Mauritius

Recent macroeconomic and financial developments

Drastic and fast action by the government of Mauritius to lock down and isolate the island allowed the country to record only 315 cases and 10 deaths from COVID–19 between January and December 2020. But the protocol that allowed the island nation to escape the worst of the pandemic entailed a very high cost for the economy. In just one year, Mauritius lost 18 percentage points of growth. Real GDP was estimated to contract by 15% in 2020, against positive real GDP growth of 3% in 2019. The tourism and hospitality industry, which traditionally contribute around 24% of GDP and account for 22% of employment with significant spillover effects on the whole economy (transport, agriculture, wholesale and retail trade, and administrative and support services), incurred an estimated 75% loss in value added. At the same time exports of seafood, textiles and apparel, and sugar were hurt by disruptions in global demand. Only the information and telecommunication sector grew, supported by heavy use of technological and teleworking services during the lockdown. The financial services sector also registered a positive growth of 1.1%. An increase of 53% in public expenditure targeted at social and economic safety nets, coupled with lower tax receipts because of the economic downturn, led to a more than doubling of the fiscal deficit to about 8% from 3.2% in 2019. The current account deficit widened to 12.9% due to the decline in export and tourist receipts. Inflation more than tripled, to 2.5% in 2020 from the prepandemic low of 0.5%. Inflation was fueled by increase in prices of imported products and the depreciation of the rupee. As a result of the economic downturn, unemployment doubled in the third quarter of 2020 to 10.9% from 6.7% a year earlier. Poverty remained contained because the government decided to increase the level of existing social protection schemes, with priority given to the most vulnerable segments of the population.

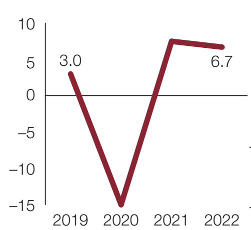
Outlook and risks

The medium-term outlook is for a strong recovery with real GDP growth projected to average 7.1% over the next two years. Still, the fiscal deficit is projected to widen to 10.8% of GDP in 2021, fueled by high public investment and continued support to businesses and jobs. The deficit will narrow in 2022 to 5.0%, with economic recovery supporting growth in tax revenues. The current account deficit is projected to improve starting in 2021 because of improvement in the trade balance and a gradual recovery in tourist receipts as air links resume between Mauritius and Europe, the main source of tourists. Inflation is projected to rise, averaging 3.4% over the medium-term as domestic demand increases. economy. The main risk to the outlook stems from a potential second or a third wave of COVID–19 in key tourism markets.

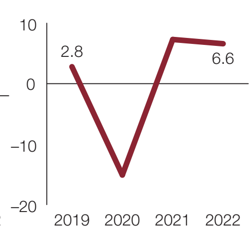
Financing issues and options

Mauritius' public debt trajectory raises concerns. After a substantial decrease in public debt to 48.6% of GDP in 2013 from 63.7% in 2008, Parliament established a statutory debt limit of 60% of GDP through the Public Debt Management Act. However, staying below that level has proved challenging. Domestic debt represents 88% of the country's public debt and is mainly held in government bonds by the banking sector. Public external debt (12%) is limited to multilateral creditors on concessional terms with long maturities. The high concentration of domestic public debt ensures some protection against foreign exchange risk. Over the short to medium-term, the pandemic could worsen Mauritius' public debt profile due to elevated spending. Public debt is projected to be 76.1% in 2021, against 64.6% in 2020. To achieve the statutory public-sector debt target of 60% of GDP would require a significant fiscal consolidation and improvement in revenues. Despite signs of deterioration, public debt remains sustainable, and the debt service moderate (9% of budget in 2020/2021). Debt restructuring may not be an option for the government in the short term. Projected growth recovery in the next two years will allow containing debt at levels compatible with sound economic development.

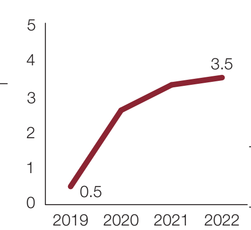
Real GDP growth (%)



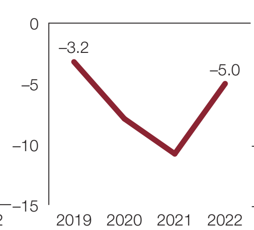
Real GDP per capita growth (%)



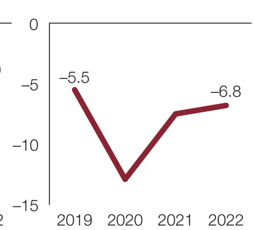
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.