

BUFF/ED/21/77

June 16, 2021

**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Carvalho da Silveira on  
Mauritius  
Executive Board Meeting  
June 21, 2021**

1. On behalf of the Mauritian authorities, we would like to thank Management and staff for the candid and constructive dialogue during the discussions under the 2021 Article IV consultation. The authorities share the view that the staff report provides a fair assessment of the macroeconomic challenges posed by the Covid-19 pandemic as well as the policy response undertaken. They broadly agree with the analysis and recommendations put forward and will take them into consideration when implementing their strategy to restore sustainable growth, address pre-existing bottlenecks to bolster resilience and competitiveness and carry on the structural transformation of the economy.

2. The authorities stress that this unprecedented crisis—especially harshly impacting small, highly open island economies like Mauritius—has necessitated a mix of conventional and unconventional policy measures to preserve economic and financial stability. The authorities reaffirm that the fiscal, monetary and financial sector measures undertaken are supporting economic recovery, after protecting employment, limiting corporate defaults and bankruptcies, and providing adequate liquidity in the financial system. They emphasize that, in the absence of such bold measures, the impact of the crisis would have been much more sizeable, notably on firms and the financial sector. They maintain that it is imperative to allow adequate time and flexibility for these measures to put the economy back on a sustained growth trajectory.

**Covid-19 Response, Recent Developments and Outlook**

3. Mauritius' response to the pandemic has been among the most effective in the world. With the safety of Mauritians as a top priority, the government has implemented strong public health measures and protocols to halt the virus outbreak. These included, amongst others, strict nationwide lockdowns, restricted international travel, quarantine, contact tracing, case investigation and isolation of contacts, and mass testing. The success in breaking the spread of the virus has also been a result of a clear, transparent and consistent communication, including feedback mechanisms to understand public perception, which helped improve adherence by the population and other stakeholders. The country has recently

accelerated its vaccination campaign, including the prioritization of frontline workers in the tourism industry, and made solid progress towards achieving herd immunity of at least 60 percent of the population by July 2021. International travel is expected to resume on July 15, 2021.

4. Notwithstanding the authorities' successful response on the health front, the pandemic and ensuing containment measures have taken a severe toll on the economy. An environmental disaster and the inclusion in the EU AML/CFT list of "high risk" countries also added pressure. In line with staff, the authorities estimate real GDP to have dropped by -14.9 percent in 2020, from an expansion of 3.0 percent in 2019, as the tourism industry tumbled, and exports fell due to disruptions in global demand. The current account deficit widened to 12.6 percent of GDP in 2020 compared to 5.4 percent in 2019. Nevertheless, foreign exchange reserves remained broadly stable at 13.9 months of imports thanks to new borrowing and a positive valuation effect. At the same time, extensive government support to households and firms together with lower tax receipts during the period, led to an increase in the budget deficit to 8.4 percent in FY2019/20, from 2.2 percent in 2018/19, as well as a rise in public debt levels. Inflation remained low and broadly under control at about 2.7 percent at end-2020.

5. Mauritius' economic outlook is more positive. Real GDP growth is expected to rebound strongly to 5 percent in 2021 and firm up at around 3.0 to 3.5 percent in the medium-term, fueled by the construction sector and public investment, as well as a gradual recovery in the tourism industry. Year-on-year inflation is expected to rise slightly to 3.5 percent by end-2021. As staff rightly noted, risks to the outlook stem notably from (i) a more protracted pandemic; (ii) uncertainty surrounding tourist arrivals; (iii) tightening of global financial conditions; and (iv) delayed exit from AML/CFT listings. The authorities put a price on ensuring their readiness to respond to developments in case these risks came to materialize.

## **Policies Priorities for 2021 and Beyond**

### ***Fiscal Policy***

6. The authorities' short-term priorities include protecting lives and livelihoods, maintaining the production capacity, building resilience and setting the stage for a quick recovery without losing sight of preserving debt sustainability.

7. Given the uncertainties and the unprecedented nature of the current shock, the government has introduced a large fiscal stimulus package amounting to 32 percent of GDP. Measures included notably wage assistance and self-employed assistance schemes as well as support to the national airline and businesses in the form of tax deductions, credit lines and equity participations. Without such support, the authorities believe that job losses would have reached about 100,000.

8. As the recovery takes hold, the authorities broadly concur that the withdrawal of emergency measures should be gradual and fiscal consolidation will be needed over the

medium-term to put debt on a downward trajectory. Their goal is to bring the public debt level down below 80 percent by end-June 2025 and to 70 percent by end-June 2030. In this vein, fiscal consolidation efforts will focus on both additional revenue-enhancing and expenditures-controlling measures. The authorities will also consider alternative fiscal rules to replace the debt limit and strengthen the fiscal framework in line with staff's recommendations. With regards to pensions, in view of the country's demographic trends, the government introduced a contributory, participative and collective pension system, the *Contribution Sociale Généralisée (CSG)*, which is more fair, equitable and sustainable.

### ***Monetary and Exchange Rate Policies***

9. Bank of Mauritius (BOM) has adopted an accommodative monetary policy and made use of all the tools available to address the unprecedented challenges posed by the Covid-19 pandemic. They share the view that the current policy stance continues to be appropriate and should remain as such until the recovery is well entrenched and inflationary pressures emerge.

10. With the onset of the pandemic, the authorities counted on the IMF's key policy recommendations that focused on the protection of affected people and impacted firms with targeted fiscal, monetary and regulatory measures with a view to protecting employment, containing corporate defaults and bankruptcies, and ensuring that the financial system had adequate liquidity while preserving the production capacity of the country. Accordingly, the authorities rapidly deployed a series of measures, both conventional and unconventional, to preserve economic and financial stability in the country.

11. In this perspective, the authorities viewed the transfer to the central government as a necessary unconventional measure given the exceptional circumstances and the impact of the pandemic on the economy. The lockdown and the closure of borders in March 2020 stalled the tourism and manufacturing industries with substantial spillovers to related and other economic sectors. The one-off transfer aimed to stabilize the economy and mitigate risks to economic and financial stability stemming from the severe shock caused by the pandemic and its systemic effect on the banking sector. In the absence of such a measure, the authorities viewed that the economic contraction would have been much larger, with substantially higher unemployment and major repercussions on the economy and contagion in the banking sector.

12. The authorities also viewed creating the Mauritius Investment Corporation (MIC) as a necessary unconventional measure to address the impact of the pandemic on systemically important and viable firms and ensure that the financial system remains resilient during these turbulent times. They explained that if these systemically important firms had not been supported, they would have faced difficulties in servicing their financial obligations, potentially leading to significant corporate defaults and job losses. Therefore, the MIC contributed to avoid a spillover from the real sector contraction to the banking system. In the authorities' view, the MIC has assisted in maintaining financial stability, which is directly in

line with the BOM's mandate. The authorities underscore that the MIC functions independently of the BOM and has an independent Board and Investment Committee.

13. The authorities acknowledge the concerns raised by staff on the expansion of BOM's balance sheet and emphasize that they have already embarked on a recapitalization plan, as evidenced by the increase of Rs8 billion of its capital in July 2020. Fund technical assistance would be also helpful in this regard.

14. The BOM remains committed to improve the operational efficiency of its monetary policy framework. The authorities have already initiated a comprehensive review of the framework to strengthen the monetary policy lever and reinforce credibility. Steps are also being taken to enhance open market operations to normalize liquidity conditions against the backdrop of improving global and domestic economic outlook.

15. Regarding exchange rate, the BOM welcomes staff's advice on the need to recalibrate the FX intervention strategy to contain excess volatility after the crisis has subsided, while allowing for greater exchange rate flexibility. The revised monetary policy framework, currently being worked out by the BOM, will also help address these issues.

### ***Financial Sector Policies***

16. BOM has introduced several measures to prevent liquidity strains and will continue to conduct regular stress tests to ensure that the financial sector remains resilient in the face of vulnerabilities caused by Covid-19. Key support measures included (i) moratorium on loans granted to economic operators, SMEs, households and individuals; (ii) special relief program to help alleviate the short-term cash flow problems faced by economic operators; and (iii) reduction of the Cash Reserve Ratio applicable to commercial banks. Although the banking sector remains relatively well capitalized, asset quality has weakened with the increased stock of non-performing loans (NPLs). As support measures are phased out with the recovery, the central bank will continue to closely monitor financial sector developments and stands ready to take appropriate action if required.

17. The authorities remain committed to strengthening the AML/CFT framework and fully comply with recommended international best practices and norms. To complete the implementation of the FATF Action Plan for an early exit from the list of jurisdictions under increased monitoring, several measures have been introduced, including supervisory, regulatory and law enforcement to further strengthen the effectiveness of the AML/CFT system.

18. In an effort to sustain the resilience and development of the financial services industry, various initiatives are also underway. These comprise notably (i) the introduction of new Securities and Securitization Bills; (ii) enactment of a new legislation for virtual assets; (iii) launch of one-year training programs on AML matters; (iv) roll-out, on a pilot basis, of the Central Bank Digital Currency – the Digital Rupee. On the latter, the authorities appreciate the Fund continued support.

### ***External Competitiveness and Structural Policies***

19. The authorities share staff's view on the need to seize this opportunity to improve external competitiveness and enhance long-term growth. They reiterated that efforts are ongoing in this regard and emphasized their optimism on the potential gains from bilateral and multilateral trade agreements with India, China, the United Kingdom and the African Continental Free Trade Area. A Trade Development and Intelligence Cell will be established, and an Export Development Program introduced to improve export readiness of enterprises to tap into the potential offered by those trade agreements.

20. The authorities also recognize the importance of developing skills, promoting innovation and supporting a greener economy. In this connection, they plan to provide training and re-skilling opportunities to 10,000 individuals in the next financial year; launch initiatives to facilitate access to finance, particularly for small and medium-sized enterprises (SMEs); introduce tech-related courses, amongst others. To further bolster gender equality and female workforce participation, the government has set up the "*Accompagnement des familles*" program to help educate vulnerable couples on family matters, and various initiatives were introduced to support women entrepreneurship and increase their eligibility under the Back to Work Program. Significant investments will also be made to address climate challenges and help the transition to a greener, sustainable and climate resilient country.

### **Conclusion**

21. The Mauritian authorities recognize the daunting challenges posed by the Covid-19 pandemic and climate change and would like to express their appreciation to the IMF for the continued support and the critical role played as a trusted advisor during such trying times. They reiterate their commitment to continue to implement their policy and reform agenda to restore growth, build resilience, improve external competitiveness and boost long-term inclusive growth while preserving macroeconomic stability.