Mauritius

Despite challenges at home and abroad, Mauritius' gross domestic product (GDP) put on 4.1% in 2010, though its aim to reach 4% in 2011 will depend on the recovery in its main European trade partners.

Mauritius has improved competiveness and financial and political stability, but it must overcome persistent fiscal and current account deficits, low diversification of export markets, high import-dependence, relatively poor infrastructure and rising inequality.

Leading new powers China and India are quickly gaining ground on the traditional traders in providing Mauritius' imports and investment. Malaysia, United Arab Emirates and Singapore are also increasingly important.

Mauritius is striving to diversify its "four-pillar" economy – sugar, textiles, tourism and financial services – to make it more resilient to shocks, enhance productivity and competiveness, and support growth and job creation. The 2010 budget focused on job creation, social development and the environment. It maintained previous support measures taken by the government. For 2011, the three main thrusts of the budget are rebalancing growth, boosting productivity and consolidating social justice.

Real gross domestic product (GDP) grew by 4.1% in 2010, up from 3.1% in 2009 but lower than the 5.5% in 2008. Despite challenges at home and abroad, the government has maintained a growth path. In 2011, GDP growth is projected to remain around 4%. However, this will depend on the recovery in the main European trading partners, but could be faster if Mauritius reduces its dependence on sending exports to slow-growing traditional markets and charting a new economic model more resilient to future shocks. Projections for 2012 put economic growth at 4.1%. The overall 2010 budget deficit was estimated at 4.7% of GDP against 6.6% in 2009. It is projected to fall back to 4.4% in 2011 and 4.3% in 2012. The relatively high fiscal deficits are caused by rapidly increasing government expenditure (including capital repayments) compared to revenues.

In 2010, the key Repurchase Agreement (Repo) rate was reduced from 5.75% to 4.75% and the headline inflation rate stood at 2.9% compared to 2.5% in 2009. Inflation is expected to rise to 3.0% in 2011 and 3.9% in 2012. The current account deficit stood at 7.9% of GDP and is projected to rise to 9.2% in 2011 and 9% in 2012. The higher deficits are due to an expected higher trade deficit as imports outstrip exports. Amid volatility in the foreign exchange market, the Mauritius rupee (MUR) ended 2010 appreciating against major currencies. Against the US dollar (USD), it gained from an average of MUR 31.94 in 2009 to MUR 30.89.

In 2010, tourist arrivals were estimated at about 934 000 compared to 871 000 the previous year and 2010 tourism earnings were estimated at about MUR 39.5 billion, up from MUR 35.7 billion in 2009. Gross foreign direct investment (FDI) stood at MUR 10.6 billion at the end of September 2010 against MUR 8.8 billion for the same period in 2009, a 20% gain. The investment went mainly to health and social work activities, real estate, finance and insurance.

Apart from infrastructure development, Mauritius is giving priority to the small and medium enterprise (SME) sector, which has been the main source of employment creation during the financial and economic crises. The government is also increasing support to export-oriented industries, especially textiles and clothing, which have been under severe stress in the crisis.

Mauritian banks are healthy, profitable, well-capitalised and resilient with an overall capital adequacy ratio well up with international standards.

The unemployment rate rose from 7.3% in 2009 to 7.5% in 2010.

Estimates indicate that primary sector activities, mainly related to agriculture, grew by 2.5% in 2010, down from 8.7% in 2009. Sugarcane grew by only 0.6% while "other agriculture" expanded 3.7% in 2010. As part of efforts to make the economy more resilient, an agricultural production and marketing information system is being set up for planters and breeders to optimise revenue. Sugar co-operatives are being helped to get the European Union's Fair Trade accreditation. This will enable them to obtain a premium of USD 60 per tonne of sugar. The government has provided liberal tax regimes for agriculture in the 2011 budget. In addition, the Leasing for Equipment Modernization Scheme is being extended to December 2012 to cover heavy duty agricultural equipment.

Future overall growth will rely in some part on Mauritius tackling its fiscal and current account deficits, high dependency on traditional export partners, high import-dependence, and relatively poor infrastructure. Poverty and inequality are also edging up. Traffic congestion and the high number of road accidents are also a problem.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	3.1	4.1	4	4.1
CPI inflation	2.5	2.9	3	3.9
Budget balance % GDP	-6.6	-4.7	-4.4	-4.3
Current account % GDP	-7.4	-7.9	-9.2	-9

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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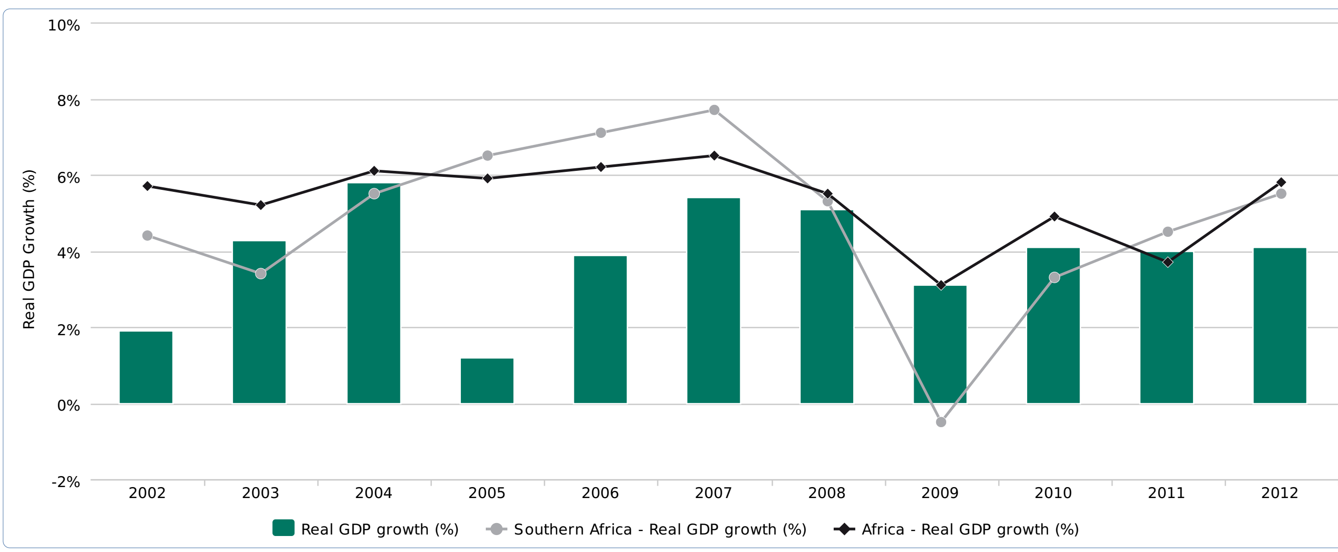
Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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