641*	*459,351*	*458,939*	*464,528*	*464,145*	*468,965*
II. Domestic Claims (1+2)	**574,578**	**535,595**	**537,435**	**544,408**	**546,452**	**551,405**
III. Net Non-Monetary Liabilities	**619,408**	**551,258**	**538,200**	**596,886**	**564,163**	**587,840**
BROAD MONEY LIABILITES (I+II-III)	**522,083**	**555,014**	**554,973**	**559,691**	**563,011**	**565,359**

Figures may not add up to totals due to rounding.

[1] Based on the methodology of the IMF's Depository Corporations Survey framework.

[2] Effective October 2018, the Bank discontinued the dissemination of narrow money liabilities and quasi-money liabilities. Instead, the components of Broad Money liabilities will comprise Currency with public, Deposit liabilities and Debt securities (formerly known as Securities other than Shares).

[3] Effective May 2018, Financial Derivatives are recorded at market or fair values and are not strictly comparable with prior months' data.

3.7 Credit Developments

Bank loans[1] to Other Nonfinancial Corporations ('ONFCs'), households and other sectors[2] (excluding GBCs) went up by Rs2.4 billion or 0.8 per cent, from Rs297.9 billion in December 2018 to Rs300.3 billion in April 2019 (Table 3.10). Reflecting the increase in loan facilities availed, bank loans as a percentage of GDP edged up marginally, from 58.5 per cent in December 2018 to 59.0 per cent in April 2019.

The expansion in loans over the period ended April 2019 was largely supported by an increase in household borrowings as well as loans to Other Financial Corporations. Household borrowings were higher by Rs4.2 billion or 4.2 per cent compared to December 2018, largely due to additional loans availed by households for both housing and consumption purposes. On the other hand, loans extended to ONFCs weakened during the period under review, predominantly reflecting net-repayments in the *'Accommodation and food service activities'* and *'Construction'* sectors.

Table 3.10: Bank Loans to ONFCs, Households and Other Sectors as at end of period

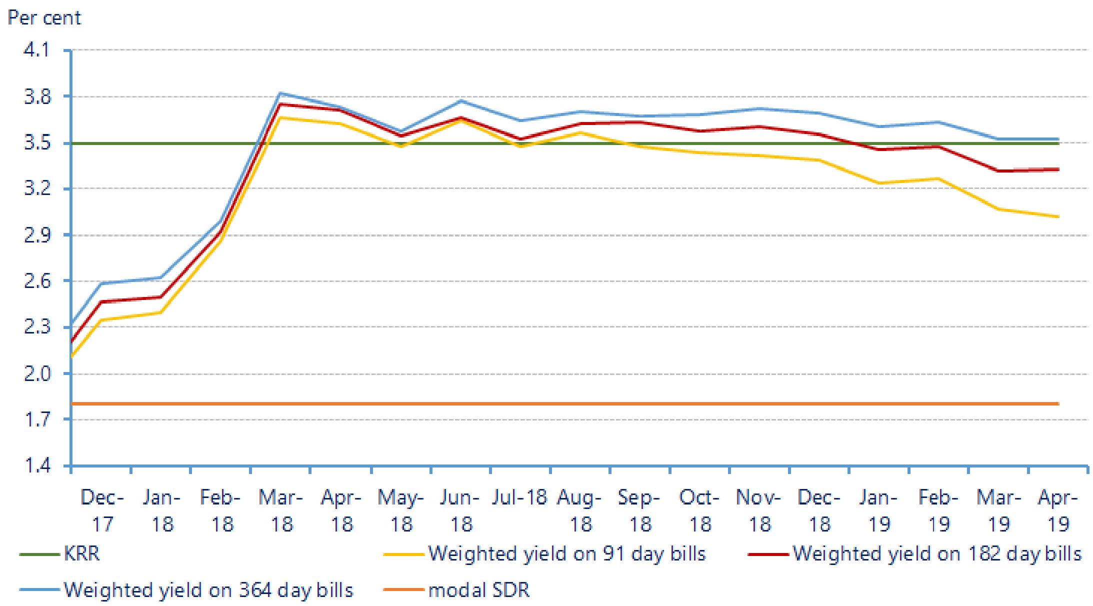
	Dec-18	Apr-19	Change		Bank loans as a percentage of GDP as at end-Apr 2019
	Rs million	Rs million	Rs million	Per cent	Per cent
1. OTHER NONFINANCIAL CORPORATIONS	**151,131**	**148,616**	**-2,515**	**-1.7**	**29.2**
A - Agriculture, forestry and fishing	12,608	12,701	93	0.7	2.5
B - Mining and quarrying	46	44	-2	-4.4	0.01
C - Manufacturing	22,717	22,492	-226	-1.0	4.4
D - Electricity, gas, steam and air conditioning supply	4,397	4,247	-149	-3.4	0.8
E - Water supply; sewerage, waste management and remediation activities	126	134	8	6.3	0.03
F - Construction	19,592	18,722	-870	-4.4	3.7
G - Wholesale and retail trade; and repair of motor vehicles and motorcycles	22,800	22,817	17	0.1	4.5
H - Transportation and storage	3,064	3,095	31	1.0	0.6
I - Accommodation and food service activities	38,425	37,296	-1,129	-2.9	7.3
J - Information and communication	3,017	3,564	547	18.1	0.7
L - Real estate activities	13,054	13,387	333	2.6	2.6
M - Professional, scientific and technical activities	3,321	1,916	-1,404	-42.3	0.4
N - Administrative and support service activities	4,736	4,355	-381	-8.0	0.9
P - Education	1,242	1,174	-69	-5.5	0.2
Q - Human health and social work activities	333	731	398	119.7	0.1
R - Arts, entertainment and recreation	753	800	47	6.3	0.2
S - Other service activities	901	1,141	240	26.6	0.2
2. Households	**100,690**	**104,911**	**4,221**	**4.2**	**20.6**
of which: Housing	*65,721*	*67,743*	*2,022*	*3.1*	*13.3*
3. Other Financial Corporations (excluding Financial GBC1s)	**41,063**	**42,325**	**1,263**	**3.1**	**8.3**
4. Public nonfinancial corporations	**5,008**	**4,479**	**-530**	**-10.6**	**0.9**
5. Financial GBC1s	**27,880**	**33,315**	**5,435**	**19.5**	**6.5**
6. Non-Financial GBC1s	**25,822**	**26,263**	**440**	**1.7**	**5.2**
7. GBC2s	**8,067**	**6,489**	**-1,578**	**-19.6**	**1.3**
TOTAL (1+2+3+4+5+6+7)	**359,661**	**366,398**	**6,737**	**1.9**	**72.0**
TOTAL (excluding GBCs)	**297,892**	**300,332**	**2,439**	**0.8**	**59.0**

[1] *Loans only include facilities extended by banks in the form of loans, overdrafts and finance leases.*
[2] *Other sectors include Other Financial Corporations and Public Nonfinancial Corporations.*

3.8 Interest Rates

In line with an unchanged Key Repo Rate since September 2017, banks' Savings deposit (SDR) and Prime lending rates have also remained unchanged in the range of 1.35-2.10 per cent and 5.65-8.50 per cent, respectively, as at end-April 2019. The modal savings rate and the modal prime lending rate were also unchanged at 1.80 per cent and 6.25 per cent, respectively. The weighted average interest rate on rupee deposits was at 1.72 per cent in April 2019, almost unchanged compared to December 2018 while the weighted average rupee lending rate rose from 6.21 per cent in December 2018 to 6.25 per cent in April 2019. As a result, the spread between the rupee weighted lending and weighted deposit rates, a key determinant of profitability in the banking sector, widened from 4.49 per cent to 4.53 per cent over the period December 2018 to April 2019 (Chart 3.13).

Chart 3.13: KRR, SDR and Weighted Average Yields on 91-Day, 182-Day and 364-Day Bills



3.9 Exchange Rate Developments

Over the past few months, the exchange rate of the rupee has depreciated against major currencies, moving broadly in congruence with international trends as well as domestic demand and supply conditions. On a q-o-q basis, the weighted average dealt rate of the rupee depreciated by 2.5 per cent, 1.3 per cent and 1.0 per cent against the US dollar, Euro and the Pound sterling, respectively in 2019Q2 (Chart 3.14). On a nominal effective exchange rate basis, as measured by MERI1, the rupee depreciated by 0.6 per cent in both April and May 2019 on a month-on-month (m-o-m) basis. On a real effective exchange rate basis, the rupee depreciated by 1.2 per cent in May 2019, following a depreciation of 1.5 per cent in April 2019. The Bank intervened on ten occasions in the domestic foreign exchange market in 2019Q2 with the aim to smooth out excess volatility in the evolution of the rupee; purchasing a total of US$20 million in April 2019, US$212.9 million in May 2019 and US$105.0 million in June 2019 (Chart 3.15).

Chart 3.14: Evolution of the Rupee against Major Currencies

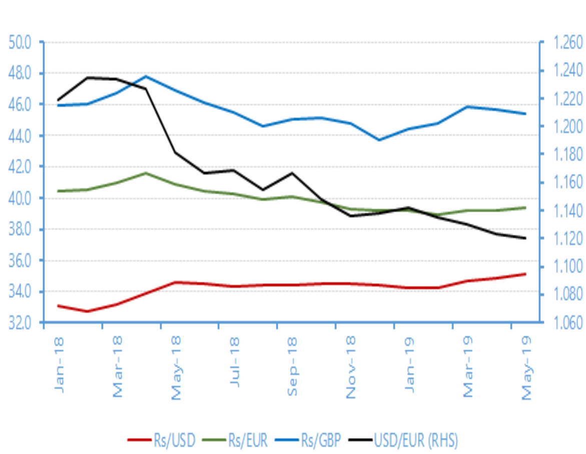
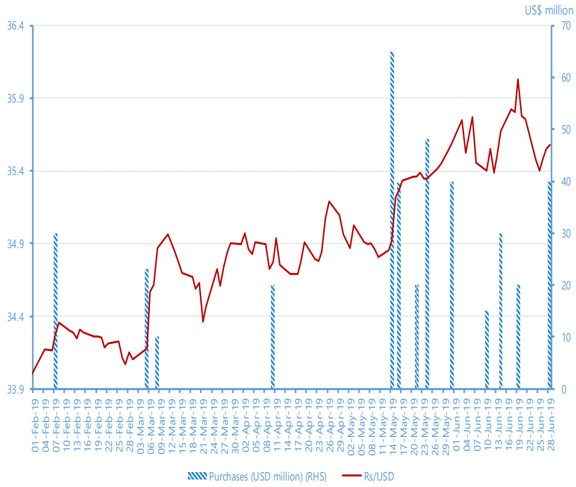


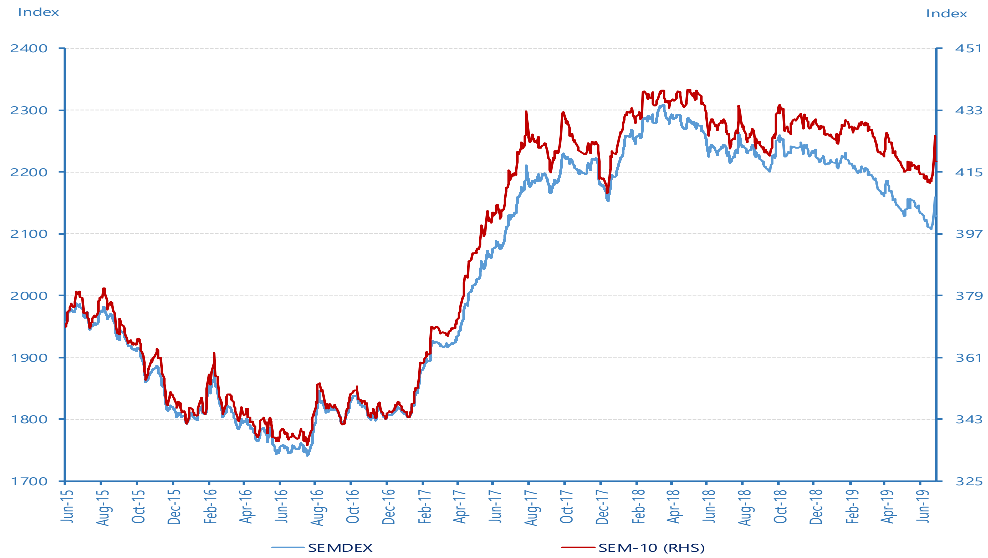
Chart 3.15: Intervention on the Domestic Foreign Exchange Market



3.10 Stock Market Developments

During 2019Q2, both SEMDEX and SEM-10 maintained a declining trend since the beginning of 2019. The SEMDEX and the SEM-10, which comprises the ten most capitalised stocks on the Official Market fell by 1.7 per cent and 0.5 per cent, respectively (Chart 3.16).

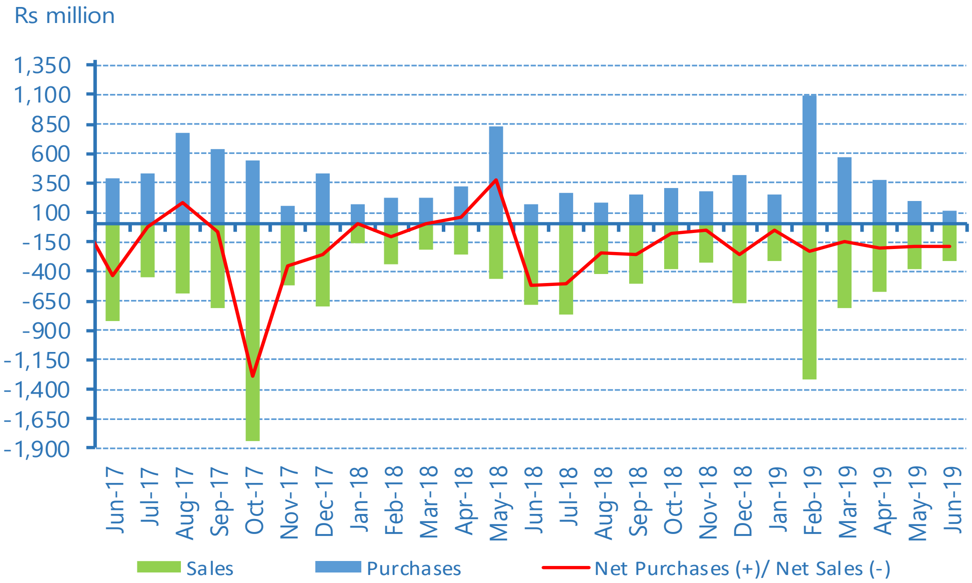
Chart 3.16: SEMDEX and SEM 10



Source: Stock Exchange of Mauritius.

Net investment by foreign investors remained in the negative territory since 2018H2. On a cumulative basis, during the period April to June 2019, foreign investors were net sellers to the tune of Rs586.1 million against Rs75.2 million during the same period a year earlier (Chart 3.17).

Chart 3.17: Foreign Transactions on the Domestic Stock Exchange



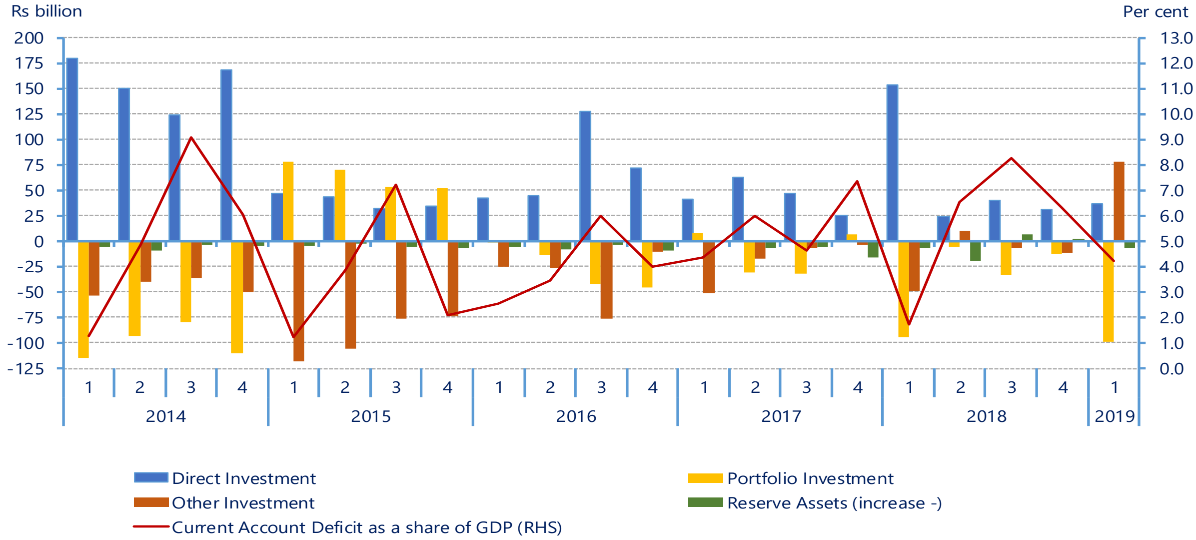
Source: Stock Exchange of Mauritius.

3.11 Balance of Payments

Preliminary estimates of Mauritius' balance of payments indicate that the current account deficit stood at Rs5.0 billion in 2019Q1 compared to Rs1.9 billion in 2018Q1, reflecting the deficit on the goods account and a lower surplus on the services account. As a ratio to GDP, the current account deficit rose from 1.7 per cent in 2018Q1 to 4.2 per cent in 2019Q1. The deficit on the goods accounts deteriorated from Rs19.3 billion in 2018Q1 to Rs24.4 billion in 2019Q1 due to a higher increase in imports relative to exports in nominal terms. As a ratio to GDP, the deficit on the goods account worsened from 17.1 per cent in 2018Q1 to 20.7 per cent in 2019Q1. Exports of goods (f.o.b.) went up by 7.0 per cent, from Rs18.1 billion in 2018Q1 to Rs19.4 billion in 2019Q1, supported by rises of 10.7 per cent and of 3.7 per cent in '*Domestic exports*' and '*Re-exports*', respectively. As a ratio to GDP, exports of goods increased from 16.1 per cent to 16.4 per cent over the same period. Imports of goods (c.i.f.) increased by 18.2 per cent, from Rs39.2 billion in 2018Q1 to Rs46.3 billion in 2019Q1, reflecting somehow higher imports related to infrastructure projects. As a share to GDP, imports rose from 34.8 per cent to 39.3 per cent. The services account posted a surplus of Rs7.4 billion in 2019Q1, compared to Rs10.4 billion in 2018Q1, mainly as a result of a lower net surplus registered on the 'travel' sub-account.

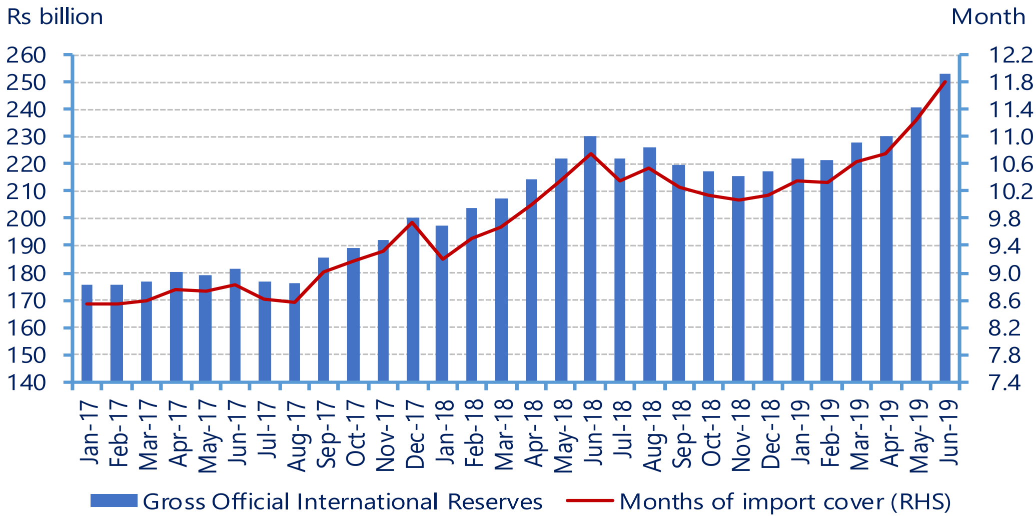
Net borrowing on the financial account, inclusive of reserve assets, was estimated at Rs8.4 billion in 2019Q1 compared to Rs3.5 billion in 2018Q1, and was more than adequate to finance the estimated current account deficit. A balance of payments surplus of Rs7.4 billion was, therefore, recorded in 2019Q1, higher than the surplus of Rs6.8 billion in 2018Q1. The direct investment account was estimated to have posted net inflows of Rs37 billion in 2019Q1, while the portfolio investment account, inclusive of GBLHs' transactions, was estimated to have recorded net outflows of Rs106 billion. The other investment account recorded net inflows of Rs60 billion (Chart 3.18).

Chart 3.18: Financing of the Current Account Deficit



The gross official international reserves (GOIR) of the country remained on the uptrend and considerably improved the country's import cover. GOIR surged by Rs25.5 billion, from Rs227.8 billion (equivalent to USD6,554 million) as at end-March 2019 to Rs253.3 billion (equivalent to USD7,158 million) as at end-June 2019. Y-o-y, the GOIR was higher by Rs22.8 billion. As at end-June 2019, the GOIR of the country, based on the value of imports of goods (f.o.b.) and services for calendar year 2018, represented 11.8 months of imports compared to 10.6 months as at end-March 2019 and 10.8 months as at end-June 2018 (Chart 3.19).

Chart 3.19: Gross Official International Reserves



External Vulnerabilities

The key reserve adequacy and solvency metrics point to a continuous improvement in the country's vulnerability to external shocks. Gross external debt declined from Rs79.8 billion as at end-March 2018 to Rs77.1 billion as at end-March 2019 (Table 3.11), while gross official reserves increased from Rs207.5 billion to Rs227.8 billion. The ratio of the gross external debt to exports of goods and services fell from 42.8 per cent to 41.1 per cent, over the same period. As at end-March 2019, GOIR were nearly three times higher than the gross external debt.

Table 3.11: External Debt Indicators

		Mar-15	Mar-16	Mar-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
		Rs million							
Gross External Debt [1]	*as at end*	86,126	88,740	78,834	79,772	81,127	78,920	78,408	77,092
External Debt Service [1]	*year ended*	7,657	8,028	14,662	11,769	10,976	10,349	8,977	7,926
Exports of Goods	*year ended*	96,710	91,845	83,312	78,959	78,863	79,286	80,569	81,829
Exports of Goods and Services	*year ended*	188,603	190,692	183,638	186,288	186,483	186,029	188,576	187,461
Imports of Goods and Services	*year ended*	232,596	230,000	234,340	244,505	248,088	253,911	257,233	264,225
Gross Official International Reserves [2]	*as at end*	140,389	159,175	176,570	207,516	230,496	219,899	217,585	227,826
GDP at market prices	*year ended*	397,170	415,908	439,877	462,839	470,094	475,670	482,211	487,540
Broad Money Liabilities	*as at end*	410,915	442,450	485,071	529,215	537,638	537,076	555,014	563,011
I. Solvency *(Per cent)*		**Mar-15**	Mar-16	Mar-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Gross External Debt/GDP [3]		21.7	21.3	17.9	17.2	17.3	16.6	16.3	15.8
Gross External Debt/Exports of Goods		89.1	96.6	94.6	101.0	102.9	99.5	97.3	94.2
Gross External Debt/Exports of Goods and Services		45.7	46.5	42.9	42.8	43.5	42.4	41.6	41.1
External Debt Service/Exports of Goods		7.9	8.7	17.6	14.9	13.9	13.1	11.1	9.7
External Debt Service/Exports of Goods and Services		4.1	4.2	8.0	6.3	5.9	5.6	4.8	4.2
II. Reserve Adequacy *(Per cent)*		**Mar-15**	Mar-16	Mar-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Reserves/Imports of Goods and Services		60.4	69.2	75.3	84.9	92.9	86.6	84.6	86.2
Reserves/Broad Money Liabilities		34.2	36.0	36.4	39.2	42.9	40.9	39.2	40.5
Reserves/Gross External Debt		163.0	179.4	224.0	260.1	284.1	278.6	277.5	295.5

[1] Gross external debt outstanding as at end of period excludes global business entities and other deposit-taking institutions' debt.

[2] Gross Official International Reserves as at end of period comprise gross foreign assets of the Bank of Mauritius, reserve position in the IMF and the foreign assets of Government.

[3] GDP figures for 2013 onwards are based on SNA 2008.

Note: Gross External Debt and External Debt Service data for the period March 2017 and onwards has been updated following revision of External Sector statistics as from

Sources: MoFED; Statistics Mauritius; Bank of Mauritius.

4. Monetary Policy Decisions and Implementation

The Monetary Policy Committee of the Bank of Mauritius unanimously voted to keep the Key Repo Rate unchanged at 3.50 per cent at its May 2019 meeting. Excess liquidity in the banking system has been kept at tolerable levels thanks to the Bank's active open market operations.

4.1 Monetary Policy Decisions

In May 2019, the Monetary Policy Committee (MPC) assessed that the global economic environment was still fraught with uncertainty and influenced by a host of idiosyncratic shocks and Members maintained prudence in their assessment of global economic and financial conditions. The IMF revised down global growth projections for 2019 for the third time in its April 2019 World Economic Outlook (WEO) due to macroeconomic risks prevailing in US, China, Germany, Italy, France and UK. The IMF has anticipated that around 70 per cent of economies across the world would experience a growth slowdown in 2019. Members agreed that the external situation warranted careful monitoring given the recent global growth downgrades and as trade tensions appeared to intensify. The MPC noted that monetary policy in major advanced and emerging market countries had remained accommodative in the current global economic environment. Members considered that the global economy could have entered in a new economic cycle and that the risks and uncertainties that surrounded their outlooks at the last MPC meeting continued.

With regards to the domestic inflation outlook, the MPC viewed that inflationary pressures remained broadly muted and the latest inflation outturn had come in lower than anticipated. Headline inflation was projected to remain low in the short-term, barring any unforeseen exogenous shocks, amidst contained demand pressures and inflationary expectations. Core inflation measures have remained more or less flat. Cost-push pressures appear to be well contained due to tame global inflationary pressures and a stable rupee exchange rate. Demand-driven inflationary pressures in the domestic economy are also expected to remain subdued, with the economy still operating with some degree of slack. The MPC reiterated that it would continue to monitor inflation developments closely.

Members noted that domestic macroeconomic developments had mostly remained on track, despite that some sectoral fragilities remained. The MPC assessed the domestic economic performance and noted, on the basis of the Bank's projections, that growth in 2019 would be broad-based. The outlook for business investment and public sector infrastructure spending was positive. The key factors that would influence household consumption were supportive of consumer expenditure. Labour market conditions have remained commendable and the unemployment rate would be contained at more or less around its 2018 level.

In their discussion of monetary policy, Members consented that it would be appropriate to maintain prudence over its stance. They noted that short-term interest rates continued to be around the Key Repo Rate (KRR) following the implementation of appropriate monetary policy operations. The MPC assessed the domestic economic performance and noted that domestic growth in 2019 would strengthen. The MPC unanimously decided to maintain the KRR at 3.50 per cent per annum as the prevailing stance of monetary policy would continue to support economic growth, while maintaining price stability.

4.2 Monetary Policy Implementation

The Bank maintained its efforts to keep excess liquidity in the banking system at a reasonable level by issuing its own instruments in excess of those maturing. Rupee liquidity maintained by banks in excess of the minimum cash ratio requirement increased to an average of Rs12.0 billion between 22 February and end-May 2019, from an average of Rs11.9 billion between the period 09 November 2018 and 22 February 2019. The Bank has issued a total of nearly Rs35 billion of its own securities since the February 2019 MPC meeting while a total of about Rs27 billion of its securities matured over the corresponding period. Additional Special Deposits for an amount of Rs5 billion were issued for a period of up to 2 years. The Bank also intervened on the domestic foreign exchange market to purchase a total amount of USD158 million since the February 2019 MPC meeting, injecting an amount of Rs5.5 billion, of which an amount of Rs696 million was sterilised for a period of one year.

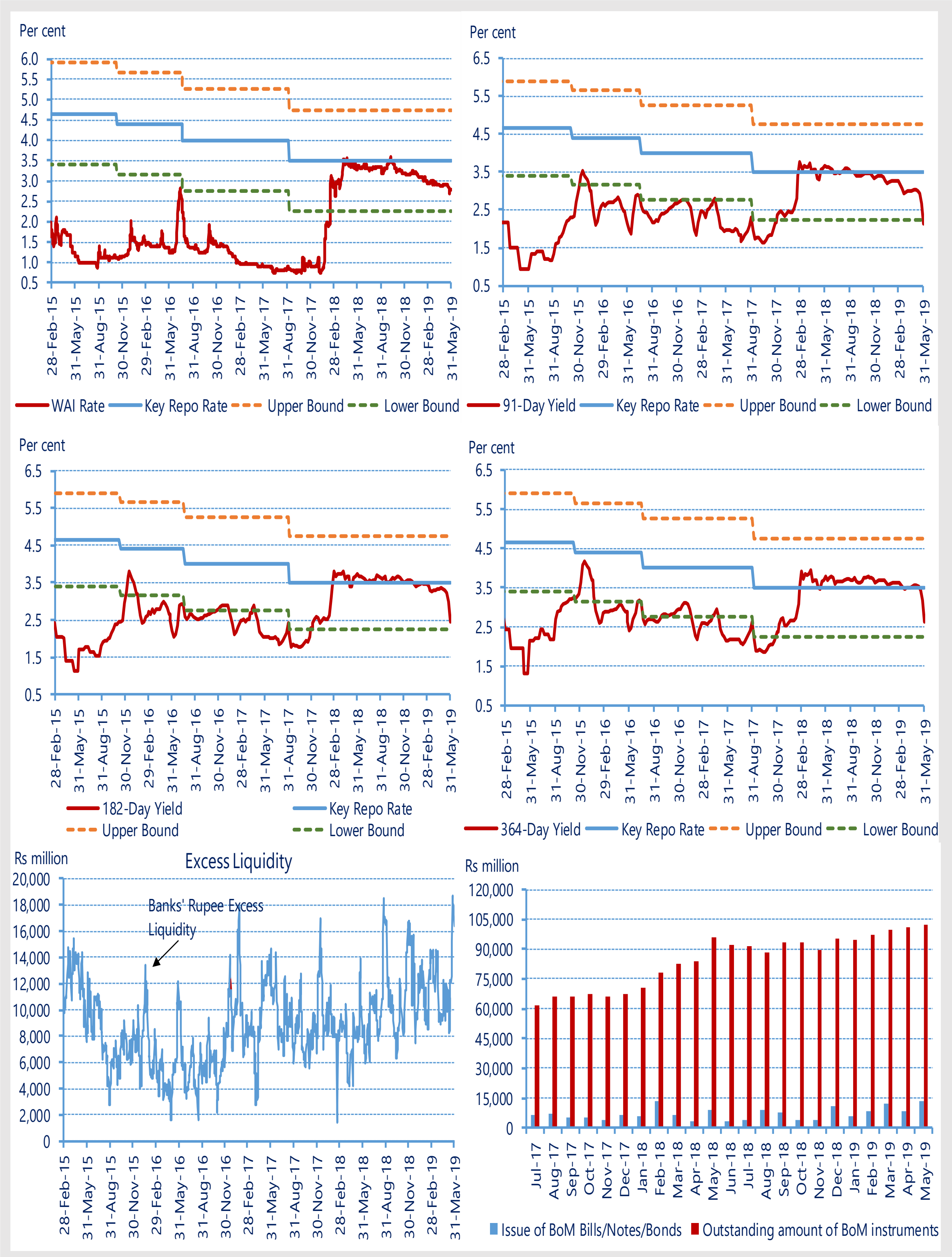
Short-term yields stayed rather range bound between the February 2019 and May 2019 MPC meetings but declined markedly in the latter part of May amid higher excess liquidity. The 91-Day yield dropped to a low of 2.14 per cent on 31 May 2019 from 3.28 per cent on 22 February 2019 and was outside the corridor of the KRR. The average weighted yields for 182-Day and 364-Day Bills, which stood at 3.48 per cent and 3.63 per cent, respectively, at 22 February 2019, decreased by 104 basis points and 99 basis points to 2.44 per cent and 2.64 per cent, respectively, by 31 May 2019. The overnight interbank interest rate, which stood at 3.05 per cent in February 2019, dropped to an average of 2.97 per cent in March 2019, before declining further to an average of 2.84 per cent in May 2019 (Chart 4.1). Outstanding BoM securities have increased to above Rs100 billion for the first time ever in April 2019 amid the scaling up of open market operations by the Bank. Outstanding BoM securities as at 31 May 2019 increased further to about Rs102 billion compared to about Rs97 billion as at 22 February 2019 (Table 4.1).

Table 4.1: Outstanding BoM Securities

	Amount outstanding as at 20 August 2018	Amount outstanding as at 09 November 2018	Amount outstanding as at 31 January 2019	Amount outstanding as at 22 February 2019	Amount outstanding as at 31 May 2019
					Rs million
Bank of Mauritius Bills	34,442.9	31,643.8	31,214.7	34,813.6	48,661.6
Special Deposits	18,280.6	18,280.6	17,115.1	15,779.0	7,031.1
Bank of Mauritius Notes	27,050.0	33,050.0	37,050.0	37,050.0	37,050.0
3-Year Bank of Mauritius Golden Jubilee Bonds	8,974.4	8,974.4	8,974.4	8,974.4	8,974.4
15-Year Bank of Mauritius Bonds	500.0	500.0	500.0	500.0	500.0
Total	89,247.9	92,448.8	94,854.2	97,117.0	102,217.1

Note: Figures may not add up to total due to rounding

Chart 4.1: Excess Liquidity and Money Market Rates



5. Domestic Economic Outlook

The Bank's forecast of key macroeconomic indicators is based on data available as at end-March 2019 and takes into consideration global economic projections made by various international multilateral agencies, like the IMF, World Bank and OECD as well as recent domestic economic trends and projections. Based on these assumptions, the Bank revised down its forecast for headline inflation to below 1.5 per cent for 2019, down from the previous estimate of 2.1 per cent and at around 2 per cent for 2020 in the absence of major supply shocks. Economic activity will continue to expand in terms of domestic demand and real GDP growth is forecast to remain resilient at about 3.9 per cent in 2019 and at 4 per cent in 2020.

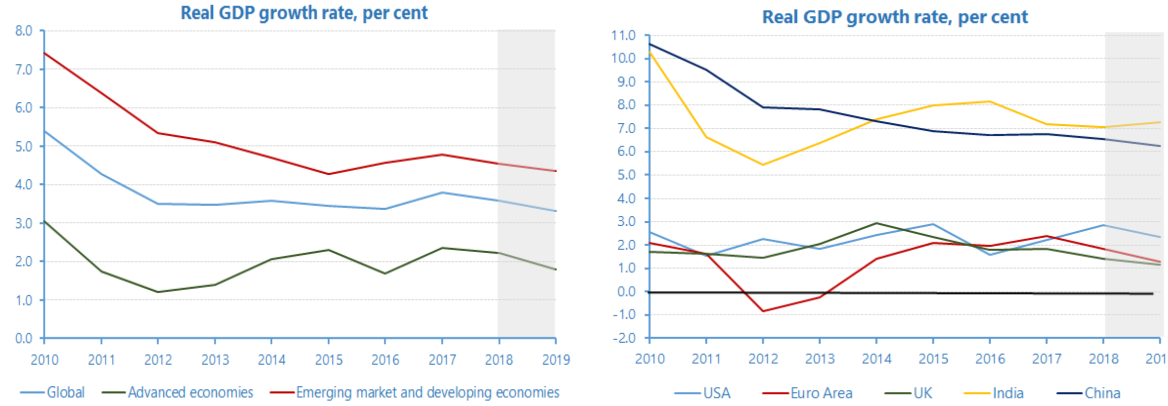
5.1 Background and Assumptions

The global growth momentum has eased and various leading economic indicators have painted a rather pessimistic outlook. Leading indicators have suggested a slowdown in the pace of economic growth in the near-term, with both world trade and industrial production shifting to low gear. Surveys of purchasing managers, which are forward-looking and provide a guide about activity in the manufacturing and services sectors, indicated that the global economic growth could decelerate somewhat in the months ahead, alongside a rather subdued degree of confidence.

The slowdown in global growth has become more broad-based across advanced and emerging market and developing economies. In advanced economies, growth was projected to decelerate from 2.2 per cent in 2018 to 1.8 per cent in 2019, which represented a downward revision of 0.3 percentage point relative to the October 2018 projection (Chart 5.1). The projected growth moderation would emanate from a cyclical slowdown as growth in these economies retreat towards their long-term trends. In the US, economic activity was estimated to drop from 2.9 per cent in 2018 to 2.3 per cent in 2019 and further to 1.9 per cent in 2020, owing to the consequences of the government shutdown and diminished fiscal stimulus. The outlook for the euro area would remain cloudy with growth projected to moderate from 1.8 per cent in 2018 to 1.3 per cent in 2019 but pick up to 1.5 per cent in 2020. The decline in activity would reflect growth downgrades in Germany, Italy and France amid weak demand conditions and idiosyncratic factors. The growth slowdown in the UK was expected to persist in 2019, owing to the protracted period of uncertainty surrounding Brexit. GDP growth in the UK was projected to decline from 1.4 per cent in 2018 to 1.2 per cent in 2019 before moving back to 1.4 per cent in 2020.

Similar dynamics were also apparent for EMDEs where growth was projected to moderate in 2019. Economic activity within the group was forecast to grow by 4.4 per cent in 2019, slightly down from 4.5 per cent in 2018 but marked down by 0.3 percentage point compared to the October 2018 estimates. Weak external demand, trade tensions and a gradual tightening of financial conditions would weigh on growth performance. However, in 2020, growth was expected to recover to around 4.8 per cent, driven by the positive effects of policy adjustments and easing of strains in countries affected by conflict and geopolitical tensions. Despite fiscal stimulus measures, GDP growth in China was estimated to decelerate from 6.6 per cent in 2018 to 6.3 per cent in 2019 and further to 6.1 per cent in 2020. The weak outlook would reflect mainly the ramifications of lingering trade disputes with the US and subdued underlying momentum in economic activity. In India, GDP growth was expected to gather pace in 2019 and beyond, underpinned by a recovery in domestic demand helped by an accommodative monetary policy stance and some fiscal support. The Indian economy was estimated to grow by 7.3 per cent in 2019, up from 7.1 per cent in 2018. In other emerging economies, the growth outlook was rather mixed. In Turkey, Mexico and Argentina, growth was projected to remain subdued amid weak demand and tighter macroeconomic policies to reduce imbalances. In Brazil and South Africa, economic activity was expected to improve owing to a change in perceptions about policies under a new administration and reduced policy uncertainty.

Chart 5.1: Global Growth



Source: IMF's April 2019 WEO.

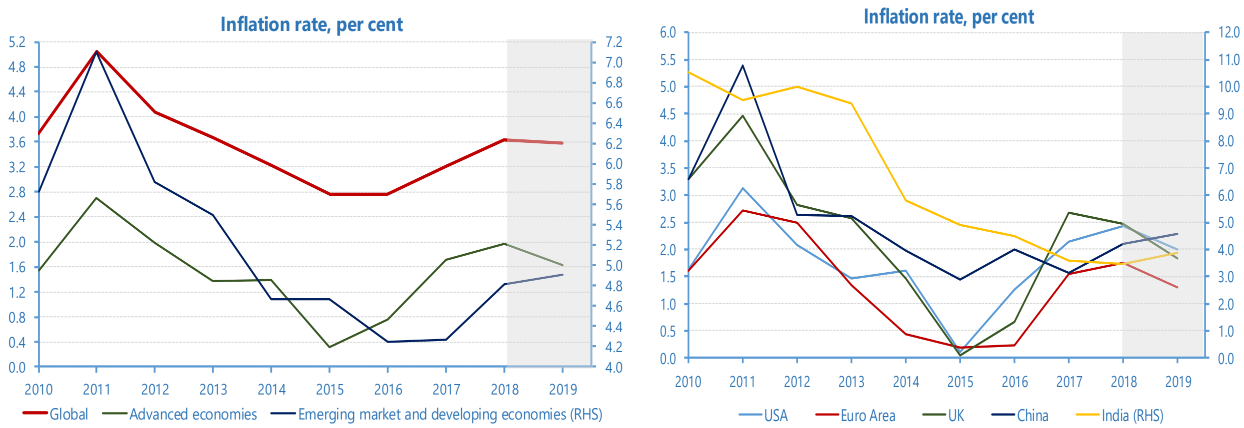
The prevailing trade tensions and their ensuing impact on capital expenditure would continue to weigh on world trade performance. The IMF, in its April 2019 WEO, projected world trade volume to grow by 3.4 per cent in 2019, reflecting a drop of around 0.4 percentage point compared to 2018. Export volumes in goods in advanced economies were expected to decelerate from 3.2 per cent in 2018 to 2.3 per cent in 2019 while in emerging economies, they were estimated to be marginally down, from 3.9 per cent in 2018 to 3.8 per cent in 2019. Import volumes were expected to be lower by 0.4 percentage point and 1 percentage point for advanced and emerging economies, respectively.

The US Fed shifted towards a more dovish direction in its March 2019 FMOC meeting and was expected to keep the target for the federal funds rate unchanged at 2.25-2.50 per cent throughout the year. The US Fed has adopted a more cautious approach and indicated that it no longer anticipated the need for restrictive monetary policy to guard against inflation as opposed to its December 2018 meeting when it suggested that two rate hikes would be appropriate for 2019. The lowered rate outlook was against a backdrop of reduced expectations for GDP growth and inflation amid a global economic slowdown. Committee members expected real GDP to grow at 2.1 per cent in 2019 compared to 2.3 per cent in December 2018 while inflation was projected at 1.8 per cent.

The ECB was also expected to keep its policy rate unchanged in 2019, amid a weaker outlook for growth and inflation. The ECB President viewed that downside risks to growth in the Eurozone were mounting and the ECB would ensure that monetary policy would continue to support economic activity. Interest rates in the UK were likely to remain steady at 0.75 per cent, owing to a slowing global economy and prolonged uncertainty about Brexit. However, the nature and timing of Brexit could significantly alter the interest rate path subject to its impact on inflation and growth.

Global inflation was expected to remain contained at current levels, mainly reflecting the subdued outlook for economic growth and commodity prices. Inflation in advanced economies, as per the April 2019 IMF WEO, was projected to drop from 2.0 per cent in 2018 to 1.6 per cent in 2019, amid weak supply side pressures (Chart 5.2). In the US, however, core inflation was likely to increase and overshoot the target in the short-term with the economy operating with a positive output gap. In the euro area, core inflation was projected to rise gradually to its target as demand pressures would become more pronounced. After a temporary modest rise to 4.9 per cent this year, from 4.8 per cent in 2018, owing to developments in a few economies, inflation in emerging economies was forecast to decelerate steadily to settle at around 4 per cent in the medium term.

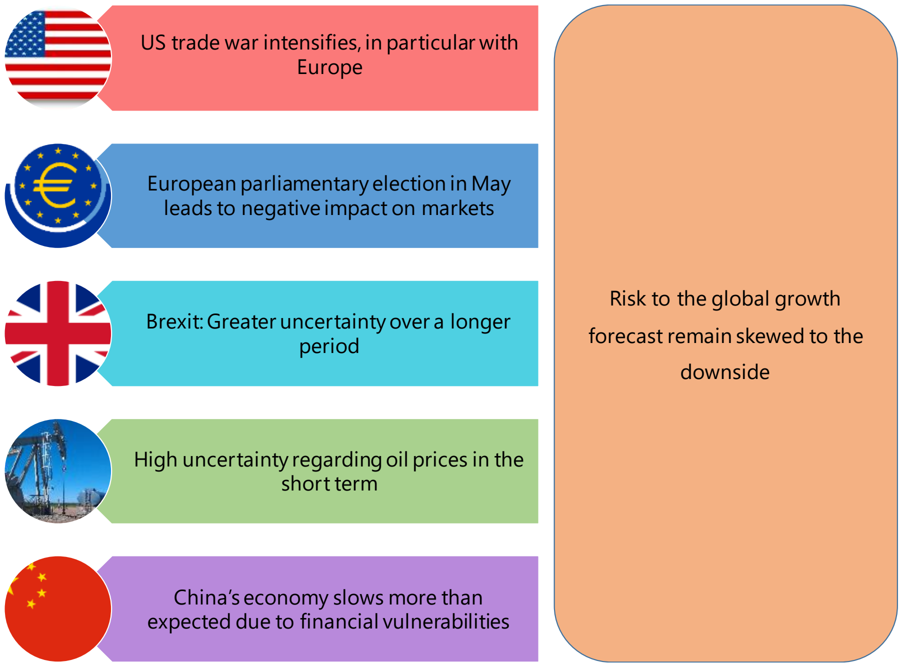
Chart 5.2: Global Inflation



Source: IMF's April 2019 WEO.

The balance of risks to the global growth forecast remain skewed to the downside (Chart 5.3). The risks that could derail global growth from its intended path in the near to medium term would arise mainly from heightened political and trade policy uncertainty as well as the possibility of the materialisation of downside risks in systemic economies. US-China trade tensions have escalated following US administration's tariff increase to 25 per cent on US$200 billion worth of Chinese goods that took effect on Friday 10 May 2019. China has announced that it would take necessary countermeasures. Failure to resolve their differences on trade matters and the setting up of further barriers to trade would significantly disrupt business investment and supply chains as well as impacting productivity growth. Moreover, a prolonged period of high yields in Italy, the risk of a no-deal Brexit, parliamentary elections in Europe and heightened financial vulnerabilities in China could adversely impact economic growth. Downside risks to the outlook also emanate from uncertainties surrounding upcoming elections and the agenda of the incoming administration, geopolitical conflicts in the Middle East and tensions in East Asia.

Chart 5.3: Key Downside Risks to the Global Economy



Assumptions regarding the external environment have been summarised in Table 5.1.

Table 5.1: Selected Indicators' Projections

Real GDP growth and inflation forecasts, per cent (Reuters poll)

Countries	Quarter-on-quarter real GDP growth rate (Per cent)					Year-on-year inflation rate (Per cent)				
	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
United states (Y-o-y)	2.0	2.5	2.1	2.0	1.8	1.8	1.9	2.1	2.3	2.1
United Kingdom	0.3	0.2	0.3	0.3	0.4	2.0	1.9	1.9	2.0	2.0
Eurozone	0.2	0.3	0.4	0.4	0.3	1.3	1.2	1.3	1.5	1.5
of which: France	0.3	0.3	0.4	0.4	0.3	1.2	1.1	1.3	1.6	1.6
China (Y-o-y)	6.3	6.2	6.3	6.3	6.2	2.1	2.2	2.2	2.3	2.2
India (Y-o-y)	6.6	6.8	7.2	7.4	7.3	3.2	3.8	4.1	4.4	4.4
South Africa	0.0	1.3	1.5	1.8	1.5	4.6	4.7	4.8	5.6	5.3
Australia	0.6	0.6	0.7	0.7	0.6	1.7	1.9	1.9	2.1	2.1

Exchange rate forecast (Reuters poll)

	End-May 2019	End-June 2019	End-July 2019	End-Aug 2019	End-Sep 2019
EUR/USD	1.1353	1.1402	1.1435	1.1468	1.1500
GBP/USD	1.3305	1.3402	1.3435	1.3468	1.3500

Oil price forecasts, US$ per barrel (US Energy Information Administration)

	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
NYMEX West Texas Intermediate	61.19	60.34	58.67	58.00	58.00
ICE Brent	68.69	66.03	62.67	62	62.00

Sources: Reuters, OECD and US EIA.

Oil Price Developments

The dark clouds surrounding global economic outlook and higher US shale production were expected to cap oil prices around their January-April average in 2019. In the short-term, US sanctions on Iran and Venezuela and output contractions in OPEC and non-OPEC countries were anticipated to influence the global oil market. High compliance among a number of oil producing countries to curtail output have lowered oil inventories. In March 2019, global liquid fuels inventories were estimated to have dropped by around 0.7 million barrels per day (mb/d). However, rising shale output in the US, which is projected to become a net exporter in 2020, was expected to rebalance the global oil market in the medium-term. Negative economic indicators in some major economies would point towards muted demand pressures on the global oil market.

Global oil demand for 2019 has been revised downward due to slower-than-expected economic activity. The world demand for oil in 2019 was expected to be 99.91mb/d, compared to 98.70mb/d in 2018. Total world demand during 2019Q3 was being expected to exceed 100mb/d (Table 5.2 and Chart 5.4). The growth of non-OPEC oil supply has been revised downward in 2019, due to maintenance in Kazakhstan, Brazil and Canada, which was partially offset by upward revision in US and Russia. The non-OPEC supply for 2019 was forecast to average 64.54mb/d and the major contributors were US, Brazil, UK and Ghana. In March 2019, OPEC crude oil production decreased by 534 tb/d to average 30.0 mb/d. Brent spot was expected to average US$70 per barrel in 2019 and US$67 per barrel in 2020 (Table 5.3).

Table 5.2: Supply and Demand for Oil

	2018	2019Q1	2019Q2	2019Q3	2019Q4	2019
World oil demand	98.7	99.0	99.2	100.6	100.8	99.9
Non-OPEC supply	62.4	64.0	63.4	64.6	66.3	64.5
OPEC NGLs and non-conventionals	5.0	5.0	5.1	5.1	5.1	5.1
Total non-OPEC supply and OPEC NGLs	67.4	69.0	68.4	69.7	71.4	69.6

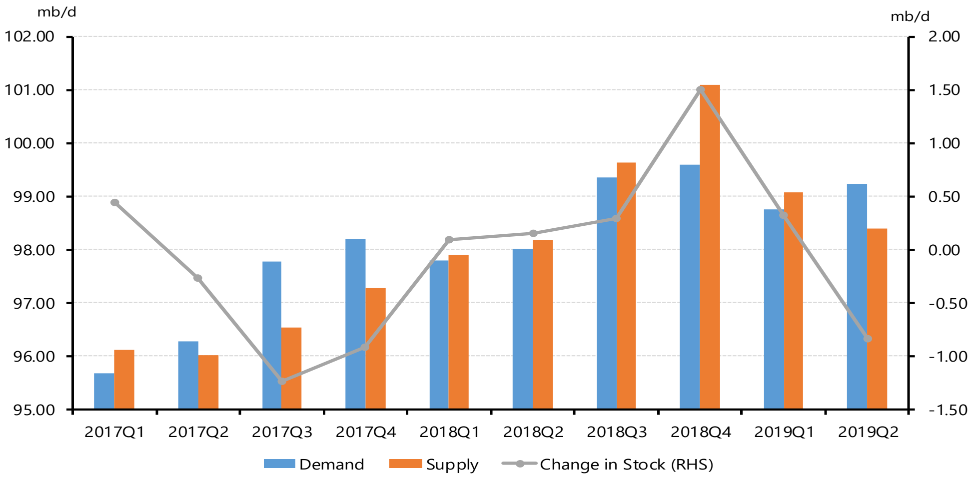
Notes: 2019 = Forecast.

Totals may not add up due to independent rounding.

Non-OPEC supply includes Qatar.

Source: OPEC.

Chart 5.4: Oil Demand and Supply



Source: OPEC.

Table 5.3: Energy Prices

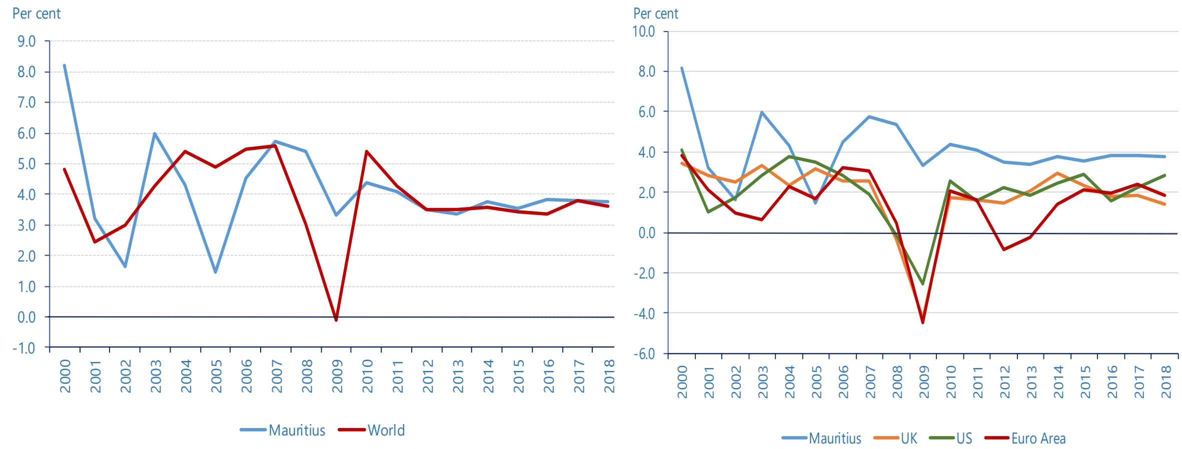
	2018				2019				2020				Year		
Crude Oil (dollars per barrel)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2018**	**2019**	**2020**
West Texas Intermediate Spot Average	62.9	68.1	69.7	59.6	54.8	64.0	66.0	66.0	63.0	63.0	63.0	63.0	65.1	62.8	63.0
Brent Spot Average	66.8	74.5	75.0	68.3	63.1	72.4	72.7	70.0	67.0	67.0	67.0	67.0	71.2	69.6	67.0

Source: EIA.

Domestic Assumptions

The domestic economy was deemed to continue to operate below its potential, although at certain sectoral levels, it was estimated that their relative growth rates were closing the gap. Mauritius growth performance so far has closely tracked global growth performance while it remained higher compared to the three major advanced economies and the composite trading partner index (Chart 5.5). In view of the outlook for international prices of primary commodities and the projected prices of crude oil till the end of the year, Bank staff assumed that prices of domestic petroleum products would remain unchanged over the forecast horizon. The assumption for the prices of other administered products were also expected to remain unchanged.

Chart 5.5: Mauritius and Global Growth



The assumptions also underscored that (i) inflation expectations would continue to be well-anchored; (ii) business and consumer confidence levels would not be subject to drastic changes; (iii) the exchange rate of the rupee would remain around current levels and (iv) no significant supply shocks would affect the economy.

5.2 Inflation Forecast in the Baseline Scenario

Headline inflation was forecast to remain at low levels in the coming months. Subdued inflationary pressures in the economy would reflect base effects as well as lower-than-expected outturns in the prices of fresh food products. On the external front, global commodity prices, with the exception of oil, have remained broadly stable so far and have contributed to muted imported inflationary pressures. The relatively low imported inflation has had modest contribution on the pass-through to the domestic CPI. In the near term, cost push pressures appeared to be well contained due to subdued global inflation, muted global commodity prices and an almost unchanged rupee exchange rate. Demand-driven inflationary pressures in the economy were also expected to remain contained as the economy was operating with some degree of spare capacity.

Under the central projection, the absence of significant food price shocks in 2019Q1 has resulted in a downward revision of the previously announced inflation projection of 2.1 per cent for calendar year 2019. Headline inflation was expected to remain tame in 2019, barring exceptional shocks. Conditional on a set of assumptions, headline inflation was now projected at below 1.5 per cent for 2019 and about 2 per cent in 2020.

5.3 Real GDP Growth Projection in the Baseline Scenario

The domestic economy was projected to maintain its growth momentum in 2019, expanding at a similar pace to 2018. The dynamism in aggregate demand, as reflected in sustained private consumption growth and resurging government consumption and investment, would assist in sustaining the growth impetus, notwithstanding a mild deceleration in private investment spending. Favourable domestic conditions, including solid labour market conditions and accommodative policy stances would continue to foster a conducive economic environment for growth. Household consumption would benefit from supportive measures that include higher wages and salaries and rising social benefits income. Acceleration in activities related to major public capital projects, notably the metro express, smart cities, construction of sport facilities, the bus terminals and several other works under the Road Decongestion Programme would give an impetus to public gross fixed capital formation. In contrast, private sector spending appeared to be softening while the external sector performance continued to be a challenge amidst daunting external market conditions.

At the sectoral level, domestic economic activity would remain supported by the services sector, albeit with a softening of momentum. The *'financial and insurance activities'* sector was expected to moderate to 5.2 per cent whereas the *'accommodation and food service activities'* sector was expected to feel the subdued growth in tourist arrivals and tourism earnings in 2019Q1. The *'wholesale and retail trade'* sector was expected to grow at a slower pace in 2019 and the *'manufacturing'* sector was expected to grow by about 1.3 per cent. The dynamism in the *'construction'* sector would be sustained, growing at around 8.5 per cent in 2019 owing to existing major infrastructure projects as well as new ones.

Bank staff have maintained real GDP growth of about 3.9 per cent in 2019 and 4 per cent in 2020, notwithstanding higher uncertainty due to increasing downside risks. GDP growth performance may be influenced on account of the global economic uncertainty and the fact that some of our major trading partners have revised down their growth outlook, which could dent demand from these economies. It would also remain dependent on the timely implementation of major public investment projects.

5.4 Risks to the Forecast

Headwinds to attaining the expected domestic growth rate and inflation rate over the projection horizon still exist and the fan chart depicts the probability of various outcomes for CPI inflation

and real GDP growth. Over the forecast period, the distribution reflects uncertainty over the evolution of CPI inflation and real GDP growth in the future. The fan chart is constructed so that the projections are expected to lie within each pair of the lighter coloured areas, i.e., the confidence intervals. In any particular quarter of the forecast period, CPI inflation and real GDP growth are therefore expected to lie somewhere within the fan on 90 out of 100 occasions, i.e., at 90 per cent confidence interval. The uncertainty associated with the forecasts of CPI inflation and real GDP growth is reflected with the widening dispersion from the central estimate as the projection horizon increases (Chart 5.6). A summary of projections for 2019 is provided in Table 5.4.

Chart 5.6: Fan Charts - Headline Inflation and Real GDP Growth

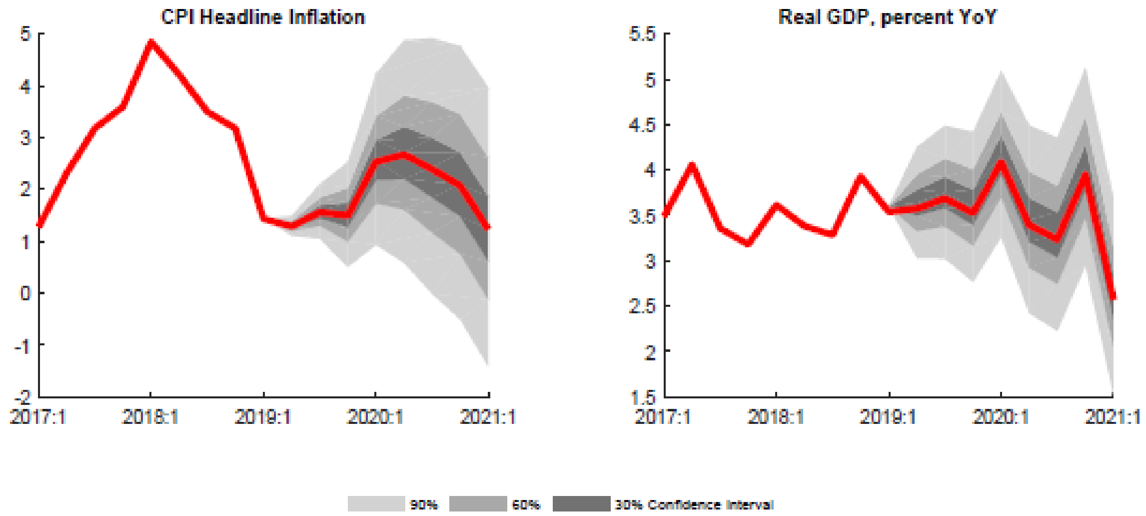


Table 5.4: Summary of Projections for 2019

	2019		Δ
	MPC Feb-19	MPC May-19	
WORLD ECONOMY			
Global GDP Growth, %	3.5	3.3	↓
Euro area GDP Growth, %	1.6	1.3	↓
Inflation, %			
Advanced Economies	1.7	1.6	↓
Emerging Economies	5.1	4.9	↓
DOMESTIC ECONOMY			
Real GDP Growth, %	3.9	3.9	↔
Inflation, %	2.1	1.5	↓
Current Account Balance, % of GDP	6.1	5.9	↓
Budget Deficit, % of GDP	3.2	3.2	↔

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ACRONYMS

BDI	Baltic Dry Index
BML	Broad Money Liabilities
BoE	Bank of England
CPI	Consumer Price Index
ECB	European Central Bank
EMDEs	Emerging Market and Developing Economies
EOE	Export Oriented Enterprises
FAO	Food and Agriculture Organisation
FOMC	Federal Open Market Committee
GBC	Global Business Companies
GFCF	Gross Fixed Capital Formation
GDP	Gross Domestic Product
GOIR	Gross Official International Reserves
IGC	International Grains Council
IMF	International Monetary Fund
KRR	Key Repo Rate
MERI	Mauritius Exchange Rate Index
MPC	Monetary Policy Committee
MSCI	Morgan Stanley Capital International
NFAs	Net Foreign Assets
NYMEX	New York Mercantile Exchange
ODCs	Other Depository Corporations
OECD	Organisation for Economic Co-operation and Development
ONFCs	Other Nonfinancial Corporations
PPI-A	Producer Price Inflation-Agriculture
PPI-M	Producer Price Index-Manufacturing
Q-o-q	Quarter-on-quarter
ToT	Terms of Trade
TCPI	Trading Partner Countries' Consumer Price Inflation
TPG	Trading Partner Countries' Growth
US Fed	US Federal Reserve System

ACRONYMS

WEO	World Economic Outlook
WESP	World Economic Situation and Prospects
WRI	Wage Rate Index
Y-o-y	Year-on-year

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