FEBRUARY 2024 EDITION

ECONOMIC REVIEW 2023 AND OUTLOOK 2024

MAURICE STRATÉGIE

DISCLAIMER

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EXECUTIVE SUMMARY

This edition of Maurice Stratégie's Economic Review and Outlook provides an update on the economic performance of Mauritius and provides forecasts for 2024 using econometric modelling and information collected from various sources, including from Statistics Mauritius, Maurice Stratégie's Quarterly Economic Surveys, and international institutions.

Economic performance has been strong so far, benefitting from the continued strength of the tourism sector. This, together with construction projects led by the public sector are also sustaining job creation. Inflation has continued its steady downward trajectory. Near term indicators are positive, leading us to maintain our GDP growth estimate at 7.3 percent in 2023 and forecast a GDP growth of 6.5 percent in 2024.

2023

For 2023, nominal growth is forecasted at 14.8 percent including the price effect, with the different growth components contributing to this performance as follows:

	GDP Effect
Consumption	3.4%
Private Investment	2.6%
Public investment	1.2%
Exports of goods	0.5%
Exports of services (excl. tourism)	2.4%
Exports of services-tourism	3.7%
Residual Growth	1.0%
Nominal growth	**14.8%**

Adjusting for inflation, expected to be around 7.0 percent in 2023, real GDP growth rate is expected to be at 7.3 percent, same as the previous estimate in September by Maurice Stratégie.

2024

For 2024, nominal growth is forecasted at 12.4 percent, explained as follows:

	GDP Effect
Consumption	3.2%
Private Investment	1.9%
Public investment	0.7%
Exports of goods	0.6%
Exports of services (excl. tourism)	2.1%
Exports of services-tourism	1.8%
Residual growth	1.0%
Increase in minimum wage	0.5%
Salary compensation	0.5%
Nominal growth	**12.3%**

Looking ahead, inflationary pressures are expected to continue to subside, in line with the cumulative lagged effects of monetary policy tightening by the Bank of Mauritius. Imported inflation is also expected to fall following the Rupee appreciation. We expect headline inflation to fall to 5.7 percent in 2024.

Consumers on the lower income end have a higher propensity to consume. With the recent monthly salary compensation and increase in minimum wage, we forecast ripple effects to the tune of up to 1.0 percentage point to GDP growth in 2024.

Meanwhile, as the base effects start wearing out, we would see a lower contribution from other components of aggregate demand. Real GDP growth is therefore expected to reach 6.5 percent in 2024.

Some upside risks prevail to the extent that private enterprises pass on the rise in wage costs to consumers. Geopolitical risks also remain on the watch list for upward price risks, as regional spillovers from the Palestine-Israel war could potentially weigh on oil prices.

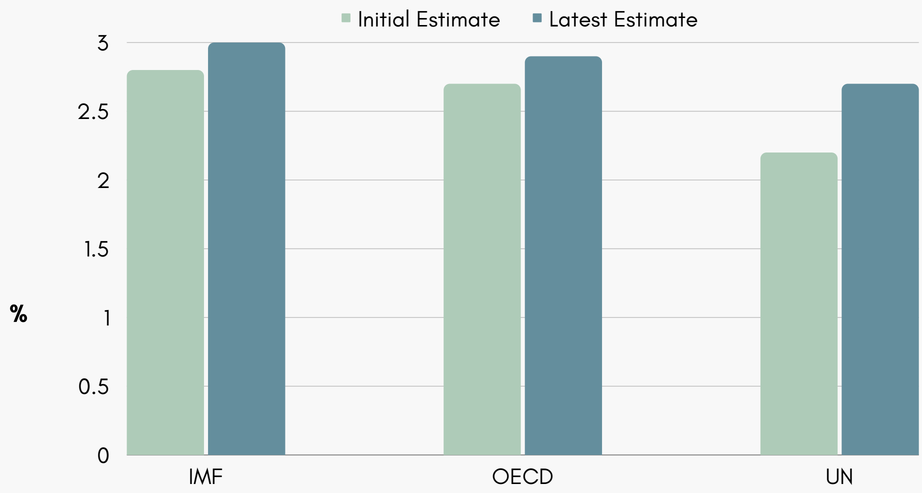
Ceteris Paribus

The estimates provided for macroeconomic indicators are based on information available up to the end of the forecasting rounds, i.e first week of December 2023. As per standard practice, baseline forecasts may be revised in future publications, subject to changes due to evolving economic conditions, unforeseen events, or revisions in underlying data. The estimates are reflective of the situation at the time of assessment, and do not incorporate information released beyond the publication stage of this issue. Users are therefore advised to consider the dynamic nature of economic data when interpreting these estimates.

GLOBAL ECONOMIC SITUATION: ROOM FOR GROWTH

The global economy has surprised with its resilience so far in 2023. Despite tight global financial conditions prevailing whilst major central banks fought inflationary pressures with contractionary monetary policy, the soft-landing scenario appears to have materialised. The global economy has navigated smoothly, amidst a climate of uncertainty emanating from geopolitical tension. The services sector was the centre stage, as travel returned to near normalcy in the post-COVID era.

Figure 1 : Global Growth Rate



Source: IMF, OECD, UN

According to the IMF World Economic Outlook of January 2024, the world economy is forecasted to grow by 3.1 percent in 2023, 0.1 percentage point higher than the prediction made in October 2023.

Along the same line, the OECD in its latest Economic Outlook, November 2023, revised its forecasted world output growth to 2.9 percent for 2023, 0.1 percentage point down than its prediction in September 2023 but 0.2 percentage point higher than its prediction in June 2023.

In parallel, in its January 2024 report, the UN revised its world GDP growth projection for 2023 to 2.7%, 0.5 percentage points higher than its December 2023 forecast.

Similarly, the World Bank in its latest Global Economic Prospects increased its forecast world economy growth to 2.6 percent for 2023, 0.5 percentage points higher than its June 2023 projections.

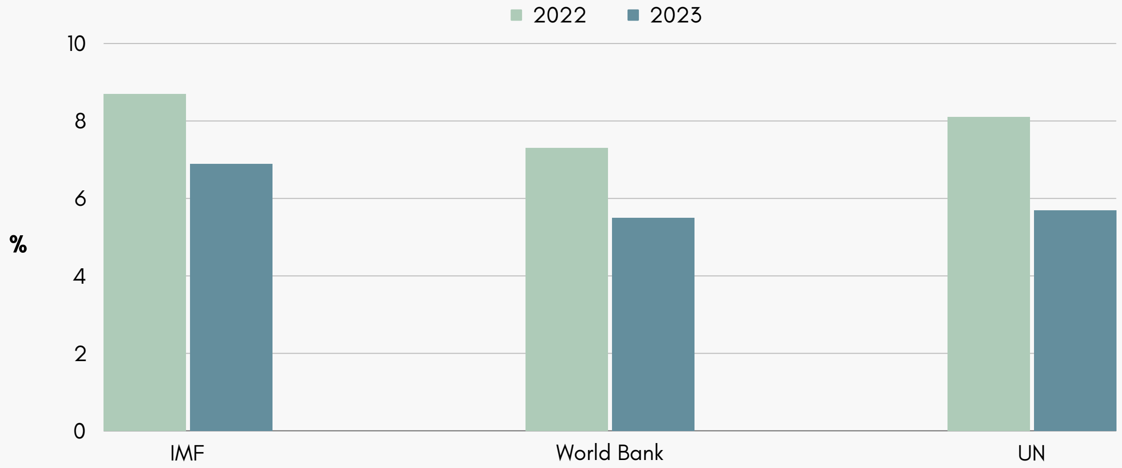
However, despite this positive trajectory, persistent downside risks included:

- diminishing pandemic-era savings,
- slowing catch-up in services, including travel, and
- persistent manufacturing slowdown.

INFLATION NO LONGER CENTRE STAGE

A steep run-up in goods prices was the main cause behind the surge in inflation over the past 2.5 years. From energy to food to supply chain to shipping, many of the factors that drove inflation higher in 2021 and 2022 have eased considerably. Additionally, a synchronised global monetary policy hiking cycle materialised and strengthened through 2022, with most economies aggressively tightening policies to curb inflation. These, in turn, have played a pivotal role in stabilizing prices and, consequently, relieving inflationary pressures.

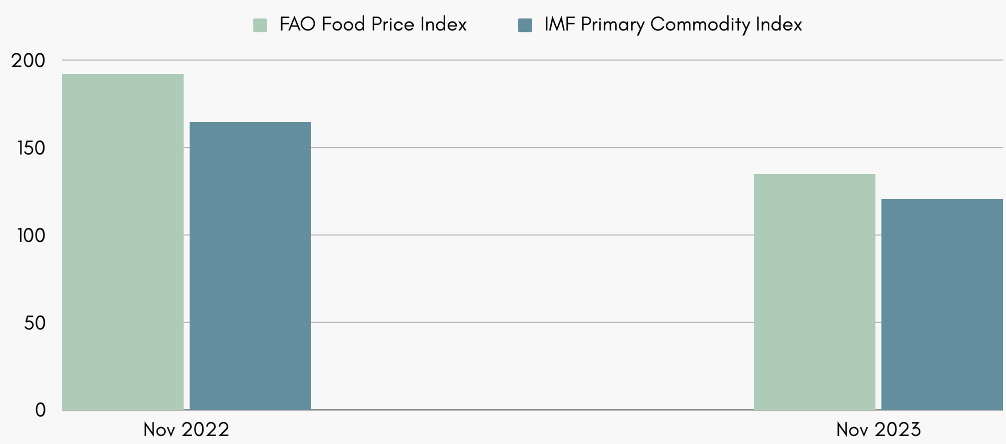
Figure 2: Inflation Projection



Source: World Bank and IMF

The IMF in its January 2024 World Economic Outlook anticipated that global headline inflation will decline from 8.7 percent in 2022 to 6.8 percent in 2023 and further down to 5.8 percent in 2024. In a parallel vein, the UN has forecasted a steady decline in global headline inflation, dropping from 8.1 percent in 2022 to 5.7 percent in 2023 whereas the World Bank has predicted a reduction in headline inflation from 7.3 percent in 2022 to 5.5 percent in 2023.

Figure 3: FAO Food Price Index and IMF Primary Commodity Index

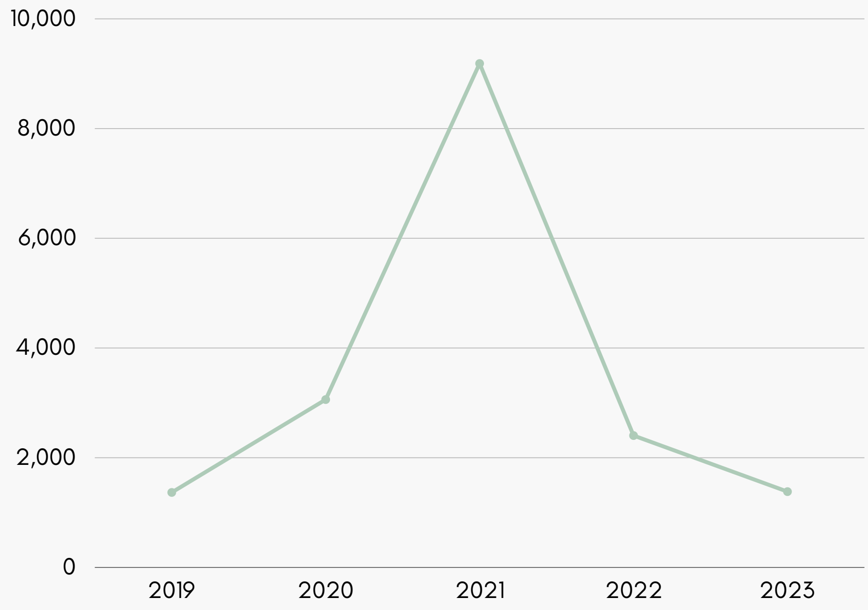


Source: FAO and IMF

In November 2023, the FAO Food Price Index exhibited a year-on-year decrease of 10.6 percent, settling at 120.3. This decline can be attributed to a decrease in the prices of fundamental commodities, including vegetable oils, dairy, cereals and meat. The IMF Primary Commodity Price Index also experienced a substantial year-on-year decline of 14.4 percent, reaching 164.45 in November 2023.

During the pandemic, the average freight costs surged by 86 percent, resulting in a substantial 5.9 percentage point annual increase in import price inflation. However, since the third quarter of 2022, the Freightos Baltic Index, which measures global container freight rates, begun falling and dipped to USD 1,346.2/FEU in December 2023, , which contributed to a decline in inflation.

Figure 4: Drewry World Container Index



Source: Drewry World Container Index

The trend towards normalisation is also reflected in the sharp drop of the Drewry World Container Index (DWCI) after a surge to historical highs in the aftermath of the COVID-19 outbreak. The DWCI tracks the freight costs of 40-foot containers on eight major routes. By December 2023, the DWCI had dropped by a substantial 28 percent compared to the same period in the previous year, settling at USD 1,660. This figure closely mirrors pre-pandemic rates, suggesting a return to normalcy.

Although the recent shift in inflationary trends is promising, the path towards sustained price stability remains uncertain due to the following risks which could still lead to persistent inflation:

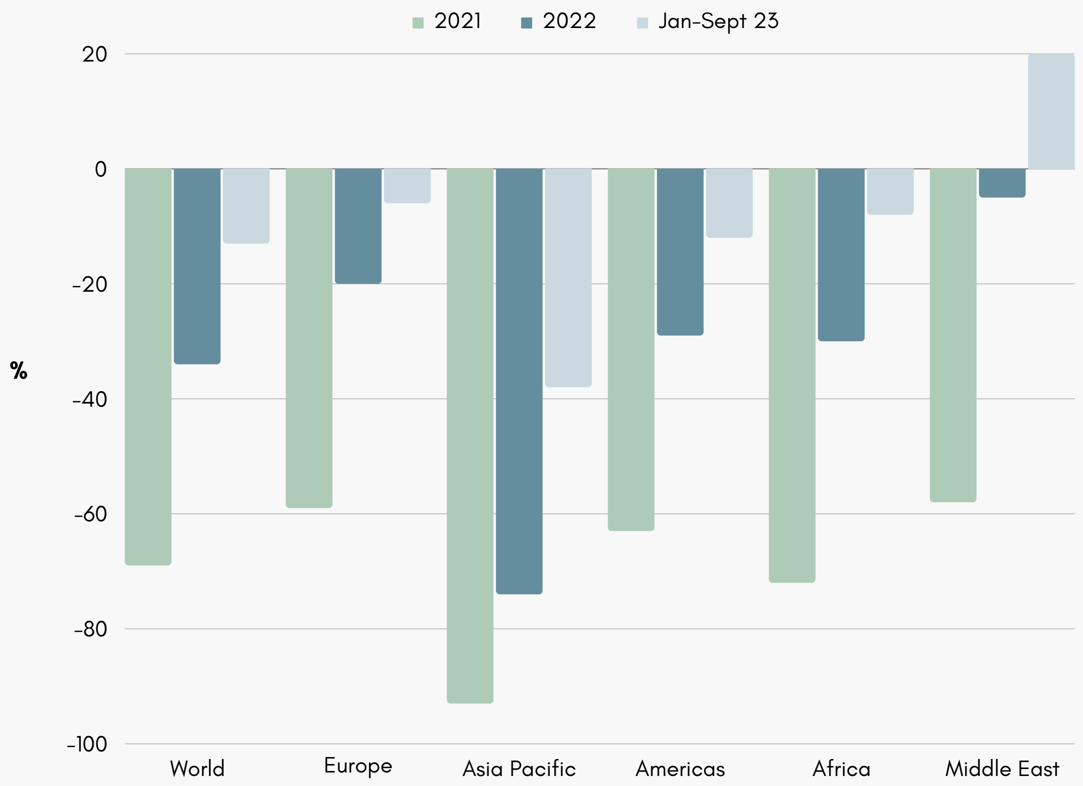
- Volatility in prices of commodities under renewed geopolitical tensions and disruptions linked to climate change,
- Tight labour markets, excess savings in some countries, and adverse energy price developments, and
- Fiscal buffers have eroded in many countries, with elevated debt levels, rising funding costs, and an increasing mismatch between the growing demands on the state and available fiscal resources.

TOURISM: POST-PANDEMIC RESILIENCE AND GROWTH

According to the World Tourism Organization's World Tourism Barometer, September 2023, international tourism rebounded to 87 percent of its pre-pandemic levels over the period January to September 2023.

An estimated 975 million tourists travelled internationally during the aforementioned period, marking an increase of about 38 percent compared to the corresponding period in 2022.

Figure 5: International Tourist Arrivals (compared to 2020)



Source: UNWTO

Global tourism came back strongly in 2023, nearly reaching pre-pandemic levels, with international arrivals projected at 1.3 billion (up by 33 percent over 2022 and almost 90 percent of pre-pandemic levels) and tourism receipts at USD 1.4 trillion (up by 40 percent over 2022 and about 93 percent of the USD 1.5 trillion earned by destinations in 2019).

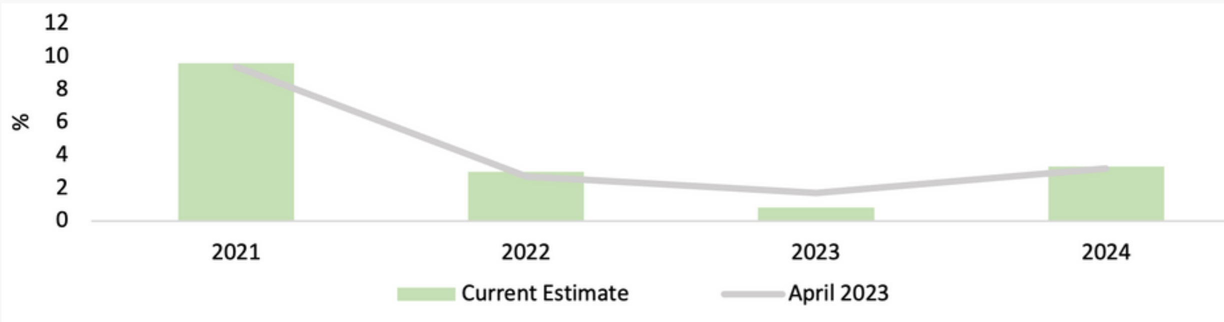
UNWTO anticipates a complete comeback to pre-pandemic levels in 2024 for international tourism, showcasing the industry's resilience and growth potential amidst the presence of economic headwinds and geopolitical instability.

WEAKENING GLOBAL TRADE

The UN in its World Economic Situation and Prospects Report, January 2024, forecasted global trade in goods and services to grow by 0.6 percent in 2023, lower than the average growth registered during the last decade.

The World Bank in its Global Monthly Newsletter, November/December 2023, stated that global goods trade has weakened further, with trade volumes declining by 3.5 percent year-on-year in September 2023. In contrast, services trade continued to expand in September, marked by a substantial surge of 38 percent in international tourist arrivals during the period spanning January to September 2023, as opposed to the same timeframe in 2022.

Figure 6: Merchandise Trade Volume Growth



Source: WTO

The WTO in its Global Trade Outlook and Statistics Update, October 2023 forecasted a world merchandise trade volume growth of 0.8 percent in 2023 – a decline of 0.9 percentage point compared to its April forecast. The trade slowdown appears to be broad-based, involving a large number of countries and a wide array of goods, specifically certain categories of manufactures such as iron and steel, office and telecom equipment, textiles, and clothing. World trade is forecasted to grow by 3.3 percent in 2024.

While merchandise trade is declining, services showed resumed growth during the first half of 2023. For trade in services, which encompasses both international transport and tourism as key components, the ongoing recovery of international air traffic has continued after the sector was hit hard by the pandemic. Global air revenue-passenger kilometres (RPKs) – which indicates the number of kilometres travelled by paying passengers – was only 9 percent below pre-pandemic levels in May 2023. This followed an expansion of almost 50 percent year on year, owing partly to China reopening its international markets, which resulted in an almost threefold annual increase for Asia-Pacific carriers.

The following developments have cast a shadow over the performance of trade in 2023:

- strained property markets have prevented a stronger recovery from taking root in China;
- inflation has remained sticky in the United States and the EU;
- the after-effects of the war in Ukraine; and
- the COVID-19 pandemic.

SLOWDOWN IN GLOBAL INVESTMENTS

According to latest figures released by the OECD, global FDI flows reached USD 727 billion in the first half of 2023 but remained 30 percent below the levels recorded in the first half of 2022. The upswing was predominantly observed in the first quarter of 2023, while there was a substantial 44 percent decline in global FDI flows during the second quarter of 2023 when juxtaposed with the preceding quarter.

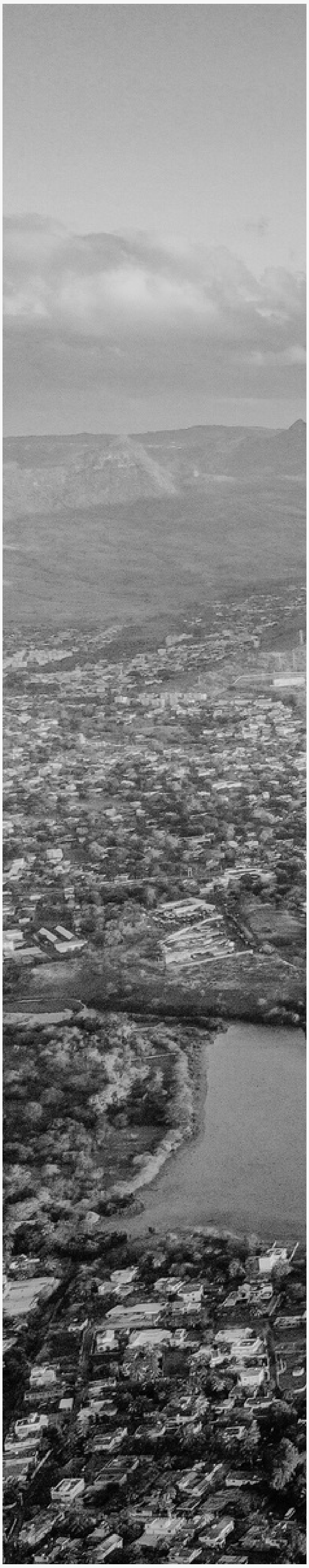
The United States was the leading FDI recipient worldwide, followed by Brazil, Canada and Mexico, both equally ranked as third largest FDI recipients. The United States was also the major investor worldwide, followed by China and Japan.

According to the 2023 Kearney FDI Confidence Index, which is an annual survey of global business executives that ranks the markets likely to attract the most investment in the next three years, investors remain broadly positive on the prospects for FDI, globalisation and the global economy. Indeed, strong majorities expect their companies' level of FDI to increase over the next three years, and nearly two-thirds are more optimistic than pessimistic on the global economic outlook.

GLOBAL PMI: PERSISTENT SECTOR DIVERGENCES

J.P. Morgan Global Composite PMI Output Index rose to 51.0 in December 2023 from 50.5 in November 2023. It reported that global economic activity showed mild improvement in December 2023, driven by more new business and a modest boost in business confidence.

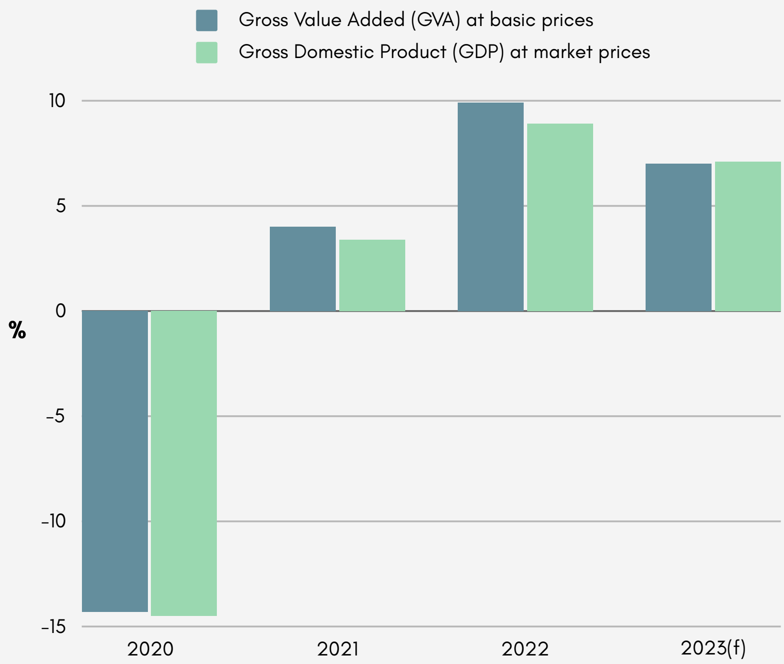
However, the increase in the index was not uniform with divergences in the performance among the sectors. The service sector expanded for the 11 month straight, hitting a five-month high in December. All sub-sectors (business, consumer and financial) grew, with the most significant increase recorded in the financial services sector. However, the manufacturing sector shrank for the 7 month in a row, mainly due to falling output in intermediate goods. Conversely, consumer and investment goods industries actually saw output rise.



THE MAURITIAN ECONOMY

The domestic economy remained on sound footing in 2023 following the strong rebound in tourism and boosted by large scale infrastructural projects. Statistics Mauritius in its latest release of National Accounts Estimates in December 2023, increased again its projected growth of GDP at market prices to 7.1 percent in 2023 – 0.3 percentage point higher than the figure projected in September 2023.

Figure 7: Output growth



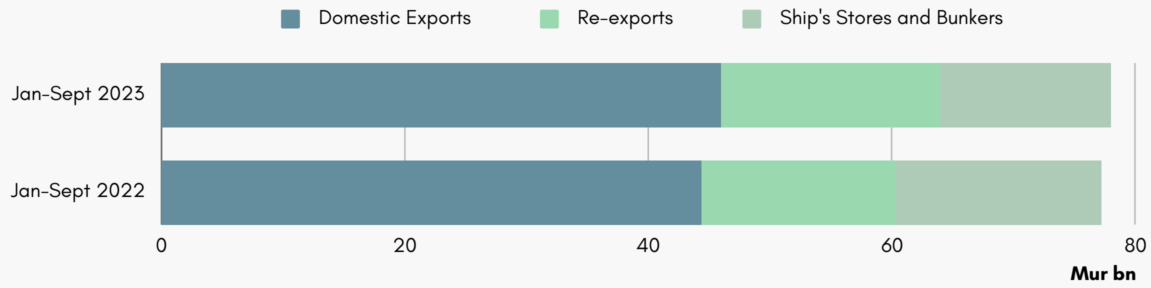
Source: Statistics Mauritius

Moreover, Statistics Mauritius has increased its forecasted investment for 2023 from MUR 142.14 billion in its September estimates to MUR 142.17 billion in its December estimates. Private sector investment is now expected to reach MUR 109.34 billion (+0.36 billion rupees on compared to September estimates) while public sector investment is estimated to attain MUR 32.84 billion (-0.32 billion rupees compared to September estimates).

DAMPENING EXPORTS

Total exports of goods increased by 1 percent from MUR 77.25 billion for the period January to September 2022 to MUR 78.00 million for the corresponding period in 2023 whereas total imports decreased by 1.8 percent from MUR 214.46 billion for the period January to September 2022 to MUR 210.50 billion for the corresponding period in 2023.

Figure 8: Evolution of Total Exports

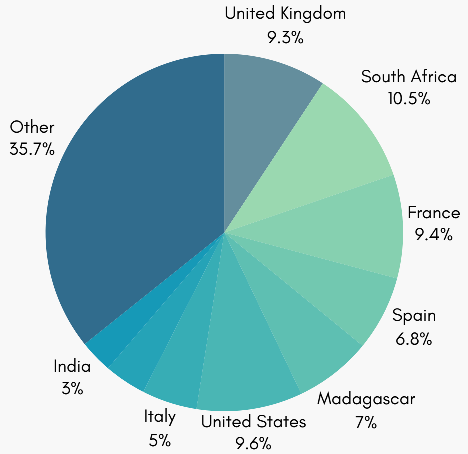


Source: Statistics Mauritius

Comparing January to September 2022 to the corresponding period in 2023, it can be noted that domestic exports increased by 3.7 percent, re-exports expanded by 12.7 percent and ship's stores and bunkers decreased by 17.2 percent.

Analysis of exports figures, excluding ship's stores and bunkers, by country of destination for the period Jan-Sept 2023 showed that the top three destinations for our exports were South Africa (10.5%), United States (9.6%) and France (9.4%) while the top three sources of our imports were China (15.2%), U.A.E. (13.0%), and India (7.9%)

Figure 9: Exports by Destination



Preliminary figures from Statistics Mauritius show that total exports for October 2023 stood at MUR 8.96 billion compared to MUR 8.75 billion in September 2023 (+2.4 percent) and MUR 9.21 billion in October 2022 (-2.7 percent).

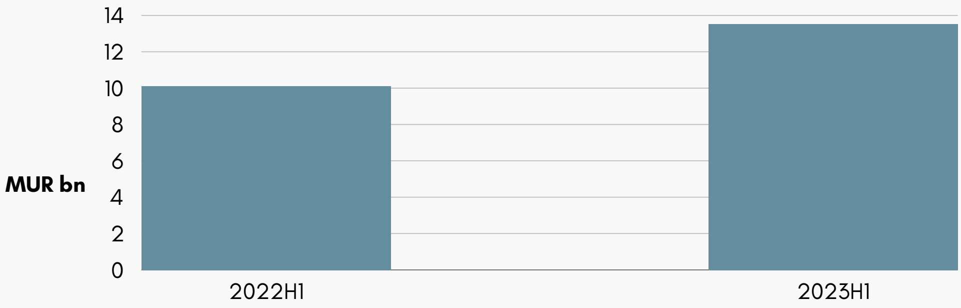
Preliminary figures from Statistics Mauritius reported that total exports for the November 2023 stood at MUR 7.50 billion compared to MUR 8.96 billion in October 2023 (-16.3 percent) and MUR 8.96 billion in November 2022 (-16.3 percent).

Source: Statistics Mauritius

IMPROVEMENT IN FDI INFLOWS

Foreign Direct Investment (FDI) inflows in the country are estimated at MUR 13.51 billion in the first semester of 2023, compared to MUR 10.09 billion in the first half of 2022, representing an increase of 33.9 percent.

Figure 10: Foreign Direct Investment, First Half 2023



Source: Bank of Mauritius

The 'Real estate activities' sector (MUR 8.66 billion) was the major beneficiary of FDI followed by 'Accommodation and food service activities' sector (MUR 1.62 billion). FDI in Mauritius were mainly sourced from France (MUR 2.80 billion) and South Africa (MUR 1.51 billion).

SUSTAINED RECOVERY IN THE TOURISM SECTOR

Preliminary figures from Statistics Mauritius show a positive trend, with tourist arrivals exceeding the one million figures in October 2023. Tourist arrivals increased by 32.9 percent, 862,560 from January 2022 to November 2022 to 1,146,265 in corresponding period of 2023. Tourism earnings for the initial ten months of 2023 stood at MUR 68.5 billion, indicating a 41.9 percent growth compared to the first ten months of 2022 (MUR 48.3 billion). Additionally, this amount exceeded the total tourism earnings recorded in 2022 (MUR 64.8 billion).

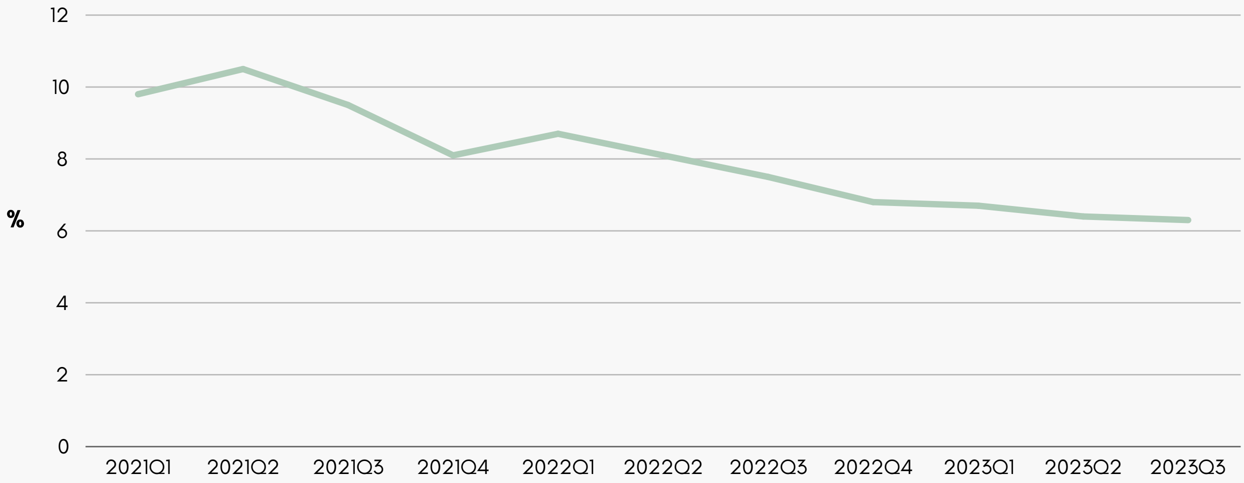
Figure 11: Tourism arrivals and earnings

Source: Statistics Mauritius

DECLINING UNEMPLOYMENT

The recovery of the domestic economy stimulated an upsurge in employment. In the third quarter of 2023, employment which is estimated at 556,100 witnessed an increase of 31,300, when compared to the corresponding period in the previous year with 79.6 percent of the additional labour being female and 20.4 percent being male. Subsequently, the unemployment rate experienced a decline, reaching 6.3 percent in the third quarter of 2023, in contrast to 7.5 percent during the corresponding quarter in 2022 and 6.4 percent during second quarter in 2023.

Figure 12: Unemployment Rate

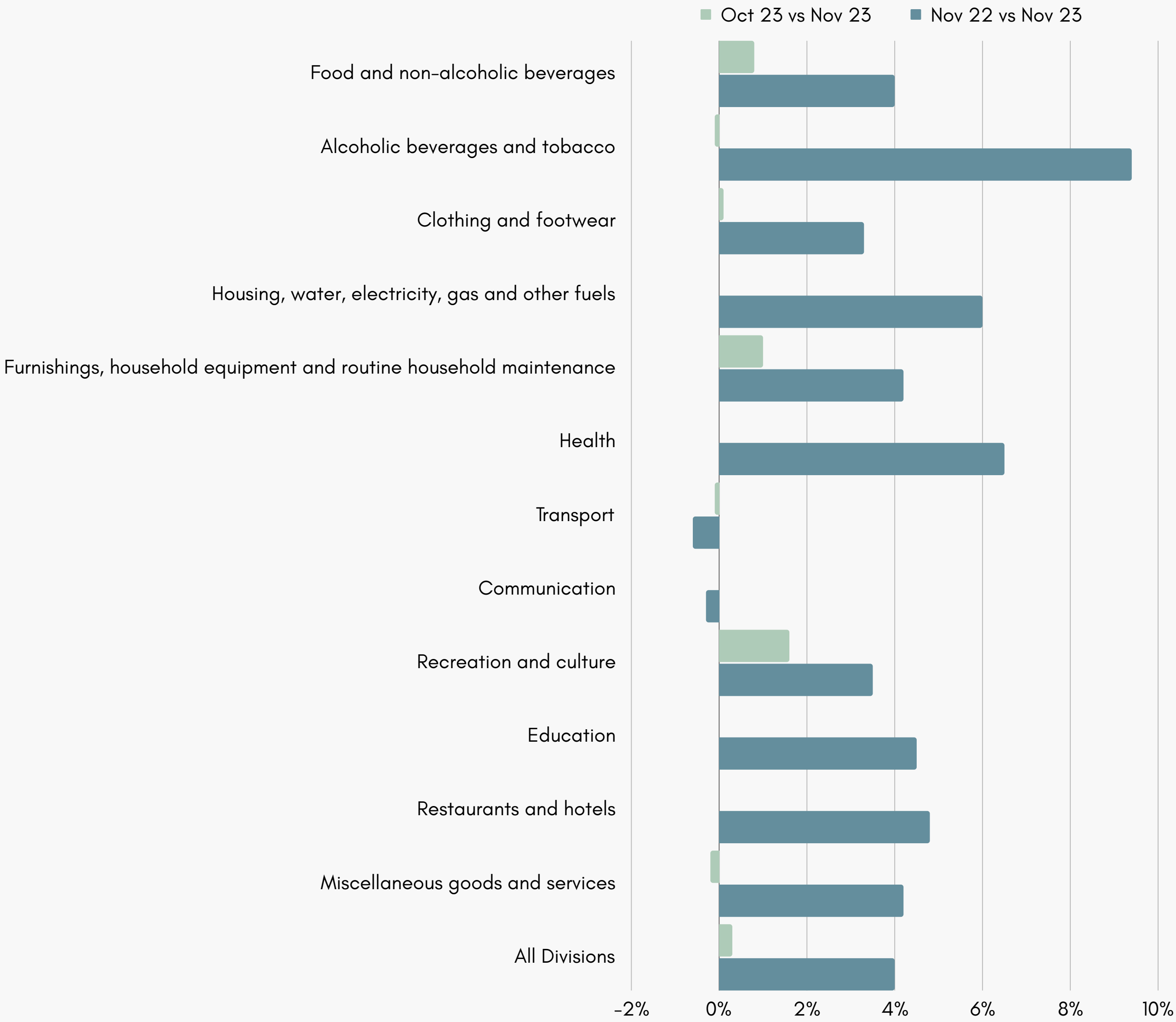


Source: Statistics Mauritius

FALLING INFLATION

Year-on-year (Y-o-y) inflation worked out to 3.9 percent in December 2023, compared to 12.2 percent in December 2022. Headline inflation for the 12-months ending December 2023 worked out to 7.0 percent, compared to 10.8 percent for the 12-months ending December 2022.

Figure 13: Change in Consumer Price Index



Source: Statistics Mauritius

The Consumer Price Index (CPI) stood at 132.0 in November 2023, compared to 131.9 in November 2023 and 127.1 in December 2022. The main contributors for the net increase in CPI from November 2023 to December 2023 were: Vegetables (+0.3 point), Other food products (-0.1 point) and Whisky (-0.1 point).

Latest figures from Statistics Mauritius revealed that the headline inflation rate for the year 2023 worked out to be 7.0% compared to 10.8% in previous year.

2023 REVISED ESTIMATES

This section presents an update on the forecasts made in September 2023 in light of recent trends, evolving economic situations and additional information collected through the quarterly economic surveys of Maurice Stratégie.

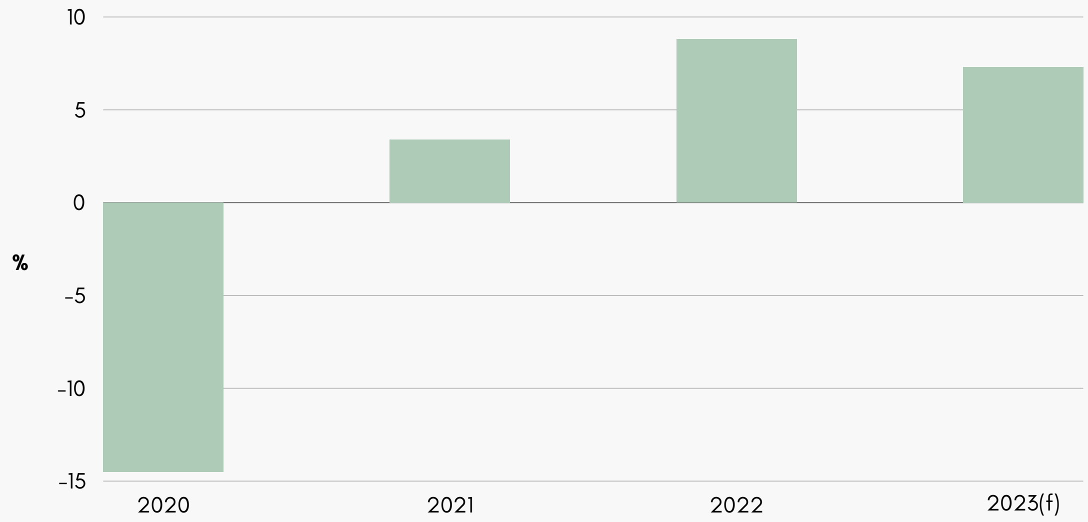
Overall, our analysis shows that strong GDP growth is forecasted for the Mauritian economy as economic fundamentals keep improving.

The best case scenario is presented, with assumptions made on certain macro variables. These are explained in greater details in the analysis.

ESTIMATED GDP GROWTH MAINTAINED AT 7.3% IN 2023

Based on our forecasting exercise, GDP growth is expected to reach 7.3 percent in 2023, all other things kept constant, same as the previous forecast made in September.

Figure 14: Estimated GDP growth rate, 2023



The main changes from the analysis made in September are, inter alia:

(a) A slightly lower inflation rate,
(b) Significant increase in public sector investment,
(c) Marginally lower growth in private investment, excluding FDI and
(d) Slower than expected growth in exports of goods

The individual effects of the above indicators as well as for others on nominal growth are explained in the next section.

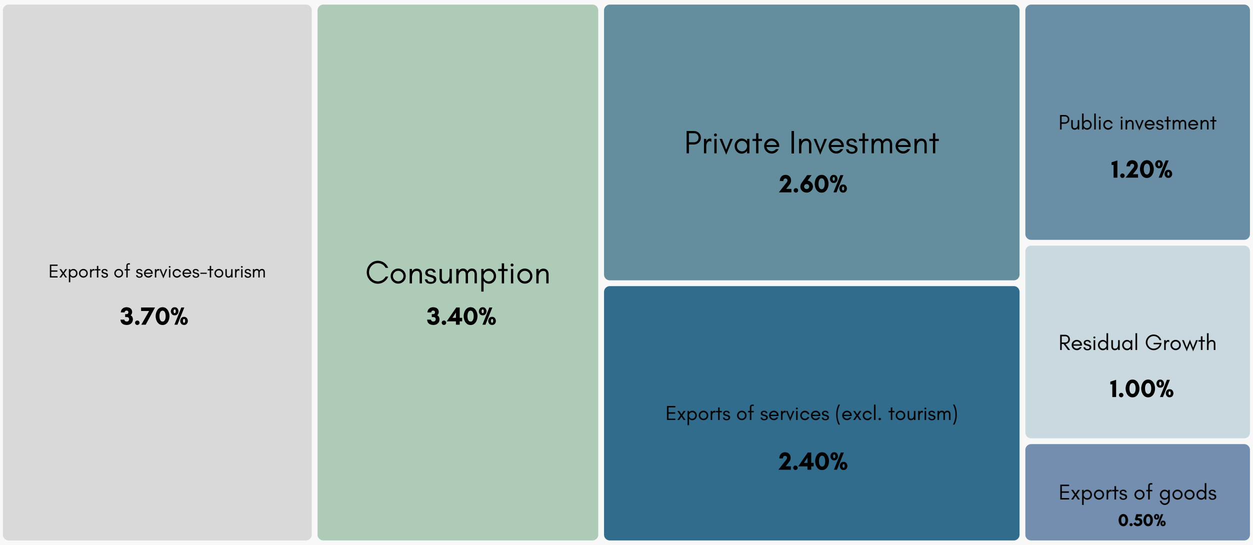
BREAKDOWN OF GDP GROWTH 2023

The influence of the different contributors to GDP growth for 2023 are analysed in this section.

Nominal growth

The impact of the main components of the Mauritian output are estimated in nominal terms before applying a deflator based on the inflation rate. Nominal growth for 2023 is forecasted at 14.8 percent based on the impacts which are summarised in Figure 15 below.

Figure 15: Nominal growth contributors



Source: Maurice Stratégie Estimates

Tourism

As of November 2023, tourist arrivals have already topped 1 million with 1,146,265 tourists visiting the country. Maurice Stratégie estimates that tourists arrivals will be only slightly lower than 1.3 million for 2023. The tourism sector is expected to contribute up to 3.7 percentage points to GDP growth for 2023. Correspondingly, gross tourism earnings are forecasted to increase to MUR 90.8 billion.

Consumption

In 2022, consumption expenditure of households and government, the major component of GDP expenditure, reached MUR 492.0 billion. In 2023, an 8 percent increase is projected in overall consumption expenditure, reaching MUR 531.4 billion and contributing 3.4 percentage points to GDP growth.

Exports of goods and services

Exports of goods and services amounted to MUR 324.2 billion in 2022. Exports of goods, measured on an f.o.b. basis, stood at MUR 105.5 billion, while that of services accounted for MUR 218.7 billion. In 2023, a slightly lower growth rate is expected in exports of goods, increasing by 3.5 percent, lower than initially expected, and will contribute 0.5 percentage points to GDP growth. Exports of services, excluding tourism, is expected to add 2.4 percentage points to GDP growth, with an expected growth rate of around 10 percent. This growth will be primarily driven by financial services and ICT/BPO sectors, key contributors to value generation.

Gross Fixed Capital Formation (GFCF)

With an acceleration in public sector investment, total GFCF is expected to be stronger than initially expected in 2023, which is forecasted to increase by 12.8 percent to contribute 3.8 percentage points to GDP growth. Private investment, inclusive of FDI, is projected to increase by 11 percent, totalling MUR 100.2 billion in 2023 and adding 2.6 percent to the GDP growth. Concurrently, public investment is expected to rise by 20 percent, reaching MUR 26.9 billion in 2023 which will add 1.2 percent points to GDP.

Residual growth

We further estimate residual growth will be around 1 percent in 2023, which accounts for multifactor productivity growth and the natural rate of expansion of the economy, keeping in mind that the main effects on major indicators have already been accounted for in the other components aforementioned.

These impacts give us a nominal GDP growth rate, that is, including the price effect, of 14.8 percent for 2023.

Real GDP growth rate

In this period of high volatility and unpredictability, and given noted local and international trends, Maurice Stratégie estimates that inflation will be around 7.0 percent in 2023. Using the expected inflation rate as deflator, **we expect GDP growth to be at least 7.3 percent for 2023.**

FORECAST 2024

This section provides an economic forecast for the year 2024, taking into account latest trends, evolving economic conditions, and supplementary data derived from the quarterly economic surveys conducted by Maurice Stratégie.

EXPECTED 6.5 PERCENT GDP GROWTH IN 2024

Based on our forecasting exercise, GDP growth is expected to reach 6.5 percent in 2024, all other things kept constant as the Mauritian economy maintains a strong and upward trajectory with regards to output growth. The main factors expected to lead this growth are consumption, exports of services and private investment. The increase in the minimum wage and the salary compensation will further add to the natural growth rate.

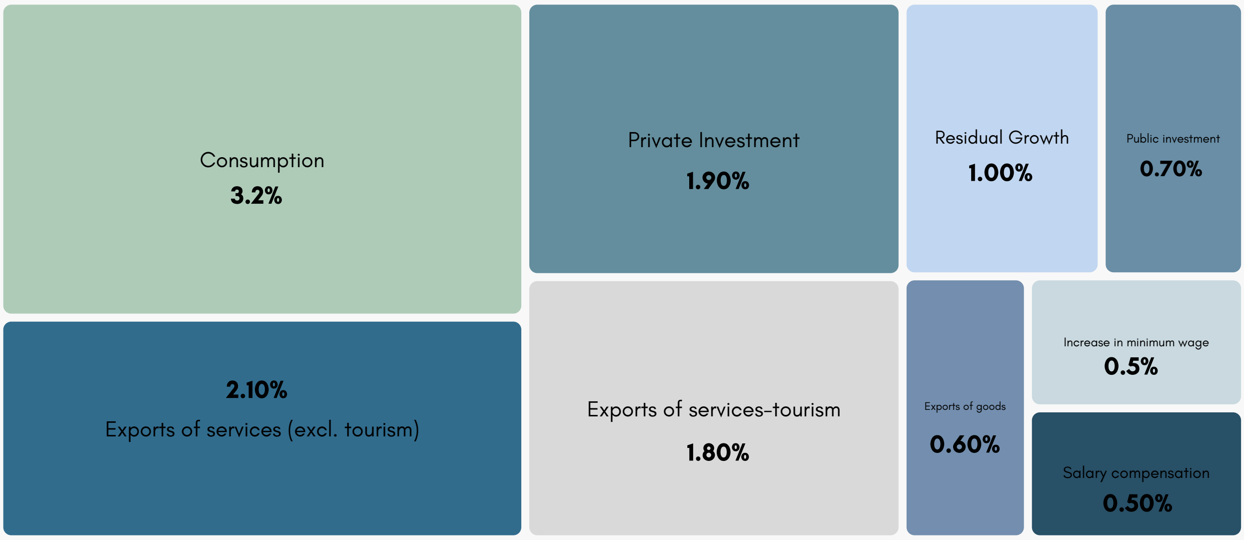
BREAKDOWN OF GDP GROWTH 2024

The influence of the different contributors to GDP growth for 2024 are analysed in this section.

Nominal growth

Nominal growth for 2024 is forecasted at 12.3 percent including the price effect. Figure 16 summarises the different impacts on nominal growth.

Figure 16: 2024 Nominal growth contributors



Source: Maurice Stratégie Estimates

Tourism

Maurice Stratégie assumes that the tourist arrivals will exceed the 2023 figures and will further increase to 1,400,000 in 2024. With an expected 8 percent increase in tourism expenditure in 2024, the tourism sector is projected to contribute 1.8 percentage points to GDP growth.

Consumption

In 2024, a 8.0 percent increase is projected in overall consumption expenditure, contributing 3.2 percentage points to GDP growth.

Exports of goods and services

In 2024, exports of goods are estimated to increase by 5.0 percent and will contribute 0.6 percentage points to GDP growth. Exports of services, excluding tourism, are expected to add 1.6 percentage points to GDP growth, with an expected growth rate of around 7.0 percent next year.

Gross Fixed Capital Formation (GFCF)

Private investment, inclusive of FDI, is anticipated to continue grow by 8.0 percent in 2024 and adding 1.9 percent to GDP growth. Concurrently, public investment is expected to rise by 12 percent in 2024 which will contribute 0.7 percentage point to GDP growth.

Salary Compensation and Minimum Wage

As from January 2024, monthly salary compensation ranging from MUR 1,500 to MUR 2,000 is payable to all private and public sector employees and the minimum wage has been increased to Rs 15,000. The salary compensation is anticipated to contribute 0.50 percentage points to GDP growth whereas minimum wage is expected to add 0.52 percentage points.

Residual growth

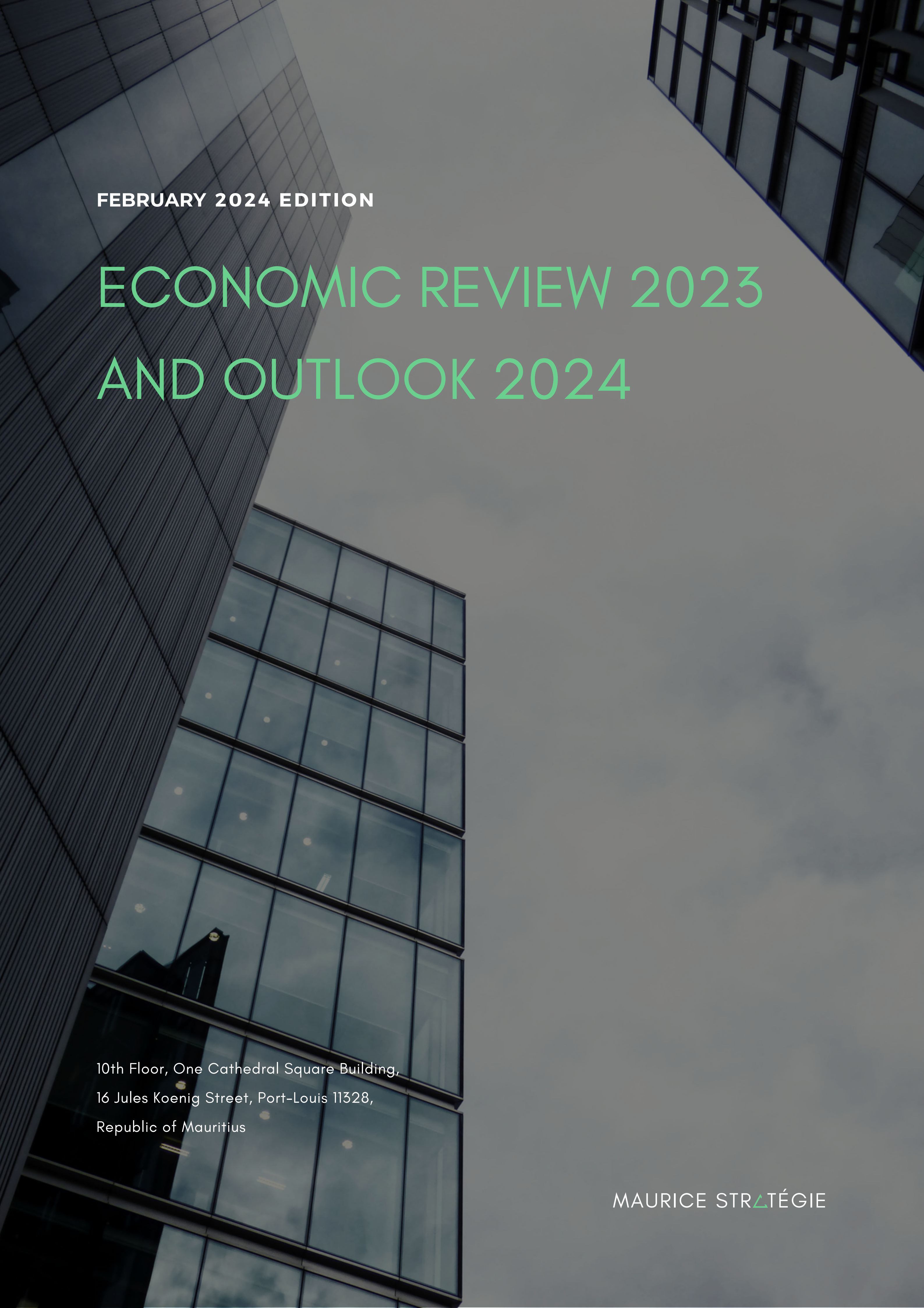
We further estimate residual growth will remain around 1.0 percent in 2024, considering the multifactor productivity growth and the natural rate of expansion of the economy, keeping in mind that the main effects on major indicators have already been accounted for in the other components aforementioned.

Together these impacts give us a nominal GDP growth rate of 12.4 percent in 2024.

Real GDP growth rate

Similar to international institutions such as World Bank and IMF, Maurice Stratégie anticipates that inflationary pressures will further subdue in 2024. Thus, inflation in Mauritius is projected to be around 5.7 percent in 2024.

Consequently, real GDP growth is expected to be **6.5 percent** for 2024 www.mauricestrategie.org



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