

OVERVIEW

International Developments

The U.S. economy contracted at a seasonally adjusted annual rate of 0.2 per cent in 2015Q1, while data releases in the Euro zone pointed to a strengthening of its economic recovery following the improvement in the first quarter. Weaker-than-forecast U.S. consumer inflation data increased the uncertainty of the timing of the Federal Reserve's expected interest rate hikes. The US Federal Reserve chairperson, Janet Yellen, said that economic growth had rebounded after a difficult winter and the US central bank planned to start raising rates gradually before the end of the year. The European Central Bank (ECB) held its main refinancing rate unchanged at 0.05 per cent and the €1 trillion sovereign-bond buying programme steady and agreed to follow the current monetary policy strategy to shore up the euro zone economy. In the UK, a better than expected wage growth added to lower unemployment and rebound in economic growth. At its meeting on 4-5 June 2015, the Bank of England's (BoE) Monetary Policy Committee, unanimously held the Bank Rate unchanged at 0.5 per cent and its asset purchase programme unchanged at £375 billion. BoE's Governor Mark Carney said that rates might rise from 0.5 per cent sooner than investors thought.

Currency markets in June 2015 were volatile due to the high level of uncertainty related with the Greek debt situation and mixed economic data releases in major economies. At the start of the month, the US dollar weakened on hopes for progress in Greek debt talks. Thereafter, the US currency regained some ground on the back of strong U.S. employment data, which bolstered expectations for an interest rate hike by the Federal Reserve before year-end. The US dollar was also supported on its safe haven appeal as investors nervously awaited developments in the deepening Greek crisis and as Asian equity markets tumbled. The euro was initially supported by EU data showing a surprisingly large increase in headline and core inflation and a spike in German Bund yields. The resilience of the common currency was a reflection of US dollar weakness rather than the demand for the common currency, given that Greece's future in the Euro zone was hanging in the balance. Towards the end of the month, the unsuccessful negotiations between the Greek government and its creditors pushed the country to miss the payment of €1.6 billion to the IMF on 30 June 2015 and weighed on the single currency. The euro traded at an average of US\$1.1214 in June 2015 – having touched an intra-month low of US\$1.0935 – compared to US\$1.1164 in May

2015. The British currency rallied after the BoE struck a more hawkish tone as wage growth accelerated. Towards the end of the month, the Pound sterling shed some gains amid risk version. The Pound sterling traded at an average of US\$1.5559 in June 2015 – having touched an intra-month low of US\$1.5215 – compared to US\$1.5476 in May 2015.

During June 2015, the performance of equities was negative reflecting the lingering worries over the future of Greece in the euro zone and the downturn in Asian markets. The MSCI Emerging Markets Index and MSCI Global Equity Index went down by 3.2 per cent and 2.5 per cent, respectively. The Dow Jones and NASDAQ fell by 2.2 per cent and 1.6 per cent, respectively. Among the European market indices, FTSE and CAC-40 lost 6.6 per cent and 4.3 per cent, respectively. The Shanghai Exchange Composite, Hang Seng, NIKKEI and Bombay SENSEX fell by 7.3 per cent, 4.3 per cent and 1.6 per cent and 0.2 per cent, respectively. The JSE All Share Index (JALSH) also retreated by 0.9 per cent.

Both international energy prices and food prices moderated further in June 2015. Global oil prices fell on average in June 2015, reflecting concerns about lower economic growth in China and on-going growth in global petroleum inventories. ICE Brent Crude averaged US\$63.8 a barrel in June 2015, down from US\$65.6 a barrel in May 2015. NYMEX WTI (West Texas Intermediate crude oil) averaged US\$59.9 a barrel in June 2015, marginally up from US\$59.4 a barrel in May 2015. The Food and Agriculture Organisation's (FAO) Food Price Index continued to decline in June 2015, reaching its lowest value since September 2009 amid a favourable outlook for the growing season. The June 2015 FAO Price Index averaged 165.1 points, down 0.9 per cent from May 2015 and as much as 21.0 per cent below its level a year earlier.

Domestic Developments

Tourist arrivals rose by 10.8 per cent to 87,067 in May 2015, from 78,555 a year earlier. The year-on-year growth in arrivals for May 2015 reflected mainly increases from Asia (+22.3 per cent), of which India and China recorded each 30.2 per cent growth, and Europe (+11.2 per cent) with arrivals from Germany, France and Switzerland rising by 40.7, 11.0 and 10.0 per cent, respectively. Gross tourism earnings decreased by 13.8 per cent, from Rs3,799 million in May 2014 to Rs3,276 million in May 2015. However, for the twelve-month period ended May 2015, tourism earnings rose by 9.4 per

cent while tourist arrivals recorded an increase of 7.0 per cent compared to the corresponding period of 2014.

Latest CPI data released by Statistics Mauritius showed that inflationary pressures in the domestic economy continued to ease in June 2015. Headline inflation went down from 2.0 per cent in May 2015 to 1.7 per cent in June 2015, while y-o-y inflation edged down to 0.4 per cent in June 2015, from 0.5 per cent in May 2015. The core measures of inflation remained at moderate levels in June 2015.

The annual growth rate of monetary aggregates remained unchanged at 10.0 per cent in May 2015. The annual growth rate of banks' credit rose from 1.6 per cent in April 2015 to 2.5 per cent in May 2015. The annual growth rate of monetary base stood at 13.1 per cent in May 2015, down from 21.1 per cent in April 2015, reflecting the decline in the annual growth rate of Liabilities to Other Depository Corporations.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in June 2015 were oversubscribed as reflected by a high bid cover ratio mirroring the excess liquidity. The bid cover ratio ranged between 2.1 and 4.6 as compared to a range of 2.1-4.0 in May 2015. The weighted yields of the 91-Day, 182-Day and 364-Day went up during the month. The overall weighted yield on GMTBs increased to 1.78 per cent in June 2015, from 1.44 per cent in May 2015. Two auctions for Three Year Government of Mauritius Treasury Notes (Re-opening) were carried out on 1 and 17 June 2015 and the bid cover ratios were 2.0 and 1.9, respectively. The auctions for the Five Year GoM Bonds and Fifteen Year GoM Bonds were also oversubscribed with bid cover ratios of 2.5 and 2.4, respectively.

In order to absorb further excess liquidity in the banking system, the Bank conducted two auctions of Bank of Mauritius Notes with maturities of three and four years and one auction of 364-day Bank of Mauritius Bills during the month for a total nominal amount of Rs4.93 billion.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar, the euro and Pound sterling between May and June 2015. The average rupee exchange rates against the US dollar, the euro and Pound sterling were Rs35.211/USD, Rs39.550/EUR and

Rs55.050/GBP in June 2015 compared to Rs35.105/USD, Rs39.226/EUR and Rs54.551/GBP, respectively, in May 2015. 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.

The gross foreign exchange reserves of the Bank of Mauritius increased from Rs137,874 million at the end of May 2015 to Rs138,325 million at the end of June 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-June 2015 level of gross official international reserves of the country represented 7.0 months of imports, unchanged from end-May 2015.