

**MAURITIUS: 2015 Article IV
Consultation—Press Release;
Staff Report; And Statement By
The Executive Director For
Mauritius**



MAURITIUS

March 2016

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MAURITIUS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 11, 2016 consideration of the staff report that concluded the Article IV consultation with Mauritius.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 11, 2016, following discussions that ended on December 16, 2015, 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 February 26, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Mauritius.

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March 17, 2016

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

IMF Executive Board Concludes 2015 Article IV Consultation with Mauritius

On March, 11, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Mauritius.

Mauritius has continued to grow at a moderate rate of 3.4 percent in 2015, as weak external demand, protracted decline in construction, and the collapse of a large financial conglomerate group more than offset the positive impact of favorable terms of trade. Inflation remains low (0.4 percent in January 2016), reflecting in part declining oil prices and shipping costs. Unemployment hovers around 8 percent, although it is higher among women and the youth. The external current account deficit narrowed to about 5 percent of GDP and international reserves increased to 6.5 months of imports, supported by continued capital inflows.

The monetary policy stance remains broadly appropriate against the backdrop of subdued inflation. The Bank of Mauritius reduced its key policy rate by 25 bps in November 2015, to 4.40 percent, in order to support the domestic economy, while making progress in mopping up excess domestic currency liquidity.

In the financial sector, credit growth is gradually recovering and overall, the banking system remains well capitalized. Nonetheless, domestic non-performing loans have been rising and provisioning has not kept pace with the decline in asset quality. In addition, the authorities face macro-financial challenges stemming from risk exposures and potential spillovers from the very large offshore sector and its sizeable inter-linkages with domestic banking activities.

The budgetary performance turned more prudent in 2015, reversing the deterioration of recent years. In 2015, both the overall consolidated deficit and the primary deficit remained below earlier budget projections, and improved relative to 2014. Nonetheless, public debt continued to increase (by more than 2 percentage points of GDP) due to the government's interventions in the financial sector and the impact of the depreciating rupee on external debt.

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.

The country's statistical capacity continues to be strengthened as the authorities actively pursue efforts to improve the coverage of the offshore sector in official data, and to introduce a real estate price index.

Executive Board Assessment²

Directors commended the authorities' efforts to maintain a stable macroeconomic environment and foster a more diversified economy. While the country's economic outlook is favorable, they noted the macro-financial risks from a potential slowdown in offshore activities and vulnerabilities in the banking sector. They encouraged the authorities to continue to strengthen macroeconomic and financial sector resilience and to pursue structural reforms to raise productivity and growth.

Directors urged the authorities to address potential spillover risks from the complex inter-linkages between large offshore activities, the banking system, and the domestic economy. They underscored the importance of upgrading the macro-prudential policy framework, and recommended creating a macro-prudential authority with a central role for the bank regulator to improve the assessment and mitigation of systemic risks. They also emphasized the urgency of addressing information gaps regarding offshore business companies and their role in conglomerate groups.

Directors stressed the need to improve consolidated supervision and oversight of mixed conglomerates, in line with the FSAP recommendations. They recommended reconsidering tax incentives that distort bank risk-taking toward cross-border and offshore activities; promoting better foreign currency liquidity management at domestic banks; strengthening the ability of the Bank of Mauritius to supervise bank holding companies and monitor cross-border risks; developing a comprehensive framework for crisis prevention and management; and upgrading the bank resolution framework prior to introducing deposit insurance. Directors also noted that the financial inter-linkages and potential spillover risks warrant a further bolstering of foreign currency buffers, and encouraged the authorities to seek appropriate financial insurance mechanisms. Directors supported the cautiously accommodative monetary stance in view of the subdued inflation environment.

Directors welcomed the authorities' efforts to halt the fiscal deterioration in recent years and stressed the importance of putting in place a credible medium-term strategy to safeguard debt sustainability. With a view to creating space for growth-enhancing infrastructure investment,

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

they recommended containing current spending while better targeting priority social expenditure, broadening the tax base, improving the efficiency of public entities, and targeting divestiture proceeds for debt reduction. They also underscored the need to introduce an operational framework for monitoring fiscal risks and contingent liabilities arising from public-private partnerships.

Directors welcomed the authorities' commitment to raise growth and competitiveness by addressing infrastructure bottlenecks and skills mismatches, reducing the cost of doing business, and facilitating further diversification of the economy. In this context, they underscored that increased female labor force participation and immigration of skilled workers would help mitigate the impact on growth of the projected labor force decline.

Mauritius: Selected Economic and Financial Indicators, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual		Est.			Proj.			
(Annual percent change; unless otherwise indicated)									
National income, prices and employment									
Real GDP	3.2	3.2	3.6	3.4	3.8	3.9	3.9	4.0	4.0
Real GDP per capita	2.9	3.0	3.6	3.4	3.8	3.9	3.9	4.0	4.0
GDP per capita (in U.S. dollars)	8,936	9,480	10,033	9,218	9,422	10,018	10,582	11,224	11,919
GDP deflator	3.1	3.2	1.9	1.8	2.3	2.4	2.5	2.6	2.6
Consumer prices (period average)	3.9	3.5	3.2	1.3	1.5	2.1	2.3	2.5	2.6
Consumer prices (end of period)	3.2	4.1	0.2	1.3	2.0	2.2	2.4	2.6	2.6
Unemployment rate (percent)	8.0	8.0	7.8	8.0	...	...	...	...	...
(Annual percent change, in U.S. Dollars)									
External sector									
Exports of goods and services, f.o.b.	3.8	-4.9	11.4	-2.4	4.2	6.8	7.2	7.2	7.1
<i>Of which: tourism receipts</i>	-0.8	-8.8	9.5	-2.4	5.7	5.9	5.4	4.8	4.4
Imports of goods and services, f.o.b.	2.2	-0.8	7.0	-5.3	3.8	6.4	7.1	7.1	7.0
Nominal effective exchange rate (annual averages)	-7.1	-1.1	2.0	-1.0	...	...	...	...	...
Real effective exchange rate (annual averages)	1.4	-0.1	3.0	-1.2	...	...	...	...	...
Terms of trade	0.5	0.4	2.4	12.1	10.5	-3.9	-2.1	-1.7	-0.8
(Annual change in percent)									
Money and credit									
Net foreign assets	8.2	-1.3	15.5	15.6	6.2	6.7	7.1	7.2	7.4
Domestic credit	14.6	14.6	-0.3	6.7	4.7	6.5	6.5	6.7	6.7
Net claims on government	-11.4	29.9	28.8	-6.2	14.0	9.3	10.2	10.7	10.8
Credit to non-government sector ¹	17.4	14.2	-2.2	8.7	4.1	6.5	7.0	6.9	6.9
Broad money	8.2	5.8	8.7	7.1	8.0	6.0	6.1	6.1	6.1
Income velocity of broad money	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	3.3	2.7	2.2	2.2	...	...	...	...	...
(Percent of GDP; unless otherwise indicated)									
Central government finances									
Overall consolidated balance (including grants) ²	-2.1	-3.3	-4.2	-3.3	-3.4	-3.0	-3.1	-3.2	-3.2
Primary balance (excluding grants)	0.2	-1.0	-1.7	-1.2	-1.3	-0.7	-0.8	-0.9	-0.9
Revenues (incl. grants)	21.4	21.4	20.6	20.6	21.9	22.0	22.0	22.0	22.0
Expenditure, excl. net lending	23.6	24.6	24.8	23.9	25.3	25.0	25.1	25.1	25.1
Domestic debt of central government	41.0	41.0	42.8	44.6	43.4	43.2	43.3	43.7	44.4
External debt of central government	10.5	12.9	13.3	13.4	13.2	13.0	12.4	11.7	10.6
Investment and saving ⁴									
Gross domestic investment	24.8	25.2	23.0	25.5	26.1	26.7	27.3	28.0	28.4
Public	5.5	5.0	4.9	5.6	5.8	6.0	6.2	6.4	6.6
Private	19.3	20.1	18.1	19.9	20.3	20.7	21.1	21.6	21.9
Gross national savings	18.5	19.8	18.4	20.4	21.6	22.1	22.6	23.2	23.6
Public	1.0	-0.5	-0.8	-1.3	-0.4	-0.5	-0.4	-0.5	-0.5
Private	17.5	20.2	19.2	21.7	22.1	22.5	23.0	23.7	24.1
External sector									
Balance of goods and services	-13.1	-14.3	-12.5	-11.3	-11.3	-11.1	-11.1	-11.2	-11.3
Exports of goods and services, f.o.b.	52.9	47.3	49.8	52.9	53.9	54.1	54.9	55.5	56.0
Imports of goods and services, f.o.b.	-66.0	-61.6	-62.2	-64.2	-65.2	-65.2	-66.1	-66.7	-67.3
Current account balance	-7.3	-6.3	-5.6	-5.1	-4.5	-4.6	-4.7	-4.8	-4.9
Overall balance	1.8	4.5	6.0	3.0	3.6	2.6	2.7	2.8	2.8
Total external debt	89.3	101.9	109.6	96.0	98.0	98.9	99.9	98.8	97.5
Net international reserves (millions of U.S. dollars)	3,000	3,441	3,868	4,222	4,654	4,987	5,345	5,736	6,159
Months of imports of goods and services, f.o.b.	4.9	5.3	6.2	6.6	6.8	6.8	6.8	6.8	6.8
<i>Memorandum items:</i>									
GDP at current market prices (billions of Mauritian rupees)	343.9	366.3	386.8	406.9	431.9	459.9	490.0	522.7	557.8
GDP at current market prices (millions of U.S. dollars)	11,222	11,932	12,630	11,608	11,865	12,619	13,330	14,142	15,018
Public sector debt (percent of GDP)	57.9	60.0	61.5	63.7	61.0	59.6	58.9	58.4	57.9
Public sector debt (for debt ceiling purpose) ³	52.1	53.9	54.1	55.9	54.3	54.0	53.7	53.5	53.3
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa1	Baa1	...	...	...	...	...

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

¹ Includes credit to parastatals.

² *GFSM 2001* concept of net lending/net borrowing, includes special and other extrabudgetary funds.

³ For the purposes of calculating the public debt ceiling, the 2008 Public Debt Management Act requires discounting certain types of State-owned enterprises' debt.

⁴ The identity between the current account balance and the saving/investment gap does not hold because of statistical discrepancies in the BOP (partly linked to GBCs), and differences with National Accounts.



MAURITIUS

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

February 26, 2016

KEY ISSUES

Context: Mauritius' upper-middle income economy has continued to grow at a moderate rate; inflation is low; and the external position has improved. Macroeconomic conditions remain stable but the authorities face macro-financial challenges stemming from the recent collapse of a large financial conglomerate, which affected the real economy, as well as risk exposures and potential spillovers from the massive offshore sector and its sizeable inter-linkages with domestic banking activities. These challenges, discussed in the FSAP and in the consultation as a macro-financial pilot, require a significant strengthening of the macro-prudential and financial stability policy frameworks. The authorities are also resolute to avoid the middle-income trap, but face a tight tradeoff, anchored by a statutory medium-term debt target, between spending on social entitlements versus infrastructure upgrading, much needed as competitiveness and productivity have been eroding and investment rates declining. Given the low female labor force participation in a shrinking labor force, the consultation with Mauritius is also a pilot for the analysis of gender inequality.

Outlook and Risks: Despite these challenges, the medium-term outlook remains favorable, as economic growth is set to be boosted by continued low fuel prices and the start of important investment programs. However, there are downside risks to the baseline from a potential slowdown in the activity of the offshore financial center; banking sector vulnerabilities affecting private sector credit expansion; subdued growth in Mauritius' main trading partners; and fiscal vulnerabilities.

Focus: Discussions centered on mitigation of systemic spillover risks from the off-shore center and re-establishing the credibility of the medium-term fiscal anchor. Staff and the authorities agreed on the characterization of the inter-linkages with the domestic economy, and the need to upgrade regulation and oversight of the financial system. The authorities also agreed on the need to strengthen reserve buffers, as well as to continue to reduce excess domestic currency liquidity in the banking system.

Approved By
David Owen (AFR) and
Luis Cubeddu (SPR)

Discussions took place in Port Louis during December 1–16, 2015 and continued in Washington D.C. during February 2–5, 2016. The staff team consisted of Messrs. Mauro Mecagni (Head), Keiichiro Inui, Albert Touna Mama, Ms. Monique Newiak (all AFR), Javier Hamann (MCM, leading the FSAP), and William Kerry (SPR).

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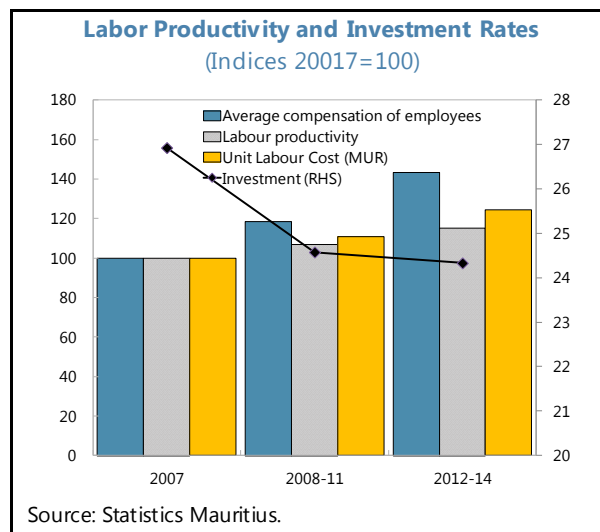
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INTRODUCTION

1. Mauritius's strong development record has reflected a remarkable ability to adapt to changing economic and financial conditions.

Economic growth has been commendable, and financial stability has been maintained, even under challenging circumstances. After successfully transitioning from an agricultural to a manufacturing and tourism based-economy, the country has continued to develop and diversify with a vibrant financial sector—including a very large offshore industry. A careful macroeconomic policy response helped Mauritius weather the global financial crisis. The economy has remained resilient to the recent increased volatility in emerging and frontier markets, and has benefitted from declining commodity prices.

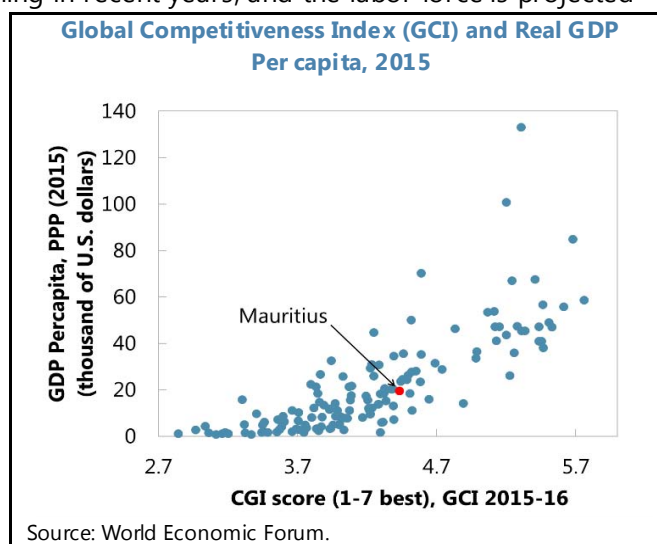


2. Mauritius is facing the challenge of avoiding the “middle-income trap” and moving to a higher income status. Competitiveness, productivity and investment rates have been declining in recent years, and the labor force is projected to shrink over time. Infrastructure bottlenecks are a constraint to further development, and the authorities envisage large public investment programs with complementary private investment to boost port capacity, transportation, connectivity and other advanced technologies.

3. The country is also seeking a strategic re-orientation of its large offshore sector to channel foreign investment into mainland Africa.

Currently, the global business company (GBC) sector is a source of economic dynamism on the back of a Double-Taxation Avoidance

Agreement (DTAA) Treaty with India, legal and accounting expertise, bilingualism and the record of political stability.¹ Going forward, the authorities seek to position the country as a prime route for foreign investment into Africa and to depart from the tax-centered model to attract capital inflows. This strategy entails even stronger inter-linkages between the GBC sector, the domestic economy and the



¹ Under the DTAA, capital gains on sale of assets in India by companies registered in Mauritius can only be taxed in Mauritius. The tax on capital gains is set at 3%.

financial sector, providing further development momentum but also stronger potential spillovers from volatile external conditions.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. In 2015, Mauritius continued to grow at a moderate rate, reflecting subdued activity in its main trading partners and a challenging domestic environment (Figure 1). Real GDP growth is estimated to have slowed somewhat, to 3.4 percent from 3.6 percent in 2014, as weak external demand, a protracted decline in construction, and the collapse of the BAI financial conglomerate group (Annex I), more than offset the positive impact of favorable terms of trade. The unemployment rate hovered around 8 percent, although it was higher among women (11 percent) and the youth (23 percent). With low inflation (0.4 percent in January 2016)—reflecting in part declining oil prices and shipping costs²—the Bank of Mauritius (BoM) reduced its key policy rate by 25 bps in November (to 4.40 percent) to support domestic demand.

5. Domestic credit is gradually recovering from the 2014 contraction, in part induced by the adoption of macro-prudential measures to address increasing nonperforming loans (NPLs) in tourism and construction (Box 1). Credit growth remained weak in the aftermath of the BAI group collapse, and while it has ticked-up recently, it is only projected to grow in-line with GDP over the next few years. While the banking sector overall remains well capitalized, as confirmed by the FSAP solvency stress test, there are significant differences across banks and vulnerabilities have increased. Tier 1 capital ratios (above 15 percent at end-June 2015 in aggregate) were significantly lower in two small institutions, which were recently merged into a state-owned bank. Moreover, NPLs have risen to about 8 percent of domestic loans, and provisioning has not kept pace with the deterioration in bank asset quality (Box 1).

6. Fiscal policy turned more prudent in 2015, reversing the deterioration of recent years. The overall consolidated balance and the primary deficit not only remained below earlier budget projections, but also improved relative to 2014 (by almost 1 and by ½ percent of GDP respectively), although this was largely driven by cuts in capital spending³. Nonetheless, public debt continued to increase (by more than 2 percent of GDP, to 63.7 percent at end-2015), reflecting the government's intervention in the financial sector—1.3 percent of GDP, due to capital injections in two ailing banks (0.4 percent of GDP in total) and a line of credit to refund policyholders of single premium products issued by BAI (0.9 percent of GDP)⁴—and the impact of the depreciating rupee on external debt.

7. The balance of payments has improved. Driven by strong exports of goods and lower shipping costs and fuel prices, the current account deficit is estimated to have narrowed to about

² Early 2016, the Baltic Dry Index of shipping costs fell to a record low since the index started in 1985.

³ The government program included a 6-month bridge-budget to accommodate the reversion to a fiscal year ending June 30.

⁴ Those that have invested less than Rs 0.5 million in BAI single premium products.

5 percent of GDP in 2015. International reserves increased to US\$4.2 billion by end-2015, supported by continued GBC-related capital inflows. The rupee lost 14 percent against the US\$ through end-2015, while remaining broadly stable against the euro.

8. Overall, the baseline medium-term outlook remains favorable. GDP is projected to grow moderately in 2016 (3.8 percent) and hover just above this rate in the medium-term, boosted by the impact of low oil prices and the gradual implementation of important investment programs. On the other hand, the baseline reflects the likely plateauing of domestic credit relative to GDP, due to the need for bank balance sheet repair in a rather saturated domestic market. Reflecting capital goods and cement imports for investment projects, the current account deficit is expected to stay around 5 percent of GDP, accompanied by a moderate gain in competitiveness supported by the planned investment projects addressing infrastructure bottlenecks, and various structural reforms (see ¶34). Under the baseline, the GBC sector is assumed to continue generating substantial (net) inflows, and international reserves are expected to stabilize at around 6¾ months of imports.

9. This baseline is subject to a number of risks (see the Risk Assessment Matrix). Lower-than-expected growth in Europe could adversely affect tourism, trade and FDI. On the domestic side, while risks from the public debt profile should be manageable, given the low external debt with long maturities and favorable terms, vulnerabilities could arise if public debt is not reduced from its relatively high level (about 64 percent of GDP). Most important, external balance and domestic financial stability conditions are crucially dependent on continued funding from non-residents and the GBC sector, which could be affected by a revision of the DTAA with India, and on the absence of adverse spillovers on domestic banks from their large exposure to credit risks on cross-border lending operations (around 100 percent of GDP). There is also a risk that domestic credit growth may be lower than projected should bank balance sheet strains worsen. On the upside, the authorities target more ambitious growth rates (5-6 percent) through further diversification and improvements in a variety of infrastructures. Nonetheless, reaching growth prospects to that extent hinges upon resolutely addressing constraints to factor accumulation and productivity development, and sounder banking conditions supporting stronger credit expansion.

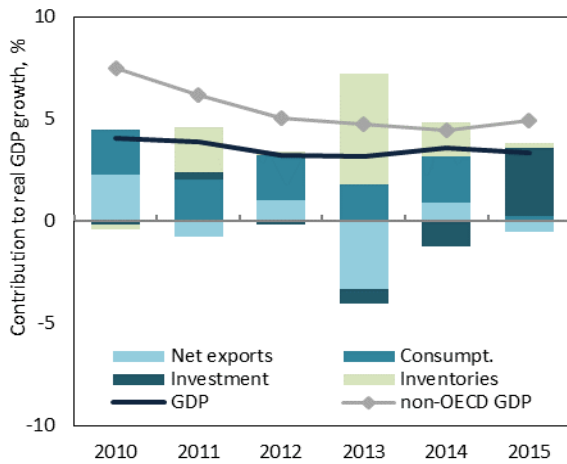
Mauritius: Risk Assessment Matrix (June 2015)¹

Potential Deviations from Baseline

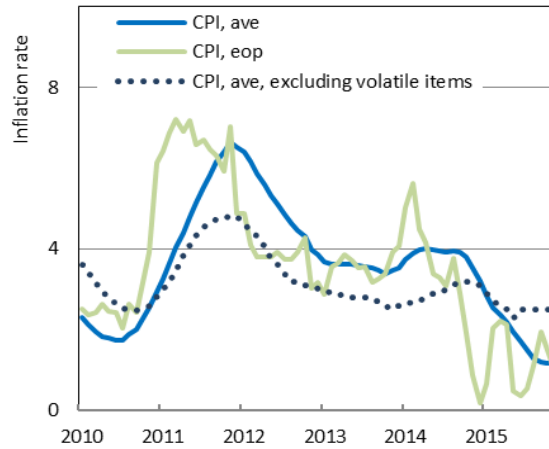
Source of Risks	Relative Likelihood	Potential Impact	Time Horizon	Policy response
DOMESTIC AND REGIONAL				
Double Taxation Agreement with India: <ul style="list-style-type: none"> Termination or drastic revision which could lead to a sharp decline in the GBC sector and a withdrawal of bank deposits, triggering a bank deleveraging, and creating risks for the exchange rate, credit growth and the real economy. Revision reducing the size of the GBC sector and its deposits with banks. 	Low	High	Short Term	Adequate liquidity and capital buffers at banks, and diversification of exposures. Exchange rate flexibility. Active labor market policies to absorb unemployed.
Insufficient adjustment efforts over the medium-term due to political constraints	Medium	Medium	Medium Term	Exchange rate flexibility. Proper phasing of the adjustment effort. Public policy dialogue to increase public acceptability of reforms
Risks to credit growth following the crystallization of banking sector credit risks either from domestic or nonresident exposures.	Medium	High	Short Term	Ensure adequate liquidity and capital buffers and strengthen the macroprudential policy framework.
GLOBAL				
Tighter or more volatile global financial conditions: <p>Sharp asset price adjustment and decompression of credit spreads as investors reassess underlying risk and respond to unanticipated changes in growth prospects, Fed policy rate path, and increases in U.S. term premia, with market liquidity amplifying volatility.</p> <p>Persistent dollar strength. Improving U.S. economic prospects versus rest of the world leads to a dollar surge, creating balance sheet strains for dollar debtors.</p> <p>Euro area bond market contagion. Sovereign and financial sector stress re-emerges across the Euro area due to protracted policy uncertainty and delays in debt servicing by Greece, faltering reforms, and political and social upheaval.</p>	High	Medium	Short Term	Exchange rate flexibility. Macroprudential measures. FX interventions to reduce excessive volatility.
	High	Low	Short Term	
	Medium	Low	Short Term	
Structurally weak growth in key advanced and emerging economies (the "new mediocre"): <ul style="list-style-type: none"> Euro area/Japan. Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to low medium-term growth and accumulation of financial imbalances. Emerging markets, including China. Maturing of the cycle, misallocation of investment and excess corporate leverage (including in FX) fueled by a prolonged period of easy global financial conditions, and insufficient progress with reforms leads to a significant medium-term growth slowdown. Sharp China slowdown in 2015-16. Growth falls significantly below target, possibly due to a severe housing downturn or a shock in the shadow banking sector. 	High	Medium	Medium Term	Exchange rate flexibility. Structural reforms to boost competitiveness, export diversification.
	Medium	Medium	Medium Term	
	Low	Medium	Short Term	
Political fragmentation erodes the globalization process and fosters inefficiency: <ul style="list-style-type: none"> Retreat from globalization and international cooperation: Rise of anti-globalization parties undermines further policy coordination, stymies rebalancing of global demand, weakens global financial safety net, and aggravates challenges to completion of financial regulatory reform agenda. 	Medium	Medium	Medium Term	Exchange rate flexibility. Structural reforms to boost competitiveness, export diversification.
<p>¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.</p>				

Figure 1. Recent Economic Developments

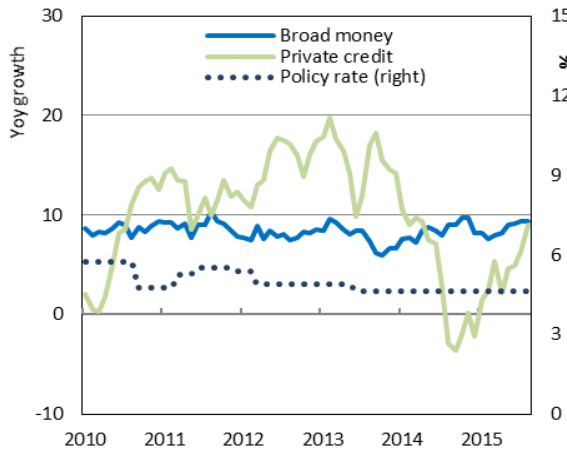
Growth has been consumption driven in recent years.



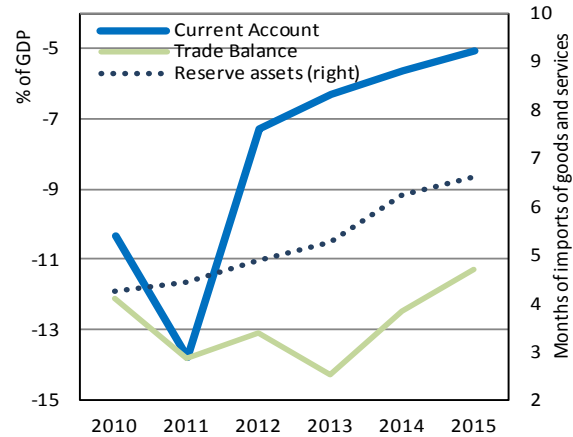
Inflationary pressures have declined due to lower international commodity prices.



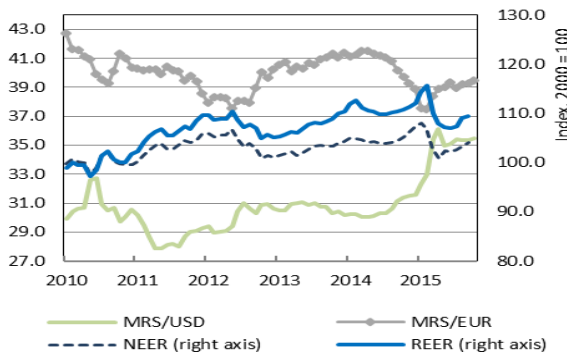
Private credit slowed down in 2014, but recovered in mid-2015.



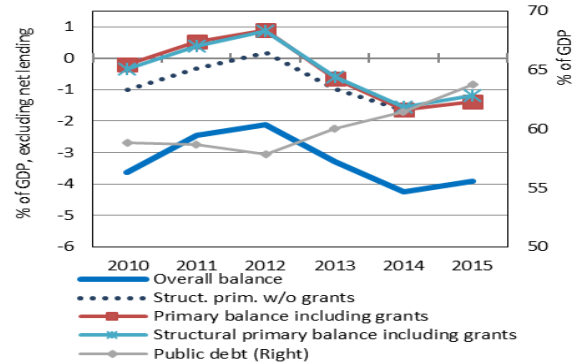
The current account deficit has declined from a very high level, and reserves have built up.



After edging up at the end of 2014, the REER has depreciated in 2015.



After two years of fiscal deterioration, consolidation started in 2015.



Sources: Authorities and IMF staff estimates.

Box 1. Domestic Bank Lending Cycle and the Rise in NPLs

Bank lending built-up significantly over the past decade, increasing from around 70 percent in 2004-05 to the current level of around 100 percent of GDP (Figure 1.1). After peaking at nearly 110 percent of GDP in 2013, credit contracted following the adoption of macro-prudential measures (limits on loan-to-value and debt-to-income ratios for property purchases). Bank lending remained weak during the problems at the BAI Group, but there are indications that it started to recover after the January 2015 decision to rescind the previously introduced macro-prudential measures. Finally, the lack of property price data hampers commercial banks' risk management, and systemic risk assessment by the authorities.

Figure 1.1 Banking sector credit

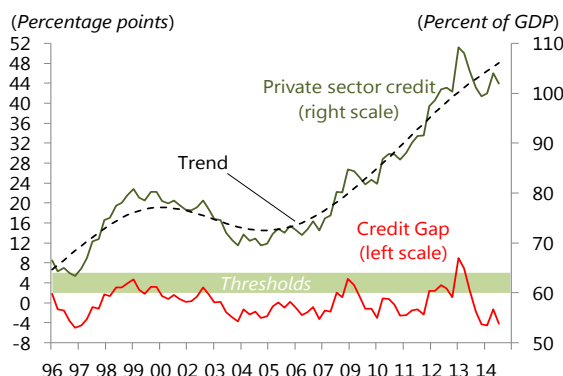


Figure 1.2 Nonperforming loans

(Percent of gross loans)

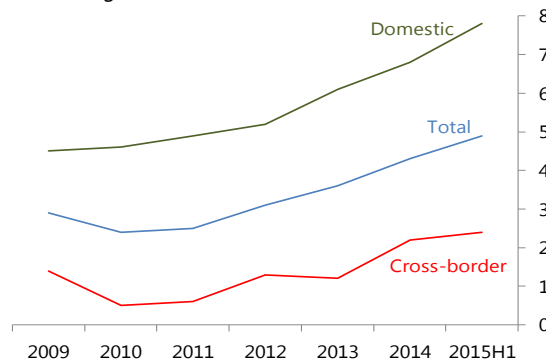


Figure 1.3 Nonperforming loans by sector, H1-2015

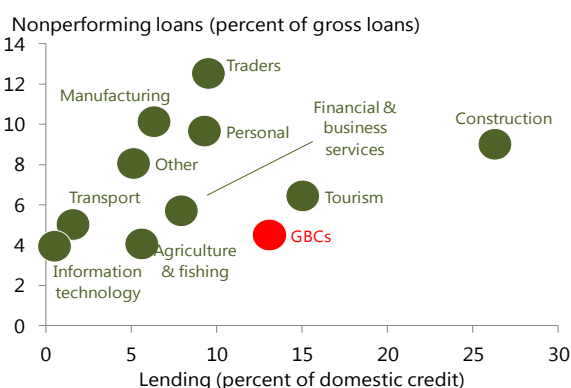
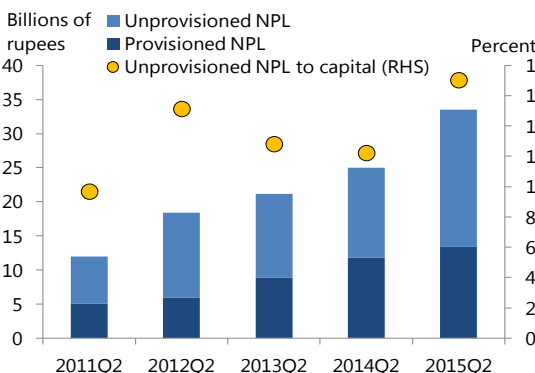


Figure 1.4 Bank nonperforming loans and provisions



Sources: Bank of Mauritius; and IMF staff calculations.

Note: The credit-to-GDP trend is estimated using a Hodrick-Prescott filter.

The credit boom has led to a rise in NPLs (Figure 1.2). NPLs are highest in construction sector (Figure 1.3), following a period of elevated lending growth, although NPLs are also high for trading, manufacturing and individuals. NPLs for GBCs (the third largest recipient of domestic credit) remain relatively low. Provisioning has not kept pace: coverage ratios (provisions to NPLs) fell to 40 percent in June 2015 and un-provisioned NPLs reached 17 percent of bank capital (Figure 1.4).

Domestic credit is not projected to grow much faster than GDP. Bank asset quality has deteriorated, there is a widespread view among banks that the domestic market is relatively saturated, and banks tend to ask for property collateral, which is limited in supply and with low turnover. This all suggests that domestic credit may have reached a plateau relative to GDP. Indeed, banks are increasingly shifting to offshore operations, given the clear tax advantages of cross-border and offshore business relative to domestic lending. This outlook for domestic and foreign credit is incorporated into the baseline projection for a moderately growing economy and the expected increase in bank net foreign assets.

MACRO-FINANCIAL LINKAGES AND SPILLOVER RISKS

A. Macro-Financial Structure of the Mauritian Economy⁵

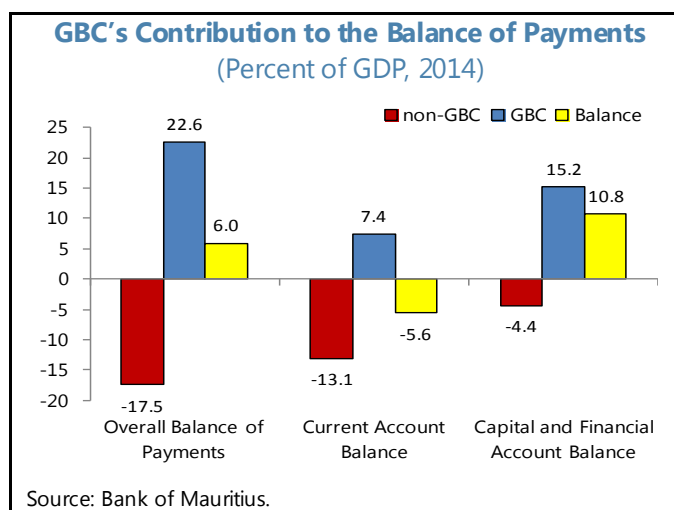
10. The striking feature of Mauritius' financial system relates to the enormous size of the GBC sector, intrinsically linked to the domestic economy through the balance of payments and the banking system. Profiting from tax exemptions on foreign-sourced income, GBCs have become a key pillar of the economy⁶, and account for assets estimated at over US\$630 billion, some 50 times the level of GDP (Figure 2, panel 2). This massive order of magnitude has become evident following the authorities' efforts, supported by IMF technical assistance, to collect survey data on GBC1s for use in balance of payments (BOP) and international investment position (IIP) statistics. Nonetheless, GBCs' statistical coverage has still important gaps as GBC2s remain largely unmonitored.

11. The GBC sector plays a vital role in financing the balance of payments, offsetting the large current account deficit for the rest of the economy (13 percent of GDP in 2014).

Net capital inflows (15 percent of GDP) and investment income from GBC investments in the rest of the world (10 percent of GDP) are used to finance the large current account deficit of the non-GBC economy, allowing for the observed net accumulation of international reserves.

12. There are also other inter-linkages between the GBCs and the domestic economy. While GBCs' domestic assets account for only a tiny fraction of their massive total assets (most of GBCs' activities

are with non-residents), they still represent close to 100 percent of Mauritius' GDP—largely in the form of domestic bank deposits. In addition, there are very large (and poorly understood) domestic cross-holdings within the GBC sector (around 300 percent of GDP; Figure 2, panel 4). GBCs also contribute to tax revenues, paying almost



⁵ Mauritius' financial system is dominated by banks with around 330 percent of GDP of total banking assets at end-2014, while the assets of the insurance and pension sectors were equivalent to some 34 and 40 percent of GDP respectively. Stock market capitalization was about 62 percent of GDP.

⁶ The offshore sector is made of two types of GBCs: GBC1 and GBC2. As of end 2014, the sector comprised approximately 10,300 GBC1s and 10,140 GBC2s. A GBC1 is a tax resident in Mauritius and is often used when overseas income is largely in the form of dividends, royalties, interest and capital gains. A GBC2 is not a tax resident and can carry out business only with non-residents and in foreign currency. It cannot benefit from DTA treaties, but is fully exempt from taxes on worldwide profits. The GBC2 license is often used for setting up special purpose vehicles for holding shares abroad.

1.3 percent of GDP in taxes in 2014 (around 6½ percent of total tax collection; Figure 2, panel 5). In contrast, the GBCs' direct contribution to domestic employment remains modest (Figure 2, panel 6).

13. GBCs' foreign currency deposits are a key funding source for banks, which also have other large cross-border exposures (Figure 3, panel 1). GBCs deposits account for 30 percent of the banking sector balance sheet (bank assets stood at around 300 percent of GDP) and bank claims on GBCs represent about 10-15 percent of domestic credit. GBCs can also hold equity stakes in banks. In addition, banks have large exposures to non-residents, with deposits equivalent to 22 percent of total liabilities, and cross-border loans in excess of 100 percent of GDP (mostly to borrowers in India and other countries in Africa and Asia). For the banking system as whole, foreign currency liabilities to GBCs and non-residents are mostly matched by foreign currency assets^{7,8}.

14. However, exposures to GBCs and non-residents vary significantly across banks (Figure 3, panels 3 and 4). Under Mauritius' single licensing regime, banks are free to operate in both Segment A business (domestically-sourced income) and Segment B business (foreign-sourced income, including GBCs and non-residents). Large foreign banks tend to focus on Segment B, drawing deposits from the most reputable GBCs and lending to their global network of customers with established credit records. The two large domestic banks are currently concentrated on Segment A. Medium-sized banks have a mix of Segment A and Segment B operations, potentially constituting a greater channel of spillover to domestic activity. Reflecting the considerable tax advantage for Segment B activities (80 percent reduction in the 15 percent corporate tax rate), many banks are planning to increase their Segment B operations going forward. This is a risky strategy given the challenges associated with assessing the funding risk from GBCs and non-resident sources, and the credit and counterparty risks involved in cross-border lending.

⁷ More than 95 percent of banks' asset and liability exposures to GBCs and non-residents are estimated to be in foreign currency. No data are available about currency composition of the entire balance sheet of GBCs, but the GBC's nature as a conduit of international investments makes it likely that most of the GBCs' assets and liabilities are in foreign currency.

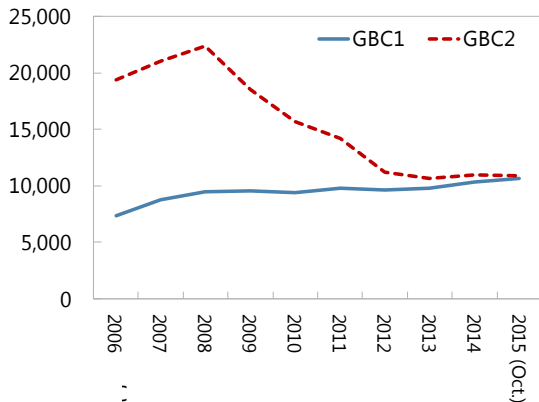
⁸ Only about 11–12 percent of bank deposits and borrowing by domestic residents (non-GBC) are in foreign currency. The balance sheet analysis does not show major currency mismatches in the domestic economy, although there are significant data gaps (see Annex V).

Figure 2. Global Business Companies (GBCs) and the Mauritian Economy

The number of GBCs is substantial and growing ...

1. Number of GBCs

Absolute Number

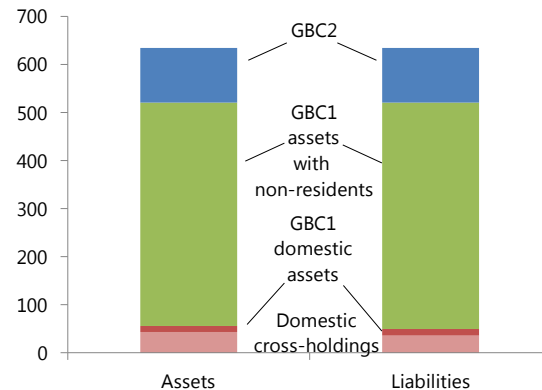


Source: FSC.

... with a balance sheet some 50 times GDP ...

2. GBC Balance Sheet, 2014

Billions of U.S. dollars

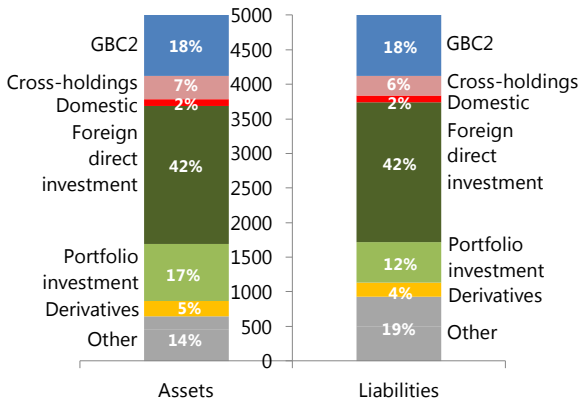


Sources: FSC; Bank of Mauritius; and IMF staff estimates.
Note: Estimated using data on 2014 balance sheet size, and 2013 figures on types of assets.

... most of which is with non-residents ...

3. GBC: Balance Sheet by type of Asset, 2014

In Percent of Total (middle) and in Percent of GDP

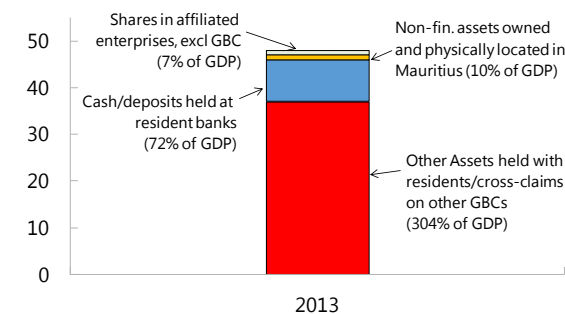


Sources: FSC; Bank of Mauritius; and IMF staff estimates.
Note: Estimated using the same method as panel 2.

... but there are also assets in the domestic economy.

4. GBC Domestic Assets

Billions of US\$, and Percent of GDP

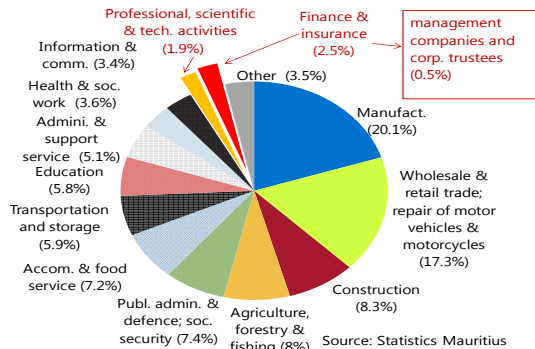


Sources: FSC; and Bank of Mauritius.

GBC's direct contribution to employment is modest.

5. Employment

In Percent of Total Employment

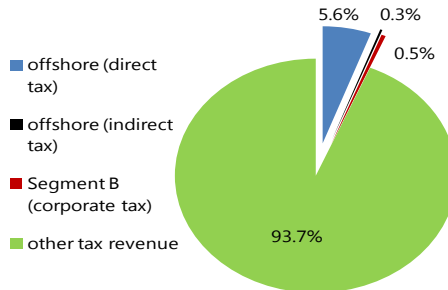


Source: Statistics Mauritius

GBC's and related activities contribute around 6.5 percent of total revenues.

6. GBC, Segment B and other Taxes

In Percent of Total Tax Revenue



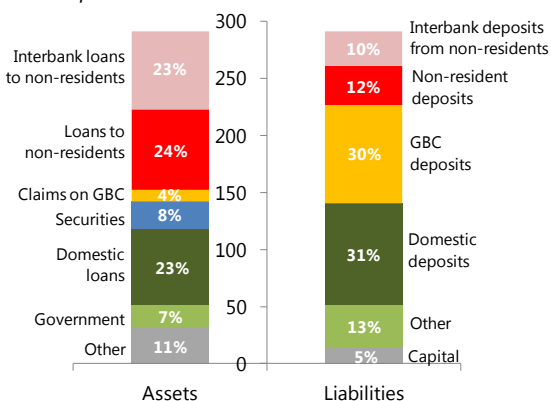
Source: Ministry of Finance

Figure 3. Overview of the Banking Sector

The banking sector is large relative to GDP ...

1. Banking sector balance sheet, 2015H1

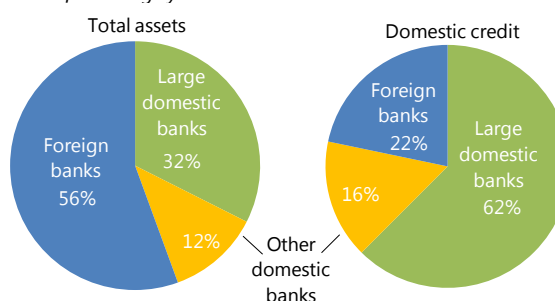
Percent of GDP



... and has three main types of institutions.

2. Banking system by type of bank, 2015 H1

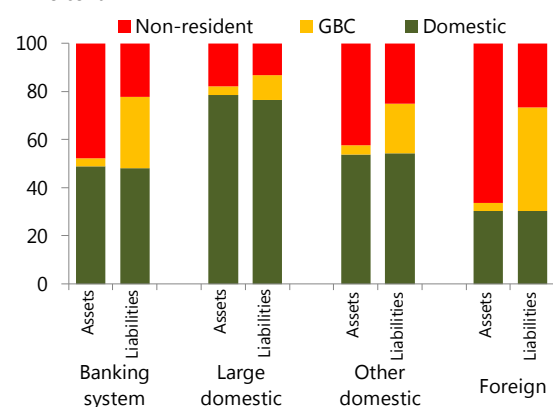
Percent of banking system assets and total credit



Banks are highly exposed to GBCs and non-residents ...

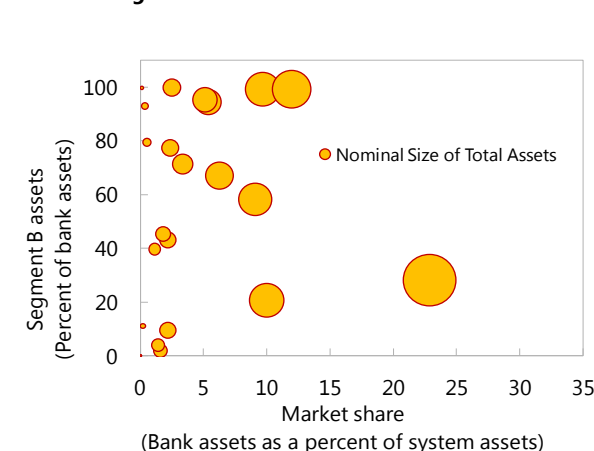
3. GBC: contribution to banks' balance Sheet

In Percent



... though this Segment B exposure varies by bank.

4. Banks' Segment B business



Sources: Bank of Mauritius; and IMF staff estimates.

B. Potential Spillover Risks

15. The balance sheet inter-linkages noted above are a source of systemic vulnerabilities.

A decline in GBC or non-resident foreign currency funding, for instance triggered by a significant revision of the DTAA Treaty with India or by an intensification of initiatives against tax base erosion and avoidance, could worsen Mauritius' balance of payments position, lead to exchange rate pressure, a weakening of reserves, and rising inflation and external debt servicing costs. The associated decline in GBC deposits in domestic banks could create deleveraging pressures, particularly in any small and medium-sized banks with liquidity-risk management systems insufficient to quickly mobilize foreign currency assets. The resulting funding need could trigger a cutback of foreign and domestic credit, and broader confidence effects, which would impact the domestic economy. Indeed several banks operate within financial groups/holdings or mixed

conglomerates with activities in other domestic sectors. Similarly, the large cross-holdings within the GBC sector could act as contagion channel. There could also be regional spillovers, given Mauritius' role as financial hub for foreign investments in Africa. Yet, data and non-bank supervisory gaps prevent a full analysis of the GBC sector and the risks it poses.

16. Further integration of the offshore sector with the domestic economy entails benefits, but also increases potential spillover risks. The authorities aim at promoting the GBC sector as a conduit for investment into Africa, while encouraging a greater involvement of the GBC sector in the domestic economy by the introduction of "substantial presence conditions". Although this greater interconnection with GBCs may have beneficial effects on domestic economic activity, the strategy also raises the risk of inward spillovers from GBC-related volatility.

SAFEGUARDING MACRO-FINANCIAL STABILITY

Policy discussions centered on the mitigation of systemic spillover risks from the offshore sector, regulation and oversight of the financial sector, and implications for adequacy of reserve buffers and competitiveness. The recommendations to strengthen the stability of the financial sector are largely guided by the FSAP.

A. Enhancing Regulation and Oversight of the Financial Sector

17. The recent collapse of the BAI financial conglomerate highlighted weaknesses in regulation, consolidated supervision, crisis management and resolution. Although the authorities succeeded in averting a systemic crisis, the lack of an ex-ante bank and financial resolution regime and of an explicit deposit insurance scheme (DIS) translated into substantial fiscal costs⁹, and potential moral hazard. This episode also highlighted issues of regulatory forbearance, political leaning, and coordination problems among financial regulators. The consultation discussions noted the systemic importance of mixed conglomerates, of which several banks are part, highlighting the importance to upgrade consolidated supervision and cooperation among regulatory agencies—in particular between the BoM and the Financial Services Commission (FSC)¹⁰. The authorities have already taken steps to improve supervisory cooperation.

18. Mauritius' financial stability framework needs upgrading, commensurate with the scale and complexity of the financial industry. In addition to close cooperation among regulators, a proper assessment of macro-financial risks associated with banks' large exposures to GBCs and nonresidents requires the availability of timely information and strong technical capacity for risk assessment. The authorities recognize that data gaps and incomplete information hamper

⁹ The fiscal cost in 2015 was around 1.3 percent of GDP (0.4 percent of GDP in recapitalization, and 0.9 percent of GDP to refund policyholders; see ¶6).

¹⁰ The BoM supervises banks and other deposit taking institutions, while the FSC is overseeing non-bank financial institutions including insurance companies, pension and investment funds, and GBCs.

their efforts to gauge and respond to these vulnerabilities. In this regard, they also saw the critical need to establish a stronger legal ability for the bank regulator to require all information needed to safeguard financial stability from all financial institutions operating in Mauritius. AML/CFT supervision and customer due diligence measures need to be enhanced in line with FSAP recommendations, in order to further protect the financial sector against money laundering risks.

19. Staff also recommended that the authorities create a macro-prudential authority with a prominent role for the Bank of Mauritius. Due to the size and central role of the banking system and its supervisory mandate over it, the central bank is uniquely placed for systemic risk assessment and mitigation through the deployment of macro-prudential tools. In this context, even before a macro-prudential authority is formalized, the formation of a permanent technical working group spear-headed by the BoM's Research and Supervision Departments, and including representatives from the Ministry of Finance, the FSC, and the Ministry of Financial Services, should monitor and analyze systemic risks and regularly report its findings and recommendations to the inter-ministerial Financial Stability Committee.

20. In this context, the tax structure affecting banking system activities and uneven reserve requirements for foreign currency deposits are a risk to financial stability and need to be corrected. The significant tax incentive for Segment B activities distorts the allocation of resources in favor of cross-border operations, affecting competitiveness in the non-GBC sector (see ¶126)¹¹. These distorted incentives are likely to be reinforced by differences in reserve requirements and remuneration, favoring foreign currency deposits relative to rupee deposits¹². The tendency to move toward segment B activities indicates that banks may not be internalizing the negative externality these measures impose on the economy in the form of higher systemic risks.

21. In addition, a special resolution regime for banks reflecting best international standards and, subsequently, a deposit insurance scheme (DIS) should be introduced. Official assistance should be strictly confined to systemic cases and used under clear limitations to be stipulated in the law. An industry-funded DIS, a key part of the financial safety net, should be introduced subsequently, with coverage limited to small resident depositors only, and be given powers to facilitate resolution operations. The authorities recognize that improving the resilience of the banking sector also requires ensuring adequate loan-loss provisioning and promoting better foreign currency liquidity management by banks.

¹¹ Bank Segment A business has a significantly higher tax rate (10 percent special levy on top of the customary 15 percent tax rate) than Segment B business (80 percent rebate on the customary 15 percent tax rate).

¹² Banks need to have reserves equal to 9 percent of domestic deposits and 6 percent of foreign currency deposits. In addition, foreign currency requirements are remunerated (based on central bank interest rates), while local currency deposits are unremunerated.

Box 2. Key Policy Recommendations from the 2015 FSAP

- Introduce prudential requirements on domestic and foreign currency liquidity. The introduction of a Liquidity Core Ratio by currency would mitigate liquidity risk, especially in foreign currency, and promote better foreign currency liquidity management by banks. The prudential limits could vary with the quality of banks' liquidity management practices. Consideration should also be given to setting concentration limits on interbank bank exposures. In addition, to mitigate the risk of systemic foreign currency liquidity stress, specific reserve requirements on GBC deposits could also be considered.
- *Improve the supervisory approach for conglomerates and for consolidated supervision.* Amend existing legislation to grant BoM authority over bank holding companies and allow it to monitor intra-group transactions and those between the group entities and related parties. Dedicated joint or lead supervisors should be established for each conglomerate and be given adequate on- and off-site supervisory mandate and resources.
- *Continue to strengthen the BoM's capacity to monitor the risks associated with banks' cross-border lending.* Increased cooperation with host supervisors is recommended for cross-border operations made through subsidiaries. Where direct cross-border lending takes place, the BoM needs to bolster its capacity to monitor country risks and understand the nature of the business and the reputation of Mauritian bank counterparts.
- *Ensure adequate loan-loss provisioning by banks.* Proceed with the planned tightening of prudential norms on loan classification and collateral valuation.
- *Enhance the financial safety net and strengthen the crisis resolution and management framework.* Resolution options for systemic and non-systemic cases should be clearly differentiated in the banking law; the law should also specify the circumstances under which liquidity and/or solvency support can be provided. A comprehensive framework for crisis prevention and management (including the preparation of resolvability assessments for domestic systemically important banks) should be put in place. An industry funded Deposit Insurance Scheme (DIS) consistent with the rest of the components of the bank resolution framework should be introduced.
- *Continue to strengthen the AML/CFT framework to meet the FATF Recommendations.* Laws and regulations should be amended to address the remaining shortcomings, and effective implementation ensured.

22. The authorities agreed with the analysis of balance sheet inter-linkages, and are taking steps to mitigate spillovers and financial stability risks. They acknowledged the need to upgrade the supervision of the offshore financial sector. A technical group to enhance systemic risk assessment has been set-up and the authorities will seek a continued dialogue with staff as work progresses. They are also committed to ensuring that the BoM and FSC work closely together to assess and mitigate systemic risks. The BoM plans to enhance its ability to collect data to monitor financial stability issues. It has also put forward legislation to strengthen regulation by giving the central bank authority to regulate bank holding companies. Legislation on consolidated supervision is also planned. A draft bill on Deposit Insurance is already underway, though this should be aligned with the Core Principles for Effective Deposit Insurance Systems and good international practices. The authorities have requested Fund technical assistance to support this reform process.

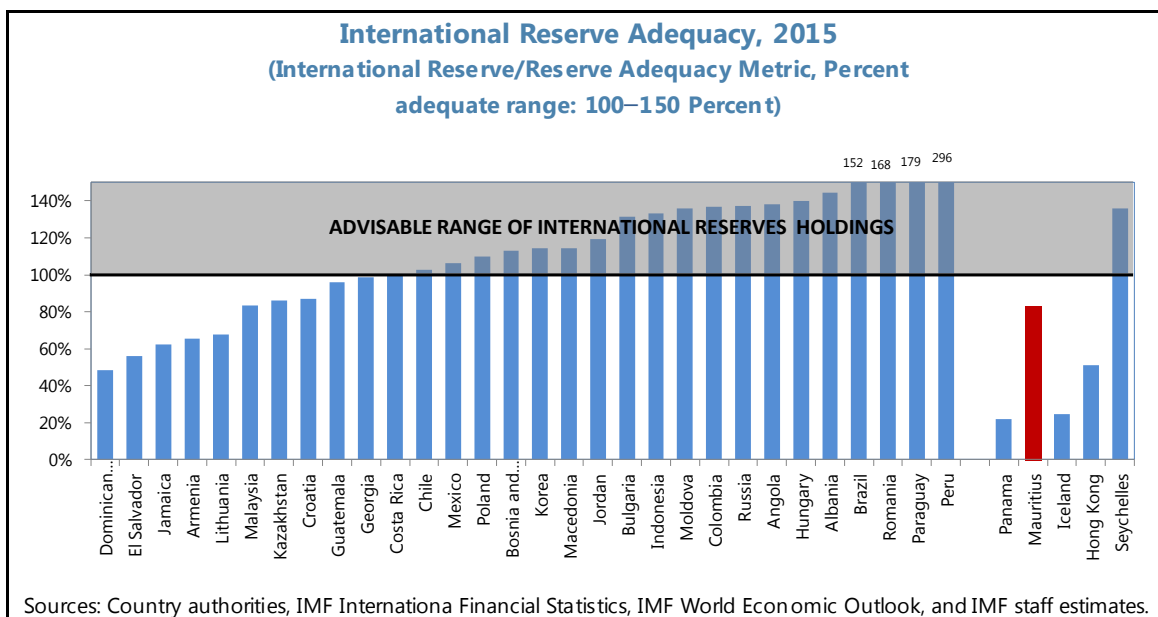
B. Reserve Buffers, Exchange Rate, and Monetary Policy

International Reserve Buffers

23. International reserve buffers are in-line with standard rule-of-thumb thresholds of reserve adequacy. Indicators such as the coverage of imports, broad money and short-term debt suggest relatively solid foreign exchange buffers. International reserves (US\$4.2 billion at end-2015) are equivalent to more than 100 percent of short-term debt; 6.6 months of prospective imports; and 36 percent of broad money.

24. However, international reserve buffers may not be sufficiently strong for the risks that could be posed by the financial sector. Annex IV suggests a tailored reserve adequacy metric, including a role for GBC deposits and taking into account banks' liquid assets in foreign currency, and compares reserve adequacy metrics in Mauritius to other emerging markets and financial centers. This assessment suggests the need to build stronger buffers against external shocks, by considering insurance mechanisms such as swap arrangements or credit lines with other central banks as well as a revision of reserves requirements for foreign currency deposits. After strengthening the prudential framework for liquidity management, the authorities should also consider creating a limited foreign currency Emergency Liquidity Assistance (ELA) facility mainly targeted at small and medium-sized banks, with strict access limits, at penalty rates, and backed by high quality foreign currency-denominated collateral.

25. The authorities shared the view that the complexity of the financial sector inter-linkages should be taken into account in gauging the adequacy of reserves. They noted, however, that the sterilization costs involved would reduce the appeal of a faster accumulation of international reserves. They agreed with staff that further analysis of foreign-currency liquidity management capacity in individual banks is needed to gauge more accurately risks from a decline in GBC activities on reserves. The authorities are committed to conducting a bank-by-bank analysis to assess the share of foreign currency deposits not secured by liquid assets or credit lines. In parallel, they are considering options to seek insurance against balance of payments shocks.



Exchange Rate Policy

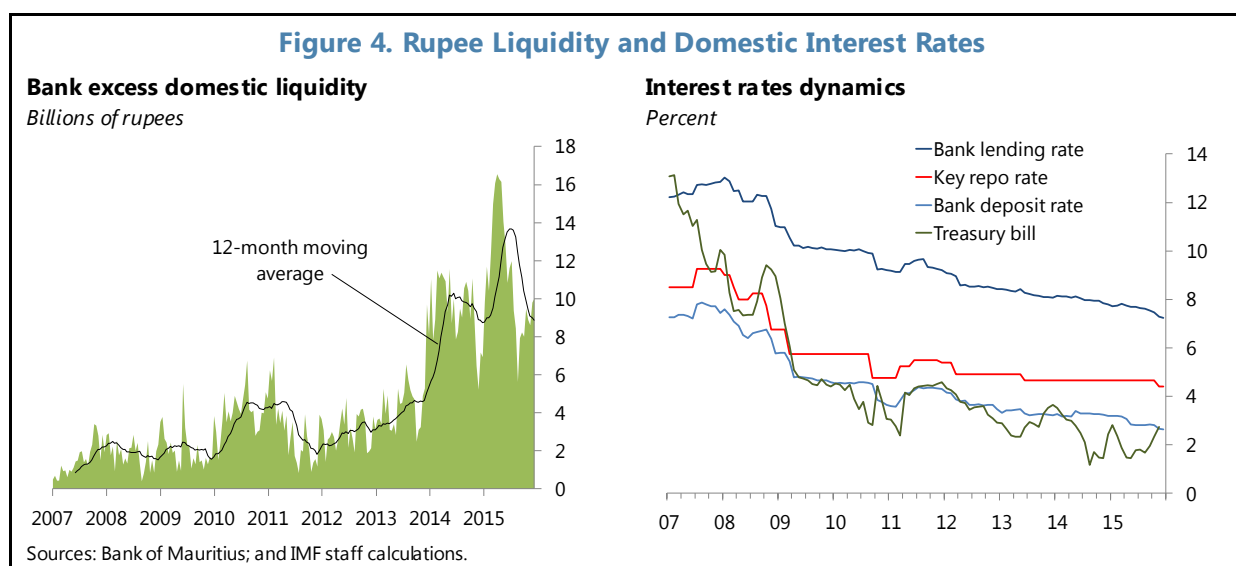
26. Staff analysis suggests that with continued GBC balance of payments inflows, the real effective exchange rate (REER) appears broadly in line with fundamentals. Results from the standard exchange rate assessment for developing and emerging markets suggest that the deviation of the Mauritian Rupee from its equilibrium level is limited (less than 5 percent). This result is contingent on continued large inflows from the GBC sector, which, as noted above, contributed more than 7 percent of GDP to Mauritius' current account balance, and more than 15 percent of GDP to the capital and financial account balance in 2014. The exchange rate assessment is therefore highly dependent on these GBC flows. For instance, as an illustrative exercise, excluding GBC flows from the current account balance would imply other things equal, an over-valuation of the exchange rate by more than 25 percent.

Monetary Policy

27. Staff and the authorities agreed that the monetary policy stance is broadly appropriate against the backdrop of subdued inflation, which is expected to continue over the medium-term. Against this background, monetary policy should remain cautiously accommodative, and the BoM should continue to reduce excess domestic liquidity in a gradual fashion to avoid sharp rises or volatility in interest rates.

28. Indeed, despite the authorities' recent efforts, the monetary policy transmission mechanism remains hampered by excess domestic currency liquidity in the money market. Liquidity accumulated over the past few years, mostly due to the conversion of government's external borrowing into domestic currency, and to the accumulation of reserves through unsterilized intervention during 2012–14. Since early 2015, the authorities ramped up efforts to mop up the excess liquidity, which has fallen from a peak of more than Rs16 billion in April 2015, to under Rs6 billion in September 2015, though excess liquidity edged up to around Rs10 billion in December 2015 (Figure 4, panel 1). The decline in excess liquidity has been achieved through the issuance of

BoM bonds and Treasury bills, as well as sterilized interventions in the foreign exchange market. Interest rates on Treasury bills have started to rise towards the policy rate as excess liquidity has fallen (Figure 4, panel 2).



29. The authorities intend to continue to reduce excess domestic liquidity. They expect that it will help improve the responsiveness of Treasury bill yields—which are closely aligned with bank deposit rates—to changes in the Key repo rate or policy rate (Figure 4, panel 2). Over time, this is expected to improve the monetary transmission mechanism. Nonetheless, declining excess liquidity could affect a range of market interest rates, not just the Treasury bill rate, and overall money market conditions should continue to be monitored as excess liquidity declines.

SHORING UP THE FISCAL SITUATION AND SUPPORTING GROWTH

30. The 2015/16 budget implied a continuation of the expansionary trend of the last three years. It involved an overall borrowing requirement of 4.0 percent (compared to 3.8 percent in 2012-14 and 4.4 percent in 2014) and a primary deficit of 2.0 percent of GDP (compared to 1.7 percent in 2014). The budget assumed a generous growth pickup of 5.3 percent in 2015/16, and significant upward pressures on current spending, including social benefits (with the increase of the Basic Retirement Pension, BRP)¹³, wages (with recruitments in the civil services and public wage negotiation round under the Pay Research Bureau report), and purchase of goods and services. Payouts to the remaining BAI policyholders and investors could further worsen the fiscal position.

¹³ At a cost of Rs4.7 billion per year (1.2 percent of GDP) in the first years, and increasing afterwards.

31. However, budget execution in 2015 involved a welcomed correction in fiscal policy (see ¶16 and Figure 1). This was the result of containment of spending on goods and services, but also of lower-than-planned execution of public investment projects. With a view to build on these encouraging results, the authorities have indicated their intention going forward to further reduce the overall borrowing requirement to 3 percent of GDP from 2016/17 onwards (which would keep the primary deficit under 1 percent of GDP), in order to adhere to the timeframe legally set for reaching the statutory debt target (50 percent of GDP by 2018/19). Measures to reduce the deficit would include: (i) further efforts to improve revenue mobilization and broaden the tax base; (ii) rationalization of spending on goods and services; and (iii) tight control of civil servants' compensation. In addition, the authorities are preparing a plan for divestiture of public assets targeted at debt reduction. The greater role envisaged for the private sector in infrastructure upgrading would further support efforts to contain public borrowing, thereby increasing the scope for crowding-in private sector investment financing.

32. Despite improved fiscal conditions in 2015, containing the primary deficit under 1 percent of GDP may not be enough to achieve the statutory debt target. Under this scenario, the debt target would be missed by some 4 percentage points of GDP (Text Table 1, baseline scenario). Reaching the 2018/19 statutory debt target would require a more pronounced and frontloaded adjustment. This would involve a further decline in the primary deficit in 2016/17 (to 0.3 percent of GDP, 1/2 percent of GDP lower than the baseline), and gradually improving in subsequent years to reach a small primary surplus (0.3 percent of GDP) by 2018–19. While the order of magnitude of the additional adjustment involved is feasible, it is important to frame it within a quantified medium-term debt reduction plan consistent with preserving growth. On the revenue side, there is space for reducing tax expenditures, and improving the banking tax structure (¶20) and tax administration. An ambitious divestiture effort would also help reduce borrowing requirements and debt. An illustrative fiscal path is presented in Text Table 1.

Baseline and Illustrative Medium-Term Fiscal Adjustment Paths						
(Percent of GDP)						
	2014	2015	2015/16	2016/17	2017/18	2018/19
		Prov.	Budget	Projections		
Baseline scenario						
Total revenue	20.5	20.3	21.2	21.7	21.7	21.7
Grants	0.1	0.3	0.6	0.3	0.3	0.3
Current spending	24.8	23.9	25.7	22.4	22.4	22.4
Capital spending (incl. special funds)	3.5	2.6	2.6	2.5	2.6	2.7
Consolidated balance	-4.2	-3.3	-3.8	-3.0	-3.1	-3.2
Net acquisition of financial assets (- = divestiture)	0.2	0.2	0.2	0.1	-0.1	-0.2
Overall borrowing requirement	-4.4	-3.6	-4.0	-3.0	-3.0	-3.0
Primary deficit (excl. grants)	-1.7	-1.2	-2.0	-0.7	-0.8	-0.8
Public sector debt	61.5	63.7	61.8	60.0	59.1	58.6
Public sector debt (for debt ceiling purpose)	54.1	55.5	54.2	54.2	53.7	53.5
Nominal GDP (annual percent change)	5.6%	5.2%	5.8%	6.4%	6.6%	6.6%
Illustrative scenario (Public debt ratio = 50 percent by 2018/19)						
Total revenue	20.5	20.3	21.2	22.0	22.3	22.7
Grants	0.1	0.3	0.6	0.3	0.3	0.3
Current spending	24.8	23.9	25.7	22.4	22.2	22.2
Capital spending (incl. special funds)	3.5	2.6	2.6	2.5	2.7	2.8
Consolidated balance	-4.2	-3.3	-3.8	-2.6	-2.3	-2.1
Net acquisition of financial assets (- = divestiture)	0.2	0.2	0.2	-1.0	-1.1	-1.1
Overall borrowing requirement	-4.4	-3.6	-4.0	-1.7	-1.3	-0.9
Primary deficit (excl. grants)	-1.7	-1.2	-2.0	-0.3	0.1	0.3
Public sector debt	61.5	63.7	61.8	59.1	57.1	55.2
Public sector debt (for debt ceiling purpose)	54.1	55.5	54.2	53.2	51.6	50.0
Nominal GDP (annual percent change)	5.6%	5.2%	5.8%	5.5%	5.2%	5.6%
Memorandum items						
Cumulative nominal (current) spending reduction (in percentage of baseline spending)				-0.8	-3.6	-7.2
Change in divestiture compared to baseline				-1.0	-1.0	-1.0
Change in primary balance compared to baseline				0.4	0.8	1.1

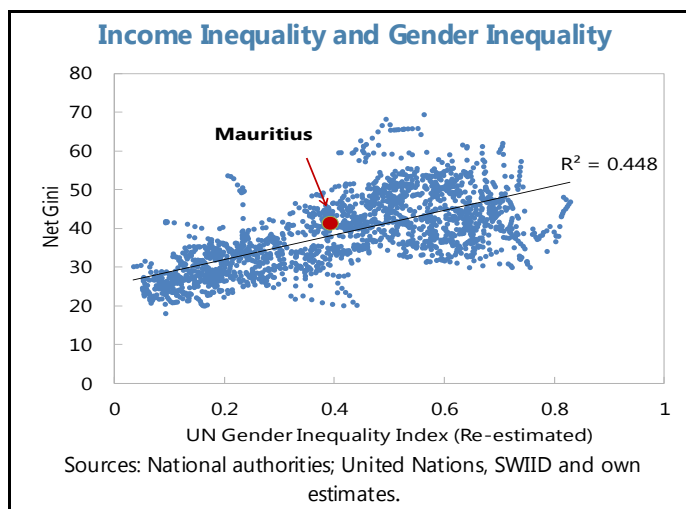
Source: IMF staff estimates.

33. On the structural fiscal front, there is a need to place the design of budgetary policies within a medium-term fiscal framework. In recent years, the annual budget process has departed from medium- and long-term objectives. Successive budgets have delayed steering public debt towards the statutory debt target, to avoid policy adjustments postponed to the future. Despite introducing a Medium-Term Expenditure Framework (MTEF) and Program-Based Budgeting in the late 2000s, Mauritius does not have a binding mechanism to ensure annual budgets' compliance within a medium-term fiscal framework. The limited involvement of Parliament, beyond voting the annual budget, weakens the accountability of the budgetary process and prevents an assessment of fiscal strategies to contain public indebtedness. Going forward, the new Public Financial Management Act could create the conditions to improve compliance with a medium-term fiscal framework.

RAISING GROWTH BY BOOSTING COMPETITIVENESS AND GENDER EQUITY

34. Mauritius faces important challenges as it seeks to escape the middle-income trap.

Mauritius has lost seven places in the 2015–16 Global Competitiveness Report, now ranking 46 among 140 economies (Figure 6). Productivity is eroding, unit labor costs have been rising, infrastructure needs upgrading, and labor regulation is relatively complex. The population (and labor force) is projected to start shrinking in the longer run. In addition, income inequality has been rising: The income share of the top 20 percent earners is nine times as high as that of the bottom 20 percent earners, and gender inequality remains relatively high. A reform program needs to address constraints on factor accumulation including by mitigating the projected decline of the labor force through skilled workers' immigration or an increase in female labor force participation—as well as productivity improvement, including by investments in human and infrastructure capital.

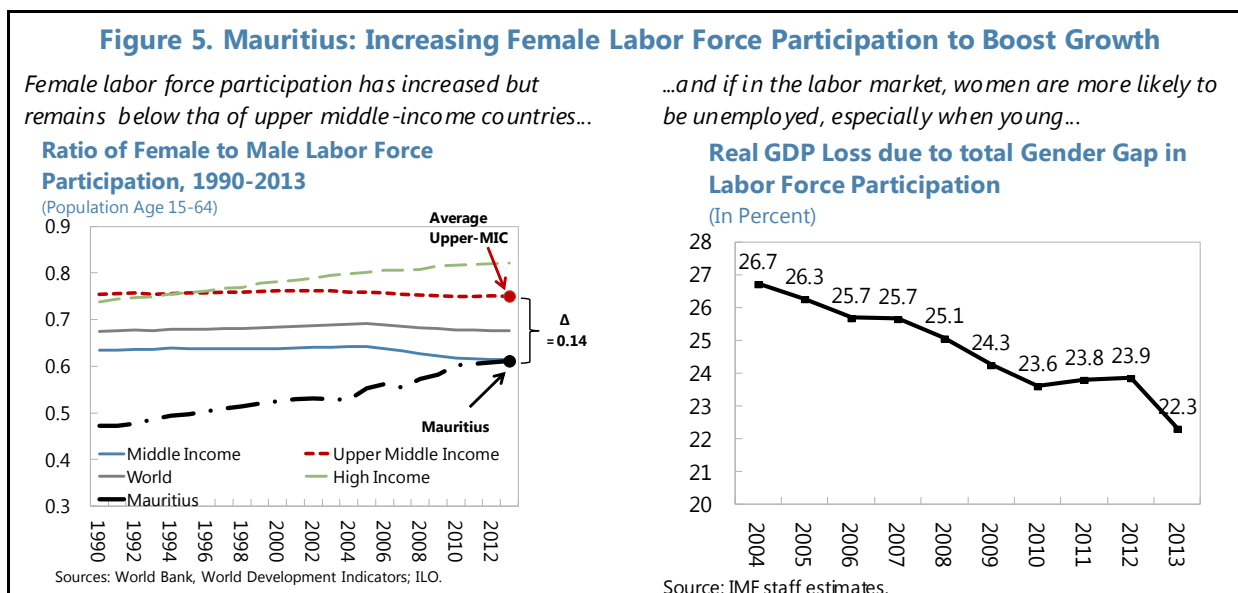


35. The 2015/16 budget outlines several measures to deal with these challenges.

To strengthen the business climate, the authorities envisage, among other things, expanding the powers of the Fast Track Committee to expedite the approval and implementation of major investment projects and abolishing a large number of licenses and permits which have become obsolete. The authorities also target to boost infrastructure through a large investment program. As part of their program, smart cities would be developed which are environmentally friendly, highly connected and generate their own energy and water. As part of the authorities' ambition to create an *ocean economy*, major investments in the port infrastructure are planned, expanding the connectivity of Port-Louis to other ports.

36. Raising female labor force participation rates could help address the challenges of population aging and enable the attainment of higher income status (Annex VI). Mauritius possesses a large pool of educated women who currently do not participate in the labor market. According to a staff study, this has led to an estimated income loss in the range of 22 to 27 percent compared to a situation without gender gaps in the labor force (Figure 5). The following options may be considered to increase female labor participation: (i) promoting part-time work and flexible work arrangements; (ii) increasing the number of childcare centers compliant with minimum quality standards; (iii) increasing financial inclusion for women by expanding financial literacy training

targeted at micro-enterprises; and (iv) considering the introduction of paternity leave to level the playing field in hiring decisions and pay of women and men.



37. The authorities agreed with the thrust of staff's analysis but pointed to constraints to implement policies related to traditional gender roles. They intend to continue addressing the skills mismatch in the economy and plan large investment programs to mitigate infrastructure bottlenecks. Measures to increase female labor force participation, including through training and employment programs, are ongoing. However, the authorities suggested that some family policies, such as paternity leave, might be difficult to implement.

STATISTICAL ISSUES

38. Mauritius's main macroeconomic statistics are adequate for surveillance. The coverage and quality of key statistics, especially BOP and IIP statistics, have significantly improved, but there are important remaining gaps in offshore sector data. The GBC survey needs to cover GBC2s as well as GBC1s and collect better information on linkages between GBCs and domestic economy, including on GBCs' cross-holdings and GBCs' role in conglomerate groups. The authorities are undertaking efforts to introduce a real estate price index and to strengthen the coverage and accuracy of statistics regarding other financial corporations and sectoral balance sheets, supported by IMF technical assistance.

STAFF APPRAISAL

39. Mauritius's macroeconomic conditions are stable, and the outlook is relatively favorable. Growth continues to be resilient, albeit moderate, inflation is low and the external position has improved on the back of low oil prices. Economic activity should also benefit from the

envisaged public and private investment projects aimed at addressing infrastructure gaps. Further growth pickup nonetheless hinges upon the adoption of policies to support factor accumulation, including by mitigating the projected labor force decline through immigration of skilled workers and an increase in female labor force participation. The authorities' efforts to further diversify the economy, address infrastructure bottlenecks and skills mismatches, and reduce the costs of doing business are welcome and should help raise the growth potential.

40. Given the complex inter-linkages between offshore activities, the banking system and the domestic economy, upgrading the macro-prudential policy framework is an urgent priority. In particular, a macro-prudential authority with a prominent role for the BoM should be created to assess and mitigate evolving systemic risks. The results of these risk assessment and related recommendations should be regularly reported to the ministerial-level Financial Stability Committee. Given the centrality of the banking system in Mauritius's financial sector and its supervisory mandate, the bank regulator is uniquely placed in the effort to improve systemic risk assessment and mitigation through the deployment of macro-prudential tools. It should have the power to obtain statistical information covering all relevant actors in the financial system for the purpose of safeguarding financial stability.

41. Close cooperation among different regulatory agencies is critical to the success of systemic risk mitigation efforts. Staff welcomes the recent steps taken by the authorities in this regard. Nonetheless, a significant improvement in the FSC's ability to monitor and supervise the GBC sector is urgently needed, prioritizing regulatory and analytical capacity upgrades to achieve better risk management and supervisory capacity. Equally important, the information gaps on the GBC sector and financial conglomerates—which currently impede timely policymaking and systemic risk mitigation—need to be resolutely addressed.

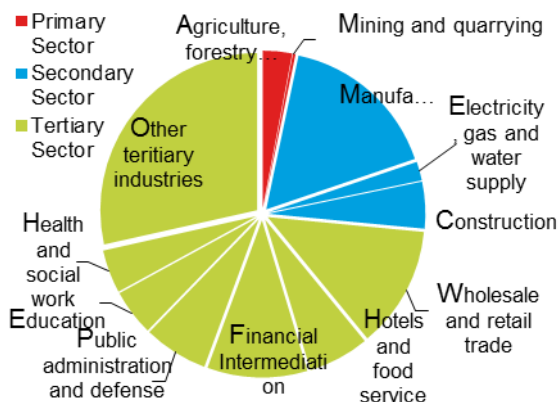
42. There is also a need to strengthen the resilience of the financial sector, in line with FSAP recommendations. Given the systemic importance of mixed conglomerates in Mauritius, and given that several banks are part of these conglomerates, the authorities should improve the supervisory framework to make supervision of mixed conglomerates and consolidated supervision more effective. Other areas for improvement include promoting better foreign currency liquidity management at domestic banks; further strengthening the BoM's capacity to monitor cross-border risks; ensuring adequate loan-loss provisioning; upgrading the bank resolution framework; and subsequently introducing a deposit insurance scheme covering small domestic depositors.

43. Macro-financial vulnerabilities warrant a further bolstering of foreign currency buffers against external shocks. This objective should primarily be met by seeking insurance mechanisms, including swap arrangements or credit lines with other central banks, rather than only by further reserves accumulation, as the latter could involve sterilization costs or run counter to ongoing BoM efforts to improve the monetary transmission mechanism by reducing excess domestic currency liquidity. The BoM should also revise the current uneven framework for reserve requirements and consider the creation of a limited foreign currency emergency liquidity assistance facility with appropriate safeguards.

- 44. The monetary policy stance is broadly appropriate given the low-inflation environment.** Further excess liquidity absorption should proceed at a measured pace in order to avoid any sharp increases in market interest rates.
- 45. Staff welcomes efforts to halt the fiscal deterioration observed in recent years, and encourages the authorities to put in place a credible medium-term fiscal policy strategy in the context of the next budget cycle.** Introducing such a strategy would help re-establish the credibility of the statutory debt target, particularly if it is underpinned by measures to achieve the target. In this regard, while recognizing that the government faces a tight trade-off between spending on social entitlements and a much needed infrastructure upgrade, further efforts are needed to reduce debt and preserve sustainability based on a multi-pronged approach, with measures aimed at (i) containing the expansion of current spending through better targeting of social assistance benefits in favor of the people more in need, and improving efficiency in public entities; (ii) further broadening the tax base, including by reconsidering tax distortions that affect both incentives for financial risk-taking and income inequality; and (iii) divesting suitable public assets with proceeds targeted at debt reduction. An operational framework for analyzing fiscal risks and contingent liabilities is also urgently needed as Mauritius seeks to leverage Public-Private Partnership (PPP) solutions to finance its ambitious Public Sector Investment Program.
- 46. Going forward, the authorities should address the implications of the projected shrinking of the labor force, including through policies to encourage greater female labor force participation.** Since Mauritius possesses a large pool of educated women who are currently not in the labor force or unemployed, addressing this problem could help mitigate the effects of population aging and the risk of a longer-run decline in potential growth.
- 47. Staff recommends that the next Article IV consultation takes place on the standard 12 -month cycle.**

Figure 6. Mauritius – Competitiveness and Structure of the Economy

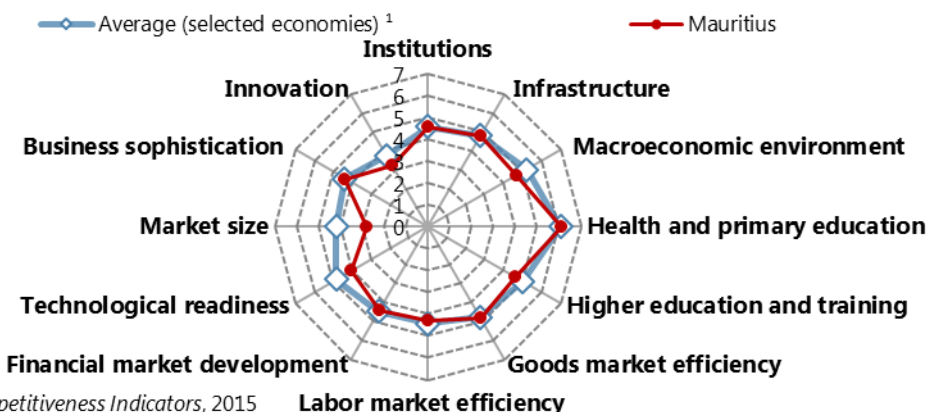
2014 GDP by Sector Breakdown



Mauritius, Exports of Goods (Millions, US\$)

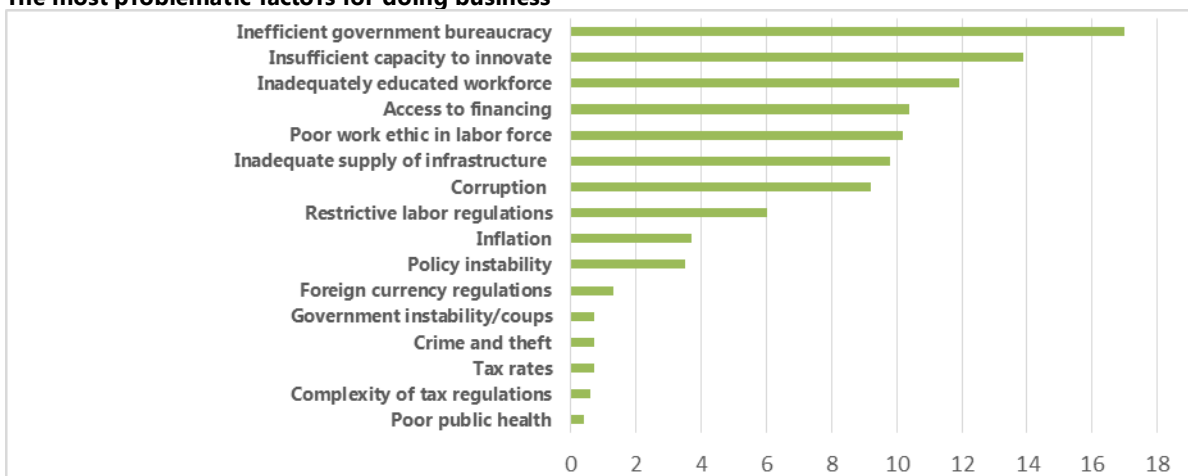


Global Competitiveness Comparator (Value 1-7 best)



Source: *Global Competitiveness Indicators*, 2015
¹ Selected economies: Singapore, Latvia, Poland, Chile, Uruguay, Costa Rica, Thailand, and Malaysia, countries that had lower GNI than Mauritius in 2000 but now have higher GNI.

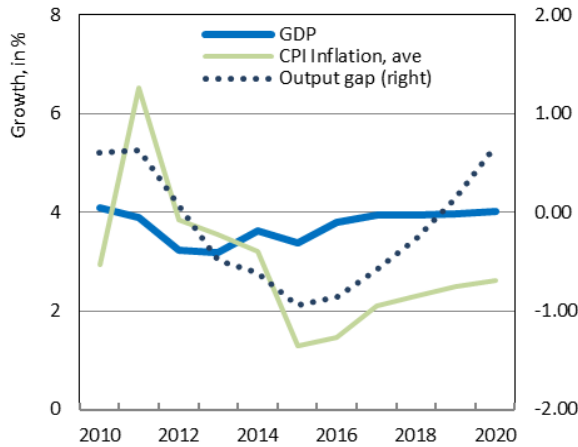
The most problematic factors for doing business



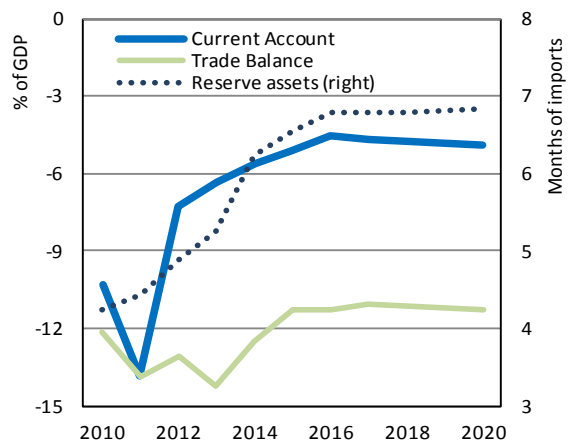
Sources: Statistics Mauritius, 2015/16 Global Competitiveness Report; and IMF staff estimates.

Figure 7. Macroeconomic Projections, 2010–20

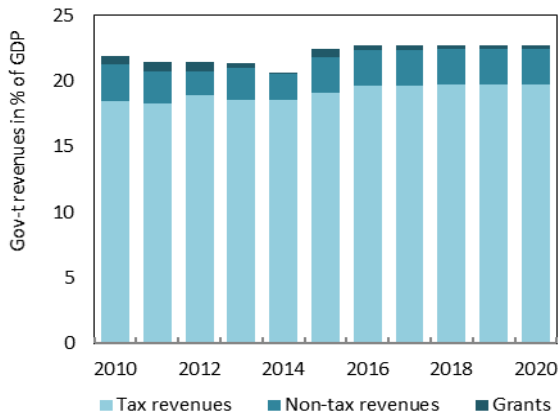
The output gap will start to narrow after 2015 and growth would reach its medium-term potential close to 4 percent.



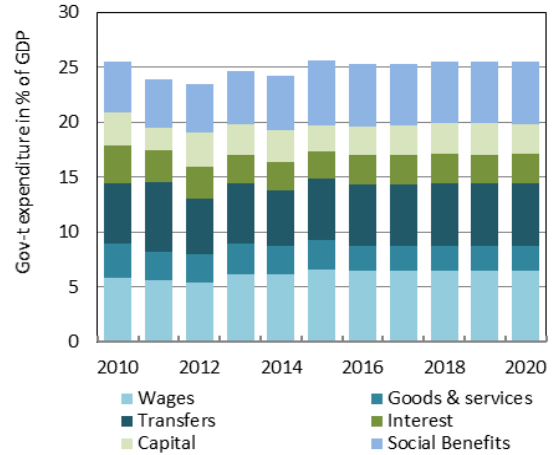
The current account deficit would widen somewhat due to an increase in imports, while reserves would stabilize.



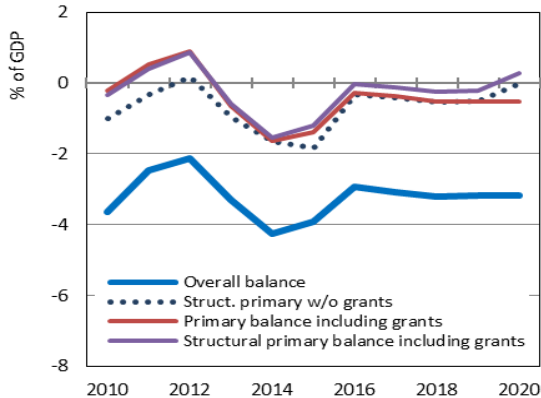
Taxes would remain stable with small declines in nontax and grants: hence consolidation will take place through...



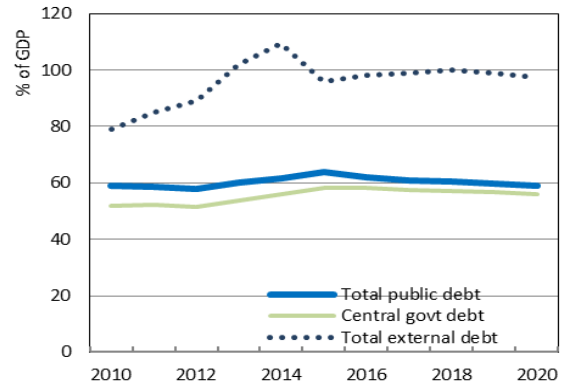
... reduced spending with an rationalizing transfers and subsidies.



As a result, the primary balance would somewhat improve after 2015...



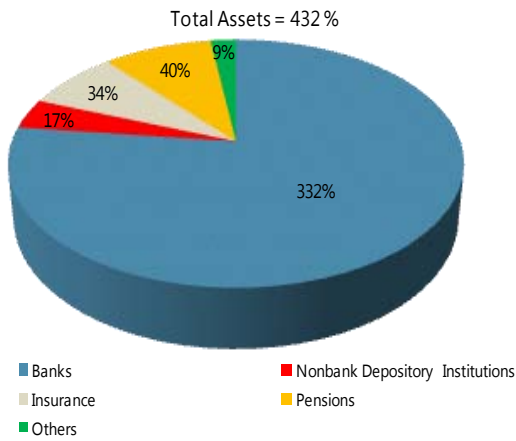
... though the level of the debt would not decline, and the governments' debt target for 2018 would be missed.



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

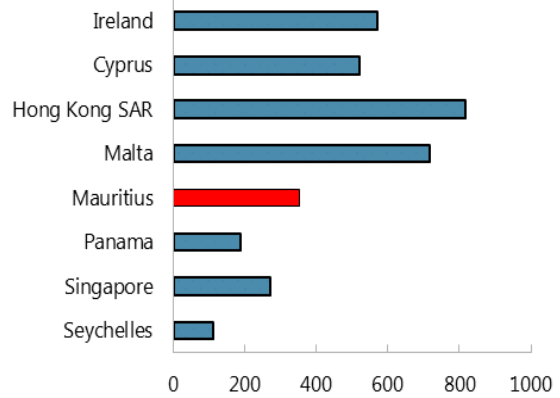
Figure 8. Financial Sector Structure

1. Structure of Financial System



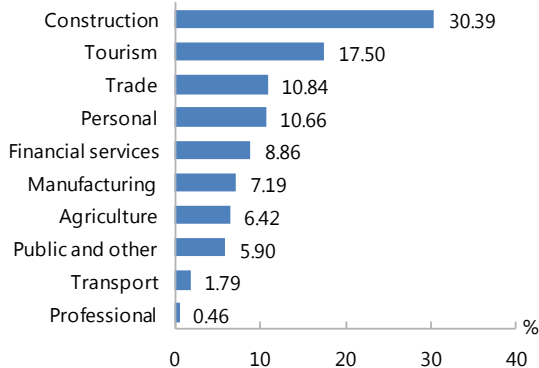
2. Total Bank Assets

(% of GDP as of End of 2014)



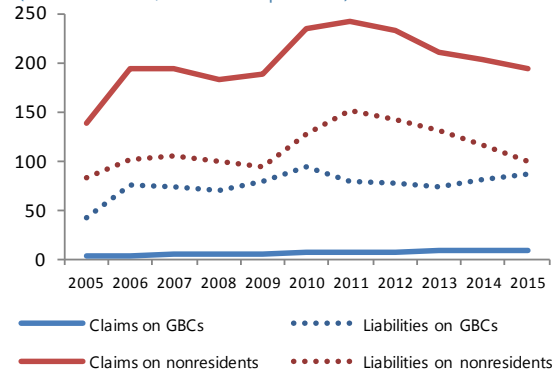
3. Sectoral Composition of Domestic Credit to Private Sector

(In percent of Total Domestic Credit) ¹

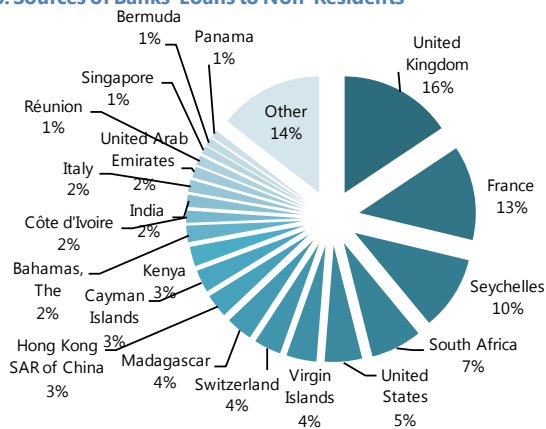


4. Mauritius: Banks' Exposures to GBCs and Non-residents

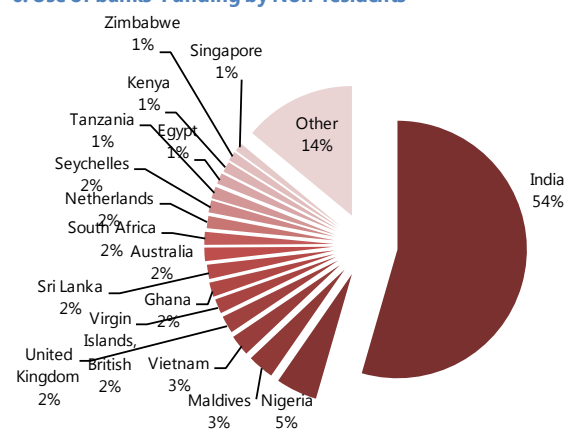
(Percent of GDP, as at end of period) ²



5. Sources of Banks' Loans to Non-Residents ³



6. Use of banks' Funding by Non-residents ³

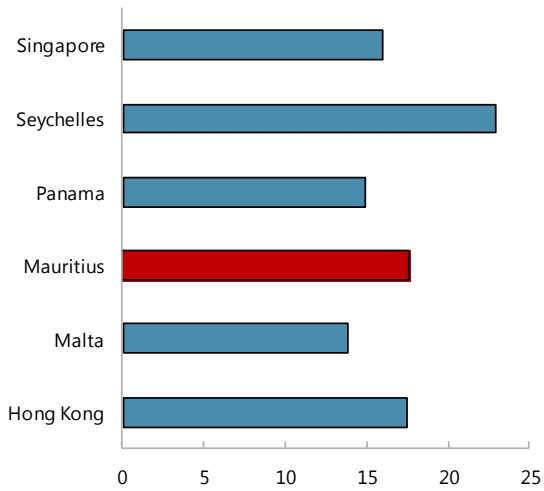


Sources: Mauritian authorities; and IMF staff estimates ¹ based on 18 largest banks' data, at end-June 2015; ² end-June for 2015; ³ as at end-June 2015.

Figure 9. International Comparisons of Financial Soundness Indicators
(as at Q2 2015)

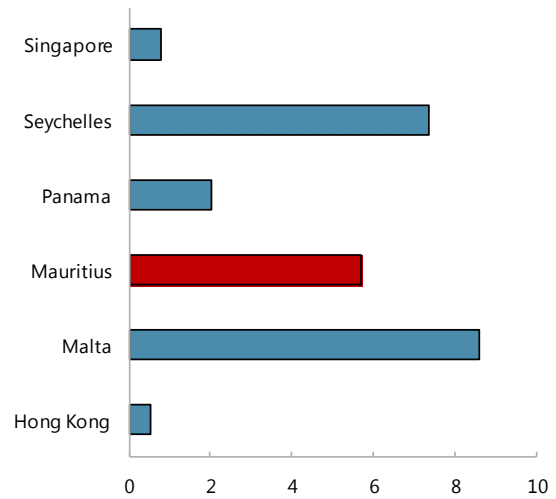
1. Capital Adequacy Ratio

(percent of risk-weighted assets)



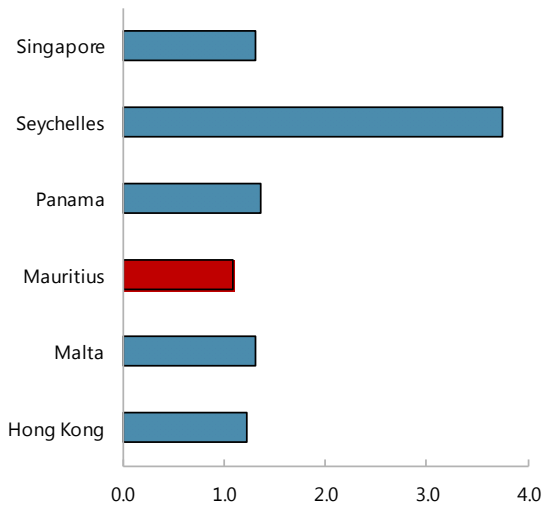
2. Non-Performing Loans to Total Gross Loans

(percent)



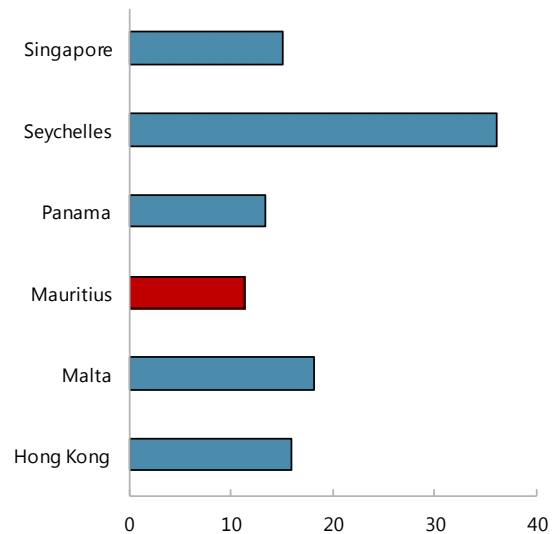
3. Return on Assets (ROA)

(percent)



4. Return on Equity (ROE)

(percent)



Sources: National authorities; and IMF Financial Soundness Indicators.

Table 1. Selected Economic and Financial Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual			Est.			Proj.		
(Annual percent change, unless otherwise indicated)									
National income, prices and employment									
Real GDP	3.2	3.2	3.6	3.4	3.8	3.9	3.9	4.0	4.0
Real GDP per capita	2.9	3.0	3.6	3.4	3.8	3.9	3.9	4.0	4.0
GDP per capita (in U.S. dollars)	8,936	9,480	10,033	9,218	9,422	10,018	10,582	11,224	11,919
GDP deflator	3.1	3.2	1.9	1.8	2.3	2.4	2.5	2.6	2.6
Consumer prices (period average)	3.9	3.5	3.2	1.3	1.5	2.1	2.3	2.5	2.6
Consumer prices (end of period)	3.2	4.1	0.2	1.3	2.0	2.2	2.4	2.6	2.6
Unemployment rate (percent)	8.0	8.0	7.8	8.0	...	...	...	...	...
(Annual percent change, in US Dollars)									
External sector									
Exports of goods and services, f.o.b.	3.8	-4.9	11.4	-2.4	4.2	6.8	7.2	7.2	7.1
Of which: tourism receipts	-0.8	-8.8	9.5	-2.4	5.7	5.9	5.4	4.8	4.4
Imports of goods and services, f.o.b.	2.2	-0.8	7.0	-5.3	3.8	6.4	7.1	7.1	7.0
Nominal effective exchange rate (annual averages)	-7.1	-1.1	2.0	-1.0	...	...	...	...	...
Real effective exchange rate (annual averages)	1.4	-0.1	3.0	-1.2	...	...	...	...	...
Terms of trade	0.5	0.4	2.4	12.1	10.5	-3.9	-2.1	-1.7	-0.8
(Annual change in percent)									
Money and credit									
Net foreign assets	8.2	-1.3	15.5	15.6	6.2	6.7	7.1	7.2	7.4
Domestic credit	14.6	14.6	-0.3	6.7	4.7	6.5	6.5	6.7	6.7
Net claims on government	-11.4	29.9	28.8	-6.2	14.0	9.3	10.2	10.7	10.8
Credit to non-government sector ¹	17.4	14.2	-2.2	8.7	4.1	6.5	7.0	6.9	6.9
Broad money	8.2	5.8	8.7	7.1	8.0	6.0	6.1	6.1	6.1
Income velocity of broad money	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	3.3	2.7	2.2	2.2	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)									
Central government finances									
Overall consolidated balance (including grants) ²	-2.1	-3.3	-4.2	-3.3	-3.4	-3.0	-3.1	-3.2	-3.2
Primary balance (excluding grants)	0.2	-1.0	-1.7	-1.2	-1.3	-0.7	-0.8	-0.9	-0.9
Revenues (incl. grants)	21.4	21.4	20.6	20.6	21.9	22.0	22.0	22.0	22.0
Expenditure, excl. net lending	23.6	24.6	24.8	23.9	25.3	25.0	25.1	25.1	25.1
Domestic debt of central government	41.0	41.0	42.8	44.6	43.4	43.2	43.3	43.7	44.4
External debt of central government	10.5	12.9	13.3	13.4	13.2	13.0	12.4	11.7	10.6
Investment and saving ⁴									
Gross domestic investment	24.8	25.2	23.0	25.5	26.1	26.7	27.3	28.0	28.4
Public	5.5	5.0	4.9	5.6	5.8	6.0	6.2	6.4	6.6
Private	19.3	20.1	18.1	19.9	20.3	20.7	21.1	21.6	21.9
Gross national savings	18.5	19.8	18.4	20.4	21.6	22.1	22.6	23.2	23.6
Public	1.0	-0.5	-0.8	-1.3	-0.4	-0.5	-0.4	-0.5	-0.5
Private	17.5	20.2	19.2	21.7	22.1	22.5	23.0	23.7	24.1
External sector									
Balance of goods and services	-13.1	-14.3	-12.5	-11.3	-11.3	-11.1	-11.1	-11.2	-11.3
Exports of goods and services, f.o.b.	52.9	47.3	49.8	52.9	53.9	54.1	54.9	55.5	56.0
Imports of goods and services, f.o.b.	-66.0	-61.6	-62.2	-64.2	-65.2	-65.2	-66.1	-66.7	-67.3
Current account balance	-7.3	-6.3	-5.6	-5.1	-4.5	-4.6	-4.7	-4.8	-4.9
Overall balance	1.8	4.5	6.0	3.0	3.6	2.6	2.7	2.8	2.8
Total external debt	89.3	101.9	109.6	96.0	98.0	98.9	99.9	98.8	97.5
Net international reserves (millions of U.S. dollars)	3,000	3,441	3,868	4,222	4,654	4,987	5,345	5,736	6,159
Months of imports of goods and services, f.o.b.	4.9	5.3	6.2	6.6	6.8	6.8	6.8	6.8	6.8
Memorandum items:									
GDP at current market prices (billions of Mauritian rupees)	343.9	366.3	386.8	406.9	431.9	459.9	490.0	522.7	557.8
GDP at current market prices (millions of U.S. dollars)	11,222	11,932	12,630	11,608	11,865	12,619	13,330	14,142	15,018
Public sector debt (percent of GDP)	57.9	60.0	61.5	63.7	61.0	59.6	58.9	58.4	57.9
Public sector debt (for debt ceiling purpose) ³	52.1	53.9	54.1	55.9	54.3	54.0	53.7	53.5	53.3
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa1	Baa1	...	...	...	...	...

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

¹ Includes credit to parastatals.

² *GFSM 2001* concept of net lending/net borrowing, includes special and other extrabudgetary funds.

³ For the purposes of calculating the public debt ceiling, the 2008 Public Debt Management Act requires discounting certain types of State-owned enterprises' debt.

⁴ The identity between the current account balance and the saving/investment gap does not hold because of statistical discrepancies in the BOP (partly linked to GBCs), and differences with National Accounts.

Table 2a. Summary of Central Government Finances, 2012–20¹

(Millions of Rupee; unless otherwise indicated)

	2012	2013	2014	2015	2015/16	2016/17	2017/18	2018/19	2019/20
		Actual		Est.	Budget		Projections		
Total revenue and grants (1)	73,773	78,224	79,674	83,655	91,405	97,895	104,270	111,167	118,613
Domestic revenue	71,391	76,822	79,268	82,435	88,810	96,620	102,911	109,716	117,065
Tax revenue	64,919	67,990	71,727	75,318	77,810	84,926	90,454	96,436	102,896
Income tax - Individuals	5,318	6,214	7,049	8,106	8,280	8,803	9,376	9,996	10,666
Income tax - Corporations	9,380	8,727	8,972	10,148	10,065	10,701	11,397	12,151	12,965
Value added tax (VAT)	24,964	26,000	26,060	27,748	28,770	30,587	32,579	34,733	37,060
Excise duties, incl. "Maurice Ile Durable" levy	13,039	13,557	14,423	14,122	14,670	17,797	18,955	20,209	21,563
Customs	1,507	1,389	1,239	1,299	1,270	1,350	1,438	1,533	1,636
Other taxes	10,711	12,103	13,985	13,895	14,755	15,687	16,708	17,813	19,006
Social contributions	1,051	1,269	1,284	1,208	1,360	1,446	1,540	1,642	1,752
Nontax revenue	5,421	7,563	6,256	5,909	9,640	10,249	10,916	11,638	12,418
Grants	2,382	1,403	406	1,220	2,595	1,275	1,359	1,450	1,548
Total expense (current spending) (2)	70,395	79,886	82,686	89,858	96,621	99,827	106,432	113,213	121,158
Expenditures on goods and services	27,555	32,820	33,674	32,542	37,671	37,625	40,075	42,725	45,587
Compensation of employees	18,680	22,698	24,025	24,972	26,947	27,994	29,816	31,788	33,917
Use of goods and services	8,875	10,122	9,649	7,570	10,724	9,631	10,258	10,937	11,669
Interest payments	10,297	9,629	10,106	9,918	10,315	11,536	12,474	13,127	13,832
Domestic interest	9,156	9,132	9,462	7,250	8,715	9,536	9,874	10,527	11,232
External interest	1,141	498	644	2,668	1,600	2,000	2,600	2,600	2,600
Transfers and subsidies	17,152	19,932	19,657	20,549	22,754	24,232	25,832	27,561	30,050
Subsidies	1,147	1,471	1,578	1,612	1,763	1,874	1,996	2,128	2,271
Grants and transfers	16,005	18,461	18,080	18,937	20,991	22,358	23,836	25,433	27,779
Social benefits	15,391	17,505	19,250	24,199	24,081	24,834	26,451	28,200	30,089
Contingencies	0	0	0	0	1,800	1,600	1,600	1,600	1,600
Gross operating balance ((3)=(1)-(2))	3,378	-1,662	-3,012	-6,203	-5,216	-1,932	-2,162	-2,046	-2,545
Net acquisition of non-financial assets (capital spending)	9,720	11,161	9,528	5,942	8,703	10,027	10,999	13,008	14,001
Net lending / borrowing (central governm. budget balance) ²	-6,342	-12,823	-12,540	-12,145	-13,919	-11,959	-13,161	-15,054	-16,546
Net lending / borrowing (special funds) ³	-927	786	-3,875	-1,382	-2,041	-1,259	-1,570	-900	-497
CONSOLIDATED BALANCE	-7,269	-12,037	-16,415	-13,527	-15,960	-13,218	-14,731	-15,954	-17,043
Transactions in financial assets/liabilities	952	4,945	599	1,224	822	278	-303	-813	-809
Net acquisition of financial assets	1,406	5,265	978	1,804	1,217	1,228	647	137	141
Of which: net lending	144	5,112	833	-246	684	656	547	33	33
Adjustment for difference in cash and accrual	-454	-320	-379	-580	-395	-950	-950	-950	-950
OVERALL BORROWING REQUIREMENT	-8,221	-16,982	-17,014	-14,751	-16,782	-13,496	-14,428	-15,141	-16,234
FINANCING	8,221	16,982	17,014	...	16,782	13,496	14,428	15,141	16,234
Domestic	5,092	6,390	9,551	...	12,507	12,196	13,328	15,991	18,449
Banks	-3,425	8,011	10,012	...	4,169	4,065	4,443	5,330	6,150
Nonbanks	8,517	-1,621	-462	...	8,338	8,130	8,885	10,661	12,299
Foreign	3,129	10,592	7,463	...	4,275	1,300	1,100	-850	-2,215
Disbursements	4,015	11,682	10,295	...	7,775	6,500	6,500	4,550	3,185
Amortization	-886	-1,090	-2,832	...	-3,500	-5,200	-5,400	-5,400	-5,400
<i>Memorandum items:</i>									
Central government debt	177,038	197,306	216,875	236,475	236,475	251,687	264,745	280,936	298,038
Public sector debt	199,058	219,937	237,700	259,377	259,377	267,589	280,647	296,838	313,940
Public sector debt (for debt ceiling purpose) ⁴	179,259	197,327	209,321	227,619	227,619	241,767	254,824	271,016	288,118
GDP at current market prices (in billions of rupees)	344	366	387	407	419	446	475	506	540
Expenditure, excluding net lending	81,042	90,261	96,089	97,182	107,365	111,113	119,001	127,121	135,656
Primary balance (incl. grants)	3,028	-2,408	-6,309	-3,609	-5,645	-1,682	-2,257	-2,827	-3,211
Primary balance (excl. grants)	646	-3,810	-6,716	-4,829	-8,240	-2,957	-3,616	-4,278	-4,759

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

¹ GFSM 2001 presentation.² Corresponds to the authorities' budget presentation.³ Includes the following special and other extra-budgetary funds: Maurice Ile Durable Fund; Human Resource, Knowledge and Arts Development Fund; Food Security Fund; Local Infrastructure Fund; and Social Housing Development Fund; National Resilience Fund (named Business Growth Fund prior to 2012); Road Decongestion Program Fund; and Build Mauritius Fund.⁴ For the purposes of calculating the public debt ceiling, the 2008 Public Debt Management Act requires discounting certain types of State-owned enterprises' debt.

Table 2b. Summary of Central Government Finances, 2012–20¹

(Percent of GDP, unless otherwise indicated)

	2012	2013	2014	2015	2015/16	2016/17	2017/18	2018/19	2019/20
		Actual		Est.	Budget		Projections		
Total revenue and grants (1)	21.4	21.4	20.6	20.6	21.8	22.0	22.0	22.0	22.0
Domestic revenue	20.8	21.0	20.5	20.3	21.2	21.7	21.7	21.7	21.7
Tax revenue	18.9	18.6	18.5	18.5	18.6	19.0	19.0	19.0	19.0
Income tax - Individuals	1.5	1.7	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Income tax - Corporations	2.7	2.4	2.3	2.5	2.4	2.4	2.4	2.4	2.4
Value added tax (VAT)	7.3	7.1	6.7	6.8	6.9	6.9	6.9	6.9	6.9
Excise duties, incl. "Maurice Ile Durable" levy	3.8	3.7	3.7	3.5	3.5	4.0	4.0	4.0	4.0
Customs	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	3.1	3.3	3.6	3.4	3.5	3.5	3.5	3.5	3.5
Social contributions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.6	2.1	1.6	1.5	2.3	2.3	2.3	2.3	2.3
Grants	0.7	0.4	0.1	0.3	0.6	0.3	0.3	0.3	0.3
Total expense (current spending) (2)	20.5	21.8	21.4	22.1	23.1	22.5	22.5	22.4	22.5
Expenditures on goods and services	8.0	9.0	8.7	8.0	9.1	8.5	8.5	8.5	8.5
Compensation of employees	5.4	6.2	6.2	6.1	6.4	6.3	6.3	6.3	6.3
Use of goods and services	2.6	2.8	2.5	1.9	2.6	2.2	2.2	2.2	2.2
Interest payments	3.0	2.6	2.6	2.4	2.5	2.6	2.6	2.6	2.6
Domestic interest	2.7	2.5	2.4	1.8	2.1	2.1	2.1	2.1	2.1
External interest	0.3	0.1	0.2	0.7	0.4	0.4	0.5	0.5	0.5
Transfers and subsidies	5.0	5.4	5.1	5.0	5.4	5.4	5.4	5.4	5.6
Subsidies	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grants and transfers	4.7	5.0	4.7	4.7	5.0	5.0	5.0	5.0	5.1
Social benefits	4.5	4.8	5.0	5.9	5.7	5.6	5.6	5.6	5.6
Contingencies	0.0	0.0	0.0	0.0	0.4	0.4	0.3	0.3	0.3
Gross operating balance ((3)=(1)-(2))	1.0	-0.5	-0.8	-1.5	-1.3	-0.5	-0.5	-0.5	-0.5
Net acquisition of non-financial assets (capital spending)	2.8	3.0	2.5	1.5	2.1	2.2	2.3	2.6	2.6
Net lending / borrowing (central governm. budget balance)	-1.8	-3.5	-3.2	-3.0	-3.3	-2.7	-2.8	-3.0	-3.1
Net lending / borrowing (special funds)³	-0.3	0.2	-1.0	-0.3	-0.5	-0.3	-0.3	-0.2	-0.1
CONSOLIDATED BALANCE	-2.1	-3.3	-4.2	-3.3	-3.8	-3.0	-3.1	-3.2	-3.2
Transactions in financial assets/liabilities	0.3	1.3	0.2	0.3	0.2	0.1	-0.1	-0.2	-0.1
Net acquisition of financial assets	0.4	1.4	0.3	0.4	0.3	0.3	0.1	0.0	0.0
Of which: net lending	0.0	1.4	0.2	-0.1	0.2	0.2	0.1	0.0	0.0
Adjustment for difference in cash and accrual	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
OVERALL BORROWING REQUIREMENT	-2.4	-4.6	-4.4	-3.6	-4.0	-3.0	-3.0	-3.0	-3.0
FINANCING	2.4	4.6	4.4	...	4.0	3.0	3.0	3.0	3.0
Domestic	1.5	1.7	2.5	...	3.0	2.7	2.8	3.2	3.4
Banks	-1.0	2.2	2.6	...	1.0	0.9	0.9	1.1	1.1
Nonbanks	2.5	-0.4	-0.1	...	2.0	1.8	1.9	2.1	2.3
Foreign	0.9	2.9	1.9	...	1.0	0.3	0.2	-0.2	-0.4
Disbursements	1.2	3.2	2.7	...	1.9	1.5	1.4	0.9	0.6
Amortization	-0.3	-0.3	-0.7	...	-0.8	-1.2	-1.1	-1.1	-1.0
<i>Memorandum items:</i>									
Central government debt	51.5	53.9	56.1	58.1	56.4	56.4	55.7	55.5	55.2
Public sector debt	57.9	60.0	61.5	63.7	61.8	60.0	59.1	58.6	58.1
Public sector debt (for debt ceiling purpose) ⁴	52.1	53.9	54.1	55.9	54.3	54.2	53.7	53.5	53.3
GDP at current market prices (in billions of rupees)	343.9	366.3	386.8	406.9	419.4	445.9	475.0	506.4	540.3
Expenditure, excluding net lending	23.6	24.6	24.8	23.9	25.7	25.0	25.1	25.2	25.2
Primary balance (incl. grants)	0.9	-0.7	-1.6	-0.9	-1.4	-0.4	-0.5	-0.6	-0.7
Primary balance (excl. grants)	0.2	-1.0	-1.7	-1.2	-2.0	-0.7	-0.8	-0.9	-1.0

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

¹ GFSM 2001 presentation.² Corresponds to the authorities' budget presentation.³ Includes the following special and other extra-budgetary funds: Maurice Ile Durable Fund; Human Resource, Knowledge and Arts Development Fund; Food Security Fund; Local Infrastructure Fund; and Social Housing Development Fund; National Resilience Fund (named Business Growth Fund prior to 2012); Road Decongestion Program Fund; and Build Mauritius Fund.⁴ For the purposes of calculating the public debt ceiling, the 2008 Public Debt Management Act requires discounting certain types of State-owned enterprises'

Table 3. Balance of Payments, 2012–20

	2012	2013	2014		2015		2016	2017	2018	2019	2020
	Actual	Actual	Last SR	Est.	Last SR	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Millions of U.S. dollars, unless otherwise indicated)											
Current account balance	-818	-753	-1,103	-713	-1,135	-590	-537	-586	-628	-677	-729
Trade balance	-2,408	-2,268	-2,583	-2,266	-2,542	-1,919	-2,027	-2,152	-2,291	-2,432	-2,577
Exports of goods, f.o.b.	2,599	2,868	2,915	3,095	3,043	2,841	2,845	2,993	3,184	3,394	3,620
Imports of goods, f.o.b.	-5,007	-5,136	-5,498	-5,361	-5,585	-4,760	-4,872	-5,145	-5,475	-5,827	-6,197
Of which: Oil Imports (refined)	-1,127	-1,169	-1,223	-1,116	-1,241	-695	-520	-638	-731	-829	-916
Services (net)	941	566	824	691	963	606	691	756	805	845	882
Of which: tourism	1,089	883	962	966	1,037	879	936	983	1,017	1,042	1,060
Income (net)	511	1,041	475	1,073	267	940	1,032	1,056	1,118	1,185	1,257
Of which: GBCs	368	908	339	1,252	174	1,171	1,194	1,218	1,279	1,343	1,410
Current transfers (net)	139	-92	181	-211	177	-217	-233	-246	-261	-276	-291
Capital and financial accounts	1,354	1,065	1,472	1,359	1,532	969	969	919	986	1,068	1,152
Capital account	-8	-4	-4	-5	-4	-5	-5	-6	-6	-6	-6
Financial account	1,362	1,069	1,476	1,364	1,536	974	974	925	992	1,074	1,158
Direct investment (net)	5,553	1,203	108	550	125	622	703	795	823	843	871
Abroad	-21,015	6,715	-202	-4,027	-232	-4,434	-4,791	-5,176	-5,340	-5,354	-5,525
In Mauritius	26,568	-5,511	310	4,577	357	5,055	5,493	5,972	6,163	6,197	6,397
Portfolio investment (net)	1,372	-227	11	-425	12	-498	-537	-579	-597	-599	-617
Other investment (net)	-5,564	92	1,357	1,239	1,400	851	808	708	765	830	904
Government (net)	83	410	305	57	288	-101	20	33	13	-33	-68
Private (net)	-5,647	-318	1,052	1,183	1,112	952	788	675	752	863	972
Errors and omissions	-339	229	0	105	0	-26	0	0	0	0	0
Overall balance	197	540	369	752	397	354	432	333	358	391	423
Change in official reserves (- = increase)	-197	-540	-369	-752	-397	-354	-432	-333	-358	-391	-423
(Percent of GDP, unless otherwise indicated)											
<i>Memorandum items:</i>											
Balance of goods and services	-13.1	-14.3	-13.9	-12.5	-11.7	-11.3	-11.3	-11.1	-11.1	-11.2	-11.3
Exports of goods and services, f.o.b.	52.9	47.3	52.6	49.8	53.3	52.9	53.9	54.1	54.9	55.5	56.0
Imports of goods and services, f.o.b.	-66.0	-61.6	-66.5	-62.2	-65.0	-64.2	-65.2	-65.2	-66.1	-66.7	-67.3
Volume of goods exports (annual percent change)	6.4	10.3	...	9.2	...	3.2	2.1	2.4	4.7	5.1	5.1
Volume of goods imports (annual percent change)	3.8	5.1	...	8.5	...	18.5	24.2	0.5	3.2	4.0	5.3
Foreign direct investment	49.5	10.1	0.9	4.4	0.9	5.4	5.9	6.3	6.2	6.0	5.8
Current account balance	-7.3	-6.3	-8.7	-5.6	-8.4	-5.1	-4.5	-4.6	-4.7	-4.8	-4.9
Current account balance, excluding GBCs	-10.6	-13.9	-11.4	-15.6	-9.7	-15.2	-14.6	-14.3	-14.3	-14.3	-14.2
Overall balance	1.8	4.5	2.9	6.0	2.9	3.0	3.6	2.6	2.7	2.8	2.8
Errors and omissions	-3.0	1.9	0.0	0.8	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Net international reserves, BOM, (mil. of U.S. dollars)	3,000	3,441	3,481	3,868	3,878	4,222	4,654	4,987	5,345	5,736	6,159
In months of imports of goods and services, f.o.b.	4.9	5.3	4.8	6.2	5.0	6.6	6.8	6.8	6.8	6.8	6.8
Percent of external short term debt	105.7	118.7	115.3	107.9	120.4	123.5	128.0	126.5	125.8	127.3	128.7
Percent of broad money	26.6	28.9	27.5	29.8	28.7	34.8	36.8	37.3	38.0	38.7	39.3
Gross reserves, BOM, (mil. of U.S. dollars)	3,001	3,440	3,633	3,871	4,030	4,224	4,657	4,989	5,347	5,738	6,161
GDP (millions of U.S. dollars)	11,222	11,932	12,651	12,630	13,501	11,608	11,865	12,619	13,330	14,142	15,018
Total external debt ¹	89.3	101.9	93.1	109.6	94.1	96.0	98.0	98.9	99.9	98.8	97.5
Total debt service ratio (% of goods & services exports)	3.8	4.1	4.3	4.9	4.8	3.8	4.7	5.2	5.1	4.8	4.4
Mauritian rupees per U.S. dollar (period average)	30.6	30.7	...	30.6	...	...	...	...	...	...	...
Mauritian rupees per U.S. dollar (end of period)	30.5	30.1	...	31.7	...	...	...	...	...	...	...

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

¹ Includes SDR allocation in 2009.

Table 4. Monetary Survey, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Actual	Proj.	Proj.	Proj.	Proj.	Proj.
(Millions of rupees, end of period; unless otherwise indicated)									
Central Bank of Mauritius									
Net foreign assets	91,560	103,498	122,736	151,519	171,836	184,343	199,265	215,026	232,009
(in millions of US dollars)	3,000	3,441	3,868	4,222	4,655	4,987	5,345	5,736	6,159
Net domestic assets	-39,071	-41,464	-54,907	-78,194	-105,699	-113,922	-124,238	-134,987	-146,595
Net domestic credit	-9,478	-8,044	-18,123	-23,910	-22,357	-22,162	-21,812	-22,111	-22,028
Government (net)	-11,467	-10,933	-20,743	-28,635	-26,703	-26,703	-26,703	-26,703	-26,703
Commercial banks (net)	1,989	2,888	2,620	4,725	3,474	3,669	4,018	3,720	3,802
Other items (net)	-29,593	-33,420	-36,784	-54,284	-83,342	-91,760	-102,426	-112,876	-124,567
Reserve money	52,489	62,034	67,828	73,326	66,137	70,421	75,027	80,040	85,414
Currency outside banks	26,961	30,128	32,531	33,337	30,588	32,569	34,700	37,018	39,503
Bank reserves	25,527	31,906	35,298	39,988	35,549	37,852	40,328	43,022	45,911
Banks									
Net foreign assets	309,761	292,802	335,088	377,506	389,769	414,638	441,979	472,617	506,426
(in millions of US dollars)	10,148	9,734	10,561	10,519	10,558	11,218	11,856	12,608	13,444
Reserves	34,037	49,632	58,251	65,358	70,860	75,112	79,666	84,515	89,669
Credit to BoM									
Net domestic assets	14,401	49,971	37,204	23,253	26,657	29,910	31,647	32,649	32,767
Net domestic credit	436,342	508,567	525,648	566,977	599,358	637,523	680,970	727,515	777,768
Government (net)	38,215	45,692	65,515	70,615	74,576	79,019	84,349	90,499	97,381
Other public sector	17,655	17,533	14,791	10,144	11,105	11,257	11,404	11,545	11,681
Private sector	346,434	395,710	387,092	420,860	438,335	467,025	499,748	534,292	571,405
Other items (net)	-421,940	-458,596	-488,444	-543,724	-572,701	-607,613	-649,323	-694,866	-745,001
Total deposits	321,327	338,895	368,674	405,564	416,426	444,547	473,626	505,266	539,194
Monetary Survey									
Net foreign assets	401,321	396,300	457,823	529,026	561,605	598,980	641,244	687,643	738,436
(in millions of US dollars)	13,147	13,175	14,430	14,741	15,212	16,206	17,202	18,344	19,603
Net domestic assets	-55,704	-30,691	-60,267	-98,351	-89,233	-96,510	-102,823	-109,692	-117,057
Net domestic credit	391,022	448,175	446,806	476,653	499,211	531,547	566,317	604,149	644,716
Government (net)	26,748	34,759	44,771	41,980	47,873	52,316	57,646	63,796	70,678
Other public sector	17,671	17,533	14,792	13,649	11,105	11,257	11,404	11,545	11,681
Private sector	346,603	395,882	387,243	421,023	438,335	467,025	499,748	534,292	571,405
Other items (net)	-446,726	-478,866	-507,073	-575,004	-588,444	-628,057	-669,140	-713,841	-761,773
M1	72,590	77,055	83,579	91,398	95,987	103,353	110,113	117,469	125,357
Money and quasi-money (M2)	295,870	315,557	341,320	368,020	381,991	407,883	434,563	463,594	494,723
M2 plus resident foreign currency deposits (M3)	345,617	365,609	397,557	437,999	447,013	477,116	508,326	542,284	578,697
M3 plus nonbank holdings of government debt (L)	345,617	365,609	397,557	437,999	451,514	481,909	513,432	547,731	584,509
Memorandum items									
(Annual percent change unless otherwise specified)									
M2	8.5	6.7	8.2	7.8	3.8	6.8	6.5	6.7	6.7
M3	8.2	5.8	8.7	10.2	2.1	6.7	6.5	6.7	6.7
Deposits	8.1	5.5	8.8	10.0	2.7	6.8	6.5	6.7	6.7
Reserve money	9.0	18.2	9.3	8.1	-9.8	6.5	6.5	6.7	6.7
Net domestic credit	14.6	14.6	-0.3	6.7	4.7	6.5	6.5	6.7	6.7
Government (net)	-11.4	29.9	28.8	-6.2	14.0	9.3	10.2	10.7	10.8
Private	17.4	14.2	-2.2	8.7	4.1	6.5	7.0	6.9	6.9
Net domestic assets of the banking sector	9	-45	96	63	-9	8	7	7	7
NDA growth (as percent of the base period M3)	-1.4	7.2	-8.1	-9.6	2.1	-1.6	-1.3	-1.3	-1.3
Multiplier (average M3/RM)	6.6	5.9	5.9	6.0	6.8	6.8	6.8	6.8	6.8
Velocity (GDP/M3)	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0
(As percent of GDP)									
M2	86.0	86.1	88.3	90.4	88.4	88.7	88.7	88.7	88.7
M3	100.5	99.8	102.8	107.6	103.5	103.7	103.7	103.7	103.7
Deposits	93.4	92.5	95.3	99.7	96.4	96.7	96.7	96.7	96.7
Reserve money	15.3	16.9	17.5	18.0	15.3	15.3	15.3	15.3	15.3
Net domestic credit	113.7	122.3	115.5	117.1	115.6	115.6	115.6	115.6	115.6
Government (net)	7.8	9.5	11.6	10.3	11.1	11.4	11.8	12.2	12.7
Private	100.8	108.1	100.1	103.5	101.5	101.5	102.0	102.2	102.4
Sources: Bank of Mauritius; and IMF staff estimates and projections									

Table 5. Financial Soundness Indicators for the Banking Sector, December 2012–June 2015¹
(End of period, in percent, unless otherwise indicated)

	2012	2013	2014	2015 June
Capital adequacy				
Regulatory capital to risk-weighted assets ²	17.1	17.3	17.1	17.6
Regulatory Tier I capital to risk-weighted assets	15.5	15.1	15.1	15.2
Capital to total assets	8.5	8.8	9.3	10.3
Asset composition and quality				
Sectoral distribution of loans to total loans				
Residents	54.0	57.8	54.6	56.6
Central bank	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0
Deposit-takers	0.2	0.3	0.3	0.1
Other domestic sectors	19.7	21.6	19.2	20.2
Other financial corporations	1.2	1.2	1.5	1.5
Nonfinancial corporations	32.9	34.7	33.6	34.8
Nonresidents	46.0	42.2	45.4	43.4
Geographic distribution of loans to total loans				
Domestic economy	54.0	55.6	52.1	52.3
Advanced economies, excluding China	5.9	4.6	4.9	5.9
Loans to other emerging market & developing countries, inc. China	40.1	39.9	43.0	41.8
Real Estate Markets				
Residential Real Estate Loans to Total Loans	7.4	6.9	5.0	5.6
Commercial Real Estate Loans to Total Loans	7.9	8.7	6.2	8.7
Nonperforming loans (NPLs) to total gross loans				
NPLs net of provisions to capital	3.6	4.2	4.9	5.7
Large exposures to capital	12.4	12.7	16.4	17.4
	187.2	195.9	201.9	204.7
Earnings and Profitability				
Return on assets	1.4	1.3	1.4	1.1
Return on equity	18.1	15.3	15.2	11.4
Interest margin to gross income	74.0	66.8	49.0	62.0
Noninterest expenses to gross income	48.5	44.8	36.9	38.1
Personnel expenses to non-interest expenses	49.6	51.5	40.8	48.5
Trading income to total income	-0.6	14.1	35.4	15.0
Liquidity				
Liquid assets to total assets (liquid asset ratio)	19.1	22.5	24.1	25.1
Liquid assets to total short-term liabilities	27.5	31.0	30.2	31.7
Foreign-currency-denominated loans to total loans	56.5	55.9	58.8	58.2
Foreign-currency-denominated liabilities to total liabilities	52.4	53.1	54.5	53.8
Customer deposits to total (non-interbank) loans	128.7	137.0	133.2	142.3
Sensitivity to market risk				
Net open positions in FX to capital	2.1	2.1	2.4	2.8

Source: Mauritian authorities.

¹ Banking sector refers to deposit corporations including non-bank deposit-taking institutions.

² Total of Tier I and Tier 2 less investments in subsidiaries and associates.

Annex I. Mauritius: The Failure of British American Investment Co. (BAI)

The BAI Group, a mixed international financial conglomerate and one of the largest conglomerates in Mauritius, comprised a number of entities operating in insurance, banking, asset management, retail and commercial services, with cross border-operations in other SSA countries. The insurance company had substantial proportion of its assets invested in related companies. In addition, it issued single policy premium products promising relatively high returns, but suffering from high lapse rates, that were only sustainable as long as fresh cash was injected into the scheme from new policies, from the investment proceeds from old policies (mostly in related companies), or from other entities in the group. The BAI Group is now being resolved.

The BAI Group collapse has had adverse effects on Mauritius' real economy, including through the closure or reduction of BAI's numerous activities and through its contribution to the low domestic credit growth. The event also highlights weak consolidated supervision and regulatory forbearance. The mixed international financial conglomerate had no overall supervisor. The FSC (the non-bank regulator) had concerns about doubtful practices at the BAI insurer, having long required a gradual reduction of related-party investments (among others, into the affiliated Bramer Bank). The insurance company, however, was only put into conservatorship in April 2015, and, importantly, only after Bramer Bank's license had been revoked by the BoM following persistent liquidity and regulatory capital shortages. The bank's problems had persisted for some time, with persistent signs of weaknesses and elevated risks. Regulatory forbearance allowed the bank to acquire funding through attractive rates, and to quadruple its size.

Bramer Bank's collapse was eventually caused by severe liquidity problems and failure of shareholders to inject fresh capital. The bank was subsequently transformed into a state-owned entity, as the authorities believed that a disorderly collapse of the bank could spread through the financial system. The authorities' intervention helped preserve financial stability, but encouraged moral hazard and entailed sizable fiscal costs. The bulk of BAI's liabilities have been transformed into debentures with payment distributed over five years for a total of Rs12.8 billion (3 percent of GDP). The short-term fiscal cost is estimated at over 1 percent of GDP. Over time, any recovery of the group's assets may offset some of the cost of intervention.

Annex II. Main Policy Recommendations in the 2014 Article IV Consultation and Policy Implementation by the Authorities

- **Reducing the fiscal deficit.**

Policy recommendation: A frontloaded fiscal adjustment in 2014 is necessary to achieve the primary fiscal objectives. Staff recommended reducing transfers to state-owned enterprises, further restricting recourse to the contingency reserve, and limiting spending from special funds.

Policy implementation: The fiscal stance remained expansionary in 2014 during the period before the election. The authorities began fiscal consolidation in 2015 by reducing the fiscal deficit by 0.8 percent of GDP.

- **Reducing excess liquidity which hinders the monetary transmission mechanism.**

Policy recommendations: Staff proposed a mechanism to share the cost of monetary policy and provide incentives to eliminate the structural excess liquidity.

Policy implementation: Excess domestic currency liquidity increased from about 10 billion rupees at end-2013 to more than Rs16 billion in April 2015. Since then, the authorities have ramped up efforts and succeeded in decreasing the excess liquidity to about Rs10 billion by December 2015.

- **Addressing external imbalances by increasing national savings and fostering competitiveness.**

Policy recommendation: Saving-investment balances should be adjusted through fiscal consolidation and pension reform. Investments in infrastructure and human capital are crucial to improve competitiveness.

Policy implementation: Private savings and investment further declined in 2014. The authorities plan to expedite major investment projects to boost growth and competitiveness.

- **Strengthening financial supervision.**

Policy recommendation: Collaboration between the Bank of Mauritius and the Financial Services Commission should be strengthened.

Policy implementation: Collaboration between the two supervisors has improved with more frequent communication and information sharing. However, the BAI case showed that weakness remains in consolidated supervision, and data gaps should be addressed to fully understand the financial inter-linkages between the GBC sector, banks, and the domestic economy.

Annex III. Mauritius: Debt Sustainability Analysis¹

The debt sustainability analysis (DSA) shows a moderately deteriorating, but manageable, debt outlook for Mauritius. Under the baseline scenario, public debt indicators remain below their relevant indicative thresholds over the medium term. The public debt dynamics are most vulnerable to contingent liability, real GDP growth, and real interest rate shocks. External debt is projected to remain at low levels and to be financed by multi- and bilateral sources at long maturities and favorable interest rates. The main risk to the debt outlook remains insufficient medium-term fiscal consolidation to create space for growth-friendly spending.

Background

The last debt sustainability analysis (DSA) for Mauritius was prepared in March 2014 and concluded that the debt outlook was broadly positive. This exercise updates the analysis within the template for the market-access countries DSA (MAC-DSA).

Public debt increased for the third consecutive year since 2013, further diverging from healthier debt levels. The ratio of public debt-to-GDP reached 63.7 percent of GDP for end-2015 from 61.5 percent at end-2014, reflecting upward pressures on spending, the BAI bailout, and the depreciation of the rupee (see ¶6 in the main text). On current policies, and with plans to ramp up public investment, reaching the statutory debt target of 50 percent of GDP is unlikely, unless a different fiscal path is adopted (see Text. Table 1, illustrative scenario).

Despite somewhat elevated borrowing needs, Mauritius has not experienced financing difficulties and funding public sector debt has remained accessible though relatively expensive. The 10-year bond yield spread over U.S. Treasury bonds was around 386 basis points at the September 2015 auction, which was below the 600 basis points threshold for vulnerability. Additional factors that contain vulnerabilities are: (i) no history of debt difficulties; (ii) external debt represents only around 20 percent of public sector debt and has very advantageous terms; and (iii) less than one percent of domestic debt is held by non-residents. However, exposure to the banking sector is not negligible (see ¶5 in Annex V).

From a structural viewpoint, a medium-term fiscal policy strategy should be defined in the context of the next budget cycle. Introducing such a strategy would help re-establishing the credibility of the statutory debt target (see ¶32 in the main text).

¹ Prepared by Albert Touna Mama.

Public DSA Risk Assessment

There are limited vulnerabilities with respect to the debt profile as none of the upper early warning thresholds are reached (Figure 1).

Realism of Baseline Scenario

The baseline macroeconomic assumptions for the present DSA are consistent with the macroeconomic framework underlying the 2015 Article IV report (see main text). The realism of this scenario for DSA purposes is assessed in Figure 2. Generally, the forecast errors for Mauritius for real GDP growth, the primary balance, and inflation (deflator) have been low or at least below the median, which provides confidence in the forecasts.

- **Growth.** Economic activity is projected to accelerate gradually over the medium term, reaching 4 percent in 2020.
- **Deflator.** Inflation and the deflator should slightly pick to reach 2.5 percent by 2020.
- **Fiscal adjustment.** The overall borrowing requirement is cut to 3 percent from 2016/17 onwards.
- **Boom-bust analysis.** See description in Box 1 in the main text.
- **Current account deficit.** Reflecting capital goods imports for investment projects, the current account deficit is expected to stay below 5 percent of GDP.

Baseline Scenario

The projection is based on the borrowing requirements identified in the budget. In line with the authorities' financing assumptions, external financing is mostly based on previously committed disbursements. Domestic financing has the objective of tilting the issuance towards longer-term instruments. The amount of domestic financing is in effect the residual of total financing need minus available external financing, which is assumed to be mostly on favorable terms.

Under the baseline scenario, Mauritius's debt outlook has deteriorated and would remain on an upward path (Figures 3 and 4). The debt-to-GDP ratio is projected to marginally from 61.8 percent in 2015/16 to about 61.9 percent by 2020/21. High primary balances and elevated real interest rates, are the principal debt-creating flows in the forecasting period, but the overall debt trajectory is sustainable.

Debt levels (Figures 3 and 4). On current policies, the debt outlook is projected to remain broadly unchanged in the medium-term, as the government increases the role for the private sector in infrastructure upgrading (¶131).

Stress Tests

The baseline is vulnerable to downside risks on real GDP growth, primary balance, and real interest rate (Figure 5):

- **Growth shock.** A lower real output growth by 1 standard deviation for 2 years starting in 2015 would have significant impact on the level of debt, which would reach 64 percent of GDP in 2021.
- **Real interest rate shock.** An increase in the sovereign risk premia by more than 200 basis points (bps) starting in 2018 would raise the effective interest rate paid on public debt by about 100 basis points in 2018 and by about 240 basis points in 2021, reflecting a maturity structure that is tilted toward the medium term.
- **Primary balance shock.** A scenario involving a deterioration of the primary balance of about 0.7 percent of GDP over the next two years increase the gross debt-to-GDP ratio slightly compared to the baseline.
- **Combined shock.** In a scenario with all the above shocks combined into a single scenario, the debt-to-GDP ratio would rise to 62 percent in 2017 and to about 70 percent by 2021. Similarly, debt-to-revenue ratios and gross financing needs would also rise in the projection period. Most of the deviation from the baseline would be driven by the growth and real interest rate shock.

External Debt Sustainability

External debt dynamics remain sustainable under the baseline scenario (Figure 6 and Table 1). External debt is estimated at 24 percent of GDP at end-2015². Banks' gross external liabilities are not included in the external debt figures as they are matched by external assets almost twice as large (see Figure 3, panel 1 in the main text). As standard practice in many international financial centers, it would be misleading to include bank external liabilities in the country's external debt measure for

² Numbers were revised to include private external debt transactions as reported in the 2011 Foreign Assets and Liabilities Survey (FALS).

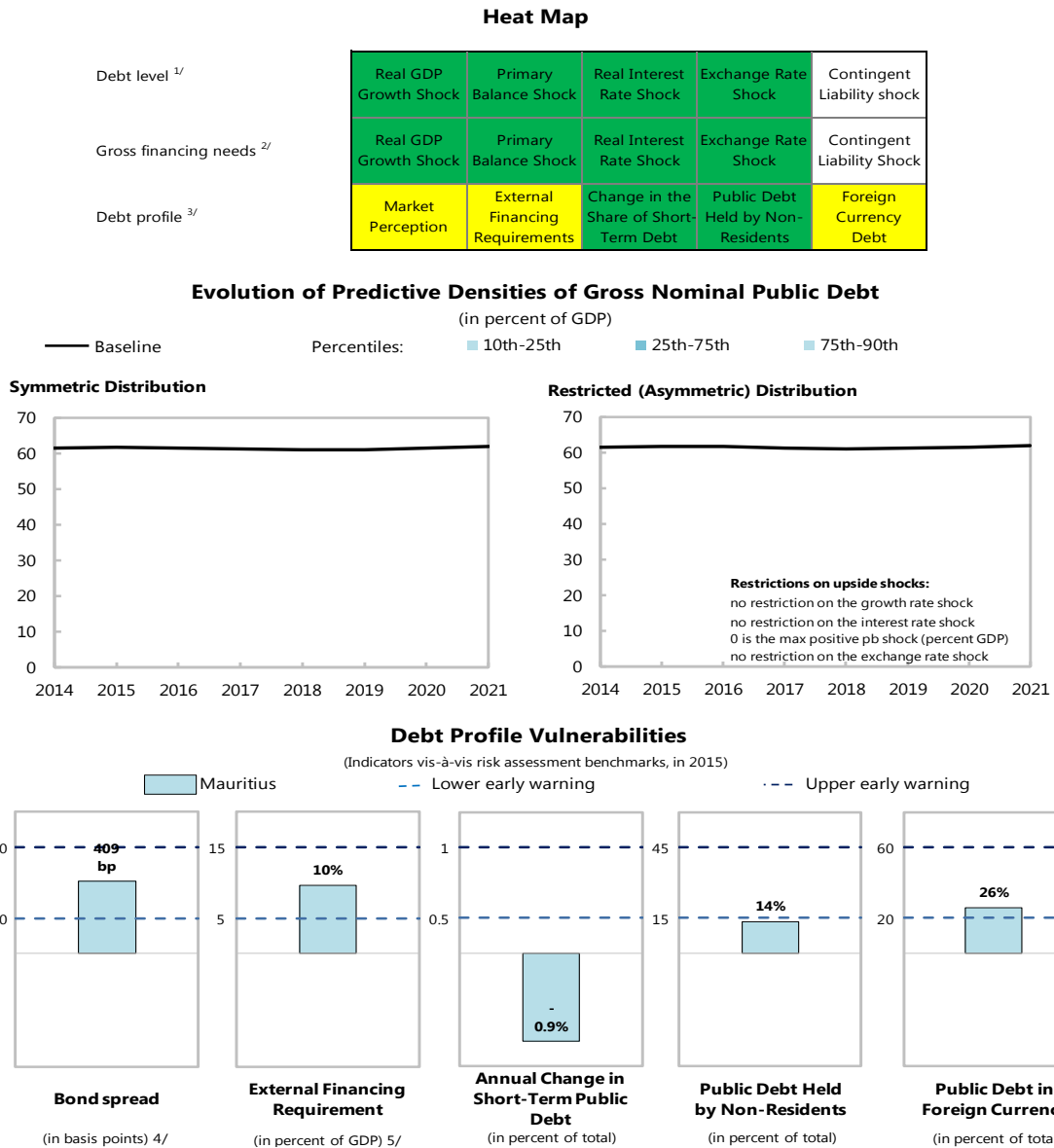
DSA purposes. External debt is projected to increase slightly initially and then decline over the medium-term, as authorities continue to take advantage of concessional long-term financing from multilateral and bilateral sources.

The external debt outlook is vulnerable to shocks on non-interest current account and large exchange rate depreciations. Sensitivity analysis suggests that Mauritius' external debt remains resilient to interest rate and growth shocks, but a 30 percent real depreciation would push the external debt-to-GDP ratio to 31 percent in 2021. A current account deficit that is 3 percentage points larger than projected in the baseline would also cause the debt-to-GDP ratio to increase to close to 28 percent by 2021. Hence, moderating the non-interest part of the external current account balance would be important to maintain external debt sustainability.

Conclusion

The public debt outlook remains broadly positive, although it has weakened somewhat compared to the last DSA. Further improvements to this outlook could derive from the planned medium-term fiscal consolidation and further structural reforms to improve growth prospects and competitiveness.

Figure 1. DSA Risk Assessment



Source: IMF staff.

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

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

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

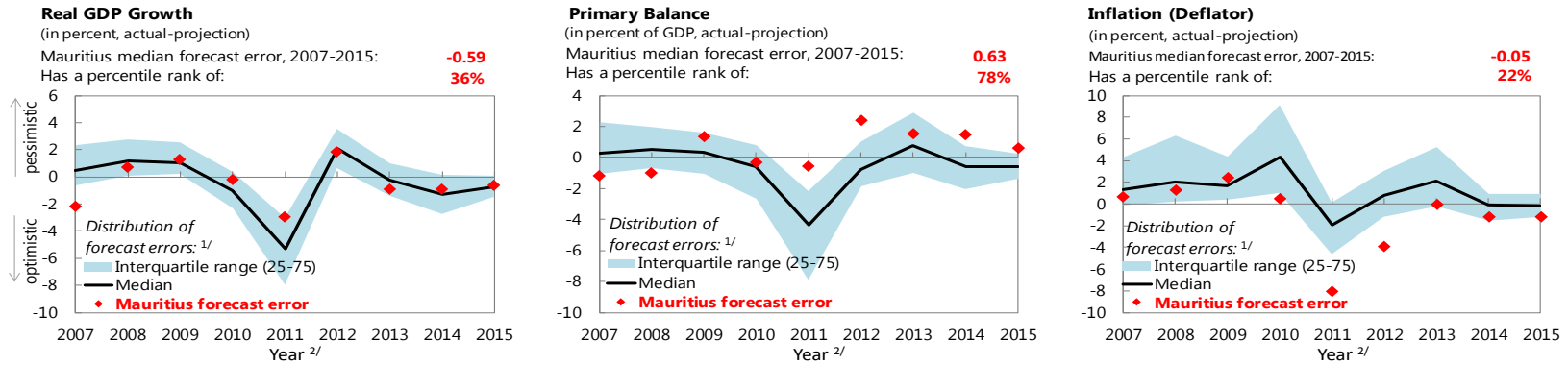
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 15-May-15 through 13-Aug-15.

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

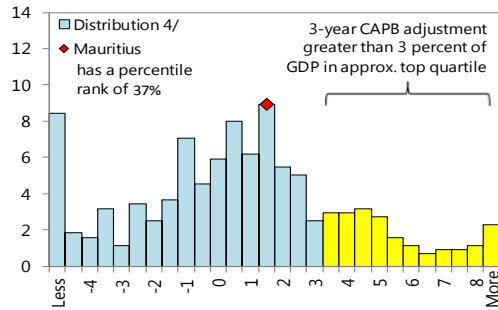
Figure 2. Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus all countries

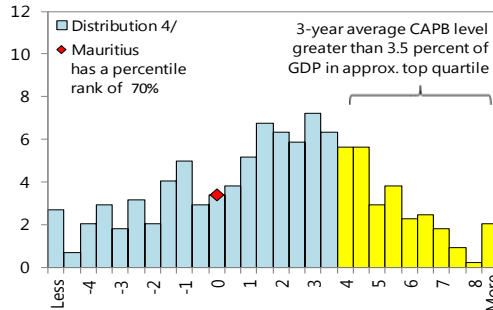


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

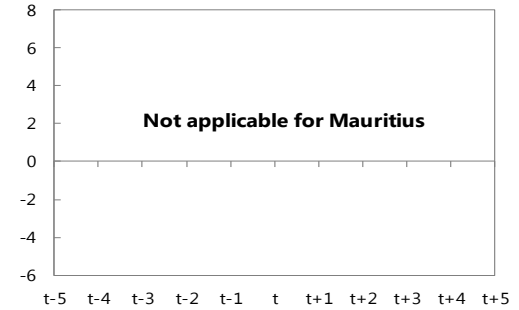


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth
(in percent)
— Mauriti...



Source : IMF Staff.

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

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

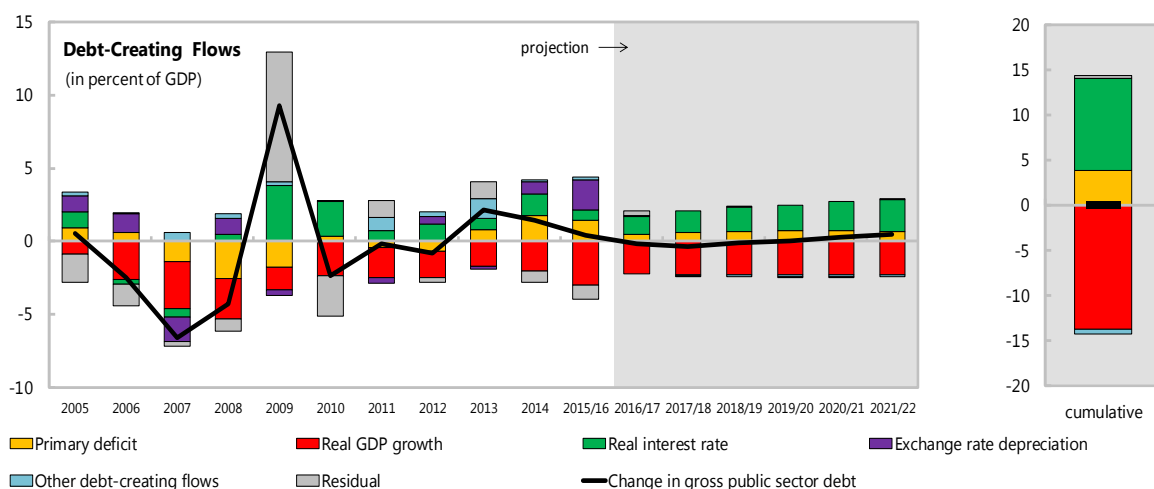
3/ Not applicable for Mauritius, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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

Figure 3. Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

Debt, Economic and Market Indicators ^{1/}											
	Actual			Projections						As of August 13, 2015	
	2005-2013 ^{2/}	2014	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21	Sovereign Spreads	
Nominal gross public debt	59.2	61.5	61.8	61.7	61.3	61.2	61.2	61.5	61.9	EMBIG (bp) ^{3/}	386
Public gross financing needs	17.3	10.7	9.8	10.0	10.7	11.1	11.5	11.9	12.3	5Y CDS (bp)	n.a.
Real GDP growth (in percent)	3.9	3.6	5.3	3.9	3.9	4.0	4.0	4.0	4.0	Ratings	Foreign Local
Inflation (GDP deflator, in percent)	4.2	1.9	2.9	2.4	2.5	2.6	2.6	2.6	2.6	Moody's	Baa1 Baa1
Nominal GDP growth (in percent)	8.2	5.6	8.4	6.3	6.5	6.6	6.7	6.7	6.7	S&Ps	n.a. n.a.
Effective interest rate (in percent) ^{4/}	6.3	4.6	4.3	4.5	5.1	5.5	5.8	6.2	6.5	Fitch	n.a. n.a.

Contribution to Changes in Public Debt												
	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}	
	2005-2013	2014	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21			
Change in gross public sector debt	-0.5	1.4	0.4	-0.2	-0.4	-0.1	0.0	0.3	0.5	0.1		
Identified debt-creating flows	-0.9	2.2	1.3	-0.5	-0.3	-0.1	0.0	0.3	0.4	-0.2		
Primary deficit	-0.5	1.8	1.5	0.5	0.6	0.7	0.7	0.7	0.7	3.8		
Primary (noninterest) revenue and grants	20.9	20.5	21.7	21.8	21.8	21.8	21.8	21.8	21.8	131.0		
Primary (noninterest) expenditure	20.4	22.2	23.1	22.3	22.4	22.5	22.5	22.6	22.4	134.8		
Automatic debt dynamics ^{5/}	-0.9	0.3	-0.3	-1.1	-0.8	-0.6	-0.5	-0.3	-0.1	-3.5		
Interest rate/growth differential ^{6/}	-1.0	-0.6	-2.3	-1.1	-0.8	-0.6	-0.5	-0.3	-0.1	-3.5		
Of which: real interest rate	1.1	1.5	0.7	1.2	1.5	1.6	1.8	2.0	2.2	10.2		
Of which: real GDP growth	-2.1	-2.1	-3.0	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-13.7		
Exchange rate depreciation ^{7/}	0.2	0.8	2.0	...	...	...	...	...	...	...
Other identified debt-creating flows	0.4	0.2	0.2	0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.6		
Drawdown of deposits (negative)	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.1		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net Acquisition of Financial Assets	0.5	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.5		
Residual, including asset changes ^{8/}	0.4	-0.8	-1.0	0.3	-0.1	0.0	0.0	0.0	0.1	0.3		



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gn)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;

a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

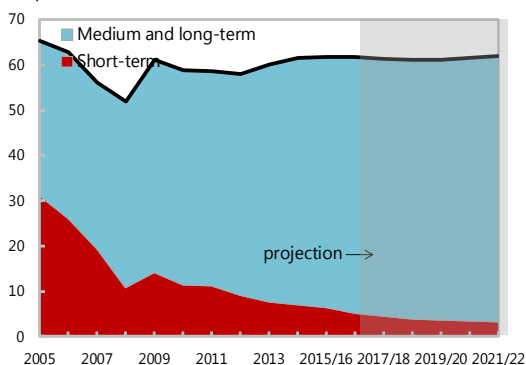
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

Composition of Public Debt

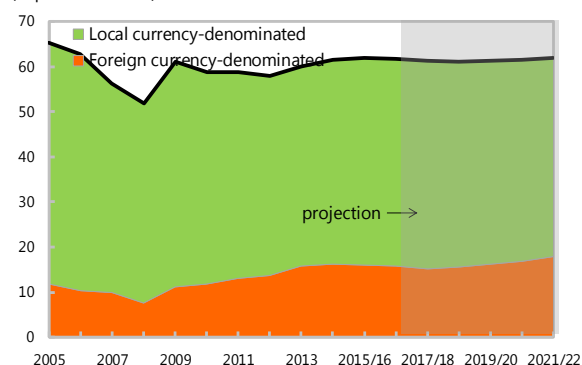
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

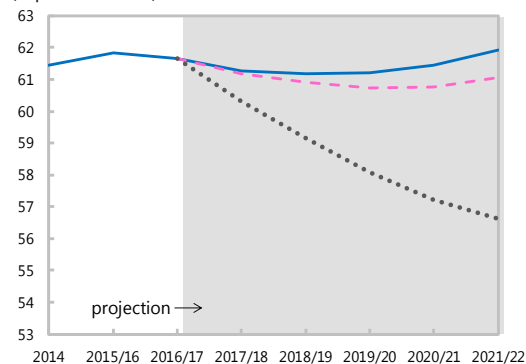
— Baseline

..... Historical

- - - Constant Primary Balance

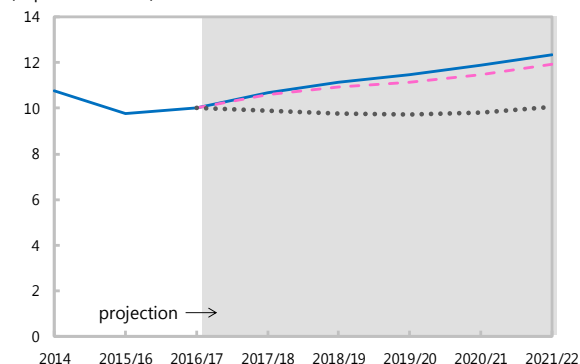
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



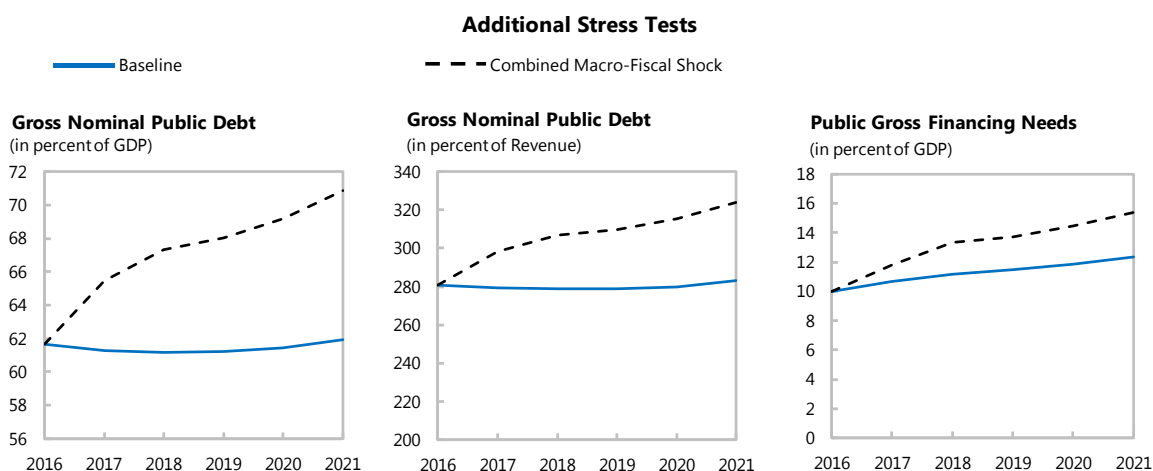
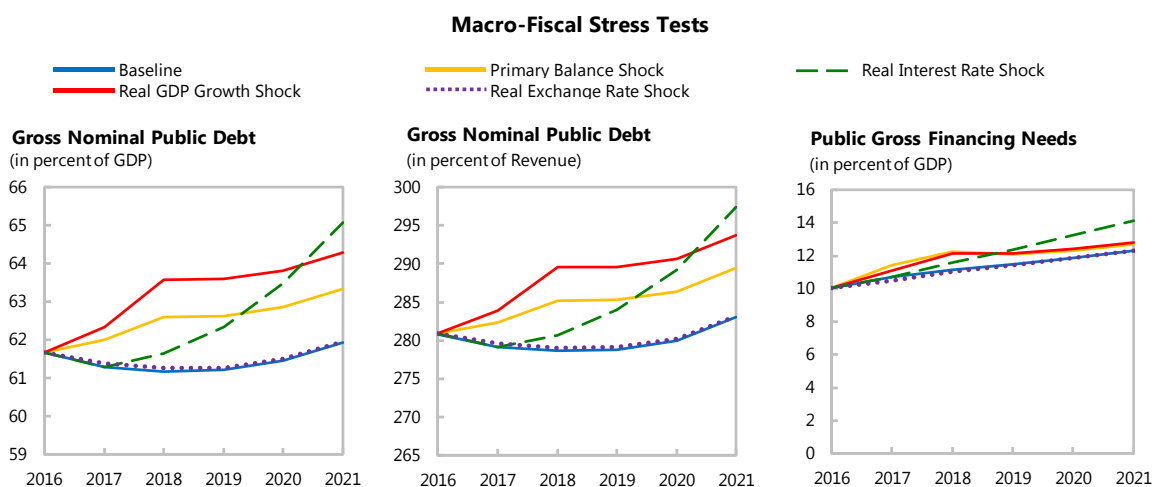
Underlying Assumptions

(in percent)

Baseline Scenario	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21	Historical Scenario	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21
Real GDP growth	3.9	3.9	4.0	4.0	4.0	4.0	Real GDP growth	3.9	4.2	4.2	4.2	4.2	4.2
Inflation	2.4	2.5	2.6	2.6	2.6	2.6	Inflation	2.4	2.5	2.6	2.6	2.6	2.6
Primary Balance	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	Primary Balance	-0.5	0.2	0.2	0.2	0.2	0.2
Effective interest rate	4.5	5.1	5.5	5.8	6.2	6.5	Effective interest rate	4.5	5.1	5.4	5.7	6.0	6.3
Constant Primary Balance Scenario													
Real GDP growth	3.9	3.9	4.0	4.0	4.0	4.0							
Inflation	2.4	2.5	2.6	2.6	2.6	2.6							
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5							
Effective interest rate	4.5	5.1	5.5	5.8	6.2	6.5							

Source: IMF staff.

Figure 5. Public DSA – Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021	Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	3.9	3.9	4.0	4.0	4.0	4.0	Real GDP growth	3.9	2.9	2.9	4.0	4.0	4.0
Inflation	2.4	2.5	2.6	2.6	2.6	2.6	Inflation	2.4	2.2	2.3	2.6	2.6	2.6
Primary balance	-0.5	-1.3	-1.4	-0.7	-0.7	-0.7	Primary balance	-0.5	-0.9	-1.2	-0.7	-0.7	-0.7
Effective interest rate	4.5	5.1	5.5	5.8	6.1	6.4	Effective interest rate	4.5	5.1	5.5	5.8	6.1	6.4
Real Interest Rate Shock							Real Exchange Rate Shock						
Real GDP growth	3.9	3.9	4.0	4.0	4.0	4.0	Real GDP growth	3.9	3.9	4.0	4.0	4.0	4.0
Inflation	2.4	2.5	2.6	2.6	2.6	2.6	Inflation	2.4	6.8	2.6	2.6	2.6	2.6
Primary balance	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	Primary balance	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7
Effective interest rate	4.5	5.1	6.3	7.0	7.7	8.3	Effective interest rate	4.5	5.3	5.4	5.7	6.1	6.4
Combined Shock													
Real GDP growth	3.9	2.9	2.9	4.0	4.0	4.0							
Inflation	2.4	2.2	2.3	2.6	2.6	2.6							
Primary balance	-0.5	-1.3	-1.4	-0.7	-0.7	-0.7							
Effective interest rate	4.5	5.3	6.2	6.9	7.6	8.2							

Source: IMF staff.

Table 1. External Debt Sustainability Framework, 2011–21
(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -4.1	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
Baseline: External debt	22.6	23.1	24.8	24.4	26.2	26.1	25.4	24.7	23.6	22.4	21.1		
Change in external debt	1.2	0.5	1.7	-0.4	1.8	-0.1	-0.7	-0.7	-1.1	-1.2	-1.3		
Identified external debt-creating flows (4+8+9)	8.3	2.1	2.3	1.7	4.2	0.1	-0.1	0.0	0.2	0.4	0.6		
Current account deficit, excluding interest payments	13.6	7.0	6.0	5.3	4.8	4.1	4.1	4.1	4.2	4.3	4.4		
Deficit in balance of goods and services	13.8	13.1	14.3	12.5	11.3	11.3	11.1	11.1	11.2	11.3	11.3		
Exports	51.8	52.9	47.3	49.8	52.9	53.9	54.1	54.9	55.5	56.0	56.8		
Imports	65.6	66.0	61.6	62.2	64.2	65.2	65.2	66.1	66.7	67.3	68.2		
Net non-debt creating capital inflows (negative)	-3.1	-4.8	-2.6	-2.6	-3.0	-3.4	-3.8	-3.7	-3.6	-3.5	-3.5		
Automatic debt dynamics 1/	-2.2	-0.1	-1.1	-1.0	2.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4		
Contribution from nominal interest rate	0.2	0.3	0.3	0.3	0.3	0.5	0.5	0.6	0.6	0.5	0.5		
Contribution from real GDP growth	-0.7	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9	-0.8		
Contribution from price and exchange rate changes 2/	-1.7	0.3	-0.7	-0.5	3.0	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-7.2	-1.7	-0.6	-2.1	-2.4	-0.2	-0.6	-0.8	-1.3	-1.7	-1.9		
External debt-to-exports ratio (in percent)	43.6	43.6	52.4	49.0	49.5	48.4	46.9	44.9	42.5	40.0	37.1		
Gross external financing need (in billions of US dollars) 4	3.1	2.7	3.8	3.9	4.4	4.2	4.5	4.9	5.2	5.5	5.8		
in percent of GDP	28.3	24.2	31.8	30.7	37.7	10-Year	10-Year	35.4	35.8	36.5	36.9	36.8	36.9
Scenario with key variables at their historical averages 5/						26.1	28.4	27.7	27.1	26.1	24.9	-3.8	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	3.9	3.2	3.2	3.6	3.4	4.0	1.0	3.8	3.9	3.9	4.0	4.0	4.0
GDP deflator in US dollars (change in percent)	8.4	-1.5	3.0	2.2	-11.1	2.7	10.4	-1.5	2.3	1.6	2.0	2.1	1.5
Nominal external interest rate (in percent)	1.1	1.2	1.2	1.4	1.1	1.8	0.9	1.8	2.1	2.5	2.4	2.4	2.3
Growth of exports (US dollar terms, in percent)	14.7	3.8	-4.9	11.4	-2.4	5.9	10.6	4.2	6.8	7.2	7.2	7.1	7.1
Growth of imports (US dollar terms, in percent)	17.4	2.2	-0.8	7.0	-5.3	6.8	9.9	3.8	6.4	7.1	7.1	7.0	7.0
Current account balance, excluding interest payments	-13.6	-7.0	-6.0	-5.3	-4.8	-7.7	2.8	-4.1	-4.1	-4.1	-4.2	-4.3	-4.4
Net non-debt creating capital inflows	3.1	4.8	2.6	2.6	3.0	2.6	1.3	3.4	3.8	3.7	3.6	3.5	3.5

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

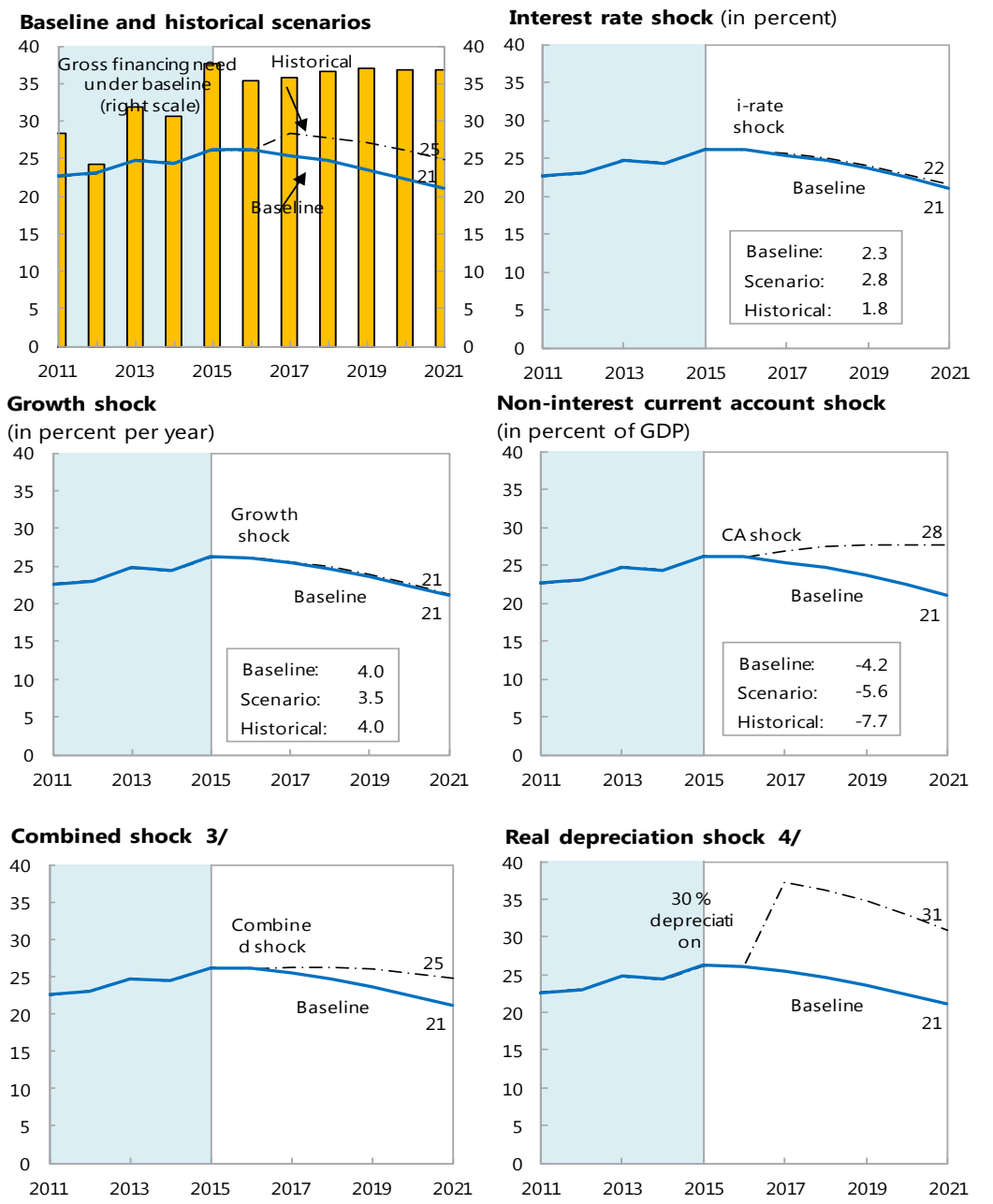
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. External Debt Sustainability: Bound Tests 1/2/
(External Debt, Percent in GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
 4/ One-time real depreciation of 30 percent occurs in 2016.

Annex IV. Mauritius: External Balance and Reserve Adequacy¹

Based on the external balance assessment for emerging markets and developing countries (“EBA-lite”), Mauritius’ real effective exchange rate appears broadly in line with fundamentals. A preliminary assessment of international reserve adequacy suggests that the adequacy of reserves largely depends on the nature of GCB’s liabilities on which further information is needed.

A. Recent Balance of Payments Developments

1. **External sector developments** (Figure 1). After being on an appreciating trend over the last decade, Mauritius’ real effective exchange rate depreciated by more than 2 percent year-on-year in November 2015. The current account deficit is projected to narrow to 5 percent in 2015, mainly on account of the decline in import prices of fuel and other commodities. In the medium-term, the current account deficit is expected to decline below 5 percent of GDP, due to continued low oil prices and in line with government’s consolidation plans. The current account deficit would be fully financed, with continued substantial inflows from the Global Business Companies (GBCs). International reserves would continue to build up above 6 months of prospective imports accordingly.

B. External Balance Assessment

The results of an assessment based on the macroeconomic balance approach and index real effective exchange rate approach for developing and emerging markets (“EBA-lite”) suggest that Mauritius’ real effective exchange rate appears broadly in line with fundamentals. However, this assessment is contingent on continued strong GBC net inflows into Mauritius’s Balance of Payments.

Macro-Balance Approach

2. **Methodology.** EBA-lite’s macroeconomic balance approach determines the current account misalignment as follows:

$$CA\ Gap = Actual\ CA - (Fitted\ CA - Policy\ Gap)$$

$$CA\ Norm$$

The current account misalignment (*CA Gap*) is the gap between the actual (projected) current account in 2015 percent of GDP in 2015 (*Actual CA*) and the current account norm implied by the

¹ Prepared by Monique Newiak.

methodology (*CA Norm*). This norm consists of the *Fitted CA* (the predicted value of Mauritius's current account based on the country's fundamentals and policies) adjusted by a policy gap which relates Mauritius's policies not only to its optimal policies but also to the average policy misalignment in the rest of the world.

3. **Staff assumes no national policy gap except for the fiscal stance for Mauritius in 2015.**

The following considerations were taken into account in terms of national policy gaps:

- The openness of the capital account appears appropriate so that international reserves misalignments do not contribute to the policy gap.
- A statistical benchmark (FinStat 2015) implies that *private sector credit to GDP* in Mauritius is broadly in line with the median implied benchmark level (Figure 2, panel 1).
- For the *fiscal stance*, we choose the medium term fiscal projection as a proxy for the optimal (somewhat tighter) fiscal policy in 2015.

Consequently, the total policy gap for Mauritius is a combination of its national fiscal policy gap and the stance in the other policy relevant variables compared to the policy gap in the rest of the world. With the national and world policy gaps offsetting each other, the contribution of policies to the current account misalignment is lower than 0.1 percent of GDP.

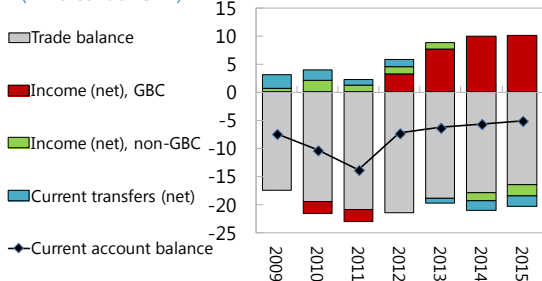
4. **The macro-balance approach suggests that Mauritius REER appears broadly in line with its fundamentals in 2015** (Figure 2, panel 2). The current account benchmark implied by the macroeconomic balance approach is -3.9 percent of GDP. The actual current account balance has improved to -5.1 percent of GDP in 2015. The implied misalignment of the current account is therefore -1.2 percent of GDP, implying an economically insignificant overvaluation of the REER by less than 3.7 percent if conservative standard elasticities are used, or an even smaller overvaluation using Mauritius-specific elasticities.

Figure 1. Recent Economic Developments and Outlook

The current account balance is expected to improve...

Current Account Balance

(In Percent of GDP)

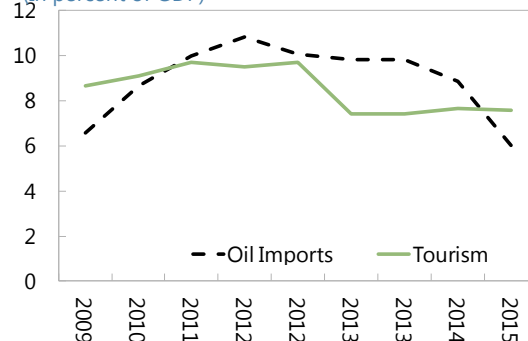


Source: Country authorities and staff estimates.

... due to a decline in fuel and other commodity prices, although tourism proceeds are projected to decrease.

Major Exports and Imports

(In percent of GDP)

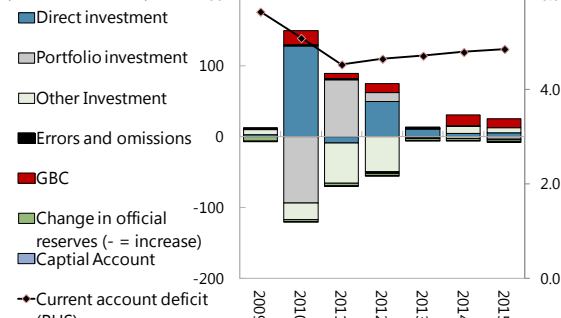


Source: Country authorities and staff estimates.

Net portfolio and FDI in and outflows have moderated in the last years in absolute terms.

Financing Sources

(In Percent of GDP)

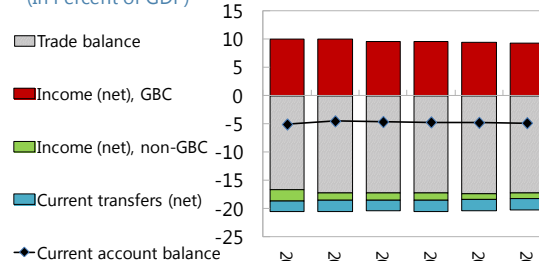


Source: Country authorities and staff estimates.

... and the current account would stabilize at a slightly higher level than in 2015.

Current Account Balance

(In Percent of GDP)

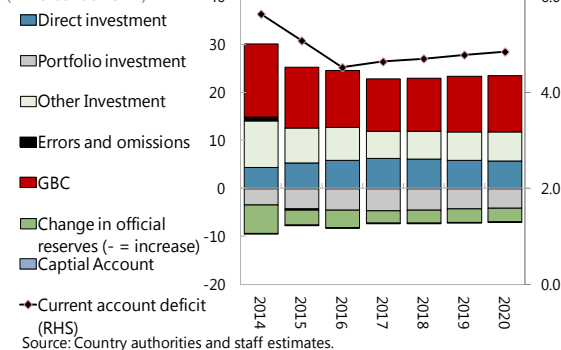


Source: Country authorities and staff estimates.

The current account deficit would be fully financed, ...

Financing Sources

(In Percent of GDP)

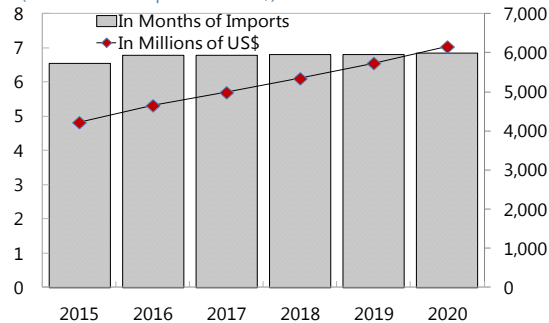


Source: Country authorities and staff estimates.

... and international reserves would build up.

Net International Reserves

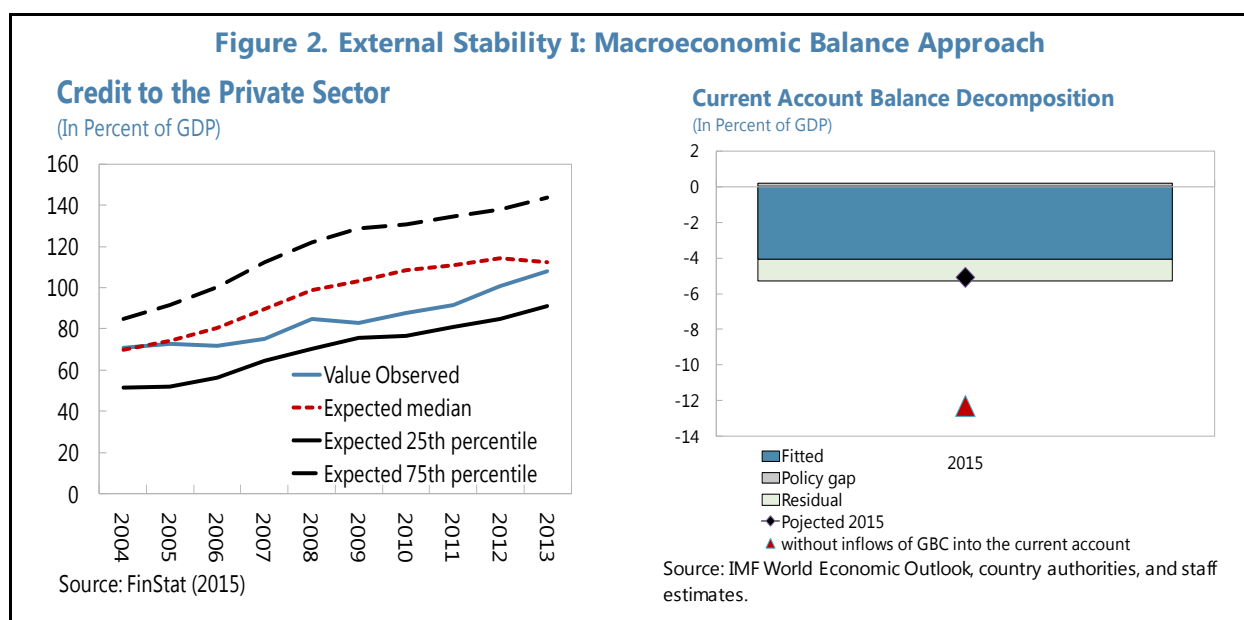
(In Months of Imports and US\$)



Source: Country authorities and staff estimates.

5. **However, the assessment going forward will critically depend on the continued contribution of GBCs into the current account.** The assessment is subject to downside risks from a change in the nature from the GBC business. An illustrative exercise, which excludes GBC flows

from the current account balance, all other things equal, i.e. assuming the same macroeconomic fundamentals and policies, would imply an over-valuation of more than 25 percent.



Index Real Effective Exchange Rate (IREER) Approach

6. **Methodology.** Similar in structure to the macroeconomic balance approach, the IREER approach determines the real effective exchange misalignment as follows.

$$REER\ Gap = Actual\ REER - (Fitted\ REER - Policy\ Gap)$$

$$CA\ Norm$$

The REER misalignment (*CA Gap*) is the gap between the estimated REER in 2015 (*Actual REER*) and the REER norm implied by the methodology (*REER Norm*). This norm consists of the *Fitted REER* which is the predicted value of Mauritius' REER based on its fundamentals and policies adjusted by a *policy gap*. This *policy gap* relates Mauritius' policies to its optimal policies.

7. Insignificant REER misalignment (Figure 3).

For 2015, the implied gap between actual and fitted values is insignificant in size (around 3 percent).

Moreover, since monetary policy, reserve adequacy, the level of private sector credit to GDP and capital account openness are deemed appropriate, there is no policy gap. Consequently, the REER appears broadly in line with fundamentals according to the IREER approach².

C. Reserve Adequacy

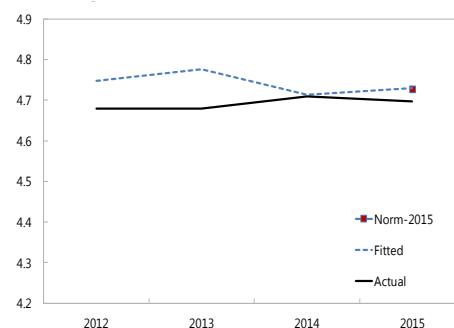
8. This note augments the Funds standard

adequacy metric to account risks from the global business sector. This note assesses Mauritius' reserves adequacy using a combined metric which captures typical emerging market vulnerabilities from the following risks: lower export income (X), lower rollover rates of short-term debt (STD), non-resident capital outflows proxied by the sum of portfolio liabilities and other liabilities excluding short-term debt (OL), and resident capital flight proxied by broad money (M2). In addition, it augments the standard metric to account for the complexity of the interactions of the Mauritian Global Business Company (GBC) sector with the financial sector by including a portion of GBC deposits at domestic banks, consistently with FSAP findings of vulnerabilities of the financial system to disruptions in foreign currency funding and taking into account the liquidity of commercial banks' foreign currency assets. These elements are then combined to a reserve adequacy metric as follows:

$$\text{Metric} = 0.3 \cdot \text{STD} + 0.15 \cdot \text{OL} + 0.05 \cdot \text{M2} + 0.05 \cdot \text{X} + \text{idiosyncratic factors}$$

International reserves buffers appear lower than advisable according to this approach (Figure 4). Augmenting the standard metric with GBC deposits, to capture the importance of the sector in addition to standard factors of vulnerability, implies an advisable reserve level in a range covering 100 to 150 percent of this metric.

Figure 3. External Stability 2: Index Real Effective Exchange Rate Approach

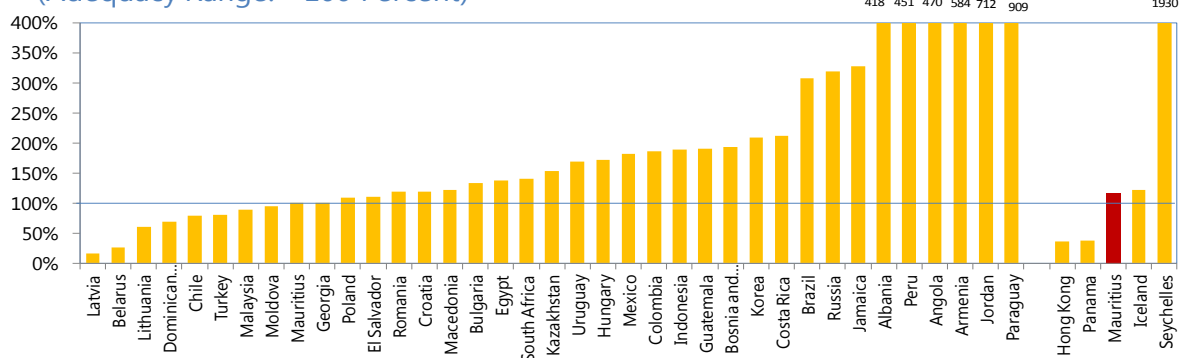


Sources: IMF International Financial Statistics, IMF World Economic Outlook, and staff estimates.

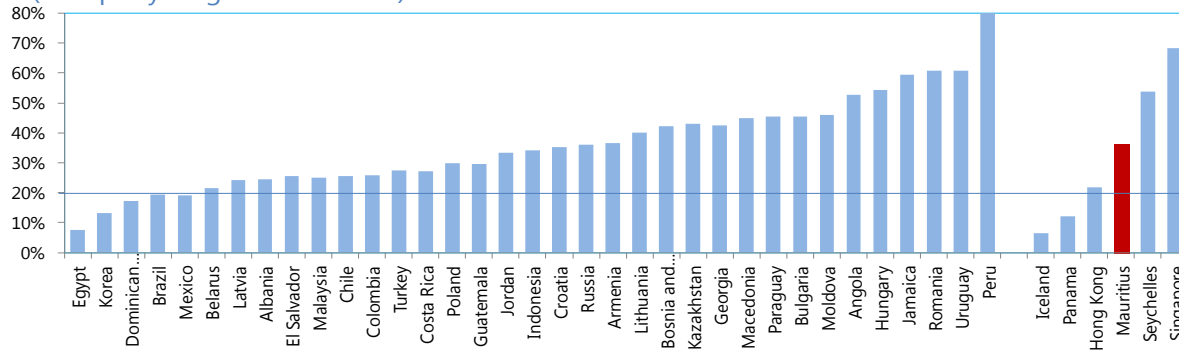
² Similarly to the macroeconomic balance approach, the REER implied by Mauritius' macroeconomic fundamentals appeared higher than the actual level of the REER over the last five years. However this difference had been mainly driven by large stocks of net foreign assets, largely driven by GBCs.

Figure 4. Reserve Adequacy Measures: Mauritius vs. Other Countries
(including GBC deposits held at small and medium-size banks, net of liquid assets)

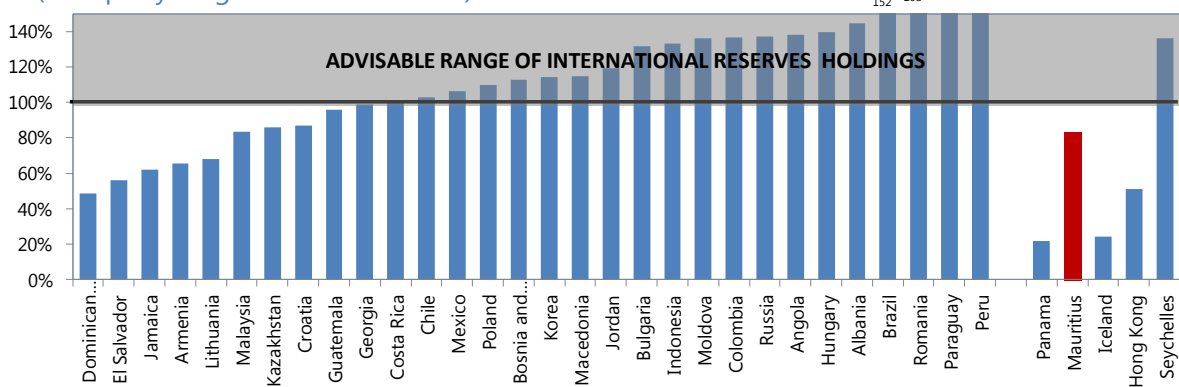
Gross International Reserves / Short-term Debt
(Adequacy Range: >100 Percent)



Gross International Reserves / Broad Money
(Adequacy range: >20 Percent)



Gross International Reserves / Adequacy Metric
(Adequacy range: 100-150 Percent)



Sources: World Economic Outlook, Country Authorities; IMF International Financial Statistics, Country Staff Reports, and own calculations.

Note: Third metric includes as a base: 30 percent of short-term debt, 5 percent of broad money, 5 percent of exports, 15 percent of other non-GBC liabilities, and GBC deposits held at small and medium-sized banks, net of liquid assets.

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Annex V. Sectoral Macroeconomic Risks: Balance Sheet Analysis for Mauritius¹

A shock in the offshore/nonresident sector could spill over into the domestic economy through the banking sector, which has large exposures to the offshore sector and nonresidents for both assets and liabilities. However, significant data limitations limit the scope and accuracy of the Balance Sheet Analysis (BSA), particularly in the offshore sectors.

A. Motivation

1. **The Balance Sheet Analysis (BSA) can provide an overall picture of inter-sectoral linkages in the economy.** In particular, this tool facilitates the understanding of foreign currency risks and external vulnerabilities for each sector, as well as possible contagion risks emanating from mismatches in assets and liabilities in a given sector, or external shocks. The approach visualizes possible contagion channels by showing sectoral asset and liability exposures to other sectors. In the case of Mauritius, the analysis is centered on inter-linkages between the enormous Global Business Companies (GBC) sector and other domestic sectors, but other linkages among domestic sectors are also examined to understand possible contagion channels of crises triggered by the offshore-onshore linkages.

B. Sectoral Balance Sheet of Mauritius

2. **Due to the limited data availability, the sectoral balance sheet of Mauritius is compiled with various assumptions and estimations.** Although data compilation and dissemination is well advanced in Mauritius compared with other African countries, there are still significant data gaps. As a result, a number of assumptions are needed in compiling sectoral balance sheets. The main data gaps exist in the following areas.

- The aggregated balance sheet data of entire GBC sector are not available. The authorities' survey covers only GBC1s and GBC2s are not covered². In addition, the size of GBCs' claims on and liabilities to other domestic sectors is not available in the survey. Therefore, in this exercise, the

¹ Prepared by Keiichiro Inui.

² There are two types of GBCs. A GBC1 is a tax resident in Mauritius, subject to low corporate tax rates and able to take advantage of Double Taxation Avoidance Agreements (DTAA). A GBC1 can conduct businesses with residents. A GBC2 has non resident status on purpose of taxation, but should be treated as a resident in a statistical point of view. GBC2 can only carry out businesses with nonresidents. GBC2s, which are currently not covered by the International Investment Position statistics or in this exercise, are estimated to have assets of about 10 times GDP.

GBCs' sectoral balance sheet only represents GBC1s, and asset/liability exposures between GBCs and other sectors are estimated with various assumptions.

- The Monetary and Financial Statistics (MFS) do not cover Other Financial Corporations (OFCs), including insurance, pension funds, investment managers, etc. The sectoral and currency breakdown of the OFCs' assets and liabilities are estimated from balance sheets of individual OFCs with various assumptions³.
- Sectoral balance sheet data which separately show non-financial corporations and households are not available. Therefore, both of the two sectors are categorized as "non-financial sectors" in this exercise.
- The balance sheet of the general government is estimated from individual components of the sector, such as the budgetary central government and the National Pension Fund (NPF).
- Data regarding the maturity of exposures (long-term or short-term) are available only for a very limited number of categories. Therefore, the balance sheet analysis does not assess risks derived from maturity mismatches.
- Non-financial assets (including tangible assets) and off-balance sheet assets and liabilities are not recorded in the sectoral balance sheets.

3. **The Mauritian economy is characterized by a huge external asset and liability position, while having a net asset position as a whole.** Table 1 shows the aggregated assets and liabilities positions of each economic sector in Mauritius, as well as of nonresidents' assets and liabilities to Mauritius residents. Liabilities of the nonresidents (towards Mauritius) are higher than claims of the nonresidents on Mauritius, which means that residents of Mauritius have more claims on nonresidents than their external liabilities. It could be highlighted that both the GBC sector and the non-GBC domestic sectors have a net asset position to rest of the world. However, the enormous gross size of assets and liabilities, at more than 35 times GDP, suggests that a small change in values or a shortage of liquidities could result in a severe consequence for the Mauritian economy.

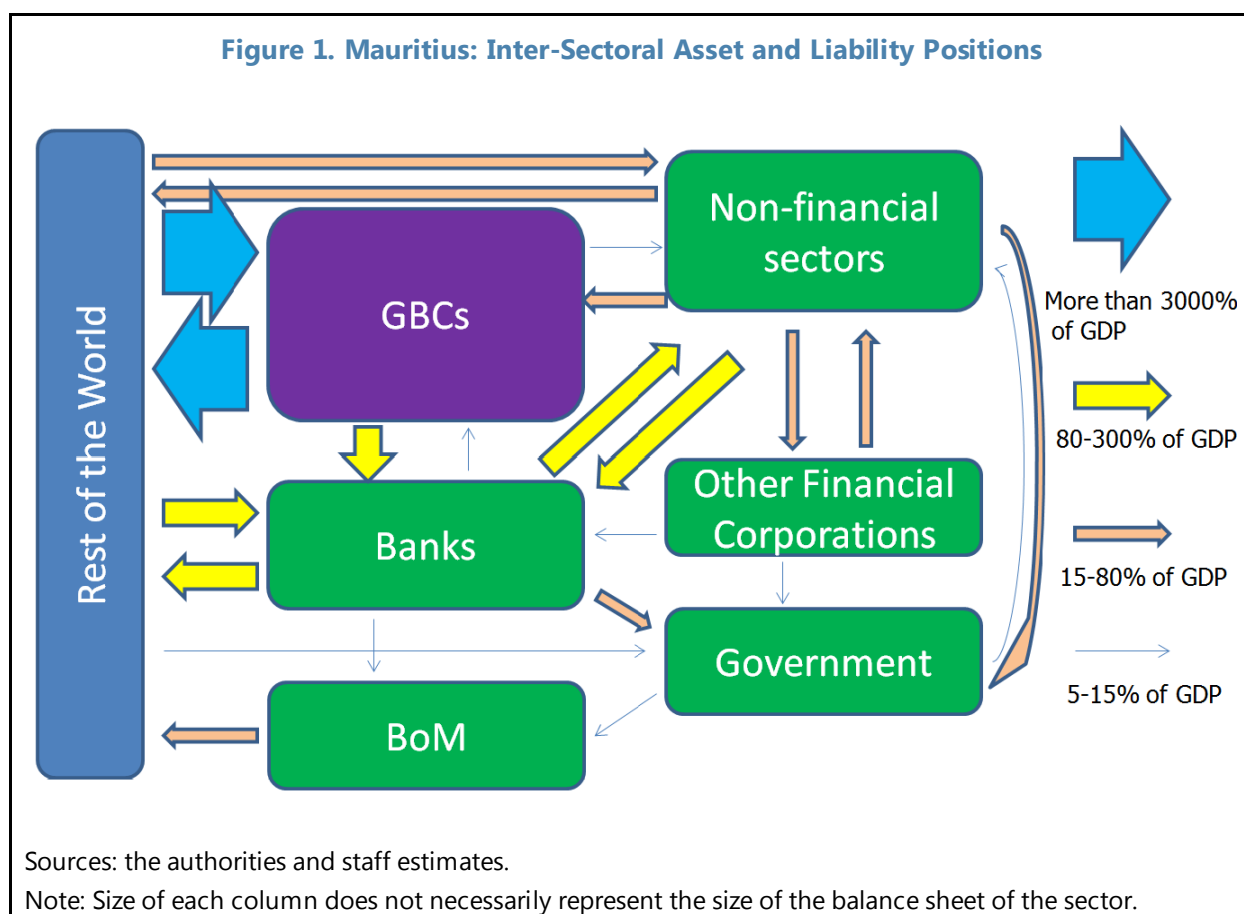
³ It should be noted that the balance sheet of the OFCs as at end-2014 does not show the picture of the sector after the failure of BAI in 2015, which held the largest life insurance company in Mauritius in the group before it failed.

Table 1. Financial Positions by Sector (as of end 2014)

	General Government	Central Bank	Other Depository Corporations	Other Financial Corporations (excluding GBCs)	GBCs	Non-financial Sectors	Nonresidents
	(in millions of rupee)						
Assets	83,111	129,725	1,296,645	179,143	13,350,428	868,569	13,577,066
Liabilities	264,551	84,981	1,296,645	189,114	13,032,427	613,266	14,003,705
Net position	-181,439	44,744	0	-9,970	318,001	255,303	-426,639
	(in percent of GDP)						
Assets	21.5	33.6	335.9	46.4	3458.1	225.0	3516.8
Liabilities	68.5	22.0	335.9	49.0	3375.8	158.9	3627.3
Net position	-47.0	11.6	0.0	-2.6	82.4	66.1	-110.5
Sources: Fund staff estimates, Mauritius authorities							

4. **Commercial banks could be the key channel of spillovers due to their large exposures to the GBC sector and nonresidents.** As Figure 1 illustrates, the macro-financial structure of Mauritius is characterized by the huge GBC sector primarily connected with the rest of the world by more than 30 times GDP of assets and liabilities, respectively. While the GBC sector is sometimes recognized as an “offshore” financial sector, the sector has sizable linkages with “onshore” domestic sectors, including commercial banks and non-financial sectors⁴. GBCs’ deposits, as well as nonresidents’ deposits and loans, are a major funding source of banks, and a vast majority of the claims on and liabilities to external/GBCs are denominated in foreign currencies. If the banks do not have adequate liquid assets in foreign currencies, sudden withdrawal of the GBC/nonresident deposits could trigger a banking pressures. As most banks deal with both offshore/external and domestic business, turmoil in the offshore banking business could spill over into domestic sectors.

⁴ The size of assets and liabilities between GBCs and the non-financial sectors are estimated from inadequate data with various assumptions.



5. **Besides the banks' linkages with GBCs and nonresidents, the balance sheets of domestic sectors do not show significant imbalances which could trigger a crisis.**

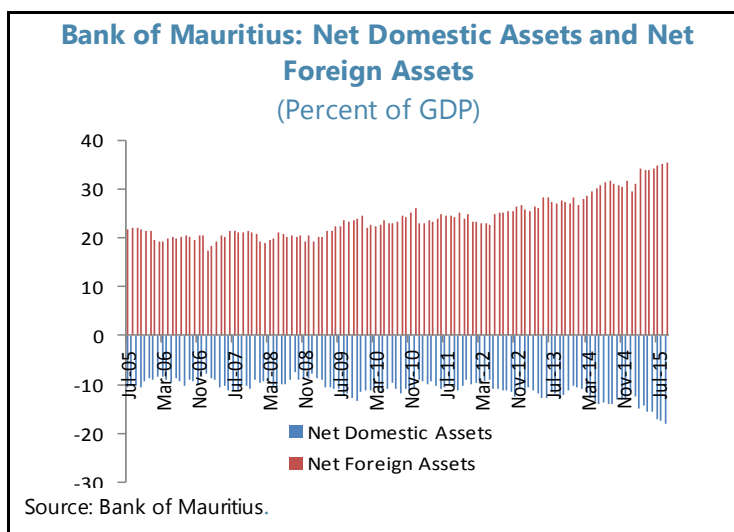
However, prudent fiscal policy is necessary to contain the government indebtedness.

- **General government:** The overall net asset position is negative, and accumulated debt is a principal concern for the sector. The government's negative net asset position of 47 percent of GDP is mainly due to the accumulation of government debt. The largest holder of government bonds is the banking sector (at 19 percent of GDP). The external liabilities of the general government account for 13.4 percent of GDP, while 55.1 % of GDP are from domestic sectors. Therefore, it can be said that the creditors to the general government are well diversified, which could contain a risk of a specific sector's herding sale of government bonds making government's funding difficult. However, a systemic event in the banking sector could significantly exacerbate the net liability position of the government. Fiscal costs in the case of a failure of any systemic banks⁵ could be inflated given the lack of a resilient bank resolution

⁵ The two largest domestically-owned banks together have total assets of over 90 percent of GDP.

framework and a deposit insurance scheme. The government should have a prudent medium-term fiscal plan to maintain debt sustainability and retain adequate fiscal buffers.

- Bank of Mauritius (BoM):** The central bank has a net asset position of about 12 percent of GDP, due to the highly positive net external assets at 32 percent of GDP which are larger than the negative net domestic position. The net external asset position has been gradually increased, as BoM has been continuously intervening at the foreign exchange markets to accumulate foreign currency reserves and to contain the volatility in the markets. At the same time, BoM's net domestic liabilities have also increased because of the excess cash holdings by banks.



- Other financial corporations (OFCs):** The net asset balance is slightly negative. The external assets of the sector account for only about 10 percent of the total assets of OFCs.
- Non-financial sector:** It is estimated that the non-financial sector has a net asset position. However, this is uncertain as the estimation is usually calculated as a residual of other sectors, some of which are also estimated with various assumptions. Also, as separate data for the corporate and the household sectors are not available, the indebtedness of the household sector cannot be analyzed from the sectoral balance sheet. Dollarization in the domestic sectors does not seem the major risk to the macro-financial system, as only about 10 percent of banks' claims on and liabilities to residents (except GBCs) are denominated in a foreign currency.

C. Conclusions

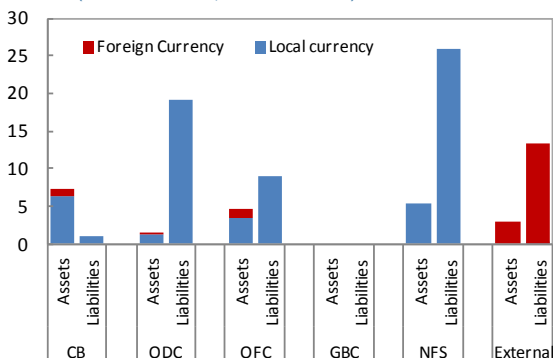
6. **The banking sector could be the main channel of possible contagions.** Because of the banking sector's large exposures to the GBC sector and nonresidents, shocks in the overseas and the offshore sectors could significantly affect the balance sheet of banks. A banking distress could significantly worsen the net liability position of the government, which could trigger confidence effects in the rest of the economy. Banking regulation to contain credit and liquidity risks in the sector should be strengthened in order to prevent from serious negative spillovers through the banks. The government should maintain a fiscal buffer to take a precaution against a possible

banking crisis, and a resilient crisis resolution scheme and deposit insurance scheme should be established.

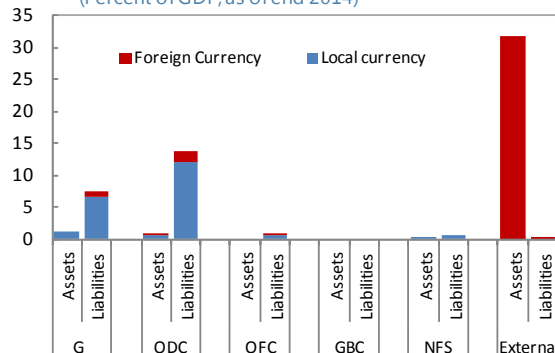
7. **Data deficiencies should be addressed.** The BSA would be more accurate if all of the necessary data were available. There are important data gaps in several sectors which could both be playing an important role in the financial linkages. In particular, the data related to assets and liabilities of GBCs should be significantly improved in terms of its coverage, granularity and accuracy. The compilation of sectoral balance sheets is required for Mauritius to join the IMF's Special Data Dissemination Standard Plus (SDDS Plus), and further improvements are expected.

Figure 2. Mauritius: Sectoral Balance Sheet at end-2014

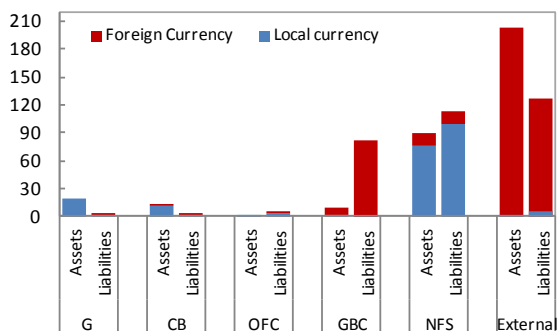
1. General Government : Assets and Liabilities
(Percent of GDP, as of end 2014)



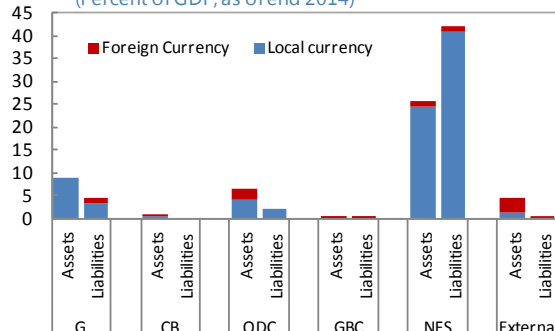
2. Central Bank : Assets and Liabilities
(Percent of GDP, as of end 2014)



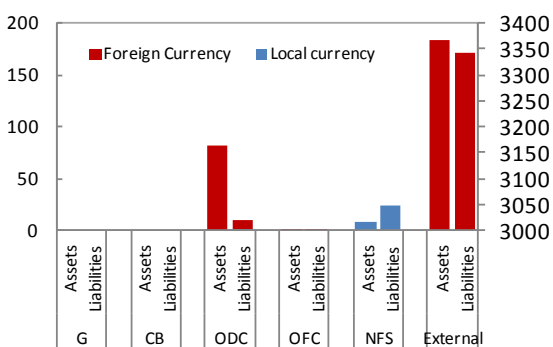
3. Other Depository Corporations : Assets and Liabilities
(Percent of GDP, as of end 2014)



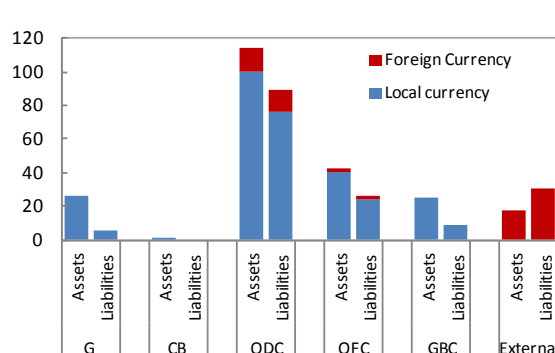
4. Other Financial Corporations : Assets and Liabilities
(Percent of GDP, as of end 2014)



5. Global Business Companies : Assets and Liabilities
(Percent of GDP, as of end 2014)



6. Non-Financial Sectors : Assets and Liabilities
(Percent of GDP, as of end 2014)



Note: Extnal Assets and liabilities are measured on the right axis.

Sources: Mauritian authorities; and IMF staff estimates.

Note: G= Government, CB = Central Bank, ODC = Other depository Corporations, OFC =Other Financial Corporations (excluding GBCs), GB= Global Business Companies, NFS= Non-Financial Sectors.

Annex VI. Mauritius: Increasing Female Labor Force Participation to Boost Growth¹

With population growth stalling, and dependency ratios expected to rise in the next decades, Mauritius' growth potential could decline. However, Mauritius possesses a large pool of educated women who currently do not participate in the labor market. This note estimates that real GDP in Mauritius has been 22 to 27 percent lower in the past compared to a situation without gender differences in labor force participation and entrepreneurship. Closing these gender gaps over time could mitigate a growth slowdown resulting from demographic change. Policies to expand the supply and quality of childcare, the extension of parental leave to fathers, programs to increase financial literacy, and the promotion of flexible work arrangements can complement programs by the Mauritian government to stimulate female labor supply.

Stylized Facts

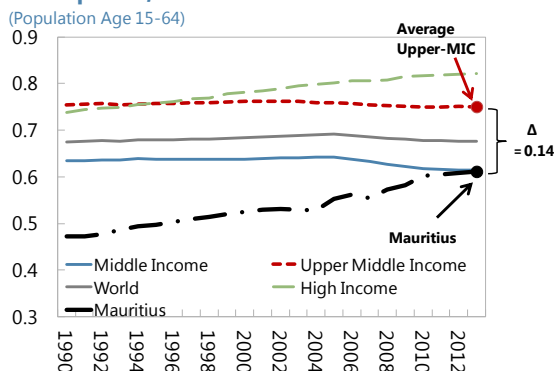
1. **The gender gap in economic participation has been decreasing but remains relatively high, and female unemployment is substantially higher than that for men** (Figure A1). Female labor force participation (LFP) has increased relative to male LFP in the last decades to the level of the average middle-income country, but remains far below the level usually observed in upper middle-income countries. The unemployment rate is more than twice as high for women as for men and one third of the female youth are unemployed (compared to about one fifth of young men). Men represent the majority of those who are employed but gender gaps vary across occupations. Fewer than one-fifth of employers are female; accordingly, men are more than five times more likely to borrow to start or operate a business. Female representation in parliament has dropped to 11.6 percent in 2015, from 18.8 percent in 2014. These inequities remain despite broad equality in educational attainment at the primary and secondary level and higher female than male tertiary enrollment rates². In particular, one fifth of unemployed women possess tertiary education.

¹ Prepared by David Cuberes (Clark University), Monique Newiak (IMF, AFR) and Marc Teigner (University of Barcelona). The views expressed in this chapter are solely those of the authors and are not necessarily shared by Statistics Mauritius which provided extensive data for the analysis.

² Raising levels of tertiary education will be important, however to reach high-income status. Svirydzenka and Petri (2014): "Mauritius: The Drivers of Growth—Can the Past Be Extended?" IMF Working Paper 14/134.

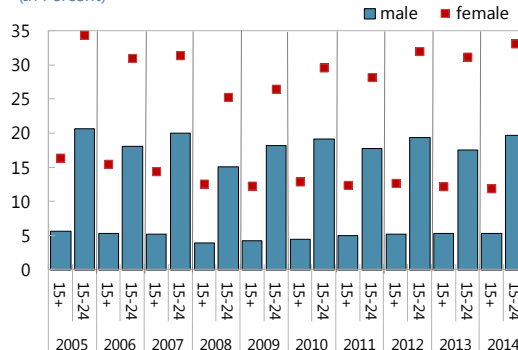
Figure A1. Mauritius: Female Labor Force Participation

Ratio of Female to Male Labor Force Participation, 1990-2013
(Population Age 15-64)



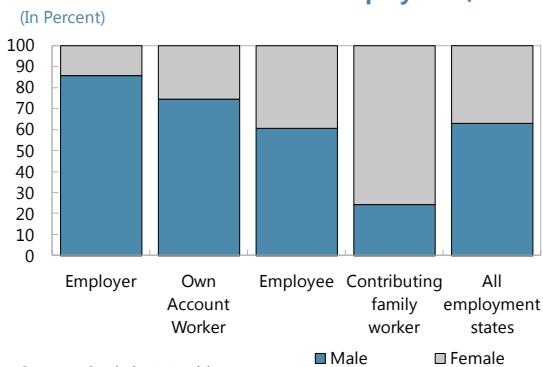
Sources: World Bank, World Development Indicators; ILO.

Unemployment Rates by Age 2005-2014
(In Percent)



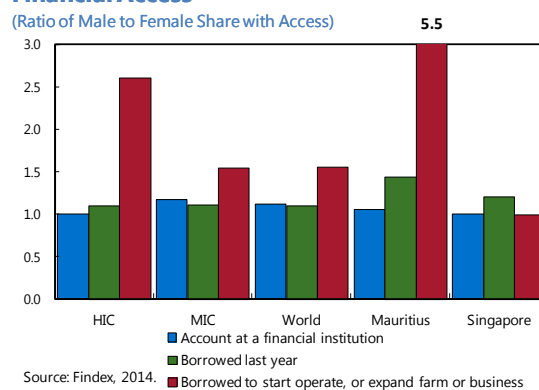
Source: Statistics Mauritius

Share of Men and Women in Employment, 2014
(In Percent)



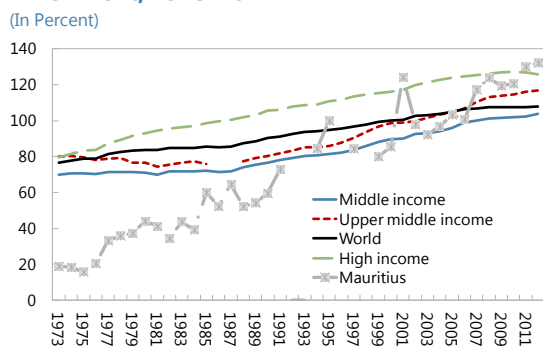
Sources: Statistics Mauritius.

Financial Access
(Ratio of Male to Female Share with Access)



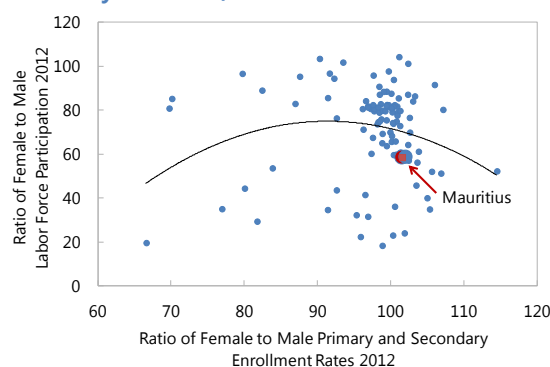
Source: Findex, 2014.

Ratio of Female to Male Tertiary Enrollment, 1973-2012
(In Percent)



Source: World Bank, World Development Indicators.

Labor Force Participation and Primary and Secondary Education, 2012



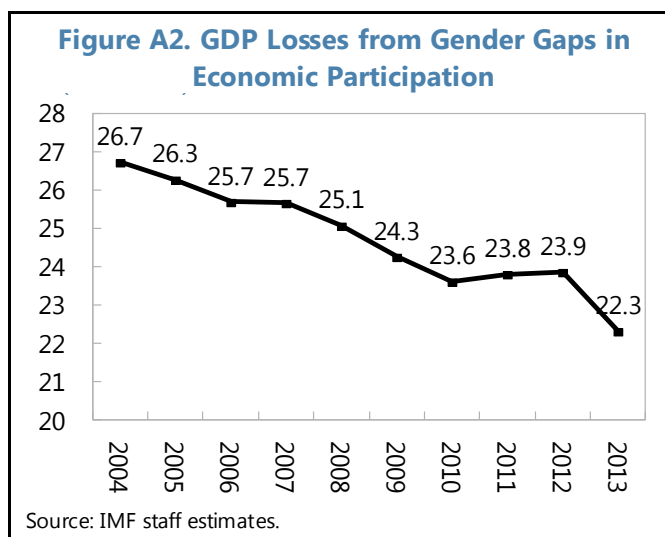
Sources: World Bank World Development Indicators; IMF World Economic Outlook,

Implications of Gender Inequality for Growth

2. **An occupational choice model helps quantify the current GDP losses due to potential misallocations of women in the labor force.** This note uses the general equilibrium occupational choice model by Cuberes and Teigner (2015) in which agents have a random entrepreneurship skill

that determines their optimal occupation. Agents choose to work as either employers, self-employed, or workers. However, female labor market frictions prevent an optimal choice of women into these activities: Only a fraction of women can choose their occupation freely. Out of the group which is excluded from being an employer, only a certain share can choose to be self-employed. Finally, only a certain fraction of women can join the labor market in general. These frictions – which may reflect discrimination, differences in optimal choices of women, or other demand and supply factors – are calibrated to fit the shares of female and male employers, own-account workers and labor force participants, respectively.

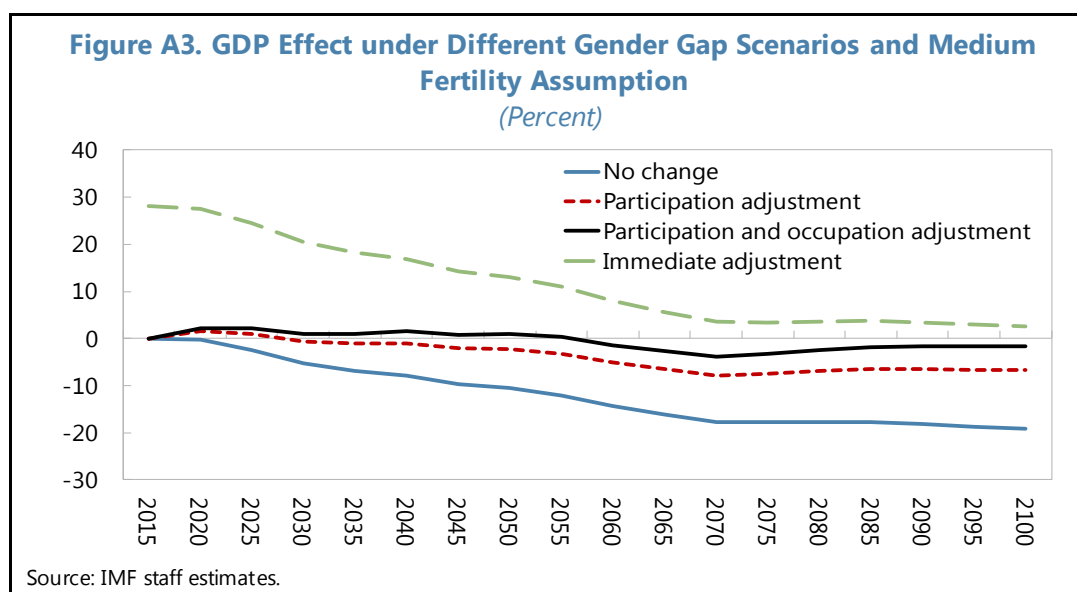
3. **The results suggest that past losses from gender gaps in the labor market appear substantial.** (Figure A2). The results of the calibration over the last ten years suggest GDP losses due to gender gaps in Mauritius have declined since 2004, in line with a decline in the gender gap in labor force participation. However, market losses from gender gaps in labor force participation and occupation account still for more than 22 percent of GDP compared to a situation with no such gaps.



4. **Closing gender gaps in labor force participation and occupations could mitigate the effects of the projected demographic change on growth (Figure A3).** The model is augmented to capture the decline in the labor force in the next decades, with the following results:

- *No change scenario:* Gender gaps in labor force participation and occupational choice are at their 2004–13 average; the size of the working of the population contributing to production is projected to shrink in line with the projected change in dependency ratio. The projected loss in GDP compared to a situation with constant dependency ratios would be almost 7 percent by 2035.
- *Participation adjustment scenario:* Gender gaps fall in gender gaps by about 2 percent per year (in line with the average decline observed over the 2004–13 period) which could mitigate the GDP losses from rising dependency ratios to 1 percent in 2035.
- *Participation and occupation adjustment scenario:* In addition to the above, occupational gender gaps also decline by around 2 percent per year on average in this scenario. The GDP losses from the shrinking labor force would be overcompensated by the close in the gender gaps until 2055.

- *Immediate adjustment scenario*: If gender gaps were to close instantly, GDP gains could be in double-digit percent GDP level until 2055.



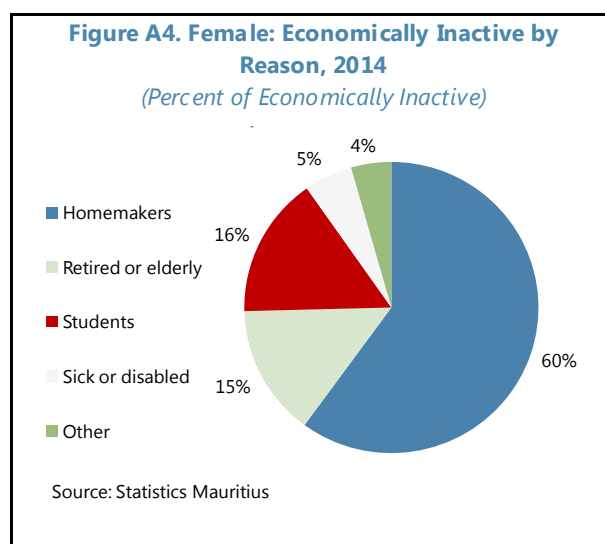
Policy Options to Reduce Gender Inequality in the Labor Market

5. Several supporting policies are in place or have been adopted, e.g.:

- *Employment programs*. The *Back to Work Program* places women over 30 years of age in a job for a period of six months with the payment of a stipend of Rs5,000 and the opportunity of training in a registered institution. Employers are refunded the training cost up to a maximum of Rs7,500 per woman and the stipend for the placement period. The *Youth Employment Program* and the *Dual Training Program* are additional programs which target the skills mismatch, benefitting both men and women.
- *Training opportunities* for women are offered in several areas, such as in the manufacturing of jute products, in catering, garment making and agro-processing, and in information and computer technology. Around 5,000 women are currently registered with the *Women Economic Council* which, among other things, provides capacity building to entrepreneurs.
- *Maternity leave and protection*. The duration of maternity leave has been extended from 12 to 14 weeks.
- *Child benefits*. The maternity allowance has been standardized to Rs3,000 across sectors, from a range of Rs300 to 2,000 previously. The limit of payments to a maximum of three children in certain industries is gradually being removed.

6. **These measures are welcome and should be continued; some could be expanded or could be complemented by additional policies.** As two third of women list homemaking activity as the main reason for not joining the labor market (Figure A4) policies could target areas to facilitate women’s market work vs. homemaking choices. Such policies could include:

- *Childcare.* Continuing to increase the availability and affordability of quality childcare would help boost female labor force participation, but the design of the provision is crucial. In line with previous initiatives, the authorities should continue measures to upgrade all childcare centers to minimum quality standards.
- *Maternity leave and protection.* If fully paid by the employer and unaccompanied by additional measures, maternity leave can bias the hiring decisions of employers toward men. The government could consider significantly expanding current provisions parental leave to fathers, e.g. by extending the total time of parental leave if a certain part is taken by the father.
- *In-work tax credits.* These benefits can increase labor force participation by individuals with lower incomes and thus stimulate female labor supply. They could be phased out as income rises to continue the marginal benefit of entering or staying in the labor force.
- *Financial literacy.* Continue and upgrade measures to provide training in financial literacy to micro-entrepreneurs, a large share of which are woman.
- *Promote flexible work arrangements,* beyond current provision for part time work in the current legislation.



7. **The analysis argues for a level playing field on the labor market — without taking a normative stance.** Women worldwide contribute significantly to welfare not officially measured in the national account, such as by providing care for children and through household activity. This note’s recommendations do not imply any judgment on Mauritius’s social norms but are meant to support the creation of an environment in which women can easily participate in the formal economy, should they prefer to do so.



MAURITIUS

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Approved by
**David Owen and Luis
Cubeddu**

Prepared by - The African Department

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RELATIONS WITH THE FUND

(As of December 31, 2015)

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

General Resources Account:	SDR Million	%Quota
Quota	101.60	100.00
Fund holdings of currency (Exchange Rate)	69.43	68.34
Reserve Tranche Position	32.17	31.67

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	96.81	100.00
Holdings	100.01	103.31

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Overdue Obligations and Projected Payments to Fund ^{1/}**(SDR Million; based on existing use of resources and present holdings of SDRs):**

	<u>Forthcoming</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal					
Charges/Interest	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

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

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Arrangement

Starting in July 1, 2010, Mauritius intervened occasionally in the foreign exchange market to smooth excess volatility and the de facto exchange rate arrangement was reclassified from free floating to floating. Mauritius has accepted the obligations of Article VIII, Section 2, 3, and 4. It maintains an exchange system free of multiple currency practices and of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account. On January 29, 2016, US\$1 was equivalent to MUR 36.07

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation staff report (Country Report No. 14/107, May, 2014) was completed by the Executive Board on April 21, 2014. A Financial System Stability Assessment update was completed by a joint IMF–World Bank team on April 20, 2007.

Technical Assistance (2006–2015)

AFRITAC South

Updating the Finance & Audit Act (2008) and drafting revised underlying financial regulations, February 2012.

Multi-topic mission on PFM Legal framework and developing a new PFM Act, May/June 2012

Implementation of Basel III, September 2012

Fiscal Legal Framework, September 2012

Multi-topic mission on revenue mobilization and on the finalization of the Tax Administration Act, February/March 2013

The Development of Public Finance Management Act, August 201

Fiscal Law VAT/Tax Law Reform, August/September 2013

Fiscal Risks Related to Operation of SOEs, September 2013

Grant in Aid Formula for Local Authorities, September/October 2013

Customs Law, January/February 2014

Inflation Targeting, August 2014

FAD

Fiscal adjustment strategy and Poverty and Social Impact Analysis (PSIA), February–March 2006.

Public Financial Management (PFM) and Medium-Term Expenditure Framework (MTEF), March 2007.

Public Financial Management (PFM): Implementing Program-Based Budgeting: Next Steps, February 2008.

Refining program budgeting and performance management, September 200

Refining program budgeting and performance management, September 2010

PEFA, November 2010

Revenue administration, June 2011

LEG

AML/CFT, July 2011

AML/CFT, February 2012

Central banking legislation, February 2012

Monetary Policy Framework and Central Bank Act, June 2013

MCM/MFD

Financial sector policy and strategy, January 2006.

Financial sector policy and strategy, July 2006.

Banking supervision/monetary operations/monetary policy, October 2006.

Financial sector policy and strategy, January 2007.

Financial Sector Assessment Program (FSAP), February 2007.

Financial sector policy and strategy, March–April 2007.

Foreign exchange markets, August 2007.

Central Bank-FSAP follow-up, March 2008 (2 missions).

Anti-money laundering (AML), August 2010

Macroeconomic modeling, August/September 2010
 Macroeconomic modeling and forecasting, October 2011
 Technical assistance needs assessment, October 2011
 Multi-topic mission on financial sector reform, April/May 2012
 Liquidity and Debt management and Secondary Market Development, December 2012
 Monetary Policy Implementation, May/June 2013
 Public Debt Management, December 2013
 Inflation Forecasting and Modeling, January 2014
 Review of the Functioning of Supervisory College, February 2014
 Compliance with Basel II Capital Adequacy Framework, March 2014
 Contingency Planning for Crisis Preparedness and Management, November 2014
 Bank and Insurance Resolution, June 2015
 Financial Sector Assessment Program (FSAP), November 2015.

STA

Multisector statistics, November 2006.
 Balance of payments statistics, March 2007.
 Balance of payments module mission, October 2007.
 Phase II SDSS balance of payments statistics, October-November 2007.
 The Observance of Standards and Codes (ROSC) mission, November-December 2007.
 National accounts statistics, February 2008.
 Phase II SDSS Government Finance Statistics, March 2008.
 Phase II SDSS Multisector Statistics, March-April 2008.
 Monetary and financial statistics, April 2008.
 Balance of payments statistics, May 2009.
 National accounts statistics, November 2009
 National accounts statistics, April 2010
 Balance of payments statistics, July 2010
 International investment position, October 2010
 Government finance statistics, January 2011
 Balance of payment statistics, September 2011
 STA/DFID mission on external sector statistics, October 2011
 Balance of Payments Statistics and International Investment Position, November 2012
 Multi-sector statistics, January/February 2013
 External Statistics, September 2013
 External Statistics, March 2014
 Monetary and Financial Statistics, March/April 2014
 Government Financial Statistics, April/May 2014
 Price Statistics, August 2014
 External Statistics, February/March 2015
 National Accounts, April 2015

Resident Representative: None.

THE JMAP BANK-FUND MATRIX (2016)

(As of February 5, 2016)

The IMF and World Bank Mauritius teams met on December 3, 2015 to discuss a Joint Managerial Action Plan (JMAP). The team from the World Bank comprised of Mr. Sienaert (Senior Economist), and from the IMF of Messrs. Mecagni, Inui, Touna Mama, Ms. Newiak (all AFR) and Mr. Kerry (SPR).

The IMF's work program entails continued engagement through the Article IV consultation process as well as technical assistance in: public financial management, tax administration, and economic forecasting provided through AFRITAC South (AFS); financial sector stability and monetary/macroeconomic policy frameworks through the Monetary and Capital Markets Department (MCM), and enhancements to macroeconomic statistics with the support of the Statistics Department (STA).

The World Bank Group's work program encompasses infrastructure, trade and competitiveness, public sector reform and the financial and social sectors. A Systematic Country Diagnostic (SCD), prepared by WBG staff in close consultation with national authorities and other stakeholders, was released in July 2015. The SCD assesses the priorities of Mauritius to accelerate sustainable economic growth while improving the welfare of the less well off. Drawing on SCD findings, a new Country Partnership Framework for FY 2016-2020 is under preparation. On-going and planned Bank assistance to Mauritius includes:

- **Infrastructure.** Advisory services relating to energy and water sector investments are ongoing.
- **Policy reform support.** The Bank is expected to approve in 2016 a new DPL series. The operation is expected to support reforms to accelerate regional economic integration through improvements in trade logistics and services.
- **Poverty and labor market analytics.** The Bank has prepared a report on poverty and income disparity to analyze the impact that recent economic growth has had on income distribution in the country. Follow-up work is anticipated to inform policies to address structural labor market challenges such as large gender gaps and skills mismatches, and to better understand how Mauritius' fiscal sector affects the income distribution.
- **Additional advisory services.** World Bank analysis to inform policymaking in the strategic priority area of developing the "Ocean Economy" is ongoing. Continued World Bank support for education policy reform and implementation is also anticipated, as is advisory support as Mauritius seeks to lift its international competitiveness including through reforms aimed at increasing the ease of doing business.

International Finance Corporation (IFC). The IFC has focused its intervention in Mauritius in the financial services sector along three axes: (1) supporting the banking sector with access to long term funding to offset local banks' difficulty in accessing long term foreign exchange to support trade finance, cross-border south-south initiatives and long term investments in key infrastructure; (2) investing in regional private equity funds to increase regional integration with regional investments mainly along the Madagascar-Mauritius axis; leveraging on Mauritius International Financial Center, this approach has provided a safe platform for investors and made possible CTT expansion in Sub-Saharan Africa or Healthcare projects in Madagascar; and, (3) providing SMEs capacity building solutions so as to improve financial institutions' internal SMEs lending capacities and improve SME-Owner managers' financial and managerial literacy.

The JMAP Bank-Fund Matrix (2016)			
Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual Information on Relevant Work Programs			
The World Bank work program in the next 12 months	Accelerated Program for Economic Integration DPL	Conducted previously	April 2016
	Mauritius Inclusiveness of Growth and Shared Prosperity	Conducted previously	February 2016
	Mauritius Water Sector Advisory	Not foreseen	FY16
The IMF work program in the next 12 months	2016 Article IV consultation	December 2016	Board meeting in February 2017
	TA missions to follow up FSAP recommendations	2016	2016-2017
B. Requests for Work Program inputs			
Bank request to Fund	Macroeconomic framework		April 2016
Fund request to Bank	Background sector information to complement Article IV report.		January 2016

STATISTICAL ISSUES

Statistical Issues Appendix As of January 31, 2016	
I. Assessment of Data Adequacy for Surveillance	
<p>General: Data provision is adequate for surveillance. However, there are important remaining gaps in offshore sector data. The GBC survey needs to cover GBC2s as well as GBC1s and collect better information on linkages between GBCs and domestic economy. Also, real estate price indices should be introduced. The authorities are aware of this situation and are continuing work in this regard.</p>	
<p>Balance of Payments and International Investment Position Statistics: The authorities are in the process of reinforcing the statistical framework. Already, there were significant improvements in reducing the errors and omissions category in the BOP statistics.</p>	
II. Data Standards and Quality	
<p>Participant in the GDDS since September 2000, Mauritius subscribed to Special Data Dissemination Standard (SDDS) on February 28, 2012. Mauritius is the second Sub-Saharan African country to subscribe to the SDDS.</p>	<p>A data ROSC report was published in August 2008.</p>

Mauritius: Table of Common Indicators Required for Surveillance

January 31, 2016

	Date of latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality-Methodological soundness ⁸	Data Quality-Accuracy and reliability ⁹
Exchange Rates	January 2016	01/2016	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	December 2015	01/2016	M	M	M		
Reserve/Base Money	December 2015	01/2016	M	M	M	O, LO, LO, LO	O, O, O, O, LO
Broad Money	December 2015	01/2016	M	M	M		
Central Bank Balance Sheet	December 2015	01/2016	M	M	M		
Consolidated Balance Sheet of the Banking System	December 2015	01/2016	M	M	M		
Interest Rates ²	December 2015	01/2016	M	M	M		
Consumer Price Index	December 2015	01/2016	M	M	M	O, LO, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Q4/2015	01/2016	Q	Q	Q	LO, O, O, O	LO, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Q4/2015	01/2016	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q4/2015	01/2016	Q	Q	Q		

Mauritius: Table of Common Indicators Required for Surveillance
January 31, 2016 (concluded)

	Date of latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality-Methodological soundness ⁸	Data Quality-Accuracy and reliability ⁹
Exports and Imports of Goods and Services	Q3/2015	11/2015	Q	Q	Q		
External Current Account Balance	Q3/2015	12/2015	Q	Q	Q	O, LO, LO, LO	LNO, LNO, LO, LO, NO
GDP/GNP	Q3/2015	12/2015	Q	Q	Q	O, LO, O, LO	LO, O, LNO, LO, O
Gross External Debt	Q4/2015	01/2016	Q	Q	Q		
International Investment Position ⁶	Q3/2015	12/2015	Q	Q	Q		

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁸ Reflects the assessment provided in the data ROSC published in August, 2008, and based on the findings of the mission that took place during November 29–December 7, 2007 for the dataset corresponding to the variables in each row. The assessment indicates whether the international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹ Same as footnote 8, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

**Statement by Mr. Ngueto Tiraina Yambaye, Executive Director for Mauritius and
by Mr. Siradiou Mamadou Bah, Senior Advisor to the Executive Director
March 11, 2016**

I – Introduction

My Mauritian authorities would like to express their appreciation to the Staff and Management for the constructive discussion and policy dialogue held in Port Louis during December 2015 and in Washington last February under the 2015 Article IV Consultation. My authorities would also like to express their gratitude for the high quality of policy advice and technical assistance they are benefitting from the Fund in their efforts to make further progress in moving Mauritius from middle income to upper income economy status.

In a context of slackened global recovery, notably the subdued activity in its main trading partners, the Mauritian economy has continued to grow at a commendable pace in 2015 and financial stability has also been maintained. The authorities' careful policies and continued reform efforts have enabled the economy to remain resilient to the recent increased volatility in emerging and frontier markets. The economy has also benefitted from the decline in oil and commodity prices and shipping costs reflected by the low inflation. International reserves have increased to US\$ 4.2 billion (over 6 months of imports) by end-2015 and the current account deficit is estimated to have narrowed to about 5 percent of GDP. In addition, the primary fiscal deficit has remained below budget projection and has improved relative to 2014 due notably to the authorities' more prudent policy implementation.

For the medium to longer term, the Mauritian authorities are putting in place a reform strategy aimed at moving the country to a higher income status. In this regard, they intend to implement policies aimed at addressing structural weaknesses, further increasing competitiveness, productivity and investment. In this regard, they envisage large public investments with complementary private investments to boost the country's infrastructure. They will also pursue the implementation of their reform agenda to strengthen the resilience of the financial sector in line with the recent FSAP recommendations. They agree on the need to upgrade the macro-prudential policy framework with a view to addressing the complex inter-linkages between offshore and onshore activities including the evolving systemic risks. Furthermore, the authorities will implement policies to enhance the labor force including adequate steps to encourage female labor force participation.

II – Economic Outlook and Policies for 2016

The authorities concur that Mauritius' economic outlook remains favorable with a growth boosted by continued low fuel prices and the execution of important public and private investment projects. In this context, policies geared at further strengthening economic diversification, attract foreign investments and address banking sector vulnerabilities will be pursued to achieve higher sustainable growth and enable the country to avoid "the middle income trap".

Fiscal Sector

The budget for 2015/16 is being steadfastly but prudently implemented and is expected to register a lower deficit than budgeted. However, public debt increased due to the intervention of the government in the financial sector to help recapitalize two ailing banks and the partial refund of policyholders in an insurance company. The costs were not excessively high, but they helped to preserve financial and economic stability. For the next budget, the authorities are studying additional measures to reduce the deficit and also place the debt ratio on a downward trend. On the revenue front, the authorities intend to further improve revenue mobilization and broaden the tax base and they are preparing a plan for divestiture of public assets to be used for debt reduction. Given the decline in import prices which could adversely affect revenue from value added tax, the authorities plan to seek technical advice from the Fund to help them compensate the loss on this front. With regard to expenditure, measures to rationalize spending on goods and services, and tighten control over civil servants' compensation will be enhanced. In addition, the scope of private sector participation in upgrading public infrastructure will be increased thus helping to contain public borrowing. In order to continue making good progress in the fiscal sector, the authorities concur on the need to put in place a medium-term fiscal strategy to further strengthen the credibility of statutory fiscal objectives, including the debt target.

Monetary and Financial Sectors

The monetary policy pursued by Bank of Mauritius will remain cautiously accommodative to subdue inflation. In the same vein, efforts to gradually reduce excess domestic liquidity will be enhanced to improve the monetary policy transmission mechanism and without harming the overall money market conditions. The authorities welcome the analysis stating that the real effective exchange rate is broadly in line with fundamentals. Efforts to continue preserving this progress will be pursued with a careful monitoring of continued large inflows from the global business corporate (GBC) sector.

Although international reserve buffers are in line with indicators such as the coverage of imports, broad money and short-term debt, the authorities share the view that the complexity of the financial sector inter-linkages should also be taken into account in assessing the adequacy of reserves. This entails the need to build stronger buffers to external shocks. Further analysis in considering insurance mechanisms such as swap arrangements or credit lines with other central banks as well as a revision of reserves requirements for foreign currency deposits could be envisaged. The authorities will take all necessary steps to increase financial buffers deemed critical against balance of payments shocks.

My Mauritian authorities welcome the recent FSAP recommendations which will be implemented to further strengthen the resilience of the financial sector. In view of the systemic importance of mixed conglomerates of which several banks are part, the authorities plan to improve the supervisory framework, strengthen the Bank of Mauritius's capacity to monitor cross border risks and upgrade the bank resolution framework. A deposit insurance scheme covering small domestic deposits is being introduced, with Fund technical

assistance.

Structural Reforms

The authorities aim to raise Mauritius's economic growth from 3 percent to 5 percent by next year and to 6 percent by 2018. To this end, they intend to implement major infrastructure projects to unleash potential growth in the oceanic sector, ports and trade with the African continent. The authorities remain committed to needed structural reforms in addressing the skills mismatch in the economy, increase labor force and fight unemployment among youth and women. Moreover, the business climate will be further improved with the expansion of the Fast Track Committee to expedite the implementation of major investment projects by abolishing a large number of obsolete requirements.

III – Conclusion

My Mauritian authorities are mindful of the daunting challenges they face in their efforts to move the country to a higher income status. In this vein, they will continue implementing prudent policies and sound reforms to achieve higher and sustainable growth and increase the economy's resilience to shocks. They are grateful for the policy advice and technical assistance received from the Fund and look forward to continued strong cooperation with the Fund in achieving their economic objectives.