KPMG

Economic Snapshot H2, 2016

Mauritius

Inflation - According to the most recently released figures by Statistics Mauritius, the consumer price index (CPI) remained relatively unchanged in July 2016. More specifically, the CPI rose by 1% y-o-y in July, compared to the 1.1% y-o-y increase recorded in June.

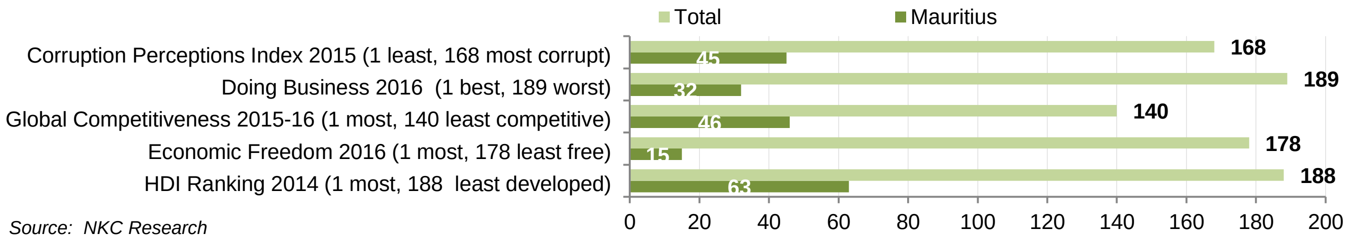
Growth - With regard to the most recent developments pertaining to economic growth in Mauritius, data published by Statistics Mauritius indicates that the Mauritian economy expanded at a real rate of 3.7% y-o-y in Q1 2016, following the revised estimate of 3.9% y-o-y recorded in the preceding quarter.

National development plan - The Mauritian economy has benefited from effective, market-orientated policies that have encouraged the development of a strong and vibrant private sector, while the government only plays a supportive role in economic development. This has resulted in widespread economic development, with numerous sub-sectors showing commendable growth prospects.

OPPORTUNITIES	STRENGTHS
Using Mauritius as a base to expand and invest in the rest of Africa and in Asia.	The most accommodative business environment in Africa, with high levels of economic freedom and low tax rates.
Foreign direct investment (FDI) into emerging sectors such as medical tourism and information & communication technology (ICT).	Macroeconomic policies are transparent and market-oriented.
Services sector will continue to be the main driver of economic growth.	Well developed, profitable, and stable financial sector.
Large concentration of middle- and high-income earners presents opportunities for consumer-oriented industries.	Low level of political risk, which is expected to remain unchanged over the medium to long term.

VULNERABILITIES	WHAT IS BEING DONE?
Exposure to struggling euro zone economy.	The government is actively trying to diversify export and tourism markets towards Asia and Africa; the central bank has offered a line of credit in foreign currencies to struggling exporters.
Mauritian rupee moves in step with the euro/dollar exchange rate. A weaker euro/dollar exchange rate will tend to weaken the rupee/dollar rate, but strengthen the rupee/euro, making exports less competitive and imports more costly.	The Bank of Mauritius (BoM) launched Operation Reserves Reconstitution in June 2012, with cumulative foreign exchange reserves rising by almost $1.2bn in the subsequent three years.
High indebtedness of the public sector, corporate sector, and households.	The current policy environment allows some companies to consolidate their liabilities.
The small size of the economy renders it vulnerable to external shocks. In addition, the exports/GDP ratio is low in an international context.	The economy is relatively diversified, and has been fairly resilient to external shocks over the past few years.

MEGA TRENDS	
Population	1,263,747 (July 2016 est.); Age 15 - 64: 70.5%
Population growth rate (%)	0.1% (2016 est.)
Life expectancy at birth	Total population: 75.4 years; male: 71.9 years; female: 79 years (2015 est.)
HIV/AIDS	Adult prevalence rate: 0.9%; People living with HIV/AIDS: 8,300 (2014 est.)
Adult literacy rate (age 15 and over can read and write)	Total population: 90.6%; male: 92.9%; female: 88.5% (2015 est.)
Urbanisation	Urban population: 39.7% of total population (2015); Urban population growth: -0.1% (2010-15)
Population below poverty line	9.4% (2012 est.)
Unemployment rate	7.6% (2016 est.)
Employment (% of total)	Agriculture: 8.4%; Industry: 28.9%; Services: 62.7% (2015 est.)
Labour participation rate (% of total population ages 15+)	58.8% (2016 est.)
Business languages	French, English
Telephone & Internet users	Main lines in use: 380,000; Mobile cellular: 1.8 million; Internet users: 672,000 (2015)
Sources: CIA World Factbook, World Bank, UNESCO, UNDP, ITU, UNAIDS, Stats Mauritius & NKC Research	



Source: NKC Research

Risk environment / Risk outlook

S&P Global Ratings	Fitch	Moody's
N/R	N/R	Baa1/Stable

Moody's Investors Service affirmed Mauritius's sovereign debt rating at "Baa1" (equivalent to our "BBB+") on 24 November 2015. The ratings agency kept the island nation's outlook on the rating at 'stable'. The accompanying press release stated that the "Baa1" sovereign debt rating reflected the island nation's "*significant resilience as reflected in robust economic growth*", which was "*supported by the economy's diversification, combined with effective policy support from authorities*", as well as Mauritius's stable fiscal strength. The ratings agency noted in a recent press release that "*Mauritius's financial sector is a source of growth and diversification, but also systemic risk*". Although the financial sector has grown at a rapid pace, the Mauritian authorities managed to maintain macroeconomic stability. However, the fear for the ratings agency is the balance sheet linkages between these large off-shore financial companies and the risk of macroeconomic instability. The amendment of the Double Tax Avoidance Agreement (DTAA) between Mauritius and India is also of concern to Moody's. Nevertheless, the ratings agency said a "*sudden stop*" scenario of inflows is unlikely due to the competitive advantages of Mauritius as a financial hub.

Mauritius is currently not rated by **S&P Global Ratings** or **Fitch Ratings**.

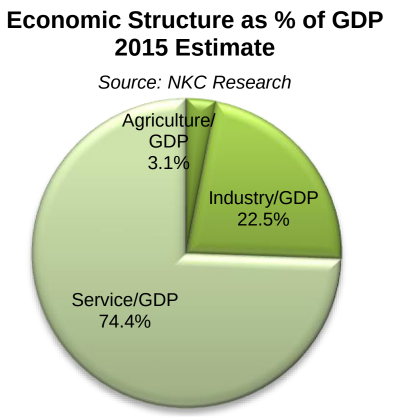
Infrastruc-ture	Diversity of the Economy	Banking Sector	Continuity of Economic Policy	GDP Growth	Key Balances	Foreign Investment	Socio-economic Develop-ment	Forex Reserves
Good	Relatively diversified; services sector dominates GDP	Well developed and stable	Good and stable policies	Average (in African context)	Twin deficits	Fair	High	Adequate

Stock Market	Listed Companies	Liquidity	Market Cap	Dominant Sector	Daily Trading Volume
Stock Exchange of Mauritius (SEM)	50 (excl. financial instruments)	Average	$6.01bn (SEM, August 18)	Banks & other financials	$1,230,341 (August 26)
Capital Market	**Development**	**Liquidity**	**Maturity Range**	**Municipal Bonds**	**Corporate Bonds**
Yes	Well developed in African context	Limited; secondary bond market underdeveloped	91 days to 20 years	N/A	Underdeveloped

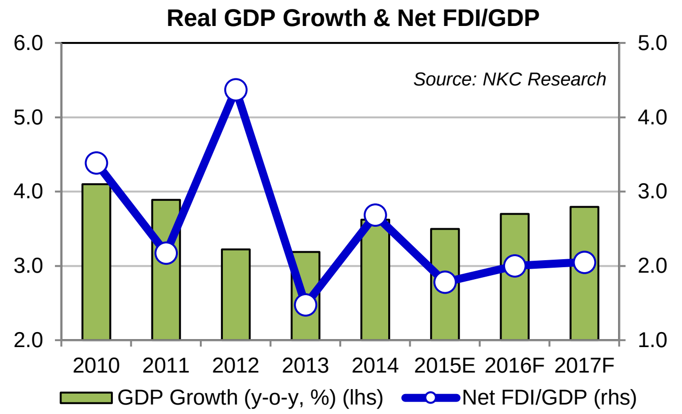
Macro-economic overview

Mauritius is a small, but densely populated island located about 870 km east of Madagascar in the Indian Ocean. The economy has shifted from a single-crop sugar-dominated economy to a regional services hub, with an estimated 74.4% of GDP generated in the services sector in 2015. The agricultural sector maintains a prominent role in the economy, particularly from an employment and exports perspective. In turn, the industrial sector has gained in significance in recent years, with manufacturing playing a particularly important role in the economy. The sector is dominated by sugar milling, food processing and textiles, but the government has adopted numerous initiatives to support the diversification of the sector. In addition, the island nation's construction sector was a primary driver behind economic growth a few years ago, supported by the expansion of the tourism sector and a boom in residential housing. However, the construction sector has struggled recently, becoming a drag on economic growth. Furthermore, the country's ambition of evolving into a regional services hub has shown remarkable results. Once marginalised as a perpetually agrarian-based economy with no comparative advantage in any sector beyond the primary, Mauritius has developed into a regional financial and investment hub, boasting one of the continent's most sophisticated financial sectors. Information and communication technology (ICT), tourism, property development, and more recently, healthcare, renewable energy, as well as education & training have emerged as significant contributors to the economy, attracting both local and foreign investors. The country is attempting to become a gateway into Africa by providing advanced infrastructure (financial, telecommunications) while also maintaining the most accommodative business environment on the continent.

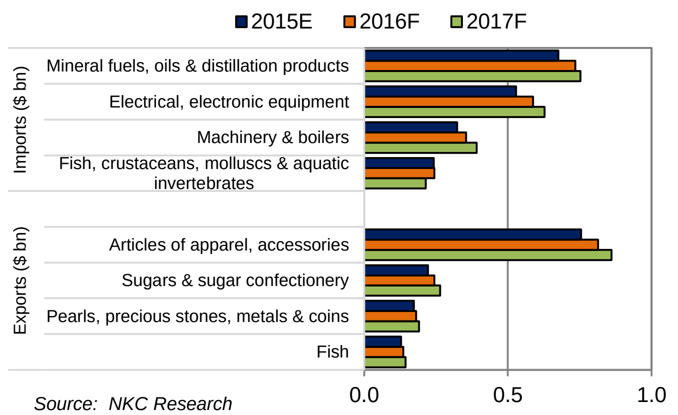
From an economic perspective, one of the main challenges facing Mauritius is its strong trade and investment ties with Europe. The economic turmoil in Europe has directly affected Mauritius as reflected by subdued GDP growth figures in recent years. While the government is actively undertaking diversification measures directed towards Africa and Asia, the island nation's economic performance will remain largely interlinked with Europe for some time. Another source of downside risk to Mauritius's economic outlook is the highly indebted private sector, with private liabilities accounting for most of the country's external debt. In addition, there is some difficulty in determining the country's actual short-term external debt due to the presence of many multinationals, which is a salient source of external risk. Still, the country enjoys favourable economic growth prospects, and most economic fundamentals remain sound. A credible central bank and prudent fiscal authorities promote monetary and fiscal stability, while foreign reserves remain adequate. Mauritius's external accounts (the current account deficit and external debt) are expected to improve over the medium term, while the country will continue to attract foreign investor interest. The island nation is expected to strengthen its position as a gateway into Africa and Asia, which will also have significant economic benefits.



Although the agricultural sector's contribution to GDP has fallen markedly in recent decades – from over 15% of GDP in the 1980s to an estimated 3% of GDP last year – the sector remains important for employment and foreign investment opportunities, with the sugar industry of particular importance. The services sector has driven GDP expansion in recent years, with the sector growing by an average 4.6% p.a. during the 2011-15 period, and contributing an estimated 74.4% to GDP last year. In turn, the industrial sector contributed an estimated 22.5% to GDP in 2015, with the sector dominated by manufacturing, particularly food processing and textiles, while the construction sector is now losing some momentum following numerous years of strong growth.

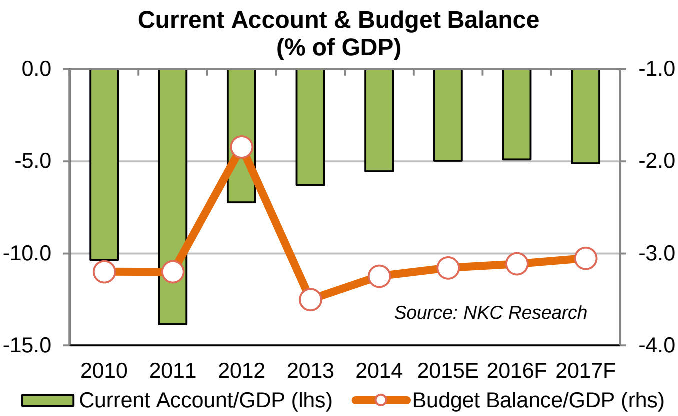


Since Mauritius is a small, open economy with strong ties to the euro zone, it is particularly vulnerable to external shocks. As such, the spillover effects from the international financial crisis and the European debt crises adversely affected Mauritian real GDP growth over the 2009-13 period. Looking ahead, Mauritius's economic performance will remain dependent on developments in the euro zone; however, diversification efforts and an expected improvement in global economic sentiment should have positive effects on Mauritian economic growth. Overall, we expect real GDP growth to increase from 3.5% recorded last year to 3.7% in 2016, before accelerating further to 3.8% next year. With regard to FDI, Mauritius continues to boast the most accommodative business environment in Africa. The island nation has become Africa's strongest performer through a broad structural reform programme implemented in recent years. Nevertheless, the country has not escaped the impact of the global financial crisis and FDI is expected to grow less robustly over the medium term when compared to historic figures. Taking the aforementioned developments into account, we project net FDI to increase from an estimated $202m (or 1.8% of GDP) in 2015 to $235m (2% of GDP) this year, before increasing further to $252m (2.1% of GDP) in 2017.



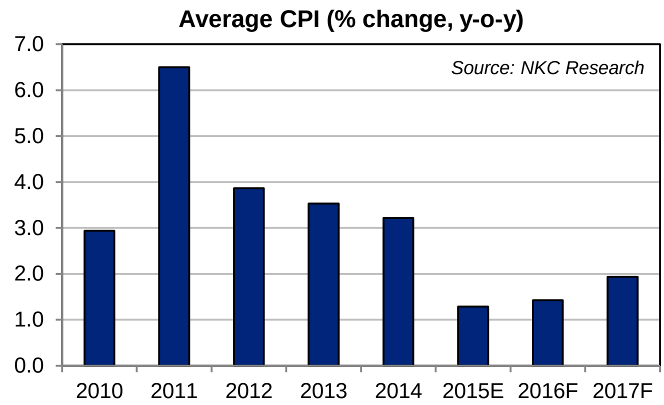
Main Imports: % share of total	2015E	2016F	2017F
Mineral fuels, oils & distillation products	14.94	16.00	15.58
Electrical, electronic equipment	11.67	12.80	12.98
Machinery & boilers	7.16	7.72	8.09
Fish, crustaceans, molluscs & aquatic invertebrates	5.35	5.31	4.44
Main Exports: % share of total	**2015E**	**2016F**	**2017F**
Articles of apparel, accessories	28.10	30.01	29.95
Sugars & sugar confectionery	8.29	9.02	9.19
Pearls, precious stones, metals & coins	6.45	6.66	6.66
Fish	4.79	5.04	5.00

Total exports from Mauritius decreased by 5.9% y-o-y during Q1 2016 to Rs21.16bn. According to Statistics Mauritius, the decrease during the first quarter stemmed primarily from a sharp fall in the exports of machinery & transport equipment (54% y-o-y), and ships, stores & bunkers (21.7% y-o-y). However, domestic exports (goods of national origin) recorded a growth of 5.6% y-o-y, which was mainly due to an increase in the value of articles of apparel & clothing accessories. The largest recipients of Mauritian goods during Q1 2016 were the United Kingdom (UK), followed by France and the US. Looking at trade flows in the opposite direction, Mauritian imports decreased by 3.8% y-o-y to just over Rs37.4bn in Q1 2016. Mineral fuels, lubricants & related products imports continued its downward trend, falling by 26.2% y-o-y in Q1 2016. With regard to the origin of imports during the January to March 2016 period, China provided the most goods, followed by India and France. Overall, Mauritius recorded a trade deficit amounting to just over Rs16.28bn during Q1 2016, representing a marginal narrowing of 0.9% from the deficit recorded during the same period in 2015.



Taking into account the narrower current account deficit during the first quarter of this year compared to the same period last year, the stable local currency, and low global energy costs, the Mauritian current account is forecast to widen only slightly in US dollar terms in 2016. More specifically, our latest econometric model expects the current account deficit to widen from the $565m recorded in 2015 to $575m this year, before widening further to a deficit of $626m in 2017. However, in percentage of GDP terms, this represents a narrowing of the current account deficit from 4.97% of GDP in 2015 to 4.91% of GDP in 2016 before widening to 5.1% of GDP in 2017. The current account deficit is financed primarily by capital investments by large off-shore companies in Mauritius.

Government involvement in the economy has over the last few years been largely limited to creating a supportive business environment, allowing the private sector to take the lead in economic development. However, the last two budget speeches provided for a much larger role for the public sector. Mauritian authorities increased fiscal spending by some 16.3% y-o-y to a cumulative Rs54bn in H1 2016. Fiscal revenues increased by 10.2% y-o-y to Rs44.2bn during the same period. Furthermore, Mauritius's fiscal deficit widened by some 55% y-o-y in the concurrent period. Nonetheless, the island nation's fiscal deficit is projected to narrow from the estimated 3.2% of GDP recorded last year to about 3.1% of GDP in 2016, before narrowing to just over 3% of GDP next year.



The low-pressure inflation environment – primarily due to lower fuel prices – during 2015 allowed the Mauritian central bank to loosen its monetary policy stance towards the end of the year. While the central bank still struggled with excess liquidity in the interbank market, the Monetary Policy Committee's (MPC) efforts to curb the irksome excess liquidity are expected to allow for a better transmission of monetary policy signals. When the MPC met during the first week of November 2015, the committee decided to reduce the country's benchmark lending rate by 25 bps to 4.4%. More recently, the MPC decided to cut the Key Repo Rate (KRR) by 40 bps to 4% at its July meeting, the committee noted that the decision to loosen its monetary policy stance even further stems in part from increased downside risks to the global economic outlook. On the domestic front, the central bank lowered its real GDP growth projection for this year to 3.6%, compared to its February forecast of 3.8%. Additionally, the MPC noted that the downside risks to the domestic growth outlook outweighed the risks to the inflation outlook. Furthermore, the International Monetary Fund (IMF) noted in a December press release following Article IV discussions that the BoM's successful liquidity management was commendable, and that it deemed the current monetary policy stance to be "*appropriate*".

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