

Mauritius to Grow Over 6% in 2023, but Global Slowdown Will Weigh

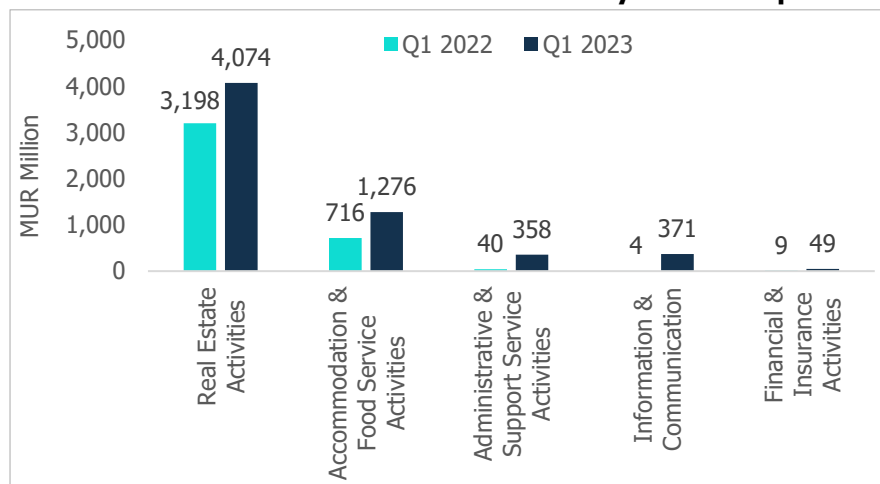
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After registering GDP growth of 5.5% in Q1 2023, the global slowdown is expected to soften the country's performance in 2023, with the Central Bank estimating the Mauritian economy to grow 'more than 6%' in 2023. According to the central bank, domestic demand is expected to remain supported by sustained private and public sector consumption and investment spending. Bank of Mauritius expects household consumption to receive a boost following the 2023-24 budgetary measures, in particular, the overhaul of the personal income tax regime and implementation of various social measures. Moreover, the measures announced specifically for improving the business environment in Mauritius is expected to further boost confidence among investors and will provide further impetus to economic activity.

Gross Foreign Direct Investment Flows Improve in Q1 2023

Gross foreign direct investment inflows experienced a substantial year-on-year increase of nearly 40%, reaching MUR 7,236 million during the first quarter of 2023. Notably, investment vitality remained robust, underscored by noteworthy foreign direct investment pouring into the real estate sector. The pre-eminence of the 'Real estate activities' sector as the primary beneficiary of gross direct investment inflows was evident, predominantly channelled through avenues such as the Integrated Resort Scheme, Real Estate Scheme, Invest Hotel Scheme, Property Development Scheme, and Smart City Scheme. Collectively, these initiatives accounted for approximately 75% of the inflow volume directed into the real estate domain. The origins of gross direct investment primarily stemmed from France and the United Arab Emirates over this period. As we peer into the future, the central bank anticipates that Mauritius will sustain its appeal as a magnet for substantial gross FDI in both the real estate sector and across other segments of economic activities. This outlook bodes well for bolstering economic dynamism throughout 2023 and fostering a constructive impact on the broader external position.

Gross Direct Investment Flows in Mauritius by Sector- Top 5



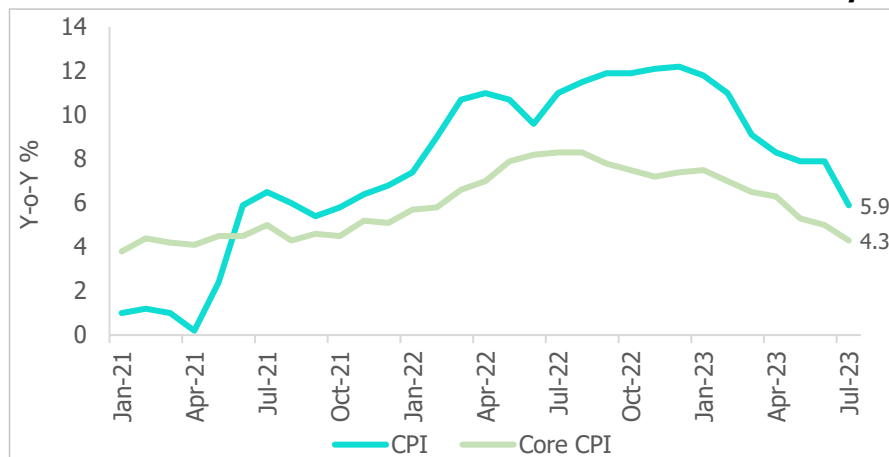
Source: Bank of Mauritius (Excludes cross-border transactions of the global business sector)

Retail Inflation Moderates at its Fastest Pace Since Mid-2021

The consumer price index (CPI)-based inflation moderated to 5.9% y-o-y in July, from 7.9% in the previous month. On a sequential basis as well, retail inflation registered a multi-year decline in July (-0.3%). Meanwhile, core inflation, which excludes food, beverages, tobacco, mortgage interest, energy, and administered prices, eased to 4.3% in July, its slowest pace since early 2021, from 5% a month ago. The latest inflation reading comes as a positive surprise, surpassing the central bank's forecast of headline inflation easing progressively to around 6.8% in 2023.

Going ahead, however, the recent rise in global food and crude oil prices could put upward pressure on the inflation outlook of the import-dependent economy, prompting the central bank to keep interest rates higher for longer. At the last MPC meeting in June, the central bank left the key rate unchanged at 4.5%, after raising the policy rate by 265 basis points since the start of 2022.

Headline and Core CPI Inflation Ease to Multi-Year Lows in July



Source: CEIC; Note: Core inflation denotes data for category Core 2

Trade Deficit Narrows in June

In June 2023, the trade deficit in Mauritius narrowed to MUR 15.4 billion as imports dropped at a faster pace than exports. This compares to a trade deficit of MUR 21.5 billion in the corresponding period a year ago. Imports contracted over 22% in June to MUR 22.3 billion. Amongst imports, categories including 'mineral fuels & lubricants' and 'crude materials' registered steep declines of 62% and 27%, respectively, over last year. Meanwhile, exports (excluding ship's stores and bunkers) fell 5% y-o-y to MUR 6.9 billion. Barring the category of 'machinery and transport equipment' and 'chemicals and related products', all categories amongst the export basket reported contraction from the year-ago period.

However, for the first six months of 2023, exports surged over 9% from the corresponding period a year ago, amidst a near 1% rise in imports, narrowing the trade deficit to MUR 97 billion in the January-June period, from MUR 99 billion a year ago. South Africa, France, and the UK were the top three export destinations, while the top three import partners were China, UAE and Oman. Nevertheless, weaker demand for Mauritius' merchandise exports and high dependency on imports could hurt the trade position going ahead, given the threat of rising global food prices, crude oil prices, and geopolitical concerns. That said, the positive impact of the government's efforts of diversifying export markets and reducing dependency on imported food, as set out in the budget for 2023-24, could be seen in the medium term.

Exports and Imports Moderate in June

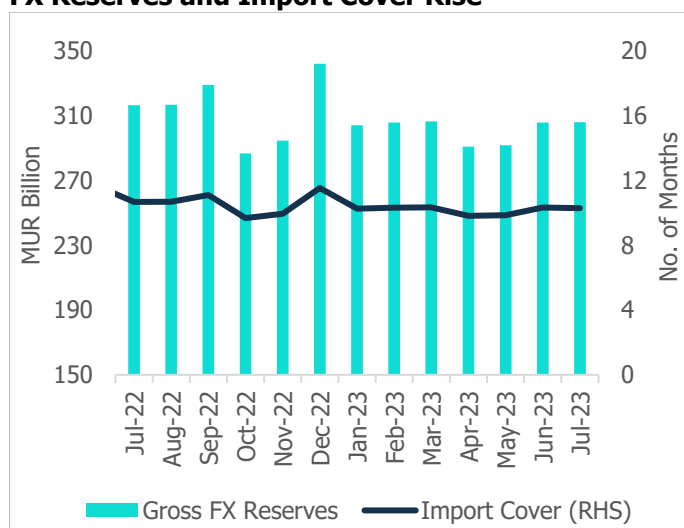


Forex Reserves Steady in July; Mauritian Rupee Appreciates

In July 2023, the gross official international reserves in Mauritius broadly remained around the same level at MUR 306 billion (USD 6.6 billion). Consequently, the import cover remained unchanged from the previous month at 10.3 months. This is however slightly lower than the import cover of 10.7 months seen a year ago. According to Governor Harvesh Seegolam, the central bank has set a target of increasing forex reserves to USD 8 billion by June 2024, and USD 10 billion thereafter, to provide a strong buffer against external shocks. This contrasts with the dollar sales that the central bank undertook in the aftermath of the pandemic.

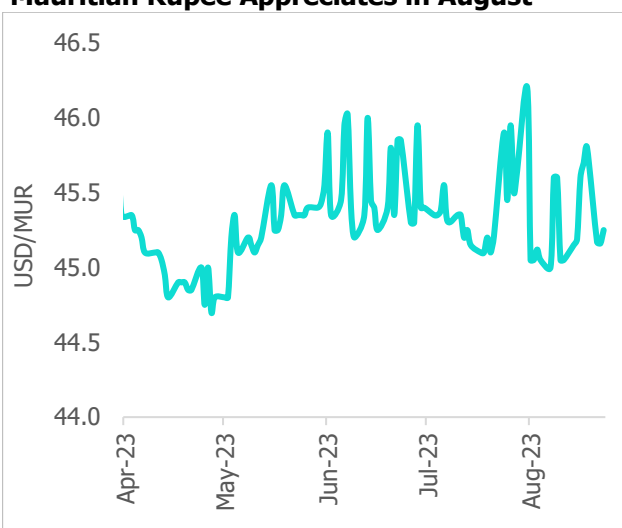
In FY23 (July 2022-June 2023) the central bank intervened via dollar sales worth USD 555 million in the foreign exchange market. On the currency front, after remaining steady at a monthly average of 45.9 in July, the Mauritian rupee appreciated. The Mauritian rupee appreciated over 2% to 45.2 in August, despite a 2% gain in the dollar index during the same period. The US dollar has been on an uptrend in the last month after robust macro data defied threats of an impending recession.

FX Reserves and Import Cover Rise



Source: CEIC

Mauritian Rupee Appreciates in August

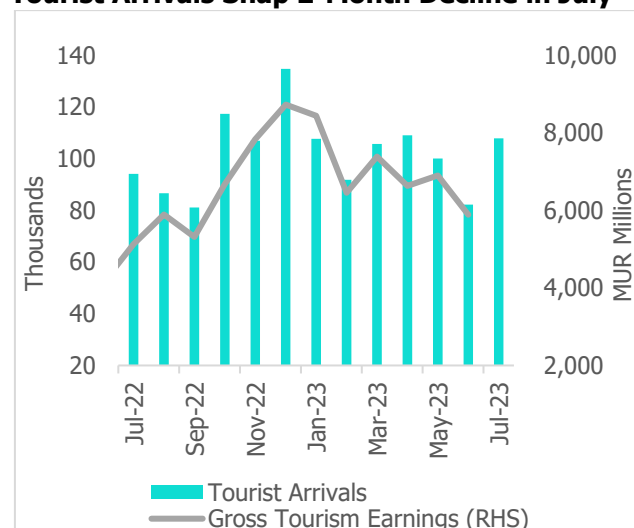


Source: Refinitiv

Tourism Industry Supports Economy

Tourist arrivals stood at 107,832 in July, up 31% over the previous month. In 2023 so far, tourist arrivals totalled 704,298, 50% higher than the footfall seen during the same period last year, which is an encouraging sign of support for growth in the contact-intensive service sector. Meanwhile, gross tourism earnings dropped to MUR 5.9 billion in June from MUR 6.6 billion a month ago. Given that tourist arrivals have remained healthy in July, we can expect gross tourism earnings to have improved in the month as well. For FY24 (year beginning July 2023), the government has targeted 1.4 million tourists and MUR 100 billion in tourism receipts.

Tourist Arrivals Snap 2-Month Decline in July



Source: CEIC; Bank of Mauritius

Monthly Data of Key Economic Indicators

Indicators	Unit	Mar-23	Apr-23	May-23	Jun-23	Jul-23
CPI Inflation	y-o-y%	9.1	8.3	7.9	7.9	5.9
Core Inflation	y-o-y%	6.5	6.3	5.3	5.0	4.3
Key Rate	%	4.5	4.5	4.5	4.5	4.5
Exports	MUR Bn	7.9	6.3	7.3	6.9	-
Imports	MUR Bn	23.8	21.1	29.2	22.3	-
Trade Balance	MUR Bn	-15.9	-14.7	-21.8	-21.5	-
Exchange Rate (Average)	USD/MUR	47.0	45.6	45.8	45.9	45.9
Gross Official International Reserves	MUR Bn	306.6	290.9	291.8	305.9	306.1
Import cover	No. of months	10.3	9.8	9.9	10.3	10.3
Tourist Arrivals	Person	105,663	109,031	100,030	82,208	107,832
Gross Tourism Earnings	MUR Bn	7.3	6.6	6.9	5.9	-

Source: CEIC; Note: Core inflation denotes data for category Core 2; MUR=Mauritian Rupee

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