

### 3. ECONOMIC BACKGROUND

#### Global Economic Outlook

- 3.1 The most recent data on growth, employment and trade across many major countries point towards further weakening of the global economy. With global growth prospects worse than foreseen a year ago and existence of major downside risks, there is increasing reason to believe that performance of the world economy, including that of the major trading partners of Mauritius, will remain below pre-crisis level in the near future. Furthermore, the downside risks highlighted by the International Monetary Fund (IMF) in its latest World Economy Outlook could make situation even worse if they are not addressed on time. The risks include possible delays or inadequate policy actions by some countries or lack of credible plans to put their economies on the right track.

#### Mauritian Economy

- 3.2 So far, the Mauritian economy has shown a great degree of resilience which is mainly explained by successful macroeconomic management and implementation of effective and timely reforms in the recent years. The reforms, which cut across many areas including labour market, public finance, public sector efficiency, taxation, global competitiveness, governance and ease of doing business, have contributed in maintaining investor and consumer confidence during the crisis and in improving the visibility of the country as a well governed, investment friendly and resilient economy. During the crisis, the economy has been able to maintain a reasonable growth rate - average of 3.7% during the period 2009-2011.
- 3.3 This year, in spite of the uncertainties, most analyses point towards a growth rate of around 3.5 %, unemployment rate of around 8 %, net job creation of around 1,800, inflation rate of around 4.3 % and a current account deficit of around 12% of Gross Domestic Product (GDP) in the balance of payments. On the fiscal side, the indications are that the overall budget deficit as a percentage of GDP will be lower than estimated in the 2012 Programme Based Budget while the discounted public sector debt as a percentage of GDP will remain close to around 54%. However, the outlook for the coming years is characterised by uncertainties in the world demand conditions and commodity prices.

#### Challenges Ahead

- 3.4 The challenge for 2013 and beyond will thus mainly be to ensure growth and job creation in a very fragile and uncertain world economic environment. This will require implementation of ongoing reforms as planned and new reforms in line with the 2012-2015 Government Programme. The Programme lays emphasis on ensuring prosperity for all, enhancing connectivity, empowering people, promoting a cohesive society, nation building and ensuring sustainability.

3.5 Taking into account the objectives set out in the Government Programme and the precarious global economic environment, Mauritius will need to address a number of challenges at a time during the coming years. These include:

- (1) **Maintaining Macroeconomic Stability and Unlocking Growth:** Consolidating existing sectors, revamping new emerging sectors such as sea food, Information and Communication Technologies, Business Process Outsourcing, health and knowledge and improving quality of public and private sector investment;
- (2) **Addressing Labour Market Issues:** Improving labour productivity, creating high value added jobs, addressing skill mismatch and increasing labour mobility;
- (3) **Improving Competitiveness and Diversifying Markets:** Improving economic infrastructure, connectivity, air access and increasing market share outside the Euro Zone;
- (4) **Consolidating Public Finances:** Continuing fiscal consolidation and improving financial situation in public enterprises and improving Programme Based Budget Framework;
- (5) **Implementing Civil Service Reforms:** Improving service delivery, expediting implementation of Performance Management System, capacity building and reviewing reward mechanisms;
- (6) **Social Integration and Empowerment:** Improving distribution of income, consolidating empowerment programmes, increasing training and employability; and
- (7) **Protecting Environment:** Realising the “Maurice Ile Durable” vision, investing in conservation of natural resources and environment.

3.6 Addressing the above challenges will involve significant costs to Government at a time when there is need to further reduce public sector debt and to ensure macroeconomic stability. There is thus need for prudential policies keeping pay at a reasonable percentage of GDP. The recommendations contained in this Report take into account these challenges and constraints facing Government and the country at large.

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