Economy

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INTRODUCTION

Since independence in 1968 Mauritius has undergone a remarkable economic transformation from a low-income country, mainly based on agriculture, to a relatively diversified, upper middle-income economy. Mauritius has consolidated its tourism, financial, industrial and ICT sectors during the past decades, while the ocean economy, renewable energy, outsourcing and medicine have also been promoted as growth sectors, creating new employment opportunities. Indeed, the island has registered low yet steady economic growth rates over the last few years (with an annual average rate of 3.8% in 2015–19) and remains among the most dynamic economies in sub-Saharan Africa. Gross domestic product (GDP) growth was estimated to have stabilized at 3.5% in 2019 (down from 3.8% in 2018) and was mainly driven by the financial services, tourism, retail and wholesale trade, and ITC sectors. GDP per capita trended upward, reaching an estimated US $11,360 in 2019 (it was below $200 at independence) and, according to the International Monetary Fund (IMF), GDP per capita (on an international purchasing-power parity basis) reached over $25,000 in 2019. It has more than doubled since 2006 and is the second highest in Africa after Seychelles. The island is classified as an upper-middle-income country by the World Bank and is seeking to become a high-income country within the next 10 years.

The economy remains largely service based (the services sector contributed 76% of GDP in 2019), with tourism and financial services being among the most vital sub-sectors for the economy. Services is followed by industry (predominantly textiles), which contributed 21%, and agriculture (3%). It is noteworthy that the contribution of agriculture (mainly sugar), fisheries and forestry to GDP was formerly one of the main pillars of the economy accounting for roughly 25% of GDP in the 1970s.

The unemployment rate was estimated at 6.7% in 2019; however, female labour participation remains relatively low when compared with male labour participation, while the youth unemployment rate reached 22.5%. With the anticipated negative economic impact of the novel coronavirus (COVID-19) pandemic, the IMF predicted that the unemployment rate would increase to 17% in 2020, before decreasing to 9% in 2021.

Inflation reached a 10-year low in 2019 (estimated at 0.5% by the IMF), despite a weakening currency, higher import bills and increased wages, all of which were offset to a large extent by lower global fuel and food prices. Inflation has remained relatively low on average during the past decade, ranging from 3.5% in 2013 to 4.5% in 2018.

As far as the external sector is concerned, the current account deficit stood at an estimated 6.3% of GDP in 2019 (compared with 8.8% in 2018 and 6.6% in 2017). The current account deficit in the pre-COVID-19 period was expected to be covered by investment income from offshore companies and foreign direct investment (FDI). This deficit was largely due to the continuously deteriorating merchandise trade deficit, which increased from 15.8% of GDP in 2015 to 21.7% in 2019. It confirmed the growing weakness of goods trade and requires changes to structural policies, an element already identified by the Government.

The most recent figures from the Bank of Mauritius (BoM) indicated that FDI flows into Mauritius reached Rs 15,242m. in the first three quarters of 2019 (compared with Rs 11,500m. for the same period in 2018). The real estate activities sub-sector remained the major recipient with inflows amounting to Rs 13,599m. followed by financial and insurance activities (Rs 354m.), while the human health and social work activities and manufacturing sub-sectors received about Rs 353m. and Rs 286m., respectively. The euro area accounted for more than one-half of total gross direct investment inflows. The balance of payments deficit as a percentage of GDP declined from 6.2% in 2017 to 2.5% in 2018 and to just 0.6% in 2019.

With regards to monetary policy, the BoM has pursued an expansionary path since the mid-2010s in an effort to stimulate the economy. After lowering the interest (repo) rate to 4.6% in May 2015 and to 4.4% in late 2015, in July 2016 it cut the rate to 4.0% citing low inflation, concerns over future relations with the United Kingdom as a result of that country's decision to leave the European Union (Brexit), and the potential of interest rate changes by the US Federal Reserve. In September 2017 the BoM cut the rate to 3.5% and it remained at that level until August 2019 when it was reduced by an additional 15 basis points. In response to the COVID-19 pandemic the BoM lowered the interest rate in March 2020 (by 50 basis points) and April (by 100 basis point) to reach its current rate of 1.85%, an historic low for the country.

Fiscal policy was also expansionary over the period 2015–19, with an increase in government spending (dominated by recurrent spending due to an increased public wage bill, more generous universal pension payments, as well as free tertiary education at state universities). On the capital side increasing amounts were also made available for infrastructural development, particularly for the new Metro Express light rail system and numerous road projects.

The budget deficit, which had remained within a stable range of 3.0%-3.5% of GDP since 2013, escalated dramatically to 13.6% for the 2019/20 fiscal year largely as a result of reduced tax collection and increased social aid in the wake of the national lockdown related to the COVID-19 crisis. It should be highlighted that although the country had been progressively reducing its debt-to-GDP ratio in recent years, this rose to 68.7% in 2019 (from 66.2% in 2018). The 2021 statutory target of 60% will also not be achieved given the prevailing known situations, although the use of the Special Reserve Fund towards the early repayment of part of the external debt should have helped to alleviate the public sector debt burden.

GOVERNANCE, ECONOMIC FREEDOM AND EASE OF DOING BUSINESS

In terms of governance the country has fared relatively well and has a decent ranking in almost all of the governance related indicators. The 2018 Ibrahim Index of African Governance and the World Bank Governance Index both confirmed Mauritius as the highest ranking country in Africa. The country has also maintained the leading rank on the continent (56th in the world) with respect to corruption in Transparency International's Corruption Perceptions Index.

In addition, Mauritius' economic freedom score of 74.9 placed the economy as the 21st freest in the 2020 Heritage Foundation Index (after Finland and the same as Sweden), with overwhelming improvements in its scores for business freedom and the tax burden. The country is ranked 1st out of 47 countries in the sub-Saharan Africa region (ahead of Rwanda and Botswana), and its overall score is above both the regional and world average.

Improving the ease of doing business in the country has been one of the priorities of policymakers in recent years, and they have engaged in a number of reforms and initiatives in that respect. Mauritius was ranked 13th out of 190 economies in the ease of doing business, according to the 2020 World Bank Doing Business report (improving from 49th in 2016 and 20th in 2019). It is now among the most business friendly countries in the world and has continued to maintain its leading position in Africa. Mauritius was also ranked as the 52nd most competitive nation in the world out of 141 countries (and first in Africa) in the 2019 edition of the Global Competitiveness Report published by the World Economic Forum.

HUMAN DEVELOPMENT, POVERTY AND DEMOCRACY

On the human development and social fronts, Mauritius' value on the 2019 Human Development Index (compiled by the

United Nations Development Programme) was 0.796—the sub-Saharan African average stood at 0.541—putting the country in the high human development category. It is noteworthy that between 1990 and 2018 Mauritius' HDI value increased from 0.620 to 0.796.

Mauritius has progressed in its campaign for social equality and poverty reduction, although the proportion of households living below the relative poverty line was estimated at 9.4% in 2017, unchanged from 2012. (The most recent figures indicate that less than 8% of the population lives below the national poverty line, and only 0.5% live below the international poverty line of US $1.90 per capita per day). In absolute terms, the number of households in relative poverty increased from 33,600 in 2012 to 36,100 in 2017, mainly because of population growth. Notably, Mauritius, in a bid to assist its middle- and low-income groups has not compromised on its welfare state offerings, maintaining free health, social protection and education, with the latter even extended to tertiary level in 2019. While the island's income distribution worsened prior to 2012, with the Gini coefficient steadily rising from 0.371 in 2001/02 to reach 0.413 in 2012, the coefficient decreased to 0.400 in 2017, indicating some signs of improvement in the income distribution in the country.

Mauritius enjoys political stability and a high level of democracy. The November 2019 general elections resulted in a victory for the ruling Alliance Morisien which secured 42 of the 70 parliamentary seats, following which Pravind Jugnauth was reconfirmed as Prime Minister.

This re-election was expected to facilitate continuity in economic policy and would enable the Government to make progress with its Vision 2030 plan. The 2019/20 budget had placed emphasis on improving business facilitation, upgrading public infrastructure and diversifying economic activities with the aim of elevating Mauritius to a high-income country status; however, the 2020/21 budget (presented in June 2020, during the exceptional context of the COVID-19 pandemic) aimed principally to steer the economy out the current unexpected situation, and included a number of bold strategies which attempted to pave the path to economic recovery. The budget aimed to protect employment, help sustain small businesses and entrepreneurs, revitalize industries, reduce social inequalities and poverty, restore consumer and investor confidence and build up resiliency and autonomy. The support of the BoM, particularly through the establishment of the Mauritius Investment Corporation (MIC) has been solicited to support the Government in its actions.

INDUSTRY

The industrial sector, which comprises mining and quarrying, manufacturing, electricity, gas and water supply, sewerage, waste management and remediation activities, and construction, expanded by 2.9% in 2018, but contracted by 1.8% in 2019. The industrial sector employed 23.8% of the working population in 2018.

Manufacturing has contributed considerably to the economic development of Mauritius. It is one of the largest subsectors in the Mauritian economy, and, according to forecasted figures, in 2019, accounted for 17.7% of GDP. During the 1970s manufacturing was mainly concentrated in the production of consumer goods, predominantly food, beverages, tobacco, footwear, clothing, metal products, paints and board for furniture, and refining sugar.

It should be noted that the manufacturing sector is the most important sub-component of the industrial sector, and the textiles sub-component of manufacturing has performed particularly strongly in recent years. Mauritius is a member of the Southern African Development Community (SADC) and benefits from geographical proximity to South Africa, which accounted for approximately one-quarter of all textile exports. Mauritius is South Africa's second largest textiles trading partner after the European Union (EU). As part of its attempts to diversify the economy and reduce reliance on the sugar sector, in the 1980s the Government expanded the export-oriented enterprises (EOEs) by developing an export-processing zone.

The textile industry, with its labour intensive methods, traditionally generated significant levels of employment, mainly for women. This sub-sector was seen to be attractive to both local and foreign investors as the Government provided several incentives including tax 'holidays', exemption from import duties on most raw materials and capital goods, free repatriation of capital, profits and dividends, and low-cost electricity. As a result, the EOEs were successful in the creation of jobs, in fostering export diversification and also in enhancing the level of inward FDI in the country. In the late 1980s and 1990s the EOEs were the main source of employment creation, accounting for roughly one-third of total employment, and, combined with successive devaluations of the local currency and the adoption, in 1983, of a flexible exchange rate, the textiles sub-sector registered high growth surpassing the sugar sector. In 1986 Mauritius recorded its first trade surplus since the mid-1970s.

However, with India and the People's Republic of China becoming members of the World Trade Organization (WTO), Mauritius lost its advantages within the textile industry. Furthermore, Mauritius was not classified as a 'least developed country' and was therefore not eligible for the third-country fibre benefit, which allows the sourcing of fabrics from any country. Mauritius and South Africa were obliged to source their fabrics regionally or from the USA. Thus, other countries, such as Lesotho, Madagascar and Eswatini (Swaziland), began to erode Mauritian textile exports. Several textile factories made huge losses and some had to close down their operation. Hence, with time, the performance of the EOE sector declined mainly due to the eradication of preferential trade agreements. In 2018 there were 263 EOEs, compared with 300 in 2014 and 411 in 2009. Furthermore, the number of employees had dropped to 49,866 compared with 54,813 in 2014. The value of exports declined to Rs 43,518m. in 2018 from Rs 49,069m. in 2014.

Finally, it must be noted that the country has a large, and fast growing, informal sector, with high female involvement, as many female workers moved to employment in the informal sector after the closure of the textile factories, mainly due to their low skill levels and their inability to move to new activities which required training.

AGRICULTURE AND FISHERIES

In the early 1970s the Mauritian economy was mainly agrarian, relying almost entirely on the sugar sector. In 1970 the agriculture and fisheries sector contributed 20% of GDP. However, the major difficulty with an agrarian economy is its vulnerability and Mauritius is an island prone to tropical cyclones which highly affect the production in this sector. Therefore, the Government took measures to diversify the economy into the EOE sector, as well as others such as tourism and financial services. In 2019 agriculture's contribution to GDP was just 3.3%, and a total of 41,000 people (equivalent to about 7% of the employed labour force) were employed in the sector in 2018.

The sugar sub-sector accounts for about one-half of agricultural output. Sugar cane is cultivated on 72,000 ha (around 85% of the arable land in Mauritius) and some 600,000 metric tons of sugar is produced each year, with around 530,000 tons exported to the EU. Around 40,000 tons is consumed locally. The sugar sector was successful mainly because of the preferential agreements which the country gained initially from the UK and then from the EU. The sugar protocol under the first Lomé Convention transformed Mauritius into the principal exporter of sugar to the EU, and Mauritius benefited from a guaranteed price which was three times higher than the actual price on the world market, resulting in stable revenues from the export of the commodity. However, with the diversification mentioned above, the importance of sugar declined. Furthermore, the EU abolished the African, Caribbean and Pacific sugar quota regime in 2017 due to accusations of unfair competition from Australia, Brazil and Thailand. By 2019 sugar production contributed only 0.1% of GDP and the number of sugar refineries had dropped from 11 to four. (Mauritius now exports only high valued refined sugar.) Nevertheless, the sugar sub-sector is still important as it represents about 19% of foreign exchange earnings, and in 2019 sugar cane production increased by 3.7% compared with a decline of 9.1% in 2018. There remain many small sugar planters who are grouped into co-operatives and supply cane to the factories. Mauritius has the third biggest sugar bulk terminal in the world with an annual capacity of 350,000 tons.

Mauritius is also engaged in the production of tea. However, due to an increase in the cost of producing tea and low prices on the international markets, the production of tea in Mauritius has decreased. Output of manufactured tea declined by 11.7% in 2018, while the quantity of tea exported decreased by 30.4% from 47.0 metric tons in 2017 to 32.7 tons in 2018, and export earnings declined by 16.9% from Rs 13.6m. to Rs 11.3m. The area under cultivation totalled 656 ha in 2018 compared with 622 ha in 2017 and 672 ha in 2014.

Food crop production is becoming increasingly important, although due to unfavourable climatic conditions the production of food crops declined by 9.2% to 96,847 metric tons in 2018. The main crops are bananas, pineapples, litchis (or lychees) and mangoes. The area under food crops totalled 7,646 ha in 2018. In terms of livestock production, a significant number of people are involved in subsistence farming. However, only a small amount is produced locally. Most of Mauritius' beef requirements, as well as dairy products, are imported from countries such South Africa, Australia and New Zealand. The aim of the Mauritius Government is to increase local production by making the dairy sector more technical, which will result in the promotion of small regional cow breeding co-operatives as well as attracting investment in animal feed production. Mauritius is self-sufficient in poultry, pork and eggs. Poultry production increased by 3.2% from 47,500 tons in 2017 to 49,000 tons in 2018. In that year the production of goat meat and mutton was 61 tons, 8.9% higher than the figure of 56 tons in 2017, while pork production decreased by 10.4% from 606 tons in 2017 to 543 tons in 2018.

The fishing sector is considered important for the Mauritian economy. In 2018 total fish production was 29,116 metric tons, representing an increase of 28.1% compared with the previous year (22,732 tons). The total fresh coastal fish catch was 1,745 tons in 2018 compared with 1,758 tons in 2017, representing a decrease of 0.7%. Other catches (tuna, bank, ponds and barachois, etc.) increased by 30.5% from 20,974 tons in 2017 to 27,371 tons in 2018. The Government supports this industry and technical assistance is provided. Fisheries exports have also increased significantly in recent years.

TOURISM

Tourism is one of the main pillars of the Mauritian economy and has been one of the prime reasons for Mauritian economic growth. It also represents one of the most important sources of foreign exchange for the island. Tourists are attracted to the island mainly due to its natural beauty. In 2013 a total of 993,106 tourists visited the island and tourism receipts stood at Rs 40,550m. In 2019 the island welcomed 1.38m. tourists (although this was a decrease of 1.1% compared with 2018) and tourism receipts amounted to Rs 63,100m. The contribution of travel and tourism to GDP was estimated at around 25% in 2019. In terms of employment, the sector has been responsible for the creation of more than 31,000 jobs.

Most of the tourists visiting Mauritius come from European countries. France (with 294,141 arrivals in 2019) was the largest single market followed by the UK (139,958) and Germany (110,759). The strategy to boost tourist arrivals from other countries has also been successful and Mauritius receives significant numbers of tourists from Asia and Africa. The Mauritius Tourism Promotion Authority, a statutory board under the Ministry of Tourism and Leisure, has initiated actions to promote co-operation with other tourism agencies and conducted research into market trends and market opportunities, while also engaging in various marketing campaigns around the globe. Such promotion has contributed significantly towards the boosting of tourist arrival numbers and tourism receipts.

INFRASTRUCTURE AND ICT

Transport is also an important component of the economy. Given that the island is very small, the main form of land transport is by road, and the country's total road network was 2 428 km. However, public transport in Mauritius was substantially modernized by the introduction into operation of a light rail transit system (Metro Express) in October 2019. An initial 13-km stretch of line was opened that month, with a further 13 km scheduled to be completed in 2021. The project which was launched in March 2017 has an estimated cost of Rs 18,800m. rupees and was expected to create 7,000 jobs during its construction phase.

The sea port located at Port Louis is one of the deepest container ports in the sub-Saharan African region. It has the capacity to accommodate fifth-generation container vessels with draughts of up to 13 m. To be in line with latest technology, the cargo handling corporation has made a massive investment of Rs 1,775m. in recent years, mostly in port handling equipment, in order to provide quality and efficient services.

The main international airport in Mauritius is the Sir Seewoosagur Ramgoolam International Airport. It has direct flights to several destinations in Africa, Asia, and Europe. In 2010 construction of a new terminal began, at a cost of Rs 11,000m. and upon its opening in 2013 increased the airport's passenger handling capacity to 4.5m. per year.

Mauritius has emerged as an international ICT destination and is becoming a regional ICT hub. The ICT sector comprises manufacturing activities, telecommunications services, wholesale and retail trade, and other activities such as call centres, software and website development and IT consulting. The value added at current prices by the ICT sector was at Rs 19,731m. in 2019, and it contributed 4.3% of GDP in that year, compared with 4.2% in 2018. Mauritius had 991,900 broadband subscribers in December 2017. There are around 600 ICT companies operating in the country presently in various activities, including major international ICT firms such as Oracle, Microsoft, IBM, HP, Cisco, France Telecom, Orange Business Services, Accenture, Infosys and Hinduja Group.

Electricity in Mauritius is supplied mainly by the state owned Central Electricity Board CEB), which controls the transmission, distribution and supply of power. The CEB generates almost 40% of electricity with the remainder supplied by independent power producers through the burning of agricultural waste from sugar plantations and coal. The supply and distribution of water is well developed. Around 54% of the Mauritius' water supply comes from groundwater extracted through 112 boreholes. The remainder is obtained from surface sources, mainly reservoirs and river intakes. 105 service reservoirs with storage capacity of 238,000 cu m sustain a 3,500-km distribution network. The Central Water Authority, through its Scientific Services Department, ensures that the quality of drinkable water supplied conforms to the World Health Organization specifications.

THE EXTERNAL SECTOR

Mauritius follows a liberal economic and trade policy and the aim of the country is to become globally competitive and to integrate fully in the world trade system through its liberal trade policies. The island is relatively open with few trade barriers and low custom duties. The main items exported in 2018 were prepared or preserved fish, clothing and cane sugar, while the country imported mainly petroleum products, frozen fish, cars, medicaments and radio transmission equipment. However, the country imports more than it exports which results in a trade deficit. In 2018 the main purchasers from Mauritius were the EU (47%, within which France was the most significant), the USA (12%), and South Africa (9%), while the leading suppliers of imports to Mauritius were the EU (23%), India (18%), China (17%), and South Africa (9%). Merchandise exports totalled US $2,300m., while imports stood at $5,600m. The trade deficit increased continuously from 15.8% of GDP in 2015 to reach 21.7% in 2019, while the current account deficit as a percentage of GDP was estimated at 6.3% of GDP in 2019, according to the African Development Bank.

Mauritius is an active member of various trading blocs in the region. As a member of the Common Market for Eastern and Southern Africa (COMESA) and SADC, Mauritius takes part in the Tripartite Free Trade Area which is an agreement between COMESA, SADC and the East African Community. Through its membership of COMESA, Mauritius benefits from, *inter alia*, a wider and more harmonized and competitive market, enhanced industrial productivity and competitiveness, increased agricultural production and food security, as well as a more rational exploitation of natural resources. SADC membership provides Mauritian exporters duty free access (or partial tariff reductions) to most member states. Hence, Mauritius benefits from a margin of preference for its exporters as compared to imports from other third countries such as China and India. The other trade bloc is the Indian Ocean Rim (IOC) which is an intergovernmental organization that links the islands of the region (namely Comoros, Madagascar, Mauritius, Réunion, Mayotte and Seychelles) together to encourage co-operation. The IOC principally aims to promote diplomatic co-operation and consolidate and strengthen economic and commercial ties among the islands. It is noteworthy that so far only Madagascar and Mauritius have granted trade preferences under this trade regime. In fact there are no customs duties for products meeting the IOC rules of origin between the two countries. Mauritius also ratified (in October 2019) the African Continental Free Trade Area (AfCFTA) Agreement, which aims to bring about the creation of a single continental market for goods and services and the expansion of intra-Africa trade, to introduce free movement of investments and business people, and which will significantly enhance Africa's competitiveness. In terms of double taxation agreements, Mauritius has concluded 46 tax treaties so far and is party to a series of treaties under negotiation. Overall, more than 60 local companies have investment in 25 African countries.

On the international investment side, the Government of Mauritius has been promoting the offshore sector in order to develop the country into a regional financial centre as well as an international and business centre. In addition to the provision of offshore banking and investment services, the country aims to provide additional offshore services such as fund management, holding companies, operational headquarters, offshore captive insurance, ship management, shipping/aircraft financing and leasing, among others. In line with this objective, the Government offers various incentives including the exemption of compliance (through the Exchange Control Act), and the freedom to undertake all legitimate banking and other financial business with non-residents, with the exemption from credit, interest rates and other restrictions which are applied to the business of domestic banks. Moreover, a low income tax rate of 5% on all offshore profits is granted with free repatriation of profits without further taxation. The Government also offers exemption from stamp duty on documents relating to offshore business transactions and exemption from custom duties on imported office equipment. As such there is no withholding tax on interest payable on deposits raised from non-residents by offshore banks and Mauritius has treaties with a number of large global actors (including the UK, France, Germany, Malaysia, Sweden, India, Italy, and Zimbabwe) for double taxation avoidance. No capital gains tax and no estate duty or inheritance tax is payable on the inheritance of shares in an offshore entity.

FDI flows to the country in 2018 reached almost US $372m. However, in that year FDI flows fell by 16% compared with 2017, which was explained mainly by the reduced performance in the tourism and real estate sector. In 2018 the total FDI stock was some $5,300m., which represented around 37.2% of the country's GDP. The USA, India, the UK, the Cayman Islands and Hong Kong are important investors, while a significant amount of FDI, more precisely 21.8%, comes from India, as both countries have signed an agreement to avoid double taxation.

The tourism sector attracts large amounts of FDI, mainly through the Integrated Resort Scheme, which provides luxury villas to foreigners. The financial and insurance services and construction also attract a significant amount of FDI. The aim of the country is to become an investment hub located between Africa and Asia. It has also created strong links with India, Turkey and other emerging nations. In addition to having a stable economic and political environment and a solid judicial system, as noted above, the island provides various tax incentives for investors, as well as special economic zones, a stable financial system, modern infrastructure and relatively good human resources. Mauritius was classified as the 13th most favourable country in terms of business environment according to the World Bank's 2020 *Doing Business* report.

THE FINANCIAL SERVICES SECTOR

Financial intermediation continues to play a key role in the development of the economy of the island. To further benefit from this sector the Government regularly adopts policies to ensure that there is development of the financial hub in Mauritius, and continues to take new measures to attract capital from all over the world. Indeed, financial development witnessed an upward trend between 1993 and 2019. Development in banking and the stock market, as captured by the domestic credit to private sector and market capitalization ratio, has been on the rise despite the numerous challenges faced along the way.

According to Statistics Mauritius, the contribution of financial and insurance activities to GDP was 5.2% in 2019. Although this figure is small, it is none the less reassuring as it suggests that insurance activities are still able to trigger economic growth in the island, despite the recent challenges faced by the financial sector.

In accordance with the Government's objectives of enhancing business processes and boosting investment, the Government has relaxed regulations for global business corporations. While it was obligatory to apply for a global business licence, the financial services commission issued new rules in January 2019 whereby certain categories of residents do not have to apply for such a licence. Also, there are various attractive features offered by Mauritius to offshore businesses including an open economy, favourable tax laws and a modern banking system.

As far as the financial market is concerned, the all-share index (SEMDEX) of the Stock Exchange of Mauritius has performed relatively well since the mid-2000s, rising steadily since 2003 to reach a value of 1,967 in 2010 and 2,218 in 2018 respectively, before registering a slight drop, to 2,177, in 2019. Local investors account for about 55% of the daily trading activities, and foreign investors account for the remaining 45%. The largest share of capitalization was from the banking and insurance sectors (39% of the total), followed by hotels (32.2%) and sugar (5.5%). However, by mid-2020 the SEMDEX had decreased 577 points or 26.4% since January.

ECONOMIC PROSPECTS

Mauritius' economic prospects for 2020 (and beyond) are based on how quickly the country can recover from the circumstances brought about by the COVID-19 pandemic. Although the COVID-19 outbreak has been relatively well managed, the economy is still projected to decline. According to the IMF, the global economy was projected to contract by 3.0% in 2020 (with more than 150 countries facing a decline in economic growth). This impact is projected to be much more severe than the 2008–09 global financial crisis, but assuming the pandemic fades in the second half of 2020, and with the help of policy support, the global economy will grow by 5.8% in 2021. For Mauritius, according to IMF forecasts of April 2020, GDP was expected to decline by 6.8% in 2020, before returning to expansion, and growing by 5.9% in 2021. However, it is noteworthy that this forecast was made prior to the extension of the national lockdown, and thus does not take into consideration the effect of the extended lockdown period (15 April–1 June 2020). According to the Minister of Finance, Economic Planning and Development, Dr Renganaden Padayachy, more realistic scenarios tend to indicate that there will be a downturn in GDP ranging from 7% to 11% for 2020, driven by reduced aggregate consumption, investment and demand for exports, and by constrained aggregate supply through supply-chain bottlenecks. Moreover, the economy, being very open, remains dependent on the external environment and is vulnerable to global economic trends, especially those in Europe, China and the USA, which are among some of the worst affected areas in the world. It is expected that, from a sector wise perspective, there will be positive growth for the agricultural sector in 2020 (ranging between 1% and 1.5%), the ICT sector (in the range of 2%–3%) and the construction sector (3%–4%) and according to Padayachy, a positive growth rate for the finance sector was expected to be 2% only in the most optimistic scenario. No growth is estimated in the professional and administrative sectors. Several sectors are forecast to record declines with the worst affected sector being travel and tourism. This sector came to a halt following the closure of borders (from 19 March 2020, with a reopening only expected in August) and will recover only slowly.

The IMF expected unemployment to be heavily affected by the negative economic impact of the COVID-19 pandemic, with the rate in Mauritius estimated to increase to 17% in 2020, before decreasing to 9% in 2021. Padayachy also confirmed a double digit level of unemployment (although laying significant emphasis in the 2020/21 budget to mitigate this), with potentially significant layoffs in the highly vulnerable tourism and manufacturing sectors. Moreover, an expected increase in global food and energy prices, fuelled by the depreciation of the rupee and higher freight costs, was expected to cause inflationary pressures, with an estimated inflation rate of 4.7% in 2020 and 7.0% in 2021 (up from its 10-year low of 0.5% in 2019) according to the latest IMF World Economic Outlook (April 2020). The significant money injections from the Government and the BoM were also expected to account for this rising inflation.

The budget deficit, which has evolved in a stable range of 3%–3.5% of GDP since 2013, reached around 13% of GDP for the 2019/20 fiscal year, largely due to the COVID-19 crisis, although, surprisingly, no deficit was projected for 2020/21 in the light of the balanced budget presented by the finance minister and largely supported by the BoM.

The 2020/21 budget proposed an ambitious Rs 100,000m. roadmap and engaged in bold strategies in order for Mauritius to mitigate the ongoing economic storm and bounce back. The plan seeks to ensure the revival of economic growth and private investment, fast-tracking construction and infrastructure projects, promoting and sustaining entrepreneurship, incentivizing food security and import substitution through domestic agro-processing, and revitalizing manufacturing. Export promotion strategies are being widened and deepened for the manufacturing and tourism sectors. To safeguard the soundness of the financial sector in general and restore investors' confidence, the authorities have committed to take necessary measures to comply with international best practice, including action on Financial Action Task Force standards and risk-based supervision. This is crucial given the European Commission's decision to place Mauritius on the list of high-risk jurisdictions.

With a view to safeguarding financial stability and promoting economic development, since the inception of the COVID-19 crisis the BoM has announced several measures, with most recent being a US $2,000m. fund targeting investment in systemic corporates (through the creation of the MIC) and a Rs 60,000m. direct financial contribution to the Government. Importantly, these two specific initiatives have the potential to be game changers in the prevailing circumstances, provided the right infrastructure and mechanisms are set up for operationalization, performance assessment and governance.

With respect to the external sector, Statistics Mauritius forecast total exports for 2020 to decrease by around 19% compared with 2019 and total imports to decline by 7.4%. The trade deficit for 2020, according to its estimates, was to be 0.3% higher than 2019.

Despite the fact the economy and most of its different sectors has been, and will further be, quite severely hit by the COVID-19 crisis, it should be highlighted that Mauritius faces a number of medium- and long-term economic challenges and uncertainties, which are mostly structural in nature, and not related to the pandemic. These include: a rapidly ageing population (with a dependency ratio of over 30% of the population); decreased competitiveness of some export-oriented manufacturing industries; skills constraints and mismatches; relatively low linkages between FDI and domestic firms; a need to improve public services; and environmental degradation. The Eurocentric nature of the tourism industry, falling Chinese tourism and the re-invention of the tourism product (which is essentially beach tourism) also remain challenges for this pillar of the Mauritian economy. As such the impact of Brexit on the local economy is still unknown.

None the less, it is noteworthy that Mauritius has also numerous plus points which constitute assets, making it attractive for investment and trade. The island is probably one of the most economically and politically stable countries in sub-Saharan Africa, and possesses a vibrant democratic system. Despite being a small, open economy, vulnerable to external shocks, various Governments have implemented sound economic policies, coupled with diversification, to ensure that the economy is more resilient. Further diversification with the creation of new sectors such as the 'blue economy' (seafood processing, ports infrastructure and marine and coastal research) and new industries (medical devices and pharmaceuticals, jewellery and diamond processing, precision engineering and watchmaking, light engineering and metal fabrication, food processing, and printing and packaging), high-tech healthcare, fintech and real estate are poised to play important roles in the future economic growth and are all promoted as per the Government's Vision 2030.

As Mauritius is strategically located at the crossroads of Asia and Africa, the country is positioning itself as the bridge to Africa. The Mauritius-Africa Strategy is about building the attributes to be becoming the undisputed trade and investment platform for Africa, representing significant potential in the long run. The Mauritius-China Free Trade Agreement and the AfCFTA initiatives are also expected to be of huge value to the Mauritian economy in the coming years. Moreover, continuously improved economic freedom and governance, a sound state-business relationship, and improved methods of doing business should enhance the export of goods and services as well as attract greater levels of FDI.