INTERNATIONAL MONETARY FUND

Staff Country Reports

July 2002
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Mauritius: 2002 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion

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 2002 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 15, 2002,** 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 April 22, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its May 24, 2002 discussion** of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Selected Issues and Statistical Appendix paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

MAURITIUS

Staff Report for the 2002 Article IV Consultation

Prepared by the Staff Representatives for the 2002 Consultation with Mauritius

Approved by Jürgen Reitmaier and Shigeo Kashiwagi

April 22, 2002

- The 2002 Article IV consultations were held in Port Louis from January 30 to February 15, 2002. The mission met with the Prime Minister, Sir Anerood Jugnauth; Deputy Prime Minister and Minister of Finance, Mr. Paul R. Bérenger; Governor of the Bank of Mauritius, Mr. Rameswurlall Basant Roi; Minister of Economic Development, Financial Services, and Corporate Affairs, Mr. Sushil Khushiram; Financial Secretary, Mr. Philippe Ong Seng; other senior government officials; and business and labor representatives.
- The staff team comprised Mr. Coe (head), Mr. El-Masry, Ms. Khandelwal (all AFR), Mr. Mnyande (AFR, on secondment from the Reserve Bank of South Africa), and Mr. Rasmussen (TRE). Mr. Barro-Chambrier (Executive Director for Mauritius) attended the meeting with the Prime Minister, and his Advisor, Mr. Ismael, participated in most of the policy discussions. The surveillance mission overlapped with a technical assistance mission from the IMF's Statistics Department on government finance statistics led by Mr. Weisman. A parallel World Bank mission, which was visiting Mauritius to continue discussions with the authorities on a Public Expenditure Reform Loan, participated in some of the technical meetings.
- Mauritius is on the standard 12-month consultation cycle. At the conclusion of the 2001 Article IV consultation on May 14, 2001, Executive Directors underscored the need for (i) medium-term fiscal consolidation, with a credible front-loaded effort; (ii) increased transparency in public finance; (iii) a reorientation of tax policy to raise domestic tax revenues while further lowering international trade taxes; (iv) a strengthening of the monetary policy framework; and (v) greater flexibility in the labor market.
- Mauritius accepted the obligations of Article VIII, Sections 2(*a*), 3, and 4 on September 29, 1993, and its exchange system is free of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account.
- Mauritius's relations with the IMF, including recent technical assistance, are summarized in Appendix I, and its relations with the World Bank Group in Appendix II. The quality and timeliness of Mauritius's reporting of core data and other economic and financial statistics, are, in general, satisfactory for conducting surveillance. Statistical issues are discussed in Appendix III, and social and demographic indicators are presented in Appendix IV.
- The staff report was prepared by Mr. Coe and Mr. El-Masry, with contributions from Ms. Khandelwal and Mr. Rasmussen.

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ABBREVIATIONS

AFR	African Department of the IMF
AGOA	African Growth and Opportunity Act
BOM	Bank of Mauritius
BPML	Business Park of Mauritius, Limited
CEB	Central Electricity Board
CPE	Completion of primary education
CSO	Central Statistics Office
EPZ	Export processing zone
FAD	Fiscal Affairs Department of the IMF
FSAP	Financial Sector Assessment Program
FSC	Financial Services Commission
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
ICT	Information and communications technology
IFC	International Finance Corporation
IFS	*International Financial Statistics*
LEG	Legal Department of the IMF
MAE	Monetary and Exchange Affairs Department of the IMF
MOBAA	Mauritius Offshore Business Activities Authority
MSS	Mauritius Sugar Syndicate
MUR	Mauritian rupee(s)
NRB	National Remuneration Board
PAT	Permanent Arbitration Tribunal
PERL	Public Expenditure Reform Loan (World Bank)
ROSC	Report on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard
SSA	Sub-Saharan Africa
STA	Statistics Department of the IMF
STC	State Trading Corporation
TRE	Treasurer's Department of the IMF
UMIC	Upper-Middle-Income Countries
VAT	Value-added tax

Exchange rate on March 31, 2002: US$1 = MUR 30.74

Executive Summary

- Mauritius has weathered the global economic slowdown relatively well. The tourism sector rebounded in the second half of 2001, after a weak start earlier in the year, and sugar output in 2001/02 (July-June) is expected to be at a 17-year high. The export processing zone and financial and telecommunication services are also expected to grow robustly. Monetary conditions are appropriately tight, with the modest rise in consumer price inflation mainly reflecting transitory factors. The external current account is likely to be in moderate surplus in 2001/02, and the overall balance of payments could register a surplus of about 2-3 percent of GDP. Over the past 18 months, the Mauritian rupee has remained largely stable in real effective terms. In the absence of major shocks, economic activity in the coming years is likely to grow annually by about 5 percent.

- Notwithstanding this generally positive outlook, policymakers face a number of important challenges. First, government finances are likely to deteriorate further in 2001/02, with the budget deficit reaching about 6½ percent of GDP. As large capital projects are planned for the coming years, the fiscal situation could worsen further if remedial measures are not taken. Second, despite robust economic expansion in the past decade, unemployment has been rising steadily and could exceed 9 percent by the end of 2001/02, reflecting problems in education and training, as well as labor market rigidities. Finally, with preferential arrangements for the sugar and textiles industries gradually lapsing, these sectors are unlikely to contribute to future output and employment growth as they have in the past.

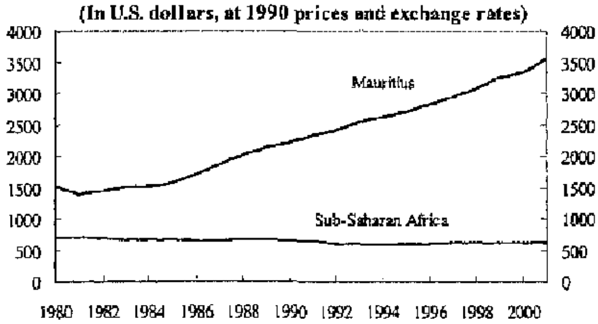
- To put fiscal policy on a sustainable basis, measures to reduce the deficit by at least 2 percent of GDP are needed in the upcoming budget for 2002/03, consisting mainly of moderation in expenditures, increases in indirect tax rates, and improvements in tax and customs administration. Over the medium term, the tax base should be broadened and made more equitable. Capital projects also need to be prioritized and implemented at a pace that does not generate excessive demand pressures. The government has indicated that it intends to take measures to contain the deficit at 6 percent of GDP in 2002/03 and reduce it to about 3 percent of GDP by 2005/06.

- To meet the long-term challenges of boosting productivity and providing employment opportunities for Mauritians, the authorities are investing heavily in education and infrastructure, including for a new information and communications technology sector. While the large public work projects in the coming two to three years could ease unemployment, institutional reforms are also needed to improve the functioning of the labor market.

I. RECENT ECONOMIC DEVELOPMENTS

1. **Over the past two decades, Mauritius has been one of the top economic performers in Africa, if not in the world.**[1] In the last 20 years, real output growth has averaged 5¾ percent a year. During the same period, real per capita income has more than doubled, social conditions have improved, and income disparities have narrowed. In addition, the country's high dependence on sugar exports for foreign exchange has been significantly reduced, as the economic base has been diversified to include export-oriented manufacturing, tourism, and financial services.

Real Per Capita GDP
(In U.S. dollars, at 1990 prices and exchange rates)



Sources: Central Statistics Office; Bank of Mauritius; and IMF staff estimates.

Social Indicators: Mauritius, Sub-Saharan Africa (SSA), and Upper-Middle-Income Countries (UMIC)

	1980		1999		
	Mauritius	SSA	Mauritius	SSA	UMIC
Life expectancy at birth			(In years)		
Female	68.7	49.4	74.9	47.7	72.5
Male	63.4	46.0	66.9	45.9	66.1
			(Per 1,000 live births)		
Infant mortality rate	32.0	114.5	18.8	92.4	27.5
Access to clean water [1]			(In percent of population)		
Urban	100.0	60.5	100.0	82.0	94.0
Rural	98.0	25.7	100.0	41.0	68.0
Adult illiteracy rate			(In percent of population aged 15 and above)		
Female	32.8	72.2	19.2	47.4	11.1
Male	18.7	50.6	12.4	31.1	8.9

Source: World Bank, *World Development Indicators*, 2001.
[1] Data for 1985 rather than 1980.

2. **The Mauritian economy has weathered the global economic slowdown relatively well.** Economic output is expected to expand by about 5¼ percent in 2001/02 (July-June), only slightly below its trend rate of growth of the past 20 years. Output in the export processing zone (EPZ) is likely to increase by about 6 percent in 2001/02, broadly in line with recent trends. However, the expected boost to Mauritius's exports to the United States from the recently enacted African Growth and Opportunity Act (AGOA) has not yet materialized, especially when compared with least-developed sub-Saharan African countries: Mauritius's exports to the United States increased in volume terms by 2.5 percent in 2001,

Selected Economic and Financial Indicators

	1999/00	2000/01 Prov.	2001/02 Proj.
	(Annual percentage changes)		
Real GDP	2.6	7.2	5.3
Consumer prices (period average)	5.3	4.4	6.0
Unemployment rate (in percent)	7.7	9.0	9.4
Real effective exchange rate [1]	5.8	2.8	-4.2
	(In percent of GDP)		
Overall fiscal balance (including grants)	-3.8	-5.7	-6.4
External current account balance	-1.6	1.8	1.5
Total public sector debt	59.8	57.4	59.6

Sources: Mauritian authorities; and IMF staff estimates and projections.
[1] Trade-weighted period averages. Data for 2001/02 are for July-December 2001.

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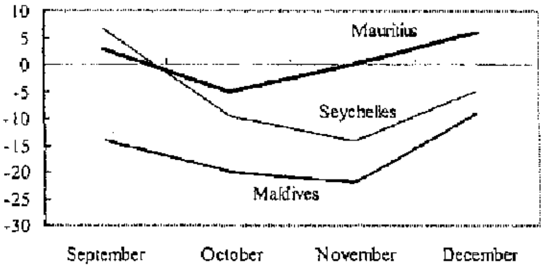
[1] See also Arvind Subramanian and Devesh Roy, "Who Can Explain The Mauritian Miracle: Meade, Romer, Sachs, or Rodrik?" IMF Working Paper No. 01/116 (Washington: IMF, 2001).

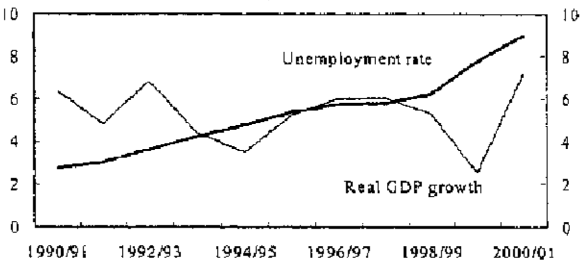
while those of Madagascar, Swaziland, and Lesotho rose by 82.8 percent, 55.4 percent, and 48.4 percent, respectively. This is mainly because of the rules-of-origin requirements that AGOA places on duty-free entry to the United States of apparel from non-least-developed sub-Saharan countries, such as Mauritius.[2] Recent political upheavals in neighboring Madagascar, and the resulting disruption in production and trade, have hurt the profitability of Mauritius's EPZ firms because of their investments in, and vertical integration with, Madagascar's EPZ. Tourism weakened somewhat in the second quarter of 2001, as economic activity in Mauritius's leading markets in Europe slowed, but it picked up, in the second half, partly reflecting Mauritius's reputation as a safe destination in the aftermath of September 11, 2001. Sugar output grew by 14 percent during the 2001/02 crop year to reach 645,000 tons, its highest level since 1987. Financial services, including offshore financial services, also continued to expand robustly, as did other services, such as transport and communications.

Tourist Arrivals, 2001
(Percent change from 12 months earlier)



3. **Notwithstanding the relatively robust economic growth over the past decade, unemployment has risen steadily and is projected to reach about 9 percent in 2001/02.** The paradox of high unemployment coexisting with approximately 16,500 foreign guest workers, predominantly employed in the EPZ, suggests a mismatch between the requirements of the workplace and either the job aspirations or skills of the unemployed workforce, as well as rigidities in the labor market and more general problems in education and training.[3]

Ouput and Employment
(In percent)



Sources: Central Statistics Office; and IMF staff estimates.

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[2] To qualify for duty-free access to the U.S. market, apparel from non-least-developed countries must be manufactured from yarn or fabric that originates in the United States or sub-Saharan Africa, which is estimated to be as much as 30 percent more expensive than alternative sources. Least-developed sub-Saharan African countries, such as Madagascar, are exempt from this rule-of-origin requirement until end-2004. Mauritian EPZ firms invested heavily in Madagascar to take advantage of this exemption.

[3] See "The Mauritian Labor Market" in the forthcoming Selected Issues and Statistical Appendix.

4. **Government finances are expected to deteriorate further in 2001/02, following the sharp deterioration in 2000/01.**[4] The main cause is higher capital expenditure on education and environmental projects, although this will be partially offset by lower current expenditures. Government revenue is likely to be broadly stable: a reduction in trade taxes will be balanced by higher value-added tax (VAT) revenue—the rate was increased from 10 to 12 percent on July 1, 2001—and higher nontax revenue from the liquidation of assets of the Mauritius Offshore Business Activities Authority.

Central Government Finances
(In percent of GDP)

	2000/01	2001/02 Proj.
Total revenue and grants	18.2	18.3
Tax revenue	16.2	15.6
Nontax revenue and grants	2.0	2.7
Total expenditures and net lending	23.9	24.7
Of which: current expenditures	21.5	19.9
capital expenditures	3.1	4.4
Overall balance	-5.7	-6.4
Primary balance	-1.3	-3.0

Sources: Ministry of Finance; and IMF staff projections.

5. **The aggregate financial balances of state-owned enterprises, whose total revenue in 2000/01 amounted to about 21 percent of GDP, improved in 2000/01 and are expected to strengthen somewhat in 2001/02.** Three main factors have contributed to the improvement of the operating balances of the parastatal sector: weaker international oil prices, which have lowered costs of the State Trading Corporation (STC, the importer and distributor of petroleum products), and of the Central Electricity Board (CEB); lower excise taxes on petroleum products and the zero rating of the VAT for electricity and water, which have improved the finances of the STC, the CEB, and the Central Water Authority; and an increase of about 11 percent in the average electricity price charged by the CEB, effective January 1, 2002. The financial situation of state-owned enterprises, however, remains weak, as utility and energy prices continue to be adjusted infrequently by the government.

Nonfinancial Public Sector Corporations[1]
(In percent of GDP)

	1998/99	1999/00	2000/01
Current balance	-0.6	0.8	1.8
Capital expenditure	2.2	2.7	2.5
Overall balance	-2.9	-2.0	-0.7

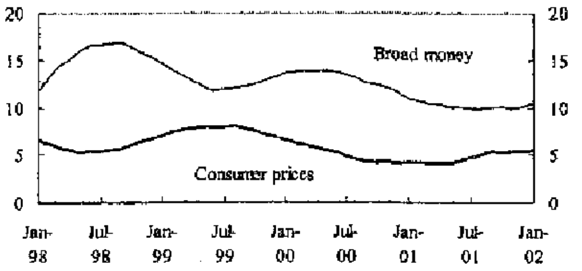
Sources: Ministry of Finance; and IMF staff estimates.
[1] Air Mauritius, the Central Electricity Board, the Central Water Authority, Mauritius Telecom, the State Trading Corporation, and five smaller corporations.

6. **Consumer price inflation fell in 2000/01, and underlying inflation pressures appear to be subdued.** The Bank of Mauritius (BOM) increased the Lombard rate twice in the second half of 2000 by a total of 100 basis points and then lowered it by an equal amount

[4] For a presentation of Mauritius's central government accounts using the *Government Finance Statistics Manual 2001* framework, see "The New Fiscal Framework" in the forthcoming Selected Issues and Statistical Appendix.

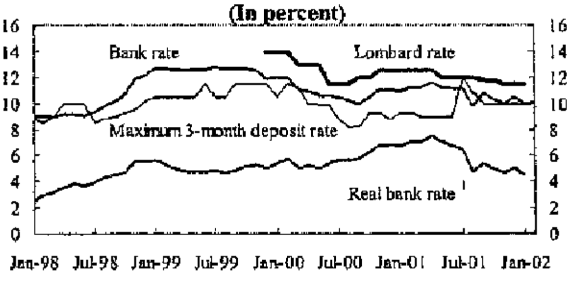
in three steps during 2001. Broad money expanded by about 10 percent in 2000/01 (year on year), compared with nominal GDP growth of 11 percent. While inflation in 2000/01 fell to 4.4 percent (12-month average) from 5.3 percent in the previous year, it subsequently picked up to 5.6 percent in February 2002, boosted by the depreciation of the Mauritian rupee during 2001 and a number of transitory factors, including the rise in the VAT rate, increases in electricity and other administered prices, and the impact on food prices of a cyclone in late February.

Broad Money and Inflation
(Annual average percentage change)



Sources: Bank of Mauritius; and Central Statistics Office.

Interest Rates
(In percent)



Source: Bank of Mauritius.

[1] Discounted by the annual average consumer price inflation rate.

7. **The Financial Services Development Act came into force in December 2001 with the formal establishment of the Financial Services Commission (FSC)** under the chairmanship of the Managing Director of the BOM. While the responsibility for regulating and supervising banks, both onshore and offshore, remained with the BOM (Box 1), the FSC was charged with regulating and supervising the nonbank financial sector. The FSC thus brought under one roof the regulation and supervision of all offshore financial services, other than banks, previously under the responsibility of the Mauritius Offshore Business Activities Authority (MOBAA); domestic insurance companies, previously under the responsibility of the Insurance Supervisor; and the Mauritius Stock Exchange and publicly traded companies, previously under the responsibility of the Stock Exchange Commission. A new Financial Services Promotion Agency was also set up to take over from MOBAA the promotion and marketing of the offshore sector. The new arrangement terminated MOBAA's potential conflict of interest of being both the regulator and promoter of the offshore sector. It is envisaged that after a transition period of three to four years the FSC and the Banking Supervision Department of the BOM will be merged into one integrated supervisory agency.

Box 1. Banking Soundness and Supervision

In recent years, the BOM has revised and issued several guidelines to banks concerning credit concentration limits, credit classification for provisioning purposes and income recognition, liquidity, Internet banking, related party transactions, and corporate governance. A guideline on transparency and public disclosure of information by banks is being prepared.

On March 8, 2002, the BOM revoked the license of the Delphis Bank—the fifth largest bank in Mauritius, with 4½ percent of the total assets of the banking sector. In so doing, the BOM explained that the bank's estimated losses in 2001, including from nonperforming placements in overseas banks and nonperforming loans to closely related parties, would more than wipe out its accumulated reserves and part of its paid-up capital.

Soon after its closure, the Supreme Court appointed a receiver manager to protect the assets of the Delphis Bank and to safeguard the interests of its depositors. Discussions are ongoing with a number of parties that have expressed an interest in taking over the Delphis Bank.

In a small economy such as Mauritius's, it is not uncommon for banks to have large credit exposures relative to their capital base. It is important, however, that excessive exposures, particularly to related parties, do not create risks that could seriously endanger the safety and soundness of the financial institution. Such large exposures can be a significant source of vulnerability, given the lack of a commercial court and the difficulty in enforcing property rights within a reasonable time span.

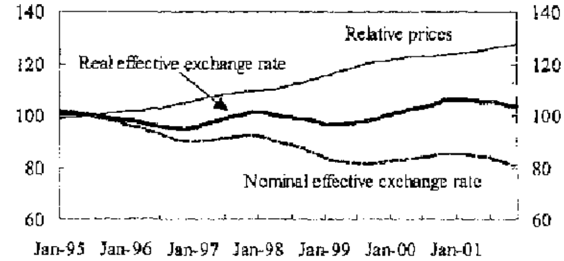
Indicators of the Domestic Banking Sector
(In percent, unless otherwise indicated)

	June 1999	June 2000	June 2001	Dec. 2001
Number of banks	10	10	10	10
Risk-weighted capital adequacy ratio	12.9	12.2	13.1	12.9
Total assets (in billions of Mauritian rupees)	97.2	110.0	118.3	126.7
Total deposits (in billions of Mauritian rupees)	75.8	84.5	92.0	97.5
Total private sector credit growth (annual percent change)	21.3	13.0	8.2	9.4
Loans/deposits	80.2	81.9	82.2	81.8
Large credit exposure/capital [1]	278.0	268.0	243.0	270.1
Nonperforming loans/total loans	9.0	8.1	7.7	...
Loan provisions/nonperforming loans	37.4	36.6	34.2	...
Return on equity	24.0	20.6	20.3	...

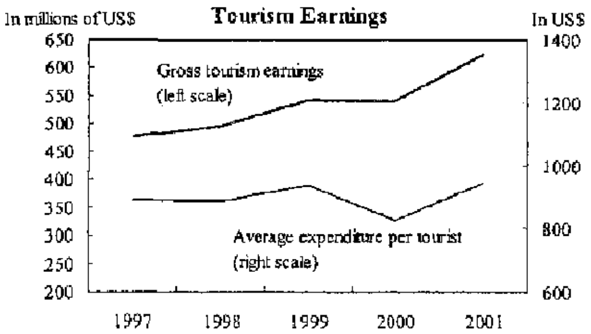
Source: Bank of Mauritius.

[1] The aggregate large exposure is the sum of all exposures that individually exceed 15 percent of a bank's capital base.

8. **The external current account swung from a deficit of 1.6 percent of GDP in 1999/2000 to a surplus of 1.8 percent of GDP in 2000/01.**[5] There was a significant improvement in the trade balance, reflecting a strong recovery in sugar exports (up by about 25 percent in U.S. dollar terms) and lower imports of inputs for the EPZ.[6] In the capital and financial accounts, net inflows of foreign direct investment of US$228 million, mainly reflecting the sale by the government of 40 percent of Mauritius Telecom to France Telecom, more than offset the final repayment on the floating rate note of US$117 million. The real effective appreciation of the Mauritian rupee during 1999 and much of 2000 was partly reversed during 2001. In 2001/02, the current account is expected to remain in modest surplus, higher imports of aircraft and ships will be offset by increased sugar exports and lower petroleum imports, reflecting weaker international oil prices. Tourism earnings are also expected to pick up, boosted by a significant recovery in average expenditure per tourist.[7] Absent the large foreign direct investment of the previous year, the overall balance is expected to register a lower surplus, of about 2½ percent of GDP, in 2001/02.



Source: IMF, Information Notice System.



Sources: Central Statistics Office; and Bank of Mauritius.

[5] The improvement in the current account in 2001, together with the decline in government savings and investment implies a substantial increase in private sector savings; see "Private Savings in 2000/01" in the forthcoming Selected Issues and Statistical Appendix.

[6] The value added of goods manufactured and exported by EPZ enterprises appears to be rising, as suggested by the declining trend of imported inputs as a percent of exports of the EPZ. This ratio fell to below 51.6 percent in 2000/01, compared with 64.5 percent in 1997/98.

[7] Gross tourism revenues were stable in U.S. dollar terms during 2000/01, even though tourist arrivals increased by about 6.2 percent, suggesting that the industry offered significant discounts, particularly to its main markets in Europe, to compensate for the Mauritian rupee's appreciation vis-à-vis the euro. Based on provisional data for the second half of 2001, a strong rebound in average expenditure per tourist is expected in 2001/02.

II. Policy Discussions

9. Notwithstanding the generally strong recent economic performance, as well as the positive outlook discussed below, there are a number of **challenges facing policymakers:**

- The most immediate challenge comes from the large and growing fiscal deficits of 5¾ and 6½ percent of GDP in 2000/01 and 2001/02.
- A second challenge is that the sugar, tourism, and EPZ sectors are unlikely to contribute to future output and employment growth to the same extent as during the past two decades.
- The third challenge is the steady rise in unemployment despite relatively robust economic growth over the past decade.

The discussions with the authorities focused on the macroeconomic and structural policies needed to address these challenges.

A. Fiscal and Public Sector Policies

10. **The government has ambitious plans to strengthen future economic performance**, including large capital investments in infrastructure and reforms to improve the education system and upgrade skills in the labor market. These measures are expected to improve the functioning of the labor market and contribute to the success of government plans to develop an information technology "Cyber City" (Box 2). The World Bank is supporting the government's reform efforts in education, poverty alleviation, environment, and economic management under a Public Expenditure Reform Loan (PERL).[8] There has also been considerable progress in implementing the Sugar Sector Restructuring Plan, which was agreed upon by workers, planters and millers, and the government. This plan aims to consolidate milling operations, shed excess labor—successful implementation of the Voluntary Retirement Scheme resulted in a reduction of about 27 percent of the workforce—and improve competitiveness in preparation for the expected erosion of the sugar industry's preferential access to the European market.[9]

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[8] In early May 2002, the World Bank's Executive Board is expected to consider the disbursement of US$40 million under the PERL, the first of potentially three annual installments of equal amounts.

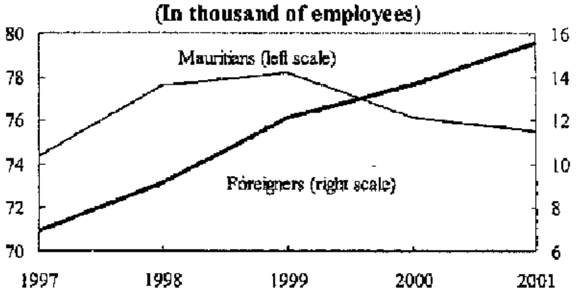
[9] See "Restructuring the Mauritian Sugar Sector" in the forthcoming Selected Issues an[d] Statistical Appendix.

Box 2. The Cyber City

The authorities are investing heavily to provide the necessary infrastructure for an information and communications technology (ICT) sector in Mauritius. The objective is to establish a regional ICT hub that would act as a new,"fifth" pillar to offer employment opportunities and help boost productivity in the whole economy.

While economic growth prospects in the near future appear favorable, with the current "four pillars" of sugar, the EPZ, tourism, and financial services continuing to drive economic activity, their combined long-term impact on growth and employment is likely to diminish for a number of reasons. First, the sugar sector is facing a gradual erosion of its preferential access to European markets, and employment will decline as excess labor is shed and production processes are rationalized. Second, while the EPZ has been growing by about 6–7 percent in recent years, the number of Mauritian workers has actually declined since 1999, while the number of foreign workers has continued to rise. The medium-term outlook for growth and employment in the EPZ is further clouded by the loss of preferential access to industrial markets with the elimination at the end of 2004 of quotas under the Multifibre Arrangement. Finally, although tourism may continue to grow robustly in the short to medium term, geographic, environmental, and social limitations will eventually impinge on its capacity to expand.

Employment in the EPZ
(In thousand of employees)



Sources: Central Statistics Office; and IMF staff estimates.

At the center of the government's ICT plan is the Ebene Cyber City, a business park of about 60 hectares located near the middle of the island, close to the University of Mauritius. The project involves a high-rise office tower, 50 plots of land to be leased to private firms, residential buildings, and a high-tech infrastructure. Currently under construction, the Cyber City is expected to be completed by September 2003 and to initially employ about 5,000 people. The Cyber City is supported by a line of credit of US$100 million from the government of India, on concessional terms, and is being developed in cooperation with Indian ICT enterprises. The authorities have established the Business Park of Mauritius, Limited (BPML), as the state-owned executing agency for the Cyber City. Half of the above line of credit will be channeled through the BPML, and the other half will be directed through the budget.

The strategy is to emulate the success of Bangalore, India as an ICT center by taking advantage of Mauritius's close ties to India, its bilingual English and French workforce, and its attractive location. Mauritius would initially act as a hub to transfer Indian ICT know-how to the francophone world, including in Africa. The Cyber City would build on Mauritius's good telecommunications network, soon to be bolstered by international high-bandwidth fiberoptic underwater connections to East Asia and South Africa. It would start operations with technologically simple call centers that provide customer and telemarketing services and other back-office ICT services. The Cyber City also hopes to attract international high-tech companies to Mauritius, where they could establish their regional headquarters for Africa and Asia.

The government is supplementing its investments in physical infrastructure with a comprehensive package of incentives to attract foreign companies to locate and invest in, and transfer know-how to, Mauritius. These include generous tax concessions and a "green card" visa system to provide foreign professionals with easy entry and work permits. Far-reaching reforms are also planned in primary, secondary, and tertiary education to improve the skills of the local workforce in order to sustain the ICT sector. The authorities have been encouraged by early positive responses. Contracts have already been signed for most of the available plots in the Cyber City, mainly with Indian ICT firms, but also with several local investors and leading U.S. high-tech firms.

11. Some of the large infrastructure projects have already started, including the construction of new schools and the upgrading of the sewerage system. **The increase in capital spending is a key factor in the expected widening of the fiscal deficit in 2001/02.** The mission cautioned that, based on current trends in revenue collections, planned capital spending in the next few years would widen the budget deficit even further, setting in motion potentially unsustainable debt dynamics. It emphasized that deficits of this size could adversely affect the government's credibility and private sector confidence, both domestically and internationally.

12. **The mission argued for a front-loaded fiscal effort of at least 2 percentage points of GDP in 2002/03.** Such an adjustment, which the private sector expected and supported, was also needed to ensure that the implementation of the capital investment program did not put undue upward pressures on interest rates and the real exchange rate. To achieve such a reduction in the fiscal deficit, the mission made a number of recommendations. On the expenditure side, the mission emphasized the importance of reviewing and prioritizing the planned capital investment projects in order to ensure that the pace of execution did not exert excessive demand pressures on wages and prices. The mission recommended that the level of capital spending that was not directly linked to concessional foreign financing be limited to 5 percent of GDP for the foreseeable future. On the revenue side, the mission proposed that the authorities do the following:

- increase the VAT rate on July 1, 2002, and broaden the base by including, at a minimum, water, electricity, and wastewater at the standard rate;
- raise the excise tax rate on diesel fuel from 25 percent to 50 percent or possibly 75 percent, and change the excise tax on diesel fuel and gasoline to a specific tax from an ad valorem tax to ensure a reliable source of tax revenue; and
- on grounds of equity, fairness, and efficiency, focus further revenue measures primarily on broadening the tax base by strengthening tax and customs administration, including through reductions in exemptions, elimination of loopholes, and improving collections, and by simplifying the tax system (Box 3).

13. **The authorities concurred with the mission's assessment of the difficult fiscal situation** and the need to moderate capital spending plans, as well as to enhance revenue collection. They agreed that the 2002/03 budget would be crucial in their efforts to strengthen the fiscal position, as it was prudent to undertake the needed adjustment earlier rather than later in the government's current mandate ending in 2005. **The authorities indicated that they would take measures to contain the fiscal deficit at below 6 percent of GDP in 2002/03 and reduce it to about 3 percent of GDP by 2005/06.**[10]

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[10] In late March 2002, the Minister of Finance made a public statement explaining the need for strong revenue actions in the forthcoming budget, including boosting VAT revenue, without which the fiscal deficit could reach about 8 percent of GDP in 2002/03.

Box 3. Tax Policy Recommendations

Mauritius's **corporate and personal income tax** collections amount to about 2½ percent of GDP, among the lowest in the world. The personal income tax captures only a small component of personal income, and many taxpayers, especially the self-employed, appear to be out of the tax net altogether. In this context, the mission made the following recommendations:

- For **corporate income taxes**, the system of loss carry forward should be limited to five years, except for new enterprises.

- For **personal income taxes**, the present complicated regime of special allowances for personal expenditures should be replaced by a more generous basic allowance for the taxpayer and his dependent(s). Fringe benefits at market value should be included in taxable income.

- On **investment income taxes**, interest and dividend income paid to individuals should be subject to a final withholding tax of 15 percent. Corporations should be exempt for intercorporate dividends and receive a tax credit for tax withheld on their interest income.

Revenue collections from **consumption and international trade taxes** have been weakening, as the VAT base has been continuously eroded through exemptions and the extension of zero rating to more goods and services. These measures also distort economic decisions and increase administrative burdens. Excise taxes on alcoholic beverages and tobacco are higher on imported goods than on domestically produced goods. Accordingly, the mission recommended the following:

- The standard **VAT rate** should be increased and applied to food products, agricultural inputs, books and music, and utilities, all of which are currently taxed at a zero rate or exempted from the VAT.

- **Excise taxes** on alcohol and tobacco products should be set in ad valorem terms at rates midway between those currently applied to domestic and imported goods. The excise tax on diesel fuel should be raised from 25 percent to at least 50 percent.

- **Customs tariffs** should continue to be lowered over the medium term in accordance with Mauritius's international obligations.

The above recommendations, if fully implemented, could enhance revenue collections by about 2 percent of GDP in the first year, and an additional 1 percent of GDP over the medium term.

14. **The mission also recommended the adoption of an automatic and transparent pricing mechanism for petroleum products,** so that domestic prices would be adjusted regularly to reflect changes in world prices and exchange rates. This mechanism would remove the government from politically sensitive domestic petroleum pricing decisions and ensure that the State Trading Corporation did not suffer losses in the future that would have to be borne by the budget. The authorities indicated that they were considering implementing such a pricing mechanism in the near future. The mission also urged the authorities to ensure that other state-owned enterprises were operated on a commercial basis, including by allowing them to set prices free from government control.

B. Financial Sector Policies

15. **The mission considered that the stance of monetary policy was appropriately tight.** In the absence of additional shocks, inflation could be expected to fall following the temporary increase this fiscal year. If the VAT rate is increased in July 2002 in line with the mission's recommendation, monetary policy will need to remain tight, so that, after accommodating the one-off impact of the VAT on the consumer price index, inflation would fall to levels consistent with the BOM's informal target of 3–5 percent. Given that the budget was likely to remain in substantial deficit in the short term, the mission urged the monetary authorities to tighten policy, if necessary, in response to emerging excess demand pressures; as inflation declined, there would be scope to lower interest rates.

16. **The adoption by the BOM of an *informal* inflation-targeting framework for monetary policy was welcomed by the mission as a positive development.** The mission encouraged the authorities to consider whether it would be appropriate to move to a *formal* inflation targeting framework in the future. To prepare for this, more work would need to be done to understand better the monetary policy transmission mechanism in Mauritius.[11] The authorities were also encouraged to consult with other central banks that had successfully adopted an inflation-targeting approach to monetary policy.

17. **The mission urged the BOM to terminate the practice of providing subsidized loans to certain sectors and companies** (Box 4), because such quasi-fiscal operations undermined the credibility of the central bank. If the loans were considered vital to the national interest, as might have been the rationale behind the provision of the concessional credit line to the sugar sector, they should be channeled through the government budget in a transparent manner. The authorities indicated that the central bank's practice of providing concessional loans would be discontinued when the current credit lines had lapsed.

18. **The government has been considering revisions to the Bank of Mauritius Act aimed at increasing the independence of the central bank, strengthening its supervisory capabilities, and making it more accountable.** The mission urged that two key principles be more clearly reflected in the draft legislation: the primary objective of the BOM should be to ensure price stability; and, in the pursuit of its objectives, the BOM should be independent. The authorities agreed that the revised act should clearly reflect these two principles.

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[11] See "Money Demand in Mauritius" in the forthcoming Selected Issues and Statistical Appendix.

Box 4. Concessional Lines of Credit by the Bank of Mauritius

As of the end of February 2002, primary credit lines were being provided by the BOM to the sugar industry and to firms in the EPZ. There was also at least one outstanding concessional loan to a private bank.

The EPZ special line of credit, which dates from November 2000, is aimed at enabling companies to modernize their equipment and benefit more fully from the opportunities arising from the African Growth and Opportunity Act. Under this scheme, commercial banks are allowed to borrow funds from the BOM at 5 percent below the prevailing Lombard rate, and to on-lend these funds to EPZ companies at 2½ percent below the Lombard rate, or about 6½ percent below the prevailing market rate. The total line of credit is limited to MUR 800 million, with a grace period of two years out of a total of five years for repayment of principal. If fully disbursed, this would imply an annual subsidy to the EPZ of about MUR 52 million. The total amount disbursed under this special line of credit was about MUR 350 million at the end of January 2002.

The purpose of the concessional line of credit for the sugar industry is to help finance the cost of the Voluntary Retirement Scheme. The scheme is limited to MUR 2 billion, with up to MUR 1.5 billion to be disbursed during 2001/02. Commercial banks are allowed to borrow funds from the BOM at a concessional rate of 5½ percent for the purpose of on-lending to the sugar sector at a rate of 7½ percent. These loans carry a grace period of 2½ years on amortization payments and must be repaid in full within six years from the date of disbursement. If fully disbursed, these loans would imply an annual subsidy to the sugar sector of about MUR 116 million. As of the end of January 2002, approximately MUR 680 million had been disbursed.

In January 1997, the BOM gave a concessional loan of MUR 250 million to the now defunct Delphis Bank to facilitate its takeover of Union Bank, which had been shut down by the BOM five months earlier. The loan carries an interest rate of 3 percent and is repayable in full by January 2003.

19. **The mission welcomed the recent establishment of the FSC to provide unified supervision of the nonbank financial sector** and thanked the authorities for responding to the Fund's voluntary Questionnaire on Anti-Money Laundering and Combating the Financing of Terrorism Policies and Institutions. **Recognizing the importance of these issues, the authorities enacted comprehensive legislation in late February 2002 to combat money laundering, terrorism and its financing, as well as corruption** (Box 5). The Mauritian authorities have agreed to participate in the joint Fund/World Bank Financial Sector Assessment Program (FSAP), and a mission is scheduled to visit Port Louis in the second half of 2002. The FSAP mission will then be able to update the authorities' responses to the questionnaire to reflect the new package of legislation.

C. External Sector Policies

20. **The value of the Mauritian rupee does not appear to be significantly misaligned,** as evidenced by a moderate external current account surplus, buoyant earnings in the tourism and EPZ sectors, and largely stable trade-weighted unit labor costs. The mission supported the authorities' current approach of allowing the rupee to be market determined, with intervention in the foreign exchange market limited to smoothing short-term volatility. However, it urged the monetary authorities to discontinue exerting moral suasion on the Mauritius Sugar Syndicate (MSS) to surrender up to 50 percent of its export proceeds to the central bank. This practice deprives the foreign exchange market of an important source of liquidity and may distort the market value of the rupee. The authorities explained that the

arrangement with the MSS was voluntary and should therefore not be described as a "surrender requirement," and that the percentage of foreign exchange surrendered by the MSS had declined from 42 percent of sugar export proceeds in the 2000/01 crop year to about 36 percent in 2001/02.

Box 5. Legislation on Anti-Money Laundering and Combating the Financing of Terrorism

Following the resolution of the United Nations Security Council in September 2001 on the combating of international terrorism, Mauritius has moved expeditiously to ensure that its financial sector is not used for money laundering, organized financial crime, or the financing of terrorism. Five new laws were passed recently to strengthen oversight and the investigative capacity of relevant agencies:

- **The Prevention of Terrorism Act 2002** makes it an offense to provide or collect financing for terrorist activities, and empowers police to investigate and seize terrorists' cash and property.
- **The Prevention of Terrorism (Denial of Bail) Act 2002** specifies the offenses and circumstances under the Prevention of Terrorism Act 2002 for which an arrested or detained person will not be granted bail.
- **The Constitution of Mauritius (Amendment) Act 2002** amends the constitution to provide for the denial of bail to suspected terrorists and to enable the police to detain suspected terrorists incommunicado for a limited time.
- **The Financial Intelligence and Anti-Money Laundering Act 2002** provides for the establishment of a Financial Intelligence Unit responsible for receiving, requesting, analyzing, and disseminating to investigative and supervisory authorities information relating to suspicious financial transactions. Suspicious transactions cover money laundering, proceeds from a crime, or the financing of terrorism.
- **The Prevention of Corruption Act 2002** provides for the creation of an Independent Commission Against Corruption with the power to investigate corruption and money-laundering offenses that are either referred to it by the Financial Intelligence Unit or in cooperation with international agencies and organizations.

21. The mission commended the authorities on reforms introduced in the 2001/02 budget to eliminate the customs tariff discrimination against certain countries, as well as for their efforts to encourage regional economic integration. **It advised that, once the current fiscal imbalance had been remedied, the authorities should further liberalize the country's trade system** by embarking on a preannounced tariff reform program over the medium term that would reduce the number of customs tariff rates, currently at eight, to no more than three nonzero bands and lower the maximum tariff rate from 80 to 25 percent. These actions would reduce further the average import-weighted customs tariff, which is currently 12 percent. The mission also urged the authorities to eliminate the discriminatory aspects of excise taxes on imported alcoholic beverages and tobacco products, which were inconsistent with World Trade Organization rules.

D. Labor Market Issues

22. **The rise in unemployment over the past decade, despite robust economic growth, reflects problems in education and training.** Recent data from the *2000 Housing and Population Census* indicate that Mauritius's unemployment is concentrated among the young.

Almost two-thirds of the unemployed are below age 24, and about one-third of that group has never completed primary education. Moreover, more than two-thirds of the unemployed have had no previous work experience. The government views these data as evidence of the failure of the education system, and has embarked on a comprehensive reform of primary and secondary education (Box 6). The mission welcomed the government's efforts in education, noting that vocational training programs also needed to be improved to provide students with alternatives to an academic concentration and to enable the unemployed to acquire marketable skills.

Box 6. Education Reform

There appears to be a broad national consensus on the importance of reforms aimed at improving the content, quality, efficiency, and equity of access to education. Many consider the existing education system to be elitist and uneven, including the World Bank, which is supporting the government's education reform program.

Currently, about 35 percent of students fail to pass the completion of primary education (CPE) examination and drop out of the school system at the age of 12-13 years. There are no viable vocational training programs for these youngsters, and they are not allowed to work or become apprentices until age 15, at which time they lack basic education and skills, making them unsuitable for employment. It is not uncommon that many succumb at an early age to criminal activities and substance abuse. At the other extreme are students at the so-called star schools, who excel scholastically, often with the help of expensive private lessons. Most of these students complete secondary school, and many obtain university education. The length and quality of education in Mauritius fall short of many countries in east Asia, especially in the areas of science, mathematics, and computers.

Far-reaching education reforms to enhance the skills of the workforce are needed to improve the functioning of the labor market and ensure the success of the government's plans to develop a modern information and communications technology (ICT) sector. The government's education reforms aim to achieve the following:

- increase the years of compulsory schooling from nine to eleven years by 2005;
- improve and increase access to primary and secondary schools;
- introduce ICT in primary and secondary schools;
- review the quality and relevance of the curricula; and
- reform the examination system at the primary level.

Capital spending is being increased substantially to construct 19 schools and colleges on the island of Mauritius and another three educational establishments on the island of Rodrigues by the end of 2004. An additional 25 schools are to be built by the end of 2006. The cost of school construction is likely to reach MUR 650 million in 2001/02 and is expected to increase to about MUR 1.1 billion a year during 2002/03-2004/05. The introduction of information technology in primary and secondary schools is scheduled to be completed by mid-2003 at a total cost of MUR 1.3 billion. In January 2002, the ranking system for CPE examinations was abolished and replaced by a grading system.

23. **The mission argued that there were also significant labor market rigidities that had contributed to high levels of unemployment.** The tripartite wage negotiations among labor unions, employers, and the government did not, in general, appear to be an important source of rigidities: according to figures from the Mauritius Employers' Federation, the

average compensation increase from the tripartite agreements had been higher than the rate of inflation in only 2 of the 23 years since 1979. However, wage increases and conditions of employment mandated by the National Remuneration Board (NRB) and the Permanent Arbitration Tribunal (PAT) have contributed significantly to labor market distortions; these increases, which apply to specific sectors or occupations, are in addition to those set through the tripartite system and are determined on noneconomic grounds.

24. **To improve the working of the labor market, the mission recommended**

- institutional and, as necessary, legal reform of the NRB and the PAT to ensure that decisions on wages and employment conditions were based on economic criteria—primarily the need to safeguard the competitiveness of the Mauritian economy and the overall level of employment; and

- a review, perhaps in the context of the tripartite system, of laws and regulations that limited flexibility, including factors that discouraged employers from hiring—for example, by making layoffs for economic reasons difficult and time-consuming (the objective of the review would be to recommend reforms to improve the functioning of the labor market, make better use of Mauritius's human resources, and, ultimately, to reduce unemployment).

The authorities responded that the tripartite system had served the country well by helping to preserve social harmony and industrial peace. They agreed that reforms to other aspects of the labor market were needed, noting that they had commissioned an expert from Singapore to study the Mauritian labor market and were in discussions with the World Bank to finance a comprehensive study to advise on labor market reforms.

III. Medium-Term Outlook and Risks

25. The mission discussed with the authorities the short-term outlook and **an illustrative medium-term scenario premised on front-loaded measures in 2002/03** to boost revenue on the order of 2 percent of GDP and additional revenue measures over the medium term to broaden the tax base and tighten tax administration. On the expenditure side, the adjustment scenario assumed appropriate prioritization and rescheduling of capital spending to limit it to 5 percent of GDP over the next three years. On the financing side, the scenario incorporated the World Bank's three annual PERL disbursements of US$40 million, starting in 2001/02, as well as the disbursement of US$100 million in export credit lines by the government of India over the coming three years. It was also assumed that the authorities

Medium-Term Economic Outlook

	2001/02	2002/03	2003/04-06/07 Average
	(Annual percentage changes)		
Real GDP	5.3	4.9	5.4
Consumer prices	6.0	5.8	3.8
	(In percent of GDP)		
Overall fiscal balance	-6.4	-5.6	-2.6 [1]
Total public debt	59.6	61.3	59.3 [1]

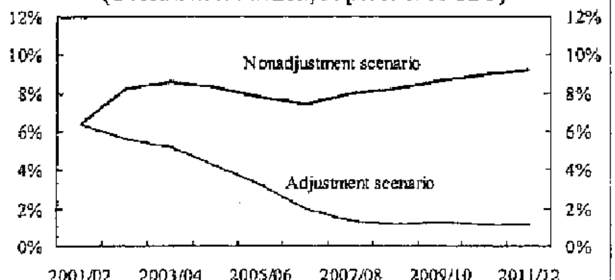
[1] End year.

would implement a number of labor market reforms, which, together with education reforms and the development of the Cyber City, would sustain economic growth in the medium term.

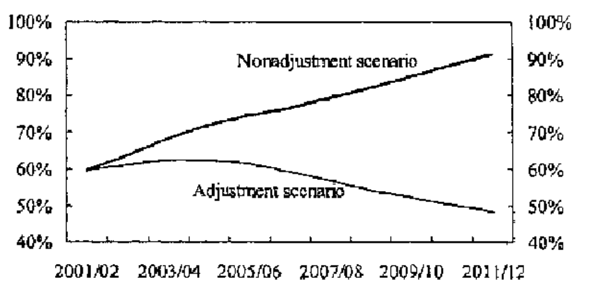
26. **Under these assumptions, the overall fiscal deficit would be brought down in 2002/03 to below 6 percent of GDP and would continue to decline to about 3 percent of GDP by 2005/06.** As a consequence, total public debt, currently estimated at about 60 percent of GDP, would rise marginally to peak at about 62 percent of GDP in 2004/05 and thereafter decline steadily to below 50 percent of GDP by 2011/12. After easing somewhat in 2002/03, mainly because of a reduced sugar harvest following the 2001/02 bumper crop and the February 2002 cyclone, economic growth would average 5½ percent in the medium term. The unemployment rate is likely to fall in the short run as the large public sector projects provide employment opportunities in construction for the less skilled segment of the labor force, and in the longer term as labor market reforms open up new opportunities for job creation and employment. Inflation would remain relatively high in 2002/03, reflecting the VAT rate increase at the beginning of the fiscal year, but would decline to 4 percent by 2004/05 and remain at about 3–4 percent throughout the projection period. The external current account would post moderate surpluses of about 1 percent of GDP, on account of buoyant performances of the EPZ and tourism sectors. In the outer years of the projection, other services, including from the information technology sector, would further strengthen the external current account position.

27. **If Mauritius failed to take the fiscal measures needed to reduce the deficit and to implement structural reforms, there would be serious downside risks to the above outlook.** The country would face high and rising fiscal deficits, on the order of 8 percent of GDP or higher starting in 2002/03. To finance such persistent budget deficits, the government would need to increase foreign indebtedness and its recourse to domestic bank and nonbank financing, thereby putting upward pressure on interest rates and crowding out the private sector. Unfavorable debt dynamics—with high deficits fueling larger borrowing requirements, rising interest payments, and higher deficits—could make the fiscal situation unsustainable. Under such a scenario, Mauritius's credibility could be jeopardized—an outcome that would damage domestic and international confidence, and carry negative implications for medium-term economic prospects.

Medium-Term Fiscal Projections
(Overall fiscal deficit, in percent of GDP)



Medium-Term Fiscal Projections
(Overall public debt, in percent of GDP)



IV. Staff Appraisal

28. **The Mauritian economy has withstood the global economic slowdown relatively well.** Tourism rebounded in the second half of 2001, after signs of some weakening earlier in the year; the 2001/02 sugar crop is expected to be the highest in 15 years; and the EPZ is continuing to grow at a brisk pace, as are other services, such as finance, transport, and communications. Inflation pressures are subdued, and the external current account is likely to register a modest surplus in 2001/02.

29. There are, however, a number of concerns clouding the otherwise positive outlook. **The first concern is that the central government deficit has continued to widen and is likely to reach 6½ percent of GDP in 2001/02.** In the absence of corrective measures, and given the authorities' ambitious capital spending plans, the deficit could reach 8 percent of GDP in 2002/03 and beyond, potentially triggering unsustainable debt dynamics. The government has committed itself to containing the budget deficit at below 6 percent of GDP in 2002/03 and to reducing it further to about 3 percent of GDP in 2005/06. **The staff considers these fiscal objectives to be appropriate and sustainable.** However, to meet these objectives, the authorities will need to implement fiscal measures of at least 2 percent of GDP in the upcoming budget for 2002/03. To this end, it is important that the authorities review and prioritize their plans for capital projects to limit capital spending to 5 percent of GDP. Revenue measures should include raising the standard VAT rate and the excise tax rate on diesel fuel, broadening the tax base by strengthening tax and customs administration, reducing exemptions and concessions, and simplifying the tax system. The staff is impressed by the authorities' resolve to tackle the country's fiscal imbalance and heartened by the Minister of Finance's recent public statement explaining the need for strong revenue actions in the coming budget.

30. **The government should withdraw from the politically sensitive issue of setting domestic prices for goods and services and, more generally, ensure that state-owned enterprises are operated on a commercial basis.** This is particularly important in the pricing of petroleum products, where an automatic and transparent mechanism should be adopted. Such a system, which the authorities support in principle and which could be implemented soon, would also ensure that the State Trading Corporation does not suffer losses in the future arising from large swings in international petroleum prices or exchange rates.

31. **The staff considers the stance of monetary policy to be appropriately tight and, in the absence of additional shocks, expects inflation to fall after a temporary rise in 2001/02.** If, as expected, the VAT rate is increased in July 2002, the BOM is urged to hold monetary conditions tight, so that, after accommodating the one-off effect of the VAT rise on the consumer price index, inflation would fall to within the BOM's informal target of 3–5 percent. The monetary authorities will also need to remain vigilant to counter any emerging demand pressures that could emanate from the budget. **The staff views the BOM's move to formulate monetary policies in the context of an *informal* inflation-targeting**

framework to be a positive development, in part because there have been times in the past few years when monetary policy appeared to be targeting the exchange rate.

32. Progress has been made to strengthen financial market supervision, including through the establishment of the FSC and the passage of legislation on anti-money laundering and combating the financing of terrorism. **The authorities will need to remain vigilant to the possible emergence of vulnerabilities in the financial system**, including in the offshore sector. They should also revise, as needed, banking legislation to enhance the Bank of Mauritius's supervisory capabilities. The strengths and potential weaknesses of the financial sector will be assessed in the context of the upcoming FSAP.

33. **The value of the Mauritian rupee does not appear to be significantly misaligned**, and the staff supports the authorities' current approach of allowing the rupee to be market determined, with intervention in the foreign exchange market limited to smoothing short-term volatility.

34. **The staff commends the authorities on recent reforms to eliminate the customs tariff discrimination against certain countries and for their efforts to encourage regional economic integration.** There is a need to remove the discriminatory aspects of excise taxes on imported alcoholic beverages and tobacco products, which are inconsistent with World Trade Organization rules. Once the current fiscal imbalance has been addressed, the authorities are encouraged to further liberalize the country's trade system by embarking on a preannounced tariff reform program over the medium term.

35. **The steady rise in unemployment reflects problems in education and training,** which the government is addressing through increased investment and a comprehensive reform of the education system. The staff welcomes these efforts, which are supported by the World Bank. To overcome the rigidities in the labor market that have contributed to high levels of unemployment, the authorities should adopt reforms to ensure that decisions on wages and employment conditions by the National Remuneration Board and the Permanent Arbitration Tribunal are geared toward safeguarding employment and Mauritius's competitiveness. Other laws and regulations that limit labor flexibility and discourage employers from hiring should also be reviewed.

36. It is proposed that the next Article IV consultation with Mauritius be held on the standard 12-month cycle.

Table 1. Mauritius: Selected Economic and Financial Indicators, 1997/98-2001/02 1/

	1997/98	1998/99	1999/2000	2000/01 Prov.	2001/02 Proj.
	(Annual percentage changes, unless otherwise indicated)				
National income, prices, and employment					
Real GDP 2/	6.0	5.3	2.6	7.2	5.3
GDP deflator 2/	6.0	6.9	3.3	3.5	5.1
Domestic demand at current prices 3/ 4/	12.5	12.8	8.9	6.0	10.3
Consumer prices (period average)	5.4	7.9	5.3	4.4	6.0
Unemployment rate (in percent)	5.8	6.2	7.7	9.0	9.4
External sector (in U.S. dollar terms)					
Exports, f.o.b.	-7.4	4.7	-9.4	7.3	-0.5
Imports, f.o.b. 4/	-3.5	1.6	3.6	-5.4	-1.8
Nominal effective exchange rate 5/	-1.6	-8.3	1.9	0.9	-7.9
Real effective exchange rate 5/	1.4	-2.4	5.8	2.8	-4.2
Terms of trade	1.3	-0.5	-4.0	-1.8	0.9
Central government budget					
Revenue and grants	12.3	15.3	10.2	-3.4	11.3
Of which: tax revenue	12.0	14.1	13.8	-0.9	6.7
Expenditure and net lending 6/	-2.2	12.3	11.9	7.3	14.1
	(Contribution to changes in broad money, unless otherwise indicated) 7/				
Money and credit					
Net foreign assets	-0.1	1.7	3.3	7.4	11.1
Domestic credit	24.9	13.1	13.2	5.3	5.6
Net claims on government	2.7	-2.2	3.2	-1.1	-1.6
Credit to private sector	22.2	15.3	10.0	6.4	7.2
Broad money	17.4	13.2	10.9	9.9	10.9
Interest rate (one-year term deposits, in percent) 8/	10.0	12.0	10.8	11.4	12.0
Income velocity of broad money (GDP/M2)	1.4	1.4	1.3	1.3	1.3
	(In percent of GDP at market prices)				
Central government budget					
Current balance (including grants)	-0.8	-0.5	0.1	-3.3	-1.6
Overall balance (including grants) 6/	-3.8	-3.3	-3.8	-5.7	-6.4
Domestic financing	4.3	3.9	4.3	2.9	5.4
Of which: banking system (net)	1.7	-1.5	2.3	-0.8	1.8
External financing	-0.3	-1.1	-0.5	-2.9	0.9
Domestic debt	34.2	34.8	37.1	38.4	40.1
External debt	11.4	9.5	8.8	5.5	6.3
Gross domestic investment	27.5	25.4	25.8	24.9	25.9
Government	6.2	6.2	6.5	6.8	9.0
Private (including public enterprises)	21.3	19.2	19.3	18.0	16.9
Gross national savings	24.7	23.9	24.2	26.7	27.4
Government	-1.0	-0.6	0.0	-3.4	-1.8
Private (including public enterprises)	25.7	24.5	24.3	30.1	29.2
External current account balance 9/	-2.8	-1.5	-1.6	1.8	1.5
Total external debt	31.5	28.7	25.6	22.5	21.5
Of which: short-term public debt on a remaining-maturity basis	3.3	3.4	5.0	2.5	3.8

Table 1. Mauritius: Selected Economic and Financial Indicators, 1997/98-2001/02 1/ (concluded)

	1997/98	1998/99	1999/2000	2000/01 Prov.	2001/02 Proj.
	(In percent of exports of goods and nonfactor services)				
Total external debt	48.8	45.6	42.3	34.4	33.1
Of which : government	17.7	15.0	14.5	8.4	9.7
Total external debt service	7.0	7.6	7.9	9.8	6.0
Of which : interest payments	2.3	2.1	2.1	1.8	1.4
	(In millions of U.S. dollars, unless otherwise indicated)				
Net international reserves of the Bank of Mauritius	622.2	625.4	688.0	789.3	899.5
In months of prospective imports, c.i.f. 4/ 10/	3.6	3.5	4.0	4.7	5.1
Net international reserves of the banking system	879.6	893.7	966.0	1,085.9	1,215.4
In months of prospective imports, c.i.f. 4/	5.1	5.0	5.7	6.5	6.9
Memorandum item:					
GDP at current market prices (in millions of Mauritian rupees)	94,167	106,042	112,290	124,665	137,967

Sources: Bank of Mauritius; Central Statistics Office; Ministry of Finance; and IMF staff estimates and projections.

1/ Fiscal year from July to June.
2/ Sugar crops and milling included in fiscal year harvested; otherwise, averages of calendar-year data.
3/ Excluding changes in stocks.
4/ Excluding the acquisition of aircraft and ships.
5/ Trade-weighted period averages (a negative sign signifies a depreciation). Data for 2001/02 are for July-December 2001.
6/ From 1995/96 to 1997/98, net lending includes the on-lending of the proceeds from an international floating rate note (FRN) issue of US$150 million. In 1998/99 and 2000/01, it includes the repayment of US$33 million and US$117 million of the FRN, respectively.
7/ Changes in indicated aggregates as percent of broad money at the beginning of the period. The data for 2001/02 are for October 2001.
8/ End-of-period maximum interest rate on fixed deposits with maturities of between six and twelve months. Data for 2001/02 are for January 2002.
9/ Including transfers.
10/ The reserves of the Bank of Mauritius are not pledged as collateral for short-term liabilities, nor are they sold forward.

Table 2. Mauritius: Balance of Payments, 1997/98- 2001/02 1/
(In millions of U.S. dollars, unless otherwise indicated)

	1997/98	1998/99	1999/00	2000/01 Prov.	2001/02 Proj.
Current account balance	-115.8	-65.3	-68.7	80.2	66.4
In percent of GDP	-2.8	-1.5	-1.6	1.8	1.5
Trade balance	-410.4	-365.5	-483.9	-279.1	-291.5
Exports, f.o.b.	1,605.5	1,680.2	1,522.6	1,633.4	1,625.2
Percentage change	-7.4	4.7	-9.4	7.3	-0.5
Of which : export processing zone (EPZ)	1,067.5	1,135.4	1,171.2	1,177.1	1,154.3
sugar	358.0	371.7	213.5	267.2	294.1
Imports, f.o.b.	-2,016.0	-2,045.7	-2,006.5	-1,912.5	-1,916.7
Percentage change	-0.1	1.5	-1.9	-4.7	0.2
Of which : EPZ	-688.8	-651.7	-620.7	-607.9	-593.2
petroleum products	-125.4	-108.8	-177.5	-213.5	-203.1
aircraft and ships	-109.4	-108.8	0.0	-14.4	-51.9
Services (net)	193.1	232.5	354.2	277.0	290.7
Of which : tourism	307.9	327.4	376.5	387.5	422.9
Income (net)	-18.4	-23.7	-35.1	3.5	-18.0
Current transfers (net)	119.9	91.4	96.0	78.9	85.2
Capital and financial account	73.8	11.7	-102.6	-49.3	-66.3
Capital account	-0.7	-0.6	-0.5	-1.4	-1.3
Financial account	74.4	12.4	-102.1	-47.8	-65.0
Direct investment	44.8	18.8	12.7	223.4	29.6
Abroad	-9.8	-11.8	-11.8	-4.7	-3.3
In Mauritius	54.6	30.5	24.4	228.1	32.9
Portfolio investment 2/	-28.1	28.8	-23.1	-119.5	-19.7
Other investment	-42.0	-8.0	-7.8	33.3	35.3
Government	-12.2	-15.0	-20.0	-16.6	42.0
Other public sector	81.9	54.6	-42.4	37.2	4.8
Other 3/	-111.8	-47.5	54.6	12.7	-11.5
Reserve assets of the Bank of Mauritius	99.8	-27.2	-83.9	-185.1	-110.2
Errors and omissions 4/	42.0	53.5	171.3	-30.9	0.0
Memorandum items:					
Current account balance, excluding aircraft and ships	-6.4	43.5	-68.7	94.6	118.3
In percent of GDP	-0.2	1.0	-1.6	2.1	2.6
Overall balance (in percent of GDP)	-2.4	0.6	1.9	4.3	2.4
Net international reserves of the banking system 5/	879.6	893.8	966.0	1,082.7	1,215.4
In months of prospective imports, c.i.f. 6/	5.1	5.0	5.7	6.5	6.9
Total debt-service ratio (in percent of exports of goods and services)	7.0	7.6	7.9	9.8	6.0
Mauritian rupees per U.S. dollar (period average) 7/	22.59	24.82	25.51	27.59	30.43
Mauritian rupees per U.S. dollar (end of period) 7/	24.28	25.24	26.09	29.24	31.62

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

1/ Fiscal year from July to June.
2/ In 1998/99, portfolio investment outflows include the partial repayment of US$33 million of the floating rate note. In 2000/01, they include the repayment of the balance (US$117 million) of the floating rate note.
3/ Including movements in international reserves of commercial banks.
4/ Including valuation adjustments.
5/ End of period.
6/ Excluding the acquisition of aircraft and ships.
7/ Market rate.

Table 3. Mauritius: Summary of Government Finances, 1997/98-2001/02 1/

	1997/98	1998/99	1999/00	2000/01 Prov.	2001/02 Proj.
	(In millions of Mauritian rupees)				
Total revenue and grants	18,501	21,329	23,500	22,707	25,278
Tax revenue	15,686	17,900	20,373	20,189	21,546
Nontax revenue	2,599	3,294	2,966	2,318	3,432
External grants	217	135	161	199	300
Total expenditure and net lending	22,125	24,851	27,810	29,846	34,051
Current expenditure	19,264	21,847	23,379	26,786	27,469
Wages and salaries	6,508	7,457	7,763	8,181	8,589
Other goods and services	1,920	2,180	2,354	2,735	2,964
Interest payments	3,503	3,626	3,856	5,527	4,632
External interest	512	501	453	401	232
Domestic interest	2,992	3,125	3,403	5,125	4,400
Current transfers and subsidies	7,333	8,584	9,406	10,342	11,284
Capital expenditure	2,508	2,834	3,381	3,899	6,110
Net lending 2/	252	-705	167	-1,574	472
Expenditure by the Privatization Fund	100	875	883	735	0
Overall balance after grants	-3,623	-3,522	-4,310	-7,139	-8,773
Consolidated with accounts of state-owned enterprises 3/	-4,338	-4,120	-6,137	-9,235	...
Overall balance, excluding exceptional factors 3/	-3,508	-4,830	-4,810	-8,853	-8,938
Financing	3,623	3,522	4,310	7,139	8,773
External (net)	-275	-1,170	-510	-3,584	1,278
Disbursements	531	464	410	349	2,006
Amortization	-805	-1,634	-920	-3,932	-728
Domestic	4,005	4,150	4,712	3,623	7,495
Banking system (net)	1,631	-1,571	2,579	-958	2,500
Nonbank	2,374	5,721	2,133	4,581	4,995
Sale of equity in state-owned enterprises	0	0	0	7,100	0
Residual	-107	543	108	0	0
	(In percent of GDP)				
Total revenue and grants	19.6	20.1	20.9	18.2	18.3
Of which : tax revenue	16.7	16.9	18.1	16.2	15.6
Of which: taxes on imports	6.3	6.5	6.2	5.1	4.4
sales tax/value-added tax (VAT)	4.9	5.3	5.0	4.8	5.2
income tax	2.9	2.7	2.6	2.4	2.3
Total expenditure and net lending	23.5	23.4	24.8	23.9	24.7
Current expenditure	20.5	20.6	20.8	21.5	19.9
Of which : wages and salaries	6.9	7.0	6.9	6.6	6.2
interest payments	3.7	3.4	3.4	4.4	3.4
Capital expenditure	2.7	2.7	3.0	3.1	4.4
Net lending 2/	0.3	-0.7	0.1	-1.3	0.3
Overall balance after grants	-3.8	-3.3	-3.8	-5.7	-6.4
Overall balance, excluding exceptional factors 3/	-3.7	-4.6	-4.3	-7.1	-6.5
Primary balance (overall balance, excluding interest) 4/	-0.1	0.1	-0.4	-1.3	-3.0
Financing	3.8	3.3	3.8	5.7	6.4
External	-0.3	-1.1	-0.5	-2.9	0.9
Domestic	4.3	3.9	4.2	2.9	5.4
Of which : banking system	1.7	-1.5	2.3	-0.8	1.8
Sale of equity in state-owned enterprises and residual	-0.1	0.5	0.1	5.7	0.0

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

1/ Budgetary central government, *Government Finance Statistics* basis, unless otherwise indicated; fiscal year from July to June.

2/ In 1997/98, net lending includes the on-lending of part of the proceeds from an international floating rate note (FRN) issue of US$150 million. In 1998/99, 2000/01, and 2001/02 it includes the repayment of US$33 million, US$111 million, and US$6 million of the FRN, respectively.

3/ Exceptional factors include the on-lending of the proceeds from the FRN equivalent to 0.1 percent of GDP in 1997/98. They also include the repayment of the FRN on-lending equivalent to 0.8 percent of GDP in 1998/99, 1.4 percent of GDP in 2000/01, and 0.1 percent of GDP in 2001/02, as well as the proceeds from the sale of fixed assets equivalent to 0.5 percent of GDP in 1998/99 and 0.4 percent of GDP in 1999/2000.

4/ Overall balance after grants, excluding interest payments.

Table 4. Mauritius: Monetary Survey, 1997-2001

	1997	1998	1999	2000		2001	
	June	June	June	June	Dec.	June	Dec.
	(In millions of Mauritian rupees)						
Net foreign assets	21,433	21,359	22,556	25,204	33,535	31,748	35,754
Monetary authorities	17,365	15,109	15,784	17,950	25,347	23,077	25,763
Commercial banks	4,068	6,249	6,772	7,254	8,188	8,671	9,992
Domestic credit	53,225	68,280	77,541	88,128	85,972	92,821	98,689
Claims on government (net)	15,864	17,495	15,924	18,503	13,586	17,544	19,515
Monetary authorities	914	2,583	4,476	2,980	-1,225	2,329	1,453
Commercial banks	14,950	14,912	11,448	15,522	14,810	15,215	18,062
Claims on private sector 1/	37,361	50,785	61,618	69,626	72,387	75,277	79,175
Broad money (M2)	60,343	70,836	80,172	88,910	94,871	97,720	105,241
Money (M1)	8,873	10,150	10,905	11,065	13,297	12,711	15,452
Quasi money	51,471	60,686	69,267	77,846	81,574	85,009	89,789
Money market instruments	215	0	0	0	0	0	0
Other items (net)	14,100	18,802	19,925	24,421	24,636	26,849	29,202
	(Annual change in millions of Mauritian rupees)						
Net foreign assets	2,153	-75	1,197	2,648	7,489	6,544	2,220
Monetary authorities	1,633	-2,256	674	2,166	6,422	5,128	416
Commercial banks	520	2,181	523	482	1,068	1,417	1,804
Domestic credit	6,156	15,055	9,262	10,587	3,971	4,693	12,717
Claims on government (net)	988	1,631	-1,571	2,579	-4,129	-959	5,929
Claims on private sector 1/	5,168	13,424	10,832	8,008	8,100	5,651	6,788
Broad money (M2)	4,893	10,493	9,335	8,739	8,018	8,809	10,370
Money (M1)	640	1,278	755	160	1,295	1,646	2,155
Quasi money	4,253	9,216	8,581	8,579	6,722	7,163	8,215
	(Annual change in percent)						
Domestic credit	13.1	28.3	13.6	13.7	4.8	5.3	14.8
Claims on government (net)	6.6	10.3	-9.0	16.2	-23.3	-5.2	43.6
Claims on private sector 1/	16.1	35.9	21.3	13.0	12.6	8.1	9.4
Broad money (M2)	8.8	17.4	13.2	10.9	9.2	9.9	10.9
Money (M1)	7.8	14.4	7.4	1.5	10.8	14.9	16.2
Quasi money	9.0	17.9	14.1	12.4	9.0	9.2	10.1
	(Annual change in percent of beginning-of-period broad money)						
Net foreign assets	3.9	-0.1	1.7	3.3	8.6	7.4	2.3
Domestic credit	11.1	24.9	13.1	13.2	4.6	5.3	13.4
Claims on government (net)	1.8	2.7	-2.2	3.2	-4.8	-1.1	6.2
Claims on private sector 1/	9.3	22.2	15.3	10.0	9.3	6.4	7.2
Broad money (M2)	8.8	17.4	13.2	10.9	9.2	9.9	10.9

Sources: Bank of Mauritius; and IMF staff estimates.

1/ Including claims on public enterprises.

Table 5. Mauritius: Indicators of External Vulnerability, 1997/98-2001/02 1/

(In percent of GDP, unless otherwise indicated)

	1997/98	1998/99	1999/2000	2000/01 Prov.	2001/02 Proj.
Financial indicators					
Total public sector debt	61.5	60.2	59.8	58.3	59.6
Broad money (percent change; 12-month basis)	17.4	13.2	10.9	9.9	11.0
Private sector credit (percent change; 12-month basis)	35.9	21.3	13.0	8.1	5.5
Interest rate (one-year term deposits) 2/	10.0	12.0	10.8	11.4	11.8
External indicators					
Exports (percentage change; in U.S. dollar terms)	-7.4	4.7	-9.4	7.3	-0.5
Imports (percentage change; in U.S. dollar terms) 3/	-3.5	1.6	3.6	-5.4	-1.8
Terms of trade (percentage change)	1.3	-0.5	-4.0	-1.8	0.9
Current account balance	-2.8	-1.5	-1.6	1.8	1.5
Capital and financial account balance	1.8	0.3	-2.3	-1.2	-1.5
Net international reserves of the Bank of Mauritius					
(in millions of U.S. dollars) 4/	622.2	625.4	688.0	789.3	899.5
In months of prospective imports, c.i.f. 3/	3.6	3.5	4.0	4.7	5.1
Net international reserves of the banking system					
(in millions of U.S. dollars)	879.6	893.7	966.0	1,085.9	1,215.4
In months of prospective imports, c.i.f. 3/	5.1	5.0	5.7	6.5	6.9
Total external debt	31.5	28.7	25.6	22.5	21.5
In percent of exports of goods and nonfactor services	48.8	45.6	42.3	34.4	33.1
Total short-term public debt on a remaining-maturity basis	3.3	3.4	5.0	2.5	3.8
In percent of exports of goods and nonfactor services	5.5	5.5	8.5	4.1	6.0
Total external debt service (in percent of exports of goods					
and nonfactor services)	7.0	7.6	7.9	9.8	6.0
Interest payments	2.3	2.1	2.1	1.8	1.4
Principal repayments	4.7	5.5	5.8	8.0	4.6
Exchange rate (Mauritian rupees per U.S. dollar; period average)	22.59	24.82	25.51	27.59	30.43
Financial market indicators					
Mauritius stock exchange index (SEMDEX; July 1989 = 100) 5/	456.4	409.8	407.8	387.9	373.4
Change in percent 5/	19.6	-10.2	-0.5	-4.9	-3.7
Foreign currency long-term debt rating by Moody's 6/	Baa2	Baa2	Baa2	Baa2	Baa2

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

1/ Fiscal year from July to June.

2/ End of period; maximum interest rate on fixed deposits with maturities of between six and twelve months. The rate for 2001/02 is for end-January 2002.

3/ Excluding the acquisition of aircraft and ships.

4/ The reserves of the Bank of Mauritius are not pledged as collateral for short-term liabilities, nor are they sold forward.

5/ End of period. Data for 2001/02 are as of March 29, 2002.

6/ Bonds rated "Baa2" by Moody's are considered as medium-grade obligations.

Table 6. Mauritius: Medium-Term Projections, 2000/01-2006/07 1/

	2000/01 Prov.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Projections					
	(Annual percentage changes, unless otherwise indicated)						
National income and prices							
Real GDP 2/	7.2	5.3	4.9	5.2	5.3	5.4	5.5
GDP deflator 2/	3.5	5.1	4.5	4.0	4.0	4.0	4.0
Domestic demand at current prices 3/ 4/	6.0	10.3	10.9	10.3	9.7	9.5	9.5
Consumer prices (period average)	4.4	6.0	5.8	4.2	4.0	3.5	3.5
External sector (in U.S. dollars terms)							
Exports, f.o.b.	7.3	-0.5	2.8	4.8	4.9	4.9	4.9
Imports, f.o.b. 4/	-5.4	-1.8	5.8	6.5	6.1	5.7	5.5
Terms of trade	-1.8	0.9	0.4	0.2	0.2	0.0	0.0
	(In percent of GDP at market prices)						
Central government budget							
Revenue and grants	18.2	18.3	19.5	20.0	20.3	20.2	20.1
Of which: tax revenue	16.2	15.6	17.5	17.8	17.9	17.8	17.8
Expenditure and net lending 5/	23.9	24.7	25.2	25.2	24.5	23.5	22.6
Current balance (including grants)	-3.3	-1.6	0.0	0.4	1.0	1.7	1.7
Overall balance (including grants)	-5.7	-6.4	-5.6	-5.2	-4.2	-3.2	-2.6
Total public debt	57.4	59.6	61.3	62.4	62.4	61.5	59.3
Gross domestic investment	24.9	25.9	26.4	27.5	27.5	27.5	27.8
Public	6.8	9.0	10.0	10.0	9.5	9.5	9.0
Private (including public enterprises)	18.0	16.9	16.4	17.5	18.0	18.0	18.8
Gross national savings	26.7	27.4	26.6	27.9	28.0	28.3	28.1
Public	-3.4	-1.8	-0.1	0.3	0.9	1.6	1.6
Private (including public enterprises)	30.1	29.2	26.8	27.6	27.1	26.7	26.5
External current account balance 6/	1.8	1.5	0.2	0.4	0.5	0.9	0.3
	(In millions of U.S. dollars, unless otherwise indicated)						
External sector							
Current account balance	80.2	66.4	10.6	18.6	24.9	47.8	19.0
Exports, f.o.b.	1,633.4	1,625.2	1,670.2	1,750.7	1,837.3	1,926.7	2,021.8
Imports, f.o.b.	-1,912.5	-1,916.7	-2,011.7	-2,102.4	-2,229.6	-2,355.7	-2,535.5
Services (net)	277.0	290.7	303.3	314.9	344.9	386.7	433.4
Factor income (net)	3.5	-18.0	-41.1	-39.8	-28.6	-17.0	-14.2
Current transfers (net)	78.9	85.2	89.9	95.3	101.0	107.0	113.5
Net international reserves of the banking system	1,085.9	1,215.4	1,262.4	1,345.0	1,377.7	1,434.4	1,522.4
In months of prospective imports, c.i.f. 4/	6.5	6.9	6.7	6.7	6.5	6.4	6.2
Memorandum item:							
GDP at current market prices (in millions of Mauritian rupees)	124,665	137,967	151,240	165,469	181,208	198,633	217,941

Sources: Bank of Mauritius; Central Statistics Office; Ministry of Finance; and IMF staff estimates and projections.

1/ Fiscal year from July to June.
2/ Sugar crops and milling included in fiscal year harvested; otherwise, averages of calendar-year data.
3/ Excluding changes in stocks.
4/ Excluding the acquisition of aircraft and ships.
5/ In 2000/01, net lending includes the repayment of US$117 million of the international floating rate note.
6/ Including transfers.

Mauritius: Relations with the Fund
(As of March 31, 2002)

Membership Status

Joined September 23, 1968; Article VIII.

General Resources Account	SDR Million	% Quota
Quota	101.60	100.0
Fund holdings of currency	87.13	85.8
Reserve position in Fund	14.47	14.3

SDR Department	SDR Million	% Allocation
Net cumulative allocation	15.74	100.0
Holdings	16.87	107.2

Outstanding Purchases and Loans

None.

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	3/1/85	8/31/86	49.00	49.00
Stand-By	5/18/83	8/17/84	49.50	49.50
Stand-By	12/21/81	12/20/82	30.00	30.00

Projected Obligations to Fund

None.

Exchange Rate Arrangement

An interbank foreign exchange market in U.S. dollars was established in July 1994 through a page on the Reuters screen. Prior to that, the Mauritian rupee was pegged to a basket of currencies. On March 31, 2002, US$1 was equivalent to MUR 30.74. There are no restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account.

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation discussions were held during January 27-February 10, 2001. The staff report (SM/01/138; 4/2701) was considered by the Executive Board on May 14, 2001.

Technical Assistance (1997–2002)

FAD mission on fiscal management, May 1997.
FAD advisor on introduction of a value-added tax system, October 1997–June 1999.
MAE mission on monetary operations, banking supervision, and payment system structures, January–February 1998.
MAE missions on bank supervision: the first of three in April–June 1998; the second in September-December 1998; and the third in February–April 1999.
MAE mission on monitoring of the financial system under Article IV surveillance and on monetary operations, January 1999.
STA mission on quarterly national accounts, February–March 1999.
MAE mission on monetary operations, May 1999.
MAE missions on bank supervision: the first of three in June–August 1999; the second in October–December 1999; and the third in February–March 2000.
MAE missions on monetary operations: the first of two in August–September 1999; and the second in November 1999.
MAE general advisor to the Governor of the Bank of Mauritius, February 2000–February 2002.
STA mission on quarterly balance of payments statistics, March 2000.
STA mission on quarterly national accounts and General Data Dissemination System (GDDS), June 2000.
MAE missions on bank supervision: the first of three in August 2000; the second in November–December 2000; and the third in February–March 2001.
MAE/LEG joint mission on the revision of the Bank of Mauritius Act and the Banking Act, March-April 2001.
FAD mission on tax reform, May 2001.
MAE missions on bank supervision: the first of three in May–June 2001; the second in September 2001; and the third in November-December 2001.
STA mission on the Coordinated Portfolio Investment Survey 2001, May 2001.
STA mission to prepare a Report on the Observance of Standards and Codes (ROSC) for data compilation and dissemination, July 2001.
STA mission on government finance statistics, January 2002.
STA mission on monetary and financial statistics, March–April 2002.

Resident Representative

None.

Table 27. Guinea-Bissau: External Grant Disbursements, 1997-2001

(In millions of U.S. dollars)

	1997	1998	1999	2000	2001
Total official aid	48.2	9.6	28.4	34.7	37.0
Project aid	27.2	0.0	19.7	14.1	24.1
Of which : Technical assistance	5.0	0.0	1.0	1.6	2.4
Multilateral donors 1/	0.0	0.0	12.4	9.3	13.9
Bilateral donors 1/	13.7	0.0	6.3	3.3	7.7
Nongovernmental organizations 1/ 2/	8.5	0.0	0.0	0.1	0.0
Balance of payments aid	16.0	7.6	1.3	15.9	7.3
European Union	5.7	2.0	0.0	3.9	4.7
Bilateral donors	10.3	5.6	1.3	12.0	2.5
Food aid	1.5	2.1	7.4	4.7	5.6
Of which : World Food Program	...	2.1	7.4	3.0	4.5
Other aid	3.5	0.0	0.0	0.0	0.0
Of which : elections aid	...	0.0	0.0	0.0	0.0
From nongovernmental organizations	...	...	...	...	...
Of which : Association of Dutch Volunteers (SNV)	...	...	...	...	...

Sources: Directorate-General of Strategic Planning, Ministry of Planning and International Cooperation; and staff estimates.

1/ Excludes technical assistance.

2/ Not included in the public investment program, except for Association of Dutch Volunteers' disbursements.

World Bank Portfolio in Mauritius

(In millions of U.S. dollars, unless otherwise indicated)

	Approval Date	Effective Date	Closing Date	Net Commit-ment	Undis-bursed Amount
Environment,. Sewerage, and Sanitation	2/12/98	2/3/99	6/30/03	12.4	7.6
Financial Sector Infrastructure	4/4/00	7/24/00	1/31/02	4.8	2.2
Financial Sector Supervisory Authority	12/4/01	...	4/30/04	1.8	1.8
Port Development & Environmental Protection	6/20/95	3/4/96	12/31/01	30.5	2.4
Total				49.5	14.0

The IFC made four loans—in 1971, 1981, 1990, and 1992, respectively—for tourism development; two loans—in 1986 and 1990—for textile projects; and one loan in 1991 for transport and storage. In 1992, the IFC made a loan for capital market development, and in 1993 and 1996 it also invested in fund and venture capital companies. The IFC has a total portfolio in Mauritius of US$1.6 million, consisting of two projects: a steel project and a venture capital fund. No new investments have been made since 1996.

The IFC's main focus for future activity is support for the deepening of the financial market, as well as advisory work and investments in the area of private infrastructure. These focus areas complement the World Bank's strategy. First, the IFC's connections would increase private firms' access to foreign term finance, thus reducing demand on domestic savings and alleviating upward pressure on domestic interest rates. Second, they allow the government to move gradually out of sectors it has traditionally been involved in and improve efficiency in the provision of infrastructure. Thus, the IFC's involvement is expected to contribute to the competitiveness objective. In addition, domestic interest rates are expected to be reduced, thereby relieving the government budget in two ways: (i) lower interest payments; and (ii) lower subsidies and transfers to state-owned enterprises.

Mauritius: Statistical Issues

The quality and timeliness of Mauritius's reporting of core minimum data, as well as of other economic and financial statistics to the IMF, are, in general, satisfactory. Efforts are under way to improve the frequency and quality of fiscal data, particularly regarding their consistency with monetary sector data. There is also a need to produce and report the balance of payments data on a quarterly basis. The authorities already publish economic data on Mauritius, including a *Monthly Bulletin,* published by the Bank of Mauritius, which is accessible via the Internet. Mauritius started participating in the IMF's General Data Dissemination System (GDDS) in September 2000. The authorities have shown interest in subscribing to the Special Data Dissemination Standard (SDDS), but improvements in the periodicity and timeliness of several data series are required before subscription can take place.

Real sector

Annual national accounts data are prepared on a calendar-year basis, and expenditure components are reported regularly by the Bank of Mauritius; national accounts at constant prices use 1992 as a base year. Following IMF technical assistance in 1999 and 2000, the Central Statistical Office (CSO) started to compile national accounts on a quarterly basis for past years. The CSO has not yet compiled quarterly national accounts for the current year, and improvements are still needed regarding the timeliness and quality of domestic production indicators and foreign trade statistics.

The consumer price index is calculated on the basis of actual prices and is regularly rebased as consumption patterns and relative prices change (most recently to July 1996-June 1997 = 100, using weights from a 12-month 1996/97 household budget survey). Indices on producer prices, unit labor costs, and employment have been developed but have not been reported to the IMF for publication in *International Financial Statistics (IFS).*

Government finance

Mauritius continues to be a regular and timely reporter of fiscal data for surveillance, including quarterly data and annual projections. The July 2001 mission to collect data for the Report on the Observance of Standards and Codes (ROSC) highlighted needed statistical improvements in the fiscal data, especially to reduce duplication in data collection, publish quarterly central government data, and improve the timeliness of consolidated government data. The data for surveillance purposes would be enhanced significantly if it would contain information on the overall public accounts, in particular off-budget accounts and nonfinancial public sector corporations. Follow-up technical assistance was provided in January 2002 to assist the authorities with the compilation of nonfinancial public sector data; the preliminary findings are reflected in this staff report. The authorities also report data for the consolidated central government for publication in the *Government Finance Statistics (GFS) Yearbook.* While the authorities produce quarterly *GFS* data, they do not report these for publication in *IFS.*

Monetary accounts

The authorities report money and banking statistics on a timely and regular basis. In March 2002, the IMF provided technical assistance to implement the *Monetary and Financial Statistics Manual*.

Balance of payments

Mauritius supplies annual balance of payments and international investment position data to the Statistics Department. Data are provided on the basis of the classification system of the *Balance of Payments Manual* (5th edition). The Bank of Mauritius has recently started to compile and publish in its *Monthly Bulletin* (December 2000) quarterly balance of payments statistics. The data in the financial account of the balance of payments and in the international investment position statement, particularly those on direct investment and portfolio investment, have limited coverage. To address these gaps a recent ROSC mission recommended the establishment of a survey of enterprises, banks and other financial institutions, both onshore and offshore, to obtain data on claims on, and liabilities to, nonresidents. This survey has yet to be established.

Mauritius: Core Statistical Indicators

(As of March 31, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Govern-ment Balance	Externa l Public Debt	GDP/ GNP
Date of latest observation	02/02	02/02	02/02	01/02	01/02	01/02	02/02	12/01	2000/01	12/01	12/01	2001
Date received	03/02	03/02	03/02	03/02	03/02	03/02	03/02	03/02	03/02	02/02	02/02	02/02
Frequency of data	M	M	M	M	M	M	M	Q	A	Q	A	A
Frequency of reporting	M	M	M	M	M	M	M	Q	A	Q	A	A
Frequency of publication	M	M	M	M	M	M	M	A	A	A	A	A
Source of update	A	A	A	A	A	A	A	N	A	A	A	N
Mode of reporting	C	C	C	C	C	C	C	E	V	V	V	V
Confidentiality	C	C	C	C	C	C	C	C	R	R	C	C

Notes: Frequency of data: M=monthly; Q=quarterly; A=annually.
Frequency of reporting and publication: D=daily; M=monthly; Q=quarterly; A=annually.
Source of update: A=direct reporting by central bank, Ministry of Finance, or other official agency; N=official publication or press release.
Mode of reporting: C=cable or facsimile; M=mail; E=electronic (e-mail or Internet); V=staff visits.
Confidentiality: C=unrestricted use; R = restricted use.

Mauritius: Social and Demographic Indicators [1]

Population		Education	
Population (thousands; 1999)	1,174	Adult illiteracy rate (percent; 1995)	17
Annual rate of growth (percent; average 1990-99)	1.2	Female	21
Population under age 15 (percent; 1999)	26	Male	13
Density (per square km.; 1999)	579	Gross primary school enrollment (percent; 1999) 2/	105
Land area (square km.)	2,040	Gross secondary school enrollment (percent; 1999) 2/	58
Population characteristics		Income	
Life expectancy at birth (years; 1999)		GDP per capita (U.S. dollars; 1999/2000) 3/	3,640
Male	67	Poverty	
Female	75	Head count index (percent of population; 1989-94)	5
Infant mortality (per thousand; 1999)	19		
Crude birth rate (per thousand; 1999)	17		
Crude death rate (per thousand; 1999)	7		
Fertility rate (births per woman; 1998)	2		
		Health	
Labor force		Health care access (percent of population; 1991)	99
Total (thousands, including foreigners; 1999)	530	Immunization for measles (percent of population less than 12 months; 1995)	85
Of which: female (percent; 1999)	35		
Annual growth rate (percent; average 1995-99)	2	Population per physician (1999)	1,107
Sugar workers (percent of total employment; 1999)	7	Population per hospital bed (1999)	294
Export processing zone workers (percent of total employment; 1999)	18	Safe water access (percent of population; 1993)	100
		Sanitation access (percent of population; 1993)	100

Sources: Central Statistical Office; IMF, *International Financial Statistics*; World Bank, *World Development Indicators*, 2000; and World Bank, Country Assistance Strategy of the World Bank Group for the Republic of Mauritius, 1997.

1/ The Republic of Mauritius consists of the islands of Mauritius and Rodrigues, and two very small "outer" islands. Population density varies greatly among these.

2/ Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown.

3/ Fiscal year July to June.

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with Mauritius

On May 24, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[1]

Background

The Mauritian economy has weathered the global economic slowdown relatively well. Economic output is expected to expand by about 5.3 percent in 2001/02 (July-June), only slightly below its trend rate of growth of the past 20 years. Tourism weakened somewhat in the second quarter of 2001 but picked up in the second half, partly reflecting Mauritius's reputation as a safe destination. Sugar output grew by 14 percent during the 2001/02 crop year reaching 645,000 tons, its highest level since 1987. Financial services also continued to expand robustly, as did other services, such as transport and communications. Output in the export processing zone (EPZ) is likely to increase by about 6 percent in 2001/02. However, recent political upheavals in neighboring Madagascar, and the resulting disruption in production and trade, have hurt the profitability of Mauritius's EPZ firms because of their sizable investments in, and vertical integration with, Madagascar's EPZ.

Notwithstanding the relatively robust economic growth over the past decade, unemployment has risen steadily and is projected to reach about 9 percent in 2001/02. This trend suggests a

[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.

mismatch between the requirements of the workplace and either the job aspirations or skills of the unemployed workforce, as well as rigidities in the labor market and more general problems in education and training.

Government finances are expected to deteriorate further in 2001/02, following a sharp deterioration in 2000/01. The main cause is higher capital expenditure on education and environmental projects and an increase in net lending, although this will be partially offset by lower expenditures on interest payments and wages. Government revenue is likely to be broadly stable. Overall, the primary deficit is expected to widen from 1.3 percent of GDP in 2000/01 to 3 percent of GDP in 2001/02. While the financial situation of state-owned enterprises improved in 2000/01 and is expected to strengthen somewhat in 2001/02, it remains weak, as adjustment of utility and energy prices by the government continues to be infrequent, and based primarily on political rather than commercial considerations.

While inflation in 2000/01 (12-month average) fell to 4.4 percent from 5.3 percent in the previous year, it subsequently rose to 5.6 percent in February 2002, boosted by the depreciation of the rupee during 2001 and a number of transitory factors, including the rise in the value-added tax (VAT) rate, increases in electricity and other administered prices, and the impact of a cyclone in late February on food prices.

The Financial Services Development Act came into effect in December 2001 with the formal establishment of the Financial Services Commission (FSC) under the chairmanship of the Managing Director of the Bank of Mauritius (BOM). The FSC is responsible for regulating and supervising the nonbank financial sector, while the regulation and supervision of banks, both onshore and offshore, remain with the BOM. It is envisaged that after a transition period of three to four years the FSC and the Banking Supervision Department of the BOM will be merged into an integrated supervisory agency.

The external current account swung from a deficit of 1.6 percent of GDP in 1999/2000 to a surplus of 1.8 percent of GDP in 2000/01. There was a significant improvement in the trade balance, reflecting a strong recovery in sugar exports and lower imports of inputs for the EPZ. In the capital and financial accounts, net inflows of foreign direct investment of US$228 million more than offset the final repayment on the floating rate note of US$117 million. The real effective appreciation of the Mauritian rupee during 1999 and much of 2000 was partly reversed during 2001. In 2001/02, the current account is expected to remain in modest surplus.

Executive Board Assessment

Executive Directors noted that sound macroeconomic policies and structural reforms over the past two decades have firmly established Mauritius as one of the leading economic performers in Africa, with robust economic growth, high real per capita incomes, improving social conditions, and a diversified economic base. The economy's resilience has enabled it to weather the recent global economic slowdown relatively well, with growth expected to be only slightly below its trend of the past two decades, inflation pressures subdued, and the external position in broad balance. Nevertheless, concern was expressed at the large and growing fiscal deficit and at the steadily rising unemployment rate.

Directors welcomed the government's intention to lower the fiscal deficit over the medium term, stressing that this will require substantial fiscal measures beginning with the upcoming budget for 2002/03. It was noted that failure to take corrective measures, while going forward with the ambitious capital spending plans, could result in substantial increases in the deficit and potentially trigger unsustainable debt dynamics that could jeopardize medium-term growth prospects. There was broad support for increasing the VAT rate, broadening the income and customs tax bases by reducing exemptions and concessions, and strengthening tax administration. On the expenditure side, the need to review, prioritize, and check the pace of execution of the planned capital projects to guard against excessive demand pressures was emphasized.

It was also important to implement an automatic and transparent mechanism for the pricing of petroleum products. This would help reduce losses of the State Trading Corporation and therefore the potential need for budgetary support.

The stance of monetary policy was considered to be appropriately tight, and Directors viewed favorably the Bank of Mauritius's move to an informal inflation-targeting framework. They noted, however, that many of the conditions for the adoption of a formal inflation-targeting framework, including greater independence for the central bank and a mandate setting price stability as its primary objective, were not yet in place. Directors welcomed the authorities' intention to allow the exchange rate to be market determined, with only limited intervention to reduce short-term volatility.

Directors welcomed the authorities' expeditious passage of legislation on anti-money laundering and combating the financing of terrorism and encouraged its full implementation. They also welcomed other actions to strengthen financial market supervision, including the establishment of the Financial Services Commission and Mauritius's request to participate in the Financial Sector Assessment Program starting later this year.

Considerable emphasis was placed on the need for labor market reforms to reverse the trend rise in unemployment and sustain growth at the relatively high levels Mauritius has enjoyed during the past two decades. Education and training to reduce the mismatch between labor demand and skills availability, as well as revision of labor laws and regulations to engender increased labor market flexibility, were considered crucial. In this context, Directors looked forward to the upcoming comprehensive study on labor market reforms that will be financed by the World Bank. A few Directors considered that the proposed prioritization and rescheduling of capital spending should not affect such spending on education.

Directors commended the authorities for recent measures to liberalize trade and to encourage regional economic integration. They encouraged the authorities to further liberalize trade and to bring Mauritius fully in line with World Trade Organization rules.

Directors noted that the quality and timeliness of Mauritius's reporting to the IMF of core minimum and other economic and financial statistics were in general satisfactory for surveillance purposes.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the Article IV Consultation with Mauritius is also available.

Mauritius: Selected Economic Indicators 1/

	1997/98	1998/99	1999/00	2000/01 Prov.	2001/02 Proj.
			(Annual percentage change)		
Domestic economy					
Real GDP	6.0	5.3	2.6	7.2	5.3
Consumer prices (period averages)	5.4	7.9	5.3	4.4	6.0
Unemployment	5.8	6.2	7.7	9.0	9.4
		(In millions of U.S. dollars, unless otherwise indicated)			
External economy					
Exports, f.o.b	1,605.5	1,680.2	1,522.6	1,633.4	1,625.2
Imports, f.o.b.	-2,016.0	-2,045.7	-2,006.5	-1,912.5	-1,916.7
Current account balance	-115.8	-65.3	-68.5	80.2	66.4
(in percent of GDP)	-2.8	-1.5	-1.6	1.8	1.5
Capital and financial account balance	73.8	11.7	-102.6	-49.3	-66.3
Net international reserves of the banking system (end of period)	879.6	893.8	966.0	1,082.7	1,215.4
(in months of prospective imports, c.i.f.) 2/	5.1	5.0	5.7	6.5	6.9
Debt service (in percent of exports of goods and nonfactor services)	7.0	7.6	7.9	9.8	6.0
Change in real effective exchange rate (in percent) 3/	1.4	-2.4	5.8	2.8	-4.2
		(In percent of GDP, unless otherwise indicated) 2/			
Financial variables					
Total revenues and grants	19.6	20.1	20.9	18.2	18.3
Total expenditures and net lending	23.5	23.4	24.8	23.9	24.7
Central government fiscal balance 4/	-3.8	-3.3	-3.8	-5.7	-6.4
Primary fiscal balance 4/ 5/	-0.1	0.1	-0.4	-1.3	-3.0
Change in broad money (in percent)	17.4	13.2	10.9	9.9	10.9
Interest rate (in percent) 6/	10.0	12.0	10.8	11.4	12.0

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

1/ Fiscal year from July to June.

2/ Excluding the acquisition of aircraft and ships.

3/ Trade-weighted period averages; the figure for 2001/02 is for July to December 2001. A negative sign signifies a depreciation.

4/ Including grants.

5/ Overall central government fiscal balance, excluding interest payments.

6/ Maximum interest rate on fixed-time deposits with maturities between six and twelve months, end of period; the future for 2001/02 is for January 2002.