



Summary

Mauritius' open economy is very vulnerable to the eurozone crisis and the global economic slowdown. As a result of subdued external demand, a weaker tourism sector and lower sugar production, economic growth is forecast to decline from 4% in 2011 to about 3% in 2012. Mauritius' main economic risks stem from its persistent twin deficit on the current account balance (at around 10% of GDP in 2012) and the fiscal balance (at around 4% of GDP in 2012). Together with the high level of public debt (57% of GDP in 2011), this increases the vulnerability of the country. Although the political situation in Mauritius has been turbulent in the past 18 months, we expect the country to remain politically stable in the foreseeable future.

Things to watch:

- Twin deficit on current account and fiscal balances
- High public debt
- Tourist arrivals

Author: **Reinier Meijer**
Country Risk Research
Economic Research Department
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands
+31-(0)30-21-31568
R.Meijer@rn.rabobank.nl

Mauritius			
National facts		Social and governance indicators	
Type of government	Parliamentary democracy	Human Development Index (rank)	77 / 187
Capital	Port Louis	Ease of doing business (rank)	23 / 183
Surface area (thousand sq km)	2,040	Economic freedom index (rank)	8 / 179
Population (millions)	1.3	Corruption perceptions index (rank)	46 / 183
Main languages	Creole (80%), French (3%)	Press freedom index (rank)	54 / 178
Main religions	English (official; 1%)	Gini index (income distribution)	n.a.
	Hindu (52%)	Population below \$1.25 per day (PPP)	n.a.
	Christian (30%)		
	Muslim (17%)		
Head of State (president)	Rajkeswar Purryag	Foreign trade	
Head of Government (PM)	Navinchandra Ramgoolam	2011	
Monetary unit	Rupee (MUR)	<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
		UK	India
		France	France
		US	South Africa
		UAE	China
Economy		2011	
<i>Economic size</i>	<i>bn USD</i>	<i>% world total</i>	<i>Main export products (%)</i>
Nominal GDP	11	0.02	Textiles
Nominal GDP at PPP	19	0.02	Sugar
Export value of goods and services	6	0.03	Fish
IMF quotient (in m SDR)	102	0.05	
<i>Economic structure</i>	2011	5-year av.	<i>Main import products (%)</i>
Real GDP growth	4.0	4.8	Food & beverages
Agriculture (% of GDP)	5	5	Machinery & transport equipment
Industry (% of GDP)	24	25	Fuels
Services (% of GDP)	71	71	
<i>Standards of living</i>	USD	% world av.	<i>Openness of the economy</i>
Nominal GDP per head	8790	82	Export value of G&S (% of GDP)
Nominal GDP per head at PPP	15078	122	Import value of G&S (% of GDP)
Real GDP per head	6619	81	Inward FDI (% of GDP)

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

Mauritius' open economy is very vulnerable to the eurozone crisis and the global economic slowdown. As a result of subdued external demand, a weaker tourism sector and lower sugar production, economic growth is forecast to decline from 4% in 2011 to about 3% in 2012. However, a further worsening of the eurozone crisis and the global economy present more downside risks. Mauritius continues to record a persistent twin deficit on the current account balance (at around 10% of GDP in 2012) and the fiscal balance (at around 4% of GDP in 2012). This is accompanied by large public debt (at around 63% of GDP in 2012) and substantial external debt (at around 46% of GDP in 2012). This increases the country's vulnerability and can only be reduced by high growth. The tourism, real estate, trade and financial sectors would be responsible for this high growth. Below we will analyze the turbulent political situation and the impact of the eurozone crisis and the weak global economy on Mauritius.

Turbulent politics

Mauritius enjoys a stable political environment with well-established democratic institutions. Nevertheless, the political situation has been relatively unstable in the past 18 months. The country has been ruled by Prime Minister Navinchandra Ramgoolam (Labor Party) and his governing coalition of the Alliance of the Future since 2005. Originally, the Alliance was a coalition of the Labor Party and the Militant Socialist Movement (MSM), but the MSM withdrew from the coalition in

July 2011. This happened after six of the party’s ministers resigned to show their solidarity with the Minister of Health, who was arrested for offences under the Prevention of Corruption Act. As a consequence, the governing coalition currently only consists of the Labor Party and some MSM defectors and has a majority of only 3 seats in Parliament.

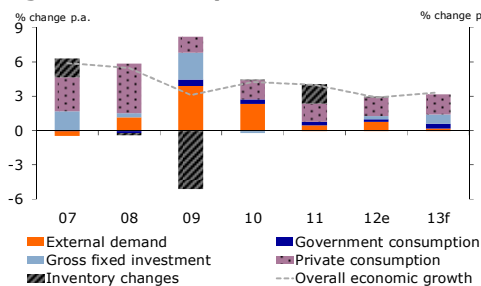
In March 2012, President Anerood Jugnauth (MSM), whose role is largely ceremonial, stepped down after an open conflict with Ramgoolam. The conflict arose after the opposition leader in Parliament announced the creation of an opposition alliance headed by President Jugnauth. Ramgoolam asked Jugnauth to either deny the opposition’s statement, or to resign in case of confirmation. Although the Prime Minister had no power to depose Jugnauth, the latter responded by resigning to join the opposition and was succeeded by Rajkeswar Purryag (Labor Party) following a parliamentary motion in July 2012. In this way, the Labor Party enforced its power in politics, while the opposition is trying to group and create a united opposition. News reports suggest that this united opposition wants to bring down the government by a vote of no confidence, but this vote has not been hold yet. If this or other unforeseen things do not happen, the opposition has to wait to the general elections of 2015. In any case, tensions are expected to prevent the opposition from launching a credible alternative to Ramgoolam, as the opposition parties have so far been incapable to reduce internal divisions and to effectively challenge the government. Although the political scene has been turbulent in the last 18 months, this has not been accompanied by violence and this is not expected to affect the country’s economic policies significantly.

Impact of eurozone crisis and weak global economy

Mauritius is substantially exposed to the eurozone sovereign debt crisis and the current weak global economy. Import and export values of goods and services as a share of GDP stand at more than 50% of GDP each, while over half of Mauritius’ exports are going to Europe and more than half of all tourists hail from this region.

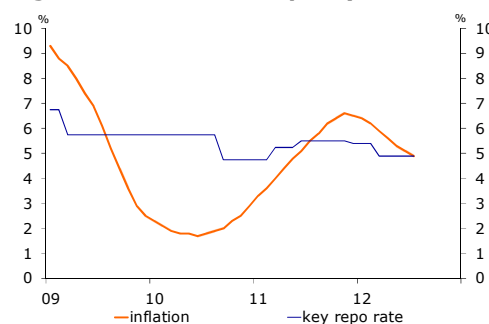
Despite the tight relations with the rest of the world, the global financial and economic crisis of 2008 showed Mauritius’ strong resilience in overcoming international distress. In a response to the crisis, the government postponed its target to reduce public debt to 50% of GDP by 2013 to 2018. In this way, counterproductive fiscal contraction was avoided and the realization of a long-term public sector investment program can continue.

Figure 1: Growth performance



Source: EIU

Figure 2: Inflation and policy rate



Source: EcoWin

The current weakening of the global economy affects Mauritius by subdued external demand and a weaker tourism sector. Export growth has fallen back since the last quarter of 2011. From an

annual export growth of 17% in 2010 and 2011, export growth has slowed down this year. The subdued export growth of the first three months of 2012 is expected to continue throughout the year and leads to an expected stagnation of exports this year. Meanwhile, arrivals of European tourists declined by 7.1% year-on-year (yoy) in the first seven months of 2012. Tourist arrivals from other continents grew strongly, but from a low base. As a result, total tourist arrivals grew by a mere 0.1% in the first seven months of 2012 compared to the same period last year. The outlook for the tourism sector as a whole is expected to remain weak in the second half of the year.

In a reaction to the current global economic slowdown, the Mauritian government is running an expansionary budget for 2012. The fiscal deficit is expected to increase from 2.5% of GDP in 2011 to 4% of GDP in 2012. In the budget, the government has introduced a National Resiliency Fund (MUR 7.3bn or 2% of GDP), which is used as a contingency fund to strengthen the economy's resilience by supporting businesses and as a rainy day fund to shore up public finances. Furthermore, several measures to promote foreign investment and export growth are introduced to geographically diversify export markets. As a consequence of the higher budget, public debt is forecast to rise from 57% of GDP in 2011 to 63% of GDP in 2012. Somewhat mitigating factors are that about 14% of GDP of this public debt stock consists of government bonds held by the National Pension Fund and that Mauritius' pension system is fully funded unlike many other countries. The gross financing need of Mauritius is forecast at 16% of GDP (or USD 1.7bn) in 2012. Currently, about 20% of total central government debt is external debt, while debt of state-owned companies (11% of total public debt) is financed externally for over 40%. The government is currently working on a debt management strategy. In this strategy, the government proposes a longer maturity profile of public debt, partly by increasing the share of external debt. Although the public debt level is very high for the small-sized economy and this increases the vulnerability of the country, we do not expect it to lead to problems in the near future.

In a response to an easing inflation rate and disappointing growth projections, the Bank of Mauritius (central bank of Mauritius) cut its benchmark interest rate by 50bps to 4.9% in March 2012. Inflation has declined from 6.6% in November 2011 to 4.9% in July 2012. The central bank has mentioned that further interest rate cuts are only possible, if inflation further decreases, which is unlikely. As a consequence of the limited possibilities of further monetary easing, a worsening of the global economic outlook may curb Mauritius' growth by about 0.5 percent points.

Mauritius							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	5.9	5.5	3.1	4.2	4.0	2.9	3.3
Consumer prices (average % change pa)	8.8	9.7	2.5	2.9	6.5	4.8	3.9
Current account balance (% of GDP)	-5.6	-10.1	-7.4	-8.2	-10.3	-10.6	-9.7
Total foreign exchange reserves (m USD)	1780	1743	2179	2442	2583	2600	2660
<i>Economic growth</i>							
GDP (% real change pa)	5.9	5.5	3.1	4.2	4.0	2.9	3.3
Gross fixed investment (% real change pa)	5.9	1.3	8.9	-0.7	0.0	1.0	3.3
Private consumption (real % change pa)	4.5	6.7	2.1	2.6	2.5	2.5	2.8
Government consumption (% real change pa)	0.6	-1.4	5.1	3.4	2.3	2.2	4.0
Exports of G&S (% real change pa)	1.8	4.0	-3.5	13.5	6.7	4.7	3.5
Imports of G&S (% real change pa)	2.5	1.8	-10.7	9.5	6.4	3.7	3.5
<i>Economic policy</i>							
Budget balance (% of GDP)	-4.3	-3.3	-2.9	-3.2	-2.5	-4.0	-4.6
Public debt (% of GDP)	63	57	60	57	57	63	62
Money market interest rate (%)	8.5	7.5	4.6	3.1	2.3	3.0	3.8
M2 growth (% change pa)	15	15	9	8	5	4	13
Consumer prices (average % change pa)	8.8	9.7	2.5	2.9	6.5	4.8	3.9
Exchange rate LCU to USD (average)	31.3	28.5	32.0	30.8	28.7	29.8	31.7
Recorded unemployment (%)	8.5	7.2	7.3	7.8	7.9	8.0	8.1
<i>Balance of payments (m USD)</i>							
Current account balance	-434	-976	-655	-799	-1164	-1240	-1140
Trade balance	-1418	-2002	-1565	-1896	-2281	-2210	-2140
Export value of goods	2238	2384	1939	2262	2645	2650	2640
Import value of goods	3656	4386	3504	4157	4926	4860	4780
Services balance	636	624	632	711	801	680	700
Income balance	223	178	55	202	185	170	170
Transfer balance	125	224	224	183	132	120	120
Net direct investment flows	281	325	219	302	223	240	270
Net portfolio investment flows	58	-170	-56	-184	-148	-160	-180
Net debt flows	1136	38	-382	634	497	400	390
Other capital flows (negative is flight)	-521	746	1393	345	769	830	800
Change in international reserves	521	-36	518	298	177	70	130
<i>External position (m USD)</i>							
Total foreign debt	4140	4166	3793	4402	5019	5410	5790
Short-term debt	3472	3534	2975	3330	3545	3650	3740
Total debt service due, incl. short-term debt	2580	3746	3768	3202	3544	3790	3910
Total foreign exchange reserves	1780	1743	2179	2442	2583	2600	2660
International investment position	2239	2169	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	3562	11715	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	1323	9545	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-18.2	-20.8	-17.7	-19.5	-20.2	-18.9	-18.2
Current account balance (% of GDP)	-5.6	-10.1	-7.4	-8.2	-10.3	-10.6	-9.7
Inward FDI (% of GDP)	4.4	3.9	2.9	4.4	2.5	2.6	2.9
Foreign debt (% of GDP)	53	43	43	45	44	46	49
Foreign debt (% of XGSIT)	75	68	75	76	74	82	89
International investment position (% of GDP)	28.7	22.5	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	47	61	75	55	52	57	60
Interest service ratio incl. arrears (% of XGSIT)	2	2	2	2	1	2	2
FX-reserves import cover (months)	4.1	3.3	5.1	4.8	4.2	4.3	4.5
FX-reserves debt service cover (%)	69	47	58	76	73	69	68
Liquidity ratio	287	221	266	323	317	327	346

Source: EIU

Disclaimer

This document is issued by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. incorporated in the Netherlands, trading as Rabobank Nederland, and regulated by the FSA. The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy or completeness. It is for information purposes only and should not be construed as an offer for sale or subscription of, or solicitation of an offer to buy or subscribe for any securities or derivatives. The information contained herein is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient. All opinions expressed herein are subject to change without notice. Neither Rabobank Nederland, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith, and their directors, officers and/or employees may have had a long or short position and may have traded or acted as principal in the securities described within this report, or related securities. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities are described in this report, or any related investment. This document is for distribution in or from the Netherlands and the United Kingdom, and is directed only at authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 or to persons described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001, or to persons categorised as a "market counterparty or intermediate customer" in accordance with COBS 3.2.5. The document is not intended to be distributed, or passed on, directly or indirectly, to those who may not have professional experience in matters relating to investments, nor should it be relied upon by such persons. The distribution of this document in other jurisdictions may be restricted by law and recipients into whose possession this document comes from should inform themselves about, and observe any such restrictions. Neither this document nor any copy of it may be taken or transmitted, or distributed directly or indirectly into the United States, Canada, and Japan or to any US-person. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of Rabobank Nederland. By accepting this document you agree to be bound by the foregoing restrictions.