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MAURITIUS

December 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

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 2017 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on August 14, 2017, 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 November 3, 2017.
- **Informational Annex** prepared by the IMF staff.

The document listed below has been or will be separately released.

- Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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December 8, 2017

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

IMF Executive Board Concludes 2017 Article IV Consultation with Mauritius

On November 21, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Mauritius, and considered and endorsed the staff appraisal without a meeting.[2]

Mauritius is seeking to become a high-income economy within the next 10 years. In the past 30 years, political stability, a sound macroeconomic environment and a strong track record of implementing economic reforms allowed Mauritius to successfully transform itself from a monocrop economy into a diversified services-based middle income country with low levels of poverty. To achieve advanced economy status, the government intends to pursue an ambitious growth strategy anchored on significant public investments in infrastructure and improvements in the business environment.

Growth in 2017 is projected at 3.9 percent in 2017, and about 4.0 percent over the medium term. International reserve buffers have improved substantially. The authorities have taken steps to mitigate financial stability risks and are well-advanced in modernizing financial sector regulation. However, the vibrant Global Business Sector faces pressure from international anti-tax avoidance initiatives. Fiscal space is limited, fiscal risks are increasing, and there are signs of building inflationary pressures.

Executive Board Assessment

In concluding the 2017 Article IV Consultation with Mauritius, Executive Directors endorsed staff's appraisal as follows:

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decision under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The macroeconomic outlook is broadly positive, but vulnerabilities are emerging. Economic activity is expected to remain robust, driven by the government's ambitious Public Investment Program, and supported by continued dynamism in the tourism sector and financial intermediation activities. While headline inflation is expected to recede in the second half of 2017, it is likely to finish the year around 4.0 percent under current policies. The main sources of risks to the outlook include further slowing of manufacturing exports and the pace of implementation of the PIP.

The macroeconomic policy stance needs to be recalibrated to address the growing imbalances. Evidence is mounting that the business cycle has shifted phase: the output gap is closing, core inflation is increasing, and demand for credit is rising. Accommodative fiscal and monetary policies have contributed to a weakening external position and the overvaluation of the real exchange rate has increased. A countercyclical policy mix is required to safeguard external stability.

Further revenue mobilization efforts to build fiscal space, support the fiscal anchor and preserve debt sustainability are required. While staff supports the revised debt anchor, indications are that under current policies, the debt target would be missed. A tighter fiscal stance would then be required for Mauritius to meet its goals of improving infrastructure, and promoting inclusive growth while preserving debt sustainability. Higher tax efficiency could yield additional revenues of about 0.8 percent of GDP. Continued improvements in public investment management, and identifying pressure points in debt management should also be elements of the fiscal strategy. Moreover, a tighter fiscal policy would contribute to safeguard external stability, and curb real appreciation pressures.

A tightening of monetary policy is warranted to address growing underlying inflationary pressures. While current inflation trends may partly be reflective of a changing seasonal pattern, the expected increase in international oil and controlled prices and the anticipated introduction of the minimum wage policy by the Ministry of Labor in 2018 are likely to have second round effects, and increase inflation expectations. A tighter monetary policy stance should be implemented by mopping-up excess liquidity in sufficient quantities so as to bring interbank rates in line with the policy rate and regain control of money market conditions.

Clarifying the monetary policy framework will help increase policy coherence. While the primary objective of the central bank is to maintain price stability and promote "orderly and balanced" economic development, there appears to be no consensus on the definition of price stability and on the role of the nominal exchange rate in the conduct of monetary policy. The perceived multiplicity of objectives risks overburdening monetary policy, can result in policy inconsistencies, and potentially undermines the credibility of the BOM's capacity to anchor inflation expectations.

Announcing a medium-term inflation objective will prove instrumental in the implementation of a new policy framework. An inflation objective of about 3 percent could serve as the foundation for the BOM's policy actions and communication. More fundamentally, setting price stability as the overriding policy objective in the medium-term will allow the BOM to better navigate the inevitable policy trade-offs that are set to arise. Strengthening the operational independence of the central bank will improve its capacity to deliver on the price stability mandate; while allowing more flexibility of the exchange rate will help address the emerging inflationary pressures and improve resilience to shocks.

Staff welcomes the substantial improvement in international reserve buffers, in line with past Fund advice. As reserve buffers now stand inside the optimal range of international reserves, the FX intervention policy should be geared towards maintaining reserve coverage at least at 100 percent of the adequacy metric, opportunistically building reserves and curbing excess volatility.

The authorities are well-advanced in modernizing financial sector regulation and should now address salient banking sector issues. Having implemented many recommendations of the 2015 FSAP, the authorities should take additional steps to shore up financial stability. These include lowering the still-high stock of NPLs through a more stringent approach to writing-off legacy exposures, and safeguarding the longer-term FX funding needs stemming from banks' swift expansion abroad. In addition, a formal macroprudential body could be established.

Efforts to address the concerns raised by the OECD and the EU about the tax regime should be prioritized. The GBC sector, to which banks remain highly exposed, will need to adjust its business model as Mauritius transitions to a jurisdiction of higher value-added, and ensure compliance with FATF standards, particularly on AML/CFT supervision and entity transparency. A significant decline of GBC activity could pose risks to external and financial stability if not properly managed.

Further reforms are necessary to meet emerging cost competitiveness challenges. While recent reform efforts will likely bolster Mauritius' position in the Doing Business rankings, broader structural reforms in areas such as the labor market, higher education, innovation, governance and anti-corruption (e.g. effective use of AML tools and strengthened asset declaration system) policies will be key drivers of Mauritius' economic transformation going forward. Simplifying the wage-setting mechanism will improve competitiveness, while strengthening current efforts to boost the labor supply of youth and women will contribute towards closing gender gaps and reduce inequality.

Attaining the next level of economic development will require Mauritius to overcome the variety of policy challenges outlined above. A bold, coordinated, strategic vision, guided by strong and independent institutions, is necessary to guide the economic transition. Early signs are promising, with both the pending formation of the National Economic Development Board and the drafting of the Financial Services Sector Blueprint, important welcome steps towards harmonizing the policy direction and implementation across sectors. Considering Mauritius' track record of reinventing its economic model, there are grounds for optimism that the country will successfully manage the reform process.

Staff encourages the authorities to phase-out the Exchange Rate Support Scheme (ERSS), and to expedite work on other measures to support the export-oriented sector. In staff's view, there are less distortionary avenues to support the export-oriented sector, and removing the structural bottlenecks that hinder competitiveness should be the focus of work currently underway to address the sector's problems. Staff recommends approval for the temporary retention of the Multiple Currency Practice (MCP), on the basis that the ERSS is temporary, does not materially impede the member's balance of payments adjustment, does not harm the interests of other members, and does not discriminate among members.

Mauritius: Selected Economic Indicators, 2014–2017

	2014	2015	2016 Prel.	2017 Proj.
	(Annual percent change, unless otherwise indicated)			
National income, prices and employment				
Real GDP	3.6	3.5	3.9	3.9
Real GDP per capita	3.4	3.4	3.8	3.5
GDP per capita (in U.S. dollars)	10,001	9,115	9,613	9,672
GDP deflator	1.7	0.9	3.0	1.0
Consumer prices (period average)	3.2	1.3	1.0	4.2
Consumer prices (end of period)	0.2	1.3	2.3	5.0
Unemployment rate (percent)	7.8	7.9	7.2	6.9
	(Annual percent change, in US Dollars)			
External sector				
Exports of goods and services, f.o.b.	11.4	-12.1	-5.4	3.5
Of which : tourism receipts	9.5	-1.0	9.8	5.9
Imports of goods and services, f.o.b.	7.0	-13.9	-4.4	8.3
Nominal effective exchange rate (annual average)	2.0	-1.0	1.8	...
Real effective exchange rate (annual average)	3.0	-1.1	0.9	...
Terms of trade	2.2	10.9	2.2	-3.4
	(Annual change in percent)			
Money and credit				
Net foreign assets	15.5	15.6	3.8	5.0
Domestic credit	-0.3	6.7	3.5	5.5
Net claims on government	28.8	-6.2	29.1	13.2
Credit to non-government sector [1]	-2.2	8.7	-0.6	4.8
Broad money	8.2	7.8	8.7	4.9
Income velocity of broad money (M2)	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	2.2	2.2	2.1	...
	(Percent of GDP, unless otherwise indicated)			
Central government finances [2]				
Overall consolidated balance (including grants) [2]	-4.3	-3.6	-3.4	-3.3
Primary balance (excluding grants)	-1.7	-1.3	-1.6	-2.3
Revenues (incl. grants)	20.6	21.1	21.2	23.9
Expenditure, excl. net lending	24.9	24.7	24.6	27.2
Domestic debt of central government	44.2	47.4	49.6	47.8
External debt of central government	13.3	12.8	10.4	10.1
Investment and saving				
Gross domestic investment	23.0	21.2	20.4	20.5
Public	4.9	4.8	5.7	5.8
Private [3]	18.1	16.4	14.7	14.7
Gross national savings	17.0	16.3	16.0	14.7
Public	-0.8	-2.2	-2.1	-0.6
Private	17.8	18.5	18.1	15.3
External sector				
Balance of goods and services	-12.5	-10.8	-10.3	-13.0
Exports of goods and services, f.o.b.	49.8	48.0	43.0	44.1
Imports of goods and services, f.o.b.	-62.3	-58.8	-53.3	-57.1
Current account balance	-5.7	-4.9	-4.4	-5.8
Capital and financial account	10.8	9.3	11.6	9.1
Overall balance	6.0	4.9	6.1	3.2
Total external debt	108.9	94.3	89.2	99.4
Net international reserves (millions of U.S. dollars)	3,868	4,222	4,934	5,331
Months of imports of goods and services, f.o.b.	6.9	7.8	8.4	8.6
Memorandum items:				
GDP at current market prices (billions of Mauritian rupees)	386.2	403.5	431.8	453.2
GDP at current market prices (millions of U.S. dollars)	12,613	11,511	12,150	12,273
Public sector debt (percent of GDP)	62.9	68.0	65.6	64.7
Foreign and local currency long-term debt rating (Moody's)	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] Includes changes in inventories.

MAURITIUS

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

November 3, 2017

KEY ISSUES

Context. Mauritius is seeking to become a high-income economy within the next ten years. The growth strategy is anchored around an ambitious public investment program and improvements in the business climate. However, fiscal space is limited, and competitiveness bottlenecks are limiting the gains from trade.

Outlook and Risks. The macroeconomic outlook is broadly positive. Growth in 2017 is projected at 3.9 percent in 2017, and about 4.0 percent over the medium term. However, the vibrant Global Business Sector faces pressure from international anti-tax avoidance initiatives.

External Sustainability. International reserve buffers have improved substantially, but the current account deficit is projected to widen. A countercyclical macroeconomic policy mix is required to respond to the weakening external position.

Fiscal Policy. Fiscal risks are increasing, and fiscal consolidation is required to preserve debt sustainability. Further revenue mobilization efforts and improvements in public investment management will be critical to ensure that the growth dividends of the fiscal strategy materialize, while preserving debt sustainability.

Monetary and Exchange Rate Policies. A tighter monetary policy is required to address growing inflationary pressures. Clarifying the monetary policy framework will help increase policy coherence, improve resilience to shocks and contribute to safeguard external stability.

Financial Sector Policies. The authorities are well-advanced in modernizing financial sector regulation. Policy priorities should include clearing the stock of legacy non-performing assets, managing the risks of banks' swift expansion abroad, and ensuring an orderly transition of the Global Business sector to an industry of higher value added.

Structural Policies. Further reforms are required to meet emerging competitiveness challenges, while strong and independent institutions are necessary to guide the economic transition. Given Mauritius' track record of reinventing its economic model, there are grounds for optimism that the country will successfully manage the reform process.

Approved By
David Owen (AFR) and Vitaliy Kramarenko (SPR)

Discussions took place in Port Louis and Ebène during July 31 - August 14, 2017. The staff team consisted of Messrs. Amadou Sy (Head), Mookameli Fuma, Cameron McLoughlin, Torsten Wezel and Ms. Luisa Charry (all AFR). Messrs. Salifou Issoufou and Mounir Bari, and Ms. Danielle Bieleu provided support from Headquarters. The mission met with the Prime Minister and Minister of Finance and Economic Development, the Honorable Mr. Pravind Jughnauth, and high-level officials from the Ministry of Finance and Economic Development, the Bank of Mauritius, the Financial Services Commission, private sector representatives, members of the donor community, academia and unions.

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APPENDIX

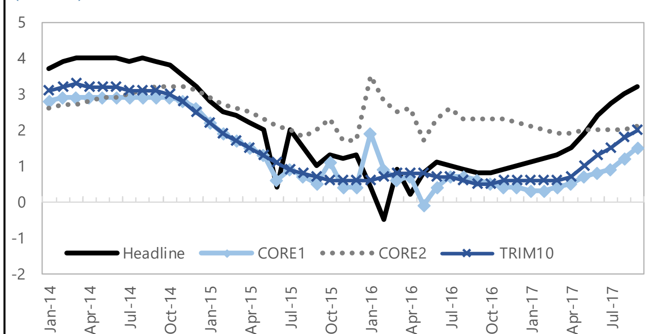
CONTEXT AND RECENT DEVELOPMENTS

1. **Mauritius is seeking to become a high-income economy within the next 10 years**. In the past 30 years, political stability, a sound macroeconomic environment and a strong track record of implementing economic reforms allowed Mauritius to successfully transform itself from a monocrop economy into a diversified services-based middle income country with low levels of poverty (9.8 percent). However, average GDP growth has fallen in recent years, on the back of a maturing demographic transition and the erosion of competitiveness gains.[1] To achieve advanced economy status, the government intends to pursue an ambitious growth strategy anchored on significant public investments in infrastructure and improvements in the business environment (Box 1). The authorities envision medium term growth at about 4.3 percent.

2. **Growth recovered in 2016**, on the back of higher investment, and strong dynamism in tourism and financial services, which offset falling exports of goods (Figure 1). The unemployment rate fell to 7.3 percent, from 7.9 percent in 2015. The real exchange rate remained stable, while reserve buffers increased significantly as the Bank of Mauritius' (BOM) foreign reserves increased by $700 million to $4.9 billion in 2016. In 2016, Mauritius and India agreed to major amendments to their Double Taxation Avoidance agreement (DTA), introducing capital gains taxes on Mauritius' based investments in India. The revisions triggered a temporary surge in FDI to India from Mauritius from flows seeking to take advantage of the grandfathering clause.[2] The country's credit rating remains at Baa1 (stable).

3. **Inflation has picked up on the back of supply shocks.** Headline inflation outcomes in the first half of the year surprised on the upside, more than doubling to 5.3 percent year-on-year (yoy) in July from 2.3 percent yoy at the end of 2016, mostly driven by increased food and fuel prices, and increases in excises on tobacco and alcohol products.

Text Figure 1. Mauritius: CPI Inflation (12-Month Average)
(Percent)



CORE1 excludes food, beverages, tobacco and mortgage interest.
CORE2 excludes utilities, other fuels and controlled prices from CORE1.
Source: Statistics Mauritius

4. **Credit is recovering amid generally benign financial conditions**. Credit growth to the private sector (including by non-banks and cross-

[1] Average growth fell from 5 percent during 1960-2000 to 3.5 percent in 2011-2016.

[2] The amendments, which abide by the minimum standards laid down under the OECD/G20 Base Erosion and Profit Shifting (BEPS) initiative, mark a shift from residence-based taxation to source-based taxation. The grandfathering clause provides for investments starting in April 2017 to be taxed at 50 percent of the tax rate, and at the full rate starting in April 1, 2019. Under the revised agreement, Mauritius obtained a new tax advantage in the form of a 7.5 percent withholding tax on debt investments, lower than in other competing jurisdictions.

border) is picking up, standing at 7.5 percent in July (up from 1 percent at end-2016). Sectors benefiting from the increased credit allocation include Global Business Companies (GBCs),[3] construction, and financial and business services. Access to finance continues to be supported through a government-funded SME financing scheme, under which banks have allocated loans by about 2 percent of GDP. Banks remain profitable, with an average ROA of 1.4 percent and ROE of 13.8 percent at end-2016. However, the banking system's non-performing loans (NPLs) remain somewhat high at 7.1 percent. The stock market is buoyant and trading at historically high levels.

5. **The fiscal stance remains expansionary**. Despite higher tax revenue mobilization, the primary balance (excluding grants) and the overall borrowing requirement deteriorated somewhat. The overall budget deficit stood at 3.4 percent of GDP in FY2016/17, down from 3.6 percent of GDP in FY2015/16 (Table 2B), reflecting the under-execution of the capital budget. Total public debt remained constant at 65 percent of GDP.

6. **Monetary policy is accommodative** and implementation has not been able to steer market rates near the policy rate. The Key Repo Rate (KRR) was lowered 50 bps to 3.5 percent in September, but remains well above interbank rates. Nominal interest rates (deposit and lending) are at historically low levels and real interbank market interest rates are negative. During 2017, average base money growth has nearly doubled to 13.5 percent as of July, from 6.7 percent in 2016. Excess reserves of the banking system remain high (Figure 2).

7. **The authorities have taken steps to mitigate financial stability risks**. Changes to the Bank of Mauritius (BOM) and the Banking Acts in 2016 extended the supervisory powers of the BOM to financial-holding companies and strengthened the collection of statistics for systemic risk monitoring. In June 2017, the authorities announced a doubling of minimum capital requirements to take effect in 2019.[4] In June 2017 Mauritius underwent the 2nd Mutual Evaluation of its AML/CFT regime, which is scheduled for discussion by the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in 2018.

8. **The political situation has become more contentious**. The Minister of Finance, Mr. Pravind Jugnauth was sworn in as Prime Minister on January 23rd, after his father (Sir Anerood Jugnauth) stepped down.[5] While long planned, and in line with constitutional norms, the change in leadership was met with public criticism, resulting in tensions within the ruling coalition and a Cabinet reshuffle. More recently, the increasingly vocal opposition has seized on corruption

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[3] "Global Business" is an incorporation regime that grants two types of licenses: GBC1 (tax resident), which can conduct business with residents, and GBC2 (non-resident), which can carry out business only with non-residents and in foreign currency. GBC2s cannot benefit from Double Taxation Avoidance treaties and are fully exempt from taxes on worldwide profits.

[4] The envisaged increase in the minimum capital requirement affects only a few very small banks and has no systemic impact. These small banks would have to comply, exit or merge.

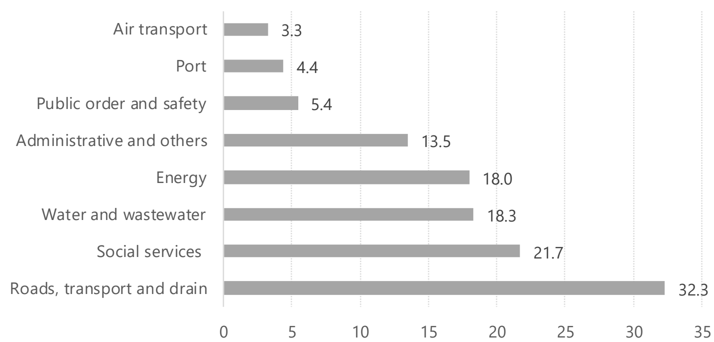
[5] Sir Anerood Jugnauth was elected in 2014, and remains in the government as Mentor Minister and Minister of Defense. Mr. Pravind Jugnauth retained his Ministry of Finance post.

scandals, calling for early elections,[6] boycotting some parliamentary sessions, and asking for the removal of high-level officials. While the government coalition has weakened, the government's policy implementation capacity remains on course.

Box 1. Vision 2030

The government's ambitious growth strategy would entail an increase of real GDP growth to 4.5 percent between 2018-2020, and 4.8 percent afterwards. The strategy's main pillars include: a large Public Investment Program (PIP) in urban developments and transport networks, transforming the Port Louis harbor and positioning Mauritius as a hub for global investment into mainland Africa, support to the SME sector, and improvements in the business environment. The new generation growth sectors include manufacturing, ICT, financial services, the ocean economy, tourism, and agriculture.

Box Figure. Mauritius: 2017 - 2021 Public Investment Program
(Billion Rupees)



Sources: Ministry of Finance and Economic Development, IMF staff calculations.

The PIP foresees investments of up to 25 percent of GDP[1] during 2017-2022. Improving public investment efficiency will be critical to ensure the growth dividends materialize, and preserving fiscal and debt sustainability. While Mauritius' public investment efficiency is comparable to the average in EMEs, there is room for improvement. Cost overruns, delays, and several weaknesses in the project investment management cycle have resulted in a substantial under-execution of the capital budget. In the past, on average only 50 percent of projects have been implemented on schedule, around 35 percent have been delayed, and 7 percent have been abandoned.

[1] About 68 percent of the program is to be implemented by the central government, 26 percent by SOE's and the remaining 6 percent by Private Public Partnerships (PPPs). Given the central government's limited fiscal space, PPPs could play a larger role.

OUTLOOK AND RISKS

9. **Economic activity is expected to remain robust**. Growth is projected at 3.9 percent in 2017 (in line with the authorities' estimates).[7] Economic activity would be driven by dynamism in the construction sector. Tourism and financial intermediation activities would continue to provide support, though at a slower pace. Falling sugar production and subdued exports would weigh down on agriculture and manufacturing activity. Domestic demand will be sustained by recovering business and consumer confidence, and increased investment (mainly from the public

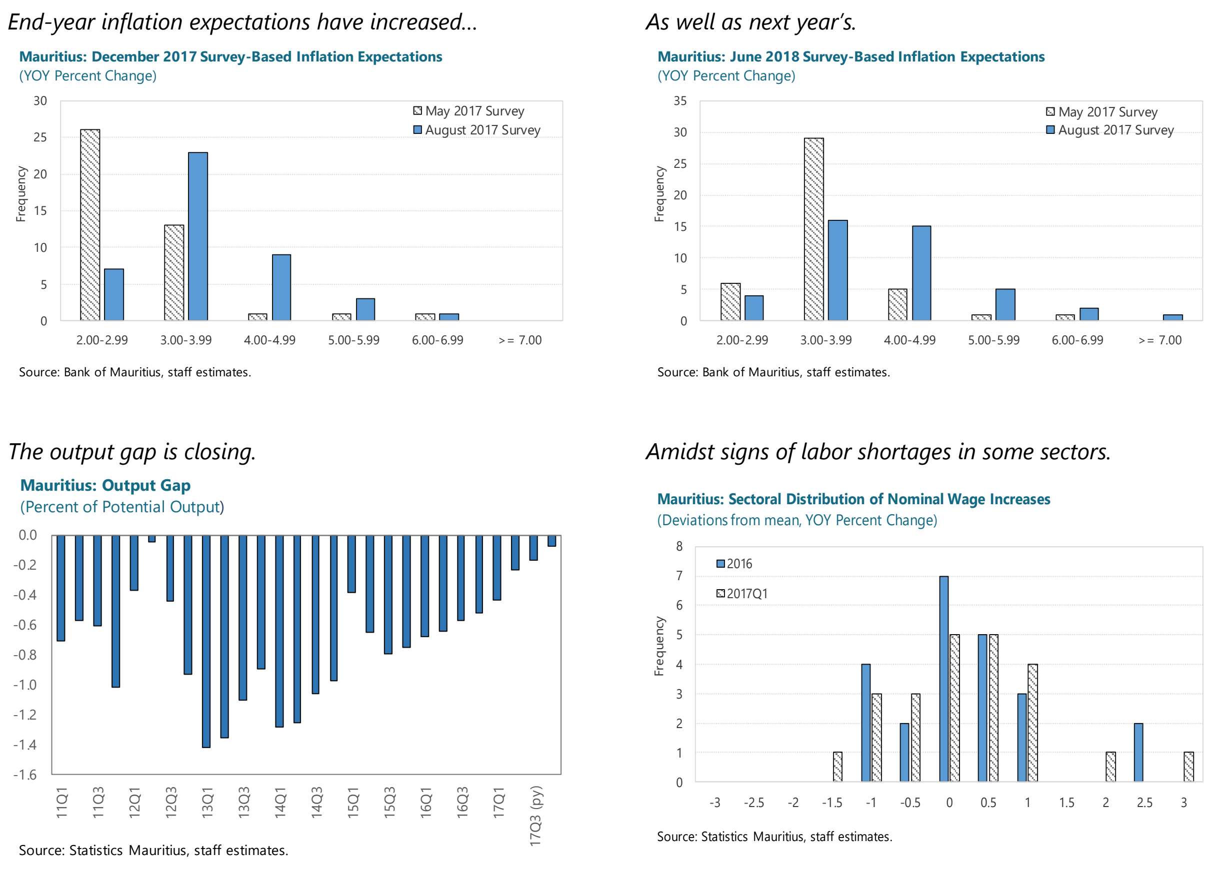
[6] The next general elections are scheduled for late 2019.

[7] The BOM estimates slightly lower growth for 2017 (between 3.6 percent and 3.8 percent).

sector). The negative output gap is estimated to close over the next year, and the current account deficit is projected to widen to about 5.8 percent of GDP in 2017. Over the medium-term growth would stabilize at about 4 percent, broadly in line with potential output growth.[8]

10. **There are signs of building inflationary pressures** (Text Figure 2). Headline inflation is expected to remain above 4.0 percent during the second half of 2017, reflecting base effects that would feed into the annual average inflation and core inflation measures. This, in turn, could trigger wage and other controlled-price indexation mechanisms.[9] Unemployment is expected to fall to 6.9 percent, and labor shortages have become apparent in various activity sectors.

Text Figure 2. Mauritius: Signs of Building Inflationary Pressures



11. **The Global Business (GBC) Sector is under pressure from international anti-tax avoidance initiatives**. The European Union (EU) has classified Mauritius' Deemed Foreign Tax Credit to the sector as a potentially harmful tax practice. Moreover, Mauritius signed the Multilateral Instrument under the OECD/G20 Base Erosion and Profit Shifting (BEPS) package,

[8] Potential output growth in the medium term would edge upwards towards 4 percent, reflecting higher capital accumulation and the improved business environment.

[9] Controlled prices account for 19 percent of the CPI and include, among others, fuel (gas, gasoline, diesel), bread, rice, flour, water and sewage and workman's wages.

which requires the inclusion of minimum standards aimed at enhancing substance and avoiding treaty abuse in its bilateral DTAs. A significant decline of GBC activity stemming from unfavorable changes to the tax framework would pose risks to external and financial stability. While a preliminary staff assessment indicates a small fiscal impact, the BOP impact could be large if not properly managed.

12. **The macroeconomic policy stance needs to be recalibrated to address the emerging imbalances.** During the first half of 2017 the current account deficit widened, driven by slower domestic exports and higher global oil prices, while lower capital inflows resulted in a smaller BOP surplus. The real effective exchange rate appreciated by about 3.0 percent in the first half of 2017.

13. **The outlook is fraught with several sources of risk**, notably further slowing of manufacturing exports and higher imports associated with the government's Public Investment Program (PIP). Additional sources of risk (Annex I) include the impact of Brexit negotiations,[10] and a retreat from global trade and financial integration. Domestic sources of double-sided risk include the pace of implementation of the PIP, and political risk. The authorities broadly concurred with the assessment.

Box 2. Implications of International Anti-Tax Avoidance Initiatives

An international financial center with relatively low tax rates, Mauritius is scrutinized by international bodies engaged in promoting fair tax competition (see Selected Issues Paper). The authorities have been cooperating with the EU and the U.S. in the automatic exchange of financial account information, and Mauritius is a member of the OECD/G20's Inclusive Framework on BEPS. Mauritius has signed the Multilateral Instrument (MLI) under the BEPS initiative that establishes a synchronized procedure for signatories to efficiently render their existing DTAs with other MLI signatories compliant with the BEPS package. Mauritius has elected to treat up to 23 of its DTAs under the MLI. The remaining 19 treaties will be re-negotiated bilaterally to accommodate special arrangements unavailable to Mauritius under the MLI.

Concurrently, the European Commission (EC) posits that Mauritius' Deemed Foreign Tax Credit (DTFC) regime, is potentially harmful. This provision allows GBC1s and banks to claim a partial tax credit on their foreign-sourced income without furnishing evidence of the actual payment abroad. The EC has notified Mauritius that it would assess the regime as harmful unless the beneficiaries are systematically taxed like other companies. The authorities have indicated their intention to replace the DFTC regime with an exemptions system that would apply to GBC1s and other domestic firms alike, thereby ending the controversial "ring-fencing" of the current benefit. In parallel, the OECD's Forum on Harmful Tax Practices has found the regime for the less transparent GBC2 sector potentially harmful, which may require reforms as well. A more detailed proposal for reforming the tax framework will be included in the Financial Services Sector Blueprint, expected to be finalized by the end of the fiscal year.

[10] The UK is Mauritius' second largest trading partner, and tourism market.

POLICY DISCUSSIONS: CLIMBING THE INCOME LADDER IN A CHALLENGING ENVIRONMENT

14. **The policy discussions focused on the main challenges to the country's macroeconomic and financial stability.** The key elements of the policy dialogue included: (a) rebuilding the credibility of the fiscal anchor and creating fiscal space; (b) tackling inflationary pressures and modernizing the monetary policy framework to strengthen the policy response to shocks; (c) addressing financial stability risks; and (d) improving competitiveness.

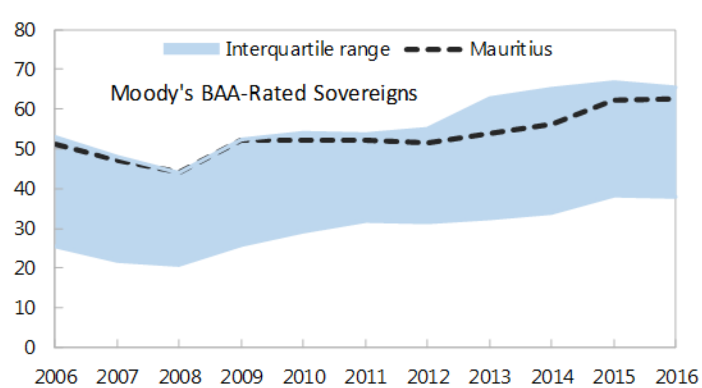
A. Fiscal Policy: Rebuilding the Credibility of the Fiscal Anchor

15. **The fiscal stance is expansionary**. The FY2017/18 budget deviates significantly from the authorities' medium-term fiscal framework announced in 2016 (Text Table 1). The central government's borrowing requirement is set to increase to 4.5 percent of GDP, above last year's indicative estimate of 3.6 percent of GDP. Projected higher spending on capital projects and social transfers is to be partially financed by an increase of tobacco and alcohol excises, improvements in tax compliance and administration, and financial assistance from the Government of India.

16. **Fiscal risks are increasing**. The clearance of legacy non-performing assets associated with past bank restructurings, as well as recently announced measures to support the export sector, can potentially translate into higher budget outlays. Higher inflation could result in a higher wage bill, while profits from SOEs could be lower (i.e. Bank of Mauritius, State Trading Corporation). The fiscal costs of the ageing population (if not contained), and increased dependency ratios, would also negatively impact the sustainability of the pension and health systems.

17. **While Mauritius' total public sector debt appears to be sustainable, the debt sustainability outlook is increasingly susceptible to a range of macro-fiscal shocks**. The debt sustainability analysis (DSA) points to an increase in public sector debt vulnerabilities (Annex II). Rising public debt, including contingent liabilities of the central government, has left Mauritius' gross financing needs more exposed to adverse real growth, real interest rate, and fiscal shocks. The distribution of risks indicates that the debt/GDP ratio will likely remain elevated over the forecast horizon. Debt profile vulnerabilities have increased but are manageable (Annex III).

Text Figure 3. Moody's BAA-Rated Sovereings
Government Total Debt (Percent of GDP)



Sources: WEO and IMF staff calculations.

18. **The authorities envision a fiscal consolidation to support the revised debt anchor.** The Public Debt Management Act was amended in July 2017 to set a new debt target, as meeting the previous target of 50 percent of GDP by the end of 2018 would have required an unrealistic fiscal adjustment. A gross debt concept has been introduced for the purposes of the debt target, which has been set at 60 percent of GDP to be achieved by FY2020/21. To support the fiscal anchor, authorities plan a fiscal consolidation starting with next year's budget, as reflected in their announced medium-term fiscal framework (column "Baseline" in Text Table 1).[11] The strategy contemplates across-the-board rationalization of current spending, and some revenue mobilization measures. Further rationalization is expected for FY2019/20, which could coincide with the next general elections.

19. **While staff supports the revised debt anchor, it would still take major policy changes to achieve the target**. In staff's calculations, adjustment measures of about 3.7 percent of GDP starting in FY2018/19 (equivalent to a primary surplus about 1½ percentage points tighter than planned) would be required to meet the new debt target. Staff's analysis suggests there is scope for supplementing the planned fiscal consolidation with additional growth-friendly revenue mobilization efforts (column "Alternative" in Text Table 1). A benchmarking exercise shows that it is possible to improve the efficiency of the tax system without rate increases. Mauritius' average Corporate Income Tax (CIT) productivity and VAT C-efficiency are below the levels of similar economies, and increasing them to benchmark levels could yield additional revenues of about 0.8 percent of GDP (Appendix I). This would require, in turn, a revision of the current CIT tax incentives policy, broadening the VAT base, further improving tax administration and compliance,[12] and unlocking tax potential in the real estate and insurance sectors.

20. **The fiscal strategy should also include improvements in public investment and debt management.** Staff advised improving the efficiency and impact of public investment, particularly in the areas of project appraisal, selection and monitoring, as per the recommendations of a recent Public Investment Management Assessment (PIMA). Staff also recommended continuing efforts to improve the liquidity of government securities and identifying additional pressure points in debt management by undergoing a Debt Management Performance Assessment (DeMPA).

21. Authorities concurred with the thrust of Fund advice, especially on the need to improve public investment management and build further fiscal space to preserve debt sustainability. A dedicated unit at the Ministry of Finance and Economic Development (MOFED) has been set up to help implement the PIMA recommendations, while the launch of the Online Budget Monitoring System (Budget Mauritius) is expected to improve capital project implementation by providing real-time estimates of progress against set milestones and targets. Reports from Budget Mauritius will inform a monitoring inter-ministerial committee chaired by the Prime

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[11] The authorities' medium-term fiscal framework covers the next two fiscal years.

[12] Per the 2017 Doing Business Report (Paying Taxes), Mauritius already ranks as one of the most competitive countries for paying taxes in the world, outranking some OECD countries.

Minister. Regarding revenue mobilization efforts, authorities suggested that the improved dispute resolution system for tax arrears, and revisions on the exemptions regime for individuals were areas of additional potential. Regarding the realism of the timeline for achieving the debt target, they indicated that if the planned fiscal adjustment were to prove insufficient they would consider shifting the target date to FY2021/22. In staff's view, a revised timeline would also require additional fiscal consolidation to support it, and could have negative effects on policy credibility.

Text Table 1. Mauritius: Summary of Central Government Finances, 2017–21[1]

(Percent of GDP; unless otherwise indicated)

	2017/18		2018/19		2019/20		2020/21	
	Prev.[2]	Budget	Baseline	Alternative	Baseline	Alternative	Baseline	Alternative
Total revenue and grants (1)	**23.2**	**23.9**	**23.0**	**23.8**	**21.9**	**22.8**	**21.9**	**22.8**
Tax revenue	19.6	19.7	19.9	20.7	20.3	21.1	20.3	21.1
Income tax	4.2	4.7	4.7	4.9	4.7	4.9	4.7	4.9
Value added tax (VAT)	7.1	7.0	7.0	7.6	7.1	7.7	7.1	7.7
Other taxes	8.3	8.0	8.2	8.2	8.5	8.5	8.5	8.5
Social contributions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.5	2.4	1.6	1.6	1.1	1.1	1.1	1.1
Grants	1.8	1.5	1.2	1.2	0.2	0.2	0.2	0.2
Total expense (current spending) (2)	**23.4**	**24.5**	**23.7**	**23.7**	**22.5**	**22.5**	**22.4**	**22.4**
Expenditures on goods and services	9.6	10.1	9.5	9.5	8.6	8.6	8.6	8.6
Interest payments	2.6	2.5	2.6	2.6	2.7	2.7	2.7	2.7
Transfers and subsidies	5.1	5.5	5.1	5.1	4.8	4.8	4.8	4.8
Social benefits	5.8	6.3	6.2	6.2	6.1	6.1	6.1	6.1
Contingencies	0.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Gross operating balance ((3)=(1)-(2))	**-0.1**	**-0.6**	**-0.7**	**0.1**	**-0.5**	**0.3**	**-0.5**	**0.3**
Net acquisition of non-financial assets (capital spending)	**2.5**	**2.7**	**2.5**	**2.5**	**2.4**	**2.4**	**2.4**	**2.4**
CONSOLIDATED BALANCE	**-2.9**	**-3.3**	**-3.1**	**-2.3**	**-2.9**	**-2.1**	**-2.9**	**-2.0**
OVERALL BORROWING REQUIREMENT	**-3.6**	**-4.5**	**-4.5**	**-3.7**	**-3.2**	**-2.4**	**-3.2**	**-2.3**
Memorandum items:								
Central government debt	60.2	57.9	58.5	57.7	57.6	56.0	56.9	54.6
Public sector debt	62.5	64.7	64.8	64.0	65.0	63.4	63.7	61.4
Expenditure, excluding net lending	26.2	27.2	26.2	26.2	24.8	24.8	24.8	24.8
Primary balance (incl. grants)	-0.4	-0.8	-0.5	0.3	-0.2	0.6	-0.2	0.6
Primary balance (excl. grants)	-2.1	-2.3	-1.7	-0.9	-0.4	0.4	-0.4	0.4

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

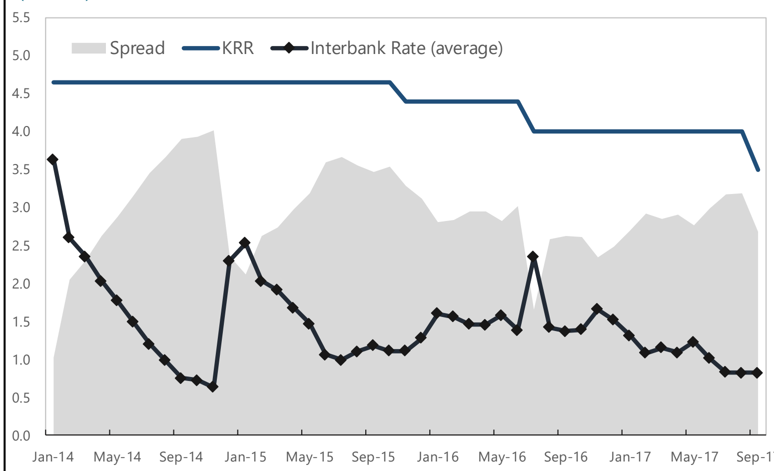
[1] *GFSM 2001* presentation.

[2] Corresponds to the indicative estimates of the 2016/2017 fiscal framework.

B. Monetary and Exchange Rate Policies: Tightening Monetary Policy to Address Emerging Vulnerabilities

22. **A tighter monetary policy is required to address the growing underlying inflationary pressures**. The expected increase in international oil and controlled prices, and the anticipated introduction of a minimum wage policy by the Ministry of Labor in 2018 are likely to have second-round effects and increase inflation expectations. At the same time, the negative output gap is closing and demand for credit is rising. In anticipation of these developments, a tighter policy is warranted, which would help bring headline inflation down to historical norms (about 3 percent since 2009).

Text Figure 4. Mauritius: Money Market Interest Rates
(Percent)



Source: Bank of Mauritius, staff estimates.

23. **Staff recommended a tightening of the monetary policy stance by mopping up excess liquidity in sufficient quantities to bring market rates in line with the policy rate**. While the KRR is used, in principle, to signal the stance of monetary policy and is intended to serve as benchmark for the overnight interbank rate, the system's large excess liquidity (partly a result of unsterilized foreign exchange purchases) has resulted in a persistent disconnect between the policy rate and the interbank rate (Figure 2 and Text Figure 4).[13] During 2017, the spread between the interbank interest rate and the KRR has widened to about 300bp. Closing the spread would imply a tightening of monetary policy, as real money market rates would move into positive territory. Further tightening should depend on incoming data, in particular with regards to indicators of labor market slack, inflation expectations and credit market developments.

24. **The BOM intends to adopt a more forward-looking monetary policy framework.** The current framework lacks a clearly defined nominal anchor. This, along with a perceived multiplicity of objectives which are not necessarily consistent (including on exchange rate considerations) risks overburdening monetary policy, which can result in policy inconsistencies, and ultimately undermine the credibility of monetary policy and the capacity of the BOM to anchor inflation expectations.

25. **A successful implementation of the new framework will require announcing a medium-term inflation objective.** The inflation objective should serve as the foundation for the BOM's policy actions and communication. An inflation objective around 3 percent (in line with past performance) could be appropriate. Furthermore, setting price stability as the overriding policy objective in the medium term will allow the BOM to better navigate the policy trade-offs that are set to arise. Clarifying the role of the exchange rate is also key. Allowing more flexibility of the exchange rate will contribute to improve resilience to shocks, and help tackle the emerging inflationary pressures. A Memorandum of Understanding (MoU) between the BOM and

[13] Since 2016, about 60 percent of FX purchases have been sterilized, while average excess reserves have increased by 50 percent. The BOM is not relying on its reverse repo facility to mop-up liquidity, and stopped issuing paper for sterilization purposes citing the increasing cost of sterilization. However, the BOM's return on assets has allowed it to meet the costs of monetary policy, and its capital is positive.

the MOFED to specify the cost-sharing arrangement of monetary operations will strengthen the operational independence of the central bank and its capacity to deliver on the price stability mandate. Other areas of reform should include intensifying the interactions between the forecasting team and the MPC, and revisiting the merging of the Inflation Report and Financial Stability Report.

26. **The authorities do not see an impending need to tighten monetary policy**. They argued that the current monetary policy stance is appropriate, and what would be required is a downward technical adjustment of the KRR to align it with prevailing liquidity conditions. They maintained that the increase in the inflation rate was due to a changing seasonal pattern, with inflation expected to subside in subsequent months, and finish the year at about 3 percent. Furthermore, the BOM estimates a negative output gap larger than staff's. In staff's view, the BOM's estimates of the output gap would appear optimistic, given the observed slowdown in population growth and total factor productivity.

27. **The authorities agreed on the need to review the operational framework.** They concurred with the importance of announcing an inflation objective, which would be set in agreement with the MOFED. They indicated they intend to continue to mop up excess liquidity, but pointed to the high cost of sterilization as the main constraint of monetary policy, and agreed on the need for a MoU between the MOFED and BOM to specify the cost-sharing mechanism. In staff's view, although sterilization costs are increasing for the BOM, such concerns should not take priority over the benefits of having a well-functioning monetary policy framework. Ultimately, such costs are to be borne by the fiscal authority, while a well-functioning money market can help reduce the cost of government debt.

28. **The authorities indicated that the level of the exchange rate is market determined, and that the BOM's interventions in the FX market are intended to correct exchange rate misalignments from market fundamentals**. In staff's view, announcing a clearly articulated intervention strategy, geared towards preventing excess volatility and opportunistically building reserves, would help dispel any perceived multiplicity of objectives.

C. External Stability Assessment: Safeguarding External Balance

29. **Mauritius' external position at end-2016 was weaker than implied by medium-term fundamentals and desirable policies**, as suggested by the EBA-lite methodology and other indicators (Annex IV). While the overall current account deficit narrowed to 4.4 percent of GDP in 2016, reflecting strong tourism receipts and net income balances, both looser-than desirable fiscal policy and the credit gap resulted in a higher current account gap (up from 1.2 percent in 2015 to 3.5 percent of GDP in 2016). Furthermore, the current account is expected to widen over the medium term, due to increasing domestic demand, the high import component of the government's PIP, and planned aircraft purchases.

30. **The real exchange rate gap has increased, reflecting the emerging economic imbalances**. Staff's analysis suggests that relative to medium-term fundamentals and desirable

policies, the real effective exchange rate gap was about 10 percent at end-2016, up from 3 percent a year earlier. The higher estimated gap is a by-product of an increased differential between the actual current account balance and the level of the current account suggested by country-specific variables that affect savings and investment decisions in the economy. In staff's view, a tighter fiscal policy stance and addressing structural bottlenecks to competitiveness will help restore external balance.

31. **International reserve buffers have improved substantially and stand inside the optimal range suggested by the reserve adequacy assessment** (Annex IV). In line with previous recommendations to improve international reserve buffers to safeguard from the risks emanating from the GBC sector, international reserves reached $5.2 billion in May 2017 from $4.2 billion at end-2015, equivalent to 115 percent of the adjusted ARA metric. The updated reserve adequacy assessment suggests that the current level of international reserves is within the advisable range, which should allow the economy to better withstand shocks associated with disruptions in FX funding and liquidity of commercial banks' assets. Staff advised maintaining reserve coverage at least at 100 percent of the ARA metric to help safeguard external stability.

32. **The Exchange Rate Support Scheme gives rise to a Multiple Currency Practice (MCP) under Article VIII, Section 3.** On September 11, 2017, the authorities introduced the Exchange Rate Support Scheme (ERSS), which aims to provide a temporary subsidy to exporters (excluding sugar exporters) in light of the depreciation of the US dollar. The amount of the subsidy is determined by the difference between a reference rate (US$1 dollar = MUR 34.50) and the rate at which the exporter has converted its export proceeds to domestic currency at its commercial bank, subject to a maximum of MUR 2.50 per dollar. The scheme will run over a period of six months, will be administered by the Ministry of Industry, Commerce and Consumer Protection, and is expected to cost about 0.1 percent of GDP (to be covered with the appropriated budget for contingencies). The ERSS gives rise to an MCP subject to Fund approval under Article VIII, Section 3 as the difference between spot market rates and the effective exchange rate received by exporters, taking into account the subsidy provided by the government, can potentially exceed 2 percent.

33. **The authorities agreed with staff's assessment on the degree of overvaluation of the exchange rate, and expressed satisfaction with the level of international reserves**. Regarding international reserves, they expressed their intention to maintain reserve coverage at about 9 months of prospective imports. They noted that this would imply continued reserves accumulation over the medium term, to take account of higher capital goods imports associated with major infrastructure projects. With respect to the MCP, the authorities noted that the measure seeks to provide temporary safeguard to the export-oriented sector until they finalize work on measures to ensure that the sector remains viable. This, including protecting employment in the sector, will also help safeguard social cohesion and stability. In light of this, the authorities are requesting approval for the temporary retention of the MCP. In staff's view, the authorities should support the sector by removing the structural bottlenecks that hinder competitiveness rather than adopting distortionary measures. Staff acknowledges, however, that

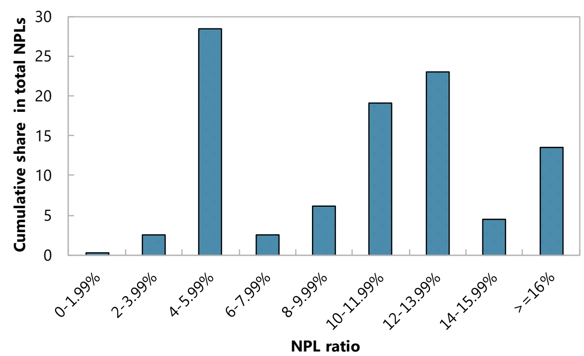
the measure is temporary, is not discriminatory in nature, and is expected to have a minimum impact on the country's fiscal and external accounts.

D. Financial Sector Policies: Bolstering the Mauritian International Financial Center

34. **Many recommendations of the 2015 FSAP have been implemented** (Annex VI). The BOM has strengthened off-site supervision by upgrading its bank rating (CAMEL) system with a new scoring method, has begun to conduct solvency stress tests, and has aligned its capital adequacy and liquidity regulation with the Basel III framework. In addition, holding companies with financial sector subsidiaries are now under the supervision of the BOM, and the Financial Services Commission (FSC). The BOM is also upgrading its framework for bank resolution and crisis prevention. Financial stability surveillance and macroprudential policy have been strengthened through empowering the Financial Stability Committee, which includes the MOFED, the BOM and the FSC. However, a proper macroprudential authority is yet to be established.

35. **Overall, banks are well-capitalized, liquid and profitable, but NPLs remain elevated, in part due to impaired legacy assets**. The system's NPL ratio stands at 7.1 percent, with a number of banks having delinquency ratios of 10 percent or higher, as they have written off only a small share of the stock of defaulted loans that peaked in early 2016. Staff recommended curtailing the leeway that banks enjoy in their write-off practices by introducing in supervisory guidance specific past-due periods after which defaulted loans should be written off.

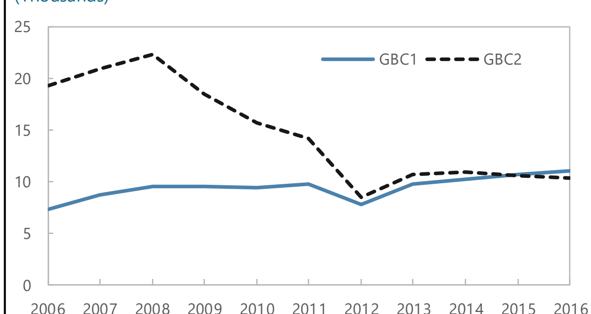
Text Figure 5. Mauritius: Banks' NPL Ratios
(Percent)



Source: Bank of Mauritius, staff estimates.

36. **Banks remain highly exposed to the large GBC sector that has shown resilience but would need to adjust its business model**. Banks' claims on GBCs grew by 28 percent (at end-May, yoy), spurred in part by strong investment into India ahead of the expiry of grandfathered tax treaty benefits, while GBC deposits expanded by 12 percent (at end-March, yoy). The GBC sector has been resilient so far, with the number of GBCs and total assets holding steady (growth rates of around 1 percent at end-2016). In addition, the volatile GBC

Text Figure 6. Mauritius: Number of GBCs
(Thousands)



Source: FSC.

deposits appear to be adequately backed by liquid assets in foreign currency. Still, some investments channeled through the GBC sector into India—the largest recipient country—may be lost with the expiry of the grandfathering clause in March 2019. To maintain its position among other international financial centers, the authorities recognize that the sector will need to transition from a system based largely on tax incentives to one that provides higher value added services, including for investments into African markets. The planned Financial Services Sector Blueprint will be instrumental in framing the authorities' agenda regarding a reform of the GBC sector.

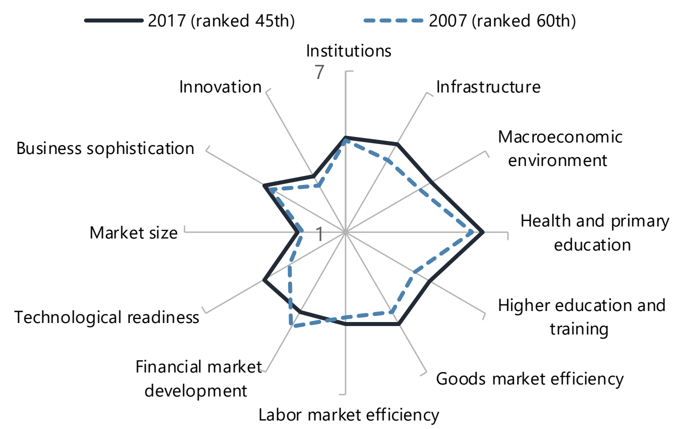
37. **Improving the effectiveness of the AML/CFT framework will contribute to safeguard the reputation of the jurisdiction.** Recent allegations regarding the integrity of the licensing process at the FSC could undermine investor confidence, underscoring the importance of ensuring compliance with FATF standards, particularly on AML/CFT supervision and entity transparency.

38. **A number of large banks are expanding their cross-border exposures, which requires sufficient long-term funding in foreign currency**. Bank credit to cross-border and GBC entities advanced by 12 percent yoy as of March-2017. Total credit provided to non-residents also increasingly includes loans originated by a growing number of subsidiaries in African and Asian countries. To sustain this momentum, banks will have to raise adequate long-term funding in foreign currency to avoid maturity and currency mismatches. Beyond the adoption of the Basel III Liquidity Coverage Ratio (LCR) governing short-term exposures, staff advised the BOM to introduce the Net Stable Funding Ratio (NSFR) in the medium term. Staff encouraged the BOM to perform supervisory liquidity stress tests assessing liquidity and funding positions over the entire maturity range, and to continue to scrutinize potential credit risks arising from increasing cross-border exposures through enhanced home-host supervisory cooperation.

39. **The authorities concurred with staff's recommendations.** Specifically, the BOM recognized the need to conduct supervisory liquidity stress tests over the full range of maturities, since the regulation on the NSFR may be introduced only after evaluating the impact of the LCR. Regarding legacy NPLs, the BOM pointed to a few exposures accounting for a high share of defaulted claims but nonetheless agreed that establishing past-due periods triggering the need for write-offs would be useful. The BOM also agreed that the relatively volatile GBC deposits need to be monitored closely, while safeguarding a sufficient level of liquid assets at banks.

E. Structural Policies: Addressing Eroding Competitiveness

Text Figure 7. Mauritius: Global Competitiveness Index, 2007 vs. 2017
1-7 (best)

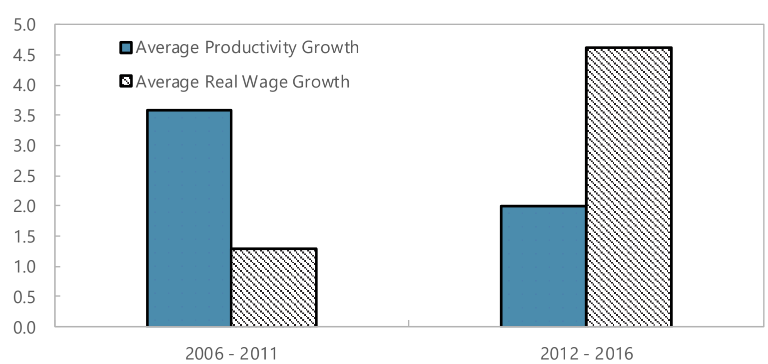


Sources: World Economic Forum; and IMF staff calculations.

40. **Mauritius has made great strides over the last decade to top the competitiveness rankings in Sub-Saharan Africa (SSA), but still lags emerging market peers.** Over the last decade, Mauritius has climbed 15 spots on the World Economic Forum's Global Competitiveness Index rankings to become the most competitive economy in SSA. The country's competitiveness strengths are chiefly in the provision of infrastructure, higher education and training, as well as goods markets efficiency. Mauritius' overall competitiveness position has also benefited from improvements in the macroeconomic environment and technological readiness.

41. **Lackluster productivity and rapid real wage growth in recent years has reduced cost competitiveness.** The rate of wage increases has outstripped productivity growth in some sectors, leading to rising unit labor costs. This is partly explained by a complex wage-setting mechanism that does not adequately link productivity to wages. Furthermore, increased competition from other low-wage jurisdictions (e.g. Madagascar) has hit manufacturing export-oriented activities hard. Competitiveness gaps are also emerging vis-à-vis emerging market comparator countries in additional areas: most notably higher education and training, innovation and technological readiness. Obstacles to doing business also pose challenges (see Special Issues Paper).

Text Figure 8. Mauritius: Wages and Productivity
(Percent)



Sources: Statistics Mauritius; and IMF staff calculations.

42. **Mauritius dropped seven places in the 2017 Doing Business rankings, driven largely by difficulties in starting a business**. Other factors affecting Mauritius' competitiveness in the survey-based World Economic Forum's rankings include an inadequately educated workforce, an

inefficient government bureaucracy, low female participation in the workforce, and insufficient capital to innovate.

43. **The recently-adopted Business Facilitation Act is a welcome step to improve Mauritius' business environment**. The Act includes provisions to amongst other things simplify starting a business through a one-stop *e-licensing* platform for official permits, as well as streamlining tax administration, and facilitating international trade and commerce.

44. **Nevertheless, further reforms are necessary to meet emerging cost competitiveness challenges, and give Mauritius the impetus to graduate to a higher level of development**. While recent reform efforts will likely bolster Mauritius' position in the Doing Business rankings, broader structural reforms in areas such as the labor market, higher education and innovation policies will be key drivers of Mauritius' economic transformation going forward. There is also a negative relationship between perceptions of corruption and global competitiveness rankings. This highlights the potential benefits for reinforcing anti-corruption measures, such as the asset declaration system and anti-money-laundering tools.

45. **The pending introduction of the National Minimum Wage must be carefully managed and could be used as an opportunity to revisit the entire wage-setting mechanism**. Introduction of the National Minimum Wage in 2018 could form part of a broader effort to simplify the wage-setting mechanism to tighten the link between pay and productivity. Yet, care should be taken that the new minimum wage does not adversely affect enterprise competitiveness, job creation, and distort sectoral wage relativities. At the same time, it is important that the new scheme also safeguards social objectives. In this context, strengthening current efforts to boost the labor supply of youth and women are welcome steps, and would also contribute to closing gender gaps and reduce inequality.

46. **Addressing the skills-mismatch and boosting innovation policy will prove instrumental to unleash the new growth sectors**. Tackling the imbalance between the supply and demand of skills in some sectors would require better aligning post-secondary education curriculums with the economy's needs, encouraging tertiary enrolment in STEM subjects, and encouraging foreign skilled labor where necessary. These efforts could form part of a comprehensive innovation policy to facilitate development of the new generation growth sectors.

47. **The authorities broadly concurred with the analysis**. They broadly agreed that Mauritius has fallen behind emerging market comparator countries in several areas affecting competitiveness. They highlighted that Mauritius' recent drop in the Doing Business rankings - which may not accurately reflect the country's competitiveness strengths- was a wakeup call to improve the business environment and develop a more strategic competitiveness vision. They also underscored that competitiveness concerns were behind the recent adoption of the Business Facilitation Act. Further, the authorities noted the important strategic role of the soon-to-be-created National Economic Development Board, which will promote exports and inward investment, and guide Mauritius' graduation to a higher stage of economic development.

F. Staff Appraisal

48. **The macroeconomic outlook is broadly positive, but vulnerabilities are emerging.** Economic activity is expected to remain robust, driven by the government's ambitious PIP, and supported by continued dynamism in the tourism sector and financial intermediation activities. While headline inflation is expected to recede in the second half of 2017, it is likely to finish the year around 4.0 percent under current policies. The main sources of risks to the outlook include further slowing of manufacturing exports and the pace of implementation of the PIP.

49. **The macroeconomic policy stance needs to be recalibrated to address the growing imbalances**. Evidence is mounting that the business cycle has shifted phase: the output gap is closing, core inflation is increasing, and demand for credit is rising. Accommodative fiscal and monetary policies have contributed to a weakening external position and the overvaluation of the real exchange rate has increased. A countercyclical policy mix is required to safeguard external stability.

50. **Further revenue mobilization efforts to build fiscal space, support the fiscal anchor and preserve debt sustainability are required.** While staff supports the revised debt anchor, indications are that under current policies, the debt target would be missed. A tighter fiscal stance would then be required for Mauritius to meet its goals of improving infrastructure, and promoting inclusive growth while preserving debt sustainability. Higher tax efficiency could yield additional revenues of about 0.8 percent of GDP. Continued improvements in public investment management, and identifying pressure points in debt management should also be elements of the fiscal strategy. Moreover, a tighter fiscal policy would contribute to safeguard external stability, and curb real appreciation pressures.

51. **A tightening of monetary policy is warranted to address growing underlying inflationary pressures.** While current inflation trends may partly be reflective of a changing seasonal pattern, the expected increase in international oil and controlled prices and the anticipated introduction of the minimum wage policy by the Ministry of Labor in 2018 are likely to have second round effects, and increase inflation expectations. A tighter monetary policy stance should be implemented by mopping-up excess liquidity in sufficient quantities so as to bring interbank rates in line with the policy rate and regain control of money market conditions.

52. **Clarifying the monetary policy framework will help increase policy coherence**. While the primary objective of the central bank is to maintain price stability and promote "orderly and balanced" economic development, there appears to be no consensus on the definition of price stability and on the role of the nominal exchange rate in the conduct of monetary policy. The perceived multiplicity of objectives risks overburdening monetary policy, can result in policy inconsistencies, and potentially undermines the credibility of the BOM's capacity to anchor inflation expectations.

53. **Announcing a medium-term inflation objective will prove instrumental in the implementation of a new policy framework.** An inflation objective of about 3 percent could

serve as the foundation for the BOM's policy actions and communication. More fundamentally, setting price stability as the overriding policy objective in the medium-term will allow the BOM to better navigate the inevitable policy trade-offs that are set to arise. Strengthening the operational independence of the central bank will improve its capacity to deliver on the price stability mandate; while allowing more flexibility of the exchange rate will help address the emerging inflationary pressures and improve resilience to shocks.

54. **Staff welcomes the substantial improvement in international reserve buffers, in line with past Fund advice.** As reserve buffers now stand inside the optimal range of international reserves, the FX intervention policy should be geared towards maintaining reserve coverage at least at 100 percent of the adequacy metric, opportunistically building reserves and curbing excess volatility.

55. **The authorities are well-advanced in modernizing financial sector regulation and should now address salient banking sector issues**. Having implemented many recommendations of the 2015 FSAP, the authorities should take additional steps to shore up financial stability. These include lowering the still-high stock of NPLs through a more stringent approach to writing-off legacy exposures, and safeguarding the longer-term FX funding needs stemming from banks' swift expansion abroad. In addition, a formal macroprudential body could be established.

56. **Efforts to address the concerns raised by the OECD and the EU about the tax regime should be prioritized.** The GBC sector, to which banks remain highly exposed, will need to adjust its business model as Mauritius transitions to a jurisdiction of higher value-added, and ensure compliance with FATF standards, particularly on AML/CFT supervision and entity transparency. A significant decline of GBC activity could pose risks to external and financial stability if not properly managed.

57. **Further reforms are necessary to meet emerging cost competitiveness challenges.** While recent reform efforts will likely bolster Mauritius' position in the Doing Business rankings, broader structural reforms in areas such as the labor market, higher education, innovation, governance and anti-corruption (e.g. effective use of AML tools and strengthened asset declaration system) policies will be key drivers of Mauritius' economic transformation going forward. Simplifying the wage-setting mechanism will improve competitiveness, while strengthening current efforts to boost the labor supply of youth and women will contribute towards closing gender gaps and reduce inequality.

58. **Attaining the next level of economic development will require Mauritius to overcome the variety of policy challenges outlined above.** A bold, coordinated, strategic vision, guided by strong and independent institutions, is necessary to guide the economic transition. Early signs are promising, with both the pending formation of the National Economic Development Board and the drafting of the Financial Services Sector Blueprint, important welcome steps towards harmonizing the policy direction and implementation across sectors.

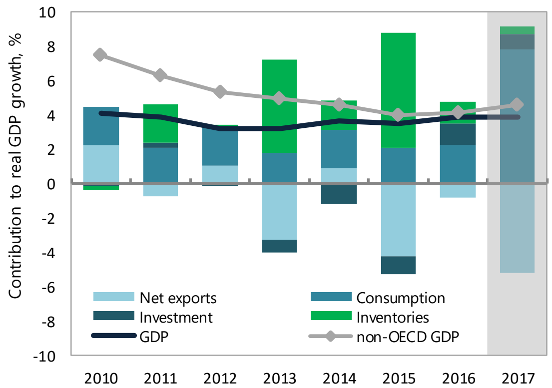
Considering Mauritius' track record of reinventing its economic model, there are grounds for optimism that the country will successfully manage the reform process.

59. **Staff encourages the authorities to phase-out the ERSS, and to expedite work on other measures to support the export-oriented sector.** In staff's view, there are less distortionary avenues to support the export-oriented sector, and removing the structural bottlenecks that hinder competitiveness should be the focus of work currently underway to address the sector's problems. Staff recommends approval for the temporary retention of the MCP, on the basis that the ERSS is temporary, does not materially impede the member's balance of payments adjustment, does not harm the interests of other members, and does not discriminate among members.

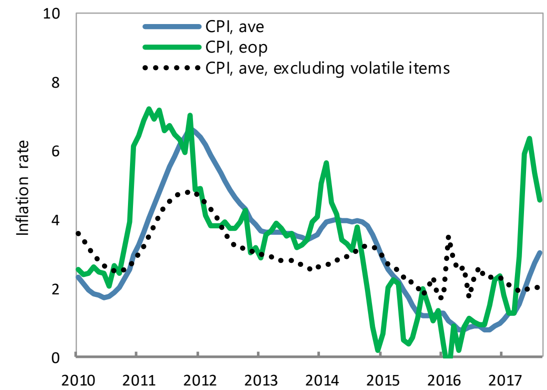
60. **Staff recommends that the next Article IV consultation takes place in the standard 12-month cycle.**

Figure 1. Mauritius: Macroeconomic Developments, 2010–17

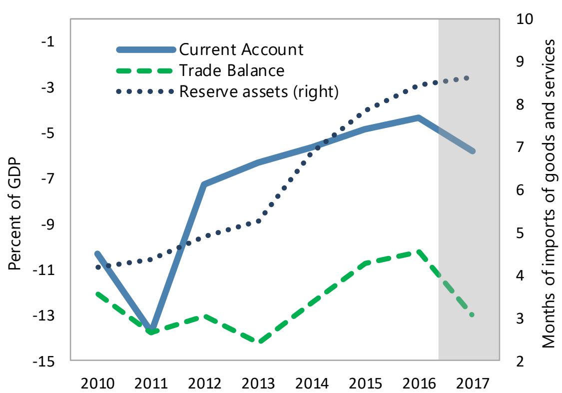
Growth is sustained by domestic demand...



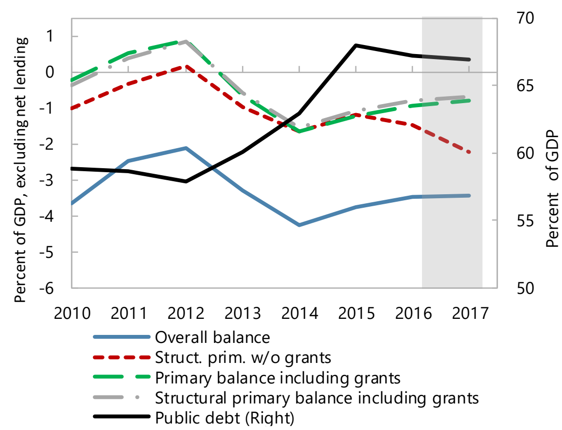
And inflation is increasing.



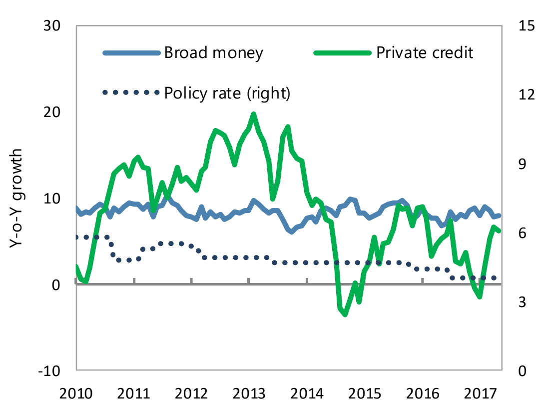
The external accounts are set to deteriorate in 2017.



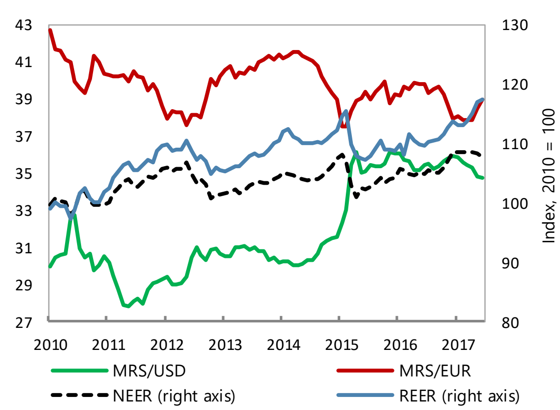
On the back of an expansionary fiscal stance...



and accommodative monetary conditions...



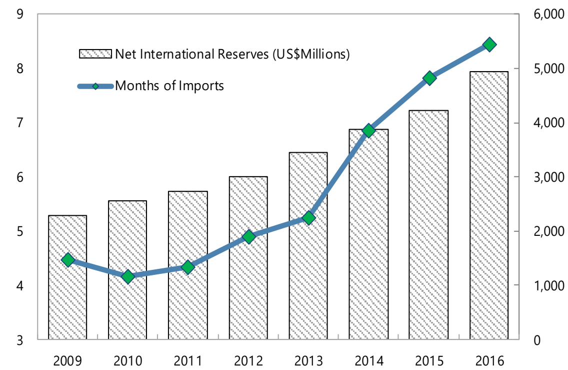
...in the context of a range-bound nominal exchange rate.



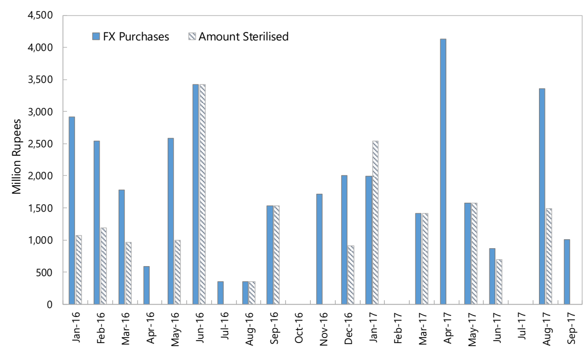
Sources: Mauritian authorities, IMF staff estimates.

Figure 2. Mauritius: Monetary, Exchange Rate and Financial Developments

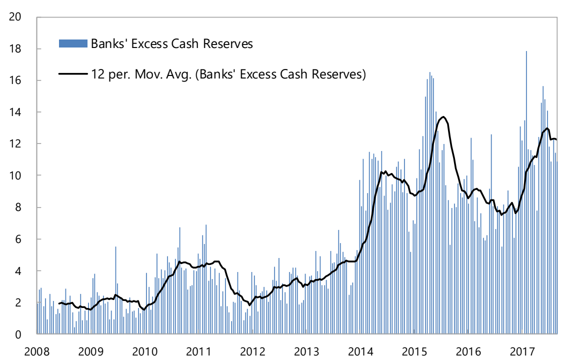
Reserve buffers have increased...



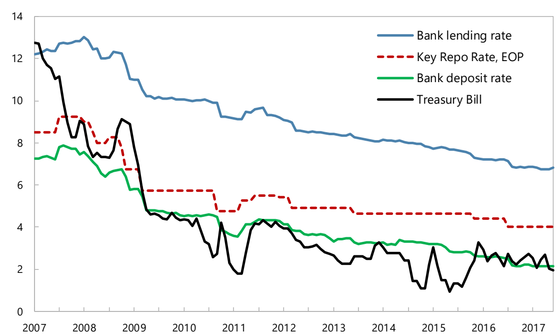
...but sterilization efforts have not kept pace...



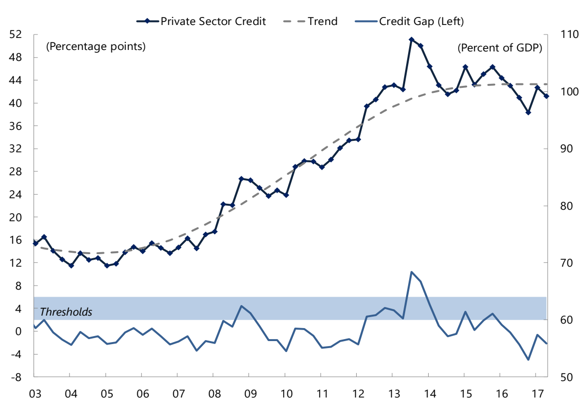
...and excess liquidity remains high.



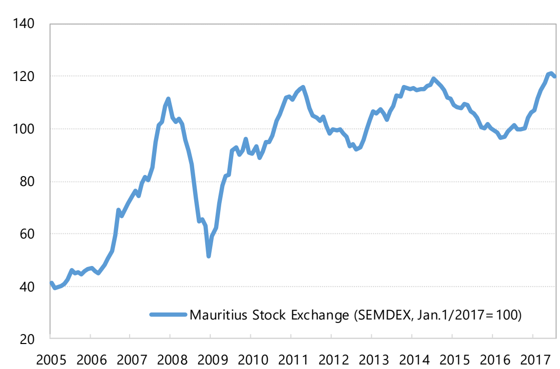
Interest rates are historically low.



The credit cycle is turning...



...and other asset prices have also increased.



Sources: Mauritian authorities, IMF staff estimates.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2014-22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Prel.			Proj.			
	(Annual percent change, unless otherwise indicated)								
National income, prices and employment									
Real GDP	3.6	3.5	3.9	3.9	4.0	4.1	4.1	4.1	4.1
Real GDP per capita	3.4	3.4	3.8	3.5	3.6	3.7	3.7	3.8	3.8
GDP per capita (in U.S. dollars)	10,001	9,115	9,613	9,672	10,105	10,629	11,180	11,733	12,327
GDP deflator	1.7	0.9	3.0	1.0	2.9	3.3	3.2	3.0	3.0
Consumer prices (period average)	3.2	1.3	1.0	4.2	5.0	3.8	3.4	3.2	3.1
Consumer prices (end of period)	0.2	1.3	2.3	5.0	4.0	3.5	3.2	3.1	3.1
Unemployment rate (percent)	7.8	7.9	7.2	6.9	6.5	6.0	5.8	5.3	4.3
	(Annual percent change, in US Dollars)								
External sector									
Exports of goods and services, f.o.b.	11.4	-12.1	-5.4	3.5	5.9	6.4	6.8	6.9	5.8
Of which: tourism receipts	9.5	-1.0	9.8	5.9	7.6	7.9	8.7	8.8	5.0
Imports of goods and services, f.o.b.	7.0	-13.9	-4.4	8.3	6.0	10.2	2.7	1.5	4.1
Nominal effective exchange rate (annual average)	2.0	-1.0	1.8	...	...	...	...	...	...
Real effective exchange rate (annual average)	3.0	-1.1	0.9	...	...	...	...	...	...
Terms of trade	2.2	10.9	2.2	-3.4	0.1	0.0	0.0	0.0	-0.3
	(Annual change in percent)								
Money and credit									
Net foreign assets	15.5	15.6	3.8	5.0	4.2	0.5	0.9	0.4	1.4
Domestic credit	-0.3	6.7	3.5	5.5	8.4	7.9	6.1	6.0	6.0
Net claims on government	28.8	-6.2	29.1	13.2	12.6	10.1	8.5	9.1	6.2
Credit to non-government sector [1]	-2.2	8.7	-0.6	4.8	8.2	7.9	6.0	5.7	6.1
Broad money	8.2	7.8	8.7	4.9	7.0	7.5	7.4	7.2	7.2
Income velocity of broad money (M2)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	2.2	2.2	2.1	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Central government finances [2]									
Overall consolidated balance (including grants) [2]	-4.3	-3.6	-3.4	-3.3	-3.1	-2.9	-2.9	-2.9	-2.8
Primary balance (excluding grants)	-1.7	-1.3	-1.6	-2.3	-1.7	-0.4	-0.4	-0.4	-0.4
Revenues (incl. grants)	20.6	21.1	21.2	23.9	23.0	21.9	21.9	21.9	21.9
Expenditure, excl. net lending	24.9	24.7	24.6	27.2	26.2	24.8	24.8	24.8	24.8
Domestic debt of central government	44.2	47.4	49.6	47.8	49.4	49.2	49.6	50.0	50.4
External debt of central government	13.3	12.8	10.4	10.1	9.0	8.4	7.3	6.2	5.1
Investment and saving									
Gross domestic investment	23.0	21.2	20.4	20.5	20.6	20.7	20.9	21.0	21.2
Public	4.9	4.8	5.7	5.8	5.9	5.9	6.0	6.1	6.2
Private [3]	18.1	16.4	14.7	14.7	14.8	14.8	14.8	14.9	15.0
Gross national savings	17.0	16.3	16.0	14.7	14.3	12.3	14.7	17.7	20.8
Public	-0.8	-2.2	-2.1	-0.6	-0.7	-0.5	-0.5	-0.5	-0.5
Private	17.8	18.5	18.1	15.3	15.0	12.9	15.2	18.2	21.3
External sector									
Balance of goods and services	-12.5	-10.8	-10.3	-13.0	-13.2	-15.4	-13.2	-10.4	-9.5
Exports of goods and services, f.o.b.	49.8	48.0	43.0	44.1	44.5	44.8	45.3	46.0	46.2
Imports of goods and services, f.o.b.	-62.3	-58.8	-53.3	-57.1	-57.7	-60.2	-58.6	-56.5	-55.8
Current account balance	-5.7	-4.9	-4.4	-5.8	-6.3	-8.4	-6.2	-3.3	-0.4
Capital and financial account	10.8	9.3	11.6	9.1	8.8	9.2	7.5	4.0	2.0
Overall balance	6.0	4.9	6.1	3.2	2.5	0.8	1.3	0.7	1.6
Total external debt	108.9	94.3	89.2	99.4	107.0	113.3	119.1	124.8	130.2
Net international reserves (millions of U.S. dollars)	3,868	4,222	4,934	5,331	5,657	5,772	5,963	6,062	6,320
Months of imports of goods and services, f.o.b.	6.9	7.8	8.4	8.6	8.3	8.2	8.4	8.2	10.1
Memorandum items:									
GDP at current market prices (billions of Mauritian rupees)	386.2	403.5	431.8	453.2	484.9	521.5	560.2	600.5	643.7
GDP at current market prices (millions of U.S. dollars)	12,613	11,511	12,150	12,273	12,874	13,595	14,357	15,114	15,928
Public sector debt (percent of GDP)	62.9	68.0	65.6	64.7	64.8	65.0	63.7	62.6	61.5
Foreign and local currency long-term debt rating (Moody's)	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] Includes changes in inventories.

Table 2a. Mauritius: Summary of Central Government Finances, 2014-23[1]

(Millions of Rupee; unless otherwise indicated)

	2014	2015/16	2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Budget	Prel.	Proj.			Proj.		
Total revenue and grants (1)	**79,674**	**88,269**	**102,400**	**94,028**	**112,242**	**115,915**	**118,680**	**127,355**	**136,516**	**146,335**
Domestic revenue	**79,268**	**87,936**	**95,987**	**91,129**	**105,264**	**109,630**	**117,630**	**126,229**	**135,309**	**145,043**
Tax revenue	71,727	78,224	84,720	84,209	92,259	100,087	109,834	117,863	126,342	135,430
Income tax - Individuals	7,049	7,621	8,270	8,655	9,467	10,195	11,031	11,838	12,689	13,602
Income tax - Corporations	8,972	10,459	11,069	11,929	12,525	13,488	14,595	15,662	16,788	17,996
Value added tax (VAT)	26,060	28,805	31,430	30,231	32,835	35,359	38,261	41,058	44,011	47,177
Excise duties	14,423	15,633	17,439	17,067	20,180	21,731	23,515	25,234	27,049	28,994
Customs	1,239	1,343	1,150	1,174	1,305	1,405	1,521	1,632	1,749	1,875
Other taxes	13,985	14,364	15,362	15,154	15,947	17,909	20,912	22,441	24,055	25,786
Social contributions	1,284	1,375	1,417	1,377	1,545	1,650	1,785	1,915	2,053	2,201
Nontax revenue	6,256	8,337	9,850	5,542	11,460	7,893	6,011	6,450	6,914	7,412
Grants	406	333	6,413	2,899	6,978	6,285	1,050	1,126	1,206	1,292
Total expense (current spending) (2)	**82,686**	**97,084**	**107,334**	**102,925**	**115,003**	**119,214**	**121,453**	**130,194**	**139,451**	**149,347**
Expenditures on goods and services	33,674	38,111	44,137	41,240	47,221	47,809	46,367	49,757	53,336	57,172
Compensation of employees	24,025	26,211	29,597	28,338	30,552	31,602	31,974	34,311	36,780	39,425
Use of goods and services	9,649	11,900	14,540	12,901	16,669	16,207	14,393	15,445	16,556	17,747
Interest payments	10,106	10,118	11,296	10,958	11,900	13,295	14,465	15,522	16,639	17,836
Domestic interest	9,462	8,518	10,561	10,228	11,145	12,570	13,770	14,777	15,840	16,979
External interest	644	1,600	735	730	755	725	695	746	799	857
Transfers and subsidies	19,657	23,832	24,221	23,335	25,632	25,704	26,073	27,951	29,961	32,089
Subsidies	1,578	1,768	1,513	1,517	1,955	1,819	1,822	1,955	2,096	2,247
Grants and transfers	18,080	22,064	22,708	21,818	23,677	23,885	24,251	25,995	27,865	29,842
Social benefits	19,250	25,022	27,080	27,392	29,550	31,106	33,048	35,464	38,015	40,750
Contingencies	0	0	600	0	700	1,300	1,500	1,500	1,500	1,500
Gross operating balance ((3)=(1)-(2))	**-3,012**	**-8,815**	**-4,934**	**-8,897**	**-2,761**	**-3,299**	**-2,773**	**-2,839**	**-2,935**	**-3,012**
Net acquisition of non-financial assets (capital spending)	**9,528**	**5,793**	**10,020**	**6,945**	**12,713**	**12,420**	**12,905**	**13,848**	**14,845**	**15,912**
Net lending / borrowing (central governm. budget balance)[2]	**-12,540**	**-14,608**	**-14,954**	**-15,843**	**-15,474**	**-15,719**	**-15,678**	**-16,687**	**-17,780**	**-18,924**
Net lending / borrowing (special funds)[3]	**-3,875**	**-490**	**-4,748**	**858**	**-47**	**20**	**42**	**42**	**0**	**0**
CONSOLIDATED BALANCE	**-16,415**	**-15,098**	**-19,702**	**-14,984**	**-15,521**	**-15,699**	**-15,636**	**-16,645**	**-17,780**	**-18,924**
Transactions in financial assets/liabilities	**618**	**-380**	**3,592**	**922**	**5,514**	**7,041**	**1,762**	**1,781**	**1,800**	**1,672**
Net acquisition of financial assets	996	13	3,782	1,300	6,150	7,521	2,412	2,478	2,548	2,620
Of which: net lending	851	-2,227	695	61	-34	806	780	780	780	780
Adjustment for difference in cash and accrual	-379	-393	-190	-378	-636	-480	-650	-698	-748	-948
OVERALL BORROWING REQUIREMENT	**-17,032**	**-14,718**	**-23,294**	**-15,906**	**-21,035**	**-22,740**	**-17,398**	**-18,426**	**-19,580**	**-20,596**
FINANCING	**17,032**	**14,718**	**23,294**	**15,906**	**21,035**	**22,740**	**17,398**	**18,426**	**19,580**	**20,596**
Domestic	9,569	9,530	21,994	21,151	21,787	24,634	17,393	21,597	23,419	24,903
Banks	10,012	3,177	7,331	7,050	7,262	8,211	5,798	7,199	7,806	8,301
Nonbanks	-443	6,353	14,663	14,101	14,525	16,423	11,595	14,398	15,613	16,602
Foreign	7,463	5,188	1,300	-5,245	-752	-1,894	5	-3,170	-3,839	-4,308
Disbursements	10,295	7,775	6,500	1,455	2,348	2,406	4,605	2,230	1,561	1,092
Amortization	-2,832	-2,587	-5,200	-6,700	-3,100	-4,300	-4,600	-5,400	-5,400	-5,400
Memorandum items:										
Central government debt	**222,247**	**251,401**	**262,811**	**265,547**	**271,393**	**294,133**	**311,547**	**330,015**	**349,595**	**370,190**
Public sector debt	**243,072**	**274,326**	**283,629**	**290,103**	**303,376**	**326,116**	**351,530**	**369,998**	**389,578**	**410,173**
GDP at current market prices (FY, in billions of Rupees)	386	418	451	442	469	503	541	580	622	667
Expenditure, excluding net lending	96,089	103,367	122,102	109,012	127,763	131,614	134,316	144,000	154,296	165,259
Primary balance (incl. grants)	-6,309	-4,980	-8,406	-4,026	-3,621	-2,404	-1,171	-1,123	-1,141	-1,088
Primary balance (excl. grants)	-6,716	-5,314	-14,819	-6,925	-10,599	-8,689	-2,221	-2,248	-2,347	-2,380

Sources: Ministry of Finance and Development 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 Resillience Fund (named Business Growth Fund prior to 2012); Road Decongestion; Program Fund; Build Mauritius Fund and Lotto Fund.

Table 2b. Mauritius: Summary of Central Government Finances, 2014-23[1]

(Percent of GDP; unless otherwise indicated)

	2014	2015/16	2016/17		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Budget	Prel.	Proj.			Proj.		
Total revenue and grants (1)	**20.6**	**21.1**	**22.7**	**21.2**	**23.9**	**23.0**	**21.9**	**21.9**	**21.9**	**21.9**
Domestic revenue	**20.5**	**21.1**	**21.3**	**20.6**	**22.4**	**21.8**	**21.7**	**21.7**	**21.7**	**21.7**
Tax revenue	18.6	18.7	18.8	19.0	19.7	19.9	20.3	20.3	20.3	20.3
Income tax - Individuals	1.8	1.8	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Income tax - Corporations	2.3	2.5	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Value added tax (VAT)	6.7	6.9	7.0	6.8	7.0	7.0	7.1	7.1	7.1	7.1
Excise duties, incl. "Maurice Ile Durable" levy	3.7	3.7	3.9	3.9	4.3	4.3	4.3	4.3	4.3	4.3
Customs	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	3.6	3.4	3.4	3.4	3.4	3.6	3.9	3.9	3.9	3.9
Social contributions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.6	2.0	2.2	1.3	2.4	1.6	1.1	1.1	1.1	1.1
Grants	0.1	0.1	1.4	0.7	1.5	1.2	0.2	0.2	0.2	0.2
Total expense (current spending) (2)	**21.4**	**23.2**	**23.8**	**23.3**	**24.5**	**23.7**	**22.5**	**22.4**	**22.4**	**22.4**
Expenditures on goods and services	8.7	9.1	9.8	9.3	10.1	9.5	8.6	8.6	8.6	8.6
Compensation of employees	6.2	6.3	6.6	6.4	6.5	6.3	5.9	5.9	5.9	5.9
Use of goods and services	2.5	2.8	3.2	2.9	3.6	3.2	2.7	2.7	2.7	2.7
Interest payments	2.6	2.4	2.5	2.5	2.5	2.6	2.7	2.7	2.7	2.7
Domestic interest	2.4	2.0	2.3	2.3	2.4	2.5	2.5	2.5	2.5	2.5
External interest	0.2	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Transfers and subsidies	5.1	5.7	5.4	5.3	5.5	5.1	4.8	4.8	4.8	4.8
Subsidies	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Grants and transfers	4.7	5.3	5.0	4.9	5.0	4.7	4.5	4.5	4.5	4.5
Social benefits	5.0	6.0	6.0	6.2	6.3	6.2	6.1	6.1	6.1	6.1
Contingencies	0.0	0.0	0.1	0.0	0.1	0.3	0.3	0.3	0.2	0.2
Gross operating balance ((3)=(1)-(2))	-0.8	-2.1	-1.1	-2.0	-0.6	-0.7	-0.5	-0.5	-0.5	-0.5
Net acquisition of non-financial assets (capital spending)	2.5	1.4	2.2	1.6	2.7	2.5	2.4	2.4	2.4	2.4
Net lending / borrowing (central governm. budget balance) [2]	-3.2	-3.5	-3.3	-3.6	-3.3	-3.1	-2.9	-2.9	-2.9	-2.8
Net lending / borrowing (special funds) [3]	-1.0	-0.1	-1.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
CONSOLIDATED BALANCE	-4.3	-3.6	-4.4	-3.4	-3.3	-3.1	-2.9	-2.9	-2.9	-2.8
Transactions in financial assets/liabilities	0.2	-0.1	0.8	0.2	1.2	1.4	0.3	0.3	0.3	0.3
Net acquisition of financial assets	0.3	0.0	0.8	0.3	1.3	1.5	0.4	0.4	0.4	0.4
Of which: net lending	0.2	-0.5	0.2	0.0	0.0	0.2	0.1	0.1	0.1	0.1
Adjustment for difference in cash and accrual	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
OVERALL BORROWING REQUIREMENT	-4.4	-3.5	-5.2	-3.6	-4.5	-4.5	-3.2	-3.2	-3.1	-3.1
FINANCING	4.4	3.5	5.2	3.6	4.5	4.5	3.2	3.2	3.1	3.1
Domestic	2.5	2.3	4.9	4.8	4.6	4.9	3.2	3.7	3.8	3.7
Banks	2.6	0.8	1.6	1.6	1.5	1.6	1.1	1.2	1.3	1.2
Nonbanks	-0.1	1.5	3.3	3.2	3.1	3.3	2.1	2.5	2.5	2.5
Foreign	1.9	1.2	0.3	-1.2	-0.2	-0.4	0.0	-0.5	-0.6	-0.6
Disbursements	2.7	1.9	1.4	0.3	0.5	0.5	0.9	0.4	0.3	0.2
Amortization	-0.7	-0.6	-1.2	-1.5	-0.7	-0.9	-0.9	-0.9	-0.9	-0.8
Memorandum items:										
Central government debt	57.5	60.2	58.3	60.0	57.9	58.5	57.6	56.9	56.2	55.5
Public sector debt	62.9	65.7	62.9	65.6	64.7	64.8	65.0	63.7	62.6	61.5
Expenditure, excluding net lending	24.9	24.7	27.1	24.6	27.2	26.2	24.8	24.8	24.8	24.8
Primary balance (incl. grants)	-1.6	-1.2	-1.9	-0.9	-0.8	-0.5	-0.2	-0.2	-0.2	-0.2
Primary balance (excl. grants)	-1.7	-1.3	-3.3	-1.6	-2.3	-1.7	-0.4	-0.4	-0.4	-0.4

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 Resillience Fund (named Business Growth Fund prior to 2012); Road Decongestion; Program Fund; Build Mauritius Fund and Lotto Fund.

Table 3. Mauritius: Balance of Payments, 2014-22

	2014	2015	2016		2017	2018	2019	2020	2021	2022
	Actual		Last SR	Actual				Proj.		
	(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance	**-713**	**-562**	**-537**	**-531**	**-714**	**-812**	**-1,142**	**-888**	**-503**	**-62**
Trade balance	**-2,266**	**-1,844**	**-2,027**	**-2,048**	**-2,415**	**-2,602**	**-3,031**	**-2,970**	**-2,778**	**-2,789**
Exports of goods, f.o.b.	3,095	2,684	2,845	2,359	2,227	2,335	2,445	2,568	2,714	2,857
Imports of goods, f.o.b.	-5,361	-4,528	-4,872	-4,407	-4,642	-4,937	-5,476	-5,539	-5,492	-5,646
Of which: Oil Imports (refined)	-1,076	-724	-520	-635	-1,028	-1,076	-1,144	-1,221	-1,307	-1,407
Services (net)	691	602	691	802	815	899	935	1,072	1,200	1,270
Of which: tourism	966	878	936	986	1,040	1,115	1,168	1,313	1,489	1,565
Income (net)	**1,073**	**906**	**1,032**	**947**	**1,109**	**1,107**	**1,136**	**1,174**	**1,209**	**1,561**
Of which: GBCs	1,252	902	1,194	915	1,096	1,131	1,180	1,252	1,323	1,399
Current transfers (net)	**-211**	**-226**	**-233**	**-232**	**-223**	**-216**	**-181**	**-163**	**-133**	**-104**
Capital and financial accounts	**1,359**	**1,072**	**969**	**1,414**	**1,111**	**1,139**	**1,256**	**1,079**	**602**	**320**
Capital account	-5	-4	-5	-1	-1	-1	-1	-1	-1	-1
Financial account	**1,364**	**1,075**	**974**	**1,415**	**1,112**	**1,140**	**1,258**	**1,080**	**603**	**322**
Direct investment (net)	550	334	702	12,997	12,118	11,507	10,284	9,295	8,775	7,883
Abroad	-4,027	-6,584	-4,791	-7,448	-7,329	-7,256	-6,532	-5,880	-5,293	-4,764
In Mauritius	4,577	6,918	5,493	20,445	19,447	18,763	16,816	15,175	14,068	12,647
Portfolio investment (net)	-425	-703	-537	-6,697	-6,113	-5,758	-5,150	-4,622	-4,161	-3,744
Other investment (net)	1,239	1,444	808	-4,885	-4,893	-4,609	-3,877	-3,593	-4,011	-3,817
Government (net)	57	-101	20	-99	-168	-82	-27	-107	-121	-128
Private (net)	1,183	1,545	788	-4,786	-4,725	-4,527	-3,849	-3,486	-3,890	-3,689
Errors and omissions	105	60	0	-144	0	0	0	0	0	0
Overall balance	752	569	432	738	397	327	115	192	99	258
Change in official reserves (- = increase)	**-752**	**-569**	**-432**	**-738**	**-397**	**-327**	**-115**	**-192**	**-99**	**-257**
	(Percent of GDP, unless otherwise indicated)									
Memorandum items:										
Balance of goods and services	**-12.5**	**-10.8**	**-11.3**	**-10.3**	**-13.0**	**-13.2**	**-15.4**	**-13.2**	**-10.4**	**-9.5**
Exports of goods and services, f.o.b.	49.8	48.0	53.9	43.0	44.1	44.5	44.8	45.3	46.0	46.2
Imports of goods and services, f.o.b.	-62.3	-58.8	-65.2	-53.3	-57.1	-57.7	-60.2	-58.6	-56.5	-55.8
Volume of goods exports (annual percent change)	8.4	-2.8	2.1	-14.2	-7.1	3.9	5.7	4.8	4.8	4.9
Volume of goods imports (annual percent change)	8.3	11.8	24.2	5.8	1.3	5.9	3.3	7.7	-1.0	2.6
Foreign direct investment	**4.4**	**2.9**	**5.9**	**107.0**	**98.7**	**89.4**	**75.6**	**64.7**	**58.1**	**49.5**
Current account balance	**-5.7**	**-4.9**	**-4.5**	**-4.4**	**-5.8**	**-6.3**	**-8.4**	**-6.2**	**-3.3**	**-0.4**
Current account balance, excluding GBCs	-13.1	-10.1	...	-9.2	-12.2	-12.7	-15.1	-13.1	-10.5	-7.9
Overall balance	6.0	4.9	3.6	6.1	3.2	2.5	0.8	1.3	0.7	1.6
Errors and omissions	0.8	0.5	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves, BOM, (mill. of U.S. dollars)	**3,868**	**4,222**	**4,654**	**4,934**	**5,331**	**5,657**	**5,772**	**5,963**	**6,062**	**6,320**
In months of imports of goods and services, f.o.b.	6.9	7.8	6.8	8.4	8.6	8.3	8.2	8.4	8.2	10.1
Percent of external short term debt	107.7	122.9	128.0	107.4	98.3	90.1	81.0	74.1	67.3	63.0
Percent of broad money	29.8	33.8	36.8	36.7	39.3	39.7	38.4	37.5	36.3	35.9
Gross reserves, BOM, (mil. of U.S. dollars)	3,871	4,228	4,657	4,939	5,336	5,663	5,777	5,969	6,068	6,326
GDP (millions of U.S. dollars)	12,613	11,511	11,865	12,150	12,273	12,874	13,595	14,357	15,114	15,928
Total external debt[1]	108.9	94.3	98.0	89.2	99.4	107.0	113.3	119.1	124.8	130.2
Total debt service ratio (% of goods & services exports)	4.9	4.0	4.7	4.9	6.5	6.4	5.9	5.5	5.0	4.7
Mauritian rupees per U.S. dollar (period average)	30.6	35.1	...	35.5	...	...	...	...	...	...
Mauritian rupees per U.S. dollar (end of period)	31.7	35.9	...	36.0	...	...	...	...	...	...

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

[1] Includes SDR allocation in 2009.

Table 4. Mauritius: Depository Corporations Survey, 2014-22

	2014	2015	2016		2017	2018	2019	2020	2021	2022
	Actual		Last SR	Actual			Proj.			
	(Millions of rupees, end of period; unless otherwise indicated)									
Central Bank of Mauritius										
Net foreign assets	122,736	151,519	171,836	177,669	197,736	214,070	222,411	233,778	241,997	256,621
(in millions of US dollars)	3,868	4,222	4,655	4,934	5,330	5,657	5,772	5,963	6,062	6,320
Net domestic assets	-54,907	-78,194	105,699	-96,076	-112,116	-122,452	-123,887	-127,930	-128,537	-135,002
Net domestic credit	-18,123	-23,910	-22,357	-33,716	-33,665	-33,591	-33,511	-33,431	-33,342	-33,253
Government (net)	-20,743	-28,635	-26,703	-38,387	-38,379	-38,371	-38,366	-38,365	-38,358	-38,358
Commercial banks (net)	2,620	4,725	3,474	4,671	4,714	4,779	4,854	4,934	5,016	5,105
Other items (net)	-73,030	-102,103	83,342	-129,792	-145,780	-156,043	-157,399	-161,361	-161,878	-168,255
Reserve money	67,828	73,326	66,137	81,592	85,621	91,617	98,524	105,848	113,460	121,619
Currency outside banks	32,531	33,337	30,588	35,918	37,692	40,333	43,375	46,600	49,953	53,546
Bank reserves	35,298	39,988	35,549	45,674	47,928	51,284	55,149	59,248	63,507	68,073
Banks										
Net foreign assets	335,088	377,506	389,769	371,482	379,109	386,854	381,619	375,804	369,835	363,993
(in millions of US dollars)	10,561	10,519	10,558	10,316	10,220	10,223	9,903	9,586	9,265	8,965
Reserves	58,251	72,682	70,860	86,193	90,451	96,788	104,087	111,827	119,871	128,494
Net domestic assets	37,204	30,577	26,657	72,779	78,611	102,936	145,107	190,091	236,767	286,245
Net domestic credit	525,648	574,301	599,358	614,052	645,647	695,565	747,396	792,380	839,056	888,534
Government (net)	65,515	70,615	74,576	92,592	99,748	107,485	114,489	120,988	128,490	134,095
Other public sector	14,791	10,144	11,105	16,857	16,898	16,937	16,975	17,010	17,044	17,076
Private sector	387,092	420,860	438,335	418,409	438,551	474,355	511,845	542,555	573,651	608,869
Other items (net)	-488,444	-543,724	-572,701	-541,272	-567,036	-592,629	-602,289	-602,289	-602,289	-602,289
Total deposits	368,674	405,564	416,426	441,863	457,720	489,790	526,726	565,895	606,602	650,237
Monetary Survey										
Net foreign assets	457,823	529,026	561,605	549,151	576,845	600,923	604,030	609,582	611,832	620,614
(in millions of US dollars)	14,430	14,741	15,212	15,250	15,550	15,880	15,675	15,549	15,327	15,285
Net domestic assets	-60,267	-91,027	-89,233	-71,362	-75,458	-64,407	-27,054	10,300	52,641	91,656
Net domestic credit	446,806	476,653	499,211	493,258	520,604	564,192	608,729	645,974	684,613	725,468
Government (net)	44,771	41,980	47,873	54,205	61,369	69,114	76,124	82,623	90,133	95,737
Other public sector	14,792	13,649	11,105	20,506	16,898	16,937	16,975	17,010	17,044	17,076
Private sector	387,243	421,023	438,335	418,546	438,551	474,355	511,845	542,555	573,651	608,869
Other items (net)	-507,073	-567,680	-588,444	-564,619	-596,062	-628,600	-635,783	-635,674	-631,972	-633,811
M1	83,579	91,398	95,987	102,001	107,039	114,538	123,176	132,336	141,855	152,059
Money and quasi-money (M2)	341,320	368,020	381,991	400,153	419,917	449,338	483,223	519,158	556,503	596,534
M2 plus resident foreign currency deposits (M3)	397,557	437,999	447,013	477,789	495,413	530,123	570,101	612,496	656,555	703,783
M3 plus nonbank holdings of government debt (L)	397,557	437,999	451,514	477,789	501,387	536,516	576,976	619,882	664,473	712,271
	(Annual percent change unless otherwise specified)									
Memorandum items										
M2	8.2	7.8	3.8	8.7	4.9	7.0	7.5	7.4	7.2	7.2
M3	8.7	10.2	2.1	9.1	3.7	7.0	7.5	7.4	7.2	7.2
Deposits	8.8	10.0	2.7	9.0	3.6	7.0	7.5	7.4	7.2	7.2
Reserve money	9.3	8.1	-9.8	11.3	4.9	7.0	7.5	7.4	7.2	7.2
Net domestic credit	-0.3	6.7	4.7	3.5	5.5	8.4	7.9	6.1	6.0	6.0
Government (net)	28.8	-6.2	14.0	29.1	13.2	12.6	10.1	8.5	9.1	6.2
Private	-2.2	8.7	4.1	-0.6	4.8	8.2	7.9	6.0	5.7	6.1
Net domestic assets of the banking sector	96.4	51.0	-9.0	-21.6	5.7	-14.6	-58.0	-138.1	411.1	74.1
NDA growth (as percent of the base period M3)	-8.1	-7.7	2.1	4.5	-0.9	2.2	7.0	6.5	6.8	5.9
Multiplier (average M3/RM)	5.9	6.0	6.8	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Velocity (GDP/M3)	1.0	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	(As percent of GDP)									
M3	102.9	108.5	103.5	110.6	109.3	109.3	109.3	109.3	109.3	109.3
Deposits	95.5	100.5	96.4	102.3	101.0	101.0	101.0	101.0	101.0	101.0
Reserve money	17.6	18.2	15.3	18.9	18.9	18.9	18.9	18.9	18.9	18.9
Net domestic credit	115.7	118.1	115.6	114.2	114.9	116.4	116.7	115.3	114.0	112.7
Government (net)	11.6	10.4	11.1	12.6	13.5	14.3	14.6	14.7	15.0	14.9
Private	100.3	104.3	101.5	96.9	96.8	97.8	98.2	96.8	95.5	94.6

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

Table 5. Mauritius: Financial Soundness Indicators for the Banking Sector, 2012-2016[1]

(End of period, in percent, unless otherwise indicated)

	2012	2013	2014	2015	2016			
					Mar.	Jun.	Sep.	Dec.
Capital adequacy								
Regulatory capital to risk-weighted assets [2]	17.1	17.3	17.1	18.4	18.7	18.2	18.2	18.2
Regulatory Tier I capital to risk-weighted assets	15.5	15.1	15.1	17.0	17.2	16.5	16.6	16.7
Capital to total assets	8.5	8.8	9.3	10.5	10.5	10.5	10.6	10.6
Asset composition and quality								
Sectoral distribution of loans to total loans								
Residents	54.0	57.8	54.6	59.4	60.5	60.5	60.8	60.5
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit-takers	0.2	0.3	0.3	0.1	0.2	0.2	0.3	0.5
Other domestic sectors	19.7	21.6	19.2	21.0	21.6	21.8	21.8	22.0
Other financial corporations	1.2	1.2	1.5	1.5	1.6	1.6	2.3	2.3
Nonfinancial corporations	32.9	34.7	33.6	36.8	37.1	37.0	36.4	35.6
Nonresidents	46.0	42.2	45.4	40.6	39.5	39.5	39.2	39.5
Geographic distribution of loans to total loans								
Domestic economy	54.0	55.6	52.1	55.0	54.4	54.0	54.2	54.3
Advanced economies	5.9	4.6	4.9	5.9	6.7	7.6	7.2	7.2
Loans to other emerging market & developing countries	40.1	39.9	43.0	39.1	38.9	38.3	38.6	38.5
Real Estate Markets								
Residential Real Estate Loans to Total Loans	7.4	6.9	5.0	5.8	5.8	5.5	9.3	9.4
Commercial Real Estate Loans to Total Loans	7.9	8.7	6.2	9.1	9.4	9.5	5.1	4.6
Nonperforming loans (NPLs) to total gross loans	3.6	4.2	4.9	7.2	7.8	8.0	8.0	7.8
NPLs net of provisions to capital	12.4	12.7	16.4	19.1	18.7	18.6	18.7	18.7
NPLs provisions to NPLS	41.8	42.3	37.4	45.2	49.1	50.3	50.3	48.2
Large exposures to capital	187.2	195.9	201.9	184.3	190.2	188.4	176.5	159.8
Earnings and Profitability								
Return on assets	1.4	1.3	1.4	1.2	1.4	1.4	1.5	1.5
Return on equity	18.1	15.3	15.2	12.1	13.1	13.6	14.0	13.9
Interest margin to gross income	74.0	66.8	49.0	68.5	62.7	67.2	63.0	71.5
Noninterest expenses to gross income	48.5	44.8	36.9	44.3	36.2	41.8	38.9	45.9
Personnel expenses to non-interest expenses	49.6	51.5	40.8	50.5	50.6	52.0	47.7	47.3
Trading income to total income	-0.6	14.1	35.4	10.0	16.2	7.9	17.9	9.5
Liquidity								
Liquid assets to total assets (liquid asset ratio)	19.1	22.5	24.1	27.1	27.4	27.9	28.3	27.9
Liquid assets to total short-term liabilities	27.5	31.0	30.2	34.5	34.4	34.1	34.3	33.9
Foreign-currency-denominated loans to total loans	56.5	55.9	58.8	55.9	54.9	54.8	54.8	56.4
Foreign-currency-denominated liabilities to total liabilities	128.7	53.1	54.5	52.7	52.0	51.8	52.0	51.6
Customer deposits to total (non-interbank) loans	128.7	137.0	133.2	146.8	144.4	148.2	150.9	149.8
Sensitivity to market risk								
Net open positions in FX to capital	2.1	2.1	2.4	3.0	2.5	2.9	3.0	0.1

Source: Bank of Mauritius.

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

[2] Total of Tier 1 and Tier 2 less investments in subsidiaries and associates.

Annex I. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact	Policy Response
Business model risk. Multilateral efforts to curb international tax-avoidance, and changes in international taxation rules and transparency standards for cross-border activities (BEPS).	**High**	**High** GBC sector represents about 5 percent of GDP; licensing fees amount to 1 percent of GDP.	Adopt diversification strategy, identify additional sources of tax revenue, accelerate adoption of FSAP recommendations to mitigate risks to the banking sector.
Increased political instability. Increased perceptions of corruption could result in increased social demands on the government to deliver on its promises.	**Low**	**High**	Strengthen the AML/CFT framework. Foster the independence of institutions. Adopt a national anti-corruption strategy.
Pace of implementation of the PIP. A double-sided risk dependent on the adoption of the Public Investment Management reforms, and the capability of scaling up the execution of the capital budget.	**Low**	**Medium**	Tighten monetary policy if faster execution. Accelerate adoption of Public Investment Management reforms if lower execution.
Retreat from cross-border integration. A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	**High**	**Medium**	Adopt labor market reforms, and accelerate infrastructure investments to improve competitiveness. Allow greater exchange rate flexibility.
Policy and geopolitical uncertainties. Two-sided risks to U.S. growth with difficult-to-predict policies; uncertainty associated with negotiating post-Brexit arrangements; and evolving political processes, including elections in several large advanced and emerging market economies weigh on global growth.	**High**	**High** The EU and UK are Mauritius first and second largest trading partner.	Adopt labor market reforms, and accelerate infrastructure investments to improve competitiveness. Accelerate the Africa Strategy. Allow the exchange rate to play a shock absorbing role.

Source of Risks	Relative Likelihood	Impact	Policy Response
Financial conditions: Fed normalization and tapering by ECB increase global rates and term premia, strengthen the U.S. dollar and the euro vis-à-vis the other currencies, and correct market valuations. Adjustments could be disruptive if there are policy surprises. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.	**High**	**Medium**	Accelerate adoption of FSAP recommendations to mitigate risks to the banking sector, allow greater exchange rate flexibility.
Reduced financial services by correspondent banks ("de-risking"). Significant curtailment of cross-border financial services in emerging and developing economies.	**Medium**	**Medium**	Strengthen AML/CFT regulations. Strengthen risk management and internal controls at smaller banks.
Weaker-than-expected global growth: **Significant slowdown in other large EMs/frontier economies**. Resource misallocation and policy missteps exacerbate the impact of declining productivity and potential growth. In addition, turning of the domestic credit cycle generates disorderly household and corporate deleveraging, with potential spillbacks to advanced economies.	**Medium**	**Low**	Adopt labor market reforms and accelerate infrastructure investments to improve competitiveness, allow greater exchange rate flexibility.
Structurally weak growth in key advanced and emerging economies: Low productivity growth (U.S., the Euro Area, and Japan), a failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the Euro Area, and Japan) undermine medium-term growth in advanced economies.	**High/ Medium**	**Medium**	

Annex II. Public Sector Debt Sustainability Analysis

An updated public debt sustainability analysis (DSA) indicates that while Mauritius' public debt remains sustainable under the baseline scenario, it is likely to exceed 60 percent of GDP over the medium term, and some vulnerabilities are emerging. Compared to the last DSA, debt profile risks related to the share of public debt held by non-residents are slightly elevated. Public gross financing needs are also more vulnerable to growth, real interest rate and primary balance shocks. A combined macro fiscal shock would also see a sustained divergence of public sector debt dynamics from the baseline scenario. The path to achieving the recently-revised debt target is fragile, and the authorities should therefore maintain a prudent and disciplined medium-term fiscal policy to maintain the credibility of the revised debt target.

Background

1. **The last debt sustainability analysis (DSA) for Mauritius was published in February 2016, showing a moderately deteriorating, but manageable, debt outlook.** The last DSA for Mauritius (see Country Report 16/89) showed that public debt indicators were below their relevant indicative thresholds over the medium term, with however some vulnerabilities to real GDP growth and real interest rate shocks. The current note updates this analysis.

2. **Both the public-sector debt and central government debt ratios remained stable during FY2016/17, halting the upward trend of recent years (Text Figure 1).**[1] The public-sector debt-GDP ratio came in at 65.6 percent of GDP at the end of FY2016/17, compared with 65.7 percent of GDP at the same time in 2015 and 62.9 percent at end-December 2014.[2] Under current projections, which already incorporate a fiscal adjustment, major policy changes would be needed to achieve the recently-revised public debt target (60 percent of GDP by June 20, 2021).

3. **Mauritius faces little difficulty in accessing both local and foreign capital markets and has a strong track record of credit worthiness.** The lion's share of public debt that fulfills the government's borrowing requirement is sourced from the highly liquid domestic market, with external public debt representing about a quarter of the total. The most recent auction for 10-year bonds took place in January 2017, with a spread over US 10-year Treasury bonds of about 275 basis points. The maturity structure of government debt has improved, with long-term domestic debt comprising more than half of the total. Moreover, Mauritius has no history of debt

[1] Public sector debt for the purposes of this DSA is defined as central government debt (including extra-budgetary units' debt), parastatal debt, including loan guarantees extended to state-owned enterprises by central government.

[2] The authorities switched from calendar year to fiscal year accounting in mid-2015. The fiscal year ends in June of each year. The debt ratio for 2016 is calculated as per the macroeconomic framework on a fiscal year basis. For projection years, debt ratios are calculated on a calendar year basis.

difficulties, and indicators of capacity to repay, such as interest payments to revenue, are at manageable levels.[3]

4. **The credibility of the fiscal anchor hinges on following a realistic fiscal path for achieving the recently-revised debt target.** To strengthen the credibility of medium-term fiscal policy, it is critical that measures are taken such that the revised public-sector debt target can reasonably be achieved. In this context, and in view of the recent upward trend in debt over recent years, the medium-term fiscal and debt management strategy aims to reinforce fiscal discipline, while also strengthening the affordability and liquidity of debt, the latter which are already at reasonable levels.

Public DSA Risk Assessment

5. **As in the previous DSA, debt profile vulnerabilities are limited, although the updated analysis shows some emerging concerns (Figure 1).** None of the upper early warning thresholds of the risk assessment benchmarks are breached. However, compared with the last DSA exercise, risks associated with exposure to public debt held by non-residents have increased.

Realism of the Baseline Scenario

6. **The baseline assumptions of the current DSA are consistent with the macroeconomic framework underlying the 2017 Article IV Staff Report (see main text).** Figure 2 assesses the realism of the baseline scenario for DSA purposes. Broadly speaking, the forecast errors for Mauritius' real GDP growth, the primary balance, and inflation (deflator), have been low or at the median for all countries. This gives confidence in the forecasts underpinning the macroeconomic framework.

- **Growth.** Real output growth is expected to maintain a steady pace over the forecast horizon, averaging 4 percent over the medium term.
- **GDP deflator and consumer prices.** The deflator is expected to average about 3 percent over the medium term, while consumer prices are likely to average about 4 percent over the forecast horizon.
- **Fiscal strategy.** The primary deficit (excluding grants) is expected to narrow, from an estimated 1.6 percent of GDP in 2016/17 to 0.5 percent of GDP in 2021/22.
- **Current Account.** The current account deficit is expected to average 6 percent of GDP over the medium term. Movements in the current account deficit are expected to largely

[3] Interest payments stood at about 12 percent of domestic revenues at end FY2016/17.

reflect developments in the balance on goods and services, notably capital goods imports, and developments in the services sector.

Baseline Scenario

7. **The baseline scenario is predicated on public financing needs as elaborated in the FY2017/18 budget.** Following the authorities' medium-term fiscal and debt management strategy, and the stated aim of reducing share of external debt in the public debt total, new debt issuances are assumed to principally consist of domestic debt. Medium-to-long term debt will continue to form the largest share of the debt stock, in line with the authorities' objective to lengthen the debt maturity structure and reduce rollover risk. Debt will continue to be principally denominated in local-currency, minimizing exchange rate risk.

8. **The baseline scenario foresees that public-sector debt dynamics are sustainable, yet it is expected that the debt level will remain at a relatively high level over the medium term (Figure 4).** Overall, the path of public debt over the forecast horizon is assessed as sustainable. The public debt-to-GDP ratio is expected to reach its peak of about 67.5 percent of GDP in 2019/20, where after it is forecasted to decline gradually, to about 63 percent of GDP in 2022/23. The gradual decline in the debt to GDP ratio is expected to come principally from real GDP growth, while the principal debt creating flows are the primary deficit, real interest rates, and other flows.

Stress Tests and Distribution of Risks

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

- **Growth shock.** Real output growth lower than the baseline by one standard deviation for 2 years starting in 2018 would lead the public debt level to remain at an elevated level (about 66 percent of GDP) over the medium term. Under this scenario, public gross financing needs would remain above 15 percent of GDP.

- **Real interest rate shock.** An increase in sovereign risk premia by more than 200 basis-points starting in 2018 would lead the public-sector debt level and public gross financing needs to peak in 2022 at about 67 and 17 percent of GDP respectively.

- **Primary balance shock.** Fiscal slippage, in the form of a deterioration in the primary balance of about a cumulative 1.4 percent of GDP over the period 2018-19, would have relatively mild effects on the public-debt level, compared to the above two shocks. However, the public debt level would remain higher than in the baseline by the end of the forecast horizon. Public gross financing needs would also remain at an elevated level.

- **Combined macro-fiscal shock.** Combining the above three shocks into a single scenario would imply a sustained divergence of public debt dynamics from the baseline scenario (reaching about 71 percent of GDP in 2022). Both the ratio of public debt to revenue, and public gross financing needs, would similarly remain at elevated levels over the medium term.

The distribution of risks (Fan Charts, Figure 1) indicates that the public debt level is likely to remain at an elevated, yet stable, level over the forecast horizon.

Conclusion

10. **Mauritius' public-sector debt level, while sustainable, is however likely to remain at an elevated level over the medium term, with vulnerabilities emerging in some areas.** The debt sustainability analysis is broadly positive, indicating that public-sector debt dynamics are sustainable. Yet, the outlook has weakened somewhat since the last DSA was conducted. Debt will likely exceed 60 percent of GDP over the medium term, and some debt profile risks are emerging, notably regarding the proportion of public debt held by non-residents. Moreover, the analysis reveals that public gross financing needs are susceptible to a suite of macroeconomic shocks, notably to growth, interest rates, the primary balance, and a combined macro shock scenario.

11. **The debt sustainability outlook relies on adopting a fiscal stance that will put the public debt ratio on a credible path to meeting the debt target.** A prudent and disciplined medium-term focus for fiscal policy should be adopted to ensure that the recently-revised debt target remains credible, and to contain potential downside risks to the debt outlook.

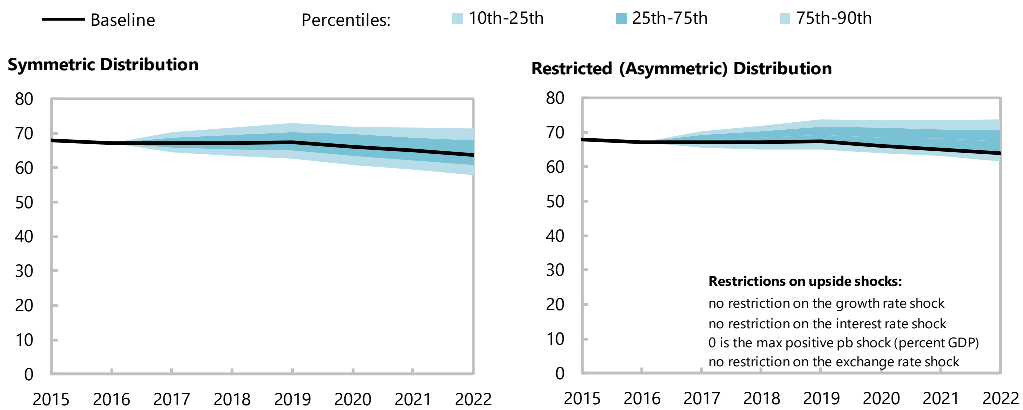
Figure 1. Mauritius: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

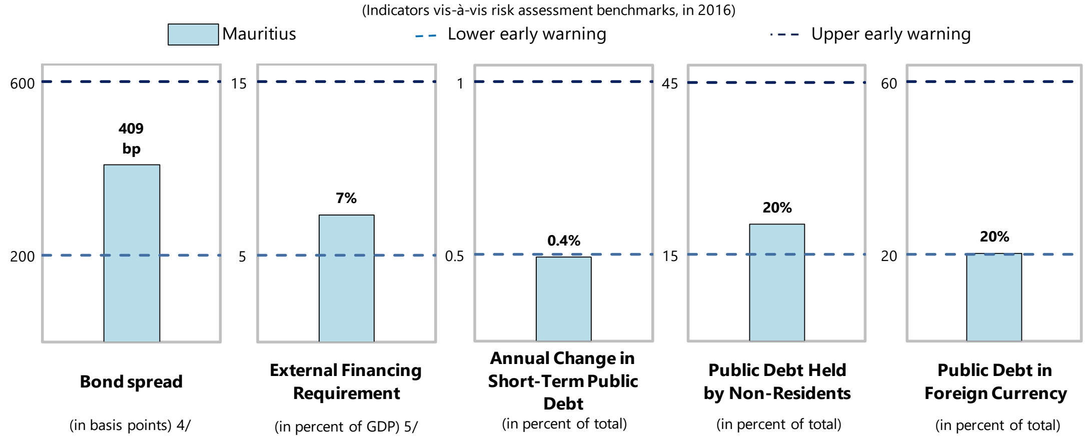
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



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.

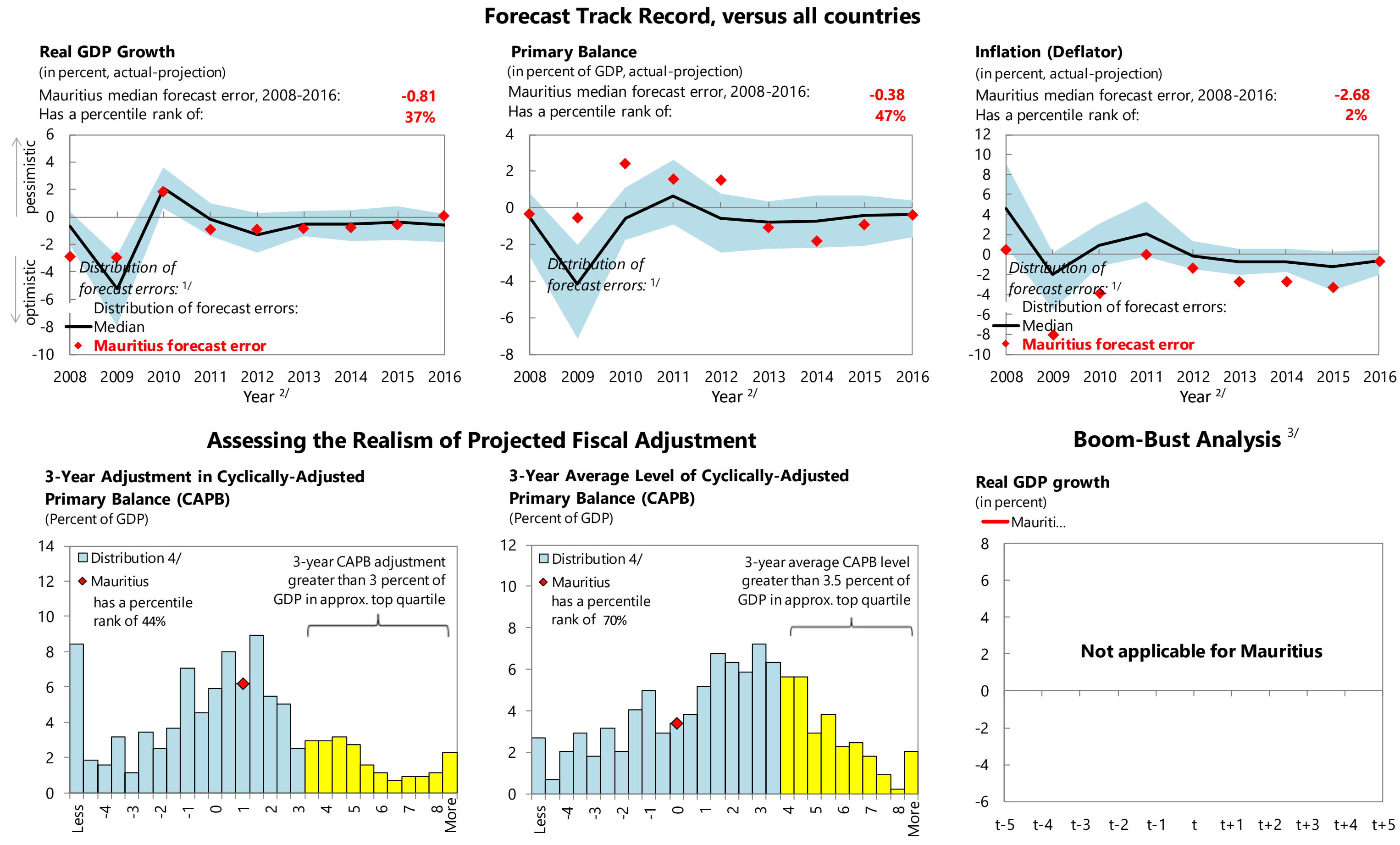
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 26-Aug-15 through 24-Nov-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. Mauritius: Public DSA – Realism of Baseline Assumptions



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 obervations 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. Mauritius: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP, unless otherwise indicated)

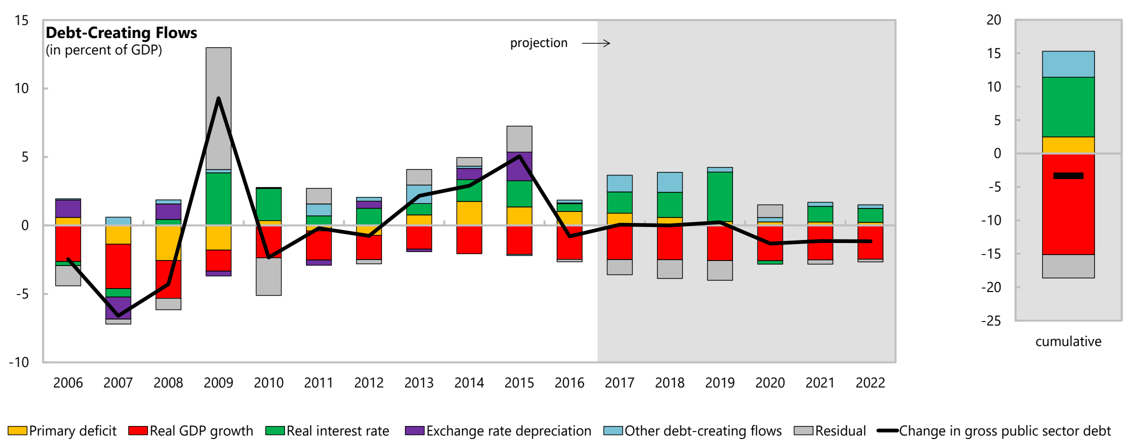
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2006-2014 [2]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	58.9	68.0	67.2	67.2	67.2	67.5	66.1	65.0	63.8
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	14.7	9.7	9.3	9.7	11.8	13.2	12.3	14.1	14.0
Net public debt	58.9	68.0	67.2	67.2	67.2	67.5	66.1	65.0	63.8
Real GDP growth (in percent)	4.1	3.5	3.9	3.9	4.0	4.1	4.1	4.1	4.1
Inflation (GDP deflator, in percent)	3.9	0.9	3.0	1.0	2.9	3.3	3.2	3.0	3.0
Nominal GDP growth (in percent)	8.2	4.5	7.0	4.9	7.0	7.5	7.4	7.2	7.2
Effective interest rate (in percent) [4]	6.2	4.2	4.0	3.5	5.9	9.2	2.9	5.0	4.8

As of November 24, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		386
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-0.3	5.0	-0.8	0.1	0.0	0.2	-1.3	-1.1	-1.2	-3.3	
Identified debt-creating flows	-0.9	3.2	-0.6	1.2	1.4	1.7	-2.3	-0.8	-1.0	0.2	
Primary deficit	-0.4	1.3	1.0	0.9	0.6	0.3	0.3	0.2	0.2	2.5	-1.2
Primary (noninterest) revenue and grants	20.9	21.8	21.7	24.7	23.8	22.7	22.7	22.7	22.7	139.2	
Primary (noninterest) expenditure	20.6	23.1	22.7	25.6	24.4	23.0	22.9	22.9	22.9	141.7	
Automatic debt dynamics [5]	-1.0	1.9	-1.9	-0.9	-0.7	1.0	-2.8	-1.4	-1.4	-6.2	
Interest rate/growth differential [6]	-1.1	-0.2	-1.9	-0.9	-0.7	1.0	-2.8	-1.4	-1.4	-6.2	
Of which: real interest rate	1.1	1.9	0.6	1.6	1.8	3.6	-0.3	1.1	1.0	8.9	
Of which: real GDP growth	-2.2	-2.1	-2.5	-2.5	-2.5	-2.6	-2.6	-2.5	-2.5	-15.1	
Exchange rate depreciation [7]	0.1	2.1	0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.4	-0.1	0.2	1.2	1.5	0.3	0.3	0.3	0.3	3.9	
Drawdown of Deposits (negative)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.8	
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	0.0	0.3	1.4	1.6	0.5	0.4	0.4	0.4	4.6	
Residual, including asset changes [8]	0.7	1.9	-0.2	-1.1	-1.4	-1.4	0.9	-0.3	-0.2	-3.5	



Source: IMF staff.

1/ Public sector is defined as non-financial public sector and includes public guarantees, defined as Portion of SOEs debt.

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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (1+g) and the real growth contribution as -g.

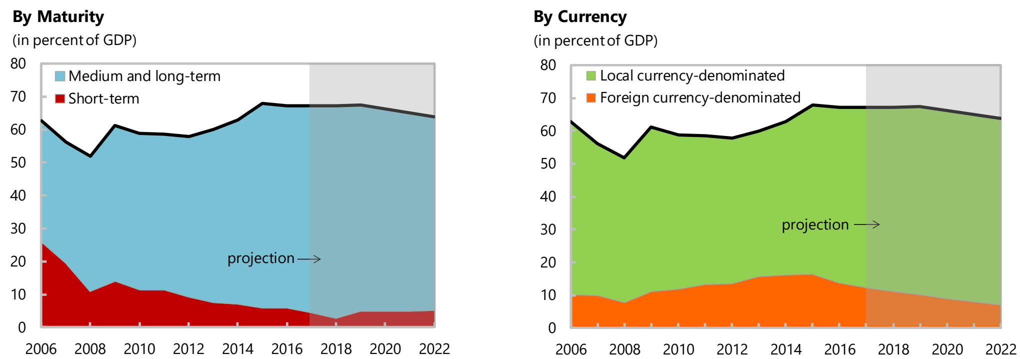
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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

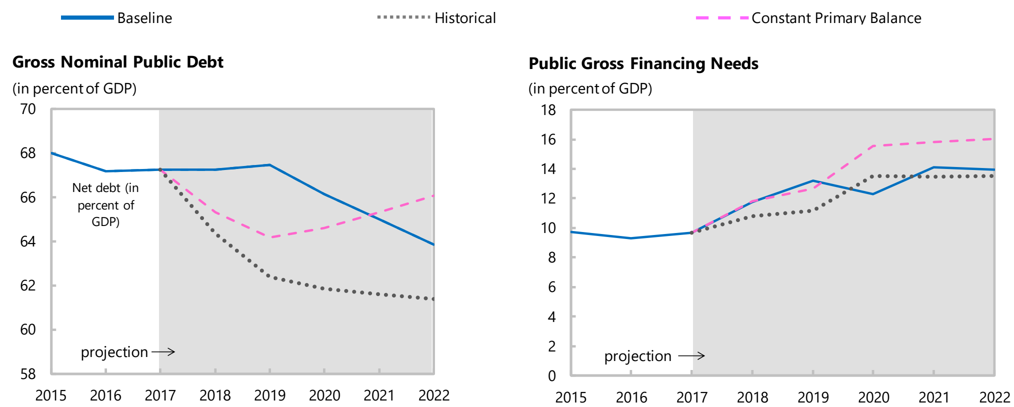
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Mauritius: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

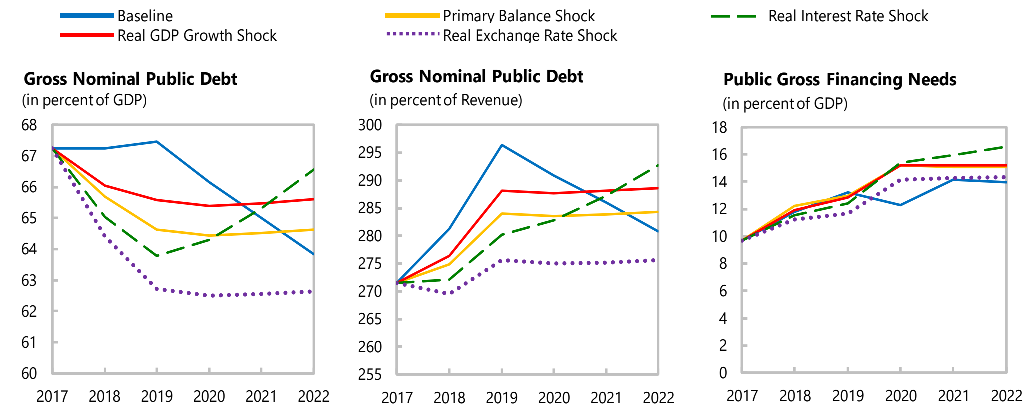
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	4.0	4.1	4.1	4.1	4.1
Inflation	1.0	2.9	3.3	3.2	3.0	3.0
Primary Balance	-0.9	-0.6	-0.3	-0.3	-0.2	-0.2
Effective interest rate	3.5	5.9	9.2	2.9	5.0	4.8
Constant Primary Balance Scenario						
Real GDP growth	3.9	4.0	4.1	4.1	4.1	4.1
Inflation	1.0	2.9	3.3	3.2	3.0	3.0
Primary Balance	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	3.5	5.9	5.6	5.9	6.1	6.3

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	4.0	4.0	4.0	4.0	4.0
Inflation	1.0	2.9	3.3	3.2	3.0	3.0
Primary Balance	-0.9	0.2	0.2	0.2	0.2	0.2
Effective interest rate	3.5	5.9	5.5	5.9	6.1	6.3

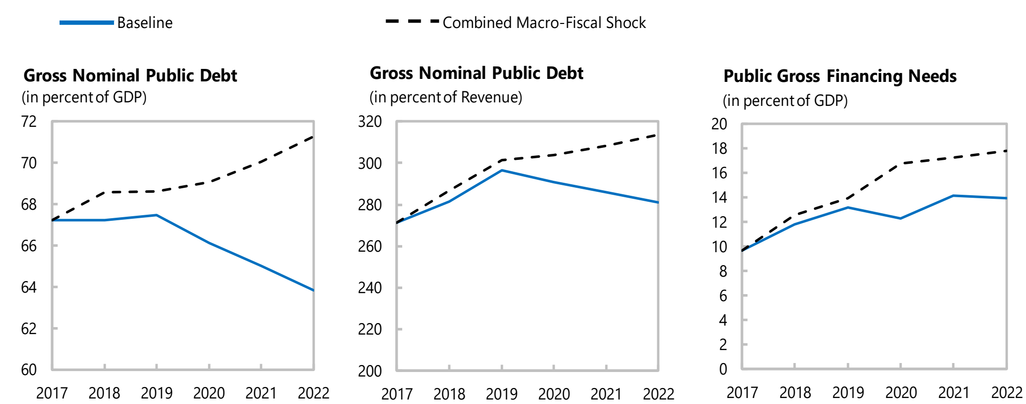
Source: IMF staff.

Figure 5. Mauritius: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	4.0	4.1	4.1	4.1	4.1
Inflation	1.0	2.9	3.3	3.2	3.0	3.0
Primary balance	-0.9	-1.3	-1.0	-0.3	-0.2	-0.2
Effective interest rate	3.5	5.9	5.6	6.0	6.2	6.3
Real Interest Rate Shock						
Real GDP growth	3.9	4.0	4.1	4.1	4.1	4.1
Inflation	1.0	2.9	3.3	3.2	3.0	3.0
Primary balance	-0.9	-0.6	-0.3	-0.3	-0.2	-0.2
Effective interest rate	3.5	5.9	6.4	7.1	7.7	8.2
Combined Shock						
Real GDP growth	3.9	3.0	3.1	4.1	4.1	4.1
Inflation	1.0	2.7	3.1	3.2	3.0	3.0
Primary balance	-0.9	-1.3	-1.0	-0.3	-0.2	-0.2
Effective interest rate	3.5	6.0	6.2	7.0	7.6	8.0

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	3.0	3.1	4.1	4.1	4.1
Inflation	1.0	2.7	3.1	3.2	3.0	3.0
Primary balance	-0.9	-0.9	-0.8	-0.3	-0.2	-0.2
Effective interest rate	3.5	5.9	5.6	6.0	6.2	6.3
Real Exchange Rate Shock						
Real GDP growth	3.9	4.0	4.1	4.1	4.1	4.1
Inflation	1.0	7.3	3.3	3.2	3.0	3.0
Primary balance	-0.9	-0.6	-0.3	-0.3	-0.2	-0.2
Effective interest rate	3.5	6.0	5.5	5.8	6.1	6.2

Source: IMF staff.

Annex III. External Debt Sustainability Analysis

This external DSA includes data on both public private sector external debt in the total external debt stock, excluding however external banking liabilities as is standard practice in financial centers such as Mauritius. The total external debt stock has declined in recent years, coming in at about 90 percent of GDP at end-2016. While under the baseline scenario, public external debt is expected to decline over the medium term, developments in the private sector are expected to drive the total external debt ratio higher over the medium term. While Mauritius' external debt is sustainable, external debt dynamics are particularly susceptible to real currency depreciation and non-interest current account shocks.

1. **Mauritius' external debt stock consists chiefly of banking sector liabilities, with a relatively small contribution of the public sector (Table 1).** At end-2016, the total external debt stock comprised mainly banking sector external liabilities, that are excluded from the DSA. Public sector external debt, which is mostly sourced from multilateral lenders on a long-term basis, accounted for less than one-fifth of the total at end-2016.

Table 1. Mauritius: Stock of Gross External Debt at End-2016
($US millions, percent of GDP)

	$US Millions	Percent of GDP
Total Gross External Debt	**10700.9**	**89.2**
without banking sector liabilities	2606.9	21.7
Public	**1780.7**	**14.8**
of which : central government	1434.0	12.0
of which : multilateral	961.5	8.0
bilateral	469.9	3.9
other lenders	2.6	0.02
Private	**8920.2**	**74.4**

Sources: Country authorities and IMF Staff calculations

2. **The total external debt stock declined in recent years, but is expected to rise again over the medium term, driven by developments in private debt**. The total external debt stock including banking sector liabilities fell from 101.9 percent of GDP at end-2013 to 89.2 percent of GDP at end-2016. Over the forecast horizon, external debt is expected to rise to about 116 percent of GDP. Public-sector external debt is expected to decline over the same period, as new public debt issuances tilt more towards the domestic market.

3. **As in the previous external DSA, the external debt sustainability analysis is conducted excluding banking sector liabilities.** This is standard practice in financial centers such as Mauritius, where banking sector liabilities are more than matched by assets.

4. **Standard stress tests highlight that Mauritius' external debt is particularly sensitive to non-interest current account and real currency depreciation shocks.** A shock to the baseline non-interest current account of minus one-half standard deviation in the projection years would leave the external debt ratio 6 percentage points higher than the baseline by 2022. A one-time 30 percent currency depreciation in 2018 would leave the external debt to GDP ratio 11 points higher than the baseline by 2022.

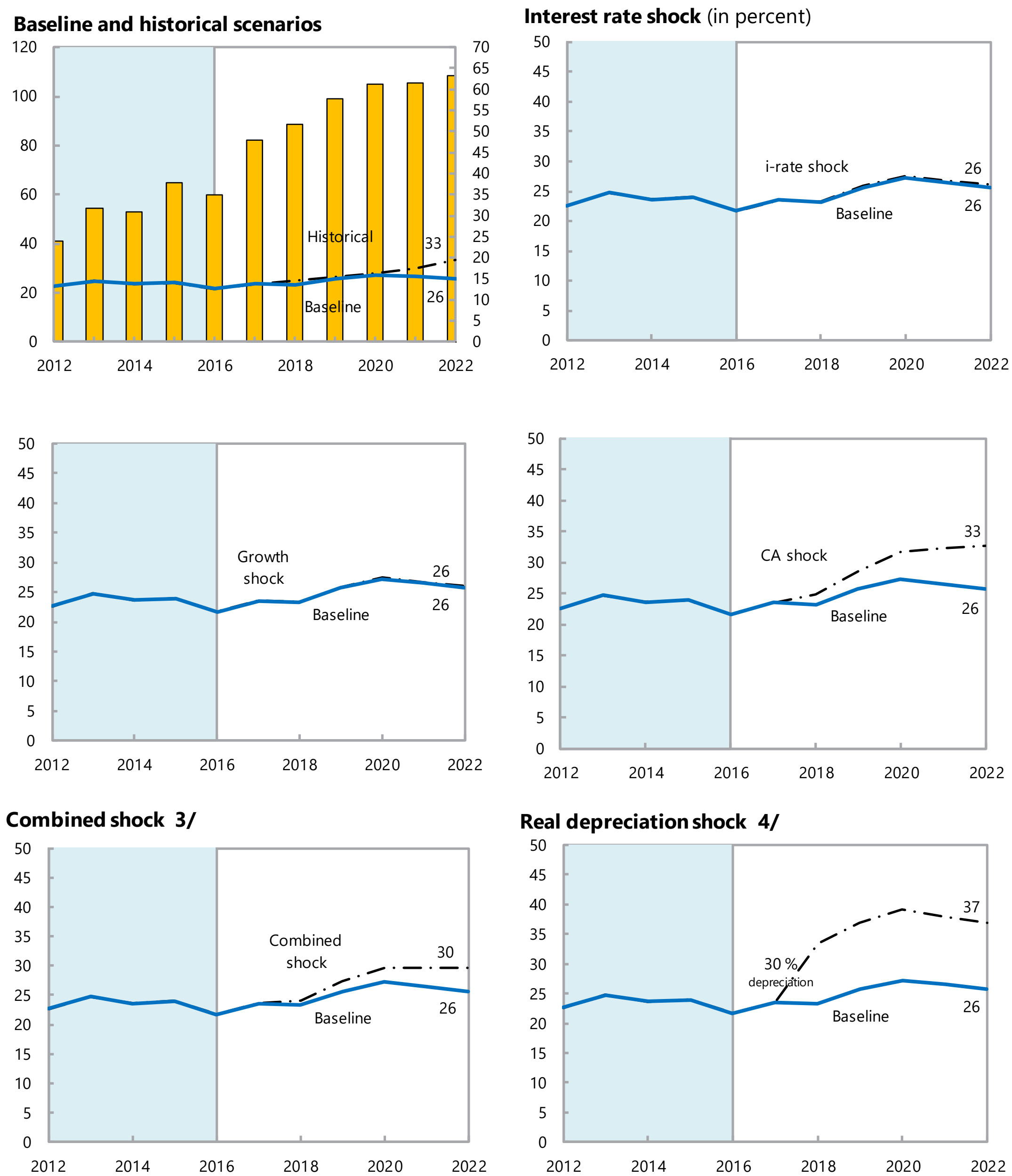
5. **Shocks to interest rates, growth, as well as a combination shock, would have more limited implications for external debt sustainability.** The effects of growth and interest rate shocks would be particularly muted, while a combined macroeconomic shock scenario would imply a slight increase in the external debt ratio in the medium term.

Conclusion

6. **Mauritius' external debt is sustainable, yet is vulnerable to large exogenous shocks.** With external public sector debt declining over the medium term, the total external debt stock (excluding banking liabilities) is expected to remain relatively stable over the forecast horizon. However, the vulnerability of the external debt sustainability outlook to non-interest current account and real depreciation shocks highlights the importance of reforms to bolster international competitiveness and support the current account balance, as well as efforts to limit exposure to external foreign currency borrowing.

Figure 1. Mauritius: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of 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 2018.

Table 1. Mauritius: External Debt Sustainability Framework, 2012 – 2022

(in percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections						
	2012	2013	2014	2015	2016	Historical Average	Standard Deviation	2017	2018	2019	2020	2021	2022	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	22.6	24.8	23.6	24.0	21.7			**23.5**	**23.3**	**25.7**	**27.3**	**26.5**	**25.7**	**-3.3**
Change in external debt	0.5	2.2	-1.1	0.4	-2.3			1.9	-0.3	2.4	1.6	-0.8	-0.8	
Identified external debt-creating flows (4+8+9)	2.2	2.8	1.7	8.0	2.7			3.2	2.5	4.8	4.7	1.5	-0.2	
Current account deficit, excluding interest payments	7.0	6.0	5.3	4.6	4.2			6.5	5.7	7.9	7.9	4.6	2.8	
Deficit in balance of goods and services	13.1	14.3	12.5	10.8	10.4			14.4	13.5	15.8	15.7	12.5	12.8	
Exports	52.9	47.3	49.8	48.0	43.4			45.5	46.4	46.9	47.6	48.5	49.2	
Imports	66.0	61.6	62.3	58.8	53.8			59.9	59.9	62.8	63.3	61.0	62.0	
Net non-debt creating capital inflows (negative)	-4.8	-2.6	-2.6	0.8	-0.7			-3.0	-2.9	-2.8	-2.7	-2.6	-2.4	
Automatic debt dynamics 1/	-0.1	-0.7	-1.0	2.5	-0.8			-0.3	-0.3	-0.3	-0.5	-0.6	-0.6	
Contribution from nominal interest rate	0.3	0.3	0.3	0.3	0.3			0.5	0.6	0.6	0.5	0.5	0.5	
Contribution from real GDP growth	-0.7	-0.7	-0.8	-0.9	-0.9			-0.9	-0.9	-0.9	-1.0	-1.1	-1.0	
Contribution from price and exchange rate changes 2/	0.3	-0.2	-0.5	3.2	-0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.7	-0.6	-2.9	-7.6	-5.0			-1.3	-2.8	-2.4	-3.1	-2.3	-0.5	
External debt-to-exports ratio (in percent)	42.8	52.4	47.4	50.0	49.9			51.7	50.1	54.7	57.3	54.6	52.2	
Gross external financing need (in billions of US dollars) 4/	2.7	3.8	3.9	4.3	4.2			5.7	6.4	7.5	8.4	8.9	9.6	
in percent of GDP	23.9	31.8	30.8	37.7	34.8			47.9	51.8	57.8	61.1	61.5	63.1	
Scenario with key variables at their historical averages 5/								**23.5**	**24.8**	**26.6**	**27.8**	**29.7**	**33.2**	**-3.7**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.2	3.2	3.6	3.5	3.8	4.0	1.0	3.9	4.0	4.1	4.1	4.1	4.1	
GDP deflator in US dollars (change in percent)	-1.5	1.0	2.0	-11.8	0.7	2.3	9.2	-4.6	-0.3	0.9	1.2	1.1	1.2	
Nominal external interest rate (in percent)	1.2	1.2	1.4	1.1	1.1	1.6	0.7	2.4	2.7	2.6	2.2	1.9	1.8	
Growth of exports (US dollar terms, in percent)	3.8	-6.8	11.4	-12.1	-5.4	3.4	12.5	3.8	5.8	6.2	6.9	7.1	7.0	
Growth of imports (US dollar terms, in percent)	2.2	-2.7	7.0	-13.9	-4.4	4.1	14.4	10.4	3.7	10.0	6.3	1.3	7.1	
Current account balance, excluding interest payments	-7.0	-6.0	-5.3	-4.6	-4.2	-7.3	3.0	-6.5	-5.7	-7.9	-7.9	-4.6	-2.8	
Net non-debt creating capital inflows	4.8	2.6	2.6	-0.8	0.7	2.2	1.7	3.0	2.9	2.8	2.7	2.6	2.4	

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.

Annex IV. External Stability Assessment

The overall current account deficit narrowed to an estimated 4.4 percent of GDP at end-2016. Foreign exchange reserves increased by about 6.3 percent of GDP throughout the year, while the real effective exchange rate appreciated slightly. Statistical analyses indicate that Mauritius' external position in 2016 was weaker than suggested by medium-term fundamentals and desirable policy settings. The reserve adequacy assessment suggests that, accounting for financial sector vulnerabilities associated with Global Business Companies (GBC) deposits at small and medium-size banks, international reserves at end-2016 were within the advisable range of international reserves, and have risen since.

A. Recent Balance of Payments Developments

1. **Recent external sector developments.** Mauritius' current account deficit narrowed from 4.9 percent of GDP in 2015 to an estimated 4.4 percent of GDP at end-2016. This was largely on the back of improved net services (chiefly tourism) and net income balances. Meanwhile, international reserves increased by about 6.3 percent of GDP, and the real effective exchange rate appreciated by about 1 percent. Fluctuations in the current account deficit, which is expected to average about 6 percent of GDP over the medium term, are expected to largely mirror movements in the balance of goods and services, with declining net income and net current transfers being offset by increases in the net services balance. While international reserves are expected to increase by about 21 percent in nominal terms over the medium term, they will decline when expressed as months of imports (to about 8 months of goods and services imports).

2. **International capital flows remained resilient in 2016, with continued strong support from direct investment flows in the GBC sector**. Mauritius' overall capital and financial account increased from about 9 percent of GDP in 2015 to about 11 ½ percent of GDP at end-2016. The GBC financial account constituted about three quarters of the overall financial account in 2016, driven chiefly by robust inward direct investment flows.

3. **The latest available official data on Mauritius' International Investment Position (IIP), for end-2015, indicate that Mauritius' net asset position more than doubled throughout the year.** During 2015, the increase in international liabilities was outstripped by the increase in cross-border asset holdings. The latter was chiefly attributable to higher direct and portfolio investment asset holdings by the GBC sector. Preliminary estimates by the authorities for 2016 indicate the net asset position also remained strong in 2016.

B. External Balance Assessment

4. **The EBA-lite methodology, more specifically the CA model, and staff's analysis suggest that Mauritius' external position at end-2016 was weaker than implied by**

medium-term fundamentals and desirable policy settings.[1] The External Sustainability (ES) approach is deemed to be inappropriate for the analysis, due to Mauritius' status as a large OFC, with large external asset and liability positions. The Index of the Real Effective Exchange Rate approach is also not used in the assessment, as the results are characterized by a high degree of uncertainty (large residuals).

5. **Optimal policies and policy gaps**. Mauritius' policy stance assessed at the end of 2016, with respect to international reserves and capital account openness are considered appropriate and hence do not contribute to national policy gaps. The optimal policy setting for the credit/GDP ratio is the estimated trend value for end of 2016 (gap of -6.5 percent of GDP).[2] The optimal fiscal stance at the end of 2016 is set at a deficit of 1.6 percent of GDP.

- The CA model implies a current account norm of -0.95 percent of GDP, while the estimated current account deficit narrowed to an estimated 4.4 percent of GDP in 2016. Using the estimated current account elasticities, this implies an REER gap of about 10 percent. This is up slightly from last year's estimate and may reflect in part cost the growing disconnect between wages and productivity and associated cost competitiveness concerns.

- The assessment is subject to downside risks from the changing nature of the GBC business. As an illustrative exercise, excluding GBC-related flows from the current account balance would imply a higher overvaluation of the REER and a substantially weaker external position.

Table 1. Mauritius: Exchange Rate Assessment – EBA Lite
(Percent)

Real Exchange Rate Gap	
Current Account Approach (baseline)	10.0
Current Account Approach (exc. GBC flows)	27.6
Current Account	
Estimated Current Account Deficit (baseline)	4.4
Estimated Current Account Deficit (exc. GBC flows)	9.3
Current Account Norm	-0.95
Current Account Gap	-3.5
Current Account Elasticity	-0.4

Source: IMF staff estimates.

[1] See IMF Working Paper (WP/13/272) for technical background information.

[2] Adjusting the credit / GDP ratio for corporate bond issuances does not materially alter the analysis.

C. Reserve Adequacy Assessment

6. **The level of Mauritius' international reserve holdings is assessed against the benchmark of a reserve adequacy metric that is augmented to account for Mauritius' exposure to risks stemming from the GBC sector.** The standard IMF reserve adequacy metric combines standard proxies of risks stemming from certain emerging market vulnerabilities (lower export income, lower rollover rates of short term debt, and the possibility of resident capital flight), assigning a weight to each risk. As in the last reserve adequacy assessment for Mauritius (for details see Country Report 16/89), the standard metric is augmented with the portion of GBC deposits held in small and medium-size banks (net of liquid assets). The augmented metric therefore helps capture financial sector vulnerabilities associated with disruptions to foreign currency funding, and considers the liquidity of commercial banks' foreign currency assets.

7. **Per the adjusted metric, staff estimates that international reserves at the end of 2016 were inside the advisable range of international reserves (Figure 1).[3]** Accounting for risks stemming from GBC deposits at small and medium-size banks, the level of international reserves at the end of 2016 stood at about 115 percent of the adjusted metric. This level is significantly higher than in the last assessment, and inside the advisable range of international reserves. Since end-2016, international reserves have risen further.

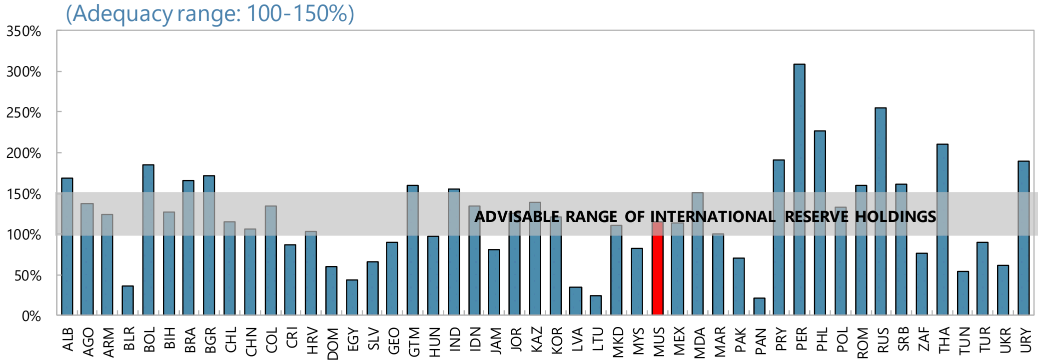
[3] 2016 data on GBC deposits and the IIP is currently unavailable. To calculate the adjusted metric for 2016, the preliminary assessment therefore uses end-2015 data on GBC deposits, as well as projections of GBC's other liabilities.

Figure 1. Mauritius: Comparison of Reserve Adequacy Measures

(including GBC deposits held at small and medium-sized banks, net of liquid assets)

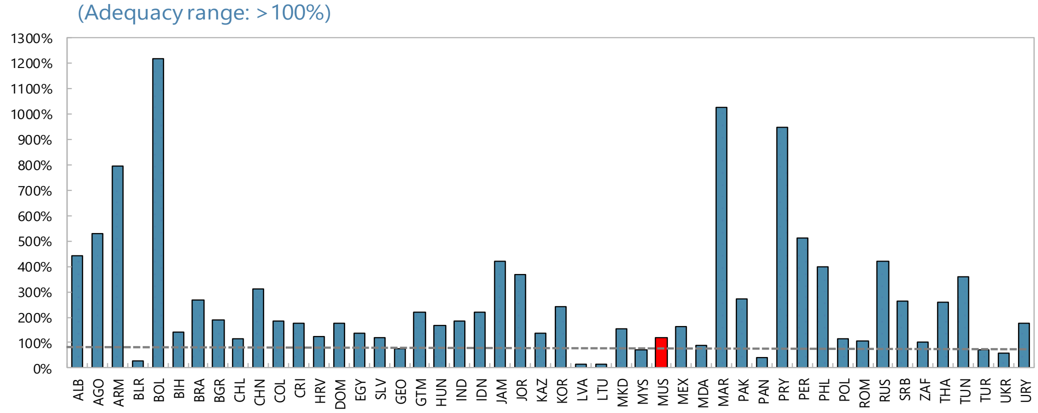
Gross International Reserves / Adequacy Metric

(Adequacy range: 100-150%)



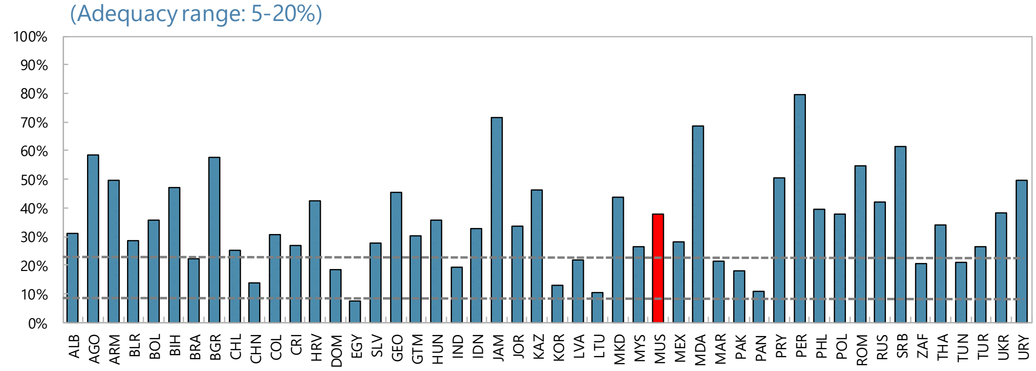
Gross International Reserves / Short-term Debt

(Adequacy range: >100%)



Gross International Reserves / Broad Money

(Adequacy range: 5-20%)

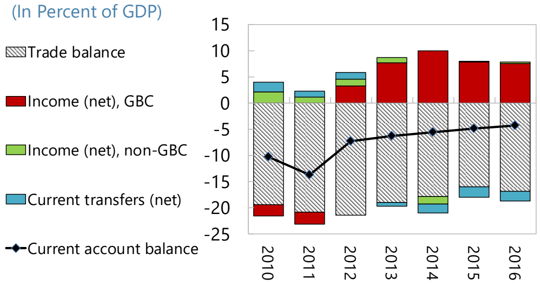


Source: IMF staff estimates

Figure 2. Mauritius: Recent External Sector Developments

The current account balance narrowed somewhat in 2016…

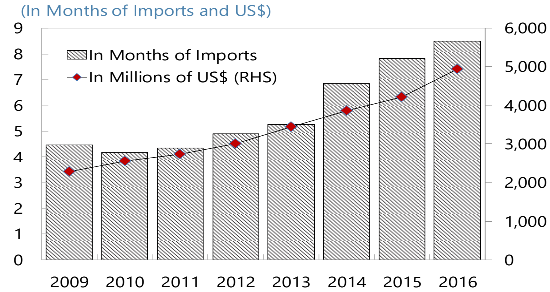
Current Account Balance
(In Percent of GDP)



Source: Country authorities and staff estimates.

And reserves increased rapidly…

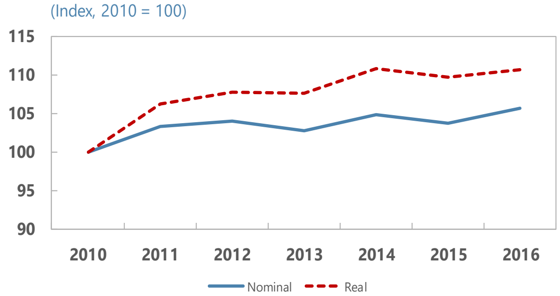
Net International Reserves
(In Months of Imports and US$)



Source: Country authorities and staff estimates.

….and the real effective exchange rate appreciated slightly.

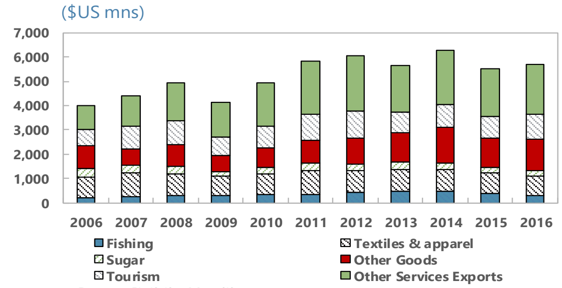
Effective Exchange Rates
(Index, 2010 = 100)



Source: IMF Staff calculations

The importance of services exports, particularly tourism, has grown over the last decade.

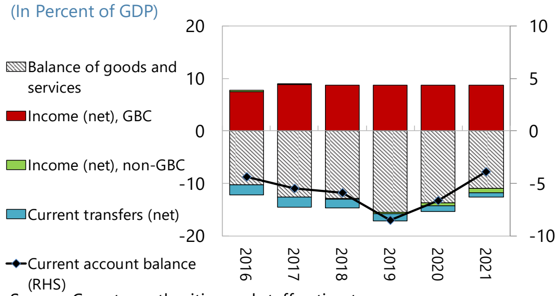
Mauritius: Exports of Goods & Services
($US mns)



Source: Statistics Mauritius

Fluctuations in the current account deficit are projected to mirror developments in the balance of goods and services…

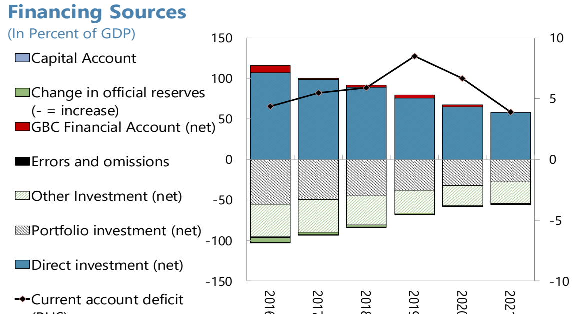
Current Account Balance
(In Percent of GDP)



Source: Country authorities and staff estimates.

…while sizable FDI and portfolio flows will continue, GBCs will continue to play a large role in financing the current account.

Financing Sources
(In Percent of GDP)



Source: Country authorities and staff estimates.

Annex V. Status of the 2015 Article IV Consultation Main Recommendations

Policy Area	Key Policy Recommendations	Status
Macro-prudential policy	Urgently upgrade the macro-prudential policy framework. A macro-prudential authority with a prominent role for the BoM should be created to assess and mitigate evolving systemic risks. Strengthen the resilience of the financial sector, in line with FSAP recommendations.	See Annex VI.
Monetary and Exchange Rate Policy	Strengthen foreign currency buffers, mainly by seeking insurance mechanisms, including swap arrangements or credit lines with other central banks, rather than only by further reserves accumulation. Excess liquidity absorption should proceed at a measured pace to avoid sharp increases in interest rates. The BOM should revise the current uneven framework for reserve requirements and consider the creation of a limited foreign currency (FX) emergency liquidity assistance (ELA) facilities with appropriate safeguards.	Reserve buffers increased by over $700 million in 2016, and are now inside the advisable range of international reserves holdings. No alternative options for the build-up of reserves (credit lines, swap agreements) have been finalized. The costs of sterilization have increased significantly and excess liquidity continues to hinder the transmission of monetary policy. The monetary policy framework is currently under revision, and the creation of a limited FX ELA facility is still pending.
Fiscal Policy and Debt Sustainability	Contain the budget deficit, and improve the credibility of the debt target in the context of the FY2016/17 budget cycle. Key measures include: (i) broaden the tax base, and reconsider tax distortions that affect financial risk taking and income inequality, (ii) control the expansion of the current spending bill through better targeting of social benefits, (iii) divest suitable public assets with proceed targeted at debt reduction, and (iv) put in place an operational framework for analysing fiscal risks and contingent liabilities.	The FY2016/17 was more expansionary than discussed, envisioning a significant increase in capital spending, partly financed by increased excises on tobacco and alcohol. Under current policies, the FY2020/21 debt target will be missed. Improved targeting of social benefits has proved politically costly, and a divestiture strategy is yet to be put in place. The new budget execution monitoring system is expected to improve the execution rates of the capital budget, in line with the 2016 PIMA recommendations.

Policy Area	Key Policy Recommendations	Status
Structural Reforms	Adopt policies to address the implications of the projected shrinking of the labour force, including through policies to encourage greater female labour force participation.	The Back to Work Program (launched in June 2015) targets women over 35 years of age to enable them to take up or resume employment. As of June-2017 more than 400 employers and 2,109 women are registered in the program, of which 655 have been placed. The Youth Employment Program (launched in 2013), which caters for unemployed youth (16-35 years), has a total number of 28,694 youth registered (58 percent female). The number of jobseekers placed as at 30 June 2017 is 17,960 out of which 53% are female.

Annex VI. Status of Implementation of Main FSAP Recommendations

Recommendation	Status
Banking Supervision and Regulation	
Conduct regularly macroprudential solvency and liquidity stress tests.	Solvency stress testing implemented; stress testing for liquidity and other risks pending.
Establish a macroprudential body with a clear financial stability objective, and adequate enabling framework.	Not implemented. The Financial Stability Committee serves as forum for discussing macroprudential issues.
Improve the monitoring and supervision of the GBC sector; seek significant consolidation of the Management Companies industry, and raise its standards.	A study on the GBC sector was carried out by audit firms in 2016; further measures are pending.
Implement measures to ensure that banking system liquidity is not adversely affected by developments in the GBC, and cross-border sectors.	Basel III *Liquidity Coverage Ratio* (LCR) to be phased in from October 2017; introduction of Basel III *Net Stable Funding Ratio* (NSFR) pending.
Financial Sector Oversight	
Establish a framework for conglomerate supervision, strengthen consolidated supervision, and develop a supervisory framework for D-SIBs.	Framework for conglomerate and consolidated supervision agreed between BOM and FSC and joint on-site examinations conducted; D-SIB framework enacted.
Improve bank rating systems, and develop more comprehensive remedial action program.	Implemented: bank rating (CAMEL) system expanded; remedial action program to be implemented as part of risk-based supervision (work in progress).
Amend law to facilitate conglomerate supervision, improve consolidated supervision, and strengthen the corrective actions toolkit.	Banking Act and BOM Act amended (but not yet Financial Services Act for FSC) to improve conglomerate/consolidated supervision; action on corrective actions toolkit pending.
Financial Safety Net	
Modify the Banking Act in order to make the resolution framework more efficient.	In the process of implementation, supported by IMF technical assistance.
Introduce an industry-funded deposit insurance scheme with powers to facilitate resolution.	The BOM issued a draft Deposit Insurance Scheme (DIS) bill and proposed it to the MOFED in 2016.
Introduce, through changes in the current legal and regulatory framework, a comprehensive framework for crisis prevention and management.	In the process of implementation, supported by IMF technical assistance.

Appendix I. Improving Domestic Revenue Mobilization

Strengthening domestic revenue mobilization by about 0.8 percent of GDP in the medium term would allow Mauritius to meet its goals of improving infrastructure, promoting inclusive growth while preserving debt sustainability. This would require revising the current policies on tax exemptions and broadening the VAT base.

1. **Mauritius successfully improved revenue mobilization in the last decade**. The wave of tax reforms in 2007, along with substantial improvements in tax administration, allowed Mauritius to increase its tax intake by almost 3 percent of GDP during the period (Figure 1). In 2007, most existing tax incentives for companies (tax holidays, exemptions and investment tax credits) were removed, the standard corporate income tax (CIT) rate was reduced from 25 to 15 (harmonizing it with the prevailing rate on tax-incentive companies), and the personal income tax (PIT) rate structure was changed to a flat rate of 15 percent. The creation of the semi-autonomous Mauritius Revenue Authority (MRA) was accompanied with improvements in taxpayer databases and filing rates (including through the introduction of e-filing), initiatives to improve tax arrears and strengthen enforcement, improved taxpayer services,[1] the introduction of an integrated tax administration system and the use of key performance indicators, among others. Furthermore, the strong performance of revenue collections unleashed by the reforms allowed Mauritius to successfully replace the revenues lost from trade liberalization.

2. **More recently, the authorities have introduced an important array of changes to the tax regime, some of which reverse previous measures**. The main changes are: (i) the reduction of corporate income taxes on export-derived profits (especially for SMEs); (ii) the expansion of tax incentives for a wide set of sectors and activities, including R&D; (iii) the elimination of registration duties and land transfer taxes for certain businesses (most notably motor vehicles and construction), (iv) the introduction of differential treatment of interest and dividend income for tax purposes; (v) the increase in personal income tax exemption thresholds, (vi) the introduction of a negative income tax system to support some 150,000 employees, and (vi) the introduction of a 5 percent solidarity levy on high income earners. Custom duties on 26 lines along with the VAT on 12 products were eliminated. To compensate for the revenue loses, excise duties were increased both in 2016 and 2017.

3. **While an evaluation of the reforms would be premature, a preliminary assessment shows a mixed picture in terms of the potential efficiency gains of the tax reforms**. First, the generous use of tax incentives risks eroding the tax base. Incentives are often abused by existing companies, and it is unclear whether foreign investors of substance in their investment and location decisions rank tax incentives higher than other factors (such as macroeconomic and political stability, transparent legal and regulatory frameworks,

[1] Per the 2017 Doing Business Report (Paying Taxes), Mauritius ranks as one of the most competitive countries for paying taxes in the world, outranking some OECD countries.

infrastructure, a skilled workforce). Moreover, the revenue costs of tax incentives can be high: these range from the distortions to resource allocation arising from the selective nature of the benefits, to the lost revenue, the cost of the resources required to administer the incentives, not to mention the social costs of corruption and/or rent seeking activities connected with the abuse of incentive provisions.

4. **The possible equity effects are also unclear**. While an assessment of the distributional effects must encompass the combined impact of the spending they finance, it is widely accepted that equity-enhancing tax policy should strive to shift the tax burden gradually from more distortionary taxation to less distortive taxes such as consumption-based taxation (VAT), other property taxes, and environmental taxes. In the case of Mauritius, while the recent reforms have relied more on consumption-based taxation (excises), the burden of taxation on residential property and the use of vehicles has fallen. Accordingly, it is very important to evaluate the overall coherence of the tax system reform. The current piecemeal approach could disappoint, as the potential revenue an equity gains could be offset by the base-narrowing exemptions and the misallocation of resources they seem to promote.

5. **There is scope to improve the efficiency of Mauritius' tax system, without rate increases**. A preliminary analysis indicates that Mauritius' average CIT revenue productivity (Figure 1)[2] is below the levels of other Middle Income Countries (MICs), and other Small and Middle Income States (SMICS). The VAT C-efficiency[3] is also low compared with other peers in the region. Increasing the CIT productivity to the average level of Upper MICs could yield about 0.2 percent of GDP,[4] while increasing the VAT-efficiency rate to that of Cabo Verde could yield about 0.6 percent of GDP. These estimates are supported by estimates of long-run buoyancy in Mauritius, which point to coefficients higher that one for the CIT and the VAT.[5] Measures to improve the revenue yields from the CIT and the VAT would, in turn, require a revision of the current CIT tax incentives policy, broadening the VAT base, and improving tax administration and compliance.

[2] Measured as the ratio of CIT revenue as a share of GDP and the CIT rate.

[3] Measured as the ratio of VAT revenue to the product of the VAT rate and consumption. A ratio below one indicates reduced rates and imperfect compliance.

[4] Increasing CIT productivity to Mauritius' maximum observed level in 2010 could yield about 1.4 percent of GDP, while taking the VAT C-efficiency rate to that of Seychelles would yield an additional 4 percent of GDP.

[5] Applying panel data techniques, Jalles (2017) estimates short- and long-run buoyancy for sub-Saharan African countries (SSA), including Mauritius spanning the 1990-2015 period. The estimated short- and long-run buoyancy estimates for Mauritius are 0.81 and 1.14, respectively, with short-run buoyancy not statistically different from zero. A Mauritius-specific time-series analysis using longer time series (1977-2015), shows that buoyancy is greater than one for CIT, VAT, gambling taxes, excise duties and sales tax revenues implying that these tax revenues rise by more as GDP rises. Buoyancy for the PIT is less than one, while buoyancy for customs and other taxes is not statistically different from zero.

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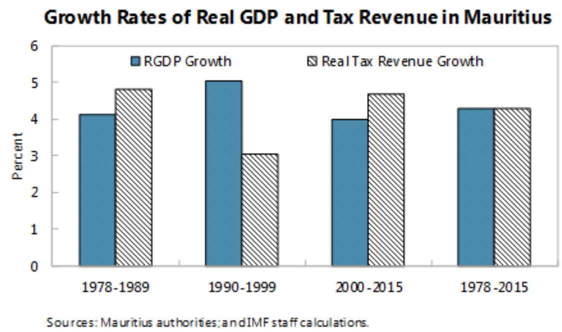
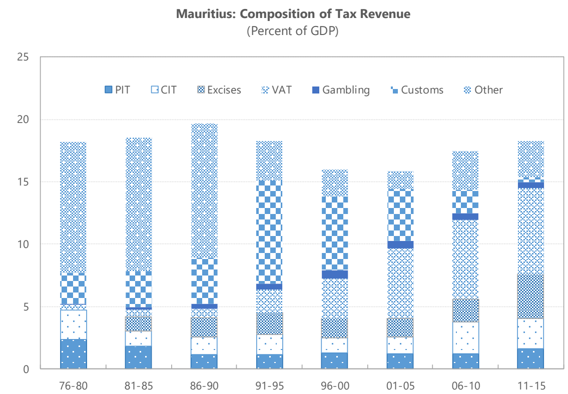
Figure 1. Mauritius: Some Indicators of Tax Efficiency

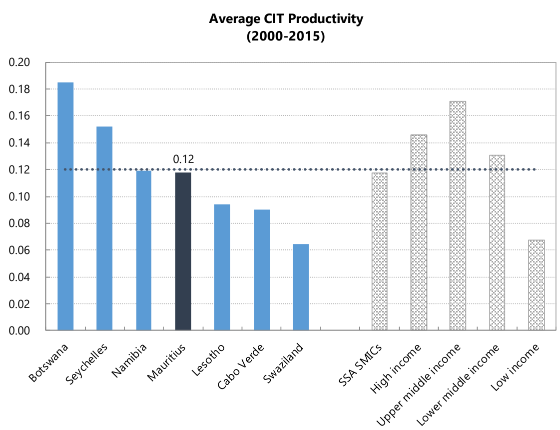
Historically, tax Revenue has tended to grow in line with GDP…



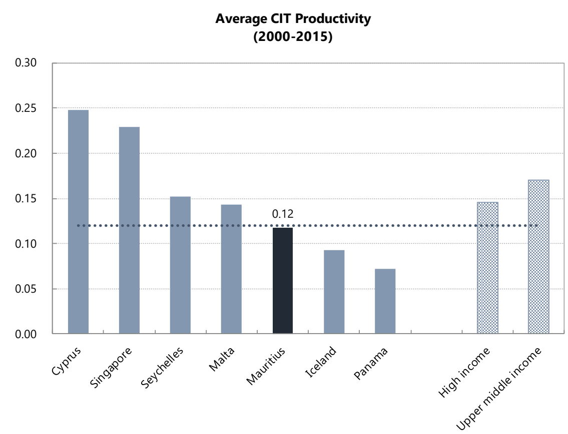
And the tax burden has shifted gradually to consumption-based taxation.



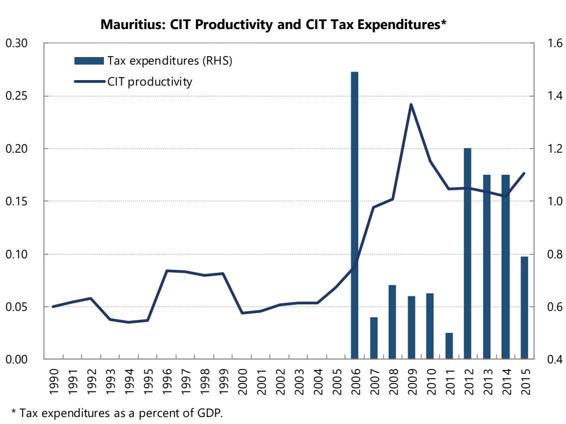
Average CIT Productivity is below other MICs…



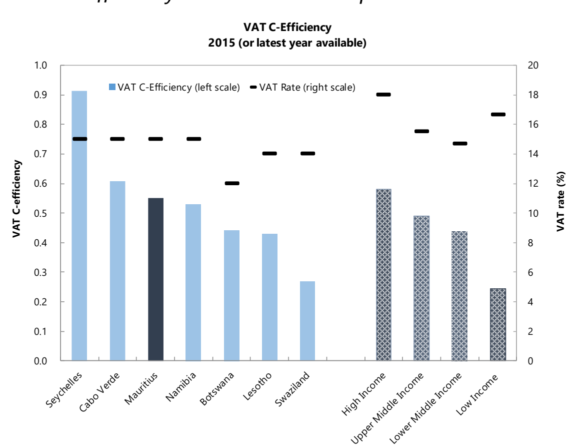
and other SMICs in SSA.



And has been falling in recent years…



VAT C-efficiency is also lower than peers'.



Sources: Mauritian authorities, IMF staff estimates.

INTERNATIONAL MONETARY FUND

MAURITIUS

November 3, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by The African Department

CONTENTS

RELATIONS WITH THE FUND

(As of October 30, 2017)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	142.20	100.00
Fund holdings of currency (Exchange Rate)	117.06	82.32
Reserve Tranche Position	25.15	17.69

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	96.81	100.00
Holdings	89.90	92.86

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Overdue Obligations and Projected Payments to Fund [1/]

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

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.02	0.04	0.04	0.04	0.04
Total	0.02	0.04	0.04	0.04	0.04

[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

The *de jure* exchange rate arrangement is classified as floating The *de facto* exchange rate arrangement is classified as floating. Mauritius has accepted the obligations of Article VIII, Section 2, 3, and 4. On September 11, 2017, the authorities introduced the Exchange Rate Support Scheme (ERSS), which aims to provide a temporary subsidy to exporters in light of the depreciation of the US dollar. The amount of the subsidy will be determined by the difference between a reference rate (US$1 = MUR 34.50) and the rate at which the exporter has exchanged its export proceeds at its commercial bank, subject to a maximum of MUR 2.50 per dollar. The scheme will run over a period of six months and will be administered by the Ministry of Industry, Commerce and Consumer Protection. The ERSS gives rise to an MCP under Article VIII, Section 3. The country maintains an exchange system free of multiple currency practices, and of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account. Mauritius continues to intervene in the foreign exchange market with an objective to smooth excess volatility. On August 25, 2017, US$1 was equivalent to MUR 34.1.

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation was completed by the Executive Board on February 16, 2016 (Country Report No. 16/89, March, 2016).

Technical Assistance (2006–2017)

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
Onsite Supervisory Process, October 2015
Risk Based Supervision & Pillar 2 of Basel II Seminar, February 2016
Enhancing Compliance of the Insurance Sector, April/May 2016
Implementation of Risk Based Supervision, June 2016
Modeling and Forecasting, October 2016
Modeling and Forecasting, March 2017
Forecasting and Policy Analysis Systems, 2015 – Ongoing

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 2009
Refining program budgeting and performance management, September 2010
PEFA, November 2010
Revenue administration, June 2011
Public Investment Management Assessment (PIMA), November-December 2016
Tax Administration Diagnostic Assessment (TADAT), August/September 2017

LEG

AML/CFT, July 2011
AML/CFT, February 2012
Central banking legislation, February 2012
Monetary Policy Framework and Central Bank Act, June 2013
Legal Reform on Central Banking, Banking Supervision, Crisis Management and Resolution, Deposit Insurance and Payments Systems, September 2017

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
TA Need Assessment on Monetary Policy Operations, 2014
Diagnostic mission for monetary policy framework and operations, 2014
Bank and Insurance Resolution, June 2015
Financial Sector Assessment Program (FSAP), November 2015.
Bank Resolution and Crisis Management, March 2017

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
Real Sector Statistics, November 2015
National Accounts, April 2016
National Account, August 2016
National Accounts - Sectoral Accounts, December 2016
Residential Property Price Index, March 2017
National Accounts Statistics, April 2017

Resident Representative: None.

THE JMAP BANK-FUND MATRIX (2017)

The IMF and World Bank Mauritius teams met on August 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. Amadou Sy, Mookameli Fuma, Cameron McLoughlin, Torsten Wezel and Luisa Charry (all AFR).

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/macroprudential 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 is described by the Country Partnership Framework (CPF) for FY2017/21, which was released in June 2017. The CPF places emphasis on World Bank support in increasing competitiveness (including by increasing regional trade and investment, and unlocking the potential of the Ocean Economy), fostering inclusion (including through implementation of education reforms, and strengthening public pension policy), and bolstering resilience and sustainability (including through improved water supply management, and strengthening financial sector governance). Ongoing and planned World Bank assistance to Mauritius includes:

- **Infrastructure.** World Bank Advisory Services and Analytics (ASA) relating to water sector policy reforms, and IFC transaction advisory services (see below).

- **Regional economic integration.** The Bank approved a new Development Policy Loan (DPL) series in 2016, which supports reforms under the Accelerated Program for Economic Integration (APEI) to accelerate regional economic integration through improvements in trade logistics and services. Support to the APEI is ongoing.

- **Additional ASA and reform implementation support.** World Bank ASA is assessing the drivers of inequality and the causes of, and potential policies to address, structural labor market challenges such as large gender participation and wage gaps and skills mismatches. In the social sectors, Bank support on pensions policy also continues, as well as support for education policy reform and implementation. In addition, World Bank analysis to inform policymaking in the strategic priority area of developing the "Ocean Economy" is ongoing, as is advisory support as Mauritius seeks to lift its international competitiveness including through reforms aimed at increasing the ease of doing business, and to make further improvements in financial sector governance and performance.

International Finance Corporation (IFC). The IFC's intervention in Mauritius is focused in the financial services sector in three ways: (1) supporting the banking sector with access to long term funding to offset local banks' difficulty in accessing long term foreign exchange facilities 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 and 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. In addition to supporting financial sector development, the IFC is providing water utility transaction advisory services.

The JMAP Bank-Fund Matrix

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	Water Sector ASA (Bank) and transaction advisory (IFC)	Ongoing	FY17/18
	Accelerated Program for Economic Integration DPL or NLTA	TBC	April 2018
	Ocean Economy – report on opportunities and requirements for sustainable development in the sector	n.a.	September 2017
	Inequality, and gender gaps, ASA	Ongoing	FY17/18
The IMF work program in the next 12 months	2018 Article IV consultation	September 2018	Board meeting in November 2018
	TA missions to follow up FSAP recommendations	2016	2016-2017
B. Requests for Work Program Inputs			
Bank request to Fund	Macroeconomic framework		September 2017
Fund request to Bank	Background sector information to complement Article IV report.		January 2016

STATISTICAL ISSUES

Statistical Issues Appendix

As of December 1, 2017

I. Assessment of Data Adequacy for Surveillance

General: Data provision is adequate for surveillance. The FSC has started collecting quarterly data on GBCs, which should enhance the coverage and quality of BOP, international investment position, and monetary and financial statistics (MFS). Other financial corporations are to be covered by the MFS in FY2017/18. Statistics Mauritius is in the process of introducing statistics real estate price indices. AFRITAC South has assisted Statistics Mauritius with the improvement of national accounts statistics, price statistics and a residential property price index.

Balance of Payments and International Investment Position Statistics: The authorities are in the process of reinforcing the statistical framework. The quarterly data compiled by FSC is expected to improve the quality and coverage of BOP and international investment position.

Monetary and Financial Statistics: Progress has been achieved by the BOM in most areas of the collection, compilation, and dissemination of MFS, leading to the introduction of the SRFs for the central bank and other depository corporations (ODCs) and the publication of data aligned to the Monetary and Financial Statistics Manual (MFSM) in International Financial Statistics and BOM publications. The authorities are in the process of broadening the coverage of MFS, including by compiling statistics for Other Financial Corporations (OFC) and other non-bank financial intermediaries (insurance companies, pension funds, GBCs, collective investment schemes, factoring companies, credit finance companies, leasing companies, Development Bank of Mauritius, National Savings Fund, insurance brokers, pension fund administrators, pension scheme managers, management companies, investment dealers, investment advisors, collective investment scheme managers, and registrar and transfer agents), which represent about 90 percent of the total assets of the financial corporations.

II. Data Standards and Quality

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.	A data ROSC report was published in August 2008.

Mauritius: Table of Common Indicators Required for Surveillance
October 27, 2017

	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]	Memo Items: Data Quality-Accuracy and reliability[9]
Exchange Rates	September 2017	10/2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	September 2017	10/2017	M	M	M		
Reserve/Base Money	August 2017	10/2017	M	M	M	O, LO, LO, LO	O, O, O, O, LO
Broad Money	August 2017	10/2017	M	M	M		
Central Bank Balance Sheet	July 2017	10/2017	M	M	M		
Consolidated Balance Sheet of the Banking System	August 2017	10/2017	M	M	M		
Interest Rates[2]	August 2017	10/2017	M	M	M		
Consumer Price Index	September 2017	10/2017	M	M	M	O, LO, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4 FY16/17	08/2017	Q	Q	Q	LO, O, O, O	LO, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Q4 FY16/17	08/2017	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4 FY16/17	08/2017	Q	Q	Q		

Mauritius: Table of Common Indicators Required for Surveillance
October 27, 2017 (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	Q2/2017	09/2017	Q	Q	Q		
External Current Account Balance	Q2/2017	09/2017	Q	Q	Q	O, LO, LO, LO	LNO, LNO, LO, LO, NO
GDP/GNP	Q2/2017	09/2017	Q	Q	Q	O, LO, O, LO	L, O, LNO, LO, O
Gross External Debt	Q1/2017	06/2017	Q	Q	Q		
International Investment Position[6]	Q4/2016	09/2017	Q	Q	Q		

[1] Any reserve assets that are pledged of 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 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.