

3. ECONOMIC BACKGROUND

Global Landscape

- 3.1 The global economic environment has witnessed a major overhaul since our last Report further to the health and economic crises caused by the Covid-19 Pandemic, which became more pronounced as from 2020. In fact, during the period 2016-2019, global Gross Domestic Product (GDP) grew at an average annual rate of 3.3%, while in 2020, global output contracted by 3.3% whereby more than 85% of countries experienced a decline in their GDP. According to the World Bank, the depth of this global recession was surpassed only by the two World Wars and the Great Depression.
- 3.2 Based on the International Monetary Fund's projections, all regions are expected to experience negative growth with marked differences across individual economies as a result of the evolution of the Pandemic and the effectiveness of containment measures. The strength of the recovery would vary significantly across countries, depending on access to medical intervention and vaccines, effectiveness of policy support and exposure to cross-country spillovers, among others. Globally, unemployment rose to unprecedented levels, with the labour market being severely hit. As per the World Bank, once the Pandemic has subdued, the global economic landscape is unlikely to return to its pre-crisis state. For 2021 however, it is expected that the global economy would recover with a positive growth of around 6% and higher in subsequent years.

Mauritian Economy

- 3.3 The Mauritian economy has equally been severely hit by the COVID-19 Pandemic, given its openness to trade and investment. For the period 2016-2019, GDP growth averaged 3.6%, while in 2020, GDP contracted by 14.9%, with most sectors of the economy registering negative growth save for the ICT and financial services sectors. The Pandemic has also taken a significant toll on the tourism sector, on which our economy heavily relies. As a result, nominal GDP in 2020 went down below 2016 level.
- 3.4 Total investment as a percentage of GDP was on a rise in recent years reaching 19.6% in 2019, with a surge in both private and public investments. In 2020 however, it fell to 18.1%. As regards unemployment, same was on a declining trend for period 2016 – 2019, ranging from 7.3% in 2016 to reach 6.7% in 2019, but owing to the knock-on effects of the pandemic, rising to 9.2% in 2020.
- 3.5 Inflationary pressures remained subdued during the period 2016-2020, with an average increase in the price level of 2.2% annually. As far as the headline inflation rate was concerned, same grew from 1.0% to 3.2% for the period 2016–2018, dropping to 0.5% in 2019, to finally reach 2.5% in 2020. On the other hand, the deficit in the current account of the balance of payments averaged 4.5% of GDP during the period 2016–2019. However, given the disruptions in trade flows and

substantial decline in external demand coupled with a drop in tourism earnings, the current account deficit soared to 12.7% in 2020.

- 3.6 On the fiscal side, the budget deficit in Financial Year 2019-2020 was 11.8% of GDP, to finally decrease to 5.6% for 2020-2021. As regards the gross public sector debt, it rose from 65.4% of GDP at end of June 2019 to 84.2% of GDP at end of December 2020. In contrast, the monetary policy stance remained accommodative during the period under review. The Bank of Mauritius lowered the Key Repo Rate from 2.85% in March 2020, while bringing it further down to 1.85% in April 2020. This rate has been maintained at this level thereafter.

Future Challenges

- 3.7 Against such an economic backdrop, the challenges ahead remain more than ever daunting, particularly in fulfilling government's objective to achieve an Inclusive, High Income and Green Mauritius. The related main strategies of Government are as follows:
- (a) combating poverty and improving the standard of living of the population;
 - (b) facilitating access for everyone to a decent and affordable housing in a sustainable living environment;
 - (c) ensuring a fair access to high quality education for all;
 - (d) building a modern, vibrant and innovative economy that delivers sustainable and inclusive growth;
 - (e) improving the health care services by upgrading and modernising all public healthcare facilities while investing in specialised ones;
 - (f) investing in road, port, airport, water, energy and other infrastructure that fits the aspirations of an innovative economy and society;
 - (g) ensuring a peaceful, safe and secure Mauritius;
 - (h) adopting a responsible and environmentally sustainable development policy; and
 - (i) strengthening democracy and governance by enhancing transparency and accountability mechanisms within institutions.
- 3.8 Among other developmental challenges, there is also need to embark on a meaningful modernisation of public services and upgrading of skills level of public officers to be able to address the current challenges and pave the way for sustained and inclusive growth in future.

Predominant Considerations

3.9 The Mauritian economy is expected to recover depending on a series of assumptions and conditions. Resultantly, it becomes imperative for the limited resources to be judiciously directed towards the implementation of the set strategies and to address other related challenges. **For this review exercise, the Bureau has been guided by, among others, the exceptional state of the economy, the daunting challenges awaiting Government in the wake of the health crisis and the strategies to be implemented. Sustainability and affordability have, therefore, been of overriding considerations in writing this Report.**

