

OVERVIEW

International Developments

The European Central Bank's (ECB) announcement of an expanded asset purchase programme was a boost for business and consumer confidence in the Eurozone, but deflation was sharper than expected in January 2015. At its policy meeting on 22 January 2015, the ECB kept its key refinancing rate unchanged at 0.05 per cent and announced a massive quantitative easing programme effective March 2016 in which it will buy bonds worth €60 billion each month until the end of September 2016. This programme adds the purchase of sovereign bonds to the ECB's existing private sector asset purchase programmes to address the risks of a too prolonged period of low inflation. Meanwhile, prices fell by 0.6 per cent in January, the biggest drop since the depths of recession in 2009. Other worries about the stability of the Eurozone came from escalating tensions with Russia and the potential for another flare-up of the Eurozone crisis following the anti-austerity Syriza party's success in the Greek elections.

The US dollar demonstrated broad-based strength throughout the month, bolstered by solid data releases, and the Fed remained on track to raise interest rates this year. The Federal Open Market Committee, following its meeting on 27-28 January 2015, indicated that the economy was expanding at a solid pace, with strong job gains and a lower unemployment rate. However, figures released thereafter showed that the US economy slowed sharply in the final quarter of 2014 as weak business spending and a growing trade deficit offset strong consumer spending.

In the United Kingdom, mixed data releases fuelled some doubts over the robustness of the economy. Lower oil prices pushed down inflation and continued weakness in the euro zone, Britain's biggest export market, caused investors to push back expectations for a UK interest rate hike well into 2016. The Bank of England's (BoE) Monetary Policy Committee, at its meeting on 8 January 2015, kept its Bank Rate unchanged at 0.5 per cent. Data released thereafter showed that Britain's economy recorded its fastest annual growth in 2014 since the financial crisis. However, the economy grew by just 0.5 per cent in the last quarter of 2014, down from

0.7 per cent in the previous three months. The dominant services sector, nevertheless, remained buoyant, and consumer confidence rose more than expected to reach a five-month high.

The divergence between the monetary policy of the US Federal Reserve on one hand and the ECB and Bank of Japan on the other continued to influence currency markets. The euro was further undermined by fears that the new, leftish Greek government might demand a debt write-off and end austerity measures. The euro traded at an average of US\$1.1612 in January 2015 compared to US\$1.2323 in December 2014. The euro and Pound sterling slipped to intra-month lows of US\$1.1177 and US\$1.4986, respectively.

The Asian and European markets outperformed the US markets on the back of extensive stimulus programmes in Japan and Eurozone. The MSCI Developed Markets Index and MSCI Global Equity Index declined by 4.1 per cent and 1.9 per cent, respectively, while the MSCI Emerging Markets Index gained 0.6 per cent. The Dow Jones and NASDAQ fell by 3.7 per cent and 2.1 per cent, respectively. In Europe, the DAX, CAC-40 and FTSE rose by 9.1 per cent, 7.8 per cent and 5.6 per cent, respectively. The Bombay SENSEX, Hang Seng and Nikkei gained 6.1 per cent, 3.8 per cent and 1.3 per cent, respectively. On the other hand, the Shanghai Exchange Composite dropped by 0.8 per cent.

Both international energy prices and food prices remained on a downtrend. Global oil prices continued to decline, reflecting mostly excess supply. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US\$47.4 a barrel in January 2015, down from US\$59.3 a barrel in December 2014. ICE Brent Crude averaged US\$49.8 a barrel in January 2015, down from US\$63.3 a barrel in December 2014. The Food and Agriculture Organisation's (FAO) Food Price Index dropped further in January 2015, reflecting strong inventories, the continued strength in the US dollar and weak crude oil prices. The January 2015 FAO Dairy Price Index dropped by 1.9 per cent on the previous month and was 10.1 per cent lower than in January 2014.

Domestic Developments

Tourist arrivals and tourism earnings increased in 2014 compared to 2013. Tourist arrivals totalled 1,038,968 in 2014, representing a growth of 4.6 per cent over 2013. Gross tourism earnings rose by 9.2 per cent to Rs44,304 million, from Rs40,557 million in 2013. In December

2014, gross tourism earnings rose by 6.9 per cent to Rs4,748 million, from Rs4,441 million in December 2013.

Latest CPI data released by Statistics Mauritius showed that inflation moderated further in January 2015. Headline inflation went down from 3.2 per cent in December 2014 to 2.8 per cent in January 2015. Y-o-y inflation rose to 0.7 per cent in January 2015, from 0.2 per cent in December 2014, reflecting higher prices of fresh vegetables. The core measures of inflation eased further in January 2015.

Monetary aggregates grew at a moderate pace through December 2014. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), fell from 9.8 per cent in November 2014 to 8.7 per cent in December 2014 while growth in banks' credit remained subdued in December 2014. The annual growth rate of the monetary base was 9.0 per cent in December 2014, down from 17.9 per cent in November 2014. The growth reflected mainly increases in liabilities to Other Depository Corporations (reserve deposits) and currency in circulation.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in January 2015 were oversubscribed. The bid-cover ratio ranged between 1.2 and 4.6, as compared to a range of 1.5 to 3.2 in December 2014, reflecting a rise in the level of excess rupee liquidity in the banking system. The weighted yields on the 91-Day and 182-Day GMTBs issued during the month increased, while the weighted yields on the 273-Day and 364-Day GMTBs decreased. The overall weighted yield on GMTBs increased to 2.82 per cent in January 2015, from 2.44 per cent in December 2014. The auction of the benchmark Three-Year GoM Treasury Notes was also oversubscribed, with a bid-cover ratio of 2.8. In order to manage the excess liquidity, the Bank intervened on the domestic money market by accepting deposit placements from banks.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar but appreciated against the euro and Pound sterling between December 2014 and January 2015. The average rupee/USD rate depreciated from Rs31.682/USD in December 2014 to Rs32.447/USD in January 2015, while the rupee exchange rates against the euro and Pound

sterling averaged Rs37.735/EUR and Rs49.319/GBP, respectively, in January 2015 compared to Rs39.087/EUR and Rs49.588/GBP, respectively, in December 2014. The rates are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies, conducted by banks and foreign exchange dealers.

At the end of January 2015, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs119,887 million, from Rs122,576 million as at end-December 2014. The end-January 2015 level of gross official international reserves of the country, based on the value of imports of goods (fob) and non-factor services for the year 2013, represented 6.1 months of imports, compared to 6.2 as at end-December 2014.