When the World Catches a Cold

Mauritius, the Iran Shock, and a Reward System Under Strain

Article 1 of 2 — The Crisis, the Mechanism Under Strain, and the New Social Contract Worth Debating

A Thought Leadership Series on HR, Reward and Labour Policy in Mauritius • By Darrell Lai Choo | GRP® • Read time: approximately 18 minutes

> *"For the first time in the twenty-first century, global real wage growth has fallen to negative values while, at the same time, the gap between real productivity growth and real wage growth continues to widen."*
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> *— ILO, Global Wage Report 2022–23: The Impact of Inflation and COVID-19 on Wages and Purchasing Power, November 2022*

About This Series

This is the first of two articles arguing that Mauritius would benefit from fundamentally rethinking how the annual salary compensation mechanism works — and, alongside it, how companies structure variable pay. The series does not attempt to address every dimension of wage-setting in Mauritius. The National Minimum Wage framework, the use of remuneration orders, and the process for managing wage relativity adjustments each raise structural questions that deserve separate treatment. This series focuses on the COLA mechanism specifically, because it is the instrument that will come under the greatest immediate pressure in December 2026, and because variable pay reform is the most practical complement to it that is available to companies right now.

Article 1 makes the case for change. It grounds the argument in published global research on wages and inflation, places Mauritius in that context through the lens of COVID-19 and the Iran conflict, and offers an honest diagnosis of the statutory Cost of Living Allowance mechanism. It concludes by outlining the shape of a new social contract built around variable pay.

Article 2 delivers the follow-through: specific, sequenced proposals for government, trade unions, and company management — grounded in what has already been said in Mauritius, and extending it toward a more complete and integrated direction.

Introduction: Not Another Crisis — A Structural Inflection Point

The world has experienced inflationary shocks before. Oil embargoes, financial crises, pandemics — periodically, the global economy convulses, prices surge, and workers and employers scramble to manage the consequences. Typically, the mechanisms built to manage these shocks eventually catch up, the shock passes, and equilibrium is restored.

What makes the current moment different, for Mauritius specifically, is not the severity of any single shock but the convergence of three reinforcing pressures: a new inflationary wave from the Middle East conflict, the unfinished business of post-COVID recovery, and the increasingly visible structural strain on Mauritius' wage-setting machinery.

The US–Israel military campaign against Iran, which began on 28 February 2026, transformed rapidly from a geopolitical event into a global economic crisis. The effective closure of the Strait of Hormuz — through which approximately 20 million barrels of crude oil and oil products passed daily in 2025 (IEA, 2026) — along with roughly one-fifth of global LNG trade, sent energy and commodity prices surging. During more than five weeks of active hostilities, WTI crude oil futures rose by an estimated 69% and European natural gas prices rallied 61% (IG Markets, April 2026). Fertiliser supply chains were equally disrupted: Gulf states supply nearly 35% of global urea exports (CSIS, 2026), and urea prices rose sharply since hostilities began. Food inflation tends to follow energy inflation.

On 7–8 April 2026, the United States, Israel and Iran reached a two-week ceasefire, brokered by Pakistan, under which Iran agreed to re-open the Strait of Hormuz. Oil prices fell sharply on the announcement — with Brent dropping toward $90 a barrel and equity markets staging a significant relief rally (NPR, 8 April 2026).

But as markets celebrated the pause, analysts were clear-eyed about what the ceasefire does and does not mean. Multiple commentators noted that physical oil flows from the Middle East had not yet resumed at the time of the announcement, that infrastructure damage, higher shipping and insurance costs, and structural shifts in energy pricing would persist regardless, and that Iran's 10-point proposal — requiring US forces to withdraw from the region and sanctions to be lifted — left a wide gap between the two sides' stated positions (Newsweek, April 2026; IG Markets, April 2026). The situation, multiple analysts concluded, should be treated as a pause rather than a resolution.

IMF Managing Director Kristalina Georgieva warned, before the ceasefire, that the war would lead to higher inflation and slower global growth even if it stopped immediately (Reuters, 9 March 2026). The IMF confirmed it would raise its inflation forecast and cut growth projections regardless of the ceasefire outcome. The economic damage already inflicted does not reverse when a truce is announced, and another flare-up remains a credible scenario.

For Mauritius — a small island economy with no domestic fossil fuel production and a structural reliance on imported food, fuel and consumer goods that drove a visible trade deficit of Rs 203.7 billion in 2024 (AXYS Group, 2025) — both the conflict itself and its fragile ceasefire carry the same essential message: a new inflationary wave has been set in motion. The ceasefire may moderate its peak. It does not extinguish it. Supply chain disruptions, insurance premium spikes, shipping rerouting costs, and elevated energy price expectations will feed through to Mauritian household costs over the months ahead, regardless of what the diplomatic calendar produces next.

The crisis, ceasefire notwithstanding, is not simply another cost-of-living shock to be absorbed through the next annual salary compensation round. It is a structural inflection point that exposes, with unusual clarity, the limitations of a wage model whose shortcomings were well-known long before 2026 and which the events of 2024 brought to public attention in a very contentious way.

Section 1: What Mauritius Already Knows About Its Own Wage-Setting Problem

Before invoking international evidence, it is worth acknowledging what the Mauritian debate itself has been saying — because the issues diagnosed in this article are not entirely new. What has been missing is not the diagnosis but the prescription.

The Academic Acknowledgement Goes Back a Decade

A peer-reviewed study published in the University of Mauritius Research Journal (2016) reported that there was broad consensus among the State, trade unions and employers that the existing wage determination mechanism has structural limitations. Crucially, it identified that the need for reform was recognised across all parties, but that there are differences about what type of reform is required and acceptable. That gap — between shared awareness and shared solution — is precisely what this series attempts to help close.

The IMF's 2005 country study on Mauritius (Country Study No. 05/321) documented a structural issue that remains unresolved: real average compensation had tended to grow faster than labour productivity because of the wage-setting institutions in place, with a dampening impact on employment. The IMF recommended the establishment of a national tripartite body to provide yearly non-mandatory guidelines on general wage increases to allow for flexibility (IMF, 2005). That recommendation went unimplemented.

This diagnosis has been echoed in the Mauritian published record for nearly two decades. Writing in L'Express in 2008, economist Dr Vishal Ragoobur identified an "inbuilt inflationary bias" in the tripartite COLA mechanism and noted that the annual wage compensation had "consistently been set above productivity growth" — raising labour costs and eroding competitiveness (Ragoobur, 2008). He also called explicitly for the tripartite body to operate as a genuinely independent institution with a mandate extending beyond inflation to include productivity and capacity to pay — a call that remains unmet. Writing in 2023, Dr Vinaye Ancharaz observed that successive governments have used wage decisions as political instruments "with potentially drastic economic consequences in the future," and concluded that under the current mechanism "workers will never be fully compensated for inflation" — because the compensation is paid ex post, after the damage has already been absorbed (Ancharaz, 2023). The arguments in this series are therefore not novel impositions from outside the Mauritian debate. They are an attempt to move that debate from diagnosis to prescription.

The 2024 Wage Relativity Episode: What It Revealed

The 2024 episode began with a political decision: the previous government significantly increased the National Minimum Wage with effect from January 2024, raising it to MUR 16,500 inclusive of Additional Remuneration. The PRB's 2026 Report describes the direct consequence: seventeen salary points on the 2021 Master Salary Scale had to be adjusted, compressing the lower segment of the scale and creating an equity issue across grades (PRB, 2026). A wage relativity adjustment — MUR 4,925 per month for employees earning up to MUR 20,000 and MUR 2,925 for those earning between MUR 20,000 and MUR 50,000 — was then imposed across a wide range of sectoral remuneration regulations to restore broken pay differentials.

The core issue was not the adjustment itself but the process. It was implemented without adequate consultation with employer representatives and without the structured analytical process the National Wage Consultative Council Act provides for. The State Law Office's own opinion of 2 September 2024 had advised that there was no express legal basis for such regulations (Temple Law, 2025, citing Parliamentary Hansard of 17 December 2024). Business Mauritius filed a Supreme Court judicial review on 9 October 2024. The Ministry subsequently re-gazetted the regulations under both Sections 94 and 106 of the Employment Relations Act to address the legal uncertainty.

Temple Law's published analysis described the episode as a sequence of decisions taken at the end of a parliamentary mandate that created expectations the incoming government had limited room to revise (Temple Law, 2025). The minimum wage increase — itself a politically motivated decision — triggered downstream consequences that the existing institutional machinery then handled without adequate process or consultation.

The government deployed financial assistance through the MRA to help employers absorb the cost — both for the new National Minimum Wage and salary compensation, and separately for the wage relativity adjustment, with tiered support for SMEs and manufacturing enterprises that could demonstrate financial strain (MRA, 2024). The pattern is worth noting: a centralised pay adjustment was imposed across all industries and company sizes regardless of affordability, and public money was then required to bridge the gap between what was mandated and what businesses could sustain.

Separately, the annual salary compensation process continued. The 2026 figure was set at MUR 635 per month through the Tripartite Committee in December 2025, with unions having pushed for significantly higher amounts (Le Mauricien, 13 December 2025). These are procedurally distinct instruments — but the underlying architecture of response has been the same: mandatory, flat, and supported by public subsidy for employers who cannot absorb the cost.

What the 2024 episode confirmed is that the wage-setting machinery is under strain in multiple dimensions: procedurally opaque in parts, susceptible to political pressure, legally contested, and reliant on public money to bridge the distance between what it requires and what parts of the economy can sustain.

Section 2: The Global Evidence — What Research Shows About Wages and Inflation

With the Mauritian institutional context established, it is worth grounding the argument in the published international evidence on what happens to real wages during major inflationary shocks.

COVID-19: The Most Instructive Case in a Generation

The ILO's Global Wage Report 2022–2023, published in November 2022, marked a turning point: for the first time in over two decades, global real wages declined. Workers were earning less in real terms despite ongoing economic recovery, as inflation outpaced nominal wage growth (ILO, 2022).

The data reveals a clear pattern of erosion in purchasing power across regions:

- Real wages in advanced G20 economies fell by approximately −2.2% in the first half of 2022 (ILO, 2022).
- In emerging G20 economies, growth slowed to just 0.8%, significantly below pre-pandemic trends (ILO, 2022).
- In Africa, real wages contracted by −1.4% in 2021, with only a marginal improvement to −0.5% in early 2022 (ILO, 2022).

These outcomes were shaped by a sharp inflationary shock. IMF estimates indicate that inflation in emerging and developing economies approached 10% in 2022, effectively offsetting nominal wage increases (IMF WEO, October 2022).

The IMF's October 2022 World Economic Outlook added the productivity dimension: in emerging economies, real wages stayed mostly below their pre-pandemic trend throughout the recovery. Nominal wages returned toward pre-pandemic levels in wealthier countries, but real wages dipped below their pre-pandemic trend as inflation outran pay gains (IMF WEO, October 2022).

Research by the Centre for Economic Policy Research shows that differences in fiscal stimulus across countries shaped both inflation outcomes and wage dynamics in the post-pandemic period. As inflation rose, expectations played an increasingly important role in wage-setting, reinforcing the feedback loop between prices and pay (CEPR, 2023).

The distributional impact was severe. World Bank analysis estimates that the combined effects of the pandemic and the inflationary wave that followed pushed between 75 and 95 million additional people into extreme poverty in 2022 compared to pre-pandemic projections (World Bank, 2022). IMF analysis shows that emerging and developing economies experienced per capita income losses more than twice as large as those in advanced economies relative to pre-pandemic expectations (IMF Blog, 2021).

The core lesson: during supply-driven inflationary shocks, wage mechanisms consistently struggle to protect purchasing power in real time; the damage falls disproportionately on workers in developing economies; and those with the least savings and most exposure to basic necessities are affected most.

Section 3: Mauritius Through the COVID Lens

Mauritius has lived through a compressed version of this script. COVID-19 was not merely a health crisis; it was a severe contraction of the economic model, and it exposed many of the structural vulnerabilities the island carries.

Why Mauritius Is Structurally Exposed

Tourism contributed approximately 8–9% of GDP in 2019, with the World Travel & Tourism Council estimating that the sector's total contribution — including indirect and induced effects — accounted for roughly 20–25% of employment (WTTC, 2023). The services sector contributes around 75% of GDP overall. Mauritius has no domestic fossil fuel production and is structurally reliant on imported food, fuel and consumer goods: food and live animals alone accounted for approximately 19% of total merchandise imports in 2023, and the country's visible trade deficit reached Rs 203.7 billion in 2024 (Statistics Mauritius; AXYS Group, 2025). Public debt rose above 85% of GDP during the COVID-19 period (IMF Art IV, 2021).

The COVID Damage in Numbers

Real GDP in Mauritius contracted by approximately 15% in 2020 (IMF Art IV, 2021). Survey data collected by Statistics Mauritius and analysed by the World Bank found that approximately one in three Mauritian households continued to report income losses even after the first lockdown was lifted in mid-2020 (Ranzani and Li Fa Cheung Kai Suet, World Bank, 2020). The burden fell disproportionately on women, low-skilled workers, and those in informal or tourism-dependent sectors.

A peer-reviewed study published via the National Institutes of Health highlights how the crisis disproportionately affected low-skilled workers in globally demand-dependent sectors, particularly those in informal employment (PMC, 2022).

The Inflation That Followed — And the Gap It Exposed

Verified data from Statistics Mauritius and World Bank CPI reporting shows the following trajectory: annual CPI inflation of approximately 2.5% in 2020, ~4.0% in 2021, ~10.8% in 2022, ~7.1% in 2023, and ~3.5–4.5% in 2025–2026 (Macrotrends/World Bank; Trading Economics/Statistics Mauritius).

Average monthly wages rose from MUR 37,451 in 2022 to MUR 43,488 by 2024 (Statistics Mauritius). But cumulative inflation from 2021 to 2023 exceeded 20% on a compounded basis. The PRB's 2026 report acknowledged this directly, estimating the erosion in public sector purchasing power at approximately 18% over the review period (PRB, 2026).

The 2026 salary compensation of MUR 635 per month — representing approximately 3.7% of the national minimum wage — illustrates the structural limitations of the current mechanism. The adjustment is backward-looking, embedded as a permanent fixed cost, and calibrated to a 3.7% inflation forecast that predates the Iran shock.

Section 4: The Annual Salary Compensation Mechanism — Five Characteristics Worth Re-examining

The statutory salary compensation framework is well-intentioned. It emerged from legitimate concerns about the erosion of workers' purchasing power in an economy where many employees, particularly in lower-skill sectors, have limited individual bargaining leverage. That legitimacy deserves to be acknowledged.

But in today's environment, and on the evidence of the last five years, five characteristics of the COLA mechanism point to a system that is no longer serving all three parties well. The 2024 episode, examined in Section 1, is relevant as context — it demonstrated how politically fraught the broader wage-setting process has become — but the five points below concern the COLA instrument specifically.

1. The Lag Effect

COLA is calculated on the prior year's CPI average. When inflation spikes sharply mid-year due to an external shock — as it did in 2022, and as the Iran conflict is again triggering — compensation arrives 12 to 18 months after workers have absorbed the real purchasing-power blow. The 2026 salary compensation of MUR 635 reflects 2025 inflation, not the new shock now arriving. This is a structural feature of the mechanism, not a failure of the parties who operate it. No amount of goodwill in the December Tripartite process can make a backward-looking instrument forward-looking. Ancharaz (2023) makes the arithmetic concrete: a worker receiving MUR 1,500 in a year of 10% inflation effectively receives only MUR 1,350 in real purchasing power terms — and that is before accounting for the consistent pattern of projected inflation rates running below the eventual outturn in the years the COLA is calibrated against.

2. The Fixed-Cost Effect

Every rupee of salary compensation permanently embeds into base salary — a fixed, non-recoverable cost that applies equally across the public and private sectors, regardless of subsequent business performance. This matters because the embedding is cumulative: each year's increment does not sit alongside base salary — it becomes base salary, compounding forward into overtime calculations, end-of-year bonus entitlements under the Workers' Rights Act, and the base from which the next COLA increment will itself be calculated. In a supply-side shock — where inflation is driven by import prices rather than domestic demand — this mechanism transfers the cost of a global event permanently onto the employer's fixed cost structure, with no provision for recovery if conditions do not improve.

3. The Affordability Mismatch

The sectors least able to absorb cost increases — tourism operators, hoteliers, SME retailers, and textile manufacturers — are often those employing workers most exposed to cost-of-living pressures. This creates a structural asymmetry: the same firms expected to fund wage increases are those least equipped to do so. The MRA financial assistance scheme for salary compensation — which provides tiered per-employee subsidies to employers who can demonstrate financial strain (MRA, 2025) — is evidence of this mismatch. Public money is used to make affordable what the statutory mechanism required regardless of affordability. The scheme does not resolve the underlying tension; it bridges it at ongoing public cost.

4. The Wage-Price Spiral Risk

Research by Lorenzoni and Werning (Brookings Papers on Economic Activity, 2023) shows that inflation can become self-reinforcing when wage adjustments are automatic and indexed, embedding expectations of future price increases into the wage-setting process. This is not a remote theoretical concern in the Mauritian context. The IMF Working Paper on Mauritius' labour market noted as early as 2003 that under the centralised wage-setting system, tripartite wage increases were typically indexed to inflation, resulting in real wages growing faster than labour productivity in the traditional sectors over time (IMF WP/03/211, 2003). Ragoobur (2008) identified the same dynamic, noting the "inbuilt inflationary bias" of the mechanism and citing the Bank of Mauritius Monetary Policy Committee's explicit call for wage restraint to avoid a "vicious wage-price spiral." Ancharaz (2023) identified the same feedback loop from the demand side: large COLA payments increase liquidity in the economy, creating additional upward price pressure on top of the underlying supply shock. In a supply-side shock — where inflation is driven by energy and food import prices rather than excess domestic demand — a CPI-indexed wage response does not address the source of the problem. It passes cost to employers who had no role in generating the shock, while leaving the real purchasing-power problem unresolved until the following cycle.

5. The Disconnect from Firm Performance

Salary compensation is granted regardless of whether the company generated economic profit, broke even, or ran at a loss. Workers receive a fixed annual increment in boom years when companies generate strong margins. In difficult years, the fixed floor becomes a survival pressure for the firm. The asymmetry is the same in both directions: workers bear all the downside of bad years through redundancies and real wage erosion, and share none of the upside when times are good. As the ILO's Global Wage Report 2022–23 documented, the gap between real productivity growth and real wage growth reached its widest point since 1999 in 2022 (ILO, 2022) — evidence that the problem is not unique to Mauritius but is particularly acute wherever wage-setting is disconnected from firm-level performance.

The Indexed-Wage Problem in Context

International experience shows that automatic wage indexation has been progressively phased out or modified across a number of major economies over several decades — most notably in Italy, which abolished its broad-based scala mobile system by tripartite agreement in the early 1990s, and in a number of other advanced economies through the 1980s — precisely because of its tendency to embed inflationary expectations into the wage-setting process and amplify supply-side shocks (UNI Europa, 2023). The ILO's Global Wage Report 2022–23 highlights the distinction between demand-driven inflation and supply-side inflation driven by energy and import prices, and the 2024 factsheet on wage bargaining responses documents that several countries, including France and Portugal, responded to the 2022–2023 supply shock with targeted, time-bound measures rather than permanent wage increases (ILO, 2022; ILO, 2024). The 2026 Iran conflict is unambiguously supply-side in origin. In this context, a CPI-indexed mandatory wage increment does not resolve the inflation workers are experiencing. It adds a permanent fixed cost to employers without addressing the supply disruption that created the pressure in the first place.

This is not an argument against protecting workers' purchasing power. It is an argument about the form that protection should take — which is precisely what Section 5 addresses.

Section 5: A Possible Direction — From Fixed Entitlement to Shared Value

The current reward model operates on an implicit philosophy of fixed entitlement: workers are owed an annual salary increment that at minimum keeps pace with inflation, irrespective of the company's economic performance. This philosophy has legitimate roots. But in a volatile, externally-exposed economy, it creates a rigidity that deserves reconsideration: the downside of economic shocks falls disproportionately on workers, while the upside of economic booms is largely captured by capital. The ILO quantified this in 2022: as real wages turned negative across many economies, real productivity continued growing (ILO, 2022).

The shift worth considering is from fixed entitlement to shared value: workers receive a protected, sustainable base salary alongside a contractually defined share of the economic profit they help create when companies perform well, and participation — through ownership or quasi-ownership instruments — in the long-term value of the enterprises they help build.

The Three-Pillar Reward Architecture

Pillar 1 — Profit-Sharing Plans

Profit-sharing introduces a different logic into the wage-setting framework: income growth follows performance rather than precedes it. Instead of embedding fixed cost increases into the wage base, a defined percentage of EBITDA above an agreed threshold is allocated to a pool distributed among all employees — typically pro-rata by salary and tenure — communicated before the performance year begins.

The French experience provides the most extensively documented evidence base. Batut and Rachiq (Trésor-Éco No. 286, 2021) documented that approximately 9 million French employees are covered by value-sharing schemes, reflecting high institutional diffusion across firm sizes and sectors. The causal evidence comes from Nimier-David, Sraer and Thesmar (CEPR Discussion Paper 18605, 2023), who exploited a policy reform that expanded mandatory profit-sharing to smaller firms. Their findings are directly relevant here: profit-sharing increased the labour share of income — with gains concentrating among lower-skilled workers — without dampening firms' willingness to invest, even when adoption was mandated rather than chosen. The broader empirical literature, including a meta-analysis covering over 300 estimates, finds positive productivity effects on average, particularly where profit-sharing is combined with team-based working. The evidence points to profit-sharing as a mechanism that can redistribute value from capital to labour without undermining the firm's capacity to invest and grow — precisely the property that makes it a credible complement to the existing wage floor.

Pillar 2 — Annual Performance Bonus Plans

Where profit-sharing links a share of company-wide results to all employees, performance bonuses create individual and team-level accountability — payouts tied directly to company financial results and personal KPIs, creating a clearer line of sight between contribution and reward. Their most important property during economic stress is structural: bonuses compress naturally when results disappoint, without requiring headcount reductions.

Pillar 3 — Employee Share Plans

Share ownership — or its economic equivalent — narrows the asymmetry between capital and labour by giving workers a stake in the enterprise's growth in value over time, rather than solely in its current-year income. For the majority of Mauritian companies that are not listed, phantom share plans are the immediate practical option: contractual arrangements that track the notional value of the company and pay cash equivalents at defined vesting events. Because the payout is deferred to a future date rather than paid in the current period, the arrangement does not create an immediate cash burden — making it suited to companies managing tight liquidity while still offering meaningful long-term participation to employees. The deeper purpose is alignment: workers who hold a stake in the enterprise's long-term value have an interest in its sustainability, not just its current-year profitability — which over time changes the dynamic of the wage conversation itself.

Why This Architecture Works for Workers

Variable pay does not mean insecure pay. The three-pillar architecture sits alongside a protected base salary — it does not replace it. The base salary is the floor: reliable, predictable, budgetable. The variable elements form the ceiling that rises in proportion to the value workers help create.

Fixed wages are not the same as secure wages. As COVID demonstrated in Mauritius, a fixed wage at a company that cannot afford it is not security — it is a redundancy notice deferred. Under the three-pillar model, workers receive a contractually defined share of the profit their labour helped generate — more in strong years, less (or nothing) in loss years, but always transparently calculated.

A Note on the Social Protection Bridge

Any direction of travel that points toward structural reform needs to be honest about what tools remain available in the interim. Set against the current context — where the Iran-driven fuel crisis is adding a new layer of cost-of-living pressure onto households already managing the residual effects of five years of compounding inflation — it is important to note that the CSG Income Allowance, which has played an important role in supporting lower-income households since 2020, is being phased out by 30 June 2027 under the 2025–2026 Budget (Government of Mauritius, Budget 2025–2026). The "Revenu Minimum Garantie" Allowance, guaranteeing a monthly income of Rs 20,000 for full-time employees, is confirmed until at least 30 June 2027. Any bridging framework between the current COLA mechanism and a reformed architecture will need to factor in this shifting landscape — and ideally ensure that the reform is sufficiently advanced before the CSG allowance sunset takes effect.

Conclusion to Article 1

The evidence assembled here establishes four things with reasonable confidence.

First, the global research confirms that supply-side inflationary shocks erode real wages — particularly for lower-income households, who spend the greatest share of their income on food, energy and essential goods, the categories most affected by cost-push price spikes (ILO, 2022). Automatic CPI-indexed wage compensation responds to prices already recorded, not to the shock currently unfolding — a structural lag that the IMF has identified as a key limitation of backward-looking wage-setting in supply-shock environments (IMF WEO, October 2022, Chapter 2). International experience shows that automatic indexation has been progressively moderated in a number of economies precisely because of this property (UNI Europa, 2023).

Second, Mauritius has already lived through this dynamic. COVID-19 delivered an approximately 15% GDP contraction in 2020, and survey data from Statistics Mauritius and the World Bank found that approximately one in three households continued to report income losses after the first lockdown was lifted (Ranzani and Li Fa Cheung Kai Suet, World Bank, 2020). The inflation surge that followed — reaching 10.8% in 2022 — eroded real wages even as nominal wages rose (Statistics Mauritius, 2022; ILO, 2022).

The PRB’s own assessment estimated the resulting erosion in public sector purchasing power at an average of 18% over the review period (PRB, 2026, Volume 1).

Third, the five characteristics of the COLA mechanism examined in Section 4 — the lag, the fixed-cost embedding, the affordability mismatch, the indexed-wage risk, and the disconnect from firm performance — are structural features, not operational failures. They cannot be addressed by running the same mechanism more carefully. They require a different architecture alongside them.

Fourth, the Iran conflict has delivered a new inflationary shock. Even the fragile two-week ceasefire secured on 7–8 April does not reverse the economic damage already inflicted: the IMF has indicated that inflationary effects are expected to persist across all plausible conflict scenarios (Reuters, March 2026). The Mauritius Labour Congress has already formally requested an interim salary compensation of Rs 1,000 in response (Le Mauricien, 16 April 2026). The December 2026 tripartite round will arrive under significant pressure.

The three-pillar reward architecture — profit-sharing, performance bonuses, employee share plans — is a practical response to that pressure. It does not replace the COLA floor. It complements it with a mechanism where workers participate in value creation when firms perform, and where the variable element adjusts when conditions deteriorate, without permanently embedding another rupee into the fixed cost base. Batut and Rachiq (Trésor-Éco No. 286, 2021) document the institutional scale of profit-sharing in France. Nimier-David, Sraer and Thesmar (CEPR Discussion Paper 18605, 2023) provide causal evidence that profit-sharing increases workers’ compensation — with gains concentrating among lower-skilled employees — without distorting investment decisions. The IMF, in its 2005 country study on Mauritius, recommended flexible, productivity-linked wage guidelines as an alternative to centralised CPI-indexed adjustment — a direction this architecture is consistent with (IMF, Country Study No. 05/321, 2005). The December 2026 round is the moment to act.

Article 2 turns to the three parties who need to act — government, trade unions, and company management — with specific, sequenced proposals for each.

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