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Mauritius: 2008 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Mauritius

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2008 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 11, 2008, 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 June 13, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of July 2, 2008, updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 2, 2008 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Mauritius.

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

Selected Issues Paper

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

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MAURITIUS

Staff Report for the 2008 Article IV Consultation

Prepared by the African Department

Approved by Hugh Bredenkamp and Adnan Mazarei

June 13, 2008

Recent Developments: Growth has risen and the fiscal stance has been tightened, reflecting the impact of reforms of taxation and improvements in the business climate. Foreign direct investment is growing quickly to unprecedented levels. Inflation, though declining, remains high, reflecting international commodity price rises and excess liquidity in the financial system. Growth is expected to remain strong over the medium term, supported by rising investment inflows. However, the economy is facing growing supply constraints.

Policy Discussions focused on:

- **Fiscal consolidation** to reduce public debt; counter demand pressures; and create fiscal space for much needed spending on public infrastructure and education/retraining. The mission recommended better targeting of social outlays.
- **Strengthening monetary policy** to reduce inflation, buttress financial sector supervision, and maintain the managed float exchange regime.
- **Enhance structural competitiveness** to alleviate growing supply constraints, notably labor market reforms, new competition law, reform of the parastatal sector and further liberalization of administered prices and trade controls.

The authorities broadly agreed with the staff's assessment and policy recommendations.

Participants. A staff team comprising Paul Mathieu (Head), Alfredo Baldini, Patrick Imam, Camelia Minoiu (all AFR) visited Port Louis during February 27-March 11, 2008. Discussions were concluded April 25 at headquarters. The staff team met with Prime Minister Navinchandra Ramgoolam; the Minister of Finance and Economic Development Rama Sithanen; the leader of the opposition Paul Béranger; Central Bank Governor Rundheersing Bheenick; senior government officials; and representatives of the private sector; labor unions; and donors.

Mauritius has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions. The capital account is open, with few restrictions. The statistical database is adequate for surveillance purposes. Mauritius participates in the General Data Dissemination Standards and is planning to adopt the Special Data Dissemination System by early 2009.

Two selected issues papers, on external competitiveness and inflation, accompany this report.

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EXECUTIVE SUMMARY

- **Economic growth is responding to structural reform efforts**. Tax reform, together with improvements in the business environment and investment initiatives, has spurred foreign investment to unprecedented levels and accelerated growth to 6½-7 percent in 2007/08. Growth is broad based but especially strong in tourism, banking, construction, and services. Rising fiscal receipts and expenditure containment have cut the deficit and public sector debt is continuing to decline. The external current account deficit has eased but remains high on investment-driven import growth. The exchange rate appreciated 17 percent in real effective terms in the 12 months ending February 2008 from an overly depreciated level in 2005-06. However, the economy is facing rising labor, infrastructure, and other bottlenecks. The authorities are also facing strong head winds from international commodity prices and inflation, although declining, remains high.

- **The key macroeconomic challenges are to reduce the fiscal deficit to counter demand pressures, to strengthen monetary policy, and to pursue structural reform to spur economic efficiency**. Growth is expected to remain strong over the medium term, supported by rising investment inflows.

- **A window of opportunity exists to extend fiscal reforms to the expenditure side and create fiscal space for much needed spending on public infrastructure and education/retraining**. Replacing the system of universal indirect subsidies with better targeted social assistance to vulnerable groups is vital.

- **Monetary policy needs to be strengthened further to raise effectiveness and focus on reducing inflation**. Greater attention to the liquidity impact of public funds management is needed to support monetary policy in the face of the large capital inflows. The financial system remains sound, and vulnerability indicators have improved.

- **The managed float exchange rate regime continues to provide an appropriate framework for macroeconomic management, and the rupee appears to be broadly in line with fundamentals**. The exchange rate will need to remain flexible to support monetary policy.

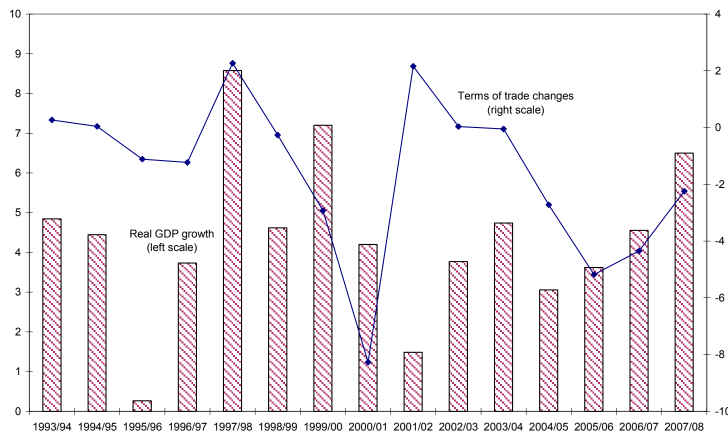
- **Structural reform should be pursued to improve labor market flexibility, liberalize trade and competition in goods markets, and reform the public enterprise sector to stimulate a supply response to the foreign investment stimulus**.

- **The authorities were in broad agreement with staff's assessment and policy recommendations**.

I. Introduction

1. **Mauritius' economy suffered at the turn of the millennium as longstanding trade preferences, on which its growth strategy had relied, were phased out**. In the 1990s, Mauritius achieved real annual GDP growth of over 5 percent, contributing to one of the highest levels of social welfare in Africa (Information Annex, Appendix V), but growth fell to about 3 percent in the early 2000s, reflecting the dismantling of the Multi-Fiber Agreement, lower guaranteed sugar prices from the European Union, and higher costs for imported commodities, especially petroleum, and, more recently, food (Text Figure 1). In 2005, the government launched a wide ranging reform strategy that has begun to bear fruit. Trade and investment were liberalized, some price controls were lifted, taxes were reduced, a fiscal consolidation strategy was initiated, and monetary policy was strengthened. According to the most recent Doing Business report (2008), Mauritius is now the lead country in Africa.

Text Figure 1: Mauritius: Changes in real GDP and Terms of Trade



Source: IMF Staff estimates.

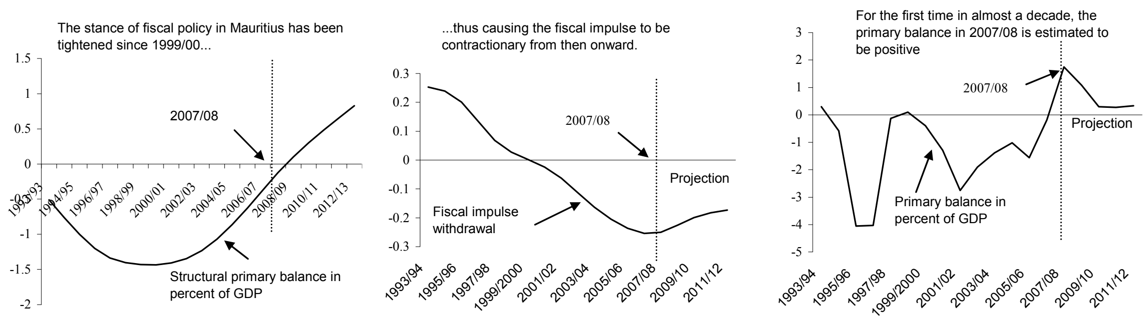
2. **While growth is recovering, the economy is facing rising labor, infrastructure, and other bottlenecks**. The authorities are also facing strong head winds from international commodity price rises and inflation remains a concern. Strong foreign investment inflows are putting pressure on the nominal exchange rate.

II. Recent Economic Developments

3. **Macroeconomic imbalances continue to be reduced as the fiscal consolidation effort progresses and growth accelerates** (Tables 1 and 2). Fiscal policy has been put on a contractionary path in recent years and a significant primary surplus is expected in 2007/08 for the first time in more than a decade (Text Figure 2). Real GDP growth is projected to accelerate to 6½-7 percent in 2007/08—driven by foreign investment especially in tourism, banking, construction, and services, and structural reforms, including a major revamping of the tax system. Emerging sectors, notably the Global Business License (GBL) and the information, communication, and technology (ICT) sectors are growing strongly and have

boosted demand for business, accounting, and investment services.[1] The textile sector is reviving after years of restructuring.

Text figure 2: Fiscal Impulse and Primary Balance



Note: The fiscal impulse is the annual change in structural primary balance in percent of GDP, computed as the trend component of primary balance by applying an HP filter.

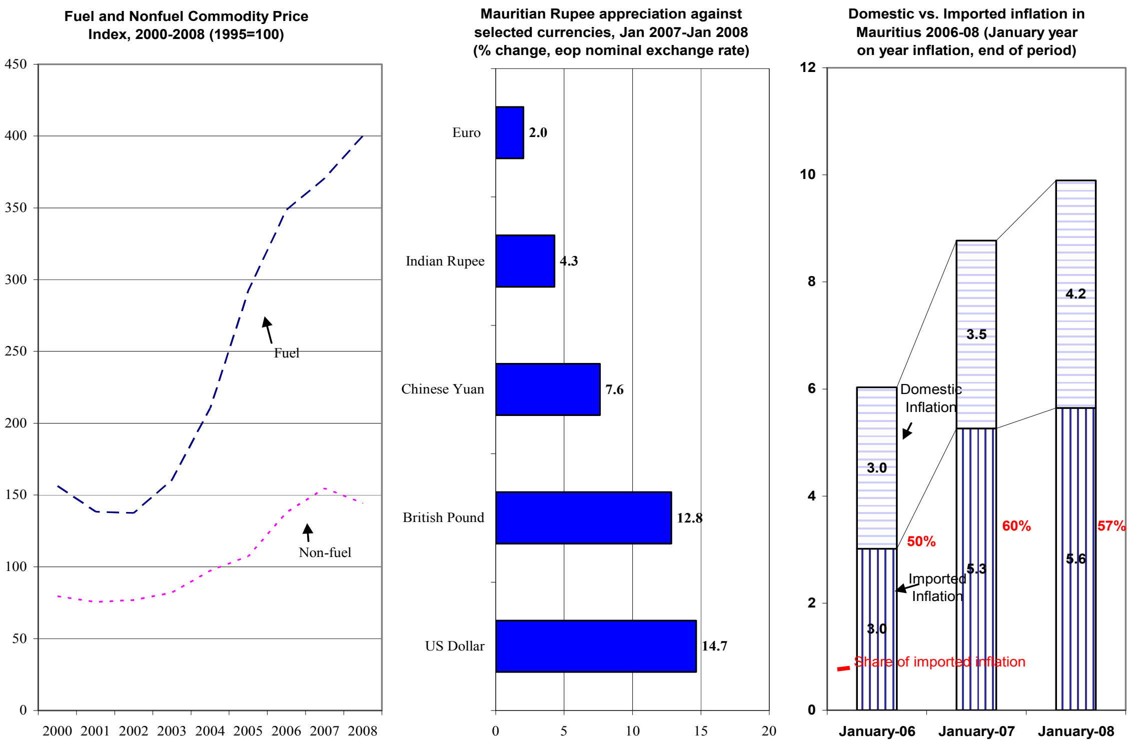
4. **Inflation has eased somewhat in the past year but remains in the upper single digits**. A significant portion (nearly 60 percent) of consumer price inflation is imported, especially with respect to food and energy (Text Figure 3). Large capital inflows have also added to demand pressures, compounded by supply-side constraints and inefficiencies, including from underinvestment in public infrastructure, lack of skilled workers in some sectors, and import and distribution monopolies run by parastatals. An appreciation of the exchange rate, especially in late 2007/early 2008, has dampened some of the inflationary pressures. The real effective exchange rate appreciated sharply—by 17 percent in the 12 months ending February 2008 from an overly depreciated level in 2005-06.

5. **The overall fiscal position has improved as revenues have risen strongly (by about 1 percent of GDP) in response to tax reforms and expenditure has been contained** (Table 3). The overall deficit is projected to decline to about 3.0 percent of GDP in 2007/08, with a primary surplus of about 1.7 percent, and public sector debt falling to about 59 percent of GDP. Tax reform has made the tax regime more progressive, easier to administer, and broadened the base (Box 1). On the expenditure side, debt service has declined in line with falling interest rates, but capital expenditure is under-target owing to implementation difficulties. The authorities have introduced fiscal management laws – on program based budgeting (PBB), public sector debt management, and on public audit – which will contribute to better fiscal performance. The debt sustainability outlook has improved.[2]

[1] The GBLs are offshore investment vehicles resident in Mauritius. The GBLs were created to take advantage of double taxation avoidance treaties with a number of countries (notably India and South Africa) and Mauritius' low tax environment. Flows through the GBLs have risen sharply to about US$80-100 billion per year and they hold large deposits in the domestic banking system.

[2] See the debt sustainability supplement to this report.

Text Figure 3. Mauritius: Evolution and Sources of Inflation



Source: World Economic Outlook and IMF Staff Estimates

6. **Mauritius began to experience significant capital inflows starting in 2006/07** (Table 4). Financial account inflows comprise FDI, particularly into tourism, but also portfolio investment attracted by the high relative interest rates. The import bill has increased about 17 percent, driven by higher international petroleum and food prices, which was not compensated fully by rising service exports. The BOM has accumulated reserves, which are projected to reach 6½ months of imports by end 2007/08. However, the large and rising errors and omissions items in the balance of payments are problematic and cloud the external sector analysis. [3]

[3] A STA technical assistance report in 2007 found that the large and rising errors and omissions component of the balance of payments reflected incomplete surveys of GBLs activities.

Box 1: Tax Reform

Mauritius has implemented a major tax reform aimed at broadening the base and shifting tax incidence to higher income earners. A key measure of the reform was the introduction of a single flat tax rate on personal and corporate income. The introduction of a National Resident Property Tax (NPRT) on high-income earners has also improved progressivity (Text Table 1).

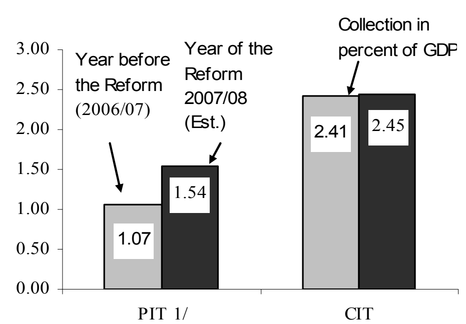
Text Table 1. Mauritius: Summary of Tax reform 2005/06 - 2007/08

	Before	After
Income Tax	(i) four rates (10, 20, 25, 30 percent); (ii) lowest exemption threshold Rs 8,000	(i) one flat rate (15 percent); (ii) lowest exemption threshold Rs 215,000
Company Income Tax	two rates (25, and 15 percent incentive rate)	one flat rate (15 percent) [1]
Tax on residential property	none	NRPT: (i) Rates: from 30 Rs per square feet, to a maximum of 5 percent of total income, (ii) low income below Rs 385,000 exempt
Witholding at source	none	Tax deduction at source (TDS) on payments like interests, royalties, rent, and others (various rates: 15, 10, 5, 3, and 0.75 percent)[2]
VAT	Threshold: Rs 3 mn	Threshold: Rs 2 mn[2]; the base was broadened by 22 percent during FY 2006/07
Taxes on imports	8 tariffs: unweighted average tariff rate 29 percent	4 tariffs: unweighted average tariff rate 13 percent
Tax Expenditures	budget estimate: 3 percent of GDP	budget estimate: 1.5 percent of GDP
Simplification and transparency		Consolidation of various reliefs, allowances, deductions and exemptions into income exemption thresholds (4 categories).
Revenue Administration	MOF, and several other state agencies	Single revenue authority for all taxpayers queries and payments.
Tax Amnesty	none	Voluntary Disclosure Incentive Scheme (VDIS) and Tax Arrears Payment Incentive Scheme (TAPIS). These two schemes came into operation on July 1 2007 for a six-month period.

Source: Mauritian authorities, and staff estimates.
[1] From income year 2007/08. During income year 2006/07 the flat rate was 22.5 percent.
[2] From October 1, 2006
[3] Operational since July, 2006

The tax reform has broadened the base, improved compliance, and eased administration. Income exemption thresholds were significantly raised removing many taxpayers from the tax rolls, freeing up resources to concentrate on the bigger taxpayers. Withholding and the VDIS scheme have improved collection from hard-to-tax groups.

Text Figure 4. 'Flat' tax rates and better compliance improved income tax collection, despite a reduction in the single-tax rate from 22.5 to 15 percent.



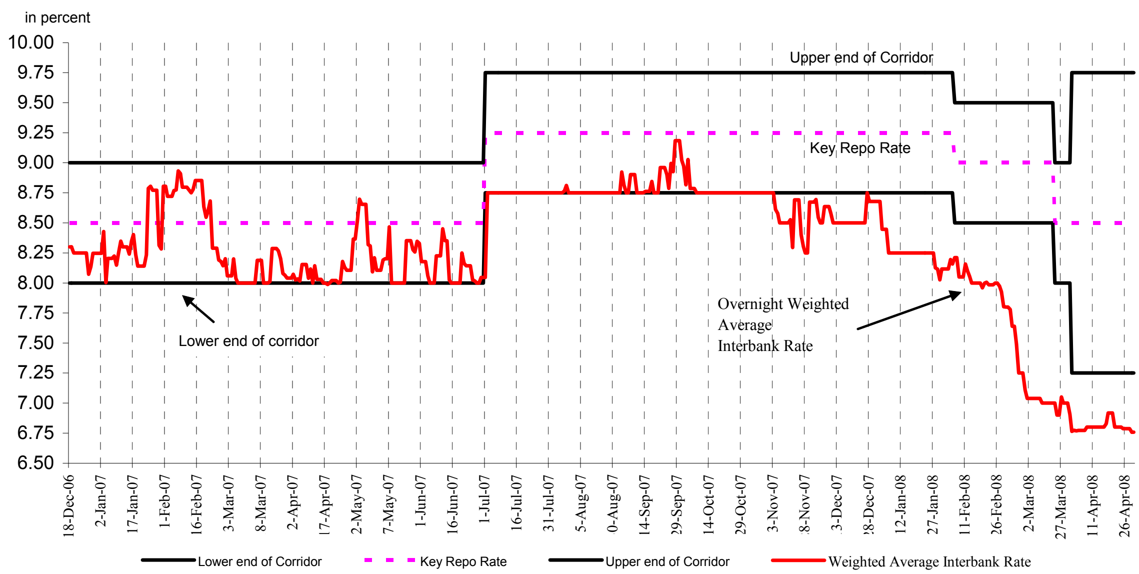
1/ PIT also includes TDS, and the new NRPT

Based on preliminary estimates, the impact of the reform on collections during the first year has been positive, with both income and corporate taxes rising as a share of GDP (Text Figure 4). However, some of the revenue increase may also reflect wider output recovery and the effects of two types of tax amnesty. Overall, the reform represents a fundamental regime shift toward more market-oriented policies, while improving compliance and collection.

7. **A monetary policy committee (MPC) was established in March 2007 to improve transparency and effectiveness, and the policy rate was switched from the Lombard to the repo rate**. However, liquidity has grown rapidly and excess liquidity has persisted in

the financial system since early 2007 (Table 5).[4] Interest rates declined markedly, in part as the government borrowing requirement dropped. The BoM was of the view that stronger intervention to mop-up liquidity would be counterproductive in the face of significant portfolio inflows. As a result, no repo transactions took place under the new policy rules and rates in the interbank market remained outside the repo rate corridor, which undermined credibility of the new monetary policy framework (Text Figure 5). In April 2008 the BoM introduced new instruments, extended a special deposit facility, and widened the repo corridor to 125 basis points to strengthen liquidity management. The BoM conducted sterilized intervention in the foreign exchange market especially in late 2007 and early 2008.

Text Figure 5: Interbank Rate, Repo Rate and Corridor, 2006-2008



Source: Bank of Mauritius

8. **The financial system remains sound, and vulnerability indicators have improved** (Table 6 and 7). Financial soundness indicators point to a further improvement in the quality of assets. The banking system has two broad segments—the domestic market and the offshore/GBL sector, with the latter market dominated by the affiliates of large international banking groups.[5] Starting in January 2008, Pillars I and II of Basel II are being implemented, and the BoM is planning to implement a risk-based supervision model in 2008/09. The stock exchange rose to record levels, supported by strong fundamentals.

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[4] The excess liquidity in part reflects the impact of an average 7-10 day settlement float for transactions conducted through the GBL sector.

[5] While GBL deposits are large (78 percent of broad money at end 2007), they are predominantly on deposit with the "offshore" segment of the banking system. Domestic segment banks have little exposure to the GBLs.

Aggregate profits of listed companies increased by about 35 percent. Valuations are consistent with international averages for emerging markets (an average P/E ratio of 14).

9. **An AML/CFT assessment, undertaken September/October 2007, found that Mauritius had taken a number of measures to strengthen its AML/CFT system; this is timely given the strong growth in its banking sector**. The BoM supervision is relatively advanced and has undertaken onsite AML/CFT inspections of all institutions for which it has supervisory responsibility. The Financial Services Commission (FSC) is also developing its AML/CFT supervisory capabilities but is not as advanced as the BoM in this regard.

10. **The authorities have continued efforts to liberalize international trade and secure market access**. An economic partnership agreement with the EU, covering goods only, has been initialed. A free trade agreement with Pakistan was signed and an agreement with India is under discussion. However, several parastatals have preserved import and distribution monopolies on basic goods, and an administered price regime remains in place for many basic goods. The system may be having a deleterious effect on inflation.[6]

III. Medium-Term Outlook

11. **Mauritius's medium-term outlook has turned more favorable with the effects of the reform effort**. Economic growth is projected to remain at 5 percent through the medium term, reflecting continued growth in tourism, services, and investment in large projects. This may be a cautious projection given the sizable investment inflows which are expected but implementation and absorptive capacity will be constraints. The outlook is clouded by large errors and omissions in the balance of payments, significant structural and policy changes in the economy, and uncertainties on the time frame and feasibility of a number of large public and private projects (Box 2). Fiscal consolidation is expected to proceed with moderate primary surpluses and a declining overall deficit and public debt burden. The external current account deficit is expected to decline only moderately as large foreign investment inflows draw in imports.

12. **The key macroeconomic challenge is to manage the recent economic success through a broadening of structural reforms to spur economic efficiency and consolidate and refocus fiscal policy**. The large foreign investment inflows, projected to rise to about US$1 billion per year (12 percent of 2007/08 GDP), risk overheating the economy, especially if the fiscal deficit is not reduced further and structural reforms are not pursued to improve the supply response. Fiscal policy should also aim to create fiscal space for education/retraining and much needed investment in infrastructure. Monetary policy

[6] Staff analysis, as explained in the selected issues paper on inflation, suggest the administered price regime has raised the variance and skewness of the CPI and contributed to inflationary pressures.

needs to be strengthened further and focused on reducing inflation. Structural reforms aimed at improving efficiency take time to bear fruit, implying that challenges posed by large investment flows will need to be faced with fiscal and monetary policy tools.

Box 2: Impact of Large Projects on the External Current Account

A number of large public and private projects, totaling some US$12.4 billion (147.5 percent of 2007/08 GDP), have been launched or proposed over the medium-term (Text Table 2). These mega-projects, predominantly in the form of foreign investment, are primarily in the tourism sector (66 percent); but also industrial parks (47 percent); infrastructure (23 percent); and other industrial projects (11 percent).

Text Table 2: Large scale projects expected over the medium term

Sector	Project	Value of Projects (US$ billion)	Value of Projects (percent of GDP)
Infrastructure	Port, Airport, Waste Project, Freeport Project, Port Louis Bypass, Other Road Projects	1.9	23.0
Tourism Related Investment	Hotel, Integrated Resort Schemes	5.6	66.4
Industrial Parks	Tianli, La Tour Koening, Highland	4.0	47.2
Other Sector Specific Industrial Projects	Medical Hub, Seafood Hub, Land Based Oceanic Industries, Milk Farm	0.9	10.8
Total Investment		**12.4**	**147.5**

Source: IMF staff and various Mauritian Ministries estimates and projections
Note: Converted at an exchange rate of Rm 30/US$.

The impact of these projects on the external current account is not easily quantifiable for lack of data, but the magnitude will stretch the implementation and absorption capacity of the economy. Regression analysis suggests that a 1 percentage point increase in FDI leads to a 0.34 percent increase in imports. For every US$1 billion of investment the external current account would worsen by about 4.9 percent of GDP.

IV. Policy Discussions

13. **Policy discussions centered on the macroeconomic and structural polices that were needed to sustain resurgent growth and enhance competitiveness**. A window of opportunity now exists to build on the recent economic success to implement a second generation of reforms that are needed to sustain noninflationary growth.

A. Fiscal Consolidation and Refocusing

14. **The mission recommended that, building on the success of the tax reform, a tighter fiscal policy stance be pursued over the medium term to further reduce public debt and counterbalance the strong demand impulse from the rising foreign investment**. In particular, efforts should focus on raising expenditure efficiency and converting the system of indirect universal subsidies on basic goods into a well targeted

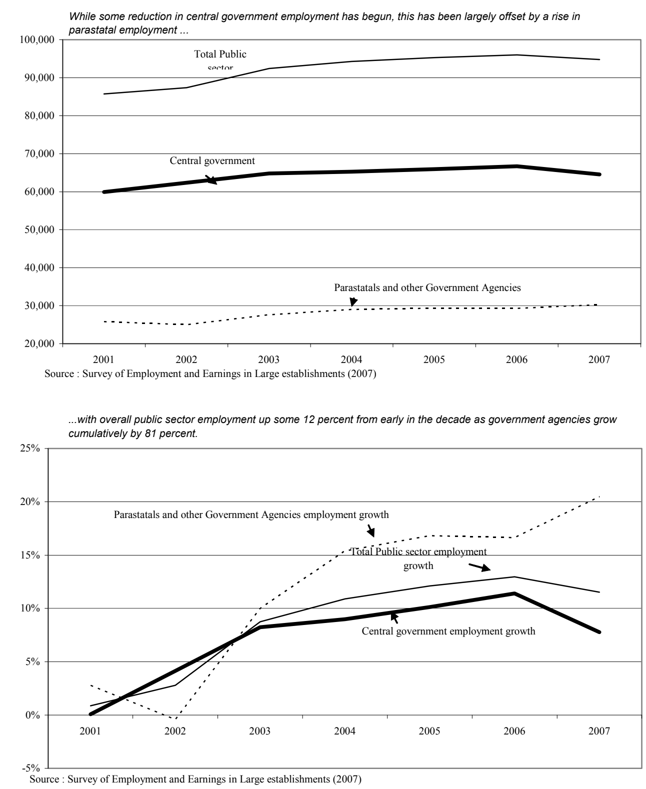
social assistance program. The authorities indicated that they shared this assessment and were working to implement such a strategy, starting with the introduction of fiscal management laws on public debt management and public finance and audit, including the implementation of program-based budgeting (PBB). The mission broadly endorsed the authorities' medium-term fiscal strategy, as reflected in the staff projections.

15. The mission encouraged the authorities to focus attention on:

- **Improving the efficiency of social assistance programs by consolidating and targeting**. To reduce poverty more effectively, social assistance should be aimed at helping the working poor and the unemployed re-enter the job market. Targeting would also introduce a countercyclical component to fiscal policy which will be increasingly needed as Mauritius develops. The authorities indicated that work to create a social registry, which would form the basis for targeted assistance, is underway.

- **More generally, raising the efficiency of budgetary operations over the medium term through the PBB framework, supported by IMF technical assistance, starting with the 2008/09 budget**. The mission welcomed the public debt management strategy which targeted a public debt reduction from 61.3 percent of GDP to 50 percent in the medium term. The staff noted that empirical evidence suggested that overall public debt levels in emerging markets should be on the order of 30-35 percent of GDP.[7] Efforts to reinforce the debt management unit in the MOFED and coordination with the BoM should be pursued. The authorities explained that the proposed public debt ceiling was a first step in a longer-term debt sustainability strategy.

Text Figure 6. Comparing Growth of Public Sector Employment with Central Government Employment



- **Accelerating the reforms of the**

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[7] See WEO (2003) Chapter 3 "Public Debt in Emerging Markets: Is It Too High?" and Reinhart, Carmen M., Kenneth S. Rogoff and Miguel A. Savastano. "Debt Intolerance", Brookings Papers on Economic Activity, 2003, pages 1-74.

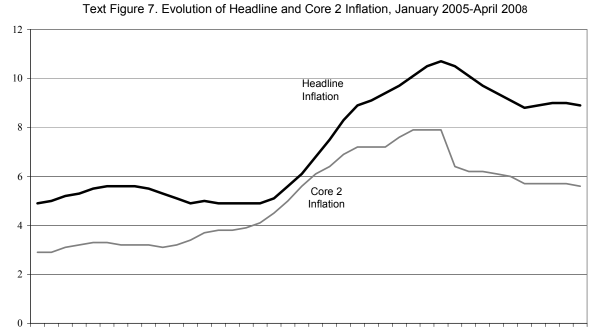
parastatal sector. A disengagement and divestment strategy for parastatals in the import and distribution of basic goods would help improve economic efficiency and reduce the size of the public sector. While some reduction in central government employment has begun, this has been largely offset by a rise in parastatal employment, and overall public sector employment is up some 12 percent from early in the decade (Text Figure 6). Staff suggested the state trading firms be progressively withdrawn from commercial activities to allow these functions to be taken over by the private sector. Initial steps could include requirements for strict commercial cost recovery operations and the budgetization of subsidies. The authorities agreed that parastatal reform was needed, notwithstanding the difficulties involved. The World Bank is providing some technical support in this area. The appointment of a commissioner to implement the new competition law would facilitate this reform.

- **Areas requiring vigilance:** A large upward adjustment of **public sector wages** will follow the Pay Review Commission (PRC) decision in late May 2008. This, along with a planned phasing out of remaining trade taxes will be a challenge to the fiscal balance. The **duty-free island** initiative is intended to make Mauritius a more attractive business destination and to encourage tourism spending. The timetable to duty free status was suspended in 2007, but the authorities indicated their intention to implement this initiative over the medium-term. Staff encouraged the authorities to announce a new timetable and in the interim to further simplify the tariff structure, and consider how the loss of import duty revenues (1.0 percent of GDP) would be offset.

B. Strengthening Monetary Policy

16. **While underlying inflation is broadly under control, staff expressed concern that the new monetary intervention policy was not being implemented as announced** (Text Figure 7). Staff noted that while more needs to be done to reduce liquidity, rising capital mobility has made this more difficult without support from fiscal and structural policies. In this context, the recent appreciation of the nominal exchange rate has played a useful role. The authorities explained that the absence of repo operations reflected concerns not to encourage additional foreign portfolio inflows. They have attempted to address systemic liquidity by the special deposit facility, and efforts to make the repo rate operational by lowering the rate, in line with rate decreases abroad, and by broadening the intervention corridor. The BoM indicated that it would also rely on the effect of declining portfolio inflows and government steps to reduce its own liquidity injections to bring rates back into the corridor. The inflow of short term portfolio investment appears to have diminished in late 2007, following recent

Text Figure 7. Evolution of Headline and Core 2 Inflation, January 2005-April 2008



Source: Bank of Mauritius (2008)
CORE2 excludes Food, Beverages, Tobacco, mortgage interest, energy prices and administered prices from headline inflation.
Effective July 2007, Core inflation data are compiled using the new basket of goods and services derived from the 2006-07 Household Budget Survey.

turmoil in international financial markets. The mission suggested that public pension and other funds be removed from the domestic banking system over the coming months. Staff urged reinforced coordination between the MOFED and BoM on liquidity management, which the authorities agreed was necessary.

17. **Staff recommended the BoM be more active in shaping public expectations of inflation through communication of an inflation target range for monetary policy (a soft inflation target) and actively work to achieve it**. The monetary authorities indicated that this was in process through the forthcoming semi-annual inflation and financial stability reports.

18. **Staff welcomed the initiative to raise BoM capitalization to provide the needed resources for an active monetary policy that could involve higher sterilization costs in the period ahead**. The BoM has also initiated steps to reinforce its governance structures, including a revision to the central bank law to reform the membership of its board and of the MPC and to include regular reporting to a select committee of parliament. The responsiveness of monetary policy to rapidly changing conditions would be enhanced if the MPC met more often. The BoM is also in the process of bolstering its analytical framework, as recommended by the 2007 FSAP update, with IMF technical assistance.

19. **Regulations to allow for the development of a swap market are needed to help manage inflows, develop capital markets, and support a reduction in spreads**. The large inflows of foreign exchange are becoming difficult to manage. The authorities indicated that they were actively working with market participants on swap market regulations.

20. **The mission's assessment is that the current level of the rupee is broadly in line with fundamentals** (Box 3). Different econometric estimates of exchange rate alignment suggest that the rupee was not far from equilibrium at end-2007. Should large capital inflows persist as projected, the REER would be expected to appreciate over the medium term, preferably through an appreciation of the nominal rate. The impact of appreciation could be offset by further fiscal consolidation and the implementation of structural reforms aimed at improving the supply response and reducing inflationary pressures. The authorities reaffirmed their policy to allow the nominal exchange rate to adjust to macroeconomic conditions and limit BoM intervention to smoothing operations.

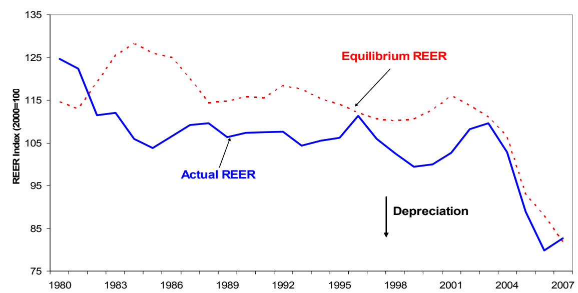
21. **The authorities should ensure that financial institutions not currently covered by the AML/CFT framework, such as cooperative credit unions, are brought within the regime, and further strengthen the FSC**. While the financial intelligence unit in Mauritius has developed its operational capabilities, its overall effectiveness is hampered by the modest number of suspicious transactions reports filed by financial institutions.

Box 3: External Stability and Competitiveness

An assessment of external competitiveness suggests that the Mauritian rupee is broadly in line with economic fundamentals at end-2007. The full analysis is available in the accompanying selected issues paper.

- Several price-based REER indices suggest that Mauritius' competitiveness has been on an improving trend since 1980, with particularly large gains in the last few years.
- The **single-equation approach** to estimating the equilibrium exchange rate reveals a negligible gap between the Mauritian rupee and its equilibrium value since 2003 (Text Figure 8). The **macroeconomic balance approach** suggests that the level of the real effective exchange rate is broadly appropriate, as the projected underlying current account deficit over the medium-term is broadly in line with a current account norm obtained from panel regressions for a large sample of comparator countries. Finally, the **capital enhanced equilibrium exchange rate approach**, which adds uncovered interest rate parity to the analysis, suggests that since July 1995 the nominal exchange rate has been broadly in line with its equilibrium rate as indicated by inflation and interest rate differentials with the US.

Text Figure 8. Single Equation Approach:
Actual vs. Equilibrium REER



Note: The price measure is the GDP deflator.
Source: Staff estimates.

- An analysis of structural competitiveness indicators suggests that Mauritius ranks highly in Africa and fares well against other comparator countries. On the 2007 Global Competitiveness Index, Mauritius did better than other small-island economies, but was outperformed by high-growth Asian economies. According to the 2008 World Bank Doing Business Report, Mauritius mostly outranked comparator nations on the quality of the business environment, especially in areas such as commerce and entrepreneurship. However, progress is needed in improving broadband internet access and reducing telephone faults.

C. Structural Competitiveness

22. **The mission encouraged the authorities to sustain their efforts on making the business environment conducive to private sector growth, by focusing on public infrastructure, human capital development and trade liberalization**. Structural reforms will play a key role in the transition to a new economic structure and in ensuring sustained competitiveness. Greater efficiency in infrastructure, notably in transportation and communications, will be needed for Mauritius to realize its ambitions as a regional banking and services hub. Efforts to liberalize domestic trade, where several parastatals have import and distribution monopolies, need to be pursued along with scaling back the administered price regime.

23. **Some labor market reforms have been initiated, but staff encouraged the authorities to take further steps to upgrade the skills of the work force and increase labor market flexibility**. Every effort should be made to get the new labor laws implemented. The 2008 World Bank Doing Business Report flags the rigidity of the Mauritian labor market, especially how difficult it is to fire workers (see Text Table 3). Despite the improved growth environment, unemployment remains high, implying skills are mismatched to economic needs. Progress is needed in reducing the costs of broadband internet access, which are high by regional standards, by deregulating the telecommunication sector further.

Text Table 3: Selected Indicators of Labor Markets, 2007

	Difficulty of Hiring Index 1/	Rigidity of Hours Index 2/	Difficulty of Firing Index 3/	Rigidity of Employment Index 4/
Uganda	0	0	10	3
Nigeria	0	0	20	7
Botswana	0	20	40	20
Namibia	0	40	20	20
Kenya	33	0	30	21
Mauritius	**0**	**20**	**50**	**23**
Gambia	0	40	30	23
Seychelles	33	20	50	34
Ghana	22	40	50	37
Cape Verde	33	40	60	44
Senegal	72	60	50	61
Tanzania	89	40	60	63
Madagascar	89	60	40	63

Source: World Bank "Doing Business Report 2008"
1/ difficulty of hiring a new worker
2/ restrictions on expanding or contracting the number of working hours
3/ difficulty and expense of dismissing a redundant worker
4/ an average of the three indices

D. National Statistics

24. **Staff welcomed the authorities' efforts to bring Mauritius into line with international best practice in statistics**. Coverage lacunae in the financial account of the balance of payments and international investment position (IIP) are of particular concern as errors and omissions continue to rise (Box 4). Staff expressed concern at delays in conducting the surveys needed to improve the coverage of the balance of payments, especially as regards the GBLs, in line with the 2007 Data ROSC and STA technical assistance reports. Better data on the financial account, especially on GBL activity, will be needed to meet the Special Data Dissemination Standard. Mauritius has good first generation data for surveillance (national accounts, inflation), but efforts are needed on second generation data (asset prices such as housing, capital inflows) to better assess potential vulnerabilities of the economy. The authorities indicated that efforts on improving national statistics would move ahead.

Box 4: The Financial Account and Errors and Omissions in the Balance of Payments

Rapidly growing financial flows into and through Mauritius in recent years pose a challenge for statistical systems. Rising errors and omissions (5.2 percent of GDP in 2006/07) are largely linked to the activities of the GBL sector. The BOM collects partial GBL data, but these are excluded from the official balance of payments data. Official statistics capture only the foreign assets of the commercial banks, primarily sourced from the deposits made by the GBLs from funds raised abroad (in transition to investment destinations in third countries). To overcome this problem and obtain a more accurate picture of Mauritius' external position, the GBL's transactions in their assets and liabilities (with appropriate instrument detail) are needed. This can be achieved by conducting a quarterly survey on transactions data of the GBLs.

Similarly, the IIP omits the GBLs' assets and liabilities but includes the foreign assets of the commercial banks that are sourced from the GBLs. To address this problem, an annual survey of positions data is needed to improve the IIP statistics. As part of this exercise, the IIP should incorporate the results of the Coordinated Portfolio Investment Survey (CPIS), the overwhelming part of which is assets held by GBLs. As illustrated in Text Table 4, which draws on the CPIS, there has been a substantial run up in foreign assets since 2001. There is no similar increase in liabilities as they are presently not captured.

Text Table 4: Reported Portfolio Investment Assets and Liabilities for Mauritius of Nonresident Issuer: Total Portfolio Investment (in million of US dollar)

	2001	2002	2003	2004	2005	2006
Total Portfolio Investment (Assets)	584	17,128	26,612	39,030	54,834	81,550
of which Equity Securities	446	14,087	22,796	32,066	48,837	70,463
of which Debt Securities	138	3,041	3,816	6,964	5,997	11,087
Total Portfolio Investment (Liabilities)	645	640	1,391	2,187	1,895	3,942
of which Equity Securities	352	303	334	1,000	1,374	3,536
of which Debt Securities	274	337	951	1,143	163	404

Source: Coordinated Portfolio Investment Survey

V. Staff Appraisal

25. **Staff commends the authorities for the reforms that have led to a revival in growth**. Investors are responding to the important tax and business environment reforms instituted since 2006. Foreign investment is rising strongly and is projected to grow further. However, some supply constraints are already apparent, particularly for infrastructure, but also in the labor market, where skills shortages have emerged. The authorities need to proceed with further fiscal consolidation and structural reform to alleviate bottlenecks and ensure that the new growth is noninflationary and sustained. Staff welcomes the authorities' intentions to further reduce the fiscal deficit over the medium term and the specific measures being implemented to that effect.

26. **The recent tax reforms have made the system more progressive and easier to administer, broadened the base, and are leveraging other efforts to attract foreign investment and transform the economy**. These efforts have also produced a boost in fiscal receipts which has lowered the deficit. Staff encourages the authorities to build on recent successes and extend the reform effort to the fiscal expenditure side and to the parastatal sector. Improving the efficiency of social assistance programs by consolidating and targeting are vital to this effort. Targeting would also introduce a beneficial countercyclical component to fiscal policy. The introduction of program based budgeting is an important component to raise spending efficiency over the medium term.

27. **Efforts to strengthen the monetary framework should be continued**. While underlying inflation is broadly under control and a significant component is imported, staff encourages the BoM to be more active in shaping public expectations of inflation through communication of an inflation target range for monetary policy. Greater efforts to manage liquidity, in closer coordination with the fiscal authorities, would pay dividends. Steps to strengthen further the BoM's governance practices and capital base are important.

28. **Mauritius' managed floating exchange rate regime continues to provide an appropriate framework for macroeconomic management**. The rate of the rupee appears to be broadly in line with fundamentals. The recent appreciation reflects the increased capital inflows into the productive sectors of the economy. While the appreciation has presented a challenge for the exportable good sectors, it has helped dampen imported inflation. Looking ahead, should capital inflows rise as projected, further nominal exchange rate appreciation may be unavoidable and should be accompanied by additional fiscal consolidation as well as structural reforms aimed at improving economic efficiency and competitiveness.

29. **Staff underscores the important contribution that structural reform of the parastatal sector can bring to economic efficiency and competitiveness**. A disengagement and divestment strategy for parastatals in the import and distribution of basic goods should be pursued as should further steps to liberalize domestic trade, reduce import duties, and phase out administered prices.

30. **Staff urges the authorities to give high priority to improving the coverage and reliability of national statistics, especially as concerns the financial account of the balance of payments and the IIP, in line with the 2007 Data ROSC and STA technical assistance reports**.

31. The staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2005/06–2012/13[1]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Baseline Projections					
	(Annual percent change, unless otherwise indicated)							
National income, prices and employment								
Real GDP	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1
Real GDP per capita	2.8	3.4	5.7	5.4	4.3	4.4	4.4	4.4
GDP deflator	4.4	7.9	8.4	7.5	6.8	5.5	5.0	5.0
Domestic demand at current prices [2]	10.8	17.8	15.5	15.6	10.5	9.8	9.4	9.3
Consumer prices (period average)	5.1	10.7	9.5	8.5	7.3	6.0	5.3	5.0
Consumer prices (end of period)	7.6	10.0	9.0	8.0	6.5	5.5	5.0	5.0
Unemployment rate (percent)	9.3	8.9	8.7	…	…	…	…	…
Unit labor cost	3.8	4.3	5.6	...	...	...	...	...
External sector								
Exports of goods, f.o.b. (U.S. dollars)	12.1	3.2	9.4	3.8	3.8	5.6	5.3	5.3
Exports of services (U.S. dollars)	3.2	20.2	24.2	16.7	14.1	12.3	11.4	11.2
Of which : tourism receipts (U.S. dollars)	12.1	23.8	25.0	17.6	15.0	12.0	11.5	11.2
Imports of goods, f.o.b. (U.S. dollars)	14.1	14.5	17.0	15.1	5.6	6.4	6.1	5.8
Nominal effective exchange rate [3]	-3.4	-9.9	3.0	...	...	...	...	...
Real effective exchange rate [3]	0.6	-2.8	7.1	...	...	...	...	...
Terms of trade	-7.7	-3.4	...	...	...	...	...	...
Money and credit [4]								
Net foreign assets	10.1	35.2	-4.6	...	...	...	...	...
Domestic credit	15.4	6.8	27.1	...	...	...	...	...
Net claims on government	2.4	-3.1	2.8	...	...	...	...	...
Credit to private sector [5]	13.0	9.9	24.2	...	...	...	...	...
Broad money (end of period, annual percentage change)	6.7	8.6	10.3	...	...	...	...	...
Income velocity of broad money	1.0	1.0	1.1	...	...	...	...	...
Interest rate (weighted average TBs, primary auctions)	7.5	11.9	...	...	...	...	...	...
	(Percent of GDP)							
Central government budget								
Overall balance (including grants)	-5.4	-4.2	-3.0	-2.8	-2.8	-2.3	-1.9	-1.5
Primary Balance (including grants)	-1.6	-0.2	1.7	1.1	0.3	0.3	0.3	0.5
Revenues and grants	20.1	19.3	21.7	20.8	20.8	20.9	21.2	21.4
Expenditure and net lending	25.5	23.6	24.7	23.6	23.6	23.2	23.1	22.9
Domestic debt of central government	51.4	46.6	44.7	40.5	37.0	33.7	30.3	27.0
External debt of central government	4.4	4.7	4.9	5.7	7.0	8.1	9.2	10.0
Investment and saving								
Gross domestic investment	22.5	26.4	29.1	30.8	32.4	33.8	35.0	35.3
Public	7.1	6.6	6.8	7.2	7.6	7.9	8.3	8.7
Private	13.7	19.0	22.3	23.6	24.8	25.9	26.7	26.6
Gross national savings	17.2	18.4	24.7	24.6	27.1	29.4	30.9	31.9
Public	-1.4	-0.8	0.7	-0.1	0.3	0.8	1.6	2.2
Private	18.6	19.2	24.1	24.7	26.8	28.6	29.4	29.7
External sector								
Trade balance	-13.2	-17.4	-19.3	-21.2	-20.0	-18.9	-18.0	-17.0
Exports of goods and services, f.o.b.	60.5	60.8	59.7	54.0	51.4	49.6	47.8	46.1
Imports of goods and services, f.o.b.	-67.4	-71.8	-69.8	-65.4	-61.2	-58.2	-55.5	-52.7
Current account balance	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Overall balance	-1.6	3.0	8.9	2.9	3.1	1.5	2.0	2.7
Total external debt [6]	11.7	11.0	9.5	9.3	9.9	10.5	11.3	10.8
Net international reserves, BOM (millions of U.S. dollars)	1,408	1,617	2,343	2,628	2,978	3,168	3,453	3,895
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.2	5.2	6.4	6.2	6.7	6.7	6.8	7.3
Memorandum item:								
GDP at current market prices (millions of Mauritian rupees)	194,572	218,784	252,870	288,702	324,056	359,426	396,775	438,006
GDP per capita (U.S. dollars)	5,357	5,649	6,325	7,326	8,703	9,778	10,937	12,236
Foreign currency long-term debt rating (Moody's)	Baa2	Baa1	Baa2	…	…	…	…	…

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

1 Fiscal year (July-June).
2 Excluding changes in stocks.
3 Period averages (a negative sign signifies a depreciation). 2007/08 figures show the change in average exchange rate since beginning of FY.
4 Percent of beginning of period M2.
5 Includes credit to parastatals.
6 Projections excluding external debt related to unidentified capital flows.

Table 2. Mauritius: GDP and Savings-Investment Balance, 2005/06-2012/13

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2012/13	2012/13
			Baseline Projections					
			(Annual percentage changes)					
Real GDP	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1
Agriculture, forestry, hunting, and fishing	-1.1	-5.0	-5.2	11.1	1.5	1.5	1.5	1.5
Sugarcane growing	-6.8	-7.1	-13.6	19.3	0.0	0.0	0.0	0.0
Mining and quarrying	-5.1	3.9	3.0	3.0	3.0	3.0	3.0	3.0
Manufacturing	0.4	3.2	4.5	4.8	4.1	4.1	4.1	4.1
Export processing zone	-6.0	8.0	7.0	5.0	5.0	5.0	5.0	5.0
Electricity, gas, and water	5.1	2.5	6.0	5.0	5.0	5.0	5.0	5.0
Construction	-1.2	16.9	11.0	8.0	5.0	5.0	5.0	5.0
Wholesale and retail trade	10.0	-1.6	8.9	5.1	5.1	5.1	5.1	5.1
Hotels and restaurants	4.9	10.5	12.0	11.0	8.0	8.0	8.0	8.0
Transport, storage, and communications	7.0	7.5	11.0	10.0	9.0	9.0	9.0	9.0
Financial intermediation	6.2	9.3	8.5	7.6	7.6	7.6	7.6	7.6
Real estate, renting, and business activities	6.6	6.5	9.0	7.6	7.6	7.6	7.6	7.6
Public administration, defense, and social security	5.0	2.5	3.5	3.0	3.0	3.0	3.0	3.0
Education	4.4	3.9	3.0	3.0	3.0	3.0	3.0	3.0
Health and social work	5.0	2.5	5.0	5.0	5.0	5.0	5.0	5.0
Other services	8.3	6.6	8.0	8.0	8.0	8.0	8.0	8.0
GDP at factor cost (GDP at basic prices)	4.6	4.8	6.7	6.6	5.4	5.4	5.4	5.4
Net indirect taxes (taxes on products net of subsidies)	-4.8	-4.4	6.0	3.0	3.0	3.0	3.0	3.0
GDP deflator	4.4	7.9	8.4	7.5	6.8	5.5	5.0	5.0
Nominal GDP	8.2	12.4	15.6	14.2	12.2	10.9	10.4	10.4
			(Percent of GDP)					
External current account balance	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Gross National Savings	17.2	18.4	24.7	24.6	27.1	29.4	30.9	31.9
Private	18.6	19.2	24.1	24.7	26.8	28.6	29.4	29.7
Public	-1.4	-0.8	0.7	-0.1	0.3	0.8	1.6	2.2
Investment	22.5	26.4	29.1	30.8	32.4	33.8	35.0	35.3
Private	13.7	19.0	22.3	23.6	24.8	25.9	26.7	26.6
Public	7.1	6.6	6.8	7.2	7.6	7.9	8.3	8.7
Consumption	84.4	84.6	81.0	80.7	77.4	74.8	72.7	71.3
Private	69.7	70.9	66.9	66.6	63.5	61.2	59.4	58.4
Public	14.7	13.7	14.1	14.1	13.9	13.6	13.3	12.9

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

Table 3. Mauritius: Summary of Central Government Finances, 2005/06-2012/13 [1]

	2005/06	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
			Budget	Proj.	Baseline Projections				
					(Percent of GDP)				
Total revenue and grants	20.1	19.3	20.6	21.7	20.8	20.8	20.9	21.2	21.4
Total revenue	19.9	19.2	19.4	20.7	19.9	20.1	20.3	20.7	21.0
Tax revenue	18.2	17.5	17.4	18.4	18.1	18.3	18.5	18.9	19.2
Taxes on net income and profits	3.8	3.5	3.6	4.0	4.1	4.4	4.6	4.7	4.9
Of which: Individuals	1.4	1.1	1.2	1.2	1.2	1.3	1.4	1.4	1.4
Corporate	2.4	2.4	2.2	2.4	2.4	2.5	2.5	2.5	2.6
Tax deduction at source	...	...	...	0.3	0.4	0.5	0.6	0.7	0.8
Taxes on property	1.0	1.3	1.3	1.5	1.6	1.7	1.8	1.9	1.9
Taxes on goods and services	9.6	11.5	11.3	11.7	11.7	11.8	11.9	12.1	12.2
Of which: VAT	7.0	7.1	7.0	7.2	7.1	7.1	7.2	7.3	7.4
Taxes on international trade	3.7	1.0	0.9	1.1	0.6	0.3	0.1	0.1	0.1
Stamp Duties	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	1.6	1.7	2.0	2.3	1.8	1.8	1.8	1.8	1.8
Capital revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.3	0.2	1.2	1.0	0.9	0.7	0.6	0.5	0.4
Total expenditure and net lending	25.5	23.6	24.5	24.7	23.6	23.6	23.2	23.1	22.9
Current expenditure	21.6	20.2	20.6	20.7	20.1	19.8	19.2	18.7	18.2
Expenditures on goods and services	8.6	7.5	7.2	7.1	7.3	7.4	7.4	7.3	7.1
Wages and salaries	6.3	5.6	5.4	5.3	5.4	5.3	5.2	5.1	4.9
Other goods and services	2.3	1.9	1.7	1.8	1.9	2.1	2.2	2.2	2.2
Interest payments	3.8	4.1	4.9	4.8	3.9	3.1	2.5	2.2	2.0
External interest	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.4	0.4
Domestic interest	3.7	3.9	4.8	4.6	3.7	2.8	2.2	1.8	1.6
Current transfers and subsidies	9.2	8.6	8.5	8.9	8.9	9.3	9.3	9.2	9.1
Capital expenditure and net lending	3.9	3.4	3.9	3.9	3.4	3.8	4.0	4.4	4.7
Capital expenditure	3.6	3.3	3.9	3.0	3.4	3.8	4.1	4.4	4.7
Net lending minus repayment	0.4	0.2	0.1	0.9	0.0	0.0	-0.1	0.0	0.0
Overall balance after grants (cash basis)	-5.4	-4.2	-3.9	-3.0	-2.8	-2.8	-2.3	-1.9	-1.5
Primary balance	-1.6	-0.2	1.0	1.7	1.1	0.3	0.3	0.3	0.5
Financing, net	5.4	4.2	3.9	3.0	2.8	2.8	2.3	1.9	1.5
External, net	-0.6	0.8	0.8	0.8	1.4	1.9	1.9	2.0	2.0
Disbursements	0.1	1.3	1.2	1.2	1.8	2.2	2.2	2.2	2.2
Amortization	-0.7	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2
Domestic, net	5.9	3.4	3.1	2.2	1.4	0.9	0.3	-0.2	-0.5
Banking system	2.6	-3.2	0.8	1.2	0.5	0.3	0.1	-0.1	-0.3
Nonbank	3.6	7.7	2.3	1.0	0.4	0.6	0.2	-0.1	-0.3
Privatization receipts	...	...	...	...	0.5	0.0	0.0	0.0	0.0
					(Millions of Mauritian rupees)				
Total revenue and grants	39,206	42,327	50,502	54,821	60,084	67,474	75,289	84,217	93,723
Total expenditure and net lending	49,624	51,607	60,056	62,427	68,139	76,488	83,403	91,645	100,276
Overall balance after grants	-10,419	-9,280	-9,554	-7,606	-8,055	-9,014	-8,114	-7,428	-6,554
Memorandum items:									
Government debt	55.8	51.4	52.7	49.6	46.2	43.9	41.8	39.6	37.0
Public sector debt [2, 3]	68.8	61.3	61.7	59.5	56.1	53.8	51.7	49.4	46.8
GDP at current market prices (millions of rupees)	194,572	218,784	244,642	252,870	288,702	324,056	359,426	396,775	438,006

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

[1] Fiscal year: July/June.

[2] Includes central government, local government, and parastatals.

[3] Starting in 2006/07, this includes central and local government and parastatals, after netting out investments of the Consolidated Sinking Fund (which accounts for 3 percent of GDP) in government securities.

Table 4. Mauritius: Balance of Payments, 2005/06-2012/13[1]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Baseline Projections					
			(Millions of U.S. dollars, unless otherwise indicated)					
Current account balance	-335.9	-553.2	-355.4	-616.3	-600.9	-575.7	-586.4	-549.2
Trade balance	-833.3	-1,205.7	-1,584.6	-2,111.0	-2,278.7	-2,448.1	-2,620.0	-2,789.3
Exports of goods, f.o.b.	2,233.1	2,304.0	2,520.2	2,615.0	2,713.6	2,866.0	3,018.2	3,178.4
Of which: domestic exports	1,561.2	1,757.5	1,920.2	2,049.5	2,108.5	2,246.0	2,368.2	2,498.4
EPZ [2]	983.0	1,160.8	1,335.4	1,464.9	1,546.3	1,633.4	1,728.6	1,829.0
Sugar	344.4	340.7	298.9	279.9	240.6	272.8	271.8	271.8
Imports of goods, f.o.b.	-3,066.4	-3,509.6	-4,104.8	-4,726.1	-4,992.2	-5,314.1	-5,638.2	-5,967.7
Of which: domestic imports	-2,615.3	-3,201.1	-3,653.7	-4,300.9	-4,537.3	-4,847.9	-5,149.4	-5,456.4
EPZ [2]	-538.0	-632.6	-761.2	-797.4	-833.4	-871.1	-918.3	-966.7
Petroleum products	-585.2	-650.0	-880.3	-1,090.3	-1,132.6	-1,179.6	-1,235.0	-1,294.8
Aircraft and ships	-10.6	-226.2	-87.5	0.0	-109.2	0.0	0.0	0.0
IRS/New FDI	0.0	0.0	-80.6	-190.6	-255.0	-300.6	-340.6	-380.6
Other	-1,904.4	-1,965.0	-2,243.2	-2,591.7	-2,602.7	-2,901.4	-3,081.5	-3,261.7
Services (net)	400.6	445.9	756.3	966.2	1,163.0	1,333.5	1,509.8	1,712.6
Of which: tourism	652.3	785.4	1,024.4	1,205.7	1,383.8	1,535.0	1,700.2	1,887.5
Income (net)	43.5	110.8	280.0	303.4	328.7	356.0	385.3	416.9
Current transfers (net)	53.2	95.8	192.9	225.0	186.1	182.9	138.5	110.6
Capital and financial accounts	37.0	398.9	930.7	801.4	901.3	715.7	821.2	941.6
Capital account	-3.2	-1.6	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Financial account	40.2	400.5	932.5	803.2	903.1	717.5	823.0	943.4
Direct investment (net)	18.7	224.3	374.7	642.2	794.9	899.8	989.8	1,078.7
Abroad	-32.0	-24.3	-75.3	-82.8	-91.1	-100.2	-110.2	-121.3
In Mauritius	50.7	248.6	450.0	725.0	886.0	1,000.0	1,100.0	1,200.0
Portfolio investment (net)	-54.5	86.3	-51.3	-43.4	-39.7	-55.2	-54.9	-58.8
Other investment (net)	75.9	89.9	609.1	204.4	147.9	-127.0	-111.8	-76.6
Of which: government debt (net)	-26.7	50.0	52.2	141.3	214.9	247.8	295.3	333.7
Errors and omissions [3]	201.0	363.4	150.0	100.0	50.0	50.0	50.0	50.0
Overall balance	-97.9	209.1	725.4	285.1	350.4	190.0	284.8	442.4
Change in official reserves (- = increase)	97.9	-209.1	-725.4	-285.1	-350.4	-190.0	-284.8	-442.4
Memorandum items:			(Percent of GDP, unless otherwise indicated)					
Trade balance	-13.2	-17.4	-19.3	-21.2	-20.0	-18.9	-18.0	-17.0
Exports of goods and services, f.o.b.	60.5	60.8	59.7	54.0	51.4	49.6	47.8	46.1
Imports of goods and services, f.o.b.	-67.4	-71.8	-69.8	-65.4	-61.2	-58.2	-55.5	-52.7
Foreign direct investment	0.8	3.6	5.5	7.3	7.8	7.7	7.6	7.3
Current account balance	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Overall balance	-1.6	3.0	8.9	2.9	3.1	1.5	2.0	2.7
Errors and omissions [3]	3.2	5.2	1.8	1.0	0.4	0.4	0.3	0.3
Net international reserves, BOM, (millions of U.S. dollars)	1,408.3	1,617.4	2,342.8	2,627.8	2,978.2	3,168.2	3,453.0	3,895.3
In months of imports of goods, c.i.f.	5.2	5.2	6.4	6.2	6.7	6.7	6.8	7.3
GDP (millions of U.S. dollars)	6,311	6,928	8,191	9,971	11,420	12,925	14,559	16,400
Total external debt	11.7	11.0	9.5	9.3	9.9	10.5	11.3	10.8
Total debt service ratio (percent of exports of goods and services)	5.1	4.0	3.1	3.6	3.3	3.1	2.8	2.5
Mauritian rupees per U.S. dollar (period average)	30.8	31.6	...	...	...	...	...	...
Mauritian rupees per U.S. dollar (end of period)	30.4	32.5	...	...	...	...	...	...

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

1 Fiscal year (July-June), analytical presentation.

2 The 2006/07 budget announced the integration of EPZ and non-EPZ sectors.

3 Including unidentified capital flows.

Table 5. Mauritius: Deposit Corporate Survey, 2005-07

	2004	2005				2006				2007			
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
	(Millions of rupees)												
Net foreign assets	124,748	126,947	150,920	134,178	146,603	164,150	170,025	198,406	239,095	230,828	243,085	266,819	266,288
Net domestic assets	54,327	53,986	34,950	47,773	42,837	30,975	28,387	3,677	-31,574	-19,614	-27,677	-43,716	-26,969
Domestic credit	179,101	178,792	183,292	190,026	198,708	201,656	212,518	217,833	218,007	217,456	226,550	227,730	242,190
Claims on government (net)	41,643	42,388	44,121	44,371	45,251	45,459	48,747	47,459	46,181	43,038	42,242	42,882	45,524
Monetary authorities	-115	-74	138	131	1,741	414	1,011	2,930	6,116	1,332	-1,417	-179	-270
Commercial banks	41,758	42,461	43,984	44,240	43,510	45,045	47,736	44,529	40,065	41,706	43,660	43,061	45,795
Claims on private sector [1]	137,458	136,405	139,170	145,655	153,457	156,197	163,771	170,373	171,826	174,418	184,308	184,848	196,666
Other financial liabilities [2]	-63,148	-62,879	-86,058	-77,821	-89,715	-101,866	-114,769	-136,085	-167,431	-158,223	-172,353	-191,350	-188,761
Other items (net)	-61,626	-61,927	-62,284	-64,432	-66,156	-68,815	-69,362	-78,071	-82,151	-78,847	-81,875	-80,095	-80,398
Broad money (M2)	179,075	180,933	185,870	181,952	189,440	195,125	198,412	202,083	207,521	211,214	215,408	223,103	239,318
Money (M1)	48,448	48,683	51,626	44,801	47,684	46,555	48,067	49,282	53,148	53,188	54,599	58,341	64,429
Quasi-money	130,627	132,250	134,244	137,150	141,756	148,571	150,345	152,801	154,373	158,025	160,809	164,762	174,889
Reserve Money	14,734	14,735	14,051	13,836	13,491	13,160	13,581	13,618	12,208	13,267	16,206	17,563	17,424
Memorandum Items:													
	(Annual change, millions of rupees)												
Net foreign assets	8,542	2,199	23,973	-16,742	12,424	17,547	19,105	64,228	92,493	66,678	73,060	68,413	27,192
Domestic credit	903	-309	4,499	6,734	8,682	2,948	29,226	27,807	19,299	15,799	14,032	9,897	24,183
Claims on government	161	745	1,734	250	880	209	4,626	3,088	931	-2,421	-6,505	-4,577	-657
Claims on private sector [1]	742	-1,053	2,766	6,484	7,803	2,740	24,600	24,718	18,369	18,221	20,537	14,475	24,840
Broad money (M2)	2,149	1,858	4,937	-3,918	7,488	5,686	12,542	20,131	18,081	16,088	16,996	21,020	31,797
Money (M1)	966	236	2,942	-6,824	2,883	-1,129	-3,558	4,481	5,464	6,633	6,532	9,060	11,281
Quasi money	1,184	1,623	1,994	2,906	4,606	6,815	1,775	2,456	1,572	3,652	2,783	3,953	10,128
	(Annual percent change)												
Domestic credit	1.0	-0.4	5.0	3.8	4.8	1.6	15.9	14.6	9.7	7.8	6.6	4.5	11.1
Claims on government	0.9	5.7	9.9	0.6	2.1	0.5	10.5	7.0	2.1	-5.3	-13.3	-9.6	-1.4
Claims on private sector [1]	1.1	-1.5	3.8	4.7	5.7	2.0	17.7	17.0	12.0	11.7	12.5	8.5	14.5
Broad money (M2)	2.3	2.0	5.0	-2.2	4.2	3.1	6.7	11.1	9.5	8.2	8.6	10.4	15.3
Money (M1)	8.7	2.1	23.2	-14.4	5.9	-2.3	-6.9	10.0	11.5	14.2	13.6	18.4	21.2
Quasi-money	1.5	2.0	2.3	2.2	3.5	5.2	1.3	1.8	1.1	2.5	1.9	2.6	6.6
Reserve Money	13.6	-11.1	-22.6	-12.3	-8.4	-10.7	-3.3	-1.6	-9.5	0.8	19.3	29.0	42.7
	(Percentage change of beginning of year of broad money)												
Net foreign assets	4.8	1.2	13.4	-9.3	6.9	9.3	10.1	33.9	48.8	32.1	35.2	33.0	13.1
Domestic credit	0.5	-0.2	2.5	3.8	4.8	1.6	15.4	14.7	10.2	7.6	6.8	4.8	11.7
Claims on government (net)	0.1	0.4	1.0	0.1	0.5	0.1	2.4	1.6	0.5	-1.2	-3.1	-2.2	-0.3
Claims on private sector [1]	0.4	-0.6	1.5	3.6	4.4	1.4	13.0	13.0	9.7	8.8	9.9	7.0	12.0

Sources: Bank of Mauritius; and IMF staff estimates.

[1] Including claims on public enterprises.

[2] The major component of other financial liabilities consists of restricted deposits, which largely include deposits of the offshore nonfinancial corporations (so-called Global License Holders, GBLs). GBLs are resident corporations licensed to conduct business exclusively with nonresidents and only in foreign currencies.

Table 6. Mauritius: Indicators of Financial and External Vulnerability, 2005/06-2012/13 [1]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Baseline Projections					
Financial Indicators								
Total central government debt (percent of GDP)	55.8	51.4	49.6	46.2	43.9	41.8	39.6	37.0
Total public sector debt (percent of GDP)	68.8	61.3	59.5	56.1	53.8	51.7	49.4	46.8
Broad money (percent change; 12-month basis)	6.7	8.6	10.3	14.2	16.1	15.4	15.0	16.5
Private sector credit (percent change; 12-month basis)	17.7	12.5	28.3	27.9	29.1	25.3	23.0	23.9
Treasury Bill rate (weighted average of primary auctions)	7.5	11.9	...	...	...	...	...	...
External indicators								
Exports (percent change, in U.S. dollar terms)	12.1	3.2	9.4	3.8	3.8	5.6	5.3	5.3
Imports (percent change, in U.S. dollar terms) [2]	14.1	14.5	17.0	15.1	5.6	6.4	6.1	5.8
Terms of trade (percent change)	-7.7	-3.4	...	...	...	...	...	...
Current account balance (percent of GDP)	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Capital and financial account balance (percent of GDP)	2.1	2.7	11.4	8.0	7.9	5.5	5.6	5.7
Net international reserves of the Bank of Mauritius								
Millions of U.S. dollars [3]	1,408	1,617	2,343	2,628	2,978	3,168	3,453	3,895
Months of imports, c.i.f. [2]	5.2	5.2	6.4	6.2	6.7	6.7	6.8	7.3
Net international reserves of the banking system								
Millions of U.S. dollars	4,179	5,863	6,156	6,464	6,787	7,126	7,483	7,857
Months of imports, c.i.f. [2]	20.4	24.1	22.4	20.1	19.8	19.0	18.5	18.3
Total external debt								
Percent of exports of goods and nonfactor services	19.3	18.1	15.9	17.2	19.3	21.1	23.5	23.5
Total external debt service								
Percent of exports of goods and nonfactor services	5.1	4.0	3.1	3.6	3.3	3.1	2.8	2.5
Of which : interest payments	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.4
Of which : principal repayments	4.3	3.3	2.5	3.0	2.6	2.5	2.3	2.0
Exchange rate (Mauritian rupees per U.S. dollar; period average)	30.8	31.6	30.9	29.0	28.4	27.8	27.3	26.7
Financial market indicators								
Mauritius stock exchange index (SEMDEX; July 1989 = 100) [5]	841	1425	...	...	...	...	...	...
Change in percent [4]	14.3	69.4	...	...	...	...	...	...
Foreign currency long-term debt rating by Moody's [5]	Baa2	Baa1	Baa2	...	...	...	...	...

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

[1] Fiscal year (July-June).

[2] Excluding the acquisition of aircraft and ships.

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

[4] End of period.

[5] Bonds rated "Baa2" by Moody's are considered as medium-grade obligations.

Table 7. Mauritius: Financial Soundness Indicators for the Banking Sector, 2003-07 [1]
(Percent, unless otherwise indicated)

	2003	2004	2005	2006	2007
			(End-of-period)		
Capital adequacy					
Regulatory capital to risk-weighted assets [2]	14.2	15.0	15.4	15.5	14.4
Regulatory Tier I capital to risk-weighted assets	13.7	13.7	13.5	13.9	12.2
Total (regulatory) capital to total assets	8.0	7.8	7.8	7.8	6.7
Asset composition and quality					
Share of loans (exposures) per risk-weight (RW) category					
RW = 0%	5.2	6.4	16.6	14.2	9.7
RW = 20%	4.8	6.7	0.2	8.3	15.5
RW = 50%	7.9	9.6	6.5	6.8	5.6
RW = 100%	82.1	77.3	76.7	70.7	68.9
Total exposures/total assets	47.8	45.9	53.6	43.4	43.2
Sectoral distribution of loans to total loans					
Agriculture	9.1	7.5	5.7	5.8	4.8
Of which: sugar	*8.0*	*6.4*	*5.6*	*5.2*	*4.0*
Manufacturing	14.8	13.6	12.0	11.6	10.6
Of which: export enterprise certificate holders	*7.5*	*6.1*	*5.4*	*5.3*	4.8
Traders	14.9	14.5	13.9	13.8	13.9
Personal and professional	9.8	10.0	9.4	9.1	10.1
Construction	14.2	16.2	15.2	15.2	16.2
of which: housing	*9.0*	*10.8*	*10.7*	*11.1*	*12.4*
Tourism/hotels	15.9	15.4	13.2	12.0	12.6
Other	21.2	22.8	30.7	31.6	31.8
Foreign currency loans to total loans	10.9	12.2	51.5	46.1	57.2
NPLs to gross loans - excluding accrued/unpaid interest	9.6	8.1	4.0	4.6	2.4
NPLs net of provisions to capital	28.1	22.4	11.4	10.6	8.8
Large exposure to capital [3]	220.9	200.0	250.3	410.2	544.9
Earnings and Profitability					
ROA (Pre-tax net income/average assets)	2.1	2.1	1.9	1.8	1.8
ROE (Pre-tax net income/average equity)	19.2	19.2	21.1	20.7	26.0
Interest margin to gross income	32.1	34.7	36.3	34.7	29.3
Noninterest expenses to gross income	23.9	27.7	20.1	19.6	15.5
Expenses/revenues	10.6	10.2	9.9	9.2	7.2
Earnings/employee - in 000 of rupees	2,212	2,433	2,904	2,889	3265.2
Liquidity					
Liquid assets to total assets	36.6	37.9	44.1	48.9	46.2
Liquid assets to total short-term liabilities	71.0	71.7	88.6	106.5	95.9
Funding volatility ratio	13.9	14.0	-20.1	-38.8	-30.1
Demand deposits/total liabilities	10.3	10.7	15.9	13.6	16.9
FX deposits to total deposits	11.0	13.8	57.3	60.5	65.9
Sensitivity to market risk					
Net open positions in FX to capital	20.8	1.9	4.2	3.8	2.4

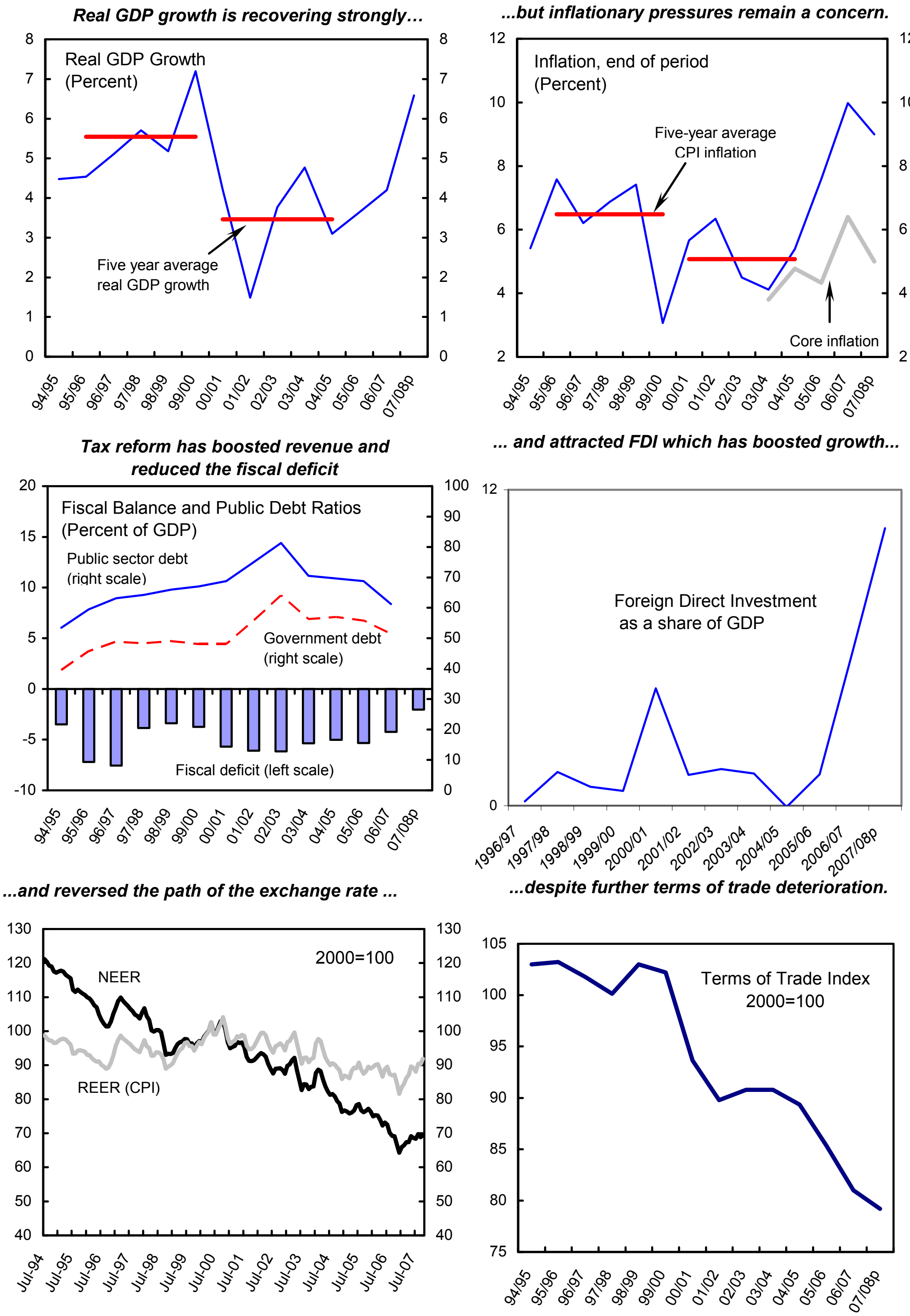
Source: Mauritian authorities.

[1] Data refer to former Category 1 ("domestic") banks up to 2004, but include the former Category 2 ("offshore") banks thereafter.

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

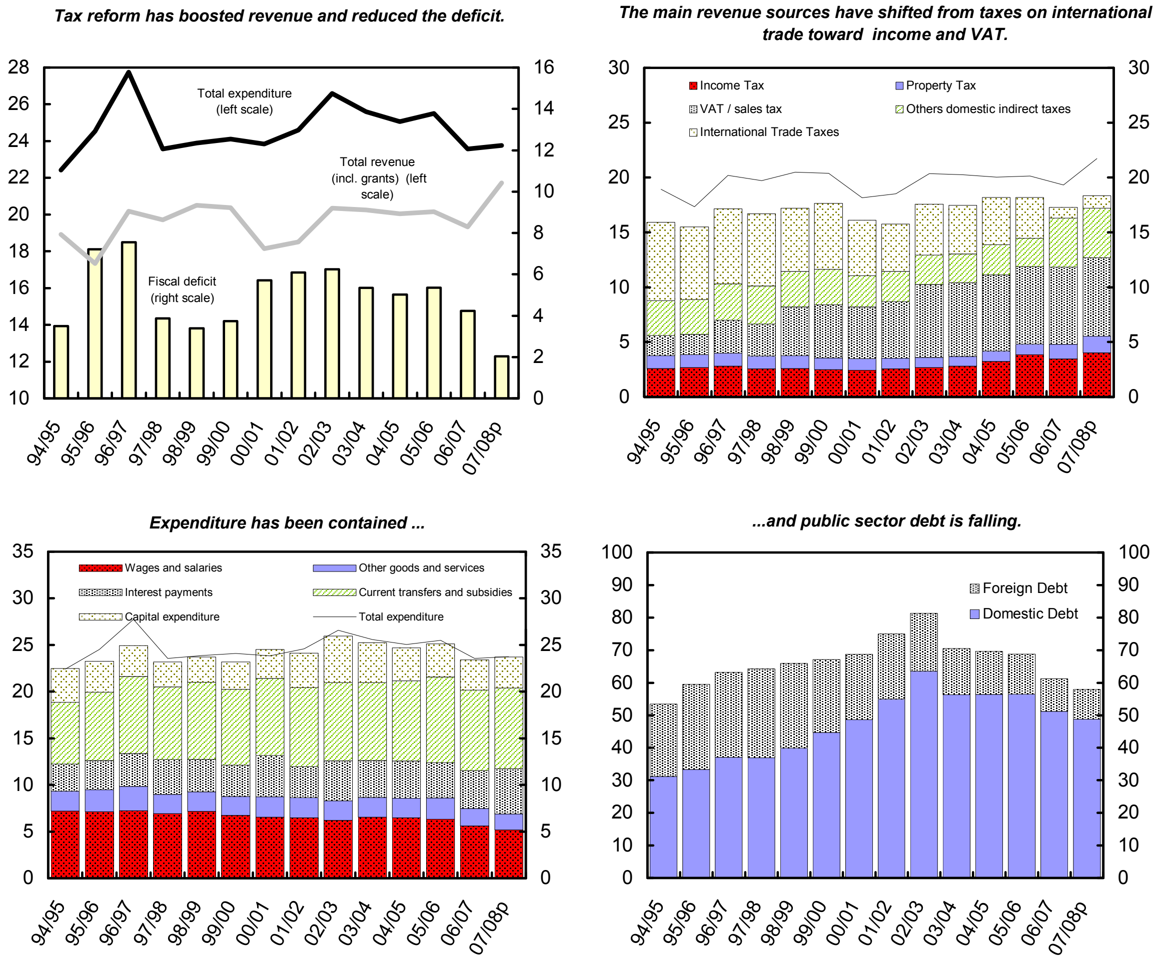
[3] Prior to 2006, data refer to Category 1 banks only.

Figure 1. Mauritius: Selected Economic Indicators, 1994/95-2007/08



Sources: Central Statistics Office, Bank of Mauritius, Ministry of Finance, IMF staff estimates.

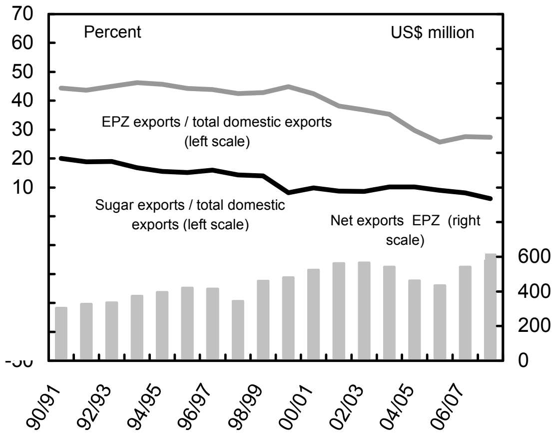
Figure 2. Mauritius: Recent Fiscal Developments 1994/95 - 2007/08
(Percent of GDP)



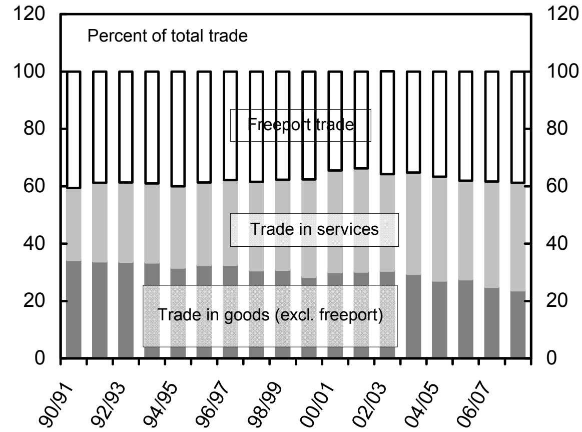
Sources: CSO, Ministry of Finance, Authorities, and IMF staff estimates.

Figure 3. Mauritius: Recent Developments in Trade and Competitiveness

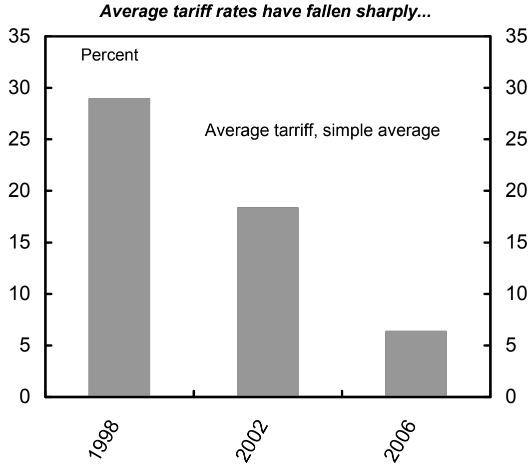
Traditional exports are losing importance...



...while trade in services and freeport activities are rising.

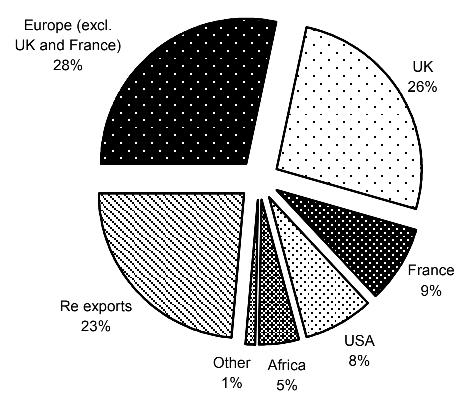


Average tariff rates have fallen sharply...



...Europe continues to be the major export market.

Exports by Destination, 2005.



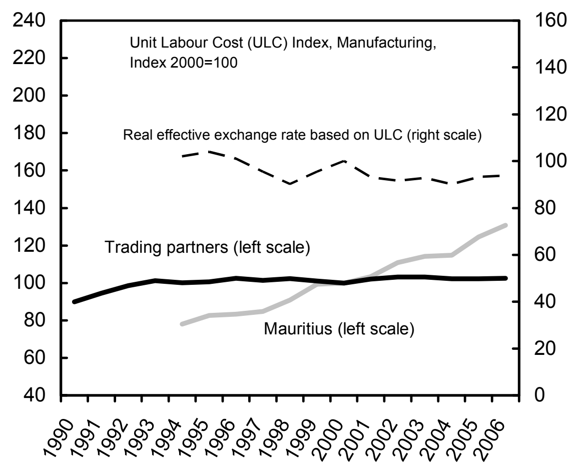
Mauritius' global competitiveness ranking is average...

Mauritius: Global Competitiveness Index

	2007 rank	2008 rank
United States	1	1
Singapore	8	7
Malaysia	19	21
Chile	27	26
Thailand	28	28
China	35	34
South Africa	36	41
India	42	45
Mauritius	55	57

Source: World Economic Forum.
[1] Sample of 131 countries.

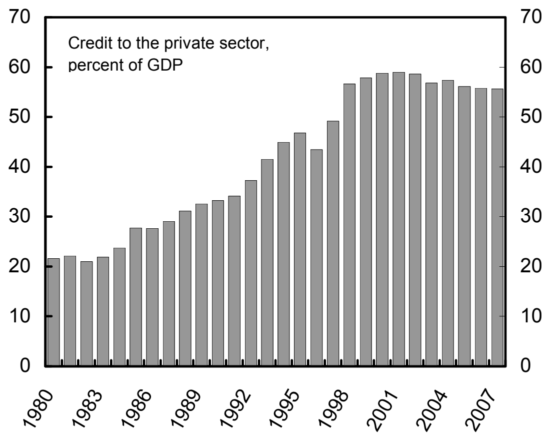
...and unit cost has risen.



Sources: CSO, Bank of Mauritius, World Economic Forum, IMF staff estimates.

Figure 4. Mauritius: Recent Financial Sector Developments

In response to trade shocks and higher uncertainty, credit to the private sector is subdued...



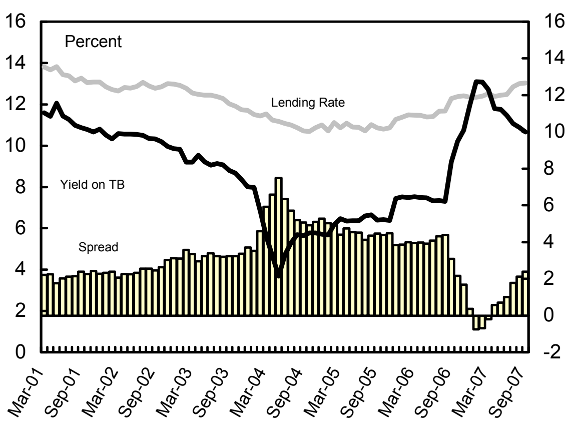
...and has shifted away from sugar and the EPZ sectors…

Bank Credit to the Private Sector
Distribution by Economic Sector (in percent of total) [1]

	Former Category 1		All banks		
	Jun-02	Jun-05	Jun-05	Jun-06	Jun-07
Sugar	6.0	5.9	5.7	5.4	3.6
Other agriculture	3.4	1.3	1.3	1.2	1.6
EPZ	10.4	6.7	6.6	6.2	5.2
Other manufacture	6.7	7.3	7.1	6.3	6.2
Tourism	14.8	14.3	14.4	12.8	13.6
Transport	1.6	1.5	1.4	1.4	1.3
Construction	14.0	17.0	16.2	16.3	17.4
Traders	14.2	15.2	14.8	14.8	15.0
New Economy	1.5	2.7	1.2	0.4	0.5
Financial and Business Services	9.3	9.7	9.7	11.2	12.0
Infrastructure	1.8	1.7	1.4	2.4	3.1
Public sector other than grn.	3.6	2.1	5.8	7.5	5.6
Households	8.4	9.6	9.3	9.5	10.4
Other	4.3	5.0	5.1	4.6	4.3

[1] After June 2005, data are only available for all banks, as a result of the unification of on- and off-shore bank licenses

while lending rates tended to incorporate a higher risk premium.



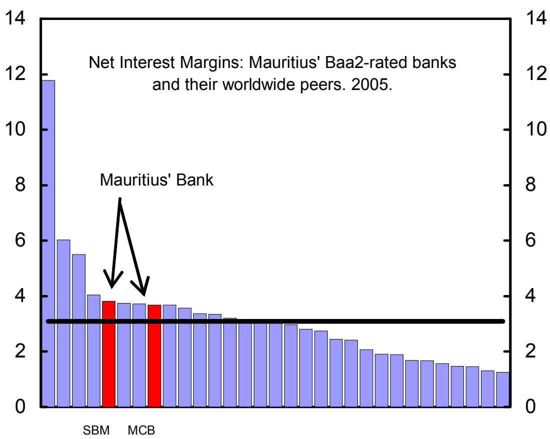
Bank lending could be stimulated by reducing institutional constraints

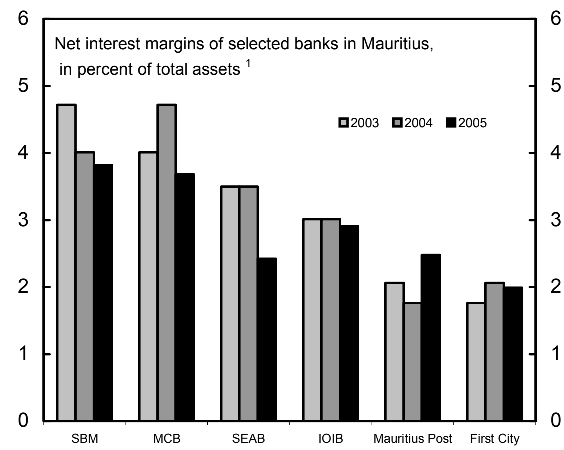
Selected Business Environment Indicators, 2006

	Mauritius	Region [1]	OECD
Getting credit	Rank 83 (of 175)		
Legal Rights Index [2]	6.0	4.2	6.3
Credit Information Index [3]	1.0	1.3	5.0
Enforcing contract	Rank 109 (of 175)		
Procedures (number)	37.0	38.1	22.2
Time (days)	630.0	581.1	351.2
Cost (% of debt)	15.7	42.2	11.2

Sources: World Bank.
[1] Sub Saharan Africa
[2] Range from 0-10, with higher scores indicating that those laws are better designed to expand access to credit.
[3] Range from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.

...and more competition in a concentrated banking sector.





Sources: Bank of Mauritius, Bankscope, World Bank, and IMF staff estimates.
[1] SBM: Standard Bank of Mauritius. MCB: Mauritius Commercial Bank. IOIB:Indian Ocean International Bank. SEAB: South East Asian Bank.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2005/06–2012/13[1]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Baseline Projections					
	(Annual percent change, unless otherwise indicated)							
National income, prices and employment								
Real GDP	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1
Real GDP per capita	2.8	3.4	5.7	5.4	4.3	4.4	4.4	4.4
GDP deflator	4.4	7.9	8.4	7.5	6.8	5.5	5.0	5.0
Domestic demand at current prices [2]	10.8	17.8	15.5	15.6	10.5	9.8	9.4	9.3
Consumer prices (period average)	5.1	10.7	9.5	8.5	7.3	6.0	5.3	5.0
Consumer prices (end of period)	7.6	10.0	9.0	8.0	6.5	5.5	5.0	5.0
Unemployment rate (percent)	9.3	8.9	8.7	…	…	…	…	…
Unit labor cost	3.8	4.3	5.6	...	...	...	...	...
External sector								
Exports of goods, f.o.b. (U.S. dollars)	12.1	3.2	9.4	3.8	3.8	5.6	5.3	5.3
Exports of services (U.S. dollars)	3.2	20.2	24.2	16.7	14.1	12.3	11.4	11.2
Of which : tourism receipts (U.S. dollars)	12.1	23.8	25.0	17.6	15.0	12.0	11.5	11.2
Imports of goods, f.o.b. (U.S. dollars)	14.1	14.5	17.0	15.1	5.6	6.4	6.1	5.8
Nominal effective exchange rate [3]	-3.4	-9.9	3.0	...	...	...	...	...
Real effective exchange rate [3]	0.6	-2.8	7.1	...	...	...	...	...
Terms of trade	-7.7	-3.4	...	...	...	...	...	...
Money and credit [4]								
Net foreign assets	10.3	36.8	-4.6	...	...	...	...	...
Domestic credit	15.7	7.1	27.1	...	...	...	...	...
Net claims on government	2.5	-3.3	2.8	...	...	...	...	...
Credit to private sector [5]	13.2	10.4	24.2	...	...	...	...	...
Broad money (end of period, annual percentage change)	6.7	8.6	10.3	14.2	16.1	15.4	15.0	16.5
Income velocity of broad money	1.0	1.0	1.1	1.1	1.0	1.0	0.9	0.9
Interest rate (weighted average TBs, primary auctions)	7.5	11.9	...	...	...	...	...	...
	(Percent of GDP)							
Central government budget								
Overall balance (including grants)	-5.3	-4.2	-3.0	-2.8	-2.8	-2.3	-1.9	-1.5
Primary Balance (including grants)	-1.5	-0.2	1.7	1.1	0.3	0.3	0.3	0.5
Revenues and grants	20.1	19.3	21.7	20.8	20.8	20.9	21.2	21.4
Expenditure and net lending	25.5	23.6	24.7	23.6	23.6	23.2	23.1	22.9
Domestic debt of central government	51.4	46.6	44.7	40.5	37.0	33.7	30.3	27.0
External debt of central government	4.4	4.7	4.9	5.7	7.0	8.1	9.2	10.0
Investment and saving								
Gross domestic investment	22.5	26.4	29.1	30.8	32.4	33.8	35.0	35.3
Public	7.1	6.6	6.8	7.2	7.6	7.9	8.3	8.7
Private	13.7	19.0	22.3	23.6	24.8	25.9	26.7	26.6
Gross national savings	17.2	18.4	24.7	24.6	27.1	29.4	30.9	31.9
Public	-1.4	-0.8	0.7	-0.1	0.3	0.8	1.6	2.2
Private	18.6	19.2	24.1	24.7	26.8	28.6	29.4	29.7
External sector								
Trade balance	-13.2	-17.4	-19.3	-21.2	-20.0	-18.9	-18.0	-17.0
Exports of goods and services, f.o.b.	60.5	60.8	59.7	54.0	51.4	49.6	47.8	46.1
Imports of goods and services, f.o.b.	-67.4	-71.8	-69.8	-65.4	-61.2	-58.2	-55.5	-52.7
Current account balance	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Overall balance	-1.6	3.0	8.9	2.9	3.1	1.5	2.0	2.7
Total external debt [6]	11.7	11.0	9.5	9.3	9.9	10.5	11.3	10.8
Net international reserves, BOM (millions of U.S. dollars)	1,408	1,617	2,343	2,628	2,978	3,168	3,453	3,895
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.2	5.2	6.4	6.2	6.7	6.7	6.8	7.3
Memorandum item:								
GDP at current market prices (millions of Mauritian rupees)	194,572	218,784	252,870	288,702	324,056	359,426	396,775	438,006
GDP per capita (U.S. dollars)	5,357	5,649	6,325	7,326	8,703	9,778	10,937	12,236
Foreign currency long-term debt rating (Moody's)	Baa2	Baa1	Baa2	…	…	…	…	…

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

[1] Fiscal year (July-June).
[2] Excluding changes in stocks.
[3] Period averages (a negative sign signifies a depreciation). 2007/08 figures show the change in average exchange rate since beginning of FY.
[4] Percent of beginning of period M2.
[5] Includes credit to parastatals.
[6] Projections excluding external debt related to unidentified capital flows.

Appendix I. Debt Sustainability Analysis

Mauritius risk from external debt distress is low. While the level of public debt remains high, it has been declining steadily in recent years and the maturity structure has improved.

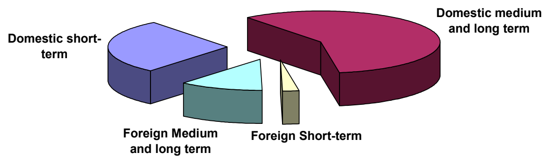
The macroeconomic projection assumes sustained fiscal consolidation, with higher growth, driven by rising foreign and domestic investment, supported by structural reforms to improve competitiveness. Assuming no major negative shocks, GDP growth is assumed on a long-term trend of 5.1 percent. Overall fiscal deficits will continue to decline, driven by a broadened tax base and a rationalization of current spending. The primary balance, which rose to a significant surplus in 2007/08 is projected to decline but remain positive. Public investment is projected to rise to support higher growth.

A. Public Sector Debt

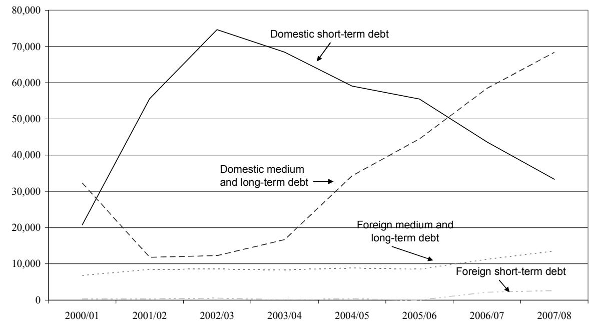
Under fiscal consolidation begun in 2005, public debt levels have been reduced from their peak of over 80 percent in 2003 to 61 percent at end-2007 and to a projected 59 percent and end-June 2008. Public sector debt is projected to further decline to 47 percent of GDP by 2012/13 (Table 1). The main contributor to debt reduction is buoyant tax revenue driven by the major reform of 2006-07 and a rationalization of current spending. The revenue effort is projected to recover in the medium term from the expected elimination of most import duties in the next few year under the duty-free island initiative. Nominal interest rates have also declined significantly. Moderate primary surpluses, averaging 0.5 percent of GDP, are projected throughout the medium term. This fiscal profile aims at creating the fiscal space needed for higher outlays on public infrastructure and education/retraining. The medium-term scenario is quite resilient to stress-testing and macroeconomic shocks: if growth were 1 percent lower than projected, the debt-to-GDP ratio would increase to 54 percent of GDP (Figure 1). A two standard deviation negative shock to real growth, however, would cause public debt to increase to 78 percent of GDP by June 2013.

The maturity structure of public debt in Mauritius has improved significantly since 2000/01 (Text Figure 1). The government has been extending the maturity structure so the share of medium and long-term debt has risen to over 50 percent of total debt. Total foreign debt is low and has been falling in recent years, as growth recovers and, especially is 2007/08, reflecting a significant exchange rate appreciation. External debt is largely concessional and predominantly on medium and long term maturities, and as such, is not very vulnerable to a reduction in global liquidity and investor risk appetite.

Text-Figure 1: Breakdown of Public Debt by Maturity 2007/08



Text Figure 2: Evolution of Debt by maturity, 2000/01-2007/08
(in millions of Mauritian rupees, end of period)



Source: Ministry of Finance and staff estimates

B. External Debt

The medium-term projection assumes that Mauritius' external debt, which is relatively low as a share of GDP, rises by about 1 percentage point by 2012/13 as the authorities intend to make greater use of available multilateral financing (Table 2). The external current account balance is expected to improve only moderately in the medium-term as large and rising foreign direct investment (FDI) inflows, notably into tourism and construction, draw in imports. The overall balance of payments is projected to remain in surplus and official reserves coverage is projected to rise steadily reflecting sustained capital investment inflows. Some of the worsening of the current account in recent years reflects large one-off items, such as purchases of aircraft (3.3 percent of GDP in 2006/07). Service exports, especially tourism, are expected to grow strongly, reflecting the investment profile. The textile sector has recently seen a moderate revival as it moves into higher added-value products. Non-traditional exports, notably seafood, financial services, and information, communication and technology have grown rapidly and are expected to continue on an upward trajectory. The external debt exposure therefore poses limited risk.

The most important risk to this picture stems from the current size of the external current account deficit should fiscal consolidation not materialize (Figure 2). Similarly, adverse external developments impinging on tourism arrivals, FDI and portfolio inflows, and service exports could materially worsen the external debt outlook, but from a low level.

Table 1. Mauritius: Public Sector Debt Sustainability Framework: 2004/05-2012/13
(Percent of GDP, unless otherwise indicated)

	Actual			Projections						
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	**Debt-stabilizing primary balance** [9]
1 **Baseline: Public sector debt** [1]	**69.6**	**68.8**	**61.3**	**59.5**	**56.1**	**53.8**	**51.7**	**49.4**	**46.8**	**0.5**
of which foreign-currency denominated	13.3	12.3	10.0	9.6	7.9	8.3	9.1	9.9	10.6	
2 Change in public sector debt	-0.8	-0.8	-7.5	-1.8	-3.4	-2.3	-2.1	-2.2	-2.6	
3 Identified debt-creating flows (4+7+12)	0.4	1.0	-0.5	-4.1	-4.8	-3.1	-2.8	-2.7	-2.9	
4 Primary deficit	1.0	1.6	0.2	-1.7	-1.1	-0.3	-0.3	-0.3	-0.5	
5 Revenue and grants	20.0	20.1	19.3	21.7	20.8	20.8	20.9	21.2	21.4	
6 Primary (noninterest) expenditure	21.1	21.7	19.5	19.9	19.7	20.5	20.7	20.9	20.9	
7 Automatic debt dynamics [2]	-0.7	-0.5	-1.1	-3.5	-3.5	-3.0	-2.8	-2.7	-2.6	
8 Contribution from interest rate/growth differential [3]	-1.3	-1.5	-3.6	-3.5	-3.5	-3.0	-2.8	-2.7	-2.6	
9 *Of which* : contribution from real interest rate	0.7	0.9	-1.0	0.0	-0.3	-0.5	-0.3	-0.3	-0.3	
10 *Of which* : contribution from real GDP growth	-2.0	-2.3	-2.6	-3.5	-3.2	-2.6	-2.5	-2.4	-2.3	
11 Contribution from exchange rate depreciation [4]	0.7	0.9	2.4	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	0.5	1.2	-0.2	0.3	0.3	0.3	0.3	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.5	1.2	0.3	0.3	0.3	0.3	0.3	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) [5]	-1.2	-1.9	-7.1	0.4	0.7	0.6	0.2	0.1	-0.1	
Public sector debt-to-revenue ratio [1]	347.5	341.4	316.7	274.3	269.4	258.4	246.7	232.9	218.9	
Gross financing need [6]	82.5	74.2	66.5	55.9	30.9	38.2	39.1	35.9	32.7	
Billions of U.S. dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Scenario with key variables at their historical averages [7]				**63.9**	**64.3**	**64.5**	**64.6**	**64.5**	**64.3**	**-1.6**
Scenario with no policy change (constant primary balance) in 2007/08-2012/13				**60.9**	**58.7**	**56.8**	**54.9**	**53.1**	**51.0**	**-2.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
Real GDP growth (percent)	3.1	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1	
Average nominal interest rate on public debt (percent) [8]	6.1	5.9	6.6	9.0	7.4	6.2	5.2	4.7	4.5	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	1.2	1.5	-1.3	0.5	-0.1	-0.6	-0.3	-0.3	-0.5	
Nominal appreciation (increase in US dollar value of local currency, percent)	-3.7	-5.5	-13.8	-12.1	-5.5	-2.4	-3.6	-3.5	-3.3	
Inflation rate (GDP deflator, percent)	4.9	4.4	7.9	8.4	7.5	6.8	5.5	5.0	5.0	
Growth of real primary spending (deflated by GDP deflator, percent)	0.4	6.8	-6.3	8.8	5.1	9.4	5.9	6.2	5.0	
Primary deficit	1.0	1.6	0.2	-1.7	-1.1	-0.3	-0.3	-0.3	-0.5	

[1] Includes central government, local governments, and parastatals (net of balances with the BOM).

[2] Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

[3] The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

[4] The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

[5] For projections, this line includes exchange rate changes.

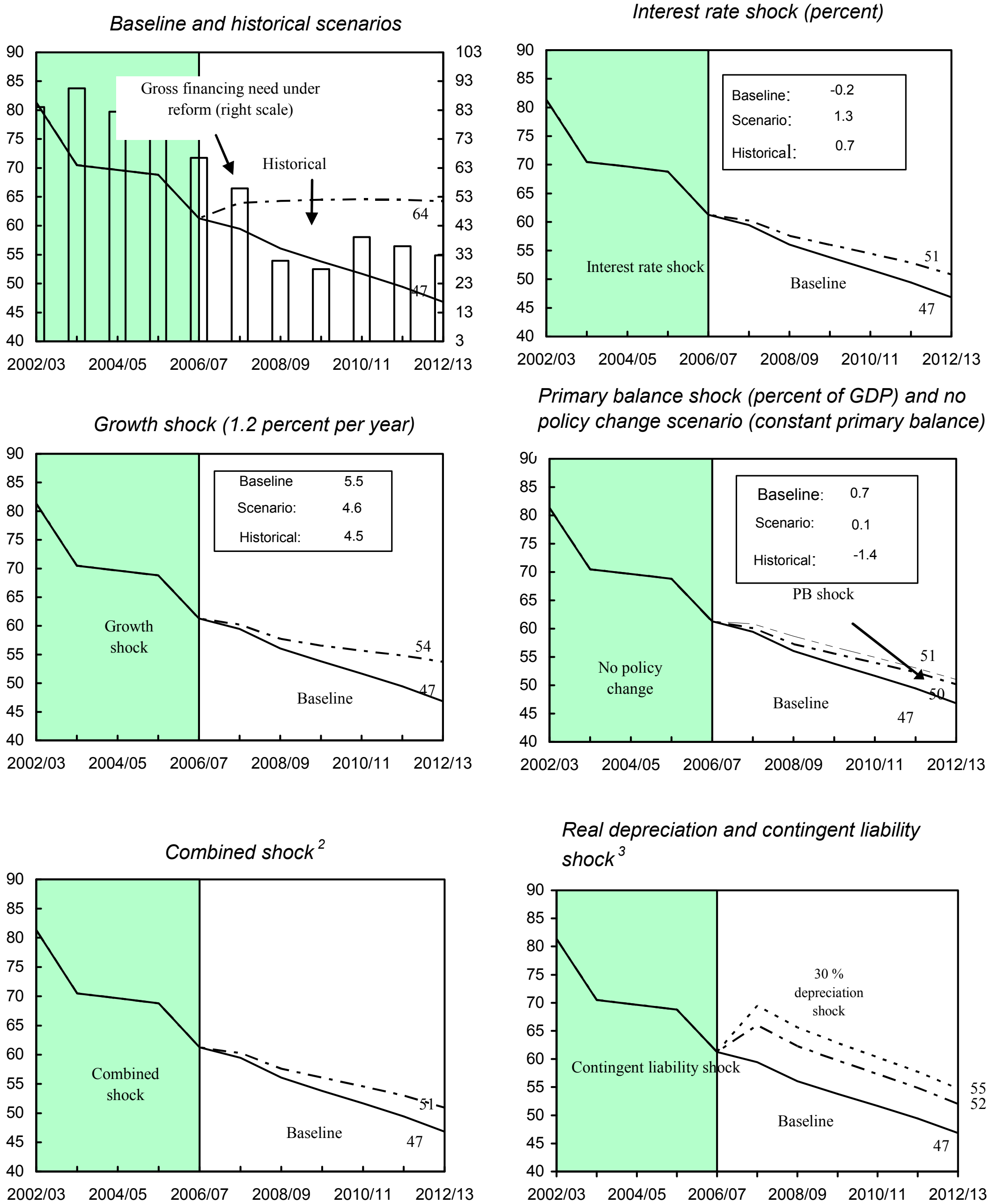
[6] Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

[7] The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.

[8] Derived as nominal interest expenditure divided by previous period debt stock.

[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 1. Mauritius: Public Sector Debt Sustainability:
Bound Tests: 2002/03 - 2012/13[1] (Public debt, percent of GDP)



Sources: International Monetary Fund, Mauritian authorities, 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] Permanent one quarter standard deviation shocks applied to real interest rate, growth rate, and primary balance.

[3] One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2007/08, with real depreciation defined as nominal depreciation (measured by the percentage decline in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 2. Mauritius: External Debt Sustainability Framework, 2004/05-2012/13
(Percent of GDP, unless otherwise indicated)

		Actual			Projections						
		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	13.8	11.7	11.0	**9.5**	**9.3**	**9.9**	**10.5**	**11.3**	**10.8**	**-3.1**
2	Change in external debt	-1.4	-2.1	-0.7	-1.5	-0.2	0.6	0.6	0.8	-0.4	
3	Identified external debt-creating flows (4+8+9)	3.7	10.6	17.6	7.9	7.5	3.4	2.7	2.5	-0.4	
4	Current account deficit, excluding interest payments	3.0	4.9	7.5	4.0	5.8	4.9	4.2	3.8	3.1	
5	Deficit in balance of goods and services	-118.8	-127.9	-132.5	-129.5	-119.4	-112.6	-107.8	-103.3	-98.8	
6	Exports	57.2	60.5	60.8	59.7	54.0	51.4	49.6	47.8	46.1	
7	Imports	-61.6	-67.4	-71.8	-69.8	-65.4	-61.2	-58.2	-55.5	-52.7	
8	Net non-debt creating capital inflows (negative)	0.7	5.5	10.2	4.1	1.8	-1.4	-1.3	-1.1	-3.2	
9	Automatic debt dynamics [1]	0.0	0.2	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	
10	Contribution from nominal interest rate	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.2	0.2	
11	Contribution from real GDP growth	-0.5	-0.5	-0.5	-0.6	-0.5	-0.4	-0.4	-0.5	-0.5	
12	Contribution from price and exchange rate changes [2]	-0.1	0.2	-0.1	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) [3]	-5.1	-12.7	-18.3	-9.4	-7.7	-2.8	-2.1	-1.7	0.0	
	External debt-to-exports ratio (percent)	24.1	19.3	18.1	15.9	17.2	19.3	21.1	23.5	23.5	
	Gross external financing need (billions of U.S. dollars) [4]	0.5	0.5	0.7	0.5	0.8	0.8	0.8	0.8	0.7	
	Percent of GDP	7.2	8.4	10.4	6.2	8.1	6.9	6.0	5.4	4.5	
	Scenario with key variables at their historical averages [5]				**0.8**	**-9.4**	**-12.9**	**-15.5**	**-17.5**	**-16.3**	**-0.1**
	Key Macroeconomic Assumptions Underlying Baseline:									For debt stabilization	
	Real GDP growth (percent)	3.1	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1	
	GDP deflator in US dollars (percent change)	0.5	-1.7	1.1	20.5	9.7	9.0	7.7	7.2	7.2	
	Nominal external interest rate (percent)	3.4	3.4	4.1	4.0	4.2	4.0	3.2	2.6	2.1	
	Growth of exports (U.S. dollar terms, percent)	6.8	7.7	5.7	26.1	5.3	9.1	9.2	8.7	8.6	
	Growth of imports (U.S. dollar terms, percent)	15.9	11.5	12.1	25.0	9.2	7.0	7.7	7.3	7.0	
	Current account balance, excluding interest payments	-3.0	-4.9	-7.5	-4.0	-5.8	-4.9	-4.2	-3.8	-3.1	
	Net non-debt creating capital inflows	-0.7	-5.5	-10.2	-4.1	-1.8	1.4	1.3	1.1	3.2	

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

[2] The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an

appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

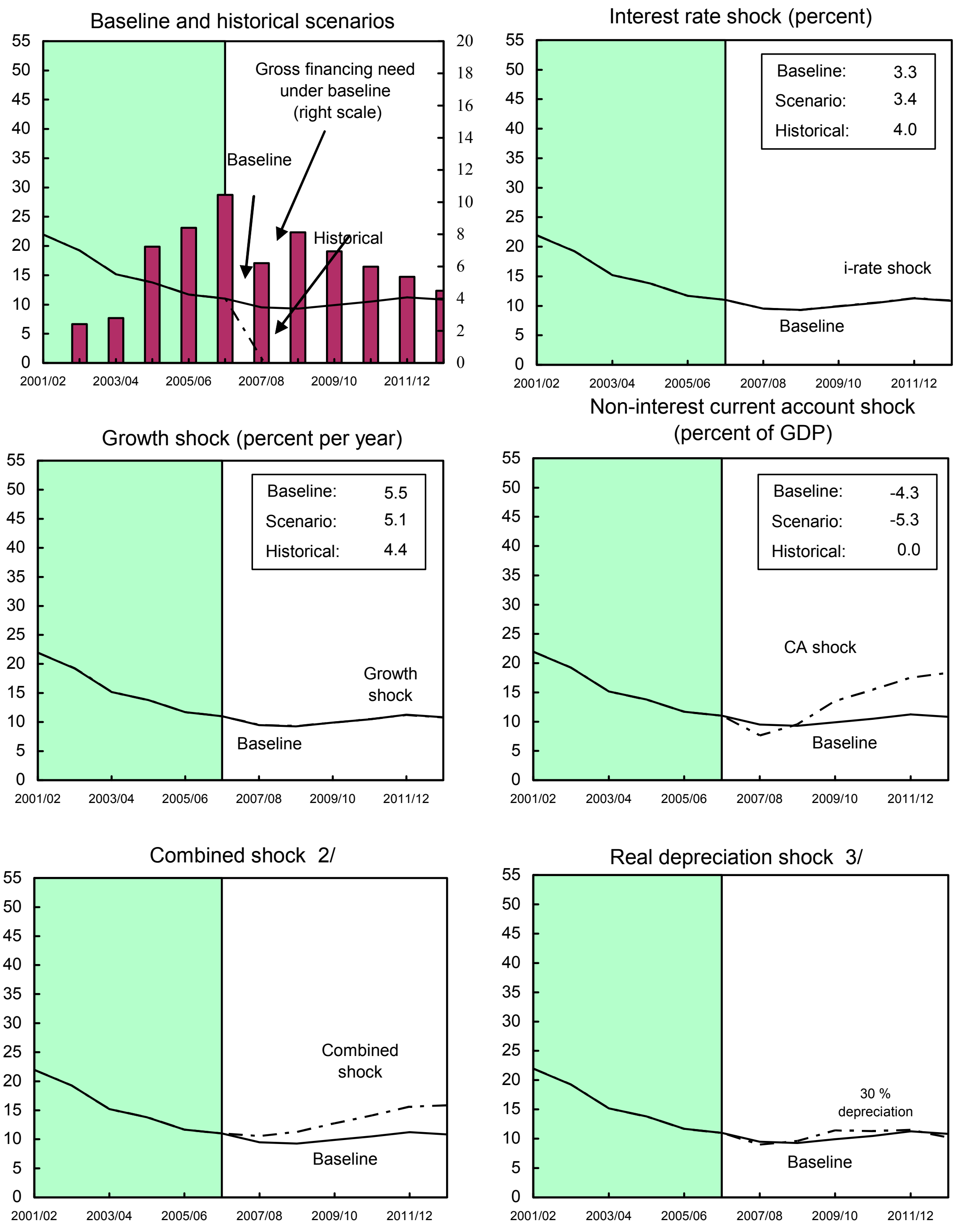
[3] For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 2. Mauritius: External Debt Sustainability: Bound Tests 1/
(External debt, 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/ Permanent one quarter standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2007/08.

INTERNATIONAL MONETARY FUND

MAURITIUS

Staff Report for the 2008 Article IV Consultation
Informational Annex

Prepared by the African Department

Approved by Hugh Bredenkamp and Adnan Mazarei

June 13, 2008

Contents Page

Appendix I. Relations with the Fund

(As of April 30, 2008)

I. Membership Status

Joined on September 23, 1968; Article VIII.

II. General Resources Account

	SDR Million	Percent of Quota
Quota	101.60	
Fund holdings of currency	95.45	93.94
Reserve position in Fund	6.15	6.06

III. SDR Department

	SDR Million	Percent of Allocation
Net cumulative allocation	15.74	
Holdings	18.73	118.99

IV. Outstanding Purchases and Loans

None.

V. Latest Financial Arrangements

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

VI. Projected Obligations to Fund

None.

VII. Implementation of HIPC Initiative

Not applicable.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable.

IX. Safeguards Assessments

Not applicable.

X. Exchange Rate Arrangement

The currency of Mauritius is the Mauritian rupee, and the exchange rate regime is a managed float with no pre-announced path for the exchange rate. The exchange rate is currently determined in the interbank foreign exchange market. The exchange arrangement is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. Mauritius accepted the obligations of Article VIII, Section 2(a), 3, and 4 on September 29, 1993. Mauritius also maintains a liberal capital account. On April 29, 2008, the US$1 was equivalent to MUR 25.45.

XI. Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation discussions were held during February 19-28, 2007. The staff report (Country Report No. 07/192, 3/30/07) was considered by the Executive Board on May 7, 2007. A Financial System Stability Assessment was completed by a joint IMF–World Bank team on June 5, 2003.

XII. Technical Assistance (2004–2008)

FAD mission on revenue administration and tax policy, February 2004.
MFD mission on banking supervision and legislation, October 2004.
MFD mission on banking supervision during 2005: the first mission in January 2005, and the second in March-April 2005.
FAD mission on revenue administration and tax policy, January 2005.
MFD mission on financial sector policy and strategy, January 2006.
FAD mission on fiscal adjustment strategy and Poverty and Social Impact Analysis (PSIA), February-March 2006.
MFD mission on financial sector policy and strategy, July 2006.
MFD mission on banking supervision/monetary operations/monetary policy, October 2006.
STA mission on multisector statistics, November 2006.

MCM mission on financial sector policy and strategy, January 2007.
MCM primary mission on Financial Sector Assessment Program (FSAP), February 2007.
FAD mission on Public Financial Management (PFM) and Medium-Term Expenditure Framework (MTEF), March 2007.
MCM mission on financial sector policy and strategy, March-April 2007.
STA mission on Balance of Payments statistics, March 2007.
MCM mission on foreign exchange markets, August 2007.
STA Balance of Payments module mission, October 2007.
STA mission on Phase II SDSS Balance of Payments statistics, October-November 2007.
STA Report on the Observance of Standards and Codes (ROSC) mission, November-December 2007.
FAD mission on Public Financial Management (PFM): Implementing Program-Based Budgeting: Next Steps, February 2008.
STA mission on national accounts statistics, February 2008.
STA mission on Phase II SDSS Government Finance Statistics, March 2008.
MCM mission on Central Bank-FSAP follow-up, March 2008 (2 missions).
STA mission on Phase II SDSS Multisector Statistics, March-April 2008.
STA mission on monetary and financial statistics, April 2008.

Resident Representative: None.

Appendix II. Relations with the World Bank Group

(As of January 29, 2008)

The Bank Group strategy and lending operations

A member of the World Bank since its independence in 1968, Mauritius is a development success story. In 1968, the country was poor, with a nominal per capita income of about US$260. Today, nominal income per capita is US$5,250. The country graduated from the International Development Association (IDA), the World Bank's soft-lending arm for the poorest countries), in FY1975, and the last IDA credit was made in July 1974. In the 1980s, the World Bank supported macroeconomic and sectoral policy reforms through quick-disbursing loans. After the success of the structural adjustment effort, the country turned to more traditional project lending.

The World Bank's role in Mauritius is evolving, reflecting the country's past success in gaining access to capital markets and Middle Income Country status. Because of its relatively high income, Mauritius is one of only a few African countries eligible for International Bank for Reconstruction and Development loans (most African countries borrow from the IDA). The World Bank currently has one active operation – the Development Policy Lending (DPL) series. The second DPL totaling $30 million will be considered by the Bank's Board in February and will support measures in the country's economic restructuring and reform efforts. It has been agreed with the Government that in total the DPL series will comprise six annual loans, the focus of each being agreed annual the DPL series will total six annual loans the focus of each being agreed annual to reflect the country's evolving development priorities.

The World Bank is also preparing two other project loans – one for the transport sector and the other to support parastatal sector and investment climate reforms. The Government has been explicit in its request for a careful balance between general budget support, which does not provide technical assistance, and investment lending which provides technical assistance to help maintain the momentum for reform and build capacity to implement reforms in key areas.

The Bank also supports the government of Mauritius through analytical and advisory assistance. The Bank carried out an Investment Climate Assessment in 2005/2006 which the country put to good use by incorporating most of the recommendations in a new Business Facilitation Act. Currently the Bank is engaged in a policy dialogue on Doing Business reforms and is providing technical assistance in the preparation of several sector strategies for the program based budget.

The World Bank's current Country Partnership Strategy (CPS) runs from FY07–13. The CPS is based on three guiding principles: (i) alignment with the Government Program; (ii) flexibility; and (iii) harmonization. It has been developed in close collaboration with the Government of Mauritius and the European Union to ensure that it responds to the country's emerging needs, and reflects a coherent approach by Mauritius' major development partners. The CPS builds on lessons learned from previous Bank experience in Mauritius and on the flexible approaches developed elsewhere in the Bank for Middle-Income Countries. It is grounded in the Bank's recognition that it needs to adapt its business model to Mauritius' development agenda, and the Government's recognition that the Bank brings much more than financial resources to the table.

The International Finance Corporation's (IFC) main focus for future activity in Mauritius is support for advisory work and investments in private infrastructure. IFC is also actively seeking projects with Mauritian sponsors investing elsewhere in Africa. In 2007, IFC negotiated an advisory mandate for structuring private participation in the ports sector. IFC has committed no new investments since 1996; the portfolio has steadily decreased as investments have been repaid and/or exited and now consists of two equity positions for a total of US$1 million.

The Multilateral Investment Guarantee Agency (MIGA) has been actively supporting Mauritian investors venturing abroad, particularly into sub-Saharan Africa. The agency is working to further strengthen relations with the local business community, creating synergies that will continue to support development into the Southern African Development Community region and other regions of Africa. For the second year running, the Board of Investment (BoI) office has supported and facilitated MIGA's missions to Mauritius. These missions have firmly put MIGA as a value adding institution to cross-border investors to and from Mauritius. The BoI continues to identify investors with the potential to use MIGA services. Mauritian investors have benefited substantially in recent years from MIGA guarantees for their investments in continental Africa and elsewhere, with total gross exposure currently greater than US$53.1 million for projects in Africa and South Asia.

Mauritius is not an active participant in World Bank Institute programs, but discussions are under way to help position the country as a global knowledge hub.

IMF-World Bank collaboration in specific areas

IMF and World Bank staffs have traditionally collaborated closely and this has been reinforced by the Government's request that all Development Partners harmonize and coordinate their support. Since 2001 the Bank had been involved with budget modernization and implementation of a Medium Term Expenditure Framework and Program Based Budgeting (METF/PBB), but more recently the IMF's Fiscal Affairs Department has taken the lead. However, MTEF/PBB implementation remains a focus area of the DPL. In addition, the World Bank and IMF jointly prepared a Financial Sector Assessment Program

(FSAP) update in 2007 and are now collaborating on a follow-on Financial Sector Action Plan.

Areas in which the World Bank leads

World Bank support is demand driven. Areas where it has taken the lead are related to specific sector advice, such as the tourism, lands and housing, infrastructure, and investment climate and parastatal sector reforms and through a number of analytical studies as described above, including an ongoing investment climate assessment.

Areas in which the IMF leads

Areas where the IMF takes the lead role relate to policy advice and reforms with respect to (i) overall economic policy advice and targets for macroeconomic targets; (ii) tax policy and administration; (iii) budgetary procedures (MTEF/PBB); (iv) treasury procedures; (v) public sector wage policy; and (vi) monetary management and exchange rate policy. The Bank team actively participates in discussions between the IMF and the government in these areas, however, especially with respect to the setting of overall macroeconomic targets.

Questions may be referred to Constantine Chikosi (email: cchikosi@worldbank.org).

Appendix III. Relations with the African Development Bank Group

(As of January 1, 2008)

Assistance from the African Development Bank (ADB) to Mauritius combines lending and non-lending activities. Lending has focused on infrastructure development in agriculture and transportation and non-lending on economic and sector work (ESW) in health, poverty reduction, and debt management. Under the NEPAD Program, ADB has collaborated with the UNDP, AU, and ECA on the African Peer Review Mechanism (APRM), for which Mauritius is one of the four pilot cases. An ADB study on poverty, gender, and social exclusion is also under preparation and is being coordinated with the EU and the UNDP. Past collaboration with the World Bank (and other partners) includes water, sewerage, and sanitation (the Plaines Wilhems Sewerage Project) and transport (Southeastern Highway). A close working relationship has developed between the two institutions during the preparation and appraisal of the first and second Development Policy Loans.

Table 1. Operations Summary as of January 1, 2008

Operations since: 1975
Total Number of operations 32:---24 Projects,
2 Policy based operations; 1 Study; 5 Lines of Credit.

Source of financing	Commitments net* (UA million)	Percentage share	Disbursed amount (UA million)	Percentage disbursed
ADB	161.05	95.75	97.13	33.4
ADF/TAF	4.26	2.53	4.26	90.44
NTF	2.89	1.72	2.88	27.7
Total	168.2	100	104.28	34.1

* out of cancellations amounting UA 168.2 million

Questions may be referred to Septime Martin (email: smartin@afdb.org)

Appendix IV. Statistical Issues

Data provided to the Fund are, in general, adequate for surveillance. Efforts are under way to improve the frequency and quality of fiscal data, particularly their consistency with monetary data. The authorities publish economic data including in a monthly bulletin published by the Bank of Mauritius (BOM) and a number of reports published by the Central Statistics Office (CSO), which are accessible on the Internet. The country started participating in the IMF's General Data Dissemination System (GDDS) in September 2000. As one of 22 countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, it has undertaken to use the GDDS as a framework for the development of its national statistical system. The country is participating in the SDDS and the external sector modules of the Anglophone Africa project (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata. In December 2007, a Report on the Observance of Standards and Codes (ROSC) was prepared, to assess the quality of macroeconomic statistics based on the Data Quality Assessment Framework (DQAF). The report found that the quality of the macroeconomic statistics in Mauritius has improved significantly since the previous assessment, conducted in 2001. It is expected that Mauritius will be in a position to subscribe to the SDDS towards the end of 2008.

Real sector

National accounts are based on the concepts and definitions recommended by the *System of National Accounts 1993*. Data are prepared by the CSO on a calendar-year basis and cover all transactions categories except financial transactions. Estimates of GDP on the basis of production use the ratios from the Census of Economic Activities (CEA). Following the 2002 CEA, a major revision of the national accounts was undertaken and completed in September 2005. Some government operations and transactions with the rest of the world are recorded on a cash basis rather than on an accrual basis. Different accounting years of units and insufficient data on changes in inventories hamper accuracy. Other deviations from international standards include outdated coefficients in agriculture, single deflation of value added in some activities, no volume measures for changes in inventories, a base year for QNA more than five years old and direct deflation of VAT and import duties. Expenditure GDP aggregates are compiled independently, except for changes in inventories.

The consumer price index is regularly rebased (every five years) as consumption patterns and relative prices change. A new series of the consumer price index with July 2006-June 2007 as base period, and weights derived from the 2006/07 household budget survey was released in October 2007. The index broadly follows international practices. Producer price indices (PPI) of agriculture and manufacturing, input costs of construction, the wage rate, and employment have been developed, but are not reported to the IMF for publication in its

International Financial Statistics (IFS). The PPIs are monthly indices but are disseminated on a quarterly basis following a quarterly price collection. The current PPIs have 2003 as the base year, which is planned for update on a five-year basis.

Government finance

The definition, scope, and classification/sectorization of general government agencies and their transactions are in line with international standards.. Source data for the compilation of statistics for the general government are not timely enough to meet SDDS timelines requirements. Although the authorities produce quarterly *GFS* data for budgetary central government, they do not report these for publication in *IFS*. However, they report data on the consolidated general government and its sub-sectors for publication in the *Government Finance Statistics (GFS) Yearbook*. The authorities will soon finalize a revised chart of account that is based on the classifications used in the *GFSM 2001* framework. This improvement will significantly enhance the availability of detailed fiscal data.

Monetary accounts

The authorities report money and banking statistics on a timely and regular basis. The analytical framework used for compiling monetary and financial statistics is based on the 2000 *Monetary and Financial Statistics Manual*. The Depository Corporations Survey (DCS) is a consolidation of the accounts of the BOM and other depository corporations, which comprise banks and nonbank deposit taking institutions. In addition to the monthly depository corporations survey, its two component surveys, the Central Bank Survey and the Other Depository Corporations Survey are also disseminated, along with the underlying sectoral balance sheets for the central bank and for the other depository corporations. The M1 and M2 monetary aggregates are derived from the Depository Corporations Survey, adjusted for the deposits of Global Business Licence Holders, but some nonbank depository corporations are excluded. The November 2007 data ROSC mission recommended that the authorities conduct a survey of the mutual funds to ascertain whether they issue close substitutes for deposits and, therefore, qualify for the inclusion in monetary statistics as depository corporations. Also, the mission noted that the National Pension Fund is incorrectly sectorized as financial corporation rather than as part of the central government.

Balance of payments

The country provides quarterly balance of payments (BOP) and international investment position (IIP) data to the IMF's Statistics Department on the basis of the classification system of the fifth edition of the *Balance of Payments Manual*. The quality of balance of payments statistics has deteriorated somewhat as a consequence of the liberalization of the economy, and the growth of global business license holders (GBLs). Notably, there has been a sharp increase in net errors and omissions in the BOP, and the IIP has a major undercount of liabilities, giving an unreliable indication of a net asset position. Transactions of offshore financial institutions with the rest of the world are only partially covered. Recent technical assistance and data ROSC missions have recommended that more emphasis be placed on surveys, rather than the relying on the bank report forms of transactions between residents and nonresidents. The authorities launched an enterprise survey at the end of 2007, the results of which are not yet available. This survey does not cover GBLs, and the authorities have yet to make a decision on how to collect data on GBLs' assets and liabilities. The IIP and external debt data are not fully consistent with the balance of payments statistics.

MAURITIUS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(AS OF JUNE 1, 2008)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Apr. 2008	5/15/2008	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2007	01/2008	M	M	M
Reserve/Base Money	Mar. 2008	5/15/2008	M	M	M
Broad Money	Mar. 2008	5/15/2008	M	M	M
Central Bank Balance Sheet	Mar. 2008	5/15/2008	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2008	5/15/2008	M	M	M
Interest Rates[2]	Mar. 2008	5/15/2008	M	M	M
Consumer Price Index	Mar 2008	5/5/2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2006/07	10/2007	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	2006/07	10/2007	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2006/07	10/2007	Q	Q	Q
External Current Account Balance	06/2007	9/19/07	Q	Q	Q
Exports and Imports of Goods and Services	06/2007	12/17/07	Q	Q	Q
GDP/GNP	Q4 2007	4/25/2008	Q	A	A
Gross External Debt	Q3/2007	Q4/2008	Q	Q	Q
International Investment Position [7]	Q4/2008	Apr. 2008	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[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] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Appendix V. Millennium Development Goals

	1990	1995	2000	2005	2015 Target
General Social Indicators					
Population (millions)	1.1	1.1	1.2	1.2	...
Adult literacy rate (% of people ages 15 and over)	...	....	84	...	...
Life expectancy at birth (years)	69	70	72	73	...
Fertility rate, total (births per woman)	2.3	2.1	2.0	2.0	...
Goal 1: Eradicate extreme poverty and hunger					
Target: Halve between 1990 and 2015 the proportion of people whose income is less than $1/day and who suffer from hunger					
Malnutrition prevalence, weight for age (% of children under 5)	...	14.9	...	...	...
Poverty gap at $1 a day (PPP) (%)	...	...	...	...	...
Prevalence of undernourishment (% of population)	*6*	*6*	...	*5*	3
Goal 2: Achieve universal primary education					
Target: Ensure that by 2015, children everywhere will be able to complete a full course of primary schooling					
Literacy rate, youth total (% of people ages 15-24)	91	...	...	*95*	100
Persistence to grade 5, total (% of cohort)	*97*	...	99	*97*	100
Primary completion rate, total (% of relevant age group)	64	98	105	97	100
School enrollment, primary (% net)	*91*	...	93	95	100
Goal 3: Promote gender equality and empower women					
Target: Eliminate gender disparity in primary and secondary education no later than 2015					
Proportion of seats held by women in national parliament (%)	7	*8*	8	6	...
Ratio of girls to boys in primary and secondary education (%)	*101*	...	96	98	100
Ratio of young literate females to males (% ages 15-24)	100	...	...	*102*	...
Share of women employed in the nonagricultural sector (% of total nonagric. employment)	36.7	36.4	38.6	*37.5*	...
Goal 4: Reduce child mortality					
Target: Reduce by two thids, between 1990 and 2015, the under-five mortality rate					
Immunization, measles (% of children ages 12-23 months)	76	89	84	98	...
Mortality rate, infant (per 1,000 live births)	20	20	16	13	...
Mortality rate, under-5 (per 1,000)	23.0	21.0	18.0	15.0	8.3
Goal 5: Improve maternal health					
Target: Reduce by three fourths, between 1990 and 2015, the maternal mortality rate					
Births attended by skilled health staff (% of total)	91	98	100	*99*	100
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	24	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Target: Have halted by 2015, and begun to reverse, the spread of HIH/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases					
Contraceptive prevalence (% of women ages 15-49)	*75*	...	*76*	...	...
Incidence of tuberculosis (per 100,000 people)	69	67	64	62	...
Prevalence of HIV, total (% of population ages 15-49)	...	...	...	0.6	...
Tuberculosis cases detected under DOTS (%)	...	34	33	32	...
Goal 7: Ensure environmental sustainability					
Target: Integrate the principle of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve by 2015 the proportion of people without sustainable access to safe drinking water					
CO2 emissions (metric tons per capita)	1.4	1.6	2.3	*2.6*	...
Forest area (% of land area)	19	...	19	18	...
Improved sanitation facilities (% of population with access)	...	...	...	*94*	...
Improved water source (% of population with access)	100	...	...	*100*	...
Nationally protected areas (% of total land area)	...	...	...	*3.3*	...
Goal 8: Develop a global partnership for development					
Target: Develop further an open rule based, predictable, non-discriminatory trading and financial system. Address the special needs of the least developed countries, landlocked, and small-island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures, in order to make debt sustainable in the long-term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.					
Aid per capita (current US$)	84	21	17	26	...
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	7.3	6.0	16.4	5.4	...
Fixed line and mobile phone subscribers (per 1,000 people)	55	142	388	862	...
Internet users (per 1,000 people)	0	*2*	73	*146*	...
Personal computers (per 1,000 people)	4	32	101	*162*	...
Total debt service (% of exports of goods, services and income)	8.8	9.4	18.2	7.2	...
Unemployment, youth female (% of female labor force ages 15-24)	...	28.1	...	34.3	...
Unemployment, youth male (% of male labor force ages 15-24)	...	21.4	...	20.5	...
Unemployment, youth total (% of total labor force ages 15-24)	...	23.8	...	25.9	...

Source: World Development Indicators database, February 2008.

1/ Figures in italics refer to periods other than those specified.

Statement by the IMF Staff Representative
July 2, 2008

1. The following information has become available since the issuance of the staff report. The thrust of the staff appraisal remains broadly unchanged.

2. **The proposed 2008-09 budget is more expansionary than anticipated**. The large (37 percent) wage increase for public sector employees recommended by the independent Pay Review Board will be fully implemented from July 1, 2008 rather than phased-in over two years as assumed in the profile presented in the staff report. The wage bill and overall fiscal stance are correspondingly about 0.4 percent of GDP higher for 2008/09. As expected, import tariffs were further reduced, largely on food, household items, and clothing. Notwithstanding a looser than expected fiscal stance for 2008/09, the fiscal impulse remains contractionary. The budget includes a strong emphasis on public infrastructure investment and on education. The medium-term outlook remains broadly unchanged.

3. **In the context of strong private sector demand staff expects greater inflationary pressures and higher imports in 2008/09 than described in the staff report**. The Bank of Mauritius will need to remain vigilant in the period ahead as inflation crept up to 9.9 percent at end May and the nominal exchange rate reversed its strong appreciating trend against the US dollar. The unemployment rate dropped further to 8.2 percent in the first quarter of 2008.

4. **The above indicates that the authorities will need to remain vigilant against inflationary pressures**. The higher-than-expected wage bill in the 2008/09 budget will place a greater burden on monetary policy to contain demand pressures.

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IMF Executive Board Concludes 2008 Article IV Consultation with Mauritius

On July 2, 2008 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[1]

Background

Economic growth is responding to structural reform efforts. Tax reform, together with improvements in the business environment and investment initiatives, has spurred foreign investment to unprecedented levels and accelerated growth. Growth, projected at 6½-7 percent in 2007/08 (fiscal year ending June 2008), is broad based but especially strong in tourism, banking, construction, and services. Rising fiscal receipts and expenditure containment have cut the deficit and public sector debt is continuing to decline. The external current account deficit has eased but remains high on investment-driven import growth. The exchange rate appreciated 17 percent in real effective terms in the 12 months ending February 2008 from an overly depreciated level in 2005-06. However, the economy is facing rising labor, infrastructure, and other bottlenecks, as well as strong head winds from international commodity price rises. Although an appreciation of the exchange rate has dampened some of the inflationary pressures, inflation remains a concern. The central bank (BoM) has accumulated reserves, which are projected to reach 6½ months of imports by

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

end 2007/08. However, the large and rising errors and omissions items in the balance of payments cloud the external sector analysis.

The overall fiscal position has improved as revenues have risen strongly in response to tax reforms and expenditure has been contained. Tax reform has made the tax regime more progressive, easier to administer, and broadened the base. On the expenditure side, debt service has declined in line with falling interest rates, but capital expenditure is under-target owing to implementation difficulties. The authorities have introduced fiscal management laws which will contribute to better fiscal performance.

Monetary policy is being strengthened to improve transparency and effectiveness. However, liquidity has been growing rapidly and excess liquidity has persisted in the financial system since early 2007. Interest rates have declined markedly as the government borrowing requirement has dropped. In April 2008 the BoM introduced new instruments, extended a special deposit facility, and widened the repo corridor in an attempt to strengthen liquidity management. The BoM has conducted sterilized intervention in the foreign exchange market to limit the nominal appreciation of the rupee.

The banking sector and financial system remain relatively sound and vulnerability indicators have improved. Financial soundness indicators point to a further improvement in the quality of assets as evidenced by the decline in the nonperforming loans ratio. The banking system is well capitalized. The stock exchange outperformed most emerging markets in 2007, pushing the index to record levels, supported by strong fundamentals.

The authorities have continued efforts to liberalize international trade and secure market access. A partnership agreement with the EU has been initiated. A free trade agreement with Pakistan was signed and an agreement with India is under discussion. However, several parastatals maintain import and distribution monopolies on basic goods, and an administered price regime remains in place for many basic goods.

Mauritius' medium-term outlook has turned more favorable with the effects of the reform effort. Economic growth is projected to remain at about 5 percent through the medium-term, reflecting continued growth in tourism, services, and investment in large projects. Fiscal consolidation is expected to proceed with moderate primary surpluses and a declining overall deficit and public debt burden. The external current account deficit is expected to decline only moderately as large foreign investment inflows draw in imports. The key macroeconomic challenge is to manage the recent economic success through a broadening of structural reforms to spur economic efficiency and consolidate and refocus fiscal policy.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the revived performance of the Mauritius economy, spurred by the important tax and business environment reforms adopted since 2006 that have contributed to reduced fiscal deficits and rising foreign direct investment. Directors noted, however, that the large capital inflows have added to demand pressures, and inflation remains high, reflecting also rising international commodity prices and emerging supply constraints. Against this background, Directors encouraged the authorities to proceed with their plans for further fiscal consolidation and deeper structural reforms in order to alleviate bottlenecks and ensure sustained noninflationary growth.

Directors underscored the importance of continued fiscal consolidation to underpin macroeconomic stability. They noted that the recent tax reforms have made the tax system more progressive and easier to administer, while boosting fiscal receipts. Directors encouraged the authorities to build on these successes, and to extend the reform effort to the expenditure side of the budget and to the parastatal sector. Improving the efficiency of social assistance programs by consolidating and targeting will be vital to further strengthening the fiscal position. More generally, Directors considered that the introduction of program-based budgeting in the 2008/09 (July/June) budget will serve to strengthen spending efficiency over the medium term. They also welcomed the authorities' plans to introduce fiscal management laws on public debt management and public finance and audit. Directors expressed concern, however, that the sizable public sector wage increase in the 2008/09 budget, in the context of strong private sector demand, would contribute to further inflationary pressures.

Directors encouraged the authorities to continue their efforts to strengthen the monetary framework. While underlying inflation remains broadly under control and a significant component is imported, Directors advised the authorities to remain vigilant against inflation, in light of increasing demand pressures. Communication by the Bank of Mauritius (BoM) of an inflation target range for monetary policy would help shape inflation expectations more actively. Greater efforts to manage liquidity, in closer coordination with the fiscal authorities, will also pay dividends. Directors welcomed steps to strengthen further the BoM's capital base and governance structures.

Directors were of the view that Mauritius's managed floating exchange rate regime provides an appropriate framework for macroeconomic management. They noted the staff assessment that the real effective exchange rate of the rupee appears broadly in line with fundamentals. The nominal appreciation of the rupee in 2007–08, from a depreciated level in 2005–06, reflected increased capital inflows and was helpful in dampening inflation. Directors noted that the staff's view that, should capital inflows rise as projected, further real exchange rate appreciation may be unavoidable, and should occur preferably through nominal appreciation. This should be accompanied by additional fiscal consolidation as well as structural reforms aimed at improving economic efficiency and competitiveness.

In the area of structural reform, Directors supported a disengagement and divestment strategy for parastatals in the importation and distribution of basic goods. Further steps are also needed to upgrade workforce skills and enhance labor market flexibility, liberalize domestic trade, reduce import duties, and phase out administered prices.

Improving the coverage and reliability of national statistics is a high priority, especially with regard to the financial account of the balance of payments and the international investment position, in line with previous recommendations.

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

Mauritius: Selected Economic and Financial Indicators, 2005/06-2012/13 1/								
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Baseline Projections					
	(Annual percent change, unless otherwise indicated)							
National income, prices and employment								
Real GDP	3.6	4.2	6.6	6.2	5.1	5.1	5.1	5.1
Real GDP per capita	2.8	3.4	5.7	5.4	4.3	4.4	4.4	4.4
GDP deflator	4.4	7.9	8.4	7.5	6.8	5.5	5.0	5.0
Domestic demand at current prices 2/	10.8	17.8	15.5	15.6	10.5	9.8	9.4	9.3
Consumer prices (period average)	5.1	10.7	9.5	8.5	7.3	6.0	5.3	5.0
Consumer prices (end of period)	7.6	10.0	9.0	8.0	6.5	5.5	5.0	5.0
Unemployment rate (percent)	9.3	8.9	8.7	...	...	...	...	...
Unit labor cost	3.8	4.3	5.6	...	...	...	...	...
External sector								
Exports of good, f.o.b. (U.S. dollars)	12.1	3.2	9.4	3.8	3.8	5.6	5.3	5.3
Exports of services (U.S. dollars)	3.2	20.2	24.2	16.7	14.1	12.3	11.4	11.2
Of which: tourism receipts (U.S. dollars)	12.1	23.8	25.0	17.6	15.0	12.0	11.5	11.2
Imports of goods, f.o.b. (U.S. dollars)	14.1	14.5	17.0	15.1	5.6	6.4	6.1	5.8
Nominal effective exchange rate 3/	-3.4	-9.9	3.0	...	...	...	...	...
Real effective exchange rate 3/	0.6	-2.8	7.1	...	...	...	...	...
Terms of trade	-7.7	-3.4	...	...	...	...	...	...
Money and credit 4/								
Net foreign assets	10.3	36.8	-4.6	...	...	...	...	...
Domesic credit	15.7	7.1	27.1	...	...	...	...	
Net claims on government	2.5	-3.3	2.8	...	...	...	....	...
Credit to private sector 5/	13.2	10.4	24.2	...	...	...	...	...
Broad money (end of period, annual percentage change)	6.7	8.6	10.3	14.2	16.1	15.4	15.0	16.5
Income velocity of broad money	1.0	1.0	1.1	1.1	1.0	1.0	0.9	0.9
Interest rate (weighted average TBs, primary auctions)	7.5	11.9	...	...	...	...	...	...
	(Percent of GDP)							
Central government budget								
Overall balance (including grants)	-5.3	-4.2	-3.0	-2.8	-2.8	-2.3	-1.9	-1.5
Primary balance (including grants)	-1.5	-0.2	1.7	1.1	0.3	0.3	0.3	0.5
Revenues and grants	20.1	19.3	21.7	20.8	20.8	20.9	21.2	21.4
Expenditure and net lending	25.5	23.6	24.7	23.6	23.6	23.2	23.1	22.9
Domestic debt of central government	51.4	46.6	44.7	40.5	37.0	33.7	30.3	27.0
External debt of central government	4.4	4.7	4.9	5.7	7.0	8.1	9.2	10.0
Investment and saving								
Gross domestic investment	22.5	26.4	29.1	30.8	32.4	33.8	35.0	35.3
Public	7.1	6.6	6.8	7.2	7.6	7.9	8.3	8.7
Private	13.7	19.0	22.3	23.6	24.8	25.9	26.7	26.6
Gross national savings	17.2	18.4	24.7	24.6	27.1	29.4	30.9	31.9
Public	-1.4	-0.8	0.7	-0.1	0.3	0.8	1.6	2.2
Private	18.6	19.2	24.1	24.7	26.8	28.6	29.4	29.7
External sector								
Trade balance	-13.2	-17.4	-19.3	-21.2	-20.0	-18.9	-18.0	-17.0
Exports of goods and services, f.o.b.	60.5	60.8	59.7	54.0	51.4	49.6	47.8	46.1
Imports of goods and services, f.o.b.	-67.4	-71.8	-69.8	-65.4	-61.2	-58.2	-55.5	-52.7
Current account balance	-5.3	-8.0	-4.3	-6.2	-5.3	-4.5	-4.0	-3.3
Overall balance	-1.6	3.0	8.9	2.9	3.1	1.5	2.0	2.7
Total external debt 6/	11.7	11.0	9.5	9.3	9.9	10.5	11.3	10.8
Net international reserves, BOM (millions of U.S. dollars)	1,408	1,617	2,343	2,628	2.978	3,168	3,453	3,895
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.2	5.2	6.4	6.2	6.7	6.7	6.8	7.3
Memorandum item:								
GDP at current market prices (millions of Mauritian rupees)	194,572	218,784	252,870	288,702	324,056	359,426	396,775	438,006
GDP per capita (U.S. dollars)	5,357	5,649	6,325	7,326	8,703	9,778	10,937	12,236
Foreign currency long-term debt rating (Moody's)	Baa2	Baa1	Baa2	...	...	...	...	...

Sources: Bank of Mauritius; Central Statistics Office; Ministry of Finance; Moody's and IMF staff estimates and projections.
1/ Fiscal year (July-June).
2/ Excluding changes in stocks.
3/ Period averages (a negative sign signifies a depreciation). 2007/08 figures show the change in average exchange rate since beginning of FY.
4/ Percent of beginning of period M2.
5/ Includes credit to parastatals.
6/ Projections excluding external debt related to unidentified capital flows.

Statement by Laurean W. Rutayisire, Executive Director for Mauritius
July 2, 2008

I – Introduction

At the outset I would like to express my Mauritian authorities' appreciation to the staff for the constructive discussions held during the Article IV consultation reflected in the staff report and for the comprehensive selected issues papers on external competitiveness and inflation. My authorities also appreciate the policy advice and technical assistance they continue to benefit from the Fund and the constant support received from Management and the Executive Board. They are in broad agreement with staff' analysis and recommendations and remain determined to address the challenges facing the country including by further strengthening the implementation of structural reforms meant to sustain higher and durable economic growth.

In a context of loss of preferential access to the European market for the textile and sugar industries, Mauritius has embarked on broad-based reforms since 2006 with a view to diversify the economy and create a business environment conducive to private sector development. These reforms have led to the liberalization of trade and investment, reduction of taxes, lifting of some price controls and to the strengthening of the fiscal consolidation strategy as well as the monetary policy. My Mauritian authorities are cognizant of the need to pursue their efforts in order to further improve flexibility in the labor market, enhance reforms in the public enterprise sector, develop infrastructure and reduce inflationary pressures. The authorities' commitment to address these challenges was reiterated by the Deputy Prime Minister during the discussions he had with Management and Staff during his visit to the Fund last May.

II – Recent Macroeconomic Developments

In 2007/08, macroeconomic performance has been impressive despite the increase in the world prices of oil and food. Economic growth has positively responded to improvements in the business climate and investment initiatives. Economic growth accelerated to 6.5-7.0 percent boosted by strong developments in the tourism, banking, construction sectors and services. Newly emerging service sectors in particular the Global Business License (GBL) information, communication and technology (ITC) sectors, as well as the newly restructured textile sector have also significantly contributed to this growth. In order to further accelerate the growth rate, the authorities are aware of the need to speed up their efforts to address the supply-side constraints and inefficiencies through the increase of investments in infrastructure and training of the labor force. The fiscal deficit and the public debt have declined while inflation although high due to the surge in world prices of food and energy is on the declining trend.

In response to reforms implemented in the tax area notably the strengthening of the tax administration, the broadening of the tax base and the introduction of a single flat tax rate on personal and corporate income, revenue has strongly increased. Public expenditure has been contained though capital spending could not meet the targets due to implementation difficulties. As a result, not only a primary surplus estimated at 1.7 percent was recorded but also the public sector debt fell significantly. The overall deficit is projected to decline to about 3.0 percent of GDP. In addition, the debt sustainability outlook for Mauritius has improved as well documented by staff in the debt sustainability paper.

Mauritius is attracting significant capital inflows notably foreign direct investments and portfolio investment. The authorities are mindful that these inflows may add pressures on the nominal exchange rate. In this regard, they are actively working with all concerned stakeholders to put in place appropriate regulations with a view to strengthen the development of the capital markets and the management of the large inflows of foreign exchange. The accumulation of international reserves by the Bank of Mauritius is projected to reach more than 6 months of imports by end-2007/08 despite the high increase of the import bill due to the sharp surge in the world petroleum products and food prices which was not fully compensated by the increase of services exports.

In their efforts to pursue the implementation of more market-oriented policies, my Mauritian authorities have established in March 2007 a monetary policy committee to improve transparency and effectiveness in the monetary area. As for the financial sector which remains sound and profitable, pillars I and II of Basle II principles have been also implemented. Furthermore, following the assessment of an AML/CFT in 2007, the authorities have taken a number of measures to further enhance the AML/CFT system.

Going forward, the authorities remain fully committed to fiscal consolidation and sound budgetary process. They will speed up their efforts in addressing the key macroeconomic challenges through broadening and deepening structural reforms in order to consolidate the recent economic success and, improve the supply response and further sustain higher economic growth.

III – Policies and Reforms for 2008/09

The Mauritian authorities intend to take full advantage of the great opportunity created by their recent economic success in order to continue their reform agenda and achieve a durable non inflationary growth. To this end, fiscal consolidation, strengthening monetary policy and improving competitiveness remain at the center of their efforts over the period ahead.

Fiscal Consolidation

In this area, authorities' strategy will continue to be focused on reducing public sector debt, raising expenditure efficiency and converting the system of indirect universal subsidies into a well-targeted social assistance program. Efficiency of budgetary operations will be raised through the implementation of the 2008/09 program-based budgeting with the support from the IMF. Efforts to reinforce the debt management unit will be pursued through an adoption of ceiling on public debt and an enhanced coordination between the ministry of finance and the central bank. The social assistance program aims at helping the working poor and the unemployed to meet the job market requirements. With regard to the parastatal sector, the authorities agreed on the need to reform the sector with the technical support from the World Bank. In order to identify potential difficulties and implement the newly adopted competition law, they have appointed a commissioner. In addition, it is important to note that the authorities intend to adjust the wages in the public sector following the decision of the Pay Review Commission.

Monetary Policy and Financial Sector Issues

The Bank of Mauritius will continue to strengthen its monetary policy framework with a view to address inflationary pressures while improving transparency and effectiveness. The authorities concur with staff that the current level of the rupee is in line with fundamentals. While the underlining inflation is broadly under control the authorities are cognizant that the liquidity management needs to be further enhanced in a close coordinated manner between the ministry of finance and the Bank of Mauritius. In this regard, they have introduced the special deposit facility and made the repo rate operational by lowering its rate and by broadening the intervention corridor. In addition they have raised the capitalization of the Bank of Mauritius to provide needed resources for an active monetary policy.

In order to reinforce the governance of the central bank, important steps have been initiated covering the membership of its board and the monetary policy committee and introducing a regular reporting to a selected committee of parliament. The bank's communication strategy on its monetary policy will be improved by publishing semi-annual inflation and financial stability reports. With regard to the exchange rate, the authorities are committed to allow the nominal exchange rate to adjust to macroeconomic conditions and limit the Bank of Mauritius' interventions to smoothing operations. The financial sector remains sound in spite of the macroeconomic shocks to the economy over the recent years. The authorities are determined to implement the 2007 FSAP update recommendations with the Fund technical assistance. They are also determined to develop the operational capabilities of the financial intelligence unit and the financial services commission in order to ensure that all financial institutions are covered by the AML/CFT framework given the importance of capital inflows directed to the country.

Structural Reforms and Competitiveness

In order to further improve the business environment conducive to private sector growth and realize Mauritius' objectives as a regional banking and services hub, the authorities are committed to focus on public infrastructure development, human resources promotion and trade liberalization including the phase out of administrated prices. Structural reforms will be pursued through domestic trade liberalization, upgrading the skills of the labor force and increasing the flexibility of the labor market as well as deregulating further the telecommunication sector. Mauritius' ranks in the 2007 Global Competitiveness Index and the 2008 World Bank Doing Business Report are encouraging. The authorities will enhance this achievement and speed up their efforts to further improve the economic efficiency and the quality of the business environment.

Debt Sustainability Analysis

My Mauritian authorities welcome the analysis and recommendations made by the staff under the DSA. It is worth noting that the risk from external debt distress is low and in recent years the level of public debt has declined and its maturity structure has also been improving. The authorities are committed to pursue their fiscal consolidation strategy and make greater use of available multilateral financing in order to further improve the external current account and preserve the debt sustainability. Efforts towards increasing non-traditional exports together with rising of foreign direct investments and the revival of textile exports will be pursued to help increase official reserves and maintain the overall balance of payments in surplus.

Statistics Issues

Efforts to bring Mauritius in line with international best practices in statistics will be pursued. The authorities welcome the 2007 Data ROSC and highly value the technical assistance provided by IMF Statistics Department. In this regard, IMF recommendations made by IMF technical assistance will be fully implemented with a view to improve national statistics including data and coverage related to balance of payments and also meet the Special Data Dissemination Standard.

IV – Conclusion

My Mauritian authorities highly appreciate the quality of their continued policy dialogue and cooperation with the Fund. They are determined to continue to work closely with the Fund and the international community in their ongoing efforts to deepen and broaden the implementation of their structural reforms in order to diversify the source of economic growth and alleviate poverty.