Mauritius Economy Update – October 2013

Mauritius, a tropical island situated towards the south east coast of Africa comprises 9 districts – Flacq, Grand port, Moka, Pamplemousses, Plaines Wilhems, Port Louis, Riviere du Rempart, Riviere Noire and Savanne. Port Louis serves as the capital of Mauritius and also the most important financial district in the whole of Africa.

Political setup

Mauritius is a constitutional republic with three tiers of government: centre, local and village. There is no constitutional provision for local government. The local government has two tiers: urban councils known as municipalities and rural authorities called district councils. Municipal and district councils are empowered with certain powers like raising revenues via various fees. However, the main source of income for the local government is the central government grant. As this political structure is patterned to a large extent on the British system, the political power to a large extent rests on the Prime minister and its cabinet.

Economy

Mauritius has essentially developed from a low income, agriculturally based economy to a middle-income diversified economy with growing industrial, financial and tourist sectors. The economy rests mainly on four pillars: sugar, tourism, textiles and apparel, and financial services. Besides, other segments such as fish processing, information technology, hospitality and property development are expanding rapidly.

In 2008, the economy grew at 5.5%. However, the uncertain external economic environment led to a gradual slowdown of the economy which impacted particularly trade. In 2012, growth slowed down to 3.3%. However, inflation eased on account of moderation in prices of global commodities. Trade deficit continued to widen as the country's main export destination Euro –area receded into another recession.

It may be noted that despite the persistent global turbulence, the Mauritian economy held up well registering positive growth. In June 2012, the country's credit rating was upgraded to Baa1 from Baa2.

GDP Growth

Table 1: GDP Real growth rates (%)

%	2008	2009	2010	2011	2012
Overall GDP	**5.5**	**3.1**	**4.2**	**3.5**	**3.3**
Agriculture, forestry &fishing	3.0	9.1	-0.8	4.1	-0.2
Mining & Quarrying	1.5	-5.4	4.4	-18.9	-8.3
Manufacturing	3.3	2.4	1.9	0.7	2.2
Construction	11.8	5.9	4.3	-2.0	-3.0
Accommodation & food services	1.3	-6.0	6.0	3.5	0.0
Information & communication	13.2	11.6	10.9	9.0	8.6
Financial & insurance activities	10.1	4.6	4.5	5.6	5.7
Real estate activities	3.1	1.9	2.7	2.9	2.8
Tourism	1.1	-5.9	5.8	3.6	0.0

Source: Statistics Mauritius-Ministry of Finance & Economic Development

Mauritian economic growth is mainly driven by the tertiary sector. In 2012, 71.5% of GDP was generated by the tertiary sector comprising the services industries compared to 24.8% by the secondary sector. The remainder (3.7%) was attributable to the primary sector which consists mainly of agricultural activities. The tertiary segment is supported by the tourism industry, financial services, trade, Information & communication services and real estate activities. The manufacturing segment which forms a large part of secondary sector contributes significantly to the GDP (16.6% in 2012). This segment mainly comprises of textiles, sea food and sugar.

In 2012, GDP grew by 3.3% which is lower than 3.5% registered in 2011. GDP growth was positively influenced by the tertiary and secondary sectors which contributed 3.1% and 0.2% respectively.

- Primary Sector: registered a decline by 0.8% in 2012 on account of decline in Agriculture (0.1%) and mining & Quarrying (8.3%)
- Secondary sector: activities grew by 0.5% in 2012 compared to 0.2% in 2011 due to growth in manufacturing sector.
- Tertiary sector: grew by 4.5% which was slightly lower than the 4.9% in 2011. However, the sector continues to drive growth anchored by strong performances in financial services and Information, communication & Technology services.

Tourism:

Tourism industry, one of the significant pillars of the Mauritian economy, accounts for approximately 8 to 9% of GDP. The tourism industry comprises sectors such as accommodation and food service activities, transport, recreational & leisure and manufacturing attributable to tourism. In 2012, the contribution from the industry to GDP stood at 8.2% against 8.4% in 2011. Besides, the real growth rate (i.e. growth adjusted to inflation) of the sector remained stagnant compared with 3.2% in 2011.

Table 2: Tourism Industry- contribution to GDP (at current basic prices)

R million	2008	2009	2010	2011	2012
Tourism	23,254	19,854	22,037	23,921	24,817
% of GDP	9.6	7.9	8.3	8.4	8.2
Real growth rate	*1.1*	*-5.9*	*5.8*	*3.6*	*0.0*

Source: Statistics Mauritius-Ministry of Finance & Economic Development

Tourist Arrivals

In 2012, the total tourist arrivals grew marginally by 0.1% and reached approximately 965 thousand compared to 2011. The arrivals of the tourists from the European market contracted by 0.8% with dominant French market retreating by 13.2%, while growth of over 14% was registered in arrivals from the African and Asian markets. While the tourist arrivals increased slightly, hotel occupancy was lower and profit margins narrowed down. Tourist earnings increased by 3.9% y-o-y to reach Rs. 44,378 million in 2012 compared with 8.3% in 2011.

In 2013, tourist arrivals totalled 694 thousand in the first nine months, that is, an increase of 2.8% compared with the corresponding period of 2012. It may be noted that since the peak season is witnessed particularly in the last quarter i.e. from October to December as well as first quarter (Jan- Mar), the number of tourist arrivals is expected to increase further for the year.

Inflation

Headline inflation, measured by the consumer price Index (CPI), has eased significantly since 2008. In 2012, inflation rate moderated steadily at 3.9% against 6.5% at the end of 2011 as the base effects were absorbed and global prices trended downward. In 2013, inflation rate is estimated to ease further to 3.7% for the year.

Table 3: Inflation (%) 2008-2012

	2008	2009	2010	2011	2012	2013*
CPI	**9.7**	**2.5**	**2.9**	**6.5**	**3.9**	**3.7**

Source: Statistics Mauritius-Ministry of Finance & Economic Development
** Estimate*

Table 4: Inflation (%) - 2013

% change	Apr-Jun	June-Sept
CPI	**-**	**0.1**
Food and non – alcoholic beverages	0.2	-0.9
Alcoholic beverages & tobacco	-	0.2
Clothing & footwear	-0.4	1.9
Housing, water , electricity, gas & other fuels	-0.5	-
Transport	-	-0.1
Hotels & Restaurants	0.3	0.4

Source: Statistics Mauritius-Ministry of Finance & Economic Development

With the new base year changed to 2012 with effect from April 2013, the CPI remained unchanged in the second quarter. However, the inflationary pressures prevailed resulting from higher prices of vegetables and some other food products which were offset by lower interest rates on housing loans.

In the third Quarter (June- Sept), CPI stood higher compared with that in the second quarter. This is attributed to the higher prices of milk and other products, readymade clothing and higher bus fares. However, these increases were partially offset by lower prices of vegetables and motor vehicles. Besides, Mauritius being dependent on imports in order to meet up its demand for commodities; the moderating global food prices have soothed the domestic food prices thereby controlling inflation figures.

Government Finances

Table 5: Revenue and Expenditure (as % of GDP)

	2010	2011	2012	2013
Total Revenue & grants	21.9	21.4	21.4	21.9
Total Expenditure, (excluding net lending)	24.9	23.5	23.7	24.5
Overall balance	-3.0	-2.1	-2.3	-2.6
Domestic Debt/GDP	43.1	42.6	41.5	39.7
External Debt / GDP	7.5	8.4	8.7	10.3

Source: IMF

Mauritian government has witnessed chronic budget deficit in the past three years. The overall deficit is about 2.3% of GDP in 2012. The better than expected tax revenues (in particular for VAT receipts) were offset by lower levels of non-tax revenue and grants. Also, expenditure increased but was lower than expected.

In 2013 budget, a modest increase of the overall deficit is envisaged. While revenues are largely unchanged, the spending is expected to increase reflecting an increase in compensation of public employees as well as marginal increase in public investment. The 2013 budget introduced a pre-funded pension system for new civil servants which should result in longer-term savings. In addition, excise on alcohol and tobacco products and soft drinks were also increased.

The central government relies mostly on domestic debt (nearly 80%) for its borrowing needs. The domestic debt to GDP ratio has been on a declining trend since 2003 mainly due to strong economic growth and sound fiscal policy. The domestic Debt to GDP stood at 41.5% in 2012 while external debt to GDP has increased gradually to 8.7% from 8.4% in 2011.

Monetary Policy

Monetary policy has been broadly appropriate, responding to both growth risks and price stability challenges as the global slowdown evolved. Moderate inflationary pressures allowed the authorities to pursue an accommodative monetary policy. As risks to the domestic growth intensified with the euro crisis, the monetary authority has been slashing the key repo rate gradually since 2011. Recently, it slashed the repo rate by 25 bps to 4.65% in June 2013. Following the movements in key repo rate, the bank PLRs have also declined marginally from 8.9% at the end of 2011 to 8.7% at end 2012. At the end of September, it further declined to 2.73%.

Money and Credit

Table 6: Money and Credit

MUR in Million	2009	2010	2011	2012#	2013
Broad Money	296,480	319,124	333,905	362,575	397,632*
% change	8.1	7.6	4.6	8.6	9.7
Domestic credit	301,170	331,747	359,314	407,979	450,815*
% change	1.7	10.2	8.3	13.5	10.5
Key repo rate**	5.75	4.75	5.40	4.90	4.65
Prime Lending Rate	9.3	8.9	8.9	8.7	n.a.

Source: IMF

*# - estimate, * -projection, ** end of the year.*

Broad money (M2) registered an increase in annual terms. In 2012, it stood 8.6% higher compared with 4.6% in 2011. The increase in broad money was mainly due to increasing net foreign assets of the banking system (by 8.3% against a decline of 6.3% in 2011) although the net domestic assets (NDA) continued to decline during the period. It is expected to increase further by 9.7% in 2013. Besides, the domestic credit grew significantly by 13.5% in 2012. Overall the excess liquidity in the banking system remained elevated with robust credit growth to the private sector at 17%.

Balance of Trade

In cumulative terms, the value of total exports was up by 8.3% in 2012. This is attributed to the increase in exports of food & live animals (18.6%) as a result of a price increase of 16.5% and a volume increase of 1.8%. However, the exports of sugar cane which accounts for 12.1% of total exports fell by 1.1% in 2012. It may also be noted that the European countries purchased 57.6% of the total exports. Besides, the other markets comprised U.S, South Africa, Italy and Spain.

Table 7: Balance of Trade (in MUR million))

	2010	2011	2012	2013*
Exports	69,550	73,586	79,658	42,107
Imports	134,882	147,815	160,996	75,911
Trade Deficit	**-65,332**	**-74,229**	**-81,338**	**-33,804**
% of GDP	-12.2	-13.2	-13.0	-12.5#
Current account deficit (% of GDP)	-10.3	-12.6	-10.0	-9.7#

Source: Statistics Mauritius-Ministry of Finance & Economic Development

** Jan- June 2013, # estimates for the full year 2013.*

The value of imports for the year 2012 registered a growth of 8.9%. Imports of Mineral fuels, lubricants and related materials, Machinery and transport equipment, Food and live animals and manufactured goods classified chiefly by material, represented 21.4%, 20.0%, 18.5% and 17.7% of total imports respectively. These products are mainly imported from Asian countries (56.2%) such as India, China, and France & Republic of South Africa.

The overall trade deficit stood at 13% of GDP in 2012 while the current account deficit narrowed down to 10% of GDP. This improvement in CAD was largely due to higher surpluses on the services and current account transfers accounts which partly offset the widening merchandise trade deficit.

In 2013, for the first six months (Jan- June) the trade deficit stood at MUR 33,804 million, 12.1% lower than the deficit of MUR 38,466 million for the corresponding period of 2012.

The overall current account deficit is expected to gradually narrow down reaching from 10% of GDP in 2012 to about 7% of GDP by 2018. The increase in national savings and efforts to improve competitiveness through structural reforms and investment in infrastructure and human capital are expected to reduce the large current account deficit.

International Reserves

International reserves have been comfortable when measured against the traditional threshold of import cover (above four months against the benchmark of three months). Amounting to about 10 times short-term external debt, reserves are also largely above the traditional benchmark of 100%. Also, during 2012, the BOM had intervened more actively in the foreign exchange market in the month of June to build reserves and smooth the fluctuation of the rupee. Besides, against the backdrop of the country's status as an international financial centre, there is a rationale for continuing to accumulate reserves, which would help keep its reserve coverage adequate.

Table 8: International Reserves (in million US dollars) 2010-2013

	2010	2011	2012	2013*
Gross reserves	2,601	2,784	2,988	3,131
Net Reserves	2,488	2,631	2,834	2,977

Source: IMF
** Projection*

Exchange Rate

Table 9: Exchange Rate 2008-2012

	2008	2009	2010	2011	2012	2013*
MUR / $	28.36	31.94	30.89	28.75	29.93	29.97

Source: Statistics Mauritius-Ministry of Finance & Economic Development
** October 2013*

The exchange rate of the Mauritian rupee (MUR) vis-a-vis the US dollar over the past has reflected both the international currency movements and demand and supply conditions in the domestic market. In 2012, towards the end of the year till September the rupee weakened against the dollar but since then it has appreciated in line with the greenback's broad-based weakness on international markets by nearly 6.2%. However, it lost some momentum at the beginning of 2013. Hence, the activity in the foreign exchange market continues to remain buoyant so far.

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