

OVERVIEW

International Developments

Except for the US, the growth performance of major advanced economies was subdued during 2015Q3. The US economy grew at a faster pace of 2.1 per cent, while the euro zone economy posted a modest growth of 0.3 per cent. UK posted a growth rate of 0.5 per cent and Japan grew by 0.3 per cent. According to the minutes of the October 2015 Federal Open Market Committee (FOMC) meeting, policymakers noted that the economy "could well" be strong enough in December to withstand the first interest rate hike in nearly a decade. In contrast, after the European Central Bank (ECB) non-monetary policy meeting in November 2015, expectations rose that the ECB would either extend its quantitative easing program or cut the deposit rate at its December Governing Council meeting after data releases underscored lackluster growth and persistently low inflation levels in the euro area. At its meeting on 5 November 2015, the Bank of England's (BoE's) Monetary Policy Committee maintained the Bank Rate unchanged at 0.5 per cent and kept its asset purchase programme untouched at £375 billion. The UK domestic economy was expected to remain "resilient", with the real GDP growth this year anticipated to be the strongest since the financial crisis. Nonetheless, the BoE trimmed both its growth and inflation forecasts, pointing that the renewed fall in commodity prices and the impact of sterling's strength were likely to keep inflation below 1 per cent until the fourth quarter of 2016.

In November 2015 currency markets remained influenced by diverging monetary policy stances. The US dollar strengthened on better-than-expected US economic data releases. During the month, the US dollar remained well-supported on interest rate differential expectations although the market's appetite for risk receded amid a tumble in global equities in the second week of November and disappointing US economic data releases towards the end of the month. The euro plunged during the month on growing expectations that the ECB would ease monetary policy further in December 2015, and on data releases in November 2015 showing that economic growth in the euro area had slowed in 2015Q3 as exports to large developing economies weakened. The euro traded at an average of US\$1.0733 in November 2015 – having touched an intra-month low of US\$1.0588 – compared to US\$1.1231 in October 2015. The Pound sterling tumbled in November 2015 against the US dollar as the BoE signalled that interest rates would stay on hold for a longer period and warned that an "abrupt slowdown" in emerging markets could

exert a bigger drag on UK growth and inflation. The Pound sterling traded at an average of US\$1.5201 in November 2015 – having touched an intra-month low of US\$1.5032 – compared to US\$1.5326 in October 2015.

During November 2015, global equity markets posted a mixed performance as the risks associated with the expected rate hike in the US were weighed against the prospect of further stimulus in the Euro zone and the growth worries related to China. The MSCI Developed Markets Index went up by 0.7 per cent while MSCI Emerging Markets Index and MSCI Global Equity Index retreated by 4.0 per cent and 0.7 per cent, respectively. The NASDAQ and Dow Jones rose by 1.1 per cent and 0.3 per cent, respectively. Among the European market indices, DAX and CAC-40 gained 4.9 per cent, and 1.2 per cent, respectively, while FTSE lost 0.1 per cent. The Shanghai Exchange Composite rose by 1.9 per cent while JALSH, Hang Seng and Bombay SENSEX decreased by 4.1 per cent, 2.8 per cent and 1.9 per cent, respectively. The NIKKEI gained 3.5 per cent.

Both international energy prices and food prices fell in November 2015 on a stronger US dollar and abundant supplies on world markets. ICE Brent Crude averaged US\$46.0 a barrel in November 2015, down from US\$49.3 a barrel in October 2015. NYMEX WTI (West Texas Intermediate) crude oil averaged US\$43.0 a barrel in November 2015, down from US\$46.3 a barrel in October 2015. The Food and Agriculture Organisation's (FAO) Food Price Index fell from 159.3 points in October 2015 to 156.7 points in November 2015, or by 1.6 per cent, and was 18.1 per cent below its level a year earlier.

Domestic Developments

Tourist arrivals rose by 16.4 per cent to 106,218 in November 2015, from 91,234 a year earlier. The year-on-year growth in arrivals for November 2015 reflected mainly increases from Asia (+45.5 per cent), of which India recorded 66.0 per cent growth, and Europe (+13.7 per cent) with arrivals from Germany, UK and France rising by 35.6 per cent, 11.3 per cent and 1.6 per cent, respectively. For the twelve-month period ended November 2015, tourist arrivals recorded an increase of 10.1 per cent compared to the corresponding period of 2014.

CPI data released by Statistics Mauritius showed that inflationary pressures in the domestic economy remained low in November 2015. Headline inflation was unchanged at 1.2 per cent in November 2015, same as in October and September 2015. Year-on-year inflation eased from 1.5 per cent in October 2015 to 1.0 per cent in November 2015, reflecting decreases in the price of vegetables, gasoline and air tickets. Core inflation measures remained subdued in November 2015.

Monetary aggregates grew at a slower pace in October 2015 than in the previous month. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), slowed from 11.7 per cent in September 2015 to 11.0 per cent in October 2015, while growth in banks' credit edged down from 5.2 per cent in September 2015 to 4.5 per cent in October 2015. The annual growth rate of monetary base was 9.2 per cent in October 2015, compared to 5.0 per cent in September 2015.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in November 2015 were oversubscribed, albeit by a lower magnitude compared to the previous month. Consequently, the bid-cover ratios ranged between 1.2 and 2.2 compared to a range of 1.6 to 3.0 in October 2015. During November 2015, the Bank issued GMTBs for a total nominal amount of Rs5,400 million, of which Rs2,000 million was issued for liquidity management purposes. Over the same period, maturing GMTBs amounted to Rs3,579 million. The weighted yields on the three maturities, namely 91-Day, 182-Day and 364-Day went up by 36, 31 and 11 basis points, respectively. The overall weighted yield increased by 40 basis points, from 2.34 per cent in October to 2.74 per cent in November 2015.

During the month, the Bank carried one auction each for three-Year Government of Mauritius (GoM) Bonds (new benchmark) and Fifteen-Year GoM Bonds. Auction of the three-Year notes was oversubscribed, with a bid-cover ratio of 1.3 compared to 2.6 for the previous auction held in October. The weighted yield, nonetheless, remained unchanged at 4.56 per cent. In contrast, the fifteen year bond was heavily oversubscribed by more than 2 times but the weighted yield rose from 6.85 per cent for the last auction held in July 2015 to 6.88 per cent.

The Bank also conducted one auction of Two Year Bank of Mauritius Notes for a total nominal amount of Rs1,000 million. The issue was oversubscribed with a bid-cover ratio of 2.6 and the weighted yield increased by 17 basis points, from 4.06 per cent in October 2015 to 4.23

per cent. The Bank also conducted sterilised intervention during the month, issuing one-year special deposits for a total nominal amount of Rs100 million at the rate of 3.34 per cent. Total value of securities and special deposits issued for liquidity management purposes during November 2015 amounted to Rs3,100 million.

The weighted average dealt selling rates¹ of the rupee depreciated, on average, against the US dollar and the Pound sterling, but appreciated against the euro between October and November 2015. The average rupee exchange rates against the US dollar, euro and Pound sterling were Rs36.209/USD, Rs38.966/EUR and Rs55.402/GBP in November 2015 compared to Rs35.614/USD, Rs40.072/EUR and Rs55.076/GBP, respectively, in October 2015.

The gross foreign exchange reserves of the Bank of Mauritius increased from Rs148,102 million at the end of October 2015 to Rs150,028 million at the end of November 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-November 2015 level of gross official international reserves of the country represented 7.6 months of imports.

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