SBM insights

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Editorial Note

Dear Esteemed Readers,

Welcome!

We are pleased to bring to you a new and revamped edition of 'SBM insights' as SBM Group proudly moves forward to strengthen and broaden its engagement with its stakeholders. This economic publication delivers our current views and outlook for the Mauritian economy, based on latest estimates and developments.

Grappling with a challenging operating environment

In the wake of the pandemic, the global economy has been progressively patching up lately, but the upturn remains riddled with uncertainties and vulnerabilities. The Mauritian economy has, during the past two years, displayed commendable resilience when confronted by the unprecedented shocks triggered by the pandemic on its real, financial, fiscal and external sectors. It has capitalised on its sound fundamentals, diversified economic space, sizeable support measures unleashed by the authorities and sustained progress in vaccination. As the situation stands, there are reassuring signs that Mauritius is staging an economic recovery, which is foreseen to further strengthen during the course of this year amidst improving household and investor sentiment. But, the economy is exposed to various downside risks, with the operating context warranting increasing attention in recent months on the back notably of the resurgence of infectious cases locally and globally. In addition to the threat of the Delta variant, the propagation of Omicron has led to a growing number of confirmed cases across geographies, with epidemiological studies underway to assess the effectiveness of diagnostic tests, vaccines and other therapies to manage patients and guard against severe illnesses. Nonetheless, several observers have, lately, remarked that Omicron is yielding only a restricted and short-lived impact on the economic landscape internationally, while various European countries are lifting a series of COVID-related controls amidst increasingly manageable health conditions. Whereas this is an encouraging sight for the Mauritian economy, continued vigilance is warranted given the highly dynamic context since any outbreak and propagation of new Variants of Concern that evade vaccines can *ceteris paribus* pose a threat to nationwide economic activities. The latter scenario – which is characterised by a relatively moderate probability of occurrence – might potentially happen through the following channels: (i) the tightening or renewed imposition of social curbs and mobility restrictions by key export markets, thus leading to economic disruptions and hindering the demand for our goods and services; (ii) the temporary suspension of commercial passenger flights, hence affecting the tourism and travel industries; (iii) the reinforcement of containment measures on the local front, with repercussions on household consumption, investment, exports and sectorial performances; (iv) increasing strains on the country's health systems, with impacts on fiscal metrics; and (v) pressures on market confidence owing to a relatively more uncertain environment. *In fine*, this scenario implies the future path of the Mauritian economy will be closely linked to the course and intensity of the pandemic and the success of measures to combat its circulation, insofar as this will notably impact the pace at which sanitary restrictions will be comprehensively removed.

Resolutely boosting economic resilience and recovery during the short to medium term

Against this backdrop, it is encouraging to note that the Mauritian authorities are, with the support of the private sector, sustaining measures to wrestle with the health and sanitary repercussions of the pandemic. Indeed, emphasis is being laid on continuously bolstering the speed and stretch of vaccine distribution (notably regarding inoculation of third dose), gearing up public health capacities, improving coordination as regard distribution of medical equipment and drugs as well as regularly customising sanitary protocols to contain the pandemic, protect the population, save lives, preserve household incomes and enable borders to remain safely open. The challenge is to maintain the focus on these fronts, while addressing any inadequacies being observed as well as adapting interventions to evolving health and sanitary conditions. Key actions recommended by the World Health Organization for countries worldwide include (i) enhancing surveillance and sequencing of cases; (ii) performing field investigations and laboratory assessments to better understand if the variants have specific transmission or disease characteristics and investigate the effectiveness of vaccines, therapeutics, diagnostics and social measures; (iii) implementing effective public health measures to reduce COVID-19 circulation, using a risk analysis and science-based approach; and (iv) ensuring equitable access to treatment and diagnostics. Concomitantly, ensuring that the GDP growth impetus of Mauritius is continuously reinforced over the medium term would go a long way in further gearing up employment creation, boosting household disposable income and buttressing enhanced business activities. Towards this end, alongside coping with a landscape of possible virus mutations, the challenge for Mauritius is to guard against potential threats to macroeconomic stability, while limiting any contagion risks from the real sector to the banking system. In the same light and while continuing to meet health priorities, there is a need to decide on the right timing for the removal of current stimulus measures in order not to disrupt the economic recovery drive, especially with the uncertain outlook somewhat complicating the decision-making process.

Further transforming and modernising Mauritius for the greater good of the population

As it gradually recuperates from the crisis, this is a once-in-a-generation opportunity for Mauritius to act upon the lessons learnt from and vulnerabilities revealed by the pandemic with a view to laying far-reaching foundations to cement a high, balanced and sustained economic growth path over the longer run. Building on current measures, this implies undertaking well-targeted structural reforms and incentivising investments to (i) boost labour and capital productivity levels; (ii) upgrade the quality of public infrastructures; (iii) strengthen the competitiveness of sectors, expand the economic space and diversify exports in terms of offerings and markets; (iv) perpetually enhance the appeal and credibility of the Mauritius International Financial Centre as a gateway for trade and investment within the 'Golden Triangle' linking the Middle East, Asia and Africa; (v) increase connectivity to markets; (vi) achieve a further, but well-calibrated, openness of the economy to foreign talents and expertise; (vii) foster meaningful job creation across sectors, age groups and gender; and (viii) ensure sustainable public finances and ample fiscal space to underpin economic restructuring initiatives. A major focus area for Mauritius is to capitalise on growth opportunities associated with technology and innovation. Nobel Prize winner, Paul Romer, said, "*Every generation has underestimated the potential for finding new recipes and ideas. We consistently fail to grasp how many ideas remain to be discovered. The difficulty is the same one we have with compounding: possibilities do not merely add up; they multiply.*" Moreover, there are calls for countries to anchor their economic recovery and transformation on a 'green' philosophy. Emphasis is laid on key themes that include renewable electricity generation, energy efficiency of buildings and investments, biodiversity protection, circular economy measures, climate change mitigation and adaptation, promotion of 'green' jobs, adoption of nature-based solutions across sectors, ecosystem restoration and reforestation as well as low-carbon infrastructures and technologies. For Mauritius, meeting those imperatives would go a long way in bolstering business development and job creation, improving the quality of the population's living standards and achieving an inclusive nation.

Already, it is comforting to take cognizance of the array of initiatives and endeavours by the Government with the aim to boost the economy's recovery and transformation. As we move ahead, key success factors for the country would include (i) harnessing close and transparent collaboration, dialogue and synergies between the public and private sectors; (ii) embedding policy credibility and sound macroeconomic frameworks to maintain the trust of citizens, investors, markets and stakeholders; and (iii) reinforcing project implementation and policy execution capabilities, backed by appropriate and well-engineered recourse to Public-Private Partnerships. In the same spirit, the setting up of the Project Implementation and Monitoring Agency as well as the Public-Private Joint Committee can be viewed as laudable moves to expedite investments and promote the country's economic interests.

Promoting a renewed and inspiring future for Mauritius in an endemic COVID-19 world

Comfortingly, as at mid-February 2022, nearly 75% of the population received two doses of the vaccine (i.e. more than 92% of the local adult population), with the roll-out of the vaccine booster programme on course. Moving forward, a key strategic focus for Mauritius will be to strike a suitable balance between (i) relentlessly fighting the pandemic together with preserving human lives; and (ii) revitalising the economy, in support of businesses, jobs and livelihoods. This situation echoes the 'Sophie's Choice' dilemma confronting several countries globally, while being a perfect archetype of the constrained optimisation problem frequently put in the limelight by economic theory. Over time, alongside circumventing what observers termed as the 'perils of normalcy' in view of new imperatives and avenues generated by the pandemic, the onus for Mauritius is to make the right choices that will deliver on the promise of national transformation and modernisation as the storm passes and the dust settles.

Celebrated French author, Victor Hugo, once declared that, "*Our mind is enriched by what we receive, our heart by what we give.*" The country's success will reside on further capitalising on the incredible power of our collective energies and our complementaries to spearhead an even safer, greener, smarter and fairer future for Mauritius.

Nuvin BALLOO
Group Head Research & Strategic Planning
and Execution and Lead Economist

16 February 2022

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Global Economic Environment

General remarks

Latest indications are that global recovery is maintaining its course, but a cautious tone is being used to portray the macroeconomic outlook. There are indications that the momentum has weakened in recent months amidst the exacerbating pandemic propagation – especially in view of the rapid spread of variants – elevated inflationary pressures, persistent supply chain bottlenecks and acute vulnerabilities across international financial markets. Notably, the highly transmissible Delta and Omicron variants have contributed to major surges in infection numbers on a worldwide scale. Health risks led to interrogations about how quickly the pandemic can eventually be overcome, thus fuelling lingering economic vulnerabilities and weighing on business confidence and consumer sentiment. This situation has been exacerbated by the unequal access to vaccines across countries and regions as well as vaccine hesitancy in some instances. Moreover, capacity difficulties in transportation and supply-side blockages have led to important delays in the delivery of raw materials and production inputs, thus hampering output growth across sectors and countries. There are also non-negligible signs of labour market tightening across some countries, to some extent reflecting the scarring effects of the deep recession witnessed in 2020. In addition, the ramifications of the pandemic have pushed total global debt to the highest level in around half a century.

Economic growth and other indicators

As per the latest Global Economic Prospects report of the World Bank, after recovering by an estimated 5.5% in 2021, global growth would decelerate markedly to attain 4.1% in 2022, on the back of renewed COVID-19 flare-ups and lingering supply chain bottlenecks. The expansion of the world economy is likely to further soften in 2023, as pent-up demand loses steam and supportive macroeconomic policies continue to be unwound. As per the World Bank, "*Growth in advanced economies is expected to decline from 5 percent in 2021 to 3.8 percent in 2022 and 2.3 percent in 2023 – a pace that, while moderating, will be sufficient to restore output and investment to their pre-pandemic trend in these economies. In emerging and developing economies, however, growth is expected to drop from 6.3 percent in 2021 to 4.6 percent in 2022 and 4.4 percent in 2023. By 2023, all advanced economies will have achieved a full output recovery; yet output in emerging and developing economies will remain 4 percent below its pre-pandemic trend. For many vulnerable economies, the setback is even larger: output of fragile and conflict-affected economies will be 7.5 percent below its pre-pandemic trend, and output of small island states will be 8.5 percent below.*" With regard to global trade, its annual growth is anticipated to decelerate and attain 5.8% in 2022 and 4.7% in 2023, as compared to 9.5% in 2021, with the impact of bottlenecks that propagated through the supply chain and persisting economic challenges in several regions remaining to be properly ascertained. The World Bank stressed that international travel would remain subdued in the short term, before improving in the periods ahead on the heels of improvements in international mobility as vaccination progresses. As for financial conditions, they have, in 2021, remained very accommodative in advanced economies even as major Central Banks begun to reduce long-term asset purchases and signaled plans to raise policy rates. Equity prices swiftly returned to near historically high levels in the wake of rising corporate earnings. Financing conditions in emerging market and developing economies have tightened last year, reflecting policy hikes in various large countries, including Brazil, Mexico and the Russian Federation, amidst rising inflation and currency depreciation. Foreign direct investment flows have resumed in several countries, even if pandemic-related uncertainties have weighed in the balance.

Table 1. **Global real GDP growth projections as per the World Bank**

Annual percent change	2019	2020	2021e	2022f	2023f	Percentage point differences from June 2021 projections	
						2022f	2023f
World	**2.6**	**-3.4**	**5.5**	**4.1**	**3.2**	**-0.2**	**0.1**
Advanced economies	**1.7**	**-4.6**	**5.0**	**3.8**	**2.3**	**-0.2**	**0.1**
United States	2.3	-3.4	5.6	3.7	2.6	-0.5	0.3
Euro Area	1.6	-6.4	5.2	4.2	2.1	-0.2	-0.3
Japan	-0.2	-4.5	1.7	2.9	1.2	0.3	0.2
Emerging market and developing economies	**3.8**	**-1.7**	**6.3**	**4.6**	**4.4**	**-0.1**	**0.0**
East Asia and Pacific	5.8	1.2	7.1	5.1	5.2	-0.2	0.0
China	*6.0*	*2.2*	*8.0*	*5.1*	*5.3*	*-0.3*	*0.0*
Indonesia	*5.0*	*-2.1*	*3.7*	*5.2*	*5.1*	*0.2*	*0.0*
Thailand	*2.3*	*-6.1*	*1.0*	*3.9*	*4.3*	*-1.2*	*0.0*
Europe and Central Asia	2.7	-2.0	5.8	3.0	2.9	-0.9	-0.6
Russian Federation	*2.0*	*-3.0*	*4.3*	*2.4*	*1.8*	*-0.8*	*-0.5*
Turkey	*0.9*	*1.8*	*9.5*	*2.0*	*3.0*	*-2.5*	*-1.5*
Poland	*4.7*	*-2.5*	*5.1*	*4.7*	*3.4*	*0.2*	*-0.5*
Latin America and the Caribbean	0.8	-6.4	6.7	2.6	2.7	-0.3	0.2
Brazil	*1.2*	*-3.9*	*4.9*	*1.4*	*2.7*	*-1.1*	*0.4*
Mexico	*-0.2*	*-8.2*	*5.7*	*3.0*	*2.2*	*0.0*	*0.2*
Argentina	*-2.0*	*-9.9*	*10.0*	*2.6*	*2.1*	*0.9*	*0.2*
Middle East and North Africa	0.9	-4.0	3.1	4.4	3.4	0.8	0.1
Saudi Arabia	*0.3*	*-4.1*	*2.4*	*4.9*	*2.3*	*1.6*	*-0.9*
Iran, Islamic Rep.	*-6.8*	*3.4*	*3.1*	*2.4*	*2.2*	*0.2*	*-0.1*
Egypt, Arab Rep.	*5.6*	*3.6*	*3.3*	*5.5*	*5.5*	*1.0*	*0.0*
South Asia	4.4	-5.2	7.0	7.6	6.0	0.8	0.8
India	*4.0*	*-7.3*	*8.3*	*8.7*	6.8	*1.2*	*0.3*
Pakistan	*2.1*	*-0.5*	*3.5*	*3.4*	*4.0*	*1.4*	*0.6*
Bangladesh	*8.2*	*3.5*	*5.0*	*6.4*	*6.9*	*1.3*	*0.7*
Sub-Saharan Africa	2.5	-2.2	3.5	3.6	3.8	0.3	0.0
Nigeria	*2.2*	*-1.8*	*2.4*	*2.5*	*2.8*	*0.4*	*0.4*
South Africa	*0.1*	*-6.4*	*4.6*	*2.1*	*1.5*	*0.0*	*0.0*
Angola	*-0.6*	*-5.4*	*0.4*	*3.1*	*2.8*	*-0.2*	*-0.7*
Commodity-exporting EMDEs	1.8	-3.9	4.5	3.3	3.1	0.0	0.0
Commodity-importing EMDEs	4.9	-0.5	7.2	5.2	5.0	-0.2	0.0
Commodity-importing EMDEs excluding China	*3.3*	*-4.5*	*6.1*	*5.3*	*4.6*	*0.0*	*0.1*

Source: World Bank – Global Economic Prospects January 2022

The balance of risks to the global growth outlook is tilted to the downside. The main areas of concern include:

- Emergence of aggressive SARS-CoV-2 variants amidst delays in vaccination, which could exacerbate the pace and severity of the pandemic's propagation, trigger economic setbacks and overwhelm health systems; the associated mobility restrictions and pandemic control measures on the worldwide scale to aggravate supply-side bottlenecks and hold back output growth by a noticeable extent

- Heightening inflationary pressures against the backdrop of widening pandemic-induced mismatches between demand and supply as well as major upsurges in commodity prices, thus possibly prompting a more important tightening of global financial conditions on account of earlier-than-anticipated and more rapid monetary policy normalisation in advanced economies as well as a relatively swifter re-pricing of financial assets

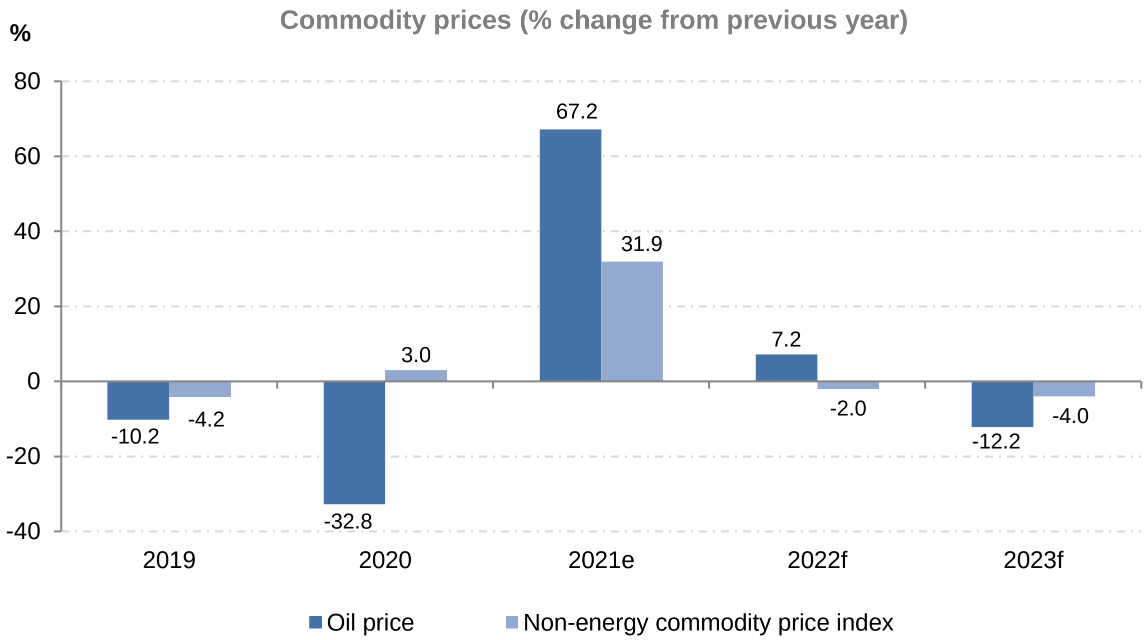
- Intensification of financial market volatilities in the wake of a possible stretching of asset valuations and deteriorating investor sentiment owing to adverse news on the pandemic

- Other potential threats, including (i) greater social unrest across countries as the pandemic hits businesses and households; and (ii) severe natural disasters and climate-related events, which could intensify humanitarian crises in some countries, while leading to detrimental impacts on production systems, fuelling migration pressures and causing an amplification of health care burdens

Inflation and commodity prices

Global inflation has risen by a greater-than-expected margin and faster-than-anticipated pace during the course of 2021 on account of (i) a relative firming up of demand as economies heal and restrictions are relaxed; (ii) pandemic-induced market mismatches, with producers finding it difficult to ramp up sufficient supply as quickly as required, amidst shipping transportation bottlenecks; (iii) rising energy and food prices; and (iv) policy-related developments. After climbing for several months, Brent crude oil prices have reached a seven-year high of more than USD 96 per barrel at around mid-February 2022. In general, this movement has been attributed to the nascent global upturn, growing demand as buyers sought alternatives for heating and power generation in the wake of higher natural gas prices (given a sharp stepping up of demand in China and diminishing inventories), geopolitical tensions, and lingering supply disruptions and production constraints. On average, oil prices rose to USD 69 per barrel in 2021, which is 67% higher than the corresponding level in 2020. In 2022, energy prices are likely to remain elevated as per both the IMF and the World Bank. According to the latter, oil prices are forecasted to edge up further to an average USD 74 per barrel this year – on the back of the progressive recovery in aggregate demand on a worldwide scale, occurrence of other macroeconomic developments and supply-side factors – before coming down to USD 65 per barrel in 2023 as global production gains pace. Non-energy commodity prices have risen by more than 30% in 2021 when compared to their 2020 levels, in view of major hikes in the prices of metals and food items. For 2022, metal prices are foreseen to somewhat ease as a result of the shaky international economic climate and provided that supply disruptions are addressed. Agricultural prices are expected to decline marginally over 2022 and 2023, even if input costs remain to be closely monitored. All in all, whilst they are expected to persist for longer than previously envisioned, the elevated global inflationary pressures are projected to gradually subside during the second half of 2022 and through 2023, supported by well-anchored expectations across economies, stabilising energy prices amidst still challenging, albeit recovering, economic conditions and expanding supplies as well as an easing of supply chain disruptions, which should have favourable repercussions on the evolution of freight costs. As summarised by the OECD, "*A waning of the pandemic would spur the normalisation of demand patterns between goods and services. Together with the easing of supply disruptions, this should facilitate a continued global economic recovery and remove some inflationary pressures.*"

Figure 1. Evolution of commodity prices



Source: World Bank – Global Economic Prospects January 2022

Economic Review: Mauritius

The Real Sector

Growth estimate for 2021

Recovery path witnessed

Preliminary estimates by Statistics Mauritius show that – after five consecutive quarters of negative growth in value added – GDP posted a positive year-on-year real growth rate of 17.8% in the second quarter of 2021. Though at a decelerating rate, the recovery prevailed in the third quarter as gauged by a nationwide expansion rate of 5.5%. These trends were underpinned by significant year-on-year technical rebounds across a broad spectrum of sectors. Key contributors to the upturn include the manufacturing, construction as well as wholesale and retail trade sectors, while the financial services and ICT industries reinforced their growth performance. Notable upsurges were recorded in respect of gross fixed capital formation as well as the exports of goods and services. Whilst stemming from a low statistical base, these outcomes highlight that the economy is gradually getting back to shape.

Figure 2. Trends in economic growth

Source: Statistics Mauritius - Quarterly National Accounts December 2021

Key observations and underpinnings

Whilst facing up to the sanitary measures put in place by the authorities to manage the impact of the pandemic, real GDP growth is estimated at around 4.3% in 2021 as per our baseline computations. Whereas this figure remains to be further ascertained in light of upcoming data releases, the nationwide rebound can be attributable to (i) the favourable statistical effect linked to the previous year's national income; (ii) relief measures adopted by the authorities; and (iii) a gradual mending of the operating context – with positive ramifications on consumer sentiment and business confidence – on account of re-opening of borders, improved global demand and a partial healing of the sanitary landscape locally and abroad, amidst sustained progress in vaccination. Overall, economic growth is estimated to have been driven by an appreciable upturn in a wide range of sectors which had contracted in 2020. Key examples relate to the construction sector owing to a major pick-up in both public and private sector investment, wholesale and retail trade, the domestic oriented manufacturing industry as well as the seafood and export oriented manufacturing industries, with the latter resuming a positive growth path after three consecutive years of negative growth, partly explained by re-ignited orders and movements observed on foreign exchange markets. The business and financial services as well as ICT sectors have registered appreciable growth rates, on the back of their sound fundamentals and opportunities linked to the changing operating environment. Also, public health activities are estimated to have depicted a noteworthy expansion rate in the current sanitary landscape. On the other hand, while they have encouragingly resumed in October following the full re-opening of borders, aggregate tourist arrivals for 2021 were below the outcome posted in 2020 owing to the challenging sanitary context and containment measures put in place, which have, likewise, contributed to another contraction of the value added for the arts, entertainment and recreation industry. The transportation and storage sector depicted a subdued performance in the given context, while being also impacted by lingering global supply chain disruptions.

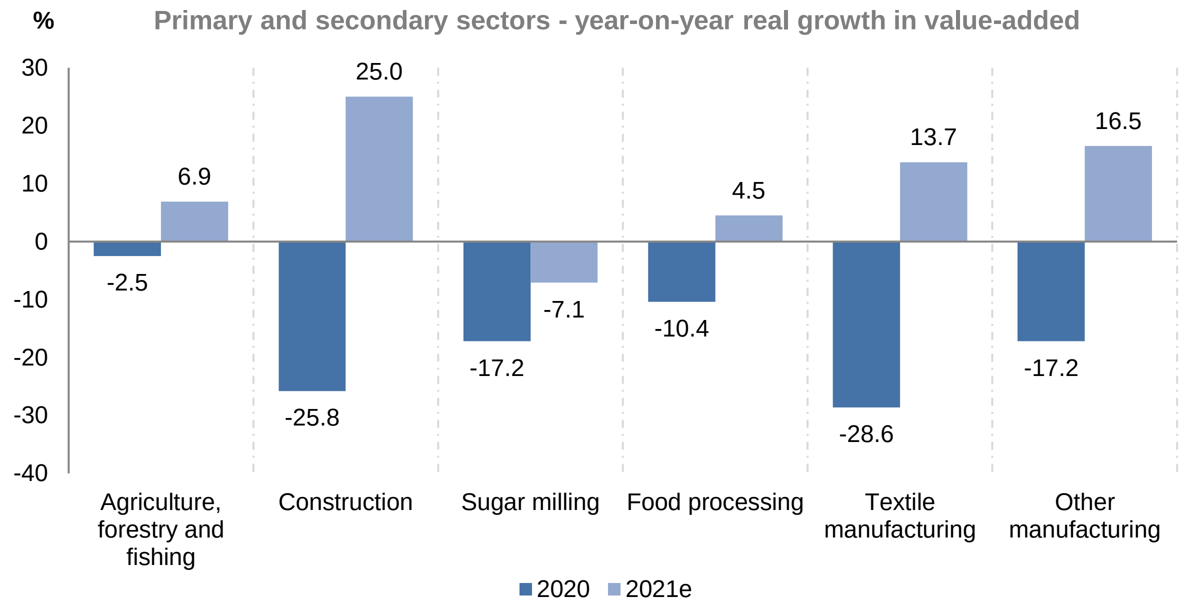
Pressures recorded in the fourth quarter

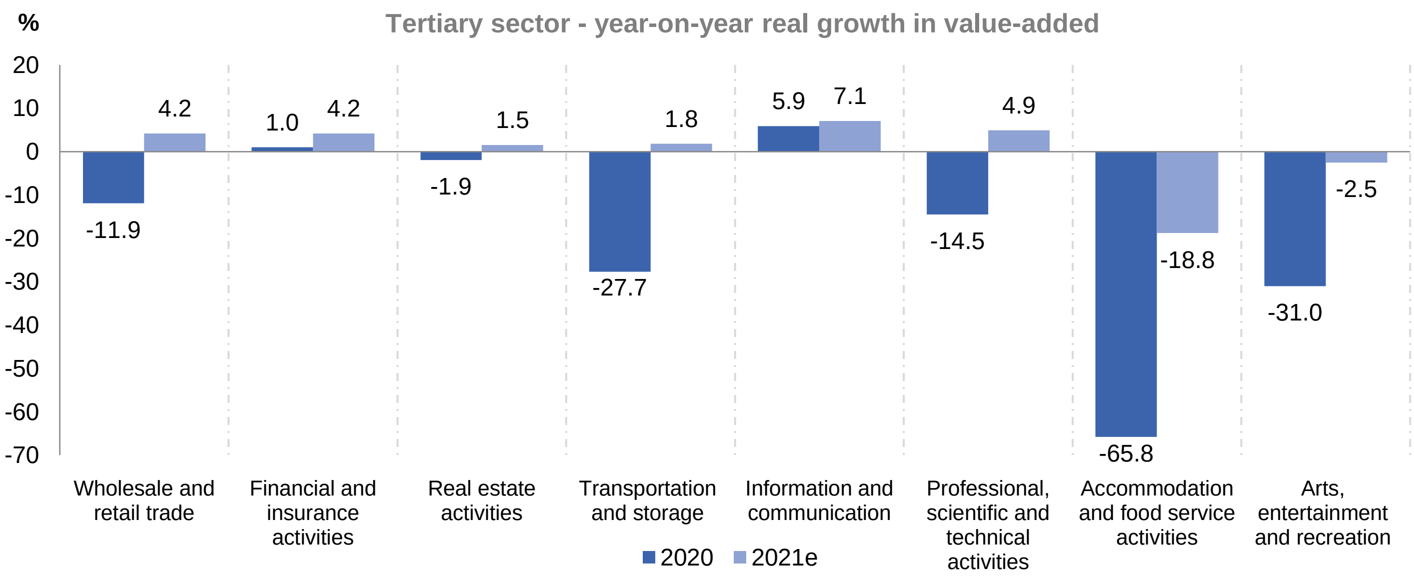
Our growth estimate for 2021 factors in a slower-than-expected recovery in the final quarter on account of the upsurge in infectious cases in Mauritius and abroad. Notably, tourist arrivals were on course for a relative acceleration during the final quarter of 2021, partly supported by increasing vaccination rates in Mauritius and abroad, healing private demand on the international scale, intensification of marketing efforts vis-à-vis targeted countries and strengthening air connectivity. Whereas these enablers were beneficial, arrivals were, nonetheless, upset by growing apprehensions over the sanitary environment as well as the imposition of travel restrictions and flight suspensions – with ramifications felt in relation to the South African, French and Reunion Island markets – in the wake of the imperative need to tackle the spread of the Delta and Omicron variants. Against this backdrop, total arrivals were, during the last three months of 2021, still around 42% of the figure registered for the corresponding period of 2019, after factoring in available airline capacities. Furthermore, the difficult sanitary context and associated containment measures rightfully put in place have, to different magnitudes, affected the performances of specific sectors, especially food service activities, wholesale and retail trade, real estate as well as arts, entertainment and recreation. As for exports of goods, they have, to some extent and in some respects, been impacted by tight sanitary restrictions imposed by key trading partners facing up to new waves of coronavirus.

Evolution of key indicators as per Statistics Mauritius

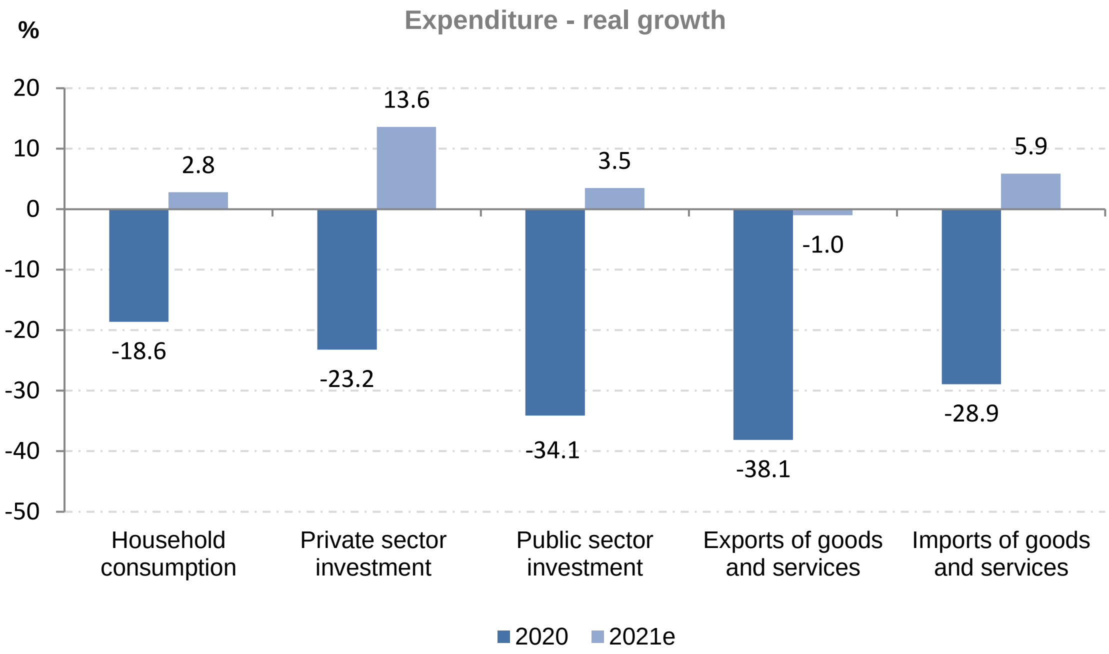
As per estimates by Statistics Mauritius, GDP at current market prices is estimated at Rs 461.9 billion in 2021 compared to Rs 429.7 billion in 2020 and Rs 498.3 billion in 2019, after factoring in a real annual growth in value added of 4.8% and a deflator effect of 2.6%. Along the way, it is worth noting that, when measured as a share of GDP, public and private investment would edge up by 10 and 160 basis points to attain 4.4% and 15.2% respectively in 2021. Per capita GDP would, in nominal terms, increase from Rs 339,407 in 2020 to Rs 364,722 in 2021.

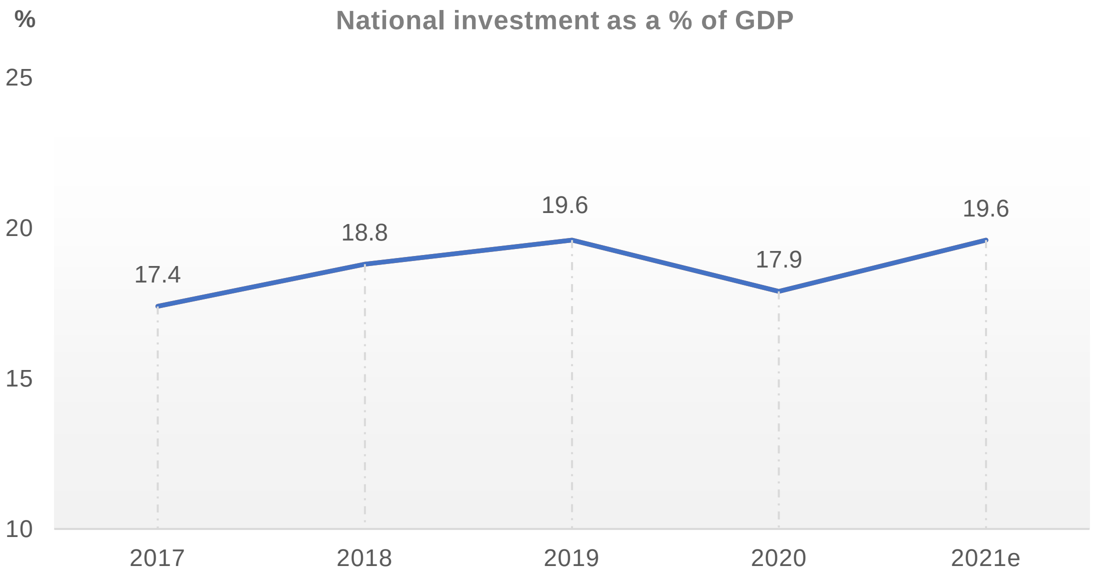
Figure 3. Evolution of GDP-related indicators as per Statistics Mauritius





Source: Statistics Mauritius - National Accounts December 2021





Source: Statistics Mauritius - National Accounts December 2021

Growth outlook for 2022

Baseline forecast

Although notable uncertainty subsists regarding the evolution of the virus and whereas inflationary pressures would have a bearing on economic activities, the country's recovery momentum is likely to gather additional steam this year, as Mauritius further recuperates from the pandemic-induced crisis. As per our current baseline scenario, real GDP growth would oscillate between 6.6% and 6.8%. In addition to benefitting from a still low statistical base, economic growth would be underpinned by a further improvement in household and business sentiment, which would prompt a continuing recovery in sectorial activities and investment patterns. Essentially, we have a cautiously optimistic prognosis for this year on the expectation that (i) the global economic upturn, which is being somewhat disrupted, maintains its general course in the face of ongoing risks and challenges; and (ii) the pandemic is effectively tackled, locally and abroad. This is guided by the assumption that further appreciable progress is made in improving health conditions on the local and international fronts, notably in terms of hospitalisations and illnesses. This would, consequently, translate into a considerable relaxation of containment measures and mobility restrictions that notably have a bearing on cross-border and travel activities. Such developments would, at the outset, be backed by the fast deployment and the effectiveness of vaccines – including the ongoing administration of the booster programme – and other treatments, particularly when dealing with the current and any new strains of the virus. In addition, our economic growth outlook factors in generally supportive monetary and fiscal policies throughout the year, while also catering for arrangements to be made by the authorities with the objective to foster the smooth unwinding of pandemic-related relief measures and to help manage the likely impacts.

Main considerations

In 2022, real GDP growth would be driven by an anticipated conspicuous rebound in tourist arrivals, given the low base and on assuming a relatively manageable and improving health and sanitary environment as well as the country's borders remaining open across the full year. While there are indications from operators that bookings have been gradually picking up, the rekindling of the industry is foreseen to be underpinned by (i) rising vaccination rates across markets, which would bolster customer confidence; (ii) lifting or relaxation of travel restrictions across feeder markets; (iii) a boost to private demand internationally, as household balance sheets progressively normalise; (iv) strengthened air connectivity and seat capacity; (v) sustained marketing campaigns in specific countries; (vi) improving customer inclination with regard to travel after prolonged periods of inactivity; and (vii) the inherent appeal and competitiveness of the Mauritian destination. The trends characterising the tourism sector should have positive spill-over effects on other segments, including wholesale and retail trade, transportation, agriculture and fishing, food service activities as well as electricity and water supply, with these industries also anticipated to, in various ways, take advantage of the expansion in nationwide economic activities.

That said, the performance of the Mauritian tourism industry in 2022 is still foreseen to be sub-optimal when compared to pre-pandemic trends, with the recovery in arrivals expected by observers and operators to be gradual, barring the occurrence of major shocks. This is aligned with global developments, whereby, notwithstanding steadily growing market confidence, the short-term outlook for a meaningful revival of tourism across countries and continents remains quite uncertain, especially explained by continuing sanitary and market-related challenges. According to the latest survey by the Panel of Experts of the United Nations World Tourism Organization (UNWTO) that involved

Box 1: Tourism - Arising stronger and treading on new paths

Background

Worldwide tourism has, on account of its idiosyncratic specificities, been one of the biggest casualties of the crisis in view of measures to control the pandemic (e.g. local confinement and border closures), acute economic difficulties faced by markets and marred health conditions. Globally, the industry is estimated to have lost an estimated USD 1.3 trillion in export revenue in 2020 (more than 11 times the loss recorded during the 2008 international crisis), while putting between 100 and 120 million direct tourism jobs at risk.

After being stranded by a crisis that surfaced with no immediate fixes, global tourism is learning how to familiarise with this unprecedented context in the wake of changing travelling imperatives. In spite of recent positive developments, debates subsist as regard (i) the pace at which international borders will be broadly reopened, in conjunction with vaccination of populations; (ii) the evolving specificities of market demand; (iii) the significance of deploying digital vaccination passports to underpin the mobility of tourists; and (iv) the extensiveness of sanitary arrangements and health verification procedures in airplanes and at airports.

Advocated growth trajectories

Policy postures and orientations

To rekindle the tourism industry in light of ongoing turbulences, observers called for policy measures to be anchored on a three-legged approach: (i) immediate term: sustaining tailored relief measures to cushion the financial blow to operators, keep the sector afloat as well as protect jobs and ancillary businesses, while (a) monitoring assistance availed by businesses and (b) reviewing the extent thereof in view of the changing context; (ii) short to medium term: equipping the industry with the capabilities, support and resources to gradually recuperate and accelerate the recovery process over time, after adapting to new imperatives triggered by the international travel industry; and (iii) medium to long-term: unleashing ambitious reforms which will chart a more attractive, resilient and sustainable path for the tourism industry.

Health imperatives

While restarting the tourism sector, protecting the health and safety of populations remains a topmost priority. As per the United Nations World Tourism Organization (UNWTO), the harmonisation, coordination and digitalisation of COVID-19 travel-related risk reduction measures, including testing, tracing and vaccination certificates, are key foundations to promote safe travel and prepare for the recovery of tourism activities. According to the World Health Organization: "*The gradual lifting of travel measures should be based on a thorough risk assessment, taking into account country context, the local epidemiology and transmission patterns, the national health and social measures to control the outbreak, and capabilities of public health systems at national and subnational levels to manage suspected and confirmed cases among travelers, including at points of entry. Any subsequent measure must be proportionate to public health risks and should be adjusted based on a risk assessment, conducted regularly and systematically as the COVID-19 situation evolves and communicated regularly to the public.*" As per the institution, countries should maintain or strengthen, as necessary, their capacities at points of entry to mitigate and manage the risk of importation or exportation of the disease. These include capacities for entry or exit screening, early detection through active case finding, isolation and testing of ill passengers (including supply of personal protective equipment), cleaning and disinfection, case management, including transportation to a medical facility, identification of contacts for contact-tracing, public information sharing on local policies for adequate sanitation measures, physical distancing and wearing of masks, sharing of emergency phone numbers, risk communication as well as dissemination of appropriate education on responsible travel behaviour.

Endorsing a revitalised growth model

Beyond the current crisis, there is a wonderful, yet challenging, opportunity for countries worldwide to gear up for a renewed future for the tourism sector. The key aim is to achieve stronger, fairer as well as more resilient, sustainable and innovative models of tourism development over time, backed by revitalised business models and structural transformations to help competitively attract a new breed of travellers.

There are calls to avoid being overly concentrated in traditional hard investments such as accommodation infrastructure and to move towards soft infrastructure, including digital innovations and services based on nature-friendly experiences. Amidst increased awareness of environment-related issues by tourists and growing demand by such niche markets, experts call for greater focus to be laid on sustainability principles, with the concept of regenerative and conscious tourism popularised to reduce the sector's carbon footprint and strengthen its competitiveness. Countries can gain by spearheading the shift towards ecotourism or, as they call it, open-air and nature-based tourism, alongside concentrating on adventure and wellness tours (involving rural populations) and promoting local economic development and job creation. In Thailand, the development of community-based tourism is being seriously explored by operators as a means to attract tourists, with emphasis on immersive and off-the-beaten-path cultural experiences. The idea is that sustainable tourism must no longer be viewed as a niche segment, but rather the front-running face of the industry itself. With adapted renovations, countries can benefit by focusing on meeting traveller requirements for more personalised experiences, while attending to the needs of those who are sensitive to sanitary protocols, safety measures and hygienic factors during the travel period and at final destinations.

Strategically, advanced technologies can, in an influential way, help to bolster tourism experiences before and after the trip. Countries can rely on the digitalisation of their tourism services, notably by means of (i) more convenient and contactless payments services and solutions (e.g. administrative proceedings at airports and public spaces, including touchless fingerprint and document scanning, face recognition and voice controls); (ii) online platforms for promotional activities and interactions with potential clients; (iii) virtual reality as a marketing tool and artificial intelligence for assisted communication; and (iv) the delivery of real-time information to facilitate more informed trip planning. Reflecting changing traveller requirements, notably by Millennials, Travel & Mobility Tech start-ups have been benefitting from significant venture capital investments to act as a remarkable value creator. They are capitalising on innovative technologies (via web and mobile applications), while proposing disruptive solutions to make travel more efficient, rapid and interconnected. Key services can include Hotels & Hospitality Management, Artificial Intelligence & Analytics, Booking for Tours and Activities, Payment & Connectivity, Smart Luggage, Carpooling, etc.

professionals and reflected on international tourism prospects, "*While 58% expect a rebound in 2022, mostly during the third quarter, 42% point to a potential rebound only in 2023. A majority of experts (64%) now expect international arrivals to return to 2019 levels only in 2024 or later, up from 45% in the September survey.*" Overall, the resumption of tourist arrivals on the global scale would, in the near term, be exposed to key challenges, including the following (i) the level of sanitary, travel and entry restrictions in place, notwithstanding progress expected to be made in mitigating the ramifications of the pandemic and promoting free-flowing economic activities in the months ahead; (ii) persisting economic strains endured by key markets, notably those in Europe, in spite of an expected relative healing of the operating environment; (iii) possible preferences by tourists for short-haul and domestic destinations in some instances, as opposed to long-haul travel, as a result of the unpredictable landscape and pressurised purchasing power; (iv) the time taken for operators to properly respond to shifts in the tourism ecosystem amidst changing customer behaviours; and (v) unfolding airline capacities in relation to demand. According to the UNWTO, "*The safe resumption of international tourism will continue to depend largely on a coordinated response among countries in terms of travel restrictions, harmonized safety and hygiene protocols and effective communication to help restore consumer confidence. This is particularly critical at a moment when cases are surging in some regions and new Covid-19 variants are emerging in different parts of the world.*"

As a key boost to GDP growth, the construction sector is, notwithstanding increased operating costs and the unclear sanitary landscape, foreseen to post a noteworthy growth rate this year, in light of ongoing and earmarked projects. With regard to private investment, allowance can be made for the host of undertakings already unleashed or in the pipeline, notably relating to (i) Smart City and land parcelling projects (with major operators and land owners parcelling traditional sugar cane land for residential purposes); (ii) initiatives in the context of the Property Development Scheme and high-end real estate activities; (iii) the proposed construction of new hotels and renovation of existing ones; and (iv) other potential ventures as per announcements made, especially in the pharmaceutical, health and education fields. Also, residential investment is anticipated to gain additional pace on the back of the healing economic climate and the incentives put forward by the authorities. With respect to public investment, a robust growth rate is expected, amidst the pursuance of works in respect of the Metro Express and the Road Decongestion Programme, wastewater and drains upgrading initiatives as well as other undertakings identified by the Government to meet socio-economic objectives. National investment would be supported by measures taken by the authorities, particularly the operation of the High-Level Committee chaired by the Prime Minister and the setting up of the Project Implementation and Monitoring Agency, which should assist in fast-tracking the approval and implementation of relevant projects, with appropriate monitoring and coordination.

Amidst promising order books as per the operators, key segments within the export oriented manufacturing industry should post appreciable expansion trajectories in 2022, mainly due to strengthening demand in foreign markets and favourable currency dynamics. The industry also stands to gain in the event that the operators capitalise on opportunities associated with recent trade agreements, notably the Free Trade Agreement with China, the Comprehensive Economic Cooperation and Partnership Agreement with India as well as the protocols embedded within the context of the African Continental Free Trade Area. However, strains on input costs, labour market constraints and supply-side disruptions might, in some respects, exert dampening pressures on the growth in value added. Furthermore, while making allowance for their generally healthy business models and sustained progress made in terms of market diversification, the business and financial services as well as the ICT industries are anticipated to strengthen their growth trajectory this year, underpinned by a more conducive business landscape and expanding nationwide economic activities. Along the way, the exit of Mauritius from the FATF list of jurisdictions under increased monitoring as well as its delisting from the category of High-Risk Third Countries of the European Union should contribute to further enhance the credibility and competitiveness of the country's International Financial Centre, in the midst of current efforts aimed at deepening its value proposition and augmenting its economic substance. Such endeavours should help to position the Mauritian jurisdiction as a gateway for trade and investment within the 'Golden Triangle' linking Middle East, Asia and Africa.

Strength and resilience of the growth trajectory

Whilst the anticipated firming up of economic activities is *per se* encouraging, a cautious dissection of the growth outlook for 2022 is called for. Notably, as it would be the case for several economies on a worldwide scale, a full healing of the Mauritian economy is expected to take time given the scarring effects of the pandemic, with a key challenge for the country being the need to further strengthen its growth path over the medium term. Moreover, there is notable uncertainty surrounding our growth outlook, with limited visibility about how the operating landscape, both in Mauritius and internationally, will shape up and evolve in periods ahead. While the strength of the global recovery will be a decisive factor in influencing our economic achievement, another 'known unknown' pertains to the mutation, intensity and duration of the pandemic. Indeed, economic activities will be closely dependent on the efficacy of vaccines and other treatments toward combating any propagation of the virus, as this will play a crucial role to determine how fast and extensively household and investor confidence will be further reinforced. As the situation stands, whereas upside risks (including faster-than-forecasted global recovery and more rapid revival of tourist arrivals) can possibly trigger a more favourable GDP growth outturn this year, our baseline growth prognosis is subject to multiple downside risks. Potential threats, several of which are beyond our control, include the following:

- Intensification of COVID-19 infection rates globally, with the speed and effectiveness of vaccine deployment insufficient to stop the transmission of any new and severe strains of the virus – this situation could (i) unsettle external demand for our goods and services on the back of long-lasting and stricter containment measures (including partial lockdowns and travel restrictions) as well as subdued private consumption abroad; and (ii) lead to lingering trade disruptions in view of port closures, mobility restrictions and supply-side bottlenecks

- Emergence and/or rapid propagation of particularly transmissible and aggressive variants of the COVID-19 virus on the local front – this could instigate an amplification of health and sanitary complications across the country, while potentially precipitating tighter mobility restrictions, causing pullbacks of activities across sectors and triggering a deceleration of the pace of earmarked public and private investments

- Impediments to nationwide production and output growth as a result of exacerbating bottlenecks with respect to global shipping transportation, to the extent that supply chain delays could hamper the availability of inputs, raw materials and infrastructure equipment as well as generate protracted labour shortages

- Intensification of inflationary pressures owing to persistently high commodity prices and longer-than-expected pandemic-induced demand-supply mismatches – this could hurt local economic prospects by impacting production costs and exerting downward pressures on household purchasing power in some instances

- Fast tightening of global financing conditions in anticipation of future monetary policy moves in advanced economies, with likely repercussions on debt financing needs and capital inflows

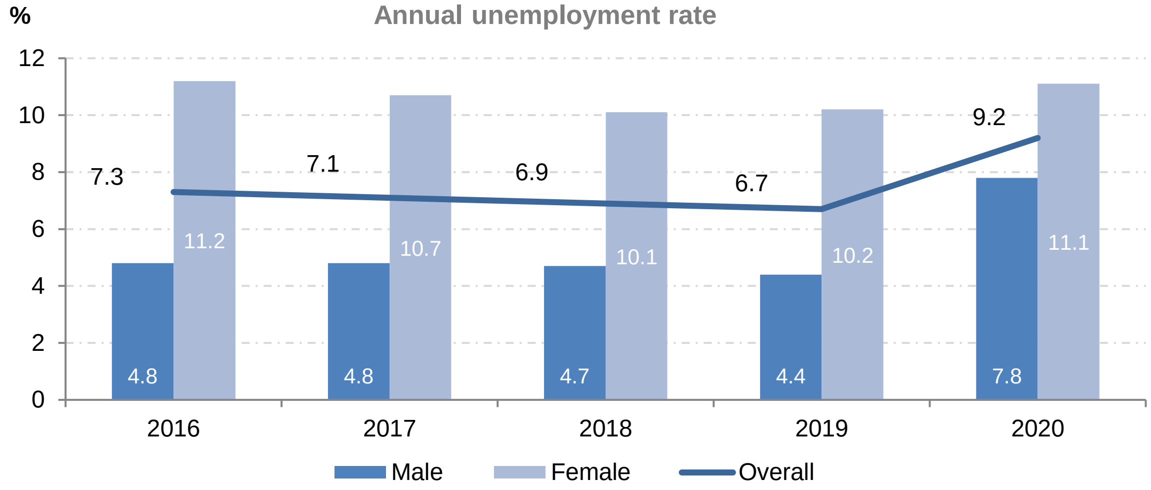
- A faster-than-required and sub-optimal unwinding of support and relief measures locally, with adverse bearings on sectorial value added, corporate solvency and employment protection

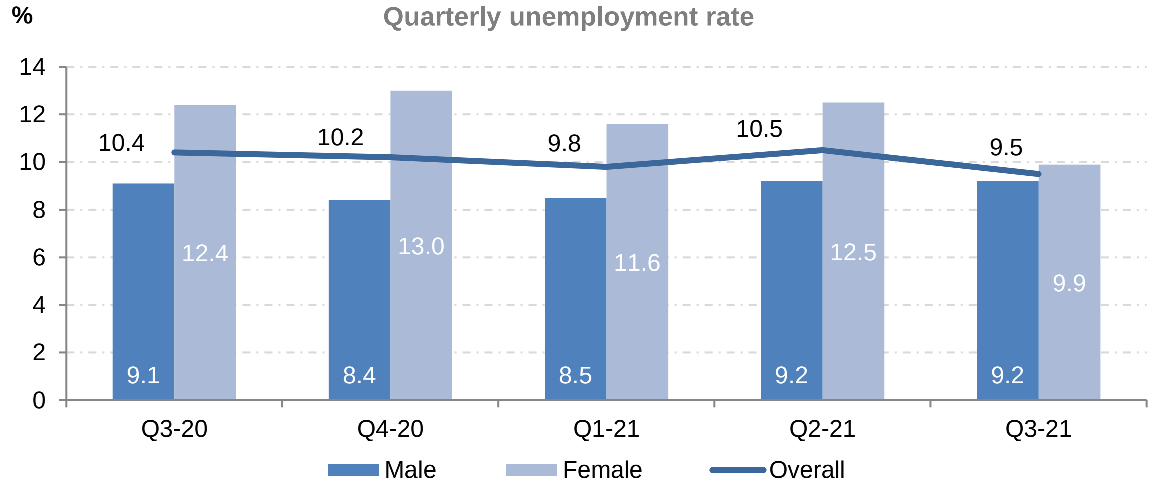
Unemployment

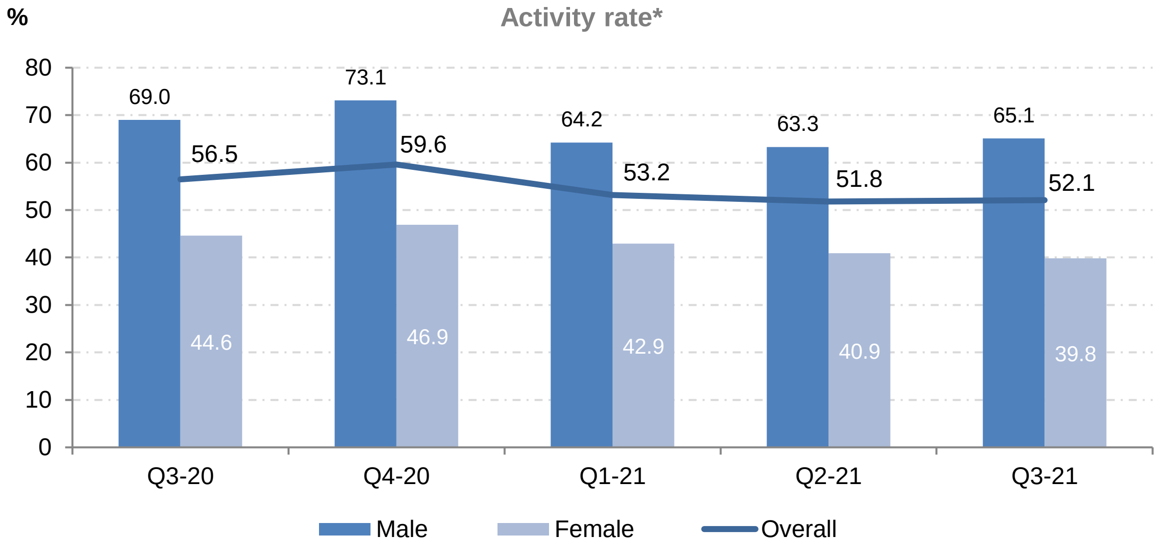
Recent trends

After embarking onto a continuous downward path over the preceding years, the national unemployment rate has, in line with global trends, been hit by declining economic activities and falling national investment in the wake of the pandemic. Against this backdrop, it posted a year-on-year rise of two and a half percentage points to attain 9.2% in 2020 as per official estimates. As per Statistics Mauritius, the nationwide unemployment rate reached 9.5% in the third quarter of 2021. This, encouragingly, represents a one percentage point improvement from the preceding quarter, supported by a relative decline in the joblessness rate for women from 12.5% to 9.9%. Overall, while the demanding economic and market landscapes were a drag on employment generation across different sectors, it is comforting to note that the associated repercussions have, during the course of 2021, been, in several ways, mitigated by (i) the extension of the Government Wage Assistance Scheme and the Self-Employed Assistance Scheme; (ii) the adoption of support measures by the authorities to enable enterprises to sustain their operations; and (iii) regulations aimed to avoid termination of employment in specific circumstances. Besides, the ongoing economic recovery momentum played a non-negligible role in upholding net job creation in specific fields. That said, prevailing trends warrant scrutiny, notably the level of youth unemployment, while the overall labour activity rate – standing at 52.1% in the third quarter of 2021 – calls for a gradual upgrade in the coming years by virtue of the country's preeminent reliance on its human capital to spearhead its growth and development endeavours. Of note also, the level of underemployment, especially in hard-hit sectors, is believed to have been impacted by challenging economic conditions, due to reductions and re-organisations in demand for labour as well as pressures on the availability and adequacy of work opportunities. As stressed by the International Labour Organization, "*It is not enough to measure unemployment to understand the deficiencies in the labour market. Many workers around the world tend to work less hours, earn less income or use their occupational skills incompletely; in other words, they tend to carry out an activity which is less productive than they could and would like to carry out.*"

Figure 4. Labour market trends







**Activity rate is the ratio (%) of labour force to population aged 16 years and above*

Source: Statistics Mauritius - Labour Force, Employment and Unemployment

Outlook

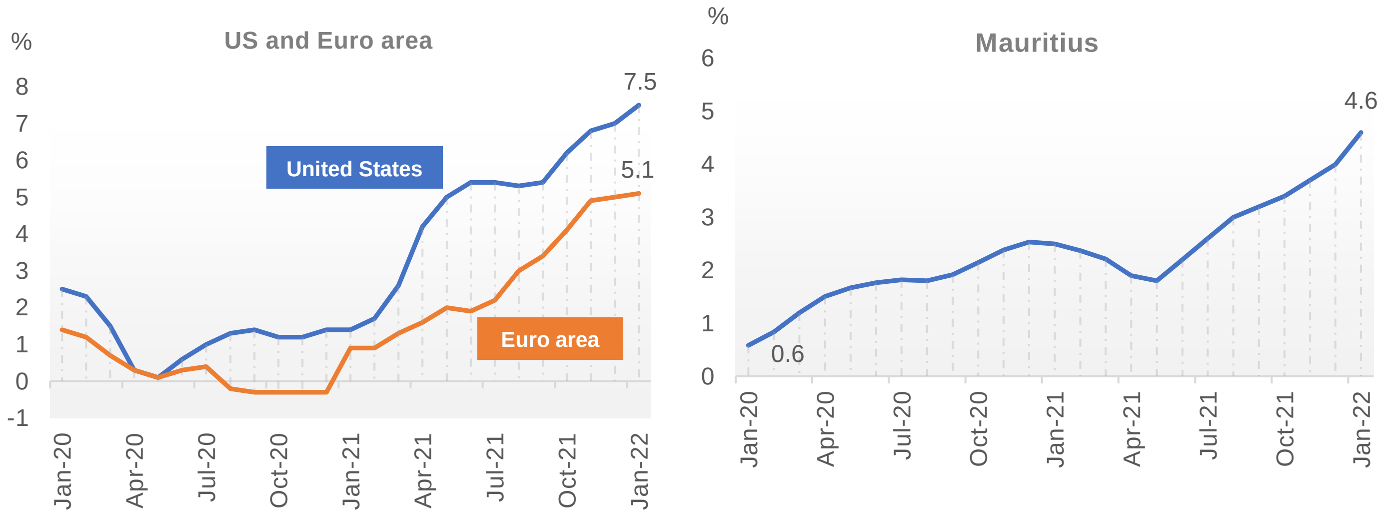
Whereas the still fragile economic context would continue to exert pressures on the labour market for some time yet, the national unemployment rate is expected to relatively improve in 2021 as a whole and to further drop in 2022. This is based on the baseline assumption that the economy would gather steam and that investment would be gradually rekindled in the periods ahead, especially in the wake of the array of measures announced by the authorities to re-ignite the economy and boost job prospects. Over the medium term, the overriding, yet daunting, challenge for public and private stakeholders is to reduce even more the nationwide unemployment rate, alongside promoting meaningful and durable employment creation beyond both the recovery stage and the progressive withdrawal of relief measures when it happens. Holistically, focus can be laid on broadening current policy initiatives aimed at (i) persuasively tackling labour market imperfections, alongside reducing the gap between demand and supply of labour; (ii) ensuring that employment generation is boosted across sectors, gender and age groups; (iii) increasing male and female labour activity rates to widen the pool of resources that will uplift nationwide output generation and GDP growth; (iv) gearing up the adoption, by enterprises, of training schemes aimed at paving the way for sustained labour employability and good quality job avenues; and (v) promoting retooling and reskilling of workers in tune with the economy's structural transformation, in the wake of increasing digitalisation and the pandemic's impact on working behaviours. Such imperatives are all the more called for when reflecting on global assessments made by the OECD in its Employment Outlook 2021, "*Employment rates are projected to remain below their pre-crisis level until at least the end of 2022. The full impact of the crisis on the labour market is not yet behind us. The final extent of net job destruction is likely to depend not only on the length of restrictions but also on expectations and long-term shifts in consumer demand and technology. Tentative evidence suggests that firms are restructuring in ways that are accelerating pre-existing trends such as automation, digitalisation and increasing demand for professionals in the health care and green sectors. This is profoundly reshaping the way companies produce and combine human labour with new technologies."*

Inflation

Latest estimates

As mentioned before, headline inflation has, on the international scale, picked up strongly since the beginning of 2021. In the United States, headline consumer price inflation was 7.5% in January 2022, which is the fastest pace since 1982, while the rate attained 5.5% in the UK, i.e. the steepest rise in around three decades. Of note also, inflation in the euro area is estimated at 5.1% in January, the highest ever on record. In Mauritius, headline inflation has, since June last, climbed to attain 4.6% for the twelve-month period ended January 2022, compared to 2.5% a year ago. Overall, this trend was, notably, due to hikes in the prices of specific items such as food, beverages and tobacco, surges in the international prices of oil and other commodities as well as exchange rate movements. In addition, inflation has been shaped by pandemic-related supply chain disruptions amidst the impact of stretched maritime transportation networks. Globally, such developments have been attributed to (i) a sharp rebound in the demand for tradable goods and in international manufacturing orders as key economies recover from the crisis, with producers being, in several instances, unable to accelerate supplies with the right volumes and pace; (ii) sustained distortions to logistics networks and the international distribution of containers – leaving ships stranded off their usual routes – on the back of clogged ports and sanitary restrictions; (iii) labour market constraints, with repercussions on cross-border activities; and (iv) limited air freight capacity as international flight volumes fell due to travel restrictions and flight cancellations. Owing to chronic delays in deliveries and given soaring fuel prices, international freight costs rose significantly and persistently. This contributed to higher prices of raw materials, production inputs and consumer goods entering Mauritius.

Figure 5. Evolution of headline inflation



Sources: Statistics Mauritius - Consumer Price Index; US Bureau of Labor Statistics; Eurostat

Forecasted trends

Headline inflation is, barring major shocks, foreseen to hover around 4% as at December 2022 as per our baseline scenario. Overall, while remaining manageable, pressures on the consumer price index are – as it would be the case on the global scene – likely to subsist in 2022 on the basis of exogenous factors, but are expected to gradually dissipate during the second half of the year. As an area requiring scrutiny, the inflation bulletin would be exposed to likely high and volatile international oil prices, with recently exacerbating geopolitical tensions adding up to pressures. On the other hand, the forecasted downward pressures on the prices of non-energy commodities might lend a favourable support to consumer prices, as consumption patterns stabilise, supply capabilities are boosted and global trade bottlenecks are resolved. As a sigh of relief, blockages to worldwide goods transportation and the supply chain are likely to progressively recede during the second semester of 2022. This is based on the expectation that supply capabilities would adjust to higher demand and consumers would rebalance their spending towards services after mobility restrictions are comprehensively lifted and disposable incomes rise, assuming that the pandemic is managed in an increasingly effective way internationally. The easing of labour shortages should also help to alleviate capacity constraints, thus taking pressures off goods delivery times. As per assessments made by the OECD in its latest global outlook, "*Our analysis suggests that as the health situation improves, demand stabilises and people return to the labour force, supply bottlenecks should fade."* Such dynamics would contribute to a relative easing of freight costs internationally and positively impact inflation trends in Mauritius.

Notes of caution

That said, the short-term inflation outlook for Mauritius remains somewhat unclear insofar as the risks associated with the unsteady international landscape are likely to persist for some time yet. Key uncertainties prevail with regard to (i) the evolution of commodity prices internationally, with further appraisal to be undertaken in relation to market dynamics, production trajectories and geopolitical developments; and (ii) the time taken for worldwide shipping shortages to stabilise and supply chain constraints to be satisfactorily resolved, with potential strains including any severe waves of COVID-19 cases with impacts on social and economic mobility, rapidly accelerating consumer expenditure amidst a relative shift in demand from services to goods as well as extreme weather events.

› The Financial Sector

Banking and financial stability

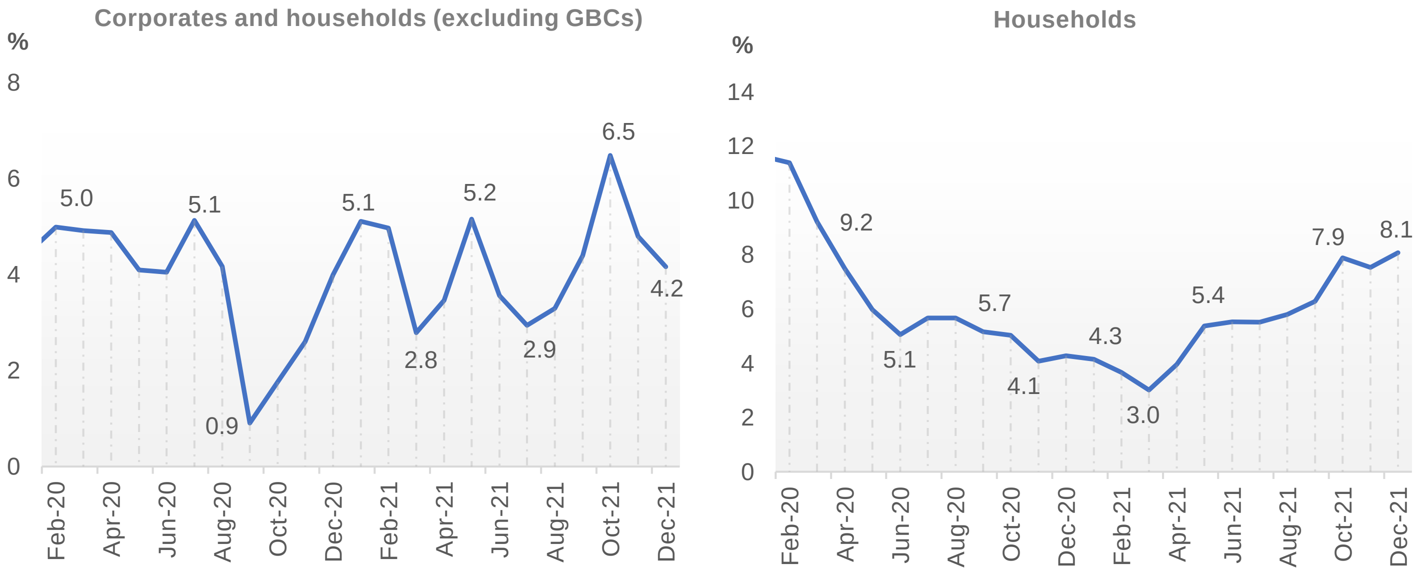
Industry resilience

While the unprecedented ramifications of the COVID-19 pandemic impacted economic activities, the banking and financial system maintained its overall stability, resilience and financial soundness. This situation has been *inter alia* supported by the generally sound business models adopted by key players, an adapted legal and regulatory framework as well as dedicated support measures emanating from the authorities. These initiatives (i) delivered increased operating and regulatory flexibility to banks; and (ii) helped to protect households and businesses, minimise job losses as well as limit corporate defaults and bankruptcies. Latest official figures for end-September 2021 show that the industry garnered suitable buffers in the face of the testing environment: (i) the aggregate capital adequacy ratio stood at 19.6%, which is well above the minimum regulatory threshold; and (ii) the ratio of gross non-performing loans to total loans fell to 4.5%, from 4.8% in June and 5.0% in March. As at October last, the liquidity coverage ratio of banks attained more than 250%, which largely overshoots the minimum mandatory limit of 100%, with the equivalent metric in foreign currency staying in a comfortable zone. Results of recent stress tests and sensitivity exercises conducted by the Bank of Mauritius showed that the banking sector maintains prudent capital and liquidity buffers to withstand any potential future shocks caused by the pandemic.

Main challenges and developments

Amidst an exigent economic environment, the banking sector has promptly adapted and refined its operating model, risk management framework and client solutions, alongside maintaining and customising its assistance to the real sector to help customers face up to the difficult times. Whilst being exposed to notable pressures on the back of economic uncertainties, the level and quality of credit demand has, to some extent, been underpinned by relief measures put in place by the authorities, including extension of loan moratoria up to June 2022 and the Government Wage Assistance Scheme. In recent months, the annual growth of bank loans to corporates and households has even stepped up in line with recovering economic activities. At the same time, the continued execution of support measures by the authorities helped to provide financial respite to borrowers and to contain debt servicing vulnerabilities, though the latter were pressurised as the income-generating abilities of individuals and businesses were hit. In another light, even if the lack of receipts attributable to dampened tourist arrivals and lower exports of goods have, to some extent, impacted banking activities, conditions across the foreign exchange market were supported by regular interventions by the Bank of Mauritius. While this helped to maintain reasonable supplies to the market, exchange rate volatilities were generally contained, though the Mauritian rupee lost grounds against major currencies, reflecting both local and global developments. The effective exchange rate of the rupee has, on a point-to-point basis, depreciated by around 6.5% during the year ended December last. Moreover, excess rupee liquidity prevailed in the banking system against the backdrop of demanding economic conditions, as gauged by the level of cash holdings by banks at the Bank of Mauritius beyond the compulsory threshold. This situation exerted downward pressures on the average weighted yields on short-term securities for some time. A relative improvement has been witnessed lately, with strengthened monetary operations and regular market interventions by the Central Bank helping to alleviate the excess rupee liquidity situation and triggering a gradual rise in money market yields, aided by the economic recovery momentum.

Figure 6. **Annual growth of bank loans to the private sector**



Source: Bank of Mauritius - Bank Loans to Other Nonfinancial Corporations, Households and Other Sectors End-December 2021

The way forward

While the economic climate progressively heals, conditions across the banking and money markets are expected to further improve and stabilise in the periods ahead, as the financial bulletins of households and corporates recover and customers find themselves relatively better off to service their debts. Along the way, the relative acceleration in tourist arrivals should help to boost the flow of foreign currency into local circuits. That being said, continued vigilance is called for in current circumstances, given the potential consequences of the volatile operating landscape and the impact of any macroeconomic strains on the country's financial stability, especially in the event of the emergence of new variants of the virus. Also, the impact of the future withdrawal of relief measures being deployed by the authorities on the soundness and activities of the banking sector remains to be appraised, though arrangements are, as reported, being made by the Bank of Mauritius to smoothen the process.

› The Fiscal Sector

Public finance

Key patterns

As it has been the case for countries globally pursuant to the pandemic, measures adopted by the authorities to support sound sanitary and socio-economic conditions are weighing on the budget balance and debt metrics of Mauritius. Initiatives have been taken to protect the lives and livelihoods of the population, meet health imperatives, preserve jobs, accompany entrepreneurs and corporates as well as uphold the country's recovery impetus. Expenditures have been incurred via the Government Wage Assistance Scheme and Self-Employed Assistance Scheme. This situation has been amplified by downward pressures on tax revenues owing to dampened economic activities, lower investment levels and labour market strains. Consequently, public sector net debt climbed to 78.8% of GDP as at September 2021, with the gross figure reaching 94.3% after catering for cash and cash equivalents and equity. Nevertheless, a relative mending of the situation has been witnessed lately, with official estimates showing that the country's net and gross debt ratios dropped to 76.7% and 89.5% respectively as at December 2021.

Anticipated future trajectories and underpinnings

As per the authorities, the ratio of Central Government debt to GDP is anticipated to decline to 80% as at June 2022 before coming down further to 60% by 2030. In this spirit, the official debt management strategy aims to formulate benchmarks and targets that are geared to further improve the country's debt sustainability. Whereas they have highlighted that current indicators of affordability, solvency and liquidity depict a continuously manageable debt level, the authorities have mentioned that they are exploring ways and means to reduce the level of the debt in the periods ahead in line with the endorsed fiscal consolidation plan, backed by the establishment of the Financial Stability Committee and Fiscal Stability Committee. As the situation stands, the public debt ratio is, as per our baseline scenario and barring major shocks, expected to gradually decline in the periods ahead on account of an expected higher GDP base, expanding economic activities and a gradual containment of the expansive fiscal support being currently delivered to the economy, amidst the continuing revival of the tourism sector. That being said, achieving meaningfully improved public finances would probably take time, while we wait for the country's economic upturn to be anchored on a relatively stronger footing and financial strains witnessed by businesses and individuals to further dissipate. Tellingly, in its latest World Economic Outlook Update, the IMF has stressed that "*Although fiscal consolidation is anticipated in many emerging market and developing economies in 2022, high post-pandemic debt burdens will be an ongoing challenge for years to come.*" In the same vein, downside risks to the fiscal outlook cannot be discounted, including (i) the potential spread of new variants of the virus and an associated increase in health risks, which could amplify pressures on the National Budget; and (ii) any accentuation of economic stresses, which could cause the recovery process to weaken and fiscal strains to intensify.

Underlying stratagems and focus areas

Strategically, achieving set fiscal and debt targets can be facilitated by creating suitable tax buoyancy, rationalising and prioritising recurrent expenditures without compromising on social objectives, fostering the efficient execution of infrastructure projects and reengineering the operations of public sector bodies. In the process, the well-planned sale of non-strategic public sector assets could deliver accelerated assistance to realise the country's debt reduction ambitions. From a holistic angle, Mauritius can benefit from the endorsement of a robust and flexible medium-term fiscal consolidation programme, made up of strong mechanisms, towards rebuilding fiscal buffers and preserving the credibility of public finances. Backed by the coherent and transparent communication of earmarked national priorities, this programme would contain procedural and numerical rules and guidelines that will, by means of their sound application, help to foster budgetary discipline and guide policy orientations. Importantly also in view of initiatives aimed at redressing fiscal balances, the IMF argued that, "*The uncertain outlook and heightened vulnerabilities globally make it critical to achieve the right balance between policy flexibility, nimble adjustment to changing circumstances, and commitment to credible and sustainable medium-term fiscal plans. Policymakers must strike the right balance in the face of high debt and rising inflation. A crucial challenge is to strike the right mix of fiscal and monetary policies.*" Another key challenge for Mauritius when reflecting on the most appropriate policy moves will be to simultaneously reduce debt vulnerabilities and avoid any premature withdrawal of the current fiscal support to the economy. This implies underpinning a sound debt profile over time, without reneging on the need to (i) attend to pandemic-related priorities on the health and social assistance fronts; (ii) deliver sustained relief to businesses in tune with the depth and scale of challenges faced; and (iii) uphold the economic recovery and job creation momentum. Towards these ends, a key success factor for the country will be to harness an informed view of how the operating context is shaping up and to promptly adapt to changing conditions, backed by careful planning. Of note also, attaining healthy debt ratios for Mauritius would, importantly, hinge on strengthening the country's long-term growth potential, aided by an expansion of the economic and market space.

Expected nationwide benefits

Strategically, establishing sound fiscal trajectories would, in due course and with the right enablers, help Mauritius to (i) ensure that its gross financing needs are appropriately contained and are well catered for; (ii) minimise potential risks associated with debt sustainability and repayment, as a result, particularly, of intensifying pressures that could be associated with (a) any faster-than-expected tightening of financial conditions and rising reference interest rates globally and (b) hampered tax revenue generation in case of repeated headwinds to economic activities; (iii) strengthen investor and market confidence with respect to the likelihood of a sustained and vigorous economic revival; (iv) uphold fiscal policy effectiveness towards thoughtfully achieving set economic goals and meeting social imperatives; (v) secure enough fiscal space to support the nationwide recovery and implement wide-ranging reforms meant to further modernise the country; and (vi) preserve its investment-grade sovereign credit rating. The latter achievement should play an influential role to assist Mauritius in (i) maintaining its favourable business climate; (ii) reassuring investors and other stakeholders on the soundness and competitiveness of the jurisdiction; (iii) upholding the ease and cost of access to global financial markets; and (iv) guiding financial sector players in their regional market diversification endeavours. Over the longer run, a robust fiscal position should play a decisive part to accelerate the country's advancement. In its latest Fiscal Monitor report, the IMF stated, "*In many countries, fiscal policy is shifting towards strengthening economies through a green transition, digital transformation and other long-term investments. Fiscal policy will need to facilitate the transformation of the global economy to make it more productive, inclusive, green, and resilient to future health or other crises.*" These views are corroborated by the OECD in its recent global economic outlook, "*Now it is time to refocus fiscal support on productive investment that will boost growth, including investment in education and physical infrastructure.*"

Figure 7. **Evolution and composition of public sector debt**

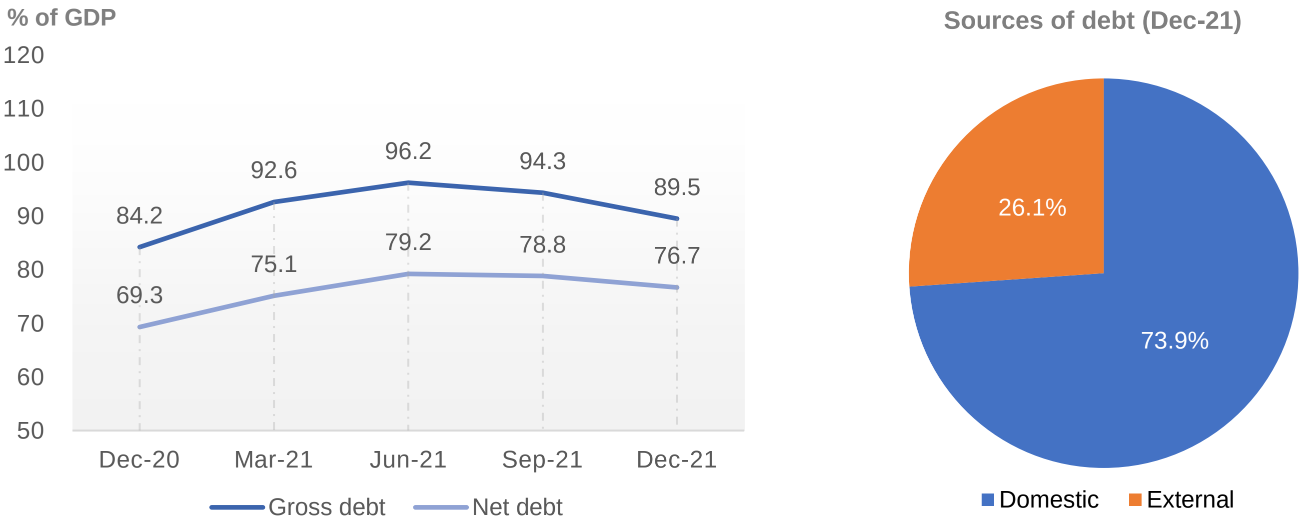
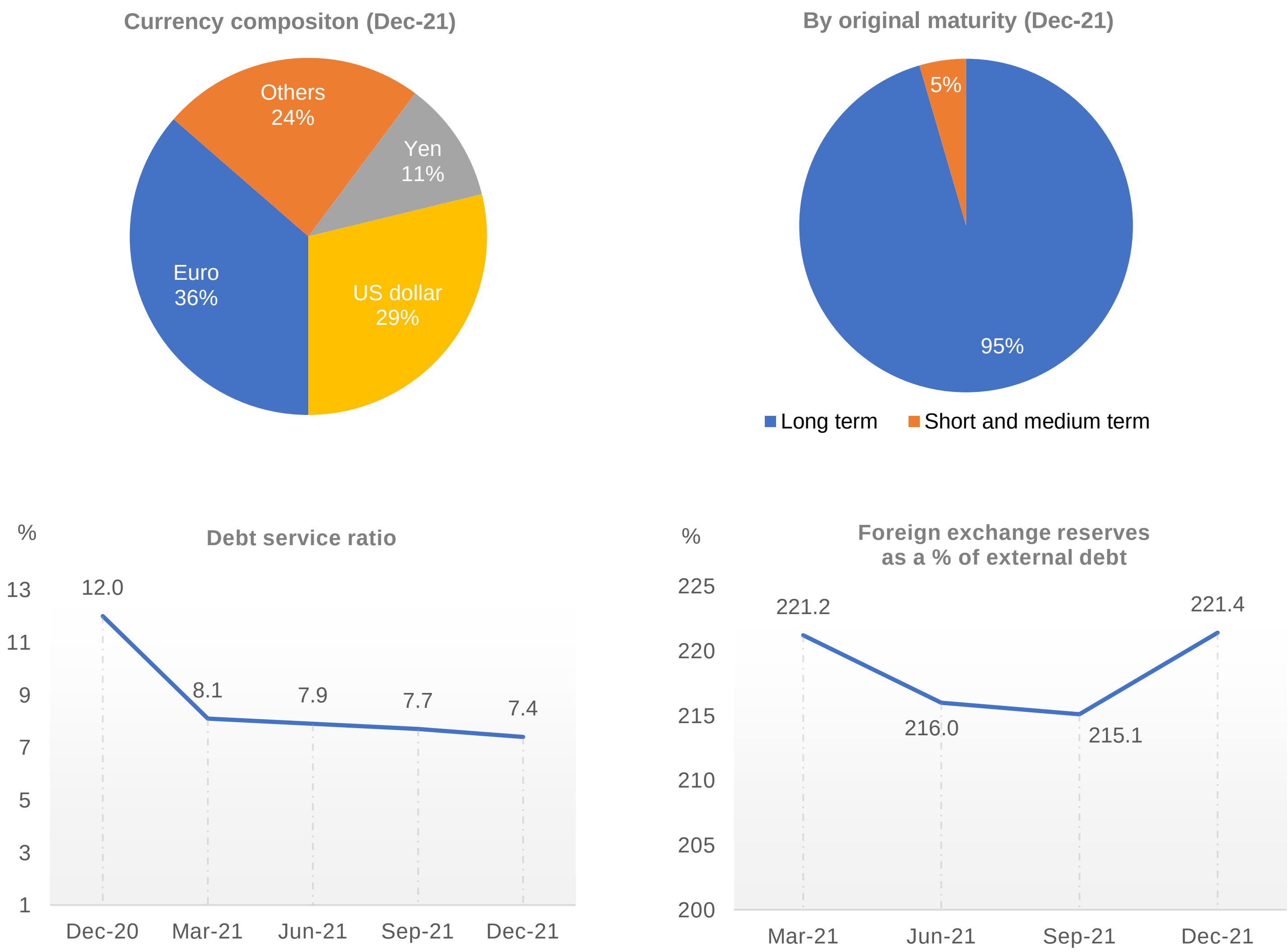


Figure 8. **National external debt**



Source: Ministry of Finance, Economic Planning and Development - Debt Data

Box 2: Fiscal discipline in a stressed environment

Background

As per the IMF in its latest Fiscal Monitor report, fiscal support during the COVID-19 pandemic has saved lives and jobs on a worldwide scale. Appropriate as it has been, fiscal support has resulted in higher gross financing needs, with Government debt likely to remain high for many years. The suitable timing to reduce deficits will depend on country-specific conditions, in particular the stage of the pandemic, existing fiscal vulnerabilities, the risk of economic scarring and the quality of public spending. The IMF added that consideration should also be given to the distributional effects of any increase in tax revenues or reduction in public spending.

The way forward

Key stances and postures advocated by the IMF are as follows:

- As the landscape of the COVID-19 pandemic continues to evolve, fiscal policy needs to remain nimble and adapt to rapidly changing conditions. Economic prospects continue to be highly uncertain and varied across countries, with the spread of the Delta variant adding new risks and with vaccination rates remaining low in many countries.

- In this context, fiscal policy can reduce the amount of short-term damage and medium-term scarring from the crisis. The size and composition of the fiscal measures will depend on the different stages of the economic recovery as well as on country-specific characteristics. Measures need to be centered on addressing the economic and social fallout from the pandemic where the virus is still spreading rapidly and vaccination rates are low, and on sustaining the recovery where widespread vaccination has been achieved.

- It will be crucial to calibrate fiscal policy to the cycle and speed of the recovery, while also achieving the right mix between fiscal and monetary policies. If private demand recovers more rapidly than expected, fiscal policy should be tightened, as this would reduce the risk of a sudden rise in interest rates that could disrupt the global recovery. As it becomes more difficult to access low-cost borrowing, especially for emerging markets and low-income developing countries, Governments should strengthen the credibility of their fiscal policy.

- In all countries, strengthening medium-term fiscal frameworks can help buy time to provide further fiscal support in the short term while ensuring that fiscal space is rebuilt in the medium term. Strong frameworks which ensure that fiscal sustainability is not at risk, including by improving revenue mobilisation, can help Central Banks in both advanced economies and emerging markets to credibly operate their asset purchase programs.

- Fiscal policy should support the transformation of economies to increase productivity and economic growth. In several countries, reaching this goal calls for increasing high-quality investments in physical capital and education and better targeting fiscal transfers toward policies that support the retraining and reallocation of workers across firms and sectors.

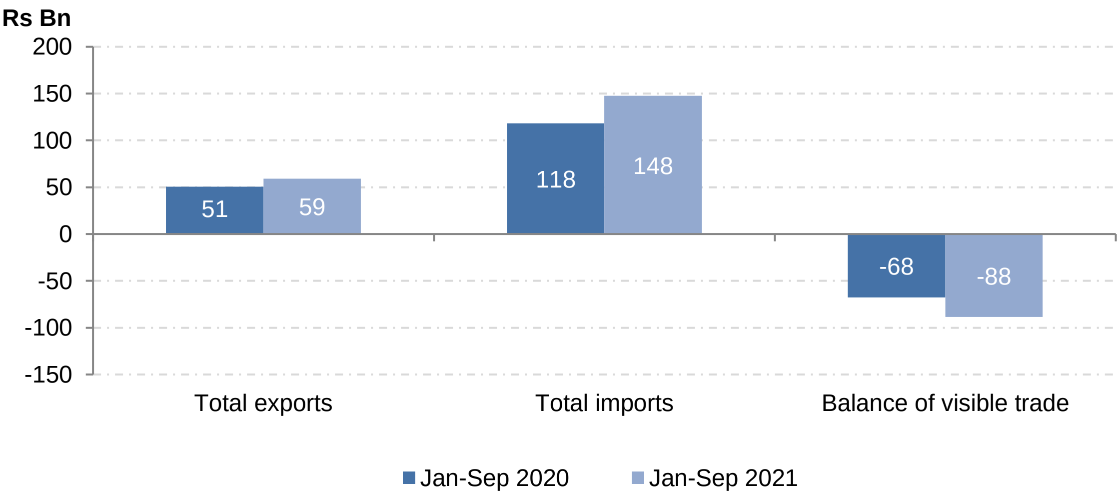
- Fiscal policy should contribute to building economies that are resilient to future shocks. This requires plotting a medium-term course to rebuild fiscal buffers, tackle the risks from climate change and improve preparedness to deal with future pandemics, including by investing in the health care sector and funding vaccine research and manufacturing.

The External Sector

Trends and outlook

During the first nine months of 2021, domestic exports of goods expanded by around 13% compared to the corresponding period of the preceding year, mainly explained by the rise in exports of 'articles of apparel and clothing accessories', 'textile yarns and fabrics' and 'machinery and transport equipment'. Besides, the re-exports of goods increased by an important margin. However, the country's trade deficit went up by a notable amount after making allowance for a heightened import bill, prompted by higher commodity prices and external factors affecting the exchange rate. Bearing in mind such patterns and dampened trends in relation to the services account in the wake of rising freight costs, subdued tourist arrivals, closure of borders and travel restrictions to cope with the COVID-19 pandemic, the current account deficit worsened to reach Rs 49.2 billion during the first nine months of 2021 – compared to Rs 35.5 billion for the corresponding period of the preceding year – albeit supported by a notable surplus position as regards the primary income. For 2021 as a whole, the balance of trade deficit is, in line with recent and forecasted trends, likely to increase as compared to the imbalance of Rs 95.5 billion posted in 2020, mainly explained by a higher import level amidst growing economic activities, mounting oil prices and outlays on specific items such as machinery for metro terminals as well as cranes and tugs. In spite of the strengthening recovery in goods exports, the balance of trade deficit is forecasted to move further up in 2022 on the back of a hike in imports, partly attributable to the continued expansion of economic activities and bolstered capital investments. Consequently, after standing at 12.6% in 2020, the current account deficit as a percentage of GDP is set to marginally increase in 2021. A relative improvement therein can be anticipated for 2022 as exports of goods gather noticeable momentum and tourist arrivals accelerate. As for the balance of payments, latest official estimates point towards a surplus position of Rs 29.7 billion for the first nine months of 2021. For the full year, a major improvement can be foreseen in comparison to the deficit posted in 2020, helped by a better picture with respect to capital inflows, particularly in terms of FDI and the receipt of external loans by the Government. Such dynamics are likely to trigger a marginal balance of payments surplus in 2022. Worth noting, balance of payments trends warrant scrutiny, especially given the generally volatile nature of flows in relation to the capital account.

Figure 9. Trade of goods

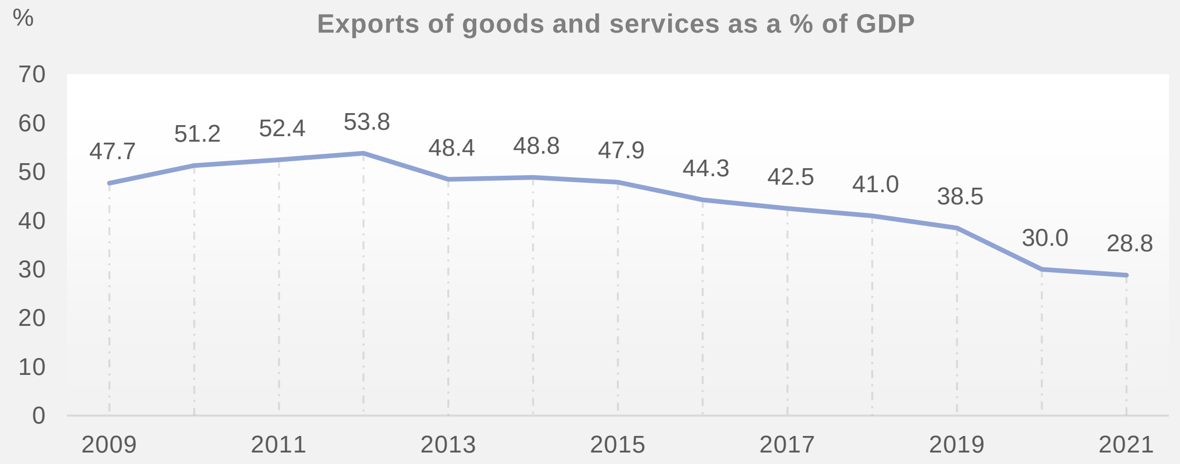


Source: Statistics Mauritius - External Trade Q3-2021

Box 3: Exports trends and challenges

Introduction

A key challenge for Mauritius is to continuously broaden and diversify its exports, in terms of both products and markets. This is all the more called for insofar as total exports of goods and services as a percentage of GDP declined by a significant margin during more than a decade. The ratio is estimated at below 30% in 2021 as per official figures. Given the small size of the domestic economy, a key thrust for Mauritius is to increasingly expand its underlying economic and market space. This can be achieved by spearheading exports into higher gear and positioning them as an influential enabler of long-term economic growth.



Desired responses

Reassuringly, the authorities have put several measures in place with the aim to boost exports (e.g. dedicated incentives, facilitation of trade and formulation of the Industrial Policy and Strategic Plan for Mauritius 2020-2025). Looking ahead, there is a need to further broaden initiatives aimed at improving the extent and diversity of exports, backed by the following: (i) fostering high-end and adapted value propositions; (ii) bolstering the country's connectivity to regional and international markets; (iii) stimulating investment in research and development activities, alongside promoting innovation; (iv) developing an entrepreneurial culture and boosting support to SMEs; and (v) buttressing the productivity of labour and capital resources. There is also a need for operators to tap into opportunities linked to trade agreements, notably the Mauritius-China Free Trade Agreement, the African Continental Free Trade Agreement and the Comprehensive Economic Cooperation and Partnership Agreement with India. Amongst key endeavours, several observers have called for a further deepening and widening of the country's African involvement.

As per the IMF, for Governments aspiring for more varied trade flows, there is a need to enhance connectedness at all levels, reduce trade policy barriers, improve trade facilitation, strengthen transport infrastructure, invest in top-notch communication technology (particularly Internet connectivity to support the digital economy) and foster technological diffusion (including via educational exchange programmes). It stressed that strengthening areas such as institutions, education and technological readiness may seem a daunting and long-term task, but major payoff can be obtained from short-to-medium term reforms that reduce trade policy barriers and remove restrictive regulations. Working on such areas would help to diversify by creating conditions making it possible to boost complex or higher value-added exports.

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Credits

Chief Editor and Reviewer
Nuvin BALLOO

Contributors
Urvashi GAONJUR
Indradev PUROHOO
Vaman SURROOP

Contact Us

We will be delighted to hear from you at
research@sbmgroup.mu
for any queries or comments.

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