

MAURITIUS

Key conditions and challenges

Table 1	2021
Population, million	1.3
GDP, current US\$ billion	11.5
GDP per capita, current US\$	9096.5
Lower middle-income poverty rate (\$3.65) ^a	1.8
Upper middle-income poverty rate (\$6.85) ^a	13.5
Gini index ^a	36.8
School enrollment, primary (% gross) ^b	98.4
Life expectancy at birth, years ^b	74.2
Total GHG emissions (mtCO2e)	6.5

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2017), 2017 PPPs.
 b/ WDI for School enrollment (2021); Life expectancy (2020).

After a muted recovery in 2021, real GDP is projected to grow 5.8 percent in 2022. Headwinds from the war in Ukraine hit Mauritius hard through higher inflation, lower tourism activity, and a deterioration of the current account. With higher fiscal pressures, improving fiscal discipline, including through pension reform, and avoiding the reliance on quasi-fiscal operations, are key policy priorities. COVID-19 reversed recent gains in poverty reduction and female labor force participation.

Mauritius' development trajectory was becoming more fragile even before the pandemic hit in 2020, causing a contraction of 14.6 percent of GDP. Interrelated structural challenges during the last decade led to persistent fiscal deficits and a growing public debt-to-GDP ratio. Weaknesses stem from stagnating private investment, loss of export competitiveness, skill shortages coexisting with high structural unemployment, rising inequality, and mounting pressure on public finances from high and increasing social security spending driven by an aging population. Mauritius successfully handled the COVID-19 health emergency, and the extensive state support deployed during COVID-19 effectively protected livelihoods. Yet, it came at a high cost for the country's public finances. Public debt spiked despite a Rs55 billion (12.3 percent of GDP) non-refundable transfer to the government from the Bank of Mauritius (BoM) in FY2020/21, and a previous Rs18 billion transfer (3.5 percent of GDP) under the FY2019/20 budget. Those transfers blurred the separation of monetary and fiscal policies. The newly created Mauritius Investment Corporation (MIC), owned by the BoM, increased contingent liabilities, and further threatens the efficacy of anti-inflationary policies. Headwinds from the war in Ukraine caused renewed inflationary pressures, current account deterioration,

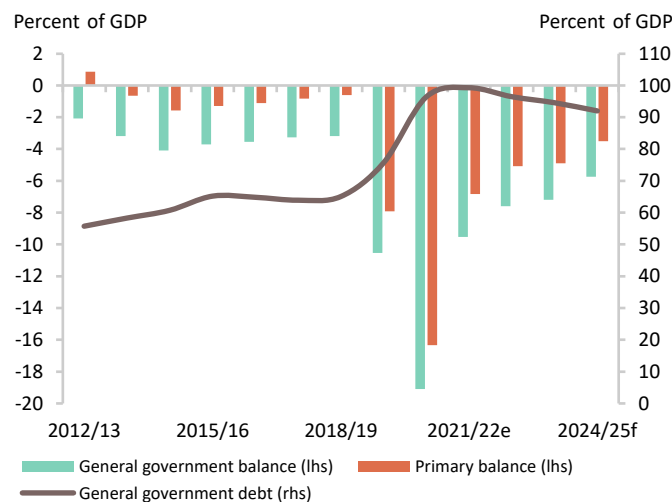
faster rupee depreciation, and slower growth. While recent one-off quasi-fiscal operations have helped reduce the level of public debt, the soundness of the fiscal policy framework has been eroded by the reliance on unconventional measures. Policy priorities thus include sustained fiscal consolidation and better alignment between monetary and fiscal policies.

Promoting greater labor market opportunities is a priority to achieve inclusive growth, especially jobs for the youth and women with low educational attainments. Over 50,000 youth aged 16 to 29 are neither studying nor working, of which about 1 out of 3 has obtained at most a certificate of primary education. Only 1 in 2 women participates in the labor market (1 in 3 women among those with low educational attainment). The impact of COVID-19 has reversed recent gains in women's labor force participation, as women were significantly more likely to be laid off during the pandemic.

Recent developments

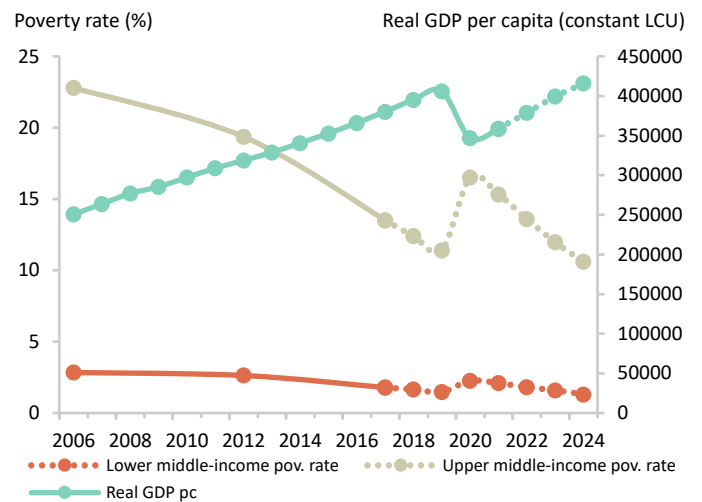
GDP rebounded by 3.6 percent in 2021, aided by widespread COVID-19 vaccination covering 90 percent of the eligible population by end-June 2022. Most sectors are back to pre-pandemic levels, but a 35 percent output gap remains in tourism, further hit by headwinds from the war in Ukraine. Since the reopening of borders in October 2021, tourism arrivals have improved substantially, reaching 557,245 over January-August 2022, up from 6,966 during the same period the previous year.

FIGURE 1 Mauritius / General government balance and debt



Sources: Statistics Mauritius, World Bank staff estimates.

FIGURE 2 Mauritius / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

Annual headline inflation rose to 4 percent in 2021 from 2.5 percent in 2020, driven by higher freight, energy, and food prices. Inflationary pressures increased following the Ukraine war, with annual inflation reaching 8.8 percent in August 2022, the highest in over a decade. To tame inflation, the BoM raised the Key Repo Rate 15 bps to 2 percent on March 9, its first hike since June 2011, and 25 basis points to 2.25 percent on June 3.

The fiscal deficit fell to 9.2 percent of GDP in FY21/22, on the back of GDP recovery and the progressive unwinding of COVID-19 support measures. Proceeds from the sale of shares of Airport Holdings Ltd to MIC in December 2021 for Rs13 billion (2.7 percent of GDP) helped reduce public debt, which stood at 95.9 percent as a share of GDP.

In 2021, Moody's downgraded Mauritius' credit rating from its longstanding Baa1 level to Baa2. In July 2022, Moody's once again downgraded Mauritius' to Baa3, albeit with an upgrade on the outlook from negative to stable. The latest downgrade was based on Moody's assessment that the

government's reliance on unconventional and one-off measures to respond to the adverse economic and fiscal effects of the COVID-19 pandemic, has eroded the quality and effectiveness of institutions and policy-making. This, in turn, hampers Mauritius's resiliency and capacity to absorb future shocks.

Poverty (Upper-MIC threshold of \$6.85 a day 2017 PPP) fell from 19 to 11 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is projected to have increased by over 5 percentage points, and fall below 14 percent in 2022.

Outlook

GDP is expected to grow by 5.8 percent in 2022 and 5.5 in 2023, supported by the continued recovery of tourism, and decelerate to its long-term trend over the medium-term. The current account deficit is expected to remain stable at 13.2 percent of GDP in 2022, with higher import

costs delaying its recovery, which will happen gradually over the medium term, assuming sustained tourism recovery and strengthened export competitiveness. The fiscal deficit should moderate to 7.4 percent of GDP in FY2022/23 as the economic recovery accelerates and more COVID-19 support measures are lifted. As a result, public debt to GDP would gradually decrease over the medium term, assuming continued recovery and gradual fiscal consolidation.

Significant downside risks remain. Further COVID-19 waves, high fuel prices and low global growth may continue to weigh down tourism, while heightened geopolitical tensions and supply chain disruptions may continue fueling global inflation. As interest rates in leading economies rise, the rupee may depreciate further, fueling inflation. Strengthening the institutional framework and creating fiscal space through pension reform and other measures supporting fiscal discipline will be key to maintaining debt sustainability, thereby strengthening the macroeconomic foundations for inclusive growth.

TABLE 2 Mauritius / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices^a	2.8	-14.6	3.6	5.8	5.5	4.2
Private Consumption	3.2	-15.3	3.0	2.6	2.3	2.0
Government Consumption	1.9	-1.0	-3.0	3.2	2.1	1.6
Gross Fixed Capital Investment	4.9	-25.8	13.9	1.1	1.4	0.8
Exports, Goods and Services	-4.0	-27.7	11.5	22.8	20.8	17.3
Imports, Goods and Services	2.4	-29.2	7.9	12.5	13.0	12.4
Real GDP growth, at constant factor prices	2.9	-14.4	3.6	5.8	5.5	4.2
Agriculture	4.2	-1.9	7.2	2.9	3.0	1.7
Industry	2.3	-19.2	10.2	2.7	3.1	2.1
Services	3.1	-13.6	1.8	6.7	6.2	4.8
Inflation (Consumer Price Index)	0.5	2.5	4.0	10.2	6.1	5.6
Current Account Balance (% of GDP)	-5.0	-9.3	-13.2	-13.2	-9.3	-7.8
Net Foreign Direct Investment Inflow (% of GDP)	24.6	-111.7	31.2	31.0	31.9	32.3
Fiscal Balance (% of GDP)^b	-10.5	-19.1	-9.2	-7.4	-7.0	-5.6
Debt (% of GDP)^b	75.6	96.4	95.9	93.5	91.8	89.4
Primary Balance (% of GDP)^b	-7.9	-16.3	-6.6	-4.9	-4.8	-3.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{c,d}	1.5	2.3	2.1	1.8	1.6	1.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{c,d}	11.4	16.5	15.3	13.6	12.0	10.6
GHG emissions growth (mtCO₂e)	1.6	-12.0	7.4	5.4	5.7	3.6
Energy related GHG emissions (% of total)	62.0	63.0	62.0	62.9	63.5	63.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Historical demand-side data is being revised due to a consistency problem.

b/ Fiscal balances are reported in fiscal years (July 1st - June30th).

c/ Calculations based on 2017-HBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

d/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.