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MCB Focus

Economic Update

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MCB GROUP

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GLOBAL DEVELOPMENTS

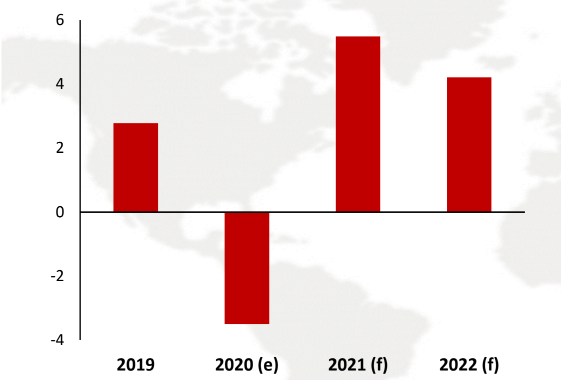
As stressed in the January edition of the Global Economic Prospects of the World Bank: *"Following the devastating health and economic crisis caused by COVID-19, the global economy appears to be emerging from one of its deepest recessions ..."* In this context, the IMF has, in its latest World Economic Outlook Update, revised upwards its global growth projection for this year to 5.5%, which is 0.3 percentage point higher than its October forecast. The upgrade for this year's performance reflects the stronger starting point for the world economy driven by the approval of multiple vaccines and the onset of inoculation in various countries, additional policy support at the end of 2020 in economies such as the United States and Japan as well as an expected increase in contact-intensive activities as the health crisis gradually wanes. Such dynamics are expected to outweigh the drag on the very near-term momentum triggered by the surging infections – including from new variants of the virus – being witnessed across several countries and triggering the re-introduction of restrictions and lockdown measures. The projected recovery in world growth this year follows a severe collapse in 2020. Even though the estimated contraction of 3.5% is somewhat less dire than what the Fund had projected in October last (-4.4%) owing to a stronger-than-expected growth in the second half of last year, it, nonetheless, remains the worst peacetime global contraction since the Great Depression. Consistent with the recovery in global activity, trade volumes worldwide are forecast to grow by about 8% in 2021. Trade in services is, however, expected to recover more slowly than merchandise volumes, mirroring subdued international tourism and business travel until transmission declines everywhere. On another note, owing to the persistent negative output gaps, inflation is expected to remain subdued in the near term.

Overall, the strength of the projected recovery varies significantly across countries – depending on medical interventions, effectiveness of policy support, exposure to cross-country spillovers and structural characteristics entering the crisis. China returned to its pre-pandemic level in the fourth quarter of 2020, ahead of all large economies. For this year, the world's second-largest economy is expected to maintain its strong recovery with growth seen hitting 8.1%. India is expected to grow by 11.5% this year, making it the only major economy to register a double-digit expansion on the heels of effective actions to deal with the pandemic. The United States is projected to surpass its pre-COVID levels this year. Its forecasted growth in 2021 has been revised upwards by 2 percentage points relative to the IMF's October prognoses, reflecting carryover from the strong momentum in the second half of last year and additional support from the December 2020 fiscal package. Likewise, the 0.8 percentage point upward revision to Japan's 2021 growth forecast is largely because of the additional boost from the fiscal measures introduced at the end of 2020. These upgrades are partially offset by downward revisions to the 2021 forecast for the euro area – including in France, Germany and Italy – reflecting an observed softening of activity toward the end of 2020, which is anticipated to continue into early 2021 amid rising infections and renewed lockdowns. As for the UK, activity is expected to remain below 2019 levels, owing to a much slower recovery path forecasted for this year.

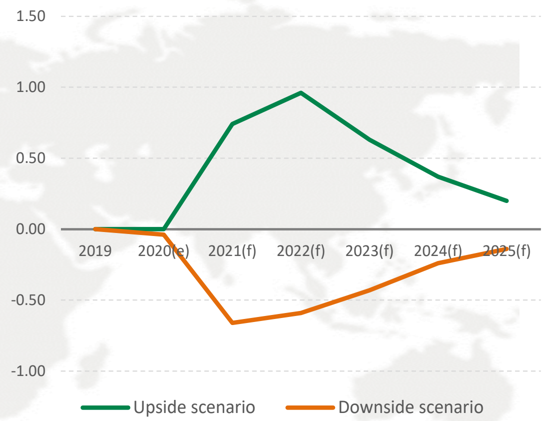
Box I: Update on the international landscape

World economy

Real GDP growth (%)



Risks to the outlook (% deviation from baseline)

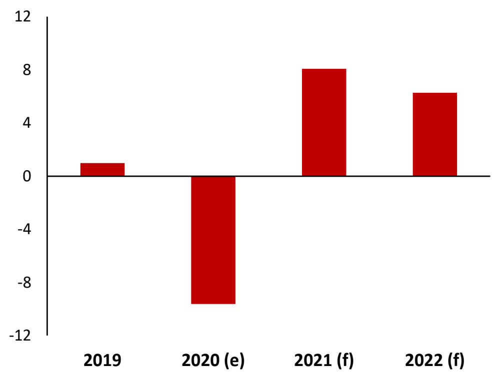


Cumulative output loss over 2020–2025 relative to the pre-pandemic projected levels ~ **USD 22 trillion**

Growth projections across key economic partners (%)

	2019	2020 (e)	2021 (f)	2022 (f)
USA	2.2	-3.4	5.1	2.5
Euro area	1.3	-7.2	4.2	3.6
Germany	*0.6*	*-5.4*	*3.5*	*3.1*
France	*1.5*	*-9.0*	*5.5*	*4.1*
Italy	*0.3*	*-9.2*	*3.0*	*3.6*
UK	1.4	-10.0	4.5	5.0
China	6.0	2.3	8.1	5.6
India	4.2	-8.0	11.5	6.8
SSA	3.2	-2.6	3.2	3.9

World trade (% change)



Average oil price (USD)

Oil prices are expected to rise in 2021, but remain below their average for 2019.

2020(e)	2021(f)	2022(f)
41.3	50.0	48.8

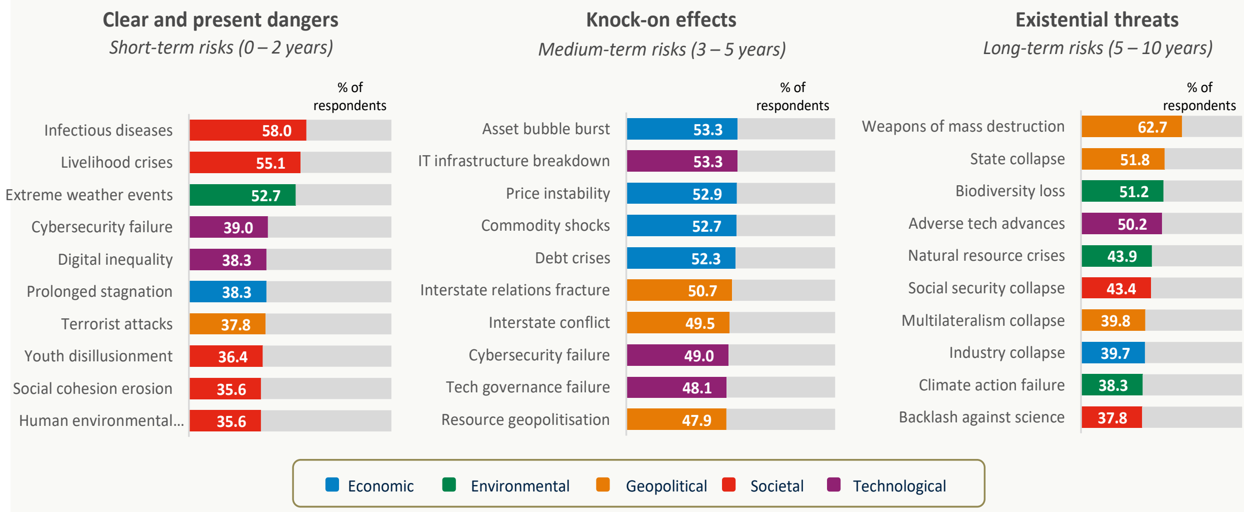
(e) estimates (f) forecasts

Source: IMF World Economic Outlook Update, Jan 2021

Box II: World Economic Forum - Global Risks Report 2021

The Global Risks Report 2021 report, published by the World Economic Forum (WEF), is based on the results of the latest Global Risks Perception Survey completed by over 650 members of diverse leadership communities. As per this year's edition, among the highest likelihood risks of the next ten years are: extreme weather, climate action failure and human-led environmental damage; as well as digital power concentration, digital inequality and cybersecurity failure. Furthermore, among the highest impact risks of the next decade, infectious diseases are in the top spot, followed by climate action failure and other environmental risks. When it comes to the time-horizon within which these risks will become a critical threat, the most imminent threats – those that are most likely in the next two years – include, besides infectious diseases, employment and livelihood crises, widespread youth disillusionment and digital inequality. Economic risks feature prominently in the 3-5 year timeframe, including asset bubbles, price instability, commodity shocks and debt crises. In the 5-10 year horizon, environmental risks such as biodiversity loss, natural resource crises and climate action failure dominate.

Global Risks Horizon: When do respondents forecast risks will become a critical threat to the world?



Global Risks Landscape: How do survey respondents perceive the impact and likelihood of global risks?

Top Risks (by likelihood)

	Risk categories
1	Extreme weather
2	Climate action failure
3	Human environmental damage
4	Infectious diseases
5	Biodiversity loss
6	Digital power concentration
7	Digital inequality
8	Interstate relations fracture
9	Cybersecurity failure
10	Livelihood crises

Top Risks (by impact)

	Risk categories
1	Infectious diseases
2	Climate action failure
3	Weapons of mass destruction
4	Biodiversity loss
5	Natural resource crises
6	Human environmental damage
7	Livelihood crises
8	Extreme weather
9	Debt crises
10	IT infrastructure breakdown

Source: World Economic Forum: The Global Risks Report 2021

Regarding the sub-Saharan African region, output growth is anticipated to rebound to 3.2% this year, following the contraction of 2.6% observed in 2020. Within the region, economic growth in Nigeria and South Africa – the two economic powerhouses – is projected to recover only modestly at 1.5% and 2.8% respectively in 2021, following contractions of 3.2% and 7.5% respectively registered in 2020.

Moving forward, global growth is forecast to moderate to 4.2% next year on the back of the pandemic's lasting impact on potential output. In fact, the cumulative output loss over 2020 – 2025 relative to the pre-pandemic projected levels would remain substantial, at USD 22 trillion. Concurrently, prospects for the global economy are highly uncertain, with several possible scenarios. On the one hand, stronger-than-expected outcomes cannot be ruled-out, especially if: (i) vaccine rollout proceeds faster than currently anticipated and prove more effective, thereby boosting confidence among firms and businesses; and (ii) more than expected fiscal support is extended, with favourable spillover effects for trading partners, thereby further lifting global activity. However, downside risks prevail and the recovery could be derailed by: (i) flare-ups (including from new variants) of cases proving difficult to contain and warranting renewed restrictions; (ii) vaccine rollout suffering from delays and widespread hesitancy as well as delivering shorter-lived immunity than anticipated; (iii) intensifying social unrest, notably reflecting higher inequality and unequal access to vaccines; (iv) an abrupt withdrawal of policy support before recovery takes firm foot could exacerbate existing weaknesses and trigger a wave of bankruptcies and bouts of unemployment; (v) financial crises triggered by surging debt levels, weak activity, eroded capital buffers in the banking sector and elevated risk asset valuations. A broader assessment of risks likely to confront the world over the next decade is indicated in the latest Global Risk Report published by the World Economic Forum (See Box II for more details).

On the commodity markets front, reflecting the projected global recovery, oil prices are expected to rise in 2021, but remain below their average for 2019. Oil prices – inferred from the mean of Brent, West Texas Intermediate and Dubai Fateh spot prices – are, on average, forecast to stand at USD 50 this year, which will represent an increase of some 21% when compared to the corresponding figure for 2020. Non-oil commodity prices are also expected to increase with those of metals, in particular, projected to accelerate strongly in 2021. Elsewhere, as stressed in the January 2021 Global Financial Stability Report Update of the IMF, financial markets remain upbeat about prospects for the current year, on the back of the continued policy support. In fact, with the maintenance of accommodative policy by major Central Banks, financial conditions are expected to remain broadly supportive across both advanced economies as well as emerging market and developing economies. This, however, masks rising underlying debt levels which leave borrowers vulnerable to a sudden change in investor risk appetite, especially those in emerging markets which are dependent on capital flows to finance large fiscal and external current account deficits. Across currency markets, the US dollar remains at a fairly high level historically, although it has lost grounds against major currencies lately, as risk appetite returned to markets and safe haven flows unwound, supported by positive news of vaccines development and the prompt launch of vaccination campaigns.

THE MAURITIAN ECONOMY

Figure 1 **Main economic indicators**

	Unit	2017	2018	2019[1]	2020[2]	2021[3]
Real sector						
GVA at basic prices	Rs bn	403	422	438	380	415
GDP at market prices	Rs bn	457	481	498	430	470
GVA growth (at basic prices)	%	3.6	3.6	3.2	-14.9	6.2
GDP growth (at market prices)	%	3.8	3.8	3.0	-15.4	6.3
Gross Domestic Saving	% GDP	10.0	9.0	8.8	6.4	6.5
Gross Fixed Capital Formation	% GDP	17.4	18.8	19.6	17.6	18.8
Private sector investment	% GDP	13.3	14.2	14.3	13.1	13.8
Public sector investment	% GDP	4.1	4.5	5.3	4.5	5.0
Headline inflation	Dec, %	3.7	3.2	0.5	2.5	3.0
Unemployment rate	average, %	7.1	6.9	6.7	9.9	-
Fiscal sector						
Budget balance	FY, % GDP	-3.5	-3.2	-3.2	-13.6	-1.3
Public sector debt	Dec, % GDP	63.5	64.9	65.5	78.6 *	77.8 *
External sector						
Balance of visible trade	Rs bn	-100.2	-112.1	-119.8	-100.9	-111.2
Current account balance	% GDP	-4.6	-3.9	-5.5	-13.5	-11.6
Overall balance of payments	% GDP	6.2	3.5	6.6	-5.6	-2.0
Memorandum item:						
Per capita GDP	*USD*	*10,407*	*11,124*	*11,054*	*8,666*	*9,147*

(1) Revised estimates (2) MCB revised forecasts (3) MCB updated projections

**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 Development, Bank of Mauritius & MCB staff estimates

Economic growth

Updated estimates for 2020

Reminiscent of the significant economic fallout of the pandemic, the country registered its worst contraction since 1980 last year. Our latest estimates indicate that real GDP growth in 2020 contracted by 14.9% when measured at basic prices and 15.4% when computed at market prices. The latter estimate is marginally lower than the revised forecast of 15.2% published by Statistics Mauritius in the December issue of National Accounts on the basis of a higher estimated contraction in taxes on products net of subsidies in our forecasts. Our updated figures for 2020 represent a downgrade from our October prognoses, which can be mainly explained by a combination of downward revisions of some sectorial growth forecasts, including the export-oriented manufacturing sector (notably seafood), professional, scientific and technical activities, administrative and support service activities as well as arts, entertainment and recreation services. Overall,

all industry groups, have contracted in 2020 following the impact of the pandemic, with the exception of ICT and financial and insurance activities, although a marked slowdown has been observed in the latter sector.

On the expenditure side, given the sharp contraction in the economy, all the aggregates – with the exception, as expected, of inventories – contracted last year. Final consumption expenditure fell by some 14%, mainly impacted by the marked decline in household consumption, as stressed in the latest Rapid Continuous Multi-Purpose Household Survey carried out by the World Bank and Statistics Mauritius. As a result, household consumption is estimated to have rubbed off some 12.7 percentage points from the country's real growth rate in 2020. Nationwide investment also took a major hit, contracting by more than 25%, reflecting significant contractions in both public and private investment, although public sector investment was somewhat resilient during the second half of the year. These declines have triggered a sharp drop in the ratio of gross fixed capital formation to GDP from 19.6% in 2019 to 17.6% in 2020. A further drag on the country's performance came from the contraction in net exports of goods and services which erased 3.2 percentage points from the estimated growth outcome. This was essentially due to a material deterioration in exports amidst the testing external conditions. The contraction in services was more pronounced in view of the downturn, notably, in the tourism sector. On the other hand, lower imports had a positive impact on GDP, with the decline at goods level, for instance, contributing some 7 percentage points to the country's growth rate.

Figure 2 **Impact of indicators on real GDP growth**

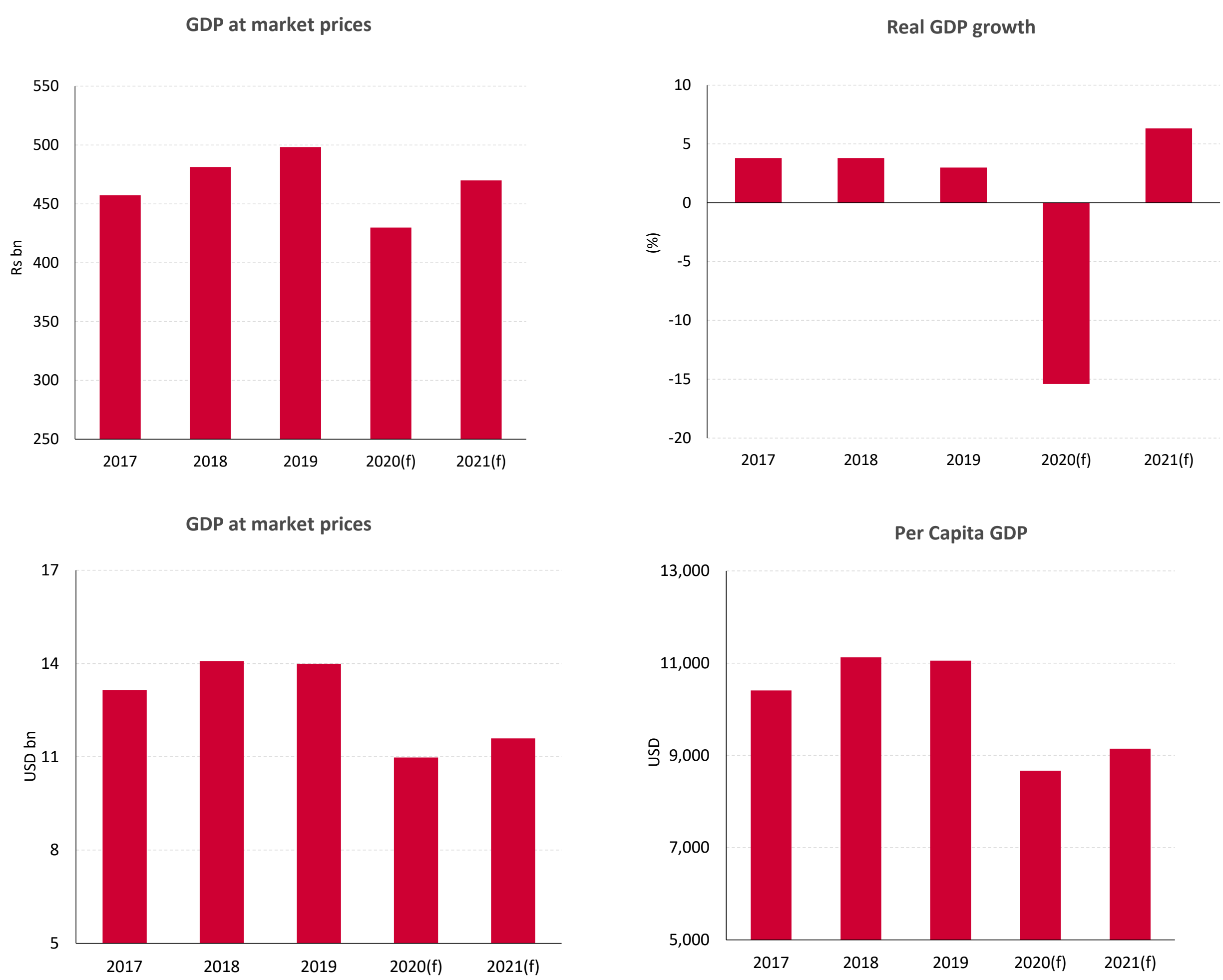
Contribution to real GDP growth (% point)	2016	2017	2018	2019(e)	2020(f)
Final consumption expenditure	**2.6**	**2.6**	**3.1**	**2.7**	**-12.8**
Households	2.2	2.4	2.4	2.4	-12.7
General Government	0.4	0.2	0.6	0.3	-0.1
Gross fixed capital formation	**0.6**	**0.8**	**1.9**	**1.2**	**-5.3**
Private sector	0.8	0.9	1.4	0.3	-3.6
Public sector	-0.1	-0.1	0.5	0.9	-1.7
Net exports of goods and services	**-3.2**	**-1.6**	**1.3**	**-2.8**	**-3.2**
Net exports of goods	-3.9	-1.7	-0.4	-2.1	4.3
Net exports of services	0.8	0.1	1.7	-0.7	-7.4
Inventories (incl. statistical discrepancies)	***3.7***	***2.0***	***-2.4***	***1.9***	***5.9***
GDP at market prices	**3.8**	**3.8**	**3.8**	**3.0**	**-15.4**

(e) MCB estimates (f) MCB revised forecasts

Sources: Statistics Mauritius & MCB staff estimates

On the whole, against the backdrop of the country's growth downturn, wealth created in the economy, as gauged by nominal GDP at market prices, is estimated to have dropped by nearly Rs 70 billion to stand at Rs 430 billion in 2020 compared to Rs 498 billion in 2019. When measured in US dollars, value added generation fell by USD 3 billion to stand at USD 11 billion. Subsequently, per capita GDP fell by 22%, thus drifting the indicator back to its lowest point since 2010, at an estimated USD 8,666.

Figure 3 **Impact of the pandemic on GDP-related indicators**



(f): MCB revised forecasts
Sources: Statistics Mauritius & MCB staff estimates

Revised forecasts for 2021

Our growth prognosis for this year has been downgraded on the back, notably, of a more tempered recovery being envisaged in the hospitality sector after catering for: (i) the dampened global recovery prospects amidst the resurgence of COVID-19 cases around the world that resulted in the re-imposition of lockdown measures, notably in several of our key markets; (ii) the bleak outlook for the international aviation sector with the benefits from the introduction of vaccination programmes likely to be phased since people being treated in the first instance are usually those with lower travel propensity across several of our key markets; and (iii) the extension, on the local front, of the quarantine period until 31 March and introduction of new travel restrictions in respect of passengers from specific countries following the advent of new variants of the virus. In fact, a full-fledged reopening of our borders with appropriate sanitary protocols is expected during the second part of the year when collective immunity for the population would have been achieved after over 60% of the population would have been vaccinated, through the implementation of the National Deployment and Vaccination Plan for COVID-19. The vaccination programme – which is a key enabler for ensuring a sustained economic recovery – has begun with the leveraging of the 100,000 doses of the vaccines donated by the Government of India and would, subsequently, proceed with the doses of vaccines secured: (i) under the World Health Organization/Vaccine Alliance (GAVI)-led COVAX Facility; and (ii) through direct access to major pharmaceutical manufacturers via G2G agreements. The main objective of the latter programme is to provide effective protection to the population against the pandemic and ensure that the country remains a COVID-safe destination. Overall, economic growth is now projected to stand at 6.2% in 2021 when measured at basic prices and 6.3% when computed at market prices. In nominal terms, GDP at market prices is forecast to rise from Rs 430 billion to reach Rs 470 billion this year.

From a sectorial perspective, in spite of extraordinary measures deployed by the authorities to support businesses and households, several key economic sectors would remain in difficult territories this year against the backdrop of the lingering ramifications and scarring effects of the pandemic. Notably, as indicated above, we have revised downwards our projected recovery for the hospitality sector this year, with activity levels expected to stand at around a third of the pre-pandemic position after making allowance for limited revenue from the local clientele and the more challenging global travel outlook. In the latter respect, the International Air Transport Association has indicated lately that forward airline bookings had weakened going into the first quarter of 2021 and that a full recovery is not on the cards this year amidst persisting uncertainties. Consequently, an upturn in the domestic tourism sector is not foreseen until the second half of the year. The subdued prospects for the tourism industry would, by virtue of the industry's significance in Mauritius, affect the performance of other sectors including transport services, agriculture and wholesale and retail trade activities as well as administrative and support services. Likewise, dampened global demand

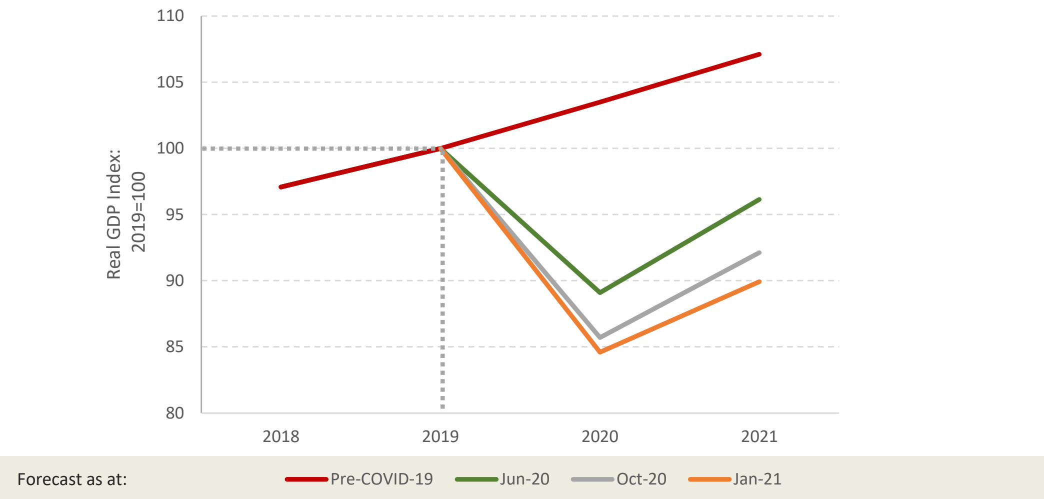
and persistent economic uncertainty would continue to impact the performance of the export-oriented manufacturing sector, although a relative pickup is expected in the textile segment, supported by market diversification efforts by operators and a shift to more efficient production methods backed by higher recourse to digitalisation. As for the financial services sector, operators – notably in the banking segment – have, thus far, displayed resilience to the pandemic shock. As per the latest Financial Stability Report of the Bank of Mauritius, *“Banks entered the COVID-19 period with relatively strong solvency and liquidity positions. The majority, including the systemically-important banks, was well funded with rather stable funding structure. Performance-wise, banking sector indicators were good. Despite the decline in profitability, the Capital Adequacy Ratio (CAR) of banks remained healthy at 18.6 percent as at end-September 2020.”* That said, the persistently challenging outlook would continue to impact the performance of banking operators given restrained demand for credit, reduced margins as well as asset quality pressures. Regarding global business operators, they continue to face up to risks linked to the review of the India-Mauritius DTAA and uncertainties regarding the Financial Action Task Force (FATF) and European Commission (EC) classifications of Mauritius. On the latter front, it is worth noting that the authorities have pursued efforts for getting the jurisdiction removed from the list of ‘jurisdictions under increased monitoring’ of the FATF and, as a result, from the EU list of High Risk Third Countries. As requested by the FATF, an updated progress report was submitted at the beginning of the year, ahead of the forthcoming Plenary meeting. The authorities are confident that the country is on track to exit the FATF and EU lists during the course of the year.

In another light, emphasis would be laid on boosting public investment in infrastructure-upgrading projects to revive domestic economic activity. Higher investment should support a rebound in construction activities, with some large scale projects expected to be completed this year such as the A1-A3 Link Road, A1-M1 Link Road, the Grade Separated Junctions at Pont Fer/Jumbo Dowlut and phase 2A of the Metro Express Project linking Rose Hill to Quatre Bornes. Other major undertakings forming part of the Public Sector Investment Programme are also expected to unfold this year, including the Phase 2B of the Metro Express connecting Quatre Bornes to Curepipe, the Urban Terminals and the La Vigie – La Brasserie – Beau Songes Link Road, although their impact on growth for 2021 are likely to be limited after taking on board the time taken for relevant procurement processes. Elsewhere, while a rebound is envisaged in private investment following the sharp fall in 2020, it would remain well below its pre-pandemic position amidst the still uncertain outlook.

Significance and resilience of projected growth path

Although it is expected that the domestic economy would bounce back this year, our forecasted nationwide economic expansion rate needs to be carefully assessed. To begin with, it is worth noting that this performance would, to a large extent, reflect a technical rebound from the low base spawned by the sharp contraction in value added in 2020. Also, our forecasted growth implies that activity levels would remain well below the pre-pandemic position, at around 90% of 2019 levels when measured in real terms. As per our baseline scenario, a full recovery to 2019 levels, in real terms, can be anticipated in 2023.

Figure 4 **Evolution of real GDP growth path in the midst of the pandemic**



Sources: Statistics Mauritius & MCB staff estimates

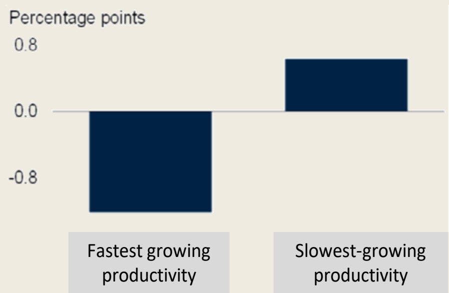
Furthermore, the quality of the forecasted growth is subject to appraisal to the extent that apprehensions subsist regarding the country's inherent ability to safeguard existing employment – in particular across SMEs and in the informal sector – as well as create new job opportunities. On the labour market front, the pandemic-induced hiatus, tempered business confidence and sluggish capital formation have led to rising nationwide unemployment levels notwithstanding support measures extended by the authorities. According to the latest official figures, the country's unemployment rate reached 10.9% in September 2020 compared to 10.3% in July last. On average, the indicator is estimated to have reached 9.9% in 2020. For this year, the labour market situation would continue to warrant close scrutiny in view of the notable challenges confronting key economic sectors. Beyond looking at the headline unemployment figure, which is, itself, expected to remain at relatively elevated levels when compared with historical trends, a key source of concern would pertain to the rising level of labour underutilisation in the economy, in particular, regarding those in time-related underemployment. Overall, the persisting labour market imperfections have contributed to restrain the country's productivity trends. In fact, as per official statistics, the average annual growth in multifactor productivity – which takes into account the efficiency of labour and capital resources as well as qualitative factors such better management and the improved quality of inputs – has slowed to 1.0% during the period 2009-2019 compared to annual growth of 2.0% during 2000-2008, while unit labour cost – which is a function of both labour productivity and average compensation of employees – has pursued an uptrend, with annual growth in the indicator averaging 2.3% during the 2009-2019 period. The country's subdued productivity trends are likely to have been aggravated by the effects of the COVID-19 shock. (See Box III for more details on the impact, on global productivity trends, of the pandemic as per the World Bank).

Moreover, while our baseline projection already makes allowance for the difficult operating landscape, the balance of risks to the growth outlook remains tilted to the downside. Key threats which could hamper the projected recovery – by notably halting the upturn being foreseen in the tourism sector – pertain to: (i) the continuous rise in COVID-19 infections – amidst the spread of new variants of the virus – worldwide that could derail the projected recovery in global economic output, thereby curtailing domestic growth prospects and increasing the challenge for the financial system to sustain the flow of credit and maintain solvency of businesses; and (ii) potential delays in the forthcoming vaccine programme in the country impacting on health and sanitary conditions and hampering business confidence, thereby causing private sector investment to evolve at a more tempered pace. That being said, it is, also, important to highlight that the growth outlook is subject to some upside risks, albeit with a lower probability of occurrence. Especially, the rapid deployment and distribution of vaccines worldwide that effectively curbs the spread of the virus would help in restoring business and consumer confidence, with positive ramifications on the country's external trade in goods and services, including notably a stronger recovery in the tourism sector than projected in our baseline scenario. Additionally, bearing in mind the line-up of sizeable infrastructure projects, their impact on nationwide value added could be more meaningful that our baseline scenario suggests if the authorities improve project implementation rates beyond historical trends, backed by upgraded capabilities. In another respect, a stronger growth rebound could be witnessed in case a greater-than-expected pickup is seen in private sector investment on the back of improvements to the business sentiment.

Box III : World Bank - Global productivity: trends, drivers, and policies

As per a recent report by the World Bank, titled: "Global Productivity: Trends, Drivers, and Policies", the pandemic compounded the broad-based slowdown in global labour productivity growth that has been underway over the past decade. In particular, the report indicates that the pandemic is likely to leave lasting scars through multiple channels, including lower investment, erosion of human capital because of unemployment and loss of schooling, and a possible retreat from global trade and supply linkages. These effects may lower productivity and limit the ability of economies to generate growth of real incomes in the long-term. As per the World Bank, the likely adverse impact of the pandemic on productivity would be a worrisome outcome, as the growth of labour productivity is the main source of lasting per capita income growth, which in turn is the primary driver of poverty reduction. In fact, as per the findings of the World Bank, most cross-country differences in per capita incomes have been attributed to differences in labour productivity.

Annual change in poverty rate



While the top quartile of emerging market and developing economies (EMDEs) with the fastest labor productivity growth during 1981-2015 reduced their extreme poverty rates by an average of more than 1 percentage point per year, poverty rates rose in EMDEs with labor productivity growth in the lowest quartile.

Key drivers of the slowdown in productivity

- Decelerating working-age population growth
- Stagnation of educational attainment
- Slowing growth of global value chains
- Slower pace of labor reallocation toward higher-productivity sectors
- External shocks such as natural disasters, wars, financial crises and deep recessions

Potential productivity gains due to the pandemic.

- The pandemic may also create productivity-enhancing opportunities for countries that employ complementary policies to seize them.
- COVID-19 could encourage the adoption of new technologies and accelerate the automation of production. It could lead to a restructuring of supply chains, and improve education and financial development in countries with reliable internet access.

Adverse implications of COVID-19 for productivity

- Uncertainty about the depth and duration of the pandemic to impact on domestic and foreign direct investment and trade.
- Income losses and disruptions to education may cause an erosion of human capital and shifts in the labour markets.
- Mobility restrictions may slow the reallocation of workers away from low-productivity firms to higher-productivity ones.
- COVID-19-induced recessions may further strain corporate and public sector balance sheets leading to weaker investment and deeper employment losses.

Source: World Bank, Global Productivity: Trends, Drivers, and Policies, 2020

Other indicators

Against the backdrop of the still soft international commodity prices relative to pre-pandemic levels, muted global economic activity, subdued domestic demand and a fairly steady rupee vis-à-vis the US dollar during the past months, headline inflation remained broadly stable to stand at 2.5% as at December 2020. Moving forward, whereas some upward pressures on the Consumer Price Index are expected to emerge, fuelled by the rise in freight costs, a relative weakening of the rupee, the implementation of the previously-deferred excise duty on sugar sweetened products and the anticipated hike in commodity prices worldwide, headline inflation is projected to pick up but remain manageable at around 3% as at December 2021, reflecting the restrained demand locally and abroad, while the impact of prevailing excess liquidity levels is likely to be limited in the context of a large output gap. This should continue to support the case for the maintenance of an accommodative monetary policy stance in view of the challenging economic climate.

In another light, latest estimates show that, as at September 2020, public sector net debt stood at 65.2% of GDP, which is an improvement as compared to 70.4% recorded in June 2020 after making allowance for a 48% increase in cash and cash equivalent and equity investment held by Government and public sector bodies in private entities. In gross terms, public debt rose to 85.7% of GDP compared to 83.4% over the corresponding period. With regard to the fiscal year from July 2020 to June 2021, the budget deficit is, according to official pronouncements made in November 2020, projected at Rs 4.1 billion (i.e. 0.9% of GDP). This factors in the exceptional contribution of Rs 60 billion from the Bank of Mauritius to meet recurrent and capital expenditures. That said, as at June 2021, the budget deficit could, notwithstanding some delays in the capital budget linked to specific projects falling under the Public Sector Investment Programme, end up being slightly higher, at around 1.3% of GDP as per our baseline scenario, after making allowance for a lower GDP base relative to the initial budgetary forecast of the authorities as well as potentially lower revenue notably from taxes.

On the external front, we have revised our projection for the balance of trade deficit for 2020, with the imbalance now estimated at around Rs 100 billion after making allowance for a higher decline in the value of imports relative to the drop in exports of goods. For this year, while currency dynamics would continue to weigh in the balance, the trade deficit is, as per our baseline scenario, projected to rise to some Rs 111 billion, representing nearly 24% of GDP, with the projected rise in imports driven by higher expenditure on machinery and transport equipment and relatively higher anticipated oil prices offsetting the pickup in exports, notably of textile and related products. For its part, after deteriorating by a significant margin to attain 13.5% of national output in 2020 in the aftermath of the ramifications of the pandemic, the current account deficit is projected to narrow slightly to stand at 11.6% of GDP this year after factoring in a projected rebound in the services account linked to the relative pickup in tourism earnings, higher primary income, as well as the boost to secondary income from the potential compensation in the wake of the MV Wakashio oil spill. Overall, whereas a rebound is foreseen in capital and financial flows, the balance of payment would, *ceteris paribus,* remain in deficit territory this year, albeit to a lower magnitude than in 2020, at around 2% of GDP.

J. Gilbert Gnany

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