

Mauritius: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Mauritius



MAURITIUS

June 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MAURITIUS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 21, 2021 consideration of the staff report that concluded the Article IV consultation with Mauritius.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 21, 2021, following discussions that ended on May 7, 2021, with the officials of Mauritius on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 4, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Mauritius.

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IMF Executive Board Concludes 2021 Article IV Consultation with Mauritius

FOR IMMEDIATE RELEASE

Washington, DC – June 24, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Mauritius.

While the pandemic has hit the Mauritian economy hard, the authorities have been successful in containing the virus and mitigating the economic impact of the crisis. With tourism halted, real GDP contracted by 15 percent in 2020, and the current account deficit widened substantially. However, unemployment—while high—was contained by wage support schemes. In the face of falling revenue and urgent social spending needs, the fiscal deficit has widened notably. Inflation is low, while the banking and global business sectors appear to be sound. From the outset of the pandemic, the rapid closure of the border, imposition of a lockdown, and other public health measures have kept viral transmission to a low level. Vaccinations began in February 2021, and the authorities target vaccinating 60 percent of the population by end-September 2021.

The economy will begin to recover in 2021, with growth forecast at about 5 percent. Tourism flows are expected to slowly resume in the second half of the year, and exports will strengthen in line with global demand. Unemployment will likely remain elevated as wage support schemes are scaled back but then return to trend in the following years. Inflation is projected to increase modestly by end-2021, propelled by recuperating aggregate demand. Medium-term growth is projected to converge to pre-pandemic rates of 3-3½ percent. Mauritius' economic outlook is subject to downside risks as the country emerges from the pandemic. Tourism flows are uncertain, and a prolonged pandemic could require costly containment efforts and prompt behavioral changes hurting tourism.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. Directors congratulated Mauritius for its success in containing the COVID-19 pandemic. They noted that the pandemic has severely impacted Mauritius' economy, resulting in substantially widened fiscal and current account deficits. Directors cautioned that challenges and risks remain, particularly the unclear pace of recovery in tourism, complicating the authorities' decisions on when to scale back emergency measures. They encouraged the authorities to take advantage of the recovery to institute broad-based structural reforms toward a more resilient, green, and

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

inclusive economy, while addressing debt sustainability concerns and strengthening the monetary policy framework.

Directors agreed that the fiscal stance should remain accommodative in the near term. However, given the rising debt level, the authorities should prepare for credible medium-term consolidation and rebuilding fiscal buffers, including through an appropriate fiscal rule. Once the country has exited the crisis, revenue will need to be increased and spending reduced to put debt on a declining path, while avoiding undue social costs. Directors stressed that a successful adjustment requires addressing the growing divergence between pension spending and revenue, particularly given the unfavorable demographic situation.

Directors concurred that monetary policy should remain accommodative in the near term, while preparing for the normalization of monetary and exchange rate policies. In this context, they encouraged enhancing the central bank's credibility, as well as improving monetary policy transmission and effectiveness. Directors stressed that the central bank should refrain from providing direct financing to the government and engaging in quasi-fiscal activities, and advised reforming the Bank of Mauritius law, including to preempt further exceptional transfers to the government. Directors also recommended that the central bank be recapitalized and relinquish ownership of the Mauritius Investment Corporation (MIC), with the financing of the MIC provided through the budgetary process.

Directors noted that, while subject to elevated uncertainty, Mauritius' external position at end-2020 was substantially weaker than is consistent with medium-term fundamentals and desirable policies, while official foreign reserves coverage remained within the adequacy range. They stressed that the foreign exchange intervention strategy should be revised to support exchange rate flexibility, while smoothing extreme exchange rate volatility and ensuring market liquidity.

Directors urged the Mauritian authorities to sustain reforms to support its structural transformation to a strong, resilient, and inclusive growth path. They supported the authorities' commitment to exit the FATF and EU AML/CFT lists, enhance diversification, strengthen competitiveness, improve public sector procurement practices, and mitigate vulnerabilities to climate change.

Mauritius: Selected Economic and Financial Indicators, 2019-2022

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	2019	2020	2021	2022
National income, prices and employment				
Real GDP (percentage change)	3.0	-14.9	5.0	6.7
Consumer prices (period average, percentage change)	0.5	2.5	2.3	3.7
Unemployment rate (percent)	6.7	9.2	9.2	9.2
Money and credit (percentage change)				
Net foreign assets	13.5	16.4	-8.7	-0.4
Broad money	6.2	17.7	-1.5	2.5
Central government finances¹ (percent of GDP)				
Overall borrowing requirement ²	-13.1	-20.0	-8.4	-5.6
Revenues, including grants	22.7	21.8	23.2	23.9
Expenditure, excluding net lending	34.5	38.4	31.3	29.4
External sector				
Current account balance (percent of GDP)	-5.4	-12.6	-15.6	-6.8
Gross international reserves (millions of U.S. dollars)	7,329	7,242	6,192	5,942
<i>Memorandum items:</i>				
GDP at current market prices (billions of Mauritian rupees)	498.3	429.4	453.6	498.5
Public sector debt, fiscal year (percent of GDP)	84.6	92.0	92.6	91.4

Sources: Country authorities; and IMF staff estimates and projections.

¹ *GFSM 2001* concept of net lending/net borrowing, includes special and other extrabudgetary funds. Fiscal data reported for fiscal years (e.g., 2018=2018/19).

² Following the *GFSM 2014*, Sections 5.111-5.116, the transfers from the BOM to the Central Government are considered as financing.



MAURITIUS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

June 4, 2021

KEY ISSUES

Economic Impact of the Pandemic and Policy Responses. Mauritius has been successful in containing the COVID-19 pandemic thanks to strict health measures but the halt in tourism has significantly affected its tourism-dependent economy. A comprehensive set of stimulus measures to mitigate the economic impact of the pandemic, including a wage subsidy and income support for the self-employed, have provided support to firms and households.

Outlook and Risks. After a near 15 percent contraction in 2020, real GDP is expected to grow by 5 percent in 2021. However, uncertainties and risks remain. The key macroeconomic challenge is to restore sustainable growth despite tourism—which accounts for over one-fifth of the economy—likely to remain subdued through 2022.

Key Policy Recommendations.

- **Fiscal policy.** Continue the accommodative fiscal stance during the reopening phase with prioritized and targeted expenditures to set the stage for resilient growth. Prioritize programs that are consistent with medium-term development needs and broader social and environmental goals, such as digitalization, inclusion, and climate change mitigation during the recovery phase. Prepare plans for fiscal consolidation to stabilize debt in the medium term once Mauritius has firmly emerged from the pandemic to preserve fiscal sustainability and build buffers given the substantial increase in debt levels.
- **Monetary policy.** Maintain accommodative monetary policy in the near term while strengthening the effective monetary policy lever in anticipation of the waning of the crisis. Phase in mechanisms to strengthen central bank credibility and solidify effective monetary policy as the economy recovers and the need for policy normalization becomes apparent.
- **Competitiveness and structural reforms.** Implement measures to improve competitiveness and accelerate the long-term structural transformation to turn Mauritius into a sustainable and resilient economy built on education and technology.
- **AML/CFT.** Continue sustained efforts to exit from the FATF and EU AML/CFT lists.

Approved By
Vivek Arora (AFR) and
Martin Čihák (SPR)

Discussions took place virtually during April 19–May 7, 2021. The staff team comprised Ms. Cemile Sancak (head), Ms. Ljubica Dordevic, Mr. Lennart Erickson, and Mr. Mikhail Pranovich (all AFR). Mr. Kelvio Carvalho da Silveira (OED) participated in some of the meetings. Mmes. Tebo Molosiwa and Danielle Bieleu (both AFR) provided support. The mission met with the Prime Minister, the Honorable Pravind Jugnauth, senior officials, parliamentarians, and representatives of the private sector, civil society, and development partners.

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