



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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International Monetary Fund
Washington, D.C.



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

3

	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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PRE-PANDEMIC CONTEXT

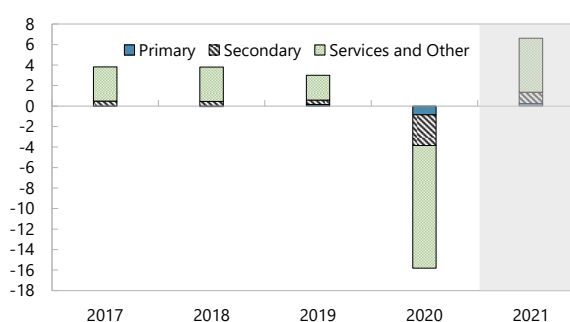
1. **In the run-up to pandemic, Mauritius' economic performance was solid.** Although public debt was increasing, the economy was expanding steadily at around 3 percent a year. The current account deficit was expected to widen in the near term before stabilizing at about 5 percent of GDP. International reserves had grown in recent years and were assessed to be adequate. Credit to the private sector was healthy and the banking sector well-capitalized. However, the fiscal stance was expansionary, and public debt was above the authorities' 60 percent of GDP target and rising.

THE ECONOMIC IMPACT OF THE PANDEMIC AND POLICY RESPONSES

2. **The authorities' health response to the pandemic has been successful.** Mauritius has had scant cases of domestic transmission of COVID-19 following a strict nationwide lockdown from mid-March to end-May 2020. Shortly after the first cases in mid-March 2020, the border was closed to all travelers until early October. Building on Mauritius' strong public health system, the authorities were able to rapidly contain outbreaks by implementing extensive testing, robust contact tracing, and strict isolation of all suspected and confirmed cases, and maintaining mask requirements in public places. As border restrictions were eased, comprehensive testing of arrivals and strict quarantine requirements were implemented. An outbreak of domestic transmission led to a second lockdown in March 2021, though it was shorter and more flexible than the prior one. Vaccinations began in February 2021, and the authorities target vaccinating 60 percent of the population by July 2021.

3. **The pandemic significantly affected the economy mainly due to the sharp decline in tourism.** Tourism accounts, directly and indirectly, for over a fifth of the economy and came to a sudden stop in March 2020. Mauritius closed its border and source countries initiated travel restrictions.¹ Other exports, including textiles, also declined in the face of restricted global demand. The strict lockdown during March-May 2020 led to a sharp fall in economic activity, and real GDP is estimated to have contracted by 15 percent in 2020, compared to a pre-pandemic staff projection of 3½ percent growth. The current account deficit jumped to 12.6 percent of GDP in 2020 from 5.4 percent in 2019, while the rupee depreciated in 2020 in real effective terms by 8.1 percent compared to its 2019 level. The sharp decline in tourism services was partially

Text Figure 1. Mauritius: Supply Side Contribution to Real GDP Growth
(In Percent of GDP)



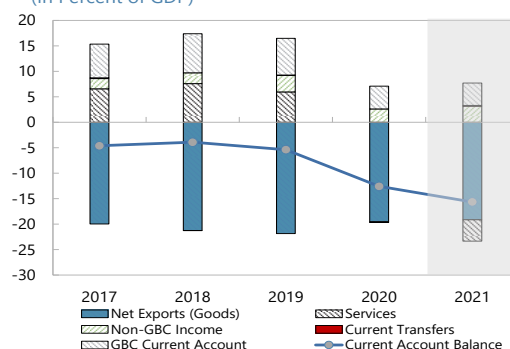
Sources: Country authorities; and IMF staff estimates and projections.

Notes: Shaded area are projections. "Services and Other" category includes the statistical discrepancies between GDP components.

¹ Tourism had already lagged in 2019, with lower arrivals and revenue, possibly indicating competitiveness issues.

compensated for by a fall in tourist-related imports and outbound travelers.² Tumbling oil prices also alleviated some pressure, as did a modest rebound in textile and other exports late in the year. Inflation remained low at 2.7 percent at end-2020, constrained by weak aggregate demand and lower oil prices. Unemployment increased to 10.4 percent at end-2020, up from 6.7 percent in 2019. The authorities' comprehensive stimulus measures helped to limit the increase in unemployment.

Text Figure 2. Mauritius: Current Account
(In Percent of GDP)



Sources: Country authorities; and IMF staff estimates and projections.
Notes: Shaded area are projections.

4. The banking sector and the global business sector (Global Business Companies; GBCs) have remained stable. Deposits in commercial banks have remained steady, and credit to the private sector continued to grow, though at a significantly reduced pace. GBCs' US dollar-denominated deposits in the banking system have also remained stable, and GBCs' net financial flows in the balance of payments have been strongly positive.

5. To mitigate the economic impact of the pandemic, the authorities implemented a large and comprehensive stimulus package. Key budget measures include a wage subsidy and income support for the self-employed initially provided for the whole economy, and subsequently largely targeted to the tourism sector, as well as redirected spending towards various initiatives to limit unemployment, and support to the national airline.³ About half of the support was provided off-budget, mainly through quasi-fiscal support under the Bank of Mauritius (BOM) umbrella special purpose vehicle (SPV) to finance systemically important firms in tourism and related sectors, and to a lower extent through equity and lending operations by the Development Bank of Mauritius and State Investment Corporation. While not all the measures can be easily costed, main announced support measures are estimated at Rs121 billion (28 per cent of 2020 GDP) (Text Table 1).

Text Table 1. Mauritius: Support Measures in Response to Covid-19					
	Allocated amount		Amount disbursed/Expected to be disbursed		
	Billions of Rs	Percent of 2020 GDP	FY2019/20 Billions of Rs	FY2020/21 Billions of Rs	FY2021/22 Billions of Rs
FISCAL SUPPORT					
On budget measures					
Bank of Mauritius exceptional contribution to government budget (FY 2020/21)	60	14		60	
Of which (FY 2020/21):					
Wage Assistance and Self-Employed Assistance Schemes	18	4.2	10.8	10.1	9
Support to National Airline	9	2.1			
Various initiatives to limit unemployment	9	2.1		2.4	4.3
Off budget measures (including Quasi-fiscal)	61	14.2	0.5	37.5	11.7
Mauritius Investment Corporation	41.8	9.7		32.8	9.0
Development Bank Mauritius Concessional Credit Line	10	2.3		2.0	2.0
Bank of Mauritius Savings Bonds	5	1.2	0.5	1.7	
State Investment Corporation Equity Participation Scheme	4	0.9		0.7	0.4
Development Bank Mauritius Revolving Credit Fund for SMEs	0.2	0.05		0.3	0.3
OTHER SUPPORT					
Bank of Mauritius Special Relief Program	5	1.2		0.012	
Bank of Mauritius Special Foreign Currency (USD) Credit Line	20 / US\$ 500 mill	4.7	US\$ 300 mill		
Bank of Mauritius Swap Arrangement to Support Import Oriented Businesses	8 / US\$ 200 mill	1.9	US\$ 100 mill	US\$ 71 mill	
COVID-19 Solidarity Fund	0.5	0.1			

Sources: IMF staff estimates.

² Mauritius experienced another shock in July 2020 when a foreign container ship ran aground and spilled an estimated 1,000 tons of oil, contaminating nearby beaches and ecological reserves. The environmental damage of the disaster was severe, although the macroeconomic impact was limited.

³ These measures were introduced on top of the robust social safety net from the pre-pandemic period.

OUTLOOK AND RISKS

6. Staff expects a recovery in 2021, with growth forecast at about 5 percent. Growth will be driven by a strong base effect from the deep recession of 2020, as the non-tourism sector recovers but remains below 2019 levels. Tourism flows are expected to slowly resume in the second half of the year, with arrivals reaching about 15 percent of 2019 levels and about 60 percent in 2022. Exports are expected to strengthen in line with global demand. Unemployment is expected to remain elevated as wage support schemes are scaled back but then return to trend in the following years. Year-on-year inflation is projected to increase modestly to 3½ percent by end-2021, propelled by recuperating aggregate demand and higher oil prices. Medium-term growth is projected to converge to pre-pandemic rates of 3-3½ percent.

7. Mauritius' economic outlook is subject to downside risks as the country emerges from the pandemic. Tourism flows are uncertain as they depend on people's propensity to travel and on international conditions (Annex V). A prolonged pandemic (e.g., due to new variants) could require costly containment efforts and prompt behavioral changes hurting tourism. Vaccinations began in February 2021, and the authorities target vaccinating 60 percent of the population by July 2021. The severity of the crisis could have lasting effects, and the weakened fiscal position could lead to financial market anxieties, as could the AML/CFT listings,⁴ the Moody's downgrade, or a sharp rise in global risk premia.⁵

POLICY DISCUSSIONS

The key macroeconomic challenge for Mauritius is to restore growth despite the tourism sector remaining subdued at least through 2022. As the economy reopens, it will be important to continue accommodative fiscal policy with prioritized expenditures given the reduced fiscal space, and to maintain accommodative monetary policy while strengthening the effective monetary policy lever. During the recovery phase, Mauritius should seek to prioritize support measures to improve the economy's resilience and competitiveness and accelerate its long-term structural transformation. To underpin these efforts, the fiscal stance will need to be tightened in the medium term to ensure debt sustainability given the substantial increase in debt.

A. Fiscal Policy

8. The substantial fiscal stimulus and the revenue losses due to the economic slowdown have led to a deterioration of the fiscal position in FY2020/21, with the deficit

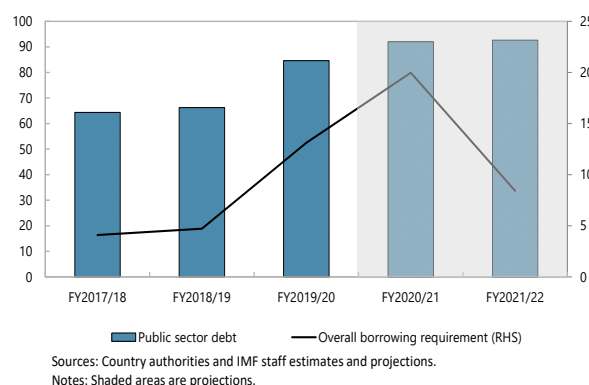
⁴ In February 2020 Mauritius was placed on the list of jurisdictions under increased monitoring by the Financial Action Task Force (FATF) for AML/CFT deficiencies. See "Policy Discussions" below.

⁵ In March 2021, Moody's downgraded Mauritius from Baa1 to Baa2, the second lowest investment grade. The agency cited the country's weakened fiscal and economic position because of the pandemic. Moody's also maintained its negative outlook, citing the effects of the economic shock, risks of delays in reopening tourism, and risks from some of the pandemic-related policy measures, particularly the large BOM transfer to the government.

financed partly with a transfer from the BOM.⁶ The fiscal stimulus in response to the crisis increased public spending from 23 percent of GDP in FY2018/19 to 30 percent in FY2019/20 and to a projected 32 percent in FY2020/21. As economic activity slowed and tourism stopped, domestic revenue declined by 6 percent in nominal terms in FY2019/20 and is projected to fall further in FY2020/21. The government financed the higher FY2019/20 overall borrowing requirement by issuing domestic debt. To finance the FY2020/21

budget, the BOM law was modified to allow for transfers to the government. A transfer of Rs60 billion (14 percent of GDP) was undertaken in the third quarter of 2020 following another transfer of Rs18 billion (3½ percent of GDP) in FY2019/20.⁷ Even with these transfers, public debt is projected to reach 92 percent of GDP this fiscal year, up from 66 percent in FY2018/19.

Text Figure 3. Mauritius: Public Sector Debt and the Overall Borrowing Requirement (In percent of GDP)



9. The accommodative fiscal policy has been necessary to support households and firms given the large output gap. The unprecedented shock to the economy from the pandemic calls for robust spending to address public health and social needs and provide support to households and firms. With revenue sources compromised, accommodative fiscal policy will entail tapping the deep domestic financial markets where the government has been able to place bonds at very low interest rates and rely on foreign sources of financing from the AfDB and the French Development Agency. While reduced, there is still fiscal space to finance emergency spending.

10. The authorities will need to calibrate the timing of the withdrawal of pandemic spending. As the pandemic recedes, the emergency measures to support the economy and address social needs will need to be wound down, both to avoid overheating and to improve the fiscal balance. However, there is danger in taking away support too quickly, which could hamper the recovery and result in social and economic costs. The authorities could consider options for transparent triggers and benchmarks for the withdrawal of support.

11. During the reopening phase, the mission recommended the government to prioritize expenditures that set the stage for resilient growth. Staff advised to focus on alleviating constraints linked to the pandemic, such as higher air shipping costs, rather than providing blanket support to firms. The support can be adjusted to allow viable, innovative firms to flourish and to ensure faster reallocation of resources in the economy. The wage assistance to the tourism sector should be phased out gradually as activity picks up. Incentives should be

⁶ The fiscal year runs from July to June.

⁷ The FY2019/20 budget authorized the transfer of Rs18 billion (3½ percent of GDP) from the BOM to the government. The funds were taken from the BOM's revaluation account, with the majority to be used for prepayment of concessional external debt to help the government meet its debt target. The transfer was made at end-December 2019 and pre-payment of external debt of Rs8.2 billion was made in FY2019/2020.

created for workers to be reskilled for sectors with more growth potential. The Human Resource Development Council could maintain its stepped-up intake capacity into the National Training and Reskilling program for as long as needed and ensure that the program produces workers with the required job skills to meet industries' needs.

12. During the recovery phase, staff recommended the government to prioritize programs that are consistent with its medium-term development needs and broader social and environmental goals. Temporary public works could help absorb workers, providing them with experience and skills for the post-virus economy. Moreover, these programs can be used to increase labor force participation, bringing in more youth and women and enhancing green projects—such as the announced National Clean Up Campaign, building climate-resilient infrastructure, or promoting green commuting. These initiatives may require creating fiscal space, potentially by cancelling or postponing other investment projects with the lowest benefits—economic and social—compared to costs. The government could also consider private-public partnerships (PPPs) to bring in the private sector, based on a robust assessment of their fiscal implications and ensuring good governance.

13. Once Mauritius has firmly emerged from the pandemic, fiscal consolidation will be necessary to stabilize debt in the medium term. Mauritius' public debt remains sustainable under the baseline scenario, but at an elevated level, and is vulnerable to shocks. Following the needed fiscal response to the crisis, public sector debt is forecasted to increase to 93 percent of GDP by FY2021/22 from 66 percent of GDP in FY2018/19. As the economy emerges from the pandemic, under the assumption of solid revenue performance and non-pension spending restraint, the debt-to-GDP ratio is expected to decline modestly until FY2023/24, when the authorities implement plans for further increases to public pensions, pushing debt back up to 93 percent of GDP. Staff recommended the authorities to undertake substantive measures to strengthen revenue mobilization and contain spending to stabilize debt at about 93½ percent of GDP beginning in FY2024/25. Mauritius continues to have some fiscal space reflecting the country's institutional strength, deep domestic financial markets, and sustainable debt profile, but that space has been significantly reduced. Moreover, the country will emerge from the pandemic with public debt levels that will face threats from adverse scenarios, particularly macro-fiscal shocks and shocks to the financial sector (Annex II).

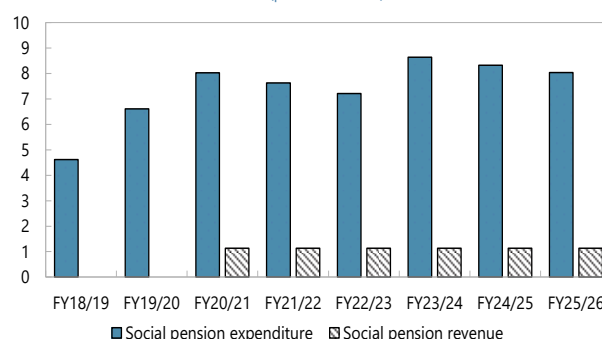
14. While the repeal of the debt limit was appropriate in the face of the pandemic, a fiscal rule following international best practices could strengthen the fiscal framework and sustainability. Early in the pandemic, the authorities repealed the debt limit which capped public sector debt at 60 percent of GDP. This step was necessary to allow for urgently needed spending in the face of sharply declining fiscal revenues. Previously, like in several countries, the debt limit had been repeatedly modified and postponed. As the formulation and adoption of a new fiscal rule takes time, the authorities need to begin now to explore alternative fiscal rules—in line with current international best practices—to replace the debt limit once the economy stabilizes. A new rule should foster debt sustainability and build buffers against shocks given the higher debt. In the meantime, the implicit fiscal anchor should be to stabilize the debt-to-GDP ratio at around 94 percent of GDP by FY2024/25 when real GDP returns to its 2019 level. Therefore, the

authorities need to consider the tradeoffs between only stabilizing debt versus stepping up fiscal consolidation efforts beyond those envisaged in staff's baseline to bring down debt earlier.

15. Pensions will be at the forefront of medium-term fiscal issues.

In late 2019, the Basic Retirement Pension (BRP)—for all Mauritians 60 and older—was increased by 45 percent following a pre-election commitment, increasing pension expenditure by about 2 percent of GDP. Under current policies, there will be a further 50 percent increase in FY2023/24 for all Mauritians 65 and older. If enacted, these changes will lead to an increase in pension spending from 4½ percent of GDP in FY2018/19 to more than 8 percent of GDP by FY2023/24 and will greatly exceed pension revenue.⁸ Any medium-term fiscal consolidation plan will necessarily have to address this disparity.

Text Figure 4. Mauritius: Social Pension Revenue and Spending (percent of GDP)*



*Includes BRP and CSG.

Sources: Country authorities and IMF staff estimates.

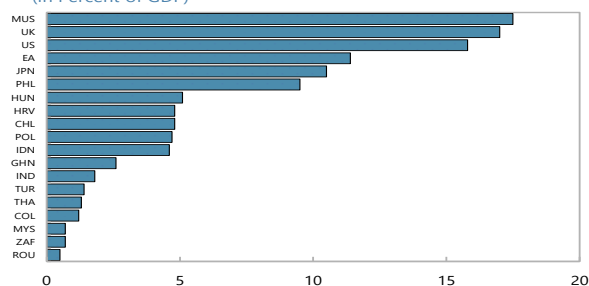
Authorities' Views

16. The authorities' agreed with the thrust of staff recommendations. They welcomed staff's support for accommodative fiscal stance in the near term and agreed that fiscal consolidation will be necessary to reduce public debt levels in the medium term. They broadly agreed with staff's projections for future pension spending. The authorities pointed out that reform of the pension system is already underway with the introduction of Contribution Sociale Generalisee (CSG).

B. Monetary Policy

17. In response to the pandemic and in coordination with the government, the BOM deployed policies that led to a substantial deterioration of its balance sheet and could challenge fulfilling the price-stability mandate going forward. The BOM transferred Rs60 billion (14 percent of GDP) to the government and purchased Rs15 billion (3.5 percent of GDP) of government bonds in 2020. It also established the Mauritius Investment Corporation (MIC), a BOM owned and funded subsidiary, to provide financial support—Rs34 billion (7.9 percent of

Text Figure 5. Direct Monetary Financing of the Budget Deficit in Mauritius vs. Financing and Asset Purchases in Other Countries (In Percent of GDP)



Source: IMF Staff calculations

Note: Data is through March 2021 or latest available. Assets Purchase Programs implemented in various countries included purchases in primary and secondary sovereign markets, ABS/Converted bonds and Private/ETF

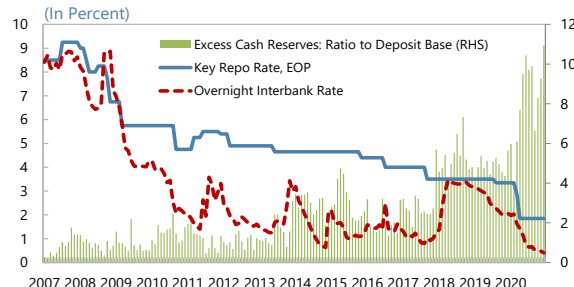
⁸ As an international comparison, the new pension policies will leave Mauritius' pension spending relative to GDP near that of median pension spending to GDP of the OECD countries. By contrast, Mauritius' tax revenue to GDP is near the bottom of OECD countries.

GDP)—to systemically important firms (i.e., in tourism and related sectors), which were financially distressed due to the pandemic and, subsequently, to engage in other quasi-fiscal investments.⁹ These policies contributed to a sharp increase in reserve money (i.e., 58 percent at end-2020 compared to end-2019).¹⁰ If left unattended, these measures threaten to further spur excess liquidity limiting the BOM's ability to steer the interest rate and aggregate demand and to achieve low and stable inflation.

18. The monetary policy stance is accommodative, which remains appropriate.

The BOM cut the announced key policy interest rate from 3.35 percent in February 2020 to 1.85 percent in April 2020 and has maintained the rate since then. The overnight money market interest rate has declined from 2 percent in early 2020 to almost zero, conditioned by excess liquidity in the banking system. This low level of the short-term rate and sustained inflation expectations imply an accommodative monetary policy stance, which appears appropriate and should continue until economic recovery and rising inflation expectations call for policy normalization.¹¹

Text Figure 6. Mauritius: Key Repo Rate, Overnight Interbank Rate and Excess Cash Reserves
(In Percent)

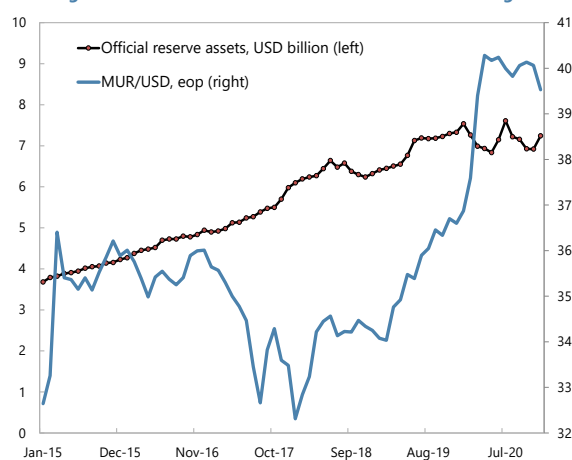


Source: BoM and IMF Staff calculations

19. After allowing for some initial depreciation of the rupee in 2020, the BOM substantially limited exchange rate flexibility by intervening on the foreign exchange market to cover the significant shortage of foreign exchange caused primarily by the halt in tourism.

In real effective terms, the rupee depreciated by about 8 percent in 2020 compared to 2019. However, after the depreciation in the first quarter of 2020 relative to the USD, the exchange rate remained at around Rs40 to the dollar for the rest of the year. The BOM's foreign exchange interventions totaled more than US\$1 billion in 2020, though

Text Figure 7. Mauritius: Official Reserve Assets and Exchange Rate



Source: Bank of Mauritius

FX disbursements and valuation changes have kept reserves above US\$7 billion. While the current intervention strategy has provided markets with much needed foreign exchange liquidity, its rigidity poses risks going forward.

⁹ On April 30, 2021, the MIC financing by the BOM was increased to Rs80 billion.

¹⁰ Notably, during the same period, the government's domestic currency deposits and securities at the BOM increased by Rs14 billion or 58 percent, and the amount of BOM bills increased by Rs16.3 billion or 25 percent.

¹¹ According to the BOM's survey, in February 2021, more than 80 percent of respondents expected inflation 6- and 12-month ahead to be between 2.5 and 3.5 percent. This is broadly in line with the average actual of 2.6 percent over the last 10 years and is up by 1 percentage point compared to the survey in February 2020.

20. The mission supports the BOM's plan for a review of the monetary policy framework and recommends that mechanisms to support the central bank's credibility and solidify an effective monetary policy are phased in as the economy recovers to a normal level of capacity utilization. Those would include continuing with the BOM recapitalization, removing exposures to the MIC from the BOM's balance sheet, and implementing the new FX interventions strategy. Adopting such measures will also provide an opportunity for the BOM to move decisively towards an explicit inflation targeting strategy.

21. In the short term as the economy reopens, the mission recommended the BOM to strengthen effective monetary policy lever with the government's support, in anticipation of the waning of the crisis. Preserving active and independent monetary policy in the long run will be key, given the limited ability of fiscal policy to manage demand, openness to trade, rigidities in the labor market, and lack of other macroeconomic adjustment mechanisms. Consistent with that, measures in the short term should focus on regaining control over the interest rate, increasing exchange rate flexibility, and designing a mechanism to preserve the BOM's capital. As a first step, the authorities expressed their intention to return the law governing the BOM to its status prior to June 2019 under which no transfers to the government were permitted beyond regular profit transfers. The BOM transfers, direct BOM financing of the non-banking sector, and other quasi-fiscal activities involving BOM financing should be legally prohibited. Given ample liquidity in the domestic market, staff recommended that the government satisfies financing needs by issuing debt in the domestic markets.

22. Staff recommended the BOM to reform the policy implementation framework and to foster an interest-rate-based monetary policy.¹² These reforms should begin now, before macroeconomic conditions require policy normalization. Staff advised the BOM to choose the liquidity management framework—the corridor or the floor system—and mop up excess liquidity sufficiently to make the key policy rate an effective lever. Going forward, the policy and the overnight money market rates should be aligned and steered consistently with the price stability objective.

23. While proposing improvements to the interest rate steering, the staff suggested that the BOM identifies causes and contemplates additional policies to limit persistent liquidity surpluses. In the past, influxes of excess liquidity were due to unsterilized FX interventions amidst large foreign capital inflows. Such inflows could be better managed by using fiscal, macroprudential, and other policies to help reduce the BOM's costs of managing liquidity, while remaining consistent with macroeconomic and financial stability objectives.

24. Staff recommended the BOM to continue solidifying its forward-looking approach to policy decision-making. The mission supports BOM's continuing to develop and apply the forecasting and policy analysis system, with macroeconomic and policy projections playing a prominent role as the basis for policy deliberations. The mission recommended the BOM staff to continue regularly presenting to the MPC the macroeconomic forecasts and policy

¹² IMF technical assistance in May 2019 provided further specific advice on streamlining the operational framework, including open market operations (OMOs), standing facilities, and reserve maintenance period.

recommendations, including the interest rate projections. Further efforts to improve communication of the analysis, projections, and policy decisions to market participants and public would be welcome and would help to manage expectations and continue building credibility.

25. Concrete steps need to be taken to strengthen the BOM's balance sheet in the wake of the large transfer and to cover the costs of effective monetary policy. The mission noted that the Bank increased its capital from Rs2 billion to Rs10 billion in July 2020. The mission recommended further recapitalization of the BOM within a reasonable timeframe. A preferable strategy is that the government recapitalizes the central bank up-front, e.g., via the transfer of marketable public debt instruments. Alternatively, the recapitalization may be phased in over a few years. An upfront recapitalization would effectively restore BOM's capital but require a substantial one-off increase in public debt. A phased recapitalization starting when the economy recovers might be more manageable for the government. Staff recommended the authorities to request an IMF TA mission to estimate the required amount and other recapitalization parameters. To prevent further weakening of the BOM's balance sheet, the mission recommended the BOM and the MOFED to reach an agreement where the government would cover the ongoing sterilization costs. While this would help avoid further deterioration of the BOM capital, there could be tensions with monetary policy independence.¹³

26. Staff recommended the BOM to relinquish ownership of the MIC. While recognizing the authorities' desire to bring the BOM's resources to bear during the crisis, staff stressed that ownership by the BOM threatens the central bank's independence and challenges financial sector intermediation. The mission recommended that, for fiscal transparency, spending that is fundamentally of a fiscal nature should be undertaken by the government or government agencies. The MIC can either be folded into the Development Bank of Mauritius or taken over by the government. The mission recommended that the financing of the MIC be provided through the budgetary process and that the BOM refrains from any quasi-fiscal operations. To finance the MIC's takeover, the government could raise liquidity from the market to pay for MIC obligations. This transaction would remove the credit risk exposure from the BOM balance sheet and help mop up excess liquidity. Furthermore, it would be preferable to utilize financial sector intermediation with credit to firms flowing through banks mobilizing the excess liquidity in the financial system and the sector's expertise in identifying viable businesses, while the government provides targeted credit guaranties.

27. The exchange rate policy should eventually allow for greater exchange rate flexibility, and staff recommended the BOM to adopt an FX intervention strategy targeted at smoothing excessive volatility. This will be integral for active monetary policy and the role of the exchange rate as a macroeconomic adjustment mechanism. The mission advised to

¹³ In May 2021, the BOM adopted a new treatment of the Rs60 billion transfer, which had been shown as an asset. Rs32 billion would be written off from the Special Reserve Fund, with a concurrent reduction in the BOM's net worth. The remaining balance of Rs28 billion would be treated as advance against future profits distributable to the government. This advance should be calculated as the discounted fair market value of projected dividends, and the authorities are continuing to assess this value. As of March 2021, if the entirety of the Rs60 billion transfer were to be written off, the BOM's net worth would be at negative Rs14½ billion (-3½ percent of GDP).

synchronize adjusting the exchange rate policy and solidifying the interest-rate-based monetary policy to avoid apparent or real conflicts regarding policy objectives. The staff advised that the BOM recalibrates the FX intervention strategy so that it focuses on containing excessive volatility in the FX market, while generally allowing for exchange rate flexibility. The market clearing approach should be discontinued, and no quantitative objectives should be set with regard to the exchange rate level or the amount of interventions in such a strategy. Staff recommended the BOM to communicate with the market to transit smoothly to greater exchange rate flexibility.¹⁴

Authorities' Views

28. Authorities concurred that the monetary policy stance is accommodative and should remain so until economic recovery strengthens. They recognized the challenges posed by excess liquidity and pointed to stepping up its open market operations to absorb the excess. The BOM highlighted that the 91-day bill yield is currently the operating target. The BOM pointed out that it has already embarked on a review of its monetary policy framework as announced in September last year, including examining the appropriate operational target.

29. The BOM viewed the transfer to the central government as appropriate given the exceptional circumstances. Authorities explained that the one-off transfer was meant for stabilizing the economy and mitigating risks to financial and social stability stemming from the severe shock caused by the pandemic.

30. The authorities viewed creating the MIC as a last resort measure to address the impact of the pandemic on systemically important and viable firms and ensure that the financial system remains sound and stable during these turbulent times. They explained that if these companies had not been supported, they would have faced difficulties in servicing their financial obligations, thus adversely impacting the banking sector. In BOM's view, through this facility, the MIC has contributed to maintain financial stability. They underscored that the MIC functions independently of the BOM and has an independent Board and Investment Committee.

31. The authorities agreed with the mission's recommendations that, as the pandemic recedes and the economy stabilizes, the FX interventions strategy would lean against undue volatility. They were of the view that they did not limit exchange rate flexibility during the pandemic and suggested that the evolution of the nominal exchange rate is due to domestic and foreign market conditions. They also explained that the BOM intervened through auctions, and intervention rates were within bid quotes of banks. Given the context with substantially reduced FX inflows, the range of bids reflected inherent dynamics of the market. In BOM's view, the new monetary policy framework will strengthen the nexus between exchange rate policy and interest rate policy.

¹⁴ Building capacity and preparing the framework for the leaning-against-excessive-volatility strategy may require some transitory FX strategy in the near-term, which can be identified with the help of the IMF technical assistance.

C. Financial Sector Policies and AML/CFT Listing

32. The mission welcomed the BOM's efforts to safeguard financial stability and conduct regular stress-tests of the banking system to assess the impact of risks, including exposures to tourism-related activities. By end-2020Q3 banks and non-bank deposit-taking institutions remained well capitalized. The share of non-performing loans (NPLs) increased to 6.1 percent relative to 4.9 percent at end-2019, profitability compressed and provisioning of NPLs deteriorated.¹⁵ However, for banks alone, the NPLs stood at 5.4 percent at end-2020Q4 compared to 4.3 percent a year ago, and provisioning improved.¹⁶ Prolonged macroeconomic recovery and the end to the moratorium on debt amortization may adversely affect borrowers' ability to repay, push NPLs higher, and put banking capital under pressure. The mission took note of the engagement of the BOM with banks to unwind the COVID-19 support in a targeted and phased manner. Staff highlighted the role of mitigating policies that will need to strike a delicate balance between supporting borrowers and cushioning the impact on banks' solvency. Staff recommended the authorities to continue monitoring sector developments, maintain loan classification standards, and ensure that policies to assist distressed borrowers are transparent, temporary, and targeted. The legal and operational frameworks should be prepared for debt restructuring and possible bankruptcies to ensure speedy resolutions.

33. In February 2020, Mauritius was placed on the list of jurisdictions under increased monitoring by the Financial Action Task Force (FATF) and the European Union followed suit in June 2020. The effect of the listing has been mild so far. GBC activity has remained stable, and balance of payments data for 2020 indicate net GBC financial inflows. GBC foreign exchange deposits in banks, equivalent to about 100 percent of GDP, have held steady. Authorities have publicly committed to a timeline to address the deficiencies in the Anti-Money Laundering/Combating Financial Terrorism (AML/CFT) framework, however, there are concerns that if Mauritius stays on the AML/CFT lists, the GBC sector could face challenges in attracting new business.

34. The mission encouraged the authorities to continue their strong efforts to exit from the FATF and EU AML/CFT lists. With the help of TA from the IMF and other development partners, the authorities have been able to address some of the shortcomings. Following a plenary session in February, FATF noted that Mauritius had made sustained progress in AML/CFT reforms, despite the pandemic. The largest remaining hurdle for the authorities is to demonstrate the effectiveness of the measures that they have undertaken, particularly by implementing risk-based supervision plan for the GBCs, ensuring timely access to accurate beneficial ownership information and that suspicious transactions are identified and reported.

¹⁵ Return on assets (ROA) in 2020Q3 declined to 1.2 percent from 1.9 percent in 2019Q4. The ratio of NPLs less provisioning over capital for banks and non-banks deteriorated from 10.4 percent in 2019Q4 to 12.4 percent in 2020Q3. If the sector implemented the full provisioning of NPLs at the 2020Q3 level now, the aggregate capital ratio would remain above the adequacy level.

¹⁶ Non-performing loans net of provisions to capital for banks improved to 9.7 percent by end -2020Q4 from 10.1 percent a year ago.

Authorities' Views

35. Authorities concurred that close monitoring to ensure financial stability and efforts to exit FATF and EU listings soon should continue. The BOM emphasized that it remains in close contact with the banks to monitor loan portfolios and undertakes sufficient actions to preempt systemic financial stress. The authorities agreed that phasing out of the support to banks should be aligned with economic recovery and noted that they could prolong such support in a targeted manner to impacted sectors. The BOM also pointed out that while ending the debt amortization moratorium could lead to an increase of non-performing loans, banks are well capitalized to weather the corresponding shocks.

D. External Competitiveness and Structural Policies for a Sustainable and Resilient Recovery

36. Mauritius' external position at end-2020 was substantially weaker than is consistent with medium-term fundamentals and desirable policy settings, while official foreign reserves coverage remained within the adequacy range. The overall current account deficit widened to 12.6 percent of GDP in 2020 and is expected to widen to 15.6 percent in 2021. The real effective exchange rate (REER) depreciated by 8.1 percent year-on-year in 2020. The current account gap was -13.3 percent, and the domestic currency appears overvalued by about 30-40 percent. This external assessment and the degree of overvaluation are subject to elevated uncertainty reflecting the adverse supply shock to the tourism sector as well as decline in income flows given Mauritius' financial center position. In staff's view, both developments are predominantly transitory, and the current account gap and misalignment will be substantially reduced once Mauritius reopens for travel and income flows recover. The estimated current account gap and the overvaluation to an extent may point to long-term structural issues and the need for further reforms to enhance competitiveness, rather than indicate the extent of required nominal exchange rate depreciation. Positive net international capital and financial flows declined by about 5.5 percentage points in 2020 compared to a year ago. This was mostly driven by the net outflows from the domestic economy, partially offset by net inflows to the GBC sector. The net investment position (NIIP) remained volatile due to GBCs' portfolio flows: it stood at 187 percent of GDP in 2019, much lower than its 2018 level (377 percent). International reserves covered 103 percent of the Fund's ARA metrics at end-2020, which remains within but closer to the lower bound of the 100-150 percent adequacy range (Annex III). Total public and private external debt increased from 91 percent in 2019 to 116 percent of GDP in 2020. The large debt implies elevated exposures to unfavorable exchange rate movements and current account and rollover shocks. Sustaining it in the long run will require improving external competitiveness and addressing external imbalances.

37. The pandemic is an opportunity to implement measures to improve competitiveness and accelerate long-term structural transformation in Mauritius. In the near term, a pragmatic strategy would entail focusing on value upgrading in the traditional sectors to spur productivity and transformation, taking advantage of African Continental FTA and new trade agreements with China and India. Concerning tourism, Mauritius should aim for more

sustainability in view of ecological concerns and climate change risks, and move to higher-value-added business model, in line with the authorities' goals, for example, health-oriented, low-density eco-tourism with significant demand by high-income foreigners from advanced economies who are likely to get vaccinated early and resume travel.

38. Structural transformation should turn Mauritius into a sustainable and resilient economy built on education and technology. The reforms in the authorities' development strategy require building innovation capacity through skill development and targeting resource allocation towards emerging activities or technological upgrading that may be hampered by market failures. Improvements are needed in the ICT infrastructure and R&D, including through promoting competition in the critical upstream sectors. Crisis-induced exit of firms unproductive pre-COVID could bolster new business formation, facilitated by public reskilling and retraining programs, which could especially benefit women and youth. Overall, there could be better coordination between the public and private sectors to overcome externalities, such as often needed simultaneous investment across firms.

39. Staff welcomes the authorities' continued efforts to mitigate Mauritius' vulnerabilities to climate change. The 2018 World Risk Report ranked Mauritius as the 18th among countries most susceptible to climate change, and the authorities recognize the risks. The UN Environmental Program also noted that the country's vulnerability is due to a range of climatic, biological, geological, and technological hazards, with the frequency and intensity of extreme weather events increasing in recent years. The *2020-2024 Government Programme* highlights the importance of mitigating the impact of climate change, and the government plans eco-friendly measures such as creating three new endemic forests and introducing building codes and infrastructure improvements to better protect against cyclones and floods.

40. Mauritius performs well in doing business indicators, and continued efforts would be useful to further strengthen public financial management. The February 2021 report of the National Audit Office found shortcomings in some areas of public financial governance, including financial reporting, procurement management, and value for money. Some previously identified issues in public sector procurement appear to have persisted.¹⁷ These may have been exacerbated to some degree in the need to rush procurement of critical pandemic-related goods and services.

Authorities' Views

41. Authorities agreed that policies to boost competitiveness and stimulate the longer-term growth are needed. In the authorities' view, the foreign reserves remain ample as they cover more than 13 months of imports, and the current account gap would be reduced once the economy opens to international travel, while consolidating a sustainable tourism strategy. Authorities expressed optimism about the effect of trade agreements with China and India on

¹⁷ A recent IMF technical assistance mission suggested that Mauritius could benefit from a less fragmented approach to public investment management that would help to implement reforms.

the dynamics in traditional sectors, including textiles and agriculture, highlighting the potential of joint ventures with the private sector to gain competitiveness in new economic segments.

OTHER ISSUES

42. Data provision is broadly adequate for surveillance, but there is room for improvement. The ongoing efforts of Statistics Mauritius to improve the national accounts data following TA recommendations are welcome. Further progress is warranted to validate the GBCs' annual survey data quality and improve its timeliness. The authorities should continue progress towards expanding fiscal accounts coverage to fully encompass the general government.

43. Capacity development—including through AFRITAC South—will help support the authorities' policy objectives. Capacity development priorities relate to strengthening the AML/CFT framework, improving the monetary policy framework, improving the quality of national accounts data, and strengthening public financial management.

STAFF APPRAISAL

44. Mauritius has been successful in containing the COVID-19 pandemic. The number of COVID-19 infections and fatalities has been very small thanks to strict health measures, including travel restrictions and contact tracing.

45. However, the pandemic notably affected Mauritius' economy. With tourism having ground to a halt, GDP is estimated to have fallen by 15 percent in 2020. Both the fiscal and current account deficits have substantially widened. Nonetheless, unemployment remains broadly contained, inflation low, and the banking system appears to be sound.

46. Staff projects a recovery in Mauritius as the pandemic recedes, although challenges and risks remain. Growth should reach 5 percent in 2021 based on a resumption of tourism, with a further pick-up in 2022. However, the pace of recovery in tourism is unclear, complicating the authorities' decisions on when to scale back emergency measures.

47. The fiscal stance should remain accommodative in the near term, though consolidation will be necessary in the medium term. The authorities' significant fiscal expansion has been warranted by the pandemic. Once the country has moved past the crisis, revenue will need to be increased and spending reduced to put debt on a declining path. A successful adjustment will require addressing the burgeoning divergence between pension spending and revenue.

48. Staff recommended the authorities to maintain accommodative monetary policy in the near term while preparing for the normalization of monetary and exchange rate policies. The mission advised the BOM, with the government's support, to develop effective monetary instruments to guide the economy as it emerges from the crisis. The BOM law should

be reformed, including to preempt further exceptional transfers to the government, in line with international best practices. Furthermore, staff recommended that the central bank relinquishes ownership of the MIC, and financing of the MIC should be provided through the budgetary process. The exchange rate intervention strategy should be revised to support exchange rate flexibility, while smoothing extreme exchange rate volatility and ensuring market liquidity.

49. 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. The external assessment is subject to elevated uncertainty due to the tourism supply shock as well as decline in income flows with both developments viewed as transitory.

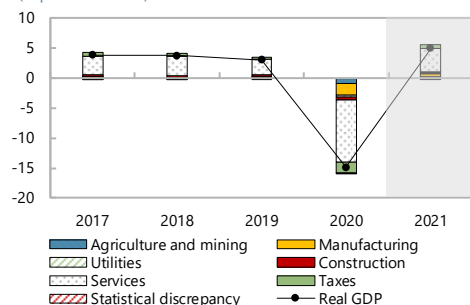
50. Mauritius should sustain reforms to support its structural transformation to a strong and resilient growth path. Staff supports the authorities' commitment to exit the FATF and EU AML/CFT lists, enhance diversification, strengthen competitiveness, improve public sector procurement practices, and mitigate vulnerabilities to climate change.

51. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Mauritius: Real Sector Developments

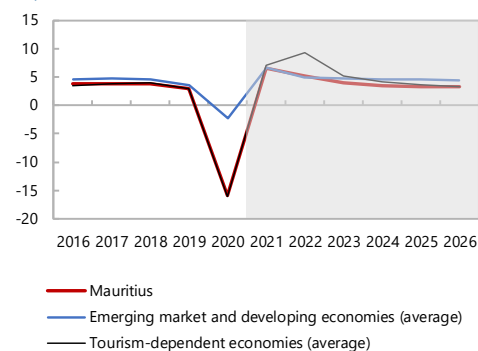
The pandemic led to a contraction in economic activity across the board.

Contribution to Real GDP Growth: Supply Side
(in percent of GDP)



As a tourism-dependent economy, Mauritius was one of the hardest hit countries.

Real GDP Growth: Tourism-Dependent and Emerging Economies
(in percent of GDP)



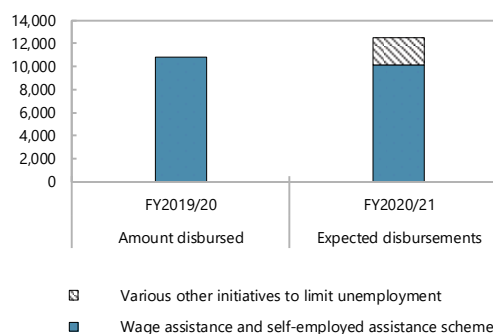
With tourism coming to a standstill in 2020Q2, the tourism receipts collapsed.

Tourism Arrivals and Receipts
(millions)



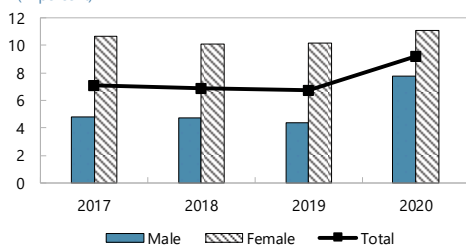
The authorities implemented comprehensive stimulus measures...

Main Support Measures in Response to COVID-19
(millions of rupees)



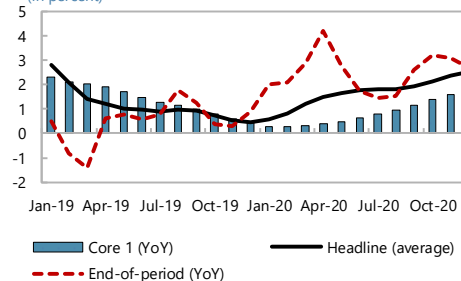
... limiting the impact on unemployment, which still rose to the highest level on record...

Unemployment Rate
(in percent)



...while inflation remained low.

Monthly Inflation
(in percent)



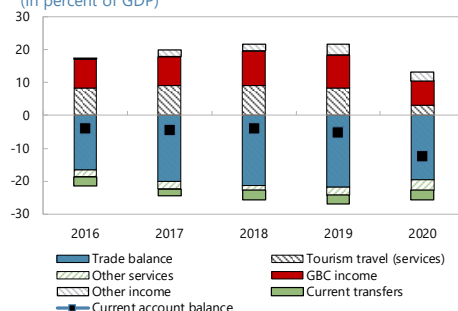
Sources: Country authorities, Statistics Mauritius and IMF staff estimates.

Notes: Shaded areas and asterisks are projections. The services sector includes wholesale and retail trade, financial and insurance activities, information and communication, accommodation and food, and other services. Tourism-dependent countries are: Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Cabo Verde, Cambodia, Dominica, Fiji, Georgia, Iceland, Jamaica, Macao SAR, Maldives, Malta, Seychelles, St. Lucia and Vanuatu.

Figure 2. Mauritius: External Sector Developments

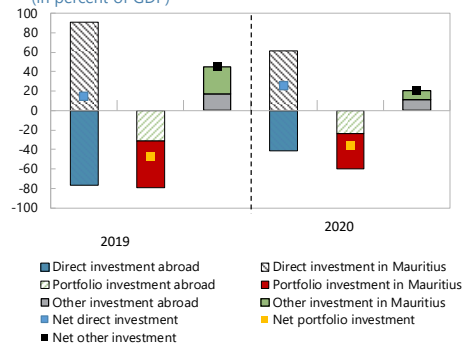
The current account balance deteriorated sharply driven by a drop in tourism and GBC sector income balances....

Current Account Balance (in percent of GDP)



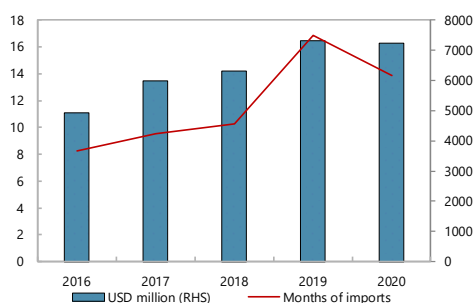
... while gross financial flows declined and the net inflows sustained.

Financial Flows (in percent of GDP)



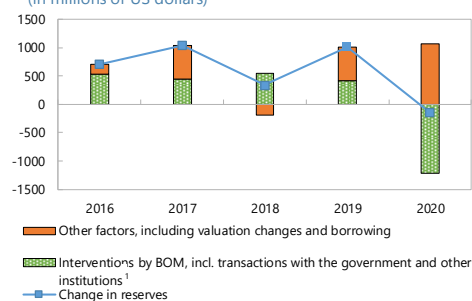
Gross international reserves remained stable...

Gross International Reserves



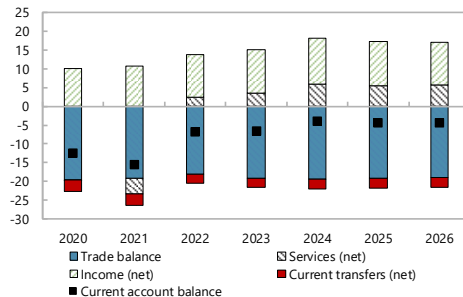
... largely due to new borrowing and a positive valuation effect.

Changes in Reserves (in millions of US dollars)



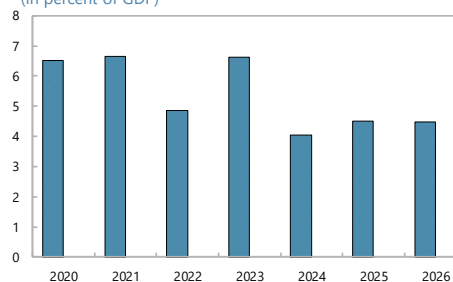
The current account balance is expected to improve close to prepandemic levels in the medium term...

Current Account Projections (in percent of GDP)



... while net financial inflows are expected to remain in surplus.

Financial and Capital Account Projections (in percent of GDP)



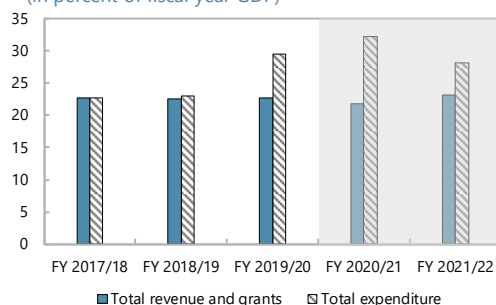
Sources: Country authorities; and IMF staff estimates and projections.

¹ The amount of BOM interventions is estimated at the monthly average exchange rate.

Figure 3. Mauritius: Fiscal Sector Developments

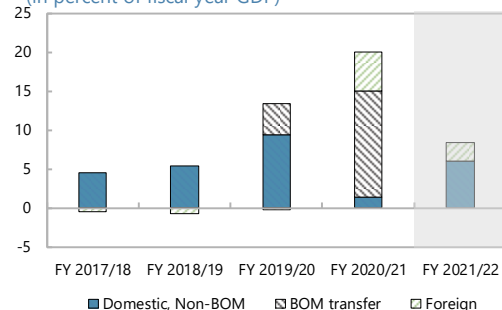
The pandemic led to a substantial fiscal stimulus and revenue losses...

Total Revenue and Expenditure
(in percent of fiscal year GDP)



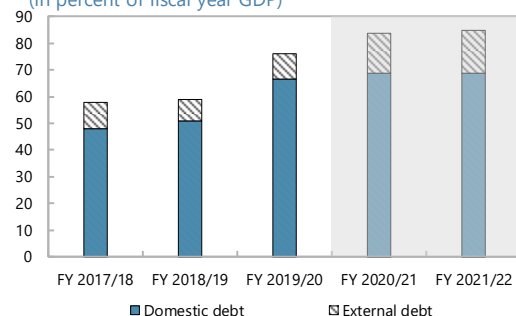
...with the resulting deficit financed with a transfer from the Bank of Mauritius.

Fiscal Financing
(in percent of fiscal year GDP)



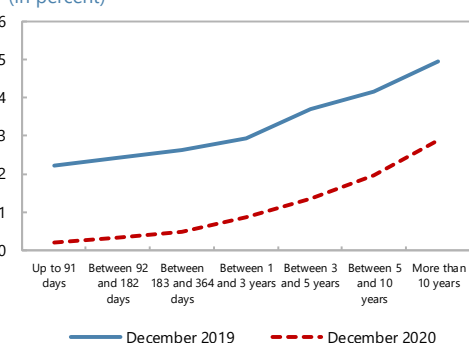
Central government debt has risen markedly despite the BoM transfers...

Central Government Debt-to-GDP
(in percent of fiscal year GDP)



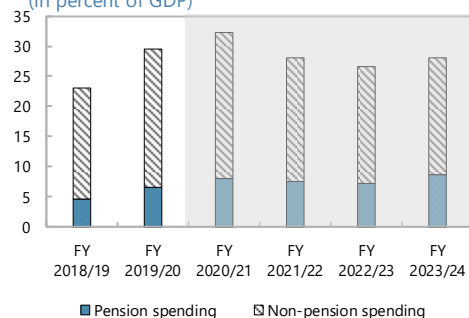
...while interest rates on central government securities have remained low.

Yield on Government Treasury Bills and Bonds
(in percent)



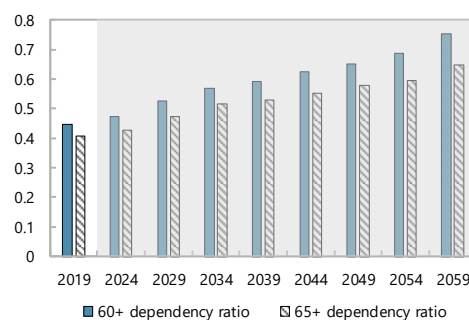
Going forward, growing pension costs will continue to put pressure on overall spending...

Pension and Non-Pension Spending
(in percent of GDP)



...and these challenges will be exacerbated by demographic trends in the long term.

Dependency ratios



Sources: Country authorities, Statistics Mauritius; and IMF staff estimates and projections.

Notes: All years FY2020/21 and beyond are projections and shaded.

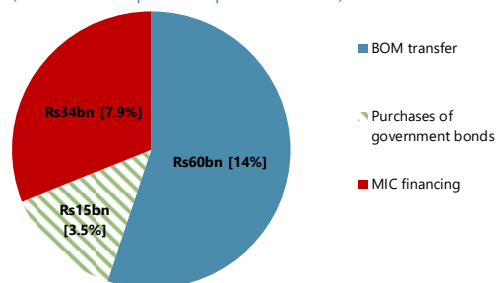
Figure 4. Mauritius: Monetary Sector Developments

Support from the central bank totaled Rs 109 billion or 25.4 percent of GDP and....

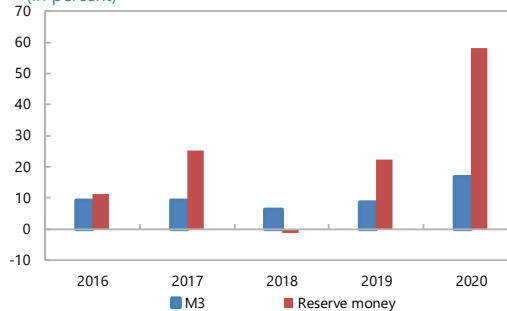
... contributed to faster monetary expansion....

Monetary Financing

(in billions of rupees and percent of GDP)

**Annual Change in Broad (M3) and Reserve Money**

(in percent)

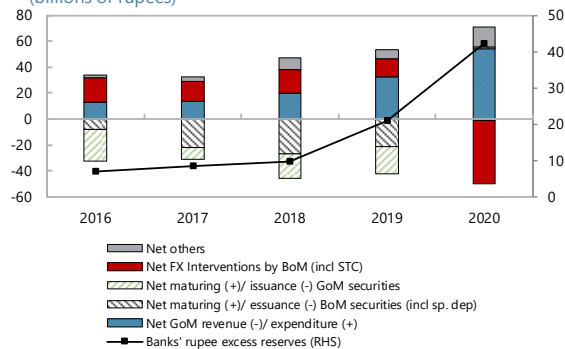


... and excess liquidity,...

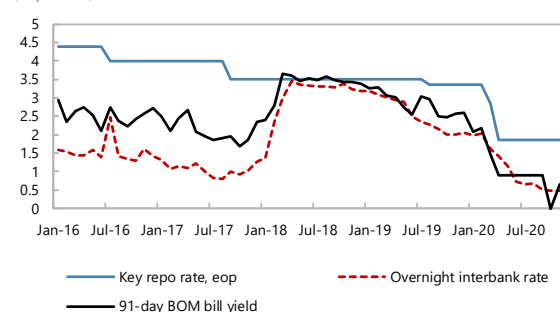
... which is likely to limit monetary policy effectiveness as the output gap closes.

Dynamics of Excess Liquidity with Decomposition into Sources

(billions of rupees)

**Announced Key Repo Rate, Overnight Interbank Rate, 91-Day BOM Bill Yield**

(in percent)

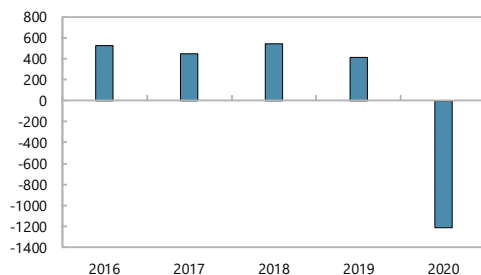


After substantial net FX purchases pre-pandemic, the BoM conducted large FX sales in 2020....

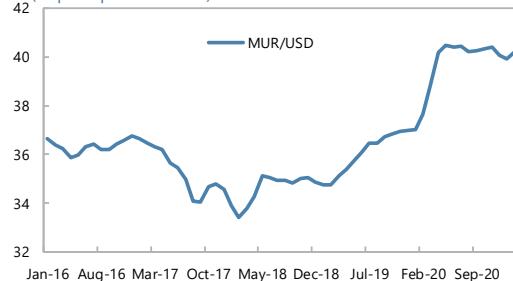
....limiting flexibility of the nominal exchange rate.

Net FX Interventions by BOM (including STC)

(USD million)

**Average Exchange Rate**

(Rupees per US Dollar)



Source: Country authorities and IMF staff estimates.

Notes: The amount of BOM interventions is estimated in USD at the monthly period average exchange rate.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.	Proj.					
(Annual percent change, unless otherwise indicated)										
National income, prices and employment										
Real GDP	3.8	3.8	3.0	-14.9	5.0	6.7	4.0	3.5	3.3	3.3
Real GDP per capita	3.7	3.7	2.9	-14.9	5.0	6.7	4.0	3.5	3.3	3.3
GDP per capita (in U.S. dollars)	10,485	11,206	11,089	8,613	9,217	10,261	10,798	11,211	11,635	12,115
GDP deflator	1.3	1.4	0.5	1.3	0.6	3.0	2.8	2.7	2.6	2.5
Consumer prices (period average)	3.7	3.2	0.5	2.5	2.3	3.7	3.5	3.4	3.3	3.2
Consumer prices (end of period)	4.3	1.8	0.9	2.7	3.6	3.6	3.4	3.3	3.2	3.2
Unemployment rate (percent)	7.1	6.9	6.7	9.2	9.2	9.2	8.0	7.3	7.3	7.3
(Annual percent change, in US Dollars)										
External sector										
Exports of goods and services, f.o.b.	3.7	3.6	-7.4	-40.2	14.3	32.0	10.7	12.1	3.3	3.6
Of which : tourism receipts	11.3	8.2	-5.9	-73.8	-41.5	340.8	25.4	26.2	2.1	3.1
Imports of goods and services, f.o.b.	11.0	5.0	-1.6	-29.3	19.5	7.2	9.0	5.3	3.7	3.0
Nominal effective exchange rate (annual average)	2.2	0.2	-0.4	...	...	...	...	...	...	...
Real effective exchange rate (annual average)	3.6	1.4	-2.8	...	...	...	...	...	...	...
Terms of trade	-5.8	-6.3	0.6	4.3	-8.0	2.5	1.1	0.9	0.5	0.3
(Annual change in percent)										
Money and credit										
Net foreign assets	3.2	0.7	13.5	16.4	-8.7	-0.4	2.2	2.5	1.7	1.7
Domestic credit	16.5	-6.8	6.1	7.9	5.6	4.5	4.6	6.8	6.3	5.5
Net claims on government	28.5	8.1	-3.8	8.8	17.4	10.4	10.7	8.9	8.0	3.7
Credit to non-government sector	4.1	-4.2	17.1	2.7	4.9	4.5	4.5	8.0	7.4	7.1
Broad money	8.7	2.1	6.2	17.7	-1.5	2.5	-0.1	11.1	7.6	7.5
Income velocity of broad money (M2)	1.1	1.1	1.1	0.8	0.8	0.9	1.0	0.9	0.9	0.9
(Percent of GDP, unless otherwise indicated)										
Central government finances ¹										
Overall borrowing requirement ²	-4.1	-4.7	-13.1	-20.0	-8.4	-5.6	-6.7	-5.6	-4.9	...
Primary balance (excluding grants)	-1.5	-1.5	-9.8	-14.4	-6.1	-3.8	-4.8	-3.9	-3.0	...
Revenues (incl. grants)	22.7	22.5	22.7	21.8	23.2	23.9	24.2	24.6	25.3	...
Expenditure, excl. net lending	26.0	25.8	34.5	38.4	31.3	29.4	30.8	30.2	30.2	...
Domestic debt of central government	48.1	50.8	66.7	68.8	68.7	67.9	70.0	71.3	72.7	...
External debt of central government	9.7	8.2	9.5	15.1	16.2	16.3	16.2	16.0	15.8	...
Investment and saving										
Gross domestic investment	18.3	19.4	19.8	18.6	19.6	19.6	19.8	20.1	20.5	20.3
Public	4.1	4.5	5.3	7.0	6.2	5.6	5.4	5.3	5.3	5.2
Private ³	14.1	14.9	14.5	11.6	13.3	14.0	14.4	14.8	15.1	15.1
Gross national savings	18.8	18.7	19.3	15.0	15.4	18.0	17.5	17.1	15.8	18.5
Public	-0.6	-0.2	-3.4	-9.0	-7.7	-3.8	-3.4	-3.4	-2.5	-2.0
Private	19.4	19.0	22.7	24.0	23.1	21.8	20.9	20.5	18.2	20.5
External sector										
Balance of goods and services	-13.4	-13.7	-15.9	-19.7	-23.4	-15.7	-15.7	-13.5	-13.6	-13.2
Exports of goods and services, f.o.b.	40.7	39.4	36.8	28.3	30.3	35.9	37.8	40.8	40.6	40.4
Imports of goods and services, f.o.b.	-54.1	-53.1	-52.7	-48.0	-53.6	-51.6	-53.5	-54.2	-54.2	-53.6
Current account balance	-4.6	-3.9	-5.4	-12.6	-15.6	-6.8	-6.6	-4.0	-4.5	-4.5
Capital and financial account	9.8	8.1	11.8	6.5	6.7	4.9	6.6	4.0	4.5	4.5
Overall balance	6.3	3.5	6.7	-4.9	-9.0	-1.9	0.0	0.0	0.0	0.0
Total external debt	77.1	79.2	91.4	115.6	109.8	104.0	101.9	100.9	99.5	98.1
Gross international reserves (millions of U.S. dollars)	5,979	6,321.6	7,329	7,242	6,192	5,942	5,942	5,942	5,942	5,942
Months of imports of goods and services, f.o.b.	9.5	10.3	16.9	13.9	11.1	9.7	9.3	8.9	8.6	8.3
Memorandum items:										
GDP at current market prices (billions of Mauritian rupees)	457.2	481.3	498.3	429.4	453.6	498.5	533.0	566.5	600.4	635.7
GDP at current market prices (millions of U.S. dollars)	13,259	14,182	14,046	10,914	11,676	12,997	13,676	14,198	14,733	15,339
Public sector debt, fiscal year (percent of GDP)	64.3	66.2	84.6	92.0	92.6	91.4	92.9	93.5	93.5	...
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa1	Baa1	Baa2	...	...	...	...	...

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.³ Includes changes in inventories.

Table 2a. Mauritius: Summary of Central Government Finances, 2017/18–25/26¹
(Millions of Rupees, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Proj.					
Total revenue and grants (1)	106,831	110,665	103,890	96,236	110,520	123,088	133,096	143,765	156,263
Domestic revenue	103,522	106,465	99,705	93,066	107,102	119,385	129,149	139,576	151,825
Tax revenue	91,492	98,898	91,879	82,607	94,696	104,923	113,932	123,083	134,354
Income tax - Individuals	9,527	10,450	10,223	11,525	14,281	15,988	17,610	19,117	21,015
Income tax - Corporations	12,403	16,267	15,460	10,575	13,205	15,737	17,186	18,708	20,759
Value added tax (VAT)	32,989	31,938	28,825	27,950	31,252	34,554	37,512	40,196	43,265
Excise duties	20,109	20,892	17,059	17,289	19,042	19,915	21,601	23,245	25,855
Customs	1,335	1,379	1,184	1,090	1,206	1,710	1,778	1,805	1,827
Other taxes	15,129	17,972	14,562	14,178	15,710	17,019	18,246	20,013	21,633
Social contributions	1,337	1,317	1,384	6,300	6,744	7,306	7,787	8,265	8,756
Nontax revenue	10,115	6,250	6,442	4,159	5,662	7,157	7,429	8,228	8,716
Grants	3,309	4,200	4,185	3,170	3,418	3,703	3,947	4,189	4,438
Total expense (current spending) (2)	106,582	113,214	134,917	142,264	133,975	137,592	154,506	160,326	169,234
Expenditures on goods and services	39,461	40,812	42,957	43,581	44,450	46,912	49,030	50,850	53,866
Compensation of employees	29,485	30,516	30,979	32,690	33,520	35,585	36,957	38,036	40,292
Use of goods and services	9,976	10,296	11,978	10,891	10,930	11,326	12,073	12,814	13,574
Interest payments	11,500	12,850	13,365	12,584	12,697	12,846	13,959	14,188	16,207
Domestic interest	10,728	12,219	12,775	12,264	11,798	11,647	12,600	12,734	14,605
External interest	772	631	591	320	899	1,199	1,359	1,454	1,602
Transfers and subsidies	22,786	23,725	32,666	33,831	23,826	23,598	25,837	27,423	29,050
Subsidies	1,733	1,569	10,097	12,128	3,923	2,550	2,749	2,917	3,090
Grants and transfers	21,053	22,156	22,569	21,703	19,903	21,048	23,089	24,505	25,959
Social benefits	29,456	31,953	41,905	45,640	47,285	49,079	60,183	62,030	63,930
Social assistance pensions	20,750	22,682	30,236	35,465	36,314	37,194	47,514	48,584	49,686
Other	8,706	9,271	11,669	10,175	10,971	11,885	12,669	13,446	14,244
Other expense	3,379	3,874	4,024	6,628	5,717	5,157	5,497	5,835	6,181
Contingencies	0	0	0	0	0	0	0	0	0
Gross operating balance ((3)=(1)-(2))	249	-2,549	-31,027	-46,028	-23,455	-14,504	-21,410	-16,560	-12,971
Net acquisition of non-financial assets (capital spending)	8,098	8,390	7,536	8,044	8,758	8,801	9,382	9,957	11,207
Budget balance²	-7,849	-10,939	-38,563	-54,072	-32,212	-23,306	-30,792	-26,518	-24,178
Net lending / borrowing (special funds)	-7,600	-4,943	-15,316	-19,129	-6,205	-5,344	-5,696	-6,046	-6,404
CONSOLIDATED BALANCE	-15,449	-15,882	-53,879	-73,201	-38,417	-28,650	-36,488	-32,563	-30,582
Transactions in financial assets/liabilities	3,805	7,245	6,107	14,940	1,582	153	240	228	-109
Net acquisition of financial assets	4,231	8,045	8,473	15,040	1,672	653	1,010	1,045	757
Of which: net lending	-696	850	645	692	289	-318	-339	-360	-381
Adjustment for non-cash transactions	0	0	-2,000	0	0	0	0	0	0
Adjustment for difference in cash and accrual	-426	-800	-366	-100	-90	-500	-770	-817	-866
OVERALL BORROWING REQUIREMENT	-19,254	-23,127	-59,986	-88,141	-39,999	-28,802	-36,728	-32,791	-30,474
FINANCING	19,254	23,127	59,986	88,141	39,999	28,802	36,728	32,791	30,474
Domestic	21,294	26,664	61,044	66,247	28,571	23,406	34,383	31,115	29,536
Banks	7,098	8,888	29,348	22,082	9,524	7,802	11,461	10,372	9,845
Nonbanks	14,196	17,776	13,696	-15,835	19,047	15,604	22,922	20,743	19,691
BOM transfers ³			18,000	60,000					
Foreign	-2,040	-3,537	-1,058	21,894	11,429	5,396	2,345	1,676	938
<i>Memorandum items:</i>									
Central government debt	271,374	289,613	348,642	370,335	403,960	434,408	473,735	508,952	541,166
Public sector debt	302,124	325,207	387,178	406,188	440,827	471,275	510,602	545,819	578,033
GDP at current market prices (FY, in billions of Rupees)	470	491.1	458	442	476	516	550	583	618
Expenditure, excluding net lending	122,280	126,547	157,769	169,437	148,937	151,737	169,584	176,328	186,846
Primary balance (incl. grants)	-3,949	-3,032	-40,514	-60,617	-25,720	-15,804	-22,529	-18,375	-14,376
Primary balance (excl. grants)	-7,258	-7,232	-44,699	-63,787	-29,138	-19,507	-26,476	-22,564	-18,813

Sources: Ministry of Finance and Development and IMF staff estimates and projections.

¹ GFSM 2001 presentation.

² Corresponds to the authorities' budget presentation.

³ Following the GFSM 2014, Sections 5.111.5.116, the transfers from the BOM to the Central Government are considered as financing.

Table 2b. Mauritius: Summary of Central Government Finances, 2017/18-25/26¹
(Percent of GDP, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Proj.					
Total revenue and grants (1)	22.7	22.5	22.7	21.8	23.2	23.9	24.2	24.6	25.3
Domestic revenue	22.0	21.7	21.8	21.1	22.5	23.1	23.5	23.9	24.6
Tax revenue	19.5	20.1	20.1	18.7	19.9	20.3	20.7	21.1	21.7
Income tax - Individuals	2.0	2.1	2.2	2.6	3.0	3.1	3.2	3.3	3.4
Income tax - Corporations	2.6	3.3	3.4	2.4	2.8	3.1	3.1	3.2	3.4
Value added tax (VAT)	7.0	6.5	6.3	6.3	6.6	6.7	6.8	6.9	7.0
Excise duties	4.3	4.3	3.7	3.9	4.0	3.9	3.9	4.0	4.2
Customs	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Other taxes	3.2	3.7	3.2	3.2	3.3	3.3	3.3	3.4	3.5
Social contributions	0.3	0.3	0.3	1.4	1.4	1.4	1.4	1.4	1.4
Nontax revenue	2.2	1.3	1.4	0.9	1.2	1.4	1.4	1.4	1.4
Grants	0.7	0.9	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Total expense (current spending) (2)	22.7	23.1	29.5	32.2	28.1	26.7	28.1	27.5	27.4
Expenditures on goods and services	8.4	8.3	9.4	9.9	9.3	9.1	8.9	8.7	8.7
Compensation of employees	6.3	6.2	6.8	7.4	7.0	6.9	6.7	6.5	6.5
Use of goods and services	2.1	2.1	2.6	2.5	2.3	2.2	2.2	2.2	2.2
Interest payments	2.4	2.6	2.9	2.9	2.7	2.5	2.5	2.4	2.6
Domestic interest	2.3	2.5	2.8	2.8	2.5	2.3	2.3	2.2	2.4
External interest	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Transfers and subsidies	4.9	4.8	7.1	7.7	5.0	4.6	4.7	4.7	4.7
Subsidies	0.4	0.3	2.2	2.7	0.8	0.5	0.5	0.5	0.5
Grants and transfers	4.5	4.5	4.9	4.9	4.2	4.1	4.2	4.2	4.2
Social benefits	6.3	6.5	9.2	10.3	9.9	9.5	10.9	10.6	10.3
Social assistance pensions	4.4	4.6	6.6	8.0	7.6	7.2	8.6	8.3	8.0
Other	1.9	1.9	2.6	2.3	2.3	2.3	2.3	2.3	2.3
Other expense	0.7	0.8	0.9	1.5	1.2	1.0	1.0	1.0	1.0
Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance ((3)=(1)-(2))	0.1	-0.5	-6.8	-10.4	-4.9	-2.8	-3.9	-2.8	-2.1
Net acquisition of non-financial assets (capital spending)	1.7	1.7	1.6	1.8	1.8	1.7	1.7	1.7	1.8
Budget balance²	-1.7	-2.2	-8.4	-12.2	-6.8	-4.5	-5.6	-4.5	-3.9
Net lending / borrowing (special funds)	-1.6	-1.0	-3.3	-4.3	-1.3	-1.0	-1.0	-1.0	-1.0
CONSOLIDATED BALANCE	-3.3	-3.2	-11.8	-16.6	-8.1	-5.6	-6.6	-5.6	-4.9
Transactions in financial assets/liabilities	0.8	1.5	1.3	3.4	0.3	0.0	0.0	0.0	0.0
Net acquisition of financial assets	0.9	1.6	1.9	3.4	0.4	0.1	0.2	0.2	0.1
Of which: net lending	-0.1	0.2	0.1	0.2	0.1	-0.1	-0.1	-0.1	-0.1
Adjustment for non-cash transactions	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment for difference in cash and accrual	-0.1	-0.2	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1
OVERALL BORROWING REQUIREMENT	-4.1	-4.7	-13.1	-20.0	-8.4	-5.6	-6.7	-5.6	-4.9
FINANCING	4.1	4.7	13.1	20.0	8.4	5.6	6.7	5.6	4.9
Domestic	4.5	5.4	13.3	15.0	6.0	4.5	6.3	5.3	4.8
Banks	1.5	1.8	6.4	5.0	2.0	1.5	2.1	1.8	1.6
Nonbanks	3.0	3.6	3.0	-3.6	4.0	3.0	4.2	3.6	3.2
BOM transfers ³			3.9	13.6					
Foreign	-0.4	-0.7	-0.2	5.0	2.4	1.0	0.4	0.3	0.2
<i>Memorandum items:</i>									
Central government debt	57.8	59.0	76.2	83.9	84.9	84.2	86.2	87.2	87.6
Public sector debt	64.3	66.2	84.6	92.0	92.6	91.4	92.9	93.5	93.5
Central government expenditure, excluding net lending	26.0	25.8	34.5	38.4	31.3	29.4	30.8	30.2	30.2
Central government primary balance (incl. grants)	-0.8	-0.6	-8.9	-13.7	-5.4	-3.1	-4.1	-3.1	-2.3
Central government primary balance (excl. grants)	-1.5	-1.5	-9.8	-14.4	-6.1	-3.8	-4.8	-3.9	-3.0

Sources: Ministry of Finance and Development; Bank of Mauritius; and IMF staff estimates and projections.

¹ GFSM 2007 presentation.

² Corresponds to the authorities' budget presentation.

³ Following the GFSM 2014, Sections 5.111.5.116, the transfers from the BOM to the Central Government are considered as financing.

Table 3. Mauritius: Balance of Payments, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.	Proj.					
(Millions of US dollars)										
Current account balance	-612	-555	-756	-1,374	-1,827	-882	-907	-574	-664	-685
Trade balance	-2,648	-3,015	-3,071	-2,135	-2,238	-2,352	-2,632	-2,757	-2,825	-2,891
Exports of goods, f.o.b.	2,342	2,366	2,223	1,791	2,471	2,441	2,532	2,637	2,741	2,851
Imports of goods, f.o.b.	-4,990	-5,381	-5,294	-3,927	-4,709	-4,793	-5,164	-5,394	-5,566	-5,743
Of which: Oil Imports	-885	-1,133	-1,025	-633	-801	-797	-794	-803	-820	-844
Services (net)	871	1,074	835	-11	-489	307	479	846	823	861
Of which: tourism travel	1,186	1,284	1,163	333	195	859	1,077	1,359	1,312	1,270
Income (net)	1,438	1,792	1,863	1,097	1,261	1,479	1,573	1,717	1,732	1,757
Of which: GBCs	1,173	1,489	1,406	813	890	1,025	1,099	1,226	1,224	1,228
Current transfers (net)	-272	-406	-384	-325	-361	-317	-328	-380	-393	-412
Capital and financial accounts	1,295	1,146	1,651	710	777	632	907	574	664	685
Capital account	-3	-6	0	0	0	0	0	0	0	0
Financial account	1,298	1,151	1,651	710	777	632	907	574	664	685
Non-GBCs	-249	312	117	-519	-290	-581	-742	-823	-875	-926
Direct investment (net)	385	366	416	221	262	292	307	319	331	345
Abroad	-89	-98	-57	-27	-28	-32	-33	-35	-36	-37
In Mauritius	474	464	473	248	291	324	341	354	367	382
Portfolio investment (net)	-445	-1,803	-609	-1,101	-1,178	-1,312	-1,380	-1,433	-1,487	-1,548
Other investment (net)	-189	1,748	310	361	626	439	330	290	281	277
Government (net)	-179	-97	-107	330	429	219	99	50	32	18
Other (net)	-10	1,845	418	31	197	220	231	240	249	259
GBCs	1,547	839	1,534	1,229	1,067	1,213	1,649	1,397	1,538	1,611
Direct investment (net)	24,720	1,090	1,596	2,613	3,436	3,825	3,981	4,169	4,320	4,478
Portfolio and other investment (net)	-23,173	-251	-62	-1,383	-2,369	-2,612	-2,332	-2,772	-2,782	-2,867
Errors and omissions	149	-96	40	127	0	0	0	0	0	0
Overall balance	832	494	934	-537	-1,050	-250	0	0	0	0
Change in official reserves (- = increase)	-832	-494	-934	537	1,050	250	0	0	0	0
(Percent of GDP)										
Current account balance	-4.6	-3.9	-5.4	-12.6	-15.6	-6.8	-6.6	-4.0	-4.5	-4.5
Trade balance	-20.0	-21.3	-21.9	-19.6	-19.2	-18.1	-19.2	-19.4	-19.2	-18.8
Exports of goods, f.o.b.	17.7	16.7	15.8	16.4	21.2	18.8	18.5	18.6	18.6	18.6
Imports of goods, f.o.b.	-37.6	-37.9	-37.7	-36.0	-40.3	-36.9	-37.8	-38.0	-37.8	-37.4
Services (net)	6.6	7.6	5.9	-0.1	-4.2	2.4	3.5	6.0	5.6	5.6
Of which: tourism travel	8.9	9.1	8.3	3.1	1.7	6.6	7.9	9.6	8.9	8.3
Income (net)	10.8	12.6	13.3	10.1	10.8	11.4	11.5	12.1	11.8	11.5
Of which: GBCs	8.8	10.5	10.0	7.4	7.6	7.9	8.0	8.6	8.3	8.0
Current transfers (net)	-2.1	-2.9	-2.7	-3.0	-3.1	-2.4	-2.4	-2.7	-2.7	-2.7
Capital and financial accounts	9.8	8.1	11.8	6.5	6.7	4.9	6.6	4.0	4.5	4.5
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	9.8	8.1	11.8	6.5	6.7	4.9	6.6	4.0	4.5	4.5
Non-GBCs	-1.9	2.2	0.8	-4.8	-2.5	-4.5	-5.4	-5.8	-5.9	-6.0
GBCs	11.7	5.9	10.9	11.3	9.1	9.3	12.1	9.8	10.4	10.5
Errors and omissions	1.1	-0.7	0.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.3	3.5	6.7	-4.9	-9.0	-1.9	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>										
Gross international reserves, BOM, (mill. of U.S. dollars)	5,979	6,322	7,329	7,242	6,192	5,942	5,942	5,942	5,942	5,942
In months of imports of goods and services, f.o.b.	9.5	10.3	16.9	13.9	11.1	9.7	9.3	8.9	8.6	8.3
Percent of external short term debt	1.1	1.3	1.3	1.1	1.0	0.9	0.9	0.9	0.8	0.8
Total external debt	77.1	79.2	91.4	115.6	109.8	104.0	101.9	100.9	99.5	98.1
Total debt service ratio (percent of G&S exports)										
Exports of G&S, percentage change	3.7	3.6	-7.4	-40.2	14.3	32.0	10.7	12.1	3.3	3.6
Imports of G&S, percentage change	11.0	5.0	-1.6	-29.3	19.5	7.2	9.0	5.3	3.7	3.0
Mauritian rupees per U.S. dollar (period average)	34.5	33.9	35.5	39.3						
Mauritian rupees per U.S. dollar (end of period)	33.5	34.2	36.6	39.5						
GDP (millions of U.S. dollars)	13,259	14,182	14,046	10,914	11,676	12,997	13,676	14,198	14,733	15,339

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

Table 4. Mauritius: Monetary Survey, 2017-26

	2017	2018 ¹	2019	2020	2021	2022	2023	2024	2025	2026
	Actual			Proj.						
(Millions of rupees, end of period; unless otherwise indicated)										
Central Bank of Mauritius										
Net foreign assets	200,039	217,004	269,147	284,981	235,335	228,067	233,057	238,957	243,059	247,048
(in millions of US dollars)	5,974	6,336	7,354	7,210	6,166	5,917	5,916	5,914	5,913	5,912
Net domestic assets	-97,977	-116,233	-145,972	-90,266	-76,382	-96,679	-111,765	-112,549	-109,616	-103,475
Net domestic credit	-20,414	-14,898	-19,808	15,120	16,511	16,726	16,890	17,051	17,213	17,381
Government (net)	-24,932	-19,273	-23,863	-27,033	-25,758	-25,758	-25,758	-25,758	-25,758	-25,758
Commercial banks	675	448	23	2,053	2,168	2,383	2,547	2,708	2,870	3,039
Other sectors	3,843	3,927	4,032	40,101	40,101	40,101	40,101	40,101	40,101	40,101
Other items (net)	-77,563	-101,335	-126,164	-105,386	-92,893	-113,405	-128,656	-129,600	-126,829	-120,857
Reserve money	102,063	100,772	123,175	194,716	158,953	131,387	121,291	126,407	133,443	143,572
Currency outside banks	38,711	39,340	42,909	46,561	45,881	47,040	46,917	50,675	54,575	58,718
Bank reserves	63,351	61,431	80,266	148,154	113,072	84,347	74,374	75,732	78,868	84,855
Banks										
Net foreign assets	366,873	353,672	378,325	468,678	452,522	457,038	467,132	479,071	487,376	495,454
(in millions of US dollars)	10,957	10,327	10,337	11,857	11,857	11,857	11,857	11,857	11,857	11,857
Net domestic assets	118,031	148,011	161,329	143,989	152,195	163,915	153,216	210,038	254,608	302,697
Net domestic credit	719,637	683,314	752,523	810,715	894,179	901,728	948,449	1,016,041	1,072,998	1,123,955
Credit to BoM	123,969	132,372	164,461	210,880	261,512	239,862	255,215	274,859	284,194	291,070
o/w Other Claims on BoM ²	44,197	45,129	63,441	79,745	67,197	87,799	103,116	104,064	101,281	95,283
Central Government (net)	94,611	94,606	96,370	105,925	118,412	128,044	138,960	149,069	158,892	163,793
Other financial and public sector ³	33,144	79,871	91,959	81,893	81,916	81,938	81,960	81,981	82,001	82,019
Claims on private sector ⁴	467,913	376,464	399,733	412,018	432,338	451,884	472,314	510,133	547,911	587,072
Other items (net)	-601,606	-535,303	-591,195	-666,726	-741,984	-737,813	-795,233	-806,002	-818,390	-821,257
o/w Deposits excluded from broad money: GBC deposits	-355,212	-344,593	-385,057	-439,048	-463,747	-509,662	-544,890	-579,188	-613,857	-649,967
Total deposits, securities and liabilities to BoM	484,904	501,683	539,654	612,667	604,717	620,954	620,348	689,110	741,984	798,151
Monetary Survey										
Net foreign assets	566,913	570,677	647,472	753,659	687,857	685,105	700,188	718,028	730,435	742,502
(in millions of US dollars)	16,931	16,663	17,690	19,066	18,023	17,774	17,772	17,771	17,770	17,769
Net domestic assets	-44,830	-15,784	-45,499	-50,066	7,847	30,746	16,472	74,846	123,005	175,243
Net domestic credit	574,578	535,595	568,231	612,903	647,009	676,209	707,577	755,525	803,147	847,227
Central government (net)	69,678	75,333	72,507	78,892	92,655	102,286	113,202	123,311	133,135	138,035
Other financial and public sector	36,845	83,665	95,856	121,879	121,902	121,925	121,946	121,967	121,987	122,006
Claims on the private sector ⁴	468,055	376,597	399,868	412,132	432,452	451,998	472,428	510,247	548,025	587,186
o/w Credit to the private sector ⁵	391,388	374,811	438,825	450,868	473,100	494,484	516,835	558,211	599,542	642,387
Other items (net)	-619,408	-551,379	-613,730	-662,969	-639,163	-645,463	-691,104	-680,679	-680,142	-671,985
M1	112,961	325,826	357,449	442,612	436,143	447,164	445,994	481,716	518,787	558,168
Money and quasi-money (M2)	434,814	443,913	471,653	554,951	546,839	560,657	559,191	603,979	650,460	699,835
M2 plus resident FC deposits and securities other than shares (M3)	522,083	554,893	601,973	703,593	695,704	715,852	716,661	792,874	853,440	917,744
(Annual percent change; unless otherwise specified)										
Memorandum items										
M2	8.7	2.1	6.2	17.7	-1.5	2.5	-0.3	8.0	7.7	7.6
M3	9.3	6.3	8.5	16.9	-1.1	2.9	0.1	10.6	7.6	7.5
Deposits	9.1	3.5	7.6	13.5	-1.3	2.7	-0.1	11.1	7.7	7.6
Reserve money	25.1	-1.3	22.2	58.1	-18.4	-17.3	-7.7	4.2	5.6	7.6
Net domestic credit	16.5	-6.8	6.1	7.9	5.6	4.5	4.6	6.8	6.3	5.5
Government (net)	28.5	8.1	-3.8	8.8	17.4	10.4	10.7	8.9	8.0	3.7
Private Sector Credit	4.1	-4.2	17.1	2.7	4.9	4.5	4.5	8.0	7.4	7.1
Multiplier (average M3/RM)	5.1	5.5	4.9	3.6	4.4	5.4	5.9	6.3	6.4	6.4
Velocity (GDP/M3)	0.9	0.9	0.8	0.6	0.7	0.7	0.7	0.7	0.7	0.7
(As percent of GDP)										
M3	114.2	115.3	120.8	163.8	153.4	143.6	134.5	140.0	142.1	144.4
Deposits	106.1	104.2	108.3	142.7	133.3	124.6	116.4	121.6	123.6	125.5
Reserve money	22.3	20.9	24.7	45.3	35.0	26.4	22.8	22.3	22.2	22.6
Net domestic credit	125.7	111.3	114.0	142.7	142.6	135.6	132.8	133.4	133.8	133.3
Government (net)	15.2	15.7	14.6	18.4	20.4	20.5	21.2	21.8	22.2	21.7
Private	102.4	78.3	80.3	96.0	95.3	90.7	88.6	90.1	91.3	92.4
(in millions USD)										
Deposits excluded from broad money: GBC deposits	10,608	10,061	10,521	11,107	12,151	13,222	13,831	14,335	14,934	15,555

Sources: Bank of Mauritius; and IMF staff estimates and projections.

¹In October 2018, the methodology used to construct monetary accounts was revised to be better aligned with the IMF Financial Statistics Manual and compilation guide 2016. The revision led to structural breaks in some series, notably in claims on the private sector.²This amount primarily reflects the amount of liquidity mopped-up in the BoM instruments, i.e. BoM Bills³Excluding liabilities to the Central Bank.⁴Includes derivatives and other related financial instruments.⁵Excludes derivatives and other related financial instruments. Credit to the private sector for 2018 is an estimate that has been adjusted to correct for the methodological structural break between end-2017 and end-2018. See note 1 above.

Table 5. Mauritius: Financial Soundness Indicators for Banks and Non-Bank Deposit-Taking Institutions, 2017-2020Q3¹

(End of period, in percent)

	2017	2018				2019				2020		
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Capital adequacy												
Regulatory capital to risk-weighted assets	18.6	18.6	18.0	18.4	19.2	19.5	19.9	19.8	19.6	19.2	20.5	19.7
Regulatory Tier 1 capital to risk-weighted assets	17.3	17.2	16.7	17.1	17.8	18.1	18.5	18.5	18.2	17.9	19.1	18.4
Non-performing loans net of provisions to capital	16.6	15.6	14.3	9.9	13.9	13.0	12.7	11.6	10.4	11.5	12.9	12.4
Asset Quality												
Non-performing loans to total loans ²	7.0	7.2	6.9	5.3	6.5	6.3	6.0	5.8	4.9	5.3	5.9	6.1
Sectoral distribution** of loans to total loans ²												
Interbank loans	1.6	1.8	2.4	3.6	2.2	3.1	4.3	3.1	2.5	4.4	4.6	3.9
Other financial corporations	3.8	4.0	4.0	3.9	11.8	11.4	11.4	12.3	12.1	11.9	11.4	9.7
Non-financial corporations	33.1	33.0	33.3	32.9	26.7	26.8	25.7	26.2	26.4	25.7	27.1	27.9
Other domestic sectors	21.8	21.9	21.8	21.6	22.0	22.6	22.6	23.0	23.4	21.1	20.9	21.9
Non-residents	39.7	39.3	38.6	38.1	37.3	36.0	36.0	35.4	35.6	36.8	35.9	36.6
Earnings and Profitability												
Return on assets	1.6	1.5	1.5	1.7	1.7	2.2	2.1	2.0	1.9	1.2	1.2	1.2
Return on equity	16.0	14.9	14.6	15.7	15.0	18.4	17.4	17.2	16.4	11.0	10.1	10.6
Interest margin to gross income	69.6	67.0	71.5	71.3	72.9	73.7	73.7	73.3	70.1	72.1	67.0	68.7
Non-interest expenses to gross income	42.9	41.1	40.5	41.5	39.6	38.9	40.4	42.8	41.5	41.4	40.9	43.7
Liquidity												
Liquid assets to total assets	22.1	23.2	25.4	21.6	22.5	22.4	21.0	21.6	25.2	24.6	26.4	27.2
Liquid assets to short-term liabilities	28.9	30.0	28.8	24.6	25.6	25.5	23.9	24.5	28.5	27.8	29.7	30.5
Sensitivity to Market Risk												
Net open position in foreign exchange to capital	3.3	4.8	3.1	2.6	2.1	3.6	2.8	1.9	2.1	1.7	1.7	1.6
Encouraged Set of Financial Soundness Indicators												
Capital to assets	10.1	10.0	11.6	11.8	11.6	11.9	11.9	11.9	11.9	11.9	11.9	10.6
Value of large exposures to capital	224.4*	228.3*	235.3*	262.2	249.7	232.5	232.5	232.5	232.5	232.5	232.5	260.5
Customer deposits to total (non-interbank) loans	153.4	159.3	155.2	148.3	147.7	151.5	151.5	151.5	151.5	151.5	151.5	172.7
Residential real estate loans to total loans ²	10.2	10.3	10.3	10.3	10.5	10.7	10.7	10.7	10.7	10.7	10.7	10.5
Commercial real estate loans to total loans ²	3.9	4.1	4.4	3.9	4.6	4.3	4.3	4.3	4.3	4.3	4.3	4.6
Trading income to total income	10.2	12.5	8.2	11.5	10.2	9.3	9.3	9.3	9.3	9.3	9.3	15.8
Personnel expenses to non-interest expenses	49.5	49.3	49.4	46.2	49.3	49.0	49.0	49.0	49.0	49.0	49.0	48.3

Source: Bank of Mauritius

¹ FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.

² Total loans include commercial loans, installment loans, hire-purchase credit, loans to finance trade credit and advances, finance leases, repurchase agreements not classified as a deposit, and overdrafts.

* As from December 2017, the measurement of credit concentration ratio has been revised to aggregate large credit exposure (above 10 per cent of Tier 1 capital)

as a percentage of aggregate Tier 1 capital. Based on previous Guideline, the corresponding ratio for large exposures would have been 171.8 per cent, 178.3 per cent and 186.1 per cent for the quarters ended

December 2017, March 2018 and June 2018, respectively.

**Following adoption of ISIC codes for sectoral definition in October 2018, the corresponding sectoral figures have changed. Hence, data are not strictly comparable with those prior to December 2018.

Annex I. Risk Assessment Matrix¹

Risks	Likelihood
Conjunctural shocks and scenarios	
Unexpected shifts in the COVID-19 pandemic. • Asynchronous progress. Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation and inflation pressures, and debt defaults). • Prolonged pandemic. The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient. *Rebound to tourism flows could be delayed. • Faster containment. Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity. *Rebound of tourism flows could be accelerated.	Medium
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. A reassessment of market fundamentals (e.g., in response to adverse COVID-19 developments) triggers a widespread risk-off event. Risky asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults. *Vulnerabilities to the Mauritian GBC sector could increase.	Medium
Oversupply and volatility in the oil market. Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from COVID-19) lead to renewed weakness in energy prices. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility. *Mauritius could benefit from lower oil prices, but also be subject to greater price volatility.	Medium
Structural risks	
Accelerating de-globalization. Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	Medium
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability). *Mauritius has elevated risk to climate change shocks.	Medium/ Low
Failure to exit the AML/CFT lists. If Mauritius is unable to exit from the FATF and EU AML/CFT lists, the GBC sector could contract, particularly via the drying-up of new business.	Medium/ Low

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex II. Debt Sustainability Analysis Update

An updated public debt sustainability analysis (DSA) indicates that Mauritius' public debt remains sustainable under the baseline scenario, though risks have risen with higher gross financing needs and debt levels. The baseline is particularly vulnerable to shocks affecting the financial sector, and the Central Bank balance sheet. The debt-to-GDP ratio has risen notably in the wake of the pandemic and is set to rise further after announced increases in pensions take hold in FY2023/24. Thereafter, debt will stabilize, though at an elevated level. The baseline is susceptible to a range of shocks. The substantial increase in external debt elevates the risk exposure of the domestic economy to exchange rate and current account shocks.

Background

1. This DSA updates that analysis of the April 2019 DSA (Country Report 19/108) that showed a moderately deteriorating, but sustainable, debt outlook. At that time, the debt-to-GDP ratio was expected to rise in the near term due to higher public-sector investments, before declining as capital projects wound down. Public debt indicators were generally below their relevant indicative thresholds over the medium-term, but some were vulnerable to shocks.

2. As a result of the pandemic, public sector debt has surged.¹ In the fiscal year prior to the crisis, FY2018/19, the public sector debt-to-GDP ratio was 66.2 percent of GDP. By June 2020, it had increased to 84.6 percent of GDP and staff forecasts a further increase to 92.0 percent by end FY2020/21 (Text Table 1). The rising debt ratio has reflected both nominal increases in debt and a sharp decline in GDP, which is estimated to have fallen by 13 percent in nominal terms during calendar year 2020. As the economy emerges from the pandemic, staff expects that the debt-to-GDP ratio will decline modestly until FY2023/24, when the authorities implement announced plans for further increases in public pensions, pushing debt up further to 92.9 percent of GDP. Thereafter, stronger revenue mobilization will allow debt to stabilize at 93.5 percent of GDP.

3. Significant transfers from the BOM reduced public sector debt levels. Prior to the pandemic in FY2019/20, the BOM transferred Rs18 billion (3½ percent of GDP) to the government. In the wake of the pandemic in FY2020/21 the BOM made another transfer of Rs60 billion (14 percent of GDP). As these flows were not loans, the transfers provided financing to meet the overall borrowing requirement without increasing public sector debt. In the absence of these transfers and under the assumption of the same paths for revenue and spending, public sector debt would have been notably higher. The public sector debt baseline assumes that, over the projection horizon, the government does not recapitalize the BOM to compensate for the

¹ Public-sector debt for the purposes of this DSA is defined as central government (including extrabudgetary units) and state-owned enterprise (SOE) debt (including loan guarantees extended to SOEs by central government). The Mauritian authorities exclude from their total debt figures (i) central government securities held by SOEs and (ii) government deposits. As a result, staff's public debt figures are higher than the those presented by the authorities.

transfers, but rather covers the cost of sterilization going forward. Should such recapitalization take place, the level of public sector debt would increase.

4. Mauritius has a strong track record of creditworthiness and continues to be able to place debt in the domestic financial market at very low rates. The majority of public debt that fulfills the government's borrowing requirement is sourced from the highly liquid domestic market. Short-term debt has fallen notably in the last few years and, despite a small uptick, stood at 12 percent of total debt at end FY2019/20, in line with the authorities' policy of lengthening the maturity profile of public securities. Overall, the maturity structure of public sector debt remains strong, with medium- and long-term domestic debt comprising $\frac{3}{4}$ of the total (Figure 2). In March 2021, an auction of 10-year bonds was oversubscribed by more than 200 percent at an interest rate of 2.2 percent. Thus, under the baseline the government will be able to finance its deficit relying primarily on domestic debt.

Text Table 1. Mauritius: Public Debt-to-GDP, 2017-21¹

	FY2017/18	FY2018/19	FY2019/20	FY2020/21 ²
Total Public Debt	64.3	66.2	84.6	92.0
Central Government	57.8	59.0	76.2	83.9
State-Owned Enterprises	6.5	7.2	8.4	8.1
Domestic	51.9	55.4	70.5	71.3
External	12.5	10.8	14.1	20.7

¹ The fiscal year runs from July to June. Debt stocks as of end June.
² Projections.
Sources: Country authorities; and IMF staff estimates and projections.

5. The share of external debt in total public sector debt remains low. External debt constituted less than one-fifth of total public debt (about 14 percent of GDP) in FY2019/20, with the entirety of the central government external debt being concessional. Mauritius has no history of debt difficulties. External debt is expected to rise to 21 percent of GDP, though this is driven mostly by the fall in nominal GDP and the depreciation of the rupee.

6. The repeal of the debt limit rule leaves the country without an explicit fiscal anchor. Early in the pandemic, the authorities repealed the debt limit rule which capped public sector debt at 60 percent of GDP to allow for urgently needed spending in the face of sharply declining fiscal revenues.

7. The total public and private external debt is estimated to have increased from 91 percent in 2019 to 116 percent of GDP in 2020 and may pose elevated risks going forward. This substantial increase in one year was primarily due to a large denominator effect of a drop in nominal GDP. The large total external debt may imply elevated risk exposures to unfavorable exchange rate movements, current account and rollover shocks. Authorities will have to monitor the debt situation, including possible sectoral concentrations and the effect of potential private sector insolvencies against the backdrop of COVID-19 crisis. Also, to the degree

the GBC sector is involved in lending to the domestic economy, it will be important to continue to monitor the risks of reversals in capital flows of the GBC sector. Sustaining the debt in the long run in the face of possible shocks underscores the importance of further improvements in external competitiveness and addressing external imbalances.

Public DSA Risk Assessment

8. Overall, the debt profile appears sustainable, though risks have risen with higher gross financing needs and debt levels. The baseline is particularly vulnerable to shocks affecting the financial sector, and the Central Bank balance sheet. Eleven upper-bound early warning thresholds are crossed, compared to five in the previous DSA. All upper-bound thresholds for the debt level and gross financing needs are breached, as is that for the change in the share of short-term debt. Lower-bound thresholds for external financing requirements and public debt held by non-residents is breached. Gross financing needs, already high in the baseline, are susceptible to combined macro-fiscal and contingent liability shocks, though these risks are mitigated somewhat by preponderance of domestic debt at longer maturities. Neither threshold for foreign currency debt is crossed.

Realism of the Baseline Scenario

9. The baseline assumptions of the current DSA are consistent with the macroeconomic framework underlying the 2021 Article IV Staff Report (see main text).

Figure 3 assesses the realism of the baseline scenario for DSA purposes. The forecast errors in recent years for Mauritius' real GDP growth and the primary balance have been in line with those for other countries, while inflation has been under-forecasted.

- **Growth.** After falling dramatically in 2020, growth is expected to show a mild rebound of 5 percent in 2021 and converge to 3 to 3½ percent in the medium term.
- **GDP deflator and consumer prices.** Consumer prices will increase modestly in 2021 by 3½ percent due to the resurgence in aggregate demand and higher oil prices. The deflator will lag inflation due to terms-of-trade effects.
- **Fiscal strategy.** The overall borrowing requirement will improve in FY2021/22 on the back of the nascent economic recovery. The planned increase in pension spending in FY2023/24 will be compensated for by higher revenue mobilization.
- **Current Account.** The current account deficit is expected to return to historical levels of 4½ percent of GDP as the tourism sector recovers.

Baseline Scenario

10. The baseline scenario foresees that public sector debt dynamics are sustainable over the medium term, though vulnerable to shocks. Overall, the path of public debt over the forecast horizon is assessed as sustainable (Figure 4). As the economy recovers from the pandemic and the authorities undertake revenue mobilization, public sector debt will stabilize at about 93½ percent of GDP. However, given the high level of projected public-sector debt, there

is little room to absorb additional shocks. The adjustment to the cyclically-adjusted primary balance envisaged in the baseline is much greater than the median of past adjustments observed in other MAC countries, however this reflects the unprecedented shock to growth that Mauritius has experienced and the need for immediate fiscal stimulus when the pandemic struck.

Stress Tests and Distribution of Risks

11. Standardized stress tests reveal vulnerabilities to the public debt outlook. Downside risks to real GDP growth, the primary balance, and the real interest rate reveal the following vulnerabilities to the baseline outlook (Figure 5):

- **Growth shock.** Lower real output growth by one standard deviation relative to the baseline for two years starting in FY21/22 would push debt up to 97.88 percent in FY21/22, compared to 92.0 percent in the baseline. By FY205/26, debt would be 104.6 percent, compared to 92.9 percent in the baseline.
- **Real interest rate shock.** An increase in sovereign risk premia by more than 200 basis-points starting in FY21/22 would have limited short-term effects but would push debt up to 97.5 percent by FY2025/26, compared to 93.7 percent in the baseline.
- **Primary balance shock.** Fiscal slippage, in the form of a cumulative deterioration in the primary balance of about 4 percent of GDP over FY21/22-FY22/23, would have a strong effect, pushing total debt up to 102.1 percent of GDP by FY2025/26.
- **Combined macro-fiscal shock.** Combining the above three shocks into a single scenario would imply a sustained divergence of public debt dynamics from the baseline scenario. The public debt-to-GDP ratio would reach 120.3 percent by FY2025/26. The public debt-to-revenue ratio and public gross financing needs would also remain at an elevated level over the medium-term.
- **Contingent liability shock.** The realization of a contingent liability shock equal to 10 percent of banking sector assets would have the largest effect of the scenarios considered, reflecting the relatively large size of the Mauritian banking sector. Debt would rise to 139.8 percent of GDP in FY2021/22 and remain elevated throughout the forecast period. Gross financing needs in FY2021/22 would spike to 58.7 percent of GDP, though they would fall off rapidly in subsequent years.

The distribution of risks presented in the fan charts (Figure 4) shows tail risks (probabilities of more than 20 percent by the end of the projection period) of debt exceeding 100 percent of GDP by the end of the projection window.

12. Mauritius faces additional challenges to fiscal sustainability. The large financial sector—significantly larger than that of peers in the region and approaching the size of more advanced global financial centers—could pose potentially large contingent liability risks to both GDP and debt. Weak public investment management could also jeopardize debt sustainability. In the longer term, population aging will put greater financial pressure on the country's pension system ([see IMF Country Report No. 14/107](#)).

13. Finally, public debt levels will face pressure from the deteriorating balance sheet of the BOM. The BOM's net worth has been substantially degraded by the two transfers to the government. Should the BOM undertake further quasi fiscal operations, the central bank may be obligated to sterilize those expenses, further weakening its balance sheet. While the full amount of recapitalization remains unclear, a recapitalization using government securities would increase public sector debt, though this could be offset if some of the recapitalization by undertaken with cash.

Conclusion

14. Mauritius' public-sector debt level appears sustainable, though subject to notable vulnerabilities. Under the baseline scenario, public debt will remain at elevated levels, exceeding 90 percent of GDP in the medium term. Moreover, the analysis reveals that public debt is highly vulnerable to a range of shocks.

15. To reduce risks, public sector debt should be put on a downward path in the medium term. Debt dynamics in the short term have been driven by the exigencies of the pandemic, and consolidation would not have been prudent given the dire macroeconomic conditions. Thus far, Mauritius has been able to finance the resulting deficits, albeit bolstered by the significant transfer from the BOM. However, as Mauritius emerges from the crisis, the resulting high levels of debt will leave the country highly susceptible to shocks. In the medium term, risks may rise due to the GBC sector and competitive challenges to exports and tourism. Risks appear even larger beyond medium term, due to ageing problems combined with policy choices on pension generosity, and structural transformation risks.

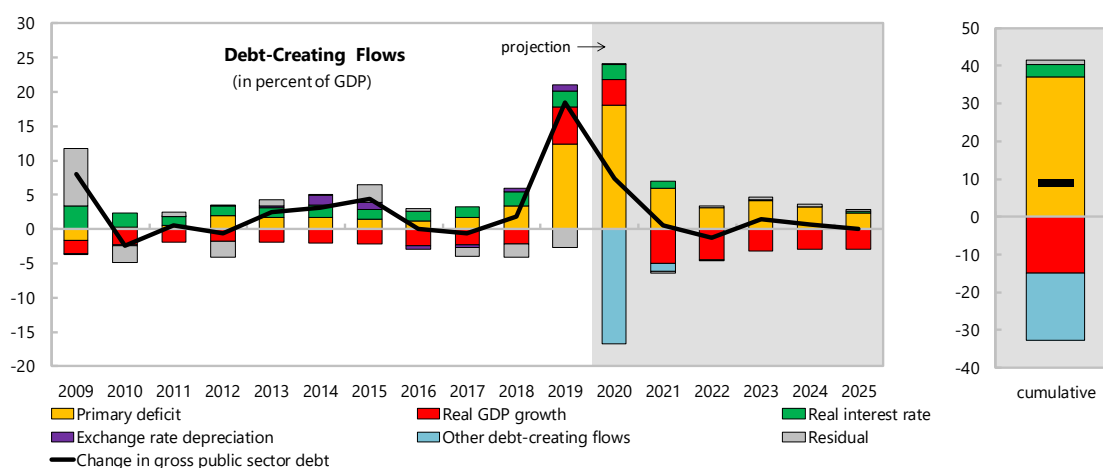
16. To build capacity to weather shocks by reducing debt, fiscal reforms to raise revenue and contain spending will be necessary. Should efforts be undertaken to recapitalize the central bank, which currently has negative net worth, such efforts would engender a tradeoff in pushing public sector debt levels still higher.

Figure 1. Mauritius Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated; data for fiscal years (e.g., 2018=FY2018/19))

Debt, Economic and Market Indicators ^{1/}										As of March 11, 2021			
	Actual			Projections									
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025				
Nominal gross public debt	59.5	66.2	84.6	92.0	92.6	91.4	92.9	93.5	93.5	Sovereign Spreads			
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	EMBIG (bp) 3/ n.a.			
Public gross financing needs	16.0	18.4	31.3	40.0	25.6	23.1	20.5	21.5	20.0	5Y CDS (bp) n.a.			
Net public debt	59.5	66.2	84.6	92.0	92.6	91.4	92.9	93.5	93.5				
Real GDP growth (in percent)	3.8	3.6	-7.7	-4.4	5.9	5.3	3.7	3.4	3.3	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	1.8	1.0	0.9	0.9	1.8	2.9	2.7	2.6	2.5	Moody's	n.a.	Baa2	
Nominal GDP growth (in percent)	5.6	4.6	-6.8	-3.5	7.8	8.3	6.6	6.1	5.9	S&P's	n.a.	n.a.	
Effective interest rate (in percent) ^{4/}	5.1	4.3	4.1	3.3	3.1	2.9	3.0	2.8	2.9	Fitch	n.a.	n.a.	

Contribution to Changes in Public Debt											
	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing
Change in gross public sector debt	1.6	1.9	18.4	7.4	0.6	-1.2	1.5	0.7	0.0	8.9	primary
Identified debt-creating flows	0.9	3.8	21.0	7.2	0.9	-1.5	1.1	0.3	-0.3	7.6	balance ^{9/}
Primary deficit	1.0	3.4	12.4	18.0	6.0	3.1	4.2	3.2	2.4	36.9	-2.7
Primary (noninterest) revenue and grants	20.8	22.5	22.7	21.7	23.2	23.8	24.2	24.6	25.2	142.7	
Primary (noninterest) expenditure	21.8	25.9	35.0	39.8	29.2	27.0	28.4	27.8	27.6	179.7	
Automatic debt dynamics ^{5/}	-0.1	0.4	8.6	5.9	-4.0	-4.6	-3.1	-2.9	-2.7	-11.5	
Interest rate/growth differential ^{6/}	-0.3	-0.2	7.8	5.9	-4.0	-4.6	-3.1	-2.9	-2.7	-11.5	
Of which: real interest rate	1.8	2.0	2.3	2.1	1.0	-0.1	0.1	0.0	0.3	3.3	
Of which: real GDP growth	-2.1	-2.2	5.4	3.9	-5.0	-4.5	-3.2	-3.0	-2.9	-14.8	
Exchange rate depreciation ^{7/}	0.2	0.6	0.9	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	-16.8	-1.1	0.0	0.0	0.0	0.0	-17.9	
Privatization/Drawdown of Deposits	0.0	0.0	0.0	-16.8	-1.1	0.0	0.0	0.0	0.0	-17.9	
(+ reduces financing need)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(+ increases financing need)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	0.8	-1.9	-2.6	0.2	-0.3	0.3	0.4	0.4	0.3	1.3	



Source: IMF staff.

1/ Public sector debt is defined as Central Government (CG) debt and guarantees plus debt of State-Owned Enterprises (SOEs). The holdings of CG securities by SOEs are not consolidated.

2/ Based on available data.

3/ The government of Mauritius has not issued foreign-currency denominated bonds with which to compare to international bond yields.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

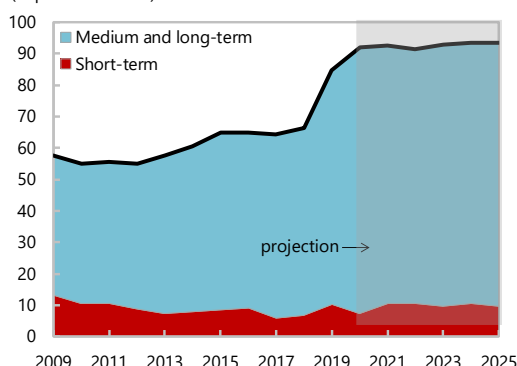
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Mauritius Public DSA - Composition of Public Debt and Alternative Scenarios

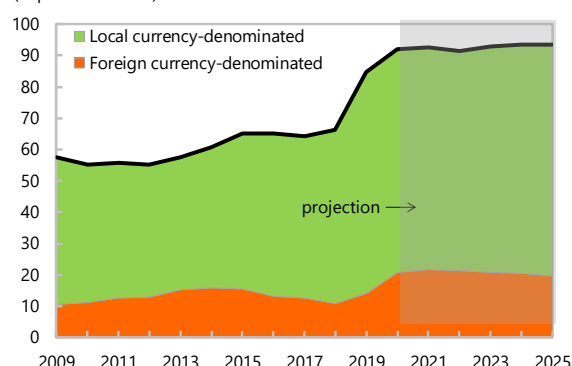
(data for fiscal years (e.g., 2018=FY2018/19))

Composition of Public Debt**By Maturity**

(in percent of GDP)

**By Currency**

(in percent of GDP)

**Alternative Scenarios**

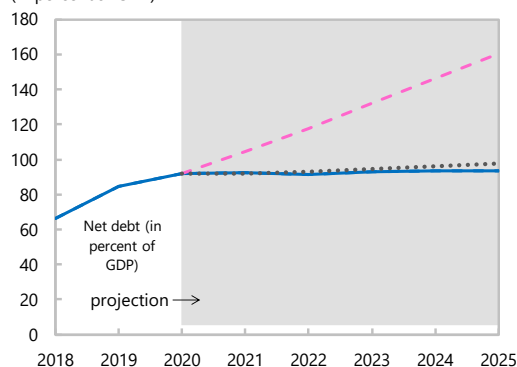
— Baseline

..... Historical

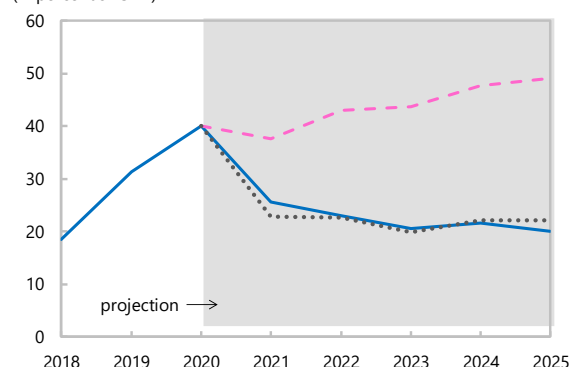
- - - Constant Primary Balance

Gross Nominal Public Debt

(in percent of GDP)

**Public Gross Financing Needs**

(in percent of GDP)

**Underlying Assumptions**

(in percent)

Baseline Scenario

	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.4	5.9	5.3	3.7	3.4	3.3
Inflation	0.9	1.8	2.9	2.7	2.6	2.5
Primary Balance	-18.0	-6.0	-3.1	-4.2	-3.2	-2.4
Effective interest rate	3.3	3.1	2.9	3.0	2.8	2.9

Constant Primary Balance Scenario

	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.4	5.9	5.3	3.7	3.4	3.3
Inflation	0.9	1.8	2.9	2.7	2.6	2.5
Primary Balance	-18.0	-18.0	-18.0	-18.0	-18.0	-18.0
Effective interest rate	3.3	3.1	2.9	2.9	2.8	2.9

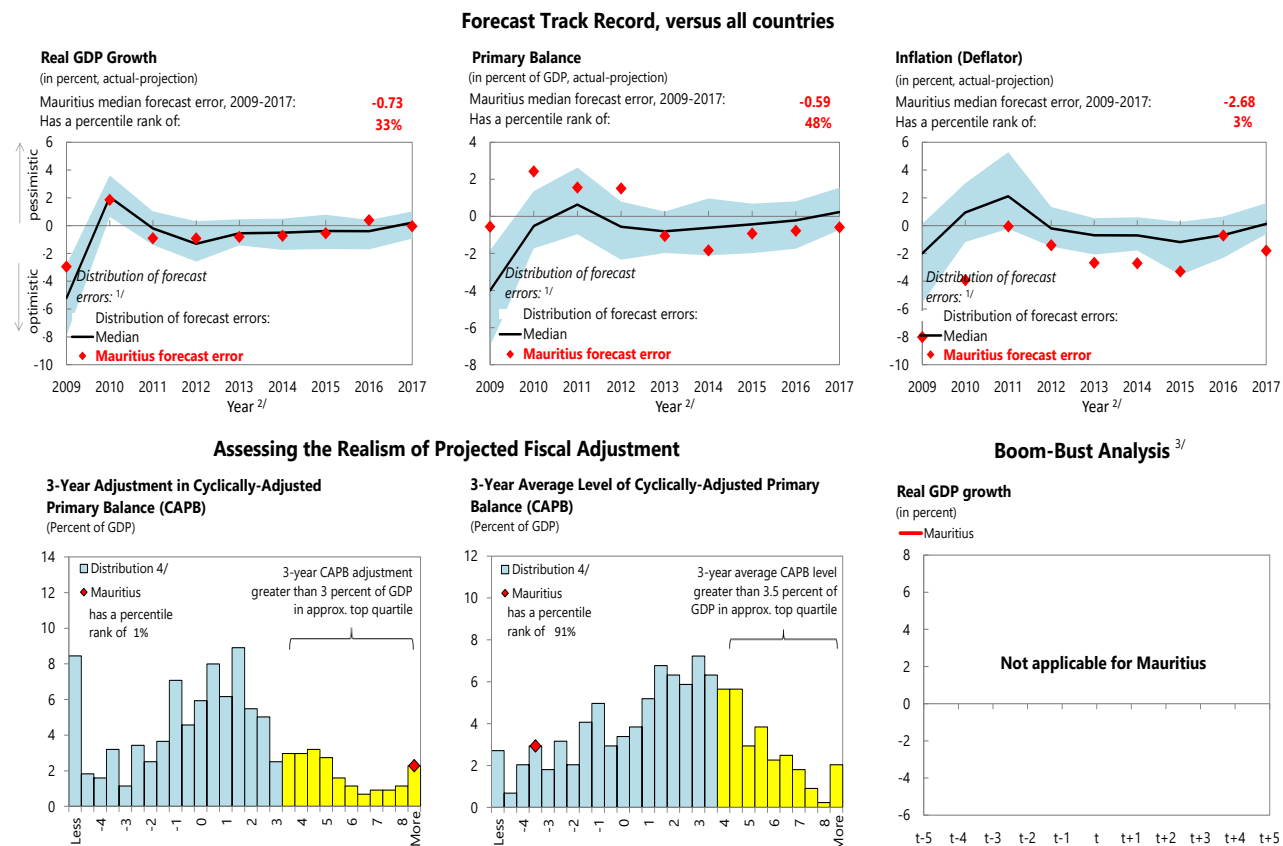
Historical Scenario

	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.4	2.6	2.6	2.6	2.6	2.6
Inflation	0.9	1.8	2.9	2.7	2.6	2.5
Primary Balance	-18.0	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	3.3	3.1	3.3	3.6	3.6	4.0

Source: IMF staff.

Figure 3. Mauritius Public DSA - Realism of Baseline Assumptions

(data for fiscal years (e.g., 2018=FY2018/19))



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

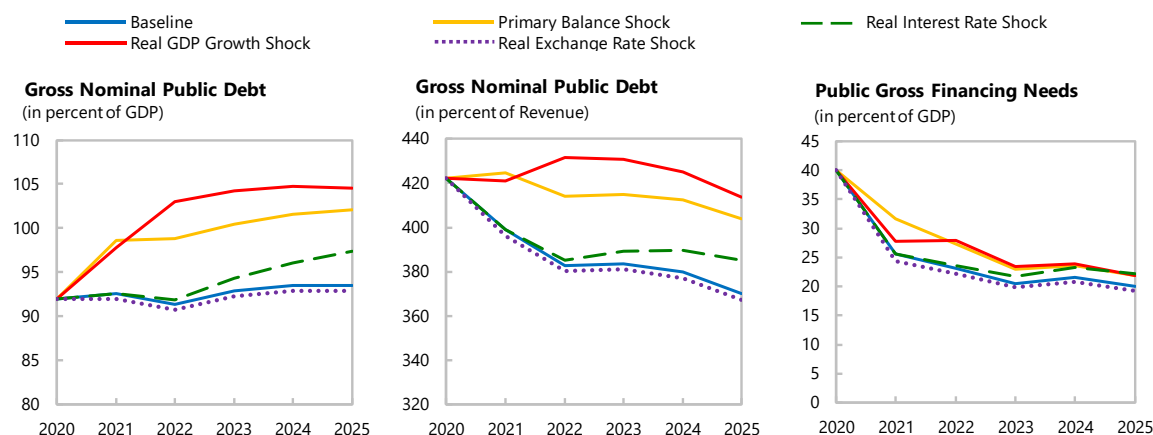
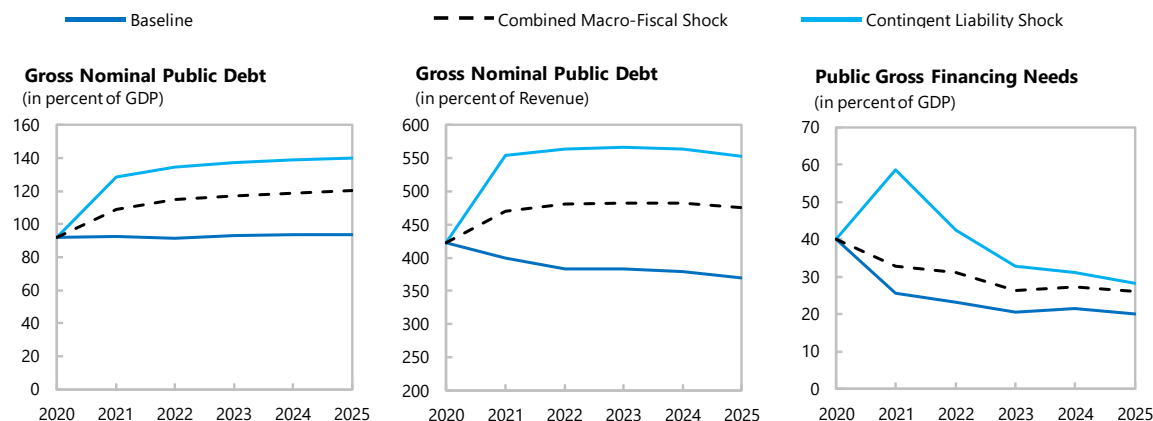
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Mauritius, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Mauritius Public DSA - Stress Tests

(data for fiscal years (e.g., 2018=FY2018/19))

Macro-Fiscal Stress Tests**Additional Stress Tests****Underlying Assumptions**
(in percent)

Primary Balance Shock							Real GDP Growth Shock						
	2020	2021	2022	2023	2024	2025		2020	2021	2022	2023	2024	2025
Real GDP growth	-4.4	5.9	5.3	3.7	3.4	3.3	Real GDP growth	-4.4	2.3	1.7	3.7	3.4	3.3
Inflation	0.9	1.8	2.9	2.7	2.6	2.5	Inflation	0.9	0.9	2.0	2.7	2.6	2.5
Primary balance	-18.0	-12.0	-4.6	-4.2	-3.7	-2.8	Primary balance	-18.0	-7.3	-5.6	-4.2	-3.2	-2.4
Effective interest rate	3.3	3.1	3.3	3.3	3.1	3.2	Effective interest rate	3.3	3.1	3.0	3.1	2.9	3.0
Real Interest Rate Shock							Real Exchange Rate Shock						
Real GDP growth	-4.4	5.9	5.3	3.7	3.4	3.3	Real GDP growth	-4.4	5.9	5.3	3.7	3.4	3.3
Inflation	0.9	1.8	2.9	2.7	2.6	2.5	Inflation	0.9	10.1	2.9	2.7	2.6	2.5
Primary balance	-18.0	-6.0	-3.1	-4.2	-3.2	-2.4	Primary balance	-18.0	-6.0	-3.1	-4.2	-3.2	-2.4
Effective interest rate	3.3	3.1	3.5	4.0	4.1	4.5	Effective interest rate	3.3	3.2	2.8	2.8	2.7	2.8
Combined Shock							Contingent Liability Shock						
Real GDP growth	-4.4	2.3	1.7	3.7	3.4	3.3	Real GDP growth	-4.4	2.3	1.7	3.7	3.4	3.3
Inflation	0.9	0.9	2.0	2.7	2.6	2.5	Inflation	0.9	0.9	2.0	2.7	2.6	2.5
Primary balance	-18.0	-12.0	-5.6	-4.2	-3.7	-2.8	Primary balance	-18.0	-38.0	-3.1	-4.2	-3.2	-2.4
Effective interest rate	3.3	3.2	3.5	3.9	4.0	4.5	Effective interest rate	3.3	3.3	5.6	4.8	4.6	4.6

Source: IMF staff.

Figure 5. Mauritius Public DSA Risk Assessment

(data for fiscal years (e.g., 2018=FY2018/19))

Heat Map

Debt level ^{1/}

Gross financing needs ^{2/}

Debt profile ^{3/}

Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

— Baseline

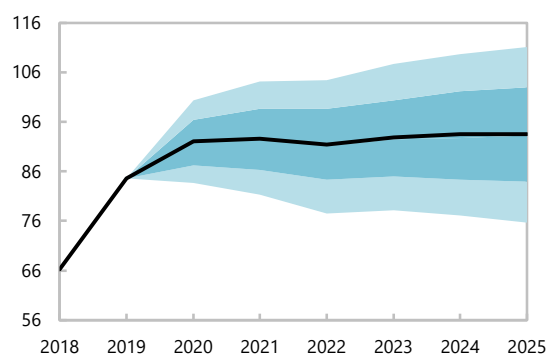
Percentiles:

■ 10th-25th

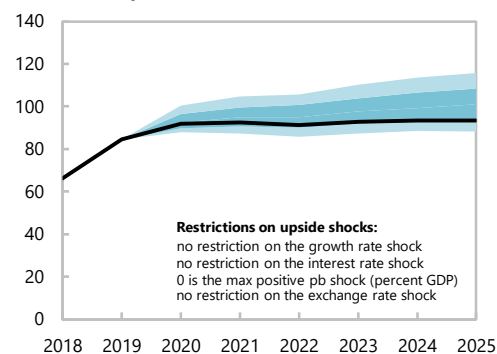
■ 25th-75th

■ 75th-90th

Symmetric Distribution



Restricted (Asymmetric) Distribution



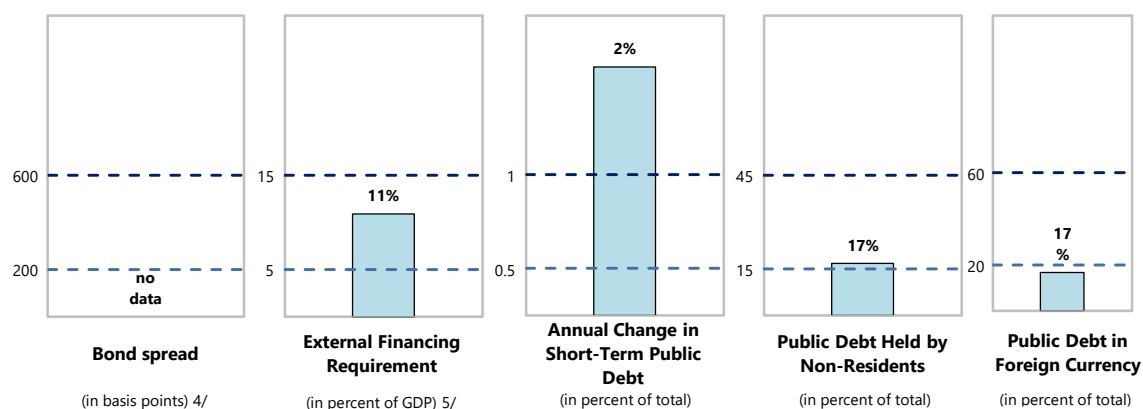
Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)

■ Mauritius

-- Lower early warning

-- Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are: 200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ N.A.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex III. External Balance and Reserve Adequacy¹

Mauritius' external position at end-2020 was substantially weaker than is consistent with the medium-term fundamentals and desirable policy settings. The overall current account deficit widened to 12.6 percent of GDP at end-2020 and is expected to further widen to 15.6 percent in 2021. The external assessment is subject to a high level of uncertainty reflecting primarily the adverse supply shock to the tourism sector in a tourism-dependent economy as well as Mauritius' traditionally very open economy and position as a financial center. The reserve adequacy assessment suggests that international reserves at end-2020 remain within the advisable range adjusting for financial sector vulnerabilities associated with the Global Business Corporation (GBC) deposits.

A. External Balance Sheet²

1. Background. The latest available official data on Mauritius' Net International Investment Position (NIIP) for end-2019 indicate that Mauritius' net asset position declined by 51 percent in USD equivalent. The NIIP stood at 187 percent of GDP in 2019, down from 377 percent in 2018. The reduction in the ratio was mostly due to a decline in international assets of the GBC sector, due to decreased holdings of portfolio investment assets (equity securities). As at end-2019, direct investment was about 58 percent of gross assets and 72 percent of gross liabilities while portfolio investment was about 27 percent of gross assets but only about 7 percent of liabilities.

2. Assessment. The external balance sheet remains volatile due to the presence of a large GBC sector, but is not a major source of risk. Potential vulnerabilities posed by the large gross non-FDI liabilities (878 percent of GDP in 2019) are expected to be mitigated by large non-FDI short-term external assets (about 1400 percent of GDP in 2019). The authorities continue to monitor exposures of banks to the liquidity risk. Given Mauritius' financial center status, authorities should carefully monitor global financial conditions, developments in the GBC sector and in foreign economies which are the source and destination of the GBC sector flows.

B. Current Account

3. Background. Mauritius' current account deficit widened, from 5.4 percent of GDP in 2019 to 12.6 percent of GDP at end-2020. Such a drastic deterioration was largely driven by the decline in the net income of the GBC sector and deterioration of the service balances amidst almost complete suspension of tourism due to COVID-19. The current account deficit is expected to further widen to 15.6 percent of GDP this year, before stabilizing at close to 4.5 percent of

¹ This assessment is based on the updated External Balance Assessment (EBA)-lite methodology, which incorporates estimating an adjuster for the contraction in tourism balance, which is applied to correct the size of the current account (CA) gap.

² Given that Mauritius has a large GBC sector with large external asset and liability positions and a large positive Net International Investment Position, the External Sustainability (ES) approach appears unsuitable for this analysis and has not been applied for ESA.

GDP over the medium-term, driven mainly by the eventual recovery in the tourism sector and income flows as domestic economy reopens for travel and global economy recovers.

4. Assessment. The EBA-lite methodology, based on the current account model, suggests that Mauritius' external position at end-2020 was substantially weaker than medium-term fundamentals and desirable policy settings. The CA gap is estimated at -13.3 percent of GDP, indicating deviation of Mauritius' current account balance from the estimated norm of surplus equal to 0.9 percent of GDP. Such an unusually large gap is substantially influenced by the adverse supply shock that hit the tourism sector in a tourism-dependent economy and led to a decline in service balances from a surplus of 5.9 percent in 2019 to -0.1 percent in 2020. Another factor that inspired the large CA-gap is a drop in income flow surplus from 13.3 percent to 10.1 percent. In staff's view, both developments are predominantly transitory, and complicate the assessment of the CA imbalances that could be attributed to the medium-term structural factors.³ It is expected that the current account gap will be substantially reduced once Mauritius reopens for travel and global economy and income flows recover.

Table 1. Mauritius: EBA-lite Exchange Rate Assessment for 2020 (in percent of GDP)		
	CA model	REER model
CA-Actual	-12.6	
Cyclical contributions (from model) (-)	2.2	
COVID-19 adjustor (+) 1/	2.3	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	-12.4	
CA Norm (from model) 2/	0.9	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	0.9	
CA Gap	-13.3	
o/w Relative policy gap	3.9	
Elasticity	-0.31	
REER Gap (in percent)	42.7	31.4
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-0.8 percent of GDP) and on tourism (3 percent of GDP).		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

³ Some medium-term structural factors may, however, still impact the CA gap non-trivially. For example, the previous Article IV assessment pointed to the current account gap of -5.6 percent in 2017 and -7.4 percent in 2018.

C. Real Exchange Rate

5. Background. The real effective exchange rate (REER) depreciated by 8.1 percent year-on-year (y-o-y) in 2020. This was mostly owing to nominal depreciation of the rupee in the first quarter of 2020: in particular, during this period it depreciated by 7.6 percent relative to the USD and 6.2 percent relative to the Euro. This followed depreciation of REER by 2.8 percent in 2019 and cumulative appreciation of REER by 6.4 percent between 2015 and 2018.

6. Assessment. Using the estimated current account elasticities, the current account gap implies an REER misalignment (overvaluation) of about 43 percent.⁴ Based on the Index of Real Effective Exchange Rate (IREER)-model, staff assesses that the exchange rate is overvalued by 31 percent compared to the level that is warranted by fundamentals and desired policies. While this assessment is broadly consistent with the CA-model based assessment, it is also subject to the same qualifications due to the impact of the supply side shock in the tourism sector and disruption to the flow of income in the GBC sector.

D. Capital and Financial Flows

7. Background. Mauritius has an open capital and financial account. In total, net international capital and financial flows declined by about 5 percentage points of GDP from 11.8 percent in 2019 to 6.5 percent in 2020. This was mostly driven by the net outflows from the domestic economy at 4.8 percent of GDP in 2020 (compared to inflows of 0.8 percent of GDP in 2019). This decline in the domestic sector has been somewhat offset by net inflows in the GBC sector, and in particular by the net direct investment inflows. The GBC sector financial and capital account recorded net inflows at 11.3 percent of GDP in 2020 compared to 10.9 percent in 2019.⁵

8. Assessment. The capital and financial account is likely to remain in surplus going forward provided the GBC sector maintains operations as during the years before COVID-19 crisis. An important aspect for Mauritius will be to eventually exit from the FATF and EU AML/CFT lists, which should ensure orderly operations in the GBC sector, including attracting new businesses.

E. Reserve Adequacy

9. Background. The exchange rate regime of Mauritius was classified as floating in 2020. In line with earlier Fund advice, foreign exchange interventions in 2017–19 aimed at accumulating international reserves. Consequently, the end-year stock of international reserves increased from USD 4.9 billion at end-2016 to USD 7.3 billion in 2019. The reserves declined by 2 percent to USD 7.2 billion (63 percent of GDP) in 2020 and have been adversely affected by substantial net sales

⁴ The previous Article IV CA-gap based assessment pointed to 17 percent overvaluation in 2017 and 22 percent overvaluation in 2018.

⁵ In gross terms however, the GBC sector inflows and outflows were lower in 2020 than in 2019 due to the contraction of global economy and investment activities.

(more than USD 1 billion), while favorable price movements of some of the foreign reserve assets (e.g., monetary gold) and additional FX borrowing helped to offset the impact of the sales. The large FX interventions in 2020 took place against the backdrop of COVID-19 crisis, deterioration of the current account balance and limited nominal exchange rate flexibility.

10. Assessment. To assess the adequacy of Mauritius' foreign exchange reserves, as in the previous assessments (Country Reports 16/89 and 17/362), the standard reserve adequacy metric is augmented with a portion of the deposits of the global business companies (GBCs) held in small and medium-sized banks. The augmented metric helps to incorporate in the assessment the financial risks in the form of potential disruptions to foreign currency funding of the GBC sector.^{6,7} According to the adjusted metric, staff estimates the stock of international reserves at end-2019 to be about 109 percent of the adjusted metric and at about 103 percent at end-2020, and hence within but closer to the lower bound of the advisable range.⁸ As noted in earlier staff assessments (Country Report 16/89), the large size and complex structure of the GBC sector, as well as its non-trivial linkages with the domestic economy, warrants maintaining stronger buffers against external shocks. Also, while the reduction of reserves in 2020 has been substantially offset by favorable price movements of the reserve assets, going forward such movements will likely reverse as the global recovery gathers pace. Therefore, further opportunistic reserve accumulation may be desirable when situation permits and when interventions in the FX market do not interfere with the BOM's price stability oriented monetary policy. Other insurance mechanisms such as swap arrangements or credit lines with other central banks, alongside addressing the structural bottlenecks to boost competitiveness must also be considered going forward.

⁶ The reserve adequacy assessment excludes the other external liabilities of the GBCs, which are large and matched by their external asset holdings.

⁷ As mentioned in the previous footnote, the reserve adequacy assessment for Mauritius is conducted excluding the external other investment liabilities of the GBC sector. However, if such liabilities are considered in the same way as liabilities of domestic actors and hence are fully included in the metrics, the reserves coverage drops well below the advisable level of above 100 percent.

⁸ This assessment was cross-checked against an alternative ARA metrics, which incorporates the estimate of "High Risk" GBC deposits from the BOM's Financial Stability Report ([Microsoft Word - Financial Stability Report - December 2020 \(BOM.mu\)](#)). According to the report, the share of "High Risk" GBC deposits in June 2020 stood at 13 percent, equivalent to about USD 1.4 billion. This amount has been added to the standard export, short-term debt, broad money and other liabilities (excl. GBCs) components to calculate the alternative ARA metrics. The reserve coverage of this metrics is 117 percent for 2019 and 113 percent for 2020.

Annex IV. Universal Pensions

Pensions will be at the forefront of medium-term fiscal issues. In 2019, the authorities increased the Basic Retirement Pension (BRP) benefit by about 45 percent in nominal terms. They have subsequently promised to make a further increase of 50 percent to most pensioners by FY2023/24. If enacted, this will increase total spending on the BRP from about 4½ percent of GDP in FY2018/19 to 8½ percent of GDP by FY 2023/24 and is on course to greatly exceed pension revenue. Any medium-term fiscal consolidation plan will necessarily have to address this disparity.

1. **In FY2018/19, every Mauritian aged 60 and older received a monthly pension of Rs5,810 per month.** A range of other persons, including widows and the disabled, received pensions of comparable value. These pensions provided notable social benefits, preventing the old, the widowed, and the disabled from living in destitution. Total spending on these pensions amounted to about 4½ percent of GDP.
2. **In the run up to the November 2019 elections, the ruling party promised, if reelected, to increase old age pensions for that year by about 45 percent, to Rs9,000 per month.** Moreover, they made additional promise to increase pensions further by about 50 percent to Rs13,500 per month by the end of their next mandate. After the ruling party's electoral victory, they enacted the first increase for old age pensions and other pensions broadly kept pace.
3. **With the onset of the global pandemic, the government enacted a further reform to the pension system in the FY2020/21 budget.** The promise to increase overall pensions to Rs13,500 by FY2023/24 was amended. Contributions to the National Pension Fund (NPF) have been halted. The NPF had net assets of Rs140 billion as of June 2020 (30 percent of GDP). The NPF will continue to pay out pensions that had been accrued by its contributors, while receiving no new contributions. These expenditures are projected to be about Rs4 billion during FY2020/21.
4. **To replace the NPF, a new system was created called the *Contribution Social Generalize* (CSG).** This system would immediately collect additional payroll taxes equivalent to about 1 percent of GDP to be paid directly into the general account of the Central Government. Beginning in FY2023/24, the CSG would begin to pay an additional Rs4,500 per month to all persons aged 65 and older, who represent about 70 percent of all persons 60 and older. This represented a reform from the original plan to make the same increase to all persons 60 and older.¹
5. **The combined expenditure of the BRP and CSG is projected to reach 8½ percent of GDP by FY2023/24, compared to 4½ of GDP percent in FY2018/19.** By contrast, the extra revenue from the CSG is forecast to be slightly more than 1½ percent of GDP, leaving a gap of

¹ Note that those pensioners who have accrued benefits under the prior NPF will receive both the NPF benefits and the new CSG benefits, as well as the BRP benefit. By contrast, prior to 2019 such individuals would have only received the NPF and BRP benefits.

about 3 percent of GDP relative to FY2018/19. Looking past the projection window beyond FY2025/26, this gap can only be expected to worsen, given that due to clear demographic trends the old-age dependency ratio in Mauritius is set to deteriorate indefinitely (see Figure 3).

6. The BRP had been and will continue to be funded directly out of the budget with no dedicated revenue stream. Staff estimate that under announced policies spending on the BRP will reach 8 percent of GDP in FY2020/21, though this is significantly driven by the denominator effect of dramatically lower GDP during this fiscal year due to the pandemic. BRP will then begin to fall significantly in coming years, declining to 6½ of GDP by FY2025/26. CSG revenue collections for FY2020/21 are projected to exceed the authorities' initial forecasts, reaching 1.1 percent of GDP.² In staff's baseline projections, CSG revenue is expected to hold at 1.1 percent of GDP throughout the forecast window. With the beginning of the CSG benefit payments in FY2023/24, total CSG spending will about to about 1.7 percent of GDP. Thus, the sum of BRP and CSG spending will increase to 8.6 percent of GDP by FY2023/24, thereafter falling to 8.0 percent of GDP by FY2025/26.

7. These projections are based on the announced policies of the government. Specifically, they assume:

- That the BRP will remain constant in nominal terms through FY2025/26 at Rs9,000 per month for those 60 and older and that pensions for others—widows and the disabled—will also remain constant in nominal terms;
- The CSG benefit of Rs4,500 per month will also remain constant through FY2025/26, which will begin paying in FY2023/24;
- That the existing assets of the NPF will be sufficient to fully meet its obligations to its prior contributors through FY2025/26 without any additional financial assistance from the government.³

8. Any medium-term fiscal consolidation plan would necessarily have to address the disparity between pension expenditure and revenue. Some combination of expenditure reductions and revenue increases would be required. Means testing of pensions could be considered, though while recognizing the operational difficulty of means testing and the likelihood that gains from means testing would likely be modest as only a small share of the elderly in Mauritius are wealthy. Consideration could also be given to gradually increasing the BRP age threshold, which, at 60, is younger than that in most other countries.

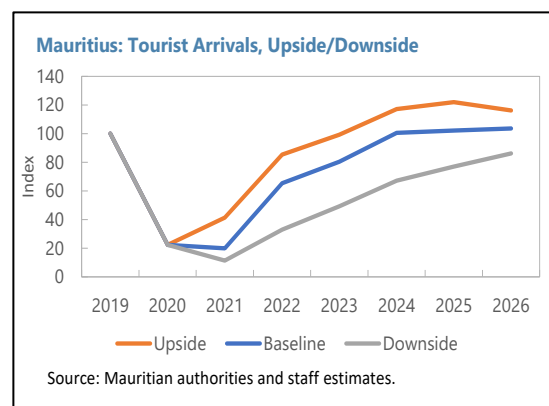
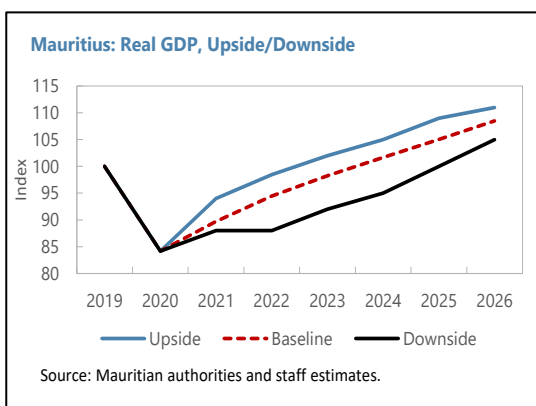
² Employees pay 1.5 percent and employers 3 percent of earnings up to Rs50,000 per month; both contribution rates double for employers at higher monthly earnings, without a cap on contributions. Contributions to the NPF were 3 percent for employees and 6 percent for employers on monthly earnings between Rs2,680 and Rs17,470.

³ A 2015 IMF Working Paper found that the NPF would not be sustainable based on current trends at that time and would exhaust all its resources by 2063 (Soto, Thakoor and Petri, "Pension Reforms in Mauritius: Fair and Fast—Balance Social Protection and Fiscal Sustainability," *IMF Working Paper*, WP/15/126, June 2015). The current sustainability of the NPF in the wake of these reforms is unknown.

Annex V. Mauritius as a Tourism-Dependent Economy: Upside/Downside Scenarios

A recent IMF study examines effects of the pandemic and economic prospects for tourism-dependent economies, including particular challenges such economies may face post-pandemic.¹

9. In staff's baseline scenario for Mauritius, tourism arrivals and GDP grow gradually as the country emerges from the pandemic and regain 2019 levels only by 2024. In a downside scenario, lagging recovery of tourism would hinder growth and lead to medium-term scarring, with GDP failing to reach 2019 levels until much later. Slow growth would constrain fiscal revenues and put further pressure on the external position. In an upside scenario, positive shocks could materialize quickly, driven by pent up tourism demand, and GDP could approach 2019 levels by 2022. Faster growth could boost fiscal revenue and improve the external position, although also stoking inflationary pressures.



¹ Goretti et al., "Tourism in the Post-Pandemic World: Economic Challenge and Opportunities for Asia-Pacific and the Western Hemisphere," IMF, No. 21/02, 2021. Tourism-dependent is defined as an economy in which the tourism and related sectors contribute to over 10 percent of GDP and account for a large share of export revenues.

Annex VI. Status of the 2019 Article IV Consultation Main Recommendations

Policy Area	Key Policy Recommendations	Status
Fiscal Policy and Debt Sustainability	The authorities' debt target of 60 percent of GDP for FY2020/21 is unlikely to be met without a significant policy adjustment. While extension of the target by two years is being considered by the authorities, gradual fiscal consolidation should commence from the next budget FY2019/20 to enhance fiscal credibility and to put public debt on a declining path.	The FY2019/20 budget did not consolidate the fiscal stance. Post-budget, the authorities enacted a significant increase to the universal basic pension. With the outset of the global pandemic, fiscal consolidation became impossible, and the authorities appropriately repealed their debt target and pursued expansionary fiscal policy.
Monetary Policy	Efforts to contain excess liquidity in the banking system should continue. The monetary policy framework could be modernized further by building the necessary capacity and institutional arrangements to announce and track a medium-term inflation objective, which will help to enhance policy credibility and improve resilience to shocks.	The FY2019/20 budget included a transfer from the BOM to the government of Rs18 billion (3½ percent of GDP). With the onset of the pandemic, the BOM made a further transfer of Rs60 billion (14 percent of GDP) to the government, while additionally funding a BOM-owned SPV with Rs80 billion to pursue quasi-fiscal activities. Apart from these measures, monetary policy in response to the pandemic has been appropriately accommodative.
External position	While international reserves have improved significantly, supported by financial inflows and are within the advisable range, given the large size of the GBC sector, FX intervention policy should continue to opportunistically build reserves buffers to strengthen resilience to shocks.	Prior to the pandemic, the authorities slowed the pace of their FX interventions. Post-pandemic, the current account balance was hit by the cessation of tourism. The authorities have intervened in the FX market, stabilizing the exchange rate. Reserves have fallen modestly, buoyed by external financing flows.
AML/CFT	Further progress is needed to meet all of the regional FATF body's recommendations. In particular, risk-based AML/CFT supervision of banks should be further strengthened; AML/CFT oversight of DNFBPs should be enhanced; and the availability and accessibility of beneficial ownership information in the GBC sector should be improved. Adequate AML/CFT safeguards should also be put in place for fintech-related activities.	In February of 2020, Mauritius was placed on the list of jurisdictions under increased monitoring by the Financial Action Task Force (FATF) and subsequently on the EU's AML/CFT list. The authorities have made strong progress in addressing FATF and the EU's concerns.
International tax avoidance	The progress made in compliance with international anti-tax avoidance initiatives is a notably positive development. The remaining requirements to meet international standards should also be swiftly implemented to strengthen Mauritius' image as a globally competitive financial center.	Both the OECD and the EU have classified Mauritius as being compliant international tax-avoidance standards.

Annex VII. Status of Implementation of Key FSAP Recommendations

Recommendation	Updated Status for 2021 IMF Staff Report
Banking Supervision and Regulation	
Conduct regularly macroprudential solvency and liquidity stress tests.	Solvency and liquidity stress testing exercises are conducted quarterly; results are published bi-annually in the BOM's Financial Stability Report.
Establish a macroprudential body with a clear financial stability objective, and adequate enabling framework.	Not implemented. The Financial Stability Committee serves as forum for discussing macroprudential issues. The BOM and FSC also coordinate their work on both macroprudential and financial stability issues through a joint committee which meets regularly.
Improve the monitoring and supervision of the GBC sector; seek significant consolidation of the MC industry and raise its standards.	Reforms to Global Business were brought in 2018, with the abolishment of GBC 2s and the restyling of GBC 1s into GBCs. These reforms included the implementation of Economic Substance and its monitoring. The focus on consolidation of the industry was pushed forward, as the requirements to comply with international standards (BEPS and OECD) were adjudged to be of utmost importance. Grandfathering provisions for GBC2s will end on June 30, 2021. The Global Business sector is being assessed for a complete structuring overhaul, implicitly implying a consolidation of the MC industry and supervision of the sector. The timeframe for the execution of new reforms is by the end of 2021.
Implement measures to ensure that banking system liquidity is not adversely affected by developments in the GBC sector and cross-border sectors.	Basel III <i>Liquidity Coverage Ratio</i> (LCR) implemented in 2017. Reporting requirements have been enhanced. Stress tests scenarios assess banking sector vulnerability to adverse developments in the GBC sector. Risk assessment of GBC deposits conducted and published in the Financial Stability Report (December 2020). Oversight on liquidity risk was enhanced by the risk-based supervision framework and coordination with the FSC. The risk-based framework gathers information on funding risks, which largely meets the needs of the NSFR.

Financial Sector Oversight	
Establish a framework for conglomerate supervision, strengthen consolidated supervision, and develop a supervisory framework for D-SIBs.	Framework for conglomerate and consolidated supervision agreed between BOM and FSC and joint on-site examinations are conducted. D-SIB framework is fully operational. Terms of Reference for the Lead Regulator and the list of financial conglomerates (falling under the purview of BOM and FSC) has been approved by BOM and FSC. Joint Co-ordination Committee Working Group on Financial Stability currently fine-tuning data collection returns.
Improve bank rating systems and develop more comprehensive remedial action program.	Implemented. Enhancement of bank rating system is ongoing with the risk-based supervision framework. Comprehensive remedial action program is fully operational.
Amend law to facilitate conglomerate supervision, improve consolidated supervision, and strengthen the corrective actions toolkit.	Banking Act and BOM Act amended to improve conglomerate/consolidated supervision. As part of its corrective actions' toolkit, the BOM has issued instructions and directives to ultimate and intermediate financial holding companies incorporated in Mauritius which have at least one subsidiary or joint venture or such other ownership structure as the central bank may determine within the group that is a bank or a non-bank deposit-taking institution. Financial Services Act was amended in 2020 to allow collection of statistics from competent authorities or any other entity (e.g., ultimate and intermediate holding companies incorporated in Mauritius, which have, within the group, at least one subsidiary or joint venture, or such ownership structure as the FSC may determine, which holds a license under the relevant Acts issued by the FSC).
Financial Safety Net	
Modify the Banking Act to make the resolution framework more efficient.	In the process of implementation. Legal framework for resolution drafted with technical assistance from IMF but not yet enacted.
Introduce an industry-funded deposit insurance scheme with powers to facilitate resolution.	Mauritius Deposit Insurance Scheme Act enacted in April 2019, but not yet proclaimed, and provides for the establishment of the Mauritius Deposit Insurance Scheme. The BOM is working on the operationalization of the Mauritius Deposit Insurance Company Limited.
Introduce, through changes in the current legal and regulatory framework, a comprehensive framework for crisis prevention and management.	Draft legislation for resolution prepared with technical assistance from the IMF. A draft guideline on recovery planning has been issued to the industry for consultation.



MAURITIUS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

June 4, 2021

Prepared by The African Department

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RELATIONS WITH THE FUND

(As of April 30, 2021)

Membership Status: Joined: September 23, 1968; Article VIII

General Resources Account:	SDR Million	%Quota
Quota	142.20	100.00
Fund holdings of currency (Exchange Rate)	107.48	75.59
Reserve Tranche Position	34.72	24.42

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	96.81	100.00
Holdings	90.16	93.13

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Mar 01, 1985	Aug 31, 1986	49.00	49.00
Stand-By	May 18, 1983	Aug 17, 1984	49.50	49.50
Stand-By	Dec 21, 1981	Dec 20, 1982	30.00	30.00

Overdue Obligations and Projected Payments to Fund ^{1/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2021</u>	<u>2022</u>	<u>Forthcoming</u> <u>2023</u>	<u>2024</u>	<u>2025</u>
Principal					
Charges/Interest	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangement

The *de jure* exchange rate arrangement is classified as floating. The *de facto* exchange rate arrangement is classified as floating. Mauritius has accepted the obligations of Article VIII, Section 2, 3, and 4. The country maintains an exchange system free of multiple currency practices, and of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account. Mauritius continues to intervene in the foreign exchange market with an objective to smooth excess volatility.

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation was completed by the Executive Board on April 22, 2019 (Country Report No. 19/108, April 2019).

Resident Representative: None.

RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

As of June 1, 2021, Mauritius collaborates with the World Bank Group and the African Development Bank. Further information may be obtained from the following websites:

World Bank

<http://www.worldbank.org/en/country/mauritius>

African Development Bank

<https://www.afdb.org/en/countries/southern-africa/mauritius/>

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance (As of June 1, 2021)
General: Data provision is broadly adequate for surveillance, but there is room for improvement. The statistical discrepancies between the expenditure and production sides in the revised national accounts data need to be addressed.
National Accounts: Statistical discrepancies between the expenditure and production measures of GDP remain substantial, both for the nominal and real estimates. Statistics Mauritius made notable progress in reducing these discrepancies and are updating supply and use tables, with capacity development support from STA and AFRITAC South. Progress has also been made in quantifying the Global Business Companies (GBCs) sector's contribution to GDP. Additional support will be provided in FY2022 through AFRITAC South to revise GDP estimates.
Price Statistics: Statistics Mauritius compiles and disseminates a monthly CPI using weights based on expenditure data collected during 2018. CPI compilation methods largely reflect international standards and best practice. However, the index coverage could be expanded to include owner occupied housing. Producer price indexes are compiled and disseminated monthly for agriculture and manufacturing. The weights for both indexes are derived from values of production in 2013 and should be updated. Also, there is need to expand PPI coverage to include services. The weights used for the quarterly import and export price indexes are derived from 2013 data and should be updated, too. In April 2021, a quarterly residential property price index (RPPI) was disseminated. Statistics Mauritius would benefit from technical assistance to review RPPI methods.
External Sector Statistics (ESS): The authorities should continue to strengthen their tracking of the GBC sector, particularly in the context of the elimination of GBC2s and the introduction of the authorized company classification.
Fiscal Statistics: The coverage of central government accounts is comprehensive, as is coverage of central government and state-owned enterprise debt, though the timely publication of fiscal data has been delayed during the pandemic. The authorities are taking steps to implement IPSAS. Progress should be accelerated towards the goal of implementing general government accounting.

Monetary and Financial Statistics (MFS): Progress has been achieved by the BOM in most areas of the collection, compilation, and dissemination of MFS, leading to the introduction of the Standardized Report Forms (SRFs) for the central bank and other depository corporations (ODCs) and the publication of data aligned to the MFS Manual in International Financial Statistics and BOM publications. The authorities continue to broaden the coverage of MFS, including by compiling statistics for other financial corporations (OFCs) such as insurance companies, pension funds, GBCs, collective investment schemes, factoring companies, credit finance companies, leasing companies, Development Bank of Mauritius, National Savings Fund, insurance brokers, pension fund administrators, pension scheme managers, management companies, investment dealers, investment advisors, collective investment scheme managers, and registrar and transfer agents.

Mauritius reports data on several series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals.

II. Data Standards and Quality	
After participating in the GDDS since September 2000, Mauritius subscribed to the Special Data Dissemination Standard (SDDS) on February 28, 2012, becoming the second Sub-Saharan African country to subscribe to the SDDS.	A data ROSC report was published in August 2008.

Table 1. Mauritius: Table of Common Indicators Required for Surveillance
June 1, 2021

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶	Memo Items:	
						Data Quality-Methodological soundness ⁷	Data Quality-Accuracy and reliability ⁸
Exchange Rates	May 2021	5/2021	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	April 2021	5/2021	M	M	M		
Reserve/Base Money	April 2021	5/2021	M	M	M	O, LO, LO, LO	O, O, O, O, LO
Broad Money	April 2021	5/2021	M	M	M		
Central Bank Balance Sheet	April 2021	5/2021	M	M	M		
Consolidated Balance Sheet of the Banking System	April 2021	5/2021	M	M	M		
Interest Rates ²	March 2021	4/2021	M	M	M		
Consumer Price Index	April 2021	5/2021	M	M	M	O, LO, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	January 2021	5/2021	M	M	M	LO, O, O, O	LO, O, O, O, NO
Stocks of Central Government and Central Government-Guaranteed Debt ⁴	Q2 FY20/21	5/2021	Q	Q	Q		

**Table 1. Mauritius: Table of Common Indicators Required for Surveillance
June 1, 2021 (concluded)**

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶	Memo Items:	
						Data Quality-Methodological soundness ⁷	Data Quality-Accuracy and reliability ⁸
Exports and Imports of Goods and Services	Q4/2020	3/2021	Q	Q	Q		
External Current Account Balance	Q4/2020	3/2021	Q	Q	Q	O, LO, LO, LO	LNO, LNO, LO, LO, NO
GDP/GNP	Q4/2020	4/2021	Q	Q	Q	O, LO, O, LO	L, O, LNO, LO, O
Gross External Debt	Q1/2021	5/21	Q	Q	Q		
International Investment Position ⁵	December 2019	5/2020	A	A	A		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³ Foreign and domestic financing.

⁴ Including currency and maturity composition.

⁵ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁶ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁷ Reflects the assessment provided in the data ROSC published in August 2008 and based on the findings of the mission that took place during November 29–December 7, 2007 for the dataset corresponding to the variables in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸ Same as footnote 7, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



MAURITIUS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION— SUPPLEMENTARY INFORMATION

June 16, 2021

Prepared By

African Department

On June 11, 2021, the government presented the FY2021/22 budget for consideration by parliament. This supplement provides a summary of the main differences between the staff report and the draft budget. It does not alter the thrust of staff advice but highlights the importance of medium-term consolidation efforts after the pandemic.

1. The FY2020/2021 fiscal deficit is expected to be higher than in the staff report.

As part of the budget, the authorities issued revised fiscal projections for FY2020/21. While revenue is expected to be broadly in line with staff report projections, spending through special funds and other capital transfers will be higher, resulting in an increase in the overall borrowing requirement of 2.7 percent of GDP relative to the staff report. Public sector debt is expected to reach 96.4 percent of GDP in FY2020/21 compared to 92.0 percent in the staff report.

2. For FY2021/22, the budget projects an overall borrowing requirement equivalent to 6.4 percent of GDP, compared with 8.4 percent of GDP in the staff report.

The budget envisages FY2021/22 current and capital spending to be comparable to the projections in the staff report. However, net acquisition of non-financial assets and net lending/borrowing will be about 2½ percent of GDP higher partly explained by strong public investment, including in energy, flood management, social housing, and transportation projects. The authorities project FY2021/22 domestic revenue to reach 28.9 percent of GDP, more than 6 percentage points of GDP higher than both the previous year and pre-crisis levels.

3. With the authorities' higher spending projections, staff envisages a higher FY2021/22 overall borrowing requirement and public sector debt compared with the staff report and the budget. Staff has revised its projections for FY2021/22 aligning spending with that contemplated in the budget. At the same time, staff has maintained the revenue projections of the staff report that remain consistent with our macroeconomic analysis and historical trends. Higher revenue projections would be subject to significant uncertainty and

downside risks. This yields an overall borrowing requirement of 11.8 percent of GDP and public sector debt of 100.0 percent of GDP by June 2022 (Text Table 1).

4. Notwithstanding these changes, the FY2021/22 budget does not alter the thrust of staff's fiscal policy advice but highlights the importance of medium-term consolidation efforts after the pandemic.

Staff recommends that the authorities maintain an accommodative fiscal stance during the pandemic and pursue fiscal consolidation post-pandemic. Given the substantial increase in the public debt level compared to the staff report and increased risk to debt sustainability, stabilizing the debt-to-GDP ratio in the medium term will require greater fiscal consolidation effort, and the stabilized public debt level will likely exceed 100 percent of GDP.

**Text Table 1. Mauritius: Revised Projections for Central Government
(In percent of GDP)**

	2020/21		2021/22		
	Staff Report	Proj.	Staff Report	Budget	Proj.
Total revenue and grants	21.8	21.6	23.2	28.9	23.2
Domestic revenue	21.1	21.2	22.5	28.0	22.5
Grants	0.7	0.4	0.7	0.9	0.7
Total expense (current spending)	32.2	30.9	28.1	28.4	28.1
Net acquisition of non-financial assets (capital spending)	1.8	1.8	1.8	2.9	2.9
Budget balance	-12.2	-11.1	-6.8	-2.4	-7.8
Net lending/borrowing (special funds and other capital transfers)	-4.3	-8.1	-1.3	-2.8	-2.8
Consolidated balance	-16.6	-19.2	-8.1	-5.2	-10.6
Transactions in financial assets/liabilities	3.4	3.5	0.3	1.2	1.2
Overall borrowing requirement	-20.0	-22.7	-8.4	-6.4	-11.8
Public sector debt	92.0	96.4	92.6	87.7	100.0
Sources: Country authorities and IMF staff estimates.					

**Statement by Aivo H Andrianarivelo, Executive Director for Mauritius
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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.