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Pre-Budget Analysis

Leading the Mauritian economy in a challenging era

An overview

The forthcoming budget speech by the Finance Minister on 14 June 2018 will be taking place in a context of heightened uncertainty on the global front, marked by political turmoil in Italy, an unresolved US-North Korea summit, tense US-China trade relations, an OPEC meeting on 22 June 2018 amid accrued inflationary pressures from oil prices and unsettling Brexit talks. In addition, the normalization of US interest rate leads to expectations of a stronger US dollar and raises the risk of capital outflows from emerging countries. Mauritius, an open economy, is vulnerable to adverse developments at international level and therefore has to design macroeconomic policies taking into account such potential headwinds.

Economic indicators

Table 1 traces the evolution of selected economic indicators for Mauritius. On the domestic landscape, scars of the latest global economic crisis are highly visible on Mauritian growth, which has declined from around 5.5% pre-crisis to around 3.5% over the last six years. Does this mean that the Mauritian economy is settling down on a lower growth path, implying a decline in growth of around 200 basis points? Is Mauritius experiencing growth stagnation?

Table 1: Selected Economic Indicators for Mauritius

Period	Real GDP Growth Rate (%)	Headline Inflation Rate (%)	Unemployment Rate (%)	Current Account Balance (% of GDP)	Public Sector Debt (% of GDP)	Budget Deficit (% of GDP)
2006	**5.6**	**8.9**	**9.0**	**-9**	**68***	**4.8**
2007	5.6	8.8	8.5	-5	61*	4.0
2008	5.3	9.7	7.2	-10	50	2.6
2009	3.4	2.5	7.3	-7	59	3.0
2010	4.5	2.9	7.6	-10	57	3.2
2011	3.9	6.5	7.8	-13	57	3.2
2012	3.6	3.9	8.0	-7	57	1.8
2013	3.4	3.5	8.0	-6	59	3.5
2014	3.6	3.2	7.8	-6	61	3.2
2015	3.1	1.3	7.9	-5	64	3.5
2016	3.6	1.0	7.3	-4	64	3.5
2017	3.5	3.7	7.1	-7	63	3.2

*: Year ended June

Source: Statistics Mauritius & Ministry of Finance and Economic Development

Economic indicators

The reduction in unemployment rate of around 200 basis points over the last decade, in spite of a considerable deceleration in growth, deserves attention. Does this reflect, at least partially, an increase in voluntary unemployment? The current account deficit, estimated at 7% of GDP in 2017, continues to be a source of preoccupation, more so given subdued performance of the Mauritian export sector despite benefiting from targeted support and incentive schemes over the years.

On the fiscal side, the budget deficit has evolved in a stable range of 3% – 3.5% of GDP since 2013, while public sector debt has hovered in the range of 60%– 65% of GDP over the past four years. The declared intention of the policymaker to borrow for financing only investment expenditure and to bring public sector debt to 60% of GDP by 2020-21 conveys the adoption of fiscal restraint in the next few years.

Inflationary pressures

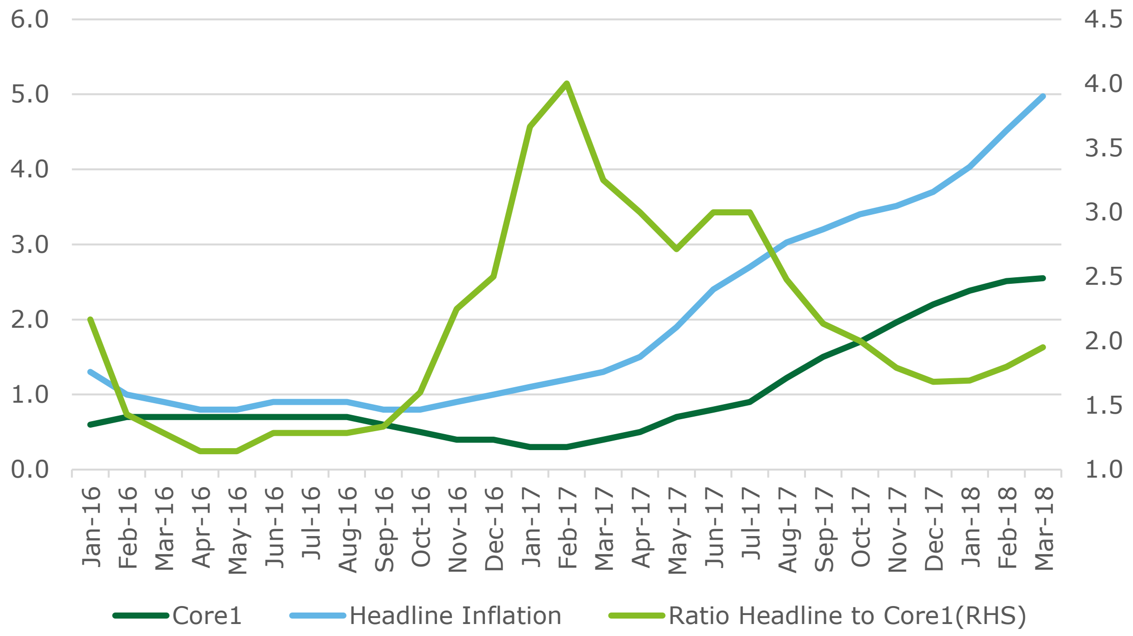
Headline inflation has been on a downtrend from 6.5% in 2011, but may be showing signs of reversal, increasing from 1% in 2016 to 3.7% in 2017. If sustained, this reversal shall prove to be a considerable challenge for the monetary policymaker should subpar economic growth persist in the medium term.

Figure 1 displays the evolution of headline inflation and core1 inflation (which excludes Food, Beverages and Tobacco) from Jan 2016 to Mar 2018, along with the ratio of headline inflation to core1 inflation. An uptrend has been prevailing since early 2017, with headline inflation surging from 1% in Jan 2017 to 5% in Mar 2018 and core1 inflation rising from 0.3% to 2.5% over the same period.

However, the ratio of headline to core1 has been on a downtrend since Feb 2017, implying core inflationary pressures have been stronger than headline or overall inflationary pressures.

This puts into question the conventional argument that the surge in inflation over the past year is mainly attributable to vegetable prices, but simultaneously requires an in-depth analysis of the recent predominance of core inflationary pressures in the economy.

Figure 1: Headline and Core1 Inflation (%)



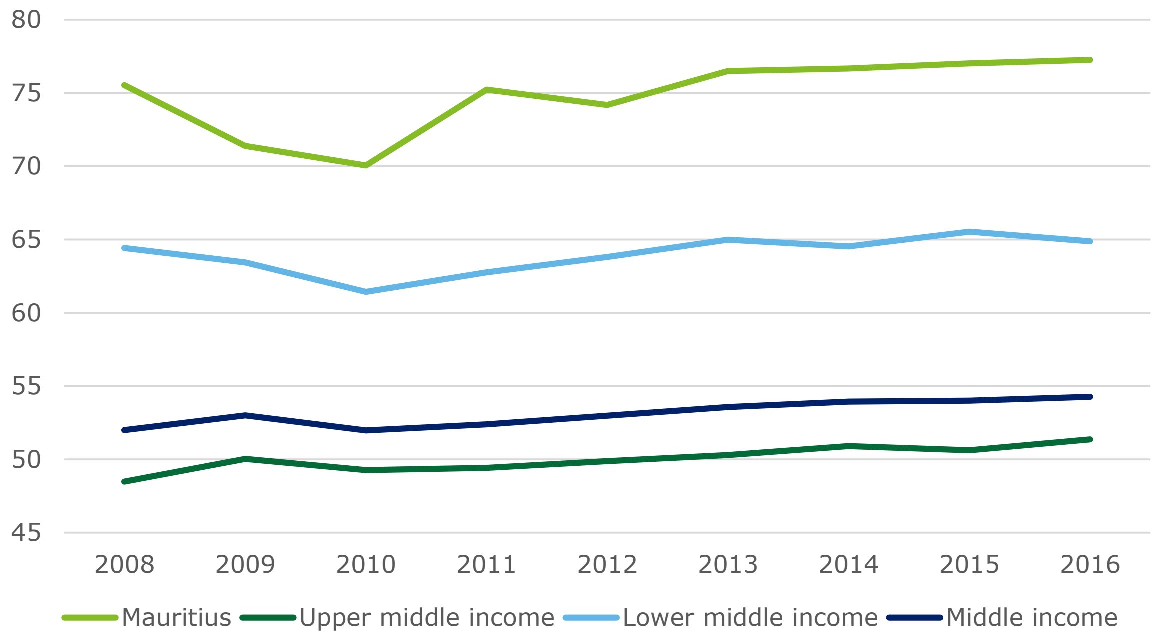
Source: Statistics Mauritius and Bank of Mauritius

Household consumption

The second part of this article undertakes an analysis of selected economic variables for Mauritius, not on a standalone basis but including information that act as a benchmark. Mauritius is officially an Upper Middle Income Country (UMIC). Using real GDP data from the World Bank from 2010 onwards, i.e., after the onset of the global economic crisis, estimated average growth for Mauritius is 3.5% p.a. compared to 4.4% p.a. for UMICs. Mauritius has thus underperformed the benchmark by almost 100 basis points per annum on the growth front.

Figure 2 displays the evolution of household consumption expenditure as a percentage of GDP, from 2008 to 2016. Mauritius Consumption to GDP (C/Y) ratio has fluctuated around 75%, well above the UMICs benchmark of around 50%. Of note, Mauritius C/Y ratio clearly exceeds even that of Lower Middle Income Countries (LMICs) which is around 65%. In the light of such evidence, the authorities may have to consider carefully the feasibility and appropriateness of promoting policies designed to enhance consumption in Mauritius.

Figure 2: Household Consumption Expenditure (% of GDP)



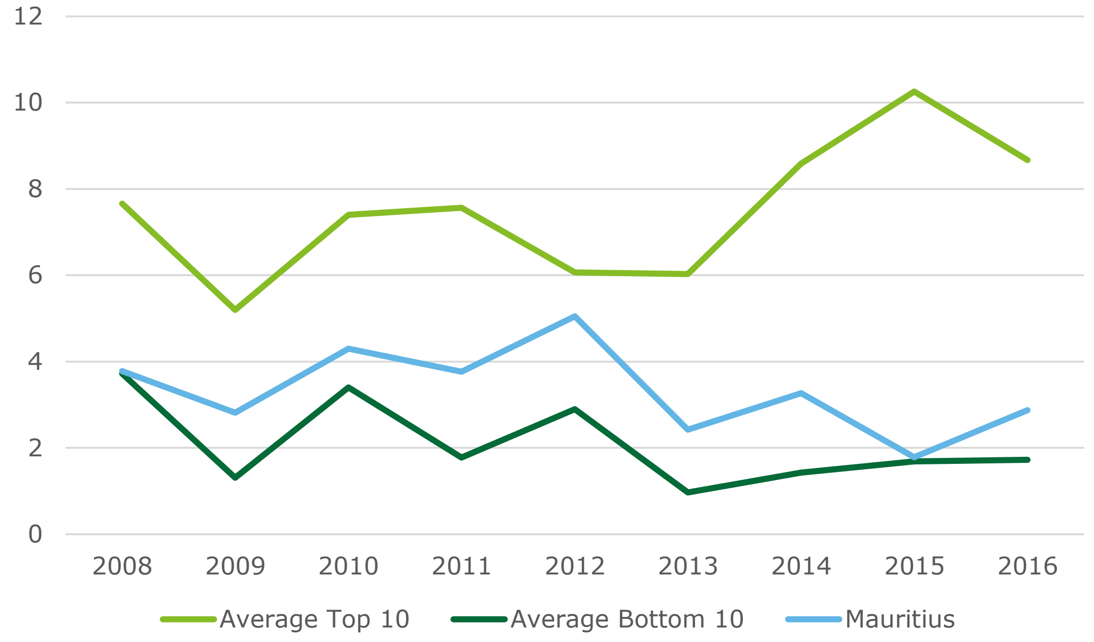
Source: World Bank

Investment performance

Investment performance of Mauritius is next analysed, this time benchmarking on information contained in the World Bank Ease of Doing Business Survey. The country has made remarkable progress in overall ranking, from 49th in the 2017 survey to 25th in the 2018 survey. Foreign Direct Investment (FDI) into Mauritius posted an appreciable recent performance, rising from a trough of MUR 9.7 billion in 2015 to MUR 13.6 billion in 2016 and MUR 17.5 billion in 2017.

The intention here is to explore the investment performance of Mauritius over the last decade, by examining the evolution of the ratio of FDI Net Inflows to GDP and benchmarking on the average ratio for countries ranked Top 10 and Bottom 10 in the 2018 Ease of Doing Business Survey. Figure 3 notably shows that the Mauritius FDI Net Inflows to GDP ratio has been tracking rather closely the benchmark for Bottom 10 countries, well below the benchmark for Top 10 countries.

Figure 3: FDI Net Inflows (% of GDP)

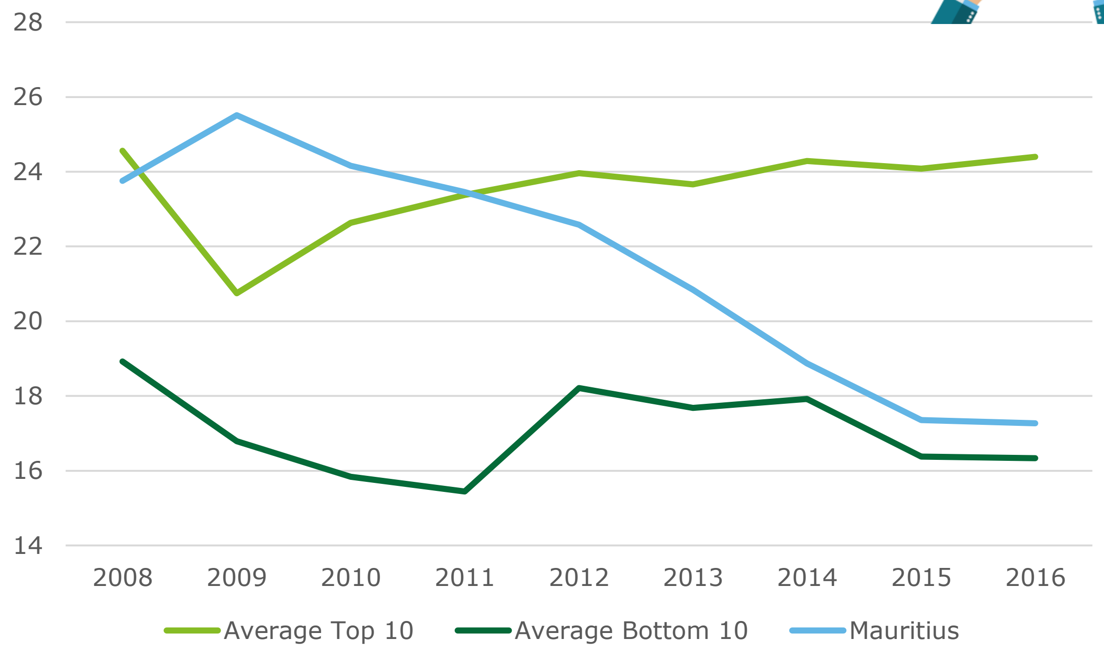


Source: World Bank

Investment performance

Using the same benchmarking approach, Figure 4 displays the evolution of Gross Capital Formation as a percentage of GDP. The ratio for Mauritius, which a decade ago was above the benchmark for Top 10 countries has been on a downtrend and converged onto the benchmark for Bottom 10 countries by 2016.

Figure 4: Gross Capital Formation (% of GDP)



Source: World Bank

Conclusive remarks

The Mauritian authorities have admittedly initiated potentially transformational public sector infrastructure projects that may crowd in private investment, raise productivity and efficiency at national level. Efforts to promote Mauritius as a regional Fin Tech hub and to develop the Ocean Economy are highly commendable.

However, the above analysis and findings point to the necessity for an in-depth reflection while designing a holistic approach to macroeconomic policymaking in Mauritius, amid an increasingly uncertain global context. The forthcoming Budget speech would be an opportunity for the Finance Minister to trigger such initiative, in an attempt to secure the present and future well-being of the people of Mauritius!