MAURITIUS

Table 1	2020
Population, million	1.3
GDP, current US$ billion	11.2
GDP per capita, current US$	8807.6
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	12.7
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Covid-19 has led to a steep recession in 2020 despite heavy government intervention. Gradual recovery in 2021 is hampered by a new lockdown in March, and remains subject to significant downside risks, including a prolonged pandemic or failure to address longstanding structural constraints to investment, competitiveness, and skills development. The fiscal outlook depends heavily on a timely unwinding of Covid-support measures and a reform of the public pension system. The effects of Covid-19 have reversed recent gains in poverty reduction and female labor force participation.

Key conditions and challenges

On July 1 2020, Mauritius became a High Income Country. It reached this milestone in one of the worst years in its history due to the global Covid-19 pandemic. Even pre-Covid, a number of structural constraints had arisen in the Mauritian economy that put sustainable inclusive growth at risk. These include stagnating private investment, declining external competitiveness, and a rising debt to GDP ratio. These trends reflect shortcomings in policy coherence and implementation capacity to deploy public resources towards innovation and skills development as Mauritius transitions to a knowledge-based economy.

Mauritius responded to the Covid-19 shock with one of the largest support packages in the world as a share of GDP. The country relied heavily on its Central Bank, including through a non-refundable transfer to government of 13 percent of GDP and the creation of the Mauritius Investment Corporation (MIC) with a budget of up to 17 percent of GDP to finance strategic companies in distress and invest in new priority industries. As public sector activity in the economy reached unprecedented heights, a challenge will be to retract measures in a way that restores fiscal and monetary policy sustainability while resisting the temptation of open-ended support to firms that were unviable before the pandemic.

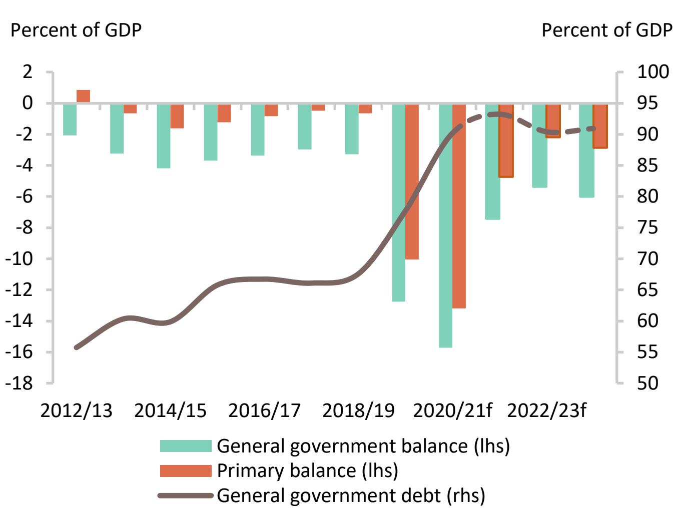
Achieving inclusive growth in the future is also linked to the challenge of overcoming constraints to a more inclusive labor market. This includes increasing the participation of youth and women with low educational attainments. Over 50,000 youth aged 16 to 29 are neither in education nor in employment, and about 1 out of 3 has obtained at most a certificate of primary education. Similarly, only 1 in 2 women participates in the labor market, and only 1 in 3 among women with low education. The impact of Covid-19 reversed recent gains in labor force participation of women.

Recent developments

After an outbreak in March that claimed 10 lives, Mauritius curbed the transmission of Covid-19 through a hard lockdown and had been Covid-free since April 2020 when a new outbreak occurred in March 2021 and the country went back on lockdown. Tourism arrivals have been near zero since the onset of the pandemic. As a result, service exports dropped 45 percent over the first three quarters of 2020. Merchandise exports contracted sharply during the second quarter but recovered in the third for an overall 15 percent drop in the first three quarters. Air cargo remains a critical constraint given limited passenger traffic.

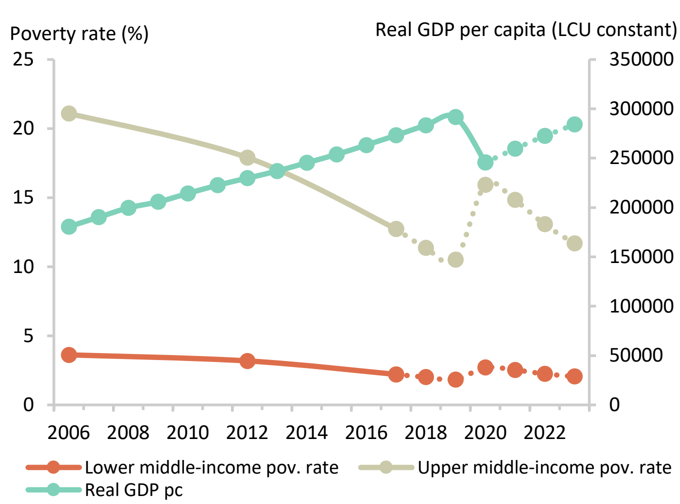
GDP contracted 15.6 percent in 2020. While government supported consumption and firm survival, the fiscal deficit rose to 13 percent of GDP in fiscal year

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



Source: World Bank. Notes: see Table 2.

2019/20 and public debt reached 78 percent of GDP (up from 68 percent the previous year). Merchandise exports contracted sharply during the second quarter but recovered in the third for an overall 15 percent drop in the first three quarters. Air cargo remains a critical constraint given limited passenger traffic.

The current account deficit widened to 11.7 percent of GDP, financed by a combination of surpluses in the financial account that are linked to the offshore sector and new external financing from bi- and multilateral partners. The CB intervened for close to USD 1 bln to stabilize the Mauritian Rupee after permitting an initial 10 percent depreciation at the onset of the pandemic. Reserves remain ample at 14 months of imports, and concerns over potential financial flow reversals in the offshore sector after the country's addition to the EU's AML watchlist in October have not materialized so far. Inflation was 2.5 percent in 2020.

Poverty (Upper-MIC threshold of $5.5 a day 2011 PPP) fell from 18 to 10 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is estimated to have increased by almost 6 percentage points as results from phone surveys (carried out in May, June and July 2020) show a significant drop in informal employment during the lockdown. Levels of informal employment in July remained 21 percent below those at the beginning of the year, with a large proportion of women exiting the labor market.

Outlook

GDP is expected to grow 3.6 percent in 2021 under a baseline that assumes a brief lockdown in response to the new outbreak, a successful rollout of vaccines, and reopening of borders in time for the main tourist season in November / December. Initial recovery is led by industry, while the services sector resumes its role as driver of growth from 2022 onwards. The main downside risk remains a prolongation of the Covid-pandemic and border closures that further delay recovery in tourism. In light of pre-Covid trends, strong and coherent policy actions to revive competitiveness, stimulate private investment, and address skills shortages will also be critical to medium term recovery.

Fiscal pressures and debt levels were already on the rise pre-Covid, and a 15.7 percent deficit is expected under the 2020/21 budget. Debt would reach 90 percent of GDP, even though most of the deficit is financed by a non-refundable transfer from the Central Bank and stabilize at that level under the baseline. This assumes withdrawal of most Covid related measures combined with gradual increases in revenue starting in fiscal year 2021/22. Downside risks are related to the timely withdrawal of Covid-measures, resisting the temptation for additional Central Bank financing and limiting the role of the MIC. A key factor for fiscal sustainability in the medium term are the outcomes of an ongoing reform of the public pension system.

Projections indicate that poverty will only fall back below 12 percent, just above the pre-COVID-19 level, well into 2023.

TABLE 2 Mauritius / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	3.8	3.0	-15.6	3.6	5.9	4.3
Private Consumption	3.2	3.2	-11.8	6.9	6.2	4.1
Government Consumption	4.2	2.0	-7.3	4.1	5.6	4.9
Gross Fixed Capital Investment	10.9	6.2	-22.4	-8.3	3.7	5.0
Exports, Goods and Services	2.7	-4.1	-29.4	9.6	8.3	8.0
Imports, Goods and Services	-0.2	2.5	-22.8	9.4	7.1	7.1
Real GDP growth, at constant factor prices	3.6	3.2	-15.7	3.1	6.0	4.3
Agriculture	-1.3	4.1	3.5	5.1	1.1	1.0
Industry	2.6	2.4	-7.8	11.7	1.7	1.5
Services	4.1	3.3	-18.8	0.5	7.8	5.4
Inflation (Consumer Price Index)	3.2	0.5	2.5	2.8	3.3	3.3
Current Account Balance (% of GDP)	-3.9	-5.4	-11.7	-10.7	-8.8	-6.1
Net Foreign Direct Investment (% of GDP)	10.3	14.3	8.9	15.3	15.4	14.2
Fiscal Balance (% of GDP)[b]	-3.3	-12.8	-15.7	-7.4	-5.4	-6.0
Debt (% of GDP)[b]	67.6	77.7	90.2	93.2	90.4	90.9
Primary Balance (% of GDP)[b]	-0.6	-10.0	-13.2	-4.7	-2.2	-2.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	2.0	1.8	2.7	2.5	2.3	2.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	11.4	10.5	15.9	14.8	13.1	11.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

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

(c) Calculations based on 2017-HBS. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

(d) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.