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June 17, 2021

**Joint Statement by Ms. Levonian, Mr. Trabinski, Ms. Kashima, Mr. Mochtar, and Mr. White on Mauritius
(Preliminary)
Executive Board Meeting
June 21, 2021**

We thank staff for the well-written reports and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Carvalho da Silveira for their informative Buff Statement.

The COVID-19 pandemic has taken a significant toll on Mauritius' economy due to the dominance of the tourism sector. Given the projected sharp decline in economic activity along with a weakening in the fiscal position, the economy will face challenges stemming from rising debt levels and a deteriorating external balance. The authorities have implemented comprehensive policy measures to mitigate the economic impact of the pandemic and in this context, the economy is expected to recover in 2021. Nonetheless, downside risks remain owing to uncertainties surrounding the pandemic. **We broadly agree with the thrust of staff's appraisal and offer the following comments.**

While continued accommodative fiscal policy remains appropriate in the near-term, the authorities should stand ready to adjust their stance once conditions permit. We share staff's view that transparent benchmarks should be considered when determining the appropriate timing to withdraw the enacted fiscal measures. *Could staff further elaborate on such benchmarks, drawing lessons from other country experiences?* We note with concern that the suspension of the debt limit rule leaves Mauritius with no explicit fiscal anchor, which could lead to difficulties in fiscal management. We encourage the authorities to explore alternative fiscal rules with the aim of preserving debt sustainability and building fiscal buffers. *To this end, could staff comment on whether there is any plan to provide support to the authorities for developing at fiscal rule?* Looking ahead, we also agree that the authorities should pursue fiscal consolidation to reduce public debt. In this context, the authorities should also address the disparity between pension revenues and expenditure, amid an unfavorable demographic situation.

Efforts to enhance the central bank’s credibility, as well as to improve monetary policy transmission and effectiveness, are warranted in anticipation of policy normalization.

We are concerned with the central bank’s practice of providing direct financing to the government, and of engaging in quasi-fiscal activities. These operations have led to a substantial deterioration of the central bank’s balance sheet and potentially threaten its price-stability mandate. We encourage the authorities to step-up their efforts to recapitalize the Bank of Mauritius (BOM), relinquish ownership of the Mauritius Investment Corporation (MIC), and refine the law such that the BOM is prohibited from any transfer or direct financing to the government and other quasi-fiscal activities. On the operationalization of monetary policy, we agree with staff that the authorities should establish a clear liquidity management framework. *Could staff further elaborate on the pros and cons of the corridor and the floor systems, considering Mauritius’ liquidity and financial market conditions?* On exchange rate policy, we are of the view that foreign exchange interventions should be used to contain excessive volatility in the forex market, not to target a specific level of exchange rate.

The authorities should continue their efforts to exit from the FATF and EU AML/CFT lists, while accelerating their structural reform agenda to secure a sustainable and resilient recovery. We welcome the progress in AML/CFT reforms with support from the Fund and other partners and encourage the authorities to sustain these efforts as more has to be done. The authorities should also continue to strengthen competitiveness, enhance economic diversification, and mitigate climate change risks in order to achieve a sustainable and resilient recovery. We note with concern that the unemployment rate rose to the highest level on record, and female unemployment continues to surpass male unemployment. We welcome the public reskilling and retraining programs, which should be beneficial for women and youth, as well as the measures to improve gender equality and female workforce participation—including the “*Accompagnement des familles*” support for women entrepreneurs and provisions under the Back to Work Program.

With these remarks, we wish the Mauritius authorities every success in their future endeavors.