REVIEW OF THE ECONOMY

View of Port Louis Harbour during the French Period (Isle de France)

Abandoned by the Dutch in 1710, Mauritius became a French colony in September 1715 when Captain Guillaume Dufresne d'Arsel took possession of the island. The decision to have Mauritius as a French overseas territory was prompted by the fact that the island was a strategic stopover for French vessels on their way to India.

REVIEW OF THE ECONOMY

The domestic economy improved in 2020H2 relative to 2020H1 with the financial services, distributive trade and ICT sectors recovering the most. The manufacturing sector experienced a broad-based rebound as production increased to meet order backlogs from previous quarters. Activity in the construction sector also improved significantly, mostly supported by ongoing large-scale infrastructure projects. On the expenditure side, domestic demand recorded a smaller decline, on account of higher consumption and investment activity. Household spending improved amid resumption of economic activity and continued financial support from the Government. Gross fixed capital formation regained some momentum, especially in 2020Q4 amid the resumption of construction activity. On the external font, net external demand remained a drag on domestic economic activity, as reflected by the protracted contraction in exports of goods and services.

In March 2021, the authorities imposed a second national lockdown in the wake of a resurgence of COVID-19 infections. However, the economic damage of the second wave of the pandemic has been much more limited than the first, mostly due to the prompt roll-out of work access permits. The readiness of households and business operators in adapting to the new environment also facilitated a rapid resumption of most economic activities. Containment measures were subsequently relaxed, although several activity restrictions remained in place through to end-June 2021. The economy rebounded in 2021Q2 as key economic sectors recovered and as a result of base effects. All sectors registered positive growth in 2021Q2 as sentiment gradually improved amid the ongoing vaccination campaign. Domestic demand recovered, mostly reflecting a rebound in building and construction work.

Labour market conditions remained subdued during the period under review due to the COVID-19 pandemic. The unemployment rate escalated from 6.9 per cent in 2020Q1 to 9.8 per cent in 2021Q1 and further to 10.5 per cent in 2021Q2. Nonetheless, policy responses to COVID-19, notably the Wage Assistance Scheme and Self-Employed Assistance Scheme, have cushioned the impact of the shock. In addition, measures announced in the 2021/22 Budget with regard to job creation across different sectors of the economy are expected to create new employment opportunities in the public sector and contribute to reduce youth unemployment.

The external current account deficit widened during FY2020-21, primarily reflecting a deficit in the services account due to a significant decline in tourism receipts and a lower surplus in the primary income account. Current account deficit as a ratio to GDP rose from 15.3 per cent in 2020Q2 to 17.2 per cent in 2021Q2. The outlook of the external sector is, however, projected to gradually recover as a result of the rebound in global economic activity and the reopening of borders. Gross Official International Reserves (GOIR) remained at a comfortable level and stood at USD7.3 billion as at end-June 2021, sufficient to finance 18 months of imports of goods and services.

Headline inflation rose from 1.8 per cent in FY2019-20 to 2.2 per cent in FY2020-21, mainly due to domestic supply shocks while demand-side pressures remained muted. The rise in CPI during FY2020-21 resulted primarily from seasonal volatility in the price of fresh vegetables and supply chain disruptions stemming from the COVID-19 pandemic. The depreciation of the rupee and higher freight charges also contributed to higher inflation. Nonetheless, these factors are deemed transitory and are expected to subside in the near-term.

Going forward, the economy is likely to register positive growth as sentiment gradually improves with the ongoing vaccination campaign and the reopening of national borders. Key sectors of the economy, notably *'construction', 'manufacturing', 'financial and insurance activities'* and *'information and communication'* are projected to drive the recovery in output. On the expenditure side, household consumption and private investment would be supported by improved consumer and investor confidence. Continued public spending in infrastructure projects is expected to sustain domestic economic activity.

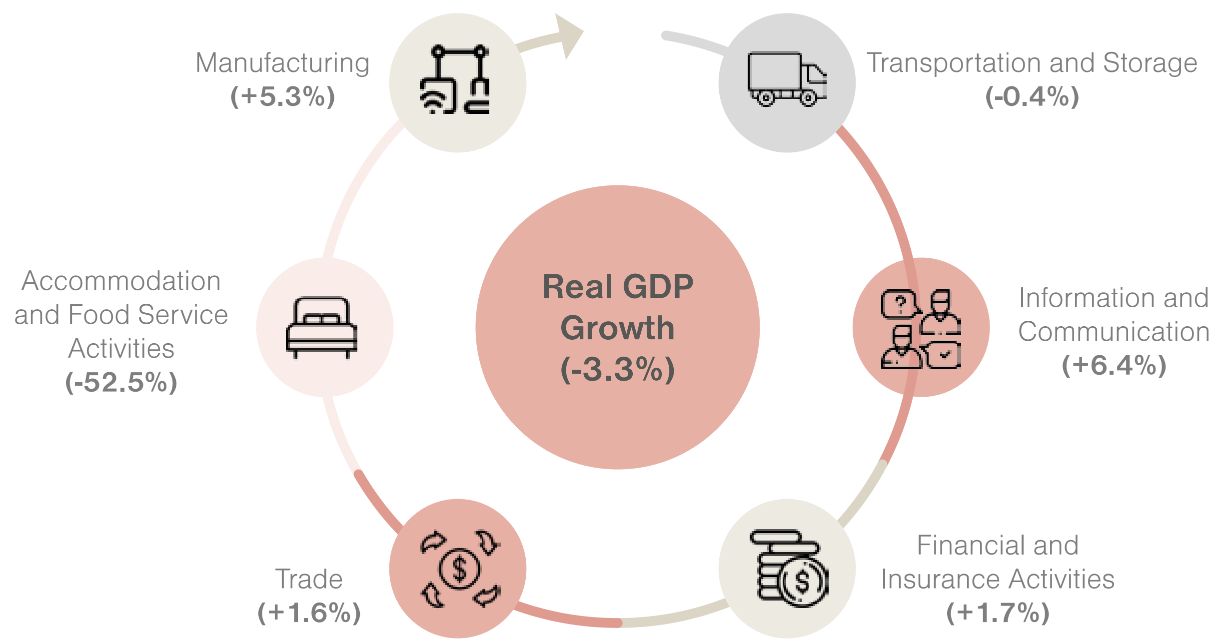
REVIEW OF THE ECONOMY

FY2020-21 AT A GLANCE

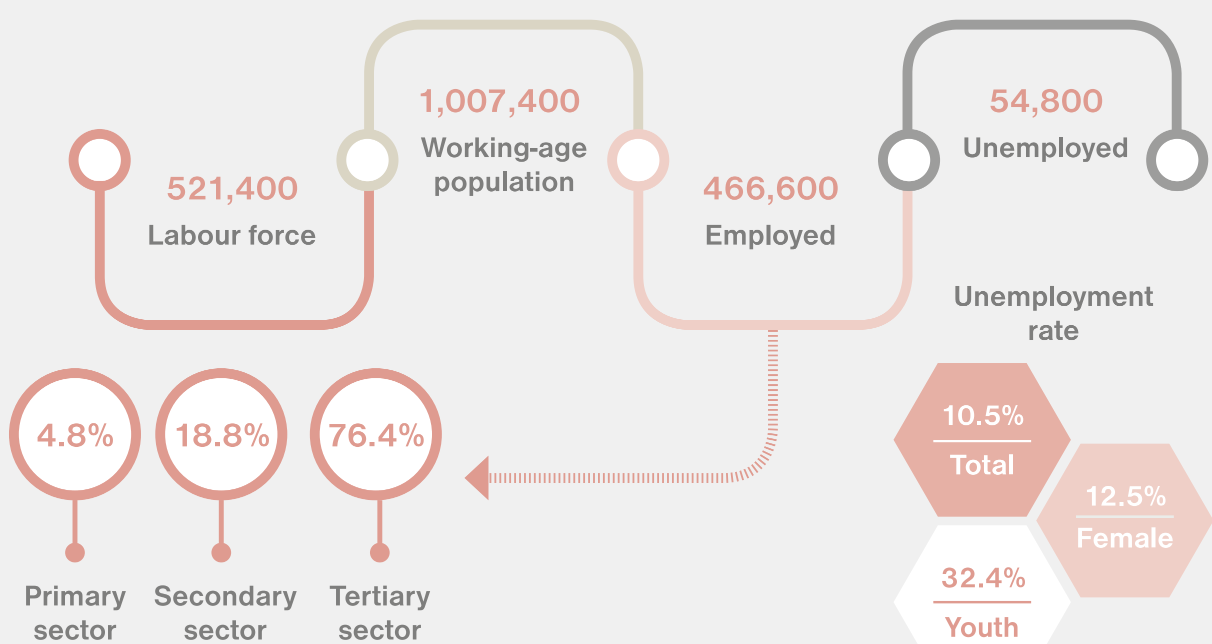
GDP at market prices **Rs435.6 billion**	Real GDP growth at basic prices **-3.3%**	Investment to GDP ratio **20.1%**
Gross Domestic Savings to GDP ratio (2020) **8.2%**	Headline Inflation (as at June 2021) **2.2%**	Key Repo Rate (as at June 2021) **1.85%**
Budget Deficit to GDP ratio **5.6%**	Trade Deficit to GDP ratio **20.5%**	Current Account Deficit to GDP ratio **15.8%**
Unemployment rate (as at 2021Q2) **10.5%**	Public Sector Domestic Debt to GDP ratio (as at end-June 2021) **69.9%**	Public Sector External Debt to GDP ratio (as at end-June 2021) **25.1%**
Annual average growth rate of BML **16.5%**	Gross Official International Reserves (as at end-June 2021) **Rs309.9 billion**	Import Cover (as at end-June 2021) **18.2 months**

REVIEW OF THE ECONOMY

Real Growth in Key Sectors for FY2020-21



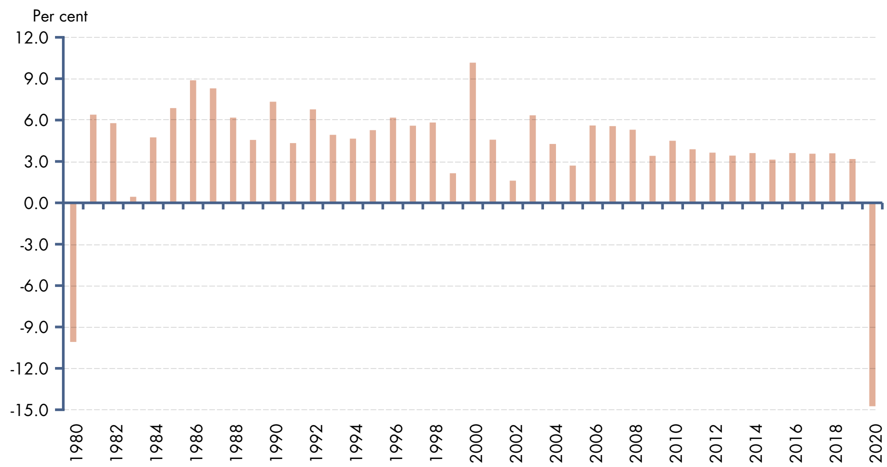
Labour Market Conditions in 2021Q2



NATIONAL INCOME AND PRODUCTION

The Mauritian economy slipped into its worst-ever recession in 2020 following the outbreak of the COVID-19 pandemic. Containment measures, border closures and weak external demand exerted a significant drag on domestic economic activity. Overall, real GDP contracted by 14.7 per cent in 2020 as against growth of 3.2 per cent in 2019 (Chart 2.1). GDP at current market prices dropped to Rs429.7 billion, representing a loss in output of Rs68.6 billion compared to the previous year. Per capita Gross National Income (GNI) at market prices fell by 16.4 per cent to Rs369,914 (USD9,453) in 2020, from Rs442,374 (USD12,432) in 2019.

Chart 2.1: Real GDP Growth



Source: Statistics Mauritius.

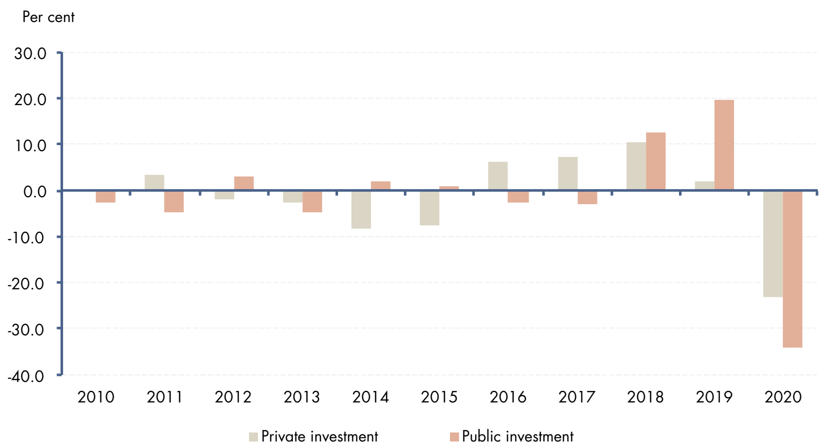
Expenditure

Domestic demand was heavily impacted by the pandemic, as noted in the synchronised contractions of major demand drivers. After registering a growth of 3.0 per cent in 2019, final consumption expenditure fell by 15.7 per cent in 2020. Lower spending during the national confinement period, together with income and employment losses amid weak consumer confidence, led to a contraction of 18.7 per cent in household consumption, notwithstanding the financial support initiatives rolled out by the Bank and Government. Government consumption contracted by 1.2 per cent in 2020 as against growth of 2.0 per cent in 2019.

Investment spending was significantly scaled back given constraints and delays in the implementation of projects amid muted investor sentiment. Gross Fixed Capital Formation (GFCF) contracted by 26.2 per cent in 2020 as against growth of 6.2 per cent in 2019. Investment in *'building and construction work'* and *'machinery and equipment'* declined by 24.9 per cent and 28.6 per cent, respectively, in 2020. Private and public sector investment posted declines of 23.2 per cent and 34.1 per cent, respectively, as subdued external conditions and heightened uncertainty affected business sentiment and investment plans, while capital expenditure was reduced by Government in 2020 (Chart 2.2).

On the external front, the contraction in the exports of goods and services deepened from 4.2 per cent in 2019 to 38.0 per cent in 2020 in the wake of a major decline in external demand. Exports of goods fell by 23.1 per cent, while exports of services were almost 50 per cent lower in the absence of tourism flows. Imports of goods and services dropped by 28.9 per cent in 2020, reflecting a decline of 25.5 per cent in imports of goods while imports of services fell by 37.0 per cent.

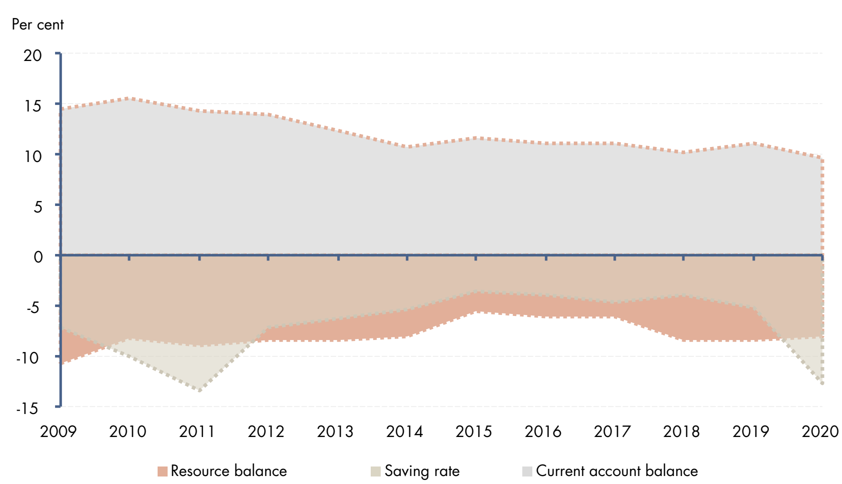
Chart 2.2: Growth Rates of Public and Private Investment



Source: Statistics Mauritius.

Gross National Savings (GNS) decreased by 25.4 per cent, from Rs56.2 billion in 2019 to Rs42.0 billion in 2020. The Saving Rate, defined as the ratio of GNS to Gross National Disposable Income (GNDI) excluding net primary income and transfer of Global Business Companies (GBC) from abroad, fell from 11.0 per cent in 2019 to 9.6 per cent in 2020. The Resource Balance (defined as Savings minus Investment) as a percentage of GDP at market prices, improved from -8.3 per cent in 2019 to -8.1 per cent in 2020 (Chart 2.3).

Chart 2.3: Resource Balance, Saving Rate and Current Account Balance

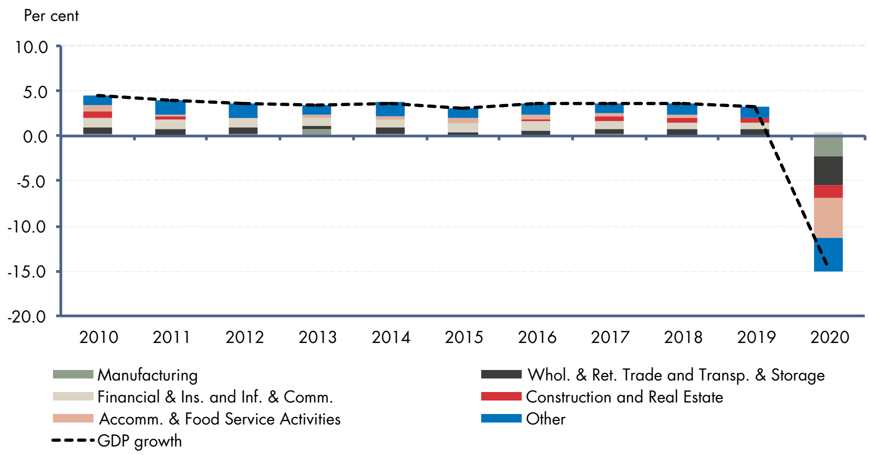


Sources: Statistics Mauritius and Bank of Mauritius.

Production

Activity in key economic pillars was severely constrained as mobility restrictions imposed in March 2020 entailed complete cessation of activities for some sectors and reduced operations for others. With the easing of confinement measures in 2020H2, activity resumed in most sectors. However, the prolonged closure of borders substantially affected the tourism and transport-related sectors and had major ripple effects on other sectors. Except for *'information and communication'* and *'financial and insurance activities'*, all remaining sectors contracted during 2020 (Chart 2.4).

Chart 2.4: Contribution to GDP Growth by Sector



Source: Statistics Mauritius.

The *'agriculture'* sector contracted by 2.5 per cent in 2020 as against growth of 4.1 per cent in 2019. This was largely explained by the national lockdown, which led to a decline in sugar production from 331,105 tonnes in 2019 to 270,875 tonnes in 2020. The fishing sub-sector also performed poorly on account of both pandemic-related disruptions and the Wakashio oil spill incident. Fish production dropped by nearly 35.0 per cent from 35,055 tonnes in 2019 to 22,943 tonnes in 2020. In 2021, the agricultural sector is expected to recover and gain momentum as economic conditions improve.

The *'manufacturing'* sector contracted by 17.8 per cent in 2020, after tepid growth of 0.5 per cent in 2019. Manufacturing activity was impacted by both the COVID-19 confinement measures and a shortage of intermediate inputs for some domestic industries. The 'textile' sub-sector suffered from lacklustre foreign demand and registered a fall of 28.6 per cent in its value added content. Output in the 'sugar' and 'food' sub-sectors declined by 17.2 per cent and 10.4 per cent, respectively. The sector is forecast to recover in 2021 as expected increases in domestic and external demand lift the prospects of its key segments.

Activity in the *'construction'* sector declined by 25.8 per cent in 2020, reflecting mainly the halt in activities during the confinement period. Implementation delays and postponement of projects, coupled with weak investor sentiment, translated into lower outturn for the sector. These disruptions have more than offset the progress made by the sector as a result of large infrastructure projects undertaken by the Government prior to the pandemic. Growth in the *'real estate'* sector also tempered to -1.9 per cent in 2020 as against 3.4 per cent in 2019. In 2021, these sectors are projected to rebound, reflecting renewed investor optimism and a resumption of large-scale projects.

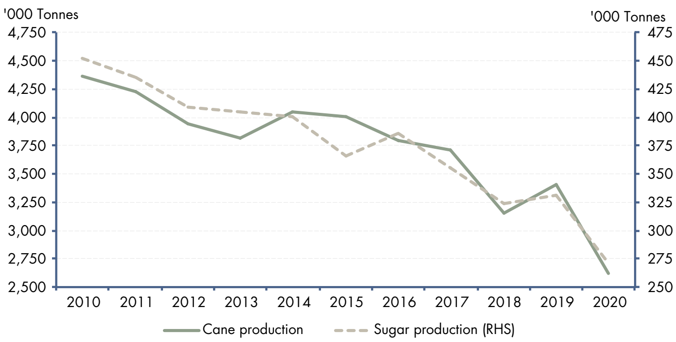
The *'accommodation and food service activities'* sector was the hardest hit, posting a contraction of 65.8 per cent in 2020. Tourist arrivals were lower by almost 80.0 per cent relative to 2019, representing a shortfall of more than one million tourists. Gross tourism earnings plunged to Rs17.7 billion in 2020, from Rs63.1 billion in 2019. This unprecedented downturn was mainly driven by the inter-play of factors such as travel restrictions, closure of national borders and sanitary lockdown. The phased re-opening of national borders in 2021H2 is anticipated to give a boost to the sector in 2021.

In contrast, the *'financial and insurance activities'* and *'information and communication'* sectors weathered the headwinds of the pandemic relatively well and registered positive growth rates. The *'financial and insurance activities'* sector grew by 1.0 per cent in 2020, supported by a recovery in economic activity in 2020H2. Growth in the *'information and communication'* sector firmed to 5.9 per cent in 2020, from 5.5 per cent in 2019, benefitting mainly from increased demand for data communication services given the shift to remote working. In 2021, the recovery in growth and enhanced demand prospects would be expected to be beneficial for these sectors.

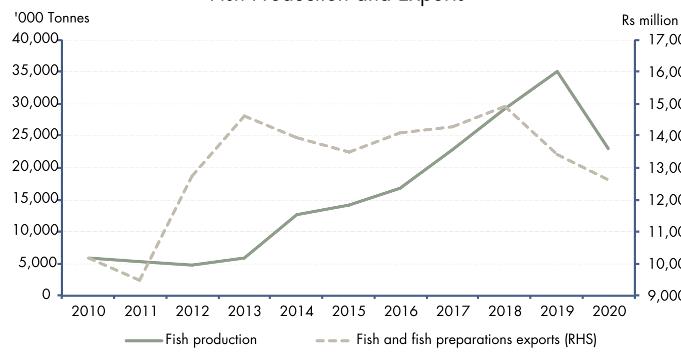
REVIEW OF THE ECONOMY

Selected Sectoral Indicators

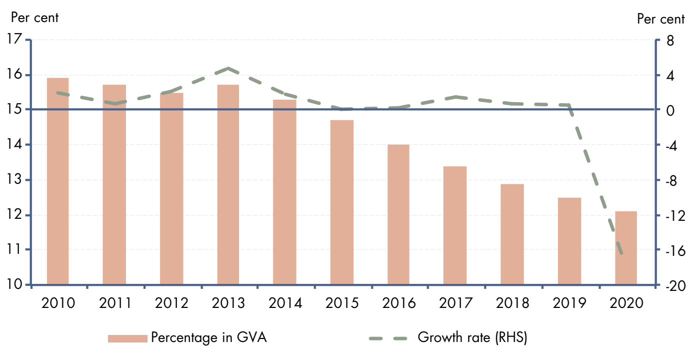
Cane and Sugar Production



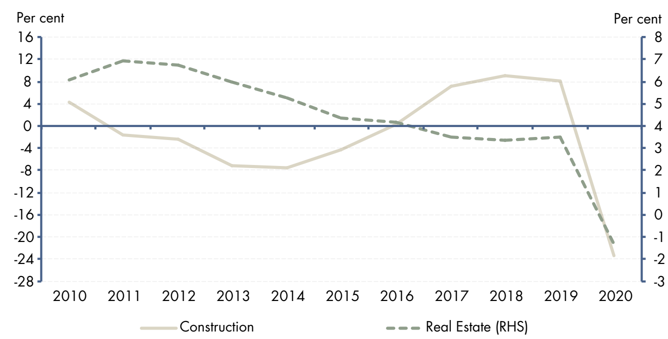
Fish Production and Exports



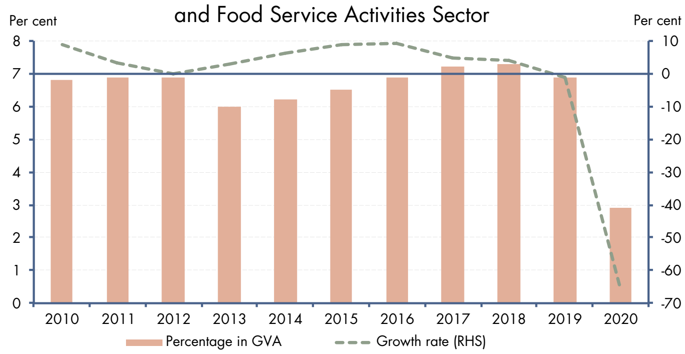
Share and Growth of Manufacturing Sector



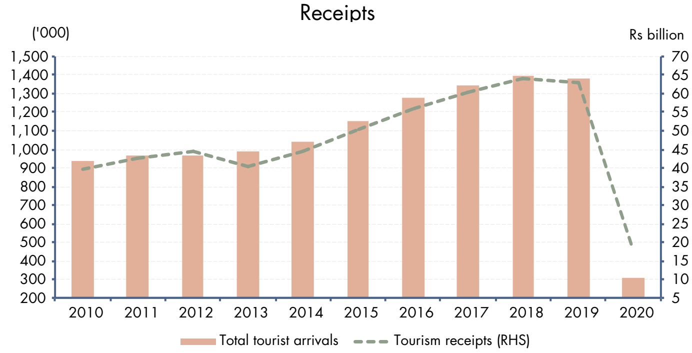
Growth in Construction and Real Estate Sectors



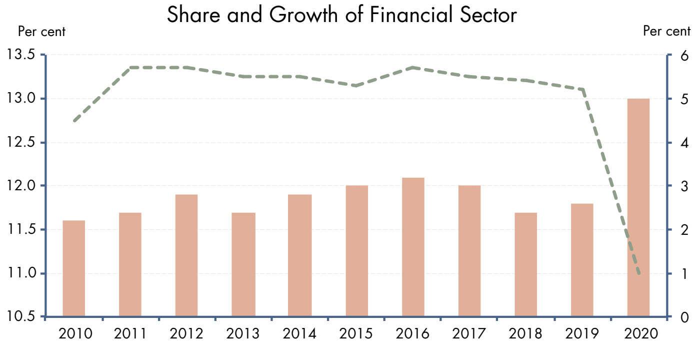
Share and Growth of Accommodation and Food Service Activities Sector



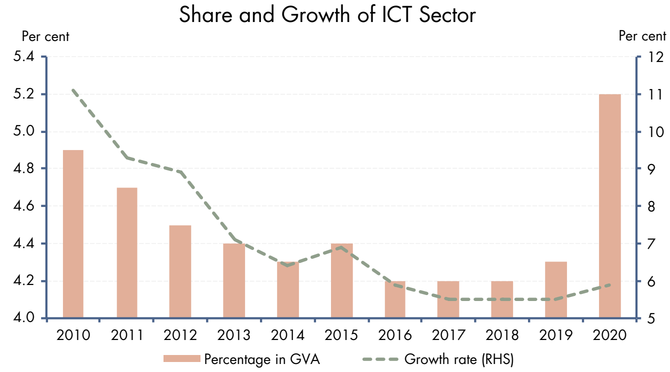
Tourist Arrivals and Tourism Receipts



Share and Growth of Financial Sector



Share and Growth of ICT Sector

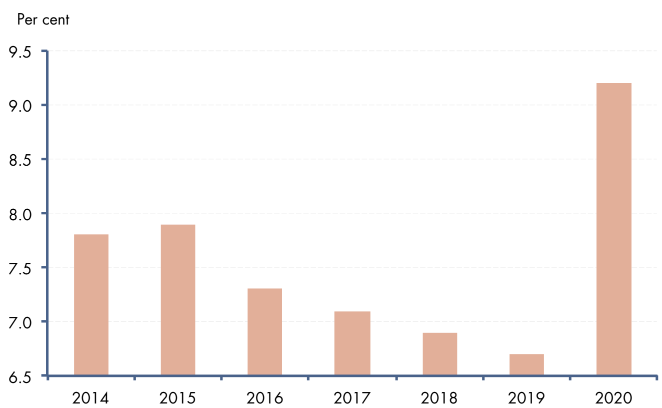


Sources: Statistics Mauritius and Bank of Mauritius.

LABOUR MARKET DEVELOPMENTS

Labour market conditions were significantly impacted by the outbreak of the COVID-19 pandemic and the enforcement of national lockdown. The unemployment rate rose from 6.7 per cent in 2019 to 9.2 per cent in 2020 (Chart 2.5). The number of employed persons fell by 33,400, while some 26,000 workers moved out of the labour force. Young and female workers remained the most affected, with youth and female unemployment rates rising to 26.1 per cent and 11.1 per cent, respectively, in 2020. Nonetheless, support measures rolled out by Government, notably the Wage Assistance Scheme and Self-Employed Assistance Scheme, were able to cushion the impact on workers' remunerations and averted a major social disturbance.

Chart 2.5: Unemployment Rate



Source: Statistics Mauritius.

Labour productivity, which is a key determinant of competitiveness and growth, dropped by 9.7 per cent in 2020 mainly due to the large contraction in output. Subsequently, unit labour cost (ULC), which measures the remuneration of labour per unit of output, rose by 7.9 per cent in 2020, as the decline in labour productivity outweighed the fall in compensation of employees. However, in US dollar terms, ULC fell by 1.9 per cent due to depreciation of the rupee during the period under review.

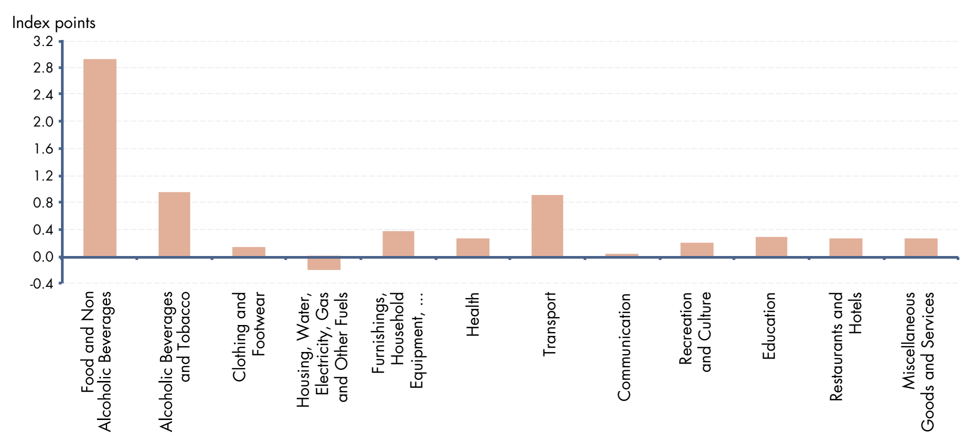
Wage Rate Index

The Wage Rate Index, which gauges changes in labour costs across the economy, rose by 0.9 per cent in 2020, underpinned primarily by the Pay Research Bureau interim allowance paid to employees of the public sector as from January 2020. Private sector wages increased by 0.3 per cent, while wages in the public sector rose by 1.7 per cent. The sectors contributing to the increase in wages during 2020 were: Water supply; sewerage, waste management and remediation activities (8.5 per cent), Mining and quarrying (8.4 per cent), Real estate activities (7.3 per cent), Agriculture, forestry and fishing (5.3 per cent) and Public administration and defence; and compulsory social security (4.3 per cent).

PRICE DEVELOPMENTS

The overall Consumer Price Index (CPI) increased at a noticeable pace during FY2020-21, prompted by upward price pressures from both food and non-food products. The CPI increased by 6.2 index points or 5.9 per cent, from 105.2 in June 2020 to 111.4 in June 2021. The main contributors to the increase in the CPI were *'Food and non-alcoholic beverages'* (2.9 index points), while *'Housing, water, electricity, gas and other fuels'* posted a negative contribution of 0.2 index point. Chart 2.6 shows the weighted divisional contribution to the change in CPI during the period under review.

Chart 2.6: Weighted Divisional Contribution to Change in CPI



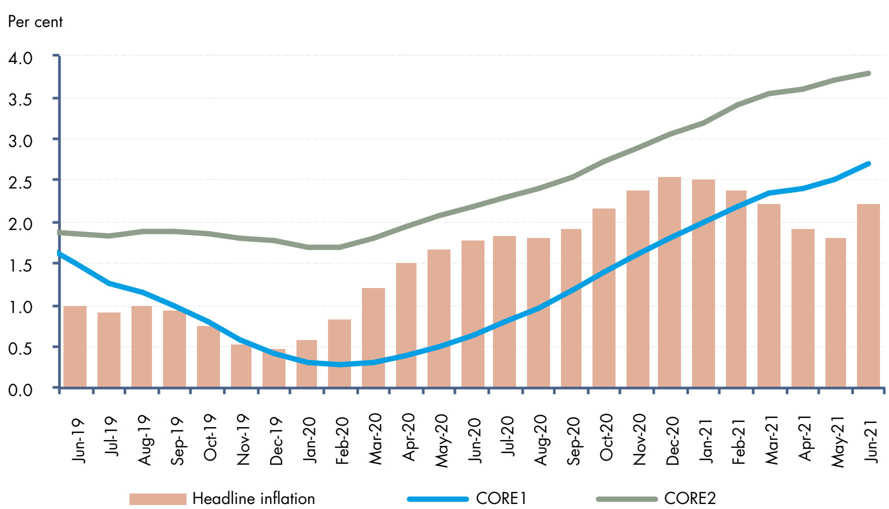
Note: Figures may not add up due to rounding.
Sources: Statistics Mauritius and Bank of Mauritius.

Headline inflation, computed as the percentage change in the yearly average CPI, rose from 1.8 per cent in June 2020 to 2.2 per cent in June 2021. Year-on-year (y-o-y) inflation, defined as the percentage change in the CPI of a given month compared to the same month of the preceding year, accelerated from 1.7 per cent in June 2020 to 5.9 per cent at the close of FY2020-21, partly due to higher excise duties applicable on alcoholic beverages and tobacco products as well as unfavourable base effects.

Core Inflation

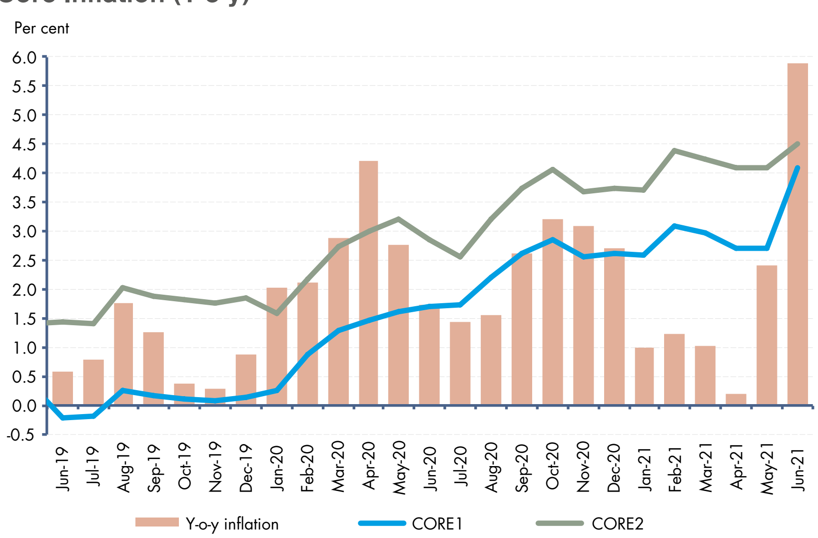
Underlying inflationary pressures, as reflected by the core measures of inflation, gained some momentum during the course of FY2020-21. On a 12-month average basis, CORE1 inflation rose steadily from 0.6 per cent in June 2020 to 2.7 per cent in June 2021, while CORE2 inflation increased from 2.2 per cent to 3.8 per cent over the same period. On a y-o-y basis, CORE1 inflation settled at 4.1 per cent in June 2021, compared to 1.7 per cent in June 2020. CORE2 inflation displayed a similar pattern, rising from 2.9 per cent in June 2020 to 4.5 per cent at the close of FY2020-21. Chart 2.7 illustrates the evolution of headline and core inflation over the period June 2019 through June 2021 and Chart 2.8 shows the y-o-y movements of CPI and core inflation over the same period.

Chart 2.7: Headline and Core Inflation (12-month Average)



Sources: Statistics Mauritius and Bank of Mauritius.

Chart 2.8: CPI and Core Inflation (Y-o-y)



Sources: Statistics Mauritius and Bank of Mauritius.

Terms of Trade Developments

The terms of trade (ToT) improved by 2.3 per cent in FY2020-21 compared to FY2019-20 as the rise in export prices more than offset the growth in import prices. Excluding the import price of *'mineral fuels, lubricants and related materials',* ToT deteriorated by 0.6 per cent while excluding commodity prices, the ToT worsened by 0.4 per cent. Excluding *'mineral fuels, lubricants and related materials',* the import price index (IPI) increased by 13.5 per cent in FY2020-21 compared to FY2019-20 while excluding commodity prices, the IPI went up by 12.9 per cent. The export price index (EPI) excluding commodity prices rose by 12.4 per cent over the same period.

The EPI increased by 12.8 per cent and the EPI, adjusted for exchange rate effects, rose by 2.7 per cent in FY2020-21 compared to FY2019-20. The IPI went up by 10.2 per cent while adjusted for exchange rate effects, the IPI increased by 0.2 per cent over the same period. Chart 2.9 shows the evolution of the terms of trade from FY2014-15 to FY2020-21.

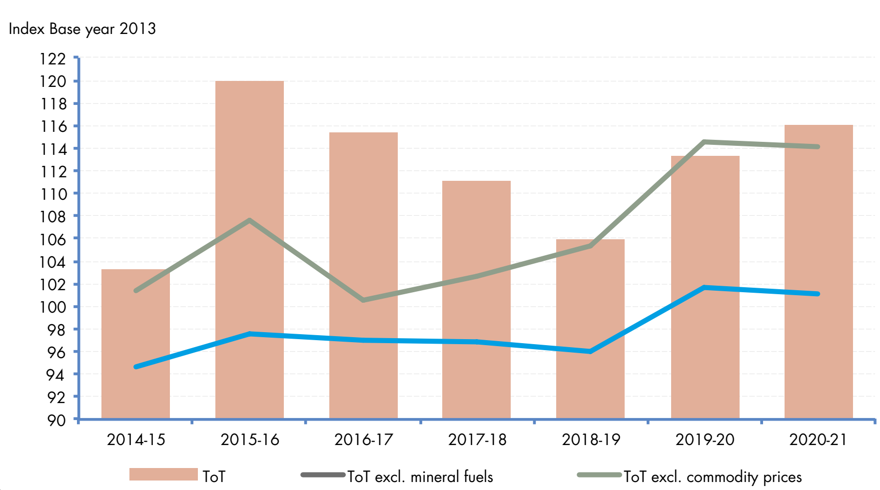
MONETARY AGGREGATES AND KEY MONETARY RATIOS

Broad Money Liabilities (BML) expanded rapidly during FY2020-21, following measures taken by the Bank under its COVID-19 Support Programme towards preventing potential failures of systemically important domestic companies and ensuring continuation of provision of credit to both households and businesses. Y-o-y, BML rose by 18.8 per cent as at end-June 2021, up from 12.7 per cent as at end-June 2020, driven largely by substantial growth in rupee deposits from 10.9 per cent to 22.4 per cent. Growth in foreign currency deposits slowed from 30.7 per cent in FY2019-20 to 15.9 per cent in FY2020-21, while growth in currency with public dropped from 20.2 per cent to 9.1 per cent over the period under review. Chart 2.10 shows the components and sources of BML as at end-June 2018 through to end-June 2021.

In absolute terms, net foreign assets (NFA) of depository corporations (DCs) increased from Rs710.0 billion as at end-June 2020 to Rs822.0 billion as at end-June 2021, indicating an annual growth rate of 15.8 per cent. Domestic claims of DCs registered an increase of 13.3 per cent in FY2020-21 compared to 10.1 per cent in FY2019-20. Net claims on Central Government contracted by 4.3 per cent to Rs104.1 billion as at end-June 2021. Growth in claims on other sectors (excluding financial derivatives) accelerated to 17.2 per cent as at end-June 2021, from 6.0 per cent as at end-June 2020.

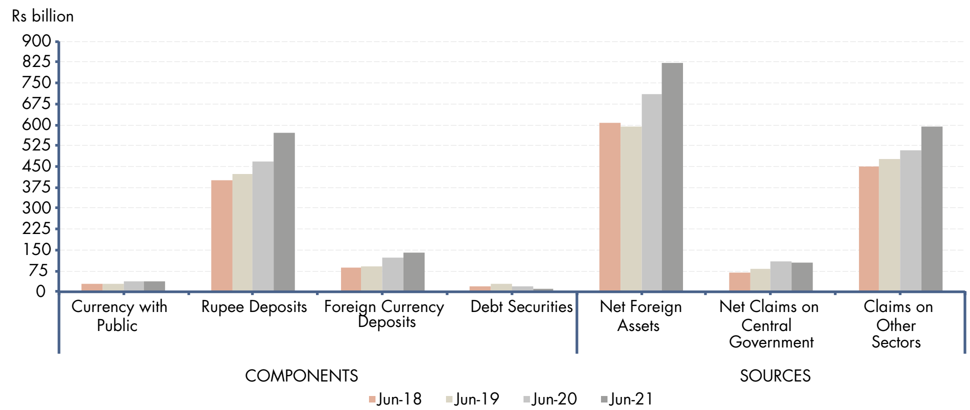
The monetary base expanded by 61.1 per cent, from Rs148.3 billion at the end of June 2020 to Rs238.9 billion at the end of June 2021, compared to an increase of 40.3 per cent in the preceding corresponding period. The expansion of the monetary base was driven by an increase in liabilities to other sectors, and mainly reflected the monetary measures taken by the Bank to support the flow of credit to systemic economic operators. On the sources side of the monetary base, NFA of the Bank grew by 9.3 per cent in FY2020-21 compared to 10.2 per cent in FY2019-20. Domestic claims rose significantly in FY2020-21, largely mirroring the increase in claims on other sectors.

Chart 2.9: Terms of Trade



Source: Statistics Mauritius.

Chart 2.10: Components and Sources of BML



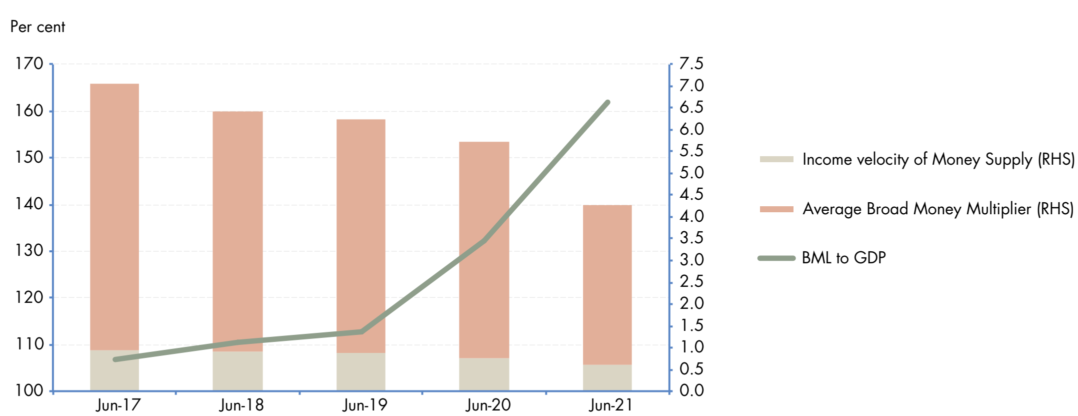
The income velocity of money, which refers to the frequency of monetary transactions in an economy, maintained a downward trend from 0.8 at the end of June 2020 to 0.6 at the end of June 2021, while the average broad money multiplier fell further to 3.7 as at end-June 2021, from 5.0 as at end-June 2020. The ratio of BML to GDP, which provides a measure of financial depth, rose from 132.3 per cent as at end-June 2020 to 161.9 per cent as at end-June 2021. Chart 2.11 shows selected monetary ratios for the years ended June 2017 through to June 2021.

Bank Loans to Other Nonfinancial Corporations, Households and Other Sectors (excluding GBCs)

Annual growth in bank loans[1], which stood at 4.0 per cent in June 2020, dropped to 2.8 per cent in March 2021, before recovering to 3.6 per cent in June 2021. Y-o-y growth in bank loans to corporates moderated from 3.5 per cent in June 2020 to 2.5 per cent in June 2021 and was largely driven by additional borrowings by 'Other Nonfinancial Corporations' (ONFCs). Bank loans to ONFCs rose by Rs13.6 billion in FY2020-21, mainly due to additional facilities granted to the *'Accommodation and food service activities'* and *'Real estate activities'* sectors. Loans to these sectors rose by 34.6 per cent and 35.6 per cent, respectively, during FY2020-21, compared to 11.3 per cent and 16.7 per cent, respectively, during FY2019- 20.

Y-o-y growth in bank loans to households rose from 5.1 per cent in June 2020 to 5.5 per cent in June 2021, reflecting higher expansion in housing loans. Annual growth in housing loans rose from 7.0 per cent in June 2020 to 7.8 per cent in June 2021. Household loans granted for 'other purposes'[2] grew modestly by 1.1 per cent in June 2021 compared to growth of 1.5 per cent in June 2020. The upturn in household borrowings mainly reflected growing consumer confidence and rising optimism over domestic economic recovery (Chart 2.12).

Chart 2.11: Selected Monetary Ratios



[1] *Loans include only credit facilities extended by banks in the form of loans, overdrafts and finance leases.*

[2] *'Other purposes' include loans availed by households for acquisition of other consumer durable goods, purchase of land property, purchase of motor vehicles, education, medical expenses, purchase of equity, purchase of other financial assets, working capital/longer-term funds for proprietorships and other miscellaneous purposes.*

Chart 2.12: Y-o-y Change in Bank Loans to Corporates and Households

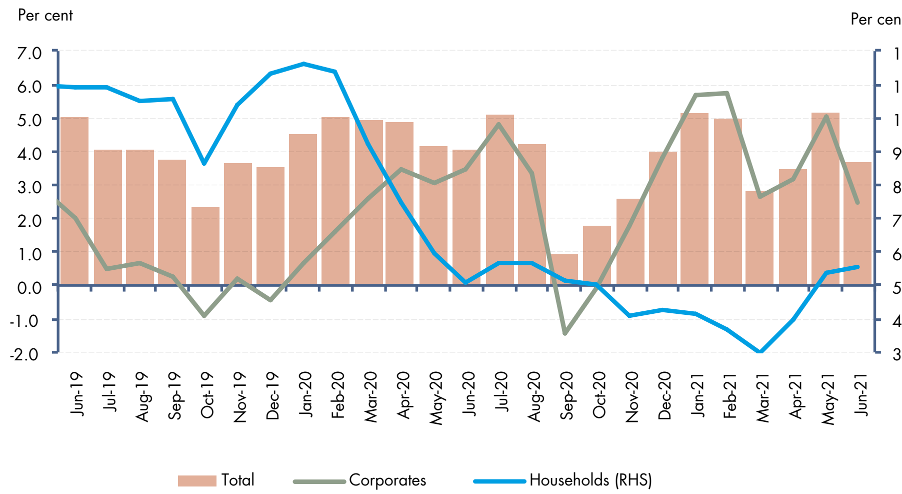
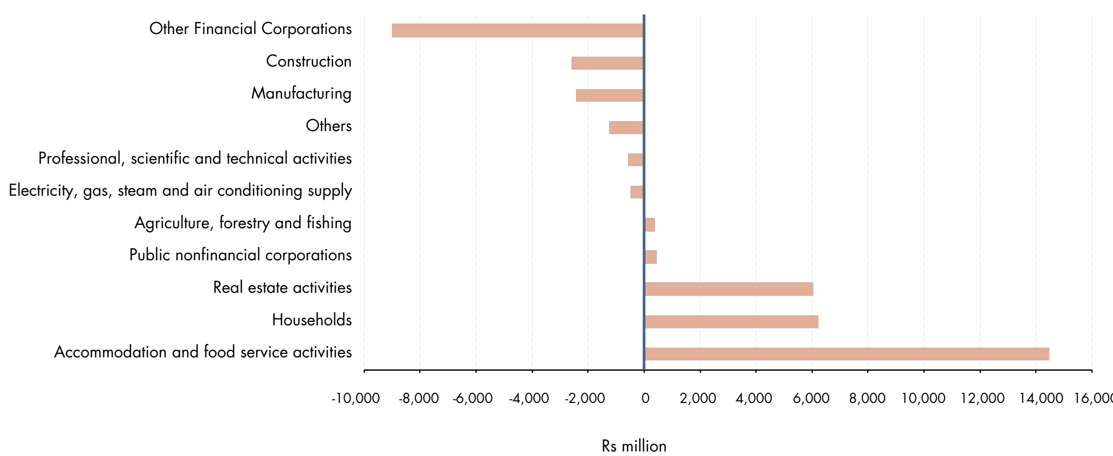


Chart 2.13: Contribution to the Increase in Bank Loans between June 2020 and June 2021



Bank lending to the *'Accommodation and food service activities'* sector picked up by 34.6 per cent from Rs41.8 billion as at end-June 2020 to Rs56.3 billion as at end-June 2021, mainly due to additional loans availed by *'Resort Hotels'* (Chart 2.13). Loans granted to this sector represented 17.2 per cent of total bank loans as at end-June 2021 compared to 13.2 per cent as at end-June 2020. Bank loans to the *'Real estate activities'* sector increased by 35.6 per cent from Rs17.0 billion as at end-June 2020 to Rs23.0 billion as at end-June 2021. This sector accounted for 7.0 per cent of total bank loans as at end-June 2021, up from 5.4 per cent as at end-June 2020.

The *'Construction'* sector accounted for 5.1 per cent of total bank loans as at end-June 2021, down from 6.1 per cent as at end-June 2020. Loans extended to this sector contracted by 13.4 per cent, largely explained by net-repayments in the 'Construction of Buildings' sub-sector. Likewise, borrowings in the *'Manufacturing'* sector fell by 10.9 per cent to Rs19.9 billion as at end-June 2021, primarily due to the decline in loans extended to the 'manufacture of wearing apparels' sub-sector.

New Loans Disbursed by Banks to Other Nonfinancial Corporations, Households and Other Sectors (excluding GBCs)

New loans disbursed by banks averaged Rs15.2 billion during FY2020-21, slightly higher compared to an average of Rs14.6 billion during FY2019-20. The ONFCs sector accounted for the bulk of new loans disbursed, holding a share of 69.6 per cent. New borrowings were mostly extended in rupee, averaging Rs11.5 billion in FY2020-21 compared to Rs10.8 billion in FY2019-20 while new loans in foreign currency averaged Rs3.7 billion compared to Rs3.9 billion (Charts 2.14 and 2.15).

Chart 2.14: New Loans Disbursed to Other Nonfinancial Corporations, Households and Other Sectors (excluding GBCs)

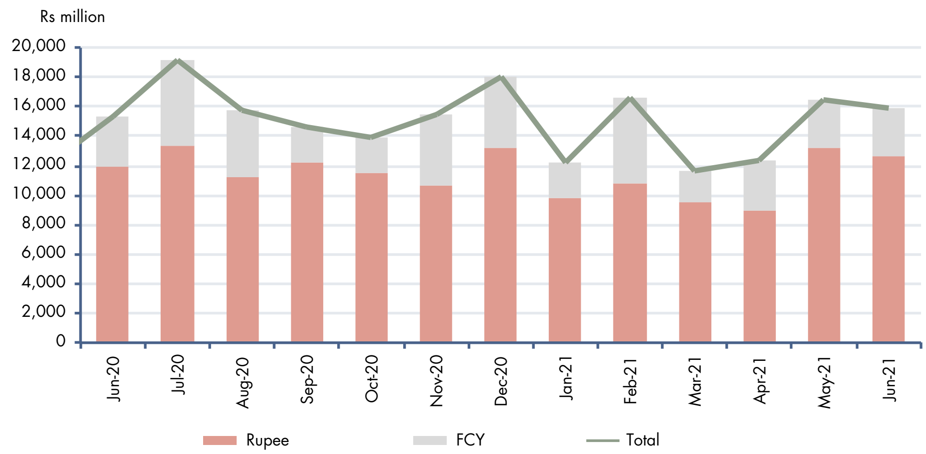
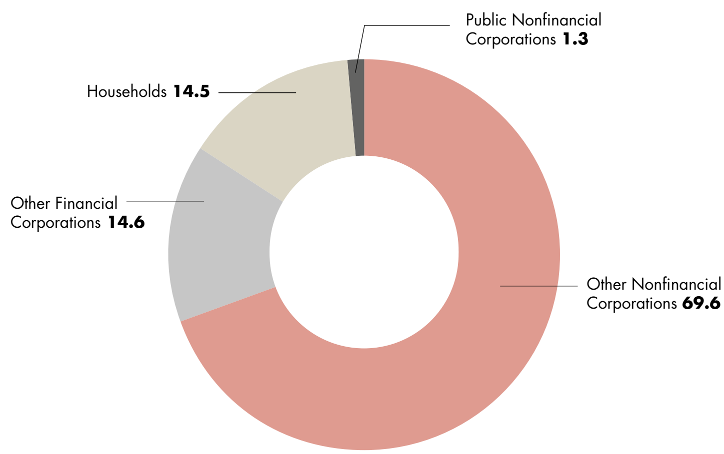


Chart 2.15: Share of Major Sectors in New Loans Disbursed during FY2020-21, Per cent



Maintenance of Cash Reserve Ratio

During FY2020-21, the fortnightly minimum Cash Reserve Ratio (CRR) that banks are required to maintain on their rupee deposits was maintained at 8.0 per cent. The required fortnightly minimum CRR on foreign currency deposits held by banks also remained unchanged at 6.0 per cent. Banks' annual average rupee excess reserves stood at Rs34.6 billion, up from Rs18.4 billion in the previous financial year. The annual average foreign currency excess reserves held by banks stood at an equivalent of Rs25.1 billion compared to Rs15.6 billion in FY2019-20. The overall average cash ratio increased to around 17 per cent compared to around 14 per cent during FY2019-20.

Excess cash holdings soared during the first half of FY2020-21, driven by rupee excess reserves that reached an all-time high of Rs49.6 billion on 17 December 2020. The upsurge in rupee excess reserves was mainly due to a net increase in government expenditure that was partly offset by net issuances of Government and Bank of Mauritius securities. During the second half of FY2020-21, foreign currency excess reserves reached a historical high equivalent to Rs45.6 billion on 28 January 2021, with part of these reserves serving as unencumbered high-quality liquid assets to meet banks' Liquidity Coverage Ratio. Chart 2.16 shows the evolution of excess rupee cash holdings and average rupee cash ratio, while Chart 2.17 depicts movements of foreign currency excess reserves and foreign currency cash ratio.

Chart 2.16: Rupee Excess Cash Holdings and Average Rupee Cash Ratio

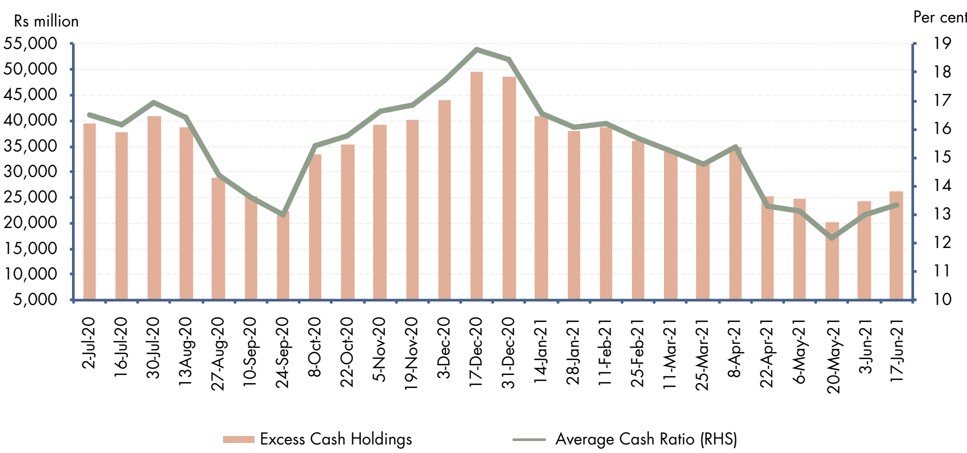
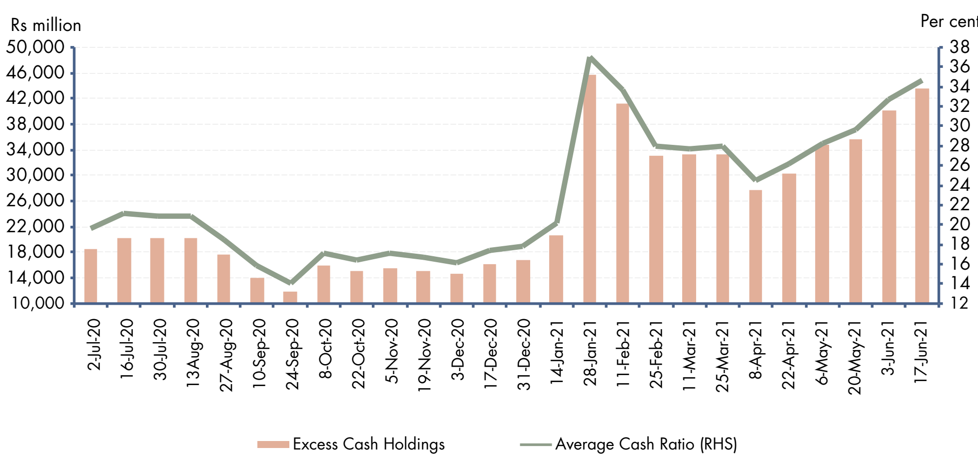


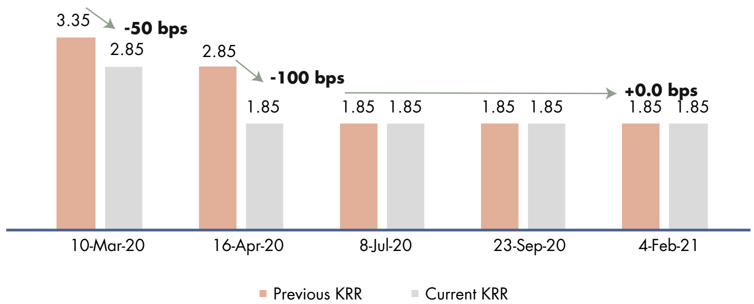
Chart 2.17: Rupee Equivalent of Foreign Currency Excess Cash Holdings and Average Foreign Currency Cash Ratio



Banks' Principal Interest Rates

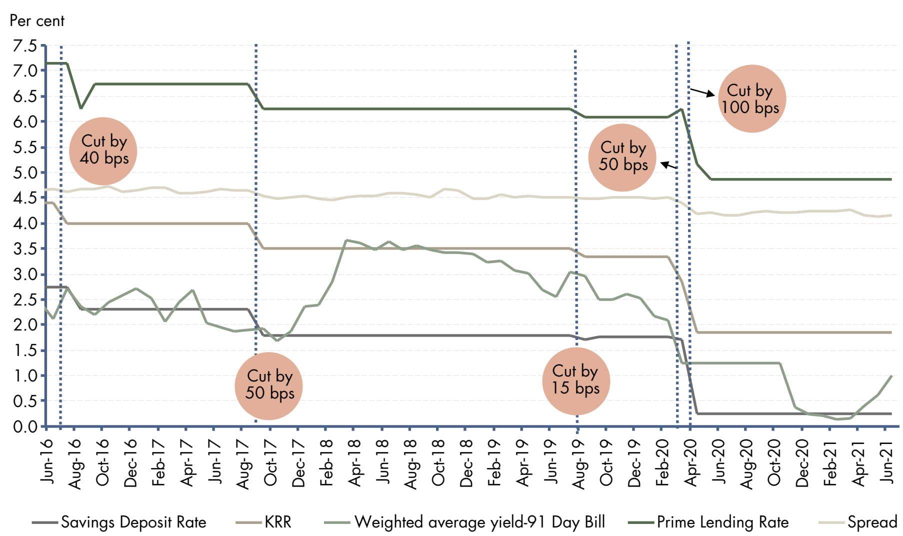
The Key Repo Rate (KRR) was kept unchanged at 1.85 per cent per annum at the three MPC meetings held during FY2020-21. Banks' Savings Deposit Rate (SDR) fluctuated between 0.15-0.60 per cent during FY2020-21, while the Prime Lending Rate (PLR) remained within a range of 4.00-6.85 per cent. The weighted average rupee deposit rate of banks dropped from 0.50 per cent in June 2020 to 0.43 per cent in June 2021. Banks' weighted average lending rate reached a peak of 4.73 per cent in September 2020, but subsequently inched down to 4.59 per cent in June 2021. The spread between the weighted average lending and deposit rates varied between 4.13 per cent and 4.26 per cent during FY2020-21 compared to a range of 4.17 per cent and 4.52 per cent during the preceding year (Charts 2.18 and 2.19).

Chart 2.18: Changes in the Key Repo Rate



Note: bps refers to basis points.

Chart 2.19: Evolution of Interest Rates



Maturity Pattern of Foreign Currency Deposits

Banks' total foreign currency (FCY) deposits rose by 23.9 per cent, from Rs757 billion as at end-June 2020 to Rs937 billion as at end-June 2021. Deposits denominated in US dollar remained the dominant FCY deposits held by banks, rising further from Rs577 billion as at end-June 2020 to Rs753 billion as at end-June 2021 (Chart 2.20).

The maturity structure of banks' FCY deposits remained broadly unchanged in FY2020-21. Of the total FCY deposits mobilised by banks, the share of transferable deposits increased from 69.7 per cent as at end-June 2020 to 71.7 per cent as at end-June 2021, while the share of time deposits dropped from 30.3 per cent to 28.3 per cent. More than 90 per cent of FCY time deposits were held in tenors of up to 12 months as at end-June 2021 (Chart 2.21).

EXTERNAL TRADE AND BALANCE OF PAYMENTS

The current account deficit is estimated to have widened in FY2020-21, resulting from a turnaround in the services account from surplus to deficit and lower surplus in the income account although the goods account deficit narrowed considerably (Table 2.1). The country recorded a larger overall balance of payments deficit in FY2020-21.

Reflecting the fallout of the COVID-19 pandemic on the Mauritian economy, the current account deficit worsened from Rs36.5 billion in FY2019-20 to Rs69.0 billion in FY2020-21. As a ratio to GDP, the current account deficit increased from 8.0 per cent to 15.8 per cent. The goods account deficit contracted by Rs11.7 billion, from Rs101.0 billion (or 22.1 per cent of GDP) in FY2019-20 to Rs89.4 billion (or 20.5 per cent of GDP) in FY2020-21.

Chart 2.20: Foreign Currency Deposits (Rs equivalent) Mobilised by Banks

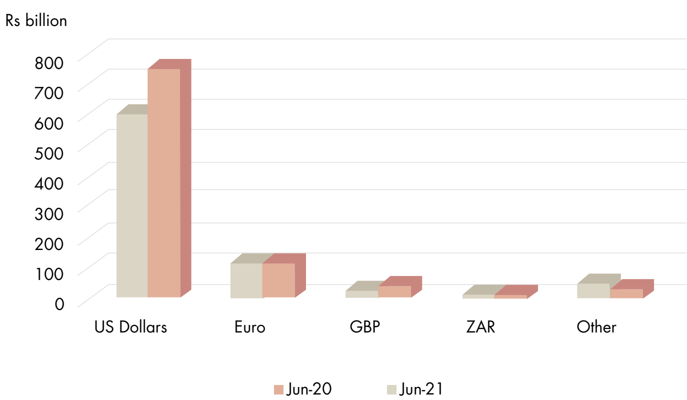
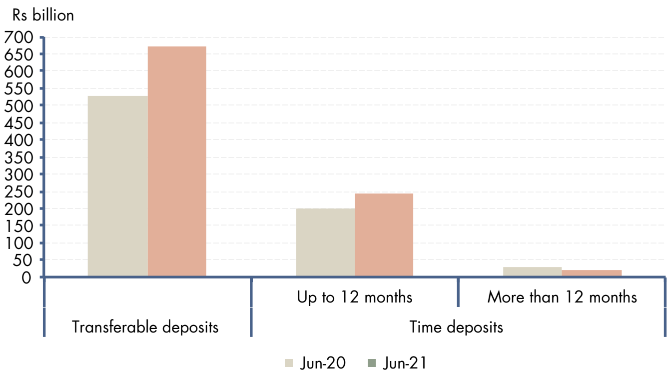


Chart 2.21: Maturity Structure of Foreign Currency Deposits



Total imports (c.i.f) declined by Rs2.4 billion, from Rs182.1 billion in FY2019-20 to Rs179.7 billion in FY2020-21, dragged down by *'mineral fuels, lubricants and related products'* imports and *'machinery and transport equipment'* imports falling by 22.3 per cent and 12.7 per cent, respectively. Total exports (f.o.b.) rose by Rs5.6 billion or 7.9 per cent, from Rs70.3 billion in FY2019-20 to Rs75.8 billion in FY2020-21, reflecting a pick-up in *'domestic exports'* and *'re-exports'*.

The services account posted a deficit to the tune of Rs12.9 billion in FY2020-21 as against a surplus of Rs23.1 billion in FY2019-20, largely due to the cessation of activities in the tourism sector. Gross tourism earnings plummeted to Rs2.5 billion in FY2020-21, from Rs48.1 billion in FY2019-20 following border closures and other travel restrictions introduced to address the COVID-19 pandemic. The primary income account surplus declined from Rs53.4 billion in FY2019-20 to Rs48.1 billion in FY2020-21, impacted by the slowdown in global economic activity and low international interest rates. The deficit on the secondary income account increased from Rs11.9 billion in FY2019-20 to Rs14.8 billion in FY2020-21. Chart 2.22 shows the main components of the current account for FY2014-15 through FY2020-21.

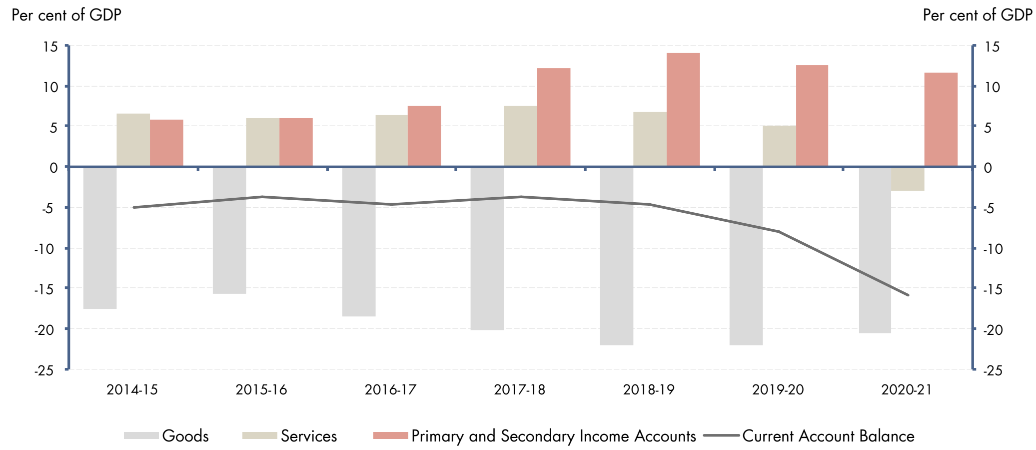
Table 2.1: Balance of Payments Summary

Rs million

	2016-17	2017-18	2018-19 [1]	2019-20 [1]	2020-21 [2]
Current Account	**-20,669**	**-17,758**	**-22,695**	**-36,452**	**-69,027**
Goods	**-82,083**	**-94,844**	**-107,685**	**-101,030**	**-89,372**
Exports (f.o.b.)	82,370	78,784	81,827	70,261	75,814
Imports (f.o.b.)	164,453	173,628	189,512	171,291	165,186
Services	**28,238**	**35,461**	**32,989**	**23,098**	**-12,949**
Primary Income	**42,909**	**53,648**	**66,926**	**53,401**	**48,070**
o/w global business	*36,125*	*45,778*	*50,251*	*39,533*	*39,554*
Secondary Income	**-9,733**	**-12,022**	**-14,925**	**-11,921**	**-14,776**
o/w global business	*-12,440*	*-11,976*	*-14,258*	*-13,924*	*-12,943*
Capital Account	**0**	**0**	**-109**	**0**	**0**
Financial Account*	**-23,476**	**-13,577**	**-25,922**	**-35,828**	**-69,509**
Direct Investment	-655,926	-429,157	-83,068	-115,289	-145,819
o/w global business	*-639,639*	*-418,490*	*-71,369*	*-104,742*	*-138,606*
Portfolio Investment	161,391	271,231	86,543	44,717	146,775
o/w global business	*142,687*	*205,936*	*30,235*	*27,233*	*92,567*
Financial derivatives	692,539	628,151	15,448	15,684	1,840
o/w global business	*695,076*	*626,985*	*16,290*	*14,337*	*2,481*
Other Investment	-240,124	-531,352	-62,366	22,594	-65,487
o/w global business	*-277,708*	*-458,292*	*24,718*	*2,987*	*-33,538*
Reserve Assets	**18,644**	**47,549**	**17,521**	**-3,534**	**-6,818**
Net Errors and Omissions	**-2,807**	**4,264**	**-3,118**	**624**	**-482**

[1] *Revised estimates.*
[2] *Preliminary estimates.*
* *As per the Balance of Payments and International Investment Position Manual - Sixth Edition (BPM6), Net inflows/ Net borrowing are shown as negative and Net outflows/ Net lending with a positive sign.*

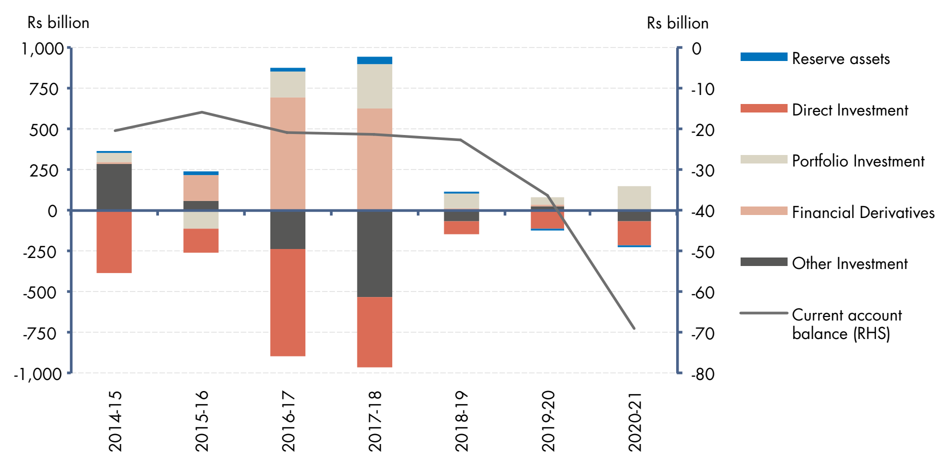
Chart 2.22: Components of the Current Account



Capital and Financial Account

Net inflows in the financial account have been estimated at Rs69.5 billion in FY2020-21, higher than Rs35.8 billion recorded in FY2019-20. Inclusive of Global Business Licence Holders (GBLHs) transactions, the direct investment account is estimated to have registered higher net inflows of Rs145.8 billion in FY2020-21 compared to Rs115.3 billion a year ago. Non-GBLHs' investment by non-residents in Mauritius, net of repatriation, amounted to Rs7.4 billion in FY2020-21. The *'Real estate activities'* sector remained the major recipient of these flows in the country. Excluding GBLHs' transactions, direct investment abroad, net of repatriation, is estimated at Rs0.2 billion in FY2020-21. The portfolio investment account, inclusive of GBLHs' transactions, is estimated to have recorded net outflows of Rs146.8 billion in FY2020-21, higher compared to Rs44.7 billion in FY2019-20. Non-residents' net disinvestments from the domestic capital market amounted to Rs1.5 billion in FY2020-21, lower compared to net disinvestments of Rs2.2 billion in FY2019-20. Chart 2.23 shows the financing of the current account from FY2014-15 to FY2020-21.

Chart 2.23: Financing of the Current Account



The 'other investment' account, inclusive of GBLHs' transactions, is estimated to have recorded net inflows of Rs65.5 billion in FY2020-21 as against net outflows of Rs22.6 billion in FY2019-20. The general government sector registered net disbursement of external loans of Rs21.4 billion in FY2020-21 compared to a net repayment of loans of Rs1.1 billion in FY2019-20.

Gross Official International Reserves

The Gross Official International Reserves (GOIR) of the country, comprising principally the gross foreign assets of the Bank and reserve position in the IMF, rose by Rs20.4 billion, from Rs289.5 billion as at end-June 2020 to Rs309.9 billion as at end-June 2021 (Chart 2.24). In US dollar terms, the GOIR rose from USD7,194.2 million to USD7,269.5 million over the same period. Based on the value of imports of goods (f.o.b.) and non-factor services for calendar year 2020, the GOIR of the country represented 18.2 months of imports as at end-June 2021 compared to 17.0 months as at end-June 2020, representing an adequate buffer against potential external shocks.

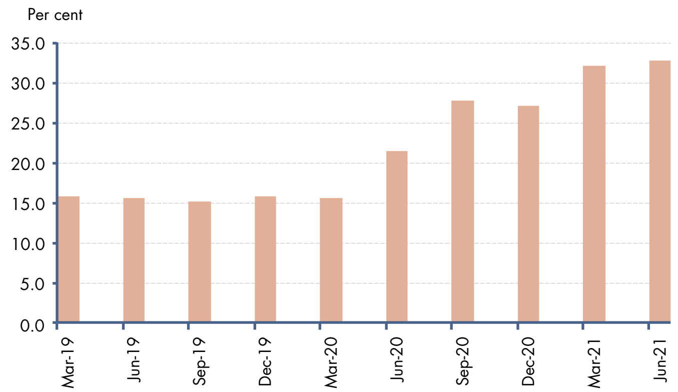
EXTERNAL VULNERABILITIES INDICATORS

The external vulnerabilities position of Mauritius weakened to some extent during FY2020-21, following a significant rise in the level of gross external debt and contraction in the exports of services. As a ratio to GDP, the gross external debt rose noticeably from 21.5 per cent as at end-June 2020 to 32.8 per cent as at end-June 2021. The ratio of gross external debt to exports of goods and services increased from 62.1 per cent to 129.1 per cent over the same period. The significant decline in imports of goods and services and rise in GOIR caused the ratio of GOIR to imports of goods and services to improve from 122.4 per cent in FY2019-20 to 145.6 per cent in FY2020-21.

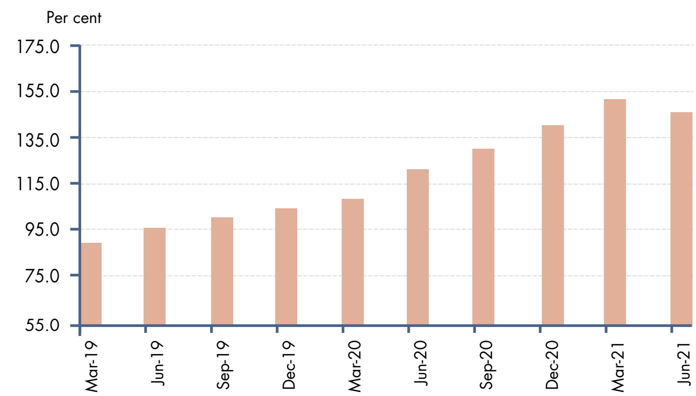
Chart 2.24: Gross Official International Reserves and Import Cover

External Vulnerabilities Indicators

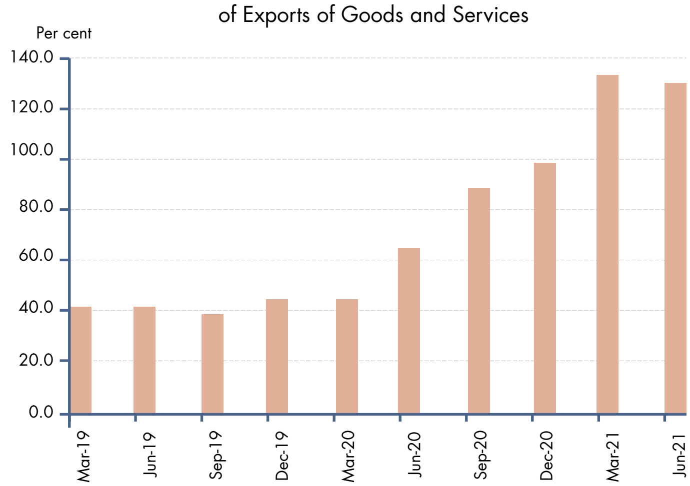
Gross External Debt as a Share of GDP



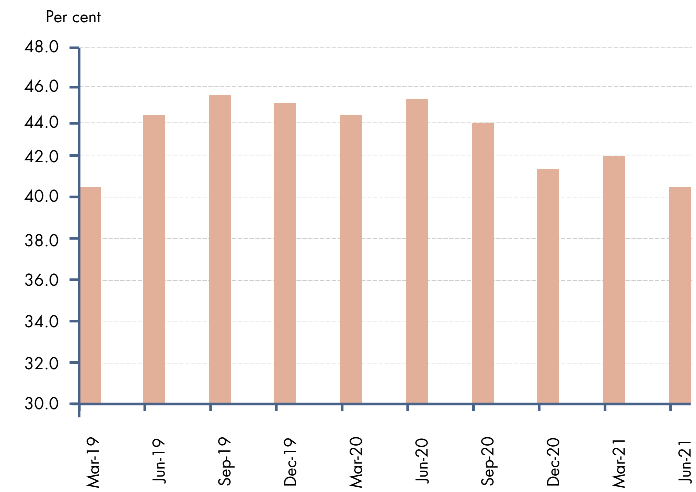
Reserves as a Share of Imports of Goods and Services



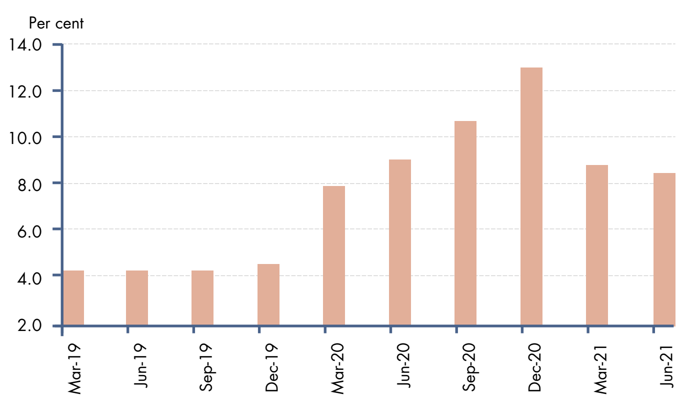
Gross External Debt as a Share of Exports of Goods and Services



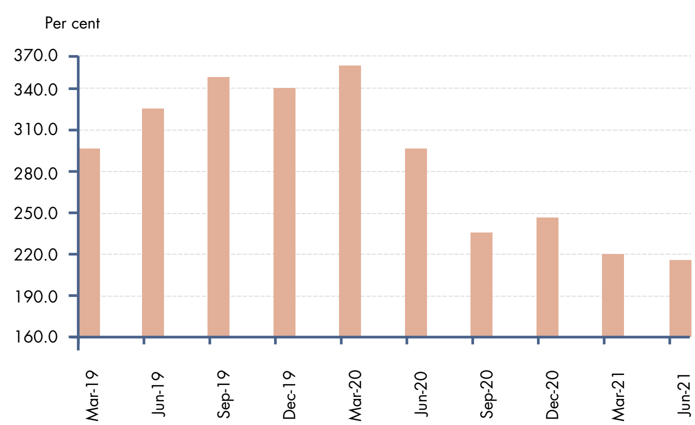
Reserves as a Share of Broad Money Liabilities



External Debt Service as a Share of Exports of Goods and Services



Reserves as a Share of Gross External Debt



International Investment Position

The net creditor position of Mauritius vis-à-vis non-residents weakened as at end-December 2020, mainly on account of lower net claims of GBLH on non-residents. The International Investment Position (IIP) statistics indicated that the country's net foreign asset position stood at Rs653 billion as at end-December 2020, down from Rs992 billion as at end-December 2019, reflecting mostly a decline in the net portfolio investment position (Table 2.2). Total claims on non-residents rose from Rs17,316 billion as at end-December 2019 to Rs19,283 billion as at end-December 2020. Total liabilities due to non-residents recorded a higher increase from Rs16,324 billion to Rs18,631 billion over the same period.

Table 2.2: International Investment Position: As at end-2019 and end-2020

Rs billion

		2019	2020			2019	2020
Net Foreign Asset Position		**992**	**653**				
o/w:	*Non-GBLH*	*433*	*528*				
	GBLH	*559*	*125*				
Claims on Non-residents		**17,316**	**19,283**	**Liabilities to Non-residents**		**16,324**	**18,631**
o/w:	*Non-GBLH*	*1,111*	*1,258*	*o/w:*	*Non-GBLH*	*678*	*729*
	GBLH	*16,205*	*18,026*		*GBLH*	*15,646*	*17,901*
Direct Investment		*9,947*	*11,394*	*Direct Investment*		*11,817*	*13,333*
o/w:	*Non-GBLH*	*26*	*27*	*o/w:*	*Non-GBLH*	*212*	*225*
	GBLH	*9,922*	*11,367*		*GBLH*	*11,605*	*13,108*
Portfolio Investment		*4,757*	*5,397*	*Portfolio Investment*		*1,154*	*2,017*
o/w:	*Non-GBLH*	*262*	*350*	*o/w:*	*Non-GBLH*	*42*	*44*
	GBLH	*4,494*	*5,047*		*GBLH*	*1,112*	*1,973*
Other Investment		*2,225*	*2,076*	*Other Investment*		*3,323*	*3,234*
o/w:	*Non-GBLH*	*552*	*591*	*o/w:*	*Non-GBLH*	*421*	*458*
	GBLH	*1,674*	*1,485*		*GBLH*	*2,902*	*2,776*
Financial Derivatives		*117*	*129*	*Financial Derivatives*		*31*	*46*
o/w:	*Non-GBLH*	*2*	*2*	*o/w:*	*Non-GBLH*	*3*	*3*
	GBLH	*115*	*127*		*GBLH*	*28*	*43*
Reserve Assets		*269*	*288*				

Workers' Remittances

Inward workers' remittances have been estimated at Rs2,869 million in FY2020-21, higher compared to Rs2,726 million in FY2019-20. The top ten source countries for inward workers' remittances accounted for 71.7 per cent of the total in FY2020-21 (Table 2.3). As a percentage of GDP, inward remittances stood at 0.7 per cent in FY2020-21, higher than 0.6 per cent in FY2019-20.

Outward workers' remittances have been estimated at Rs8,032 million in FY2020-21, higher than Rs7,067 million in FY2019-20 (Table 2.4). Workers' remittances to Bangladesh and India, the top two destination countries, amounted to Rs3,310 million (or 41.2 per cent of the total) and Rs2,598 million (or 32.3 per cent of the total), respectively.

The overall average charges for inward and outward remittances inched down during FY2020-21, averaging 0.04 per cent and 0.7 per cent, respectively. Mauritius remained compliant with the United Nations Sustainable Development Goals, target 10.c, that is, to reduce to less than 3 per cent the transaction costs of migrant remittances.

Table 2.3: Inward Workers' Remittances, Top 10 Source Countries

	2019-20		2020-21	
	Amount (Rs million)	**Share** (%)	**Amount** (Rs million)	**Share** (%)
Inward Remittances	**2,726**		**2,869**	
France	623	22.9	781	27.2
United Kingdom	353	13.0	391	13.6
USA	58	2.1	129	4.5
Ireland	82	3.0	103	3.6
Switzerland	284	10.4	165	5.7
Italy	99	3.6	106	3.7
Canada	36	1.3	49	1.7
United Arab Emirates	223	8.2	86	3.0
Australia	72	2.6	118	4.1
Belgium	85	3.1	130	4.5

Table 2.4: Outward Workers' Remittances, Top 5 Destination Countries

	2019-20		2020-21	
	Amount (Rs million)	**Share** (%)	**Amount** (Rs million)	**Share** (%)
Outward Remittances	**7,067**		**8,032**	
Bangladesh	2,395	33.9	3,310	41.2
India	2,889	40.9	2,598	32.3
France	309	4.4	360	4.5
South Africa	134	1.9	134	1.7
United Kingdom	99	1.4	166	2.1

GOVERNMENT FINANCE

Fiscal Dynamics in FY2020-21

Since the onset of COVID-19 in March 2020, government finances remained under significant pressure, mainly reflecting subdued tax revenue and extended financial support to businesses and individuals. These support measures were maintained during FY2020-21 as the economic fallout of the pandemic lingered and deeply affected a number of key sectors.

Tax collection dropped in FY2020-21 owing to the fall in income and consumption spending. Tax revenue fell from Rs89.0 billion in FY2019-20 to Rs82.9 billion in FY2020-21, led by declines of Rs2.2 billion and Rs4.8 billion in taxes on income and profits and taxes on property, respectively.

Government expenditure increased by Rs14.8 billion, from Rs165.3 billion in FY2019-20 to Rs180.1 billion in FY2020-21, reflecting the roll-out of fiscal measures, notably Wage Assistance Scheme and Self-Employed Assistance Scheme to support businesses and the self-employed who were financially distressed by the COVID-19 pandemic. Social benefits rose from Rs43.0 billion in FY2019-20 to Rs45.7 billion in FY2020-21 on account of provision of social relief during the confinement period. Transfer to Special Funds increased from Rs12.1 billion to Rs31.7 billion over the same period. In contrast, subsidies provided by Government dropped by Rs7.3 billion, from Rs15.6 billion to Rs8.2 billion. The budget deficit amounted to Rs24.6 billion in FY2020-21 compared to Rs63.6 billion in

FY2019-20. As a ratio to GDP, the budget deficit improved considerably from 13.6 per cent in FY2019-20 to 5.6 per cent in FY2020-21, primarily on account of the one-off exceptional contribution of Rs60 billion from the Bank of Mauritius. As a result, government borrowing requirements decreased from Rs69.8 billion in FY2019-20 to Rs40.0 billion in FY2020-21.

Outlook for FY2021-22

For FY2021-22, the budget deficit is estimated to remain contained at 5.0 per cent of GDP, reflecting Government's efforts to rein in the budget deficit and expectations of a robust rebound in economic activity. Recurrent revenue is estimated to rise by Rs6.7 billion, from Rs127.1 billion in FY2020-21 to Rs133.8 billion in FY2021-22. Taxes on goods and services are expected to increase by nearly Rs20.0 billion in FY2021-22 on the back of buoyant consumption spending while taxes on income and profits are forecast to rise by Rs6.4 billion.

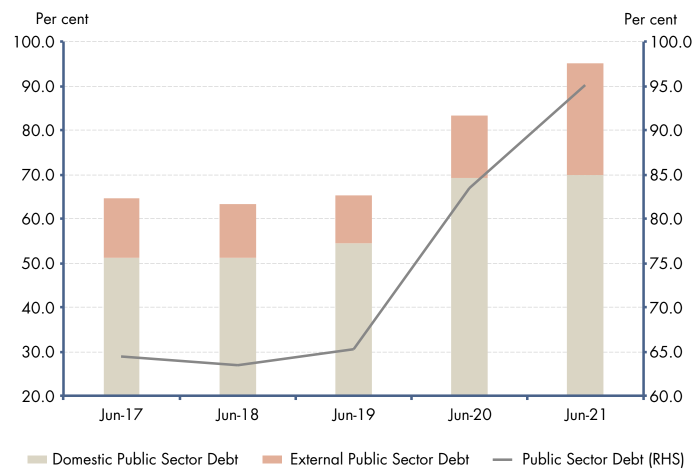
Government expenditure is estimated to drop by Rs17.5 billion, from Rs180.1 billion in FY2020-21 to Rs162.6 billion in FY2021-22. Recurrent expenditure is estimated at Rs135.3 billion, down by Rs1.1 billion compared to the preceding fiscal year mainly on the basis of declines in subsidies and other expense. Capital expenditure is forecast to be lower by Rs16.4 billion, mainly on account of a significant decrease in the transfer to special funds. Nonetheless, spending on major public sector infrastructure projects is anticipated to accelerate in FY2021-22 in a bid to boost economic growth. Acquisition of non-financial assets is forecast to increase from Rs8.0 billion in FY2020-21 to Rs13.9 billion in FY2021-22. Government borrowing requirements are estimated to amount to Rs30.6 billion, representing 6.1 per cent of GDP, and are projected to be fully financed from domestic sources.

Public Sector Debt

Although fiscal measures have undoubtedly supported individuals and businesses adversely impacted by the COVID-19, these measures have also led to a rise in public sector debt. Public sector debt rose by nearly 10 per cent, from Rs381.8 billion as at end-June 2020 to Rs419.3 billion as at end-June 2021. Budgetary Central Government domestic debt fell by 1.5 per cent, from Rs299.4 billion to Rs294.6 billion, reflecting the drop in the issuance of Government securities of short and medium term tenors. In contrast, issuance of long-term securities increased by 9.0 per cent from Rs195.2 billion as at end-June 2020 to Rs212.1 billion as at end-June 2021. Budgetary Central Government external debt rose from Rs43.7 billion to Rs85.3 billion during the period under review.

Public sector debt increased from 83.4 per cent of GDP as at end-June 2020 to 95.0 per cent of GDP as at end-June 2021 (Chart 2.25). Public sector domestic debt, which accounts for almost 70 per cent of GDP, declined from Rs317.0 billion to Rs308.0 billion. In contrast, public sector external debt increased from Rs64.8 billion as at end-June 2020 to Rs110.9 billion as at end-June 2021, representing 25.1 per cent of GDP.

Chart 2.25: Public Sector Debt as a Ratio to GDP



GLOBAL ECONOMIC DEVELOPMENTS

The global economy continued to recover but the growth momentum has weakened amid the headwinds from the Delta variant and supply chain disruptions. In its October 2021 World Economic Outlook report, the IMF trimmed its 2021 global growth forecast to 5.9 per cent, from the 6.0 per cent forecast made in July 2021. Lingering supply disruptions and softer consumption have led to some downward revisions for some advanced economies. In particular, growth in the US was marked down by 1.0 percentage point (p.p.) to 6.0 per cent, while that of the UK was downgraded by 0.2 p.p. to 6.8 per cent. The IMF also cut growth forecasts for other advanced economies - Germany's growth was reduced by 0.5 p.p. to 3.1 per cent while Japan's growth was lowered by 0.4 p.p. to 2.4 per cent.

Growth in Emerging Market and Developing Economies has been revised slightly upward to 6.4 per cent in 2021 while growth in Low-Income Developing Countries was scaled down by 0.9 p.p. to 3.0 per cent amid evolving pandemic trends and slow roll-out of vaccines. China's

2021 growth forecast was trimmed by 0.1 p.p. to 8.0 per cent, mostly due to a faster-than-expected scaling back of public investment spending. India's growth forecast was unchanged at 9.5 per cent but prospects in other emerging Asian countries have weakened due to a worsening of the pandemic. The IMF underscored vaccine access as the determining factor in driving the global recovery, in particular gaps in recovery momentum across economies. Global growth forecast for 2022 was maintained at 4.9 per cent, assuming further progress in vaccine coverage and accommodative fiscal and monetary support remain in place.

Global inflationary pressures surfaced in FY2020-21 given unusual pandemic-related developments and supply-demand mismatches, although these factors were expected to be transitory. The upturn in headline inflation rates also reflected the recovery in energy and other commodity prices and a surge in freight and shipping costs. The IMF projects global inflation to increase from 3.2 per cent in 2020 to 4.3 per cent in 2021.

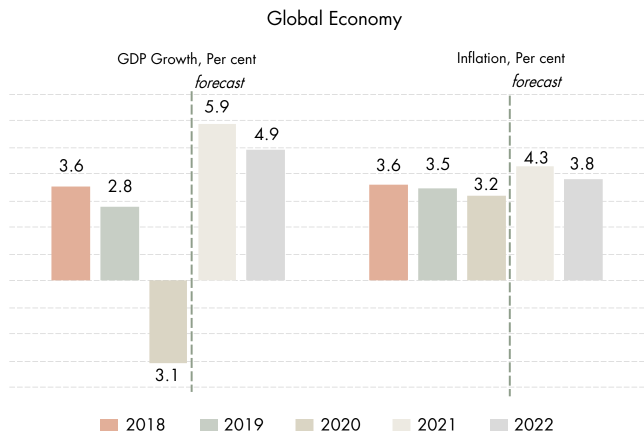
The global oil market has witnessed a significant improvement during FY2020-21. The pick-up in oil demand as economies re-opened, coupled with a large drop in oil inventories and reduced uncertainty resulted in a strong rebound in crude oil prices, surpassing levels reached before the pandemic. Market confidence also improved as OPEC and participating non-OPEC countries have, in the Declaration of Cooperation, undertaken to maintain strong conformity levels in their voluntary production adjustments. ICE Brent traded at USD75.13 a barrel at end-June 2021 compared to USD41.15 at end-June 2020.

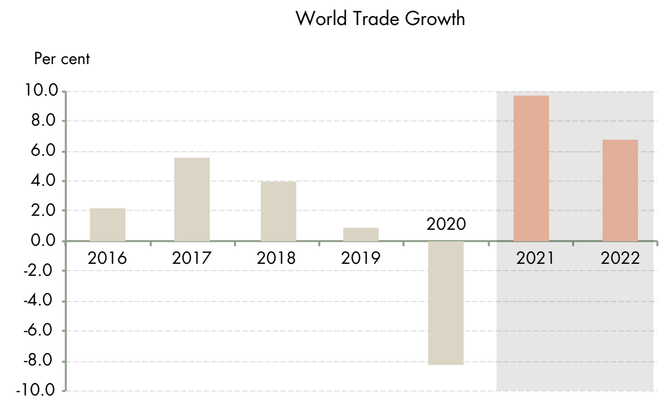
The Food and Agriculture Organisation (FAO) Food Price Index, which provides a broad indication of movements of global food prices, increased in FY2020-21 due to higher prices of almost all of its sub-components, barring meat. The FAO Food Price Index rose by 15.3 per cent in FY2020-21 compared to FY2019-20, mainly reflecting a surge of 50.4 per cent in the price of vegetable oil due to production slowdown in leading producing countries and firm global import demand.

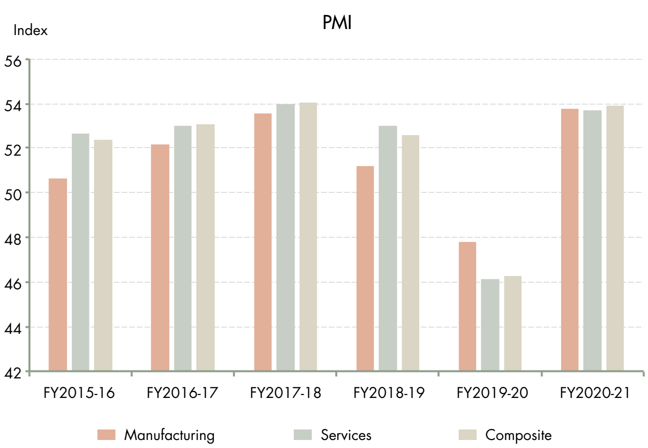
Global financial conditions remained accommodative to support economic recovery. Central banks in major advanced economies, notably US Federal Reserve, European Central Bank and the Bank of England, have maintained their asset purchase programmes during FY2020-21. Their decision to keep policy rates unchanged reflected, to some extent, anchored inflation expectations as well as the view that price increases were temporary. In contrast, several central banks in major emerging economies such as Brazil, Russia, Turkey and Mexico tightened monetary policy in 2021 to contain domestic inflationary pressures.

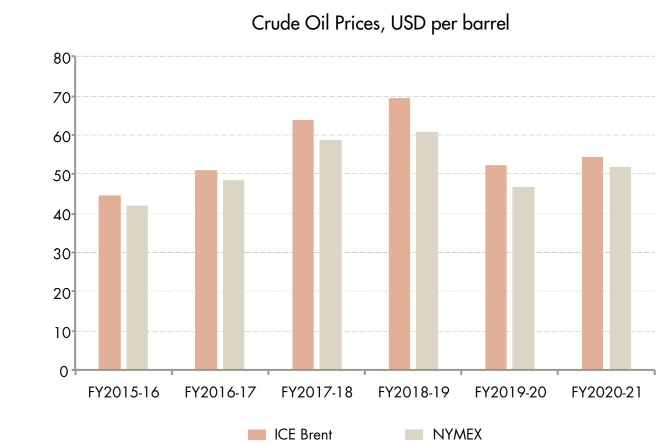
Receding uncertainty as a result of progress in vaccine roll-out, coupled with expectations of prolonged accommodative US monetary policy, undermined the performance of the US dollar in FY2020-21. The Dollar Index decreased by 6.3 per cent in FY2020-21 as against a gain of 2.0 per cent in FY2019-20. The euro appreciated by 7.9 per cent against the US dollar, trading at an average of USD1.19 in FY2020-21 compared to USD1.11 in FY2019-20, on account of increased market confidence in the recovery of the euro area economy and improving global economic climate.

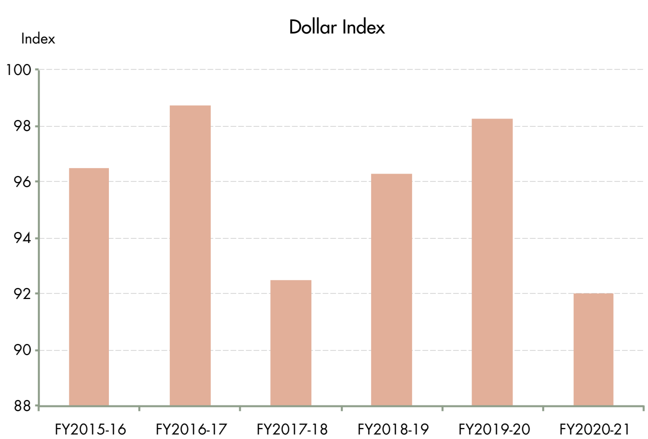
Selected Global Economic Indicators

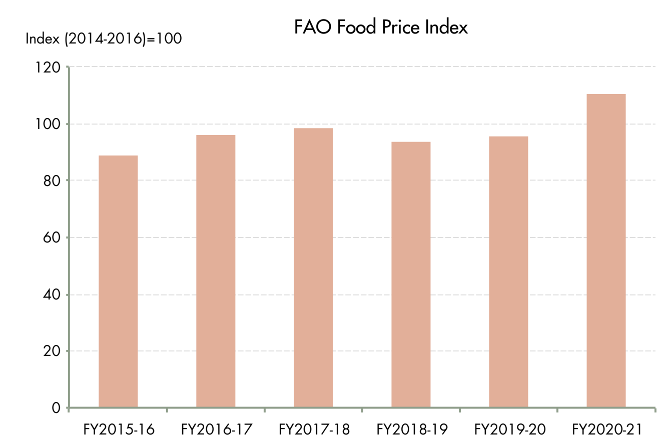












Sources: IMF, Markit, Reuters and FAO.

REVIEW OF THE ECONOMY

MONETARY POLICY DURING FY2020-21

The Monetary Policy Committee (MPC) of the Bank met on three occasions during FY2020-21 and voted unanimously at these meetings to keep the Key Repo Rate (KRR) unchanged at 1.85 per cent per annum.

The 56th meeting of the MPC was held on 8 July 2020. The MPC noted that the global economy remained fraught with uncertainty as countries continued to be subject to the adverse effects of the COVID-19 pandemic, resulting in global growth downgrades. Weaker domestic demand due to national lockdowns and low commodity prices further pushed global inflation down. MPC members discussed the effects of the pandemic on the domestic economy and noted that output had been adversely impacted by the imposition of confinement measures. The Mauritian economy, in particular key sectors such as tourism and manufacturing, was already being buffeted by the pandemic. Members noted that household consumption and private investment would remain subdued in 2020. Domestic inflation had remained low and stable and was projected to remain broadly contained, barring exogenous shocks. Members concurred that there might be a paradigm shift in the way monetary policy had been operating and discussed the role of monetary policy, including unorthodox measures taken to support the economy during the health crisis. While they viewed that the previous cumulative 150 basis points cut in the KRR was still working through the economy, they agreed that the current monetary policy stance was appropriate as it would help to revive growth and mitigate the impact of COVID-19 on the economy.

At its 57th meeting held on 23 September 2020, the MPC noted that the global economic landscape continued to remain subject to uncertainty due to the pandemic. The OECD had estimated that global output would contract at a lower rate of 4.5 per cent in 2020, underpinned mainly by better growth performance for China, US and the euro area. Global inflationary pressures remained contained amid low commodity prices, muted wage pressures and weak aggregate demand. On the domestic front, MPC members noted that domestic economic activity had started to recover from the lows of 2020Q2 following the lifting of confinement measures in June 2020. However, they conceded that the uncertainty characterising the economic outlook was quite strong and warranted caution. The MPC also viewed that risks to the inflation outlook remained on the downside in the absence of exogenous shocks. The low inflation environment was deemed to support economic growth and development. The MPC agreed that the principal concern for monetary policy ought to remain focused on supporting the recovery of the economy by keeping an accommodative monetary policy stance as long as necessary to revive growth.

The 58th MPC meeting was held on 4 February 2021, during which the Committee noted that the outlook for the global economy had improved following the successful development and roll-out of COVID-19 vaccines. Growth forecasts for the global economy and for some of Mauritius' major trading partners had been revised upwards. Nonetheless, MPC members acknowledged that the global economic environment remained subject to uncertainty and growth in a majority of countries would fall short of their pre-pandemic levels in the near term. Global inflation also remained subdued and below targets. Turning to the domestic economy, members noted that output had recovered during 2020Q3 following the lifting of confinement measures. Consumption expenditure had also rebounded. In discussing the outlook for real GDP growth, MPC members took note that the forecasts under the baseline scenario had been revised upward, reflecting the improving global economic outlook and resiliency of the domestic economy. With regard to the outlook for inflation, they agreed that underlying inflationary pressures were expected to remain subdued in 2021. MPC members viewed that the current monetary policy stance supported economic recovery.