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Economic Update

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MCBGROUP

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Main economic indicators

	Unit	2017	2018	2019	2020(1)	2021(2)
Real sector						
GVA at basic prices	Rs bn	403	422	438	379	407
GDP at market prices	Rs bn	457	481	498	429	461
GVA growth (at basic prices)	%	3.6	3.6	3.2	-14.7	4.7
GDP growth (at market prices)	%	3.8	3.8	3.0	-14.9	4.8
Gross Domestic Saving	% GDP	10.0	9.0	8.8	7.9	9.0
Gross Fixed Capital Formation	% GDP	17.4	18.8	19.6	18.1	18.9
Headline inflation	Dec, %	3.7	3.2	0.5	2.5	2.8
Unemployment rate	average, %	7.1	6.9	6.7	9.2	-
Fiscal sector						
Budget balance	FY, % GDP	-3.5	-3.2	-3.2	-13.6	-3.0[3]
Public sector debt*	Dec, % GDP	63.5	64.9	65.5	69.3	74.3[4]
External sector						
Balance of visible trade	Rs bn	-100.2	-112.1	-119.8	-95.9	-111.5
Current account balance	% GDP	-4.6	-3.9	-5.4	-12.7	-12.4
Overall balance of payments	% GDP	6.2	3.5	6.6	-4.9	-1.5
Memorandum item:						
Per capita GDP	*USD*	*10,407*	*11,124*	*11,054*	*8,657*	*9,019*

(1) Revised estimates *(2) MCB revised forecasts*

(3) As per official pronouncement made in National Assembly on 27 April 2021 *(4) As at March 2021*

**Figures as from 2020 are based on the new definition as provided for in the amended Public Debt Management Act i.e. public sector gross debt minus cash and cash equivalent and equity investment held by Government and public sector bodies in private entities. This figure is not strictly comparable to debt figures for previous years which are in gross terms.*

Sources: Statistics Mauritius, Ministry of Finance, Economic Planning & Development, Bank of Mauritius and MCB staff estimates

Recent developments affecting our forecasts

International backdrop

The global economic recovery has generally gained traction lately, supported by the continuous provision of extensive policy support, growing rollout of vaccine – notably in advanced economies – and gradual lifting of restrictions to mobility. Moreover, economies have adapted to pandemic life by shifting to new ways of working, producing, trading and consuming. Against this backdrop, the IMF, has in its World Economic Outlook issued in April, revised upwards its forecast for the global economy, relative to its January projections. It now expects global growth to stand at 6% in 2021 and 4.4% in 2022 – representing an upgrade of 0.5 and 0.2 percentage point respectively – after a historic contraction of -3.3% in 2020. The upgrades in global growth projections are mainly due to the sizeable upward revision in the outlook for the United States following its USD 1.9 trillion rescue package and the rapid rebound in China's economy. In fact, the US is the

only large advanced economy projected to surpass the level of GDP it was forecast to have in 2022 prior to this pandemic, while a sharp pickup in industry production and exports helped China return to its pre-virus level as early as the fourth quarter of 2020, thus also contributing to the rebound in world merchandise trade observed in the first quarter of 2021. That said, the global outlook presents significant challenges. The pandemic is yet to be defeated and new variants are being witnessed across countries such as India. Moreover, there are wide divergences in the speed of recovery both across and within countries. As a cause for concern, most of the key export markets of the Mauritian economy would remain in challenging territories. In particular, the euro area returned to recession in the first quarter of 2021 after a surge in infections prompted renewed COVID-related restrictions in some countries. Moving forward, while a pickup is foreseen as from mid of this year amidst progress on the vaccination front, a return to pre-pandemic level in the single-currency bloc is unlikely to occur before 2022. As for South Africa, the scarring effects of the crisis and the impact of the second wave of infections which peaked in January, coupled with chronic electricity shortages would weigh on growth prospects. This would contribute to the slower recovery being foreseen in sub-Saharan Africa, with access to vaccines likely to remain scant and fiscal space limited.

A high degree of uncertainty surrounds the Fund's baseline growth projections considering the difficulty to gauge the pandemic's future path. Faster progress on the vaccination front can uplift the forecasts, while virus variants that evade vaccines can lead to a downgrade. Multispeed recoveries could pose financial risks if interest rates in the US rise ahead of current market expectations. On another note, oil prices have staged a sharp rise from their low base in 2020, in part reflecting the OPEC+ supply curbs and the pickup in economic activities worldwide. Oil prices, are, expected by the World Bank to average USD 56 and USD 60 per barrel in 2021 and 2022 respectively when computed by the average of UK Brent, West Texas Intermediate and the Dubai Fateh. On the currency front, the US dollar recovered some grounds against all major currencies since the start of this year, supported by the rise in long-term US interest rates amidst the better growth outlook.

Domestic landscape

On the domestic front, the foremost event relates to the resurgence of COVID-19 cases in the local community which led to a second lockdown being enforced on 10th March. Whilst restraining economic activities and slightly delaying the reopening of our national borders, the overall impact of the confinement has been moderate by virtue of its shorter duration and, more importantly, the higher degree of flexibility with which it was implemented as compared to that of last year. Indeed, an extensive number of Work Access Permits (WAPs), covering most economic sectors, were promptly issued while several operators have effectively maintained activity levels by capitalising on remote-work. Furthermore, a first phase of the reopening began only after 3 weeks, i.e. on 1st April, with selected activities allowed to resume under strict sanitary protocols. Currently, we are in the second phase of the reopening which started on 1st May, with

WAPs no longer required – except for localised temporary restrictions in areas declared as 'Red Zones' – and further businesses allowed to re-open. In another light, the implementation of the National Deployment and Vaccination Plan for COVID-19 which slowed in the wake of difficulties to access vaccines worldwide, especially amidst the temporary restrictions introduced on exports of vaccines after the new virus outbreak in India, has gathered pace lately. As of late, around 240,000 persons had been administered the vaccine. The authorities target to vaccinate at least 60% of the population by July-August 2021 in order to achieve herd immunity. The recent consignment of 500,000 doses of the Sinopharm vaccine should provide a boost to the vaccination plan.

Revised forecasts for Mauritius

Economic growth

On the heels of the afore-mentioned developments, our baseline forecast of real GDP growth at market prices for 2021 was downgraded for internal purposes since April and now stands at 4.8%, i.e. close to the recently-updated IMF projection for Mauritius and the latest World Bank forecast. In addition to capturing the still challenging economic conditions prevailing in many of our key export markets, our revised outlook, which represents a downgrade of 150 basis points relative to our January prognosis, is a direct consequence of: (i) the economic ramifications of the second national lockdown; and (ii) a slight delay expected in the re-opening of national borders relative to our initial assumption, the more so when taking into account the sanitary conditions prevailing in some of our key regional markets including Reunion Island and South Africa. Pursuant to the latter development, a marginally lower rebound is now envisaged in the tourism sector. Moreover, the lockdown and the subsequent maintenance of some restrictions are likely to take a toll on the performance of high-contact intensive sectors such as 'arts, entertainment and recreation' as well as restaurants and cosmetic services, while specific activities within the wholesale and retail trade segment are also poised to take a hit. That said, most sectors are expected to record a recovery this year, although several of them would not reach their pre-pandemic levels in real terms. In particular, notwithstanding the still challenging operating context, a strong pickup is anticipated in the export-oriented manufacturing sector from its reduced base, with textile operators benefiting from market diversification efforts and higher recourse to e-commerce strategies. Elsewhere, value added in the sugar sector would be supported by the rise in production and higher price. Likewise, a notable rebound is foreseen in construction activities, reflecting notably the execution of large-scale infrastructure ventures while a pickup is also expected in private capital spending after the contraction observed in 2020. As for the financial services sector, operators have, in general, managed to maintain service levels via the implementation of remote-working. Banking sector players are set to remain resilient to the difficult context on the back, notably, of their financial

soundness and market diversification inroads in the region. However, global business operators continue to contend with the classification of Mauritius on the Financial Action Task Force and the European Union lists. On the latter front, the IMF commended in its press release on Mauritius issued on 7th May that *"the authorities' concerted efforts to exit from the Financial Action Task Force (FATF) and European Union Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) lists and encouraged them to keep up these efforts."* Of note, the authorities have, lately, submitted a third progress report ahead of the next FATF Plenary meeting and remain confident that the country is on track to exit the lists in a near future.

By and large, it is worth underscoring that our growth outlook for this year is still subject to greater-than-usual uncertainty, with risks abounding on both sides. Tourism will remain the discriminant factor with the pace of recovery therein hinging critically on: (i) the easing of travel and border restrictions; (ii) the take-up in long-haul travel; and (iii) our ability to diversify into non-traditional source markets. Furthermore, the risk of an outbreak of more virulent strains of the disease requiring the introduction of renewed restrictions unsettling the projected recovery cannot be discarded at this stage. All in all, a key priority is to lay the grounds for a rethinking of our tourism model in tune with the post-pandemic realities.

Overall, the domestic economy is set to navigate through a highly volatile environment this year, with unusually large swings in quarterly GDP growth rates in view of the statistical effect triggered by the sharp contractions observed last year. For instance, after a year-on-year contraction exceeding 10% during the first quarter, we expect nationwide GDP to grow at above 25% in the second quarter of 2021 following a dip of 33% observed in the corresponding quarter in 2020. Beyond the near term, an acceleration in the pace of economic growth is expected in 2022, on the back notably of: (i) the low base stemming from the cumulative effect of the sharp contraction observed in 2020 and the downgraded outlook for this year; (ii) the anticipated gradual recovery in the tourism sector; (iii) the implementation of several large-scale infrastructure projects; and (iv) a normalisation of activities across other sectors. Moreover, as per our baseline scenario, a full recovery to 2019 levels, in real terms, would occur during the course of 2023. On this note, it is anticipated that the forthcoming National Budget will, in line with the broad consensus amongst all stakeholders, lay solid grounds for tapping into the potential from new sources of growth such as renewable energy, port and logistics, digitalisation and the blue economy, alongside preserving our competitive edge, notably on the fiscal front relating to both the tax and non-tax regimes, to foster the country's openness to foreign talents and expertise with a view to substantially expanding the high-skilled and entrepreneurial segments, whilst positioning the jurisdiction as a reference regional platform for trade and investment in the Asia-Africa corridor.

Other indicators

Notwithstanding the sharp contraction in economic growth, nationwide unemployment remained fairly contained last year, albeit rising from 6.7% to 9.2%, backed by the provision of support measures, in particular, wage subsidies and income support. However, an analysis of the underlying metrics sheds light on dynamics that warrant attention. First, the contained evolution of the overall joblessness rate in 2020 is associated to the marked decline of 20,900 in the labour force. This movement has, in turn, led to a fall in the national activity rate from 59.3% to 56.9% during the period under review. As the corollary thereof, the economically inactive section of the population rose by 26,000 to attain 431,600 in 2020. Within the latter category, the potential labour force – referring to persons not in employment and who were not actively looking but were available for work and those who were actively looking but were not available for work – rose significantly to attain 42,000 in 2020. As per Statistics Mauritius, the latter increase was mainly due to the lockdown where many, though available for work, could not look for work. These would include previously working persons (self-employed and employees of the informal sector) who could not work during the lockdown and did not look for work. When adding the potential labour force to the unemployed and those in time-related underemployment – on average, 16% of employees were working less than their usual hours of work during the post lockdown period – labour underutilisation, which was already high at 27% of the labour force in 2019, is anticipated to have risen by a significant amount last year. Moving forward, labour market indicators would require close monitoring, with a particular concern relating to the country's ability to create jobs for those currently underutilised and safeguard existing employment, particularly in SMEs, when support measures are gradually relaxed.

In spite of facing up to a relative weakening of the rupee, headline inflation has pursued a general downtrend in recent months to reach 1.9% as at April 2021 compared to 2.5% in January. In the months ahead, inflation is expected to resume a progressive uptrend, fueled, *inter alia,* by (i) the rise in freight costs; (ii) the hike in commodity prices worldwide that has translated in higher retail prices of Mogas and other raw materials for construction; (iii) the increase in the price of basic food items such as rice and vegetables; and (iv) the rise in the price of cigarettes. That said, barring exceptional events, headline inflation should remain generally moderate at 2.8% as at December 2021, thus providing a conducive backdrop for the continued maintenance of an accommodative monetary policy stance by the authorities amidst the challenging economic climate.

On the fiscal front, latest estimates show that, as at March 2021, public sector net debt attained 74.3% of GDP as at March 2021 compared to 69.3% at December 2020. In gross terms, public debt rose to 91.3% of GDP compared to 84.3% over the corresponding period. With regard to the fiscal year ending June 2021, the budget, which was initially expected to be balanced, is now projected to record a deficit of 3% of GDP as per official pronouncements made in April 2021, after making allowance for a Supplementary Appropriation

amounting to Rs 17 billion and a lower nominal GDP. That said, the country's fiscal metrics may need to be reassessed in view of the recent policy recommendations of the IMF regarding the treatment of the transfer from the Bank of Mauritius and the financing of the Mauritius Investment Corporation. Overall, it is expected that, in the forthcoming Budget, the authorities set the stage, in line with the Fund's policy advice, for continuing the accommodative fiscal stance during the reopening phase, while preparing plans for fiscal consolidation to stabilise debt in the medium term once the country firmly emerges from the pandemic to preserve fiscal sustainability.

On the external front, the imbalances are forecast to remain generally large this year, bearing in mind the still testing economic context characterising our key trading partners. Overall, after deteriorating by 7.8% in year-on-year terms during the first quarter of the year, the balance of trade deficit is set to hover close to Rs 111 billion in 2021, i.e. about 24% of GDP following an anticipated widening of the import bill amidst hikes in commodity prices as well as the rise in global freight costs and pressures on the external value of the rupee. Thus, despite support projected to emanate from a modest pickup in gross tourism receipts as well as the rebound in primary income and the boost to secondary income from the anticipated compensation linked to the MV Wakashio oil spill, the current account deficit is projected to remain elevated at 12.4% of GDP in 2021. That said, this imbalance is set to be largely mitigated by the expected recovery in the capital and financial account, supported by the lines of credit and financial assistance received from foreign Governments and international agencies as well as a partial rebound – from the sharp contraction observed in 2020 – in private capital flows, inclusive of capital raised by local financial institutions on international markets and through the private sector window of Development Finance Institutions. Overall, the deficit on the balance of payments is projected to narrow to around 1.5% of GDP this year.

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May 27, 2021

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