3. ECONOMIC BACKGROUND

International Economic Environment

3.1 Since the last 2013 PRB Report, the international economic environment has hardly improved and continues to be uncertain and challenging. During the period 2013-2015, global annual growth rate was 3.3% on average. Output growth in Europe, our main trading partner, has declined considerably to 0.7%. In its latest World Economic Outlook released in January 2016, the IMF has revised further down its growth projections for 2016 and beyond.

Mauritian Economy

3.2 As regards the Mauritian economic performance, average annual growth rate during the three year period 2013-2015 was moderate at 3.3%. Major sectors such as agriculture, financial services, ICT, retail trade and food processing registered slower growth due to weak demand.

3.3 In fact, total investment as a ratio to GDP declined sharply from 23% in 2012 to 17.8% in 2015 – a drop of 5.2 percentage points – and private investment from 17.7% to 13%. Unemployment remains at 8%. Domestic labour cost has been rising thrice as much as productivity growth during 2013-2015, undermining our international competitiveness.

3.4 Concerning developments in respect to the price level, inflationary pressures remained subdued during the period 2013-2015. Prices increased by only 2.7% annually on average. The inflation rate in 2015 was 1.3% - the second lowest rate in five decades.

3.5 On the fiscal side, public sector debt has been on the rise again since 2013 and reached a high level of 56% of GDP in December 2015. In addition, there are increasing fiscal risks and contingent liabilities that could weigh heavily on public finances.

Key Challenges Ahead

3.6 Mauritius main challenges include: increasing competitiveness through greater regional integration, creating a stronger environment for innovation, making growth more inclusive by addressing scarcity of skilled human resources, and bolstering resilience to natural disaster and climate change.

3.7 As an open economy, developments on the international front will inevitably have an impact on the Mauritian economy. In addition, the stated objectives of the government are to achieve higher growth of at least 5.5% annually, enhance employment creation and reduce poverty. These will require the pursuit of structural reforms with a view to:

(a) transforming our economy and broadening our economic base and space;developing growth-enhancing infrastructure;

(b) raising productivity to global competitiveness levels through ICT, Science, Technology, Engineering and Mathematics (STEM) and innovation;

(c) streamlining and simplifying business licensing processes, and addressing other administrative red-tapism to put Mauritius among the top 15 countries in the World Bank Ease of Doing Business;

(d) securing a supportive labour market and job-friendly wage policy to reverse growing skills mismatch and unemployment;

(e) addressing emerging ageing population issues to secure sustainability of pension systems, including the public sector pension system;

(f) promoting inclusive growth and enhancing employability of unemployed and vulnerable groups; and

(g) upholding fiscal sustainability, financial stability and economic resilience.

3.8 A dynamic, proactive and efficient civil service will be crucial to provide the required support to Government for addressing emerging and future challenges and deliver effective and quality services to the nation. Continuous rationalising of structures and processes, and upgrading of skills level of public officers combined with digital technology will be critical for successfully implementing those structural reforms and embedding the economic transformation agenda.

3.9 In this respect, due regard has to be given to the prevailing unfavourable economic environment and the fiscal constraints arising from the statutory public debt limit set in the Public Debt Management Act at 50% of GDP by end 2018.

3.10 This Report has, in its recommendations, tried to balance the need for adjusting the pay package in the public sector with the need for pursuing prudent macro-fiscal policies to face national and global challenges ahead while at the same time focussing on the transformation of public sector organisations into modern and professional institutions dedicated to the service of the nation.

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