IMF Executive Board Concludes 2009 Article IV Consultation with Mauritius

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On January 13, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[1]

Background

Economic growth has slowed sharply in the wake of the global financial crisis, but is expected to rebound next year. Output growth slowed from 4.2 percent year percent in 2008 to less than 2 percent in 2009 as key drivers of growth (tourism, textiles, and construction) contracted. Inflation has fallen to the low single digits as a result of lower global food and commodity prices and the slowdown of the domestic economy. The current account deficit has narrowed as lower imports have more than offset the contraction of external demand.

The authorities' policy response was commendably prompt and comprehensive, including a fiscal stimulus package of some 5 percent of Gross Domestic Product (GDP) over the period July 2009-December 2010. The well-targeted and temporary package is intended to cushion the economy against the impact of the global economic crisis. The government was prescient in having saved some 3 percent of GDP in special funds for such a rainy day. For the post-crisis strategy, the key challenge will be to resume fiscal consolidation without jeopardizing the recovery. Given the uncertain outlook, the government has rightly decided to keep some stimulus measures contingent; the 2010 deficit is now expected to be 4½ percent of GDP. Further fiscal consolidation of public debt is important to reduce risks inherent to a relatively high level of public debt. Forward-looking debt sustainability analyses show that public and external debt should remain sustainable over the medium term. The 2008 Public Debt Management Act will serve to instill fiscal discipline and help ensure debt remains sustainable.

With inflationary pressures subdued, and the economic outlook uncertain, the monetary policy stance appears appropriate. In the wake of the crisis, the Monetary Policy Committee of the Bank of Mauritius (BoM) reduced the key Repo rate to 5.75 percent per year in successive steps and has kept it unchanged over the past few months pending further indication of the state of the economy. The BoM has refrained from intervention since December 2008, and the floating exchange rate has remained stable against the U.S. dollar.

The Mauritian banking system has withstood the impact of the global financial turmoil. Banks' conservative business practices, their strong initial balance sheets, and the "Mauritius Approach"—providing temporary financial relief to firms hit by the crises—have kept the financial system sound. Capital adequacy, liquidity, and profitability of the banking system remain sound, and the system appears resilient.

Measures to enhance efficiency in the public sector and to meet Special Data Dissemination Standard (SDDS) subscription requirements are well under way. Labor market reforms have been enacted, and service delivery and efficiency of the public sector is improving, especially in regard to social protection. The authorities are on track to improve the coverage of external statistics and to apply for SDDS subscription by mid-2010.

The medium-term growth forecast remains benign, but there is significant uncertainty because Mauritius' growth prospects depend heavily on the global economy. Economic growth is projected to increase to 5 percent per year by 2011, reflecting a reversal of the growth contraction in the EU, Mauritius' main market for exports and tourism. But further deterioration of the external accounts cannot be ruled out if global demand remains sluggish and capital inflows dry up. And if world demand does begin to pick up too rapidly, there is a risk that a surge in oil prices could more than offset a rebound in demand for Mauritian exports, causing a deterioration of the trade deficit, larger financing requirements, and inflationary pressures.

Executive Board Assessment

Executive Directors commended the Mauritian authorities for their prompt and comprehensive policy response, which has been instrumental in cushioning the economy from the fallout of the global financial crisis. The size of the targeted and temporary fiscal stimulus package, and the extent of the monetary easing, were well-calibrated to the magnitude of the external shock. Directors commended the authorities' implementation of far-reaching reforms in recent years and their track record of strong policy responses to unexpected shocks.

Given the uncertain outlook, and the challenge of resuming fiscal consolidation without jeopardizing the recovery, Directors supported the authorities' decision to keep some stimulus measures in reserve, to be deployed only if the economy falters. While agreeing on the accommodative fiscal stance, Directors underscored that fiscal consolidation remains important for reducing the vulnerabilities inherent in a still-relatively high level of public debt, as well as for narrowing the current account deficit. Although immediate financing risks appear limited, reducing public debt further will help create fiscal space for meeting contingencies and the eventual costs of an aging population. In this context, Directors noted that the recent public debt management law will strengthen fiscal discipline and help ensure medium-term sustainability.

Directors welcomed the authorities' efforts to secure external financing while underscoring that this financing should not widen the deficit. They supported the authorities' intention to adopt a pragmatic combination of using external financing to the extent it corresponds to capital imports for public investment, limiting the substitution of domestic borrowing to what the market can absorb, and treating part of the external funds as precautionary.

Directors viewed the monetary and exchange rate framework as well-suited to the needs of the Mauritian economy. They encouraged the authorities to take advantage of the currently low inflationary pressures to help anchor inflationary expectations at a lower rate than previously. In this vein, Directors supported the authorities' intention to compile additional high-frequency indicators as well as to further develop analytical tools to better understand inflation dynamics and monetary policy transmission.

Directors noted that, despite the slowdown, the Mauritian banking system remains well-capitalized and appears resilient. They welcomed the move towards greater risk-based financial sector supervision and looked forward to the early implementation of the remaining recommendations of the 2007 Financial Sector Assessment Program.

Directors supported the recent improvements in service delivery and efficiency in the public sector, particularly with regard to the social protection system. They called for further efforts to rationalize social assistance to target the poor and to empower people to seize new labor market opportunities.

Directors considered that the key objectives for the medium term are to reduce further the level of public debt, refine the monetary policy framework, and sustain financial sector and structural reforms. Achieving these objectives would raise productivity, further improve the economy's resilience, and better position Mauritius to compete with other emerging market economies, including as a financial center. Directors also supported the authorities' efforts in pressing forward with data improvements, including to the balance of payments, so as to meet the SDDS requirements by mid-2010.

Directors welcomed the establishment of the new Fund regional technical assistance center, AFRITAC South, in Mauritius.

Mauritius: Selected Economic and Financial Indicators, 2005–2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
					Projections				
	(Annual percent change, unless otherwise indicated)								
National income, prices and employment									
Real GDP									
Market prices	1.5	3.9	5.4	4.2	1.5	4.1	4.7	4.9	5.0
Factor costs	2.4	5.2	5.5	5.2	2.7	4.1	4.7	5.1	5.2
Real GDP per capita	0.7	3.2	4.7	3.3	0.7	3.3	4.0	4.2	4.3
GDP deflator	4.0	7.2	8.3	8.1	4.0	5.0	5.0	5.0	5.0
Domestic demand at current prices 2	13.0	17.8	14.2	12.2	7.8	9.5	8.4	7.2	9.3
Consumer prices (period average)	4.9	9.0	8.8	9.7	3.0	4.3	4.2	4.2	4.2
Consumer prices (end of period)	3.9	11.8	8.7	6.8	4.0	3.0	4.9	4.5	4.1
Unemployment rate (percent)	9.6	9.1	8.5	7.2	…	…	…	…	…
External sector									
Exports of goods,	7.3	8.9	-4.7	7.3	-23.5	7.2	3.1	3.6	2.9

f.o.b.									
Of which: tourism receipts	2.2	15.6	29.0	11.5	-24.4	5.1	5.0	7.1	9.1
Imports of goods, f.o.b.	14.0	16.4	6.0	20.6	-24.5	9.5	4.1	4.5	6.5
Nominal effective exchange rate (annual averages)	-7.4	-7.0	-4.4	7.8	-4.0	...	...	...	...
Real effective exchange rate (annual averages)	-3.8	-0.7	1.2	13.0	4.1	...	...	...	...
Terms of trade	-8.4	-5.8	-1.0	-1.1	1.6	...	...	...	...
	(Annual change in percent of beginning of period M2, unless otherwise indicated)								
Money and credit 2									
Net foreign assets	6.9	48.8	13.1	8.1	3.7	13.7	6.9	7.0	7.1
Domestic credit	14.7	10.2	11.7	22.5	8.9	14.6	12.9	13.6	13.3
Net claims on government	1.6	0.5	-0.3	0.6	-1.3	4.9	0.3	-0.4	0.2
Credit to private sector 3	13.0	9.7	12.0	21.9	10.3	9.6	12.6	14.0	13.2
Broad money (end of period, annual percentage change)									

Income velocity of broad money	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Interest rate (weighted average TBs, primary auctions)									
	(Percent of GDP)								
Central government budget									
Overall balance (including grants)	-5.3	-4.6	-4.0	-3.4	-4.5	-4.5	-3.9	-3.0	-2.2
Primary Balance (including grants)	-1.8	-0.2	0.5	0.7	-1.1	-1.1	-0.7	0.2	0.7
Revenues and grants	20.1	19.3	22.0	22.5	21.1	21.9	20.9	20.3	20.6
Expenditure and net lending	25.8	23.6	25.7	26.1	25.6	25.9	24.7	23.1	22.7
Domestic debt of central government	51.4	46.6	45.6	43.8	42.6	41.4	38.5	34.2	31.1
External debt of central government	4.4	6.1	4.6	6.1	8.0	8.8	11.0	13.6	13.9
Investment and saving									
Gross domestic	21.4	24.3	25.1	24.6	26.3	26.2	24.6	24.6	24.8

investment									
Public	7.5	6.9	6.4	5.0	6.1	7.6	6.5	7.0	7.4
Private	14.0	17.3	18.7	19.6	20.2	18.5	18.1	17.6	17.4
Gross national savings	17.4	17.1	21.2	16.7	14.2	14.3	16.8	18.8	21.5
Public	-1.5	-1.1	-0.5	-1.1	-1.1	-0.8	-0.7	0.4	1.3
Private	18.8	18.2	21.7	17.9	15.3	15.1	17.5	18.4	20.1
External sector									
Balance of goods and services	-6.0	-11.3	-10.3	-14.7	-11.1	-11.4	-11.1	-10.4	-10.3
Exports of goods and services, f.o.b.	59.9	61.6	58.8	52.9	45.1	45.2	44.2	43.1	41.8
Imports of goods and services, f.o.b.	-65.9	-72.9	-69.0	-67.5	-56.2	-56.6	-55.3	-53.5	-52.1
Current account balance	-5.2	-9.4	-5.6	-10.4	-8.1	-8.5	-8.0	-7.5	-6.9
Overall balance	-2.6	-2.2	5.9	1.7	5.4	0.0	1.5	0.6	0.9
Total external debt 4	13.9	12.7	11.4	12.0	13.8	12.2	15.9	18.0	17.3
Net international reserves, BOM (millions of U.S. dollars)	1,361	1,297	1,814	1,784	1,989	2,039	2,088	2,152	2,375

Net international reserves, BOM (months of imports of goods, c.i.f.)	5.2	4.3	5.6	4.6	6.6	6.6	6.5	6.4	6.7
Memorandum item:									
GDP at current market prices (millions of Mauritian rupees)	185,349	206,328	235,519	265,196	280,264	305,219	334,500	367,400	408,760
GDP at current market prices (millions of U.S. dollars)									…
Foreign currency long-term debt rating (Moody's)									

Sources: Bank of Mauritius; Central Statistics Office; Ministry of Finance and Empowerment; Moody's; and IMF staff estimates and projections.
[1] Excluding changes in stocks.
[2] Percent of beginning of period M2. End-2009 data refer to June.
[3] Includes credit to parastatals.
[4] Reported debt only, excluding private sector short-term debt.

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[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. 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.