June 2007
IMF Country Report No. 07/192

Mauritius: 2007 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; Statement by the Staff Representatives; 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 2007 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- the staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 28, 2007, 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 March 30, 2007. 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 May 7, 2007 updating information on recent developments;

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 7, 2007 discussion of the staff report that concluded the Article IV consultation; and

- a statement by the Executive Director for Mauritius.

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

MAURITIUS

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Mauritius

Approved by Robert Corker and Adnan Mazarei

March 30, 2007

Discussions: Port Louis, February 19–28, 2007. Staff met with Prime Minister Ramgoolam, Deputy Prime Minister and Minister of Finance and Economic Development Sithanen, Bank of Mauritius Governor Bheenick**,** Minister of Information Technology and Telecommunications Sinatambou, representatives of the private sector, nongovernmental organizations, labor unions, and members of the donor community. The Article IV report is streamlined.

Staff team: Mr. Funke (head), Ms. Schumacher, and Mr. Bornhorst (all AFR). The mission overlapped with an FSAP-update mission.

Exchange rate regime: Managed float.

Mauritius has accepted the obligations of Article VIII. Mauritius maintains an exchange system free of restrictions on the making of payments and transfers for current transactions.

Statistical issues: Data provision to the Fund for surveillance purposes is adequate.

Contents Page

EXECUTIVE SUMMARY

The authorities are pursuing an ambitious reform agenda to address Mauritius's loss of trade preferences in textiles and sugar, its high fiscal deficit, and a secular decline in growth.

- *Macroeconomic prospects:* Broad-based reforms have supported the recovery of GDP growth. However, the recovery could be short-lived if the reform process flags. Sustaining competitiveness will require success in reducing inflation and perhaps further exchange rate adjustment.

- *Fiscal consolidation:* The budget deficit target for 2006/07 (4 percent of GDP) is within reach, although adjustment relies partly on lower capital expenditure. More decisive fiscal consolidation and enhanced expenditure management are needed to reach the medium-term budget deficit target of 3 percent of GDP, create more space for capital and social expenditure, and improve debt sustainability.

- *Structural reforms:* Structural reform could help lift growth to levels seen in the past two decades. The staff encouraged the authorities to advance reforms that would increase labor market flexibility, broaden trade liberalization, and extend access to finance. Some price controls could be liberalized quickly.

- *Policy implementation:* The authorities stressed that public support for reforms would be a prerequisite for success. Donor support in the Aid for Trade initiative would facilitate the implementation of accompanying measures.

I. THE CHALLENGES: REDUCING FISCAL VULNERABILITY AND REVITALIZING GROWTH

1. **Mauritius's economy has suffered setbacks after two decades of remarkable growth.** The loss of trade preferences in textiles in 2005, reform to the European Union's sugar protocol for 2006–10, and higher international oil prices have worsened Mauritius's terms of trade. Low growth and high fiscal deficits have fueled growth in public debt, and with slow adjustment in consumption behavior, the current account deficit and external vulnerability have increased.

Mauritius: Selected Economic Indicators, 1994/95-2005/06

	94/95 - 98/99	99/00 - 03/04	04/05	05/06
Real GDP growth (percent)	5.0	4.3	3.0	3.7
of which: [1]				
Contribution by EPZ	1.4	0.1	-1.2	-0.3
Contribution by sugar [2]	0.4	0.0	0.1	-0.2
Contribution by services	3.7	2.6	3.6	4.2
Unemployment rate (percent)	6.4	7.7	9.0	9.5
Total employment ('000)	461.3	493.1	505.8	510.0
of which:				
Export processing zone	83.4	86.9	68.0	66.9
Sugar [3]	n/a	16.6	14.8	13.8
		(Percent of GDP)		
Fiscal balance	-5.1	-5.4	-5.0	-5.3
Public debt	60.1	72.5	71.7	71.3
Current account balance	-2.0	2.2	-3.5	-5.3
of which:				
Oil imports	3.0	4.4	6.8	9.3

Sources: CSO, BOM, and IMF staff estimates.
[1] In percentage points.
[2] Includes sugar growing and sugar milling.
[3] Employment by sugar estates and large sugar cane planters, data available from 2002.

2. **The authorities have advanced several reforms initiated with the 2006/07 budget.** They have improved the business environment, moved towards fiscal consolidation, simplified the tax system, eliminated some subsidies, liberalized trade, opened air access, and advanced the restructuring of the economy and the development of new sectors. The Bank of Mauritius (BoM) has replaced the Lombard rate with the repo rate as key policy rate. Planned labor market reforms focus on more wage flexibility and reducing the cost of releasing labor, supported by the empowerment program, which includes a workfare program emphasizing training and reskilling.

3. **While there are signs of economic recovery, macroeconomic imbalances persist** (Figure 1). Strong growth in the service sector and slowing job losses in the textile sector have helped revive real GDP growth. However, headline inflation surged largely reflecting budgetary measures. Public debt remains high, and the current account deficit has widened further, owing to weak export performance, higher oil prices, and lower import tariffs.[1] The BoM has continued intervening in the interbank foreign exchange market and has gradually raised its signaling rate in response to higher inflation.

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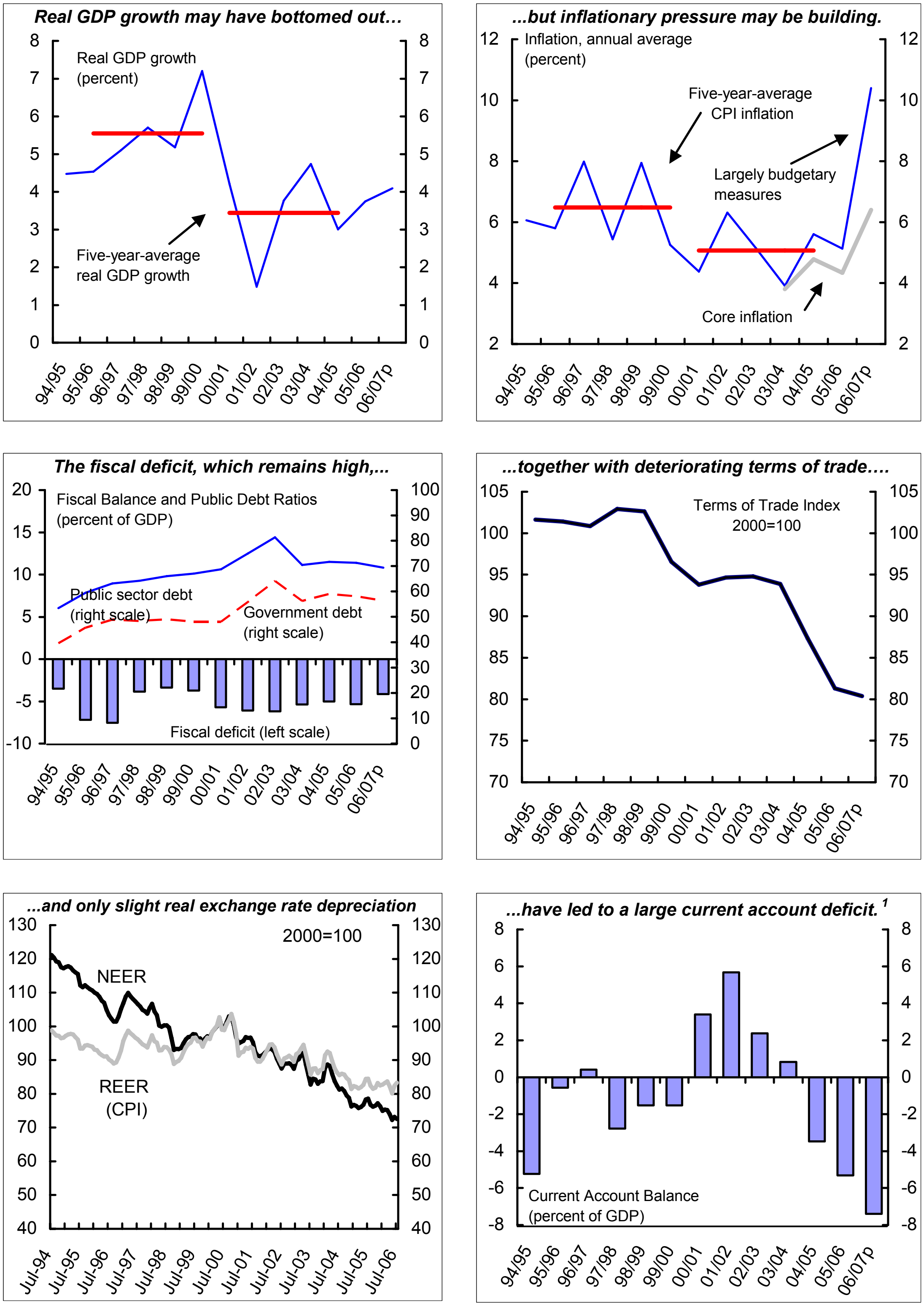
[1] In 2005/06, errors and omissions accounted for more than half of the financing of the current account deficit.

Figure 1: Mauritius: Selected Economic Indicators, 1994/95–2006/07



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

[1] In 2006/07, the import of one aircraft will account for 3 percent of GDP.

II. Policy Discussions

4. **The authorities' commitment to reform remains strong, but there is some resistance within the governing coalition and among the general public**. Trade-offs in reform implementation arise between faster reform implementation and public acceptability, and the sequencing of measures would need to be kept under review. Some early successes, for example progress with the implementation of the empowerment program, would be conducive to political acceptance. Staff acknowledged the importance of wide stakeholder support but encouraged the authorities to put priority on (i) stepping up the fiscal effort in the medium term, (ii) reforming the labor market, (iii) further liberalizing trade, and (iv) pursuing additional structural reforms to promote growth.

5. **The streamlined Article IV consultations followed up on the findings in the recent staff Letter of Assessment**.[2] The mission focused on macroeconomic prospects, fiscal consolidation and public expenditure management, and selected structural reforms to spur private sector development. Mauritius has been receptive to Fund advice, in particular in fiscal and monetary policies.

A. Boosting Macroeconomic Prospects

6. **The growth recovery may prove short-lived, if reform efforts lose their momentum.** The staff's baseline scenario projects real GDP growth of more than 4 percent this fiscal year and in 2007/08, supported by strong growth in the service sector. In the medium term, high public debt would crowd out private investment, pulling average real GDP growth back to 3.5–4 percent. External adjustment would be slow. Assuming continuing foreign exchange intervention and capital inflows near current levels, reserves would dip to below three months of imports.

7. **The risks to the baseline outlook are balanced.** A further decline in oil prices and sustained growth in the service sector could restore external balance faster than projected, boosting growth. Higher-than-expected fiscal deficits or a renewed surge in oil prices could increase external vulnerability, leading to a larger current account deficit together with a lower level of reserves, or requiring additional macroeconomic adjustment.

8. **Additional reforms would boost productivity and stimulate growth** (Figure 2). The mission's accelerated reform scenario is in line with the experience of other emerging markets (Figure 3). While it is difficult to identify specific policies that have caused growth accelerations, in general, they have been export-led, supported by strong private sector development and a reduction of infrastructure bottlenecks that hamper trade activities.

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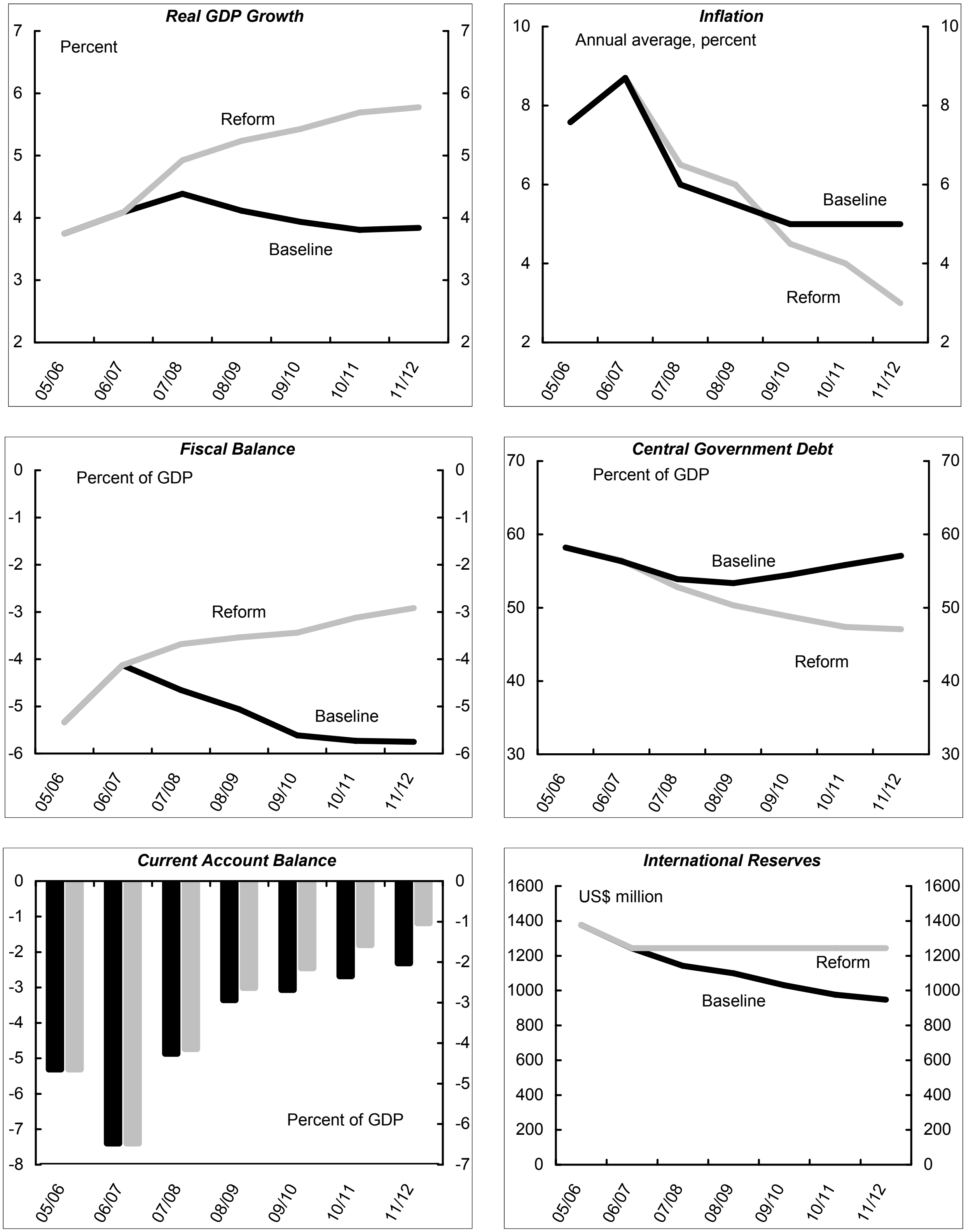
[2] See http://www.imf.org/external/np/pp/eng/2006/090806.pdf.

Figure 2. Mauritius: Baseline and Accelerated Reform Scenario, 2005/06–2011/12



Source: IMF staff estimates.

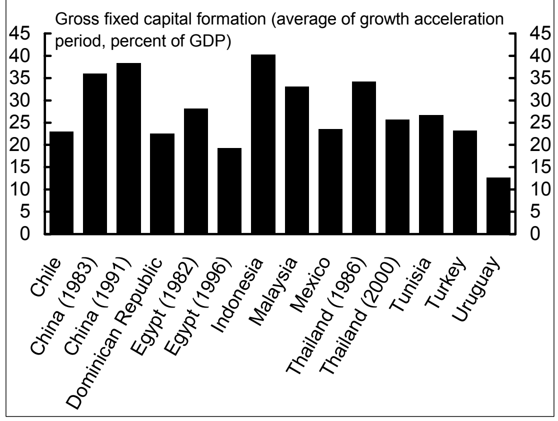
Figure 3. Growth Accelerations in Emerging Markets: Some Stylized Facts[1]

Faster growth tends to be associated with…

	First year of growth acceleration	Trend growth (percent) [1]
Chile	1986	5.2
China	1983	10.0
China	1991	10.5
Dominican Republic	1996	5.7
Egypt	1982	4.6
Egypt	1996	3.8
Indonesia	1987	4.9
Malaysia	1988	6.2
Mexico	1996	3.9
Thailand	1986	8.6
Thailand	2000	3.9
Tunisia	1996	4.1
Turkey	1984	4.4
Uruguay	1984	3.7

[1] Least squares estimates for trend growth for six-year period.

...high investment,...

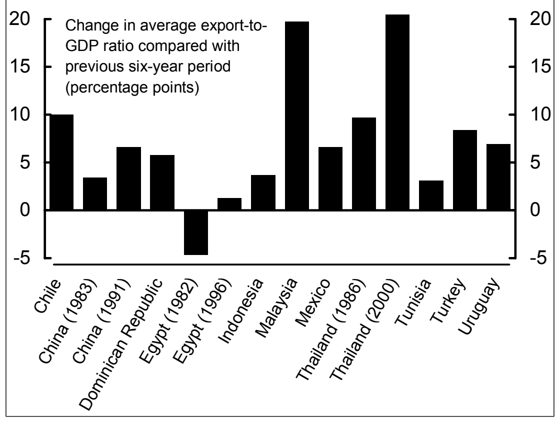


…low budget deficits, a reduction in central government expenditure (CGE)...

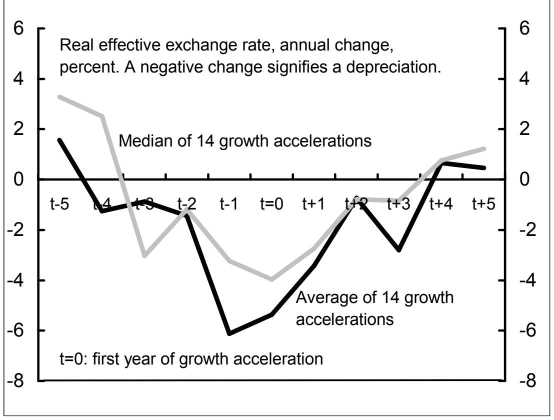
Country	Fiscal Deficit (percent of GDP) [1]	Change in CGE (percentage points of GDP) [2]
Chile (1986)	1.5	-1.8
China (1983)	-1.6	-1.2
China (1991)	-1.9	-1.5
Dominican Republic (1996)	-1.6	0.5
Egypt (1982)	-20.5	-3.5
Egypt (1996)	-1.1	-0.3
Indonesia (1987)	-0.5	-0.3
Malaysia (1988)	-1.0	-1.1
Mexico (1996)	-5.2	0.2
Thailand (1986)	0.5	-1.3
Thailand (2000)	-0.7	-0.1
Tunisia (1996)	-3.2	-0.4
Turkey (1984)	...	-0.3
Uruguay (1984)	...	-0.2

[1] Average of growth acceleration period.
[2] Compared with previous six-year period.
Source: IMF staff estimates.

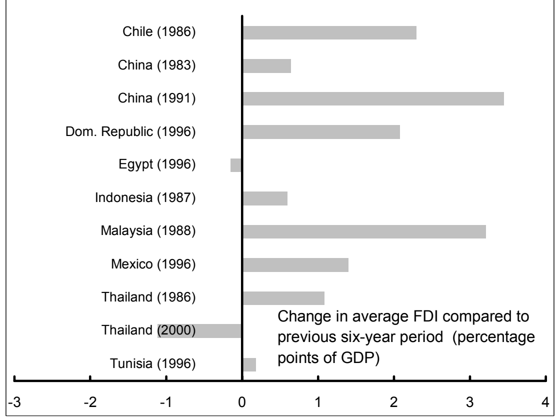
…increased trade...



…supporting exchange rate developments…



…and a rise in foreign direct investment (FDI).



[1] A growth acceleration is defined as a period in which the six-year trend growth rate of GDP per capita exceeded 3.5 percent, was at least 2 percentage points above the previous six-year period average, and real GDP per capita exceeded the pre-acceleration peak. From a list of 25 emerging markets (excluding transition economies) from the JP Morgan Emerging Market Bond Index, the staff identified 14 growth accelerations. For the methodology and further references, see Funke, Harjes, and Leelapornchai (2006), South Africa: Selected Issues Paper, IMF.

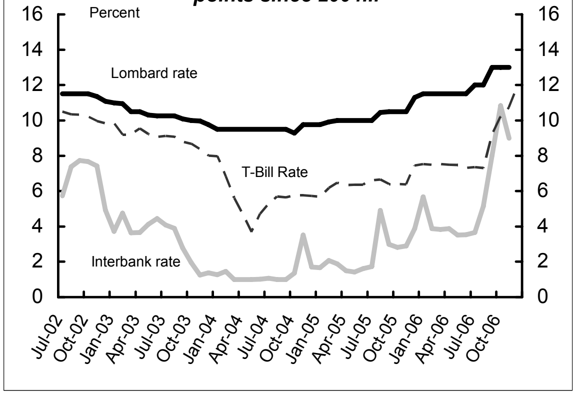
Baseline versus Reform Scenario: Main Assumptions	
Baseline Scenario	Reform scenario
• Reforms already implemented are maintained	• Successful implementation of sector strategies
• No labor market reform	• Fiscal consolidation to reach a budget deficit of 3 percent of GDP
• No further trade liberalization	• Comprehensive labor market reform
• Continued foreign exchange intervention	• Monetary policy reform and foreign exchange intervention limited to smoothing excess volatility
	• Broadening trade reform, price deregulation, and financial sector reform

B. Monetary and Exchange Rate Policies

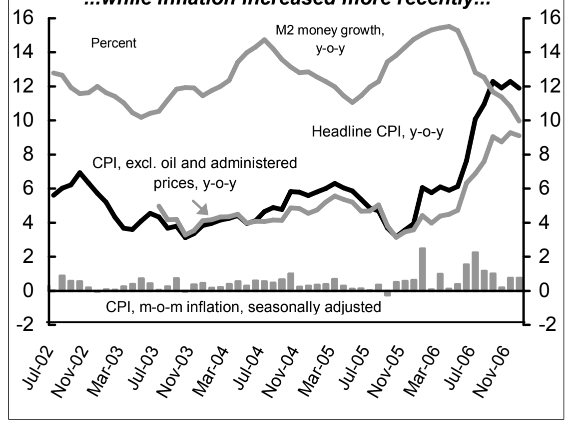
9. **Inflationary risks need to be monitored carefully** (Figure 4). The staff and the authorities agreed that it is important to reduce high headline inflation quickly to the medium-term target of 4.5–5 percent, given the risk of entrenched inflation expectations. The staff argued that the BoM should consider raising the repo rate, if signs emerge that headline inflation would not decline as the one-time effects of budgetary measures start dropping out in mid-2007. Staff emphasized the need to develop the institutional framework (including research on transmission mechanisms of monetary policy and improving communication with the public) in order to establish the repo rate as an effective policy rate.

10. **The staff argued that sustaining competitiveness may require further adjustment in the exchange rate, in addition to wage restraint and productivity gains.** According to staff estimates, fundamental factors, most notably the decline in the terms of trade, have lowered the equilibrium real effective exchange rate. Staff noted that the real effective exchange rate may be somewhat above its estimated long-run equilibrium value, and further adjustment may be required if the additional expected terms of trade decline materializes. Intervention should be limited to smoothing excess volatility to avoid postponing adjustment. In this context, staff also noted the sharp interest rate increase in treasury bills at primary auctions. The authorities raised concerns about the pass-through of exchange rate depreciations on inflation and suggested that the economic reforms could in time promote stronger capital inflows, causing the exchange rate to appreciate. They attributed the rise in treasury bill rates to institutional weaknesses, including the small number of market participants.

Figure 4. Mauritius: Recent Monetary and Exchange Rate Developments, 2002–2006



The policy rate (Lombard rate) was raised by 370 basis points since 2004...



...while inflation increased more recently...

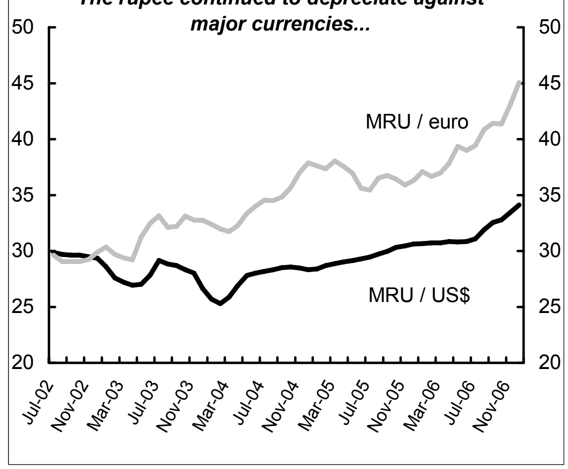
… largely due to budgetary measures.

Budgetary Measures and Change in Administered Prices: Effects on Inflation

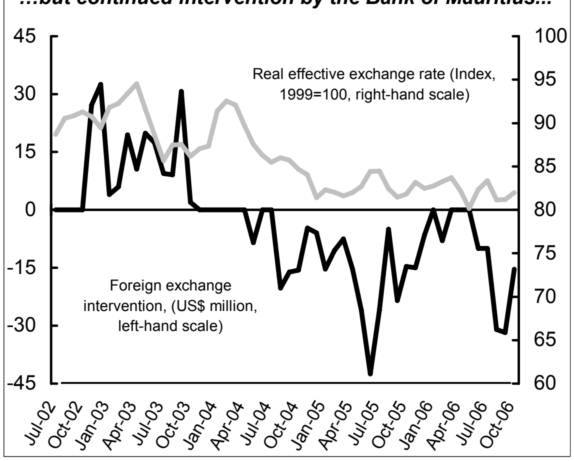
Item	Price Change (percent)	Impact on y-o-y inflation (percentage points) [1]
Gasoline	30	1.4
Diesel	15	0.2
Cooking gas	9	0.3
Cigarettes	18	1.0
Alcoholic beverages	12	0.8
Vehicles	-6	-0.3
Rice	54	0.4
Flour (excl. bread)	49	0.3
Bread	23	0.9
PET Bottles	5	0.1
Total		4.9

Sources: CSO, authorities, and IMF staff estimates.

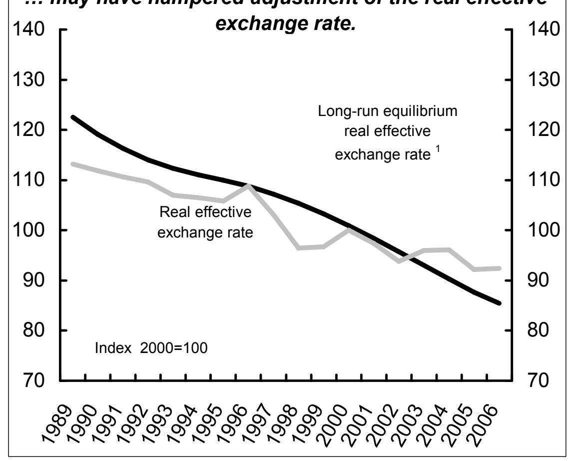
[1] Until October 2006, taking into account the direct impact (price change times weight in the CPI) and estimated first order indirect effects.



The rupee continued to depreciate against major currencies...



…but continued intervention by the Bank of Mauritius...



… may have hampered adjustment of the real effective exchange rate.

Sources: IFS, BOM, CSO, and IMF staff estimates.

[1] Update of Bergljot Barkbu, Preferential Trade Agreements and the Equilibrium Real Exchange Rate of the Rupee, (2005), Selected Issues Paper, IMF.

C. Fiscal Policy

11. **The fiscal deficit (on a cash basis) is estimated to be close to the budgeted target for 2006/07, but the adjustment mix is unfavorable.**[3] Staff estimates that sweeping tax changes, together with reduced import tariffs, will have a slightly negative effect on revenues (0.5 percent of GDP less than in 2005/06). Compared to the budget, delays in filling vacancies have curbed expenditure on wages and salaries, but higher-than-expected inflation has increased spending on other goods and services. Subsidies and transfers are also expected to be above target (0.2 percent of GDP). The budget arithmetic was only squared by a cut in capital expenditure (0.4 percent of GDP).

Mauritius: Fiscal Position
(percent of GDP)

	2005/06	2006/07		2007/08	2011/12
		Budget[1]	Est.	Proj.	Proj.
Central government					
Revenue	20.1	20.2	19.6	20.0	19.3
Expenditure and net lending	25.5	24.2	23.8	24.7	25.1
Of which: transfers and subsidies	9.2	8.6	8.8	8.8	9.0
Of which: capital expenditure	3.6	3.6	3.2	3.2	3.1
Overall balance (cash basis)	-5.3	-4.0	-4.1	-4.7	-5.8
Public sector debt	71.3	...	69.4	67.0	70.2

Sources: Mauritian authorities; IMF staff estimates and projections.
[1] Based on authorities' nominal GDP projection.

12. **Additional fiscal efforts are needed to reduce the budget deficit in the medium term and to improve the expenditure mix** (Figure 5, Figure 6, Box 1). Around 4-5 percent of GDP are needed to achieve the medium-term budget deficit target of 3 percent of GDP, while increasing capital expenditure by 1 percent of GDP, and compensating for revenue loss from further trade reform. While the authorities agreed on the need for further fiscal consolidation, they have not committed to specific options as some measures, including eliminating VAT exemptions and pension targeting, are politically sensitive. The authorities pointed to the political trade-off between reorienting productive expenditure to improve the quality of the budget and further deficit reductions. Their plans to strengthen debt management will reduce fiscal vulnerability stemming from high interest payments and refinancing risks. Under staff's reform scenario, public debt sustainability would improve (Appendix Table 9, Figure 10).

13. **The mission encouraged the authorities to reduce the financial risks of Mauritius's largest public enterprises, improve their efficiency, and review opportunities to involve the private sector.** Most parastatals have borrowed in foreign currency, largely unhedged. These contingent liabilities could be reduced with improved monitoring and clear policy guidance from the debt unit of the Ministry of Finance.

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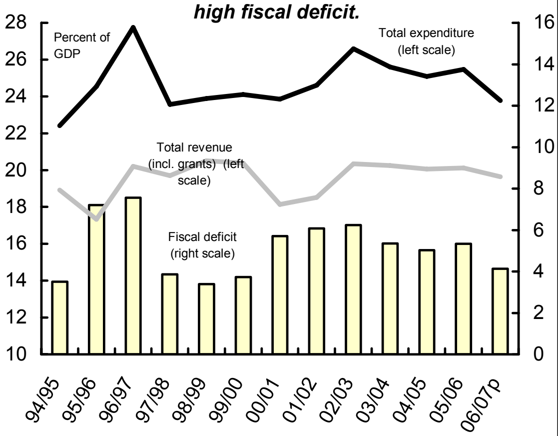
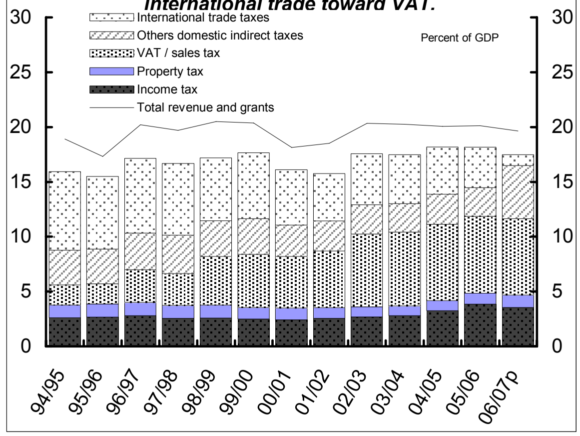
[3] Accounting for interest payments on an accrual basis, which staff encouraged the authorities to do in the future, the deficit is estimated to have been about 0.4 percentage points higher in 2005/06 but close to the cash deficit in 2006/07.

Figure 5. Mauritius: Recent Fiscal Developments 1994/95–2006/07

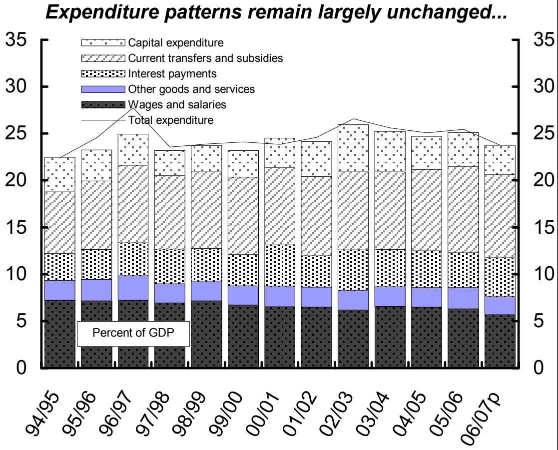
Secular trends in expenditure and revenue have led to a high fiscal deficit.



The main revenue sources have shifted from taxes on international trade toward VAT.



Expenditure patterns remain largely unchanged...



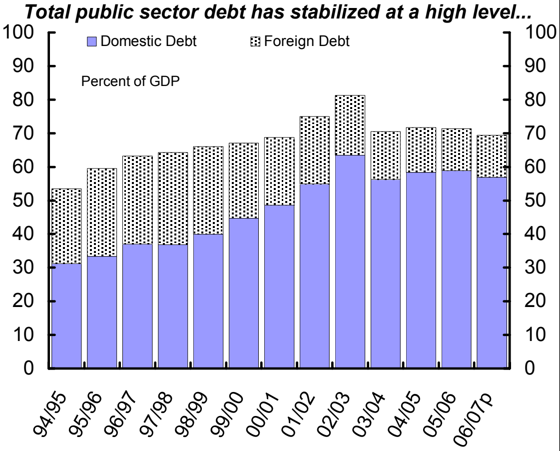
…however transfers and subsidies have gained importance.

Mauritius: Transfer and Subsidies, percent of GDP

	94/95	99/00	05/06
Local governments	0.8	0.7	0.7
Education	1.7	1.7	1.7
Pension contributions	3.2	4.1	4.4
Rice and wheat flour subsidy	0.0	0.4	0.2
Capital Transfers	0.7	1.2	1.3
Other Transfers	0.3	0.1	0.9
Total	6.6	8.2	9.2

Sources: Ministry of Finance and IMF staff estimates.

Total public sector debt has stabilized at a high level...



...and recently progress has been made in improving the maturity profile.

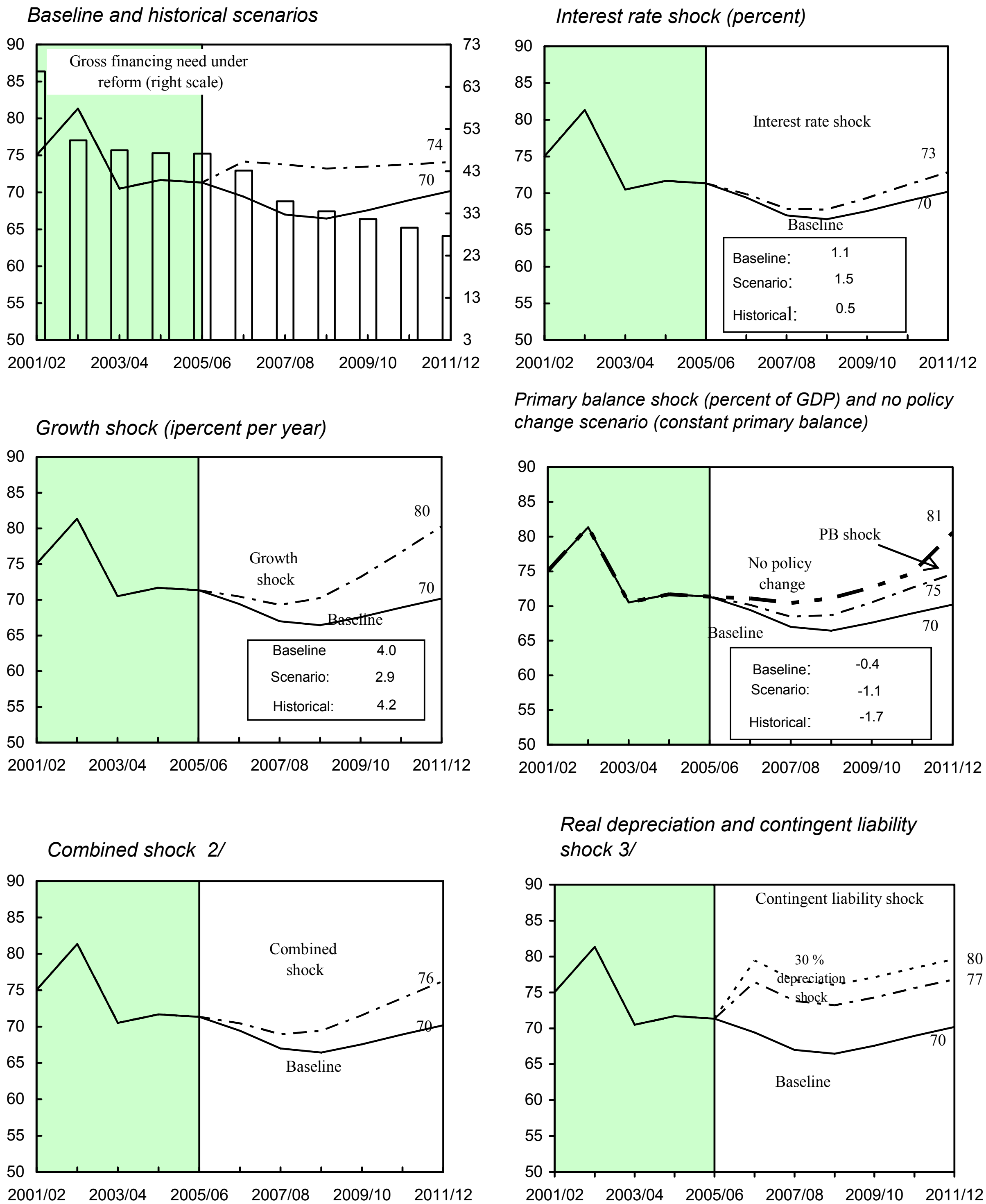
Mauritius: Public Sector Debt and Maturities [1]

	June 2004	June 2005	June 2006
	(percent of total debt)		
Domestic public debt	91.0	91.3	92.5
medium and long term	17.8	35.8	43.5
short term	73.1	55.5	48.9
External public debt	9.0	8.7	7.5
long term	8.9	8.4	7.5
short term	0.1	0.3	0.0

[1] Original maturities.
Source: Ministry of Finance.

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

Figure 6. Mauritius: Public Debt Sustainability: Bound Tests 1/
(Public 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 primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006/07, 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).

Box 1: Selected Options for Budgetary Savings[1]

Revenue-enhancing measures

- Eliminate exemptions and zero VAT rates, including for food items (0.8-1.1 percent of GDP)
- Phase out import exemptions on import duties (0.3 percent of GDP)
- Remove exemptions on excise duties (0.2 percent of GDP)
- Stop reducing corporate income tax rates (0.1 percent of GDP)
- Eliminate remaining exemptions and allowances in the income tax (0.1 percent of GDP)
- Reduce tax credit for offshore banking activity.

Reducing expenditure

(i) Recurrent expenditure
- Implement a partial hiring freeze in the public sector by replacing only 25 percent of the new job vacancies (0.1 percent of GDP)
- Adjust wage review mechanisms (incl. for parastatals) as of 2008/09 (0-1.6 percent of GDP)

(ii) Price subsidies, user fees, and transfers

- Eliminate remaining price subsidies and replace them with unconditional transfers to low-income households (0.3 percent of GDP)
- Introduce user fees for tertiary education and hospital services (0.1 percent of GDP)
- Link government transfers to parastatals and local governments to rule-based formulas

(iii) Pensions

- Accelerate schedule for raising retirement age to 65 for the Basic Retirement Pension (BRP) (0.1 percent of GDP)
- Retain the BRP only for the elderly living in households in the bottom four income deciles (1 percent of GDP)
- Introduce a defined contribution benefit formula for the civil service pension scheme and increase the retirement age

(iv) Capital expenditure
- Public private partnerships

1/ Based on a 2006 technical assistance mission and updated policy discussions.

14. **The authorities and the mission agreed that further prioritizing spending (including reorientation to social functions) and enhancing expenditure management are key to improving the quality of expenditure**. The mission supported the authorities' intention to extend the three-year rolling Medium Term Expenditure Framework (MTEF) to all ministries in the 2007/08 budget and to improve budget monitoring, and macromodelling capacity within the MTEF. The mission emphasized the importance of reallocating fiscal resources (e.g., to education, well-targeted social programs, and infrastructure) within the

context of the overall reform agenda. The authorities highlighted the need to advance the training and reskilling initiatives.

D. Private Sector Development

Trade Reform

15. **Recent progress in liberalizing trade is commendable and should foster Mauritius's growth prospects** (Figure 7). The authorities stressed that progress has also been made in reducing tariffs in sectors considered sensitive. However, as a small island economy, it would be relatively difficult to establish the necessary trade infrastructure (e.g., antidumping laws) and competition policies needed to liberalize trade in all sectors. The mission encouraged the authorities to aim for a simple and transparent tariff framework with low, uniform rates instead of a duty free island with multiple exceptions. In promoting Aid for Trade, the authorities argued that the phasing of tariff reductions would depend on the capacity to define, finance, and implement accompanying measures. The mission supported the authorities' efforts in encouraging the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) to harmonize their integration timetables.

Mauritius: Selected Import Tariffs and Employment

	Tariff in early 2006	Tariff in Dec 2006	Employment (est)
Tobacco	65	30	199
Parts for Motor Vehicles	55	26	n/a
Furniture	50	22	9,509
Beverages	48	23	3,361
Footwear	31	30	1,040
Electric Lamps	30	12	n/a
Clothing [1]	30	30	47,443
Accumulators and Batteries	28	18	n/a
Printing	24	20	2,543
Rubber Products	20	7	217
Other Transport Equipment	18	6	n/a
TV/Radio Receivers	16	8	n/a
Other Food Products	16	9	8,024
Non-metallic mineral products	15	9	2,133
Glass	14	8	286
Other Electrical Equipment	13	6	98
Leather	11	7	1,093
Structural Metal Products	10	5	3,123

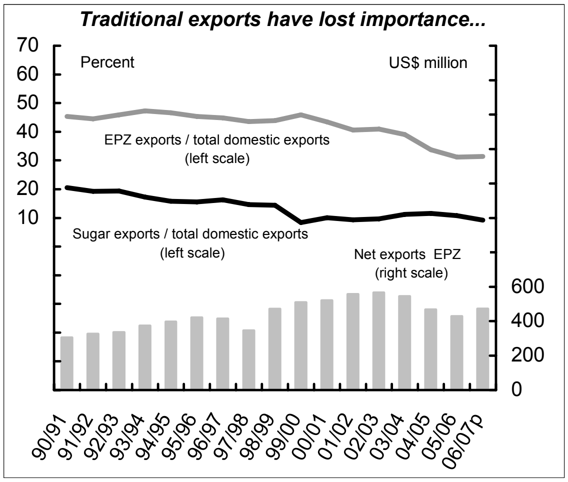
Sources: Mauritian authorities, World Bank.
[1] Includes employment in export industry.

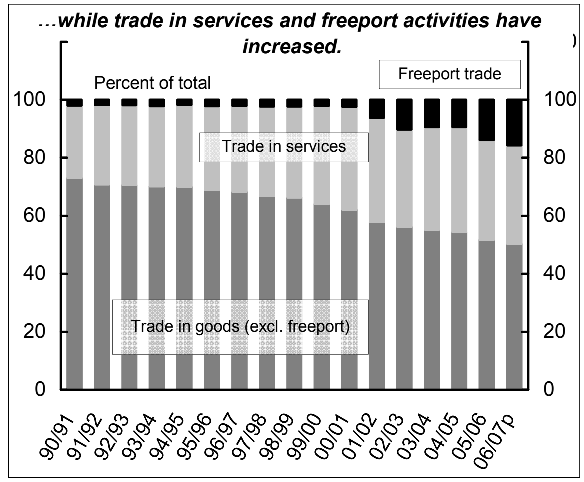
Financial Sector

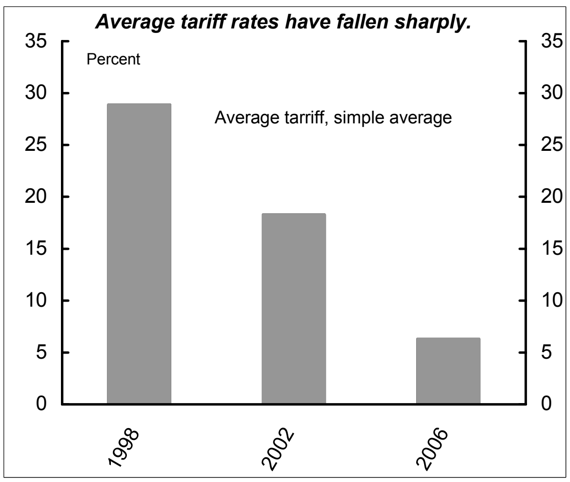
16. **The financial system appears generally sound, however, more institutional improvements could help lower borrowing costs and make more financing available to small and medium-sized enterprises** (Figure 8). Private sector credit as a share of GDP has started recovering with recent reforms: the authorities unified banking licenses in 2004; established a Credit Bureau in 2005; and developed a range of financing schemes with preferential interest rates under the empowerment program. The authorities reaffirmed their commitment to follow up on the proposals of the FSAP update (Box 2).[4]

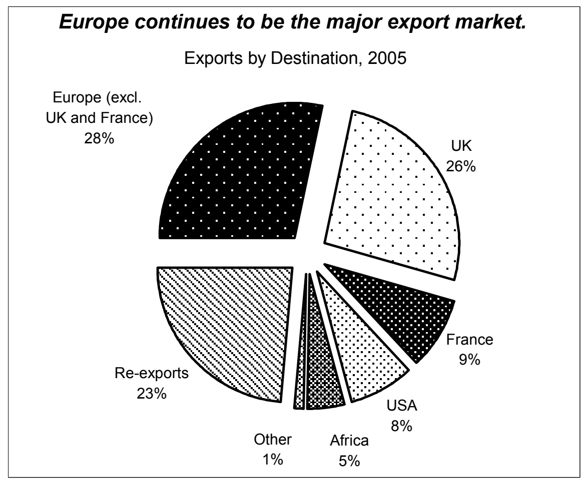
[4] A full AML/CFT assessment is scheduled for September 2007.

Figure 7. Mauritius: Recent Developments in Trade and Competitiveness







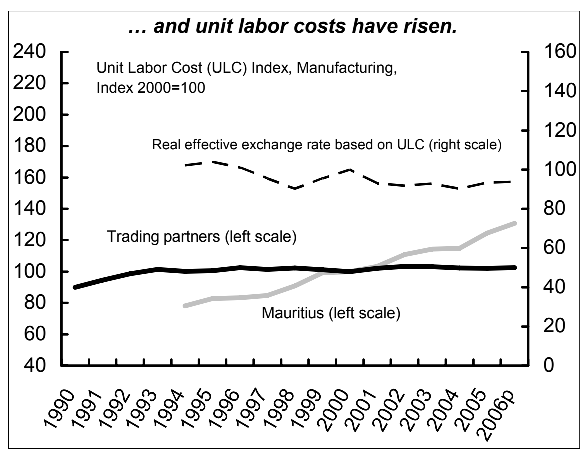


Mauritius's global competitiveness ranking is average...

Mauritius: Global Competitiveness Index

	2005 rank	2006 rank
Switzerland	4	1
Singapore	5	5
Malaysia	25	26
Chile	27	27
Thailand	36	33
India	45	43
South Africa	40	45
China	48	54
Mauritius	55	55

Source: World Economic Forum.
[1] Sample of 125 countries.



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

Figure 8. Mauritius: Recent Financial Sector Developments

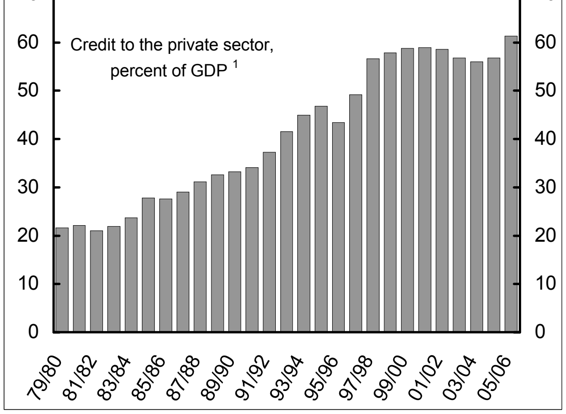
The banking sector appears sound...

Mauritius: Financial Soundness Indicators for the Banking Sector, 2002-06
(percent, unless indicated otherwise) [1]

	Dec. 02	Dec. 04	Dec. 05	Dec-06
Capital adequacy				
Regulatory capital to risk-weighted assets [2]	12.3	15.0	15.4	15.8
Asset composition and quality				
NPLs to gross loans - excluding accrued/unpaid interest	8.3	8.1	4.0	3.0
NPLs net of provisions to capital	34.0	22.4	11.4	7.0
Earnings and Profitability				
ROA (Pre-tax net income/average assets)	2.0	2.1	1.9	…
ROE (Pre-tax net income/average equity)	18.1	19.2	21.1	…
Liquidity				
Liquid assets to total short-term liabilities	65.3	71.7	88.6	118.8
Sensitivity to market risk				
Net open positions in FX to capital	7.5	1.9	4.2	6.4

Source: Bank of Mauritius.
[1] Banking sector refers to former Category 1 banks up to 2004 and all banks thereafter.
[2] Total of Tier I and Tier 2 less investments in subsidiaries and associates.

...but in response to trade shocks credit to the private sector has been subdued...



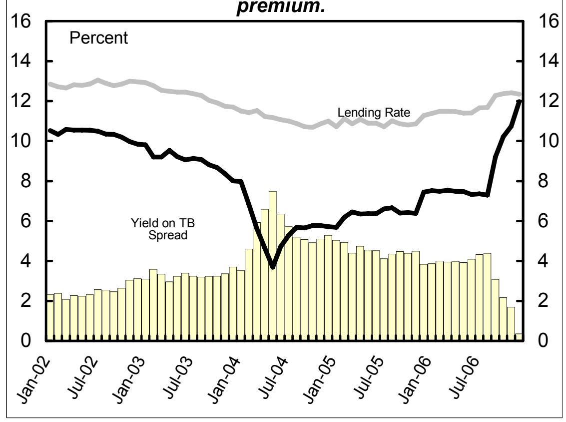
...and has shifted away from sugar and the EPZ sectors…

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

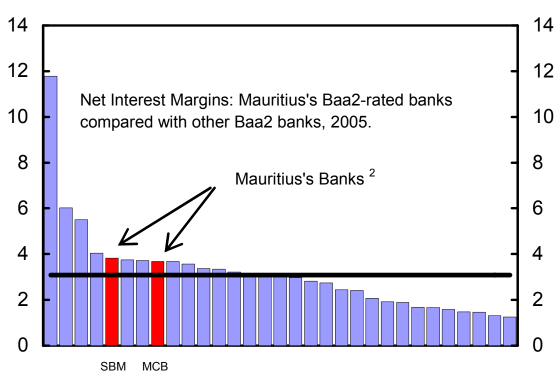
	Former Category 1		All banks		
	Jun-02	Jun-05	Jun-05	Jun-06	Nov-06
Sugar	6.0	5.9	5.7	5.4	4.4
Other agriculture	3.4	1.3	1.3	1.2	1.2
EPZ	10.4	6.7	6.6	6.2	5.5
Other manufacture	6.7	7.3	7.1	6.3	6.2
Tourism	14.8	14.3	14.4	12.8	13.1
Transport	1.6	1.5	1.4	1.4	1.5
Construction	14.0	17.0	16.2	16.3	16.0
Traders	14.2	15.2	14.8	14.8	15.6
New Economy	1.5	2.7	1.2	0.4	0.4
Financial and Business Services	9.3	9.7	9.7	11.2	12.1
Infrastructure	1.8	1.7	1.4	2.4	2.5
Public sector other than grn.	3.6	2.1	5.8	7.5	7.8
Households	8.4	9.6	9.3	9.5	9.5
Other	4.3	5.0	5.1	4.6	4.2

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

...while lending rates tended to incorporate a higher risk premium.



Bank lending could be stimulated by more competition...



… and 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 (percent of debt)	15.7	42.2	11.2

Source: 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.

Sources: Bank of Mauritius, Bankscope, World Bank, and IMF staff estimates.
[1] Structural break in series in 2005/06 because of the unification of offshore and onshore bank licenses.
[2] SBM: Standard Bank of Mauritius. MCB: Mauritius Commercial Bank.

The mission recommended that the authorities:

- consider the benefits and costs of the differential tax treatment for non-resident and domestic lending, taking into account the impact on borrowing costs, economic activity, the financial sector, and tax revenue;

- explore opportunities for more closely involving market intermediaries in selecting and monitoring the risk of projects financed by the Mauritius Development Bank;

- address institutional constraints by expanding the scope of the Credit Bureau to reduce asymmetric information between banks and potential borrowers, and by strengthening creditors' rights.

Box 2. Summary of Selected FSAP-Update Recommendations

Regulatory Agencies
- Improve cooperation between BoM and Financial Services Commission by activating the December 2002 memorandum of understanding.*
- Strengthen the effectiveness of regulatory agencies by filling vacant positions.*
- Adopt manpower plans for both BoM and Financial Services Commission, emphasize training and capacity building.

Insurance and Pensions
- Complete implementing regulations, including risk-based solvency rules, and proclaim the Insurance Act 2005.*
- Finalize new private occupational pension bill and take steps to enact it.*
- Activate National Pension Fund Investment Committee.

Securities Markets
- Complete implementing regulations and proclaim the Securities Act 2005.*
- Adopt measures to develop more efficient money and government debt markets, focusing explicitly on enhancing the efficiency of the primary market.

Money and Public Debt Markets
- Constitute Monetary Policy Committee (envisaged for April).
- Review money market operations and consider potential refinements.
- Finalize public debt management strategy and take measures to enhance the transparency and efficiency of the primary market.*

* To be implemented in the near-term.

Price Controls

17. **Still widespread administered prices are likely to hinder private sector development.** The staff suggested the authorities systematically review the rationale for using administered prices, with a view to deregulate prices. This review should include an assessment of the largest public enterprises, such as the State Trading Corporation. The authorities explained that historically prices were administered to protect vulnerable groups, limit monopoly power, and to protect local production. They shared staff's assessment that some price controls could be liberalized quickly (e.g., fertilizers, timber, iron bars). Any phasing-out in other areas would require strengthening the system of social transfers or competition framework at the same time.

Mauritius: Administered Prices

	Markup regime [1]	Fixed (max) price regime
Food items	fresh fruits, infant milk powder, corned beef, corned mutton, pilchards	bread, flour, onions (other than traditional toupie), rice (excl. luxury rice), sugar
Non-Food items	tyres and tube, pharmaceutical products and simple drugs, timber	cement, cooking gas, fertilizers, iron/steel bars, petroleum products [2]

Source: Mauritian authorities.
[1] The markup ranges between 14 and 45 percent.
[2] Under the Automatic Price Mechanism (APM).

III. Staff Appraisal

18. **Ambitious, broad-based reforms initiated with the 2006/07 budget are starting to bear fruit, though macroeconomic challenges persist.** Recent reforms have revived GDP growth and boosted short-term growth prospects. The fiscal deficit (on a cash basis) is projected to fall to near the budget target of 4 percent of GDP. However, headline inflation has risen, largely reflecting budgetary measures and could raise the risk of entrenched inflation expectations. External vulnerability remains high.

19. **The restoration of external balance will need to be supported by gains in competitiveness.** Success in reducing headline inflation (supported by improvements in the monetary policy framework), wage restraint, and gains in productivity will be key. The depreciation of the exchange rate has helped Mauritius adjust to the permanent terms of trade shock. It should be allowed to move more freely to a level commensurate with the external environment and to stabilize international reserves.

20. **Fiscal pressures in the medium term will require more decisive fiscal consolidation and full implementation of reform projects under way**. Budgetary savings of about 4-5 percent of GDP would be needed to reach the medium-term budget deficit target of about 3 percent of GDP, create more space for capital and social spending, compensate for the loss in revenue from further trade liberalization, and improve debt sustainability. The MTEF being rolled out to selected line ministries and the debt management unit being established—important institutional improvements—will need to be extended and deepened. To further reduce financial risks, parastatals' borrowing activities should be monitored by the Ministry of Finance's debt unit.

21. **Additional structural reforms, along with progress in instituting trade and financial sector reforms, would boost Mauritius's chances of spurring private sector development and raising growth.** Most importantly, labor market reforms must unfold as planned, with a view to increase wage flexibility. To enhance trade, a transparent tariff framework with low and uniform rates would be preferable to a regime with multiple exceptions. Reforms that further improve the institutional environment, including extending the reach of the credit bureau and improving contract enforcement, could help lower borrowing costs and make financing available to more small and medium-sized enterprises. A close review of price controls—taking into account social implications and the need for accompanying policies—should guide reforms in this area.

22. Staff proposes that Mauritius continues on the standard 12-month consultation cycle.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2004/05–2011/12 [1]

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
			Baseline Proj.					
	(Annual percent change, unless otherwise indicated)							
National income, prices and employment								
Real GDP	3.0	3.7	4.1	4.4	4.1	3.9	3.8	3.8
Real GDP per capita	2.2	2.9	3.3	3.6	3.3	3.2	3.0	3.1
GDP deflator	4.9	4.5	11.2	7.6	5.3	5.1	5.0	5.0
Domestic demand at current prices [2]	13.3	11.2	18.6	10.4	8.0	8.9	8.5	8.5
Consumer prices (period average)	5.6	5.1	10.4	6.0	5.5	5.0	5.0	5.0
Consumer prices (end of period)	5.4	7.6	8.7	6.0	5.5	5.0	5.0	5.0
Unemployment rate (percent)	9.0	9.5	...	...	...	...	...	...
Unit labor cost	4.3	5.0	...	...	...	...	...	...
External sector								
Exports of goods, f.o.b. (U.S. dollars)	3.7	12.8	4.5	2.0	2.4	2.1	3.1	3.7
Imports of goods, f.o.b. (U.S. dollars)	17.3	14.9	10.7	0.9	1.4	3.7	4.2	4.7
Exports, fob, excluding freeport (U.S. dollars)	-2.7	0.1	3.9	0.2	0.7	0.2	1.7	2.5
Imports of goods, f.o.b., excluding freeport (U.S. dollars)	13.9	8.8	5.1	-0.3	0.3	3.1	3.7	4.3
Nominal effective exchange rate [3]	-7.9	-4.3	...	...	...	...	...	...
Real effective exchange rate [3]	-5.5	-1.2	...	...	...	...	...	...
Terms of trade	-7.0	-6.9	-1.2	-4.2	-1.0	-1.7	0.1	0.0
Money and credit [4]								
Net foreign assets	2.1	5.3	2.3	2.0	0.3	0.1	0.3	0.7
Domestic credit	12.6	11.9	13.4	12.7	10.3	10.8	11.0	10.7
Net claims on government	3.3	2.9	1.5	1.7	1.9	2.5	2.6	2.6
Credit to private sector [5]	9.3	9.0	12.0	11.0	8.5	8.3	8.4	8.1
Broad money (end of period, annual percentage growth)	13.1	11.2	10.5	12.3	9.6	9.3	9.0	9.0
Income velocity of broad money	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	6.7	7.3	...	...	...	...	...	...
	(Percent of GDP at market prices)							
Central government budget								
Overall balance (including grants)	-5.0	-5.3	-4.1	-4.7	-5.1	-5.6	-5.7	-5.8
Revenues and grants	20.1	20.1	19.6	20.0	19.7	19.3	19.3	19.3
Expenditure and net lending	25.1	25.5	23.8	24.7	24.8	24.9	25.1	25.1
Domestic debt of central government	53.9	53.8	51.4	48.3	47.2	48.7	50.5	52.2
External debt of central government	5.1	4.4	5.0	5.5	6.1	5.8	5.3	4.9
Investment and saving								
Gross domestic investment	22.9	21.2	23.4	21.9	20.1	20.1	20.0	20.0
Public	6.5	7.3	10.2	8.8	7.1	7.1	7.1	7.1
Private	15.1	12.9	13.2	13.1	13.1	13.0	13.0	13.0
Gross national savings	19.4	15.9	16.0	17.0	16.8	17.0	17.4	17.7
Public	-1.1	-1.4	-1.0	-1.3	-2.0	-2.6	-2.7	-2.8
Private	20.5	17.3	17.0	18.3	18.7	19.6	20.1	20.5
External sector								
Current account balance	-3.5	-5.3	-7.4	-4.9	-3.4	-3.1	-2.7	-2.3
Overall balance of payments	-1.7	-1.5	-1.9	-1.3	-0.6	-0.8	-0.6	-0.3
Total external debt [6]	14.5	14.5	14.4	14.5	14.9	14.1	13.3	12.5
Net international reserves, BOM (millions of U.S. dollars)	1,442	1,377	1,243	1,143	1,100	1,030	977	947
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.9	5.0	4.0	3.7	3.5	3.2	2.9	2.7
Memorandum item:								
GDP at current market prices (millions of Mauritian rupees)	179,718	194,786	225,373	253,048	277,458	303,178	330,359	360,088
Foreign currency long-term debt rating (Moody's) [7]	Baa2	Baa1	…	…	…	…	…	…

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] Trade-weighted period averages (a negative sign signifies a depreciation).
[4] Percent of beginning of period M2.
[5] Includes credit to parastatals.
[6] Projections excluding external debt related to unidentified capital flows.
[7] Downgrade in June 2006.

Table 2. Mauritius: Balance of Payments, 2004/05-2011/12 [1]

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
					Baseline Proj.			
			(Millions of U.S. dollars, unless otherwise indicated)					
Current account balance	-215.7	-340.4	-519.6	-361.6	-261.6	-251.9	-233.1	-213.7
Trade balance	-699.7	-844.4	-1,076.2	-1,059.3	-1,052.2	-1,129.3	-1,202.7	-1,282.9
Exports of goods, f.o.b.	2,005.7	2,262.9	2,364.7	2,411.7	2,469.0	2,521.7	2,601.1	2,698.6
of which: domestic exports	1,581.3	1,582.2	1,643.2	1,646.9	1,658.3	1,662.3	1,690.2	1,733.0
EPZ [2]	1,057.1	996.8	1,060.4	1,086.3	1,090.0	1,096.2	1,099.3	1,109.2
Sugar	361.2	344.5	313.0	261.7	249.7	226.3	226.2	226.1
Imports of goods, f.o.b.	-2,705.4	-3,107.2	-3,440.9	-3,471.0	-3,521.2	-3,651.0	-3,803.8	-3,981.4
of which: domestic imports	-2,435.2	-2,650.1	-2,785.0	-2,775.7	-2,784.2	-2,869.8	-2,975.7	-3,103.7
EPZ [2]	-566.4	-545.0	-557.9	-556.7	-552.9	-552.3	-553.4	-555.1
Petroleum products	-423.3	-594.5	-632.7	-626.1	-672.8	-703.9	-733.8	-765.3
Aircraft and ships	-4.1	-14.1	-210.0	-110.0	-8.2	0.0	-7.7	-7.5
Services (net)	430.9	406.0	485.7	567.2	658.4	746.9	838.8	938.5
of which: tourism	566.4	661.0	740.9	822.8	913.6	1,001.4	1,097.2	1,201.2
credit	832.1	939.0	1,030.3	1,124.9	1,228.2	1,328.3	1,436.5	1,553.6
debit	-265.7	-278.0	-289.4	-302.1	-314.5	-326.9	-339.4	-352.4
Income (net)	-4.6	44.1	-14.6	46.8	50.4	54.3	58.3	62.4
Current transfers (net)	57.8	53.9	85.6	83.7	81.8	76.2	72.6	68.2
Capital and financial account	8.5	37.5	235.8	111.4	68.6	32.6	29.3	34.4
Capital account	-1.0	-3.2	-3.1	-3.1	-3.1	-3.1	-3.1	-2.1
Financial account	9.5	40.7	238.9	114.5	71.7	35.7	32.4	36.5
Direct investment	-30.6	19.0	95.0	50.0	40.0	45.0	45.0	45.0
Abroad	-28.5	-32.4	15.0	-30.0	-30.0	-15.0	-15.0	-15.0
In Mauritius	-2.1	51.4	80.0	80.0	70.0	60.0	60.0	60.0
Portfolio investment	-11.2	-55.2	-1.0	-26.9	-59.5	-46.7	-44.4	-50.2
Other investment	51.3	76.9	144.8	91.5	91.2	37.4	31.7	41.7
Errors and omissions [3]	98.9	203.7	150.0	150.0	150.0	150.0	150.0	150.0
Overall balance	-108.2	-99.2	-133.8	-100.2	-42.9	-69.3	-53.8	-29.3
Reserve assets of the Bank of Mauritius [4]	108.2	99.2	133.8	100.2	42.9	69.3	53.8	29.3
			(Percent of GDP, unless otherwise indicated)					
Trade balance	-11.3	-13.2	-15.3	-14.3	-13.5	-13.8	-13.9	-13.9
Current account balance	-3.5	-5.3	-7.4	-4.9	-3.4	-3.1	-2.7	-2.3
Overall balance	-1.7	-1.5	-1.9	-1.3	-0.6	-0.8	-0.6	-0.3
Errors and omissions [3]	1.6	3.2	2.1	2.0	1.9	1.8	1.7	1.6
Net international reserves, BOM, (millions of U.S. dollars)	1,442.0	1,376.6	1,242.8	1,142.6	1,099.7	1,030.4	976.6	947.3
In months of imports of goods, c.i.f.	5.9	5.0	4.0	3.7	3.5	3.2	2.9	2.7
In months of imports of goods, c.i.f., net of freeport	6.5	5.8	4.9	4.5	4.3	3.9	3.6	3.3
Memorandum items:								
Total external debt	14.5	14.5	14.4	14.5	14.9	14.1	13.3	12.5
External debt service (percent of exports of goods and services)	6.5	8.2	5.8	4.4	3.9	3.5	3.3	3.0
Mauritian rupees per U.S. dollar (period average)	29.0	30.4	...	...	...	...	...	...
Mauritian rupees per U.S. dollar (end of period)	29.6	30.8	...	...	...	...	...	...

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. Projections maintain the average of the past two years.

[4] Positive sign indicates reserves loss.

Table 3. Mauritius: Summary of Public Sector Finances. 2005/06-2011/12 [1]

	2005/06	2006/07		2007/08	2008/09	2009/10	2010/2011	2011/2012
	Est	Budget	Proj.			Baseline Proj.		
	(Percent of GDP)							
Total revenue and grants	20.1	20.2	19.6	20.0	19.7	19.3	19.3	19.3
Total revenue	19.9	19.8	19.3	19.0	18.8	18.6	18.6	18.6
Tax revenue	18.2	18.0	17.5	17.3	17.2	17.0	17.0	17.0
Taxes on net income and profits	3.8	3.6	3.6	3.5	3.5	3.4	3.4	3.4
Individuals	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Corporate	2.4	2.5	2.3	2.3	2.3	2.2	2.2	2.2
Taxes on property	1.0	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	9.6	12.2	11.8	11.7	11.6	11.5	11.5	11.5
Of which: VAT/sales tax	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Taxes on international trade	3.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nontax revenue	1.6	1.7	1.7	1.7	1.6	1.6	1.6	1.6
Capital revenue	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Grants	0.3	0.4	0.3	1.0	0.9	0.7	0.7	0.7
Total expenditure and net lending	25.5	24.2	23.8	24.7	24.8	24.9	25.1	25.1
Current expenditure	21.5	20.6	20.6	21.3	21.7	21.9	22.1	22.1
Expenditures on goods and services	8.6	7.6	7.6	7.6	7.9	8.2	8.1	8.1
Wages and salaries	6.3	5.8	5.7	5.8	6.0	6.3	6.2	6.2
Other goods and services	2.3	1.8	1.9	1.8	1.9	1.9	1.9	1.9
Interest payments	3.8	4.4	4.2	4.9	4.7	4.6	4.8	5.0
External interest	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.4
Domestic interest, cash basis	3.6	4.3	4.1	4.7	4.4	4.3	4.4	4.6
Current transfers and subsidies	9.2	8.6	8.8	8.8	9.1	9.2	9.1	9.0
Capital expenditure and net lending	3.9	3.5	3.2	3.2	3.1	3.0	3.0	3.0
Capital expenditure	3.6	3.6	3.2	3.2	3.1	3.1	3.1	3.1
Net lending minus repayment	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance after grants	-5.3	-4.0	-4.1	-4.7	-5.1	-5.6	-5.7	-5.8
Primary balance	-1.6	0.4	0.1	0.3	-0.4	-1.0	-0.9	-0.7
Financing	5.3	4.0	4.1	4.7	5.1	5.6	5.7	5.8
External, net	-0.6	-0.1	0.9	0.9	0.9	0.0	-0.1	-0.1
Disbursements	0.1	0.3	1.3	1.4	1.4	0.6	0.4	0.4
Amortization	-0.7	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.5
Domestic	5.9	4.1	3.3	3.7	4.2	5.6	5.8	5.9
Banking system, net	2.6	0.9	1.1	1.3	1.5	2.0	2.0	2.1
Nonbank, net	3.6	3.2	2.1	2.4	2.7	3.7	3.8	3.8
	(Millions of Mauritian rupees)							
Total revenue and grants	39,206	43,100	44,270	50,685	54,743	58,604	63,858	69,605
Total expenditure and net lending	49,599	51,646	53,567	62,468	68,781	75,627	82,786	90,313
Overall balance after grants	-10,393	-8,553	-9,297	-11,782	-14,038	-17,023	-18,928	-20,708
Memorandum items								
Government debt	58.2	57.0	56.3	53.9	53.4	54.5	55.8	57.1
Public sector debt [2]	71.3	...	69.4	67.0	66.5	67.6	68.9	70.2
GDP at current market prices (millions of rupees)	194,786	213,825	225,373	253,048	277,458	303,178	330,359	360,088

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

[1] Fiscal year: July/June.

[2] Includes central and local government and parastatals.

Table 4. Mauritius: Monetary Survey. 2004-12

	2004 June	2005 June	2006 June	2007 June	2008 June	2009 June	2010 June	2011 June	2012 June
				Baseline Proj.					
	(Millions of rupees)								
Net foreign assets	50,013	52,952	61,435	65,578	69,554	70,305	70,664	71,586	73,523
Domestic credit	128,253	145,973	164,961	188,772	213,701	236,493	262,614	291,571	322,315
Claims on government (net)	36,263	40,907	45,490	48,073	51,371	55,456	61,448	68,208	75,594
Monetary authorities	-719	771	1,641	1,650	1,650	1,650	1,650	1,650	1,650
Commercial banks	36,982	40,136	43,849	46,423	49,721	53,806	59,798	66,558	73,944
Claims on private sector [1]	91,990	105,066	119,472	140,700	162,330	181,037	201,165	223,364	246,722
Broad money (M2)	141,094	159,625	177,527	196,147	220,233	241,478	263,862	287,518	313,393
Money (M1)	21,317	22,240	25,069	27,463	32,398	35,456	38,678	42,082	45,806
Quasi money	119,777	137,385	152,458	168,684	187,835	206,022	225,185	245,436	267,586
Money market instruments [2]	3,837	0	0	0	0	0	0	0	0
Other items (net)	33,334	39,299	48,870	58,203	63,022	65,320	69,415	75,639	82,445
	(Annual change, millions of rupees)								
Net foreign assets	1,712	2,939	8,483	4,143	3,976	751	359	922	1,937
Domestic credit	20,993	17,721	18,988	23,811	24,928	22,793	26,120	28,958	30,744
Claims on government	14,731	4,644	4,583	2,583	3,298	4,086	5,992	6,759	7,386
Claims on private sector [1]	6,262	13,076	14,405	21,228	21,630	18,707	20,128	22,198	23,358
Broad money (M2)	15,922	18,531	17,902	18,620	24,086	21,245	22,384	23,656	25,874
Money (M1)	3,884	923	2,829	2,394	4,935	3,058	3,222	3,405	3,724
Quasi money	12,038	17,608	15,073	16,226	19,151	18,187	19,162	20,251	22,150
	(Annual percent change)								
Domestic credit	19.6	13.8	13.0	14.4	13.2	10.7	11.0	11.0	10.5
Claims on government	68.4	12.8	11.2	5.7	6.9	8.0	10.8	11.0	10.8
Claims on private sector [1]	7.3	14.2	13.7	17.8	15.4	11.5	11.1	11.0	10.5
Broad money (M2)	12.7	13.1	11.2	10.5	12.3	9.6	9.3	9.0	9.0
Money (M1)	22.3	4.3	12.7	9.5	18.0	9.4	9.1	8.8	8.8
Quasi money	11.2	14.7	11.0	10.6	11.4	9.7	9.3	9.0	9.0
	(Percent at beginning of period M2)								
Net foreign assets	1.4	2.1	5.3	2.3	2.0	0.3	0.1	0.3	0.7
Domestic credit	16.8	12.6	11.9	13.4	12.7	10.3	10.8	11.0	10.7
Claims on government (net)	11.8	3.3	2.9	1.5	1.7	1.9	2.5	2.6	2.6
Claims on private sector [1]	5.0	9.3	9.0	12.0	11.0	8.5	8.3	8.4	8.1

Sources: Bank of Mauritius; and IMF staff estimates.

[1] Including claims on public enterprises.
[2] Central bank bills held by nonbanking financial institutions.

Table 5. Mauritius: Financial Soundness Indicators for the Banking Sector, 2002-2006 [1]
(Percent, unless otherwise indicated)

	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06
Capital adequacy					
Regulatory capital to risk-weighted assets [2]	12.3	14.2	15.0	15.4	15.8
Regulatory Tier I capital to risk-weighted assets	13.0	13.7	13.7	13.5	13.7
Total (regulatory) capital to total assets	7.2	8.0	7.8	7.8	7.3
Asset composition and quality					
Share of loans (exposures) per risk-weight (RW) category					
RW = 0%	9.5	5.2	6.4	16.6	12.8
RW = 20%	0.4	4.8	6.7	0.2	1.3
RW = 50%	7.0	7.9	9.6	6.5	6.0
RW = 100%	83.2	82.1	77.3	76.7	79.8
Total exposures/total assets	51.6	47.8	45.9	53.6	40.1
Sectoral distribution of loans to total loans					
Agriculture	9.7	9.1	7.5	5.7	5.7
of which: sugar	*8.6*	*8.0*	*6.4*	*5.6*	*5.0*
Manufacturing	16.1	14.8	13.6	12.0	11.2
of which: EPZ	*9.4*	*7.5*	*6.1*	*5.4*	4.8
Traders	14.1	14.9	14.5	13.9	14.9
Personal and professional	9.2	9.8	10.0	9.4	9.5
Construction	13.9	14.2	16.2	15.2	15.4
of which: housing	*10.5*	*9.0*	*10.8*	*10.7*	*12.0*
Tourism/hotels	15.0	15.9	15.4	13.2	13.2
Other	21.3	21.2	22.8	30.7	30.1
Foreign currency loans to total loans	10.3	10.9	12.2	51.5	50.7
NPLs to gross loans - excluding accrued/unpaid interest	8.3	9.6	8.1	4.0	3.0
NPLs net of provisions to capital	34.0	28.1	22.4	11.4	7.0
Large exposure to capital [3]	263.7	220.9	200.0	250.3	380.0
Earnings and Profitability					
ROA (Pre-tax net income/average assets)	2.0	2.1	2.1	1.9	…
ROE (Pre-tax net income/average equity)	18.1	19.2	19.2	21.1	…
Interest margin to gross income	32.6	32.1	34.7	36.3	…
Noninterest expenses to gross income	23.1	23.9	27.7	20.1	…
Expenses/revenues	10.5	10.6	10.2	8.1	…
Earnings/employee - in 000 of rupees	1,819	2,212	2,433	2,904	…
Liquidity					
Liquid assets to total assets	32.7	36.6	37.9	44.1	52.8
Liquid assets to total short-term liabilities	65.3	71.0	71.7	88.6	118.8
Funding volatility ratio	16.4	13.9	14.0	-20.1	-51.6
Demand deposits/total liabilities	10.3	10.3	10.7	15.9	15.4
FX deposits to total deposits	11.7	11.0	13.8	57.3	68.0
Sensitivity to market risk					
Net open positions in FX to capital	7.5	20.8	1.9	4.2	6.4

Source: Mauritian authorities.

[1] Banking sector refers to former Category 1 banks up to December 2004 and to all banks thereafter.

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

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

Table 6. Mauritius: Selected Economic and Financial Indicators, Reform Scenario, 2005/06-2011/12 [1]

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Reform Scenario					
	(Annual percentage change, unless otherwise indicated)						
National income, prices and employment							
Real GDP	3.7	4.1	4.9	5.2	5.4	5.7	5.8
Real GDP per capita	2.9	3.3	4.1	4.4	4.6	4.9	5.0
GDP deflator	4.5	11.2	7.4	5.3	5.3	4.6	3.9
Consumer prices (period average)	5.1	10.4	6.0	5.5	5.0	4.3	3.5
Consumer prices (end of period)	7.6	8.7	6.5	6.0	4.5	4.0	3.0
External sector							
Exports of goods, f.o.b. (U.S. dollars)	12.8	4.5	2.6	3.5	3.7	5.6	6.4
Imports of goods, f.o.b. (U.S. dollars)	14.9	10.7	0.9	2.0	4.9	5.9	6.5
Exports, fob, excluding freeport (U.S. dollars)	0.1	3.9	1.1	2.4	2.6	5.4	6.6
Imports of goods, f.o.b., excluding freeport (U.S. dollars)	8.8	5.1	-0.3	1.0	4.6	5.9	6.7
Terms of trade	-6.9	-1.2	-4.2	-1.0	-1.7	0.1	0.0
Money and credit [2]							
Net foreign assets	5.3	2.3	4.5	1.5	1.2	1.0	0.8
Domestic credit	11.9	13.4	10.8	10.7	12.0	12.3	11.7
Broad money (end of period, annual percentage growth)	11.2	10.5	12.7	10.8	11.0	10.5	9.9
Income velocity of broad money	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	(Percent of GDP at market prices)						
Central government budget							
Overall balance (including grants)	-5.3	-4.1	-3.7	-3.5	-3.4	-3.1	-2.9
Revenues and grants	20.1	19.6	20.8	20.5	20.3	20.1	20.0
Expenditure and net lending	25.5	23.8	24.5	24.1	23.7	23.3	22.9
Domestic debt of central government	53.8	51.4	47.0	43.9	42.9	42.0	42.3
External debt of central government	4.4	5.0	5.8	6.5	5.9	5.3	4.8
Investment and saving							
Gross domestic investment	21.2	23.4	22.9	22.7	23.6	23.6	23.6
Gross national savings	15.9	16.0	18.1	19.7	21.2	21.8	22.4
External sector							
Current account balance	-5.3	-7.4	-4.7	-3.0	-2.5	-1.8	-1.2
Overall balance of payment	-1.5	-1.9	0.0	0.0	0.0	0.0	0.0
Net international reserves, BOM (millions of U.S. dollars)	1,377	1,243	1,243	1,243	1,243	1,243	1,243
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.0	4.0	4.0	3.9	3.7	3.5	3.3

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

[1] Fiscal year (July-June).
[2] Percent of beginning of period M2.

Table 7. Mauritius: Public Sector Debt Sustainability Framework, 2002/03-2011/12
(Percent of GDP, unless otherwise indicated)

		Actual				Baseline Proj.						
		2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/2012	**Debt-stabilizing primary balance 9/**
1	**Baseline: Public sector debt 1/**	81.3	70.5	71.7	**71.3**	**69.4**	**67.0**	**66.5**	**67.6**	**68.9**	**70.2**	**-0.7**
	of which foreign-currency denominated	17.8	14.2	13.3	12.4	12.5	12.6	12.8	12.1	11.3	10.5	
2	Change in public sector debt	6.3	-10.8	1.2	-0.3	-1.9	-2.4	-0.5	1.1	1.4	1.2	
3	Identified debt-creating flows (4+7+12)	-0.9	-3.3	0.3	-0.2	-5.6	-2.9	-0.8	0.0	0.2	0.1	
4	Primary deficit	1.9	1.4	1.0	1.6	-0.1	-0.3	0.4	1.0	0.9	0.7	
5	Revenue and grants	20.2	20.3	20.1	20.1	19.6	20.0	19.7	19.3	19.3	19.3	
6	Primary (noninterest) expenditure	22.1	21.6	21.1	21.7	19.6	19.8	20.1	20.4	20.3	20.1	
7	Automatic debt dynamics 2/	-2.8	-4.7	-0.7	-1.8	-5.5	-2.7	-1.2	-1.0	-0.8	-0.7	
8	Contribution from interest rate/growth differential 3/	-2.4	-4.1	-1.3	-1.8	-5.5	-2.7	-1.2	-1.0	-0.8	-0.7	
9	Of which: contribution from real interest rate	0.2	-0.7	0.7	0.7	-3.0	0.1	1.3	1.3	1.6	1.8	
10	Of which: contribution from real GDP growth	-2.6	-3.5	-2.0	-2.5	-2.5	-2.7	-2.5	-2.4	-2.4	-2.4	
11	Contribution from exchange rate depreciation 4/	-0.4	-0.6	0.5	...	...	...	...	...	...	...	
12	Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13	Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14	Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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	0.0	
16	Residual, including asset changes (2-3) 5/	7.2	-7.5	0.9	-0.1	3.6	0.5	0.3	1.1	1.2	1.2	
	Public sector debt-to-revenue ratio 1/	401.9	348.0	357.4	354.4	353.4	334.4	336.8	349.6	356.6	363.1	
	Gross financing need 6/	50.3	48.0	47.3	47.2	43.2	35.9	33.5	31.7	29.6	27.7	
	Billions of U.S. dollars	2.6	2.8	2.9	3.0	3.0	2.7	2.6	2.6	2.6	2.6	
	Scenario with key variables at their historical averages 7/				**71.3**	**74.2**	**73.8**	**73.2**	**73.5**	**73.8**	**74.1**	**-2.3**
	Scenario with no policy change (constant primary balance) in 2006-2011				**71.3**	**71.1**	**70.4**	**71.1**	**72.7**	**74.7**	**80.5**	**3.3**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline											
	Real GDP growth (percent)	3.8	4.7	3.0	3.7	4.1	4.4	4.1	3.9	3.8	3.8	
	Average nominal interest rate on public debt (percent) 8/	6.2	5.4	6.1	5.7	6.8	8.0	7.7	7.6	7.8	7.9	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.5	-0.6	1.2	1.2	-4.3	0.4	2.4	2.4	2.8	3.0	
	Nominal appreciation (increase in US dollar value of local currency, percent)	2.2	3.7	-3.9	...	...	...	...	...	...	...	
	Inflation rate (GDP deflator, percent)	5.7	6.0	4.9	4.5	11.2	7.6	5.3	5.1	5.0	5.0	
	Growth of real primary spending (deflated by GDP deflator, percent)	8.0	2.4	0.3	6.7	-6.1	5.4	5.9	5.3	3.3	2.8	
	Primary deficit	1.9	1.4	1.0	1.6	-0.1	-0.3	0.4	1.0	0.9	0.7	

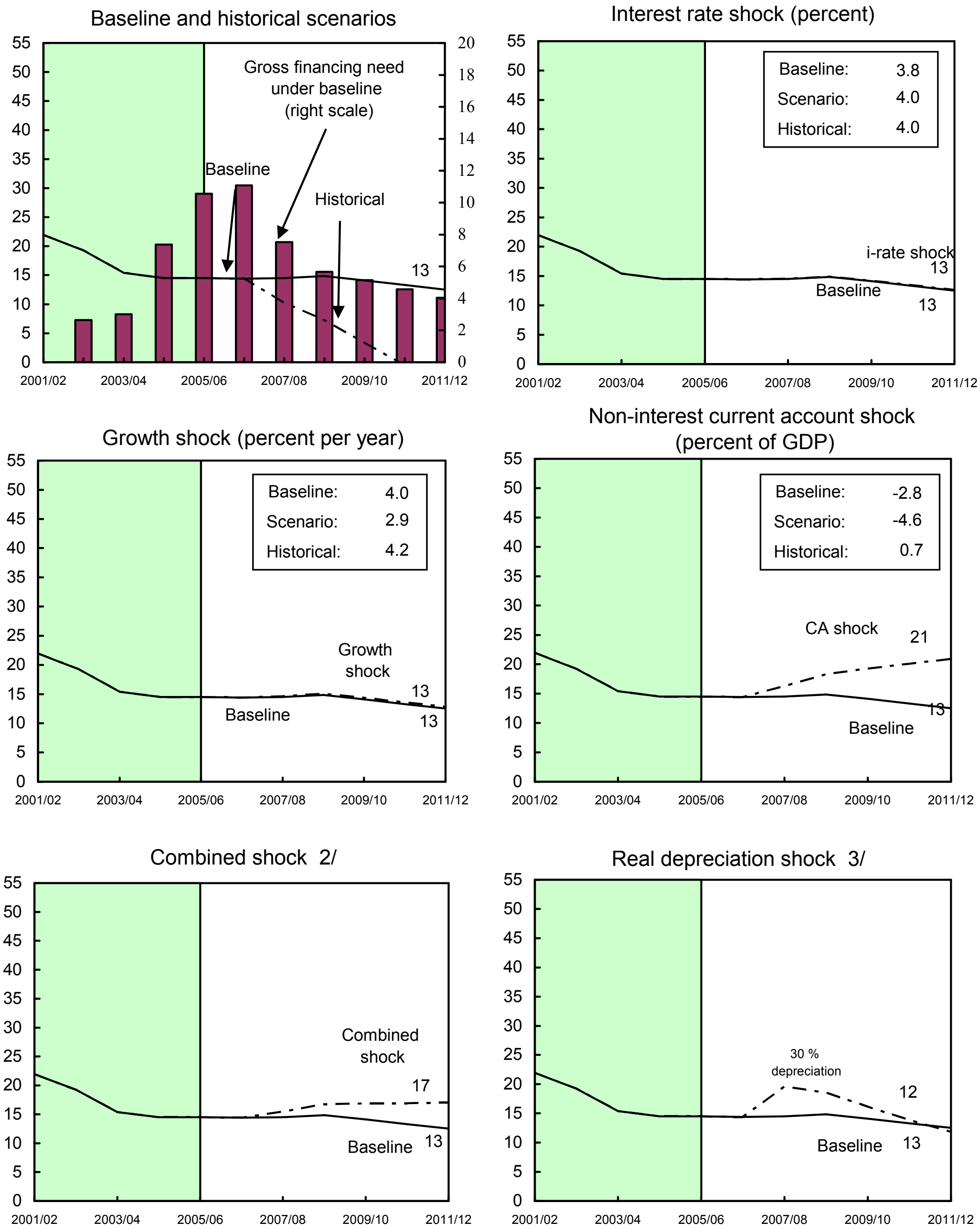
1/ General government and parastatals' gross debt.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (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.

Table 8. Mauritius: External Debt Sustainability Framework, 2002/03-2012/13
(Percent of GDP, unless otherwise indicated)

	Actual				Baseline Proj.							
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/2011	20011/12	2012/13	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	21.9	19.2	15.4	14.5	14.5	**14.4**	**14.5**	**14.9**	**14.1**	**13.3**	**12.5**	**-1.0**
2 Change in external debt	-0.7	-2.7	-3.8	-0.9	0.0	-0.1	0.1	0.3	-0.8	-0.8	-0.8	
3 Identified external debt-creating flows (4+8+9)	-8.0	-6.0	-4.2	3.1	3.8	4.8	3.5	2.1	1.8	1.5	1.2	
4 Current account deficit, excluding interest payments	-6.5	-3.1	-1.4	3.1	4.9	7.2	4.5	2.9	2.6	2.2	1.9	
5 Deficit in balance of goods and services	-4.4	-0.9	-0.5	4.4	6.9	8.7	6.8	5.2	4.7	4.2	3.8	
6 Exports	63.0	59.3	56.3	58.5	61.3	60.7	59.0	59.0	58.1	57.5	57.0	
7 Imports	58.6	58.4	55.8	63.0	68.2	69.5	65.8	64.2	62.8	61.7	60.8	
8 Net non-debt creating capital inflows (negative)	-1.0	-1.2	-0.9	0.1	-1.0	-2.4	-0.9	-0.8	-0.8	-0.7	-0.7	
9 Automatic debt dynamics 1/	-0.4	-1.7	-2.0	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	
10 Contribution from nominal interest rate	0.9	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
11 Contribution from real GDP growth	-0.3	-0.7	-0.8	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	
12 Contribution from price and exchange rate changes 2/	-1.0	-1.6	-1.7	-0.1	0.0	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	7.2	3.3	0.4	-4.0	-3.8	-4.8	-3.4	-1.8	-2.5	-2.3	-1.9	
External debt-to-exports ratio (percent)	34.8	32.4	27.3	24.8	23.7	23.7	24.6	25.2	24.3	23.1	22.0	
Gross external financing need (billions of US dollars) 4/	0.0	0.1	0.2	0.4	0.7	0.7	0.5	0.4	0.4	0.4	0.4	
percent of GDP	-0.2	2.6	3.0	7.4	10.6	11.1	7.5	5.7	5.1	4.6	4.0	
Scenario with key variables at their historical averages 5/						**14.4**	**10.2**	**7.2**	**3.3**	**0.0**	**0.0**	**-0.9**
Key Macroeconomic Assumptions Underlying Baseline:												
Real GDP growth (percent)	1.5	3.8	4.7	3.0	3.7	4.1	4.4	4.1	3.9	3.8	3.8	
GDP deflator in US dollars (change percent)	4.6	8.1	9.9	0.9	0.3	2.8	3.0	0.6	2.1	2.2	2.3	
Nominal external interest rate (percent)	4.1	3.6	3.4	3.4	3.7	3.4	3.5	3.7	3.9	4.0	3.9	
Growth of exports (US dollar terms, percent)	2.8	5.6	9.3	8.0	8.9	6.0	4.5	4.8	4.4	5.0	5.4	
Growth of imports (US dollar terms, percent)	-1.6	11.8	10.1	17.2	12.7	8.9	1.8	2.2	3.8	4.3	4.6	
Current account balance, excluding interest payments	6.5	3.1	1.4	-3.1	-4.9	-7.2	-4.5	-2.9	-2.6	-2.2	-1.9	
Net non-debt creating capital inflows	1.0	1.2	0.9	-0.1	1.0	2.4	0.9	0.8	0.8	0.7	0.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) 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 9. 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 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

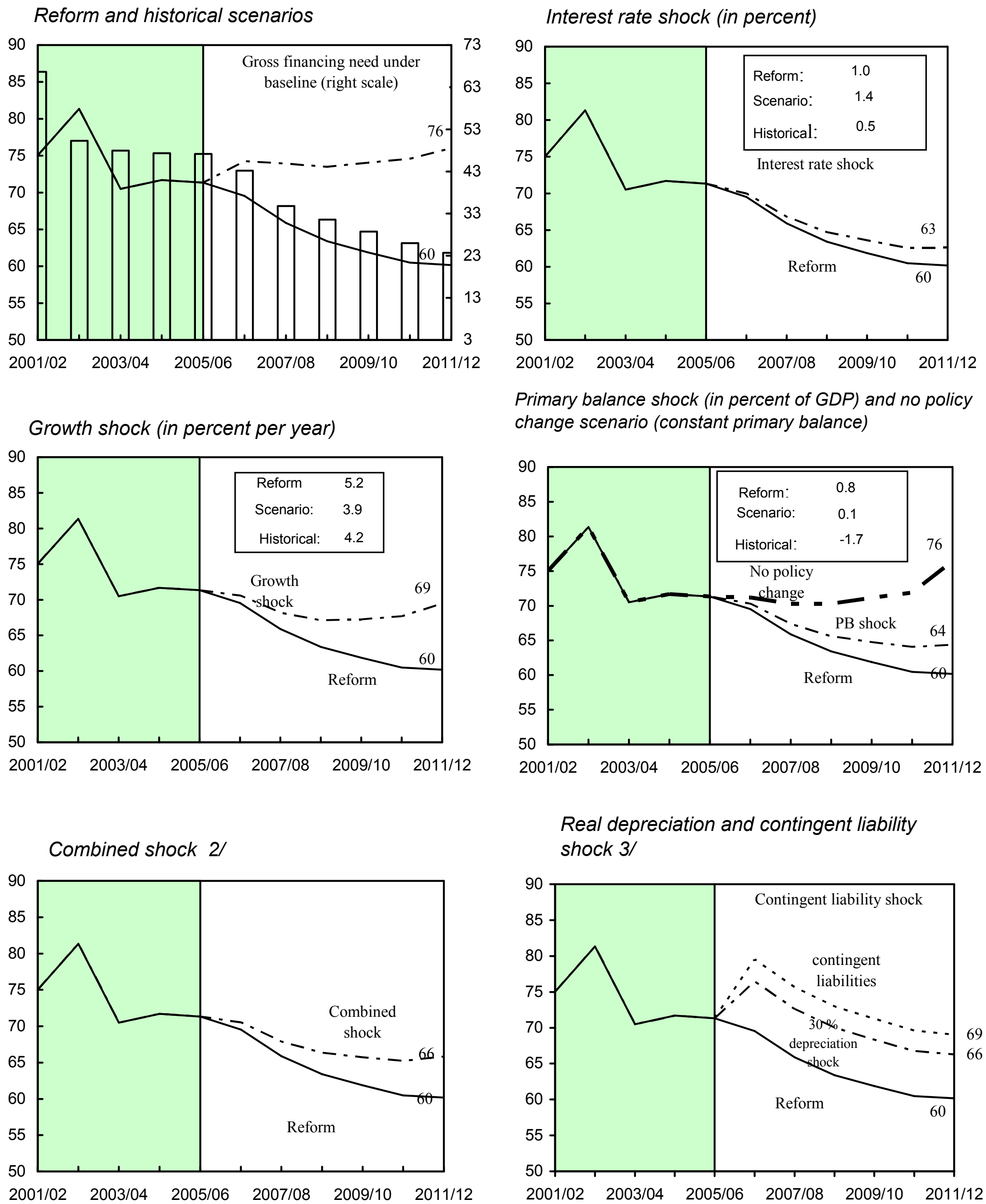
Table 9. Mauritius: Public Sector Debt Sustainability Framework, Reform Scenario,2002/03-2011/12

(In percent of GDP, unless otherwise indicated)

		Actual				Projections: Reform Scenario					
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/2012	Debt-stabilizing primary balance 9/
1 **Reform: Public sector debt 1/**	81.3	70.5	71.7	**71.3**	**69.5**	**65.9**	**63.4**	**61.9**	**60.5**	**60.2**	**0.7**
o/w foreign-currency denominated	17.8	14.2	13.3	12.4	12.7	13.1	13.6	12.5	11.4	10.3	
2 Change in public sector debt	6.3	-10.8	1.2	-0.3	-1.8	-3.6	-2.5	-1.5	-1.4	-0.3	
3 Identified debt-creating flows (4+7+12)	-0.9	-3.3	0.3	-0.2	-5.5	-4.2	-2.9	-2.9	-2.8	-2.5	
4 Primary deficit	1.9	1.4	1.0	1.6	-0.1	-1.2	-1.0	-1.0	-0.8	-0.7	
5 Revenue and grants	20.2	20.3	20.1	20.1	19.6	20.8	20.5	20.3	20.1	20.0	
6 Primary (noninterest) expenditure	22.1	21.6	21.1	21.7	19.6	19.7	19.5	19.3	19.3	19.3	
7 Automatic debt dynamics 2/	-2.8	-4.7	-0.7	-1.8	-5.4	-3.0	-1.9	-1.9	-1.9	-1.8	
8 Contribution from interest rate/growth differential 3/	-2.4	-4.1	-1.3	-1.8	-5.4	-3.0	-1.9	-1.9	-1.9	-1.8	
9 Of which contribution from real interest rate	0.2	-0.7	0.7	0.7	-2.9	0.0	1.3	1.2	1.3	1.4	
10 Of which contribution from real GDP growth	-2.6	-3.5	-2.0	-2.5	-2.5	-3.0	-3.1	-3.1	-3.2	-3.2	
11 Contribution from exchange rate depreciation 4/	-0.4	-0.6	0.5	...	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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	0.0	
16 Residual, including asset changes (2-3) 5/	7.2	-7.5	0.9	-0.1	3.7	0.5	0.4	1.3	1.4	2.2	
Public sector debt-to-revenue ratio 1/	401.9	348.0	357.4	354.4	354.0	316.4	308.7	305.1	300.4	300.4	
Gross financing need 6/	50.3	48.0	47.3	47.2	43.2	34.8	31.6	28.7	26.0	23.7	
in billions of U.S. dollars	2.6	2.8	2.9	3.0	3.0	2.5	2.3	2.3	2.2	2.2	
Scenario with key variables at their historical averages 7/				**71.3**	**74.2**	**73.9**	**73.5**	**74.0**	**74.6**	**76.0**	**-2.5**
Scenario with no policy change (constant primary balance) in 2006-2011				**71.3**	**71.2**	**70.3**	**70.3**	**71.2**	**71.9**	**76.5**	**0.7**
Key Macroeconomic and Fiscal Assumptions Underlying Reform											
Real GDP growth (in percent)	3.8	4.7	3.0	3.7	4.1	4.9	5.2	5.4	5.7	5.8	
Average nominal interest rate on public debt (in percent) 8/	6.2	5.4	6.1	5.7	6.8	7.9	7.7	7.7	7.1	6.6	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.5	-0.6	1.2	1.2	-4.3	0.4	2.4	2.4	2.5	2.7	
Nominal appreciation (increase in US dollar value of local currency, in percent)	2.2	3.7	-3.9	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	5.7	6.0	4.9	4.5	11.1	7.4	5.3	5.3	4.6	3.9	
Growth of real primary spending (deflated by GDP deflator, in percent)	8.0	2.4	0.3	6.7	-6.1	5.4	4.4	4.3	5.7	5.8	
Primary deficit	1.9	1.4	1.0	1.6	-0.1	-1.2	-1.0	-1.0	-0.8	-0.7	

1/ General government and parastatals' gross debt.
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-currency 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 10. Mauritius: Public Debt Sustainability: Reform Scenario Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 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 2006/7 , with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 10: Mauritius: Table of Common Indicators Required for Surveillance

(As of March 19, 2007)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/07	03/07	M	M	M		
Reserve/Base Money	01/07	02/07	M	M	M		
Broad Money	01/07	02/07	M	M	M	LO, LO, LO, LNO	LO, LO, O, NA
Central Bank Balance Sheet	01/07	02/07	M	M	M		
Consolidated Balance Sheet of the Banking System	01/07	02/07	M	M	M		
Interest Rates[2]	01/07	2/07	M	M	M		
Consumer Price Index	02/07	03/07	M	M	M	O, O, O, O	O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/06	01/07	Q	Q	Q	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/06	01/07	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/06	01/07	Q	Q	Q		
External Current Account Balance	09/06	01/07	Q	Q	Q	LO, LNO, LO, LNO	LO, LO, O, LNO
Exports and Imports of Goods and Services	12/06	01/07	Q	Q	Q		
GDP/GNP	09/06	01/07	Q	Q	Q	O, LO, O, LO	LO, LO, LO, O
Gross External Debt	06/06	10/06	A	A	A		

[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] Reflects the assessment provided in the data ROSC (published on April 24, 2002 and based on the findings of the mission that took place during July 18–31, 2001) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, and revision studies.

Statement by the IMF Staff Representative
May 7, 2007

1. This statement provides information that has become available since the staff report was issued. The thrust of the staff appraisal is unchanged.

2. **Inflation and treasury bill yields have declined.** After doubling to 12 percent (year-on-year) in late 2006, in part because of higher excise duties and the removal of subsidies, inflation fell to 9.6 percent in March. The average yield on 91-day treasury bill rates fell from close to 13 percent in February to 11.8 percent on April 27.

3. **The Monetary Policy Committee (MPC) of the Bank of Mauritius was launched on April 23.** The MPC, established under Section 54 of the Bank of Mauritius Act 2004, will meet every two months and formulate monetary policy. In the first meeting, members discussed the committee's organization and reviewed the monetary policy framework. It was not an interest rate-setting meeting. Mario Blejer, formerly of the IMF staff and previous Governor of the central bank of Argentina, has been nominated as honorary advisor to the MPC. The launch is an important step to increase the transparency and the effectiveness of monetary policy.

4. **Downward pressure on the rupee has been reversed and international reserves have increased.** Over the past few weeks, the rupee has stabilized against the euro, and has appreciated slightly against the weakening U.S. dollar. For the first time in three years**,** the BoM intervened in the foreign exchange market by purchasing foreign exchange, replenishing its reserves by a total of about US$140 million in February and March.

5. **Two TA missions visited Mauritius in March to support the authorities' reform agenda.** An FAD TA mission assisted the authorities in their public financial management reform effort, in particular by helping to identify key building blocks and an appropriate sequence to implement a government-wide program budgeting system. A Statistics TA mission made recommendations to address weaknesses in the Balance of Payments Statistics, with a view to helping Mauritius to prepare for the planned subscription to the Special Data Dissemination Standard (SDDS).

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May 29, 2007

International Monetary Fund
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IMF Executive Board Concludes 2007 Article IV Consultation with Mauritius

On May 7, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[1]

Background

The loss of trade preferences in textiles in 2005, the reform to the European Union's sugar protocol for 2006–10, and higher international oil prices have brought about a permanent deterioration in Mauritius's terms of trade. The authorities have initiated broad-based reforms to address recent economic setbacks and to raise growth to levels of the previous two decades.

Real GDP growth is expected to reach over 4 percent in 2006/07 (fiscal year ending in June), owing to a strong service sector outturn and slowing job losses in the textile sector. Unemployment, however, remains close to its historic high. Inflation, after peaking in December 2006—largely because of onetime budgetary measures and a weakening rupee—fell to 9.2 percent in February 2007 (year-on-year).

[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.

The fiscal deficit target for 2006/07 (4 percent of GDP) is within reach, with the adjustment relying partly on lower capital expenditure. The external current account deficit widened to 5.3 percent of GDP in 2005/06 because of weak textile and sugar exports and higher oil prices. An aircraft import will further widen the current account deficit in 2006/07. The Bank of Mauritius has continued to intervene in the interbank foreign exchange market and has gradually raised its signaling rate to contain inflation. Foreign reserves have continued to decline but have stayed at a comfortable level. The real effective exchange rate has depreciated by over 10 percent since 2004.

Executive Board Assessment

Executive Directors commended the authorities for the reforms introduced with the 2006/07 budget to adjust to the loss of trade preferences and reduce the fiscal deficit. While inflation needs to be reduced, and the current account deficit and public debt remain large, Directors considered that the economy is on the right track, supported by reforms to improve the business environment, simplify the tax system, liberalize trade, open air access, and advance economic restructuring, including the development of new sectors. Directors noted that labor market reform will be needed to support economic restructuring. They encouraged the authorities to maintain the reform momentum.

Directors welcomed the authorities’ efforts to tighten monetary policy. This should help to reduce inflation and avoid entrenching inflation expectations. Most Directors encouraged the Bank of Mauritius to consider raising the repo rate if inflation does not decline as expected. They welcomed improvements in the monetary framework, and called for further development of the institutional framework in order to strengthen the monetary policy transmission mechanisms.

Directors noted that additional improvements in external competitiveness are needed to help restore external balance. Wage restraint, productivity gains, and labor market flexibility are key to achieve this. Directors considered that the flexible exchange rate regime has served Mauritius well, with rupee depreciation softening the negative effect of the terms of trade decline. They encouraged the authorities to limit foreign exchange intervention to smoothing excess volatility.

Directors welcomed the progress made toward fiscal consolidation and better public expenditure management, aimed at lowering public debt and improving the quality of the budget. They noted that fiscal pressure in the medium term would require more decisive fiscal consolidation and further improvements in expenditure management. They encouraged the authorities to identify options for budgetary savings and to continue strengthening debt management.

Directors considered that efforts to boost growth and employment could be complemented by reforms that further liberalize trade, deepen the financial sector, and deregulate prices, while taking into account the need to protect vulnerable groups. They commended the steps to liberalize trade, and advocated a simple and transparent tariff framework. Addressing institutional constraints in the financial sector could help lower borrowing costs and make more financing available to small and medium-sized enterprises. A systematic review of price controls, including a review of the largest public enterprises, should guide further reform in this area.

Directors welcomed the 2007 Financial System Stability Assessment update and the reforms implemented since the 2002–2003 Financial Sector Assessment Program (FSAP). Mauritius's financial sector has shown resilience to the loss of trade preferences. Going forward, Directors called for further organizational and institutional strengthening in order to improve financial sector regulation, supervision, and infrastructure.

Mauritius: Selected Economic and Financial Indicators, 2004/05-2007/08 [1]

	2004/05	2005/06	2006/07	2007/08
			Projection	
	(Annual percent change, unless otherwise indicated)			
National income, prices and employment				
Real GDP	3.0	3.7	4.1	4.4
Real GDP per capita	2.2	2.9	3.3	3.6
Consumer prices (end of period)	5.4	7.6	8.7	6.0
Unemployment rate (percent)	9.0	9.5	…	…
External sector				
Exports of goods, f.o.b. (U.S. dollars)	3.7	12.8	4.5	2.0
Imports of goods, f.o.b. (U.S. dollars)	17.3	14.9	10.7	0.9
Real effective exchange rate [2]	-5.5	-1.2	…	…
Money and credit				
Broad money (end of period, annual percentage growth)	13.1	11.2	10.5	12.3
	(Percent of GDP at market prices)			
Central government budget				
Overall balance (including grants)	-5.0	-5.3	-4.1	-4.7
Revenues and grants	20.1	20.1	19.6	20.0
Expenditure and net lending	25.1	25.5	23.8	24.7
Domestic debt of central government	53.9	53.8	51.4	48.3
External debt of central government	5.1	4.4	5.0	5.5
External sector				
Current account balance	-3.5	-5.3	-7.4	-4.9
Overall balance of payments	-1.7	-1.5	-1.9	-1.3
Net international reserves, BOM (millions of U.S. dollars)	1,442	1,377	1,243	1,143
Net international reserves, BOM (months of imports of goods, c.i.f.)	5.9	5.0	4.0	3.7

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

[1] Fiscal year (July-June).
[2] Trade-weighted period averages (a negative sign signifies a depreciation).

Statement by Laurean W. Rutayisire, Executive Director for Mauritius
May 7, 2007

I - Introduction

On behalf of my Mauritian authorities, I would like to thank staff for the constructive policy dialogue held in the context of 2007 Article IV consultations. I would also like to thank the Board and Management for their continued policy advice to my Mauritian authorities in their current endeavors to restructure the economy and address the new economic and financial challenges following the phasing out of preferential trade agreements on textiles and sugar. My authorities are in broad agreement with staff's analysis and policy recommendations. They look forward to continue benefiting from the Fund's technical assistance in their efforts to strengthen the ongoing reform program.

The loss of preferential access to the European market for the textile and sugar which used to be the pillars of the Mauritian economy, combined with the high oil prices, have led to a slowdown of growth, high fiscal deficit and an unsustainable public debt. To reverse this situation and pave the way for a return to robust and durable high growth, the authorities initiated in 2006 broad-based reforms. Trade and air access were liberalized while inroads were made in restructuring the economy. The tax system was further simplified and the business environment liberalized. The authorities are cognizant that further sustained efforts are needed to reduce inflation, the fiscal deficit and public indebtedness as well as the deficit of the external current accounts. My Mauritian authorities remain fully committed in implementing policies and reforms to achieve these objectives.

II - Recent Macroeconomic Developments

Macroeconomic performance in 2005/2006 has shown some signs of recovery with the revamp of real GDP growth which is estimated at 3.7 percent against 3.0 percent in 2004/2005. While the contribution of sugar and EPZ sectors to this growth has declined, that of the service sector has increased thus enhancing the trend observed in the recent years. However, owing to the high oil prices and the elimination of some subsidies, headline inflation has increased. In response to the inflationary pressures, the Bank of Mauritius has gradually raised its repo rate set as a key policy rate. The weak export performance following the loss of trade preferences as well as the higher import price of petroleum products have resulted in a widening of the current account deficit. The fiscal deficit reached an estimated 5.3 percent of GDP, reflecting mainly higher interest payments. The public debt is still high, at 71.3 percent of GDP. As for the unemployment rate, it remains elevated mainly because of lack of new employment opportunities. While the government is working with social partners to further improve wage flexibility and implement labor market reforms focused on training and reskilling programs, it will take time for new jobs to be created and absorb the excess labor force. Timely aid-for-trade support from the international community could enable Mauritius to gain quick rebound from this situation.

Going forward, the authorities are committed to pursue the implementation of the economic program started with the 2006/07 budget while further increasing the public awareness and adjusting the sequencing of measures with a view to achieving the objectives set, while maintaining the political support needed to implement the reforms.

III - Macroeconomic Policies and Reforms for 2007

Fiscal Policy

The authorities will continue their efforts to achieve further fiscal consolidation. The medium-term budget deficit target has been set at 3 percent of GDP. However, the authorities would like to note that they need to give careful consideration to the social environment and the political trade-off between reorienting productive expenditure to improve the quality of the budget and further deficit reductions.

The authorities will continue to reduce fiscal vulnerability by improving the quality of expenditure and strengthening debt management. The three-year rolling Medium Term Expenditure Framework will be extended to all ministries in the 2007/08 budget together with improving the human capacities in terms of monitoring and macromodeling of the MTEF. The authorities will also reallocate fiscal resources to education and infrastructure as well as to well-targeted social programs owing to their positive impact in advancing the reform agenda. On the revenue side, it is the authorities' intention to pursue efforts to tighten tax loopholes and broaden the tax base. They will also review the opportunities of a broader involvement of the private sector in improving the efficiency of public enterprises.

Monetary and Exchange Rate Policies

Policy objectives in this area aim at supporting macroeconomic stability, notably low and stable inflation, to further improve the external competitiveness of the economy. The authorities agree on the need to reduce the high headline inflation to the medium-term target of 4.5 – 5 percent. In their efforts to enhance the use of the repo as an effective policy rate, the authorities will develop the institutional framework with the view to improve on transmission mechanisms of monetary policy and communication with the public. The establishment of the Monetary Policy Committee has been completed. As for the exchange rate, the authorities agree that further adjustment may be required if the additional expected decline in the terms of trade materializes. However, central bank's interventions will be limited to smoothing excess volatility to avoid postponing adjustment. The authorities believe that the ongoing economic reforms will promote stronger capital inflows.

Financial Sector Issues

The Mauritian financial sector remains in sound health. Efforts to improve financial intermediation will be accelerated with a view to lowering the borrowing costs and make more financing available to the private sector, notably small and medium-sized enterprises. The authorities welcome the recommendations of the recent FSAP mission while looking for more suitable actions to move forward the development of the financial sector given the challenges facing the country. They are hopeful that they will continue to benefit from Fund assistance in implementing these recommendations, including the regulation governing the foreign exchange bureaus.

Over the recent years, significant progress was made in the areas of unifying the banks' licensing, establishing a Credit Bureau and developing a range of financing schemes under the Empowerment Program. The authorities are committed to further strengthening banking supervision and improving cooperation between the central bank and Financial Services Commission.

Structural Reforms

Given the important changes affecting the economy of Mauritius, the authorities are determined, with the assistance of the European Union and cooperation with all stakeholders, to undertake comprehensive restructuring plans for the sugar and textile sectors. Emphasis is also being placed on the tourism sector, which has done very well and is expected to make significant contribution on the employment front.

On the labor market, reforms will be implemented as planned, with the involvement of all stakeholders notably employers and unions. The aim is to enhance the framework for more flexibility in wages and regulations. Consensus building is of fundamental importance to sustain progress in this area.

As regards price controls, remarkable progress has been made towards price liberalization while taking into account the need to limit monopoly power and protect vulnerable groups as well as local production. The authorities will further strengthen the competition framework and the system of social transfers.

In the area of trade reform, it is worth noting that the authorities have made commendable progress to foster positive prospects for economic growth. In particular, tariffs in sensitive sectors have been reduced. The authorities agree that it would be relatively difficult to liberalize trade in all sectors without the necessary laws and policies, and also given the significant adverse financial impact of such general liberalization. In this respect, my authorities call on the international community for the urgent implementation of the "Aid for Trade" initiative. In their continued efforts to advocate for this initiative, they are of the view that tariff reductions should be undertaken while enhancing countries' capacity to define, finance and implement accompanying measures. They also continue to promote the need to harmonize regional integration schemes and timetables developed by SADC and COMESA.

IV - Conclusion

My authorities are committed to pursue their reform agenda designed to boost economic growth and put it on a sustainable path, diversify the economy and reduce poverty while meeting the challenges facing the country over the period ahead. Mobilizing and strengthening public support will be essential in my authorities' endeavors to speed up the implementation of needed reforms. At the same time, they will require external assistance and continue to work closely with the Fund and their other development partners.