Mauritius

Issuer Commentary

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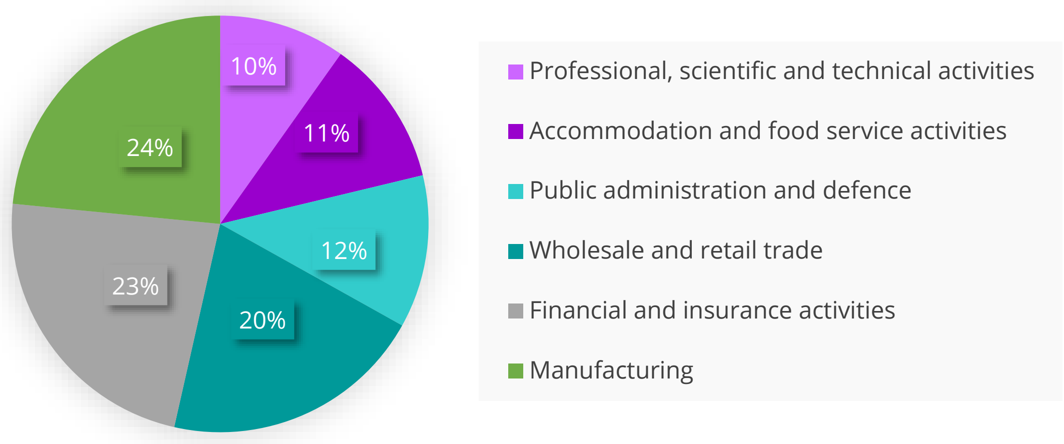
Country Commentary

The real GDP growth of Mauritius dropped by 15% in 2020; however, it has experienced a strong recovery, with a 7.4% year-on-year GDP growth in the third quarter of 2022, following a 14.5% rise in the previous period, a sixth consecutive quarter of expansion. This has been boosted by accommodation and food service activities due to high post-pandemic tourist arrivals, manufacturing and wholesale and retail trade, among other sectors. The economy has exhibited exceptional resilience despite the pandemic's protracted effects and the conflict between Russia and Ukraine. The export-orientated industries have performed remarkably well, even exceeding order book levels from 2019 in several cases.

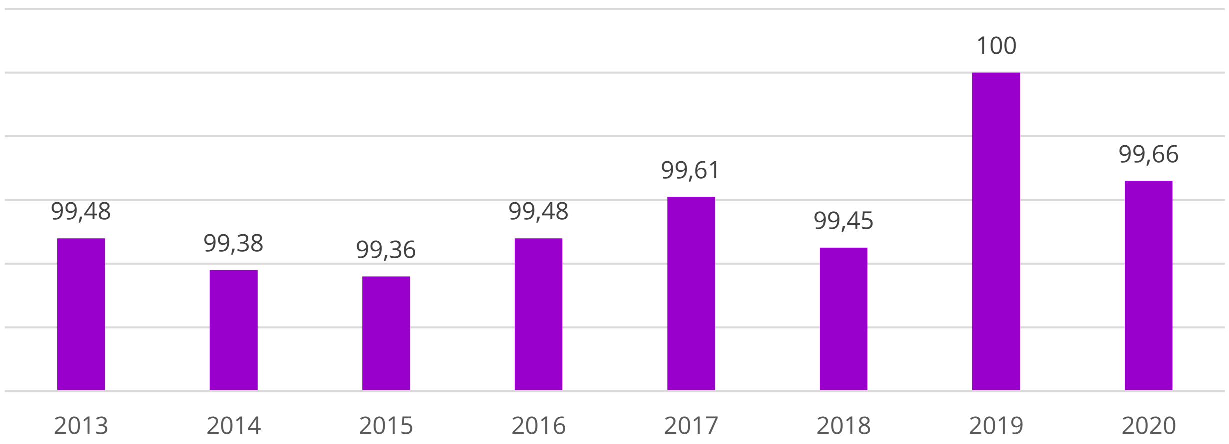
Figure 1: *Top 6 GDP by Industry 2022*



Source: Bank of Mauritius

Energy problems have plagued Southern Africa and other parts of Africa, and a key question in any economy is the efficiency of energy pricing that reduces waste and enables reinvestment in grid extension and utilities, as well as strategies for expanding mini-grids. Mauritius is excellent in this regard as the latest electricity access figure stands at 99.66 in 2020.

Figure 2: *Access to Electricity, % of the Population*

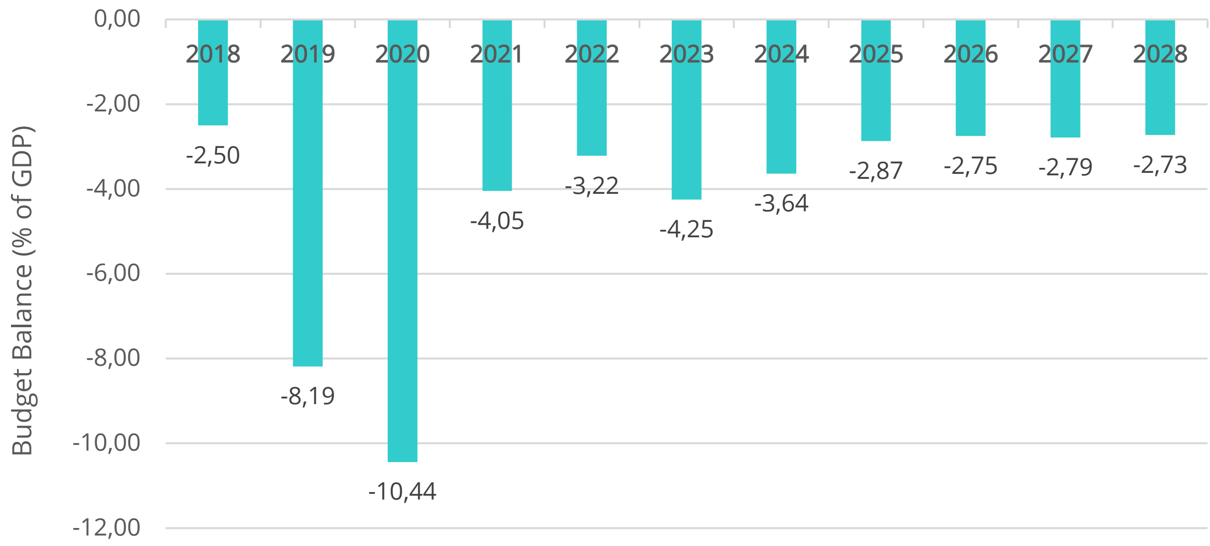


Source: The World Bank

Mauritius has advanced in economic freedom by maintaining a commitment to structural reforms and measures that support integration into the world economy. The country's effective regulatory environment and open-market policies foster broad-based and diversified economic development, and a solid and transparent judicial system firmly defends the rule of law.

The budget balance has been improving, from 10.44% in 2020 to 3.22% in 2022, and is projected to improve further to below the 3% range from 2025. Similar to most economies, Mauritius had extensive COVID-19-related expenditures in 2020; all the disadvantages associated with the smallness of island states weigh heavily against it. During the pandemic, fiscal measures were highest in tourism-dependent economies, with Mauritius devoting significantly to COVID-19-related fiscal support.

Figure 3: *Budget Balance Between 2018 to 2028 in Relation to GDP*



Source: IMF

Mauritius became a high-income country in July 2020 (based on 2019 data). However, the impact of the COVID-19 pandemic meant it slipped back into upper-middle-income status in 2021. Despite its successful handling of the public health emergency, the economic impact was severe. Nevertheless, the country still has a low unemployment rate, which is expected to reduce to 6.8% from a previous figure of 7.5% in 2022.

The Bank of Mauritius adopted an inflation target between 2% and 5% to keep inflation under control, providing a benchmark against which members of the public can gauge inflationary pressures. We also note the use of monetary policy instruments such as the repo rate and the independence of the central bank.

However, Mauritius' public debt trajectory raises concerns:

- Domestic debt represents 88% of the country's public debt and is mainly held in government bonds by the banking sector.

- Public external debt (12%) is limited to multilateral creditors on concessional terms with long maturities. The high concentration of domestic public debt ensures some protection against foreign exchange risk.
- Public debt to GDP of around 90%, projected to reduce to 87%, is still significantly higher than SAR's ideal range of 60% - 64% and below for developing countries.

We note the planned efforts to contain foreign exchange rate risks by decreasing the share of foreign debt in the government debt portfolio, which is planned to be reduced to around 15% despite the set benchmark of 20% and maintaining the composition of public sector debt at 25% for foreign and 75% for domestic debt. We also note that the proportion of government debt due for repayment within one year is being reduced from 22.9% to 21.6% to lower refinancing risk; and that the share of external debt in the government portfolio is being reduced from 22.4% as at the end of June 2021 to 19.6% by end June 2022 to lower exchange rate risk.

There are plans regarding the reduction of the government debt interest payments ratio from 2.8% in FY 2020-2021 to 2.5% in FY 2021-2022, well below the limit set at 3.5%. It is a suitable approach that the borrowing requirements of the government all through the medium term are planned to be met mainly from domestic sources.

The government's development strategy is focused on expanding local financial institutions and building a domestic information telecommunications industry. It plans to modernise the sugar and textile industries while promoting diversification in areas such as information technology as well as financial and business services. Services and tourism remain important economic drivers, and maritime security is a priority.

We see it as an important priority for the government to develop and/or buy into key industries in the secondary and tertiary sectors of the economy. The state should also prioritise holding a significant investment stake to benefit from profits in addition to taxation.

It is our view that the public-sector debt should be targeted at 60 - 64% of GDP to accommodate a healthy real GDP growth rate. Despite signs of deterioration, public debt remains sustainable in consideration of other factors; however, debt restructuring may not be an option for the government in the short term. Projected growth recovery in the next few years will allow for containing debt at levels compatible with sound economic development.

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Contributors:

- David Mosaka | Chief Ratings Officer | david@saratings.com |
- Bekithemba Ndimande | Rating Analyst | bekithemba@saratings.com |
- Lomanja Malaba | Rating Analyst | lomanja@saratings.com |