Rapid Assessment: Impact of the Russia-Ukraine War on the Mauritius Economy

UNDP MAURITIUS AND SEYCHELLES POLICY BRIEF

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This brief provides a rapid assessment of the possible implications of the Russia-Ukraine war on the Mauritian economy. Historical data utilised provides insights into the direct and indirect relations between Mauritius and the two countries, and reflects the potential impact of the war on the local economy.

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According to the Visa Global Travel Intentions Study of 2018, a Russian tourist on average spent USD $1,676 per foreign holiday, more than their European counterparts who spent USD $1,174.

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Context

There is growing concern that the Russia-Ukraine war will impose lasting damage to the global economy through several channels including the rise in commodity prices, disruption of trade, rising interest rates and widening fiscal pressures. The war has come amidst difficult times when the global economy is struggling to recover from the COVID-19-induced contraction. This policy brief provides a rapid assessment of the possible impact of the war on the Mauritian economy.

Overall, the brief points out the following early insights.

1. The tourism sector in Mauritius remains resilient in the short-term with growth in arrivals despite the outbreak of the war. However, while not a major tourism market, Russia and Ukraine have an important contribution to the income stream in the sector.

2. Russia and Ukraine do not constitute a significant trade linkage with Mauritius. However, a knock-on effect could be experienced through the re-exports of goods to Mauritius and a global disruption of the value chain.

3. Gross Domestic Product (GDP) growth has been projected at between 7 to 8 percent depending, among others, on the number of tourist arrivals. This figure could decline further if there is a significant disruption in tourism and external trade.

No Significant Impact on Tourist Arrivals

About 80 percent of total tourist arrivals since January 2022 were from Europe, 37 percent of whom came from France, 18 percent from the United Kingdom, 12.6 percent from Germany and 3.5 percent from Austria, followed by other European countries. Russia and Ukraine constituted 2.6 and 1.1 percent respectively. South Africa is also one of the major players, contributing 9.6 percent.

Although Russia and Ukraine do not fall in the lead category, a combined 4,572 tourists received from these two countries in the first three months of 2022 potentially contributing an important source of revenue if their major purpose of travel was leisure. According to the national surveys on inbound tourism, more than 90 percent of tourists spend their time on leisure. While there is no data on spending by Russian tourists, data extrapolated from global statistics on their spend, indicate that Russian tourists spend on average 2 nights longer than others on holiday, in addition to travelling multiple times in a year. Therefore, arrivals in Mauritius from Russia, between January and March, could have earned the country USD 4.8 million. The associated spending could contribute significantly to economic activity in sectors that align to the tourism ecosystem.

It is important to note that despite the outbreak of the war, tourist arrivals from Russia have remained stable. Between mid-January and the third week of March, (January to March – 3,197 Russian tourists visited Mauritius) 192 Russian tourists travelled to Mauritius, while arrivals from Ukraine declined sharply from 882 in

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\(^2\) According to the Visa Global Travel Intentions Study of 2018, a Russian tourist on average spent USD $1,676 per foreign holiday, more than their European counterparts who spent USD $1,174.
January, to 398 in February, and to 52 in the first half of March. Overall, the country is envisaged to continue registering growth in tourist arrivals during the year. The Mauritius Commercial Bank projects the sector to be boosted by the lifting of travel restrictions by France, Réunion and South Africa, and the country’s market diversification strategy. The recovery period has resulted in a 40 percent increase in average spending by tourists, and the length of stay from 10 days during the pre-pandemic period to 12 days in 2022.

**Figure 1. Tourist Arrivals, January- March 2022**

![Graph showing tourist arrivals from various countries during January to March 2022](image)

*Source: Data obtained from the Ministry Finance, Tourism Desk.*

**THE IMPACT ON TRADE WILL BE LARGELY INDIRECT**

Data on recent trends provide an insight into the direction of trade between Mauritius and the two. Mauritius imports from Russia and Ukraine are significantly lower compared to other actors in the global market. In 2021, the top 5 countries that dominated the Mauritian imports were China, accounting for 17.7 percent, India (15.6 percent), UAE (8.8 percent), South Africa (7.9 percent) and France (6.6 percent), while imports from Russia accounted for only 0.04 percent. The value of imports from Russia rose from USD 1.6 million in 2009 (0.04 percent of total imports) peaking to USD 20 million (0.47 percent) in 2015, but has been on a downward trend since then, amounting to USD 2.6 million (0.04 percent) in 2021. The value of imports from Ukraine increased from USD 392,000 (0.01 percent) in 2010 and peaked at USD 7.7 million (0.17 percent) in 2015. Ukrainian imports thereafter declined to USD 1.5 million in 2018, but picked up thereafter to surpass Russia in 2021 at USD 6.6 million (0.17 percent).
Provisional data for 2021 do not disaggregate for Ukraine (included among others). For comparison analysis is provided up to 2020 where disaggregation was possible.

Source: Computed from the Trade Map database. Note: products in red constitute more than 40% of total import of the same in Mauritius.
Disaggregation of goods is only available for 2020 in the trademark dataset. Based on this source, Russia exported 46 items into Mauritius, mostly in the “non-food” category. The most significant items were fertilizers, which accounted for 61 percent of the total imports of Mauritius for the same category of items, despite a value of only USD 51,000; followed by industrial diamonds (44 percent). Figure 5 lists the top 20 imports from Russia, with the last two accounting for less than 2 percent of the country’s imports of the same category.

Ukraine exported 56 goods to Mauritius, 24 of which were valued at less than USD 10,000. The most significant exports to Mauritius included oilcake (figure 6) valued at USD 105,000 but accounting for 100 percent of total imports of same items into Mauritius; cotton seed oil at USD 76,000 (98.7 percent), peas at USD 1.3 million (53.1 percent), and sunflower seed/oil at USD 1.2 million (45.4 percent).

Source: computed from the Trade Map database. Note: products in orange constitute more than 40% of total import of the same in Mauritius. Note: orange bars constitute products whose share of imports was more than 40 percent of the same product imported overall.

Figure 4. Share of Mauritian Exports to Russia and Ukraine 2010 to 2020

Source: computed from the Trade Map database. Note: products in red constitute more than 40% of total import of the same in Mauritius.
The top 5 leading destinations of Mauritian exports in 2020 were South Africa (16.1 percent), United Kingdom (11.5 percent), France (10.3 percent), USA (9.9 percent), and Madagascar (6.9 percent). In 2020, Mauritius exported 10 goods worth USD 3.4 million to Russia and two goods valued at USD 35,000 to Ukraine. The key exports to Russia included fish (USD 1.95 million) and raw cane sugar valued at USD 889,000. There was little export activity with Ukraine in 2020, with only cane sugar transacted at USD 34,000 (2.2 percent of cane sugar exports).

Given that Mauritius relies on the global market for more than 75 percent of food requirements, including among others, cereals, meat, milk, rice and oils, it is likely that some of these products are re-exported by other economies to the country. Also note that, regardless of the source, any disruption in the supply will have a knock-on effect on food imports into the country.

Overall, it is possible that the impact of the war on Mauritius, regarding trade, will be more indirect through the global value chain, rather than direct trade relations. This is partly because of the low volume of trade, which, under normal circumstances could have been substituted with other sources within the global market. It is also notable that Mauritius may have to source fertilizers elsewhere as imports from Russia constitute 61 percent of import market value. The impact on fertilizer imports can pose significant implications on production and food security.
GROWING INFLATIONARY PRESSURE COULD PERSIST IN THE MEDIUM TERM

Overall, between June 2021 and March 2022, prices have increased by 8 percent. Between February and March, the increase was by 2.1 percent overall, with the largest registered for food and non-alcoholic drinks at 4.2 percent. As a net food importer, disruptions in the global supply chains pose a strain on household welfare. Between January and February, the largest contributor to price increases was vegetables, in part on account of variations in weather. However, the potential shortfalls in importation of fertilisers, 61 percent of which was from Russia, can cause a reduction in the local production of food. Importers are already diversifying their sources of imports and planters are increasingly resorting to bio-fertilizers which are available locally.

According to the Bank of Mauritius, given that the country’s inflation is largely influenced by pressures on the global market, it may be sustained by a long duration of the war. Amidst the heightened risk of inflation, the Monetary Policy Committee of the Central Bank of Mauritius increased its key interest rate by 15 basis points to 2 percent per annum, on 9 March 2022.

To cushion the population from growing vulnerabilities, the Government of Mauritius intervened in the market to control the surge in prices to enable citizens to smoothen consumption amidst shocks. In 2021, the Government listed several basic commodities under price control. Some of these included scheduled bread, powder milk, corned mutton, corned beef, mogas and gasoil, dual purpose kerosene, basmati rice, fertilisers, blood glucose strips, canned sardines, flour, gas cylinders, face masks, hand sanitisers, potatoes, imported fresh fruits, onions, infant milk powder and long grain rice, amongst others. Going by this policy direction, it is possible for the Government will continue to intervene to regulate prices.

In addition, given the spiralling freight costs, engagement with importers of these products will be necessary to ensure that businesses remain resilient. The drive to sustain welfare by keeping prices in check may come at the cost of fiscal pressures for an economy still recovering from heavy social spending to avert the impact of the COVID-19 pandemic. It remains to be seen how the Government budget will respond to growing inflationary pressures.

Figure 7. Evolution of Prices, June 2021-April 2022

Source: Generated from the Statistics Mauritius CPI data, April 2022
Owing to the global disruptions and depreciation of the local currency, the price of fuel has been increasing, and its effect is felt in other commodities. In 2020, the price of petrol had stabilized at 44 rupees per litre but rose to 48.4 Rupees in April 2021. At the onset of the war, the prices had risen to 61.3 but increased further to 67.1 Rupees on April 2021. The price disruptions have imposed significant pressure on livelihoods of low-income households, sparking violent riots in several regions of the country in April 2022, against the rising cost of living.

While the prices have been on the rise, they have been regulated by the Petroleum Pricing Committee of the State Trading Company to prevent unsustainable spikes that could significantly impact on citizens and economic activity. The Parastatal that is tasked to import petroleum products, manages a Price Stabilization Account to absorb price shocks. Continued pressures on global oil prices and local currency could further deplete the stabilization fund, causing additional rise in domestic oil prices.

Source: Generated from the Statistics Mauritius CPI data, April 2022

Source: Generated from the State Trading Company statistics, April 2022
**RIsing Prices Could Imose Additional Currency Pressure**

The Mauritian Rupee has been depreciating against the USD since the start of the COVID-19 pandemic. Between January 2021 and March 2022, it depreciated by 12 percent. Daily exchange rate transitions reveal a steep depreciation of the Mauritian Rupee since 19 February 2022, the period around the commencement of the war.

It is possible that an upward trajectory of headline inflation, on account of the global hikes in prices, could pose additional pressure on the Rupee. The Central Bank consistently intervenes in the domestic foreign exchange market to safeguard economic activity. What will happen in the coming weeks will be instrumental in shaping the extent of policy response by the Bank.

**Figure 10. Exchange Rates, Feb–Apr 2022**

![Exchange Rate Graph]

Source: Computed for Bank of Mauritius statistics, April 2022

**Growth Prospects Are Still Positive But Could Be Lower Than Earlier Projected**

According to the Central Bank, the economic conditions in the domestic market are still favourable, at least in the short-term, with almost all economic sectors registering positive growth. The gains in the tourism sector, despite the war, have created strong spill over effects into the rest of the economy, for instance in retail trade, commerce and construction.\(^{xv}\) The financial sector has also registered a boost after the Financial Action Task Force (FATF) removed Mauritius from the grey list of countries under increased monitoring.\(^{xvi}\)

Considering the likely impact of the war, GDP growth has been projected at between 7 to 8 percent\(^{xvii}\) depending, among others, on the number of tourist arrivals.

GDP growth could decline if tourism and external trade are significantly disrupted in the global market. While Mauritius is not directly linked to the two economies of Russia and Ukraine, the knock-on effect of the war may be felt through several channels including the rise in input costs that will result, in part, from the spiralling in commodity and energy prices and disruption of supply chains, a heavy dent on domestic consumption due to the rise in commodity prices, and a decline in domestic investment.\(^{xvi}\)
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