OECD ECONOMIC OUTLOOK, VOLUME 2024 ISSUE 2

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Mauritius

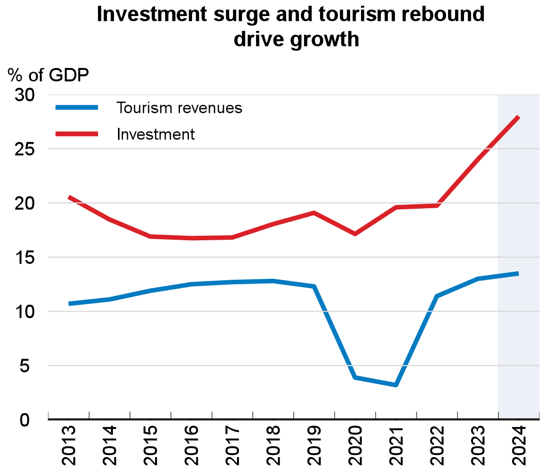
Real GDP is projected to grow by 6.1% in 2024, 5% in 2025 and 4% in 2026. Investment is the main driver of growth, driven by large construction projects in tourism, housing and public infrastructure. Household consumption is expected to remain supported by employment, wage increases and stronger government support for low-income workers. Headline inflation, at 3.4% in October, continues its decline and is now within the target band of the central bank. Risks to inflation are on the upside as the economy has been growing above potential for some time.

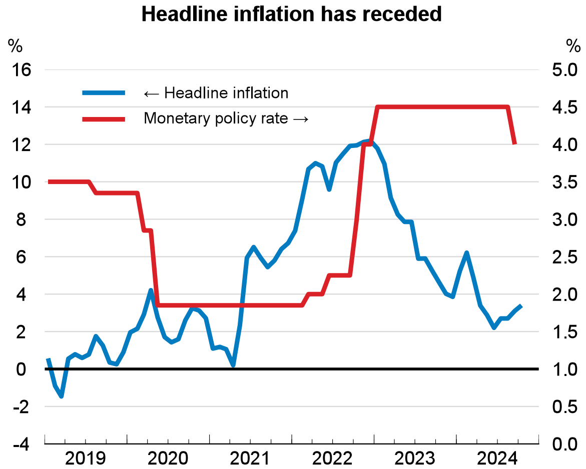
Fiscal policy remains expansionary as the primary fiscal deficit is decreasing only slightly, despite strong growth. A mix of measures to increase spending efficiency and additional revenue mobilisation is needed to reduce public debt and create fiscal space for future expenditure pressures from population ageing and climate change. Maintaining policy rates at their current level would help curb pressures on inflation as economic growth is above potential and labour shortages are widespread. Simplifying immigration procedures would help to ease widespread skills shortages.

Robust growth momentum is driven by investment and tourism

Mauritius's economy continues to grow strongly, supported by strong momentum in tourism and investment. Tourist arrivals in 2024 are on track to surpass the record set in 2018, with spending per tourist also rising. Tourism revenues are expected to reach 13.5% of GDP by the end of the year. Private investment reached 21% of GDP in the second quarter of 2024. Most of this investment is concentrated in construction, with strong activity in both residential and non-residential buildings. However, labour shortages are increasingly limiting the growth of key sectors, particularly tourism, construction and ICT. Manufacturing growth remains weak, reflecting the ongoing decline of production in the textiles sector.

Mauritius





Source: Bank of Mauritius; and Mauritius Statistics.

StatLink https://stat.link/qmb2ua

Mauritius: Demand, output and prices

Mauritius	2021	2022	2023	2024	2025	2026
	Current prices MUR billion	Percentage changes, volume (2018 prices)				
GDP at market prices	478.8	8.9	7.0	6.1	5.0	4.0
Private consumption	350.0	3.3	2.6	1.8	2.9	2.5
Government consumption	82.5	6.4	-3.0	6.7	3.2	1.9
Gross fixed capital formation	93.8	7.8	30.7	22.0	13.5	7.6
Exports of goods and services	211.6	36.8	0.6	6.6	7.2	5.8
Imports of goods and services	257.6	10.4	3.9	15.3	9.0	5.8
Memorandum items						
Unemployment rate (% of labour force)	_	7.8	6.4	6.0	5.7	5.8
Consumer price index	_	10.8	7.0	3.5	3.2	3.7
Current account balance (% of GDP)	_	-11.4	-4.5	-4.1	-4.4	-4.4

Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/ncoshu

The fall in global energy prices is contributing favourably to Mauritius's economic outlook by lowering inflation and indirectly supporting the tourism boom. Goods exports saw a sharp nominal decline over the year to the first quarter of 2024 (-11.5%), followed by a strong rebound in the second quarter (+12.5%), though this reflects a low baseline from the previous year. Overall, in the first half of 2024, exports of goods grew at a 2% rate. As a share of GDP, goods exports continue to shrink, now representing only 15% of GDP compared to 25% a decade ago.

Fiscal and monetary policies will remain supportive

The current expansionary fiscal stance is expected to shift towards neutrality during 2025-2026, with a gradual reduction in the primary fiscal deficit. The reduction in the deficit is likely to be facilitated by sustained high growth. As inflation receded, the Bank of Mauritius reduced interest rates from 4.5% to 4% in September 2024. However, strong GDP growth, full employment, and an ongoing investment boom are likely to push inflation up again. Therefore, maintaining policy rates on hold until late 2025 would dampen inflationary pressures. As inflation recedes in 2026, the central bank would start reducing rates again.

A steady expansion with gradual convergence to long-term potential is expected

Real GDP growth is expected to moderate, from 6.1% in 2024 to 5% in 2025 and 4% in 2026. Growth will be driven primarily by robust investment in infrastructure and housing, alongside continued strength in the tourism sector, which is expected to surpass pre-pandemic levels in visitor numbers and spending. Household consumption will remain robust, supported by real wage gains, lower inflation, and an expansion of social benefits for low-income households. Inflation is expected to rise slightly from 3.2% at the end of 2024 due to continued pressures from tight labour markets and vigorous investment. The gradual fiscal consolidation will help reduce risks of overheating. Risks to the outlook include potential delays in fiscal consolidation, which could undermine debt stability and increase inflationary pressures in an already heated economy. Rising global commodity and energy prices could worsen the terms of trade, slow the expected decline in inflation, and weigh on household consumption. The offshore banking sector's reliance on short-term deposits exposes it to funding volatility, with potential impacts on the financial system in the event of sudden withdrawals, notwithstanding high liquidity buffers and prudential measures. On the upside, stronger-than-expected growth in tourism or more vigorous trade with key African partners could provide additional support to activity.

Addressing labour shortages would support fiscal commitments and growth

Addressing fiscal and labour market challenges is crucial to sustain growth. Fiscal consolidation is needed to reduce public debt and rebuild fiscal space as an aging population will increase pressure on pension and healthcare spending. Regular evaluations of grants and subsidies to the private sector could help to scale back underperforming programmes and improve spending efficiency. At the same time, a shrinking workforce is limiting growth, further stressing the need for structural reforms to expand labour supply. Delaying the eligibility age for basic retirement pension from the current 60 years could encourage older workers to remain active for longer. Expanding affordable childcare to raise female participation, and streamlining immigration procedures would help to boost labour supply. Building fiscal space is also crucial to ensure resilience in the event of a major climate event.