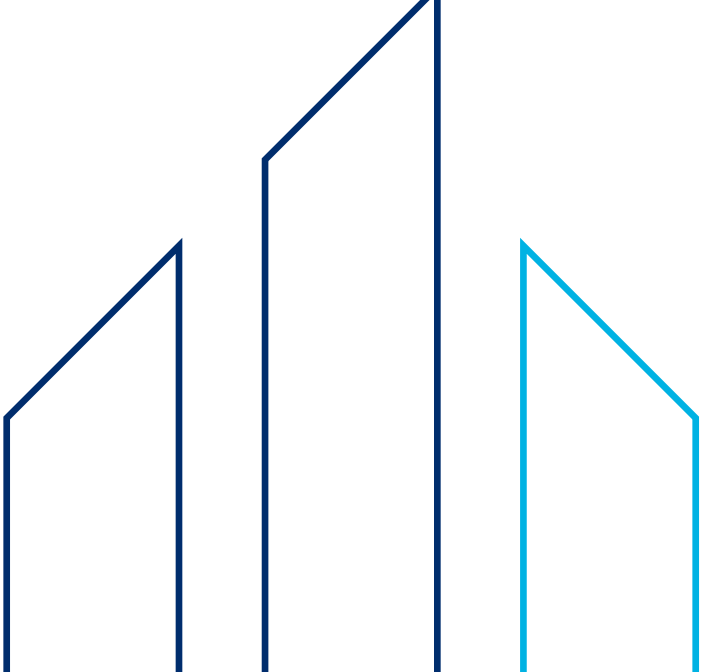
SBM insights

July 2024 | No. 15



Editorial Note

Maintaining resilient fundamentals amidst a challenging global environment

Official estimates show that the Mauritian economy has lately consolidated its fundamentals, maintained its resilience and upheld its favourable economic growth path in the face of the volatile global environment, supported by dedicated initiatives by the authorities and the business community. At the same time, macroeconomic challenges have subsisted in some areas, thus highlighting the need to pursue and strengthen current policies aimed at (i) bolstering the country's productivity and competitiveness levels in order to anchor the foundations for resolute medium-term GDP growth amidst a testing world landscape; (ii) boosting labour supply, in response to the growth ambitions of industries; (iii) promoting fiscal sustainability, in harmony with growth-enabling spending; and (iv) supporting the good functioning of currency markets. As per the IMF in the context of its latest Article IV Consultation, *"The economy has rebounded strongly from the pandemic on the back of buoyant tourism, social housing construction, and financial services. The outlook for growth remains favorable, headline inflation is projected to ease further, and public debt is projected to continue moderating over the medium term."* Concurrently, the IMF stressed that downside risks remain – including a deterioration in global growth, higher-than-anticipated commodity prices and extreme climate events – while also calling for a strengthening of fiscal and external buffers as well as the country's further economic diversification.

Overall, while Mauritius is likely to benefit from economic measures being put in place by the authorities, its growth trajectory continues to warrant close attention. Indeed, bearing in mind the country's high international openness, it is exposed to the vagaries and intricacies of the global landscape. The IMF shed light on the 'polycrisis' phenomenon prevailing worldwide, which is, basically, made up of geopolitical conflicts, climate shocks, social unrests and the compounded repercussions on the lack of fiscal space, debt distress, higher capital costs, high energy and food prices and slower-than-expected economic growth, as it can, notably, be gauged by the global GDP growth prognosis for 2024–25 still being below the historical (2000–19) average of 3.8%. As for our key export markets, they are subject to prominent strains, which are exerting pressures on the demand for our goods and services. In the euro area, while expanding by a faster-than-expected pace, seasonally-adjusted GDP grew by 0.3% in the first quarter of 2024, which is a welcomed improvement from the technical recession witnessed in the second half of 2023, but which is considered as being quite timid and fraught with downside risks. As for the US economy, it grew by a softer-than-anticipated margin, with an annualised real GDP growth of 1.4% being posted in the first quarter of 2024. Regarding the UK, latest estimates point towards a bounce-back from the subdued performances of last year, with GDP growing by 0.7% in the first quarter of 2024, whilst activity levels are still being dampened by relatively high core inflation.

Upholding efforts aimed at buttressing the country’s appeal and competitiveness

In view of the testing global context and domestic challenges, the onus is on Mauritius to further pursue and strengthen its growth-enhancing endeavours. As acknowledged by observers, this, essentially, implies (i) consolidating the country’s underlying fundamentals and further diversifying its economic space; (ii) gearing up infrastructure investments, in terms of electricity and water supply, digital connectivity and the port; (iii) nurturing a competent and versatile employment force; (iv) strengthening connectivity to key markets and boosting external competitiveness levels; (v) securing, as far as possible, food security and energy affordability; and (vi) achieving set aspirations in terms of social inclusion, gender equality and poverty alleviation. To move in these directions, key success factors would include (i) embracing a pragmatic and agile mindset that ensures that nationwide change and transformation are achieved in the smoothest conditions; (ii) optimising the reach and percussion of partnerships and synergies between the authorities and the private sector; (iii) embedding flexible and robust legal, regulatory and institutional frameworks; and (iv) achieving smart cooperation and integration within regional trading blocs as well as collaborations with foreign institutional partners.

Accomplishing the nation’s green transition and coping with climate change

Along our journey, while the authorities have formulated their sustainability agenda and have set targets to, notably, propel renewable energy production, Mauritius is called upon to forge a green and sustainable nation, with focus on key matters such as clean, efficient and homegrown energy supply, sustainable finance, ESG reporting, smart transport systems, circular economy principles and adaptation to climate change. In view of achieving the 2030 Agenda for Sustainable Development, as formulated by the United Nations, embracing such principles is all the more advocated for, owing to (i) rising sea levels and the impact on beaches and the tourism industry; (ii) the country’s vulnerability to natural hazards given its geographical location; and (iii) the increasing frequency and intensity of extreme weather events. This would suggest endorsing climate-resilient, low-carbon and energy-efficient models of development, which would support growth ambitions alongside triggering positive spillover effects, with impacts on resource productivity, job creation and the well-being of the population.

Concluding remarks

As per the Solow-Swan model, long-term economic growth is driven by productivity growth and technological progress, while the Harrod-Domar model has reflected on the theory of natural growth as the ‘welfare optimum’ that maintains full employment. Similarly, former Nobel Laureate for Economic Sciences, Ben Bernanke, said that *“The ultimate purpose of economics, of course, is to understand and promote the enhancement of well-being.”* In Mauritius, accomplishing inclusive socio-economic progress will depend on judicious synergies between public and private stakeholders and our ability to adapt to global megatrends, including the demographic dividend, climate change and resource scarcity, the energy transition, technological disruption with the advent of AI, and geopolitical shifts!

Nuvin BALLOO
Group Chief Strategy Officer
16 July 2024

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Global Economic Review

Economic growth

As per the World Bank in its June 2024 Global Economic Prospects report, world growth is holding steady, after having slowed for three consecutive years in the wake of overlapping negative shocks. It is projected to stabilise at 2.6% this year, with this performance being still contained by geopolitical tensions, tepid investment growth amidst restrictive monetary policies, and moderating consumption growth, in part because of receding savings buffers and diminishing fiscal support. Growth is projected to edge up to 2.7% in 2025-26, after factoring in the modest expansion in trade and investment. As per the World Bank report, *"By historical standards, the global outlook remains subdued: both advanced economies and emerging market and developing economies (EMDEs) are set to grow at a slower pace over 2024-26 than in the decade preceding the pandemic."* In 2024-25, growth is set to underperform its 2010s average in nearly 60% of economies, representing more than 80% of global population and world output. EMDEs growth would moderate from 4.2% in 2023 to 4.0% in both 2024 and 2025. Overall, in spite of the possibility of upside surprises, risks to global growth remain tilted to the downside, with key threats including (i) escalating geopolitical tensions, which could trigger higher commodity price volatility; (ii) further trade fragmentation, with disruptions to trade networks; (iii) the persistence of inflation, which could cause delays in monetary easing and dampen global activity; and (iv) endogenous challenges and natural disasters, that can trigger slower-than-expected growth in specific economies.

Inflation

According to the World Bank report, global inflation has continued to decline, yet it remains above target in most advanced economies and in about one-fourth of inflation-targeting EMDEs. In 2024, global inflation is expected to moderate at a slower rate than previously assumed, averaging 3.5%. In fact, recently, the pace of consumer price disinflation has slowed, reflecting a partial rebound in energy prices, along with a notable slowdown in the rate of decline in core inflation. Over the remainder of the current year, tight monetary policy stances and slowing wage increases should help reduce inflation further. By the end of 2026, global inflation is expected to settle at an average rate of 2.8%. Specifically, aggregate commodity prices have increased since late last year. Oil prices have fluctuated this year, trending substantially higher in April in the wake of escalating tensions in the Middle East and remaining elevated thereafter. Against the backdrop of a tight demand-supply balance in a context of continued geopolitical tensions, the average price of Brent oil is forecast to be slightly higher this year than last, at USD 84/bbl, before receding to USD 79/bbl in 2025 further to the partial unwind of OPEC+ supply cuts and expanding non-OPEC+ production. The near-term oil price forecast is, nevertheless, uncertain, given the potential for price increases due to conflict-related supply disruptions. It is worth noting that, as per the World Bank, if the conflict in the Middle East intensifies, substantial disruptions to oil supply and large commodity price spikes could follow, thus potentially undermining efforts to bring inflation back to targets globally. The extent and duration of oil price impacts would depend on the nature of the initial shock and the speed and size of other oil producers' responses to higher prices.

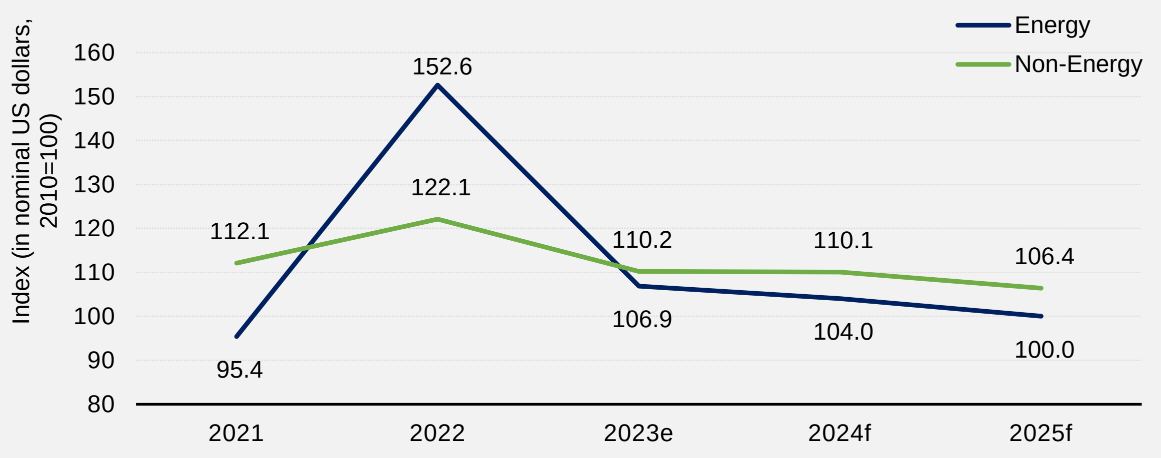
Table 1. Global economic growth projections as per the World Bank

	Real GDP: % change from previous year			Percentage point differences from January 2024 forecasts	
	2023e	2024f	2025f	2024	2025
World	**2.6**	**2.6**	**2.7**	**0.2**	**0.0**
Advanced economies	**1.5**	**1.5**	**1.7**	**0.3**	**0.1**
United States	*2.5*	*2.5*	*1.8*	*0.9*	*0.1*
Euro area	*0.5*	*0.7*	*1.4*	*0.0*	*-0.2*
Japan	*1.9*	*0.7*	*1.0*	*-0.2*	*0.2*
Emerging market and developing economies	**4.2**	**4.0**	**4.0**	**0.1**	**0.0**
East Asia and Pacific	5.1	4.8	4.2	0.3	-0.2
China	*5.2*	*4.8*	*4.1*	*0.3*	*-0.2*
Indonesia	*5.0*	*5.0*	*5.1*	*0.1*	*0.2*
Thailand	*1.9*	*2.4*	*2.8*	*-0.8*	*-0.3*
Europe and Central Asia	3.2	3.0	2.9	0.6	0.2
Russian Federation	*3.6*	*2.9*	*1.4*	*1.6*	*0.5*
Türkiye	*4.5*	*3.0*	*3.6*	*-0.1*	*-0.3*
Poland	*0.2*	*3.0*	*3.4*	*0.4*	*0.0*
Latin America and the Caribbean	2.2	1.8	2.7	-0.5	0.2
Brazil	*2.9*	*2.0*	*2.2*	*0.5*	*0.0*
Mexico	*3.2*	*2.3*	*2.1*	*-0.3*	*0.0*
Argentina	*-1.6*	*-3.5*	*5.0*	*-6.2*	*1.8*
Middle East and North Africa	1.5	2.8	4.2	-0.7	0.7
Saudi Arabia	*-0.9*	*2.5*	*5.9*	*-1.6*	*1.7*
Iran, Islamic Rep.	*5.0*	*3.2*	*2.7*	*-0.5*	*-0.5*
Egypt, Arab Rep.	*3.8*	*2.8*	*4.2*	*-0.7*	*0.3*
South Asia	6.6	6.2	6.2	0.6	0.3
India	*8.2*	*6.6*	*6.7*	*0.2*	*0.2*
Bangladesh	*5.8*	*5.6*	*5.7*	*0.0*	*-0.1*
Pakistan	*-0.2*	*1.8*	*2.3*	*0.1*	*-0.1*
Sub-Saharan Africa	3.0	3.5	3.9	-0.3	-0.2
Nigeria	*2.9*	*3.3*	*3.5*	*0.0*	*-0.2*
South Africa	*0.6*	*1.2*	*1.3*	*-0.1*	*-0.2*
Angola	*0.9*	*2.9*	*2.6*	*0.1*	*-0.5*

Notes:
For India and the Islamic Republic of Iran, the column for 2023 refers to FY 2023/24
For Bangladesh, the Arab Republic of Egypt, and Pakistan, the column for 2023 refers to FY 2022/23
Pakistan's growth rates are based on GDP at factor cost

Source: World Bank – Global Economic Prospects (June 2024)

Figure 1. Evolution of commodity prices as per the World Bank



Source: World Bank – Global Economic Prospects (June 2024)

Table 2. Commodity price forecasts as per the World Bank

Commodity	Unit	2022	2023	2024f	2025f
Energy					
Coal, Australia	$/mt	344.9	172.8	125.0	110.0
Crude oil, Brent	$/bbl	99.8	82.6	84.0	79.0
Natural gas, Europe	$/mmbtu	40.3	13.1	9.5	10.5
Natural gas, US	$/mmbtu	6.4	2.5	2.4	3.5
Liquefied natural gas, Japan	$/mmbtu	18.4	14.4	12.5	13.5
Non-Energy					
Tea, average	$/kg	3.05	2.74	2.75	2.77
Rice, Thailand	$/mt	437	554	595	550
Wheat, US, HRW	$/mt	430	340	290	285
Sugar, World	$/kg	0.41	0.52	0.50	0.46
Cotton	$/kg	2.86	2.09	2.15	2.20
Aluminium	$/mt	2,705	2,256	2,300	2,400
Copper	$/mt	8,822	8,490	8,900	8,800
Iron ore	$/dmt	121.3	120.6	110.0	105.0
Gold	$/toz	1,801	1,943	2,100	2,050
Silver	$/toz	21.8	23.4	25.0	26.0

Source: World Bank – Commodity Markets Outlook (April 2024)

The Mauritian Economy

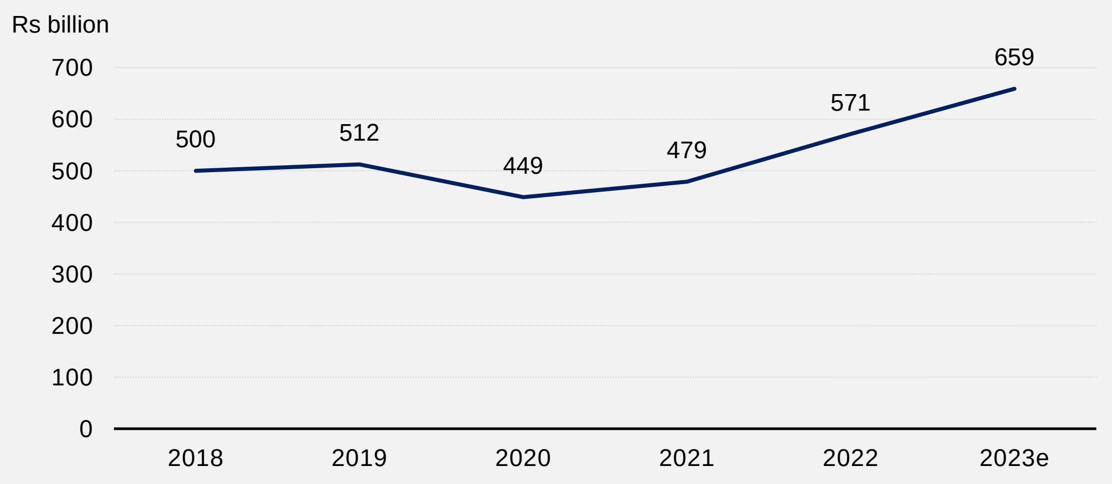
The Real Sector

Economic growth

Growth estimate for 2023

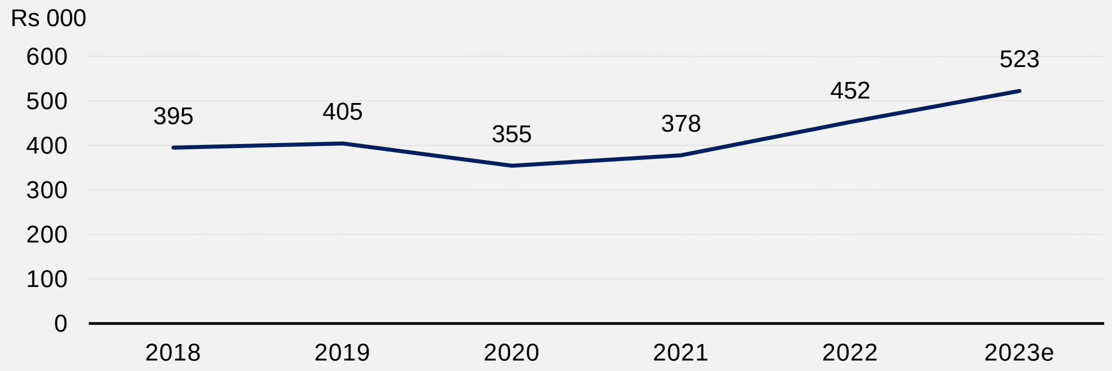
For 2023, economic growth is estimated at 7.0% by Statistics Mauritius, which reflects the favourable pathway taken up by the country following the preceding year's growth rate of 8.9%. Overall, in spite of the textile and seafood sectors contracting by 9.5% and 2.9% respectively on the back of the dimmed global landscape and endogenous dynamics, the country's growth trajectory has been buttressed by wide-ranging foundations, as testified by the dynamism exhibited by specific sectors, notably non-sugar agriculture, domestic oriented manufacturing, construction, tourism (on the back of the increase in arrivals and earnings when compared to the preceding year), ICT, transportation and storage, financial and business services as well as arts, entertainment and recreation. On the expenditure side, both public and private investment expanded by noticeable margins, in the wake, especially, of key infrastructure projects unfolding in various fields and higher FDI. This has paved the way for a rise of 30.7% in gross fixed capital formation, thus contributing to the national investment ratio edging up to attain 24.0% of GDP at market prices in 2023 as per official figures, as compared to 19.7% for the preceding year. In the same vein, notwithstanding the challenging context marked by elevated headline inflation and higher market interest rates, household consumption expenditure has held up resiliently well in 2023. In parallel, it is comforting to observe that the country's overall saving ratio has moved up by several percentage points to attain 19.3% of GDP at market prices in 2023, thus unleashing noteworthy leeway for the country to suitably fund its short- and medium-term investment aspirations.

Figure 2. Evolution of GDP at current market prices



Source: Statistics Mauritius – National Accounts Estimates (June 2024)

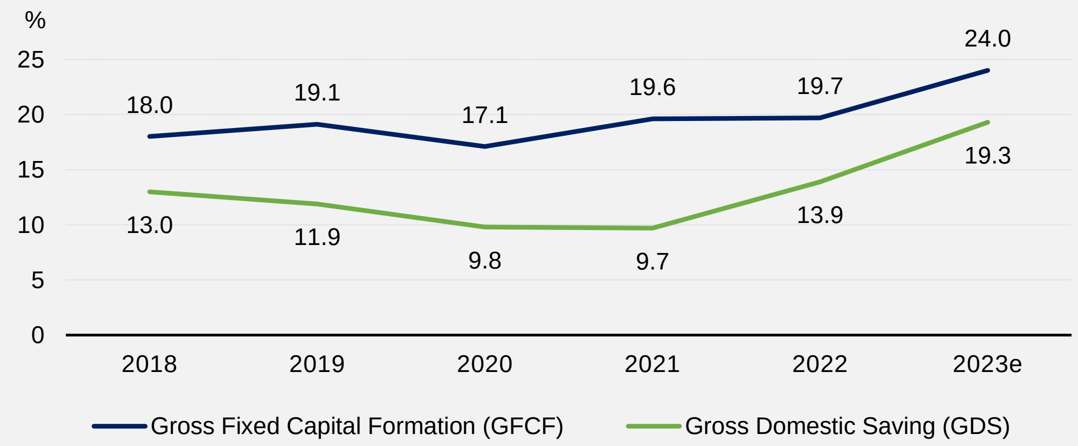
Figure 3. Per capita GDP at current market prices



	2019	2020	2021	2022	2023e
Annual real growth rate (%)	2.9	-14.5	3.4	9.2	7.1

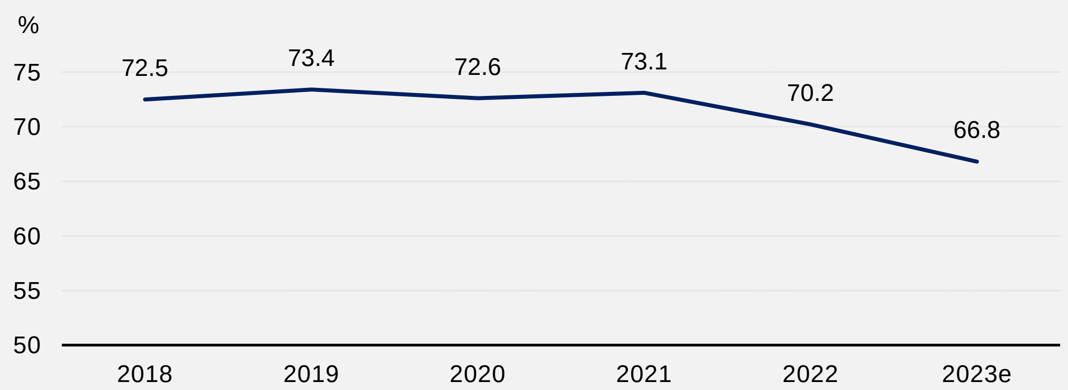
Source: Statistics Mauritius – National Accounts Estimates (June 2024)

Figure 4. Key GDP-related indicators as a % of GDP at market prices



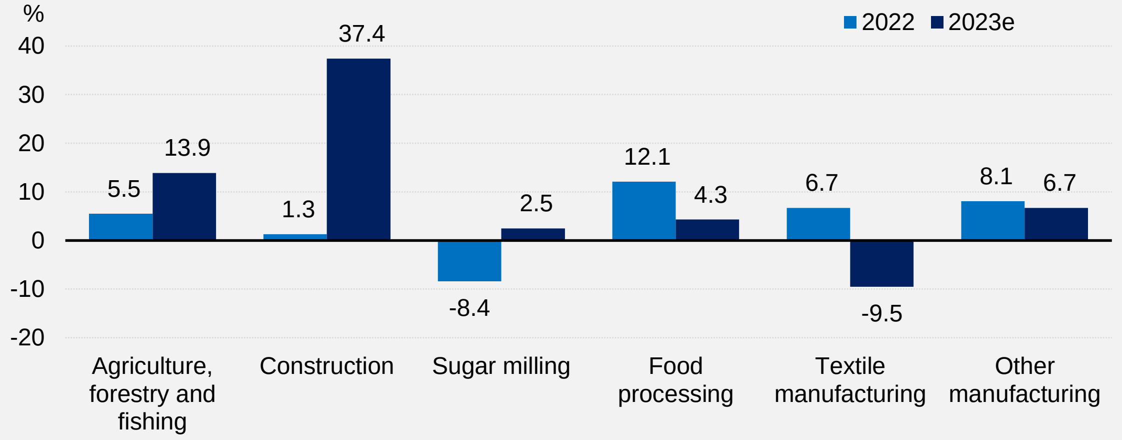
Source: Statistics Mauritius – National Accounts Estimates (June 2024)

Figure 5. Households consumption expenditure as a % of GDP at market prices



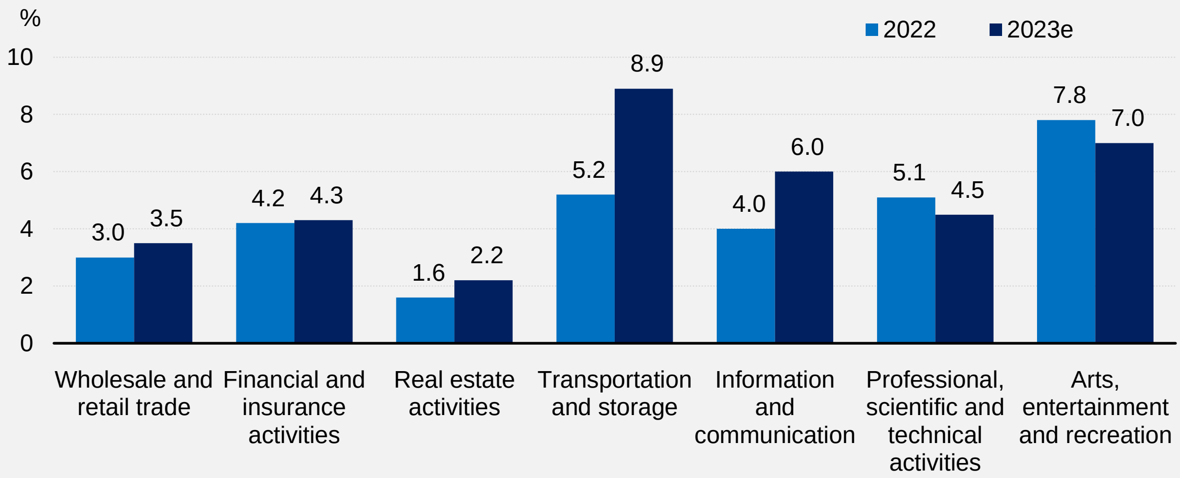
Source: Statistics Mauritius – National Accounts Estimates (June 2024)

Figure 6. Primary and secondary sectors (year-on-year real growth in value added)



Source: Statistics Mauritius – National Accounts Estimates (June 2024)

Figure 7. Tertiary sector (year-on-year real growth in value added)



Source: Statistics Mauritius – National Accounts Estimates (June 2024)

Table 3. Focus on specific economic sectors

	Year-on-year real growth in value added (%)	
	2022	2023e
Export oriented enterprises	11.8	-11.2
Seafood	16.0	-2.9
Freeport	10.0	3.1
Tourism	255.3	25.1
ICT	1.8	5.2
Global business	3.3	3.9

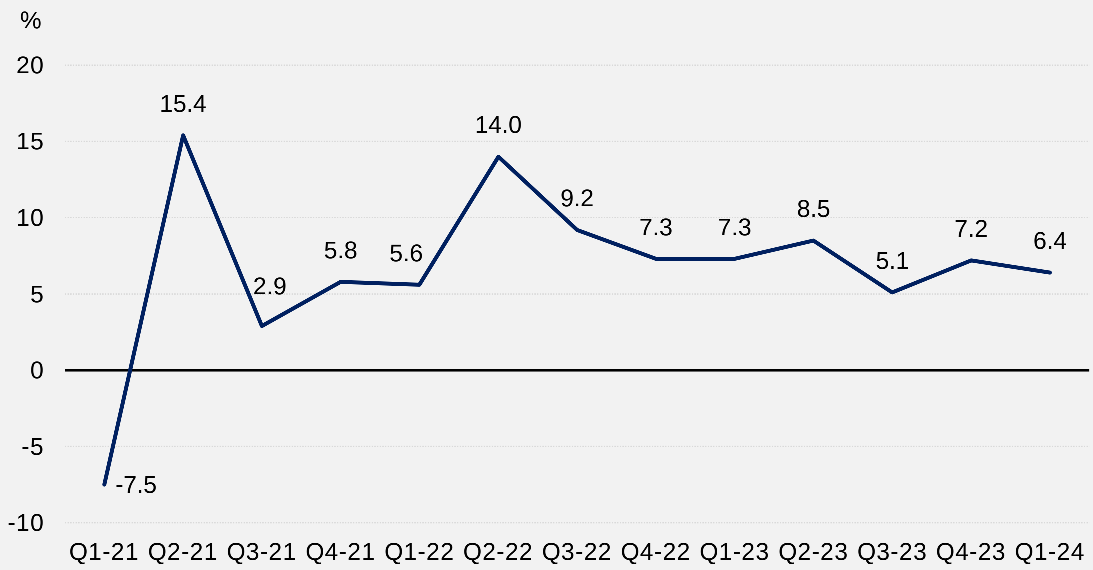
Source: Statistics Mauritius – National Accounts Estimates (June 2024)

Growth outlook for 2024

Growth estimate for the first quarter

As per latest official estimates, the economy grew by 6.4% in the first quarter of 2024, supported by the appreciable expansion rates posted by various sectors, including sugarcane, construction, transportation and storage, wholesale and retail trade, tourism, financial and insurance activities, and information and communication. On the other hand, the textile industry contracted by 7.2%. On another note, national investment increased by a noticeable margin during this first quarter.

Figure 8. Quarterly GDP at market prices (year-on-year real growth)



Source: Statistics Mauritius – Quarterly National Accounts (June 2024)

Growth projection for the year

Current prognosis

As per our baseline scenario, the Mauritian economy is, in light of latest trends and indications, anticipated to post a real GDP growth rate of 6.1% in 2024, driven by broad-based sectorial performances and favourable investment trends. Our forecast is a preliminary figure which has been formulated on the basis of current and expected future economic and market trends. It might, thus, be subject to adjustments as the context evolves. Notably, growth would depend on the speed and extent to which public and private sector investment projects would unfold and materialise in the months ahead, alongside being shaped up by value added generated by key economic sectors.

Overall appraisal

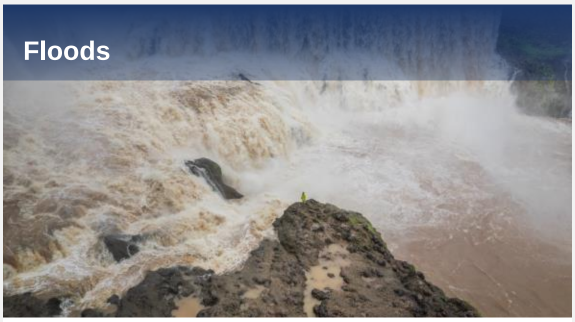
Growth for this year would, to some extent, be underpinned by recently-announced Budgetary measures, especially those aimed at promoting the ease of doing business, gearing up infrastructure and investment levels, solidifying the market space, boosting household disposable income and consumption patterns, and increasing labour supply. That said, the impact would depend on the pace at which specific measures are executed, although several initiatives would likely have a medium-term impact on the economy's performance, by virtue of their specificities and implementation journeys.

Furthermore, it can be observed that our growth outlook for 2024 undershoots last year's growth estimate of 7.0%, insofar as it is coming up on the heels of a high statistical base effect and is facing up to the backdrop of a challenging and volatile international environment. Indeed, as highlighted before, global growth predictions remain subdued, with our key export markets engulfed in testing economic territories, thus impacting consumer demand therefrom. Additionally, whereas our growth forecast for 2024 reflects the economy's sustained resilience, it needs to be constantly read in conjunction with the challenges faced by the country's real, fiscal and external sectors, which, thus, warrant that we, collectively, remain on our toes and adopt a cautious and informed policy making approach to manage and acclimatise with a fast-changing environment. Worth underscoring also, our growth forecast for 2024 is exposed to several downside risks, notably linked to the unsteady international context, with the IMF putting the cursor on the following potential worldwide threats: (i) new commodity price spikes, in the wake of geopolitical shocks and prolonged attacks in the Red Sea; (ii) continued tight monetary conditions on the back of more persistent underlying inflation; (iii) faltering growth in China, amidst deepening property sector woes as well as dented household confidence and spending; (iv) excessive fiscal consolidation in several economies to deal with rising debt ratios; and (v) intensifying geoeconomic fragmentation. On the domestic front, vigilance is being particularly called for in light of the increasingly prominent climate change phenomenon (see Box 1) – notably illustrated by extreme events such as flash floods – owing to ramifications on the country's infrastructure setup and key economic sectors such as tourism and agriculture, coupled with possible pressures on food and other consumer prices. On the upside, GDP growth can, in 2024, be higher than currently expected in the event of (i) faster-than-envisioned speed of implementation of public and private sector investments; (ii) a more acute downtrend in headline inflation; and (iii) quicker recovery in our main export markets.

Box 1 – Climate change: Description, explanations and implications

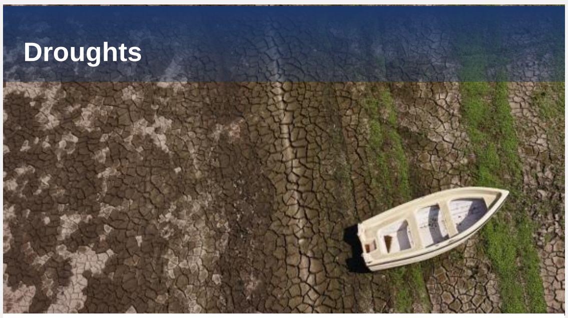
Increasingly prominent climate events triggering worldwide apprehensions

Floods



Intense and unusually heavy precipitation events that result in significant amounts of rain falling over a relatively short period of time, leading to economic and health related issues.

Droughts



Prolonged periods of abnormally low rainfall or precipitation, resulting in water scarcity and deficits in water availability that can adversely affect ecosystems, agriculture and water supplies.

Heat waves

Persisting periods of unusual temperatures above or below normal conditions over a region for at least three consecutive days.

Tropical storms

Powerful tropical storm with distinct low-pressure centre, rotating winds, heavy rainfall, resulting in widespread destruction and flooding in coastal areas.

Wildfires

Destructive and uncontrolled fire that burns in the wildland vegetation, spreading quickly due to factors such as dry conditions, high winds, and the presence of flammable vegetation.

Sea level rise

Increase in the level of world's oceans due to the effects of global warming (e.g. melting of glaciers and ice sheets), resulting in devastating effects on coastal habitats further inland.

Note: The texts and sentences above (excluding the illustrations) have been extracted from the 'Quantifying the Impact of Climate Change on Human Health' report of the World Economic Forum, based on insights from the Sixth Assessment Report of the United Nations Intergovernmental Panel on Climate Change

Background and underpinnings

Unfolding in several parts of the world, climate change is, as per various reports and studies, expected to have an increasingly disruptive and considerable impact on the lives and livelihoods of people worldwide in the periods ahead, while affecting, to different magnitudes, the modes of living, socio-economic activities and infrastructural networks, particularly in small island developing states and climate-vulnerable countries. As per the Sixth Assessment Report of the United Nations Intergovernmental Panel on Climate Change (IPCC) released in 2023, rising greenhouse gas emissions – amidst unsustainable energy use and land-use change as well as evolving lifestyles and patterns of consumption and production – have accentuated global warming, with global surface temperature reaching 1.1°C above 1850–1900 in 2011–2020. In fact, changes to the climate system have led to the increasing frequency, intensity and severity of extreme weather events. Essentially, weather-related natural disasters that are considered as having been most affected by climate change are intense rainfalls and floods, droughts, prolonged heat waves, severe tropical storms, lingering wildfires and rising sea levels. In view of widespread and rapid changes occurring in the atmosphere, ocean, cryosphere and biosphere, these dynamics are, reportedly, engendering adverse impacts on food and water security, human health as well as on economies and societies.

Observed and possible ramifications

Whereas the transmission mechanisms remain complex in spite of scientific evidence and studies undertaken and while the repercussions would depend on the specificities, geographies and the development trajectories of countries worldwide, the socio-economic costs of climate change and natural hazards are generally viewed as including the following: (i) damage to crops and productivity of the agricultural and farming sectors, amidst water scarcity, natural environment strains and soil degradation; (ii) coastal erosion and inundation, with adverse effects on the appeal of the tourism and accommodation industries; (iii) destruction of physical infrastructures and disrupted production capacities at public and private sector levels, including in terms of transportation, water, sanitation and energy systems; (iv) deforestation and desertification, leading to the loss of biodiversity and the dampening of the natural environment, while causing displacement and migration; (v) relative impairing of labour supply, thus triggering the reduced ability of countries to generate outputs; (vi) decreasing water availability, with effects on livelihoods and the production apparatus; and (vii) exacerbation of poverty levels, on the back of increased food prices in the wake of water scarcity, loss of income amidst dampened agricultural yields due to the spread of disease caused by environmental damage, increased food insecurity and crop failures, and the impact of natural disasters on property and housing. In the same vein, as per the recent World Economic Situation and Prospects report of the UN Department of Economic and Social Affairs, the longer-term effects of climate change would include loss of vegetation and biodiversity, with detrimental impacts likely to be exerted on countries' macroeconomic fundamentals and living standards.

Studies have shown, that, if not appropriately tackled, the aforementioned dynamics would, in all probability, affect countries' value-added and GDP per capita. Tellingly, the United Nations mentioned that *"Climate change is disrupting national economies and affecting lives and livelihoods, especially for the most vulnerable."* In the same spirit, the European Commission referred to the natural consequences and the social, business and territorial threats associated with climate change. It highlighted that *"Climate change affects all regions around the world. Climate change is a very serious threat, and its consequences impact many different aspects of our lives."* Along similar lines, the Managing Director of the IMF underscored that *"Climate risks are macro critical. They hit economies, communities, and households dramatically. They can cause financial instability."* As per the IPCC, *"Every increment of warming results in rapidly escalating hazards. More intense heatwaves, heavier rainfall and other weather extremes further increase risks for human health and ecosystems. Climate-driven food and water insecurity is expected to increase with increased warming."* As for the World Economic Forum, *"Climate change is transforming the landscape of morbidity and mortality and is already having profound impacts on human health and health systems. Climate change impacts health directly through disease and mental health issues, disproportionately affecting vulnerable communities. Climate change is having a profound impact on global health – whether it's connected to the dwindling supply of freshwater because of droughts, the increase in infectious disease in the aftermath of flooding or the toxic air pollution accompanying raging wildfires."*

Globally advocated economic orientations and policies

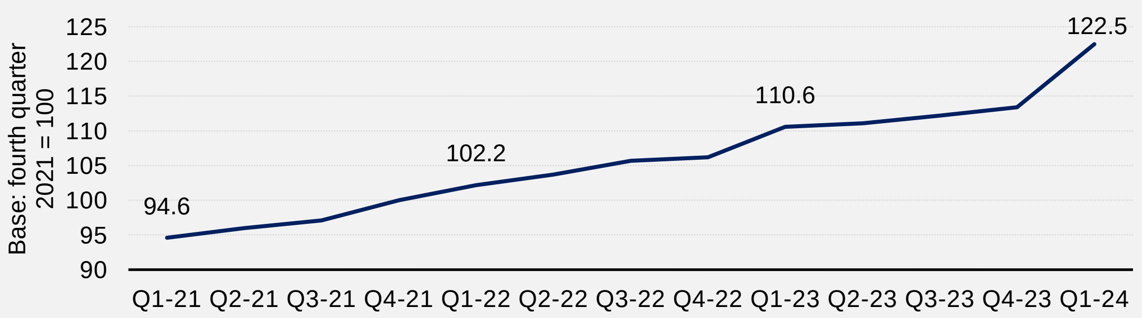
Against the above background, the IPCC has underscored that *"The solution lies in climate resilient development. This involves integrating measures to adapt to climate change with actions to reduce or avoid greenhouse gas emissions in ways that provide wider benefits. Increasing finance to climate investments is important to achieve global climate goals. Governments, through public funding and clear signals to investors, are key in reducing these barriers. Investors, central banks and financial regulators can also play their part."* As per the IMF, *"Climate change requires a transformation of the global economy toward low-carbon, climate-resilient pathways. However, this transformation poses macro-critical challenges for countries around the world. Countries need to accelerate the shift to low-carbon investments, build resilience to intensifying climate impacts and navigate the cross-border impacts of a low-carbon transition."* According to the World Bank in its January 2024 Global Economic Prospects report, bolstering global efforts to address climate change is a critical development challenge, while adding that *"Decarbonizing the global economy will require sizable investments and finance – climate finance must increase at least five-fold annually over 2023-50 to contain climate change and avoid its worst effects – at a time when investment growth is set to remain weak."* The United Nations stressed that *"To address climate change, we have to vastly raise our ambition at all levels. Much is happening around the world – investments in renewable energy have soared. But more needs to be done. The world must transform its energy, industry, transport, food, agriculture and forestry systems to ensure that we can limit global temperature rise to well below 2°C, maybe even 1.5°C. Businesses and investors need to ensure emissions are lowered, not just because it is the right thing to do, but because it makes economic and business sense as well."*

Expenditure outlook

In another respect, the country's growth in 2024 would, to a perceptible extent, be underpinned by the unfolding of key investment projects in various fields, notwithstanding their import content, the time taken for their materialisation and the rising cost of materials. Public sector investment would be underpinned by works with respect to the Metro Express project, the expansion of the road network, construction of social housing units, initiatives to boost capabilities in terms of water capture and distribution, drains upgrading programmes and other endeavours to cater for climate change imperatives, construction of public buildings as well as works intended to meet national socio-economic objectives, notably with respect to the upgrade of infrastructures in the health and education sectors. As for private sector investment, it is also projected to post a favourable growth outcome this year, with the main undertakings including (i) Smart City and land parcelling projects; (ii) initiatives in the context of the Property Development Scheme and high-end real estate activities; (iii) development of office space in various locations; (iv) works with respect to shopping malls; (v) construction and renovation of hotels; (vi) pursuance of renewable energy projects; and (vii) projects across other sectors, including manufacturing, education as well as healthcare and wellness. Against this backdrop, the national investment ratio is on course to further improve in 2024, which, therefore, puts the country in a relatively more favourable position to realise its economic development ambitions in an assured and continuous manner. Towards this end, the Public-Private Joint Committee, under the Chairmanship of the Minister of Finance, Economic Planning and Development, is a key enabler to channel and propel investments, alongside working towards the vision of triggering high and sustainable GDP growth.

Additionally, the country's expansion for this year is projected to be underpinned by a relative acceleration in the growth of household consumption expenditure, owing, to various degrees, to (i) abating inflationary pressures; (ii) improving labour market conditions; (iii) dedicated support to disposable income and purchasing power, amidst the delivery of several allowances and increased social benefits; and (iv) rising gross earnings. On the latter front, latest official figures show that the country's overall wage rate index increased by 8.0% to reach 122.5 in the first quarter 2024 from 113.4 in the fourth quarter of 2023, with upward movements being registered across a wide range of sectors.

Figure 9. Evolution of Wage Rate Index



Source: Statistics Mauritius – Wage Rate Index (First Quarter 2024)

Table 4. Evolution of income as per the 2023 Household Budget Survey (HBS)						
Monthly household disposable income						
	2012	2017		2023		
	Rs	Rs	Change (%)	Rs	Change (%)	Real increase (%) *
Average	29,421	36,803	25.1	55,600	51.1	22.4
Median	21,850	28,250	29.3	45,000	59.3	N/A

** After adjusting for an inflation of 31.2% and a decrease in household size from 3.4 to 3.2*

Source: Statistics Mauritius – Household Budget Survey 2023

Table 5. Distribution of households by income class (%)

Monthly household disposable income (Rs)	2012 HBS	2017 HBS	2023 HBS
Under 50,000	86.6	78.6	56.5
50,000 to < 60,000	4.8	7.0	10.5
60,000 to < 70,000	2.4	3.7	8.1
70,000 to < 80,000	1.6	2.9	6.5
80,000 to < 90,000	1.1	2.2	4.5
90,000 to < 100,000	1.0	1.3	3.3
100,000 & above	2.5	4.3	10.6

Source: Statistics Mauritius – Household Budget Survey 2023

Sectorial outlook

Sustained recovery in tourism

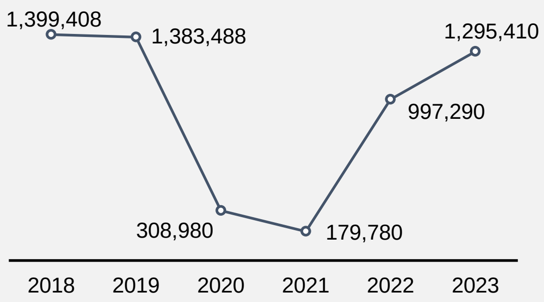
Conspicuously, the country’s growth trajectory for 2024 would be driven by wide-ranging sectorial foundations, in spite of making allowance for pressures faced in some areas, including contained, though recovering, private demand from key export markets, impacts on the operating expenses of business operators in the context of rising payroll and higher input costs, relatively elevated market interest rates as well as high, albeit ebbing, inflationary levels. As a major pillar of the Mauritian economy alongside exerting positive spillover effects on other sectors such as wholesale and retail trade, aviation, the entertainment industry and some other segments of the services sector, tourism has maintained a robust performance by posting a real growth rate of 25.1% in value added in 2023 as per latest estimates from Statistics Mauritius. Towards this end, it is worth noting that tourist arrivals attained 1,295,410 in 2023, which represents a rise of nearly 30% as compared to the preceding year, supported by the inherent credentials of the Mauritian destination, continued pent-up travel demand internationally in spite of strains thereon amidst higher cost of living in particular, currency dynamics regarding the euro and pound sterling, sustained marketing efforts as well as reinforced collaboration between the public and private sectors. Arrivals were aided by vastly-improved performances with respect to established and emerging markets such as France, the United Kingdom, Reunion Island, Germany, South Africa, India, Switzerland, Italy and Austria. Subsequently, gross tourism earnings grew by more than 32% to attain close to Rs 86 billion in 2023, with this improvement also explained by the evolution of the rupee and higher estimated tourist spending per day.

For the first semester of 2024, tourist arrivals by air registered a year-on-year increase of 6.1% to reach 625,051, with improved performances witnessed across a broad range of markets. Overall, the tourism sector is, in line with recent trends, expected to pursue its appreciable growth impetus this year, with Statistics Mauritius forecasting total arrivals to move up to around 1,400,000 compared to 1,295,410 in 2023. The tourism sector is likely to benefit from favourable demand for holiday travel in line with the generally positive outlook for the global tourism industry, the strengthening of flight connectivity and air seat capacity, sustained efforts to further diversify markets to be tapped into (with targets including India, China, South Korea, Northern and Eastern Europe, and the Persian Gulf) and the improved quality and breadth of services, helped by hotel renovation. Nevertheless, the tourism sector continues to face up to a still-complex international landscape. In its recent World Tourism Barometer, the UN World Tourism Organization stressed on key economic and geopolitical dynamics – including uncertainties linked to conflicts in the Middle East and Ukraine – posing challenges to the recovery of international tourism and weighing on traveller confidence. It underscored that *"Persisting inflation, high interest rates, volatile oil prices and disruptions to trade could continue to impact transport and accommodations costs in 2024. Against this backdrop, tourists are expected to increasingly seek value for money and travel closer to home, in response to elevated prices and the overall economic challenges."* That said, the Mauritian tourism sector is well poised to further buttress its competitiveness this year, helped by endeavours by private and public stakeholders to foster an increasingly appealing industry, with added focus on cultural as well as medical and wellness tourism. In the wake of the demanding international context, it is, as we would concur, imperative for Mauritius to tackle key challenges to which the tourism sector is exposed, including (i) dealing with staff shortages in some cases to keep pace with travel demand; (ii) adapting to evolving market preferences, which are being increasingly geared towards favouring sustainable destinations; (iii) confronting the repercussions of climate change; and (iv) promoting community empowerment and social inclusion. In this landscape, the authorities have, lately, announced that they will pursue efforts aimed at fostering sustainable tourism development and making Mauritius a Green-Certified Destination by 2030.

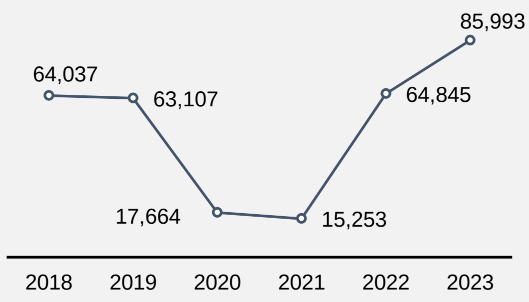
Box 2 – Recent developments in the tourism sector

Tourist arrivals have shown promising signs of recovery, reaching almost 1.3 million in 2023, thus leading to a notable rise in earnings

Tourist arrivals

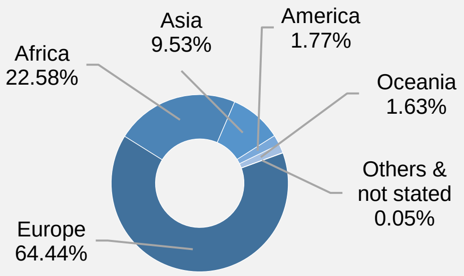


Gross tourism earnings (Rs million)



Arrivals from both established and emerging markets have progressed well in 2023, with Europe topping the list

Mix of tourist arrivals by region



Top 10 sources of tourist arrivals

Country	2022	2023	Change
France	238,864	319,522	34%
United Kingdom	140,847	145,873	4%
Reunion Island	73,336	134,222	83%
Germany	96,767	118,546	23%
South Africa	96,316	106,169	10%
India	36,956	54,137	46%
Switzerland	28,350	34,585	22%
Italy	23,035	30,307	32%
Saudi Arabia	19,388	21,122	9%
Austria	16,491	20,001	21%

Other indicators shed further light on the performance of the tourism industry

Average length of stay

Nights	
2023	11.3
2022	11.8
2021	14.7

Occupancy rate

Room	
2023	74%
2022	62%
2021	21%

Bed	
2023	66%
2022	55%
2021	17%

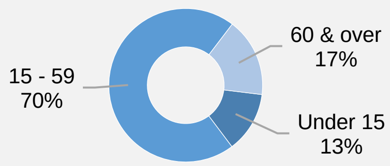
Employment (large establishments)

… at end-March	
2023	28,014
2022	27,539
2021	27,091

Tourist arrivals by main purpose of visit

	2022	2023	Change
Holiday	948,818	1,229,869	30%
Business	27,261	34,929	28%
Transit	15,840	24,525	55%
Sports	2,713	2,453	-10%
Conference	1,308	2,323	78%
Others	1,350	1,311	-3%

Tourist arrivals by broad age group



Source: Statistics Mauritius – International Travel and Tourism (Year 2023)

Other sectorial outlooks

Additionally, the country's GDP growth for 2024 would be upheld by the continued maturity development of financial and insurance activities as well as professional and business services, which would post noticeable growth rates on the back of their generally healthy business models, continued headway being realised in terms of market expansion and deepening as well as the supportive nationwide economic environment. Noticeably, the Mauritius International Financial Centre should preserve its standing as a trustworthy and competitive jurisdiction, in line with continuous efforts by the authorities and the business community to uphold its underlying credentials, while adhering to advocated international standards and continuously enriching the depth of its value proposition. The global scene is, however, becoming increasingly competitive, with the Singaporean and Indian jurisdictions calling for close tactical monitoring (see Box 3). Also, the ICT sector should continue to fare well on the back of its competitiveness and diversified business activities. Regarding the construction sector, it is, notwithstanding the significant base effect triggered by last year's growth performance, expected to post a notable expansion rate in 2024, in view of the line-up of public and private investment projects. For its part, whereas the resurgence of high global freight rates calls for scrutiny, the transportation and storage sector would fare well, on the basis of growing economic activities, rising tourist arrivals as well as expanding logistics and freight activities. Likewise, wholesale and retail trade would post an appreciable expansion rate, partly helped by initiatives from the authorities to support household disposable income. As for the seafood industry, it is likely to uphold its resilient growth track on the back of prolonged capacity building endeavours and conducive operating conditions, notably linked to higher sales volumes and prices, though the supply of raw materials remains a challenge for some operators. Reflecting efforts made to spearhead the development of entrepreneurship and the local economy as well as to boost import substitution, the agricultural and domestic oriented manufacturing sectors are expected to witness comforting growth rates this year, in spite of pressures on the cost of living as well as higher input prices and production costs in some instances. Of note also, the renewable energy sector has been gathering some good momentum in recent times, in tune with the commitment taken by the Government to achieve, by 2030, the target of 60% of renewable energy in the nationwide electricity mix. On the other hand, after contracting last year, the textile sector is anticipated to register a still-dimmed performance in 2024, on account of endogenous dynamics and subdued economic conditions prevailing in key export markets, with soft demand from global retail markets mainly reflecting the impact of high cost of living and interest rates on household spending.

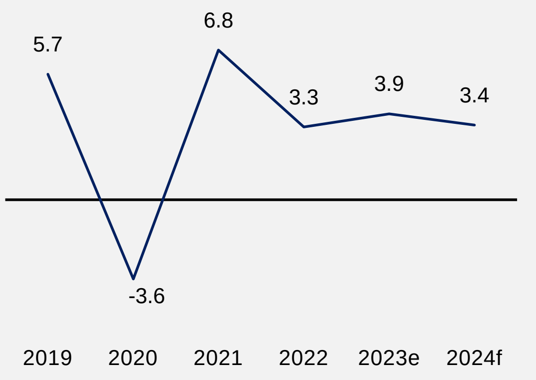
Box 3 – The Mauritian IFC: Upholding its key credentials, while coping with heightened competitive pressures

Sustained trustworthiness of the Mauritian International Financial Centre (IFC)

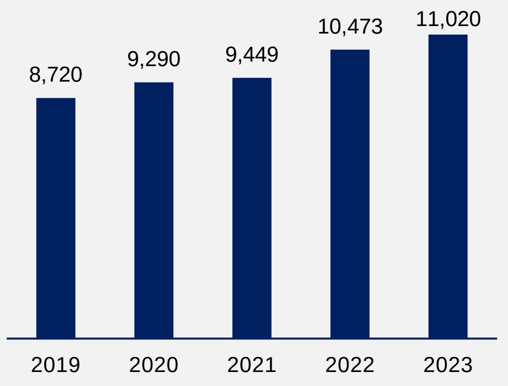
Backed by committed initiatives from the authorities and the business community, Mauritius has harnessed its image as an IFC of repute and substance, while positioning itself as a centre of excellence and a reliable hub for structuring and channelling investments. As per the latest Global Financial Centres Index, Mauritius is ranked first in sub-Saharan Africa with regard to leading financial centres, while also gaining 7 places to stand at the 61st spot on the global scale.

On the basis of its competitiveness drivers, the Mauritian IFC continues to support nationwide value added and employment creation as well as to attract a broadening array of renowned, established and nascent international businesses and investors. Key business poles propounded by Mauritius include the following non-exhaustive list: (i) exports of goods and services; (ii) cross-border investment and corporate banking, with mounting emphasis on tapping into renewable energy and ESG projects and endeavours, alongside playing a meaningful role in facilitating the achievement of the UN Sustainable Development Goals by African countries; (iii) private banking and wealth management; (iv) avenues for operators to structure businesses, for issuers to raise capital and for companies to seek listing; (v) development of Mauritius as a Fintech Hub in the region; (vi) framework for new tools and activities regarding Virtual Assets and Initial Token Offering Services; (vii) emerging products, e.g. peer-to-peer lending, crowdfunding and Artificial Intelligence-enabled services; (viii) mediation/arbitration centre; and (ix) Global Headquarters Administration. In the last National Budget, it was announced that the blueprint for the financial services sector will be reviewed in light of new opportunities, challenges and threats. Worth noting also, to consolidate the position of the Mauritian IFC, the authorities aim to (i) introduce a 10-year expert Occupation Permit to attract foreign talents in wealth management, family office, virtual assets and virtual tokens; and (ii) explore the signature of a Strategic Partnership Agreement (SPA) with India and African countries.

Real growth rate (%) of the global business sector



Employment (permanent staff) at 31 December – Licensed non-bank financial service operators



Sources: Statistics Mauritius, Financial Services Commission

The Global Financial Centres Index (GFCI): Leading jurisdictions in Africa						
Centre	GFCI 35		GFCI 34		Change in Rank	Change in Rating
	Rank	Rating	Rank	Rating		
1. Casablanca	56	688	54	682	-2	+6
2. Mauritius	**61**	**683**	**68**	**666**	**+7**	**+17**
3. Kigali	67	677	81	651	+14	+26
4. Johannesburg	82	662	83	642	+1	+20
5. Cape Town	83	661	91	628	+8	+33

Source: The Global Financial Centres Index 35 (March 2024)

Positioning of selected jurisdictions

While pursuing its growth trajectory and progressively diversifying its market positioning, the Mauritian IFC is facing up to increasingly stiff competition from other prominent jurisdictions across the world (see a couple of examples below), on the back of continued initiatives on their part to boost their visibility, attract international investors and reinforce the appeal of their value proposition.

The Singapore Financial Centre

As per various reports, Singapore is positioning itself as a key Global Financial Centre, supported by its pro-business environment, stimulating regulatory setup, conducive infrastructure, skilled professionals, favourable tax policies, reputation of integrity and efforts being made to combat money laundering. The jurisdiction is increasingly attracting prominent banks, wealth management companies, insurance corporations, traders, etc. The Monetary Authority of Singapore aspires to make Singapore the leading global financial centre in Asia by developing key focus areas, including asset management, enterprise financing, wealth management, foreign exchange and derivatives, fixed income, infrastructure finance, sustainable finance as well as insurance and risk financing.

The Gujarat International Finance Tec-City (GIFT City)

In India, the GIFT City is the central pillar of the tri-city approach, located on the banks of the Sabarmati River between Ahmedabad and Gandhinagar, each 30 minutes away from one other, with each city providing a distinct supportive ecosystem. Attracting businesses and investors from around the world on the back, notably, of dedicated fiscal incentives, modern infrastructures and overall ease of doing business, the GIFT City is positioning itself as a multi-services special economic zone, with targeted business sectors including *inter alia* banking, capital markets, fund management, insurance, aircraft/ship leasing, Global In-House Centers and FinTech. The declared vision is to create a world class finance and IT zone for India to provide financial services to India and the entire world. The jurisdiction is host to a wide range of international banks and FinTech companies. As per official reports, the GIFT City offers a platform for domestic banking and finance companies, insurance companies, IT and ITES, research organisations and back offices for pharmaceuticals, engineering, automobiles, textiles and biotechnology to establish their various businesses.

Unemployment

Key trends

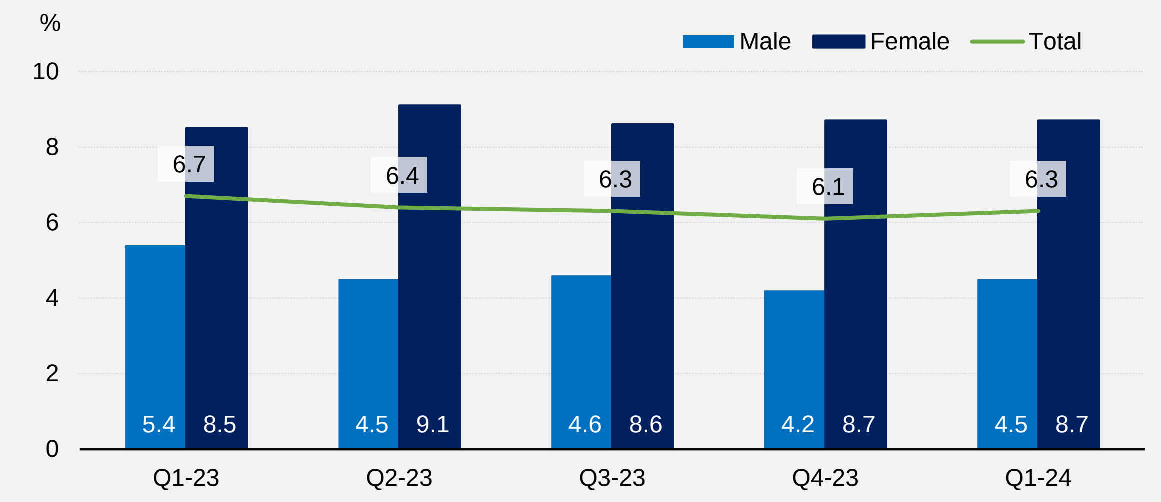
The nationwide unemployment rate witnessed a sustained decline in recent quarters, underpinned by the economic recovery impetus, rising investment, the healing of labour market conditions and job creation measures put in place by the authorities. As per official estimates, the overall unemployment rate attained 6.3% in 2023, compared to 7.7% a year before, with improvements observed with respect to both men and women. In the first quarter of 2024, the joblessness rate stood at 6.3%, with the corresponding rates for men and women being posted at 4.5% and 8.7% respectively.

Overall, while reflecting appreciable economic dynamism, labour market statistics deserve attention, especially the unemployment rate posted by the youth, notwithstanding its encouraging downward movement. In addition, whereas the metric has, on a comforting note, perceptibly improved compared to the preceding year, the country's labour activity rate – which is the ratio of the labour force to the population aged 16 years and above – stood at 58.4% in 2023, with the corresponding rate for women (at 47.5%) warranting attention by virtue to the constant need to boost supply of labour in the economy, though this metric has improved from the 43.0% posted in 2022. In a broadly similar light, while rising compared to 2022, the level of labour underutilisation prevailing in the economy also warrants analysis. Official figures show that this indicator – comprising the unemployed, the potential labour force as well as people found in skills-related and time-related underemployment – stood at 137,500 in 2023, representing 13.5% of the population aged 16 years and above and 23.2% of the labour force, thus calling for sustained initiatives to further boost human capital and productivity in favour of GDP growth.

Outlook

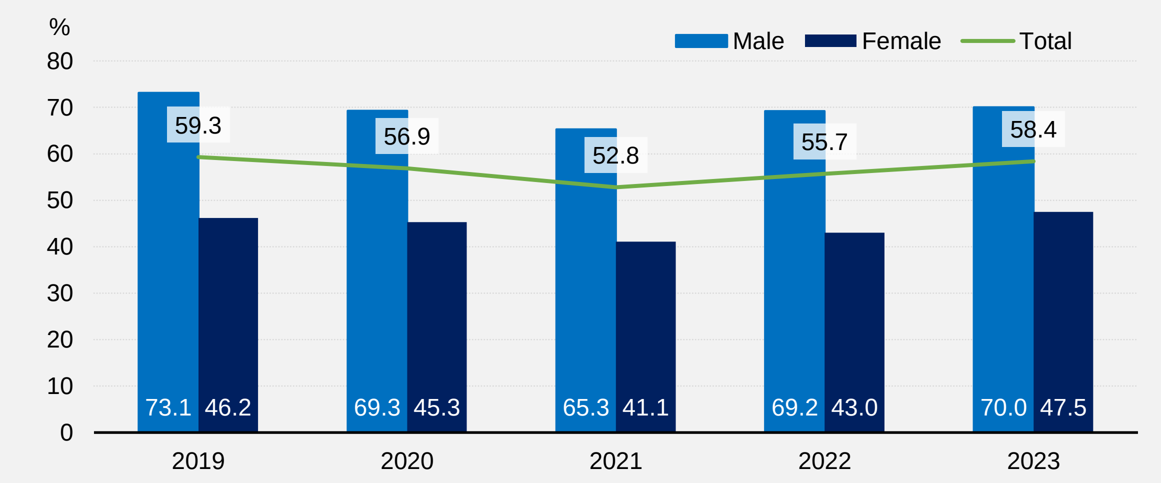
Looking ahead, though risks prevail on account, partly, of the shaky global environment, the country's unemployment rate is expected to further decline in 2024 when compared to last year, helped by the GDP growth path, enhanced sectorial performances and geared up investment trends. Over the short to medium terms, while acknowledging current policy efforts and considering the country's relative lack of natural resources, the key challenges for Mauritius are to (i) further curtail unemployment rates across sectors, gender and age groups by supporting production levels and optimising the functioning of labour markets; and (ii) broaden the pool of resources that can be availed of in view of spearheading the nationwide socio-economic progress to even greater heights, alongside tackling concerns expressed by some industries regarding the relative deficiency of labour supply with advocated skills so as to accompany them in their growth endeavours. In the same spirit, public and private stakeholders are called upon to pay heed to workplace trends and policy challenges that are gaining prominence on the worldwide scale. In a recent publication, the World Economic Forum shed light on ongoing and expected future trends, which can be put as follows: (i) generative Artificial Intelligence would boost productivity, mainly in knowledge-heavy industries such as IT and digital communications, financial and professional services, medical and healthcare services, retail, manufacturing, engineering and construction, energy and logistics; (ii) the number of global digital jobs is expected to rise to around 92 million by 2030, which would present an opportunity to utilise talent, thus widening the talent pool available to employers and providing economic growth pathways to countries across the income spectrum; and (iii) closing economic gender gaps and having more women entering the workforce could meaningfully unlock economic value added across countries. As for the International Labour Organization, *"To address structural labour market and skills shortages will require efforts to improve labour market attachment and upskilling, especially for vulnerable groups. More fundamentally, policies to improve productivity growth and working conditions need to be prioritized. New challenges around rising market concentration and ecological sustainability also need to be addressed…"*

Figure 10. Quarterly unemployment rate



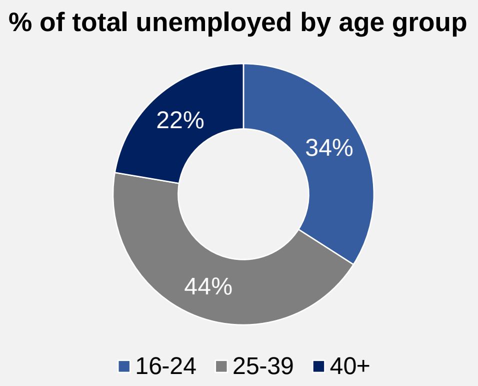
Source: Statistics Mauritius – Labour Force, Employment and Unemployment (First Quarter 2024)

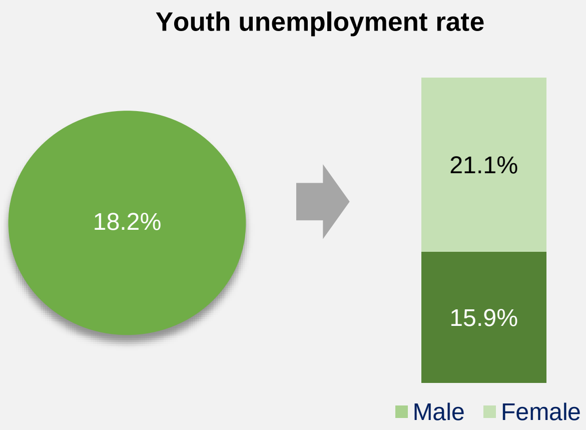
Figure 11. Annual activity rate



Source: Statistics Mauritius – Labour Force, Employment and Unemployment (Year 2023)

Figure 12. Unemployment by age group (2023)





Sources: Statistics Mauritius – Labour Force, Employment and Unemployment (Year 2023), SBM Staff Estimates

Inflation

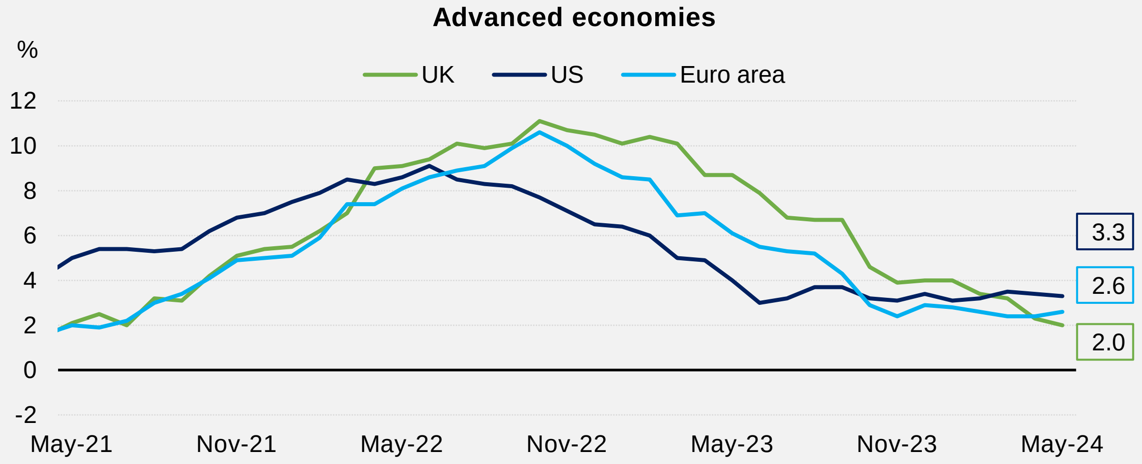
Latest estimates

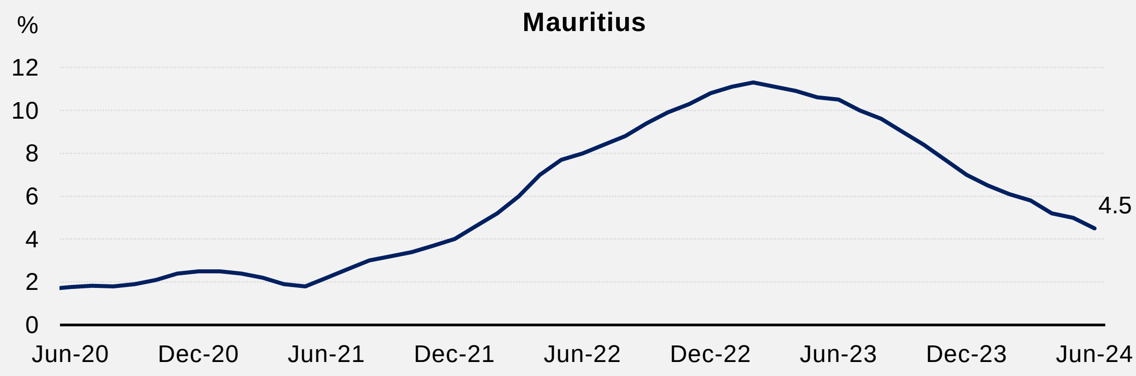
As per the IMF, inflation is, in most regions of the world, falling from its 2022 peak, in the midst of unwinding supply-side issues and restrictive monetary policy, while also reflecting the fading of prior energy price shocks and of their pass-through to core inflation as well as the easing in labour market tightness. In the euro area, whereas it went down to 2.4% in March 2024 – with the core rate, which excludes energy, food, alcohol and tobacco, also cooling down – inflation surpassed forecasts by market participants and picked up to reach 2.6% in May 2024, which marks the first increase in the annual inflation rate since December 2023. In the US, inflation has pursued a rather erratic trend during the past few months. It slowed to 3.3% in May 2024, as cheaper gasoline and other goods offset higher costs for rental housing. In Mauritius, headline inflation has, in line with international tendencies and notwithstanding the evolution of the rupee’s exchange rate, posted a continuous downward movement before reaching 4.5% in June 2024, thus featuring within the Bank of Mauritius target range of 2% - 5% as part of its Monetary Policy Framework. This trend has been, partly, driven by a favourable statistical base effect and the relative easing of commodity prices on the worldwide scale. Whilst staying in an unsteady zone, oil prices declined by a non-negligible margin during the course of 2023. However, during the current year, oil prices have remained subject to high volatility and rose above USD 80 per barrel, amidst exacerbated geopolitical tensions and production cuts by the OPEC. Besides, the Food Price Index of the UN Food and Agriculture Organization averaged 120.6 in June 2024, i.e. around 25% below its peak reached in March 2022. The evolution of headline inflation has also been driven by the tightening of the benchmark interest rate by the Central Bank, with the latter highlighting that the absorption of a significant amount of excess rupee liquidity from the banking system under the new Monetary Policy Framework continues to work through the economy alongside keeping inflation expectations well-anchored. As for year-on-year inflation, it had increased to 6.2% in February last, amidst adverse climatic conditions, but edged down thereafter to eventually attain 2.2% in June 2024.

Projected trends

Looking ahead, headline inflation in Mauritius is, barring any price shocks on the worldwide scale, anticipated to further decline in the coming months, before hovering around 4.5% in December 2024 as per current baseline projections. The inflation path would be underpinned by the positive statistical impact of a high computational base, successive hikes in market interest rates, a relative easing in food, energy and other commodity prices coupled with their pass-through effects, and adjustments to domestic vegetable prices. However, for the periods ahead, the evolution of international commodity prices is subject to non-negligible uncertainties. Future oil price trends are likely to be largely dependent on the scale and depth of geopolitical developments in Ukraine and the Middle East as well as any repercussions on specific oil-producing nations, amidst any investor concerns about potential supply disruptions, while the demand-pull impact of ongoing economic growth and investments in the US and China as well as lingering supply constraints by the OPEC could also matter. As per the IMF, a possible re-escalation of the war in Ukraine could, in the periods ahead, exacerbate supply-side disturbances and constrain cross-border flows of food, fuel and fertilizer, thus causing additional price volatility, while escalating conflicts in the Middle East could lead to a surge in oil prices. In addition, inflation in Mauritius would, to different magnitudes, be shaped by dynamics at various levels, including (i) currency trends, particularly in a context of general US dollar strength; (ii) climate change; and (iii) the evolution of global shipping freight rates in the wake of the lingering and complex crisis affecting key trade routes. In the latter respect, soaring rates were observed in recent months, amidst (i) escalating conflicts in the Middle East and continued attacks on ships in the Red Sea, through which more than 10% of global trade transits; (ii) geopolitical tensions affecting shipping in the Black Sea; and (iii) weather-related challenges in the Panama Canal. Amidst attacks on commercial vessels, disruptions in the Red Sea – which translated into longer ocean transits as a result of the rerouting of cargo from the Suez Canal via the Cape of Good Hope – impacted supply chains and led to increased shipping costs, with the Drewry World Container Index rising by 337% since October 2023.

Figure 13. Evolution of headline inflation





Sources: Eurostat, Office for National Statistics (UK), US Bureau of Labor Statistics, Statistics Mauritius – Consumer Price Index

Table 6. Headline inflation by category – Jun-24 (%)

Food and non-alcoholic beverages	7.1
Alcoholic beverages and tobacco	8.1
Clothing and footwear	3.5
Housing, water, electricity, gas and other fuels	6.1
Furnishings, household equipment and routine household maintenance	4.4
Health	6.0
Transport	-1.3
Information and Communication	0.5
Recreation, sport and culture	3.7
Education services	2.9
Restaurants and accommodation services	5.5
Insurance and financial services	3.2
Personal Care, social protection and Miscellaneous goods and services	4.4
Overall headline inflation	**4.5**

Sources: Statistics Mauritius – Consumer Price Index, SBM Staff Estimates

The Financial Sector

Banking and financial stability

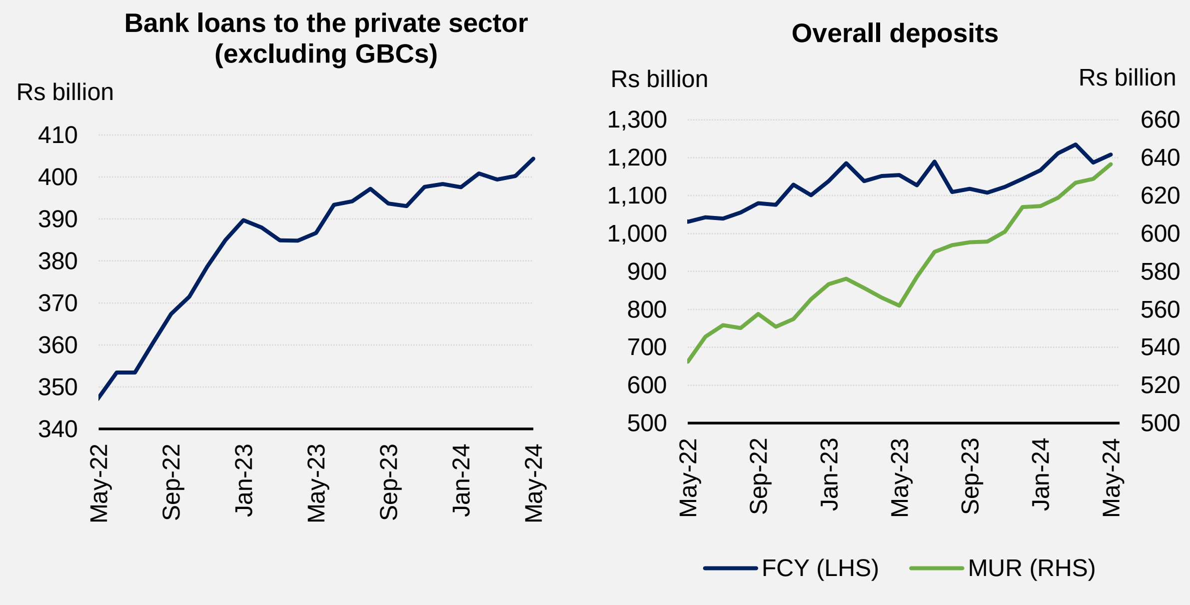
Industry resilience

In recent periods, the banking system has maintained its overall stability and resilience, underpinned by (i) efforts made by the authorities to preserve the country's economic fundamentals, coupled with the stipulations and macroprudential policies set by the Central Bank; and (ii) the generally sound business models and risk management policies adopted by operators, with the latter making headway in further reinforcing their balance sheets along with boosting their capital and liquidity buffers to cushion against any potential shocks. As per the Bank of Mauritius, *"Financial stability concerns have subsided considerably over the past year. In particular, a consistent drop in banking sector vulnerabilities has been noted. The improvement in macroeconomic conditions together with enhanced resilience of the banking sector have helped to contain macrofinancial risks."* As at end-December 2023, the banking sector's capital adequacy ratio stood at 21.0%, which is well above the applicable minimum regulatory requirements, while the liquidity coverage ratio remained comfortable. The industry's gross NPL ratio improved by 40 basis points over the last quarter of 2023 to reach 4.4%, with a provision coverage ratio of 46.7%. In the same vein, banks continued to support the real sector, with total credit to the private sector posting a year-on-year growth rate of 4.6% in May 2024, including strong household credit growth of 11.5%. Of note also, banks have continued to attract foreign-sourced deposits and financial flows, thus testifying to the sustained credibility of the Mauritian International Financial Centre.

Notwithstanding risks associated with the global environment and domestic challenges faced – on the back, mainly, of elevated inflation and higher debt servicing costs associated with the interest rate environment – the country has preserved its financial and macroeconomic stability at various levels, with structural and cyclical vulnerabilities in the financial system being well managed. Specifically, despite families at the lower end of the income ladder facing up to some strains, the household sector has held up well, with the level and quality of credit demand benefitting, amongst others and in different respects, from the sustained improvement in economic conditions and favourable prospects, improved labour market developments, income support from the authorities and anticipations of higher property prices. Tellingly, reflecting the capacity of the household sector to service debt obligations, its NPL ratio declined to a multi-year low of 1.8% in December 2023. Other performance indicators also make for good reading, notably total household indebtedness to the financial system as a ratio to GDP as well as household debt as a share of household income. As for the corporate sector, in spite of rising operational and financial costs engendered by inflation and interest rates dynamics, financial stability risks have been reasonably contained, helped, especially, by healthy earnings posted by business operators in the context of good performances exhibited by several economic sectors as well as the favourable business environment and outlook. Thus, resilient demand for credit has been observed in this sector, while the quality of domestic corporate assets in banks' books has stayed encouraging. At another level, the Central Bank has continued to oversee the functioning of currency markets, backed by regular interventions, while the issue of Bank of Mauritius Notes and active open market operations have played a key role in absorbing excess rupee liquidity prevailing in the system. Of note, after gaining grounds by a noticeable margin during the closing months of 2023 – on the back of international developments and the domestic policy environment – the effective exchange rate of the Mauritian rupee has depreciated since, against the backdrop of the global environment as well as the unfolding of demand and supply conditions domestically, thus warranting continued policy attention.

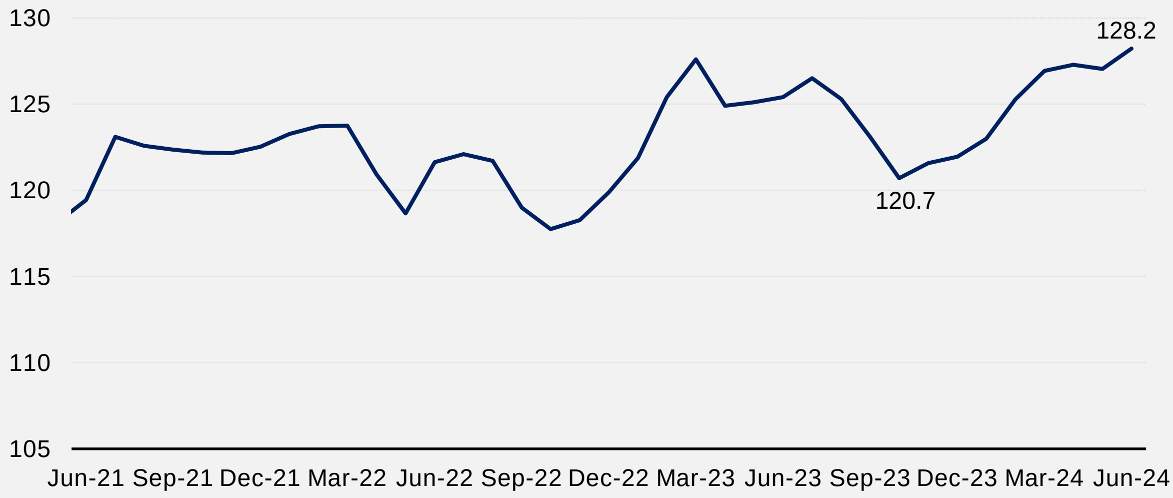
Looking ahead, whereas continuous monitoring thereof is called for, the robustness of the country's banking and financial system would be dependent on both international and domestic forces. While the favourable real GDP growth trajectory being embarked upon by Mauritius is a positive sign underpinning the activities and strength of the banking sector, the latter's performance would also benefit from the expected further improvement in overall market conditions, with a supportive factor being the ongoing decline in headline inflation, which is likely to positively influence loan quality and debt servicing.

Figure 14. Evolution of loans and deposits in the banking sector



Source: Bank of Mauritius – Banks' credit to private sector & Sectoral Balance Sheets

Figure 15. Effective exchange rate of the Mauritian rupee (MERI2)



Notes:
(i) The Mauritius Exchange Rate Index (MERI), which is a weighted average of bilateral exchange rates for the Mauritian rupee, is a summary measure of the rupee's movements against the currencies of its important trading partners
(ii) MERI2 is based on the currency distribution of merchandise trade and tourism earnings
(iii) The base year of the MERI is January - December 2007 = 100
(iv) An increase (decrease) in the index indicates a depreciation (appreciation) of the rupee

Source: Bank of Mauritius – Dissemination of Mauritius Exchange Rate Indices

Table 7. Evolution of main currencies against the Mauritian rupee

As at 12-Jul-2024	Change (%)		
	Year-on-year	Year-to-date	Annual average
USDMUR	2.6	5.9	1.1
EURMUR	1.7	4.5	1.3
GBPMUR	2.8	7.7	3.8

Sources: Bank of Mauritius, SBM Staff Estimates

› The Fiscal Sector

Public finance

Recent estimates

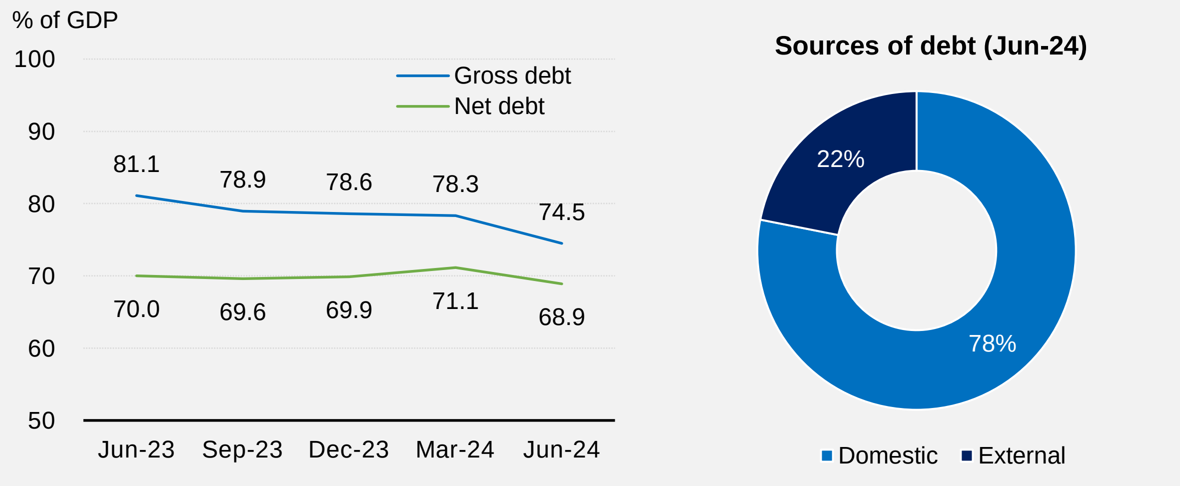
At its recent Fiscal Policy and Sovereign Debt Conference, the IMF has highlighted that *“Today at 93 percent of GDP, global debt is 9 percentage points above pre-pandemic highs. By 2029 it is projected to reach around 100 percent of GDP. In the US, China, and Japan respectively, debt-to-GDP ratios are forecast to reach 133, 106 and 251 percent by 2028.”* Comparatively, while caution is warranted when comparing countries worldwide given their different specificities, it is worth noting that – whereas significant resources have, in recent periods, been mobilised to support growth endeavours and shield the economy from any potential shocks – Mauritius maintained resilient fiscal and debt metrics lately, as shown by official figures. Helped by fiscal consolidation efforts and the recovery process, the budget deficit is estimated at 3.9% of GDP in FY 2023/24, compared to 4.8% of GDP a year earlier. As per Budgetary pronouncements, the budget deficit is forecast to further decline in the years ahead to reach 2.7% in FY 2026/27. Of note also, the deficit on the primary balance, which excludes interest payments, is projected to improve from 1.3% of GDP in FY 2023/24 to 0.3% by the end of FY 2026/27. In the same vein, latest figures show that the public sector net debt has declined at a gradual pace to attain an estimated 68.9% as at end-June 2024, with the projected rate as at the end of FY 2026/27 being 60.2%.

The way forward

Looking ahead, the public debt management strategy of the authorities – in line with the macroeconomic framework formulated as part of the National Budget – is to enhance debt sustainability and improve the soundness of the debt profile, while managing risks and reducing costs involved. As per the authorities, *“Total external debt is expected to go down to around 23% of GDP over the medium term from about 29% at present. This is to be achieved through improvement of debt levels as a ratio to GDP for all category of debt holders. Furthermore, the debt service ratio over the medium term is scheduled to be contained at its present level of 3%, well below the set limit of 6%. Foreign exchange risks will be contained by meeting the majority of Government financing needs from domestic sources. Accordingly, the share of external debt in Government debt portfolio is planned to be maintained at 19% over the medium term well below the benchmark of 20%. In the same vein, the share of external debt in the public sector debt portfolio will be kept below the benchmark of 24%, with domestic debt set at 76%.”* Another declared target is to reduce refinancing risks by lengthening the maturity profile of Government debt from around 5.6 years currently to 6 years over the medium term, while curtailing the share of short-term debt in Government domestic debt portfolio from around 11% at present to 9.8%.

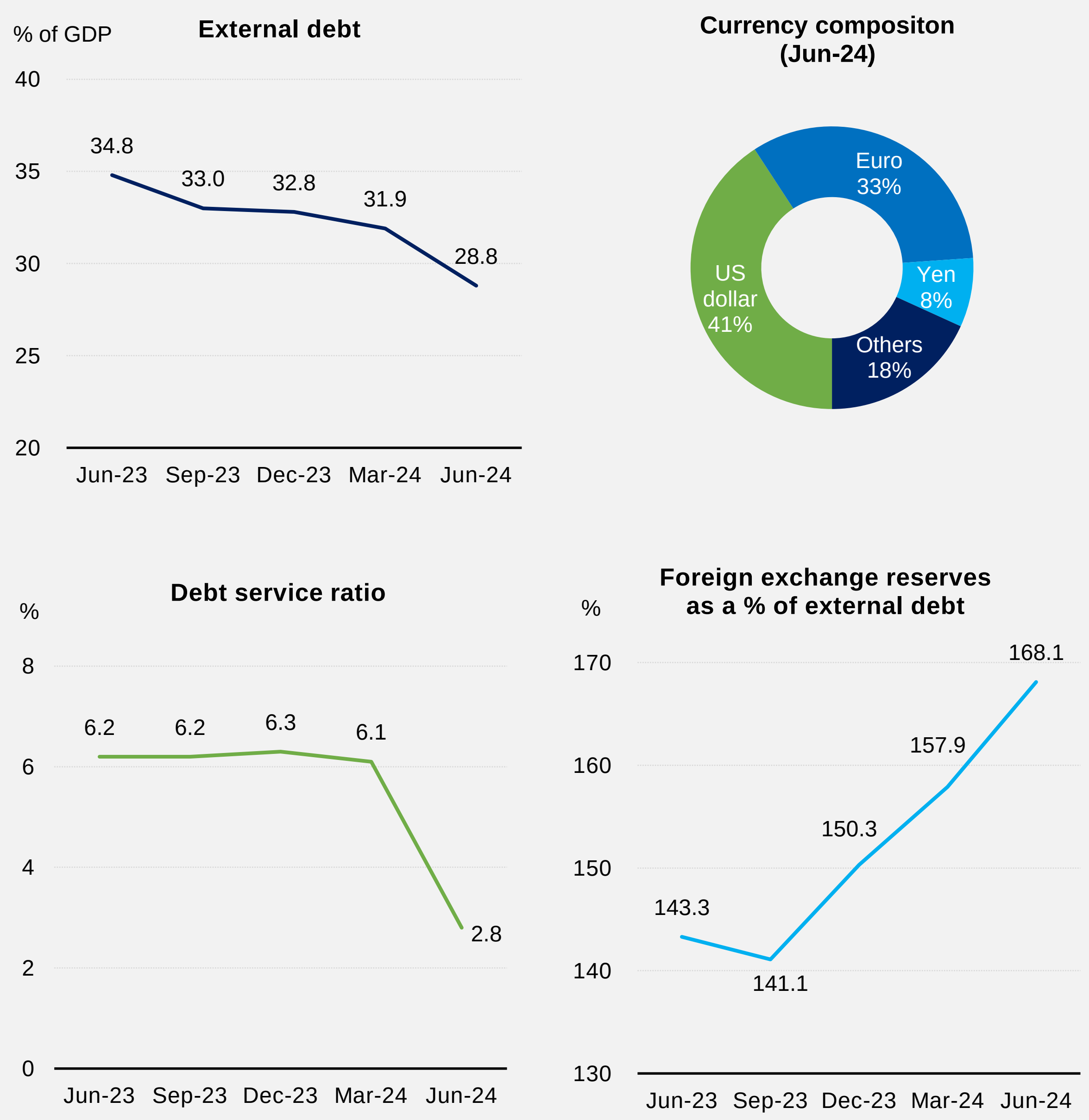
Over the short and medium terms, the country's fiscal ratios are, barring major shocks, expected to remain in generally appreciable territories in the wake of growing economic activities, a higher GDP base, dedicated policy measures as well as other factors and dynamics. Nonetheless, potential fiscal vulnerabilities call for monitoring, especially given the testing global landscape and volatile international markets, though the situation is currently being managed. This overall context, consequently, highlights the need for Mauritius to keep on harnessing fiscal buffers to bolster socio-economic advancement and tackle any potential crisis, with emphasis on (i) striking the right balance between the maintenance of social safety nets to protect the vulnerable segments of the population and the imperativeness of growth-enhancing expenditures, notably in physical infrastructures, helped by strengthening public investment management and the thoughtful recourse to Public Private Partnerships; (ii) upholding the inherent attractiveness of the income tax regime towards nurturing a conducive investment climate; (iii) reinforcing tax administration and revenue mobilisation mechanisms in view of boosting even more the buoyancy of the tax system; (iv) further reducing debt ratios over the medium term, while preserving the country's investment-grade sovereign rating status and facilitating access to international financial markets whenever required; and (v) implementing well-timed medium-term fiscal plans, backed by a concerted mix of policy measures. On a medium- and long-term basis, upholding favourable and sound fiscal ratios is key to delivering Mauritius with the flexibility and spending space to effectively and opportunely confront the key challenges coming along the country's way, including the climate change phenomenon and the population ageing process (see Box 4).

Figure 16. Evolution and composition of public sector debt



Source: Ministry of Finance, Economic Planning and Development – Debt Data (March 2024) & National Budget 2024/2025 (Medium Term Macroeconomic Framework, Fiscal Strategy and Debt Management Strategy)

Figure 17. The national external debt



Note: Excluding capital repayment of USD 250 million relating to a short-term bridging facility, the debt service ratio would be 2.8%, 3.0% and 2.8% for year ended September 2023, December 2023 and March 2024 respectively

Source: Ministry of Finance, Economic Planning and Development – Debt Data (March 2024) & National Budget 2024/2025 (Medium Term Macroeconomic Framework, Fiscal Strategy and Debt Management Strategy)

Table 8. Fiscal trajectory: Underlying metrics

	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Public Finance	*% of GDP*			
Recurrent Revenue	24.6	25.9	25.6	25.0
o/w Taxes	*21.8*	*22.9*	*22.9*	*22.4*
Non-Tax Revenue	*2.8*	*3.0*	*2.7*	*2.6*
Recurrent Expenditure	26.2	26.3	25.5	24.5
o/w Interest	*2.6*	*2.5*	*2.5*	*2.4*
Recurrent Balance - Surplus (+) / Deficit (-)	**-1.6**	**-0.4**	**0.1**	**0.5**
Capital Revenue	0.2	0.5	0.5	0.2
o/w Capital Grants	*0.1*	*0.3*	*0.5*	*0.2*
Capital Expenditure	2.5	3.4	3.7	3.4
o/w Acquisition of Non-Financial Assets	*1.3*	*1.4*	*1.5*	*1.7*
Capital Balance - Surplus (+) / Deficit (-)	**-2.3**	**-2.9**	**-3.2**	**-3.2**
Budget Balance - Surplus (+) / Deficit (-)	**-3.9**	**-3.4**	**-3.1**	**-2.7**
Primary Balance - Surplus (+) / Deficit (-)	**-1.3**	**-0.8**	**-0.6**	**-0.3**
Government Borrowing Requirements	**4.4**	**4.8**	**3.4**	**3.2**
	Rs million			
Budget balance *(before Net Acquisition of Financial Assets)*	**-27,377**	**-26,819**	**-26,916**	**-26,285**
Net Acquisition of Financial Assets	**4,415**	**11,510**	**3,137**	**4,697**
Domestic	3,668	9,184	2,699	4,259
Loan to Parastatal Bodies	*433*	*3,050*	*3,305*	*4,376*
Reimbursement of Loan by Parastatal Bodies	*205*	*970*	*1,648*	*963*
Equity Purchase/Participation	*3,441*	*7,105*	*1,042*	*846*
Foreign	465	1,206	418	418
Loan to International Organisations	-	*750*	-	-
Equity Purchase/Participation	*465*	*456*	*418*	*418*
Net SDR Transactions	282	1,120	20	20
Adjustment for difference in cash and accrual interest	-1,100	-300	-300	-300
Public Debt	*% of GDP*			
Budgetary Central Government Debt	65.4	63.0	60.4	57.9
Public Sector Gross Debt	74.5	71.1	67.7	64.1
Public Sector Net Debt	68.9	67.0	64.0	60.2

Source: Ministry of Finance, Economic Planning and Development – National Budget 2024/2025 (Medium Term Macroeconomic Framework, Fiscal Strategy and Debt Management Strategy & Statement of Government Operations)

Table 9. Fiscal trajectory: Recurrent Budget					
	2023/24 estimates	2023/24 revised estimates	2024/25 estimates	2025/26 planned	2026/27 planned
	Rs million				
Recurrent Revenue	**176,780**	**173,364**	**206,820**	**225,750**	**242,260**
Tax receipts	156,241	153,545	182,640	201,965	217,114
Social contributions	13,142	12,195	13,815	15,414	16,698
Recurrent grants	357	270	1,452	186	93
Other revenue	7,040	7,355	8,913	8,185	8,355
Recurrent Expenditure	**178,400**	**184,400**	**210,100**	**224,500**	**237,400**
Compensation of employees	38,938	38,588	41,743	46,751	50,640
Purchase of goods and services	13,706	14,565	15,160	14,390	14,551
Interest (accrual basis)	17,800	18,500	20,100	21,700	23,300
Subsidies	2,679	2,501	2,876	2,926	2,971
Grants to parastatal bodies / local authorities / RRA	30,294	31,469	33,454	35,168	37,107
Social benefits	60,734	63,451	77,574	82,896	85,847
Other expense	13,649	15,326	18,592	18,669	18,985
Contingencies	600	-	600	2,000	4,000
Recurrent balance	**-1,620**	**-11,036**	**-3,279**	**1,250**	**4,860**

Source: Ministry of Finance, Economic Planning and Development – National Budget 2024/2025 (Statement of Government Operations)

Table 10. Fiscal trajectory: Capital Budget					
	2023/24 estimates	2023/24 revised estimates	2024/25 estimates	2025/26 planned	2026/27 planned
	Rs million				
Capital Revenue	**2,380**	**1,387**	**3,680**	**4,350**	**1,795**
Capital grants	1,819	824	2,260	4,350	1,795
o/w External Grants	*1,819*	*824*	*1,910*	*4,050*	*1,795*
Transfer from Special Funds	561	563	1,420	-	-
Capital Expenditure	**21,778**	**17,728**	**27,220**	**32,515**	**32,940**
Acquisition of Non-Financial Assets	11,867	8,824	11,029	13,399	16,402
Grants to parastatal bodies / local authorities / RRA	3,295	2,509	2,895	2,944	2,713
Transfer to Special Funds	4,500	4,500	10,300	13,200	12,000
Other Transfers	1,916	1,895	2,495	2,473	1,325
Contingencies	200	-	500	500	500
Capital balance	**-19,398**	**-16,341**	**-23,540**	**-28,165**	**-31,145**

Source: Ministry of Finance, Economic Planning and Development – National Budget 2024/2025 (Statement of Government Operations)

Box 4 – Ageing population: Trends and implications

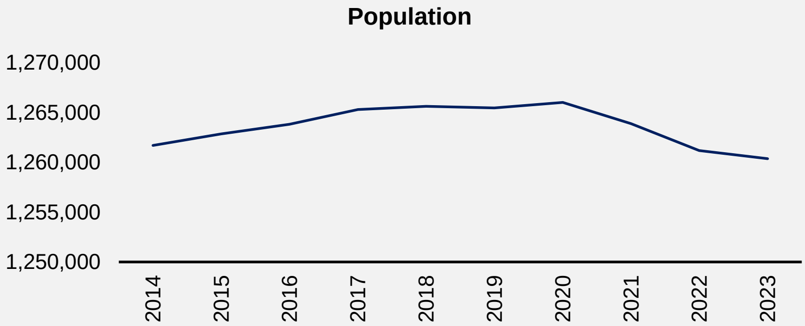
The global ageing phenomenon

According to the IMF, *"Population aging is the top global demographic trend. Population growth rates vary considerably across countries, income groups, and geographic regions. The world's rate of population growth has slowed appreciably in recent decades and is projected to continue slowing. The rate of growth of the working age population (15-64 years old) has been declining since the 1980s and the dependency ratio, which is defined as the ratio of people 65 and older to those between 15 and 64, has been rising, as the ranks of older people spending more years in retirement has grown relative to the working-age population, with these developments being driven by declining fertility rates and increasing longevity."* As per the UN in its World Population Prospects, *"The world's population is ageing. Virtually every country in the world is experiencing growth in the number and proportion of older persons in their population. The proportion of people aged 65 years and above is increasing at a faster rate than those below that age. This means that the percentage of the global population aged 65 and above is expected to rise from 10% in 2022 to 16% in 2050. It is projected that by 2050, the number of individuals aged 65 years or above across the world will be twice the number of children under age 5 and almost equivalent to the number of children under 12 years."*

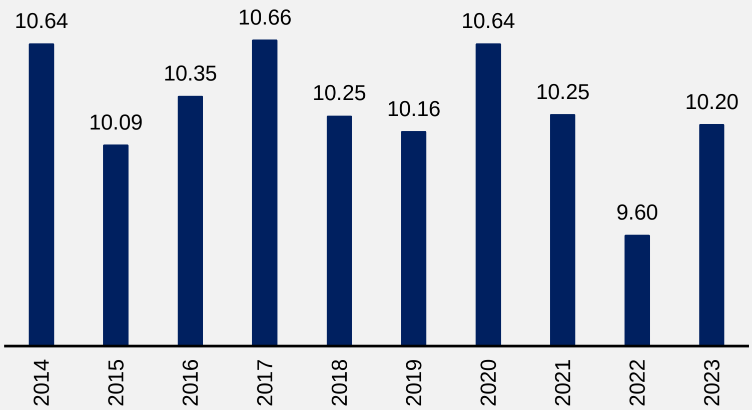
The ageing population dynamics in Mauritius

Recent evolution and main explanations

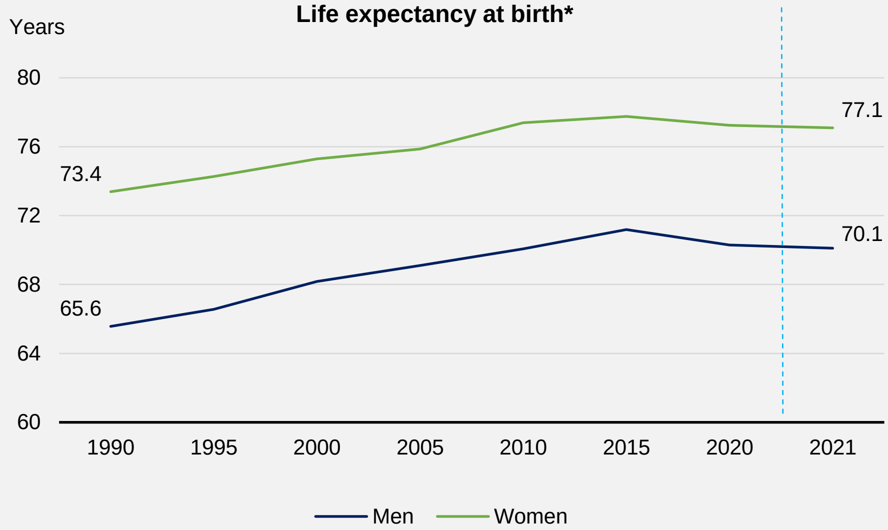
In Mauritius, the ageing population process warrants our attention given the potential implications in terms of economic growth, productivity levels, social policies and fiscal imperatives over time. This process is, notably, being triggered by declining fertility metrics amidst evolving socio-economic realities, thus resulting in a decreasing share of young people in the total population. Latest figures show that the crude birth rate, which is the number of live births per 1,000 population, declined over time to attain 10.2 in 2023. As per Statistics Mauritius, the number of births per 1,000 population has decreased by 75% over the past 60 years. Of note, this situation contributed to the country's overall population to post negative annual growth rates in 2021, 2022 and 2023. Moreover, the ageing of the population is attributable to increased longevity, which has led to a gradual rise in the proportion of older people in the total population. Rising life expectancy rates have, in general, been spurred by improved living conditions and headway realised in terms of nutrition, healthcare and education.



Crude birth rate



Life expectancy at birth*

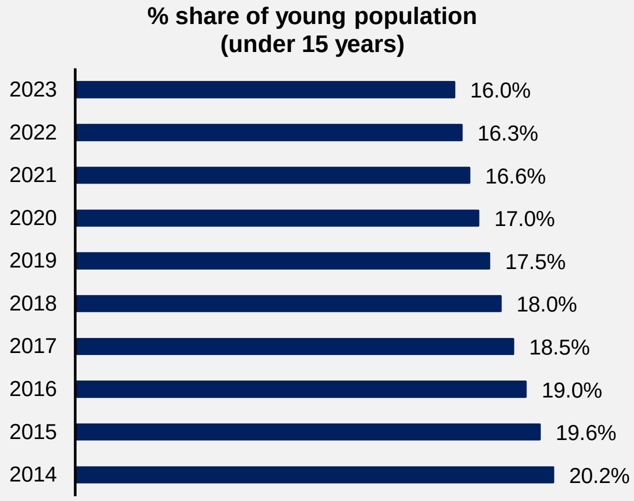


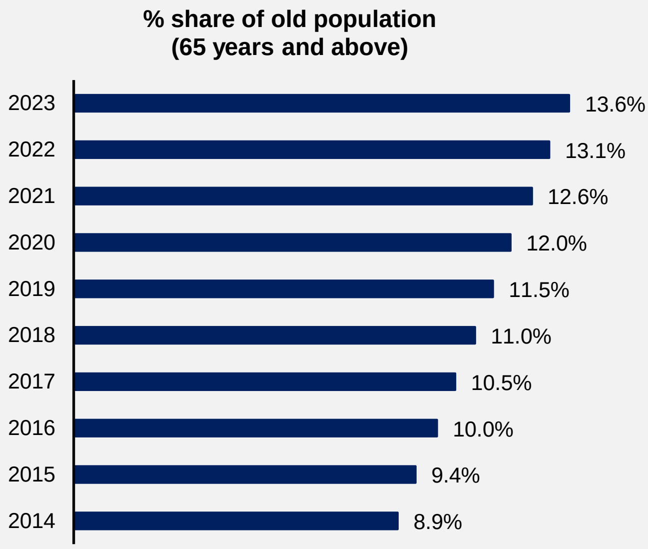
* *The average number of years that a newborn child would be expected to live if subjected to the mortality conditions expressed by a particular set of age-specific death rates.*

Source: Statistics Mauritius – Population and Vital Statistics & Digest of Demographic Statistics

Description of the ageing population process

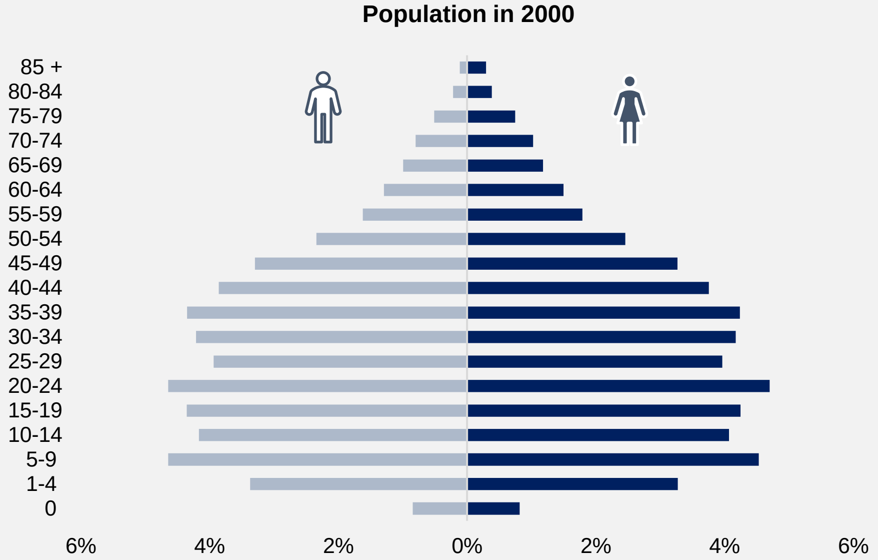
The ageing population phenomenon can be described and illustrated in several inter-related ways. Firstly, the population age structure, as depicted by a **population pyramid**, has been reshaped. The pyramid has shifted from having a wide base to showing a shrinking base due to falling fertility causing a declining trend observed with respect to the proportion of the population aged 0-14 years, while the thickening of the upper body is explained by the rise in the share of population aged 65 years and above amidst rising longevity. Secondly, reflecting the population ageing process, the **median age** in the country – defined as the age which divides the population into two equal size groups, one of which is younger and the other older than the median – has continuously increased over the past decades, rising from 19.0 years in 1972 to 38.4 years in 2023, following the shifting of the age structure of the population towards the upper end of the age distribution. Thirdly, pursuant to the population pyramid's being reshaped, the country's **dependency ratio** – defined as the combined child population (under 15 years) and population aged 65 years and above per 1,000 population of intermediate age (15-64 years) in a particular year – has risen to 420.9 in 2023, as compared to 410.0 back in 2014. As per empirical reports, this metric warrants targeted policy directions. The United Nations mentioned that *"Dependency ratios indicate the potential effects of changes in population age structures for social and economic development, pointing out broad trends in social support needs."* Fourthly, there has been a **progressive ageing of the older population** itself. In fact, the 'oldest, old people' (which is defined as the population aged 80 years and above) has been increasing more rapidly than any other age groups within the elderly population. The proportion of 'oldest, old people' increased from 7.9% of the elderly population in 1972 to 10.4% in 2023.

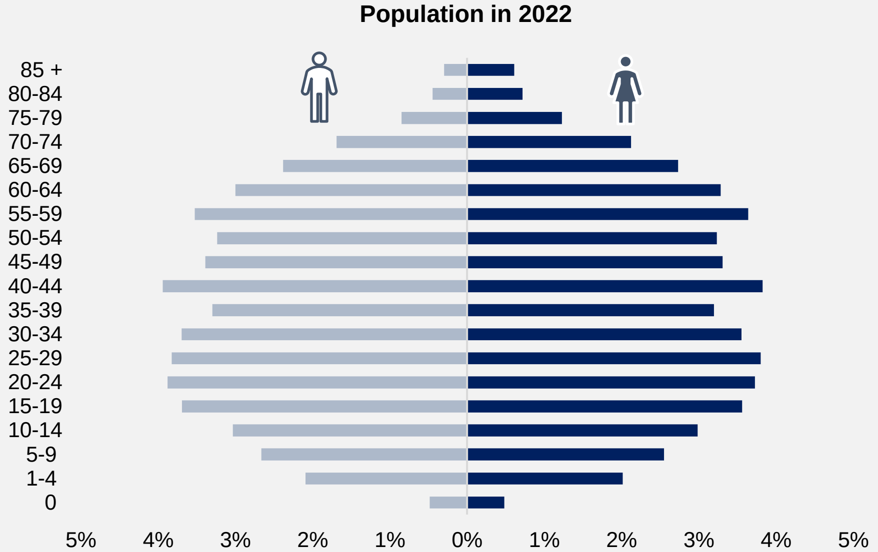




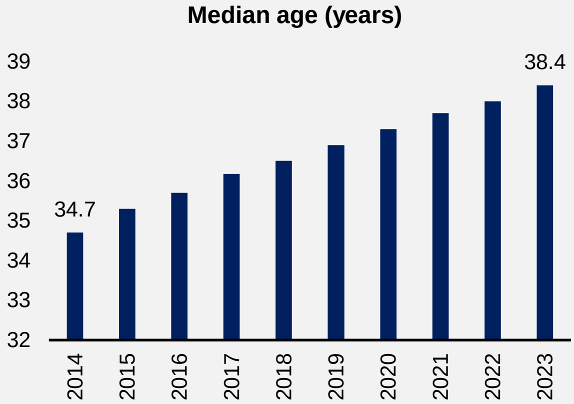
Source: Statistics Mauritius – Population and Vital Statistics & Digest of Demographic Statistics

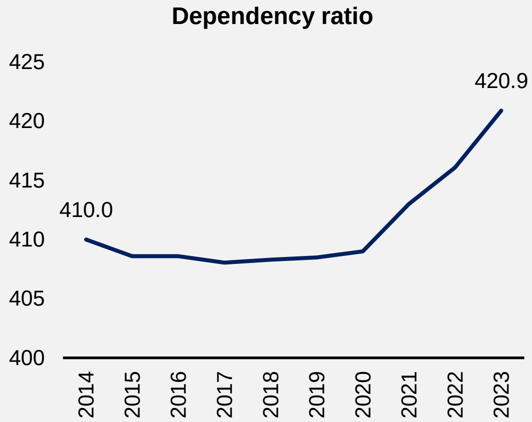
Reshaping of the population pyramid





Key indicators depicting the country's ageing population





Source: Statistics Mauritius – Population and Vital Statistics & Digest of Demographic Statistics

Projections by Statistics Mauritius

As per analyses by Statistics Mauritius, the afore-mentioned trends are likely to accentuate in the decades ahead, thus causing a higher share of the old population and the further ageing of the overall population, in view of the expected decline in fertility rates and the likely rise in life expectancy.

Indicators	2022	2042	2062
Share of young population (%)	16.3	13.0	11.0
Share of old population (%)	13.1	21.5	29.0
Median age (years)	38.0	45.8	52.2
Dependency ratio	416.1	528.2	666.4

Main implications and challenges linked to population ageing

For Mauritius, like for other countries worldwide, population ageing has both short- and longer-run implications in terms of the scope, range and depth of socio-economic policies, fiscal management, pension schemes and social security benefits, health care facilities and services, public infrastructures as well as housing and transportation. As per the IMF, "*Population aging can have significant macroeconomic implications. For those countries where fewer workers are available and labour force participation rates drop, economic output is bound to fall. However, the size of the decline depends, among other things, on how households and firms react to the changing demographic landscape. The prospect of a declining labour force could induce firms to invest in new, productivity-enhancing, technologies. Aging would also exert pressure on public finances as outlays for pensions and health care increase*." The IMF added that "*Policymakers can deploy a set of policies to address the challenges posed by aging, with an emphasis on raising labour market participation and productivity. Labor market reforms to increase participation by older workers and women can directly counter the decline in the workforce*." As per the United Nations Department of Economic and Social Affairs, "*As fertility begins to decline, the size of the working-age population will increase in relative terms. This temporary shift towards a more favourable age structure can result in accelerated economic growth, a process referred to as the demographic dividend. Whether a country is able to harness this demographic window of opportunity depends on its ability to provide quality education and employment for its growing labour force, and to make productive investments*."

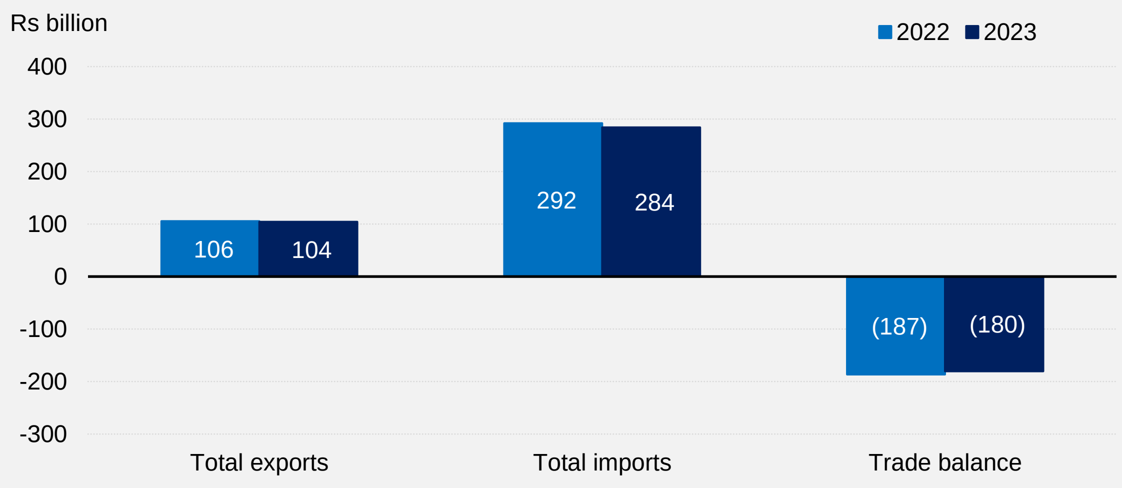
The External Sector

Trends and outlook

In the wake of the difficult conditions faced by our key export markets and despite an improvement at the level of re-exports (pertaining mainly to seafood as well as machinery and transport equipment), the country's total exports of goods declined by 1.5% to reach Rs 103.9 billion in 2023. Whereas prominent increases were registered with respect to domestic exports of cane sugar (+18.7%) and live primates (+87.1%) on account, notably, of higher global market prices and market trends, a major decline was posted by textile and apparel (-15.7%). Besides, export revenue generated by ship's stores and bunkers fell by 10.1% during the period under review. Total imports decreased by 2.8% to stand at Rs 283.9 billion in 2023. While outlays on machinery and transport equipment, notably at the level of road vehicles and aircraft, rose on the back of the economic growth momentum and investment spending for capacity building, expenditures on refined petroleum products, crude materials and manufactured goods went down, partly reflecting international market trends. Consequently, the balance of trade deficit fell down by 3.5% to reach around Rs 180 billion last year, which corresponds to 27.3% of GDP at market prices. While benefitting from this movement, the current account deficit as a percentage of national income improved significantly from 11.1% in 2022 to 4.5% in 2023, supported essentially by the considerable rise in gross tourism earnings, a major decline in import freight costs and an important surplus on the primary income account. Notwithstanding this performance and gross direct investment inflows moving up to around Rs 37 billion during the year, the balance of payments deficit stood at Rs 31.3 billion in 2023 as per official estimates, representing 4.7% of GDP at market prices.

As for 2024, total goods exports registered a year-on-year decline of 8.4% in the first quarter, on the back, markedly, of the tepid global landscape, while total goods imports increased by 6.4%. This led to the visible trade deficit reaching Rs 46.5 billion during the period, representing a major worsening compared to the corresponding quarter of 2023. For the year as a whole, despite export-boosting measures being deployed by the authorities, the balance of trade deficit is likely to deteriorate on account of (i) the still-challenging global environment, including subdued private demand in key export markets and other factors; and (ii) higher import spending to support nationwide growth and development endeavours, including machinery for metro terminals. The value of imports will also be dependent on the international prices of food, energy and other commodities, after making allowance for geopolitical tensions, supply conditions and climate change, while the momentum gained by the domestic renewable energy sector and the evolution of global freight rates could, in their respective capacities, also weigh in the balance. That said, the current account deficit as a percentage of GDP at market prices is anticipated to further improve this year, after factoring in the projected further expansion in tourism receipts and another noticeable surplus on the primary income account. Consequently, whilst being impacted by the elevated goods account deficit and the volatile global context – which contributed to a deficit of Rs 3.5 billion in the first quarter of the year – the country's balance of payments position is projected to relatively strengthen in 2024, aided by (i) the positive momentum observed with respect to foreign direct investment and global business inflows, in view of the sustained development of the Mauritian IFC; and (ii) the receipt of a USD 240 million loan from the African Development Bank to support improvements in the country's economic diversification and competitiveness.

Figure 18. Balance of visible trade



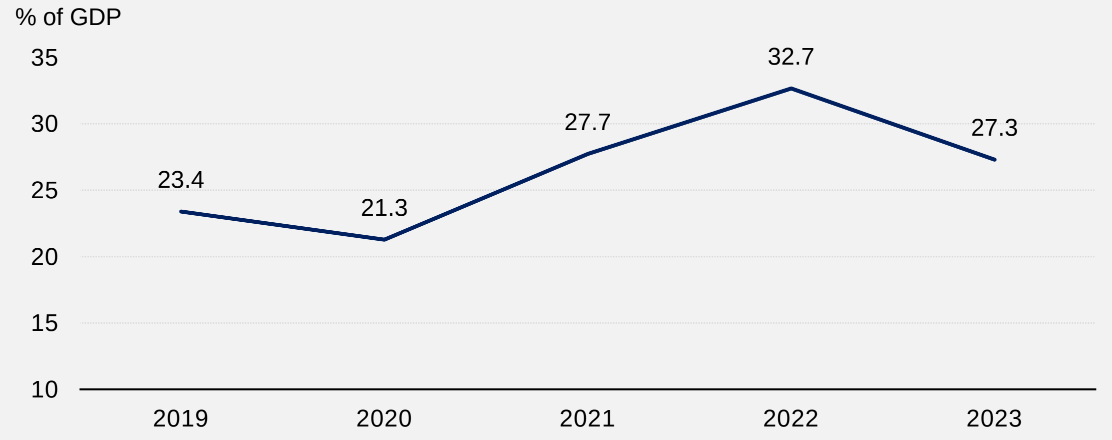
Source: Statistics Mauritius – External Trade

Table 11. Evolution of top exports and imports of goods

Exports	2023 Rs million	% change over previous year
1. Food and live animals	33,928	17.0%
2. Miscellaneous manufactured articles	25,842	-9.7%
3. Manufactured goods classified chiefly by material	11,267	-13.1%
4. Chemicals & related products, n.e.s.	4,115	-12.4%
5. Machinery and transport equipment	3,951	22.5%
Imports	**2023 Rs million**	**% change over previous year**
1. Machinery & transport equipment	66,933	18.4%
2. Mineral fuels, lubricants, & related products	58,065	-13.0%
3. Food and live animals	54,332	3.3%
4. Manufactured goods classified chiefly by material	37,911	-18.4%
5. Miscellaneous manufactured articles	26,261	-1.1%

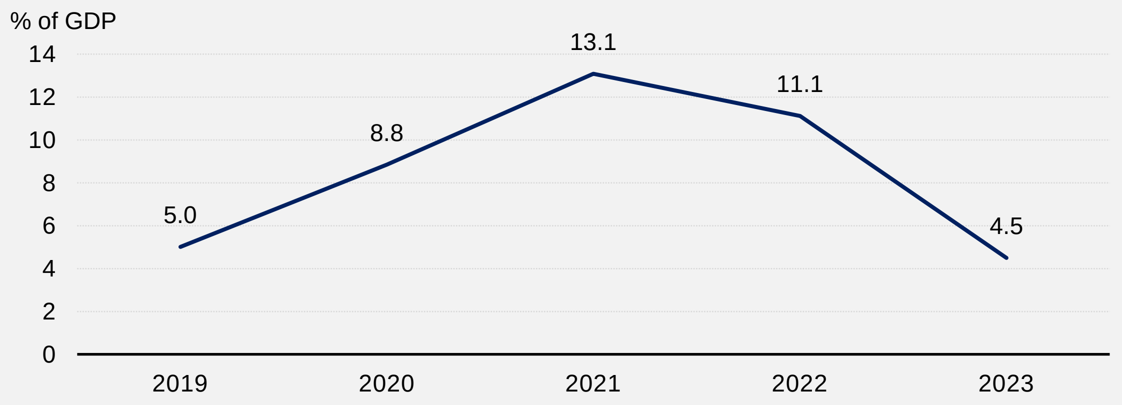
Sources: Statistics Mauritius – External Trade, SBM Staff Estimates

Figure 19. Evolution of balance of visible trade deficit



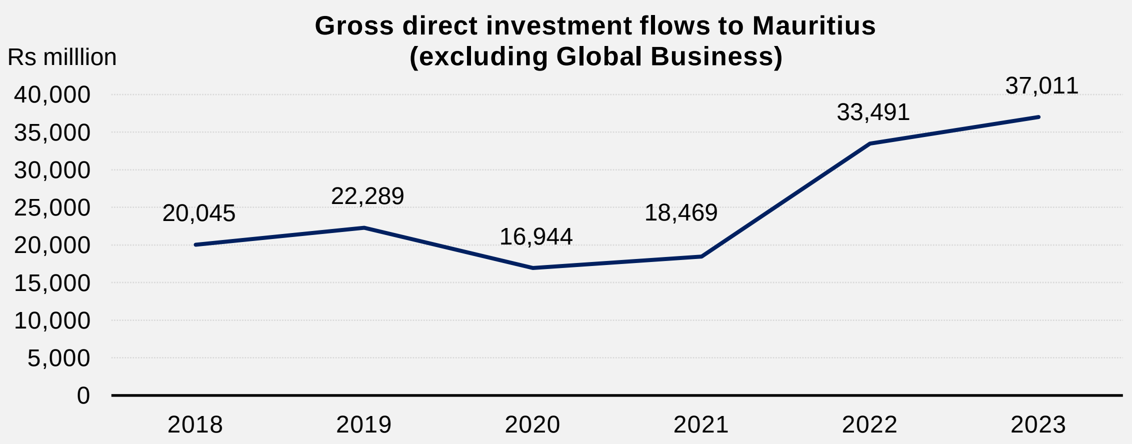
Sources: Statistics Mauritius – National Accounts Estimates (June 2024) & External Trade, SBM Staff Estimates

Figure 20. Evolution of current account deficit



Source: Bank of Mauritius

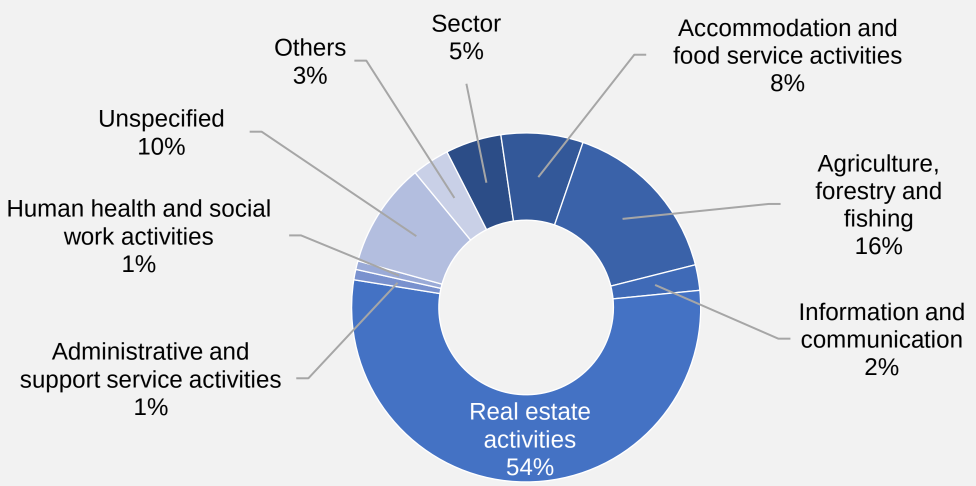
Figure 21. Evolution of foreign direct investment



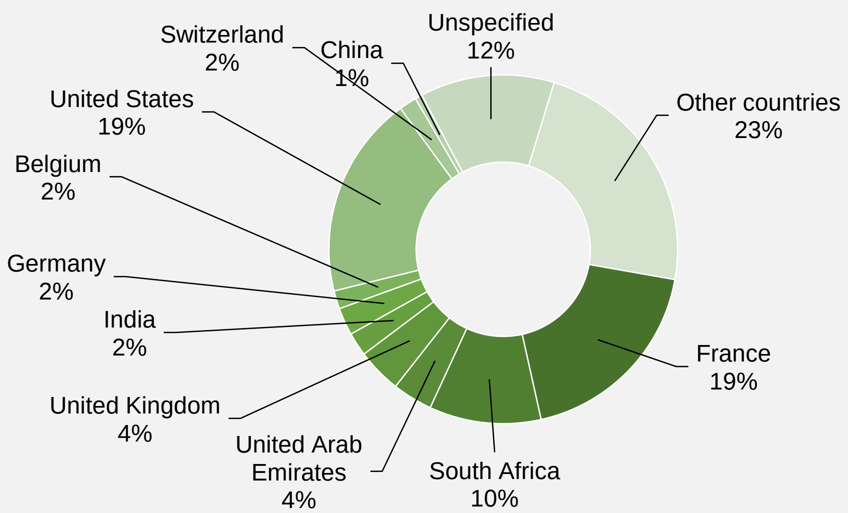
Source: Bank of Mauritius – Direct Investment Flows

Figure 22. Distribution of foreign direct investment

Gross direct investment flows to Mauritius by sectors (2023)



Gross direct investment flows to Mauritius by geographical origin (2023)



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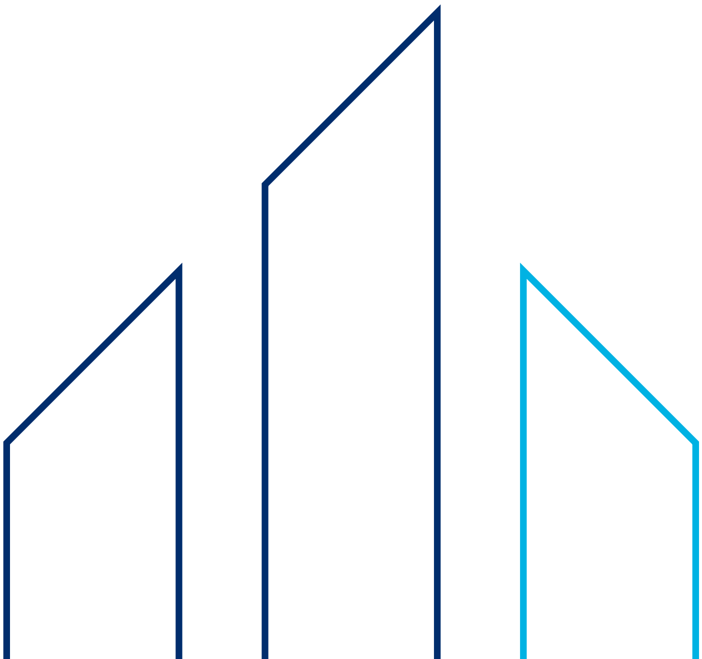

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