Euler Hermes Economic Research

Country Report

Mauritius

Will Mauritius emerge to become Africa's Singapore?

General Information

GDP	USD11.5bn (World ranking 129, World Bank 2015)
Population	1.2 million (World ranking 156, World Bank 2015)
Form of state	Parliamentary Democracy
Head of government	Mr. Anerood Jugnauth
Next elections	2019, legislative. 2020, presidential

Strengths

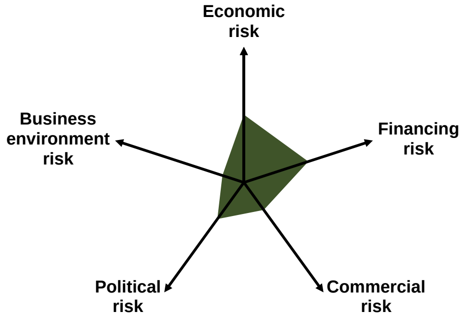
- Well-developed and stable political system with regular peaceful transfers of power (most recently December 2014).
- Solid track record with regards to policy implementation.
- Few ethnic/religious tensions, despite significant cultural diversity.
- Strong inward FDI inflows, driven by supportive general business environment.
- Ranked by international agencies as the best Sub-Saharan economy for ease of doing business and in relation to economic freedoms.
- The country has not required a financial facility from the IMF since the mid-1980s.

Weaknesses

- Subject to adverse weather conditions (including periodic cyclones).
- Small island state dependent on external trade and therefore vulnerable to external shocks. Finance and trade links with Europe remain strong and economic prospects depend on the strength of that region.
- Unemployment is high (currently estimated at 7.5%) and there is a shortage of skilled labour.
- Fiscal deficits have been reduced but current account deficits remain large (even with reduced oil import costs) and require careful management

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
France	12%	1	22%	India
United Kingdom	12%	2	16%	China
United Arab Emirates	9%	3	8%	France
United States	9%	4	7%	South Africa
South Africa	6%	5	4%	Vietnam

By product (% of total)

Exports		Rank		Imports
Articles of apparel & clothing accessories	26%	1	16%	Petroleum, petroleum products and related materials
Fish, crustaceans, molluscs and preparations thereof	15%	2	8%	Telecommunication and sound recording apparatus
Telecommunication and sound recording apparatus	10%	3	6%	Fish, crustaceans, molluscs and preparations thereof

Source: UNCTAD (2014)

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Economic Overview

Mauritius governments structurally adopted a market-friendly policy framework and this will continue through 2016 and 2017. This environment is seen as key to investment, given the economy's small size and the country's geographic location (small island status). Average annual growth rate stood at +4% in the last decade but was somewhat volatile. After the Great Recession in 2009, Mauritius entered in a slightly lower, but more stable, growth. EH forecasts this will continue, with +3% in 2016 and +3.5% in 2017. Growth will be mainly driven by exports, reflecting the gradual rebound in global trade and the world economy, with positive knock-on effects on key domestic sectors, including tourism textiles, and finance.

Key economic forecasts

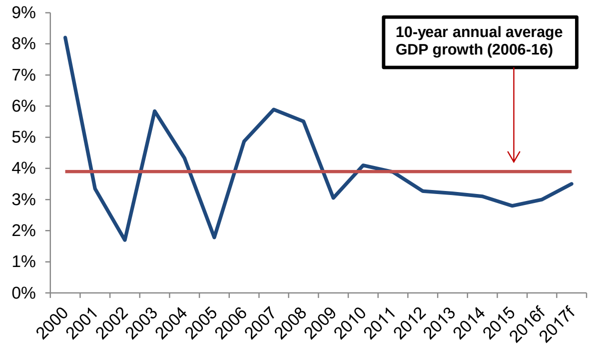
	2014	2015	2016f	2017f
GDP growth (% change)	3.1	2.8	3.0	3.5
Inflation (%, end-year)	3.2	0.3	3.0	3.5
Fiscal balance (% of GDP)	-3.2	-2.7	-2.2	-2.0
Public debt (% of GDP)	54.6	55.4	55.5	55.5
Current account (% of GDP)	-5.5	-4.8	-5.0	-4.5
External debt (% of GDP)	87.2	96.9	94.0	90.0

Sources: National statistics, IHS, Euler Hermes

Vulnerabilities and Challenges

The economy is vulnerable to external shocks because of its reliance on foreign food and energy imports. In addition, economic growth is dependent on the vibrancy of the export sector, which is oriented towards advanced economies such as the UK, the US, and France. Sluggish growth in the Eurozone, as well as risks posed by Brexit could weigh Mauritius' growth potential. Though Mauritius has been very successful in attracting FDI (see chart), its structural current account deficit, requires vigilance. To ensure longer-term sustainability, economic management has involved the transformation of a low-skill sugar exporter to a progressive and skill-based economy. Indeed, Mauritius is now increasing its efforts to further export diversification and enhance productivity under its Vision 2030 agenda. To avoid the middle-income trap, human capital will have to be unleashed through investments in infrastructure and education.

GDP Profile (% growth)



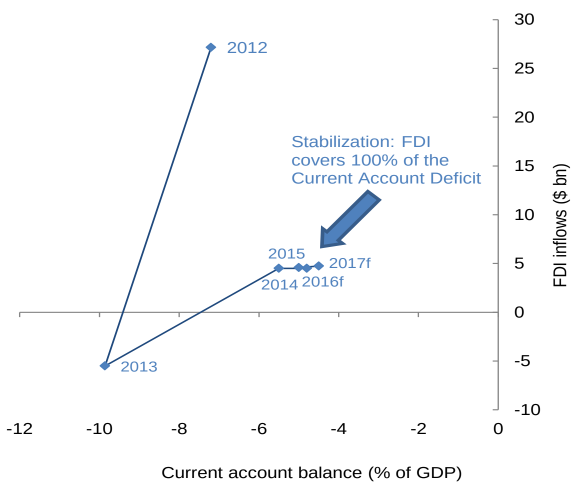
Sources: IHS, Euler Hermes

Mauritius serves as a commercial hub between Africa and Asia

Economic planning has a solid track record, with periodic diversification policies. First, the economy veered away from sugar, followed by textiles and clothing and last from tourism and financial services.

Currently, economic planning envisions the promotion of Mauritius as the gateway to Africa, particularly for Asian giants such as China and India. Since 2012, over half of new investment flowing through Mauritian companies licensed to conduct offshore business went to Africa. Over the past 20 years, Mauritius has completed tax treaties with more than 25 African states, restricting the right of states to tax foreigners investing through Mauritius. Mauritius' goal to become a hub to Africa pits it against key regional players such as Kenya, South Africa, and Nigeria. Yet its superior business environment, favourable tax base, and a largely bilingual population give it an edge as a gateway for corporations, and increasingly also high-net worth individuals seeking to access the African market. FDI should continue to flow in the country over the next years.

FDI inflows and Current Account



Sources: National sources, IHS, Euler Hermes

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