SBM insights

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Editorial Note

Resilient recovery

After being confronted by the unprecedented repercussions of the COVID-19 pandemic, the Mauritian economy has recuperated in a relatively prompt manner during 2022. Whereas macroeconomic vulnerabilities subsist, this recovery – underpinned by policy and strategic measures put in place by the public and private sectors – is an encouraging sign to the extent that it testifies to the resilience and adaptability of our economy to exogenous shocks, alongside underscoring its sound credentials. Yet, looking ahead, the strength of the GDP growth upturn would face up to a testing global landscape. Against this backdrop, the prime objectives for Mauritius are to (i) further strengthen the growth revival, alongside tackling the still perceptible, albeit gradually healing, scarring effects of the pandemic, notably on the real and fiscal sectors; and (ii) deepen foundations aimed at achieving high and sustainable economic growth over time.

Risks associated with testing global trends

As a concern for Mauritius given its high international openness, the global economy, which has been recovering lately from the aftershocks of the pandemic, is being confronted by a series of severe and mutually reinforcing shocks, including the pandemic, the war in Ukraine and resulting food and energy crises, surging inflation and synchronous policy tightening, worsening financial conditions, debt distresses and climate emergencies. Latest forecasts by the World Bank portend to a sharp and long-lasting global growth slowdown in the periods ahead – happening in virtually all regions internationally – with the risks of another recession not to be discounted if further negative shocks kick in. As for the United Nations, it underscored that *"World output growth is projected to decelerate from an estimated 3.0 per cent in 2022 to only 1.9 per cent in 2023, marking one of the lowest growth rates in recent decades. The near-term economic outlook remains highly uncertain, however, as myriad economic, financial, geopolitical and environmental risks persist. Rising interest rates and diminishing purchasing power have weakened consumer confidence and investor sentiment, further clouding near-term growth prospects for the world economy."* Regarding our main trading and business partners, the euro area is deemed to have lost substantial momentum in the second half of 2022 even if it managed to avoid a recession. In fact, amidst negative expansion rates recorded by Germany and Italy, seasonally adjusted GDP growth was flat in the fourth quarter of the year on the back of high oil and gas prices notwithstanding the recent cooling off, waning business confidence levels and sharp hikes in interest rates. Despite strengthening labour markets, supportive fiscal policy and a relative healing of wholesale energy prices, overall real GDP growth is, as per the IMF, anticipated to decelerate to 0.7% in 2023 as compared to 3.5% in 2022, on the heels notably of the uncertainties and ramifications associated with the war in Ukraine. As a major market for Mauritius, especially for our tourism industry, France is expected to remain engulfed in difficult conditions this year, with the country's Central Bank mentioning that GDP growth would, on the back of volatile energy prices and geopolitical tensions, slow to 0.3% as per the 'most probable' macroeconomic scenario. That said, the occurrence of a recession during the year cannot be overruled, even if it would, in such an event, be limited and short-lived. For its part, UK's GDP growth is foreseen to slightly contract in 2023, on account of tightened monetary and fiscal policies, the impact of elevated energy prices on household disposable incomes as well as challenging labour market conditions. Tellingly, the Bank of England is expecting the economy to dwindle in both 2023 and 2024. With respect to the US, the economy grew by a resilient 2.7% in the fourth quarter of 2022. However, economic headwinds prevail, including high commodity prices and rising interest rates, with the pace of GDP growth being projected to markedly decelerate in 2023.

Strengthening current policy measures towards bolstering the economy's credentials

In light of such circumstances and to achieve its macroeconomic goals, key policy considerations for Mauritius, while pursuing and strengthening currently unfolding initiatives, are to (i) execute broad-based infrastructure-upgrading measures with a view to bolstering its competitiveness levels, alongside catering for social inclusiveness imperatives, with a major axis being the delivery of targeted support to the vulnerable groups of society; and (ii) further boost employment creation across sectors, gender and age groups, in addition to dealing with labour market imperfections, notably given the relative inadequacy of human resources in specific fields of the services industry as per observers. In parallel, a major aspiration for Mauritius is to continuously expand and diversify its national economic space – with emphasis on consolidating current efforts aimed at creating and developing new pillars, notably the pharmaceutical industry and the green economy – alongside perpetually enhancing the appeal and substance of its International Financial Centre as a gateway for trade and investment within the 'Golden Triangle' linking Asia, Africa and the Middle East. All in all, succeeding in those endeavours would hinge on important principles, including (i) conserving adequate fiscal space and preserving the country's investment grade sovereign credit rating, backed by the endorsement of a comprehensive and credible medium-term fiscal consolidation framework and roadmap; (ii) establishing effective coordination between fiscal and monetary policies; (iii) dealing with any policy trade-offs and dilemmas; (iv) combating supply-side bottlenecks to growth by, for instance, further improving the operational efficiency levels and value proposition of public sector and parastatal bodies; (v) undertaking the well-planned recourse to high-skilled foreign talents; and (vi) forging clear and coherent synergies between public and private stakeholders, aided by robust frameworks and operating models at specific levels.

Promoting a climate-resilient country and meeting green development goals

As Mauritius moves forward, a major objective is to sustain progress on achieving the country's green transition. Noticeably, this implies comprehensively confronting the risks, challenges and opportunities associated with climate change, insofar as it is triggering an increasingly high frequency and intensity of natural disasters and extreme weather conditions worldwide, including flooding, drought, erratic rainfalls, exacerbating water scarcity, heat waves, soil erosion, desertification, rising sea levels and land degradation. In its report titled 'The Climate Action Monitor 2022', the OECD stressed that *"Countries are facing a multitude of complex, even potentially intractable, issues: the recovery from the Covid-19* *pandemic, rising energy prices, inflation, a global economic downturn, and increasing insecurity due to Russia's unprovoked war of aggression against Ukraine, are some of the most significant. These are pressing and difficult, but without a doubt, climate change remains the principal global environmental, economic and social challenge of this century. Climate change is an existential threat intertwined with multiple environmental concerns and tipping points. This requires a broad whole-of-government approach not only to deal with the climate crisis, but also to achieve strong, sustainable, fair and resilient growth."* Bearing this in mind, Mauritius is being called upon to gradually transition to a low-carbon, resource-efficient and climate-resilient economy. International best practices call for the mainstreaming of reforms, policies and tools that would build country-level resilience in favour of climate change mitigation and adaptation, alongside managing transition risks. These are, notably, what the IMF termed as 'high-value, no-regrets' risk management measures that can be justified under all plausible future climate scenarios. While recognising natural capital as a critical economic asset, key actions would aim at promoting clean and sustainable energy and resource production, conservation and consumption, with focus on integrated water storage solutions to meet human and socio-economic needs. Such goals would *inter alia* be accomplished by establishing multi-stakeholder partnerships that advocate climate-friendly and sound production and trade techniques, accelerating investments in appropriate infrastructures and disaster risk management frameworks, enhancing public financial management, capitalising on technology transfer and technical expertise from the private sector, integrating climate-related risks in financial stability assessment exercises, and harnessing the full-fledged development of the green economy. While underpinning job creation, the latter aim can, as per global research by the OECD, support Mauritius by (i) enhancing productivity by creating incentives for greater efficiency in the use of natural resources, reducing waste and energy consumption, unlocking opportunities for innovation and value creation, and allocating resources to the highest value use; (ii) boosting investor confidence through greater predictability in how governments deal with major environmental issues; and (iii) opening up new markets by stimulating demand for green goods, services and technologies.

Concluding remarks

In view of the constant brittleness and complexity of the global landscape, achieving meaningful and durable socio-economic progress and well-being for Mauritius can be a daunting task, thus calling for appropriate patience, pragmatism and ingenuity in our approach, actions and behaviours. In this spirit, capitalising on avenues prompted by technological change and digital transformation – notably captured by Artificial Intelligence innovations – can become a game-changer and the linchpin of the country's long-lasting and far-reaching productivity growth, along with capital deepening and the evolving structural composition of the economy. As famously put into light by former Nobel Prize laureate, Paul Krugman, *"Productivity isn't everything, but in the long run, it's almost everything".*

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Chief Economist
14 March 2023

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Economic growth

Whereas the prognosis has been upgraded by 20 basis points as compared to earlier anticipations on the back of greater-than-expected resilience shown by numerous economies, global real GDP growth is foreseen to fall to 2.9% in 2023 from an estimated 3.4% in 2022, before rising to 3.1% in 2024, as per the latest World Economic Outlook Update of the IMF. According to the institution, the projected growth rates, which remain below the historical annual average of 3.8%, would be weighed down by the war in Ukraine, eroding household real incomes amidst rising consumer prices and successive increases in Central Bank rates with the objective to fight inflation. For 2023, the declining global growth path would be attributed to advanced economies. Notably, US growth is likely to decline from 2.0% in 2022 to 1.4% in 2023 and 1.0% in 2024. As for the euro area, growth is expected to attain 0.7% in 2023 before moving up to 1.6% in 2024. Of note, the UK economy would contract by 0.6% this year on account of tighter fiscal and monetary policies and the impact of elevated energy retail prices on household budgets. On the other hand, growth of emerging market and developing countries is estimated to have bottomed out in 2022, led by China, with the gradual pickup in economic activities therein being largely due to the country’s reopening following measures taken to fight the pandemic. Regarding sub-Saharan Africa, the IMF highlighted that growth would remain moderate at 3.8% in 2023 in the wake of the prolonged fallout from the COVID-19 pandemic, before picking up to 4.1% in 2024.

It is important to add that, even if the threats have moderated in recent periods, the balance of risks to the global outlook is tilted to the downside. As per the IMF, the main risks internationally include (i) stalling recovery in China amidst health consequences, with worldwide spillover effects; (ii) escalating war in Ukraine, leading to untoward effects on fuel and food prices; (iii) debt distresses witnessed by emerging market and developing economies, whose vulnerabilities might be exacerbated by a combination of high debt levels triggered by the pandemic, lower growth and higher borrowing costs; (iv) persistently elevated inflation due to enduring labour market tightness and stronger-than-expected wage growth and a faster rebound in China’s growth; and (v) exacerbating geopolitical fragmentation.

Inflation

As per the IMF, around 84% of countries are expected to depict lower headline inflation in 2023 than in 2022. Global inflation is, on an annual average basis, foreseen to fall from 8.8% in 2022 to 6.6% in 2023 and to 4.3% in 2024, reflecting (i) lower international oil and non-fuel commodity prices on the back of tempering aggregate demand; and (ii) the cooling effects of monetary policy tightening on underlying inflation. That being said, the disinflation process is likely to take time in the wake of the wobbly global economic and geopolitical environment. Conspicuously, by 2024, projected annual average headline and core inflation would still be above pre-pandemic levels in 82% and 86% of economies respectively. At the same time, the upward risks to the inflation outlook subsist, as a result of tight labour markets as well as pressures exerted by the war in Ukraine on energy prices and supply chain disruptions.

Table 1. Global economic projections as per the IMF

Annual percent change	2021	2022e	2023f	2024f	Percentage point differences from October 2022	
					2023	2024
World Output	**6.2**	**3.4**	**2.9**	**3.1**	**0.2**	**–0.1**
Advanced Economies	**5.4**	**2.7**	**1.2**	**1.4**	**0.1**	**–0.2**
United States	5.9	2.0	1.4	1.0	0.4	–0.2
Euro Area	5.3	3.5	0.7	1.6	0.2	–0.2
Germany	2.6	1.9	0.1	1.4	0.4	–0.1
France	6.8	2.6	0.7	1.6	0.0	0.0
Italy	6.7	3.9	0.6	0.9	0.8	–0.4
Spain	5.5	5.2	1.1	2.4	–0.1	–0.2
Japan	2.1	1.4	1.8	0.9	0.2	–0.4
United Kingdom	7.6	4.1	–0.6	0.9	–0.9	0.3
Canada	5.0	3.5	1.5	1.5	0.0	–0.1
Emerging Market and Developing Economies	**6.7**	**3.9**	**4.0**	**4.2**	**0.3**	**–0.1**
Emerging and Developing Asia	7.4	4.3	5.3	5.2	0.4	0.0
China	8.4	3.0	5.2	4.5	0.8	0.0
India	8.7	6.8	6.1	6.8	0.0	0.0
Emerging and Developing Europe	6.9	0.7	1.5	2.6	0.9	0.1
Russia	4.7	–2.2	0.3	2.1	2.6	0.6
Latin America and the Caribbean	7.0	3.9	1.8	2.1	0.1	–0.3
Brazil	5.0	3.1	1.2	1.5	0.2	–0.4
Mexico	4.7	3.1	1.7	1.6	0.5	–0.2
Middle East and Central Asia	4.5	5.3	3.2	3.7	–0.4	0.2
Saudi Arabia	3.2	8.7	2.6	3.4	–1.1	0.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1	0.1	0.0
Nigeria	3.6	3.0	3.2	2.9	0.2	0.0
South Africa	4.9	2.6	1.2	1.3	0.1	0.0
Commodity Prices						
Oil	65.8	39.8	-16.2	-7.1	-3.3	-0.9
Nonfuel (average based on world commodity import weights)	26.4	7.0	-6.3	-0.4	-0.1	0.3
World Consumer Prices	**4.7**	**8.8**	**6.6**	**4.3**	**0.1**	**0.2**
Advanced Economies	3.1	7.3	4.6	2.6	0.2	0.2
Emerging Market and Developing Economies	5.9	9.9	8.1	5.5	0.0	0.2

Note: For India, data and projections are presented on a fiscal year basis, with FY 2022/23 (starting in April 2022) shown in the 2022 column.

Source: IMF - World Economic Outlook Update (January 2023)

Economic Review: Mauritius

› The Real Sector

Economic growth

Key forecasts and underpinnings

Quarterly estimates

Reflecting the improving fortunes of the Mauritian economy as it steadily recuperates from the notable aftershocks of the pandemic, real GDP growth stood at 7.6%, 14.5% and 7.4% in the first, second and third quarters of 2022 respectively as per latest estimates by Statistics Mauritius. Whereas economic vulnerabilities and uncertainties have subsisted amidst an unstable global environment and continue to warrant close attention, the rekindling of growth was underpinned by broad-based sectorial foundations as several industries progressed towards pre-pandemic value-added levels in real terms, enhanced exports of goods and services as well as a relative improvement with respect to national investment.

Outlook

Bearing in mind latest trends and indications, economic growth is estimated at above 7% in 2022, which translates into a discernible improvement from the outcome of 3.5% posted in the preceding year. As for 2023, real GDP growth is likely to attain 5.2% as per our updated baseline scenario, which makes allowance for statistical effects already captured by last year's perceptible recovery and the dynamic operating context. While attesting to the inherent resilience of the economy amidst the demanding global setting, this prognosis factors in the mending of business confidence as well as targeted support and strategic initiatives unleashed by the public and private sectors with the objective to preserve the country's productivity and competitiveness levels. An appreciable growth enabler would be the unfolding of key infrastructure-upgrading projects in various fields and sectors. On the other hand, our growth outlook for 2023 makes allowance for the marked deterioration of the international landscape. Indeed, as per both the IMF and the World Bank, global growth is projected to sharply scale back this year owing to disruptions engendered by the Russia-Ukraine war, deteriorating financial conditions, weakening confidence levels, policy tightening by the fiscal and monetary authorities and elevated indebtedness levels, while further spillover shocks and distresses cannot be discounted. Such dynamics are, to different magnitudes, anticipated to exert pressures on the performance of the Mauritian economy. Notably, while being partly attenuated by the monthly financial support allocated by the Government to specific groups of the population, elevated, albeit receding, inflation would affect household disposable incomes and consumption. It would also weigh on the input costs and production levels of businesses. In addition, hampered economic activity levels and consumer demand being witnessed by key trading and business partners abroad would, in all likelihood, impact the evolution of exports and capital flows, coupled with repercussions of international financial market vulnerabilities.

Table 2. **Key GDP-related indicators for 2022 as per Statistics Mauritius**

	2022
GDP at current market prices (Rs Mn)	562,727
Per capita GDP at current market prices (Rs)	445,717
	As a % of GDP
Household consumption	71.3
Gross fixed capital formation	19.7
Private sector investment	*15.8*
Public sector investment	*3.9*
	Real growth rate (%)
GDP at market prices	7.8
Household consumption	3.3
Gross fixed capital formation	6.3
Private sector investment	*7.9*
Public sector investment	*0.5*

Source: Statistics Mauritius - National Accounts Estimates (December 2022)

Figure 1. **Quarterly GDP at market prices (year-on-year real growth)**

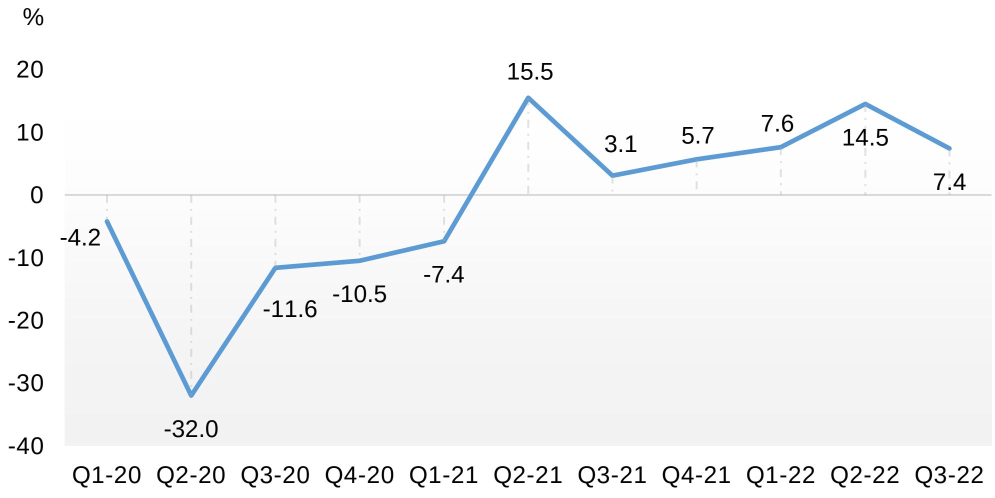


Figure 2. **Primary and secondary sectors (year-on-year real growth in value-added)**

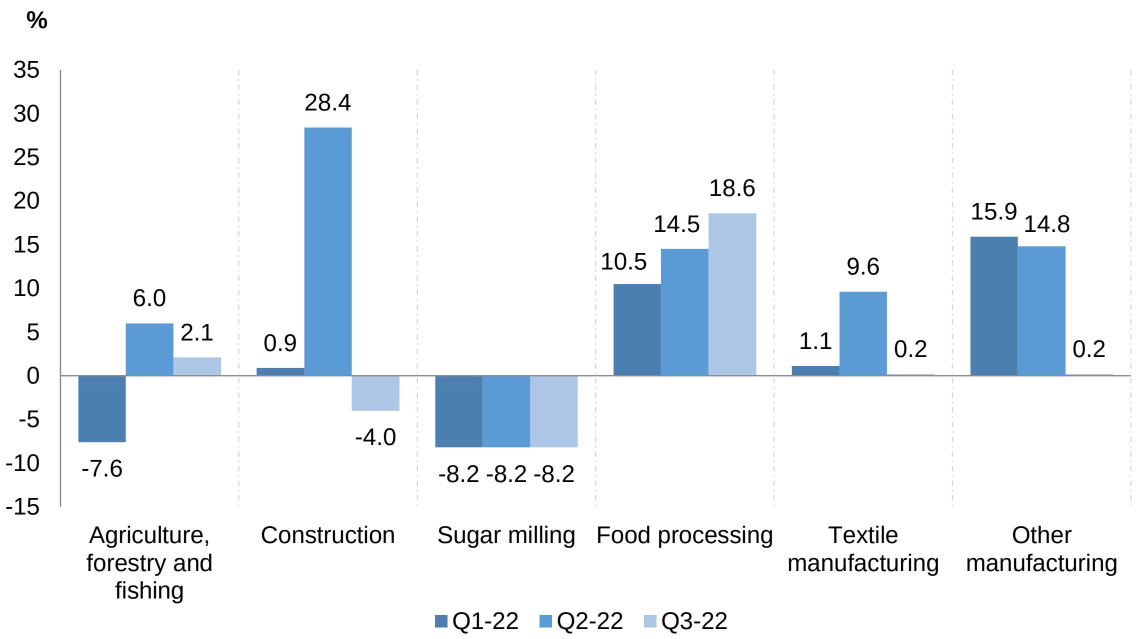
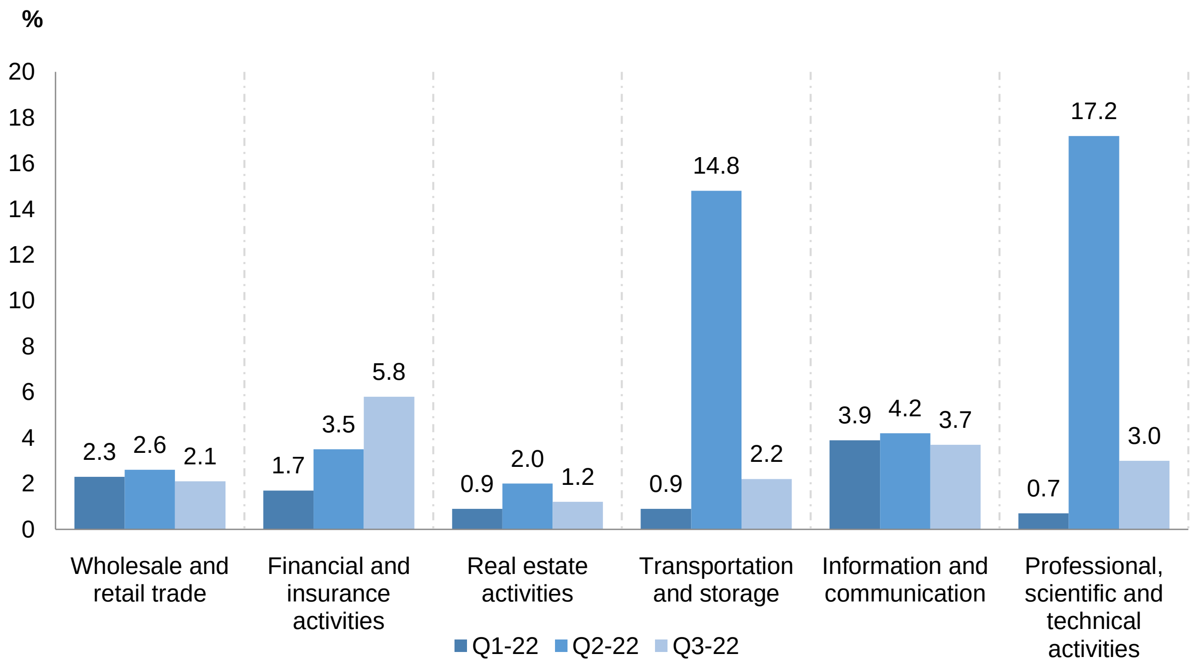


Figure 3. **Tertiary sector (year-on-year real growth in value-added)**



Period	Accommodation and food service activities	Art, entertainment and recreation
Q1-22	446.4%	-21.3%
Q2-22	725.0%	158.9%
Q3-22	213.3%	0.5%

Source: Statistics Mauritius - Quarterly National Accounts (Q3-2022)

Sectorial prospects

Recovery of the tourism industry

As an encouraging sigh of relief for the country in view of the favourable nationwide spillover effects as regard value creation and employment generation, the tourism industry witnessed a noticeable turnaround last year, after recuperating from the setbacks that the pandemic had engendered. Indeed, as a key trigger of the country's GDP growth revival and even though the industry still operated below pre-pandemic level, total tourist arrivals climbed by a significant margin to reach just underneath the 1 million mark in 2022, underpinned by the relatively improved sanitary context, normalising private demand internationally, currency dynamics, sustained marketing efforts and reinforced collaboration between the public and private sectors. This contributed to gross tourism earnings being uplifted to Rs 64.8 billion in 2022 as compared to Rs 15.3 billion for the preceding year. Of note also, the accelerated trends observed with respect to average earnings per tourist and average length of stay have made for good reading. As for 2023, latest estimates show that tourist arrivals more than doubled during the first two months of the year as compared to the corresponding period in 2022. As the situation stands, the tourism industry is forecasted to register an appreciable, but contained, expansion in value added in 2023 as a whole as per baseline projections. While the favourable statistical impact that led to last year's rebound is no longer expected to play a meaningful role this time, tourism is, as per current indications, anticipated to be confronted by a complex and tough international landscape, which would be translated by high, albeit receding, inflation levels, policy tightening and geopolitical tensions. Amongst other things, this environment could impact the disposable incomes as well as the behavioural and consumption patterns of potential travellers, while, in some instances, leading the way for shorter trips and re-invigorating regional travel. Looking ahead, interrogations, from a holistic perspective, subsist regarding (i) the duration and magnitude of the Russia-Ukraine war; (ii) the ease and cost of international air travel; (iii) the predictability of the sanitary environment on the worldwide scale; (iv) currency movements; and (v) the shaping up of consumer sentiment in feeder markets. Nonetheless, beyond capitalising on its long-standing fundamentals, the tourism sector is poised to take advantage of the strategic initiatives being spearheaded by the public and private sectors, including strengthening of air access, intensification and customisation of marketing efforts vis-à-vis traditional and emerging markets (with targets including Australia, Belgium, Spain, Saudi Arabia, the United Arab Emirates, the Czech Republic) and the enrichment of the country's value proposition. In a nutshell, as the tourism industry moves forward, the key medium-term challenge is to further strengthen its resilience to shocks and its attractiveness in a demanding international environment, alongside setting the stage for a sustainable growth trajectory, buoyed by public-private sector partnerships, climate change adaptation and mitigation measures, promotion of the country's natural and cultural heritage as part of the holistic product catalogue, and committed efforts in favour of community empowerment and social inclusion.

Figure 4. **Evolution of tourist arrivals**

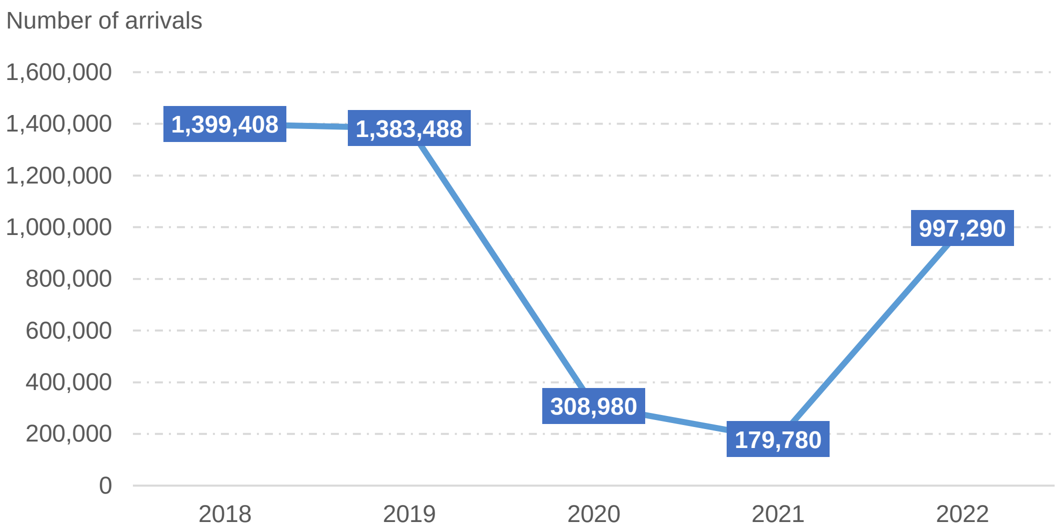


Figure 5. **Tourist arrivals from top 10 markets**

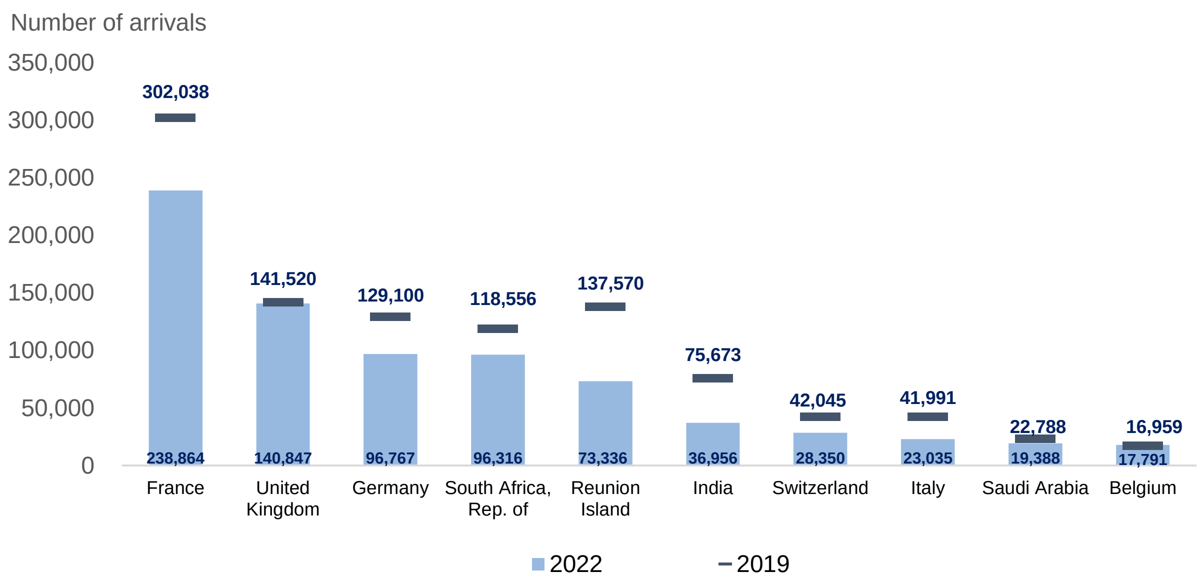


Table 3. **Evolution of tourism-related indicators**

	2019	2022
Average length of stay (nights)	10.6	11.8
Average earnings per tourist (Rs)	45,614	65,021

Sources: Bank of Mauritius, Statistics Mauritius, SBM Staff Estimates

Box 1: Transformation of global tourism and recommended courses of action

Background

In its recent report titled 'Rethinking Tourism – From Crisis to Transformation', the United Nations World Tourism Organization (UNWTO) encouraged adoption of necessary actions and behaviours to maximise tourism's socio-economic contribution, alongside minimising possible negative impacts and promoting tourism as an instrument in achieving the Sustainable Development Goals (SDGs), geared towards reducing poverty and fostering sustainable development worldwide. Importantly, 6 pillars of action have been identified by the UNWTO in view of realising the tourism sector's enormous potential to deliver positive change and opportunity for people everywhere, while at the same time fulfilling responsibilities in favour of sustainability and climate action.

The pillars of action

01.

Mainstreaming tourism in the global agenda

Tourism is a driver of growth and development and needs to be included as a priority in national and international economic and development policies. Creating a level playing field for the sector is important to develop and prosper.

02.

Promoting sustainable tourism development

Supporting policies and practices, above all policies which make optimal use of environmental resources, respect the socio-cultural identity and authenticity of host communities, and provide socioeconomic benefits for all.

03.

Fostering knowledge, education and capacity building

Assessing and addressing countries' needs in tourism education and training and the provision of networks for knowledge creation and exchange.

04.

Improving tourism competitiveness

Making the sector more competitive through knowledge creation and exchange, human resources development and the promotion of excellence in areas such as policy planning, sustainable tourism development, marketing and promotion, product development and risk and crisis management.

05.

Advancing tourism's contribution to poverty reduction and development

Maximizing the sector's contribution to achieving the SDGs and promoting the inclusion of tourism in the wider development agenda.

06.

Building partnerships

Engaging with the private sector, regional and local tourism organizations, academia and research institutions, civil society, and the UN system.

Positioning of other key economic pillars

In addition to tourism, the country's growth performance in 2023 is foreseen to be buttressed by the ongoing recovery path depicted by several sectors, notwithstanding pressures faced, including dampened private demand in key export markets as well as strains on the finance and operating costs of business operators in the context of high, albeit ebbing, inflationary levels. At the granular level, the agricultural sector would register an interesting growth path on the basis of expected higher sugar production and targeted measures to boost non-sugar production. Furthermore, the financial and business services as well as ICT industries are anticipated to register appreciable growth rates this year on the back of their generally healthy business models, continuing headway being realised in terms of market expansion and deepening, and the supportive, though challenging, economic environment. In parallel, the multi-pronged efforts deployed by various stakeholders to promote the positioning of Mauritius as an International Financial Centre of repute and substance should deliver valuable assistance. In the same vein, whereas currency dynamics and the wobbly global set-up would continue to warrant scrutiny, the export oriented manufacturing industry – notably regarding textiles and clothing as well as emerging segments – should fare relatively well this year. It would benefit from strategic initiatives being deployed by private operators to diversify products and markets as well as dedicated schemes and initiatives articulated by public sector institutions and agencies to upgrade the innovative-nature, attractiveness and competitiveness of the industry, alongside promoting entrepreneurship and boosting capacity building. On another note, after considering the statistical impact of the recent noteworthy expansion in its value added base and the higher cost of materials, the construction industry is likely to witness a resilient path this year on account of the array of projects across numerous fields. At the private sector level, the main undertakings would include (i) Smart City and land parcelling projects (with major operators and landowners 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 construction and renovation of hotels; and (iv) projects across several other economic sectors, including manufacturing, ocean economy as well as health care and wellness. As regard the public sector, the main activities relate to the pursuance of works with respect to the Phase 4 of the Metro Express project and the execution of the Road Decongestion Programme, initiatives earmarked to boost capabilities in terms of water capture and distribution, drains upgrading programmes as well as other actions intended to meet national socio-economic objectives. Consequently, such endeavours would gear up the evolution of the country's gross fixed capital formation in 2023, aided by the High-Level Committee chaired by the Prime Minister, which would assist to fast-track the approval and implementation of envisioned projects/initiatives, underpinned by proper monitoring and coordination.

Table 4. **Recent sectorial performances as compared to pre-pandemic levels**

Gross value added in Rs million	2022		2019	Achieved pre-pandemic level or above (in constant terms)
	Current basic prices	Constant prices*	Constant prices*	
Agriculture, forestry and fishing	19,048	14,394	13,361	✓
Sugarcane	*1,669*	*908*	*1,341*	×
Other	*17,379*	*13,521*	*12,020*	✓
Mining and quarrying	1,879	1,626	1,612	✓
Manufacturing	66,328	54,340	57,414	×
Sugar	*1,026*	*563*	*780*	×
Food excl. Sugar	*26,247*	*20,525*	*20,217*	✓
Textiles	*14,799*	*12,245*	*15,395*	×
Other	*24,256*	*20,888*	*21,022*	×
Electricity, gas, steam and air conditioning supply	5,833	6,796	7,321	×
Water supply, sewerage, waste management and remediation activities	1,654	1,742	1,654	✓
Construction	25,685	20,049	22,448	×
Wholesale & retail trade; repair of motor vehicles and motorcycles	57,790	51,208	54,449	×
of which Wholesale and retail trade	*55,476*	*49,261*	*52,248*	×
Transportation and storage	25,088	23,206	29,750	×
Accommodation and food service activities	32,298	28,418	31,300	×
Information and communication	22,493	22,627	19,169	✓
Financial and insurance activities	65,048	62,627	55,484	✓
Monetary intermediation	*32,794*	*34,314*	*31,536*	✓
Financial leasing and other credit granting	*2,958*	*3,227*	*3,000*	✓
Insurance, reinsurance and pension funding	*10,337*	*11,515*	*10,613*	✓
Other	*18,959*	*13,293*	*10,334*	✓
Real estate activities	27,319	26,035	25,779	✓
of which Owner occupied dwellings	*21,768*	*21,333*	*20,653*	✓
Professional, scientific and technical activities	27,771	23,374	24,719	×
Administrative and support service activities	13,907	11,699	13,624	×
Public administration and defence; compulsory social security	33,545	28,014	26,907	✓
Education	22,757	20,612	20,992	×
Human health and social work activities	25,267	22,238	19,868	✓
Arts, entertainment and recreation	13,539	10,663	15,881	×
Other service activities	6,475	5,454	6,874	×

** Based on 2018 reference prices*

Sources: Statistics Mauritius - National Accounts, SBM Staff Estimates

Strength and resilience of the economic growth trajectory

Whereas the short-term economic growth outlook for Mauritius can be seen as reassuring in the face of the long-standing crises confronting the global economy, it is imperative that this situation be continuously scrutinised given the dynamic environment. Firstly, as it is the case for several economies worldwide, the growth prediction for this year would partly reflect a technical rebound in view of the favourable statistical impact coming off the sizeable GDP contraction witnessed back in 2020. Secondly, a full healing of national economic value added would, expectedly so, take time, after making allowance for the magnitude of past setbacks, the scarring effects of the pandemic and the testing global landscape. Consequently, whilst the foreseen GDP at current market prices for 2023 would comfortably surpass the level posted back in 2019 alongside being partly aided by a relatively high deflator effect, it appears that the economy would, in all probability, marginally surpass the pre-pandemic level this year when being assessed in real terms. Thirdly, the uncertainty surrounding the country's growth outlook remains relatively high given restrained visibility about how the operating context would shape up in the periods ahead. As such, the risks to our growth prognosis are tilted to the downside, with potential threats on the worldwide front including (i) the transition of the global economy into recession in case of any material worsening of the hostilities in Ukraine, accentuated geopolitical tensions, tighter international policy stances and deepened financial stresses; (ii) sharper-than-envisioned growth slowdown by key trading and business partners, thus further affecting exports and investment; (iii) acute increases in commodity prices, which would trigger persistent inflationary pressures, with knock-on effects on household consumption and business costs; (iv) impediments to production growth owing to any renewal of international supply chain bottlenecks; and (v) weaker-than-expected activity in China in view of any pandemic-related disturbances and strains endured by the real estate sector. In addition, bearing in mind recent local developments, climate change and global warming can act as potential threats to our economic activities. As stressed by international empirical studies, more severe, frequent, persistent and volatile weather events tend, if unmitigated, to heighten the risk of factors (i) damaging physical assets and infrastructure services; (ii) imperilling the nationwide natural capital and ecosystems; (iii) disrupting trade patterns, investments and productivity levels; (iv) affecting agricultural yields and food systems; and (v) impacting human health and social livelihoods.

Box 2: Climate change – Underpinnings, consequences and policy actions as per the OECD

Background

Recent reports by the OECD shed light on the challenges associated with the climate change phenomenon. As per the OECD, climatic changes are rapid, widespread and intensifying. Average global surface temperature was 1.09°C higher in 2011-20 than over 1850-1900. Climate is naturally variable, due to factors such as solar radiation, volcanic activity and complex interactions between the atmosphere and ocean. The temperature increase during the 20th century, however, far exceeded increases that could be attributed to natural variability. Together with increases in global surface temperatures, the physical impacts of climate change include increases in sea level, ice melt as well as land degradation. Climate change is projected to lead to further changes in the frequency, intensity, spatial extent, duration and timing of weather extremes.

As per the OECD, climate change is driving fundamental changes to the planet. The heat waves, wildfires, floods and tropical storms that affected many parts of the world in recent years provide a foretaste of the future. Unchecked, climate change will affect all aspects of human life and the natural world, leading to increasing losses and damages. Lives, livelihoods and the social and economic stability of countries and regions are at risk along with the natural environment on which they depend. The scale of future risks for a given location is subject to uncertainties in predicting complex climate dynamics and the impact of individual and societal decisions that determine future greenhouse gas emissions as well as patterns of socio-economic development.

Potential losses and damages linked to accentuated climate change

Pursuing its analysis, the OECD mentioned that the risk of losses and damages refers to the harm that may result from the interactions of climate-related hazards, exposure and vulnerability. If not tackled, climate change will cause increasingly severe economic and social impacts. These include changes in the demand of goods and services, evolution of labour and agricultural productivity, disruption of supply chains, health effects and faster spread of certain infectious diseases, loss of capital assets, displacement of people as well as repercussions on biodiversity and the ecosystem services on which societies and individuals depend. In an interconnected world, climate impacts experienced in one country – and the responses to those impacts – can impose threats far off its borders. Beyond the effects on economic production, people and communities are also vulnerable to intangible or non-economic losses and damages. These include the psychological or mental health impacts of extreme and slow-onset events, the loss of cultural artefacts and places, and loss of sense of identity and security. Intangible effects are not easily quantifiable and hence rarely feature in socio-economic assessments. However, many people consider vulnerabilities of some intangible aspects (e.g. health of family members, sense of safety) more important than the benefits of consumption associated with higher incomes. Climate risk is a function of hazard, the exposure of people and assets, and their vulnerability to that particular hazard. It may be compounded by other unanticipated challenges (as many countries had experienced during the COVID-19 pandemic). The extent of climate risks will depend on a range of underlying factors, including income and wealth, economic and institutional structure and geographic location. Different factors will influence how people experience climate risks, including values and worldviews, a sense of place and the identities, cultures and values attached to places and landscapes, perceptions of justice and accountability, and discourses and power.

Policy recommendations as per the OECD

Reducing exposure and vulnerability to climate change is challenging. Complex historical processes have contributed to current exposures and vulnerabilities. Choices made today can further drive changes in these components that may be hard to reverse. Examples include expansion of urban and suburban developments, persistent inequality and increasing pressures on the environment (e.g. water resources). The capacity of countries to respond to climate change will also be subject to a strong and diversified economy, institutional and human capacity, ready access to finance and technology and effective governance structures. According to the OECD, industry, electricity, agriculture, transport and buildings are the main sources of greenhouse gas (GHG) emissions, while highlighting that there is a lot that Governments can do to address climate change. Cutting GHG emissions is key to sustainable and healthy livelihoods. Transitioning economies can be achieved by using the right policy levers across sectors.

Across 5 policy levers …

Invest

Governments can fund research and development in innovation to boost greener technology and infrastructure.

Regulate

Governments can regulate to control emissions and ban polluting activities and chemicals that are toxic for people and the environment.

Tax & Subsidise

Governments can tax and subsidise in a way that drives decarbonisation, for instance by applying carbon taxes and cutting support for fossil fuels.

Lead by example

Governments can lead the way with greener subcontracting and rules of conduct nationally and locally.

Inform & Educate

Governments can step up educational programmes and campaigns to raise awareness, and inspire businesses and consumers to act.

… and 5 sectors

Industry

Emissions from heavy industries that produce primary materials like steel, chemicals, cement, glass and paper, are energy intensive. Research and innovation, re-use and recycling, and improvement in manufacturing efficiency, will need to be scaled up.

Electricity

Strategies must emphasise decarbonising the electricity sector while providing affordable and reliable supply of electricity for all. Renewable technologies are already cost-competitive in an increasing number of countries.

Agriculture

Focusing on agriculture and related land-use change will be critical to reduce emissions, and can help replenish our forests and reverse biodiversity loss. There is also potential to use agricultural soils to capture more carbon.

Transport

Decarbonising transport relies on innovative technologies and a shift towards cleaner alternatives. Integrated land-use, and transport planning that reduces distances and encourages public transport, cycling and walking, are crucial to this process.

Buildings

Policies can improve building quality. Technologies and methods are much more climate friendly than before, and often cheaper than conventional construction. Existing buildings can also become more energy efficient, through renovation and retrofitting.

Unemployment

As per latest estimates by Statistics Mauritius, the country's unemployment rate improved marginally to reach 9.1% in 2021. For 2022, official figures show that the joblessness rate has, on a reassuring note, declined further to 8.7%, 8.1% and 7.5% in the first, second and third quarters respectively. These outcomes have been aided by (i) the continuing recovery of nationwide economic activities, as testified by improved sectorial and investment endeavours; (ii) the relative healing of labour market conditions; and (iii) specific relief and job creation measures put in place by the authorities. However, recent trends still deserve analysis, specifically the unemployment rates posted by women and the youth. In addition, the country's overall labour activity rate, which is the ratio of labour force to the population aged 16 years and above, stood at 56.1% in the third quarter of 2022, with the corresponding rate for women (at around 43%) warranting even more attention. Bearing in mind the country's lack of natural resources and the preeminent reliance on human capital to spearhead its growth impetus, the latter figures highlight the need to pursue initiatives aimed at tackling the relative deficiency of labour supply in the economy, the more so given apprehensions expressed by some sectors and industries regarding shortages of resources with the advocated skills sets to accompany them in their growth endeavours.

Assuming that the Mauritian economy and key sectors perform resiliently well notwithstanding the testing operating environment, the overall unemployment rate is projected to further decline in 2023. Nevertheless, the challenging context could still yield pressures on the labour market, thus implying that the process of moving towards or undershooting pre-pandemic levels could take place in a gradual way. Recently, the International Labour Organization stressed that *"Global labour markets are facing serious, interlinked challenges. Issues such as the growth in informality and working poverty, slowing employment growth, the effects of inflation on wages and purchasing power, come on top of longer-term structural challenges such as demographics, technology and climate change. The interaction of macroeconomic factors, long term trends and institutional settings varies and affects employment growth differently across country income groups. Sustained productivity increases that deliver shared prosperity should be a central focus for policymakers and social partners. Governments should work closely with social partners, employers and workers to make sure that education systems and skills training correspond to enterprises' needs and hence lead to higher productivity growth."* As regard Mauritius, while acknowledging current efforts, the key challenge is to further curtail its unemployment rate across sectors, gender and age groups as well as broaden the pool of resources that can be leveraged with a view to boosting the prospects for high and sustained economic growth. Beyond direct employment creation measures, the onus is on Mauritius to accelerate private investment and optimise the functioning of labour markets, with emphasis on tackling any in-built structural bottlenecks.

Figure 6. **Quarterly unemployment rate**

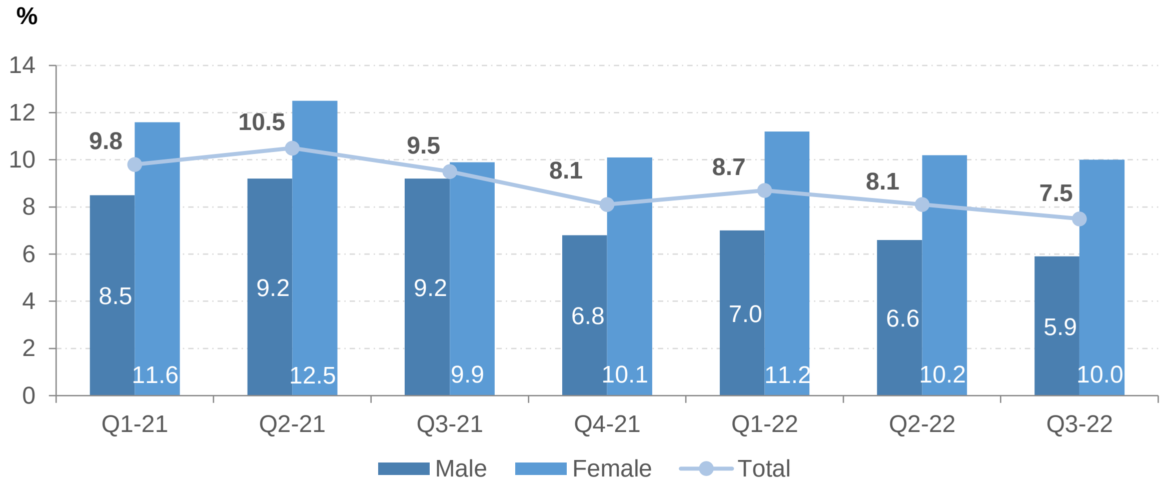


Figure 7. **Labour activity rate**

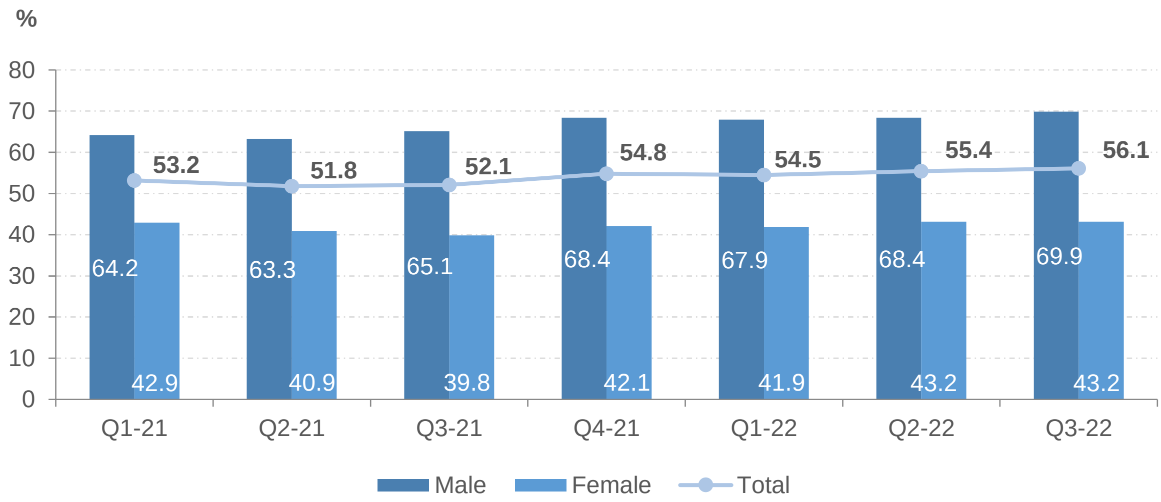
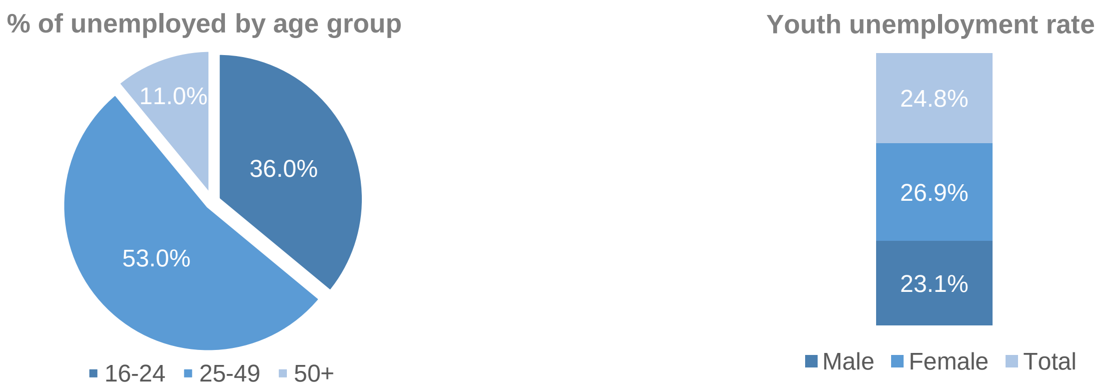


Figure 8. **Unemployment by age group (Q3-2022)**



Sources: Statistics Mauritius - Labour Force, Employment and Unemployment, SBM Staff Estimates

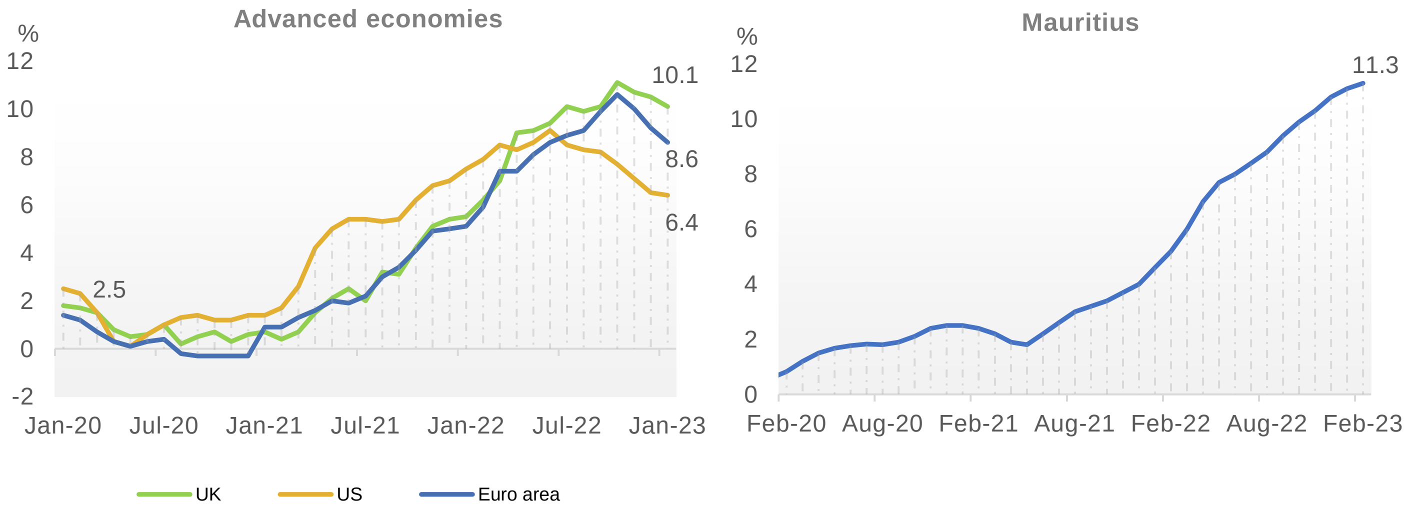
Inflation

Latest estimates

As mentioned before, global inflation has, despite a relative slowdown observed lately, remained consistently high amidst the war in Ukraine, supply chain disruptions and currency volatilities. As per the World Bank, *“Inflation has risen across a broad range of goods and services. Inflation rose throughout 2022 in almost all economies. Median global headline inflation exceeded 9 percent in the second half of the year, its highest level since 1995.”* In the US, headline inflation stood at 6.4% in January 2023 on account of pressures exerted by geopolitical tensions on commodity prices, even though the metric declined for the seventh straight month owing to the cooling of the economy, aggressive interest rate hikes by the Federal Reserve as well as improving supply chains and shipping costs. As for the euro area, annual inflation fell during the closing months of last year in the wake of a deceleration in energy prices, but remained elevated at 9.2% in December 2022 and 8.6% in January 2023, which are well above the European Central Bank's target of 2%. After hitting a 41-year high in October, annual inflation posted by the UK eased to 10.1% in January 2023, with the evolution of consumer prices still warranting scrutiny, in view of pressures emanating from tight labour markets.

In Mauritius, headline inflation witnessed a marked and uninterrupted upward movement for more than a year and a half before reaching 10.8% in December 2022 and 11.3% in February 2023. Underlying measures of inflation also rose, as gauged by the evolution of core inflation rates. Overall, in spite of support coming from subsidies allocated by the authorities for specific essential products and a cumulative hike of 265 basis points in the benchmark interest rate by the Bank of Mauritius, the inflation uptrend was largely accounted for by acute exogenous shocks which are beyond the country’s direct control as a result of unfavourable geopolitical dynamics and international developments, coupled with the second-round and pass-through effects on the prices of an extended range of consumer goods. On a specific note, the sustained rise in inflation can, to different magnitudes, be explained by (i) major hikes in energy and food prices following the persisting war in Ukraine, even though most international commodity prices have eased in recent months due to the global growth slowdown and weak demand; (ii) higher prices of vegetables in the wake of adverse climatic conditions; (iii) a relative, albeit fragile, recovery in demand for goods internationally, after countries emerged from previous lockdowns; (iv) disruptions to global supply chains, in spite of the improvement registered in recent months; and (v) downward pressures on the effective exchange rate of the Mauritian rupee – principally on the back of the marked and continuous strengthening of the US dollar on international markets – while catering for liquidity management initiatives and foreign market interventions undertaken by the Central Bank.

Figure 9. **Evolution of headline inflation**



Sources: Eurostat, Office for National Statistics, US Bureau of Labor Statistics, Statistics Mauritius

Table 5. **Headline inflation by category**

Division	Feb-23 (%)
Food and non-alcoholic beverages	14.7
Alcoholic beverages and tobacco	9.4
Clothing and footwear	3.1
Housing, water, electricity, gas and other fuels	7.5
Furnishings, household equipment and routine household maintenance	10.6
Health	7.6
Transport	21.9
Communication	0.1
Recreation and culture	4.4
Education	2.3
Restaurants and hotels	11.1
Miscellaneous goods and services	6.8
Overall headline inflation	**11.3**

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

Forecasted trends

As per our baseline scenario, headline inflation is, on a comforting note, anticipated to progressively decline during 2023 and to stand at around 6% as at year end. Whereas the knock-on impacts of the revised electricity tariffs that took effect as from 1 February 2023 remain to be monitored, the inflation downtrend would be underpinned by the positive statistical impact of a high computational base and successive hikes in interest rates, after considering the monetary transmission mechanism. Along the way, the decision of the Government to apply a mark-up mechanism on selected pharmaceutical products could help. In addition, declining inflation would be supported by international dynamics, which, according to recent reports, would be captured by (i) a relative easing of energy, food and other commodity prices as they pass their peak, amidst hampered global growth; (ii) contained growth in aggregate demand as the world economy is stifled by continued headwinds and as policy tightening by Central Banks and the fiscal authorities gather additional momentum worldwide; and (iii) reduced exertions on supply chains and shipping costs, following market adjustments and rising inventories, as gauged by the Global Supply Chain Pressure Index produced by the Federal Reserve Bank of New York. As per the latest Global Economic Prospects of the World Bank when referring to recent trends, *"Most commodity prices have eased, to varying degrees, largely due to the slowdown in global growth and concerns about the possibility of a global recession. Crude oil prices have steadily declined from their mid-2022 peak; meanwhile, natural gas prices in Europe soared to an all-time high in August but have since fallen back toward pre-invasion levels. Non-energy prices, particularly metal prices, have declined alongside weak demand."* Also, the Food Price Index of the UN Food and Agriculture Organization decreased further in February 2023, thus making it the eleventh consecutive monthly decline, driven by significant drops in the international prices of vegetable oils and dairy.

That said, the inflation outlook for Mauritius should be appraised in a discerning manner, especially in light of the shaky international economic and financial environment, with geopolitical developments to be closely tracked by virtue of the likely repercussions on commodity prices. Noticeably, future inflation trends are foreseen to be closely dependent on the duration, stretch and depth of the war in Ukraine. This should, particularly, affect global energy prices, which would, concurrently, be also influenced by supply factors, especially US shale oil production and any disruptions to Russia's exports. In other respects, the evolution of consumer prices will hinge on (i) the pace and magnitude of monetary policy actions amidst both domestic and international developments; (ii) unfolding currency dynamics, coupled with the extent of forex market interventions by the Central Bank; and (iii) climate change conditions.

› The Financial Sector

Banking and financial stability

Industry resilience

Whereas economic and market conditions continued to call for examination, the banking and financial system preserved its stability, resilience and soundness in recent months. This has been underpinned by the generally healthy business models adopted by key players, a fitting and continuously reinforced legal and regulatory framework as well as support measures emanating from the authorities, notably in relation to flexibility provided to banks to ease debt servicing and restructure loan facilities amidst a demanding operating landscape faced by customers. Also, the industry capitalised on recovering economic activities, which contributed to protect households and businesses, minimise job losses as well as limit corporate defaults and bankruptcies. In terms of policy orientations, the Bank of Mauritius has engaged into a process of monetary policy normalisation all along 2022 with the aim to fight against rising and elevated inflation rates, alongside guarding the country against excessive pressures on its currency in an environment of rising interest rates internationally. Overall, these conditions helped to (i) promote a generally conducive business facilitation environment; and (ii) deliver adequate leeway for players to follow a disciplined growth trajectory. Latest available figures as at September 2022 show that the banking industry maintained appreciable buffers to confront potential shocks and support growth endeavours. While the total capital adequacy ratio stood at 19.0%, the non-performing loans ratio declined to 4.4%, driven by improved metrics for both the domestic and non-resident credit portfolios. The aggregate Liquidity Coverage Ratio was 252% as at October 2022, thus exceeding the regulatory limit of 100%. Also, it is worth noting that bank credit to the private sector, on both the corporate and retail sides, remained resilient lately. Besides, while trends have stayed relatively volatile, a relative decline has, during the closing months of last year, been witnessed as regard excess cash reserves held by banks at the Central Bank beyond mandatory levels, partly reminiscent of the national recovery momentum. As for the Mauritian rupee, regular interventions and liquidity management initiatives adopted by the Bank of Mauritius have aimed at containing exchange rate volatilities and achieving reasonable forex supplies to the market, especially given the renewed dynamism of the tourism and export oriented manufacturing industries. After depreciating by a noticeable margin in prior periods, the effective exchange rate of the rupee has, on a point-to-point basis, appreciated by around 1.9% during the year ended December 2022, reflecting local and international developments. However, so far this year, the rupee lost grounds against the greenback, the euro and the pound sterling.

Main challenges warranting attention

While recent stress testing exercises undertaken by the Bank of Mauritius demonstrate that the industry maintains adequate capital and liquidity buffers to act as cushion against potential shocks, notably given the unfolding of the Russia-Ukraine war, the positioning and performance of the banking sector going forward would largely rely on the country's broad-based macroeconomic conditions, policy orientations being put into place and the appeal of the business climate in light of fast-changing market dynamics and exigencies. In addition, conditions across foreign exchange markets deserve appraisal, with an imperative need to foster adequate supplies of foreign currencies to underpin the strategic endeavours of business operators and to promote the country's macroeconomic stability.

As a major development, the Bank of Mauritius introduced a new Monetary Policy Framework effective 16 January 2023 with a view to further strengthening monetary policy operations and the policy transmission mechanism, alongside seeking to promote greater traction in combating inflation and anchoring related expectations. The new framework is, notably, setting the stage for the adoption of a flexible inflation target, replacing the Key Repo Rate with the Key Rate, using the 7-Day Bank of Mauritius Bill as the main instrument of monetary policy, setting a symmetric interest rate corridor of 200 basis points around the Key Rate through standing facilities meant to clear liquidity positions and reviewing the cash reserve requirements at the Central Bank. Considering such announcements, the onus is on all stakeholders to establish clear and coherent environments and circumstances which will gratifyingly and sustainably impact economic and financial variables in support of medium and long-term objectives set by the authorities to achieve price stability and national socio-economic welfare, while minimising trade-offs and steering market interest rates in a convenient manner.

Figure 10. Annual growth of bank loans to the private sector

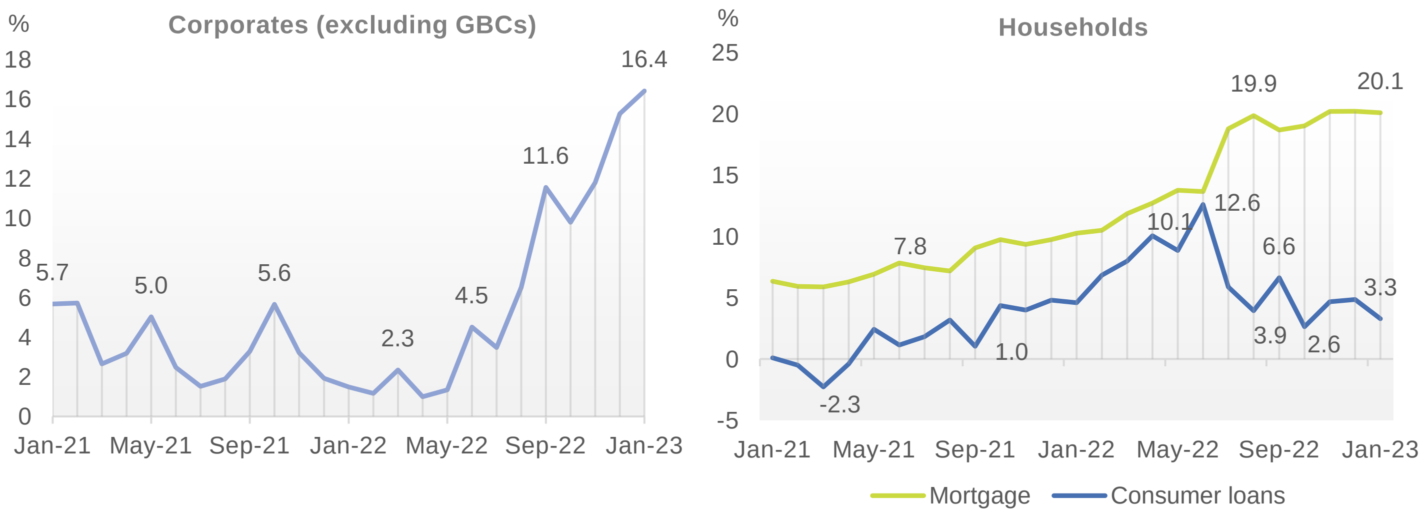
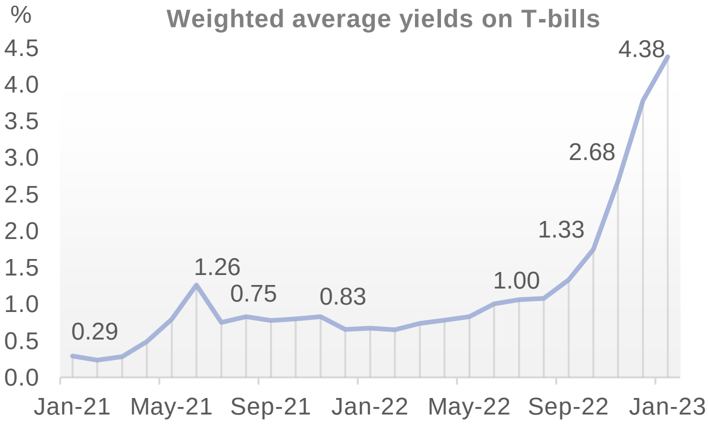
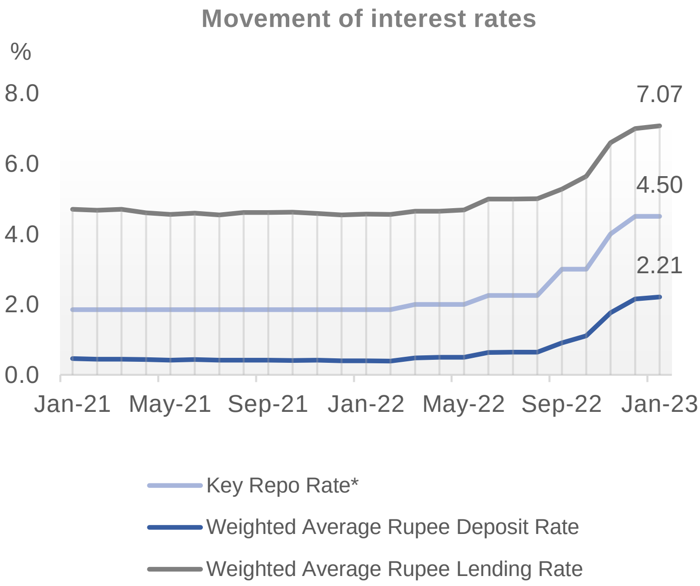


Figure 11. **Evolution of key market interest rates**





** The Key Repo Rate has been replaced by the Key Rate as per the new Monetary Policy Framework of the Bank of Mauritius, effective as from 16 January 2023*

Sources: Bank of Mauritius, SBM Staff Estimates

The Fiscal Sector

Public finance

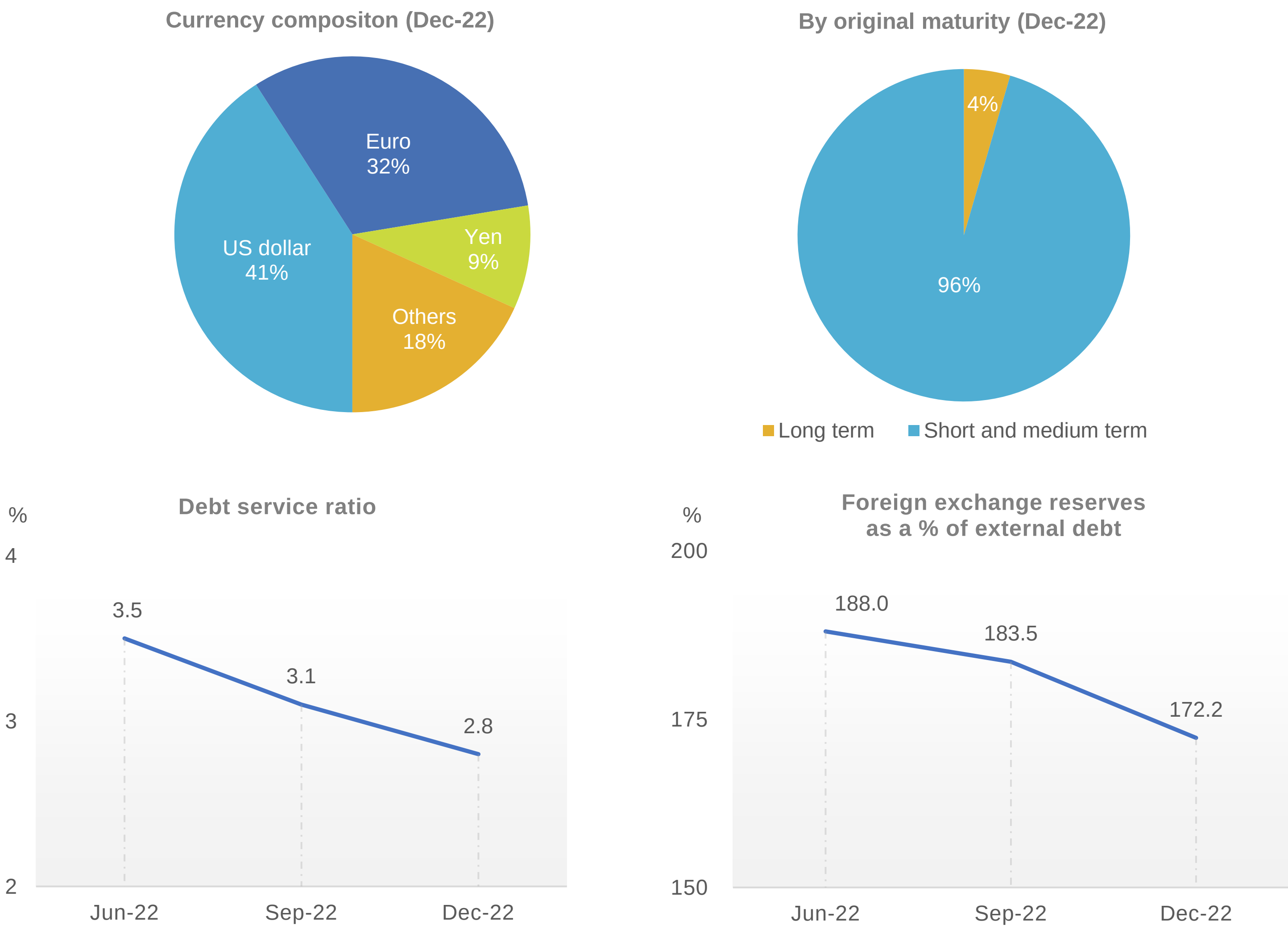
Key trends and outlook

In the wake of the difficult global environment and the pandemic-related pressures confronting the Mauritian economy, fiscal and debt indicators have remained in challenging territories for some time. Indeed, recurrent spending has been shaped up by initiatives 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, while tax revenue has been impacted by dampened investment activities. However, as the economy gathered noticeable steam, revenue collections have, following headway in terms of fiscal management, stepped up in FY 2021/22 as per the Mauritius Revenue Authority. In the same vein, the public sector net debt pursued a downtrend before attaining 72.9% as at December 2022, with the gross figure reaching 84.4% after catering for cash and cash equivalents and equity. This is a reassuring sign amidst global trends. Indeed, while referring to emerging and developing countries, the IMF has recently stressed that *"About 15 percent of low-income countries are estimated to be in debt distress, with an additional 45 percent at high risk of debt distress and about 25 percent of emerging market economies also at high risk. The combination of high debt levels from the pandemic, lower growth, and higher borrowing costs exacerbates the vulnerability of these economies, especially those with significant near-term dollar financing needs."*

As regard FY 2022/23, the authorities in Mauritius are, as per announcements, looking forward for a relative amelioration of the country's fiscal metrics in the wake of the gradual economic upturn, with a key strategy being to further reduce the debt to GDP ratio to more prudent levels alongside ensuring that adequate resources are provided to priority projects and programmes aimed at consolidating the economic recovery, minimising fiscal risks and protecting the vulnerable. That said, whilst a higher GDP base and expanding economic activities would deliver appreciable leeway for Mauritius to achieve its set targets, the debt ratios warrant close strategic monitoring in view of potential vulnerabilities. The latter, notably, relate to the unsettled global environment, due to the spillovers of the war in Ukraine, volatile financial and foreign exchange markets, a high interest rate environment as well as any contingencies associated with climate change and global warming events. This situation highlights the importance of embracing a coherent medium-term fiscal adjustment framework, including policies to (i) improve tax revenue collection alongside upholding an attractive and investor-friendly fiscal regime; and (ii) optimise recurrent and capital expenditures without compromising on social and growth objectives, supported by a further strengthening of public investment management. On a longer-term basis, the gradual ageing of the population calls for a prudent approach to achieving fiscal sustainability.

Figure 12. Evolution and composition of public sector debt

Figure 13. The national external debt



Source: Ministry of Finance, Economic Planning and Development - Debt Data (December 2022)

Box 3: Description and analysis of ageing population and demographic trends

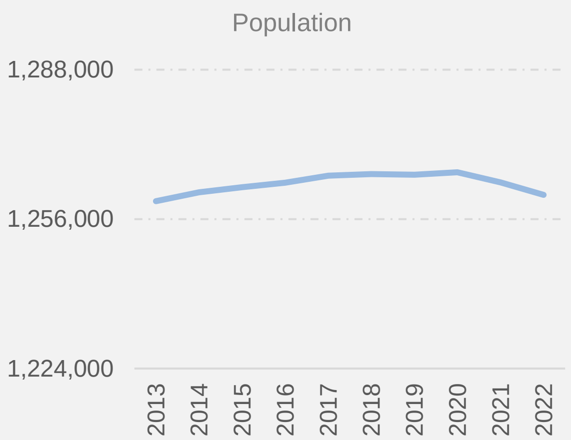
The global ageing phenomenon

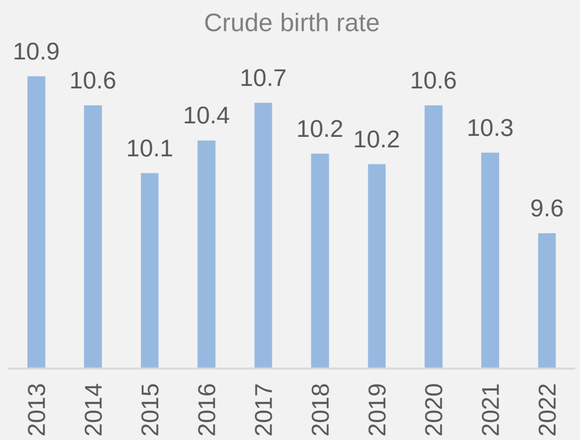
The IMF argued that *"What is fast becoming universal is that population aging is the most pervasive and dominant global demographic trend, owing to declining fertility, increasing longevity, and the progression of large cohorts into older ages."* The world's rate of population growth has slowed by a non-negligible margin in recent decades and is projected to maintain this trend, albeit with differences across countries, income groups and regions. Latest projections by the United Nations depict an increase in the number of countries experiencing annual population decline, from 41 in 2022 to 88 in 2050. Data show that global life expectancy has increased from 34 years in 1913 to 72 years in 2022, while being anticipated to continue on that long-term trajectory.

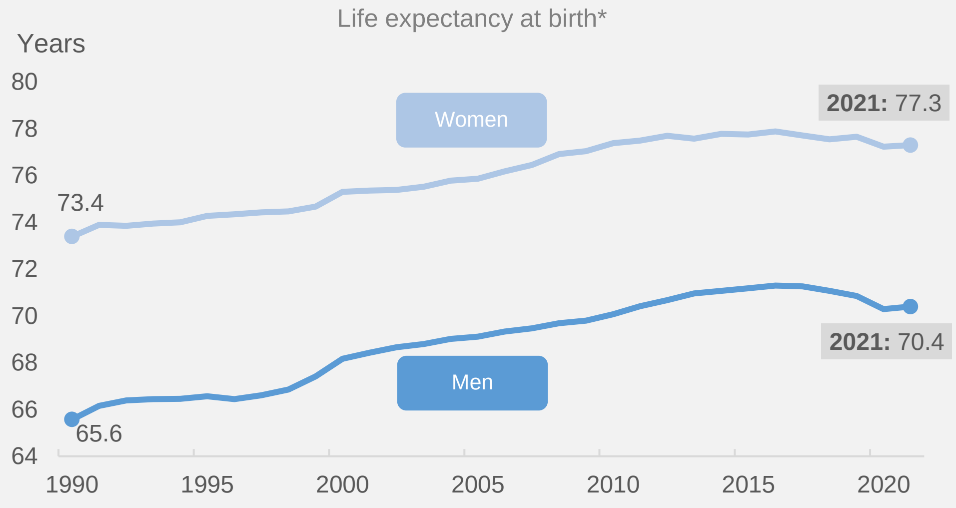
The ageing population dynamics in Mauritius

Main underpinnings

In Mauritius, the ageing population process is well underway. It has, notably, been triggered by declining levels of fertility amidst evolving socio-economic realities. As per provisional figures, the crude birth rate, which is the number of live births per 1,000 population, attained 9.6 in 2022 as compared to nearly 11 a decade ago. Of note, this contributed to the country's population to post negative growth rates recently. Moreover, the ageing of the population is attributable to increased longevity, with rising life expectancy being spurred by improved living conditions as well as headway realised in terms of nutrition, health care and education.



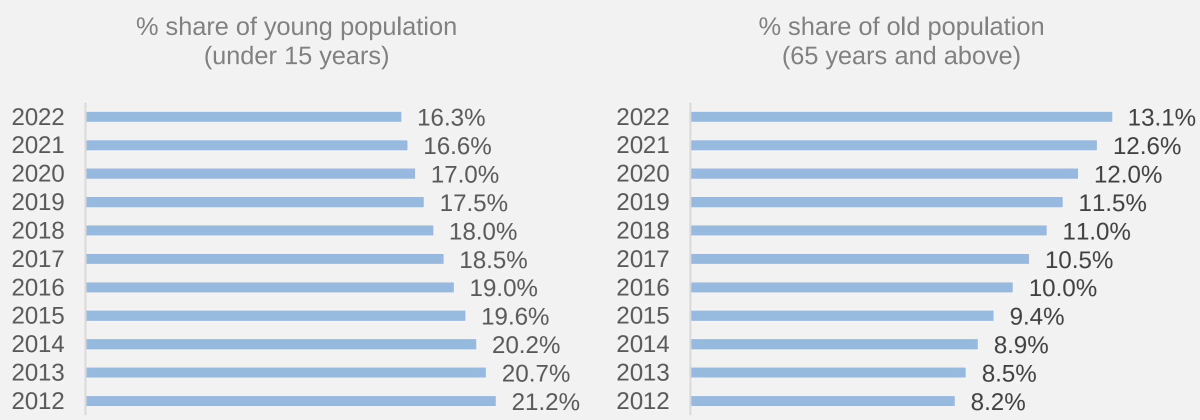




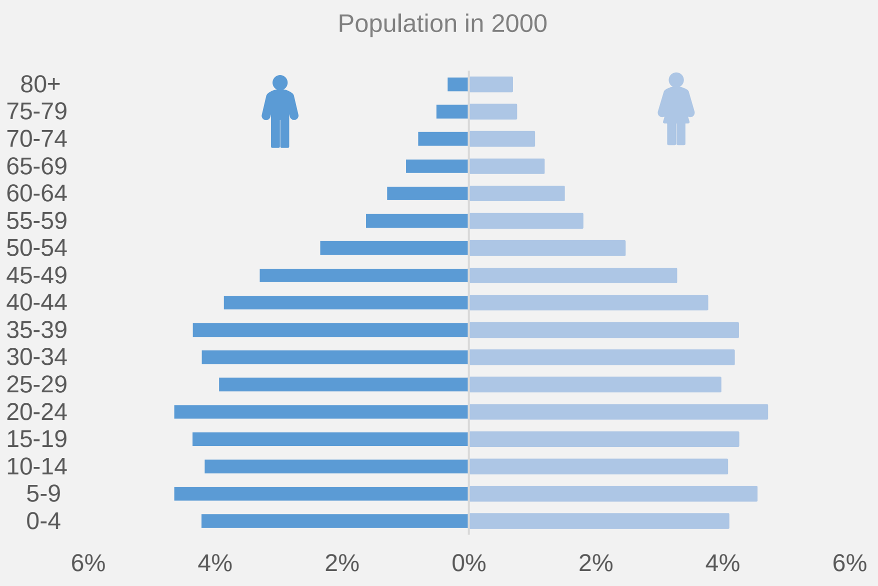
** The average number of years that a new born child would be expected to live if subjected to the mortality conditions expressed by a particular set of age-specific death rates.*

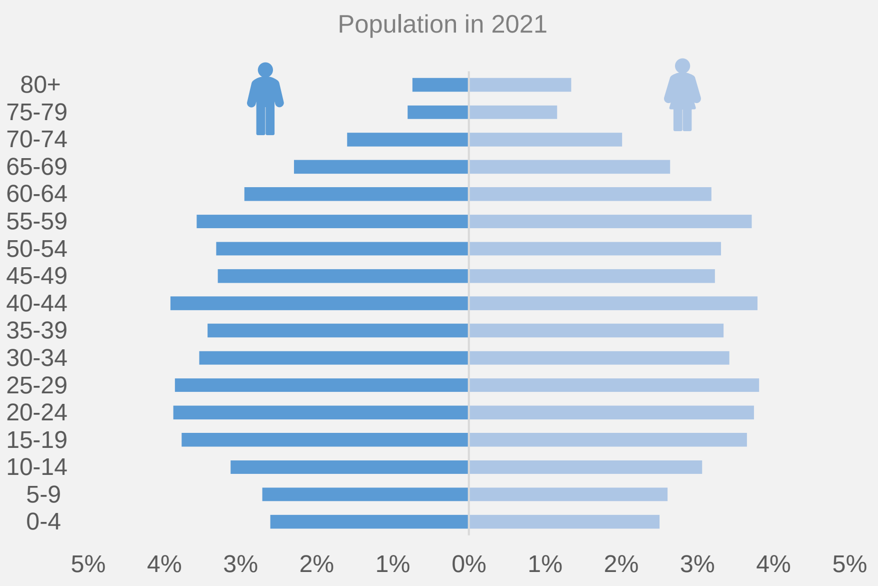
<u>Description of the ageing population process</u>

The ageing population phenomenon can be described in several inter-related ways. Firstly, the population age structure, as depicted by a population pyramid, has been reshaped. The pyramid has shifted from having a wide base to showing a shrinking base due to the declining trend observed by the proportion of the population aged 0-14 years, while the thickening of the upper body is explained by the rise in the share of population aged 65 years and above. Secondly, the dependency ratio (which is the child population under 15 years of age and the elderly population aged 65 years and above per 1,000 population aged 15 to 64 years) has gone up in recent years. Thirdly, the median age of the population (which is the age which divides the population into two equal size groups, one of which is younger and the other older than the median) has moved up. Fourthly, there has been a progressive ageing of the older population itself. In fact, the 'oldest, old people' (which is defined as the population aged 80 years and above) has become an increasingly prominent segment of the population.

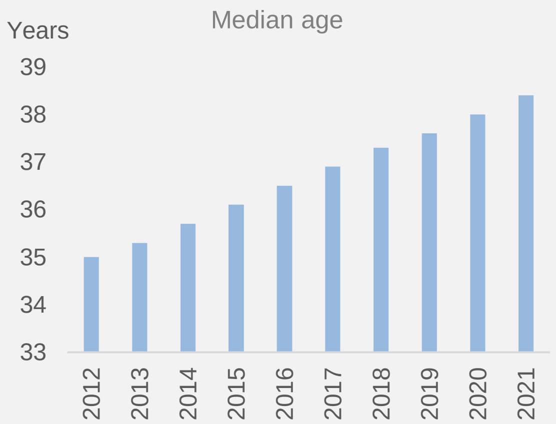


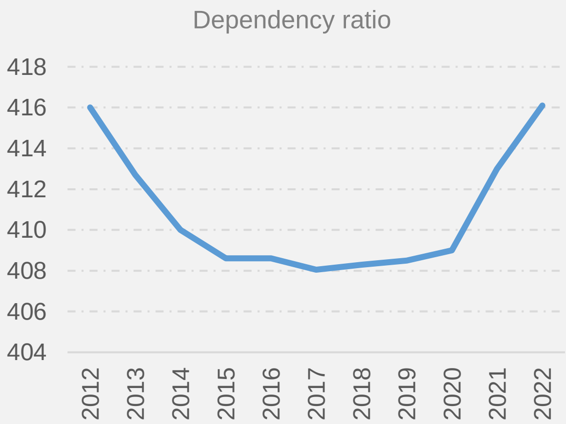
Reshaping of the population pyramid





Other depictions of ageing population





Projections by Statistics Mauritius

As per analyses by Statistics Mauritius, the afore-mentioned trends would accentuate in the coming decades, thus showing the expected further ageing of the country's population, as depicted below.

Indicators	2021	2041	2061
Share of young population (%)	16.6	13.7	11.7
Share of old population (%)	12.6	21.0	27.8
Median age (years)	37.7	45.4	51.3
Dependency ratio	413.0	533.3	651.4

Main implications of ageing population

Overall, the ageing of populations has implications in terms of the nature and depth of socio-economic policies, the quality of public infrastructures and fiscal management, the adaptability of the pensions and social security benefits systems as well as the robustness and comprehensiveness of health care facilities. As per the IMF, population ageing can, in a no-change scenario, have major macroeconomic ramifications. It stressed that *"For those countries where fewer workers are available and labor force participation rates drop, economic output is bound to fall. However, the size of the decline depends, among other things, on how households and firms react to the changing demographic landscape. Labor productivity may fall due to a decline in older workers' physical and cognitive abilities, but the prospect of a declining labor force could also induce firms to invest in new, productivity-enhancing, technologies. Aging would also exert pressure on public finances as outlays for pensions and health care increase."* It added that "*"Thoughtful preparedness – combining behavioral changes, investment in human capital and infrastructure, policy and institutional reforms, and technological innovations – can enable countries to meet the challenge and take advantage of the opportunities presented by demographic change."* As a key move, the ageing population conundrum calls for bolstered human capital investments in an attempt to sustain per capita economic growth despite declines in the share of the working-age population, with reinforcement of training and skills programmes having a major role to increase the productivity of those already in the workforce and to encourage workforce participation of under-represented groups, such as mothers and older people.

› The External Sector

Trends and outlook

As a major achievement, total exports of goods rose by 24.0% in 2022 compared to the previous year. In addition to striking improvements achieved at the level of re-exports and receipts derived from ship's stores and bunkers, the latter performance was largely attributable to a notable expansion in domestic exports, mainly with regard to specific product groups such as fish and fish preparations (+21.4%), textile yarn and fabric (+11.3%), pearls, precious and semi-precious stones (+47.2%), and articles of apparel and clothing (+9.2%). Overall, such trends were spurred by a relative improvement in private demand in key markets and the evolution of the rupee, alongside catering for supportive policies and strategies put in place by the authorities. As for total imports, an increase of 36.1% was recorded in the wake of recovering nationwide economic activities, higher energy and food prices on the international scale – which have, nonetheless, somewhat declined in recent months – and bolstered investments in machinery and transport equipment, notably relating to outlays for metro terminals. Consequently, the balance of trade deficit deteriorated by 43.6% to attain Rs 190.7 billion in 2022, which corresponds to around 35% of GDP at market prices. As a result, notwithstanding the perceptible acceleration of tourist earnings and other developments, the current account deficit is estimated to have climbed to around 14% of GDP in 2022 as compared to 13.2% in 2021. As for the balance of payments, preliminary estimates point towards a deficit of around Rs 27 billion for the three quarters ended September 2022 in spite of a resilient position held in relation to financial and capital flows, notably as regard gross direct investment. For the full year, whilst factoring in the volatile global context, the balance of payments is likely to stand in a challenging area, notwithstanding support emanating from exports of goods and services, foreign direct investment and the receipt of external loans by the Government. As regard 2023, in spite of projected upward trends for exports and a cooling off of commodity prices, the balance of trade deficit is foreseen to worsen and exceed the Rs 210 billion mark, to some extent fuelled by the purchase of machinery and equipment. Such dynamics would contribute to the current account deficit staying somewhat elevated this year, while the balance of payments would be subject to the unstable global environment, notwithstanding the positive momentum regarding foreign investment and capital flows into the country on account of initiatives deployed by the public and private sectors.

Figure 14. **Balance of visible trade**

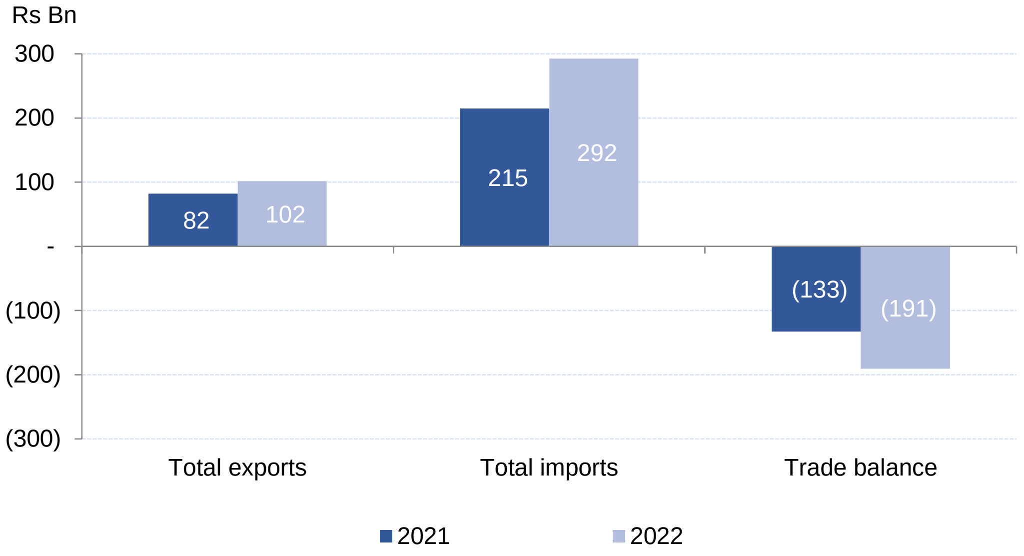


Table 6. **Evolution of top exports and imports**

Exports of goods (Rs million)	2022	Change over previous year
Food and live animals	28,903	22.6%
Miscellaneous manufactured articles	28,657	12.7%
Manufactured goods classified chiefly by material	13,010	18.6%
Chemicals and related products	4,701	34.5%
Machinery and transport equipment	3,223	6.8%

Imports of goods (Rs million)	2022	Change over previous year
Mineral fuels, lubricants, & related products	66,831	80.4%
Machinery & transport equipment	56,549	34.3%
Food and live animals	52,805	32.9%
Manufactured goods classified chiefly by material	46,480	23.3%
Miscellaneous manufactured articles	26,554	25.3%

Source: Statistics Mauritius - External Trade (Q4-2022)

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