

SEPTEMBER 2023 EDITION

# ECONOMIC REVIEW AND OUTLOOK

MAURICE STRATÉGIE

## DISCLAIMER

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# EXECUTIVE SUMMARY

This edition of our Economic Review and Outlook provides a review of the performance of the Mauritian economy for the first half of the year and provides the outlook for 2023 for main macroeconomic indicators.

Persistent inflationary pressures remained the defining feature for the first half of the year, which led to interest rate increases in the US, the UK and elsewhere, although the World Bank projected a decline in headline inflation from 7.3 percent in 2022 to 5.5 percent in 2023.

Global output growth is expected to remain slow, but better prospects are anticipated. The IMF forecasted that global growth would reach 3.0 percent in 2023, 0.2 percentage point higher than its prediction in April 2023. The OECD on the other hand revised its forecasted world output growth to 2.7 percent for 2023, 0.1 percentage point higher than its prediction in March 2023.

In the domestic economy, Statistics Mauritius revised upwards the growth in GDP at market prices for 2022 to 8.8 percent, slightly higher than the 8.7 percent growth estimated in March 2023. GDP expanded by 5.5 percent during the first quarter of 2023.

The unemployment rate experienced a decline, reaching 6.7 percent in the first quarter of 2023, in contrast to 8.7 percent during the corresponding quarter in 2022. Year-on-year inflation worked out to 7.9 percent in June 2023, compared to 9.6 percent in June 2022.

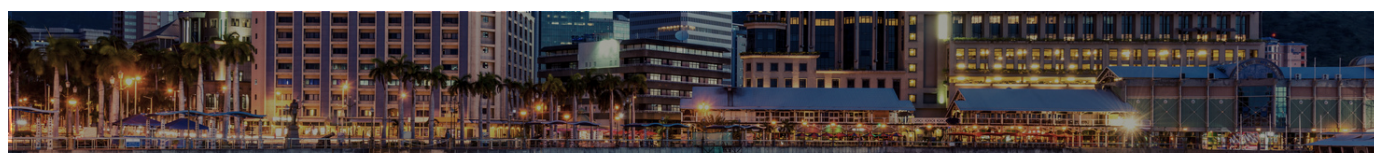
Maurice Stratégie conducted a forecast and impact analysis based on the evaluation of the potential effects of the measures outlined in Budget 2023/2024 on GDP and other economic indicators while taking into consideration other local and international trends.

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

The performance of main economic indicators is forecasted as follows:

- Public investment to increase by 19 percent,
- Exports of services to increase by 13.5 percent,
- Exports of goods to increase to MUR 110 billion,
- Private Investment to increase to MUR 103 billion and FDI to MUR 30 billion, and
- Consumption expenditure to increase by 8.5 percent

Based on our forecasting exercise, GDP growth is expected to reach 7.3 percent in 2023, all other things kept constant. Nominal growth for 2023 is forecasted at 15.9 percent and inflation to be at most 8 percent.





*September 2023*

# GLOBAL ECONOMIC SITUATION



The first half of the year was quite eventful for the global economy, with Europe successfully averting an energy crisis due to a milder winter than expected, supported by fiscal stimulus by Governments and China embarking on a stronger recovery path after the lifting of pending Covid-19 restrictions. The banking sector of the US and Switzerland experienced turmoil, but contagion risks were effectively thwarted through prompt and well-coordinated responses by monetary authorities in the US, UK, Canada and other nations.

Persistent inflationary pressures remained the defining feature for the first half of the year, which led to interest rate increases in the US, the UK and elsewhere to try to assuage rising prices. The Federal Reserve increased its interest rates during this period, bringing the target range to 5.25 - 5.5 percent. Concurrently, the Bank of England raised interest rates for a 14th consecutive time to reach 5.25 percent recently.

The global economy continues to encounter unprecedented challenges due to a convergence of adverse events. These include the negative spillovers from the ongoing war in Ukraine, the lingering impacts of the Covid-19 pandemic, the escalating severity of climate change effects, and the persistence of economic and geopolitical uncertainties.

## TEPID GROWTH, BUT BETTER PROSPECTS

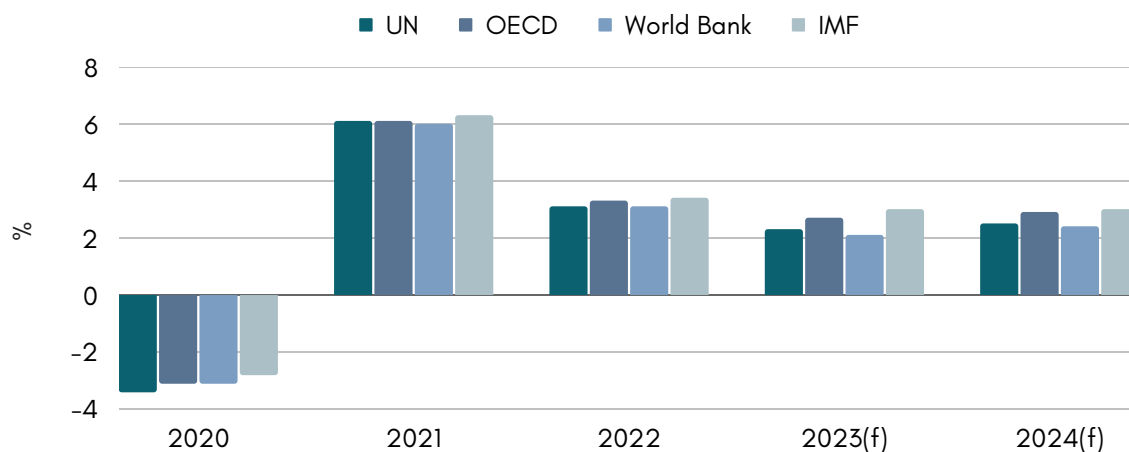
The IMF, in its World Economic Outlook, July 2023, forecasted that global growth would reach 3.0 percent in 2023, 0.2 percentage point higher than its prediction in April 2023.

Along the same line, the OECD in its latest Economic Outlook, June 2023, revised its forecasted world output growth to 2.7 percent for 2023, 0.1 percentage point higher than its prediction in March 2023.

On the other hand, in the June 2023 edition of the UN's Global monthly briefing, it has been projected that global output would increase by 2.3 percent in 2023, a notable rise of 1.9 percentage points compared to the previous prediction made in January 2023.

In parallel, the World Bank, in its June 2023 edition of its Global Economic Prospects estimated global growth to reach 2.1 percent in 2023, 0.4 percentage point higher than its global growth projection for January 2023.

**Figure 1: Global growth rate**



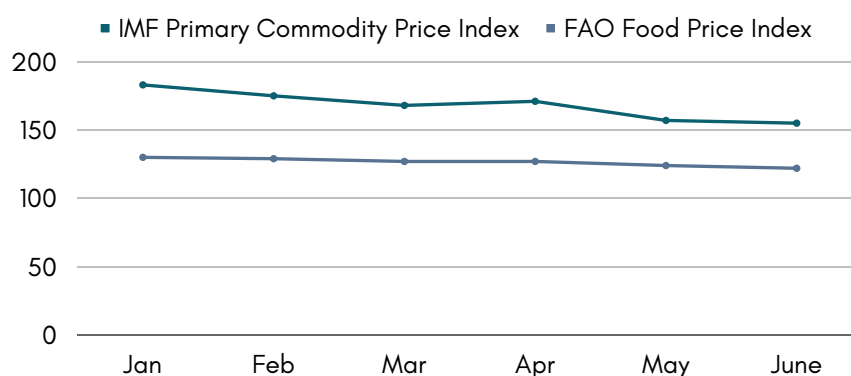
According to international institutions however, despite this upward trend, there are still downside risks persisting, which may yet dampen the outlook for economic growth in 2023 and 2024 including:

- high debt levels and anemic investment,
- negative supply shocks that could increase commodity prices,
- lingering effects of Covid-19,
- geopolitical tensions following Russia's invasion of Ukraine,
- elevated levels of inflation,
- monetary policy tightening which would render borrowing in international markets increasingly unaffordable for many countries, and
- climatic changes which may further increase food insecurity.

## DECLINING INFLATION

Although it remains elevated, global inflation is gradually easing, with declining energy and food prices, along with reduced shipping costs and ongoing monetary policy tightening worldwide. In light of this, the UN has forecasted that global inflation would decrease from 7.5 percent in 2022 to 5.2 percent in 2023 in its Global Monthly Briefing of June 2023. Similarly, the World Bank projected a decline in headline inflation from 7.3 percent in 2022 to 5.5 percent in 2023.

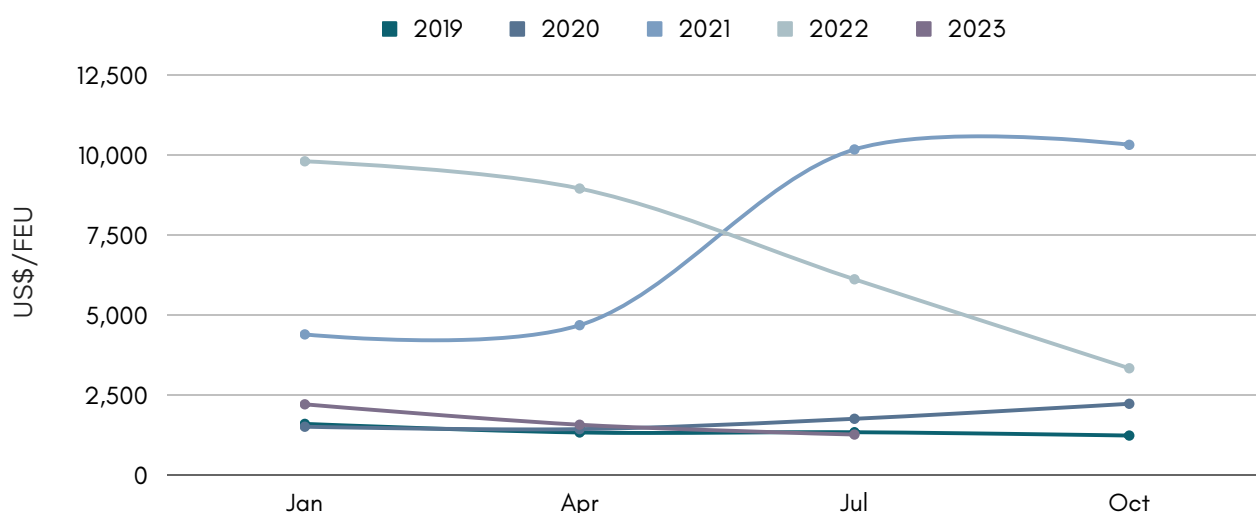
**Figure 2: IMF Primary Commodity Price Index and FAO Food Price Index**



The IMF Primary Commodity Price Index fell to its lowest point for over a year in June 2023 to reach 154.70 while in June 2022, it stood at 231.60. Additionally, the FAO Food Price Index dropped to 122.3 in June 2023, a 1.7 points decrease from May. This decline is primarily attributed to lower prices of vegetable oils, dairy products, cereals and sugar.

Container freight rates had already fallen close to their pre-pandemic levels by end of 2022, a downward trend which was maintained in the first half of the year. The Freightos Baltic Index, which measures global container freight rates, maintained its downward trend falling by 9 percent in June 2023 to \$1,277/FEU and is now 3 percent below 2019 levels and at its lowest since October 2019.

**Figure 3: Freightos Baltic Index**

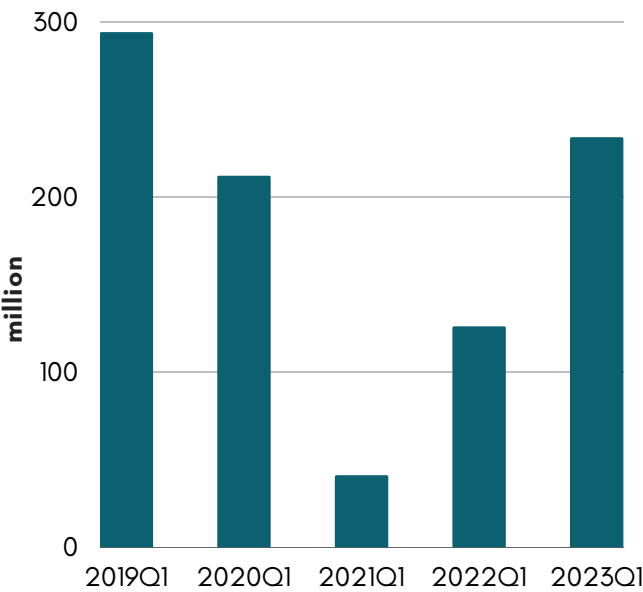


# RECOVERY IN THE GLOBAL TOURISM INDUSTRY

According to the World Tourism Organization’s World Tourism Barometer, May 2023, the tourism industry is expected to experience a recovery rate of about 80 percent to 95 percent of pre-pandemic levels in 2023.

In the first quarter of 2023, approximately 235 million tourists travelled internationally, which marks a growth of 86 percent compared to the same period last year. The growth was mainly driven by improved performance in Europe and the Middle East.

Figure 4: International Tourist Arrivals





## GLOBAL TRADE SLOWLY RECOVERING

In June 2023, UNCTAD reported that following two consecutive quarters of decline, global trade in goods and services rebounded in the first quarter of 2023, increasing by about 2 percent relative to the fourth quarter of 2022. Compared to the fourth quarter of 2022, global trade in goods increased by 1.9 percent in the first quarter of 2023, driven by a revival of economic activity in China, and by an increase in the trade of vehicles and pharmaceuticals. On the other hand, easing energy prices are contributing to the global trade growth.

Global trade in services has remained resilient throughout 2022 and increased by about 2.8 percent in the first quarter of 2023. Part of this growth reflects the continuing rebound in tourism and travel following the COVID-19 pandemic.

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The growth in global trade volumes in the first quarter of 2023 are confirmed by the OECD, estimated at 1.8 percent on an annualised basis. The OECD also observed a sustained improvement in services export orders, supported by further recovery in travel and tourism sectors. Nevertheless, prospects for merchandise trade are uncertain due to various risks, including geopolitical tensions, food and energy insecurity, heightened potential for financial instability, and substantial levels of external debt. Consequently, the World Bank predicts a deceleration in global trade growth from 6 percent in 2022 to 1.7 percent in 2023 and 2.8 percent in 2024.

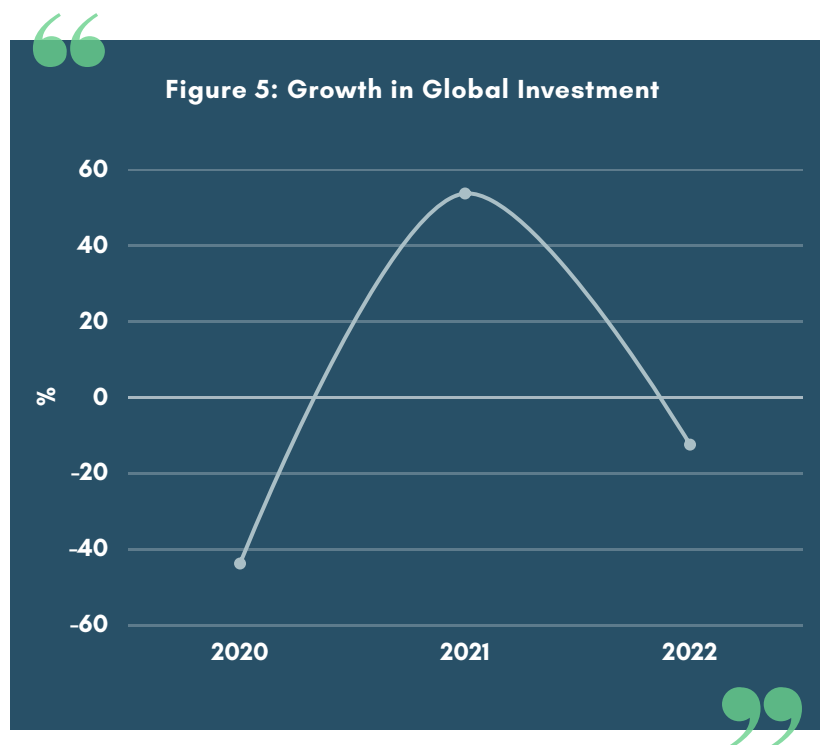
The Rheinisch-Westfälisches Institut Container Throughput Index, which measures container traffic at 94 international ports, increased to 125.2 points in June 2023 compared to 123.2 points in May 2023. This marks the fifth consecutive month of growth in container throughput.

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# SLOWDOWN IN GLOBAL INVESTMENTS

The UNCTAD in the June edition of its World Investment Report highlighted that global FDI experienced a 12 percent decline, reaching USD 1.3 trillion in 2022. Furthermore, FDI is anticipated to experience a slowdown in 2023, which can be attributed to turbulence in the financial sector of certain developed countries, along with persistent high debt levels in developing nations, both of which have contributed to increased uncertainty among investors.



The July 2023 WTO report on G20 Trade and Investment Measures further emphasised the uncertainty surrounding investment prospects for the year. During the first quarter of 2023, there was a significant decline in both the value and number of new investment projects, with a 40 percent drop in value and a 15 percent decrease in the number of projects compared to the previous quarter.



# GLOBAL PMI DECLINES

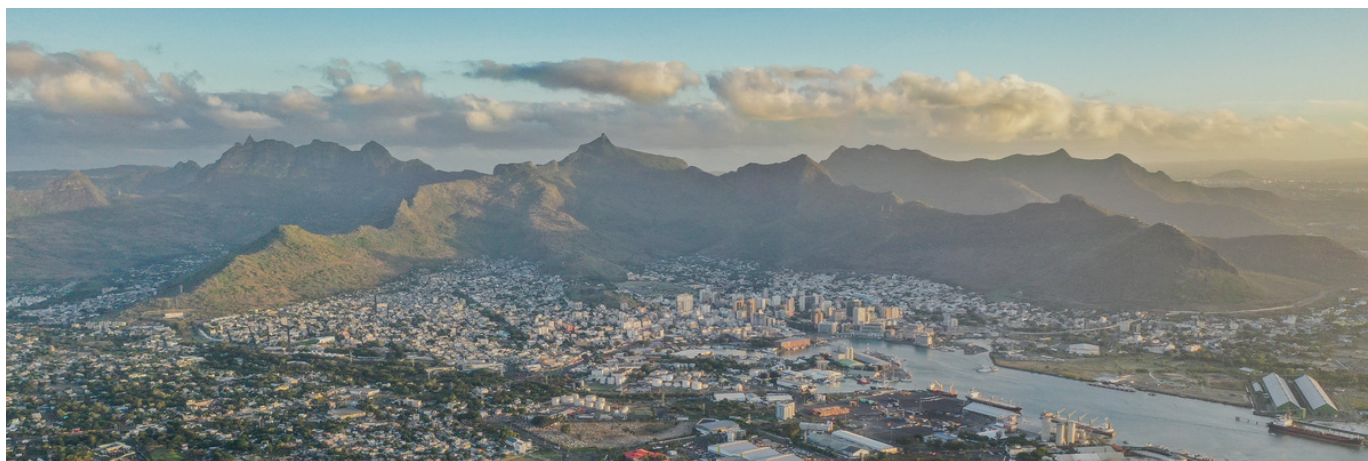
J.P Morgan Global Composite PMI Output Index dropped from 54.4 in May 2023 to 52.7 in June 2023. This indicates that the global economy slowed down towards the end of the second quarter, with a decrease in manufacturing output and slower growth among service providers.

Manufacturing production experienced a contraction for the first time since January 2023. Both intermediate and investment goods industries saw their output decline while consumer goods producers witnessed a stagnation in their production levels. In the services sector, a slower increase in activity was reported across the business, consumer, and financial services categories.

Subsequently, the Global Services PMI Business Activity Index was at 54.0 in June 2023, down from 55.5 in May 2023 and its lowest reading since February whereas the Global Manufacturing PMI stood at 48.8 in June 2023, a six-month low and down from 49.6 in May 2023.



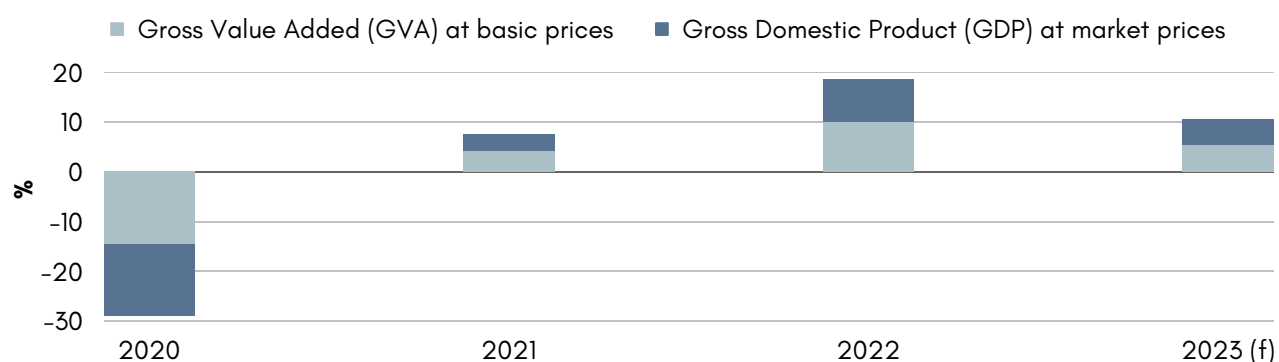
# THE MAURITIAN ECONOMY



Budget 2023/24, titled 'To Dare and To Care', was presented in June 2023, announcing a series of reforms in terms of personal income tax, labour market, improving the business climate as well as a series of measures aimed at improving the purchasing power of households.

Statistics Mauritius in its latest release of National Accounts Estimates in June 2023, revised upwards the growth in GDP at market prices for 2022 to 8.8 percent, slightly higher than the 8.7 percent growth estimated in March 2023.

**Figure 6: Output growth**



Statistics Mauritius also projected growth in GDP at market prices to reach 5.3 percent in 2023 – 0.3 percentage points higher than initially projected in March 2023.

Moreover, Statistics Mauritius has increased its forecasted investment for 2023 from MUR 125.9 billion in its March estimates to MUR 129.6 billion in its June estimates. Private sector investment is now expected to reach MUR 102.8 billion while public sector investment is estimated to attain MUR 26.8 billion. Consequently, the share of private sector investment in Gross Fixed Capital Formation (GFCF) is likely to decrease to 79.3 percent in 2023 from 80.1 percent in 2022 while the share of public sector investment in GFCF is likely to rise to 20.7 percent in 2023 from 19.9 percent in 2022.



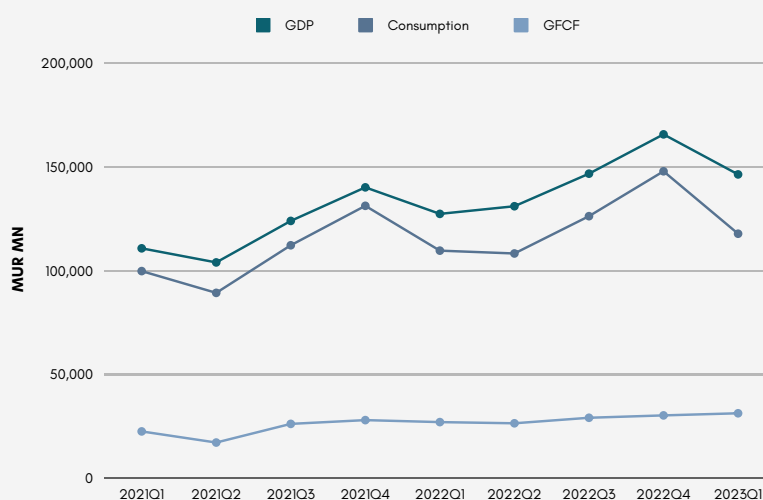


## QUARTERLY OUTPUT

According to the latest national accounts data, GDP at market prices which stood at MUR 146.4 billion expanded by 5.5 percent during the first quarter of 2023, in contrast to a growth rate of 6.1 percent recorded in the corresponding quarter of 2022.

Gross Value Addition growth rate for the first quarter of 2023 over the corresponding quarter of 2022 is estimated at 6.0 percent, with the major contributor being Accommodation and Food Service Activities (+3.4 percentage points).

**Figure 7: GDP, consumption, and investment**



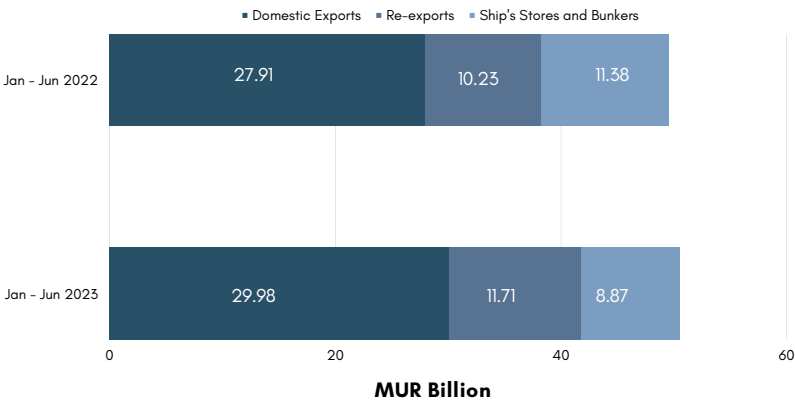
Additionally, Final Consumption Expenditure of Households and General Government in the first quarter of 2023 amounted to MUR 117.8 billion, representing some 80 percent of the quarterly GDP at market prices.

Along the same line, Gross Domestic Capital Formation recorded a growth of 8.3 percent in the first quarter of 2023, in contrast to the 1 percent decline witnessed in the corresponding quarter of the previous year.

# INCREASING EXPORTS

Total exports of goods increased by 2.1 percent from MUR 49.52 billion for the period January to June 2022 to MUR 50.56 billion for the period January to June 2023 whereas total imports increased by 0.6 percent from MUR 137.44 billion for the period January to June 2022 to MUR 138.29 billion for the period January to June 2023.

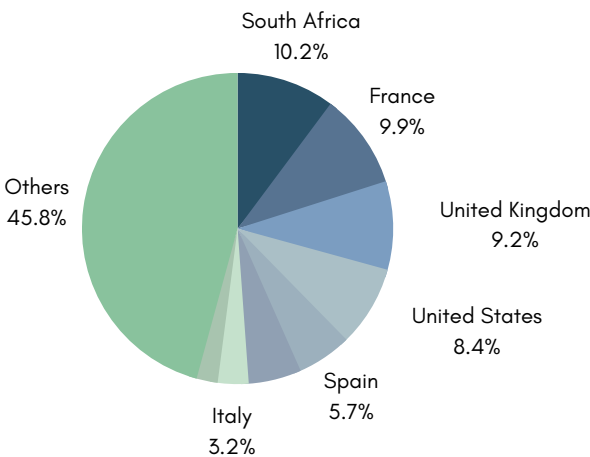
Figure 8: Evolution of Total Exports



Comparing January to June 2022 with January to June 2023, it can be noted that the domestic exports increased by 7.4 percent, Re-exports expanded by 14.5 percent while ship's stores and bunkers decreased by 22.0 percent.

Analysis of exports figures, excluding ship's stores and bunkers, by country of destination for the period January to June 2023 showed that the major destinations for our exports were South Africa (10.2%), France (9.9%), United Kingdom (9.2%), United States (8.4%), Spain (5.7%), Madagascar (5.5%), Italy (3.2%) and Netherlands (2.2%).

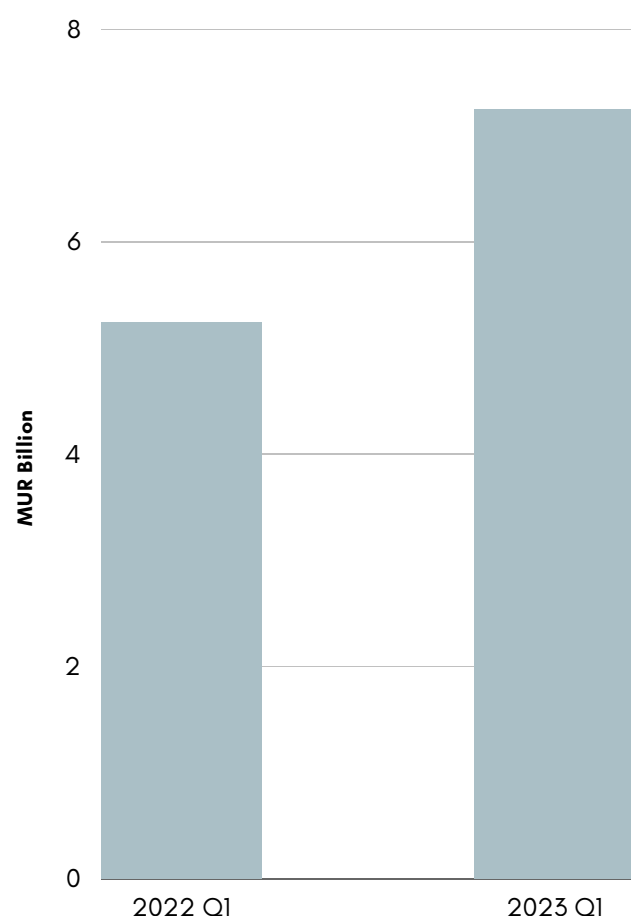
Figure 9: Exports by destination



# IMPROVEMENT IN FOREIGN DIRECT INVESTMENT INFLOWS

FDI inflows in the country are estimated at MUR 7.24 billion in the first quarter of 2023, compared to MUR 5.24 billion in the first quarter of 2022, representing an increase of 38 percent.

**Figure 10: Foreign Direct Investment, Q1/2023**

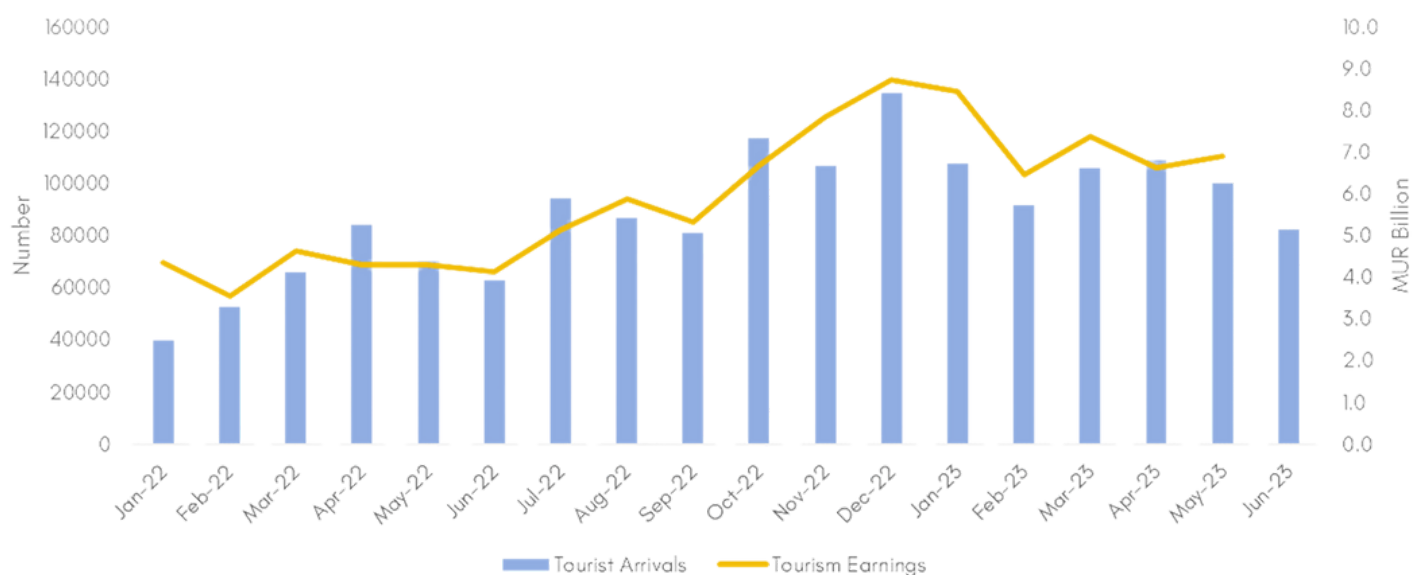


'Real estate activities' (MUR 4.07 billion) were the major beneficiary of FDI followed by 'Accommodation and food service activities' sector (MUR 1.28 billion). FDI in Mauritius were mainly sourced from France (MUR 1.28 billion) and United Arab Emirates (MUR 1.06 billion).

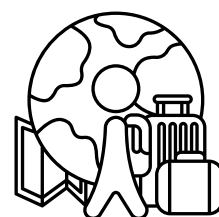
# SUSTAINED RECOVERY OF THE TOURISM SECTOR

Tourist arrivals increased by 58 percent, from 376,556 in the first half of 2022 to 596,466 in corresponding period of 2023. Amidst the recovery of the tourism sector, tourism earnings for the initial five months of 2023 stood at MUR 35.8 billion, indicating a 41.5 percent growth compared to the first half of 2022 (MUR 25.3 billion). Additionally, this amount represents 55.2 percent of the total tourism earnings recorded in 2022 (MUR 64.8 billion).

**Figure 11: Tourism arrivals and earnings**



Preliminary figures from Statistics Mauritius further shows a significantly positive trend, with tourist arrivals amounting to 704,298 for the period Jan-July 2023 compared to 470,640 for the same period last year, an increase of 49.6 percent.



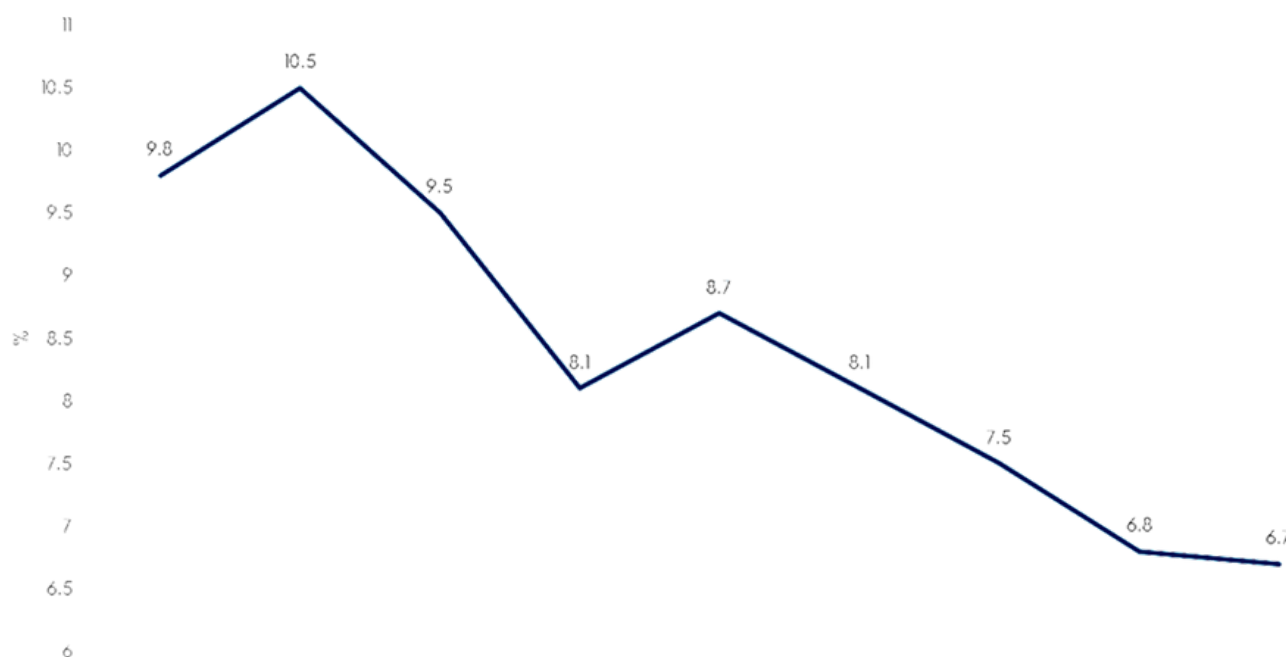


# DECLINING UNEMPLOYMENT



The rebound of the domestic economy stimulated an upsurge in employment. In the first quarter of 2023, employment which is estimated at 551,800 witnessed an increase of 49,300, compared to the corresponding period in the previous year. 62 percent of this additional labour were female and 38 percent were male. Consequently, the unemployment rate experienced a decline, reaching 6.7 percent in the first quarter of 2023, in contrast to 8.7 percent during the corresponding quarter in 2022 and 6.8 percent during last quarter in 2022.

**Figure 12: Unemployment rate**

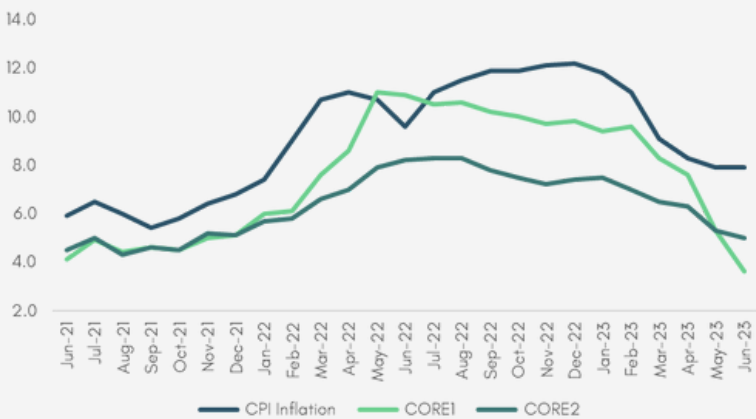




# INFLATION

Year-on-year (Y-o-y) inflation worked out to 7.9 percent in June 2023, compared to 9.6 percent in June 2022. Headline inflation for the 12-months ending June 2023 worked out to 10.5 percent, compared to 8.0 percent for the 12-months ending June 2022. In January 2023, headline inflation was 11.1 percent while y-o-y inflation was 11.8 percent.

Figure 13: Consumer Price Index



The Consumer Price Index (CPI) stood at 131.7 in June 2023, compared to 131.2 in May 2023 and 122.1 in June 2022. An analysis of the sub-indices for the twelve divisions of consumption expenditure revealed that alcoholic beverages and tobacco was the largest contributor increasing the CPI in June 2023 while transport was the component decreasing the CPI most in June 2023.

Recent figures from Statistics Mauritius further shows a decrease in inflation in July 2023 where y-o-y inflation was 5.9, headline inflation was 10.0 and CPI was 131.3.



# OUTLOOK 2023

This section presents the forecast and impact analysis conducted by Maurice Stratégie based on the evaluation of the potential effects of the measures outlined in Budget 2023/2024 on GDP and other economic indicators and takes into consideration other local and international trends to present an updated expected growth rate for 2023.

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

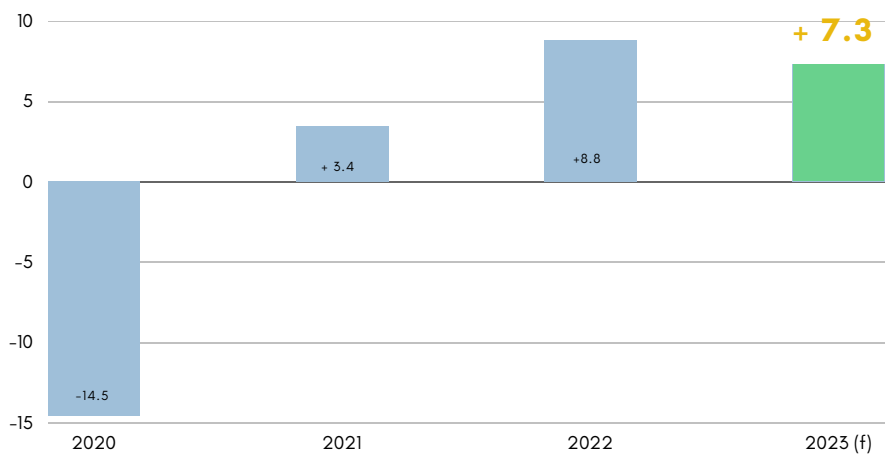
Assumptions are made on certain macro variables. These are explained in greater details in the analysis.



# GDP GROWTH TO REACH 7.3 PERCENT IN 2023

Based on our forecasting exercise, GDP growth is expected to reach **7.3 percent** in 2023, all other things kept constant. In 2022, GDP growth as estimated by Statistics Mauritius, stood at 8.8 percent.

Figure 14: Estimated GDP growth rate, 2023



The estimated growth rate by Maurice Stratégie exceeds those projected by international institutions such as World Bank, IMF and AfDB, the figures of which have also corroborate the robust growth rate expected for Mauritius, which are projected to outperform global growth rates.

	Previous	Latest
Mauritian Economy		
Maurice Stratégie	-	7.3% (Aug 23)
Statistics Mauritius	5.0% (Mar 23)	5.3% (Jun 23)
World Bank	5.5% (Jan 23)	4.7% (Jun 23)
IMF	5.4% (Oct 22)	4.6% (Apr 23)
AfDB	5.4% (Jan 23)	5.0% (Jul 23)

Global Economy		
World Bank	1.7% (Jan 23)	2.1% (Jun 23)
IMF	2.9% (Oct 22)	3.0% (Apr 23)

This is explained by the fact that the projections of Maurice Stratégie take into consideration latest trends and the impact of recent budget measures, and includes second round effects of the measures as well.



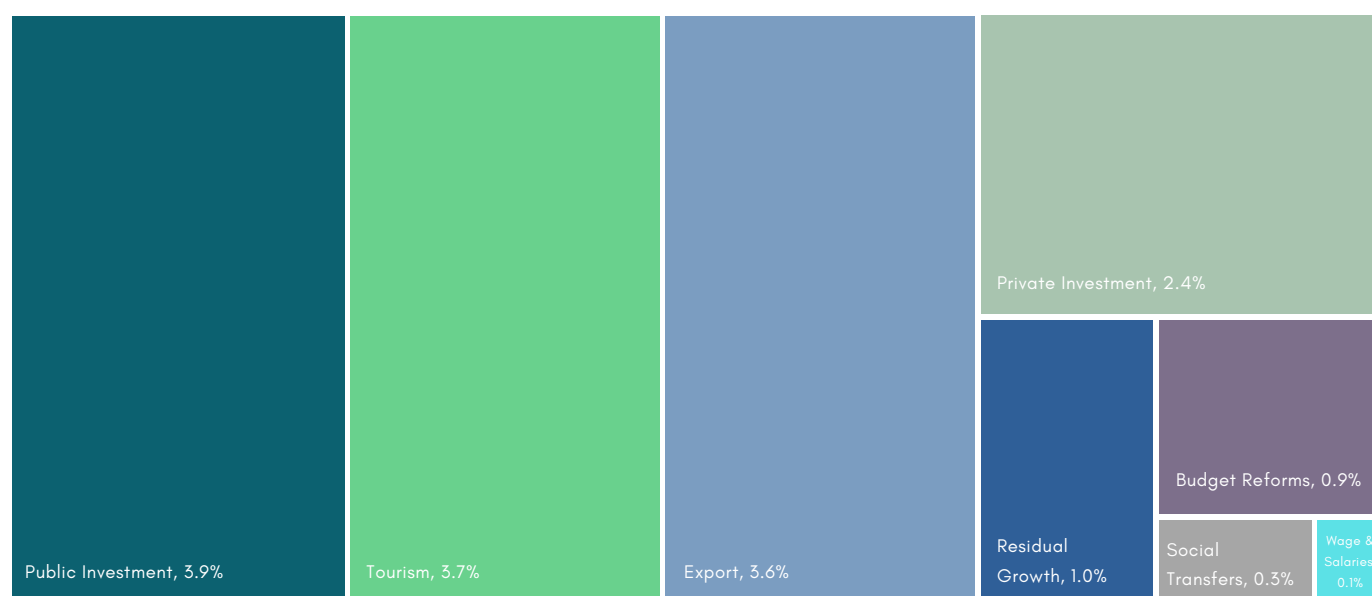
# DECONSTRUCTING GDP GROWTH 2023

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

## Nominal Growth

The impact of the main economic indicators and measures are estimated in nominal terms before applying a deflator based on the inflation rate. Nominal growth for 2023 is forecasted at 15.9 percent based on the impacts which are summarised in Figure 15 below.

**Figure 15: Nominal growth contributors**



## Public investment to increase by 19 percent

Public investment is expected to be the main contributor to GDP growth in 2023, as main Government projects materialize. However, the gist of Government's influence in this respect will come from the start of the construction of the 8,000 social housing units over the next 18 months. With the multiplier of the construction sector being high, through its spillover impacts on the transport, manufacturing and services industries, public spending is expected to contribute up to 3.89 percentage points to nominal growth.

## Exports of services to increase by 13.5 percent, with tourist arrivals reaching 1.3 million

Exports of services will maintain an upward growth trajectory in 2023, with financial services and ICT/BPO sectors being the main generators of value. The main thrust will come from the ongoing momentum in the tourism sector. With an anticipated influx of 1.3 million tourists for 2023, which would generate tourism receipts of around MUR 100 billion, tourism is expected to contribute up to 3.68 percentage points to GDP growth in 2023.

### Exports of goods to increase to MUR 110 billion

In 2022, a significant milestone was reached with exports of goods peaking at MUR 106 billion, surpassing the MUR 82 billion recorded in 2021, reflecting an increase of 29 percent. This growth signifies a substantial and positive development in the export sector.

The resilience shown is expected to lead to exports increasing to some MUR 110 billion and contributing to an additional 3.63 percentage points to GDP growth. Although exports of ship stores and bunker are on a downward trend, they do not contribute much in terms of value addition, while domestic exports and re-exports, which are on the rise, provide higher levels of contribution.



### Private Investment to increase to MUR 103 billion and FDI to MUR 30 billion

In 2022, private investment witnessed a remarkable surge, reaching MUR 90.3 billion, marking an impressive 22 percent increase compared to the preceding year. This strong momentum is expected to continue throughout 2023, driven by ambitious private sector investment projects, in particular in the construction and renewable energy sectors.

The trend is confirmed by the rise in Foreign Direct Investment. An increase of 38 percent has already been noted in the first quarter figures, compared to the same period last year. The trend is expected to continue, with FDI forecasted to exceed MUR 30 billion in 2023.

With a high investment multiplier, the anticipated surge in private investment is poised to contribute an estimated 2.41 percentage points to the GDP growth rate.



### Consumption expenditure to increase by 8.5 percent

In 2022, total consumption expenditure surged by 13.7 percent, reaching MUR 491.5 billion. Both private and public consumption expenditure contributed to this robust growth.

The Budget 2023/24 introduced a comprehensive array of initiatives designed to support consumers including increases in basic pensions, direct support for households, the revenue minimum garanti and a major fiscal reform in personal income tax, which will add to the additional remuneration of MUR 1,000 provided for at the start of the year.

These measures are expected to contribute up to 1.3 percentage points to GDP growth this year.



### 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 variables aforementioned.

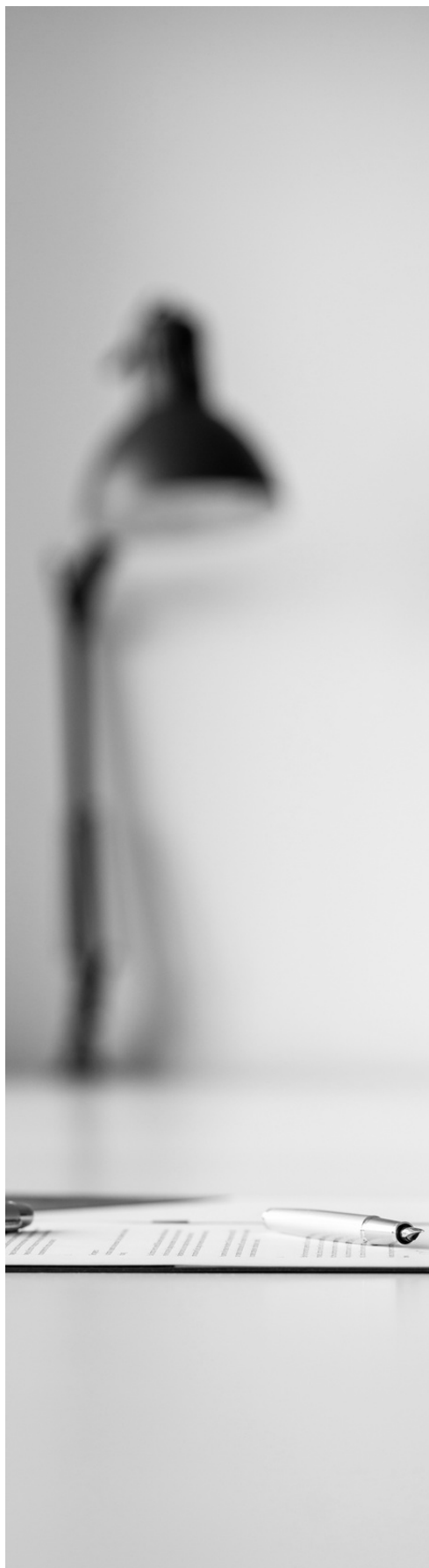
**These impacts give us a nominal GDP growth rate, that is, including the price effect, of 15.9 percent for 2023.**

### Real GDP growth rate of 7.3 percent for 2023

Despite inflationary pressures subsiding partially, food and energy prices remain high and rising in some instances around the world.

In this period of high volatility and unpredictability, and given noted local and international trends, Maurice Stratégie estimates that inflation will be at most 8 percent for 2023.

Using the expected inflation rate as deflator, **we expect GDP growth to be at least 7.3 percent for 2023.**



## CONCLUDING REMARKS

Based on the analysis of the economic fundamentals and the trends noted in our main macroeconomic indicators, Maurice Stratégie believes that GDP growth for 2023 will remain strong over the short to medium term.

The trajectory as much as the strength is confirmed by several international institutions. Standard & Poor's recently allocated a BBB-/A-3 Outlook Stable rating to Mauritius in July 2023. This reinforces Mauritius' standing as the sole International Financial Centre in Africa with an investment grade rating. Moody's on the other hand has revised upwards the 'Fiscal strength' factor. Government financial strength rating and the Scorecard-indicated outcome made significant progress from Baa3-Ba2 in May 2023 to Baa1-Baa3 in July 2023.

It should be noted there are several challenges that still linger in the external economy which are capable of influencing the local situation. As the IMF puts it, the balance of risks to global growth remains tilted to the downside. Inflation could remain high and this can lead to further restrictive monetary policy, with ripple effects on developing economies. Economic recovery remains slow globally, and high volatility in the financial sector and high Government debt in several economies could rapidly lead to a global turmoil if not properly navigated.

The 7.3 percent forecasted GDP growth for 2023, estimated in light of prevailing conditions, may be subject to revisions should the economic conditions change.



SEPTEMBER 2023 EDITION

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