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June 17, 2021

**Statement by Mr. Sigurgeirsson and Mr. Damgaard on Mauritius  
(Preliminary)  
Executive Board Meeting  
June 21, 2021**

We thank staff for the interesting report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Carvalho da Silveira for their informative Buff statement. The Mauritian economy was hit hard by the pandemic due to its heavy reliance on tourism. We welcome the authorities' decisive actions to curb the spread of the virus and support those who were most affected by the economic impact. Although the recovery is underway, it will take time to reach the pre-pandemic output levels. The authorities now face the challenge of restoring growth, while ensuring medium-term fiscal sustainability and implementing ambitious structural reforms. **We broadly agree with staff's appraisal and offer the following points for emphasis.**

**The strong and necessary fiscal support measures have had an unavoidable impact on public debt.** The support measures should become increasingly targeted and be phased out once the recovery is firmly entrenched. The authorities should prepare medium-term plans for growth-friendly fiscal consolidation to put the debt-to-GDP ratio on a downward path. While we agree with the suspension of the debt limit during the pandemic, we encourage the authorities to reconsider the rule and explore ways to build buffers to address future economic shocks. Given the pressure on public finances, we are concerned about the planned substantial increase in the Basic Retirement Pension and the associated fiscal costs. We fully agree with staff that any medium-term fiscal consolidation plan will have to address this issue.

**Monetary financing should immediately be discontinued.** We are concerned about the large transfer to the government from the Bank of Mauritius (BOM) and the establishment of the Mauritius Investment Corporation (MIC) to provide financial support to systemically important firms. The measures have led to a significant deterioration of the BOM's balance

sheet and could hamper the BOM's ability to fulfil its price stability mandate. We agree with staff on the objectives of the review of the monetary policy framework, especially regarding BOM recapitalization and removal of exposures to the MIC.

**The authorities should closely monitor developments in banks' credit quality and stand ready to act.** While banks are well capitalized, NPLs could increase substantially when loan moratoria end and lead to a substantial decline in banks' capitalization, particularly if the recovery takes longer than expected. On AML/CFT, we welcome the authorities' progress, despite also having to deal with the pandemic. We encourage the authorities to continue their efforts on this workstream with the goal of exiting the FATF and EU AML/CFT lists as soon as possible.

**We encourage the authorities to implement ambitious structural reforms to increase potential growth.** Like staff, we see merit in improvements in the ICT infrastructure and R&D as well as public reskilling and retraining programs. We welcome the authorities' focus on mitigating the impact of climate change and the plans for infrastructure improvements to better protect against cyclones and floods.