

Mauritius: Economic Update

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The Mauritian economy has glided through a stable growth path over the past couple of years. The IMF projects a 4% GDP growth rate (Y-o-Y terms) for Mauritius in 2018, which is marginally higher than the 2017 annual growth of 3.8%.

For the second quarter of 2018, the GVA growth rate has been 3.7%, with highest growth contribution from the construction (10%) sector and the information services sector (5.6%). In the second quarter of 2017 GVA growth was 4%, with the highest contributor being the accommodation and food services sector (9.2%).

The World Bank projects Mauritian GDP growth to be in the range of 3.5-4%. The growth is likely to accelerate if the public infrastructure program of the government gathers pace.

The Mauritian economy continues to be a safe haven for investments, especially from Europe and South-East Asia.

Economic Coverage

Strict disclosure standards under the DTAA:

Post the implementation of DTAA, the incentive for investors to route their investments through Mauritius was diluted. As of July 2018, the Securities and Exchange Board of India (SEBI) has decided to enforce the DTAA with stricter disclosure standards and greater scrutiny. Mauritius has the second largest FPI Investment in India. This move under the DTAA is intended to put a check over the unaccounted money that is routed into India via FPI and FDI investments from Mauritius. According to the DTAA the capital gains on FPIs are to be taxed at 50% of the domestic tax rate. The tax regime is set to be implemented in phases and the complete rate would apply from 2019 onwards.

State Bank of Mauritius begins its operations in India:

The State bank of Mauritius (SBM) began operating in India through its local subsidiary SBM India in the cities of Mumbai, Chennai, Hyderabad and Ramchandrapuram from August 2018 onwards. The subsidiary is the set to offer banking and trade finance services in the country, targeting a customer base comprising of high net worth clients and corporates. SBM is the first foreign bank to incorporate its local subsidiary in India.

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Economic Assessment

Table 1: Major Economic Indicators

Indicators (Y-0-Y Growth %)	2015	2016	2017 ¹	2018 ²	Q1-2017	Q1-2018	Q2-2018
Gross Domestic Product (GDP) at market prices	3.6	3.8	3.8	3.9	4.4	4.1	3.7
Final Consumption Expenditure (FCE)	2.9	2.9	2.9	3.4	2.6	3.5	4.0
As a % of GDP at market prices	89.6	89.0	90.0	90.3	88.8	89.7	88.8
Gross Fixed Capital Formation (GFCF)	-5.4	3.7	4.7	5.5	0.1	-0.7	5.7
As a % of GDP at market prices	17.4	17.2	17.4	17.8	17.2	16.9	17.5
Gross Domestic Saving (GDS)	2.1	12.6	-3.8	2.5	-	-	-
As a % of GDP at market prices	10.4	11.0	10.0	9.7	-	-	-

¹Revised ²Forecast

Source: Statistics Mauritius

Table 1 lists the growth in major economic indicators.

- The GDP growth is projected to be 3.9% for 2018. For Q2-2018 the GDP growth was 3.7%, which is marginally lower than the 4.1% growth registered in Q1-2018.
- The final consumption expenditure has risen by 4% for Q2-2018. As a percentage of GDP, it has been consistently in the range of 88-90% from 2015 onwards. For 2018, the household consumption is projected to constitute 84% of the total consumption expenditure of the country.
- The gross investment or GFCF has been growing consistently since 2016. After having registered a decline of 0.7% in Q1-2018, the GFCF grew by 5.7% in Q2-2018. GFCF as a percentage of GDP is projected to be 17.8% in 2018. For Q2-2018, the GFCF as a percentage of GDP was 17.5%.
- The share of the Gross Domestic Savings as a percentage of GDP is set to decline marginally from 10% in 2017 to 9.7% in 2018. The growth in savings is to pick up. In 2017, domestic savings declined by 2.8%. For 2018 saving are projected to pick up and grow by 2.5%.

Table 2 lists the sector –wise growth in GVA.

- The Y-o-Y GVA growth reduced from 3.7% in Q1-2018 to 3.4% in Q2-2018. The quarterly growth is marginally higher than the annual growth in 2016 and 2017 at 3.6%.
- Construction sector has registered a double digit growth at 10% in the second quarter of 2018. The sector grew at 8.9% for the corresponding quarter in 2017. The annual growth rate in 2017 was 7.5% as against 0% growth in 2016. This is a considerable growth and upward trend is to continue as the sector is expected to grow above 9.5% in 2018.
- Accommodation and Food and Services activities saw a decline in growth from 9.2% in Q2-2017 to 1.5% Q2-2018. This decline is despite a 3.4% rise (in Y-o-Y terms) in the tourist arrivals for the period of January to June 2018.
- The growth in the Public Administration and Social Security sector declined by 1.8% in the first quarter of 2018. However in the second quarter the output of the sector picked up and grew by 3.9% in Q2-2018.

Table 2: Sector –wise GVA Growth (Y-O-Y %)

Sectors	2015	2016	2017 ¹	2017 ¹	2018	
	(Annual)	(Annual)	(Annual)	Q2	Q1 ¹	Q2 ²
Agriculture, forestry and fishing	0.3	3.7	-0.2	-0.6	-5.4	-3.7
Mining and quarrying	-3.4	1	1.6	1.9	-0.9	2.2
Manufacturing	0.1	0.3	1.5	2.2	0.8	0
Electricity, gas, steam and air conditioning supply	3.8	4.2	3.3	3.8	5.2	4.4
Water supply; sewerage, waste management and remediation activities	3	2	2.7	-0.7	5.1	4.4
Construction	-4.9	0	7.5	8.9	9.1	10.1
Wholesale & retail trade; repair of motor vehicles and motorcycles	2.8	3	3.1	2.9	3.9	3.4
Transportation and storage	3.4	3.9	3.7	3.6	3.9	3.5
Accommodation and food service activities	8.7	9.2	4.6	9.2	4.9	1.5
Information and communication	6.9	5.9	5.5	5.6	5.8	5.6
Financial and insurance activities	5.3	5.7	5.5	5.9	5.7	5.5
Real estate activities	4.3	4.1	3.4	2.6	3.5	4.0
Professional, scientific and technical activities	5.1	5.7	5.3	5.3	4.8	5.3
Administrative and support service activities	6.7	5.9	5.8	5.9	5.6	5.7
Public administration and defence; compulsory social security	1.3	2.7	0.6	1.8	-1.8	3.9
Education	3.1	0.8	1.8	1.2	2.2	2.2
Human health and social work activities	3.6	2.2	4.5	6.4	4.1	3.8
Arts, entertainment and recreation	4.8	4.7	4.7	4.7	4.8	5
Other service activities	3	3.1	3.1	2.9	4.1	3.2
Gross Value Added (GVA) at basic prices	3.1	3.6	3.6	4.0	3.7	3.4

- ¹Revised ²Forecast

Source: Statistics Mauritius

Index of Industrial Production (IIP)

Table 3: Index of Industrial Production (Y-o-Y Growth %)

Sector	Q2-2018
Industrial sector	1.3
Mining and quarrying	2.2
Manufacturing	1.0
Electricity, gas, steam and air conditioning supply	4.4
Water supply; sewerage, waste management & remediation	4.4

Source: Statistics Mauritius

- In Q2-2018, the overall index of industrial production grew by 1.3% as compared with the corresponding quarter of 2017.
- The mining and quarrying sector grew by 2.2%.
- The electricity, gas, steam and air conditioning supply sector and the Water Supply and sewerage waste management sector, both grew by 4.4%.
- The manufacturing sector was the lowest contributor to the overall IIP growth as it registered a 1% growth compared with Q2-2017.

Inflation

Consumer Price Index (CPI)

Table 4: CPI – Headline and Y-o-Y (Growth %)

Month	Headline	Y-o-Y
April'18	5.0	3.7
May'18	4.7	2.4
June'18	4.3	1.0
July'18	4.0	1.7
August'18	3.7	0.9
September'18	3.5	1.9

Source: Statistics Mauritius

- The base year for Consumer Price Index was changed to 2013 from April 2018 onwards. The headline CPI has been consistently declining by around 30bps each month since then i.e. it went from 5% in April to 3.5% in September 2018.
- The decline in the Y-o-Y CPI inflation has been rapid and volatile for the same period. In April 2018 the inflation was 3.7 and it came down to 1% in June. The inflation rate rose to 1.7% in July and was followed by 80 bps decline to 0.9% in August. The index rose by one percentage point to 1.9% in September 2018.

Producer's Price Index (PPI) – Manufacturing and Agriculture

Table 4: PPI – Manufacturing and Agriculture (Y-o-Y Growth %)

Month	PPI Manufacturing		PPI Agriculture	
	2017	2018	2017	2018
January	2.7	2.4	6.3	1.1
February	2.6	3.0	7.7	2.9
March	2.4	3.1	8.2	1.0
April	2.4	3.3	12.1	-5.7
May	2.2	3.5	20.4	-15.0
June	2.8	2.9	20.8	-19.2
July	2.2	2.7	-	-
August	2.3	2.9	-	-

Source: Statistics Mauritius

- The PPI –Manufacturing inflation has been fairly stable for the January-August period of 2017. From February to May 2018, the growth in the index has been above 3%. This period also coincides with the peak tourism season in Mauritius. The average inflation in the manufacturing index for the first quarter of 2018 was 2.8% and for the second quarter it has been 3.2%.

- The PPI – Agriculture inflation has been rising rapidly. The average inflation for Q1-2017 was 7.1% and that for Q2-2017 was 17.7%, which is almost a 10-percentage point rise for the period April-June. For the year 2018, the inflation came down from 1.1% in January 2018 to -19.2% in June 2018. This can be attributed to the base effect that the index carried due to a high inflationary situation faced in 2017, for the same period.

Trade

- In January 2018, exports from Mauritius declined by 11.7%. For the past two quarters, a positive export growth was recorded only for the months of April and July. This can be attributed to the rise in exports of manufactured goods, in both April and July.
- Imports declined by 10% in January 2018. In July imports show a high double digit growth at 31.7%. This is a considerable rise compared with the 7.3% import growth registered in June 2018.
- The trade deficit has been rising rapidly from April 2018 onwards. Owing to the huge rise in imports in July 2018, the trade deficit correspondingly rose by around 58%.

Table 5: Import-Export Jan-Jun 2018 (Y-o-Y Growth %)

Month	Exports	Imports	Balance of Trade
Jan	-11.7	-10.3	-9.3
Feb	-3.8	5.2	15.1
March	-6.8	-4.8	-2.6
April	7.6	9.6	11.2
May	-3.2	8.5	18.3
June	-2.6	7.3	16.8
July	1.1	31.7	57.6

Source: Statistics Mauritius

Gross Investment Flows

- The Gross Investment In-flows to the country stood at Rs 6,098 mn in the first quarter of 2018. The highest amount of investment came into the financial and insurance services sector (Rs 3,464 mn), followed by investment into real estate activities. The highest investments were sourced from Europe.

Table 6: Gross Investment Flows (Rs mn)

Rs. Mn	2015	2016	2017	Q1-2017	Q1-2018	Growth (%)
Flows in Mauritius	9,677	13648	17491	6,706	6,098	-9.06

Source: Statistics Mauritius

Tourism

- The Tourist arrivals in the country have been declining. Growth in the arrivals went down from 11% in 2016 to 5.2% in 2017 (Y-o-Y terms). The number of tourist arrivals is projected to grow at 3.9% in 2018. The tourism earnings are projected to grow at 6.2% in 2018, which is marginally lower than the 2017 level of 7.8%.
- In 2018, tourist arrivals in Mauritius have been dwindling since January. After a decline in arrivals by 2.7% in January, there was a 10% rise in February 2018, in Y-o-Y terms.
- In April 2018 there was a decline in arrivals by 5.8%. The peak tourist season in Mauritius is from October to April.
- As of August 2018, the tourist arrivals have risen by 9.3%. The economy is likely to benefit if the pace of tourist arrivals continues well into October, which marks the beginning of the peak tourism season in Mauritius.

- Growth in tourism earnings was the highest in February at 28.6%, which is also a month that saw a rise in tourist arrivals. As of June 2018, earnings from tourism grew by 8.1% as compared with the same month in 2017.

Table 7: Monthly Tourist Arrivals and Tourism Earnings (2018)

Month	Tourist Arrivals (Number)	Y-o-Y Growth %	Tourism earnings (Rs mn)	Y-o-Y Growth %
Jan	120,974	-2.7	6,615	8.1
Feb	115,600	10.0	6,060	28.6
Mar	119,841	8.7	5,808	10.5
Apr	104,967	-5.8	5,631	16.6
May	101,138	4.7	5,228	13.8
Jun	84,345	7.9	4,118	8.1
Jul	115,881	3.1	-	-
Aug	109,471	9.3	-	-

Source: Statistics Mauritius

Monetary policy

The last policy rate announcement was in August 2018 where the repo rates were kept unchanged at 3.5%. The next policy rate announcement by the Bank of Mauritius is scheduled in November 2018.

Repo Rates

Table 8: Key Repo Rates (%)

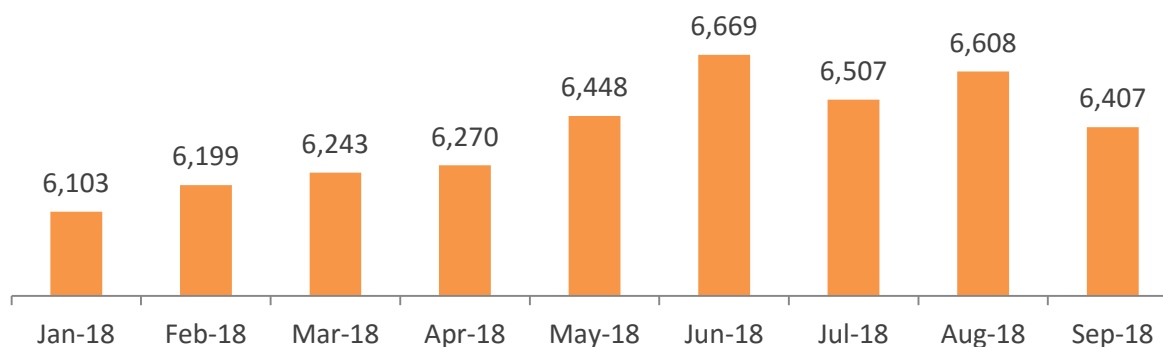
Policy Announcement Date	Key Repo Rate (%)
20-Aug-18	3.5
30-May-18	3.5
28-Feb-18	3.5
29-Nov-17	3.5
06-Sep-17	3.5
05-May-17	4.0

Source: Bank of Mauritius

- The key Repo rates have been unchanged since September 2017, when it was brought down from 4% in May 2017 to 3.5% in September 2017.

Forex Reserves

Chart 1: Foreign Exchange Reserves (US \$ mn)

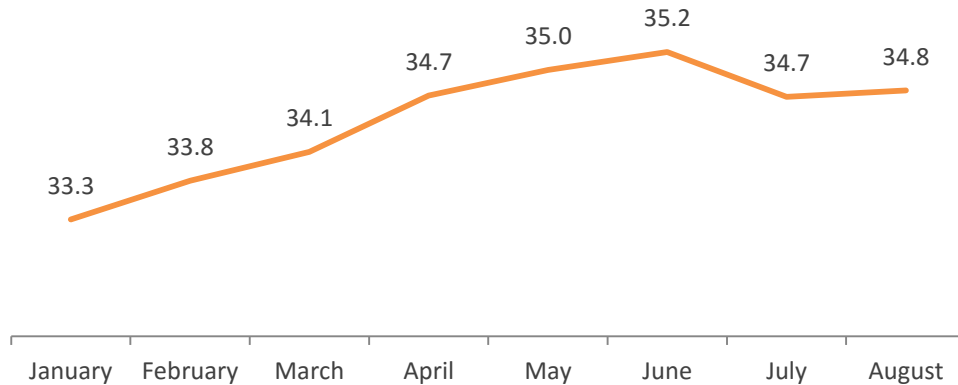


Source: Bank of Mauritius

- The Forex Reserves have been showing an upward trend since January 2018. In June 2018, the Bank of Mauritius held \$ 6,669 mn of Forex Reserves, which was the highest for the first two quarters of 2018.
- As of September 2018, the Forex Reserves stood at \$ 6,407 mn, which is marginally lower than the August 2018 level i.e. \$ 6,608 mn.

Exchange Rate

Chart 2: Exchange Rate - MUR/\$ (End of Month)



- The Mauritian Rupee (MUR) has been depreciating against the dollar as it moved from Rs 33.3/\$ in January to Rs 35.2/\$ in June 2018.
- As on end of July 2018, the Mauritian rupee marginally appreciated to Rs 34.7/\$.
- The depreciation in the currency is mainly attributed to the movement of major currencies in the international market.

Economic Outlook

The Mauritian economy is set to grow at around 4% for the next-half of 2018. The rising level of imports is a cause of concern for the economy. The investment inflows into Mauritius, especially into real estate are promising. With the Real Estate sector growing at 10% and the construction sector growing at 4%, the hospitality services (Accommodation and food service activities) sector is likely to perform better in the coming quarters of 2018.