SBM insights

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For a smarter tomorrow

Foreword by SBM Group Chairman

Dear Reader,

2018 has been a year of contrast for the global economy. After a promising beginning, things have turned out to be more difficult during the second half of 2018 and this situation seems to persist during 2019. Trade tariffs imposed by the US administration on Chinese and European products escalated into a trade war; whilst uncertainty created by a possible "no deal" Brexit fueled negativity around investor confidence and consumer sentiment. Furthermore, the tightening of financial conditions and a combination of country and industry specific factors have negatively impacted emerging economies. As a result, the global growth estimate for 2019 has been revised down by the IMF to 3.3% compared to a previous estimate of 3.7% made in October 2018. Global trade volume growth is also expected to slow down to 3.4% in 2019 compared to a growth of 3.8% last year. In the current global context, most major central banks are expected to keep their monetary policy accommodative, e.g. the US Federal Reserve has paused interest rate increases and signaled no hike for 2019.

One glimpse of optimism during 2018 has been the robust growth in the East Africa region – Kenya: 6.0%, Tanzania: 6.6%, Rwanda: 8.6% and Uganda: 6.2%. Driven by strong consumption and investment, the same trend in growth is expected for these countries during 2019. Deeper economic integration should make this region of Africa one of the most thriving over the years to come.

In the current insipid international context, growth for Mauritius during 2018 was on par with the trend noted during previous years. The current domestic macro-economic environment is characterized by relatively low inflation and unemployment rates. Economic activity during 2018 was fueled by strong public investment and resilient private consumption and this pattern is expected to continue this year. At a sectoral level, during 2018, growth was driven by the construction, wholesale & retail trade, financial & insurance and accommodation & food services sectors. The outlook for 2019 remains broadly positive for these sectors, though export-oriented enterprises in the accommodation & food services and textile sectors are expected to face increased headwinds owing to the challenges in key markets and competitiveness concerns respectively.

In such an environment, SBM Group has well positioned itself to tap into the potential opportunities. Our strategy road map, aimed at transforming the business model from a domestic bank mainly focused on plain vanilla products to a modern, technology-driven, diversified regional financial services group, is well underway. Some important landmarks were achieved during 2018 especially in terms of regional expansion. In Kenya, the Group successfully completed the acquisition of the carved out assets and liabilities of Chase Bank (Kenya) Limited (in Receivership) in a "first of its kind" transaction and helped to stabilize the financial sector. This transaction consolidated the position of SBM Bank (Kenya) Limited into a top tier 2 bank with a network of more than 50 branches and a client base of around 200,000 customers. In parallel to its Kenyan initiatives, the Group also consolidated its 4 branches in India into a Wholly Owned Subsidiary (WOS) structure and became the first foreign bank to be granted a full banking licence for its WOS. This new structure should facilitate business and expansion in India. In Seychelles, the Group is set to launch its operations by the end of 2019. The Group has also been diversifying and enhancing its solutions offering with notable progress in the areas of asset management, factoring, bond raising and securities listing, among others. The Group has also put in place a comprehensive remediation plan at the level of the Bank in the face of challenges encountered due to the rapid expansion of its cross-border operations. The Group is now ready to resume growth in this segment in a more prudent and targeted way.

With the prevailing economic situation especially in the East African region and the various strategic initiatives taken so far, the long-term outlook for the Group, which remains well capitalized, resilient and highly liquid, is very positive. For the years to come, the Group intends to continue improving its service quality, leverage on the Kenya and India growth momentum and fully tap the investment as well as trade flows, between Asia and East Africa.

Kee Chong LI KWONG WING, G.O.S.K.
Chairman,
SBM Holdings Ltd

Dear Reader,

This 9th edition of SBM Insights will provide you with an overview of economic situation globally as well as in Mauritius, Kenya and India.

Since the global financial crisis, world economic growth has averaged 3.8% with short term cyclical swings ranging from -0.5% to +1.6%. Based on the latest estimates from institutions such as the IMF, World Bank and OECD, it seems that the global economy is about to enter into another phase of low growth during 2019. Indeed, the IMF projects that the global economy is set to grow by only 3.3% in 2019 compared to 3.6% in 2018.

This anticipated slowdown in global growth can be explained by a combination of negative events which include: (i) escalation of trade tensions between the US and two of its largest trade partners namely China and Europe, (ii) uncertainty caused by a possible "no deal" Brexit, (iii) rising sovereign spreads in Italy and Mexico, (iv) ongoing street protests in France, (v) tightening of policies and financial conditions in some developing countries and (vi) regulatory tightening in China to rein in debt and constrain shadow financial intermediation, among others. Overall, the negative sentiment emanating from these situations is expected to lower global consumption, investment and trade this year. However, should some of these negative events not materialize during 2019, an upward revision of growth is in the cards.

Despite a worsened global context, the Mauritian economy is set to sustain an appreciable performance. We forecast a GDP growth of around 3.9% in 2019, marginally up from the 3.8% recorded in 2018. Economic expansion will be driven by the construction industry as well as selected services sectors. Consumption and investment are projected to be key contributors to growth as consumer spending is set to benefit from low inflation, falling unemployment and social measures to boost purchasing power while investment would be buoyed by large public sector infrastructure projects. Nevertheless, we expect challenges in the textile sector to persist in 2019 whilst the accommodation and food services sector will be impacted by economic challenges in its source market and relatively weak EUR and GBP. Hence, the current account deficit is expected to widen. Besides, the debt to GDP is expected to rise on account of several infrastructure projects but the ratio of Central Government Debt to GDP should remain stable at around 58% of GDP.

In Kenya, the economy registered a robust growth rate estimated at 6.3% in 2018 on the back of increased agricultural production, an acceleration in manufacturing activity, sustained growth in transportation and vibrant services sector activities. The medium term economic outlook remains promising with the annual growth rate expected to range between 6.0% and 6.5%. In India, GDP is estimated at 7.0% for the fiscal year 2018/19 compared to 7.2% in 2017/18, attributed to weaker domestic and external demand. Despite this slight deceleration in economic activity, the outlook for growth appears to be favorable with real GDP growth projected to improve from 7.0% in 2018/19 to 7.2% in 2019/20.

We will be delighted to hear from you at: research@sbmgroup.mu for any queries, concerns, comments or debates.

Shailen SREEKEESSOON
Head of Strategy and Research
24 May 2019

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BEPS	Base Erosion and Profit Shifting
Bn	Billion
BoE	Bank of England
CBK	Central Bank of Kenya
CPI	Consumer Price Index
DTAA	Double Taxation Avoidance Agreement
EAC	East African Community
ECB	European Central Bank
EOE	Export Oriented Enterprises
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GAAR	General Anti-Avoidance Rule
GBC	Global Business Companies
GBP	Great British Pound
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GST	Goods and Services Tax
GVA	Gross Value Added
ICT	Information and Communications Technology
IMF	International Monetary Fund
INR	Indian Rupee
KRR	Key Repo Rate
Mn	Million
MPC	Monetary Policy Committee
MSCI	Morgan Stanley Capital International
MT	Metric Ton
OECD	Organization for Economic Co-operation and Development
ONS	Office of National Statistics
OPEC	Organization of the Petroleum Exporting Countries
PCE	Personal Consumption Expenditure
PMI	Purchasing Managers' Index
PSD	Public Sector Debt
RBI	Reserve Bank of India
SARB	South African Reserve Bank
SGR	Standard Gauge Railway
USD	United States Dollar

Global Economic Environment

Highlights

- The US economy grew by 2.9% in 2018 compared to 2.2% in 2017. This was the best annual performance since 2015, despite challenges on several fronts including the partial government shutdown, trade tensions and financial market volatility. The robust performance continued into the first quarter of 2019, with an annualized growth rate of 3.2% according to the first quarter advance estimate. Positive net export contribution and inventory build-up were the main drivers.

- The Federal Reserve's Open Market Committee raised the target range for the federal funds rate to 2.25%-2.50% from 2.00%-2.25% at its December monetary policy meeting, a move widely expected by market participants. However, following its January meeting, the Committee signaled a slowdown in interest rate hikes. In its subsequent March meeting, the Committee indicated that there will be no rate hikes in 2019. Indeed, the federal funds rate was kept unchanged at 2.25%-2.50% at its most recent May monetary policy meeting, reiterating the fact that its policy stance is appropriate under the current context.

- The UK economy grew by 1.4% in 2018 compared to 1.8% in 2017 – the worst annual performance since 2012. Consumer and business confidence remained low due to uncertainties relating to Brexit, translating into negative contributions from business investment and net trade. Nonetheless, according to latest monthly GDP statistics from the Office for National Statistics, the UK economy grew by 0.5% quarter on quarter in the first quarter of 2019 on the back of higher industrial production.

- The Bank of England maintained its policy interest rate (Bank Rate) at 0.75% during its monetary policy meeting in May, stating that their response to evolving circumstances could be in either direction.

- The Eurozone registered a growth rate of 1.8% in 2018 as compared to 2.4% in 2017. In the 19-country currency bloc, Italy stood out as the slowest growing economy. Germany, traditionally the strongest economy in the Eurozone, also experienced a slowdown in 2018.

- Like the US, the Eurozone gained momentum in the first quarter of 2019, growing by 0.4% quarter on quarter according to preliminary estimates of the Eurostat. This good performance contrasted with the pessimistic outlook which the International Monetary Fund portrayed less than a month ago – a rebound in Italy was noted, France's economy displayed resilience and Spain maintained its robust economic growth.

- The European Central Bank mentioned that interest rates are expected to remain at the same level by the end of 2019, owing to weak economic data and moderate inflation.

- Annual growth of the Chinese economy decelerated in 2018 to 6.4% largely owing to the spillover effects of the financial deleveraging and the unresolved trade tensions with the US that dampened economic sentiment. However, the economy recovered in the first quarter of 2019, despite the ongoing trade war with the US and large domestic vulnerabilities.

- The South African economy rebounded from a short-lived technical recession in the third quarter of 2018, expanding at 2.2% quarter on quarter (seasonally adjusted and annualized). This performance came as a surprise to economists who were expecting only a moderate expansion.

- On an average annual basis, Brent oil price rose by 30%, from USD 55/barrel in 2017 to USD 72/barrel in 2018, on the back of the commitment of the Organization of the Petroleum Exporting Countries to cut output levels and concerns over Venezuelan production, driving the market into a bullish state.

Macroeconomic Performance and Outlook in Selected Major Economies

Global

After expanding by 3.8% and 3.6% in 2017 and 2018 respectively, the global economy is expected to slow down in 2019. According to IMF April's World Economic Outlook, world real Gross Domestic Product (GDP) is projected to grow at 3.3% this year on account of persisting global risks. Geopolitical tensions, unresolved trade disputes between the US and China, uncertainty pertaining to Brexit and rising debt, among others, continue to plague the world economic environment. Besides, non-financial risks – such as social unrest (France and Venezuela) and environment challenges due to adverse climatic conditions – might further dent the already weakened global growth. Though risks to the outlook remain tilted to the downside, an orderly Brexit, a trade truce between the US and China and easing geopolitical tensions would be positive for global expansion through an expected improvement in consumer and business confidence. Below are the latest IMF growth rate forecasts for selected economies.

Table 1.1: Growth Projections – Selected Major Global Economies

Real GDP (Annual percentage change)	2016	2017	2018	2019f
World	3.4	3.8	3.6	3.3
Advanced Economies	1.7	2.4	2.2	1.8
US	1.6	2.2	2.9	2.3
UK	1.8	1.8	1.4	1.2
Euro Area	2.0	2.4	1.8	1.3
Emerging and Developing Economies	4.6	4.8	4.5	4.4
Emerging & Developing Asia	6.7	6.6	6.4	6.3
China	6.7	6.8	6.6	6.3
India	8.2	7.2	7.1	7.3
Sub Saharan Africa	1.4	2.9	3.0	3.5

Source: IMF World Economic Outlook – April 2019

US

The third estimate released by the Bureau of Economic Analysis for the fourth quarter of 2018 confirmed the slowdown of the US economy, albeit with a still resilient annualized growth performance of 2.2% (Q3-18: 3.4%). On the whole, real GDP grew by 2.9% in 2018 compared to 2.2% in 2017. Despite the growth rate falling short of President Trump Administration's target of 3%, this was the best annual performance since 2015, despite challenges on several fronts including the partial government shutdown, trade tensions and financial market volatility. Personal Consumption Expenditure (PCE), non-residential fixed investment and exports were the main contributors to GDP. Consumer confidence index remained robust at 126.6 as at December 2018, underpinned by a strong labor market and on-target inflation. The solid performance continued into the first quarter of 2019, with the economy registering an annual growth rate of 3.2% according to the advance estimate. Positive net export contribution, investments and inventory build-up were the main drivers. Nonetheless, in the context of broad global slowdown and weakening domestic momentum due to trade tensions, the overall growth rate for the current year might be dampened.

Table 1.2: US Selected Macroeconomic Indicators (Seasonally-Adjusted Annual Growth Rate)

	2016				2017				2018				2019
Percent	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP	1.5	2.3	1.9	1.8	1.8	3.0	2.8	2.3	2.2	4.2	3.4	2.2	3.2
PCE	2.4	3.4	2.7	2.6	1.8	2.9	2.2	3.9	0.5	3.8	3.5	2.5	1.2
Exports of goods and services	(2.4)	3.4	6.1	(3.6)	5.0	3.6	3.5	6.6	3.6	9.3	(4.9)	1.8	3.7
Gross private domestic investment	(1.8)	(1.0)	(0.4)	8.1	4.9	5.7	8.8	0.8	9.6	(0.5)	15.2	3.7	5.1

Source: US Bureau of Economic Analysis

At its May 2019 monetary policy meeting, the Federal Reserve's Open Market Committee voted unanimously to keep the target range for the federal funds rate unchanged at 2.25%-2.50%, a move widely expected by market participants. The Committee adopted a wait-and-see approach owing to uncertainty about where the US economy is heading. The last hike was in December 2018 when the federal funds rate was raised from 2.00%-2.25% to 2.25%-2.50%. However, since the beginning of 2019, the Committee decided to halt rate hikes altogether as a result of negative developments on the international market. Though, recent developments indicated some respite to the fears that led to the pause in interest rate hikes (extension of Brexit and positive data from China), the Committee reiterated the fact that its policy stance is appropriate under the current context, that is, there will neither be an increase nor a decrease in the federal funds rate in the near term.

UK

The UK economy slowed to 0.2% quarter-on-quarter in the fourth quarter of 2018, following a growth of 0.7% in the third quarter. Sector-wise, only the services sector contributed positively to the economy while the sub-sectors of production and construction performed poorly. Consumer and business confidence remained at low levels due to uncertainties relating to Brexit, translating into negative contributions from business investment and net trade. While the UK Manufacturing Purchasing Managers' Index (PMI) reading for December rose to 54.2 – a six-month high – from 53.6 in November, according to IHS Markit, this should be viewed with some skepticism as it only reflected the temporary inventory build-up and inflows of new businesses as companies prepared for a potential disorderly Brexit. On a positive note, employment remained robust and the inflation rate close to the Bank of England (BoE) target rate of 2%. All in all, the UK economy grew by 1.4% in 2018 compared to 1.8% in 2017 – the worst annual performance since 2012.

According to latest monthly GDP statistics from the Office for National Statistics, the UK economy grew by 0.5% quarter on quarter in the first quarter of 2019 on the back of higher industrial production. Again, the good performance was driven by a possible no-deal Brexit. According to economists, growth in the coming quarters could be depressed as the effects fade out. This is in line with the downward revision of IMF's growth forecast for 2019 from 1.5% to 1.2%.

Brexit Timeline
Recent and Future Developments – Key Dates

29-Mar-19
UK due to leave EU but UK MPs rejected the withdrawal deal which Theresa May agreed with Brussels. EU leaders eventually agreed to a six-month extension to the exit process.

09-May-19
First EU Summit to be held in Romania, following UK's failure to leave on 29 March.

23-May-19
Elections for the EU Parliament.

31-Oct-19
Under the new extension to exit process, Britain should leave the EU on or before 31 October.

The BoE maintained its policy interest rate (Bank Rate) at 0.75% during its monetary policy meeting in May. The Committee assessed the monetary policy stance to be appropriate and stated that their response to evolving circumstances could be in either direction. As stated in our earlier paragraph, the BoE also perceived the relatively strong first quarter economic data to be temporary as a result of inventory build-ups in the wake of unfolding Brexit events in the first three months. Hence, it is most likely that growth will be tempered in the coming months. The labor market situation remained tight in 2018 and the trend is expected to continue through 2019, with the unemployment rate currently at 3.9% (December-February period) – a multi-decade low. Inflation stood at 1.9% as of March 2019, below but close to the BoE's target rate of 2%. Nonetheless, both inflation and unemployment rates will be subject to Brexit's outcome.

Eurozone

Economic activity in the Eurozone remained weak in the fourth quarter of 2019, growing by 0.2% (Q3: 0.1%) quarter on quarter on a seasonally-adjusted basis. The marginal growth was due to better fixed investment and exports data. In spite of challenges, gross fixed capital formation grew by 0.6% (Q3: 0.6%) and exports by 0.9% (Q3: 0.2%) quarter-on-quarter. Household spending increased by 0.2% in the fourth quarter (Q3: 0.1%) while imports rose by 0.5% (Q3: 1.1%). All in all, the Eurozone registered a growth rate of 1.8% in 2018, lower than the 2.4% recorded in 2017. In the 19-country currency bloc, Italy stood out as the slowest growing by 0.4% quarter on quarter. Germany, traditionally the strongest economy in the Eurozone, experienced a slowdown in 2018, with a GDP growth rate of 1.5% – the weakest in five years – compared to 2.2% in 2017. Weak demand from China and tougher pollution standards that affected the automobile sector were the main drag factors of the significant slowdown.

Like the US, the Eurozone gained momentum in the first quarter of 2019, growing by 0.4% according to preliminary estimates of the Eurostat. This good performance contrasted with the pessimistic outlook which the IMF portrayed less than a month ago – a rebound in Italy was noted, France's economy displayed resilience and Spain maintained robust economic growth, driven, among others, by strong domestic demand, lower unemployment and rising wages. Though this has surprised market analysts, it is generally deemed that the pace of growth will not be sustained in the coming quarters based on forward-looking indicators.

At its monetary policy meeting in April, the European Central Bank (ECB) kept interest rates unchanged with the main refinancing rate at 0.00%, and the marginal lending rate and deposit facility rate at 0.25% and -0.40% respectively. Weak economic data and moderate inflation were the main driving forces for the continued accommodative monetary policy stance. The ECB even stated that interest rates are expected to remain at the same level by the end of 2019. In March, the inflation rate fell to 1.4% below the Central Bank's target of close to, but below, 2.0%, owing to lower prices of food and tobacco. Likewise, the unemployment rate fell from 7.8% in February to 7.7% in March – the lowest rate since September 2008 - reflecting improvements in the labor market. The ECB president assessed the economy rather pessimistically by stating that risks to the Eurozone's growth prospects are tilted to the downside on account of persistence of uncertainties relating to geopolitical issues, tariffs threats and vulnerabilities in emerging markets.

Table 1.3: Central Bank Interest Rates

		April Survey - Median Forecasts	
Percent	**Current**	**Q2 2019**	**Q3 2019**
Federal Funds Rate	2.25–2.50	2.25–2.50	2.25–2.50
BoE Bank Rate	0.75	0.75	0.75
ECB Main Refinancing Rate	0.00	0.00	0.00

Source: IMF World Economic Outlook – April 2019

Selected Emerging Economies

China

In the last quarter of 2018, annual growth in the Chinese economy decelerated to 6.4% largely owing to the spillover effects of the financial deleveraging and the unresolved trade tensions with the US that dampened economic sentiment. As a result, economic expansion slowed down to 6.6% in 2018 compared to the rate of 6.8% recorded in 2017. The biggest drag factor was a slowdown in infrastructure investment, which grew by only 3.8% in 2018, down significantly from the prior year's 19% increase. The performance of the external sector deteriorated markedly with both nominal exports and imports of goods contracting to a two-year low in the last quarter of 2018, highlighting the effects of the imposition of the trade tariffs in July/September of 2018.

The economy recovered in the first quarter of 2019, despite the ongoing trade war with the US and large domestic vulnerabilities. According to latest economic data, GDP grew by 6.4% in annual terms, matching the previous quarter's performance and surpassing the 6.3% expansion which market analysts had anticipated. Moreover, the reading was within the government's growth target of between 6.0% and 6.5% for 2019. Private consumption gained some footing in the period under review. Growth in nominal retail sales inched up when compared to the last quarter of 2018 amid low inflationary pressures and solid gains in disposable income. Moreover, policy stimulus propped up growth in fixed asset investment. On the external sector front, once again China registered a poor performance with both nominal export and import figures weaker than in the previous quarter owing to persisting trade tensions and weaker global demand.

South Africa

In the third quarter of 2018, the South African economy rebounded from a short-lived technical recession, expanding at 2.2% quarter on quarter (seasonally adjusted and annualized). This performance came as a surprise to economists who were expecting only a moderate expansion. The main drivers for this broad-based expansion were a rise in agricultural harvests and manufacturing output. However, the economy decelerated to 1.4% quarter on quarter (seasonally adjusted and annualized) in the last quarter of 2018 – once again beating market expectations. This was supported by higher household spending, government spending and net exports. The Standard Bank PMI reading was 49.0 in December 2018. Though this was an improvement from the November's reading of 48.2, the data showed that business conditions had not improved significantly since our last publication, thus remaining in the negative territory (under the 50-point threshold). Due to continued subdued demand and weak business confidence, the latest PMI reading declined further to 48.8 points, pointing towards a deterioration in the business climate.

At its recent MPC meeting in March, the South African Reserve Bank (SARB) maintained the repurchase rate at 6.75%. According to the Committee, risks to the economy are tilted to the downside. Several factors, such as electricity supply constraints and weak business confidence, are likely to plague growth prospects. The Committee is also of the view that the challenges which the South African economy is currently facing are chiefly structural in nature. Hence, the MPC of the SARB has revised down its growth forecast for 2019 to 1.3% from its March projection of 1.7%. With regards to inflation, the risks are evenly balanced. The Committee maintained that its policy stance is accommodative.

Evolution and Outlook of Selected Commodity Prices

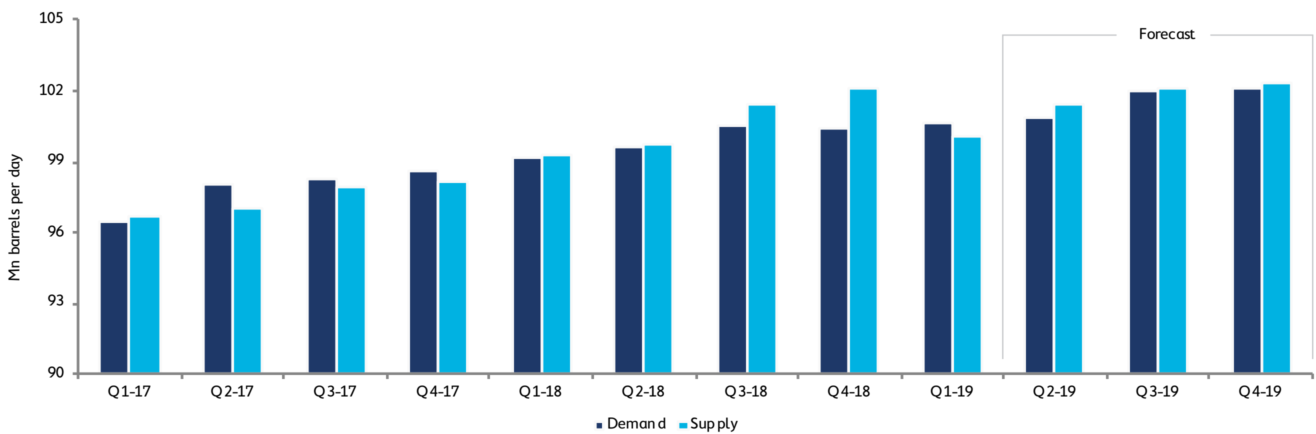
Brent oil lost nearly 20% of its value, on a year-on-year basis, at the end of December 2018. The commodity experienced high volatility in the fourth quarter of last year, reaching USD 86/barrel in October 2018 – its highest price level since October 2015 – but subsequently collapsed to USD 50/barrel in December. The sharp downward trend was mainly attributable to concerns over a softer demand for fuel in the context of a weakening global economy and persistent supply glut. Yet, on an annual average basis, Brent oil price rose by 30%, from USD 55/barrel in 2017 to USD 72/barrel in 2018, on the back of the commitment of the Organization of the Petroleum Exporting Countries (OPEC) to cut output levels and concerns over Venezuelan production, driving the market into a bullish state in the first ten months of the year.

Figure 1.1: Brent Price Evolution

Source: Bloomberg

In the first quarter of 2019, Brent oil price averaged USD 64/barrel, lower than in the corresponding quarter of 2018 (USD 67/barrel) but higher than the December average of USD 58/barrel. Nonetheless, it can be observed that oil is on an increasing trend since the beginning of the year (refer to Figure 1.1). At the end of April, Brent price was hovering around USD 72/barrel. Oil production cuts by OPEC and other large oil producers led by Russia, coupled with involuntary reductions in Venezuela and Iran, have contributed to the recent rise in the price of the fuel. The outcome of the forthcoming OPEC meeting in June 2019 will be a key determinant of the movement of the price of the commodity. Factors such as market conditions, production, supply and demand levels will be the main discussion points.

Figure 1.2: World Oil Supply and Demand



Source: International Energy Agency

In December 2018, OPEC and other major oil producers including Russia pledged to cut oil production by 1.2 million barrels per day in order to boost prices, effective as from January this year. The decision came after slowing demand and rising supply contributed to a drop of more than 40% in the price of Brent in the last quarter of 2018. According to OPEC Monthly Oil Market Report – March 2019, global oil demand stood at 1.4 million barrels per day in 2018. In anticipation of a slowdown in global economic growth in 2019, the Committee expects global oil demand at 1.2 million barrels per day, 13% lower than 2018, although countries like India and China are projected to drive demand for the year.

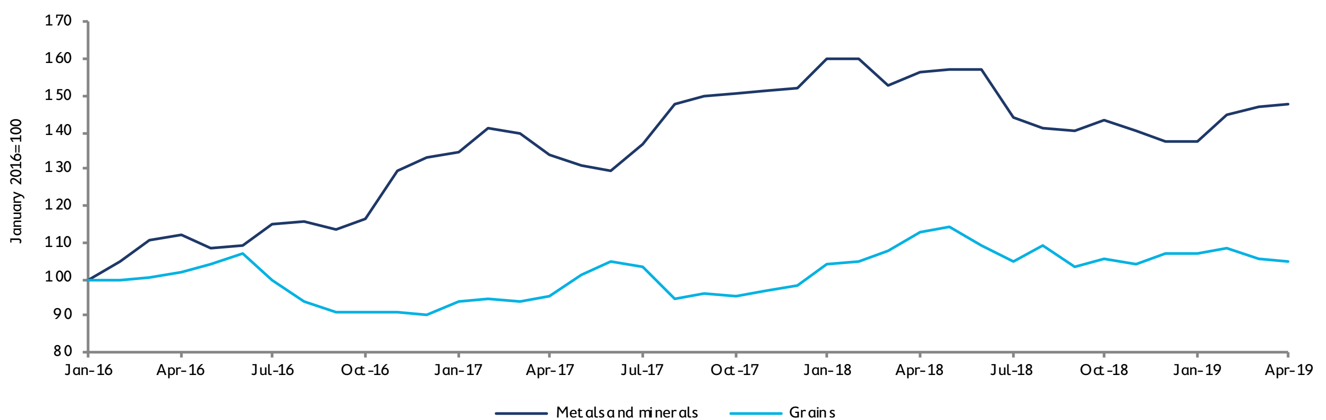
Table 1.4: Brent Price Forecasts

	Actual		Forecasts		
USD/Barrel	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Bloomberg median (as of May)	69	64	69	70	70
US Energy Information Administration	68	63	69	66	63

Sources: Bloomberg, US Energy Information Administration

Metal prices experienced sharp declines in the second half of 2018 owing to a slowdown in China. However, the trend reversed in the first quarter of 2019 and, according to the World Bank, metal prices are expected to recover by the end of 2019. Supply concerns with respect to zinc and copper, iron ore production disruptions due to the dam disaster in Brazil and China's fiscal stimulus are expected to provide support to metal prices. Downside risks include weaker-than-expected demand from China and unresolved US-China trade negotiations while upside risks include tighter-than-expected environmental policies and slower-than-expected easing of supply bottlenecks.

Figure 1.3: World Oil Supply and Demand



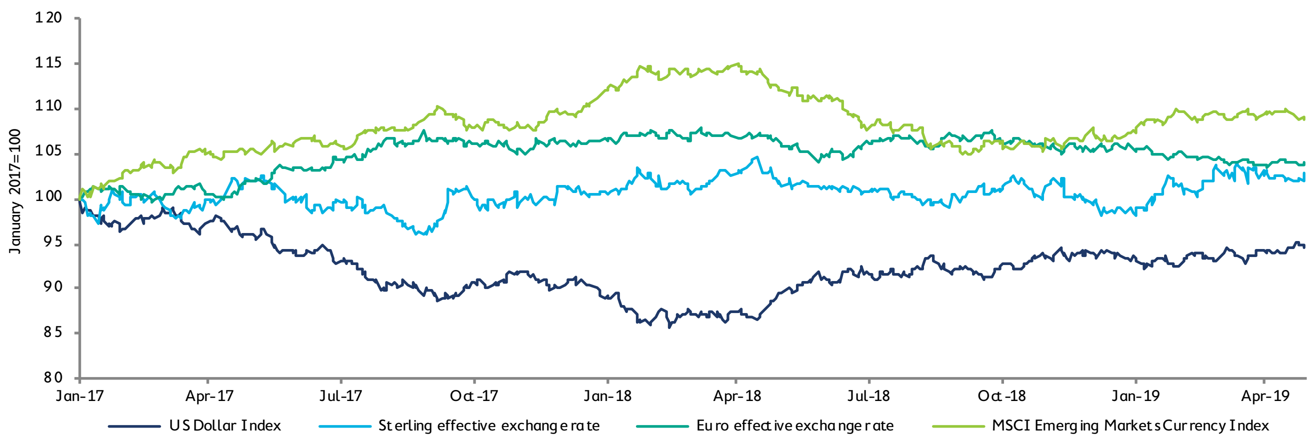
Source: World Bank

Evolution and Outlook of Selected Currencies

Since the beginning of 2019, the US Dollar Index – which measures the value of the dollar relative to six advanced-economy currencies - traded broadly within the same range as in the last quarter of 2018. On a year-to-date basis, the currency gained only 1% in terms of value, but it gained 7% in the first quarter of 2019 when compared to the same quarter in 2018. Strong economic data continued to be one of the major drivers of the currency's strength. Moreover, despite ongoing trade tensions, investors viewed the US economy to be better prepared than its competitors to withstand a full-blown trade war. Many emerging market currencies regained their footing at the start of the year supported by the pause in interest rate hikes by the Federal Reserve, as reflected in the upward trend of the MSCI Emerging Markets Currency Index, which tracks the value of 25 emerging market currencies against the US Dollar (refer to Figure 1.4). These currencies include the Turkish lira, Indian rupee, Chinese renminbi and the South African rand.

The effective exchange rate of the euro was lower by 2% in the first quarter of 2019 when compared to the corresponding quarter in 2018. The currency has lost its momentum since January on the back of weak economic data specifically relating to the bloc's factory activities. Statistics for the German factory orders in March and its April construction PMI were lower than expected, hence triggering fears among investors about a slowdown in the Eurozone economy in 2019. However, the currency might rebound if economic data in the coming quarters are stronger and trade tensions ease. Despite uncertainties relating to Brexit, the sterling has been relatively strong since the beginning of the year. It is expected that the currency's evolution will remain highly dependent on Brexit developments.

Figure 1.4: Evolution of Indices of Major Global Currencies



Sources: Bloomberg, SBM Staff Estimates

Table 1.5: Exchange Rate Forecasts

	Spot Price	April - Median Forecasts			
	30/04/19	Q2 2019		Q3 2019	
		Median	Range	Median	Range
EUR/USD	1.12	1.12	1.07 - 1.18	1.14	1.08 - 1.20
GBP/USD	1.30	1.32	1.25 - 1.40	1.33	1.26 - 1.41

Source: Bloomberg

Economic Review: Mauritius

Highlights

- Real GDP at market prices expanded by an estimated 3.8% in 2018. Growth is expected to slightly improve to 3.9% in 2019.

- Economic activity was robust in 2018, driven mainly by the construction sector and services while national investment and public consumption were also strong.

- The construction sector is likely to remain a key driver to the Mauritian economy in 2019, driven by large public infrastructure projects and private sector investment in hotels and real estate.

- The manufacturing sector - especially the sugar and textile sub-sectors - is expected to perform below par in 2019, with difficulties experienced in 2018 being protracted.

- A lower expansion is anticipated in services with the tourism, financial services and global business sectors likely to grow at a reduced pace in 2019.

- A notable decrease in inflation is anticipated in 2019, assuming no significant price increase following the Budget 2019/20 and no substantial rise in fuel and food prices.

- The budget deficit figures for fiscal years 2018 and 2019 are projected to drop to 3.2% and 3.0% of GDP respectively. Central Government Debt is expected to remain broadly stable at around 58% of GDP.

- However, public sector debt is likely to rise with an anticipated increase in borrowings linked to the implementation of large scale public infrastructure projects and other capital expenditure.

- We expect the Mauritian rupee to remain fairly stable in real effective terms. Based on projected movements of major currencies, the rupee is anticipated to depreciate against the US dollar while appreciating against the pound sterling and euro, on an annual average basis

- The monetary policy is expected to remain accommodative in 2019 with the repo rate kept unchanged or close to its current level on the back of stable growth and low inflation.

- The current account deficit is expected to further widen due to a worsening of the trade balance mainly because of an influx of capital goods. Nevertheless, it is anticipated that the balance of payments will remain positive.

- Risks appear to be broadly balanced:

  - Upside risks include higher financial inflows than expected with Mauritius acting as an investment gateway to Africa, faster implementation of key infrastructure projects, higher than anticipated national investment and higher influx of tourists due, for instance, to the Indian Ocean Islands Games 2019, and stronger growth in key markets than currently projected.

  - Downside risks on the domestic side include higher financial outflows especially with the revision of the Double Taxation Avoidance Agreement with India and the implementation of General Anti-Avoidance Rule therein, lower than expected tourist arrivals. On the international front, slower global economic growth and a weaker euro will dampen the growth momentum.

Performance in 2018

The economic buoyancy noted during the second half of 2018 translated into a year-on-year Gross Value Added (GVA) growth of 3.3% and 4.1% for the third and fourth quarters of 2018, respectively. Overall, based on the latest National Accounts estimates from Statistics Mauritius, growth for 2018 as measured by GVA at basic prices was 3.6%, on par with our December 2018 forecast, while GDP at market prices expanded at 3.8% which is 10 basis points lower than our previous forecast, attributable to movements in net tax and subsidies.

Consumption and investment were resilient in 2018 while net exports remained under par. Final consumption grew by 3.5%, driven by higher private sector demand as well as strong general government spending. Gross Fixed Capital Formation (GFCF) growth accelerated to 11.4% in 2018 compared to 4.7% in 2017 as investment expenditure benefitted from an increase in other construction works and higher investment in machinery and equipment. On the international trade front, net exports of goods and services remained negative, worsening from -12.7% of GDP in 2017 to -13.5% of GDP in 2018. Gross domestic savings contracted from 10.0% of GDP in 2017 to 9.1% of GDP in 2018.

Sectoral Review in 2018

At a sectoral level, the **construction sector** recorded the strongest expansion rate, at an impressive 9.5%, driven by a notable increase in public sector investment with the satisfactory progress of the construction works for the Metro Express Project, among others, as well as higher private sector investment in the real estate sector.

The **accommodation and food services sector** continued to be one of the consistent performers on the back of healthy expansion rates of 4.3% and 6.3% in tourist arrivals and tourism earnings respectively, with Mauritius continuing to position itself as a tourist destination of choice in the Indian Ocean. Increased air connectivity to some countries as pointed out in our last edition and improved service quality - as illustrated by the multiple awards and recognition received by Mauritian hotels and resorts - were the main reasons for this good performance which resulted in a solid increase of visitors from key European and African markets. Nevertheless, this performance was dented by a significant decrease in tourist arrivals from China (mainly explained by the cancellation of flights to Guangzhou) and Reunion.

The **financial services sector** expanded at a slower pace of 5.4% in 2018. Most of its sub-sectors fared relatively well in comparison to the prior year, except for money intermediation which mainly relates to the banking sector, where a slowdown was observed as a result of anemic credit growth and rising non-performing assets. For the period under review, liquidity remained high despite the Central Bank's efforts to mop up extra cash. With respect to the global business sector, a moderate growth rate of 4.0% was registered in 2018 (2017: 4.3%). Following the revision of the Double Taxation Avoidance Agreement (DTAA) with India and the introduction of General Anti-Avoidance Rule (GAAR) therein effective 01 April 2019, the situation in the global business sector warrants close monitoring.

Below are some of the recent developments and achievements:

1. For the nine-month period from April to December 2018, Foreign Direct Investment (FDI) to India from Mauritius stood at USD 6 billion (share of total investment of 18%) compared to USD 13 billion (share of total investment of 37%) for the same period in the prior year, representing a loss of nearly half of the country's share of total investment;
2. Credit to Global Business Companies (GBCs) reached MUR 67 million as at end-February 2019, representing 18% of total credit; and
3. Market diversification continues with share of total investment from newly licensed GBCs targeting the African continent in particular largely outpacing other regions during 2018.

Table 2.1: Target Country/Region of Investment of Newly Licensed GBC1s in 2018/19

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Africa	34%	38%	42%	43%	27%	62%
India	6%	7%	3%	4%	16%	5%
China	6%	7%	0%	5%	3%	3%
Asia (ex. China and India)	11%	7%	9%	11%	19%	7%
America	18%	16%	21%	15%	9%	5%
Europe	25%	25%	21%	22%	27%	17%
Others	0%	1%	3%	1%	0%	1%
Total	100%	100%	100%	100%	100%	100%

Source: Financial Services Commission

Note: Figures may not add up to 100% due to rounding

The performance of the **manufacturing sector** continues to be a major cause for concern, especially the textile segment which posted a negative growth for the fourth straight year. In 2018, the textile industry recorded a negative growth of 6.8%, worse than the negative growth of 0.7% recorded a year earlier. With the continuous increase in the country's income levels and standards of living, the sector's cost competitiveness is declining, resulting in some companies opting to close or explore the delocalization of their operations to countries such as Bangladesh, Madagascar and Mozambique where labor costs are much lower.

After registering a positive growth of 2.4% in 2017, the **sugar milling sector** performed considerably worse in the following year, with a negative growth of 19%. Though extraction rate was higher, sugarcane yield fell by 14% due to a decrease in sugarcane harvested area which ultimately led to a decline of 9% in sugar production to 323,342 tonnes in 2018 from 354,952 tonnes a year before. Moreover, there was no import of raw sugar, for onward refining, in 2018 as opposed to 100,000 tonnes imported in 2017.

Table 2.2: Sugar Sector Performance Metrics

	2017	2018
Harvested area (hectares)	33,835	32,887
Sugarcane yield (tonnes)	2,699,593	2,314,822
Sugar production (tonnes)	354,952	323,342
Extraction rate (%)	9.56	10.26

Source: Mauritius Sugarcane Industry Research Institute

Prospects in 2019

With a worsening international context, we expect the Mauritian economy to face some headwinds during 2019. Nevertheless, the resilient consumption and robust national investment should keep the expansion momentum to around 3.7% and 3.9% in terms of GVA and GDP growth respectively, during 2019.

The **construction sector** will continue to be a key growth engine in 2019, driven by large scale public sector projects e.g. Metro Express, new urban terminals in Port Louis and Rose Hill, multi-sports complex and the ongoing implementation of the road decongestion programme, among others. Private sector investment is projected to also support the sector with some major projects announced in the hotel and real estate industries.

The **tourism sector** is expected to face increased difficulties in 2019. Economic uncertainties in our key European markets, depressed EUR and GBP, the "Yellow Vests" protests, limited air connectivity to Asia and increased regional competition could undermine the performance of this sector. Despite increasing by 3.4% in the month of April 2019, tourist arrivals, for the first quarter of 2019, showed a year-on-year decline of 1.2% compared to a year-on-year growth of 5% in 2018. Furthermore, tourism earnings dropped by 10.6% during the first quarter of 2019, thereby denting the expected annual performance. This can be explained by a shift in the mode of transport, with tourist arrivals by sea rising by 91% in the first four months of 2019. Cruise ships provide various services to tourists such as accommodation, food, entertainment inter alia, therefore reducing the need for visitors to spend in Mauritius. The upcoming Indian Ocean Islands Games 2019, and increased seat capacity - with the reception of two new airplanes by the national carrier - may boost the number of visitors and will partly offset the difficulties which the tourism sector is facing this year. We expect the sector to record a positive growth for 2019, albeit at a slower pace than in 2018.

The **financial services sector** is projected to achieve a growth rate of 5.3% at par with last year's growth. Several important measures announced in the Budget 2018/19 and aimed at positioning Mauritius as an International Financial Centre of choice have already been implemented or kickstarted, including the 'Blueprint for the Financial Services Sector', the launch of the FSC Regional Centre of Excellence in collaboration with Organization for Economic Co-operation and Development (OECD) and the revision of the fiscal regime to align Mauritius to international standards norms (OECD and BEPS).

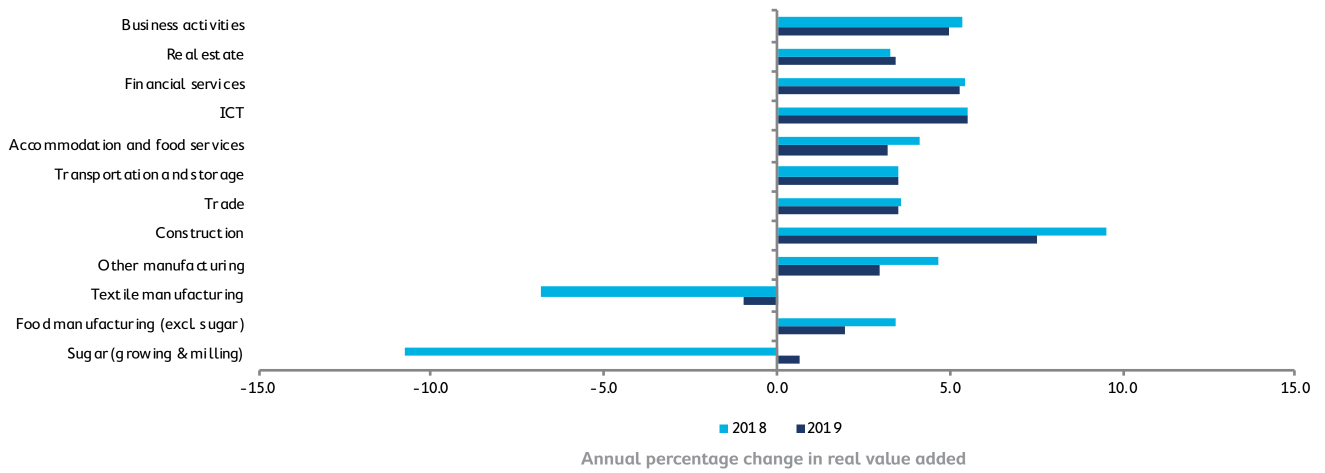
However, various challenges need to be addressed such as:
1. attracting and retaining talent with experience in targeted fields;
2. increasing volume of cross-border transactions in a sustainable manner;
3. reducing cost of funding through local financial institutions;
4. adopting effective and efficient technologies in various sectors to propel growth in the sector under review;
5. increasing the visibility of Mauritius on the regional and international markets as a reputed jurisdiction; and
6. increasing linkages with source and target markets.

Progress in these areas is likely to trigger an upgrade in our growth prognosis for the sector.

The performance of the **manufacturing sector** is expected to remain disparate across subsectors. The situation in the textile sector will warrant close monitoring with the deterioration in the economic conditions in key markets and the waning competitiveness. The confidence in the textile sector took a hit during the first quarter of 2019 with the closure of one factory and another one being put under administration. On a more positive note, Mauritius and the UK signed a new trade agreement in January 2019 that will guarantee continued preferential access for Mauritian products in the UK post its exit from the European Union. Furthermore, the authorization, from the Malagasy government, for Mauritius to construct an industrial park in Madagascar could bring some interesting developments in the medium term. For 2019, we expect the contraction in the textile industry to continue.

Sugar milling is expected to perform better on the back of higher local sugar production and refining of 40,000 tons of imported raw sugar. Nevertheless, the decline in world sugar prices and the increased competition with the EU beet producers which dragged down the domestic sugar price to an estimated MUR 8,800 per Metric Ton (MT) of sugar offered to producers in 2018 (2017: MUR 10,716) – far below the peak price of sugar at around MUR 17,600 in 2012 – is discouraging planters to continue operating in this sector.

Figure 2.1: Selected Industry Growth Forecasts



Source: Statistics Mauritius, SBM Forecasts

Table 2.3: Selected Economic and Financial Indicators

	Unit	2014	2015	2016	2017	2018e	2019f
REAL SECTOR							
GDP at market prices	MUR Bn	392	410	435	457	483	511
GDP at market prices per capita	USD	10,155	9,241	9,598	10,173	10,872	11,422
GVA at basic prices - real growth	%	3.6	3.0	3.6	3.6	3.6	3.7
GDP at market prices - real growth	%	3.7	3.5	3.8	3.8	3.8	3.9
Gross domestic saving	% GDP	10.6	10.4	11.0	10.0	9.1	10.0
Gross fixed capital formation	% GDP	18.9	17.4	17.2	17.4	18.7	21.0
Private sector	% GDP	14.0	12.6	12.8	13.3	14.1	14.0
Public sector	% GDP	4.8	4.7	4.4	4.1	4.6	7.0
Headline inflation	%	3.2	1.3	1.0	3.7	3.1	1.8
Unemployment	%	7.8	7.9	7.3	7.1	6.9	6.8
FINANCIAL SECTOR							
Key Repo Rate	%	4.65	4.40	4.00	3.50	3.50	3.50
Average MUR lending rate*	%	8.01	7.60	7.06	6.59	6.22	6.17
Average MUR deposit rate*	%	3.25	2.90	2.42	1.99	1.68	1.68
Average Treasury Bills rate*	%	2.37	2.14	2.68	2.21	3.46	3.16
GOVERNMENT SECTOR							
Budget balance ‡	% GDP	(3.2)	(3.2)	(3.5)	(3.5)	(3.2)	(3.0)
Central Government Debt †	% GDP	55.2	57.5	59.1	57.0	57.1	58.3
Public sector gross debt †	% GDP	60.6	63.4	64.2	63.5	64.5	66.8
EXTERNAL SECTOR							
Balance of visible trade	% GDP	(19.7)	(18.2)	(18.6)	(21.9)	(23.2)	(23.9)
Foreign direct investment	% GDP	4.7	3.3	4.2	3.8	3.6	3.0
Current account balance	% GDP	(5.6)	(5.0)	(4.3)	(6.6)	(6.5)	(7.8)
Balance of payments	% GDP	5.9	4.9	6.0	6.2	6.2	3.9
USD/MUR annual average change	%	(0.2)	14.1	1.1	(0.9)	(1.3)	0.6

Sources: Statistics Mauritius, Bank of Mauritius, Ministry of Finance, SBM staff estimates

†End of period * mean of monthly weighted averages (f) SBM staff forecasts

‡ due to the change in fiscal year from calendar year to a July-June cycle in 2015, 2014 figures relate to calendar year, the 2015 figure relates to the Jan-Jun 2015 period, and the 2016, 2017, 2018 and 2019 figures relate to the Jul15-Jun16, Jul16-Jun17, Jul17-Jun18 and Jul18-Jun19 fiscal years respectively.

Domestic Credit and Consumer Expenditure
Domestic demand for banking sector credit will remain tepid due to headwinds in Export-Oriented Enterprises (EOE) sectors such as sugar, textile and tourism, as well as a continued drive for disintermediation by large corporates. Nevertheless, the resilient construction sector and an accommodative policy stance can positively contribute to loan growth. Consumption expenditure should remain in line with recent trends; benefiting from a boost in purchasing power amidst low inflation and social measures, such as the negative income tax and minimum wage.

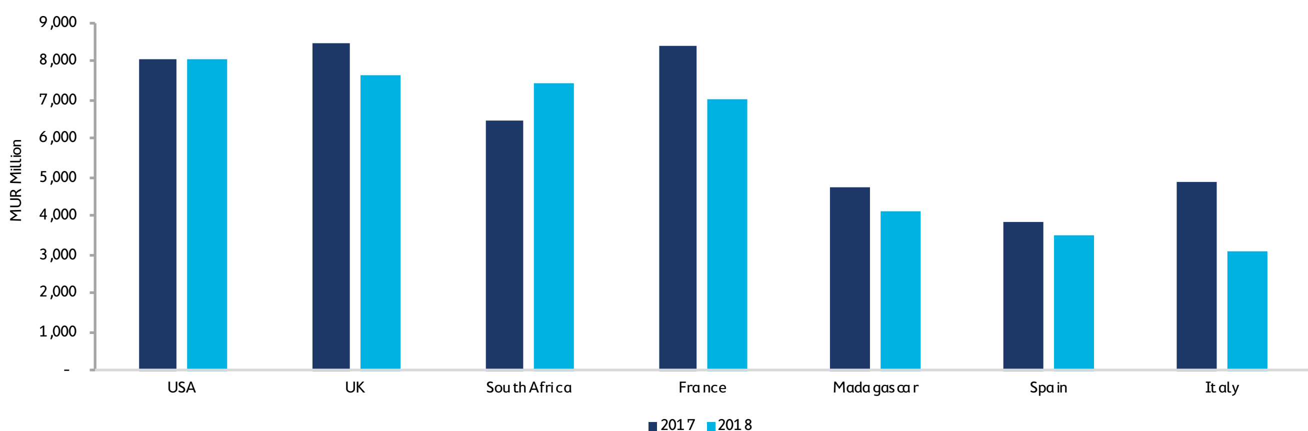
Headline Inflation
Headline inflation rate decreased to 3.2% for the year 2018 – lower than the 3.7% recorded a year earlier due to soft prices of air tickets, cooking gas, mobile phones and interest rates on housing loan. As at March 2019, headline inflation (annual moving average) stood at 1.4% compared to 5.0% for the same period last year. This was mainly due to higher prices of vegetables in Q1 2018 compared to Q1 2019. Overall in 2019, we expect a low inflation rate of 1.8%, assuming no unanticipated spikes in food and fuel prices, no substantial price increase following the Budget 2019/20, and a generally moderate growth in demand.

Unemployment
The unemployment rate declined to an estimated 6.4% in Q4 2018 from 6.9% in the corresponding period in 2017. Increased activity in construction, trade and the education sector translated into a decrease in the unemployment count. The unemployment rate for the year 2018 dropped to 6.9% as forecasted in our last edition – the lowest rate in over a decade. The construction, trade and tourism sectors should continue to support employment in the medium term while the manufacturing sector could be a negative net contributor.

Results from the "Report on the Impact of the Introduction of the National Minimum Wage" conducted by the National Wage Consultative Council indicate that there has been no significant change in headcount in EOE and Non EOE manufacturing enterprises. However, these findings are to be interpreted with some caution given the relatively low response rate. Overall, we anticipate more positive than negative developments in the labor force with last year's budgetary measures intended to boost job opportunities – especially for fresh graduates and female workers – and project that the unemployment rate will further decline in 2019.

External Balance
According to preliminary estimates from Statistics Mauritius, the deficit on the balance of visible trade widened to 23.2% of GDP in 2018 from 21.9% of GDP in 2017 due to export growth lagging behind import growth. Last year, imports of goods rose by 6.5%, driven by petroleum products and machinery and transport equipment while exports marginally decreased by 0.1%, undermined by the poor performance of the sugar and textile industries. In contrast to the increase noted in exports value to South Africa, receipts from the country's major European markets - notably UK, France, Spain and Italy – recorded a decline in 2018 compared to a year before as shown in Figure 2.2.

Figure 2.2: Exports of goods



Source: Statistics Mauritius

In 2019, we expect the current account deficit to widen to 7.8% of GDP, in line with the projections of the IMF's Article IV Consultation conducted in April 2019. This is mainly on account of higher imports of goods attributable to the influx of capital goods for the construction works of the announced infrastructural projects and the under-par exports resulting from muted external demand at the global level particularly Europe. Besides, export of services could also face challenges in the wake of lower tourism earnings. However, net financial inflows are projected to remain strong, notwithstanding challenges in the global business sector, and should help sustain a positive balance of payments situation.

Currency

On an annual average basis, the Mauritian rupee appreciated against the US dollar by 1.3% but depreciated against the pound sterling and the euro by 4.4% and 5.5% respectively in 2018 as compared to 2017. This reflected the broad movements of the two major cross-rates on the international markets whereby EUR/USD and GBP/USD averaged 1.18 and 1.34 respectively in 2018 (2017 – EUR/USD: 1.13 and GBP/USD: 1.29). The strengthening of the pound sterling and euro has been explained in the Global Economic Environment section. For the year 2019, we expect the rupee to depreciate against the US dollar while the local currency would appreciate against the pound sterling and euro, on an annual average basis, based on Bloomberg April consensus forecasts which anticipate annual average cross-rates of 1.14 for EUR/USD and 1.33 for GBP/USD, respectively. Deviations from these rates and fluctuations in financial inflows would, among other factors, cause the rupee rates to diverge from the forecast trend.

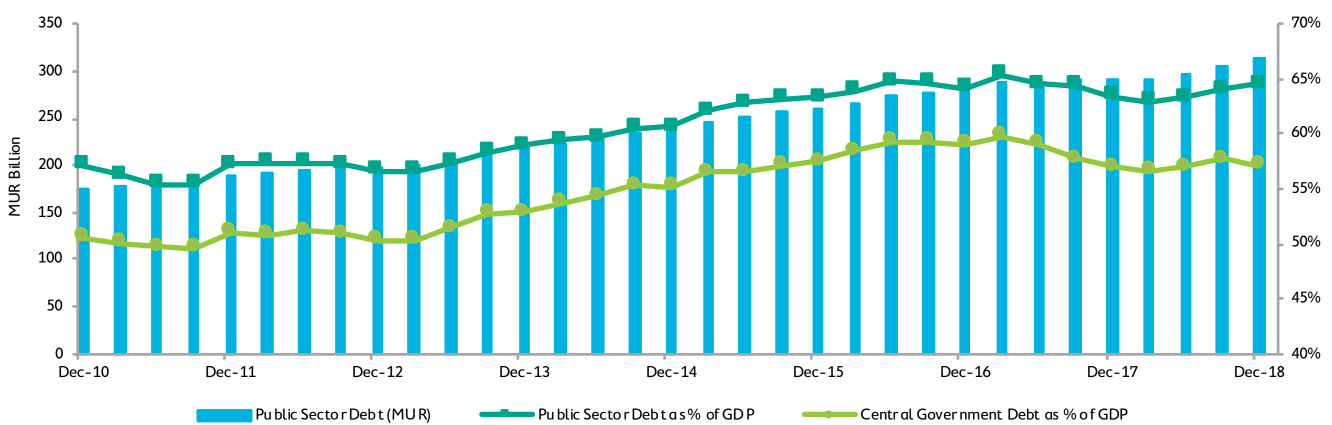
Fiscal and Monetary Policy

On 22 February 2019, the MPC of the Bank of Mauritius unanimously voted to maintain the Key Repo Rate (KRR) unchanged at 3.50% per annum. The Committee concluded that the current monetary policy stance was appropriate for economic growth, with inflationary pressures broadly contained. We expect the policy stance to remain accommodative in 2019 and 2020 with the KRR kept unchanged at least in this year on the back of stable growth and low inflation.

The budget deficit for the fiscal year 2018 is expected to drop to 3.2% of GDP as anticipated in the National Budget with many of the large infrastructure projects being funded by foreign grants. This deficit is expected to increase slightly with the fiscal stance likely to remain expansionary on the back of higher social benefits, the recent announcement of free tertiary education and increased capital investment spending under the Public Sector Investment Programme.

Public Sector Debt (PSD) rose by 7.9% on a year-on-year basis and reached MUR 313 billion as at 31 December 2018 – representing 64.5% of GDP. During the same period, Central Government Debt increased by 5.8% to MUR 275.8 billion and represented 57.1% of GDP. The difference accounts for the share of debt of public enterprises which rose by 25.8% to MUR 37.2 billion and accounted for 7.7% of GDP. For calendar year 2019, we expect an increase in PSD to approximately 66.8% of GDP, attributable mainly to projects initiated by public enterprises. Central government debt is expected to rise to 58.3% of GDP in 2019 compared to 57.1% of GDP in 2018. Under the above scenario, the likelihood of reducing the PSD, under the 60% threshold as stipulated in the Public Debt Management Act, is low. Nevertheless, investments in these public projects are expected to improve supply side efficiency and, if self-sustaining, will not add to budgetary burden in the future.

Figure 2.3: Public Sector Debt



Source: Ministry of Finance

Risks to the Outlook

Risks to the economic outlook are broadly balanced, as highlighted below.

Upside Risks

- Higher financial inflows than expected, with Mauritius acting as an investment gateway to Africa and the continent outpacing other regions in terms of targeted region of investment for newly licensed GBC1s.
- Greater resilience than expected on investors using Mauritius to invest in India.
- Faster implementation of key infrastructure projects.
- Higher than expected public and private investment.
- Higher influx of tourists due, for instance, to the Indian Ocean Islands Games 2019.
- Stronger than projected growth in the country's key markets.

Downside Risks

- An even weaker than expected global macroeconomic growth.
- A weaker than expected Euro due to economic and political tensions arising from Brexit, Italy's unsustainable debt position and sluggish outlook for Germany.
- A weaker than expected tourist arrivals, especially from UK due to Brexit uncertainties and from France and Reunion due to the "Yellow Vest" protests.
- Higher financial outflows than expected following the revision of the DTAA with India and the implementation of GAAR (effective as from 01 April 2019).
- Material delays in key infrastructure projects and in private sector investments.

Economic Review: Kenya

Highlights

- The Kenyan economy registered a robust growth rate, estimated at 6.3%, in 2018 compared to 4.9% in 2017, on the back of increased agricultural production, acceleration in manufacturing activity, sustained growth in transportation and vibrant service sector activities.

- The agricultural sector, which accounts for more than one third of the economy, picked up strongly in 2018 with a growth rate of 6.6% (2017: 1.8% – a year plagued with lengthy drought periods). The marked improvement was mainly due to higher crops and livestock production which benefitted from favorable weather conditions especially with the long rain episodes in the March to May 2018 period.

- The manufacturing sector tailed the good performance of the agricultural sector by recording a strong growth of 4.2% in 2018 compared to the anemic growth of 0.8% a year before.

- The construction sector expanded by a strong rate of 6.6% - albeit lower than in 2017 - on the back of government policies and programs geared towards improving public infrastructure to stimulate growth.

- Annual inflation decreased to 4.7% in 2018 from 8.0% in 2017, on account of a significant decline in food prices after the shortage experienced in 2017.

- The National Treasury projected the fiscal deficit to decline to an estimated 6.3% of GDP in the fiscal year 2018/19 from 7.2% of GDP in the previous fiscal year 2017/18 through fiscal consolidation.

- The current account deficit narrowed by 12% from a deficit of USD 5.03 billion in 2017 to a deficit of USD 4.42 billion in 2018 owing to higher exports of services, which grew by 15%, boosted by strong diaspora remittances and improved tourism and transport service receipts.

- Net financial inflows increased by 22% from USD 5.47 billion in 2017 to USD 6.65 billion in 2018, mainly driven by a 41% increase in inflows of foreign direct investments, thereby improving the balance of payments to a surplus of USD 1.06 billion in 2018 from a deficit of USD 0.17 billion in 2017.

- As at December 2018, public debt reached USD 53 billion comprising domestic debt of USD 26 billion and external debt of USD 27 billion. It stood at around 57% of GDP, mainly attributable to the massive infrastructure spending on projects that are expected to spur economic growth.

- China remained Kenya's largest lender, representing 72% of its bilateral debt and receiving more than a fifth of the total debt service on external obligations in the six months to December 2018.

- The Kenyan Shilling remained broadly stable and competitive against major international currencies in 2018.

- The Monetary Policy Committee of the Central Bank of Kenya kept the Central Bank Rate unchanged at 9.00% at its March meeting.

- In April 2019, the credit rating agency Fitch Ratings affirmed Kenya's Long-Term Foreign-Currency Issuer Default Rating at 'B+' with a stable outlook. The rating reflected the strong and stable growth balanced against high public and external debt levels as well as its twin deficits.

- According to the International Monetary Fund, the medium term economic outlook seems promising with the growth rate expected to range between 6.0% and 6.5%.

Macroeconomic Overview

The Kenyan economy expanded at an estimated 6.3% in 2018 compared to 4.9% in 2017, on the back of increased agricultural production, acceleration in manufacturing activities, sustained growth in transportation and vibrant service sector activities. According to the IMF, the medium term economic outlook seems promising with the growth rate expected to range between 6.0% and 6.5%. Upside risks include favorable climatic conditions, proper execution and completion of key infrastructure projects under 'The Big Four Agenda' and improvements in business environment while risks to the downside comprise weak credit growth in the private sector, weather-related shocks, poor fiscal consolidation measures and a slowdown in the global economy as well as in the emerging markets.

Sectoral Performance

The **agricultural sector**, which accounts for more than one third of the economy, picked up strongly in 2018 with a growth rate of 6.6% (2017: 1.8% – a year plagued with lengthy drought periods). The marked improvement was mainly due to higher crops and livestock production which benefitted from favorable weather conditions especially with the long rain episodes in the March to May period. Production of key crops such as maize, tea, coffee and sugar rose by 26%, 12%, 7% and 31%, respectively. Overall, agricultural production increased by 11.4% in 2018 to USD 4.98 billion from USD 4.47 billion in 2017, representing a fourth consecutive year of positive growth.

After a notable performance last year, the sector, in 2019, is likely to be impacted by the delayed onset of the rainy seasons which were due in March in most regions of the country. Lower rainfall is likely to affect the planting season, eventually leading to reduced harvests when compared to 2018. The vulnerability of the agricultural sector owing to climatic changes poses significant risks to the Kenyan economy and proper implementation of government measures under 'The Big Four Agenda' could assist in mitigating those risks.

The **manufacturing sector** registered a strong growth of 4.2% in 2018, as compared to the anemic growth of 0.8% a year before. The robust performance was largely supported by the agro-processing and beverages products including dairy products, tea, coffee and sugar. This expansion translated into higher formal employment in the sector, up by 1.4% to 307,592 workers. Moreover, a moderate increase in bank credit of 6.5% was observed in the period under review, with a large portion of the funds being directed to projects relating to food, textiles and beauty products.

According to latest PMI data from IHS Markit and Stanbic Bank, business conditions in April 2019 have slightly deteriorated, due to the prevailing dry weather conditions. The April headline PMI stood at 49.3, falling into the contraction territory for the first time in nearly one and a half years, according to IHS Markit and Stanbic Bank. Nonetheless, business sentiment remained positive owing to firms' optimism with respect to plans to improve efficiency and expand into new markets over the coming year. While challenges remain to be addressed (poor regulatory environment, uncertainty in the global trade environment, high costs and complex structures), the Manufacturing Barometer (Q1 2019 edition) by the Kenya Association of Manufacturers mentioned that the sector is expected to contribute 15% to GDP by 2022 under 'The Big Four Agenda'.

Another good performer was the **construction sector** which expanded by a strong 6.6%, albeit at a slower pace than the 8.5% growth rate achieved in 2017. The sector was significantly supported by government policies and programs geared towards improving public infrastructure to stimulate growth, such as the additional provision of affordable housing units, the ongoing construction of the second phase of the Standard Gauge Railway (SGR) and expansion of the road network across the country. Moreover, the sector was also backed by adequate supply of key raw materials, labor and government expenditure, especially with regards to the construction of new roads.

According to the Kenya National Bureau of Statistics, expenditure on roads is anticipated to increase by nearly a quarter in 2018/19 to USD 1.95 billion. The government is also planning to deliver 500,000 housing units by 2022 as part of 'The Big Four Agenda', indicating some strong investment spending in this area, while the ongoing construction works of the SGR project is expected to be completed around mid-2019. Coupled with prevailing private sector confidence, the construction sector is projected to register a resilient growth in 2019.

Transportation and storage has been one of the most consistent sectors over the years; its performance was propped up by the completion of Phase 1 of the SGR project between Mombasa and Nairobi in 2017. The number of passenger and freight kilometers more than doubled, while passenger journeys and freight tonnage also increased significantly during the period under review. Consequently, revenue generated from railway transport increased from USD 1 million in 2017 to USD 17.43 million in 2018. The sector was also supported by the good performance of the sub-sectors namely water transport activities and air transport. Overall, the transportation and storage sector grew by 8.8% in 2018 from 7.2% a year earlier.

Inflation
Annual inflation decreased to 4.7% in 2018 from 8.0% in 2017, on account of a significant decline in food prices experienced in 2017. Food and non-alcoholic beverages, which has the largest weight - around 36% - in the CPI basket recorded only a modest increase of 1.4% in 2018, following the pick-up in the agricultural sector. However, according to recent statistics, inflation climbed to 6.6% on a year-on-year basis in April 2019, its highest level since September 2017 when the rate stood at 7.1% year on year, due to rising food, electricity and fuel prices. A higher inflation rate is expected in 2019, driven by higher energy prices following the announcement of the introduction of an 8% VAT on fuel in the Finance Bill Act 2018, as well as expected increase in agricultural prices due to the recent drought periods and base effects.

Budget Deficit
The robust growth rates of the agricultural and non-agricultural sectors translated into higher revenue collection. Other factors such as new tax measures following the promulgation of the Finance Act 2018 led to a growth of 9.3% in government revenue as at December 2018 when compared to the same period in the previous fiscal year. Moreover, actual total expenditure and net lending for the period under review was 5% below the targeted amount, mainly on account of lower recurrent spending resulting from lower than targeted interest payments (both domestic and foreign) and pension payments.

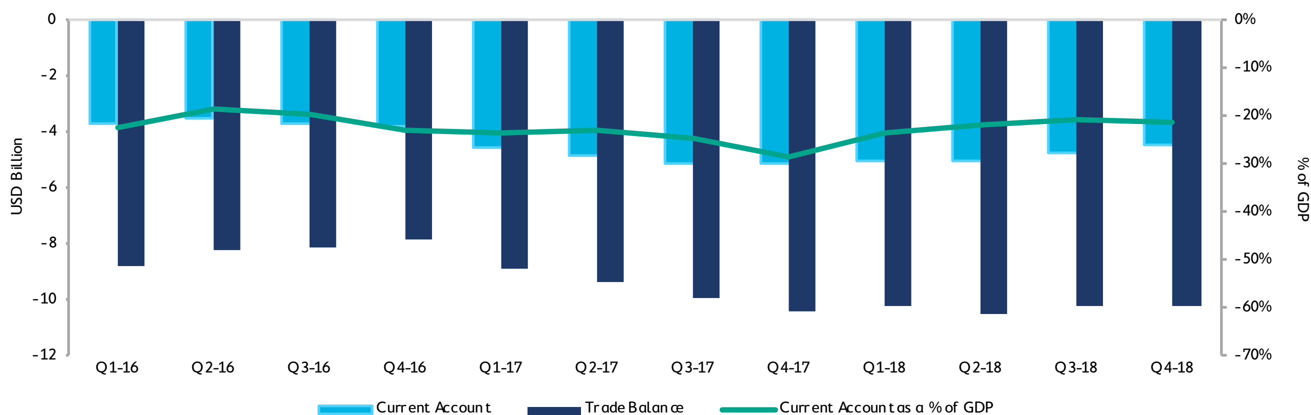
Based on these statistics, the National Treasury projected the fiscal deficit to decline to an estimated 6.3% of GDP in the fiscal year 2018/19 from 7.2% of GDP in the previous fiscal year 2017/18. As stated in its 2019 Budget Policy Statement published in February 2019, the Treasury ambitions to reduce the overall budget deficit to 3.1% of GDP by the fiscal year 2022/23 through fiscal consolidation. This target is also in line with the efforts of the East African Community (EAC) partners to narrow their respective budget deficits to a target ceiling of 3% of GDP as the bloc prepares for monetary union in 2024.

Balance of Payments
The trade balance worsened slightly by 1.4% in 2018 despite export growth outpacing import growth. This was mainly attributable to the magnitude of imports value relative to exports value with the former being nearly three times higher than the latter. Exports of goods rose by 3.2% in 2018, driven by tea, horticulture, articles of apparel and clothing accessories, coffee, titanium ores and concentrates, which together accounted for 62% of the total domestic export earnings. Imports of goods rose by 2% in 2018 driven by industrial machinery, iron and steel - with the ongoing construction works of the Lamu Port Southern Sudan-Ethiopia Transport project - and petroleum products.

Nevertheless, the current account deficit narrowed by 12% from a deficit of USD 5.03 billion in 2017 to a deficit of USD 4.42 billion in 2018 owing to higher exports of services which grew by 15%, boosted by strong diaspora remittances and improved tourism and transport service receipts. Net financial inflows increased by 22% from USD 5.47 billion in 2017 to USD 6.65 billion in 2018, mainly driven by a 41% increase in inflows of foreign direct investments. Overall, the balance of payments improved significantly to a surplus of USD 1.06 billion in 2018 from a deficit of USD 0.17 billion in 2017.

The current account deficit is expected to slightly improve in 2019 driven by strong growth in diaspora remittances and tourism receipts, slower growth in imports due to SGR–related equipment imports and relatively low international oil prices. However, risks to the downside have started to materialize in the form of unfavorable weather conditions that are likely to impact overall production of the agricultural sector and subdued demand given the global economic slowdown. Should these factors persist during 2019, the balance of trade would worsen, hence widening the current account deficit.

Figure 3.1: Evolution of the Current Account Balance



Source: Central Bank of Kenya

Public Debt

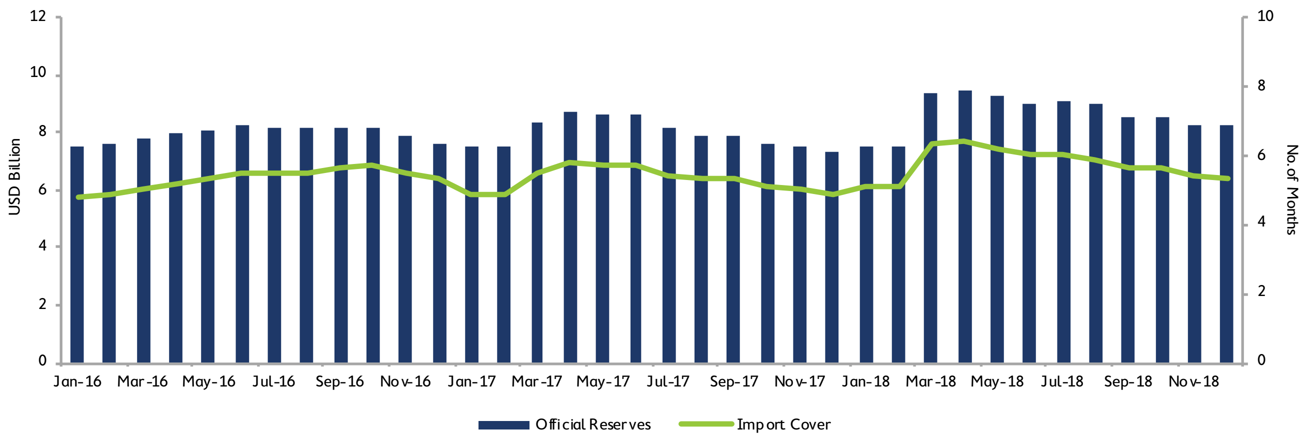
According to latest data of the Central Bank of Kenya, public debt stood at USD 53 billion comprising domestic debt of USD 26 billion and external debt of USD 27 billion. As at December 2018, public debt was around 57% of GDP, mainly attributable to the massive infrastructure spending on projects that are expected to spur economic growth and development. One of the costliest projects is the Chinese-funded SGR, for which the government borrowed USD 4 billion for the first phase in 2014, and USD 2 billion for the second phase (currently being developed). As a result, China remained Kenya's largest lender, representing 72% of its bilateral debt and receiving more than a fifth of the total debt service on external obligations in the six months to December 2018. Furthermore, the public debt management report indicated that the Kenyan's debt service to revenue ratio exceeded the 30% threshold and is projected to remain relatively unchanged in the medium term.

Currency

The Kenyan Shilling remained broadly stable and competitive against major international currencies in 2018. It appreciated by 2.1% against the US dollar, trading at an average exchange rate of KES 101.2 in 2018 compared to KES 103.4 in 2017. Compared to most sub-Saharan currencies, the Kenyan Shilling displayed less volatility, thanks to strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism. At December 2018, foreign exchange reserves stood at USD 8 billion, equivalent to 5.3 months of import cover, improving significantly from around 3.0 months of import cover back in 2003. The country has been able to achieve its target of at least 4.0 months of imports cover and the EAC region's convergence criteria of 4.5 months of imports cover, thereby providing an adequate buffer against short term shocks in the foreign exchange market.

The Kenyan Shilling is expected to weaken on the back of potential increase in food imports and reduction in cash crop exports should the drought period persist. On the international front, rising international oil prices and the global economic slowdown could further impact the local currency. However, sufficient foreign exchange reserves will cushion the country against any short term external shocks.

Figure 3.2: Official Reserves and Import Cover



Source: Central Bank of Kenya

Monetary Policy

At its latest March meeting, the MPC of the Central Bank of Kenya (CBK) kept the Central Bank Rate unchanged at 9.00% (the last rate cut was in July 2018), in line with market expectations. The CBK maintained an accommodative stance with the prevailing sustained optimism on future economic activity, a moderate inflation rate and a stable exchange rate. The inflation rate is expected to remain within the CBK's target range of 2.5%-7.5% in the medium term. Despite delays in the arrival of the rainy season, the outlook on growth remains upbeat. Hence, the MPC indicated that it would maintain its current stance and continue to closely monitor domestic and global developments - especially the slowdown in global growth and the ongoing trade tensions.

Credit Rating

In April 2019, the credit rating agency Fitch Ratings affirmed Kenya's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a stable outlook. The rating reflected the strong and stable growth balanced against high public and external debt levels as well as its twin deficits. Overall, the credit rating agency projected growth to slow down slightly to 5.8% in 2019 and to hover around 6.0% in the medium term, as the service sector continues to support growth and as agricultural growth normalizes. It also highlighted the poor asset quality of the banking sector and weak credit growth. The main factors that would contribute to a positive rating action include: a significant decline in government debt to GDP; a significant decline in net external indebtedness; and an improvement in structural indicators, for example higher GDP per capita or an improvement in governance indicators. However, a renewed rise in government debt to GDP, a widening of the current account deficit or an increase in net external debt may lead to a negative rating action.

Economic Review: India

Highlights

- GDP growth in India is estimated at 7.0% for the fiscal year 2018/19 compared to 7.2% in 2017/18, attributed to weaker domestic and external demand. Despite sluggish economic activity, the outlook for growth appears to be favorable with real GDP growth projected to improve from 7.0% in 2018/19 to 7.2% in 2019/20.

- During the fiscal year 2018/19, economic growth was mainly driven by the construction and the manufacturing sectors, both expanding over 7%.

- Business conditions in the manufacturing sector remained positive, with the Nikkei India Manufacturing Purchasing Managers Index at 51.8 in April 2019, despite a slowdown in the fourth quarter amid general elections and a challenging economic environment.

- The annual average inflation rate stood at 3.5%, within the Reserve Bank of India's target rate of 2%-6%.

- On the international trade front, the slowdown in the pace of global economic activity - on account of escalating trade tensions, tighter financial conditions and uncertainty surrounding Brexit - reflected unfavorably on India's trade balance position where both export and import growth decelerated during the fiscal year 2018/19.

- According to Reserve Bank of India, the current account deficit is expected to improve from 2.5% of GDP for the fiscal year 2018/19 to 2.3% for the fiscal year 2019/20, on account of decreasing imports through increased customs duty on electronic goods which constitute about 11% of India's total imports.

- Net foreign direct investment flows stood at USD 35 billion during the fiscal year 2018/19 compared to USD 30 billion during 2017/18.

- At its recent monetary policy meeting in April, the Reserve Bank of India cut the policy repo rate by 25 basis points, from 6.25% to 6.00%. According to IHS Markit, the Central Bank is expected to further decrease interest rates in June 2019 with the objective of boosting economic growth.

- Since October 2018, the Indian rupee has appreciated by 4.9% against the US dollar, driven by the softening of international crude oil prices, favorable policy stance of the US Federal Reserve and optimism in relation to trade developments between the US and China. The Indian rupee also appreciated against the euro and the pound sterling during the same period by 8.7% and 4.9% respectively.

Macroeconomic Overview

The Indian economy started the fiscal year 2018/19[1] with an impressive 8.0% year-on-year growth in the first quarter, backed by public investment and higher domestic consumption. The latter accounts for nearly 60% of GDP and remains the primary growth driver. In the subsequent quarter, growth eased to 7.0% following high volatility on the global financial markets. The economy lost further momentum in the second half of the year, with a growth rate of 6.6% in the third quarter of 2018/19 compared to 7.7% in the same quarter of 2017/18. This was mainly attributable to weaker domestic and external demand. On an annual basis, India's GDP growth is estimated at 7.0% for the fiscal year 2018/19 compared to 7.2% for the year 2017/18, according to the second advance estimates for 2018/19 released by the Central Statistics Office in February 2019.

Despite recent sluggish economic activities, the outlook for growth appears to be favorable with real GDP growth projected to improve to 7.2% in the fiscal year 2019/20, with the following growth rates Q1-6.8%; Q2-7.1%; Q3-7.3%; and Q4-7.4%, sustained by lower crude oil and other commodity prices, financial inflows to the commercial sector, reforms to boost consumption and investment, and favorable weather conditions with the expectation of a normal monsoon. The IMF has also projected a positive growth for the country at 7.3% in 2019 and 7.5% in 2020, on account of "continued recovery in investment and robust consumption amid a more expansionary stance of monetary policy and some expected impetus from fiscal policy". Downside risks to the growth forecast include external shocks and fiscal slippages.

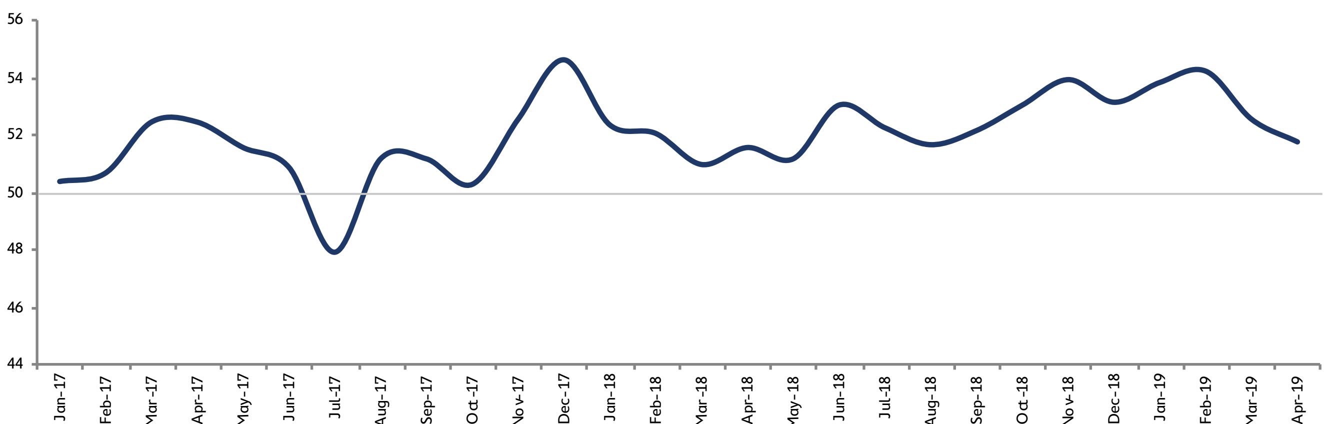
Sectoral Performance

During the fiscal year 2018/19, the main economic drivers were the construction and the manufacturing sectors, both expanding over 7.0%. On the other hand, the agricultural sector and the mining and quarrying industry recorded modest performances.

The **construction sector** grew at an impressive rate of 8.9% during the fiscal year 2018/19 (2017/18: 5.6%). Activities in the construction sector were propped up by strong order inflows and a huge pipeline of projects for railways, road development, telecom, energy, housing and urban development, all largely backed by government expenditure. The strong performance of the construction sector also translated into high steel consumption and cement production. Growth prospects for the construction sector appear to be favorable as the Indian government is geared to investing highly in the sector, mainly highways, renewable energy and urban transport as mentioned in the Union Budget 2019/20.

Accounting for 16% of GDP, the **manufacturing sector**, which is expected to become the fifth largest manufacturing industry in the world by the end of 2020, observed a remarkable growth rate of 8.1% in the fiscal year under review when compared to 5.9% in the previous year. In order to position India as a manufacturing hub and give global recognition to the Indian economy, the government launched the 'Make in India' Program, aiming to increase the share of the manufacturing sector to GDP to 25% by 2022, and to create 100 million new jobs by 2022. Business conditions in the sector continued to remain positive, whereby the Nikkei India Manufacturing PMI stood at 51.8 in April 2019, despite a slowdown in the fourth quarter amid general elections and a challenging economic environment.

Figure 4.1: Nikkei India Manufacturing PMI



Source: ISH Markit

[1] *The fiscal year 2018/19 refers to the period April 2018 to March 2019, unless otherwise stated.*

The Nikkei India Manufacturing PMI measures the performance of the manufacturing sector and is derived from a survey of 500 manufacturing companies. It is based on five individual indices with the following weights: new orders (30%), output (25%), employment (20%), suppliers' delivery times (15%) and stock of items purchased (10%), with the delivery times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change.

The following key developments were noted:
1. Decline in the Nikkei India PMI from 52.6 in March 2019 to 51.8 in April 2019 due to contraction in new businesses and outputs - capital goods being the key source of weakeness;
2. Slowdown in growth of total sales – cashflow difficulties due to competitive pressures;
3. Output expectations remaining positive in April 2019 with optimism supported by post-elections growth prospects;
4. Plans by a number of firms to expand capacity and invest in advertising in order to boost production and sales.

The agricultural sector contracted by 2.7% in the fiscal year under review compared to a growth rate of 5.0% in the previous year. The sector, which accounts for some 18% of India's GDP and is considered as the primary source of livelihood for about 58% of the country's population, registered a slowdown in the second half the year 2018/19 on account of several factors such as poor performance of the southwest and northeast monsoons, water deficiency issues in the eastern and western regions as well as unseasonal rains and hail storms. Concurrently, in some regions, excess supply caused by two bumper harvests in succession led to low prices for farm produce. Besides, lack of traction in food management policies to cope with large excess supplies led to heightened farming distress. With a view to promoting growth of the sector and achieving the ambitious goal of doubling farm income by 2022, the government has undertaken major initiatives including financial assistance for transport and marketing of agricultural products; compensation scheme to ensure fair prices for farmers; investment in the development of irrigations sources and mega food parks; digital innovation; and climate risk mitigation.

The mining and quarrying sector also witnessed a drop in its performance with an estimated 1.2% growth compared to 5.1% during the year 2017/18, owing to challenges specific to the Indian market such as governance issues, the current prevalence of a mining ban, poor financial situations for a number of firms in the sector and inadequate investment in the sector. Nevertheless, the mining sector is expected to pick up in 2019/20, boosted by the current friendly policies towards mining, vast mineral reserves and improving commodity prices.

Table 4.1: India Macroeconomic Projections – April 2019

	Unit	2018/19 (estimates)	2019/20 (forecasts)
Reserve Bank's Baseline Projection			
Inflation, Q4 (y-o-y)	%	2.4	3.8
Real GDP growth	%	7.0	7.2
Median Projections of Professional Forecasters			
Inflation, Q4 (y-o-y)	%	2.4	4.2
Real GDP growth	%	7.0	7.3
Gross fixed capital	% of GDP	29.0	29.4
Gross fiscal deficit	% of GDP	6.4	6.3
Repo Rate	%	6.25	6.00
Overall balance of payments	USD Bn	(13.6)	(11.4)
Merchandise export growth	%	8.0	5.6
Merchandise imports growth	%	10.5	6.0
Current account balance	% of GDP	(2.5)	(2.3)

Source: Reserve Bank of India

Inflation

The inflation rate decreased from 3.7% in August 2018 to 2.6% in February 2019 after touching a low of 2.0%, the legislated floor for CPI inflation, in January 2019. The average CPI inflation for 2018/19 stood at 3.5%, below the Reserve Bank of India's (RBI) inflation target range of 2%-6%. According to the RBI, the CPI is projected to pick up from 2.6% during February 2019 to 2.9% in Q1 2019/20; 3.0% in Q2 2019/20; 3.5% and 3.8% in Q3 and Q4, respectively. Factors which are likely to affect the inflation forecasts include geopolitical tensions and supply disruptions in the global crude oil market; uncertainty prevailing on the domestic and international financial markets; and potential increases in the price of perishable items. Taking these factors into consideration, the RBI is expected to decrease interest rates in June 2019, according to IHS Markit, with the objective of boosting economic growth.

Trade Balance

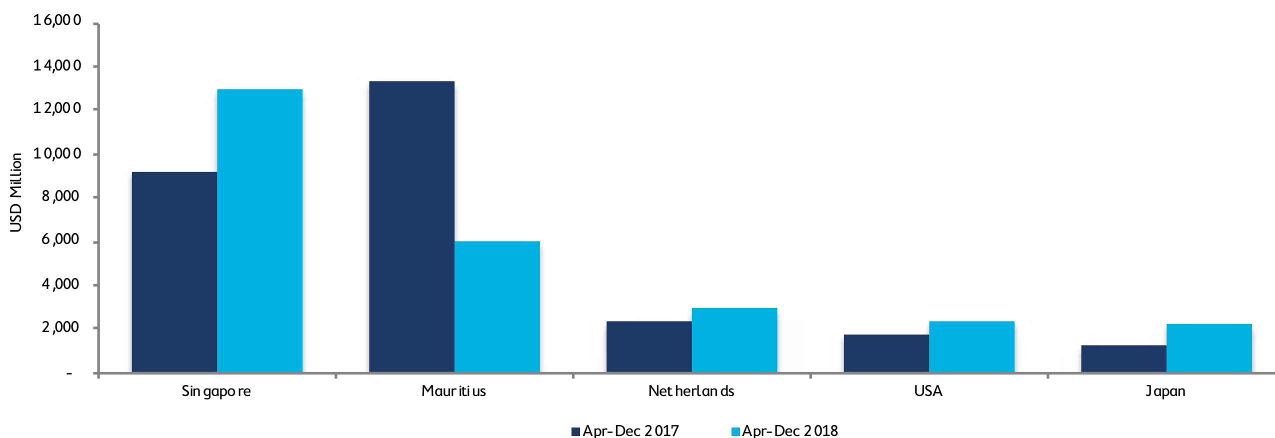
On the international front, the slowdown in the pace of global economic activity - on account of escalating trade tensions, tighter financial conditions and uncertainty surrounding Brexit - reflected unfavorably on India's trade balance position where both export and import growth decelerated during the fiscal year 2018/19. As per the Ministry of Commerce and Industry of India, exports and imports growth stood at 9.1% and 9.0%, respectively, in 2018/19 compared to 9.8% and 19.6%, respectively, in 2017/18. Relative to the first quarter of 2018/19, exports moderated in the second and third quarters on account of a decline in shipments of ready-made garments, rice and marine products in Q2 2018/19 and a decline in exports of gems and jewelry, engineering goods; and meat, dairy and poultry products during Q3 2018/19. Import growth also slowed down during the third quarter of the year, pulled down by a fall in the volumes of gold imports on the back of volatile prices and lower demand. As a result, the overall trade deficit worsened by 12% from USD 86 billion to USD 96 billion for the year 2018/19.

According to RBI estimates, the current account deficit is expected to improve from 2.5% of GDP for the year 2018/19 to 2.3% for the year 2019/20, on account of a projected decrease in imports as a result of an increase in customs duty on electronic goods, which constitute about 11% of India's total imports.

Foreign Direct Investments

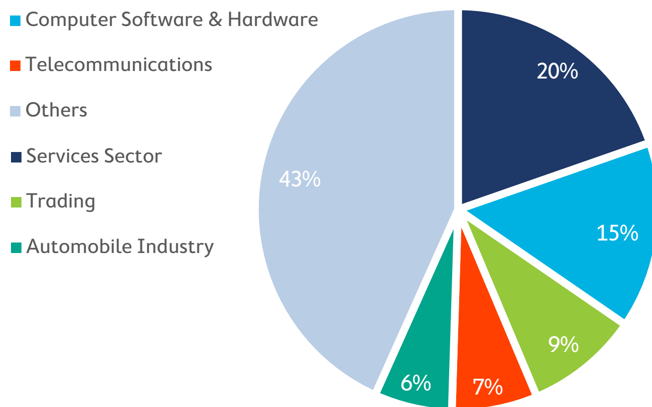
On the financing side, net FDI flows stood at USD 35 billion during the fiscal year 2018/19 compared to USD 30 billion in 2017/18. According to published statistics, the services sector, followed by the computer software and hardware sector; and the trading sector attracted the highest FDI equity inflows of USD 6.5 billion, USD 5.0 billion, and USD 3.0 billion, respectively, during the period April-December 2018. The main sources of FDI inflows were Singapore, Mauritius, Netherlands and the US, accounting for 39%, 18%, 9% and 7%, respectively, of total FDI equity inflows. Given that FDI is a major source of non-debt financial resource for the economic development of the country, the Indian government is taking several initiatives to achieve its goal of USD 100 billion worth of FDI inflows through easing FDI norms across different sectors such as defence, state owned oil refineries, telecom, power exchanges and stock exchanges.

Figure 4.2: Share of Top 5 Investing Countries FDI Equity Inflows



Source: Department of Industrial Policy and Promotion

Figure 4.3:
Main Sectors Attracting FDI Equity Inflows (Apr-Dec 2018)



Source: Department of Industrial Policy and Promotion

Public Finance

According to the RBI, the gross fiscal deficit is estimated at 6.4% of GDP for the fiscal year 2018/19, with major sources of finance from market borrowings, small savings, state provident funds, external assistance and short-term borrowings. Public debt as a percentage of GDP is expected to remain relatively stable in the fiscal year 2018/19 when compared to the previous fiscal year, where it stood at 41% of GDP, with internal debt accounting for nearly 93% of the total public debt. With the objective of reducing both the fiscal deficit and the public debt, the Goods and Services Tax (GST) was introduced in July 2017, representing India's biggest indirect tax reform. The GST assisted in boosting government revenues, hence contributing positively towards the budget deficit in the fiscal year 2018/19. Also, the demonetization measure helped in improving budget revenues by reducing the weight of the informal economy. Also, with an effort to reduce debt levels, structural and financial sector reforms are being implemented, which include strengthening the bankruptcy framework and governance enhancement programs for public sector banks.

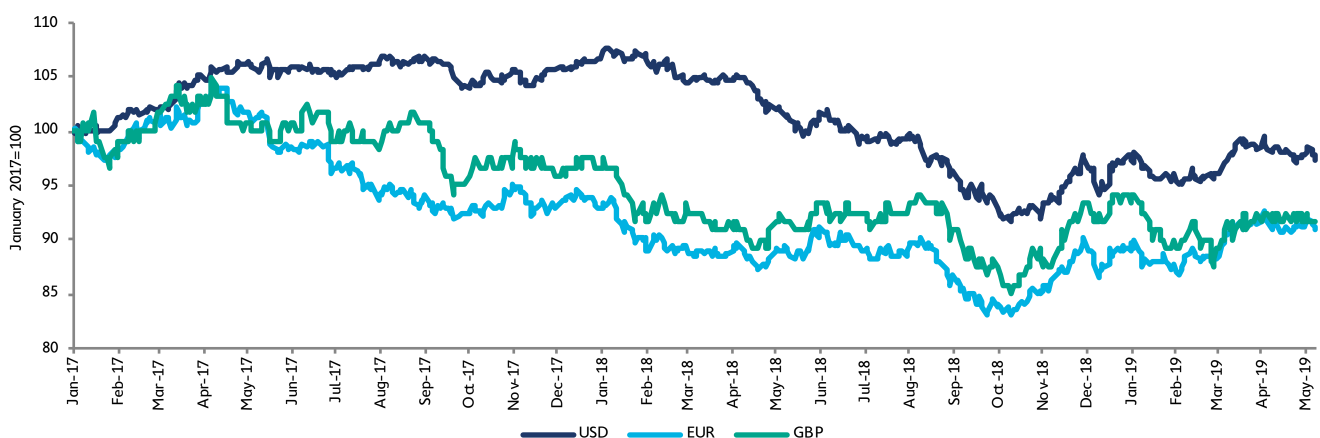
Interest Rates

At its recent MPC meeting in April 2019, the RBI lowered the repo rate by 25 basis points. This was the second time this year that the repo rate was cut by the RBI, following the first cut from 6.50% to 6.25% in February 2019. The reverse repo rate was also reduced to 5.75% from 6.00% and the Marginal Standing Facility Rate and the Bank Rate were reduced to 6.25% from 6.50%. This decision was mainly influenced by subdued inflation. In February 2019, although the inflation rate accelerated to 2.6% from 2.0% in January, it hovered close to the lower bound of the MPC's inflation target range of 2.0%-6.0%. Expectations of weaker economic activities were reflective of the MPC lowering its GDP growth forecast for the fiscal year 2019/20 to 7.2%, down from 7.4%.

Exchange Rates

The narrowing of the trade deficit, recovery in investment and a modest inflation outlook helped in moderating pressures on the domestic foreign exchange market. Since October 2018, the INR has appreciated by 4.9% against the US dollar, on the back of lower international crude oil prices, favorable policy stance of the US Federal Reserve and optimism regarding a trade truce between US and China. The INR also appreciated by 8.7% and 4.9% against the euro and the pound sterling, respectively, during the same period respectively. The volatility in INR, as measured by the coefficient of variation, was lower in the second half of 2018/19 at 2.0 compared to 3.0 in the first half of the fiscal year. Going forward, the rupee is expected to experience depreciation pressures in 2019 given a rise in global risk aversion.

Figure 4.4: Exchange Rate of Indian Rupee against USD, EUR and GBP



Source: Bloomberg

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