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The Impact of Financial Development on Tourism Development in Mauritius: A NARDL Approach

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Abstract

Purpose: In this study, we explore the nexus between financial development and tourism development in Mauritius over the period 1980–2022. Mauritius is one of the most popular tourist destinations in Africa. In response, the country has implemented several programs aimed at promoting its tourism sector. Simultaneously, it has pursued financial sector reforms that have significantly transformed its financial sector. This study, therefore, seeks to investigate whether financial sector development has had a significant effect on tourism development in Mauritius.
Design: The study employs the Nonlinear Autoregressive Distributed Lag (NARDL) model and uses two proxies for financial development – namely, the financial markets index and domestic credit to the private sector – to examine this relationship.
Findings: When the financial markets index was used as a proxy, decreases in financial development were found to move in the same direction as tourism development in the long run. In contrast, increases in financial development showed no significant effect on tourism development in either the short or long run. However, when domestic credit to the private sector was used as a proxy, increases in financial development were found to be negatively associated with tourism development in both the short and long run, whereas decreases in financial development were again found to move in the same direction as tourism development in the long run. In addition, positive shocks to financial development were found to have a deeper impact on tourism development than negative shocks.
Practical Implications: A decrease in financial development, irrespective of the financial development proxy used, was found to have a negative association with tourism in Mauritius. This result implies a decrease in financial development leads to a fall in tourism advancement that the country pursues as one of the development pillars.
Originality value: The study departs from the previous studies by investigating the asymmetric impact of financial development on tourism using market-based and bank-based financial development measures. Previous studies largely assumed a linear relationship between tourism and financial development.
Paper Type: Research Paper

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INTRODUCTION

Tourism has grown over the years to become an important sector with the potential to boost economic development and a source of revenue in developed and developing countries alike. This has also drawn the attention of researchers who have explored the relationship between tourism and other macroeconomic variables like financial development, sustainability, and poverty alleviation. The Sustainable Development Goals (SDGs) also promote tourism as a source of decent work and economic growth – this is encapsulated in SDG 8 - decent work and economic growth (United Nations 2025). However, there has been a growing consciousness of sustainable tourism, where efficient resource use and environmentally friendly tourism policies and practices are upheld. Tourism growth was interrupted by the COVID-19 health crisis which resulted in a drastic fall in tourism across most countries due to lockdowns that restricted international and local travel to contain the spread of the virus. In the journey to recovery from the pre-pandemic period, tourism levels have taken varied levels across countries. High-income countries in Europe and Asia-Pacific continue to lead on the World Economic Forum Travel and Tourism Index (World Economic Forum 2024). Low to upper-middle economies constitute 52% out of 71 economies that improved their score post the pandemic period (World Economic Forum 2024). Most developing countries still face challenges in closing the potential gap as far as tourism is concerned (World Economic Forum 2024). Tourism development comes at a time when critical external funding is important for most developing countries who were negatively affected by the COVID-19 pandemic in achieving SDGs targets. The drive towards globalisation was associated with liberalisation of most sectors like trade, financial market, cultural events and tourism, with the objective of increasing the benefits that come with open economies. The objective of this study, therefore, is to investigate the asymmetric impact of financial development on tourism.

Although several studies have been done on the relationship between tourism and financial development, most studies explored the causality between tourism and financial development (see, Kumar, Chandra and Patel 2023; Fauzel and Seetanah 2021; Musakwa and Odhiambo 2021; Ehigiamusoe 2021; Shahbaz, Benkraiem and Tiwari 2018) A dearth of literature has examined the impact of financial development on tourism in general (Lodhi et al. 2024; Ahamad and Chowdhury 2024; Churchill et al. 2023; Khanna and Sharma 2021), assuming a linear relationship on the negative and positive changes on financial development has the same effect. Limited studies have explored the non-linear relationship between tourism and financial development. This is despite the great strides that have been made by most countries to liberalise the financial sector to increase integration into the global world. Can this effort kill two birds with one stone: increasing financial integration and improving tourism? This study contributes to the body of existing knowledge by examining the asymmetric impact of financial development on tourism using the non-linear autoregressive distributed (NARDL). The study used two proxies of financial development namely, credit to the private sector and the Financial Markets Index, developed by the International Monetary Fund (IMF).

Mauritius forms an interesting case study given the strides and commitment the country has made to promote tourism and advance financial development. Mauritius is among one of the countries that is a world tourist destination. This has been made possible by a combination of natural endowments and policies that support tourism, making tourism a significant contributor to the Gross Domestic Product. In addition, Mauritius is in the upper-middle income according to World Bank income country classification, a feat most developing countries are striving to achieve. The country serves as a good reference point for most countries that are endeavouring to increase economic growth and step -up income classification levels using different sectors like tourism and financial development.

The paper is divided as follows: Section 2 is divided into country-based literature and empirical literature review; Section 3 outlines the methodology used in the study and Section 4 presents and discusses the results. The last section, Section 5 concluded the study.

LITERATURE REVIEW

Financial development and tourism dynamics

Mauritius is an economy that started as an agricultural-backed economy, before diversifying into other sectors. Mauritius is known as a tourist attraction country. The journey to economic liberalisation started in the 1980s when the country gradually allowed market forces to determine most of the economic activities in the country. The Bank of Mauritius was created in 1967 through the Bank of Mauritius Act of 1966 (Bank of Mauritius 2025). The bank was mandated to preserve the internal and external value of the currency and to perform monetary policy that supports economic growth (Muyambiri and Odhiambo 2016). The Bank of Mauritius 1966 created the legal framework for the establishment and operation of the Bank. The act has been amended over the years to cater for new needs and challenges in the banking sector. For example, amendments were made in 2004 and 2016 strengthened the role of the bank in financial regulation

and supervision and introduction of banking sector payments system and financial inclusion, respectively (Muyambiri and Odhiambo 2016). In the spirit of leaving most banking and financial activities to market forces, exchange control liberalisation started in 1989 and the creation of the Stock Exchange of Mauritius in 1989 (Muyambiri and Odhiambo 2016). The liberalisation involved the removal of credit ceilings, phrasing out of direct credit programmes, interest rate libelisation, auctioning of treasury bills and removal of the credit-deposit ratio (Muyambiri and Odhiambo 2016; Jankee 1999). This introduced competition in the financial sector and opened the sector for more players (Jankee 1999).

Apart from the Bank of Mauritius Act of 1966, other supporting acts include the Banking Act of 2004 which regulates financial and commercial institutions in Mauritius and clearly spells out the role of commercial banks and that of the central bank; and the Financial Services Act of 2007, that led to the establishment of the Financial Service Commission (FSC) that work with the bank of Mauritius to regulate non-banking institutions (Bank of Mauritius, 2025). Another key piece of legislation in Mauritius is the National Payment Systems Act of 2018, which provides a framework for the oversight, supervision and regulation of the national payment system to ensure its efficiency and safety for the public (Bank of Mauritius 2025). To align with international standards on anti-money laundering and counter-terrorism financing, Mauritius has enacted several key legal frameworks, including the Prevention of Terrorism Act of 2021, the Convention for the Suppression of the Financing of Terrorism Act of 2019, and the Prevention of Terrorism Act of 2019. Additionally, the steps taken by the Bank of Mauritius to advance financial liberalisation and establish a robust legislative framework have supported the development of a vibrant financial system. This system not only meets the country's economic development needs but also enhances the integration of Mauritius's financial sector into the global market.

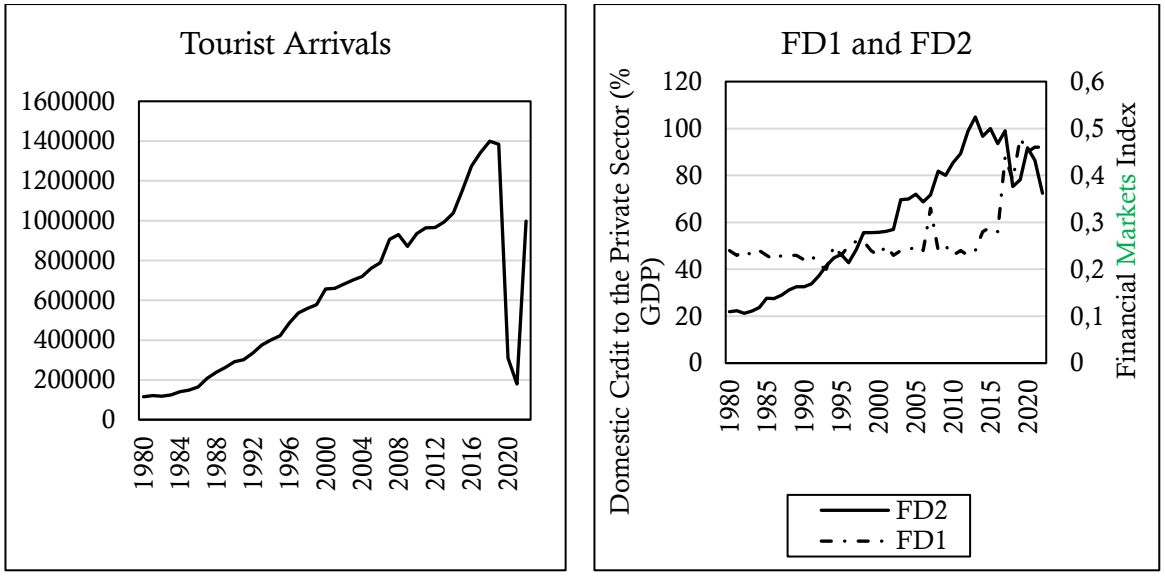
Tourism development

The tourism sector in Mauritius has grown from a few tourist arrivals in 1980 to millions of arrivals over the years (World Bank, 2025). The sector contributes more than 5 percent to GDP on average every year (World Bank, 2025). The growth in the tourism sector does not come as a coincidence, but a well-orchestrated support to the sector from the government and a drive to diversification of the economy. The Tourism Authority, established under the Tourism Authority Act of 2006, operates under the aegis of the Ministry of Tourism and serves as the regulatory body for the tourism industry.

The objective of the Tourism Authority is to promote the sustainable development of the tourism sector, foster public interest and understanding of the industry, implement tourism-related projects, and support research and development, among other goals (Tourism Authority, 2025). These objectives are carried out through eight core functions: (1) managing tourist sites; (2) investigating illegal activities and improper practices in the industry; (3) providing guidance and codes of practice for the operation of tourist enterprises; (4) developing and improving the tourism sector; (5) protecting consumer interests; (6) collecting and publishing tourism-related statistics; (7) advising the Ministry of Tourism; and (8) promoting Mauritius as a tourist destination (Tourism Authority, 2025). The objectives of the Ministry of Tourism in Mauritius reflect the core function of the Tourism Authority. The Ministry of Tourism provides the legal and operational framework for tourism regulation, monitoring and planning; promotes Mauritius as a tourist destination; and supports tourism-related projects (Ministry of Tourism 2025).

The Mauritius Tourism Promotion Authority (MTPA), established under the MTPA Act of 1996, is responsible for promoting Mauritius as a tourist destination (Ministry of Tourism 2025). Its services include organising exhibitions and roadshows, conducting tourism research and providing information services, hosting international events, arranging familiarisation and press trips, offering promotion and marketing services, and delivering training for travel trade professionals in source markets (Ministry of Tourism, 2025). To promote tourism development and reduce administrative burdens, the country has streamlined licensing procedures, promoted sustainability within the sector, and diversified its tourism offerings beyond beach attractions to include natural and cultural sites.

The reforms and legislative frameworks implemented to promote tourism have yielded positive results in attracting visitors. This progress is also reflected in the growing contribution of tourism to the Gross Domestic Product (GDP) over the years. Figure 1 illustrates the trends in tourist arrivals and financial development between 1980 and 2022.



Source: World Bank (2025) and IMF (2025)

Figure 1. Trends in Financial Development and Tourism in Mauritius 1980-2022

Mauritius has enjoyed a steady increase in tourist arrivals from 1980 with 115 080 tourists to over a million tourists in 2019 (World Bank 2025). The outbreak of the COVID-19 pandemic resulted in an abrupt fall in tourist arrivals in 2020 (World Bank 2025). Although the end of the pandemic resulted in a surge in tourist arrivals, Mauritius has not reached the pre-COVID levels. On financial development, Figure 1 reports a gradual increase in financial development over the study period as reflected by the Financial Markets Index (FD1) and domestic credit to the private sector (FD2). The financial development measures reported in Figure 1 also dropped abruptly with the onset of the pandemic. Thus, the trend in financial development mimics the tourist arrivals, suggesting a positive relationship. However, empirical evidence is important to confirm the relationship between tourism and financial development.

Empirical literature review

The role of financial sector development in tourism growth can be analysed through two main channels. First, financial sector development facilitates financial intermediation necessary for building tourism infrastructure such as hotels, roads, information and communication technology, and marketing, which are key components that drive tourism development. Second, a well-developed financial system not only allows tourists to easily convert their currency and pay for services such as accommodation, transportation, and food, but also offers hedging instruments and risk management tools for both tourists and business investors. Therefore, a robust financial system can be a decisive factor for tourists seeking destinations that offer both convenient financial access and enjoyable leisure experiences.

The empirical literature that examined the impact of financial development on tourism is limited. Most of the studies examined the causality between the two. Although it is acknowledged that causal studies do not imply an impact between the variables, due to limited studies on the impact between tourism and financial development, the empirical literature on the causality between the two is also highlighted. This provides an insight into the nature of the relationship between the two.

Lodhi et al. (2024) examined the impact of financial development on tourism for 123 countries from Asia, Africa, Europe and America using panel data from 1999 to 2018. The study found improvements in financial development to lead to an increase in tourist arrivals. Similarly, Ahamad and Chowdhury (2024) studied the nonlinear effects of financial development on tourism in Japan and Germany using monthly data from 1994: 1 to 2019: 12 and 1996:1 to 2019:12 respectively. The study found positive changes in financial development to be associated with positive changes in tourism demand. Negative changes in financial development were found to be associated with negative changes in tourism. Churchill et al. (2023) found the same results as Lodhi et al. (2024) and Ahamad and Chowdhury (2024) in a study on Germany using data from 1870 to 2016 with the ARDL framework. Panjaitan (2022), in a study on 10 ASEAN countries using data from 2010 to 2018, found financial development to have a positive impact on tourism demand. Khanna and Sharma (2021) examined the impact of financial development on tourism demand for 207 countries using panel data from 1995 to 2018. Using cross-sectional augmented distributed lag, the study found financial development to positively impact tourism expenditure and tourism arrivals. Shahbaz et al. (2019) explored the relationship between tourism development and financial development in Malaysia using data

from 1975 to 2016. The study found financial development to be positively related to tourism development. Yoda-Yamamoto Granger causality confirmed a bidirectional causality between tourism development and financial development.

Causality studies on financial development and tourism are split between unidirectional causality running from financial development to tourism, tourism to financial development, and bidirectional causality between the two. For example, Kumar, Chandra and Patel (2023) examined the causal relationship between tourism and financial development for Fiji and found tourism demand to Granger-cause financial development. Fauzel and Seetanah (2021) examined the interaction of financial development and tourism in Mauritius and found a bidirectional causality between financial development and tourism. Musakwa and Odhiambo (2021) investigated the causal relationship between financial development and tourism in Kenya and found broad money and the total value of stocks traded as a percentage of gross domestic product to cause tourism only in the short run. In the same vein, Ehigiamusoe (2021) found a bidirectional causality between financial development and tourism in a study on 31 African countries. Shahbaz, Benkraiem and Tiwari (2018) found a bidirectional causality between the two in a study on Mauritius. Katircioglu, Katircioğlu and Altinay (2017) in a study on Turkey, found a bidirectional causality between tourism and financial development in the long run.

The studies reviewed on the impact of financial development on tourism point to the positive impact of financial development on tourism. Thus, financial development plays a key role in influencing financial development. The country has made great strides to develop the tourism and financial sector. There are limited studies that have examined if Mauritius can benefit from financial development in advancing tourism in the country. Although empirical studies reviewed point to the positive contribution of financial development to tourism, empirical evidence for Mauritius is still lacking. Further, this study provides new insight into the impact of financial development on tourism using a non-linear autoregressive distributed lag approach.

ESTIMATION TECHNIQUES

The study uses non-linear autoregressive distributed lag (NARDL) to examine the impact of financial development on tourism in Mauritius. The NARDL provides an added advantage from the traditional ARDL by decomposing the impact of financial development into positive and negative partial sums. Unlike the ARDL, which assumes the changes in financial development have the same effect on tourism, the NARDL provides more insight into the negative and positive shock on financial development on tourism.

Variables

The primary variables of interest in this study are tourism (TOR) measured by millions of tourist arrivals and financial development measured by two proxies: i) financial markets index (FD1) which is captured as the dependent variable in Model 1; and ii) domestic credit to the private sector (FD2), a dependent variable in Model 2. The control variables included in the model are exchange (EXR), economic growth, population growth (POP) and urbanisation (URBAN). Table 1 provides a summary of the variable description and data source of each variable.

Table 1. Variable definition

Variable Name	Variable Definition	Data Source
TOR	Tourism arrivals (millions)	Ministry of Tourism (2024), Government of Mauritius, https://tourism.govmu.org/Pages/Statistics/Stats.aspx
EXR	Exchange rate (LCU per US$)	WDI
GDPP	GDP per capita	WDI
FD1	Financial markets index (FMI)	IMF
FD2	Domestic credit to the private sector (% of GDP)	WDI
POP	Population growth	WDI
URBAN	Urbanisation	WDI

Notes: WDI - World Bank Development Indicators online database, IMF - International Monetary Fund

Model specification and data

The general model specification is given in Equation 1.

$$TOR = f(FD_n, \text{EXR}, \text{GDPP}, \text{POPG}, \text{URBAN}) \quad (1)$$

Where:
TOR – tourism
FD_n– Financial development measured using two proxies: FD1 – Financial Markets Index (applied in Model 1); and FD2 – Domestic Credit to the Private Sector (applied in Model 2).
EXR – exchange rate
GDPP – GDP per capita
POP – population growth
URBAN – urbanisation
All independent variables remain the same in both Model 1 and Model 2.

The positive and negative decomposition of financial development (FD) in Equation 2 is expressed as follows:

$$FDn_t = \rho_0 + FD_{nt}^{+} + FD1_{nt}^{-} \quad (2)$$

Where:

$$FD_{nt}^{+} = \sum_{J=1}^{t} \Delta FD_{nt}^{+} = \sum_{j=1}^{t} \max\left(\Delta FD_{nj}; 0\right) \quad (3)$$

$$FD_{nt}^{-} = \sum_{J=1}^{t} \Delta FD_{nt}^{-} = \sum_{j=1}^{t} \min\left(\Delta FD_{nj}; 0\right) \quad (4)$$

Based on the equations above, the NARDL model can be expressed as:

$$\begin{aligned} \Delta TOR_t = {} & \delta_0 + \sum_{i=1}^{p} \alpha_{1i} \Delta TOR_{t-i} + \sum_{i=0}^{q1} \alpha_{2i}^{+} \Delta FD_{nt-i}^{+} + \sum_{i=0}^{q2} \alpha_{3i}^{-} \Delta FD_{nt-i}^{-} + \sum_{i=0}^{q3} \alpha_{4i} \Delta EXR_{t-i} \\ & + \sum_{i=0}^{q4} \alpha_{5i} \Delta GDPP + \sum_{i=0}^{q5} \alpha_{6i} \Delta POP_{t-i} + \sum_{i=0}^{q6} \alpha_{7i} \Delta URBAN_{t-i} + \beta_1 TOR_{t-1} \\ & + \beta_2^{+} FD_{nt-1}^{+} + \beta_3^{-} FD_{nt-1}^{-} + \beta_4 EXR_{t-1} + \beta_5 GDPP_{t-1} + \beta_6 POP_{t-1} \\ & + \beta_7 URBAN_{t-1} + \gamma_{1t} \end{aligned} \quad (5)$$

Where:
α_0 − Constant; $(\alpha_1 - \alpha_7)$ − short-run coefficients; $(\beta_1 - \beta_7)$ − long-run coefficients; and γ_{1t} − error term.

The NARDL error correction representation of Equation 5 is given in Equation 6.

$$\begin{aligned} \Delta TOR_t = {} & \delta_0 + \sum_{i=1}^{p} \alpha_{1i} \Delta TOR_{t-i} + \sum_{i=0}^{q1} \alpha_{2i}^{+} \Delta FD_{nt-i}^{+} + \sum_{i=0}^{q2} \alpha_{3i}^{-} \Delta FD_{nt-i}^{-} + \sum_{i=0}^{q3} \alpha_{4i} \Delta EXR_{t-i} \\ & + \sum_{i=0}^{q4} \alpha_{5i} \Delta GDPP + \sum_{i=0}^{q5} \alpha_{6i} \Delta POP_{t-i} + \sum_{i=0}^{q6} \alpha_{7i} \Delta URBAN_{t-i} + \lambda ECM_{t-1} + \gamma_{2t} \end{aligned} \quad (6)$$

Where:

ECM − Error correction term

EMPIRICAL RESULTS

The Dickey-Fuller Generalized Least Squares (GLS) and Phillips-Perron (PP) tests were used to check for stationarity. The results of the stationarity tests are presented in Table 2.

Table 2. Unit root test results

	Dickey-Fuller Generalised Least Square (DF-GLS)		Phillips-Perron (PP)	
Variable	Level	Δ	Level	Δ
TOR	-0.85835	-6.5409***	-1.6617	-4.1590***
FD1	-0.75263	-10.4814***	-0.17635	-10.0639***
FD2	-0.6445	-6.3384***	-1.3651	-6.5624***
EXR	-2.3246	-5.5989***	-2.4239	-5.5794***
GDPP	-1.1241	-6.972141***	-4.5073***	-
POP	0.3539	-3.15407***	-1.2128	-8.2482***
URBAN	-2.5554	-4.7401***	-0.6512	-10.4144***

Notes: *, ** and *** denote statistical significance at 10%, 5% and 1% levels, respectively. Δ denotes first difference.

The unit root test results presented in Table 1 show that none of the variables are integrated of order two [i.e., I(2)] or higher, which is essential for the validity of the non-linear autoregressive distributed lag (NARDL) approach. The next step involves testing for a long-run relationship among the variables in the models. The results of the cointegration analysis are presented in Table 3.

Table 3. Cointegration Test Results

Dependent variable	**F-Statistic**			**Cointegration Status**		
FD1	4.1728***			Cointegrated		
FD2	6.1702***			Cointegrated		
	Asymptotic critical values					
	10%		5%		1%	
	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
	1.700	2.830	1.970	3.180	2.540	3.910

Notes: *** denotes statistical significance at 1% level.

To determine the presence of cointegration in the two models, the F-statistics for the FD1 model (4.1728) and the FD2 model (6.1702) are compared against the asymptotic critical values reported at the bottom of Table 3. Since the F-statistics for the two models are above the upper bounds at 1% level of significance, cointegration is confirmed. Table 4 presents the results of the asymmetric test for the two models.

Table 4. Long and short-run asymmetry results

FD1 as Dependent variable			
Test	**F-statistic**	**P-value**	**Decision**
W_{LR}	8.015395***	0.0087	Asymmetric
W_{SR}	3.949397*	0.0571	Asymmetric
FD2 as Dependent variable			
W_{LR}	8.084971***	0.0084	Asymmetric
W_{SR}	35.528719**	0.0187	Asymmetric

Notes:

*1) *, ** and *** denote statistical significance at 10%, 5% and 1% levels, respectively*

2) W_{LR} = long-run asymmetric test

3) W_{SR} = short-run asymmetric test

The asymmetry results reported in Table 4 confirm the presence of non-linear relationships in both the long run and short run for Model 1 and Model 2. The long-run and short-run NARDL results are presented in Table 5.

Table 5. NARDL Results – Long- and Short-run Results

FD1 as FD proxy (Model 1)			**FD2 as FD proxy (Model 2)**	
Panel A: Long-Run Results				
Regressor	**Coefficient**	**T-ratio [p-value]**	**Coefficient**	**T-ratio [p-value]**
$FD1^+$	-1.071882	-1.248775 [0.2203]	-	-
$FD1^-$	5.204101**	2.174351 [0.0367]		
$FD2^+$	-	-	-0.025599***	-8.701791 [0.0000]
$FD2^-$			0.008601***	4.638249 [0.0001]
EXR	-0.003136	-0.307738 [0.7602]	0.004896	1.049134 [0.3015]
$GDPP$	0.000385***	4.793725 [0.0000]	0.000501***	13.92097 [0.0000]
POP	-0.065694	-0.263859 [0.7935]	0.143727	1.457455 [0.1542]
$URBAN$	-0.034743	-0.553519 [0.5835]	-0.092052***	-3.492261 [0.0013]
Panel B: Short-Run Results				
Regressor	**Coefficient**	**T-ratio [p-value]**		
$\Delta TOR(-1)$	-0.459172***	-2.997292 [0.0058]	-	-
$\Delta FD1^+$	-0.284961	0.737221 [04660]	-	-
$\Delta FD1^-$	0.764999	1.060574 [0.2964]	-	-
$\Delta FD2^+$	-	-	-0.010396***	-4.361434 [0.0001]
$\Delta FD2^-$	-	-	-0.000267	-0.113592 [0.9102]
ΔEXR	0.005677	0.830470 [0.4121]	0.009611	1.661147 [0.1059]
$\Delta GDPP$	0.000576***	17.42099 [0.0000]	0.000577***	18.47107 [0.0000]
ΔPOP	-0.078309	1.169152 [0.2505]	0.009595	0.164462 [0.8703]
$\Delta URBAN$	-0.080574	-1.145868 [0.2599]	0.074064	1.186981 [0.2435]
$ECM(-1)$	-0.459172***	-6.483662 [0.0000]	-0.976873***	-7.884096 [0.0000]
Panel C: Test statistics and diagnostics				
R- Squared		0.910411	0.929051	
R-Bar-Squared		0.894601	0.916531	
F-statistics [Prob]		57.15382 [0.000000]	74.20313 [0.00000]	

Notes: *, ** and *** denote statistical significance at 10%, 5% and 1% levels, respectively. + and - denote positive and negative shocks.

The results reported in Table 5, Panel A confirm that when the financial markets index (FD1) is used as a proxy for financial development, negative shocks to both financial development and tourism development move in the same direction in the long run, as evidenced by the coefficient of $FD1^-$, which has been found to be statistically significant at the 5% level. However, in the short run, these negative shocks were found to be statistically insignificant. In contrast to the negative shocks, the effects of positive shocks to financial development were found to be insignificant in both the short run and the long run. The results also indicate that negative shocks to financial development have a deeper impact on the tourism sector development than positive shocks, as confirmed by the dynamic multiplier graph presented in Figure 2.

When financial development was measured by domestic credit to the private sector (FD2), positive

shocks to financial development were associated with negative changes in tourism, both in the long run and the short run. These results are supported by the negative coefficients on $FD2^{+}$ and $\Delta FD2^{+}$, both of which have been found to be statistically significant at the 1% level. Using the same financial development proxy, the study found that negative shocks to financial development and tourism development move in the same direction in the long run. However, in the short run, these negative shocks to financial development had no significant effect on tourism arrivals. The results also indicate that, overall, positive shocks to financial development have a greater impact on tourism arrivals than negative shocks, as illustrated by the dynamic multiplier graph in Figure 2.

Other results reported in Table 5, Panels A and B, confirm that Gross Domestic Product (GDP) per capita has a positive impact on tourism in both the short run and the long run, regardless of the financial development proxy used. In contrast, exchange rate, population growth and urbanisation were found to be statistically insignificant in both the short and long run, irrespective of the financial development measure used.

The explanatory power of Model 1 (where financial development is measured by the financial markets index) and Model 2 (where financial development is measured by domestic credit to the private sector) is 91% and 93%, respectively. The error correction terms for the two models were found to have the expected negative signs – i.e., -0.459172 and -0.976873, respectively – and are statistically significant at the 1% level. This confirms that both models are convergent, and that any short-run disequilibrium in the economy will be corrected over time, allowing the system to return to its long-run equilibrium. The dynamic multiplier graphs for Model 1 and Model 2 are reported in Figure 2.

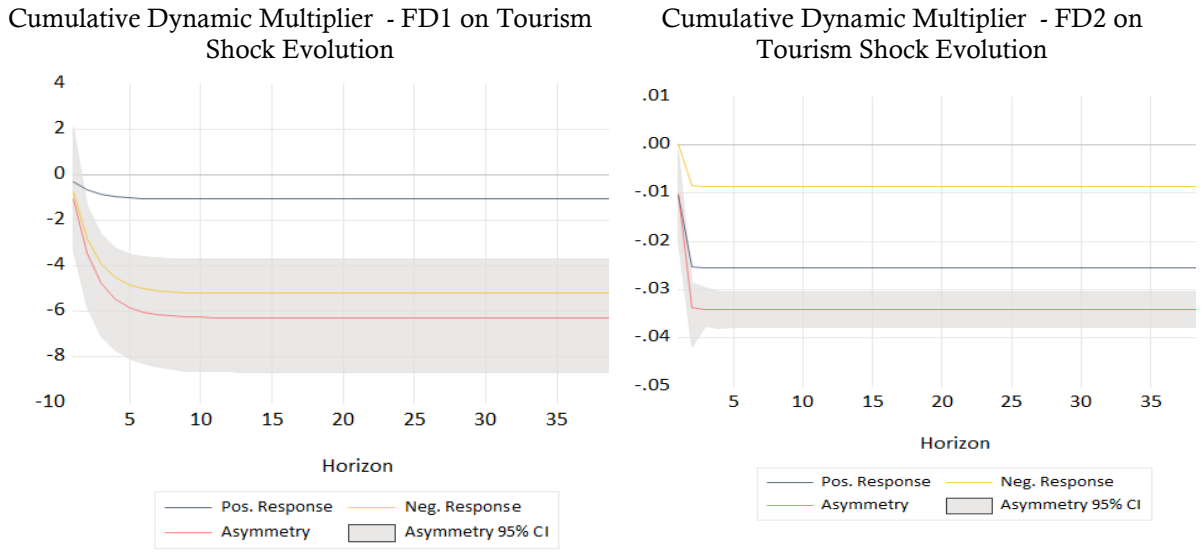


Figure 2. Dynamic multiplier graph

CONCLUSION

This study examined the impact of financial development on tourism in Mauritius, using data spanning from 1980 to 2022. Mauritius has made significant progress in the development of its financial sector and the advancement of tourism. The current study, therefore, explores whether the tourism sector in Mauritius can benefit from the growth of the financial sector. Using the non-linear autoregressive distributed lag (NARDL) approach and two proxies for financial development – financial markets index and domestic credit to the private sector – the study found that the impact of financial development on tourism varies depending on the proxy used. When financial development was measured by the financial markets index, the study found decreases in financial development to move in the same direction as tourism development in the long run. In contrast, increases in financial development had no statistically significant impact on tourism development in either the short run or the long run. However, when financial development was proxied by domestic credit to the private sector, increases in financial development were found to be negatively associated with tourism development in both the short and long run. Conversely, decreases in financial development were found to move in the same direction as tourism development in the long run. In addition, positive shocks to financial development were found to have a greater impact on tourism development than negative shocks. Based on these results, it can be concluded that when financial development was measured by financial markets index, negative shocks to financial development have a

deeper impact on tourism than positive shocks. However, when financial development was proxied by domestic credit to the private sector, positive shocks to financial development have a deeper impact on tourism than negative shocks. The study, therefore, recommends that Mauritius continue to promote and strengthen its financial development sector to stimulate growth in the tourism industry.

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