Mauritius Economy Update – January 2015

Overview

- Mauritian economy has been witnessing a persistent moderation in growth since 2010 due to weak economic activity in Euro Zone, which is its main trading partner accounting for nearly 60% of its exports and tourists.
- The economy has been operating below its potential with falling domestic investments and savings rate.
- On the fiscal front, there has been a delay in fiscal consolidation due to fiscal slippages.
- Besides, the issue of excess liquidity in the system continues to prevail.
- On a positive note, other indicator such as inflation eased significantly and remains within the policy target at 3.2% in 2014.
- The trade deficit has improved reflecting reduced import volumes. International reserves too appear to be adequate.

Against this background, structural reforms and prudent fiscal measures combined with accommodative monetary policy in 2014 is estimated to have increased growth to 3.5% from 3.2% in 2013. Going ahead the government and monetary authorities will need to address challenges in the economy that include controlling excess liquidity and boosting investment to further support growth.

Economic Growth- at its convalescent stage

The economy has been on a downward trajectory since 2010. The economic growth decelerated from 4.2% in 2010 to 3.2% in 2013 on the back of continued weakening of external demand and muted investment demand. However, the sound economic reforms have mitigated the spill over effects to a large extent.

Moreover, with diversifying economic activities the Mauritian economy has also witnessed gradual shift in its structural composition of GDP. The contribution of the primary sector comprising agriculture and mining activities declined from 4% in 2011 to 3.4% in 2014 while secondary sector share reduced from 25.4% to 23.4% during the same period. On the other hand, the economy is shifting more towards the tertiary segment with greater focus on wholesale and retail trade, financial services, real estate, information and communication, professional, scientific and technical activities, healthcare, education, support service and entertainment. Subsequently, the tertiary sector share has increased from 70.6% to 73.3% in 2014.

Growth trend across sectors

Table 1: GDP Real growth rates- Y-o-Y (%)

%	2010	2011	2012	2013	2014 (E)
Overall GDP	**4.2**	**3.6**	**3.4**	**3.2**	**3.5**
Agriculture, forestry &fishing	-0.8	4.1	-0.2	0.4	5.4
Mining & Quarrying	4.4	-18.9	-8.3	-4.6	-5.0
Manufacturing	1.9	0.7	2.2	4.4	2.1
Construction	4.3	-2.0	-3.0	-9.4	-6.7
Accommodation & food services	6.0	3.5	0.0	2.5	4.1
Information & communication	10.9	9.0	8.6	6.9	6.4
Financial & insurance activities	4.5	5.6	5.7	5.4	5.4
Real estate activities	2.7	2.9	2.8	2.9	2.7
Tourism	5.8	3.6	0.0	2.1	4.8

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

In 2013, the economy witnessed a lower growth of 3.2%. However, the revised estimates for 2014 indicate that the economy is in its convalescent stage with the growth rate rising from 3.2% to 3.5% and is further projected to expand at 4.1% in 2015 with rising trade, investment outreach across the globe and a modest recovery in tourism.

- Primary activities-The agricultural sector growth turned positive in 2013 from -0.2% to 0.4%. This is further estimated to pick up by 5.4% in 2014. On the contrary, mining & quarrying activity continues to remain muted.
- Secondary activities- Manufacturing segment recorded an encouraging growth at 4.4% in 2013 with significant contribution from sugar and food industry. On the other hand construction activity decelerated indicating lack of investments.
- Tertiary activities- with recovery of the tourism industry the accommodation and food services segment grew by 2.5% and are estimated to have accelerated by 4.1% in 2014. The tourism sector growth is estimated at 4.8% in 2014. In addition, other services like financial services, telecommunications and information technology, real estate activities also continue to positively support the economic growth.

Modest recovery of the tourism industry

The performance of the tourism industry is largely contingent upon the external demand. The euro-zone crisis during 2008-2009 largely impacted the tourism industry. The real growth rate (adjusted to inflation) moderated from 5.8% in 2010 to 3.6% in 2011 and nil growth in 2012. However, with gradual recovery in the external demand the sector witnessed a modest growth of 2.1% during 2013. Moreover, with increase in number of tourist arrivals, the growth rate accelerated to 4.8% during 2014. The number of tourist arrivals recorded a 5% increase during Jan-Oct'2014 compared with the corresponding period in 2013 while tourist earnings registered 11.5% increase during the same period.

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

R million	2010	2011	2012	2013	2014
Tourism	22,037	23,921	24,817	22,393	24,953
% of GDP	8.3	8.4	8.2	6.9	7.3
Real growth rate	*5.8*	*3.6*	*0.0*	*2.1*	*4.8*

Source: Statistics Mauritius-Ministry of Finance & Economic Development

Subsiding inflationary pressures

The consumer price index (CPI) has eased considerably since 2011. It remains well within the policy target having declined from 3.9% in 2012 to 3.5% in 2013 and further down to 3.2 during 2014. *The consistent decline in inflation is attributable to weak growth of final consumption limiting demand side inflationary pressures.* Particularly, subsiding food and transport prices have led to fall in inflation. Besides, Mauritius being heavily dependent on imports, as global commodity prices continued to tone down it has helped contain domestic inflation at low levels.

Table 3: Inflation (%) 2010-2014

	2010	2011	2012	2013	2014
CPI	2.9	6.5	3.9	3.5	3.2

Source: Statistics Mauritius-Ministry of Finance & Economic Development

Fiscal Performance

Table 4: Revenue and Expenditure (as % of GDP)

	2010	2011	2012	2013	2014* (P)
Total Revenue & grants	21.9	21.4	21.5	21.3	22.1
Total Expenditure	24.9	24.6	23.2	24.8	25.4
Overall balance	-3.0	-3.2	-1.8	-3.5	-3.2
Domestic Debt/GDP	43.1	45.5	44.2	44.2	42.2
External Debt / GDP	7.5	13.0	13.7	15.8	17.4

*Source: Ministry of Finance &Economics, Mauritius, * Full year estimates*

The fiscal policy has been expansionary in the past two years with greater focus on increasing investments to reinvigorate growth.

The 2013 budget resulted in total revenue & grants declining from 21.5% of GDP in 2012 to 21.3% of GDP in 2013 while spending increased considerably from 23.2% to 24.8% of GDP during the same period. To this extent the overall deficit widened to 3.5% of GDP against 1.8% in 2012. In order to finance the government took recourse to external borrowings. Consequently, the public debt increased to 60% of GDP raising concerns about governments' ability to achieve fiscal target of 50% by 2018.

The 2014 budget focused on key *reforms including the liberalisation of petroleum importation to achieve competitive tariffs, and infrastructure development and economic integration with Africa.*

During Jan-Nov'14, revenue improved by 2.2% largely on account of policy measures introduced in the budget 2014 and on-going tax administration reforms. Hikes in excise duties and tobacco introduced in December'13 together with strong collections in taxes on goods and services are supporting the tax recovery in tax receipts. Tax Administration reforms such as the increased number of tax collectors and invigorated efforts to tackle tax evasion and underreporting of gambling taxes and VAT are also starting to yield dividends to the tax revenue authority. The total revenue is estimated to increase to 22.1% of GDP.

On the other hand, the total expenditure is estimated to increase to 25.4% of GDP during 2014 that is a growth of nearly 8.6%. However, the actual total expense during the period Jan-Nov'14 indicates a lower growth of 4.1% with current expenditures like wages and salaries increasing at a rate of 5.8% while subsidies and capital transfers declined by 5.4% and 30.5% respectively compared with Jan-Nov'13.

The overall deficit is estimated to reduce to 3.2% in 2014 against 3.5% in 2013. In order to finance the deficit, the government targets a ratio of 60:40 of foreign to domestic financing.

Monetary Developments

Against the backdrop of moderating inflationary pressures over the past few years and global uncertainty, the monetary policy has been quite accommodative and has well complemented the prudent fiscal policy measures to bolster economic growth. In order to accelerate economic activities and reinforce private sector confidence, it has been using its Key Repo Rate (KRR) as its policy instrument. During 2012, it reduced the KRR by 50bps to 4.90% and further by 25bps in June 2013 to 4.65%. Thereafter, it kept the KRR unchanged on rising concerns about excess liquidity in the system. Despite the excess liquidity, the CPI inflation remains within its traditional implicit of 5% at 3.2% in 2014.

In order to address the excess liquidity problem, Bank of Mauritius has taken several measures-

- To manage surplus liquidity, the Bank has been issuing securities since August 2013. These securities have increased significantly to MUR 24 billion by the end of first half of 2014 as the authorities also sought to offset the impact of sizeable foreign exchange intervention for boosting forex reserves.

- It raised the Cash Reserve Ratio (CRR) on rupee deposits from 8% to 9% in May 2014.
- Policy coordination between the Bank of Mauritius and the Ministry of Finance and Economic development (MoFED) is on-going to address the excess liquidity problem by way of issuing medium and long term government securities and cooperation in setting up explicit inflation target.

Table 5: Money and Credit

MUR in Million	2010	2011	2012	2013	2014*
Broad Money	300,231	319,537	345,617	365,609	386,010
% change	7.6	6.4	8.2	5.8	5.6
Domestic credit	308,855	341,302	391,022	448,175	433,513
% change	10.2	10.5	14.6	14.6	-3.3
Key repo rate	4.75	5.40	4.90	4.65	4.65
Bank Lending rate	2.89	4.44	2.89	3.56	2.48#

Source: Bank of Mauritius
**October 2014, # June 2014.*

Growth in broad money though significant registered moderation from 8.2% in 2012 to 5.8% during 2013. It accelerated by 5.6% to reach MUR 386 billion in October 2014 from MUR 365 billion at the end of December 2013 due to rapid increase in savings deposits (10%) while the growth in time deposits lagged behind (1.6%) during the period.

Besides, the domestic credit remained subdued during 2014 after a significant increase of 12.4% in the past two years. The domestic credit declined by 3.3% in October 2014 to MUR 433.5 billion from MUR 448 billion in December 2013. Bank credit to private sector after recording a growth of 12.8% in 2012 moderated to 5.9% in 2013. At the end of October 2014, it registered a decline of 1.3% at MUR 267 billion over December 2013. The slowing in credit mainly reflected a deceleration in the growth of corporate credit. Sectors contributing to deceleration in credit have been tourism, financial & business services, manufacturing, transport and infrastructure.

Balance of Trade

On the trade front, there has been a progressive growth in exports over the past few years. The growth rates increased from 5.8% in 2011 to 8.3% in 2012 and 10.5% in 2013. On the contrary, growth in imports moderated from 9.6% in 2011 to 8.9% in 2012 while 2013 recorded a negative growth in import volumes. The overall trade deficit increased to 23.7% of GDP in 2012 from 23% of GDP in 2011. However, the fall in demand for imports narrowed the overall trade deficit to 19% of GDP in 2013. To this extent, the current account balance too reduced to 9.9% in 2013 from 13.8% in 2011.

Table 6: Balance of Trade (in MUR million))

	2010	2011	2012	2013	2014*
Exports	69,550	73,586	79,658	88,048	73,068
Imports	134,882	147,815	160,996	157,673	117,721
Trade Balance	**-65,332**	**-74,229**	**-81,338**	**-69,625**	**-44,653**
% of GDP	*-21.8*	*-23.0*	*-23.7*	*-19.0*	-15.9
Current account Balance (% of GDP)	-10.4	-13.8	-7.3	-9.9	-8.6
Import Coverage (in months of goods and services)	5.0	4.6	4.96	5.2	6 (till November)

Source: Statistics Mauritius-Ministry of Finance & Economic Development, Bank of Mauritius
** Jan- Sept 2014,*

During 2014, growth in imports for the first three quarters recorded 4.5% increase compared to 2013 at MUR 117,721 million with exports expanding at a faster rate of 13.5% to MUR 73,068 million. Accordingly, the trade balance stood at MUR 44,653 million against MUR 48,265 million in 2013 with overall deficit at 8.6% of GDP.

Exports comprise food & live animals, miscellaneous manufactured goods like Articles of apparel & clothing accessories, manufactured goods classified chiefly by material which account for 30%, 36% and 10% respectively in the total share of imports. Imports of Mineral fuels, lubricants and related materials, Machinery and transport equipment, Food and live animals and manufactured goods classified chiefly by material, represented 20.6%, 23.1%, 18.4% and 16.3% of total imports respectively.

Products are largely imported from Asian countries (56.4%) such as India and China. From the European countries it imports mainly from France, Germany and Spain. In terms of exports, nearly 50% of its total exports are made to European economies followed by Asia (20%) and Africa (20%).U.K Italy, France, UAE, South Africa, USA are the important export destinations.

<u>Foreign Direct Investments (FDI)</u>

Foreign Direct Investment (excluding Global Business License) reached a peak of MUR 20,373 million in 2012 with huge investments mainly into the real estate and financial activities together accounting for about 64%. However, FDI inflows slowed down sharply in 2013 to MUR 9,512 million. For 2014, capital inflows again appear to have picked up with MUR 10,099 million during the period Jan-Sept'14.The main sources of FDI during 2014 (Jan-Sept'14) were France (26%) followed by South Africa (9%) and UK (8%).

On the contrary, Investments made abroad by Mauritius have declined considerably from MUR 6,101 million in 2011 to MUR 4,135 in 2013. During 2014 (Jan-Sept'14), the total investment was recorded at MUR 1,902 million. Africa and Europe were the main investment destination for Mauritius each accounting for about 40% share of the total investment aboard.

Table 7: FDI in Mauritius **(MUR Million)**

	2010	2011	2012	2013	2014(Jan- Sept)
FDI in Mauritius	13,948	12,894	20,373	9,512	10,099
FDI by Mauritius	4,009	6,101	5,549	4,135	1,902

Source: Bank of Mauritius

<u>Increasing International Reserves</u>

Bank of Mauritius' intervention in the foreign exchange market through its operations Reserves Reconstitution programme (ORR) supported a build-up of gross official reserves. A sizeable accumulation of gross international reserves arose during Jan-Nov'14 on account of net purchases in the foreign exchange market coupled with government's net external borrowing. The gross reserves recorded an increase of 25% from $3,046 million in 2012 to $3,796 million in November'14. The import coverage also improved significantly to an equivalent of 6 months of imports of goods and services by the end of November 2014 against 5% in November'13.

Table 8: International Reserves (in million US dollars) 2010-2014

	2010	2011	2012	2013	2014*
Gross reserves	2,601	2,778	3,046	3,491	3,796

Source: Bank of Mauritius
 # As of November 2014

<u>Depreciating Mauritian Rupee</u>

Table 9: Exchange Rate

	2010	2011	2012	2013	2014*
MUR / $	30.89	28.75	29.93	30.6	31.90

Source: Bank of Mauritius
**end of November 2014*

The domestic currency has lost momentum since 2012. At the end of December 2014, the exchange rate of the Mauritian rupee against the US dollar depreciated by 3.9% when compared with December 2013. The gradual retreat of US monetary stimulus programme on the back of improving economic conditions in US led to sharp movements in capital flows in the emerging economies. This in turn led to increased pressures in the foreign exchange market translating into depreciating Mauritian Rupee.

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