2022

THE STATE OF THE ECONOMY

THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY

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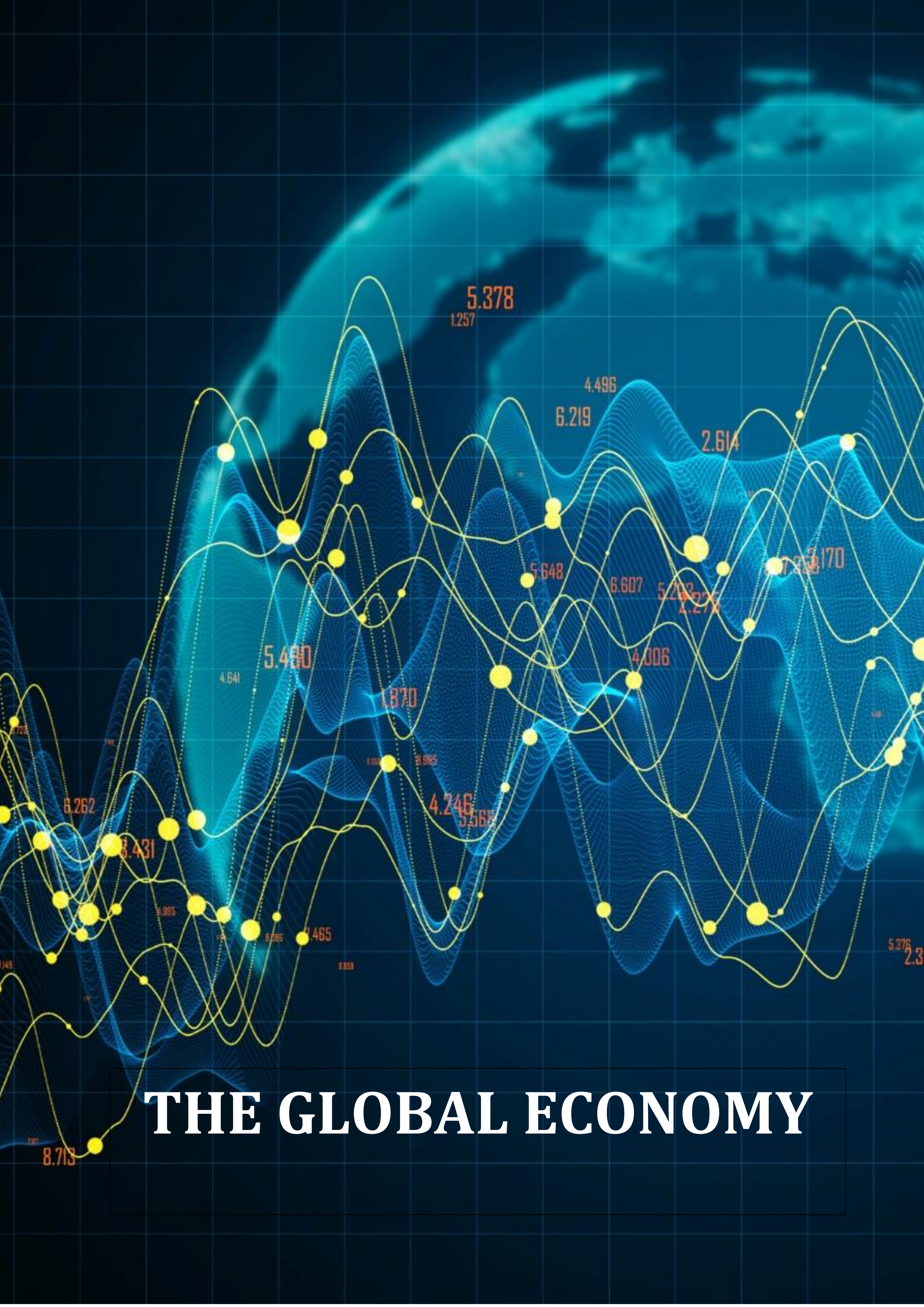
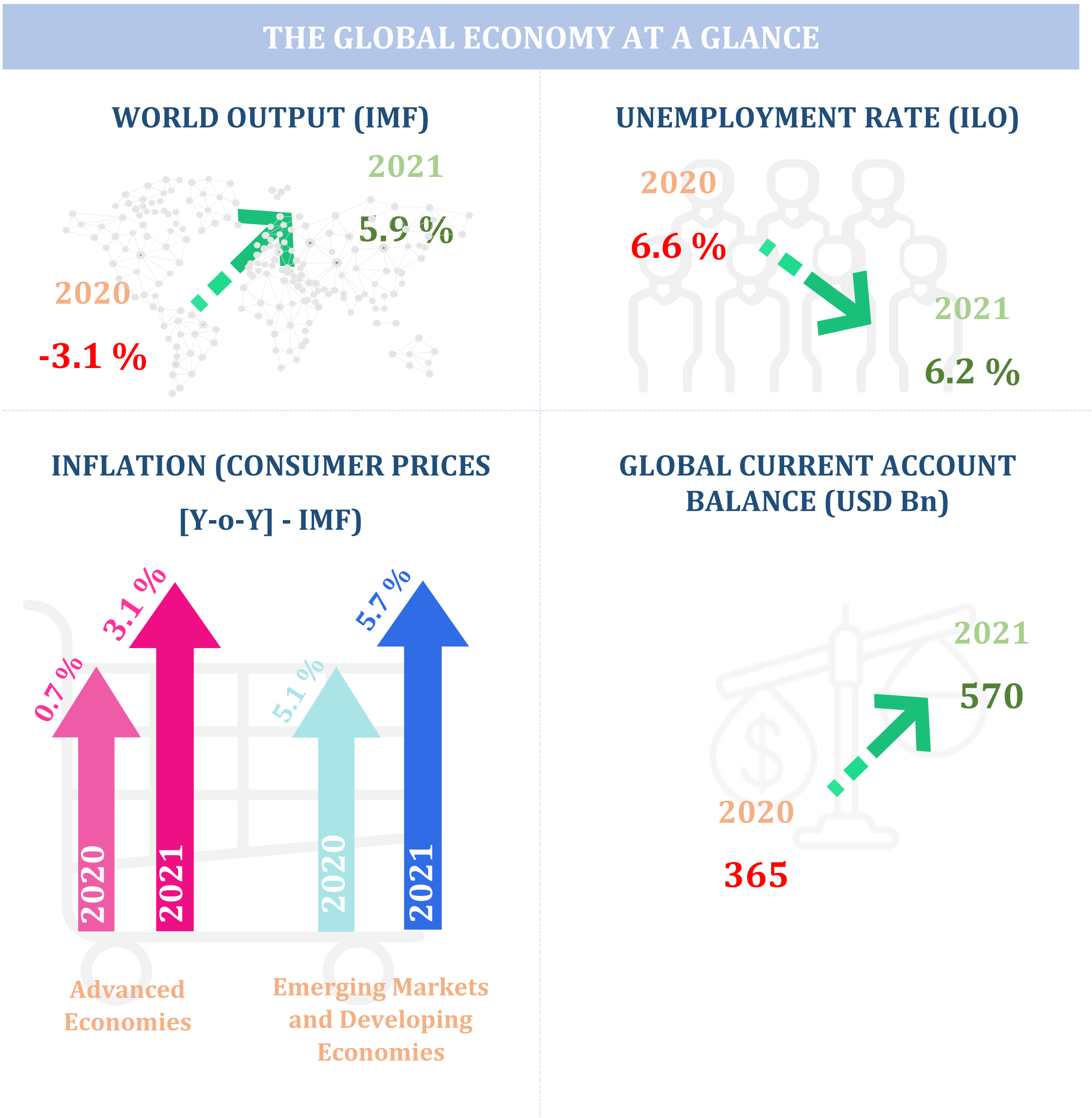


THE GLOBAL ECONOMY

1 THE GLOBAL ECONOMY

The spread of the novel coronavirus has resulted in one of the most devastating global public health crises in over a century. The pandemic continues to dominate the economic landscape of the world with prevailing uncertainty and challenges. Nevertheless, in 2021, a resilient global economy emerged, beyond the bounds of expectations raised in the bleakest days following the progressive deployment of effective vaccines and continued macroeconomic policy support in major economies. Stern monetary and fiscal policy stimulus measures, strengthening sentiment and the cessation of the most austere state-imposed restrictions boosted global financial performance and consumer and professional demands. Additionally, the inclination towards the normalisation of air and maritime traffic is gaining in momentum.

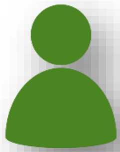


According to the IMF World Economic Update 2022, global growth for 2021 is estimated at 5.9%. Although all regions are expected to have recovered in 2021, the pace of global recovery moderated with increasing signs of divergence across and within countries, reflecting different progress in vaccination rollout and renewed virus waves in some economies. While many advanced economies witnessed remarkable progress in vaccinations, most emerging markets and developing countries have had a much slower rollout, fraught by lack of supply and export restrictions. For 2021, growth for advanced economies have been estimated at 5.0% and emerging markets and developing economies at 6.5%.

The global health crisis unleashed by the COVID-19 pandemic has been compounded by political, economic, and social crises that have exacerbated existing inequalities and disproportionately affected the most vulnerable segments of society. The outbreak shone a harsh light highlighting the plight of more than 500 million of people across the world with no protection from extreme poverty (pre-Russo-Ukrainian conflict).

4.4% in GDP Growth
estimated for 2022 (IMF)

+ 500 million in extreme poverty
due to the crisis



5 million + Deaths
due to the pandemic

Table 1 World Economic Outlook Projections (Y-o-Y, %)

				Projections	
	2019	**2020**	**2021**	**2022**	**2023**
World Output	**2.8**	**-3.1**	**5.9**	**4.4**	**3.8**
Advanced Economies	**1.6**	**-4.5**	**5.0**	**3.9**	**2.6**
United States	2.2	-3.4	5.6	4.0	2.6
Euro Area	1.3	-6.4	5.2	3.9	2.5
United Kingdom	1.4	-9.4	7.2	4.7	2.3
Emerging and Developing Economies	**3.7**	**-2.0**	**6.5**	**4.8**	**4.7**
Emerging and Developing Asia	**5.4**	**-0.9**	**7.2**	**5.9**	**5.8**
China	6.0	2.3	8.1	4.8	5.2
India*	4.0	-7.3	9.0	9.0	7.1
Emerging and Developing Europe	**2.5**	**-1.8**	**6.5**	**3.5**	**2.9**
Middle East and Central Asia	**1.4**	**-2.8**	**4.2**	**4.3**	**3.6**
Sub-Saharan Africa	**3.2**	**-1.7**	**4.0**	**3.7**	**4.0**

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021.

Source: World Economic Outlook Update, IMF (January 2022)

The IMF also revised down its growth estimate for 2022 to 4.4% from 4.9% (October 2021 estimate) on the back of rising energy prices, continued supply-chain disruptions, persistent elevated inflation, and mobility restrictions in many countries following the viral spread of the new Omicron COVID-19 variant. In face of the Russia-Ukraine crisis, the IMF is set to lower its global growth forecasts for 2022 further.

Along the same line, in its latest Trade and Development Report Update (March 2022), the United Nations Conference on Trade and Development (UNCTAD) has downgraded the global growth forecast for 2022 by 1% on the back of soaring energy and food prices with global trade curtailed by exports restrictions, and confidence.

1.1 Global Trade

The health and economic crisis caused by the pandemic has significantly disrupted the world trade system in 2020, delivering unprecedented shocks to global supply chains and trade relations among countries. Temporary closure of national borders resulted in suspended export activities. Trade in services has also been severely affected. Tourism, which accounts for 24% of global exports of services, has been hit hard owing to travel restrictions. According to the IMF, global trade volumes plummeted by 8.2% in 2020. Subsequently, the growth of global trade levels maintained its resilience in 2021, as its recorded value gained further momentum in each quarter of 2021. Trade in services grew considerably as well, ultimately matching pre-pandemic levels in the 4th quarter of 2021.

Trend in Global Trade (% change in world trade volume – goods & services)

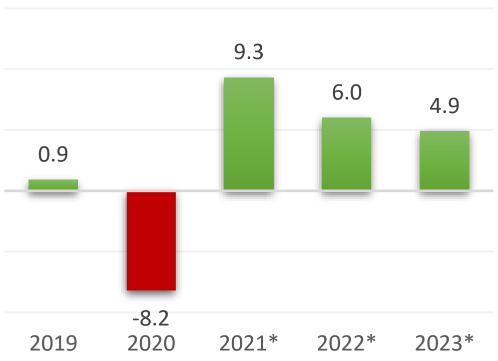


Figure 1 Trend in Global Trade

Overall, global trade volumes are estimated to have expanded by 9.3% in 2021 but are however expected to moderate to 6.0% in 2022 in line with overall pace of expansion assuming that the pandemic eases over 2022 and supply chain problems will subside later in the year. However, the war in Ukraine has caused immediate instabilities to global trade and is likely to have long-term effects.

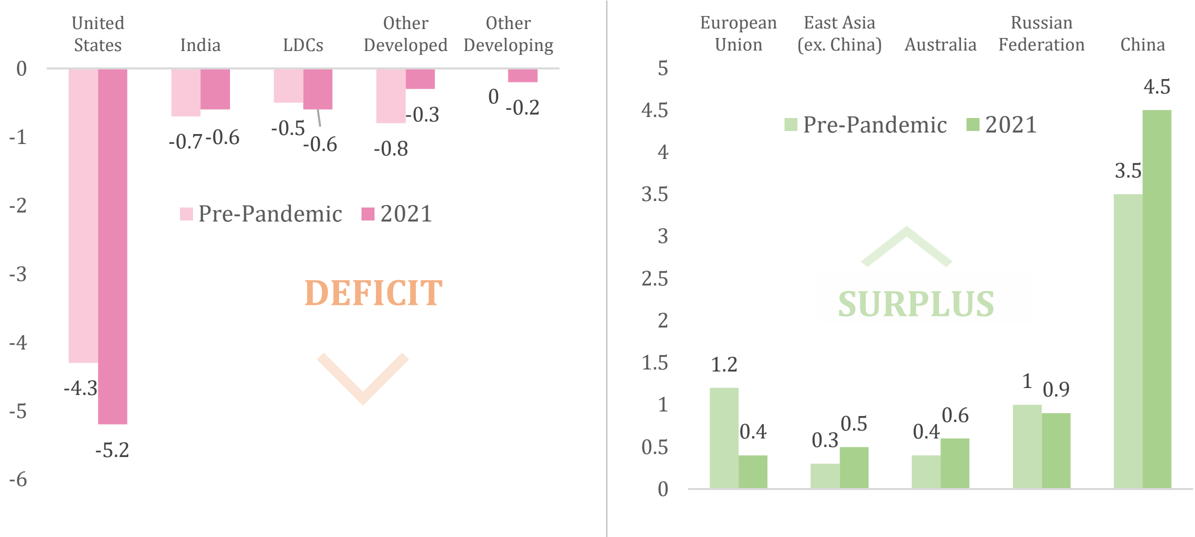


Figure 2 Trade Balance as a % of Global Trade

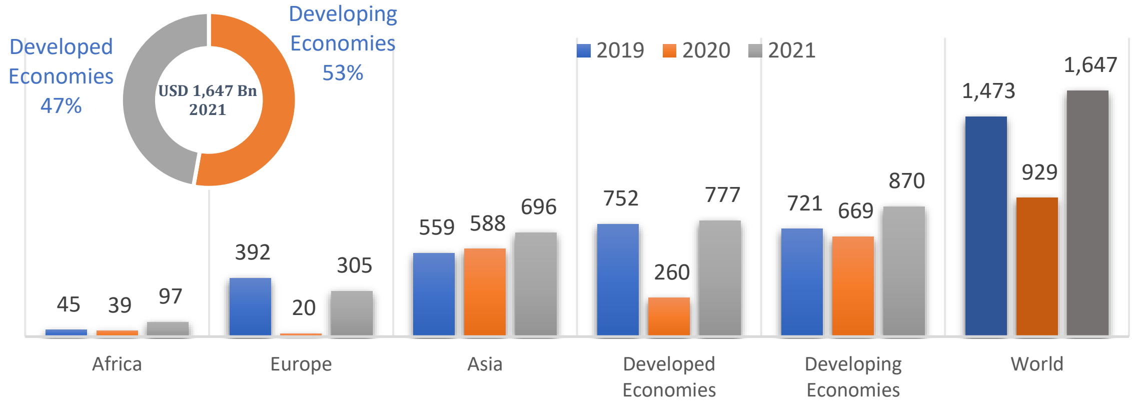
Source: UNCTAD estimates based on national statistics (Data excludes services).

As for trade in services, particularly tourism, recovery is expected to be gradual amid slow lifting of restrictions on international travel and fear of new waves of infection in developing countries. The upward movement in international trade in 2021 is mainly due to the surge in the prices of commodities, easing of pandemic restrictions and a buoyant recovery in demand stemming from economic recovery initiatives.

Nonetheless, a quick assessment of the Russia-Ukraine crisis by the UNCTAD "confirms a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertiliser prices". The report also highlights heightened financial volatility, sustainable development divestment, complex supply-chain reconfigurations and increasing trade costs.

1.2 Global Investment Flows

In 2020, global FDI fell by 37% to USD 929 billion from USD 1,473 billion and in 2019, whereby flows to developed and developing economies decreased by 65% and 7%, respectively. According to the World Investment Report 2021, greenfield investments in industry and new infrastructure investment projects in developing countries were especially hard-hit. In 2021, however, global FDI is estimated to have surged by 77% to an estimated USD 1.65 trillion, outstripping pre-pandemic levels. Developed economies witnessed the biggest rise, with FDI almost tripling compared to 2020.



Source: Investment Trends Monitor (January 2022)

Figure 3 Global Investment Flows

The outlook for global FDI in 2022 remains optimistic, according to UNCTAD. International project finance in infrastructure sectors is expected to provide growth momentum – with the 2021 rebound growth rate unlikely to be repeated. The protracted duration of the health crisis with successive new waves of the pandemic, and adverse financial outlook owing to the Russia-Ukraine crisis, nonetheless, continues to be a major downside risk.

1.3 Global Inflationary Pressures

Consumer prices surged more sharply than ever experienced in 2021, indicating a worsening outlook for inflation. Having grabbed the headlines in the United States, United Kingdom and across several EU countries, the issue appears to have emerged as a dominant topic of policy discussion across the world. According to the IMF, inflation rate in advanced economies stood at 3.1% in 2021 and 5.7% for emerging and developing economies.

As of December 2021, 12-month inflation was above 5% in 15 of the 34 countries classified as advanced economies in the IMF's World Economic Outlook. Indeed, inflation has not seen such a sharp, collective upswing in more than 20 years. This hike in inflation is not a phenomenon confined to the prosperous countries. Emerging and developing economies have been caught in a similar tide: 78 out of 109 emerging markets and developing countries are also struggling with yearly inflation rates above 5%. This proportion of emerging economies, approximately 71%, is about twice as high compared to the end of 2020. Hence, inflation has turned into a global concern - or at least almost, as Asia has so far been resistant to its effects.

For 2022, the IMF raised its inflation forecasts for both advanced and emerging markets and developing economies, saying it expects elevated price levels to persist. Inflation was anticipated to average 3.9% in advanced economies and 5.9% in emerging markets and developing economies in 2022, before subsiding next year. However, following the Russia-Ukraine war, with the ongoing food crisis and volatile commodities market, inflation is anticipated to be much higher in 2022.

1.3.1 Sources of Inflation

Inflation has been higher and more broad-based than anticipated in 2021, driven by several factors such as high fuel and food prices, supply chain disruptions, without forgetting the resurgence of the pandemic and the latest variants, which have sharply increased uncertainty around global economic prospects.

The near-term outlook remains somewhat weaker with inflation notably higher than previously anticipated, owing to the pandemic resurgence, higher food and energy prices, lingering supply disruptions, and the adverse implications of the Russia-Ukraine crisis. Food price inflation remains an important factor in this equation. In 2021, the 12-month run-up in food prices was reported to be above 5% in 79%, or 86 out of 109, of emerging economies, according to the IMF. Whilst advanced economies were not resistant to soaring food prices, only 27% of them registered a price hike of beyond 5%.

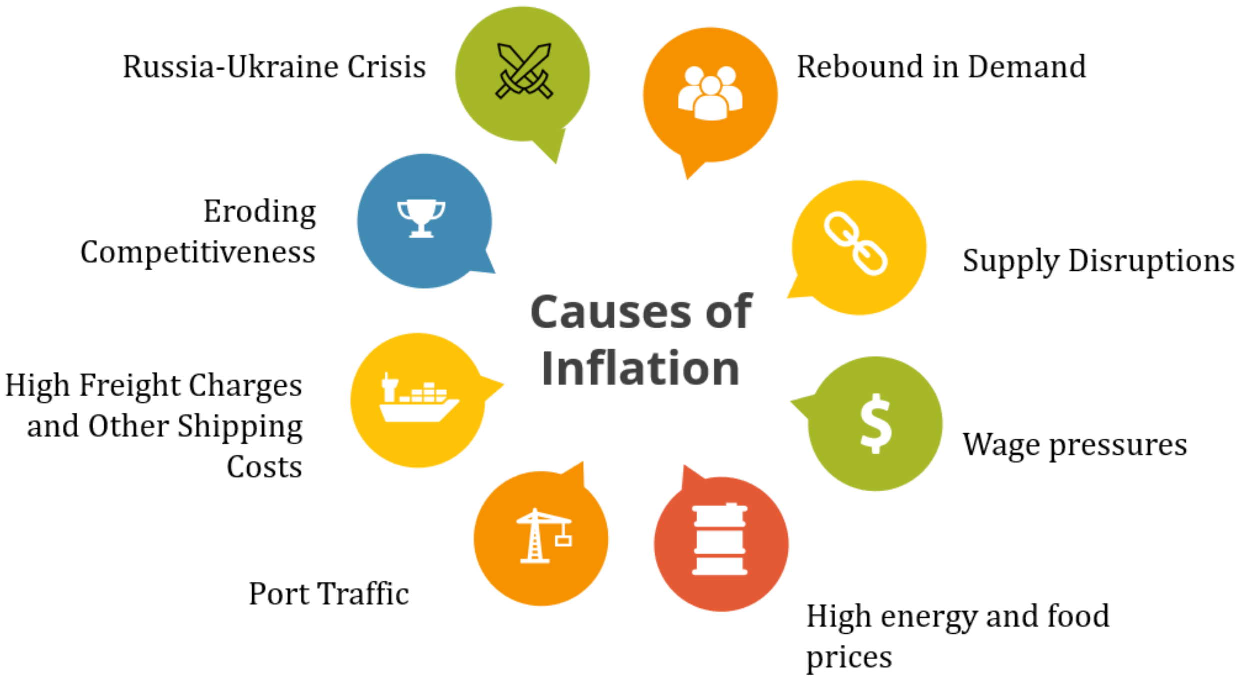


Figure 4 Sources of Inflation

According to the Food and Agriculture Organisation's (FAO), world food prices jumped by 28% in 2021 to their highest level in a decade. The FAO food price index, which tracks the most globally traded food commodities, averaged 125.7 points in 2021, the highest since the 131.9 points registered in 2011. The UN's food agency has also stated that given the consistently high cost of inputs, the ongoing global pandemic and ever more volatile climatic conditions "leave little room for optimism about a return to more stable market conditions even in 2022." As an example, the global dairy prices have hit their highest level in eight years with the average price rising to USD 4,630 a tonne, the highest since mid-February 2008.

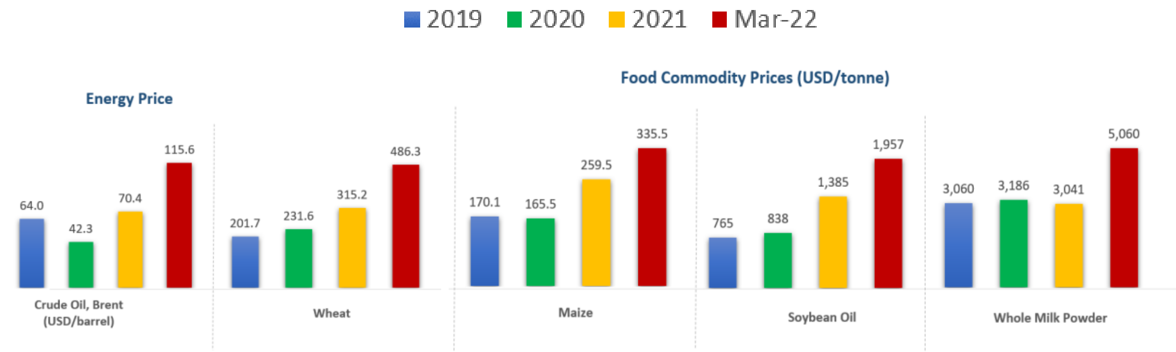


Figure 5 Major Food Commodity Prices

Source: World Bank

MUR % Change	% Change in 2021	% Change Jan-22 to Mar-22
Wheat	+ 44%	+30%
Maize	+ 66%	+22%
Soybean Oil	+ 75%	+34%
Whole Milk Powder	+ 1%	+14%

Source: World Bank

Soaring energy prices have propelled higher inflation in most countries, especially in developing economies. These global factors are likely to continue to add to inflation in 2022, exacerbated by the Russia-Ukraine conflict. Crude oil prices also increased significantly in 2021 as rising vaccination rates, loosening-related restrictions, and a growing economy resulted in global petroleum demand rising faster than petroleum supply. The Brent crude oil price averaged USD 71/barrel in 2021 and was the highest in the past three years. Consequently, the worldwide increase in fuel prices have greatly impacted on production costs as well as the supply chain.

With the recent developments in Ukraine, further increases in fuel prices are expected. The price of Brent crude oil, an international benchmark, hit a seven-year high of more than USD 100 on 23 February 2022. On 24 March 2022, the average price of brent crude oil stood at USD 121.60/ barrel – a 21% increase over the previous month.

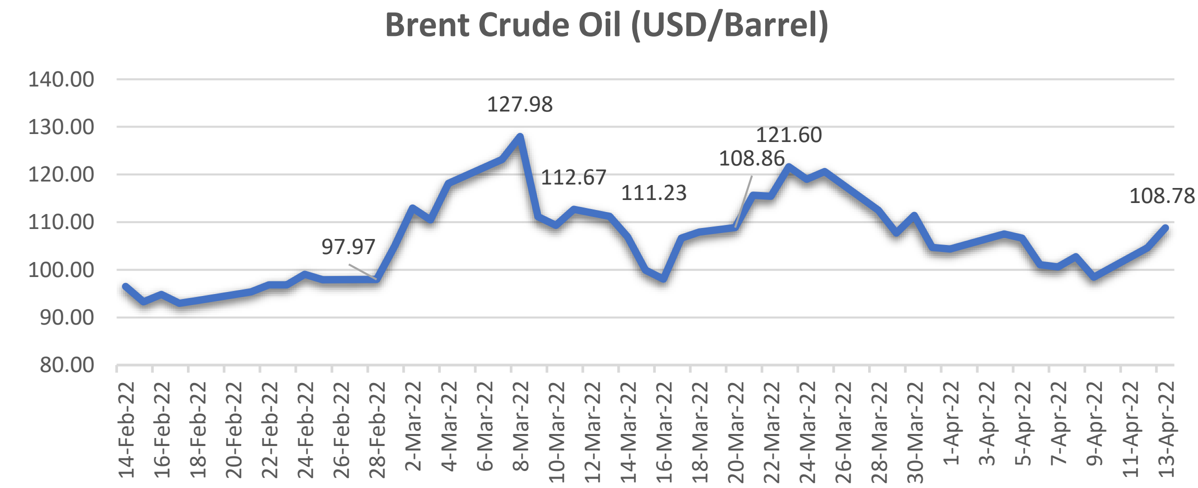


Figure 6 Brent Crude Oil (USD/Barrel)

Source: Commodity Prices, World Bank

Meanwhile, another serious challenge afflicting both advanced and developing economies concerns the global supply chains, which remain profoundly hampered by the unfolding economic and political turmoil of the past two years. Shipping costs have been on the rise.

According to the Global Economic Prospects (World Bank, 2022), the COVID-19 supply shocks are more complex and obscure, and as a result, are more precarious. The UNCTAD, in its annual Review of Maritime Transport Report 2021 explains that the large swing in containerised trade flows was met with supply-side capacity constraints, including container ship carrying capacity, container shortages, labour shortages, continued on and off COVID-19 restrictions across port regions and congestion at ports. Hence, the mismatch between surging demand and de facto reduced supply capacity has led to record container freight rates on practically all container trade routes.

Currency depreciation in developing economies has served to fuel inflation in imported goods amid reduced foreign capital inflows and sovereign credit downgrades. In addition, as inflation expectations are less entrenched and more sensitive to currency fluctuations than in developing economies, the transition from exchange rates over to prices tends to be speedier and the transition is more pronounced.

1.4 The Economic Impact of the Russo-Ukrainian War

The invasion by Russia drove up commodity prices in the petroleum, gas and agri-business sectors, as strikes on key Ukrainian infrastructure, ports and cities sent shuddering shockwaves coursing through supply chains. The ongoing clash between Russia and Ukraine is set to have a ripple effect on the global economy through three major streams: The financial sanctions, the prices of commodities and the disruption of supply chains.

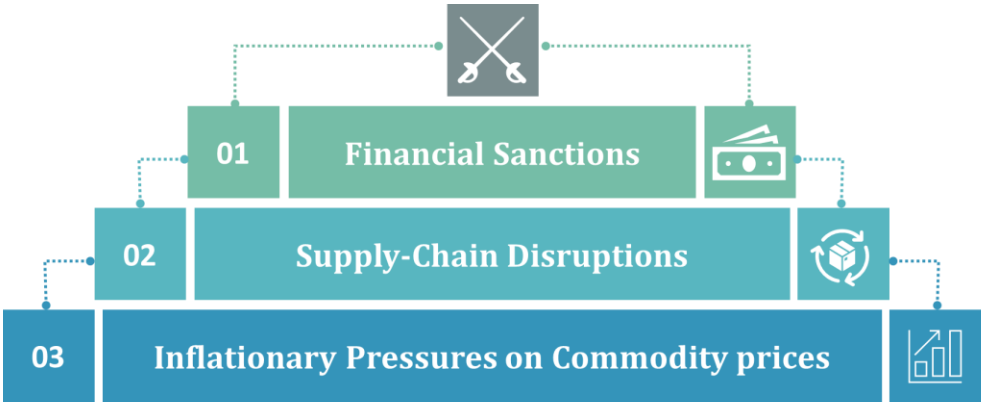


Figure 7 Impact of Russo-Ukrainian War

Moreover, weakened business confidence and rising investor uncertainty will weigh on asset markets, aggravating financial conditions and eventually leading to massive capital outflows from emerging markets. While both Russia and Ukraine are substantial food producers, Ukraine is also ranked as the world's leading producer of sunflower oil, followed by Russia, with both countries representing approximately 60% of global production. Both economies are important sources of palladium, titanium, wheat and maize. The situation is currently straining the market - Ukraine's oilseed cultivation and manufacturing industry stands at a complete standstill along with some delays in cargo shipments. A persistent state of conflict further jeopardises the prospect of the upcoming cropping season.

Implications of Ukraine Crisis for the Global Food Markets

According to the International Trade Centre, global food prices were already on the rise before the conflict, matching their historic peaks in January 2022. This was due to:

- high global demand in the post-Covid-19 recovery and increased use of certain commodities in biodiesel,
- lower supply due to poor harvests (South America: soybean; US, Canada and EU: wheat, Malaysia: palm oil),
- soaring prices of energy-intensive inputs, particularly fertilizers, and
- rising international freight costs.

Some countries had also begun to impose export restrictions on wheat, beef, palm oil, fertilizers, and other products, increasing prices further.

The Russian Federation and Ukraine are important producers of agricultural commodities, jointly accounting for more than 15% of global cereal exports and almost 20% of global fertilizer exports. The FAO estimates that 20% to 30% of the areas used for winter cereals, maize, and sunflower seed in Ukraine will either not be planted or remain unharvested during the 2022/23 season. Trade restrictions, whether imposed to secure domestic supply or as part of a sanctions package, have also impacted other countries by putting pressure on prices for essential food items.

In addition to global economic spill-over effects, developing countries that are heavily reliant on tourism and trade will experience additional pressures. Emerging economies dependent on oil imports will face sizeable fiscal and trade deficits and stronger inflationary pressures, albeit some exporters. The economic repercussions of the Russo-Ukrainian war will by no means be restricted to the countries engaged waging it.

Strong indications are evident that the war and the resultant surge in the cost of necessities are already poised to strain policymakers in several countries to manage the fragile balance between curbing inflationary pressures and sustaining the economic rebound following the pandemic.

THE MAURITIAN ECONOMY

2 THE MAURITIAN ECONOMY

2.1 Growth Outlook 2021/22

As an open and globally integrated economy, Mauritius was not spared from the disastrous effects of the COVID-19 pandemic. Extending beyond the damaging health effects, lockdown measures and other tougher sanitary restrictions had a wide range of economic effects on the various sectors of the economy. The collapse of the tourism sector, along with suspended activities in the construction, manufacturing, and financial services, amongst others, resulted in a contraction of GDP by 14.9% in 2020, according to Statistics Mauritius. As tourism came to a screeching halt – dropping by 80% and 37% in 2020 and 2021, respectively – the current account deficit broadened from 19% in 2020 to 24% of GDP in 2021. Furthermore, unemployment also rose from an estimated 9.2% in 2020 to 9.4% in 2021 (Statistics Mauritius, 2022).

In 2021, with renewed and improving prospects for the tourism sector, driven by the loosening of travel restrictions and economic recovery in origin markets in Europe and Asia, as well as higher traveller confidence associated with successful containment measures and relatively high vaccination rates, the Mauritian economy is estimated to have grown by 4.0%, based on the data released by Statistics Mauritius in 2022. The manufacturing sector and the construction industry registered a growth of 10.2% and 25.0%, respectively. Accommodation and food services, on the other hand, contracted by 11.2%.

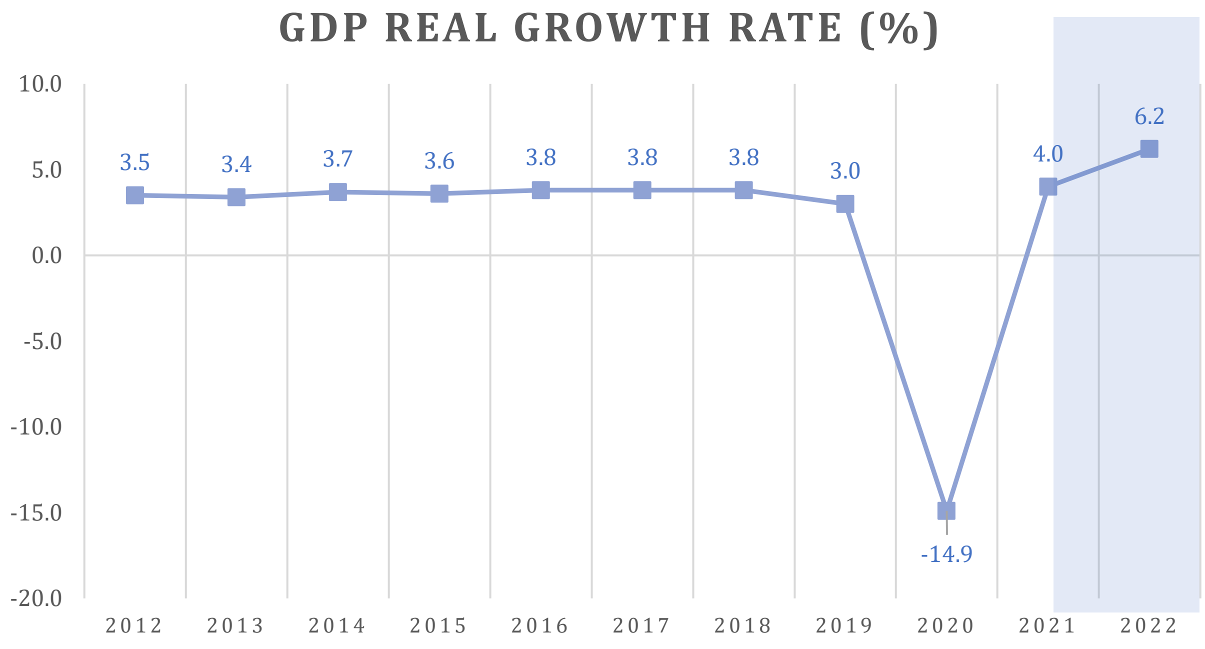


Figure 8 Mauritius Growth Trend

Source: National Accounts Estimate (March 2022), Statistics Mauritius, MCCI forecast (as at 31 March)

Table 2 Sectoral Real Growth Rates (%)

	2019	2020	2021
Agriculture, forestry and fishing	4.1	-2.5	9.5
Mining and quarrying	3.3	-16.6	21.8
Manufacturing	0.5	-17.8	10.2
Electricity, gas, steam and air conditioning supply	4.5	-13.8	2.0
Water supply; sewerage, waste management and remediation activities	1.5	-3.8	5.7
Construction	8.5	-25.8	25.0
Wholesale & retail trade; repair of motor vehicles and motorcycles	3.4	-12.0	4.3
Transportation and storage	3.2	-27.7	2.4
Accommodation and food service activities	-1.1	-65.8	-11.2
Information and communication	5.5	5.9	7.2
Financial and insurance activities	5.2	1.0	4.6
Real estate activities	3.4	-1.9	1.5
Professional, scientific and technical activities	5.1	-14.4	5.1
Administrative and support service activities	5.2	-19.8	3.0
Public administration and defence; compulsory social security	1.4	-1.7	0.1
Education	1.0	-4.1	-0.8
Human health and social work activities	3.2	-0.6	4.6
Arts, entertainment and recreation	4.2	-31.0	-4.0
Other service activities	3.3	-27.6	3.3
Gross Value Added (GVA) at basic prices	**3.2**	**-14.7**	**4.7**
Gross Domestic Product (GDP) at market prices	**3.0**	**-14.9**	**4.0**

Source: National Accounts Estimates (December 2021), Statistics Mauritius

The full re-opening of national borders has supported economic activity and is expected to further provide impetus to economic recovery in 2022. Amidst the pandemic, the IMF (October 2021) estimated that the economy of Mauritius would thrive at a rate of 6.7% in 2022. Nonetheless, the Mauritian economic landscape is set to be adversely impacted as the COVID-19 pandemic and oil price shock due to the Russia-Ukraine crisis have put most economies in a tailspin.

Heading into 2022, it is anticipated that the economic pick-up will hold steady, however, the growth rate may be somewhat slower. Thence, based on the forecast of the MCCI, real GDP growth is projected to hit 6.2 % for the year 2022.

2.2 Human Capital and Productivity

The health and education levels of the Mauritian population hold an instrumental social and economic value. The quality of Mauritian human capital translates positively into higher incomes and is a determining indicator for sustainable economic expansion and the eradication of poverty. Moreover, considerable efforts were made by the authorities concerning the protection of human capital from the pandemic and the sustaining the economic activities pre- and post-confinement (for e.g., Wage Assistance Scheme). As of the United Nations' annual Human Development Index (HDI) published in 2020, Mauritius stood first in the African region with a score of 0.804 (66th Global Rank) among the African countries.

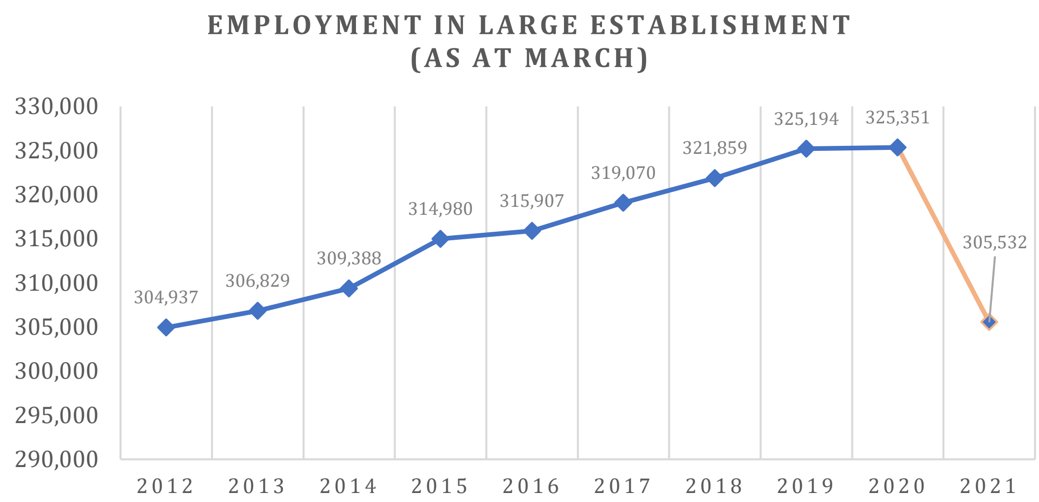


Figure 9 Employment in Large Establishment (as of March)

Source: Statistics Mauritius (Survey of Employment and Earnings in Large Establishments (March)

Moreover, the slow recovery in employment (305,532 employed in large establishments which translates to contraction of 6% from March 2020 to March 2021) impacting the development of labour capital, in tandem with ailing challenges ranging from an ageing population to a scarcity of talent in the STEM spectrum, skill mismatch coupled with brain drain.

Since brain drain is one of the areas of concern, attempts to develop policies and strategies aimed at favouring the return of the Mauritian labour from abroad, has been undertaken by the authorities. The Mauritian Diaspora Scheme was instituted aiming to encourage Mauritian nationals to return to Mauritius with a view to contributing to the economic progress of the country.

In addition, the younger generation of the Mauritian population is overrun by drug and substance abuse, thereby incurring a decline in labour force as well as productivity. Thus, the deployment of appropriate policies through the provision of proper educational opportunities, awareness raising, training and capacity building, investment in human capital, would eventually contribute to an improvement in the island's labour productivity.

2.2.1 Impact of Ageing Population on Economic Growth

The ongoing downward trend in fertility rates (from 2.3 in 1990 to 1.40 in 2020) and observed increases in life expectancy are bound to lead to growing ageing of the Mauritian population. Between 2010 and 2019 and beyond, life expectancy (at birth) for both men and women has lengthened to 70 and 77 years respectively. Such events can entail multiple economic and social dilemmas, such as more long-term fiscal and financial provisions, heightened health care budgets for the elderly population, societal security and pension-related challenges, and concerns over quality of life.

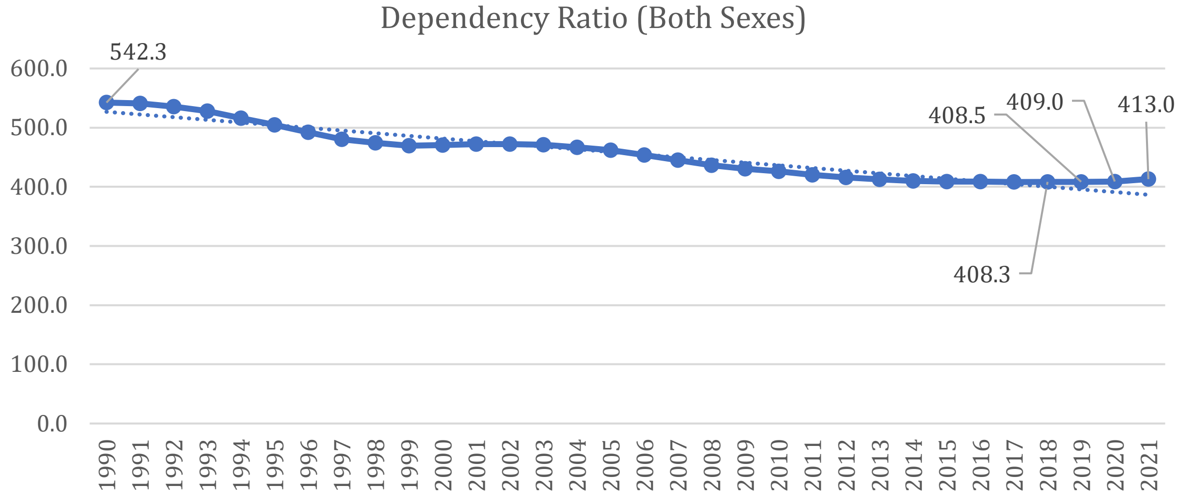


Figure 10 Dependency Ratio for Both Sexes

Source: Statistics Mauritius

Moreover, with the decline in the fertility rate, the proportion of the younger population that is still dependent relative to the labour force is shrinking. Linked to these developments, Mauritius marked an overall leap in the dependency ratio from 409 in 2020 to 413 in 2021. One of the most important determinants that could potentially slow economic growth is the decline in the labour force related to the ageing of the population. Among the most prominent features that can slow economic growth is the shrinking of the aggregate labour force in an ageing population. By implication, economic and policy actors could aim to strengthen the labour force participation rate and human capital to sustain and boost economic growth in Mauritius.

2.2.2 Boosting the Silver Economy - Grey Assets

Opportunities ought to be extended to the retired generation to engage actively in their specific set of professional competencies in the process of economic and other mainstream activities. In this way their knowledge, wisdom, expertise and experience can be harnessed to improve labour force productivity.

The underlying respect and value attributed to this inter-generational knowledge exchange is an essential component of inclusive labour market practices. Policymakers should recognise the value of retired labour force passing on their experience and skills to the younger and newer employees through advocacy as well as capacity building. Having a diverse age distribution in the workplace offers the inherent possibility of stimulating an inclusive learning and sharing community in which the younger and older generations can share their collective insights and practices. Moreover, the know-how and long-standing experience that elderly individuals can contribute might serve to provide a sense of direction, perspective and stability fostering higher efficiency and productivity.

2.3 Investment

In 2020, gross fixed capital formation plummeted to -26.2% on account of the pandemic, and somewhat optimistic expectations of recovery in 2021 had bolstered the confidence of investors, pushing up gross fixed capital formation by 13.14%. It was observed that there was an element of modest shift in the share of investment between the public and private sectors, going from the pre-pandemic period to the current situation.

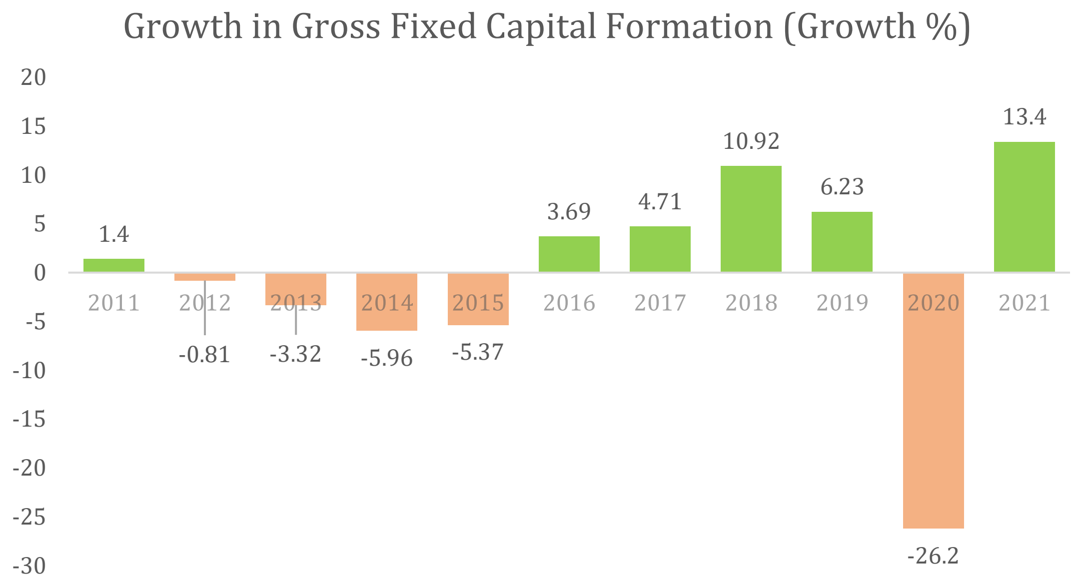


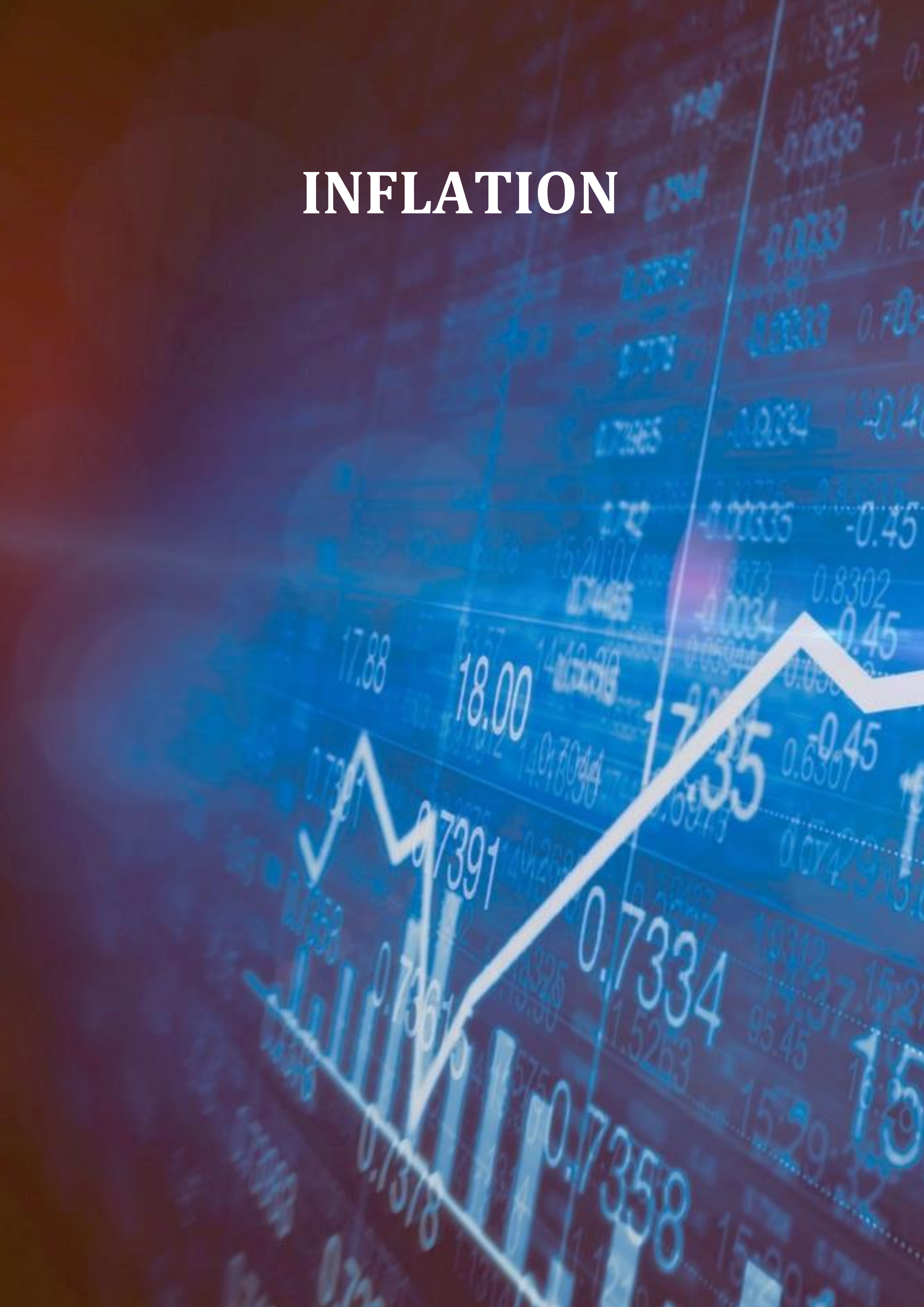
Figure 11 Growth in Gross Fixed Capital Formation (%)

Source: Statistics Mauritius

In 2019, private sector investment constituted 72.8% of total GFCF, while public sector investment stood at 27.2% of GFCF. Private sector investment also picked up from 76% in 2020 to 77.7% in 2021, reflecting the profitability level of Mauritian businesses. In addition, the level of investment by the public sector has slumped since 2019, with gross fixed capital formation falling from 27.2% to 22.3% in 2021.

Industry-wise, the sectoral split of GFCF by activity indicates a significant decrease from -17.3% in 2020 to -24.3% in 2021 in the electricity and gas supply sector. Conversely, administrative and support service activities picked up from -57.6 in 2020 to a positive growth of 72.8% in 2021. Investment growth in numerous sectors, including agriculture (22.4%), construction (21.5%), wholesale and retail trade (46.6%) and others, has improved in 2021.

INFLATION



3 INFLATION

The near-term outlook for Mauritius remains somewhat weaker, with inflation notably higher than previously estimated, owing to the pandemic resurgence, higher food and energy prices, lingering supply disruptions, and the spill-over effects resulting from the Russia-Ukraine crisis.

As an open economy, domestic inflation remains influenced by supply-side disturbances stemming from outside. The rise in freight costs, as well as in energy and commodity prices at a global level, along with a depreciation in the Mauritian rupee has helped contribute towards the recently observed upward trend in the Year-on-Year headline inflation which stood at 6.8% in December 2021 compared to 2.7% in December 2020. Mauritius has just revised upwards the year-on-year inflation to 9% in February 2022 from 7.4% in January 2022. If inflation levels continue to escalate, the purchasing power of Mauritians will be adversely impacted.

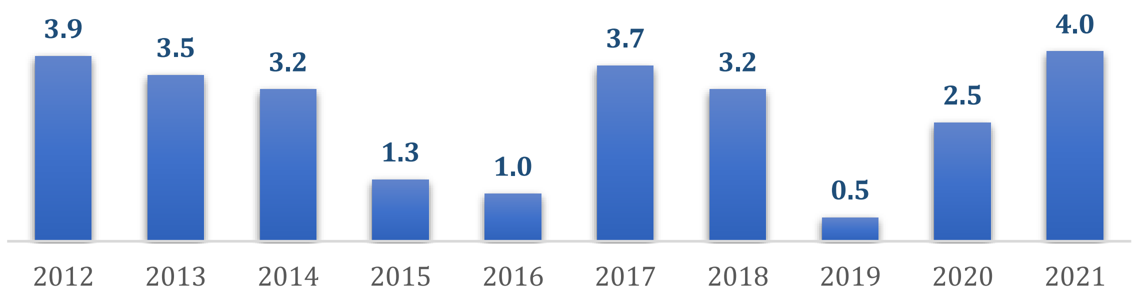


Figure 12 Headline Inflation Rate (%)

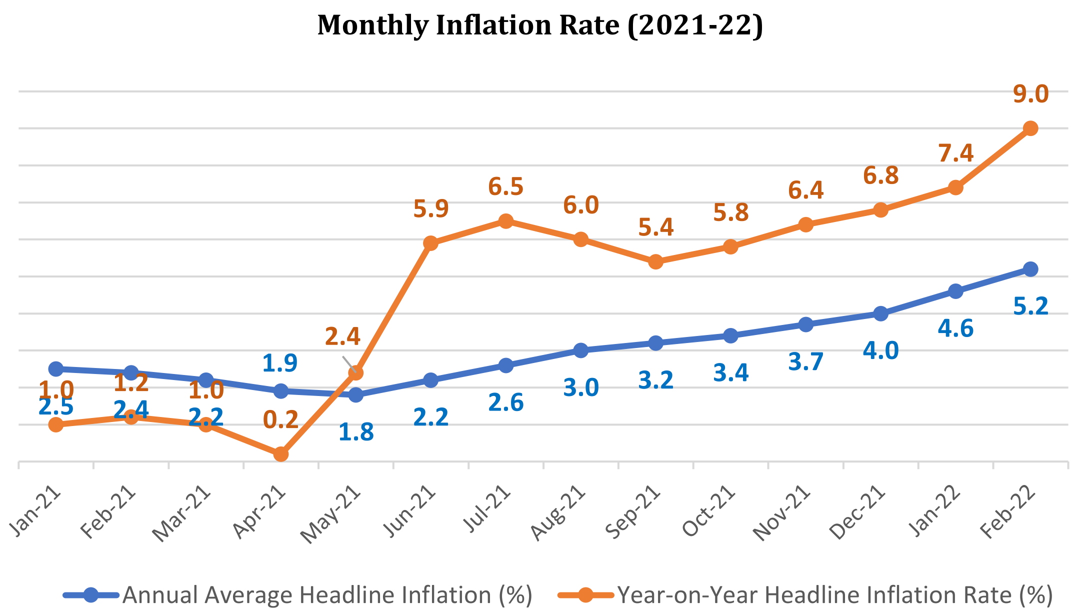


Figure 13 Monthly Inflation Rate (%)

Table 3 Consumer Price Index and Average Inflation Rate (Product-wise)

	Average CPI			Average Inflation Rate (%)	
	2019	2020	2021	2020	2021
Food and non-alcoholic beverages	106.6	113.2	118.1	**6.2%**	**4.3%**
Alcoholic beverages and tobacco	105.0	106.4	113.6	**1.3%**	**6.8%**
Clothing and footwear	104.8	106.6	109.1	**1.7%**	**2.4%**
Furnishings, household equipment & routine household maintenance	103.7	107.6	114.4	**3.7%**	**6.3%**
Transport	104.1	105.5	111.5	**1.3%**	**5.7%**
Total	**103.7**	**106.3**	**110.6**	**2.5%**	**4.0%**

Source: Statistics Mauritius

Mauritius remains a net food importer where little progress has been made in terms of local food production owing to high costs of production, import competition and limited access to land and breeding animals.

Several factors have been associated with explaining the inflation rate, namely high freight costs, depreciation of the Mauritian Rupee, erosion of competitiveness, and soaring prices of foods and commodities on the market – all which have been exacerbated by the Russia-Ukraine crisis.

3.1 Russia-Ukraine Crisis

The war in Ukraine has dealt a major blow to global food security through its impacts on wheat, oil, and other major food commodities as well as rising fuel price in a world already reeling from COVID-19 and climate change. Russia and Ukraine are major players in the global commodities market. The intensifying conflict between Russia and Ukraine has disrupted trade with significant consequences for global food stability. Consequently, there have been significant increases in CIF prices and in local cost of production as well as unavailability of commodities. Furthermore, the Ukraine-Russia crisis has led to further significant disruptions in the supply chain availability and prices of several essential commodities worldwide resulting in export ban and restriction in certain countries as well as the introduction of export tax on essential food commodities.

In Mauritius, the price of fuel namely Mogas and Gas Oil have been increased by 39.3% and 28.8% respectively since April 2021 impacting directly local manufacturing and distribution costs.

Amidst high import costs and depreciation of the Mauritian rupee, shortage of USD foreign currencies has also become a major impediment for the import of food commodities. In this respect, structured mechanisms to assist importers in the purchase and payment of essential commodities is highly recommended.

3.2 Freight Rates and Maritime Transport Costs

Mauritian operators in logistics in the import-export sector have observed price hikes in freight rates. The rise in freight costs have been mainly associated with disruption in supply-chain, where the increase in demand for container shipping was stronger than expected and not met with a sufficient supply of shipping capacity owing to lockdowns. In some cases, goods have been stockpiled at ports, terminals, and elsewhere, unable to be shipped.

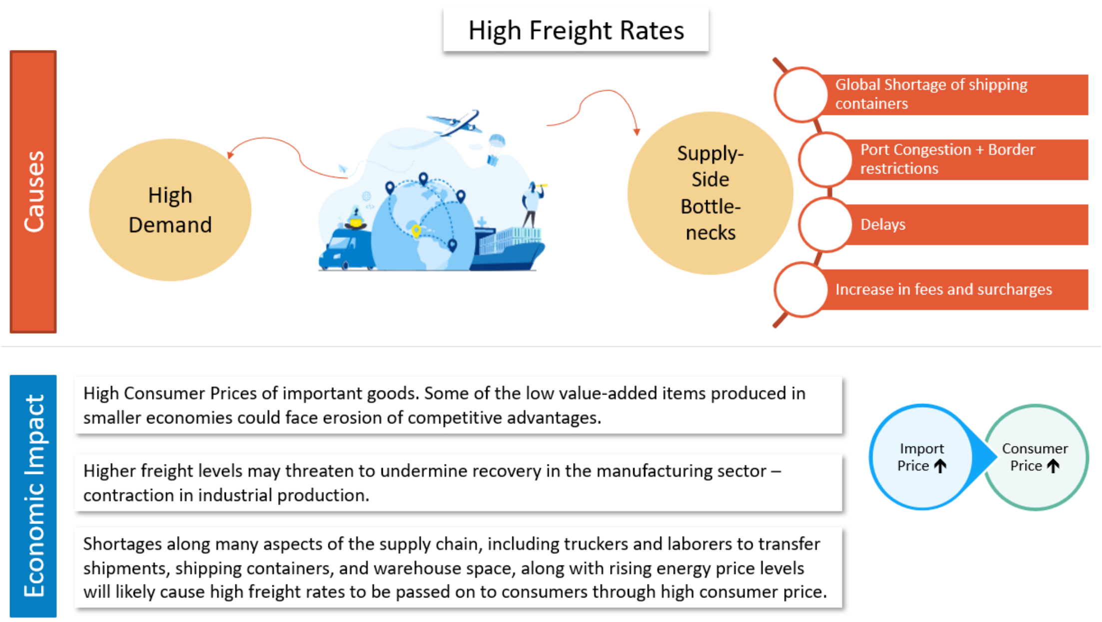


Figure 14 Economic Impact of High Freight Rates

According to local logistics experts, it has become increasingly difficult to find space on vessels as most are overbooked. Finding empty containers have become a daunting task.

Operators involved in the transport of goods highlighted that the impact is being felt hardest in air freight as more airlines shut down services, adding to difficulties with the transport of key goods such as medicines and perishable foods.

According to the UNCTAD, transport costs are measured as differences between cost, insurance, and freight (CIF) values, and free on board (FOB) values. Using the calculated definition of UNCTAD, since the start of 2020, transport costs in Mauritius have been on an upward trend – increasing from an estimated 7% of FOB in the first quarter of 2020 to 13% of FOB in the fourth quarter of 2021.

Table 4 Quarterly Trade Statistics (2020-2021)

	2020-Q1	2020-Q2	2020-Q3	2020-Q4	2021-Q1	2021-Q2	2021-Q3	2021-Q4
Import (FOB)	40.95	31.54	37.20	43.33	40.48	44.18	49.32	60.02
Import (CIF)	43.96	34.21	40.24	47.31	44.39	48.28	54.84	67.68
Transport Costs	3.01	2.67	3.04	3.99	3.91	4.10	5.52	7.66
As a % of FOB	7%	8%	8%	9%	10%	9%	11%	13%

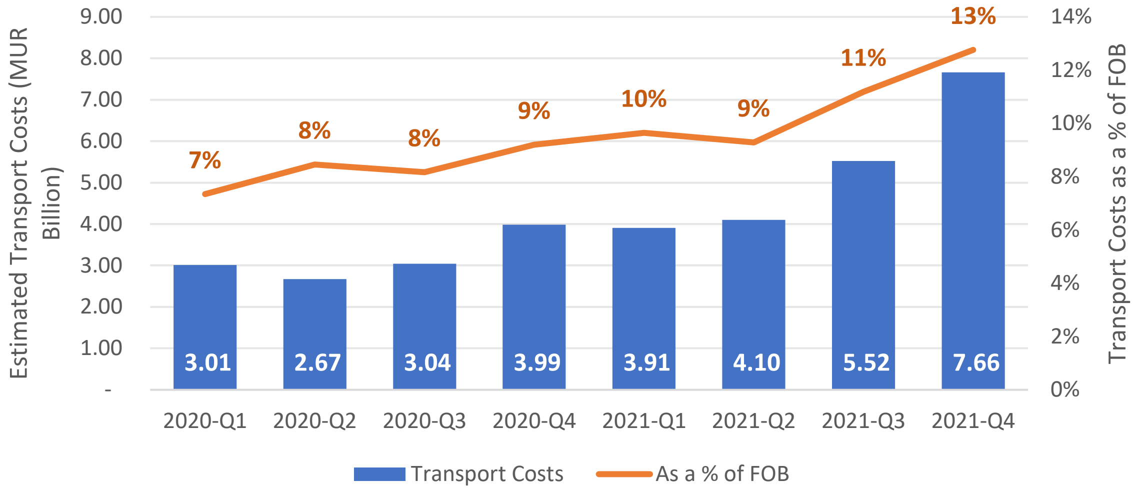


Figure 15 Estimated Transport Costs for Imported Goods

Source: Statistics Mauritius

Freight rates are expected to remain high – fuelled by continued strong demand on the back of growing supply uncertainty and concerns about the efficiency of transport systems and port operations. Sustained increases in freight rates are likely to cause greater increases in production costs and thus undermine comparative advantages.

3.3 The Exchange Rate Challenge

Moving from a fixed to a managed exchange rate regime, the Bank of Mauritius' exchange rate policy aims at protecting and maintaining competitiveness. Since the outbreak of the COVID-19 pandemic, the Mauritian Rupee (MUR) depreciated against its major currencies in 2020 compared to 2019 before gaining value in 2021.

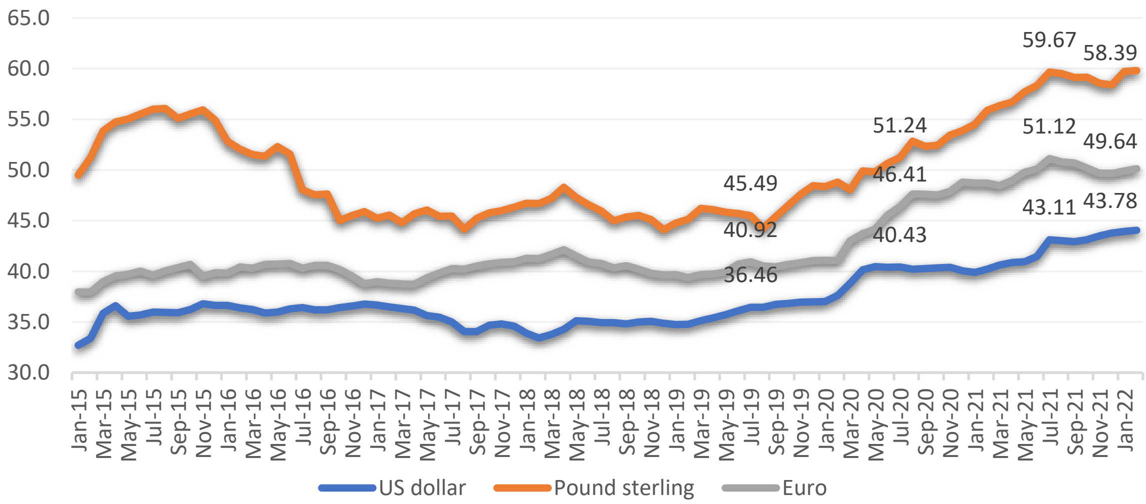


Figure 16 Trend in Average Exchange Rate of MUR against Major International Currencies

Source: Monthly Statistical Bulletin (February 2022), Bank of Mauritius

Figure 16 clearly indicates an appreciation of the USD, GBP, and the EUR against the MUR from 2019 to 2021.

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Table 5 Foreign Exchange Rates Statistics

	Exchange Rate					Annual Change (%)		
	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	2019	2020	2021
USD/MUR	36.828	40.609	39.855	43.035	43.465	**4%**	**10%**	**6%**
GBP/MUR	48.297	50.049	54.364	59.755	58.344	0%	**12%**	**13%**
EUR/MUR	41.268	45.704	49.054	51.359	48.930	-1%	**13%**	**9%**

For better comparison, indexing the exchange rate figures at (2017 = 100), one can clearly infer that the GBP and EUR has appreciated the most against the MUR compared to the USD.

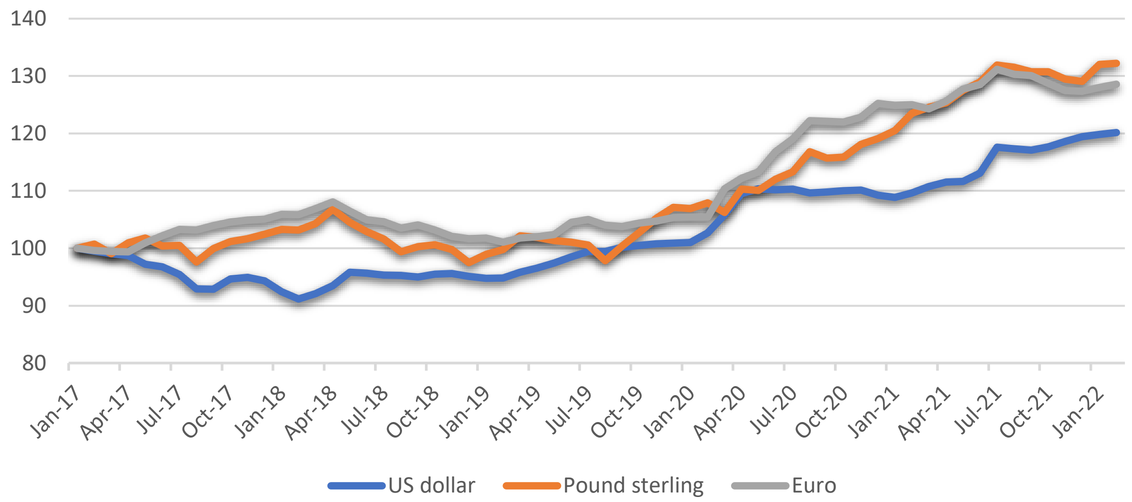


Figure 17 Major Exchange Rate Trends against the MUR (JAN-17 = 100)

Table 6 FOREX - US, EUR, GBP

Jan-17 (=100)	US dollar	Pound Sterling	Euro
Dec-17	-6%	**2%**	**5%**
Dec-18	-5%	-3%	**2%**
Dec-19	**1%**	**7%**	**5%**
Dec-20	**9%**	**19%**	**25%**
Dec-21	**19%**	**29%**	**27%**
Feb-22	**20%**	**32%**	**29%**

The main reason for the depreciation of the MUR is the significant shortfall of foreign currency caused primarily by the halt in tourism activities as well as disruption of some of the economic activities.

SECTORAL ANAYSIS

4 SECTORAL ANALYSIS

4.1 Agriculture and Agri-food Industry

The Mauritian economy was traditionally dominated by the agricultural sector, mostly by sugar cane production. Mauritius' agricultural and agri-food industry base has expanded substantially, that sector has remained a fundamental cornerstone of the economy. Currently, agriculture accounts for only 3.8% of GDP, with the main economic focus being the cultivation of sugar cane and the extraction of sugar.

The government is strongly committed to promoting the development of agri-business and agriculture with the initiation of budgetary incentives encouraging import substitution, domestic food processing and agricultural activities, as well as the development of high-end commodities such as nutraceuticals, in its endeavour to curb food import dependencies and boost income and export revenues. The country is also seeking to diversify its economic activities in-line with the economic development of agriculture. For instance, bagasse is harnessed for energy production. In addition, horticulture and the cultivation of crops such as vegetables and fruit are being encouraged for the sake of self-sufficiency.

Mauritius follows a policy of liberal economic and trade practices, and the Government intends to convert the island into an economically open and internationally competitive economy by encouraging investment gearing the sector towards ensuring better food and agricultural development. In this vein, the authorities have been promoting the combined use of farming, smart agriculture and agri-business in an effort to grow a comprehensive range of agricultural commodities in Mauritius and to establish industries generating higher-added economic value.

4.2 Manufacturing Sector

Through a strong blend of trade, economic development and industrialisation initiatives, Mauritius has cemented its reputation as a reliable and high-quality player in the marketplace. This momentum, moreover, prevailed until the outbreak of the COVID-19 pandemic. The contribution of manufacturing to economic growth has traditionally played a very prominent role, being the most dominant economic component in the country; contribute the most to GDP (approximately 11.8% in 2021); and largest employer and generator of employment (around 90,400 total employments in the manufacturing sector, including the sub-sectors, as at 2020).

Meanwhile, the Gross Value-Added (GVA) registered an annual growth rate of 10.2% in 2021, placing Mauritius as one of the most prosperous recorded across the African Union.

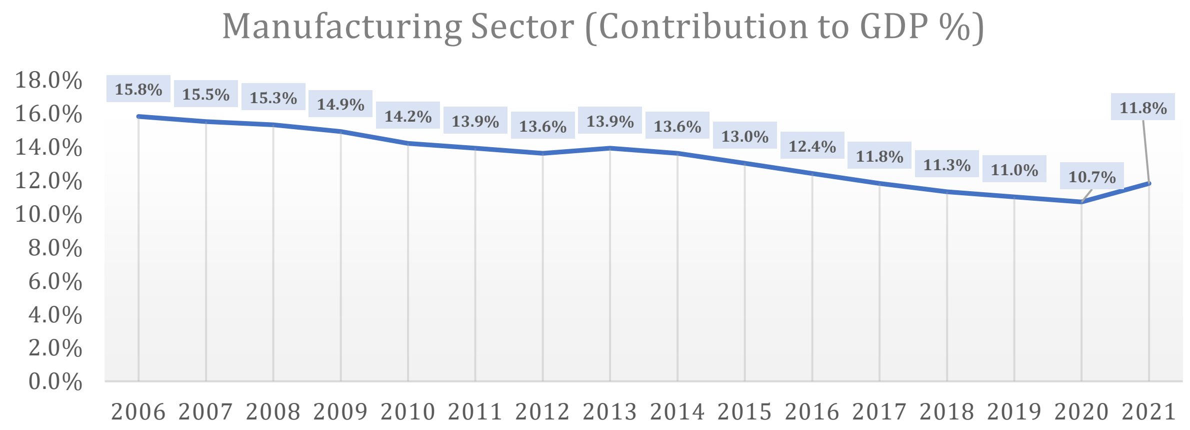


Figure 18 Manufacturing Sector (Contribution to GDP %)

Source: Statistics Mauritius

Most importantly, for Mauritius, while its economic performance in terms of growth ought to be commended, the manufacturing industry has floundered over the past decade. As depicted in the above chart (Manufacturing GVA), the value-addition regarding the manufacturing sector, is plummeting resulting in a drop of 16% from 2010 to 2021. The Survey of Employment and Earnings in Large Establishments Report 2020 from Statistics Mauritius indicates that over a period of one year (between March 2020 and March 2021), employment in large enterprises in Mauritius declined relating to companies with more than 10 employees. Additionally, the manufacturing sector is the most wedged with a reduction of 6,912 (11.1%), in contrast to a narrow decline of around 4% (2,827) in the employment sector from March 2019 to 2020.

Ongoing industrial innovation in the local manufacturing sector is evident, characterised by businesses of all sizes engaged in the production of a diverse assortment of predominantly consumables. It is uncommon to stride forth and evolve without undertaking a sustained restructuring transition away from an agrarian, resource-based economy, to a smarter agro-based economy.

Mounting pressures of both globalisation and trade liberalisation appear to exert their toll on the manufacturing industry in Mauritius, whilst the internal roots behind the downturn stem predominantly from the escalating labour costs, depreciation of the Mauritian rupee, energy cost, drop in demand from trading partners, and the other costs of doing business.

An intensive pursuit of cost-effectiveness and efficiency led investors as well as manufacturers to relocate to economies with comparatively low labour rates and to capitalise on the efficiencies and productivity gained through large-scale production.

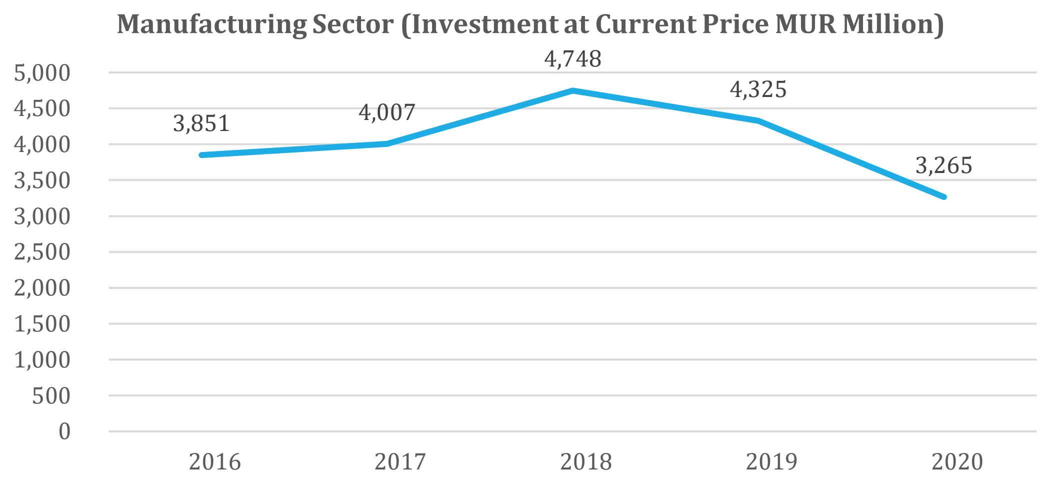


Figure 19 Manufacturing Sector (Investment at Current Price MUR Million)

Source: Statistics Mauritius

The core of the industrial development policy of the government in the 1970s was the establishment of EPZs to encourage foreign direct investment (FDI) in labour-intensive textile manufacturing for export, thereby catalysing the diversification of the country's textile sector. Yet, manufacturing has only managed to tap less than 5% of FDI during the last eight years (2012 to 2019).

4.3 Tourism Sector

As a liberalised and export-oriented country, Mauritius' main sources of revenue emanates from tourism earnings including exports. Following the adverse impacts of the pandemic which led to border closures and suspended travelling activities, contribution of the tourism sector to GDP fell considerably from 8.1% in 2019 to 2.2% in 2020 and to 1.6% in 2021 – reflected in a fall in tourist arrivals and earnings.

Data from Statistics Mauritius indicate that tourist arrivals which stood at approximately 1.4 million in 2018 and 2019, fell considerably in 2020 by 78%, to 308,980. Consequently, tourism earnings fell by 72% from MUR 63 billion to MUR 18 billion during the same period. Suspended activities in the tourism sector were eventually felt in other sectors with a contraction in activities in the service sector such as restaurants, airlines, travel agencies, tour operators and attractions.

During the first semester of 2021, the total number of tourist arrivals stood at 3,225 compared to 304,881 during the corresponding period of 2020. With the re-opening of borders on 01 October 2021 to fully vaccinated visitors, total arrivals during the last quarter of 2021 (Oct – Dec) amounted to 170,320, thus bringing the total number of tourist arrivals for 2021 at 179,780. This represents a decline of 41.8% in tourist arrivals from 2020 to 2021. Tourism earnings for the same period fell by 14%.

	Contribution to GDP	Growth of the Tourism Sector	Tourist Arrivals	Tourism Earnings MUR Million
2019	8.1%	-1.0%	1,383,488	63,107
2020	2.2%	-80.0%	308,980	17,664
2021	2.4%	+2.9%	179,780	15,253

Figure 20 Performance of the Tourism Sector

Source: Tourism, Statistics Mauritius

It should nevertheless be noted that further to the advent of the surging of new variants, the tourism sector remains subject to uncertainty which may subsequently impact the performance of related sectors. Yet, tourist arrivals are not expected to return to 2019 levels before 2023 and quite possibly 2024 (UNWTO, 2021b).

4.4 Port Efficiency and Competitiveness

Ensuring that efficiency of the port to cope to the transformation in global supply chains is paramount to sustaining the competitiveness of locally manufactured products in export markets.

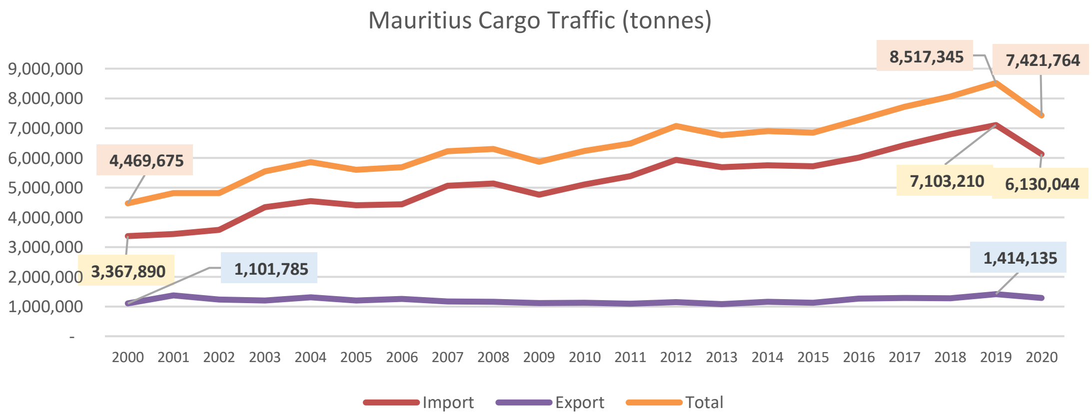


Figure 21 Mauritius Cargo Traffic (tonnes)

Source: MPA

Against this backdrop, the Mauritian port should aim boosting its facilities and improving its services in various spheres, including freight and cargo handling, bulk shipping, bunkering, vessel maintenance towing and other port services. Meanwhile, in 2019, Mauritius boasted a cargo traffic of 8.5 million tonnes and in 2000, the port of Mauritius handled only about half as much. The implication is likely to be a sign of an opportunity for the free port sector to boom, as traffic and shipping calls expand.

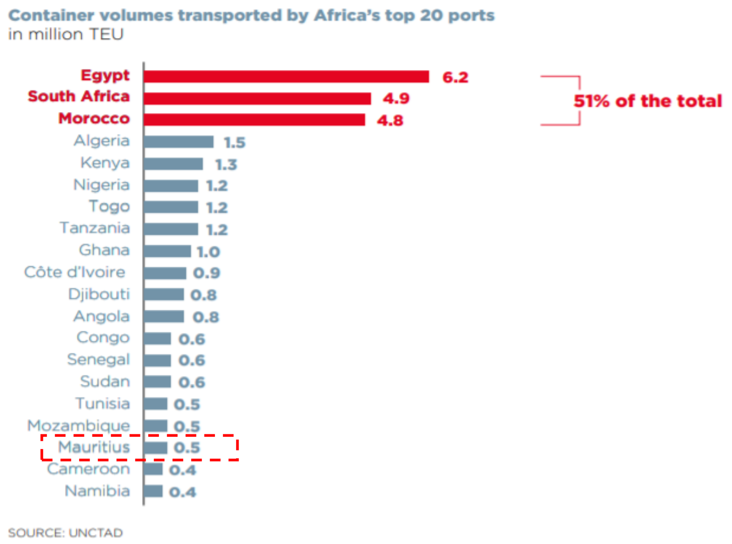


Figure 22 Container Volumes Transported by Africa

While investments are mounting briskly and span across most nations in Africa, the evolution of African ports remains uneven. The only African economies in a position to tranship over 4 million TEUs (20-ft equivalent unit) in 2018 are Morocco, Egypt and South Africa. Collectively, they account for 51% of the tonnage transported. With a share of 0.5 TEU in the volume of containers transported, Mauritius lies in 18th overall position out of 20.

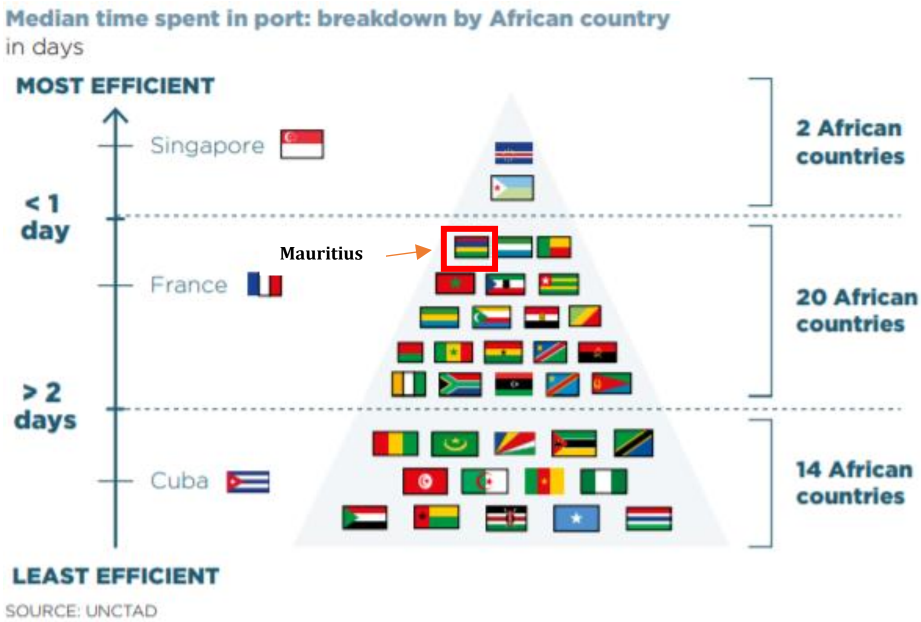


Figure 23 Median Time Spent in Ports (African Nations) 2018

As the efficiency of ports around the country improved, cargo transit periods dropped and investment in the sector increased. The waiting time for the vessels at the designated stations in 22 African nations, including Mauritius, amounted to less than two days.

Port investment and competitiveness across the African continent has indeed increased at an unprecedented rate. Looking at the eastern flank of Africa, the two other prime competitors include the ports of Mombasa and Dar-es-Salam located in Tanzania. In fact, both Mombasa and Tanzania are in close competition as they form the gateway to the Central and East African territories via the Northern and Central Corridors, respectively.

4.5 External Trade

Trade trends for 2020 have been greatly influenced by the COVID-19 pandemic. The economic disruptions brought by the pandemic resulted in a decline in international trade in goods and services of about 10 %. COVID-19 effects on the local trade have been detrimental because of their rapidity and intensity, both in relation to the decline and to the rebound.

4.5.1 Trends

In 2021, trade rebounded with the value of merchandise trade considerably surpassing its 2019 values. Exports of goods stood at about MUR 69.9 billion in 2021 compared to an export value of MUR 60.4 billion in 2020 and export value of MUR 66.6 billion in 2019. On the other hand, Imports of goods stood at MUR 215 billion in 2021 compared to an import value of MUR 192 billion in 2019 and an import value of MUR 165 billion in 2020.

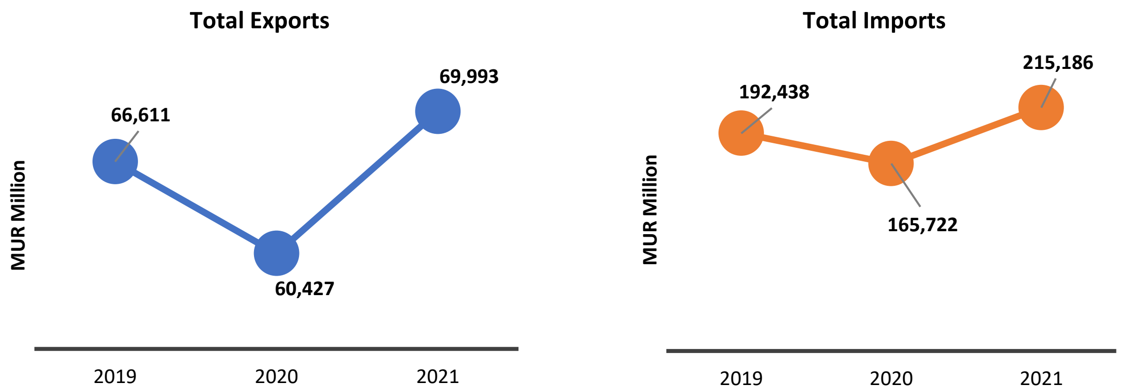


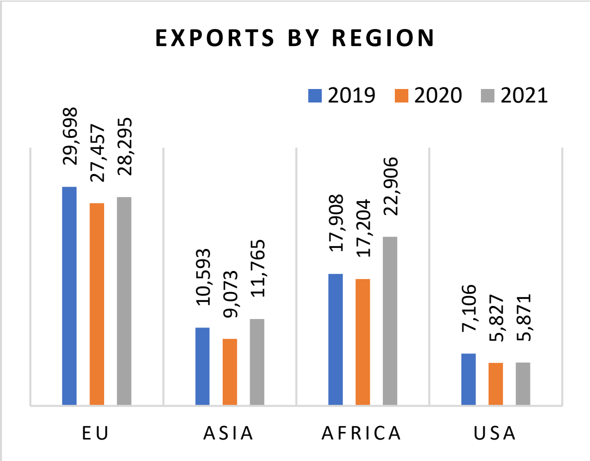
Figure 24 Total Exports and Imports Trend

Source: Statistics Mauritius

4.5.2 Trade by Region

Growth in trade volumes has slowed down substantially in the last two years (2019-2020) before picking up again in 2021. In 2021, the main export destinations remained the European Union (EU) representing 40% of our total exports to the world. Main export markets in EU included UK (23%), France (21%) and Spain (12%). It can be noted that Africa has recorded a growth of 28% in exports to MUR 22.9 billion in 2021 compared to an export value of MUR 17.9 billion in 2019 and an export value of MUR 17.2 billion in 2020. Main export markets in Africa in 2021 included South Africa (42%), Madagascar (23%) and Kenya (13%). USA has experienced a decline in 2021 with an export value of MUR 5.8 billion compared to an export value of MUR 7.1 billion in 2019 Exports to our new Free Trade Agreements, namely China and India have remained on the low side.

On the other hand, in 2021, the Asian and EU countries remain our main suppliers accounting for 55% and 24%, respectively. Imports from African countries represented 12% of our total imports from the world. The share of Asia in our imports have increased by 11% over the period 2019-2021, with the major suppliers being China (32%), India (27%) and UAE (15%). Over the same period, the share of EU has been relatively stable, with the main exporters to Mauritius being France (27%), Germany (10%) and Italy (10%).



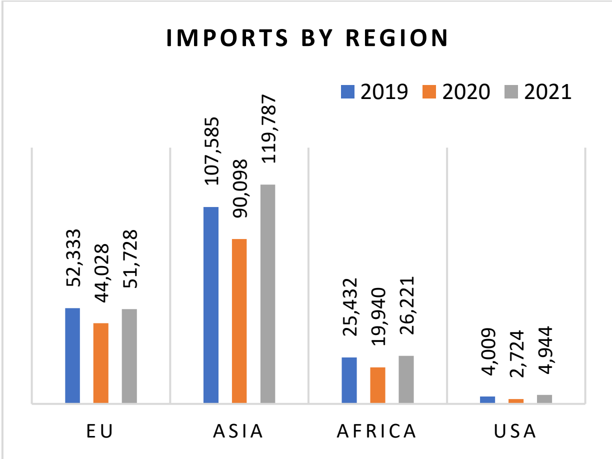


Figure 25 Exports and Imports by Regions

Source: Statistics Mauritius

4.5.3 Main Products Exported and Imported

Economic disruptions brought about COVID-19 have affected international trade in some sectors more significantly than others. Table 7 and Table 8 illustrate the top 5 exported and imported products respectively for the period 2019-2021.

Table 7 Top 5 Exports (MUR Million)

Top 5 Exports (MUR Million)						
HS Codes	**Description**	**2019**	**2020**	**2021**	**Share of total Exports 2021 (%)**	**Export Destinations**
1604	Processed fish	9,010	9,102	9,453	14%	UK, Netherlands, Italy
1701	Cane sugar	6,809	7,272	7,028	10%	Kenya, Spain, Italy
6203	Men's or boys, trousers	3,552	3,291	4,227	6%	South Africa, UK, Italy
6109	T-Shirts, knitted	4,144	3,236	3,598	5%	South Africa, UK, France
7102	Polished diamonds	3,247	1,997	2,852	4%	Vietnam, Belgium, US

Table 8 Top 5 Imports (MUR Million)

Top 5 Imports (MUR Million)						
HS Codes	**Description**	**2019**	**2020**	**2021**	**Share of total Imports 2021(%)**	**Main Countries of Imports**
2710	Petroleum oils	31,043	20,876	30,293	14%	UAE, India, Singapore
3004	Medicaments	4,932	5,553	9,228	4%	India, France, Germany

8703	Motor vehicles	8,673	6,839	8,425	4%	Japan, Germany, India
0303	Frozen fish	8,214	7,749	7,768	4%	Seychelles, Spain, France
8517	Cellular phones	5,323	3,981	4,569	2%	China, South Africa, Vietnam

Source: Statistics Mauritius

EMERGING SECTORS

5 EMERGING SECTORS

5.1 Green and Circular Economies

Copious strategies and support programmes aimed at boosting green economy in Mauritius and achieving sustainable economic and social development have emerged at the local and regional levels. For Mauritius, the shift to a green economy entails channelling greater investment incentives into areas such as renewable energy, low-carbon emission and improve waste management sector.

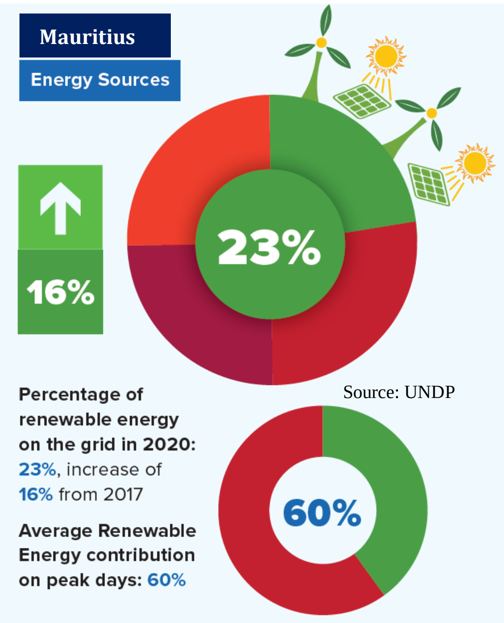


Figure 26 Energy Sources of Mauritius (UNCTAD)

The government's energy strategy aims to foster the adoption of renewable and clean energy to curb the country's heavy reliance on fossil fuels and mitigate greenhouse gas emissions. The government has announced plans to ramp up the use of renewable energy sources for electricity generation from the current 13.3% in 2020, according to Statistics Mauritius, to 60% by 2030, as announced in the 2021/22 budget.

A large part of Mauritius benefits from abundant sunlight throughout most of the year, thus positioning solar photovoltaic (PV) energy as an advantageous energy source option. In an effort to secure the 60% renewable energy target by 2030.

Carbon is assumed to be the predominant component in greenhouse gas emissions, attributed to higher fuel consumption in the residential and industrial and trade domains. In the period spanning from 2019 to 2020, imported fossil fuel energy supply dipped by 17.1%, reaching 1,157 ktoe from 1,396 ktoe in 2019. Petroleum fuel energy supply saw a contraction of 24.1%, declining from 984 ktoe in 2019 to 747 ktoe in 2020. The supply of coal fell from 412 ktoe to 410 ktoe, a slight downturn of 0.5 %.

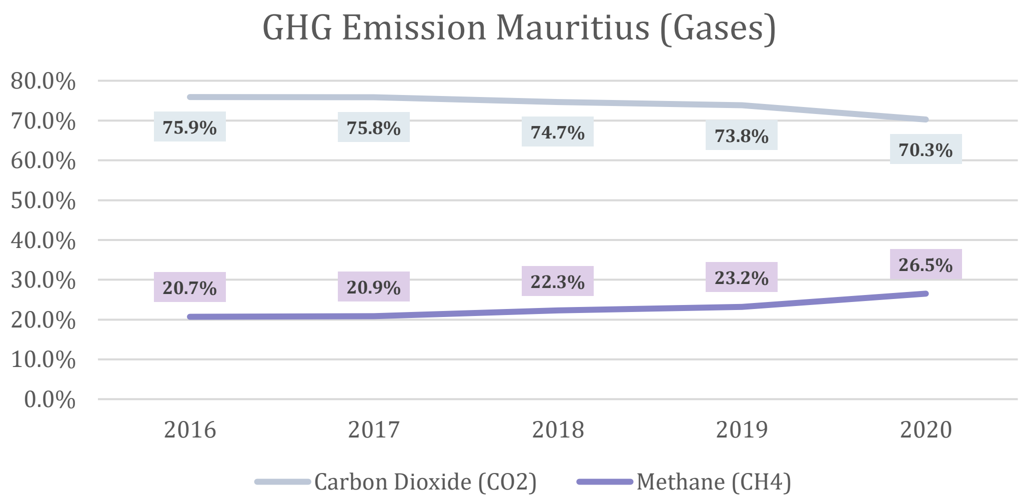


Figure 27 GHG Emission Mauritius (Gases)

Adapting to the new global economic and environmental system requires that change is seen as inevitable and collective, without neglecting the emphasis on feasibility and practicality. Many carbon-intensive industrial sectors such as air and maritime transport, coal, steel, among others, already exposed to the pandemic, might necessitate funding to underpin their decarbonisation endeavours.

For Mauritius, an opportunity to attain and maintain net-zero carbon emissions by developing low-carbon offerings, decarbonising the overall energy blend and establishing a stronger local and decentralised-based economy will unlock a more resilient and affluent economy in the coming years - which all spells tremendous economic and social development as well as growth prospects. In this regard, the role of financial institutions is crucial by enabling environmentally destructive industries to leverage finance for their greening and decarbonisation initiatives. The emerging circular economy is the fledgling new mainstream approach to achieving environmental and economic sustainable development. The Mauritian government has initiated the harnessing of its cadre to achieve more robust and sustainable industrial and community waste management and to foster a circular economy and integrated industrial symbiosis policies and practices throughout the island.

Plastic waste management is core to the Government's agenda of making the country plastic-free by 2030. Government acknowledges fully the serious consequences resulting from the degradation of the environment due to plastic pollution and its impact on the quality of life, health and on the economy. Many initiatives have been undertaken both by the public and private sector to tackle the problem of plastic waste. While the Government of Mauritius has enacted the two regulations, namely the Environment Protection (Control of Single Use Plastic Products) Regulations 2020, and the Environment Protection (Banning of Plastic Bags) Regulations 2020, the private sector has also engaged themselves in promoting green and circular economy.

In Mauritius, solid waste disposal is pegged at an estimated 1,488 tonnes generated per day, which translates into 1.22 kg per capita daily. The Government along with relevant key players initiated a more comprehensive assessment of the waste management industry with the ambition of implementing waste reduction, re-use and recycling initiatives to curb the volume of refuse disposed of in landfill areas. Furthermore, the authorities in Mauritius have the mandate to formulate and implement solid and other hazardous waste-related regulations. The latter are on-board to establish recycling mechanisms by enshrining it in the legal regulations to promote the circular economy. There are numerous strands of ongoing programmes designed to migrate to the circular economy in Mauritius.

5.2 Blue Economy

Over a decade, discussions have been initiated concerning the possibilities of exploring the maritime industry (SDG 14) to usher Mauritius' economic expansion and the island is uniquely endowed in this regard with an exclusive economic zone of 2.3 million km^2.However, a propitious juncture also prevails for Mauritius to embark on regional scaling by sharing its expertise and experience gained in the sector and utilising collaborative partnerships for mutually beneficial economic expansion schemes in other African countries, paving the way for robust and sustainable growth underpinned around the blue economy.

Meanwhile, Mauritius boasts an aspirational blue economy drive to pioneer for the African continent. The Indian Ocean abounds in several spheres for businesses, and players such as empowered women and the younger generations could leverage on the opportunities to boost the Mauritian labour force, reduce the inequality gap and channelling resources. Indubitably, time for decisive leadership to step forward now is fundamental, based on political transformation, robust governance framework and investment of financial resources. The Mauritian governance fabric requires refinement to embody a strategic framework regarding the blue economy and leveraging on the strong existing diplomatic and trade agreements with other nations.

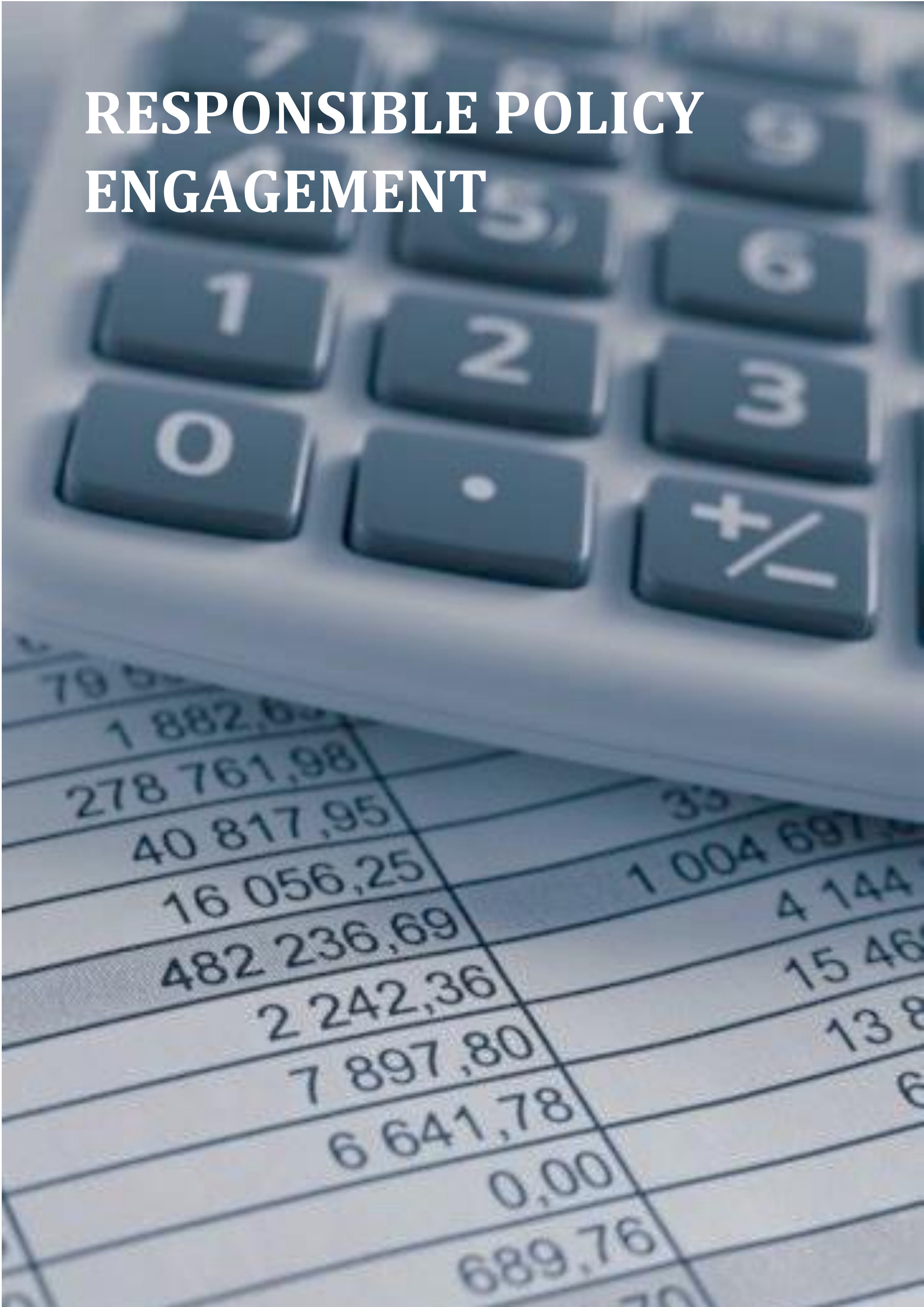
5.3 Data-Driven and Digitalisation

The digital transformation process is now behind and the degree of digitisation of the economy has been ramped up a notch. The digital economy emerged as a powerful economic engine for the globalised market, particularly for service industries that use trade facilitation services, insurance and banking, digital content, telecommunications, information systems, software, entertainment, academic and scientific research and publishing, and multinational educational services.

Mauritius stands out as an attractive jurisdiction that has enacted FinTech-friendly conceptual and regulatory frameworks in the African region. A wide range of FinTech and pro-innovation-related incentives have been initiated by Mauritian policy makers in the past few years, such as innovation box schemes, special permits for foreign IT talent, tax exemptions for peer-to-peer lending, which are poised to emerge as a regional FinTech hub. Moreover, Mauritius has sharpened its strategies to foster the widespread uptake of nascent technologies such as Blockchain, Artificial Intelligence, Machine Learning technologies, among others, for the benefit of businesses.

Recognising that technology and automation are the new norm, businesses and other entities may eventually be forced to align their roadmaps and strategies accordingly. By leveraging ICT at all levels of the economy's ecosystem, Mauritius has made unparalleled leaps in transforming its national economy to become digitally savvy. Seeking to propel Mauritius to the vanguard of technology and bolster the government's digital initiative and agenda, the Ministry of Technology, Communications and Innovation framed a strategic plan, "Digital Mauritius 2030," highlighting a strategic focus on developing key services and recommendations for an inclusive, innovative and resilient economy, while simultaneously fostering a conducive environment for ease of doing business. Policy makers ought to have legislation and frameworks that encourage investors and enable them to operate under safe and favourable investment standards.

RESPONSIBLE POLICY ENGAGEMENT



6 RESPONSIBLE POLICY ENGAGEMENT

While the COVID-19 pandemic is a crisis of an unparalleled scale, it also presents an opportunity to restore economic activity and re-build the economy to ensure sustainability, resilience, and inclusiveness. In the wake of managing the pandemic, stakeholders, including government, business and consumers, are being compelled to re-evaluate their respective roles. To demonstrate expediency and act responsibly, more than ever, all key stakeholders are being held to account. This would require the Government and the business community to transforming their business and operational practices to ensure respect of environmental boundaries as well as encourage their ecosystem of suppliers, customers, and consumers to follow their lead, and be part of the solution to some of the world's most pressing challenges.

The the Government of Mauritius has been working towards the economic recovery of the country with a view to attaining a strong positive growth rate. Public expenditure has been on the rise, thus calling for an utterly disciplined fiscal management in the medium term to reduce public debt and avoid the much heavier debt trap. It has become critical to prioritise expenditures with a view to addressing the growing divergence between expenditures and revenues.

It should be noted that a simple and low-tax regime is a key to the attractiveness of Mauritius, as it would facilitate tax declarations and motivate individuals and companies alike to contribute to the economic development. Amidst economic uncertainties, it is recommended that resources be prioritised to areas that set the stage for resilient growth – to provide incentives and assistance to address challenges which are hindering the country's development. Nonetheless, the government ought to push forward with a robust fiscal policy. As such, the aim should be to revitalise the competitive position that Mauritius originally harboured, and to lure both talent and foreign investment.

6.1 Policy Responses to the Pandemic's Fallouts

Similarly, there was need for the Government of Mauritius and policy-decision makers to carefully calibrate their policies towards mitigating the impact of the pandemic. There have been massive increases in spending, mainly in the form of the Government Wage Assistance Schemes and the Self-Employed Assistance Schemes which were implemented to assist employees and self-employed persons whose work premises or business operations had to remain closed.

Fiscal policies to cushion the impact of the pandemic have increased public spending significantly which stood at high 83.4% of GDP in 2020 compared to 65.4% in 2019. Owing to the unclear pace of recovery of the tourism sector and renewed virus waves across the island, public sector debt is estimated to have escalated to 94.3% of GDP in September 2021 before ending the year at 89.5% in December. Statistics Mauritius projects the public sector debt to further rise to 91.4% in 2022. Amidst the high debt level, the debt limit which capped public sector debt at 60% of GDP was repealed.

According to the IMF, the budget deficit is projected to reach 10% of GDP by end of 2021/22s against an estimated 5%. Consequently, this would require a well-defined framework for fiscal adjustment to stabilise public debt levels to overcome the debt crisis situation.

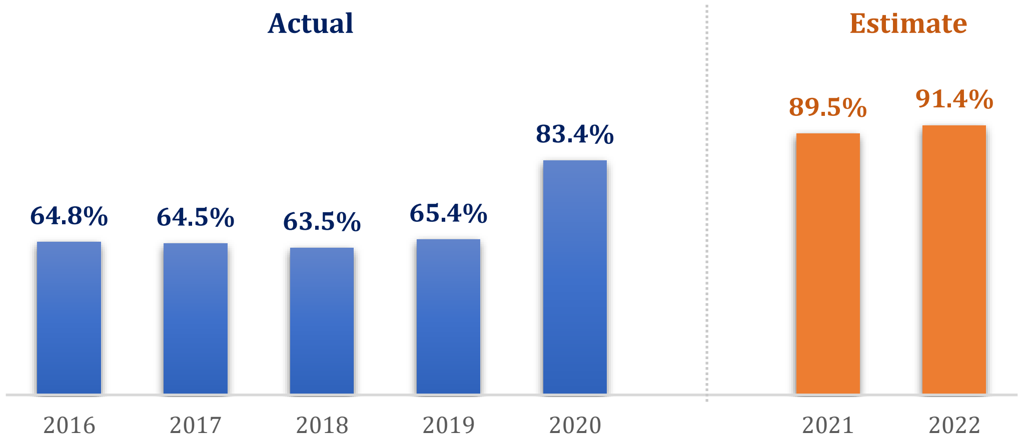


Figure 28 Public Sector Debt as a % of GDP

Source: Estimates 2021-2022, Statistics Mauritius

During 2021, the Key Repo Rate has been kept at a low 1.85%. However, amidst rising energy and food prices and lingering supply disruptions, which are likely to be exacerbated following the Russia-Ukraine crisis, the Key Repo Rate was raised by 15 basis points to 2.00% on 09 March 2022.

In addition to interest rate cuts, the Bank of Mauritius has also adopted a set of measures focused on economic operators which are being directly impacted by the pandemic. Major policy actions include special reliefs, reduction in the cash reserve ratio, easing of banking guidelines, swap arrangements, savings bonds facilities, and moratoriums on loans to economic operators. The Mauritius Investment Corporation Ltd (MIC) was also set up as Special Purpose Vehicle with the objective of limiting macro-economic and financial risks, as well as promoting new strategic sectors such as the pharmaceutical and blue economy. While the COVID-19 global pandemic is a crisis of unprecedented scale, it also presents an opportunity to restore economic activity and rebuild the economy in a manner that ensures sustainability, resilience, and inclusiveness. As we emerge from the global pandemic, stakeholders, including the Government, the business community, and consumers, are being forced to re-evaluate their role. More than ever, all key stakeholders are being held accountable for demonstrating purpose and acting responsibly. This would require the Government and the business community to transforming their business and operational practices to ensure respect of environmental boundaries as well as encourage their ecosystem of suppliers, customers, and consumers to follow their lead, and be part of the solution to some of the world's most pressing challenges.

Since the COVID-19 pandemic outbreak, the Government of Mauritius has been working towards the economic recovery of the country with a view to attaining a strong positive growth rate. Public expenditure has been on the rise, thus calling for an utterly disciplined fiscal management in the medium term to reduce public debt and avoid the much heavier debt trap. It has become critical to prioritise expenditures with a view to addressing the growing divergence between expenditures and revenues.

6.1.1.1 Industrial Transformation

Mauritius has managed to diversify away from sugarcane production and transformed itself from a predominantly low-income mono-crop economy to an upper middle-income economy with growing manufacturing, agro-industry, financial, ICT and tourism sectors. The country is however facing new challenges. The country's drive to restore economic activity is compromised by low productivity, a constrained labour market (skill gap) and a manufacturing sector that has been non-dynamic for at least a decade. Additionally, mounting pressures of both globalisation and trade liberalisation appear to exert their toll on the manufacturing industry in Mauritius, whilst the internal roots behind the downturn stem predominantly from the escalating labour costs, depreciation of the Mauritian rupee, energy cost, drop in demand from trading partners, and the other costs of doing business.

A new industrial policy approach remains imperative that focuses on supporting innovation and technology transfer, while addressing cross-cutting issues in skills development, competition, natural resource management, and public private partnerships. These policies are designed to shift the production structure towards new types of activities and sectors with progressively higher productivity, better-paid jobs and a greater upgrading potential. The issue of skills shortages or skills gap have proven to be a critical obstacle in recent years. It should be noted that as our economy has evolved and transitioned to a service-led country such as in tourism, financial and ICT, our education system has remained stagnant. This has led to a significant skills and talent mismatch in the country.

6.1.1.1.1 Labour Reforms

Today, we face a high number of unemployed graduates, skills gaps when it comes to advanced sectors such as ICT and services, and a talent crunch across all major sectors. Additionally, vocational and technical fields are seen as inferior where Mauritians are less willing to undertake manual jobs or blue-collar jobs. Consequently, enterprises have to resort to foreign labour which are often more costly. Unfortunately, the situation is further exacerbated by the issue of 'brain drain' where a vast majority of our highly educated and talented professionals tend to leave the country for better opportunities in terms of improved career development, higher salaries, dynamic working environment, and a wider range of advancement opportunities in academic and research sectors.

Eventually, it warrants the need to prioritise programmes that are consistent with the country's medium-term and long-term development needs and broader social goals – with focus on increasing labour force participation and implement re-skilling and upskilling measures at all levels through a better education system reform in alignment with the economic and human capital needs of the country. A culture of entrepreneurship is imperative.

Along with the issue of labour skills mismatch, productivity remains a concern for Mauritius. The recent degradation of the global competitiveness index ranking of Mauritius from 45th in 2017 to 52nd in 2021 raises major concerns. Therefore, the creation of an environment conducive to innovation, investments in Research and Development (R&D), industry-academia collaboration, and the protection of Intellectual Property, is a necessity.

LEVERAGING ON FREE TRADE AGREEMENTS

7 LEVERAGING ON FREE TRADE AGREEMENTS

Mauritius can leverage on its different Free Trade Agreements markets namely EU (Interim Economic Partnership Agreement), Africa (AFCFTA, COMESA, SADC), USA (AGOA), India CECPA, China FTA, Turkey FTA and Pakistan PTA to help promote foreign investment and ensure a stable environment for investment flows. This can be a game changer for Mauritius to fully integrate the global and regional markets. For instance, the Mauritius-India CECPA and Mauritius-China FTA, effective since 01 April 2021 and 01 January 2021, open up the possibility for any interested investor targeting the African or India market to use Mauritius as a production base. This would allow for more diversified sourcing partners through larger trade networks and cheaper imports of intermediate goods from partner countries, which should boost the competitiveness of Mauritius' exports.

It should be noted that Mauritius enjoys a significant preference margin over competitors in selected products such as medical devices, pharmaceutical products and technical textile, which are currently manufactured by India, and which can be exported to Africa. Through the CECPA, Indian manufacturers can move part of their manufacturing processes to Mauritius and using the cumulation rule and produce for the African Market. The same principle also applies to the services sector. A service supplier from India can leverage on trade opportunities on the African continent by operating from Mauritius.

The geographical diversification brought about by the AfCFTA is likely to open up new markets for both Mauritius thus boasting its economy – an opportunity to diversify its industrial base and identify new economic pillars – with focus on developing and promoting niche and high value-added sectors with greater opportunities for value addition by producing final or intermediate goods. There is a need to leverage on these trade agreements and to fully tap the existing opportunities by:

Encouraging investors to use Mauritius as a manufacturing base to tap the huge opportunities arising from the AFCFTA, SADC and COMESA. The FTAs can provide the opportunity for Mauritius to position itself as a gateway between China or India and mainland Africa, while gaining a foothold in the strategic Indian Ocean region.

Enhance companies' capacity to export by supporting export-oriented firms.

Diversify the production base, for instance, the COVID-19 pandemic provides an opportunity for the textile industry to export medical protective equipment and incentives should be provided to companies and should encourage foreign firms exporting medical devices to use our freeport facilities

Develop a Regional Export Strategy.

Develop a regional import substitution strategy.

- Set up additional warehousing facility.
- To organize more Business and Business to Consumers meetings to market products and create business links.
- Leverage technologies and digital trade.
- To expedite the implementation of Digital FTA Mechanism or Digital Trade Facilitation.
- Maintain supply chains by supporting firms to access their raw materials through bulk buying and setting up of distribution platforms.
- Explore possibility for potential countries of the Middle East.
- Encourage foreign companies to relocate their production in Mauritius such as vaccine industry.
- Market Mauritius as an attractive destination for retired professionals to come and invest.
- Pursue efforts to market Mauritius as an 'insourcing centre' for banking and insurance institutions, with specific incentives to High-Net-Worth Individuals (HNWIs) to shift part of their wealth to be managed from Mauritius.
- Identify specific niche markets.
- Maximise on the existence of sustainable value-chain production and social compliance practices.
- Build regional value chains in the African region to tap into companies with a vertical integration model.
- Establish Mauritius as a one-stop-shop sourcing warehouse in the region.
- Efforts required for more duty preferences of export interest.

Moreover, the trend in exports over the last few years in Mauritius has been decreasing where some markets are performing relatively well while others are on decline. Our country relies heavily on preferential markets. While the opportunities are huge in view of the substantial margin of preference for many products, yet there is an under-utilisation of these existing trade preferences, with exports concentrated on only a few markets in the EU, SADC and COMESA countries. Most notably, SADC and COMESA preferences have not been fully explored. Some 70% of our exports are to South Africa and Madagascar, while exports to the EU remain concentrated on few selected markets, namely France and UK.

CONCLUDING REMARKS

8 CONCLUDING REMARKS

It was apparent even before COVID-19 that the 2020s would be pivotal for the economic, environmental and social development of Mauritius. While the economy is still adjusting to the consequences of the pandemic, the world was afflicted anew by the unfavourable implications of the Russian-Ukrainian war. Moreover, addressing the long-term demographic problems of an ageing population and the devaluation of the Mauritian rupee speer towards a turning point that requires more urgent and targeted national action. The extent of the impact of global supply constraints, in 2021, was reflected in local input costs, as evidenced by supply shortages in some sectors such as construction and manufacturing.

These bottlenecks stemmed from disruptions occurring further up the value chain, whereby shortages and the mounting cost of raw materials were exacerbated by onerous transport costs (shipping and air freight), rising prices of agricultural products, shortage of labour force and the depreciation of the island's currency leading to a surge in the prices of commodities and services, owing to the fact that Mauritius is highly dependent on imports. Moreover, in the second half of 2021 and early 2022, soaring energy prices and supply disruptions drove inflation to a higher and more widespread level than was previously perceived. The price of fossil fuels has nearly doubled, particularly in European Countries and China, over the last year, causing energy costs to skyrocket and inflation to swell. Amid the soaring costs, many importers, distributors and associated companies have been shifting the costs to consumers.

Moreover, Mauritius has able to reap some of the economic bounty stemming largely from its array of robust underlying fundamentals, widely diverse economic fabric, substantial interventions of the authorities, and sustained headway in terms of vaccination activities. Signs are sprouting at this juncture indicating that the economy of Mauritius is showing slow recovery, however, wariness is necessary, particularly amidst the prevailing buoyant sanitary conditions, as the advent and proliferation of emerging precarious variants that resist immunisation may pose a threat.

The pandemic highlighted the fragility in the fabrics of global engagement in Mauritius. That being said, even before the pandemic, the island was seeking to develop more balanced partnerships with other regions of the world, in the form of various FTAs, whereby countries could exchange experiences, expertise and resources for the achievement of greater economic progress. The key to achieving success lies in the pursuit of an innovative approach by adopting new policies aimed at fuelling GDP growth by strengthening export diversification, attracting investment and retargeting the inflow of tourists in an effort to increase foreign exchange reserves. In addition, to cushion and sustain economic gains, the island has the foresight to harness young entrepreneurs as well as innovative technological strides.

The year 2022 is emerging as a pivotal year in all economic and political spheres and arrives at a critical juncture in addressing the pressing need for policymakers and other key economic players in Mauritius to take part in concrete policy actions. As the focus remains on coping with the daily challenges of COVID-19, Russo-Ukrainian war, increasing emphasis is shifting to managing economic recovery and overcoming the prolonged implications of the virus.

Mauritius' ability to champion the greening of the economy and strategies for a clean energy transition to cushion the impact of climate change through collective efforts proves that Mauritius is already on the right track to address climatic challenges. Mauritius has been facing severe knock-on consequences - not only from an upsurge in the cyclonic phenomena, with domino effects that threaten to disrupt agricultural harvests and weigh heavily on economic growth. The rebound from the outbreak in the short-term is seemingly heading in the cautious trajectory, however, population growth requires a more balanced approach if the island's goal is to tap its full economic, environmental and social development capacity in a sustainable manner. The ultimate aim should be to turn Mauritius' wealth to Mauritians' wealth.

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