MAURITIUS

Table 1	2019
Population, million	1.3
GDP, current US$ billion	14.0
GDP per capita, current US$	11061.8
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]	101.1
Life expectancy at birth, years[b]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 has led to a steep recession in 2020 and is driving up government debt. While a solid recovery is expected for 2021/22, there are significant downside risks to the forecast, including through a prolonged pandemic and vulnerabilities in the Balance of Payment. Progress in terms of poverty reduction will slow down due to the negative impacts of COVID-19, and wage inequality remains substantial due to mounting skills shortages and lack of inclusiveness in the labor market.

Key conditions and challenges

Based on 2019 data, Mauritius was officially classified as a High Income Country. However, recent growth has been largely driven by consumption at the cost of increasing public debt and eroding external competitiveness. Mauritius faces the challenge of managing its transition to a knowledge-based economy driven by innovation and productivity growth, and there is a need to unlock more productive private sector investment. This will require a concerted effort to remove bottlenecks to new sources of growth, including skills shortages and misaligned incentives. Future inclusive growth is intrinsically linked to the challenge of overcoming constraints in the labor market. This includes activating more youths and women, particularly those with low educational attainments. Over 50,000 youths 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 participate in the labor market, and only 1 in 3 among women with low education.

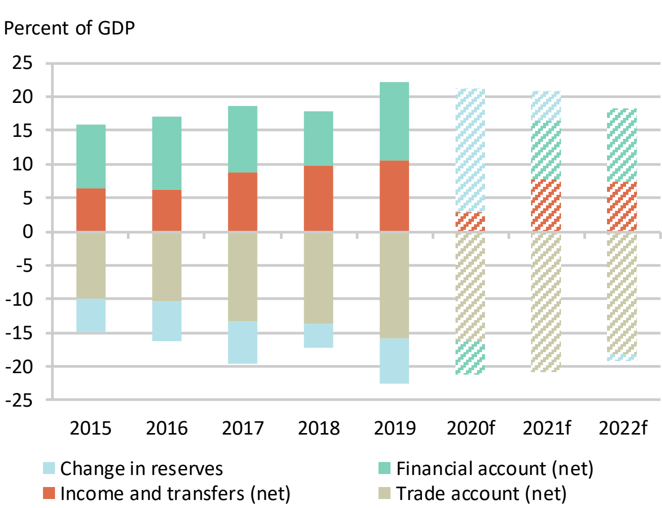
Significant short-term risk results from the combination of pressure on the Balance of Payment and a weakened Central Bank. Pre COVID-19, large trade deficits were financed by financial surpluses linked to Mauritius' offshore sector. Despite large reserves – currently at 14 months of imports – previous IMF recommendations called for further increases to mitigate the risk inherent to the offshore sector, including conduit investment of 40 times Mauritius' GDP and foreign currency deposits of nearly 90 percent of GDP. In 2020, the BoP is exposed to a combination of shocks: Covid-19 has depressed tourism and manufacturing exports, and uncertainty in the global economy and Mauritius' expected listing by the EU for heightened money laundering risk could impact the financial account. At the same time, the Bank of Mauritius' balance sheet has weakened as it has taken on an active role in COVID-19-response, including a non-refundable transfer to government equivalent to 12 percent of GDP.

Recent developments

Mauritius has had a total of 367 cases of COVID-19, including 10 deaths, as of September 23. The last case of community transmission was reported on April 26, and since June 15 all COVID-related restrictions have been lifted, but the border remains closed. Tourist arrivals have dropped to zero since March and downstream industries like restaurants, tour operators, taxis, and shops catering to tourists struggle with low demand. Merchandise exports in the first half of 2020 were 24 percent below the same period in 2019.

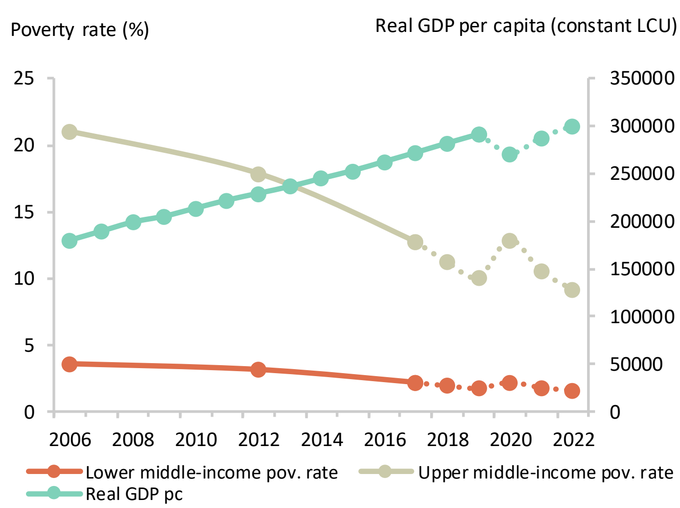
Public debt was on a rising trajectory prior to COVID-19, and in the medium term additional fiscal pressure is building due to excessive spending on the universal non-contributory pension. The combination of

FIGURE 1 Mauritius / Balance of Payment dynamics



Sources: Bank of 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.

reduced revenue and increased expenditure in response to COVID-19 put an additional strain on public finances and FY 19/20 closed in June with a 13 percent deficit and public debt spiking to 83 percent of GDP.

Since January 2020, the Mauritian Rupee has depreciated by approximately 10 percent against the USD despite FX interventions of close to 3 percent of GDP. Q2 BoP data is not yet available to ascertain movement in portfolio and FDI flows, but registration of new offshore firms fell by ~40 percent during Q2 while foreign currency deposits remained largely stable.

Measured at USD 5.5 per day 2011 PPP line, 17 percent of the population was poor in 2012 and the share declined to 12 percent in 2017. Results from a May 2020 phone survey show that the short-term impact of COVID-19 was significant. 1 in 3 Mauritian households reported a reduction in their income in comparison with the 12 months before the lockdown, and 17 percent had to skip meals since the lockdown started.

Outlook

GDP is expected to contract by 13 percent in 2020 under the baseline scenario, which assumes a gradual re-opening of the border in October 2020 with quarantine requirements that will limit tourist arrivals for the remainder of the year. While manufacturing exports, wholesale trade and construction activity are expected to rebound in the second half of the year, the year-on-year change for 2020 also remains negative.

In the medium term, a strong recovery will be dependent on renewed dynamism in the tourism sector, which is subject to significant downside risks. In addition to the uncertainty of future developments around COVID-19, Mauritius suffered an oil spill from stranded freighter MS Wakashio which affected part of the coastline and caused reputational damage for the tourism industry. The financial sector is expected to rebound in 2022 assuming material progress on AML.

While another double-digit fiscal deficit is expected in FY20/21, the effect on debt is mitigated by a 12 percent of GDP grant from the Central Bank. While this significantly weakens the Bank's balance sheet and creates future fiscal risk, debt is expected to peak at around 90 percent of GDP at the end of 2020 before slowly declining. This strongly depends on government's ability to reign in enhanced spending for COVID-19 support and an effective pension reform.

The current account deficit is expected to reach 13 percent of GDP in 2020 and remain wide in 2021 before gradually narrowing, assuming recovery in tourism and additional efforts to strengthen export competitiveness. The main downside risk is in the financial account, where a reversal of flows related to the offshore sector could quickly dominate the real sector recovery.

Because of the sizeable contraction of GDP, poverty is projected to increase to 13 percent in 2020 and decline more slowly to 9 percent by 2022 when measured against the USD 5.5 per day 2011 PPP line.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices[a]	3.8	3.8	3.0	-12.8	6.4	7.1
Private Consumption	3.2	3.2	3.2	-11.1	7.5	4.1
Government Consumption	1.6	4.2	2.0	-1.1	7.2	4.8
Gross Fixed Capital Investment	4.8	10.9	6.2	-26.0	33.6	12.3
Exports, Goods and Services	-1.0	2.7	-4.1	-27.7	30.4	13.5
Imports, Goods and Services	2.2	-0.2	2.5	-19.8	30.5	7.1
Real GDP growth, at constant factor prices	3.6	3.6	3.2	-12.9	6.1	8.2
Agriculture	-0.2	-1.3	4.1	3.5	4.5	4.1
Industry	2.8	2.6	2.4	-7.8	8.6	1.7
Services	4.0	4.1	3.3	-15.1	5.5	10.4
Inflation (Consumer Price Index)	3.7	3.2	0.5	2.8	3.5	3.5
Current Account Balance (% of GDP)	-4.6	-3.9	-5.4	-13.3	-13.2	-10.9
Net Foreign Direct Investment (% of GDP)	189.3	10.3	14.3	8.7	15.1	14.9
Fiscal Balance (% of GDP)[b]	-3.0	-3.3	-12.8	-17.1	-8.8	-6.2
Debt (% of GDP)[b]	66.1	67.6	77.7	90.2	90.9	88.0
Primary Balance (% of GDP)[b]	-0.5	-0.6	-10.0	-14.0	-5.9	-3.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	2.2	2.0	1.8	2.2	1.8	1.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	12.7	11.2	10.1	12.9	10.6	9.2

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: 2018-2019. Forecast are from 2020 to 2022.
(d) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.