Mauritius

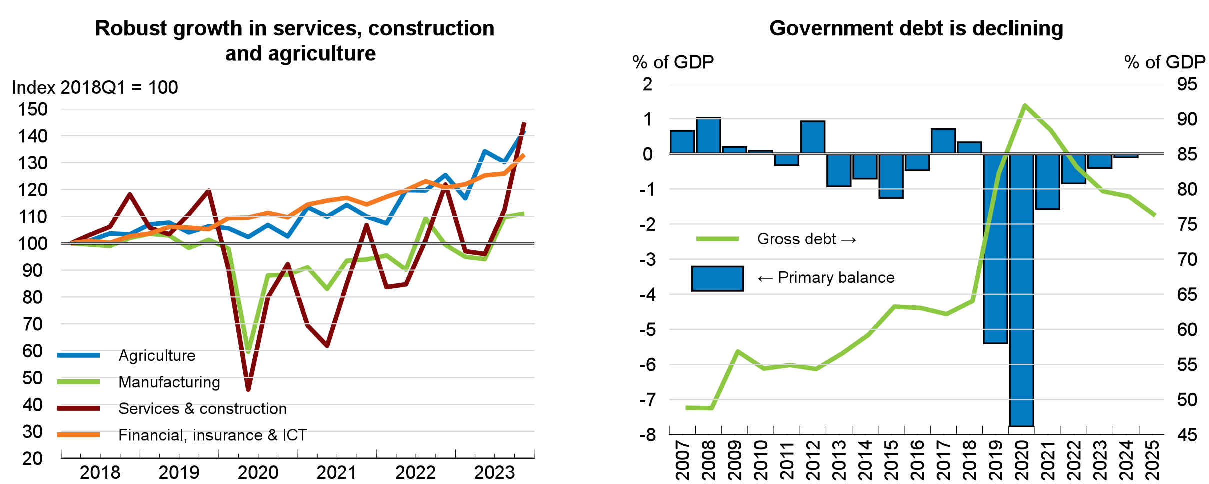
Real GDP is projected to grow by 5.5% in 2024 and 4.5% in 2025. The main drivers will be the continued robust recovery in tourism, construction, and investment. Investment growth is expected to be supported by foreign direct investment and public investment, particularly in the housing sector. Inflation continued declining over 2023 and is expected to be within the Bank of Mauritius' target range of 2 to 5 per cent by the end of 2024, before declining further to 4.2% in 2025.

Fiscal policy remains expansive as government expenditures have not reverted to pre-COVID levels while revenue growth has not kept pace. Spending consolidation and additional revenue mobilisation are needed to reduce debt and create fiscal space. Monetary policy is expected to remain stable, with the policy rate maintained at 4.5%, given that inflation is projected to be within the target range and economic growth remains robust. Boosting female labour participation would reduce labour shortages, strengthen growth and inclusion.

Economic activity remains robust

The economy has been growing robustly and surpassed pre-pandemic levels in mid-2023. Real GDP growth was 8.9% in 2022 and 7% in 2023, driven by a strong rebound in tourism, construction, investment, and exports. Public investment grew substantially, through major infrastructure projects in housing and transportation, while private investment expanded by 20%. Foreign direct investment inflows increased by 26% in 2023. Tourist arrivals increased 30% from 2022, reaching pre-pandemic levels, while revenue from tourism far exceeded pre-pandemic levels. Growth in tourist arrivals remained high in January and February 2024. Household consumption remained strong in 2023, supported by lower inflation and government policy support. With real wages recovering and a recent increase in the minimum wage, consumer confidence remained buoyant in early 2024 and consumption spending expanded by 2% in January. Tourism and service sector indicators also point to sustained momentum in early 2024.

Mauritius



Source: Bank of Mauritius.

StatLink https://stat.link/3jamys

Mauritius: Demand, output and prices

Mauritius	2020	2021	2022	2023	2024	2025
	Current prices MUR billion	Percentage changes, volume (2018 prices)				
GDP at market prices	439.7	3.4	8.9	7.0	5.5	4.5
Private consumption	316.5	3.0	3.3	2.6	2.3	3.1
Government consumption	73.9	-2.2	6.4	-3.7	1.8	1.5
Gross fixed capital formation	70.3	14.0	7.8	30.9	12.0	3.5
Exports of goods and services	160.0	11.5	40.2	1.1	1.8	4.3
Imports of goods and services	188.5	7.3	10.2	1.8	1.5	2.4
Memorandum items						
Unemployment rate (% of labour force)	_	9.1	7.7	6.1	6.0	6.0
Consumer price index	_	4.0	10.8	7.0	4.9	4.2
General government budget balance (% of GDP)	_	-4.0	-3.2	-2.5	-2.1	-2.0
General government primary balances (% of GDP)	_	-1.6	-0.8	-0.4	-0.1	0.0
General government gross debt (% of GDP)	_	88.4	83.1	78.6	78.9	76.2
Current account balance (% of GDP)	_	-13.0	-11.5	-5.5	-4.6	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/kof0nr

In the near-term, global developments point towards a favourable outlook. Tourism is rebounding, and tourists come from an increasingly wide range of origin countries. Although energy prices have risen recently, the global context, with lower commodity and energy prices than in 2022, is helping to lower inflation from its 2022 peak.

Further fiscal consolidation is needed

Fiscal policy is moderately expansive, with the increase in post-COVID government expenditures yet to fully revert to pre-pandemic levels, while revenues have not kept pace with expenditures. However, current fiscal plans appropriately target a reduction of the primary deficit in the next two years. Strong growth has helped to reduce public debt from 91.9% of GDP in 2020 to below 80% in 2023. Looking ahead, an aging population and increased social spending commitments will add to fiscal pressures, not least because the 2022 pension reform significantly increased benefit levels of minimum social pensions. In 2023, the Bank of Mauritius revised its monetary policy framework, now targeting an inflation range of 2-5%. The key policy rate is expected to remain at its current neutral level of 4.5%, which seems appropriate in light of declining inflation, the stabilisation of global supply chains and easing import prices. Scope for policy easing may emerge if economic activity were to decelerate more rapidly than expected.

Sustained growth driven by trade, investment, and consumption

Following the strong recovery in 2022 and 2023, economic growth will return to more moderate levels but is expected to remain robust at 5.5% in 2024 and at 4.5% in 2025, mainly on the back of strong investment and tourism. Recent trade agreements with India, China, and under the African Continental Free Trade Area are now operational. These partnerships reduce trade barriers and are expected to drive more exports. Closer commercial ties to Africa present significant opportunities for expanding business services exports. Household consumption is expected to gain momentum, supported by favourable terms of trade effects from past dips in energy prices, declining inflation, and lower unemployment. Headline inflation is expected to fall back into the target range by December 2024, and is expected to decline further in 2025.

Downside risks could emerge from lower-than-expected fiscal consolidation ahead of upcoming elections, potentially increasing inflationary pressures and necessitating a tightening of monetary policy, and dampening growth. Conversely, a further increase in tensions in the Red Sea, necessitating increased use of the Cape of Good Hope maritime route, may bolster demand for Mauritius's port services, enhancing its role as a trade hub and uplifting services exports.

Addressing labour market bottlenecks to boost growth

Addressing structural bottlenecks to growth will be crucial, particularly tackling labour shortages across the skill spectrum. Narrowing the gender employment gap will be one avenue for alleviating labour shortages and harnessing untapped labour potential. This would strengthen growth and make it more inclusive. Rebuilding fiscal buffers by reducing government debt, including by mobilising additional tax revenues from value added tax or corporate tax, would help to prepare for future spending needs, including those related to social protection, external shocks or adverse climate events.