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MCB Focus

Economic Outlook

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MCB GROUP

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International landscape

As stressed in the latest IMF World Economic Outlook, the global economy remains confronted by multiple shocks amidst the destabilising impact of the war, the socio-economic effects of stubbornly high inflation and the slowdown of China's economy. Against this backdrop, world growth is set to decline from 6.0% in 2021 to 3.2% in 2022 and further to 2.7% in 2023. The forecast for 2022 is unchanged from the July 2022 WEO Update, while the prognosis for 2023 is lower by 0.2 percentage point. The Fund added that: *"The revised forecast for 2023 represents the weakest since the 2.5% growth rate seen during the global slowdown of 2001—with the exception of those during the global financial and COVID-19 crises".* In fact, the IMF anticipates a contraction in real GDP lasting for at least two consecutive quarters during 2022–23 in countries that account for about one-third of the global economy. In the US, weakening personal consumption coupled with the aggressive monetary policy campaign would slow growth to 1% next year. Growth in China has been hit by the lockdowns under its zero-COVID policy and the weakening property market, with ripple effects on trade and activity levels worldwide. The economic consequences of the war in Ukraine is more prominent in the euro area, with its growth forecast for 2023 being slashed by 0.7 percentage point – the largest downgrade across the regions. As per the Fund, more than half of the countries in the euro area will experience technical recessions this winter. For its part, economic growth in the sub-Saharan African region is set to slow from 4.7% in 2021 to 3.6% in 2022 and 3.7% in 2023, reflecting the testing conditions across main trading partners, tightened financial conditions and a negative shift in commodity terms of trade.

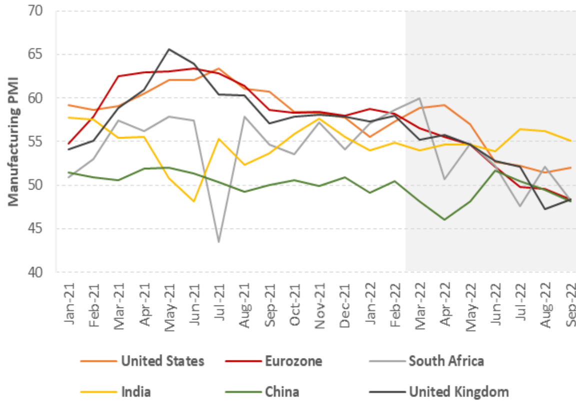
Inflation has soared to multi-decade highs and broadened beyond food and energy. In the euro area, inflation hit an all-time high of 10.7% in October and attained 10.1% in September in the UK. Meanwhile, US inflation reached one of its highest levels in about 40 years of late. Emerging market and developing economies saw inflation climbing to 11% in the third quarter, the highest since 1999. Overall, after peaking at 9.5% in the third quarter of 2022, global inflation should pursue a gradual decline, amidst synchronised and aggressive interest rate hikes by major central banks with indications that further increases may be on the cards. Global financial conditions have tightened, leading to capital outflows from emerging markets. Equity markets have fallen sharply while nominal bond yields rose. In parallel, the greenback is trading at its highest since 2000 with some 90 developing countries having seen their currencies weaken – over a third of them by over 10%.

Risks to the outlook remain on the downside with a 25% probability that global growth could fall below 2% in 2023 as per the IMF. The risk of policy mistakes has risen amidst the uncertain context. Under-tightening of monetary policy could cause inflation to become entrenched and trigger a de-anchoring of expectations while an over-tightening could usher a more severe recession in some economies. Policy divergences could lead to further USD appreciation and add to cross-border tensions. More energy and food price shocks might cause inflation to persist for longer while a further escalation of the war can exacerbate the energy crisis.

Box I: The global economy at the whim of heightened vulnerability

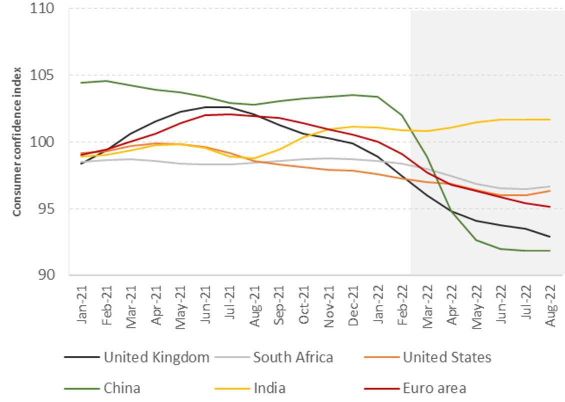
Evidence of recessionary fears is becoming more visible…

PMI readings across key economies show signs of weakening amidst persistent cost pressures and tighter monetary policy…



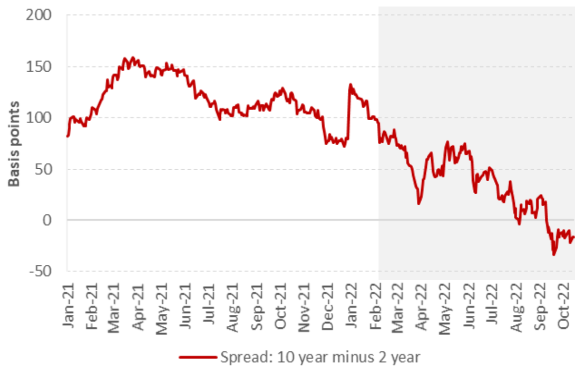
Note: A reading above 50 indicates expansion in the sector; below 50 indicates contraction

Consumer confidence pursues a downward trajectory in the face of inflationary woes…

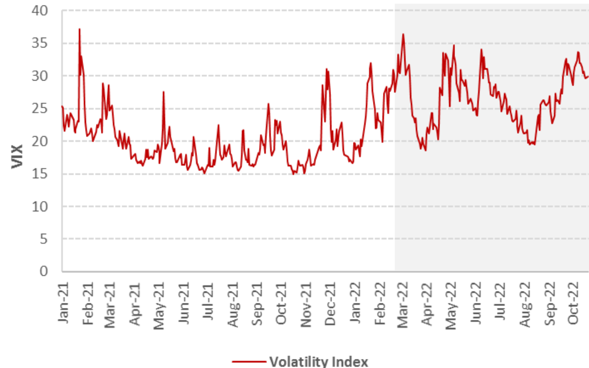


Note: Values below 100 indicate a pessimistic attitude towards future economic developments

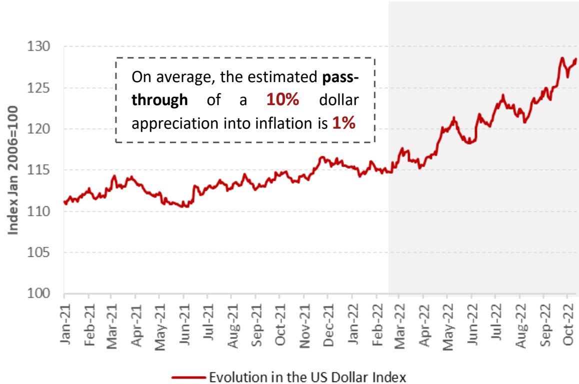
Markets are pricing in a growing risk of recession with the two-year yields exceeding 10-year…



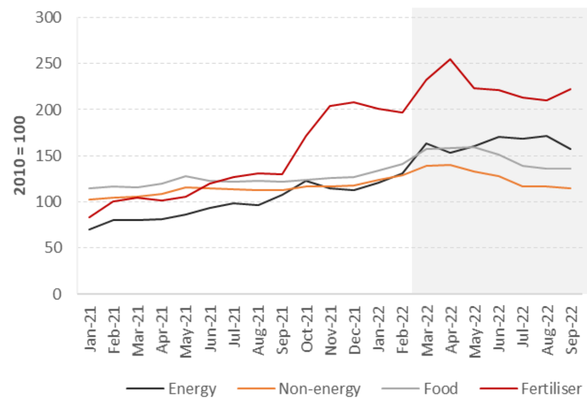
Asset markets continue to display volatility on account of continued elevated geopolitical uncertainty…



The dollar is now at its strongest since the early 2000s, representing a challenge for emerging markets…



Commodity markets remain subject to increased volatility, adding to the cost-of-living crisis…

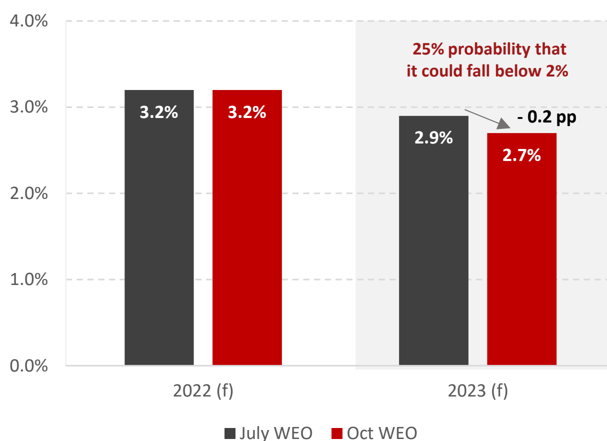


Shaded grey area denotes the period on the ongoing Russia-Ukraine war

Sources: Investing.com, OECD, Federal Reserve Bank of St. Louis, World Bank and IMF

Box I: The global economy at the whim of heightened vulnerability (Cont'd)

Against this backdrop, the IMF has revised its growth forecasts ...



More than 1/3 of the world economy is likely to contract this year or next

USD 4 trillion* loss in global output between now and 2026

Note: Output losses relative to pre-pandemic trend

	Real GDP growth 2023 (f)	Difference from July forecasts
United states	1.0 %	0.0 pp
Euro area	0.5 %	-0.7 pp
Of which:		
Germany	-0.3 %	-1.1 pp
France	0.7 %	-0.3 pp
United Kingdom	0.3 %	-0.2 pp
China	4.4 %	-0.2 pp

...with the outlook for inflation remaining on the upside...

World	Advanced economies	Emerging and developing economies
2022 (f): 8.8%	*2022 (f)*: 7.2%	*2022 (f)*: 9.9%
2023 (f): 6.5%	*2023 (f)*: 4.4%	*2023 (f)*: 8.1%

On the back of rising price pressures, central banks have increased their focus on monetary tightening...

Selected Central Banks	Current rate	Year to date rate hikes
Federal Reserve Bank	3.75% - 4.0%	375 bps
European Central Bank*	1.50%	200 bps
Bank of England	3.0%	275 bps
Swiss National Bank	0.50%	125 bps
Bank of Canada	3.75%	350 bps
South African Reserve Bank	6.25%	250 bps

** Relates to the deposit facility*

Balancing act conundrum

The hard-won credibility of central banks could be undermined if they misjudge the persistence of inflation.

Under-tightening risks:

- De-anchoring of inflation expectations
- Rising threat to current and future prosperity

Over-tightening risks:

- Increased risk of pushing the global economy into recession
- Higher cost to financial markets

Sources: Investing.com, OECD, Federal Reserve Bank of St. Louis, World Bank and IMF

Revised forecasts for Mauritius

Main economic indicators

Figure 1 **Main economic indicators**

	Unit	2018	2019	2020	2021	2022[1]	2023[1]
Real sector							
GDP at market prices	Rs bn	500	512	449	481	539	593
GDP growth (at market prices)	%	4.0	2.9	-14.6	3.7	6.2	5.0
Gross Domestic Saving	% GDP	13.0	11.9	9.8	10.3	10.5	11.8
Gross Fixed Capital Formation	% GDP	18.0	19.1	17.1	19.5	19.5	19.2
Private sector investment	% GDP	13.7	13.9	13.0	15.4	15.4	15.4
Public sector investment	% GDP	4.4	5.2	4.1	4.1	4.1	3.8
Annual average headline inflation	Dec, %	3.2	0.5	2.5	4.0	10.4	~ 5.0
Unemployment rate	average, %	6.9	6.7	9.2	9.1	7.9	7.6
Fiscal sector							
Budget balance	FY, % GDP	-3.2	-3.2	-13.6	-5.6	-5.0 [a]	-4.0 [a]
Public sector gross debt	FY, % GDP	63.4	65.3	83.4	96.2	85.5	78.0 [a]
Public sector debt (as per the Public Debt Management Act) [b]	FY, % GDP	63.4	65.3	70.4	79.2	73.3	72.9 [a]
External sector							
Balance of visible trade	% GDP	-22.4	-23.4	-21.3	-27.6	-35.1	-30.3
Current account balance	% GDP	-3.8	-5.0	-8.8	-13.2	-14.4	-11.0
Memorandum item:							
Per capita GDP	*USD*	*11,559*	*11,361*	*9,046*	*9,157*	*9,687*	*10,303*

[1] *MCB revised forecasts*

[a] *The fiscal sector figures for FY 2021-2022 and 2022-2023 are as per the projections made in the National Budget 2022 - 2023 and approved in the National Assembly and are, as such, not adjusted for changes in nominal GDP estimates*

[b] *As from 2020, public sector debt is computed in net terms by excluding cash and cash equivalent and equity investment held by Government and public sector bodies in private entities, in line with the amended Public Debt Management Act*

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

Updated growth estimates for 2022

As per our revised baseline estimates, real GDP growth at market prices would attain 6.2% in 2022, reflecting a 20 basis points upgrade relative to our July forecasts. This updated outlook which is broadly in line with the latest IMF forecast essentially reflects the slightly better performance in the tourism industry as well as an improved outturn in respect of specific segments of the manufacturing industry, such as food, which have more than offset the drag, on real output, emanating from the worsening external context and the impact of a lower growth in taxes on products net of subsidies on the heels of official readings for the first semester.

At the output level, we have upgraded our forecast for growth in 'Accommodation and food services activities' on the back notably of air access inroads. Overall, following three consecutive years of negative real growth in value added, the sector would account directly for more than 50% of the nationwide economic growth. If the spillover effects of tourism via the indirect, induced and catalytic channels are captured, the sector's total contribution to real GDP growth would be significantly higher, thus testifying that the economic

rebound being anticipated for this year is mainly tourism-led. Additionally, within the manufacturing sector, we have, after factoring in latest official figures for the second quarter of the year, revised upwards our forecast for growth in value added in: (i) the food segment, partly reflecting moves to encourage local production and consumption; and (ii) the 'other manufacturing' activities on the back of an improved performance of some emerging segments such as pearls and precious stones and pharmaceutical products, albeit from a lower base in the latter case. That said, our outlook for the textile manufacturing sector has been downgraded in the wake of the more pronounced ramifications of the war in Ukraine in our main trading partners as well as ongoing logistics difficulties. Furthermore, we have also revised down our forecasts for the real estate as well as construction activities after making allowance for the impact of persistently elevated prices and input costs.

From the expenditure perspective, the upgrade to our GDP growth prognosis for this year is underpinned by the higher exports of services in view of an improved outlook for tourism earnings. That being said, the country's external imbalances would remain elevated with our projection for the visible trade deficit being worsened by some 240 basis points, relative to our July prognoses, to 35.1% of GDP. Besides, household consumption spending should continue to be impacted by the high inflationary environment with the rising input costs and prices also taking a toll on private sector investment.

Overall, after factoring in our upward revision in GDP growth and a higher deflator, our estimate for national income as measured by GDP at market prices for this year stands at Rs 539 billion. That said, in constant terms, GDP remains about 6% below the 2019 levels. When computed in USD, GDP is set to improve to USD 12.3 billion this year from USD 11.6 billion in 2021. As a result, per capita GDP would improve to USD 9,687 this year, which remains some 15% below the pre-pandemic level.

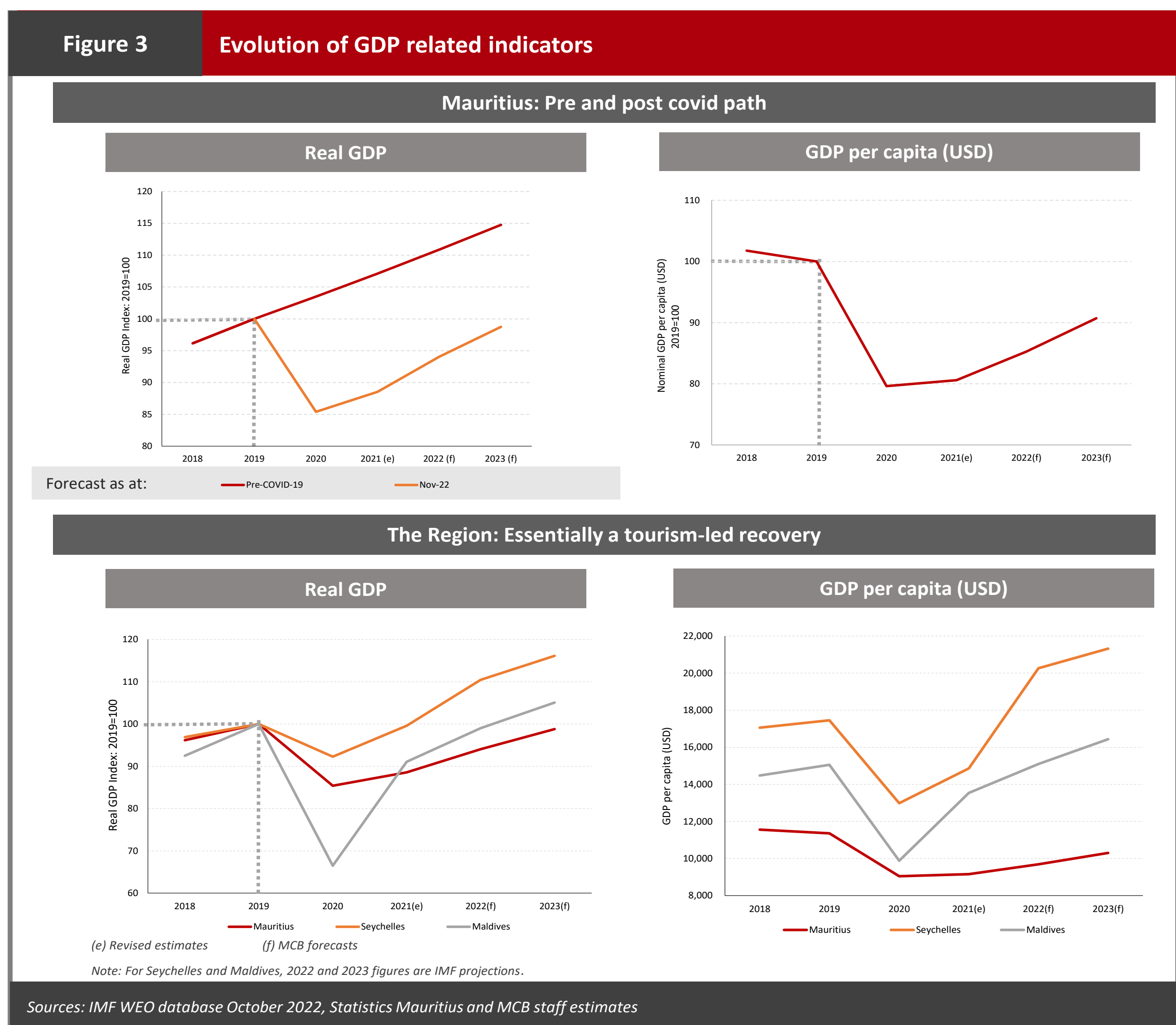
Figure 2 **Evolution of forecast for real GDP growth at market prices**

	2022		2023	
Forecast as at	MCB	IMF	MCB	IMF
Jun 21	6.5	6.7	-	-
Oct 21	-	6.7	-	-
Nov 21	6.9	-	-	-
Jan 22	6.7	-	-	-
Apr 22	6.2	6.1	-	5.6
Jun 22	-	6.1	-	5.6
July 22	6.0	-	5.5	-
Oct 22	-	6.1	-	5.4
Nov 22	6.2	-	5.0	-

Sources: IMF World Economic Outlook and IMF Press releases for Mauritius, and MCB staff estimates

Revised growth projections for 2023

The broad-based slowdown in global economic activity - especially across our key export markets - being anticipated for next year is set to restrain the economic performance of Mauritius, with idiosyncratic constraints, for instance linked to labour shortages – both qualitative and quantitative – in some specific industries also weighing in the balance. As such, while the domestic recovery from the pandemic should continue, we have revised our projection for real GDP growth in 2023 to 5.0%. This updated prognosis represents a decline of 50 basis points as compared to our projection of July last. Indeed, the direct impact of subdued demand from our main markets should take a toll on export sectors, with multiplier effects therefrom on other activity segments. In particular, relative to our July forecasts, we have cut our projected growth for the export oriented manufacturing sector, owing largely to a downgrade in the textile industry. In fact, the IMF expects a marked slowdown in GDP growth and private expenditure in the country's three main source markets for textile exports in 2023, namely South Africa, US and UK. We have also trimmed our forecast for the tourism industry on the basis of arrivals being anticipated to be slightly lower than initially thought in our baseline scenario in view of the testing and uncertain external environment.



From the expenditure perspective, the downgrade in our economic growth prognosis for 2023 reflects essentially a lower expansion than earlier expected in exports of goods and services as well as a slightly lower growth in private sector investment in view of the softening global economic prospects, heightened uncertainties and ongoing normalisation of monetary policy. Conspicuously, after making allowance for broadly stable public sector spending relative to 2022 when measured in nominal terms, the ratio of Gross Fixed Capital Formation to GDP is set to drop marginally to attain 19.2% in 2023.

That said, activity levels would still be driven by the expansion in tourism, albeit at a circumstantially less upbeat pace than expected in July last. Additionally, GDP growth should benefit from private capital outlays aimed at supporting the country's transition to a green economy as outlined in the National Budget 2022-23. For its part, the financial services sector is set to uphold its appreciable growth path on the back of its market and competitive positioning, while the ICT industry should maintain a solid expansion in line with further support from digital adoption across the country and outsourcing activities. Growth in the wholesale and retail trade sector is expected to be supported by the projected upturn in household consumption expenditure, although the prolonged high inflationary period would weigh in the balance. Further and albeit with a relatively low contribution to real GDP growth, the sugar industry should, barring adverse climatic conditions, return to positive growth territory after three consecutive years of negative real growth.

On the whole, our projection for nominal GDP market prices in 2023 stands at Rs 593 billion. When computed in US dollars, nationwide GDP is set to improve to USD 13.1 billion next year, albeit remaining below its 2018 and 2019 levels. Per capita GDP, which had fallen to its lowest point in a decade in the wake of COVID-19, is projected to rise to USD 10,303, which is still some 9% below its pre-crisis position.

As the situation stands and in view of the considerable level of uncertainty characterising economic prospects worldwide as well as the enduring ramifications of the war on commodity and financial markets, the balance of risks to the country's growth outlook for next year is mainly slated towards the downside as detailed in Box II. Indeed, whilst the possibility of upside risks exist, albeit with a lower probability, a more severe worsening of economic conditions particularly across our key markets would dampen demand for the country's exports of goods and services by a more significant margin than envisaged in our baseline scenario.

Box II: Risk to growth outlook for 2023

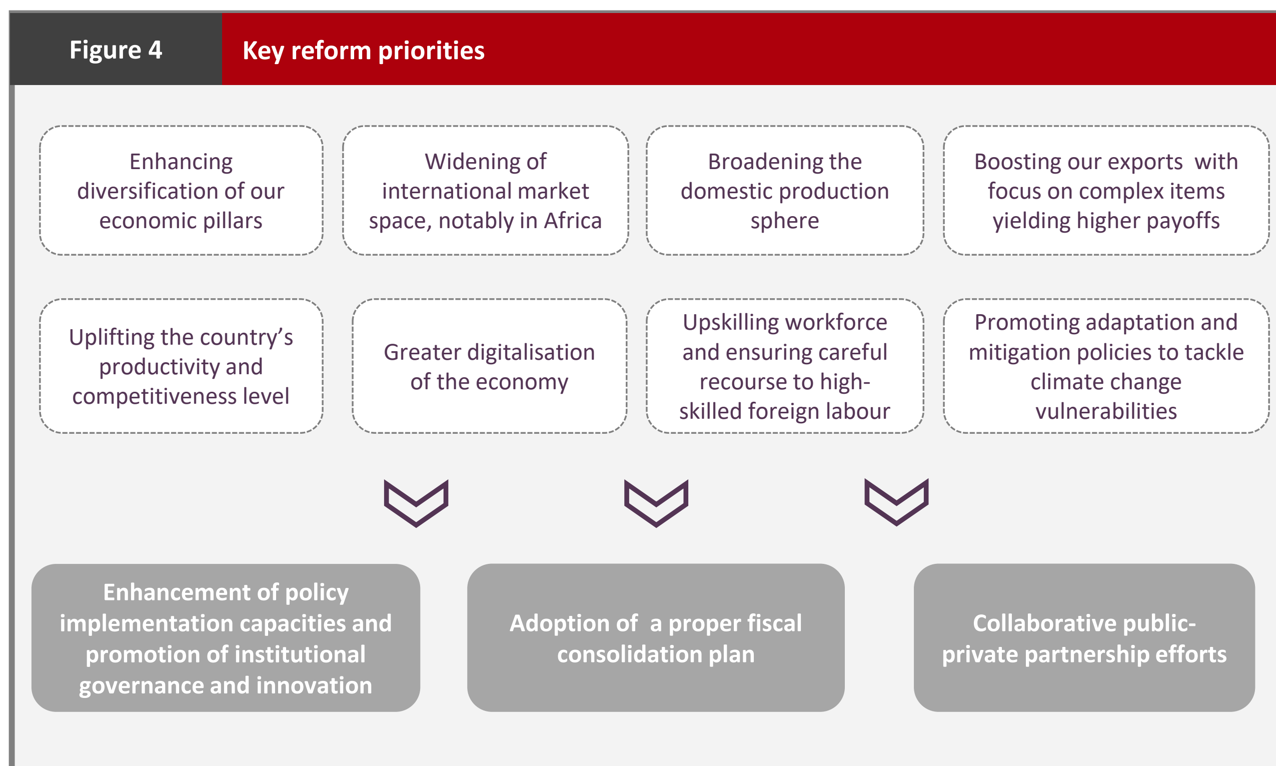
Scenario	Description and expected impact	Probability of occurrence
Upside	Relative to the baseline, the external environment improves, triggered by a swift de-escalation of the conflict between Russia and Ukraine, translating into lower inflationary pressures and mending of economic conditions across our key export markets, notably Europe. This in turn generates positive spillover effects in respect of the country's exports of goods and services, in particular instigating a better tourism performance.	Low to moderate
	A higher-than-envisioned growth in respect of nationwide investment, spurred by the enhancement of project implementation capabilities at both public and private sector levels, thus leading to a higher growth in value added in the construction sector in particular.	Low
Baseline	The economic recovery from the pandemic continues albeit at a softer pace in view of the difficult external context, as embodied in the revised IMF baseline global growth estimates.	High
	Growth in overall investment is driven mainly by private sector investment, despite the latter being partially impacted by the still testing economic climate and high input costs.	Moderate to high
Downside	Relative to IMF's baseline scenario, the external context deteriorates markedly, on the back, for instance, of (i) gas supplies issues depressing output in Europe, (ii) resurgence of COVID-19 or new global health scares, and (iii) worsening of China's property sector crisis weighing heavily on the country's growth, thus leading to a slower pickup in the tourism sector as well as exports.	Moderate
	Further supply bottlenecks coupled with escalating freight cost and pressures on the external value of the Mauritian Rupee notably from lower tourism earnings impacting imports and causing domestic inflationary pressures to persist longer than expected in our baseline, with ripple effects on economic activity.	Low to moderate
	Global tightening in financing conditions triggering outflow of capital and financial flows with adverse consequences on our balance of payments position.	Moderate

Source: MCB Staff estimates

Medium term perspectives

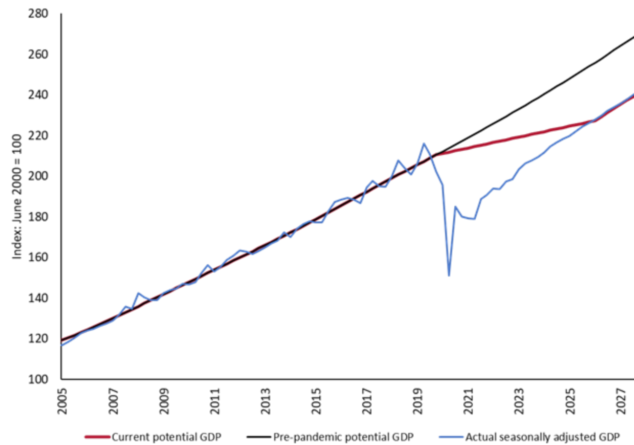
Amidst the highly uncertain and volatile global environment, it is comforting to note that the Mauritian economy remains engaged on a recovery path following the pandemic hit. That said, as stressed by the World Bank in its latest Country Economic Memorandum for Mauritius, it would be inopportune to simply ride out the current storm and return to business as usual. Towards these ends, the execution of a range of well-sequenced and adapted structural policies (see Figure 4) to complement the measures already put in place by the authorities is deemed a necessary, albeit not sufficient, condition to elevate the country's potential output – which is defined as the maximum output an economy can sustain when it is at full capacity, without generating a rise in inflation – while helping to boost actual GDP. While crucial in economic policy, potential GDP cannot be directly observed and must be estimated. Leveraging a combination of empirical analysis and econometric modelling techniques, an attempt is made at estimating the evolution of potential growth in Mauritius over the past decades and forecasting its future path in the post-COVID era as outlined in Box III. It is noted that, after standing at 6% in the 1990s, potential GDP growth has undergone a progressive drop during the last decades, reaching 4.2% during the 2000s before dropping to 3 – 3.5% before COVID-19.

Figure 4 **Key reform priorities**



Box III: Dissecting the evolution of potential output in Mauritius

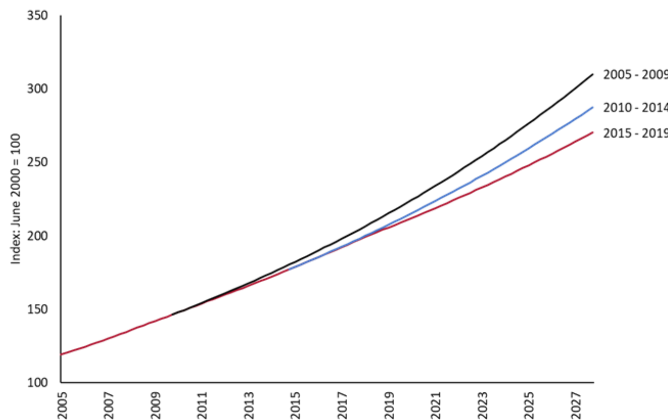
The COVID-19 pandemic has triggered a decline in potential GDP that could persist in the coming years…



The chart depicts the evolution of pre- and post-pandemic potential GDP. The latter is, on current trends, expected to grow at a slower pace in the short term reflecting the scarring from the crisis, before picking up thereafter. However, in the absence of structural reforms, amongst others, the resulting permanent loss in potential GDP induced by the pandemic is expected to set Mauritius on a lower development path, with convergence to the pre-pandemic potential GDP path unlikely to be achieved in the foreseeable future.

In a no-change scenario, the current potential GDP is, on a yearly basis, estimated to be 11% lower relative to the pre-pandemic GDP path as it stabilises.

….worsening the already fragile development trajectory that the country experienced before the pandemic…

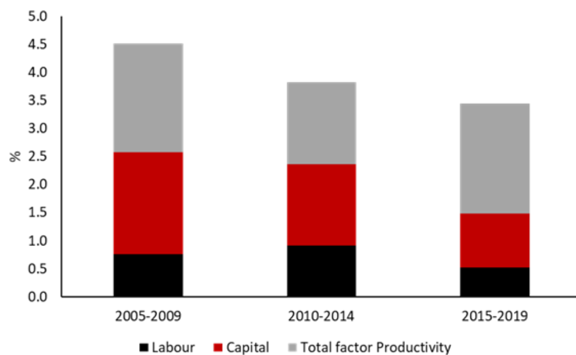


Each line represents the estimated future path of potential GDP when extrapolated by the year-on-year growth rate experienced at the end of the period displayed. The chart shows how, over time, the trend in potential GDP has significantly shifted downwards, notwithstanding the natural adjustment in economic growth a country experiences the further it is in its development stage.

Change in potential GDP (at the aforementioned stabilisation point)	
2015-19 vs 2005-09	-12%
2015-19 vs 2010-14	-6%

Note: Figures relate to end of period

……instigated by lower overall growth in the country's production factors.



The chart decomposes real GDP growth into the components of a standard Cobb-Douglas production function, assuming a standard output elasticity of capital of 35% in line with previous IMF research and treating the total factor productivity as the residual of the equation. The latter reflects many influences including qualitative factors such as better management and improved quality of inputs through training and technology.

Note: Potential output is estimated by applying the Hodrick-Prescott (HP) filter on real and seasonally adjusted actual output

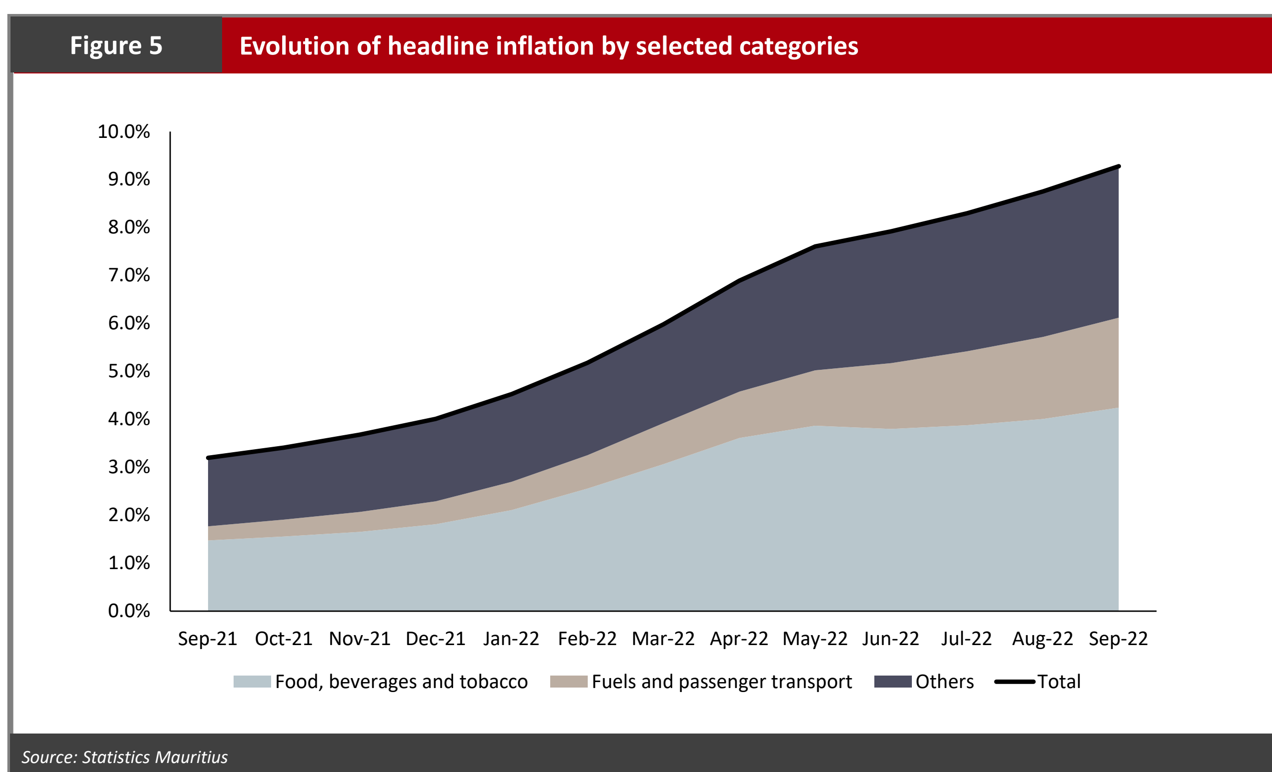
Sources: IMF, various publications, Statistics Mauritius and MCB staff estimates

Other indicators

Inflation

Inflationary pressures that were already present as the global economy emerged from the pandemic have been severely aggravated by the war in Ukraine. As a result, inflation has remained stubbornly high across most economies of the world. Likewise, on the domestic front, by virtue of the significant weight of imported items, especially food and fuel as illustrated in Figure 5, in the Consumer Price Index basket, the annual average headline inflation has sustained an uptrend reaching 9.4% in September 2022, despite the subsidy introduced by the authorities in respect of specific essential products and a relative stabilisation of the rupee vis-à-vis the greenback during the last three months. Year-on-year inflation attained 11.9% in September while core measures of inflation – which exclude transient price movements – also maintained their uptrend.

Figure 5 **Evolution of headline inflation by selected categories**



Source: Statistics Mauritius

Going forward, annual average headline inflation is, on current trends, expected to pursue its upward trajectory to attain 10.4% as at December 2022. In 2023, whilst remaining elevated for most of the year, inflation should resume a declining trend in view of the statistical effect of a comparatively wider base. That said, currency dynamics would continue to warrant attention. As per our baseline scenario, annual average headline inflation should hover around 5% by December 2023. The heightened risk aversion and the anticipated decline in global demand amidst worsening economic conditions is expected to somewhat temper down the international price movements of commodities. Nevertheless, risks to inflation proving more persistent could crop up in the event of a further strengthening of the US dollar triggered by a further deterioration in global financial conditions, an escalation of the war as well as adverse climatic conditions

impacting the vegetable and food prices locally. From a policy perspective, the Bank of Mauritius has, as expected, pursued its monetary policy tightening cycle in an attempt to quell inflation with the Key Repo Rate raised by 100 basis points in November (implying a cumulative rise of 215 basis points since the beginning of the year). The policy rate now stands at 4.0%. Over the periods ahead, the high inflationary environment coupled with the accelerated monetary policy normalisation globally, notably by the US Federal Reserve – which has raised its benchmark rate by a total of 375 basis points thus far this year – indicate that there could be further monetary policy tightening locally, although the negative output gap in relation to the pre-pandemic level and the highly uncertain outlook would warrant scrutiny. Indeed, as stressed in the latest IMF Global Financial Stability Report: "*Navigating the uncharted waters of high inflation and tighter financial conditions requires a delicate balance by policymakers. Central banks must act resolutely to bring inflation back to target and avoid a de-anchoring of inflation expectations. Clear communication about their policy decisions, their commitment to their price-stability objectives, and the need to further normalize policy will be crucial to preserve credibility and avoid market volatility. At the same time, the tightening of financial conditions needs to be calibrated carefully, to aim at avoiding disorderly market conditions that could put financial stability unduly at risk.*''

Unemployment

In line with the general pickup in economic activities on the local scene, nationwide unemployment rate fell from 8.7% in the first quarter of the year to 8.1% in the second quarter of 2022 while youth joblessness rate decreased from 28.9% to 26.1%. The inactive population, which had risen sharply as a consequence of the pandemic, dropped by 7,800 relative to the first quarter to stand at 451,500, with two thirds being female. As the corollary thereof, the labour force increased by 10,700 to reach 560,800 in the second quarter, contributing to a 0.9 percentage points rise in the national activity rate to 55.4%, although female participation rate remains well below the corresponding levels observed in peer countries. Moving forward, labour market aggregates should uphold their improving trend with the nationwide unemployment dropping to 7.9% and 7.6% respectively this year and next, albeit remaining higher than the pre-COVID levels. From a more structural perspective, labour underutilisation - which incorporates those in potential labour force, the unemployed and those in time and skills-related underemployment – should continue to warrant attention. It can be recalled that this category which was already elevated at 27% of the labour force prior to the pandemic has, as per official figures, risen further to 204,300 in 2021 (i.e. 38% of the labour force) with nearly 70% thereof being in skills-related and time-related underemployment. The persistently elevated level of labour underutilisation could have adverse consequences on the country's potential output and long-term growth prospects alongside exerting pressures on the country's productivity trends.

Public finance

The budget deficit for FY 2021/2022 is estimated at 5% of GDP as per the official Medium Term Macroeconomic Framework released in the National Budget 2022-23. For its part, public sector debt fell by 30 basis points, relative to June, to stand at 85.2% of GDP as at September 2022 when measured in gross terms. Public debt attained 73.6% of GDP after netting out cash and cash equivalent and equity investment held by Government and public sector bodies in private entities. Moving forward, whilst officially projected to improve, the country's public finances should, nonetheless, remain under pressure especially after making allowance for: (i) the worsening operating environment which may render the achievement of targeted revenue figures difficult; (ii) the uncertainties regarding the timely materialisation of the budgeted equity sales of Rs 22 billion (3.8% of GDP); and (iii) the ongoing reliance on Special Funds and Other Extra Budgetary Funds to undertake specific expenditures. Additionally, the persisting pressures on the rupee especially against the greenback would, coupled with the rising interest rates on the global front, to some extent, weigh on Mauritius' external debt servicing costs.

Going forward, as the country steers its way through the difficult context, it is important that the authorities execute on their fiscal consolidation plan to trigger a sustained reduction in public debt, backed by a sound public debt management framework that promotes the adherence to a clear fiscal anchor in line with international standards. The latest edition of the IMF Fiscal Monitor stresses that: "*We have seen how major global crises during the past decade-and-a-half have led to innovative and forceful fiscal responses, against the backdrop of rising debt and constrained monetary policy. Countries should rethink the role of fiscal policy in a shock-prone era—how it can better buffer against losses during crises and build resilience—and learn from experiences across the world".* On the one hand, this necessitates a proper prioritisation and control of expenditure, notably in the wake of higher pension spending pressures amidst the ageing population along with more targeted support to low-income households. Besides and as detailed in Box III, it is crucial to uplift the country's potential GDP to underpin higher revenue generation. Subsequently, this should help the country preserve the investment-grade status of its credit profile in support of endeavours to tap into global financial markets, alongside supporting financial services operators in their regional expansion strategies.

External front

The worsening external imbalances continue to warrant attention in view of the drag being exerted on nationwide economic growth. For the first half of 2022, despite benefiting from the rebound in exports of goods, the visible trade deficit deteriorated by around 61% relative to the corresponding period of last year to stand at Rs 89.9 billion as per official figures after factoring the significant hike in the import bill, with the adverse trends having persisted in July and August. The impact of the upsurge in import prices can be gauged

by the decline of 11.5 points in the terms of trade index to 72.6 during the second quarter of the 2022 relative to the first quarter of the year. The services account recorded a surplus during the first half of the year, driven mainly by the pickup in tourism earnings, although the latter remains below its pre-pandemic level. Overall, the current account deficit widened by 31% during the first semester, contributing to a deficit of Rs 21.4 billion in the country's balance of payments during the latter period in spite of the positive balance on the capital and financial account which has been upheld by loans taken by the Bank of Mauritius.

On the heels of the above developments, we have further worsened our projection for the trade deficit in 2022 to 35.1% of GDP compared to 32.7% in our July forecasts. Next year, the indicator is set to narrow somewhat to attain around 30% of GDP, on the back of: (i) a further rebound in exports of goods, albeit tempered by the testing conditions across the country's key markets; and (ii) a lower import bill assuming a relative weakening in commodity and energy prices on the international scene. On the whole, the current account deficit is poised to reach 14.4% of GDP this year before narrowing to some 11% of GDP in 2023 after factoring in surpluses in the services and primary income accounts. Regarding the balance of payments, we expect the deficit registered in the first half of the 2022 to be offset by a pickup in capital and financial flows in the second semester of the year, inclusive *inter alia* of the project-based disbursement of the tranches relating to the official grant and lines of credit received. Whilst the BOP should remain in surplus territory next year, the ramifications of potential shifts in investor sentiments amidst the highly volatile external context would call for scrutiny.

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