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Mauritius: 2005 Article IV Consultation—Staff Report; 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 2005 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 14, 2005, with the officials of Mauritius on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 9, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its December 2, 2005 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 and Statistical Appendix

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 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Mauritius

Approved by David Nellor and Adnan Mazarei

November 9, 2005

- The 2005 Article IV consultation discussions were held in Port Louis during September 1–14, 2005. The mission met with the Deputy Prime Minister and Minister of Finance and Economic Development, the Governor of the Bank of Mauritius, other senior government officials, and representatives of the private sector and trade unions.

- The staff team consisted of Mr. Schwidrowski (head), Mss. Schumacher and Barkbu (EP), and Messrs. Hoveka and Yang (all AFR). Mr. Ismael (Senior Advisor, Executive Director for Mauritius) also participated in the discussions.

- The authorities have implemented a number of recommendations made in earlier Article IV consultations, including steps to boost fiscal revenue and strengthen the legal and regulatory framework for the operations of the Bank of Mauritius (BoM) and the financial sector. That said, the considerable policy challenges posed by the deterioration of Mauritius's external environment related to the recent phasing out of trade preferences will require the implementation of a broad agenda of structural reforms and fiscal consolidation.

- Mauritius accepted the obligations of Article VIII, Sections 2 (*a*), 3, and 4, on September 29, 1993, and its exchange system is free of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account. It last used Fund resources in July 1986 and settled all its repurchase obligations in May 1991. Since June 2002, Mauritius has been included as a creditor in the IMF's financial transaction plan.

- Appendix I presents an assessment of public and external debt sustainability. Mauritius's relations with the IMF, including technical assistance, are summarized in Appendix II, and its relations with the World Bank Group in Appendix III. The quality and timeliness of Mauritius's reporting of core data and other economic and financial statistics are, in general, satisfactory for conducting surveillance. Statistical issues are discussed in Appendix IV, and progress toward the Millennium Development Goals is presented in Appendix V.

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EXECUTIVE SUMMARY

- **Adverse external developments are affecting the economy.** The phasing out of trade preferences for textiles and sugar and the recent surge in world oil prices have led to a worsening of the external current account, some loss of reserves (albeit from a comfortable level) and depreciation of the exchange rate, and a slowdown of economic activity.

- **The fiscal outlook for 2005/06 (July–June) has also deteriorated, owing to lower projected revenue collections (associated with lackluster activity) and the widening deficit of a state-owned enterprise related to the suspension of adjustments in retail petroleum prices to reflect import costs in early 2005.** Without corrective measures, the overall public sector deficit could widen to about 7 percent of GDP, compared with a sustainable level of about 3 percent of GDP.

- **The new government that took office in July 2005 recognizes the need for fundamental reforms to boost competitiveness and ensure fiscal sustainability over the medium term.** Building on some first steps, it expects to develop a comprehensive policy agenda over the next few months, including in difficult areas such as labor market reforms.

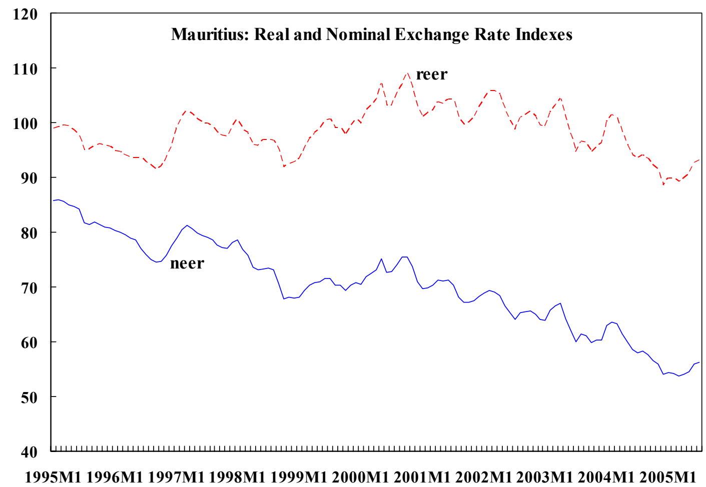
- **The authorities agree on the need to tighten fiscal and monetary policies in the short term in order to safeguard macroeconomic stability.** They are aware that the appropriate level of the exchange rate is key to regaining competitiveness and protecting international reserves.

- **To address the short- and medium-term challenges, they have indicated interest in a closer dialog with external partners, including the IMF.** They have requested staff to provide intensified policy advice and technical assistance, including on measures to boost fiscal revenue and monetary operations.

I. Recent Economic and Political Developments

1. **The economy has been increasingly affected by the phasing out of textile quotas (Box 1) and, more recently, by higher prices for imports of petroleum products.** Growth has fallen during the past few years, reflecting a marked contraction of activities in the export processing zone (EPZ), dominated by textile manufacturing, and unemployment has risen (Figure 1). The surplus of the external current account has recently turned into a deficit, owing to a decline in exports and a price-related surge in imports of petroleum products.

2. **The real effective exchange rate has depreciated, and net official foreign reserves have dropped (although they remain at a relatively comfortable level), owing to the deterioration of the current account as a rising merchandise trade deficit is no longer offset by tourism receipts.** The exchange rate depreciation was in part also related to the ample liquidity (see below). Mauritius continues to have a managed floating exchange rate regime, with the exchange rate being freely determined in the interbank market, and the Bank of Mauritius's (BoM) interventions in the foreign exchange market aimed only at mitigating excess short-term volatility.



Source: BoM and IMF staff estimates.

Selected Economic and Financial Indicators, 2000/01-2004/05 1/

	2000/01	2001/02	2002/03	Prov. 2003/04	Est. 2004/05
		(Annual percentage changes)			
GDP at constant market prices	6.0	2.5	2.9	4.2	3.5
Consumer prices (period average)	4.4	6.3	5.1	4.1	5.6
Unemployment rate (in percent)	9.1	9.7	10.2	10.3	11.0
Real effective exchange rate 2/	2.8	-1.4	-1.7	-3.8	-6.0
		(In percent of GDP at market prices)			
Central government fiscal balance (including grants)	-5.7	-6.0	-6.2	-5.4	-5.0
External current account balance (including transfers)	3.4	5.4	2.4	0.8	-3.0
Central government domestic debt	42.4	48.8	57.7	51.3	54.1

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

1/ Fiscal year (July-June).

2/ Trade-weighted period averages (a negative sign signifies depreciation). Based on the consumer price index.

Box 1. Mauritius: Impact of Elimination of Trade Preferences

The textile and clothing industry in Mauritius benefited from the Multi-Fiber Agreement, which restricted exports from countries with lower production costs. Because of its higher labor cost, Mauritius is expected to lose market share to more competitive suppliers such as China and India, whose textile exports were restricted by the quota system.

The EPZ sector has already started to feel the impact of the quota phaseout. The EPZ sector, which grew on average, by more than 6 percent a year during 1995–2000, contracted by 18 percent during 2001–04. Following the expiration of textile quotas at end-2004, EPZ exports fell by 12 percent in the first quarter of 2005, compared with the same quarter of 2004, and employment fell by 13 percent during the same period as enterprises shut down. In comparison, most other major textile-exporting African countries (Kenya, Lesotho, Madagascar, and Swaziland) have suffered much smaller declines or just a slowdown of textile exports.

The sugar sector will also experience difficulties because of the planned reduction in EU sugar prices in the European Union (EU). Mauritius's sugar export price to the EU (its main market) has been guaranteed at more than three times world market levels for a given quota during the past decade.[1]

Simulations show that the economy will continue to be adversely affected during the next few years. The negative impact on real GDP growth is projected to average 1.2 percentage points over the next five years (assuming that some of the textile and sugar sectors' competitiveness is restored). By end-2009/10, the external current account balance is expected to decline by 4.1 percent of GDP because of the shock, and net international reserves are expected to be 3.4 months of imports lower.

Mauritius: Contribution of the Export Processing Zone (EPZ) and sugar sector to GDP, Employment, and Exports

	2000/01	2001/02	2002/03	2003/04	Est. 2004/05
	(Share in GDP)				
EPZ	9.9	9.6	8.5	7.5	...
Sugar	4.0	3.9	3.5	3.5	...
Total	14.0	13.5	12.0	11.1	...
	(Share in employment)				
EPZ	18.8	17.8	17.8	15.3	13.6
Sugar	6.8	6.4	5.0	4.5	4.4
Total	25.5	24.2	22.8	19.8	18.0
	(Share in exports of goods and services)				
EPZ	42.4	39.3	36.8	35.3	29.7
Sugar	9.8	10.7	9.5	9.8	10.0
Total	52.3	50.0	46.2	45.1	39.6

Sources: Central Statistics Office; and IMF staff estimates.

Textile and Apparel: Hourly Compensation for Selected Countries, 2002 1/
(U.S. dollars)

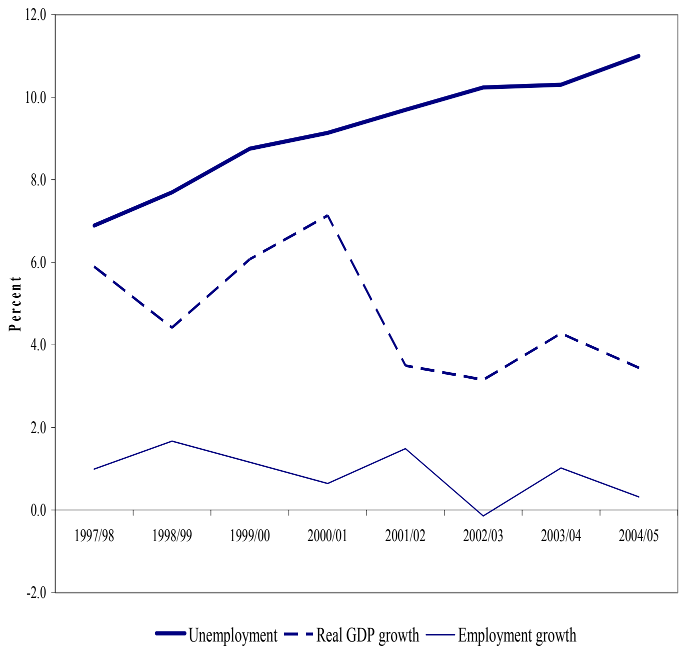
	Textile Industry	Apparel Industry
Bangladesh	0.25	0.39
China, coastal area	0.69	0.88
China, other than coastal area	0.41	0.68
India	0.57	0.38
Madagascar	...	0.33
Mauritius	1.33	1.25
Pakistan	0.34	0.41
Sri Lanka	0.40	0.48

Source: U.S. International Trade Commission.
1/ Including wages and fringe benefits.

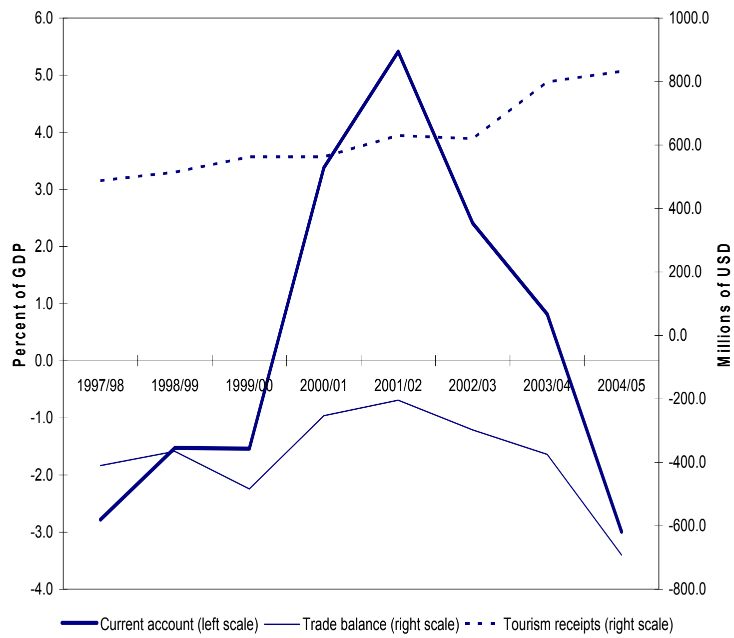
[1] The European Commission has proposed a liberalization of the EU sugar market, including a reduction of guaranteed import prices by 39 percent over the next few years.

Figure 1. Recent Economic Developments

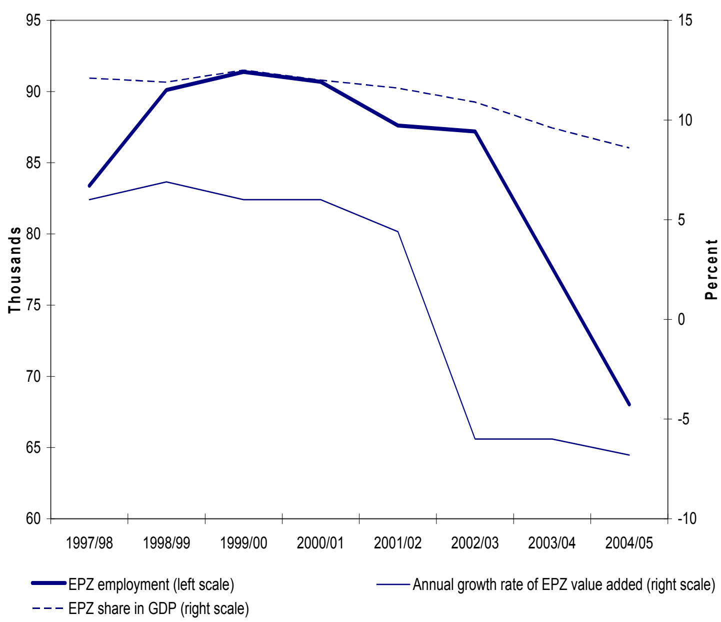
GDP and job growth have decreased while unemployment has risen...



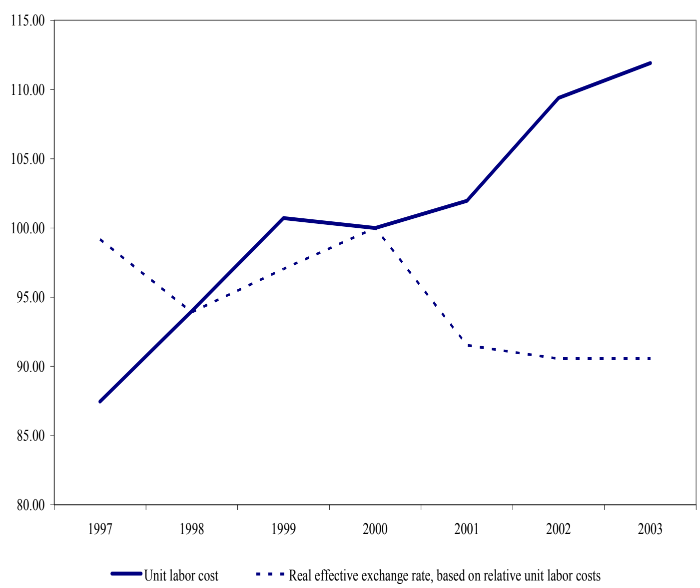
... and the current account has deteriorated because tourism no longer offsets the increasing merchandise trade deficit.



EPZ output and jobs have declined sharply, reflecting the removal of textile preferences...



...while the rising labor cost has so far been offset through exchange rate depreciation.



3. **The 2004/05 (July–June) cash budget deficit of the central government was maintained at 5 percent of GDP, as targeted, but a broader definition of the public sector deficit shows a worsening overall situation.** This is also worrisome as public sector debt levels are already high. Specifically, the suspension of an automatic price adjustment mechanism for petroleum products in early 2005 during the run-up to general elections, coupled with rapidly rising import costs, resulted in an operational deficit of the State Trading Company (STC) that amounted to 0.6 percent of GDP.[1] In addition, a sizable amount of government debt was converted from short-term obligations to longer-term debt (with interest payable upon maturity), significantly reducing interest payments on a cash basis.[2] Fully accounting for the STC deficit and for cash interest payments on an accrual basis would have increased the overall fiscal balance to about 6½ percent of GDP.

4. **Prior to the July 2005 elections, the outgoing government approved a budget for 2005/06 that was based on an optimistic growth outlook.** It envisaged a cash deficit of the central government of just below 5 percent of GDP and began to implement wide-ranging reductions of import duties on consumer goods. Plans were announced to eliminate all import duties over the next few years.

5. **The opposition Social Alliance coalition won the elections with a clear majority.** In light of the adverse external developments, it had stressed the need to identify new sources of growth, mitigate the social impact of the economy's needed transformation, and reduce unemployment, including through the promotion of small and medium enterprises and a focus on attracting foreign direct investment.

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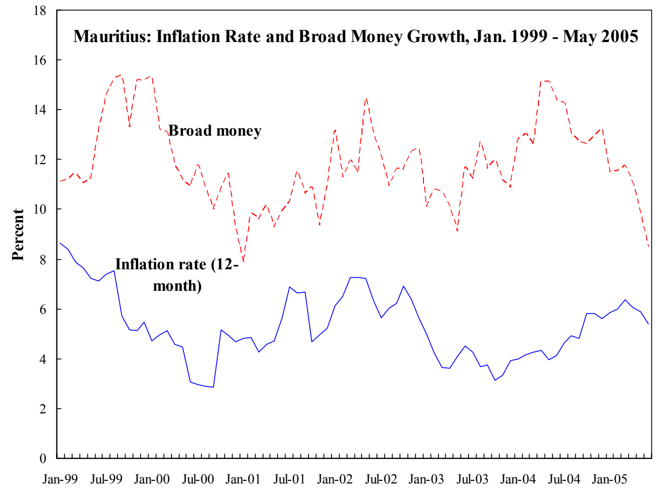
[1] A mechanism to adjust retail prices in line with import prices on a quarterly basis was introduced in April 2004. The STC holds a monopoly for imports and sales of key commodities, including petroleum products, flour, and rice. The STC covers its financing needs through domestic commercial loans, which are subsequently offset through budgetary transfers. The second large public enterprise, the Central Electricity Board, has, at present, a satisfactory financial position, which is attributable partly to increases in electricity charges in 2004.

[2] The conversion of short-term to three-year treasury paper reduces cash interest payments by about 1 percent of GDP a year during 2004/05–2006/07 but leads to an increase of cash interest payments of 2.2 percent of GDP in 2007/08.

6. **Inflation has picked up since mid-2004, reflecting ample liquidity and higher import prices for petroleum products.** More recently, price developments have moderated owing to the suspension of the adjustment of domestic oil prices in response to international prices and slower growth in monetary aggregates associated with the loss of foreign reserves. On financial sector issues, new central bank and banking laws were passed in 2004, and the BoM issued several prudential regulations to strengthen supervision, in line with the recommendations of the Financial Sector Assessment Program. The decline of textile production caused a temporary increase in nonperforming loans, but strengthened provisioning requirements and closer supervision have led to a gradual improvement in overall financial soundness indicators.



Source: BoM

II. REPORT ON POLICY DISCUSSIONS

7. **The policy discussions focused on the short- and medium-term risks to sustained growth posed by the phasing out of trade preferences for textiles and sugar.** They also covered the recent surge of world oil prices. To maintain high growth rates and to reverse the recent rise in unemployment, the authorities recognized the need for comprehensive structural reforms to diversify the economy and enhance competitiveness. Macroeconomic stability would also need to be safeguarded to help preserve social cohesion and create a favorable investment climate.

A. Medium-Term Outlook and Challenges

8. **The new authorities are hopeful that, with appropriate macroeconomic and structural policies, a number of sectors could significantly increase their contribution to growth over the next few years.** They recognize the need to attract significant foreign direct investment to these activities; to this end, they are taking steps to improve the overall business climate by streamlining business permits and the current investment incentives scheme. These sectors are tourism, financial services, information and communications technology (ICT), and products and services related to fishing activities (Box 2).

Box 2. Mauritius: Sources of Growth

In light of the decline in textile and sugar activities, a number of industries with significant growth potential have been identified which could enable Mauritius to resume a pattern of high and job-creating growth in the medium term.

- **Tourism**: In the short term, the authorities expect to increase overall hotel occupancy by admitting additional airlines during the high season and tapping into new markets, including in the region, during the low season. In the medium term, they expect benefits from adding conference and shopping activities to the traditional holiday tourism concept. The sector may create significant job opportunities, including for lower-skilled workers.

- **Financial services**: Efforts are under way to negotiate bilateral tax agreements with emerging economies in Africa and Asia to enhance the attractiveness of offshore activities. Focused training efforts are needed to meet the sector's human resource requirements.

- **Information and communication technology**: While still limited in its contribution to GDP, the sector is developing rapidly, focusing on business process outsourcing, software development, and call centers that benefit from Mauritius's ethnic and linguistic diversity. The sector is not expected to provide significant employment opportunities but will likely boost the economy's overall productivity.

- **Seafood hub**: Efforts are under way to develop Mauritius into a regional platform for the storage, processing, and distribution of seafood and to offer repairs and maintenance services to fishing boats. The employment effects are potentially significant.

9. **In welcoming these initiatives, the staff stressed the need to take early and decisive action, particularly in structural reforms, so as to remove impediments to growth and boost overall competitiveness.** Such efforts need to be underpinned by macroeconomic policies geared toward maintaining stability and moving toward a sustainable fiscal position. In the structural area, measures are required to increase labor market flexibility so as to facilitate the movement of workers currently hampered by cumbersome firing rules. Such efforts should be accompanied by well-targeted training programs for the largely unskilled jobless and school graduates to create the competencies needed in the expanding sectors. The authorities should also explore the extent to which the current centralized wage-setting mechanism (with its focus on using inflation as a floor for wage increases) is compatible with allowing wage adjustments to reflect productivity changes at the plant level (see below). The withdrawal of the public sector from commercial activities over the medium term could also provide opportunities for growth and job creation.

10. **In the fiscal area, the staff pointed out that there is ample room to reduce the fiscal deficit through steps to boost the revenue base and curb expenditures, particularly on transfers and subsidies.** In this regard, particular attention needs to be paid to ensuring full cost recovery by public enterprises that are providing public utilities or commercializing certain commodities (such as petroleum products), so as to avoid indirect budgetary pressures.

11. **The authorities recognized the need to develop a comprehensive policy agenda early on in order to bolster investor confidence.** They agreed that the stakeholders needed to examine thoroughly the key elements of the reform agenda. They were confident that concrete steps in the main areas would be identified in early 2006 to guide the preparation of the 2006/07 budget.

12. **To illustrate the benefits of early and decisive reforms, two medium-term scenarios were discussed.** Under the “baseline” scenario, with the existing policy agenda, real GDP growth would remain at about 3 percent, insufficient to create significant employment opportunities. A slow recovery of exports would be unable to reverse the current account deficit and the associated loss of reserves. The fiscal deficit would worsen over time, and public sector debt would become unsustainable.

13. **The “strong reform scenario” assumes that the fiscal deficit is gradually reduced to sustainable levels, creating, in conjunction with early labor market reform, renewed momentum for private sector activity.** Real GDP growth would return to about 5 percent following the period of adjustment to the reduction of trade preferences. The current account would recover over time from the deterioration of the terms of trade, driven mainly by strengthening exports, following a modest real depreciation of the currency.

Mauritius. Medium-Term Scenarios, 2005/06-2010/11

	Baseline Scenario					
	Projections					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Real GDP (annual percentage change)	2.7	2.9	3.1	3.2	3.2	3.3
External current account balance (percent of GDP)	-2.3	-2.5	-1.8	-0.9	-0.5	-0.4
Exports, f.o.b. (annual percentage change)	-8.5	2.2	0.4	0.8	0.6	2.6
Terms of trade (annual percentage change)	-2.3	-2.1	-1.6	-1.2	-1.1	-0.5
Net international reserves of the BoM (months of imports, c.i.f.)	5.5	4.5	4.0	3.7	3.7	3.6
Central government fiscal deficit, including grants (percent of GDP)	-6.0	-5.8	-9.3	-8.4	-8.5	-8.7
Public sector debt (percent of GDP)	72.4	75.3	79.2	80.0	82.2	84.0
	Strong Reform Scenario					
	Projections					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Real GDP (annual percentage change)	3.5	4.7	5.0	5.1	5.1	5.2
External current account balance (percent of GDP)	-1.5	-1.1	-0.3	0.1	0.3	0.3
Exports, f.o.b. (annual percentage change)	-2.3	3.5	4.6	5.0	3.2	3.9
Terms of trade (annual percentage change)	-2.2	-2.0	-1.3	-0.5	0.0	0.1
Net international reserves of the BoM (months of imports, c.i.f.)	5.7	5.3	5.2	5.3	5.5	5.8
Central government fiscal deficit, including grants (percent of GDP)	-5.1	-2.7	-5.0	-2.9	-2.7	-2.6
Public sector debt (percent of GDP)	70.6	70.1	69.5	65.4	62.7	59.9

Source: IMF staff projections.

14. **In the strong reform scenario, fiscal adjustment would be achieved as follows.** Revenue would stabilize at about 20 percent of GDP, as the already announced gradual elimination of import tariffs is offset by a broadening of the base for income and consumption taxes (see below), and the implementation of a modern unified tax authority. Overall expenditure would gradually decline, owing largely to lower transfers and subsidies (particularly to public enterprises), thus freeing up resources for priority areas (education and infrastructure) to foster competitiveness while ensuring that public debt declines over time (Box 3). The authorities concurred with the main elements of this reform agenda.

Central Government Finances under the Strong Reform Scenario
(In percent of GDP)

	2005/06	2009/10
Revenue	20.2	20.3
Of which: Taxes on imports	4.0	1.9
Taxes on goods and services	9.7	11.2
Income tax	3.5	4.5
Expenditure	25.3	23.0
Of which : Wages and salaries	6.3	6.0
Interest payments	4.1	4.4
Current transfers and subsidies	9.2	6.0
Capital expenditure	3.5	4.3
Overall deficit	-5.1	-2.7

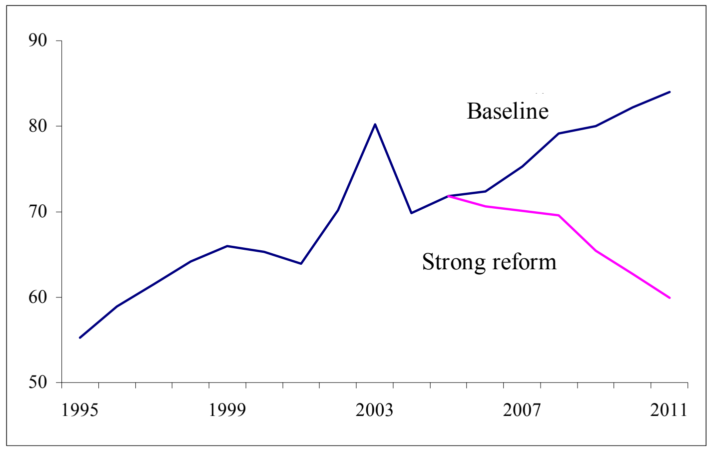
Source: IMF staff projections.

Box 3. Mauritius: Fiscal Sustainability

Mauritius's domestic public debt has increased rapidly over the past decade, raising concerns about debt sustainability in the medium term. The debt-to-GDP ratio stood at 72 percent at the end of June 2005, up from 55 percent in 1995, reflecting persistent budget deficits over the period 1996-2005 (averaging about 5 percent of GDP a year).

Mauritius's public debt will continue to rise unless significant steps toward fiscal consolidation are implemented. The planned cuts on import tariffs without corrective measures would reduce government revenue by about 2 percent of GDP over the medium term, while overall spending would increase, partly owing to an expected increase in interest payments from about 4 percent currently to about 7 percent of GDP by the end of the decade. The resulting widening of the budget deficit would push the debt-to-GDP ratio to over 80 percent, threatening to macroeconomic stability and private sector development.

Mauritius: Ratio of Public Sector Debt to GDP
(In percent of GDP)



Source: IMF staff projections.

To return public debt to a more sustainable path, the central government would have to reduce its overall budget deficit gradually to about 3 percent of GDP through a combination of revenue-enhancing and expenditure-reducing measures. Under this assumption, the debt-to-GDP ratio would be reduced to about 60 percent by the end of the decade, keeping public debt on a sustainable path under virtually all standard stress tests (see Appendix I). However, should growth not pick up as envisaged, debt levels would remain virtually unchanged—if growth were 1½ percentage points lower than projected, the debt-to-GDP ratio would not fall significantly below 70 percent of GDP, stressing the need for further fiscal consolidation.

B. Fiscal Issues

15. **Regarding the 2005/06 budget, the authorities were concerned that less buoyant economic activity would lower revenue collections below original projections.** They also recognized that the emergence of a sizable and widening deficit of the STC, while not directly affecting the central government balance, would jeopardize Mauritius's overall fiscal position.

16. **They proposed to offset the shortfall in revenue collections by reducing capital outlays while carrying out a broader review of their medium-term spending needs and priorities.** On the STC deficit, they recognized the need to adjust to petroleum retail prices periodically; owing to the mechanism's suspension for about six months in 2005, they considered that the initial retail price adjustments would need to be substantial.

17. **The staff encouraged the authorities to move on both fronts without delay.** On the quarterly automatic adjustment of petroleum prices, it recommended that they consider more frequent adjustments or adopt a formula using a moving average of import prices, so as to smooth the impact of price adjustments.

18. **The staff also recommended using the review of the 2005/06 budget to take the first steps toward fiscal sustainability.** While the authorities recognized the need to begin moving toward a sustainable fiscal deficit, they stressed that they needed time to define a comprehensive strategy. They expect to have a medium-term plan in place by early 2006, when preparations for the 2006/07 budget begin.

19. **Overall, the authorities agreed that they had significant scope to reduce the fiscal deficit by broadening the revenue base and streamlining outlays for transfers and subsidies.** The staff advised the authorities on concrete steps (already identified by FAD technical assistance) to strengthen tax administration, and urged them to conduct a thorough review of current transfers and subsidies, with a view to better targeting individuals with identified needs and realizing budgetary savings (Box 4). The staff also recommended improving debt management, including through a further diversification of debt instruments so as to tailor them better to investors' needs; this step could result in some budgetary savings. The authorities agreed to explore all proposals.

20. **The authorities also reported that they intended to review efforts to implement a medium-term expenditure framework.** Earlier efforts to develop medium-term spending plans had lost momentum, and only limited progress has been made in some ministries (such as education). The staff welcomed this initiative, emphasizing that it would help to prioritize outlays in a coherent manner, and encouraged the authorities to seek technical assistance in this area (including from the World Bank).

21. **The staff encouraged the authorities to review the current pension system.** Although not an immediate issue, Mauritius's aging population could lead to a significant rise of fiscal liabilities over the medium term. The authorities noted that they were already examining various reform options, with assistance from the World Bank.

Box 4. Mauritius: Fiscal Measures to Ensure Sustainability

There is ample scope to reduce the fiscal deficit to sustainable levels through steps to broaden the tax base and streamline expenditure. The authorities should consider the following concrete actions.

Broadening the revenue base

- Reduce the value-added tax threshold to annual sales of MUR 2 million
- Lower the threshold for large tax-payers to an annual turnover of MUR 100 million
- Streamline current income tax breaks and credits
- Update taxpayer register and enforce filing by all registered taxpayers
- Introduce advance tax payments for all businesses
- Establish the Mauritius Revenue Authority in line with international best practices; strengthen the audit function and clear accountability of all services to its Director General make its Director General accountable for all services

Streamlining expenditure

- Strengthen the financial health of public enterprises to reduce their reliance on budgetary transfers
- Review a large number of untargeted subsidies and transfers and limit budgetary support to well-defined low-income or other needy segments of the population

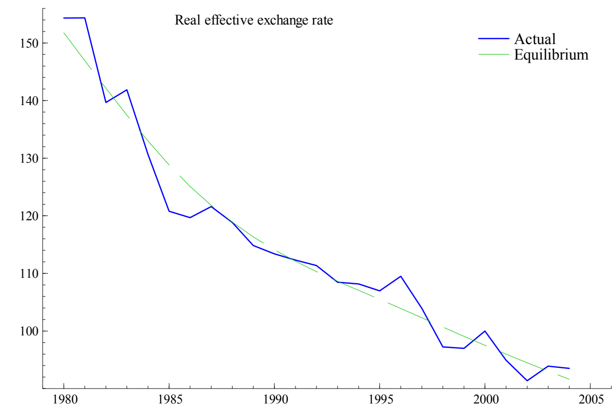
C. Exchange Rate, Money, and Banking Issues

22. **The BoM agreed that the exchange rate needed to play a central role in facilitating the country's adjustment to a less favorable external environment.** Although not ruling out the need for intermittent intervention—given the openness of capital markets—to smooth possible excessive short-term pressures on the rupee, they concurred with the staff's advice to allow the exchange rate to move to a level that was in line with the country's deteriorated external environment and to shield foreign reserves. This would help bolster the economy's competitiveness (Box 5).

23. **In light of the ample liquidity situation, the staff recommended tightening monetary conditions so as to help reduce inflationary pressures (Box 6).** This would also help to increase the effectiveness of monetary policy (see below). In concurring with this recommendation, the authorities noted that fiscal adjustment would be required to make sufficient credit available to the private sector.

Box 5. Mauritius: The Real Effective Exchange Rate and Preferential Trade Arrangements

Despite rising unit labor costs and other input prices over the past 25 years, textile and clothing and sugar producers have remained competitive because of preferential trade arrangements. Global textile quotas favored Mauritius and kept textile prices high, and sugar trade arrangements with the EU and the United States guaranteed high sugar export prices. These implicit subsidies on Mauritius's export prices have positively affected the terms of trade and the external account balance.



Against the background of this favorable terms of trade position, an empirical study compared the real effective exchange rate that is consistent with the long-run trends of the domestic and external balances with the observed real effective exchange rate.[1] The study reveals that the actual exchange rate has been close to its equilibrium value, indicating the appropriateness of exchange rate policies given the fundamentals. This said, the study shows that domestic factors, particularly persistent fiscal deficits and rising labor costs, necessitated a depreciation of the real effective exchange rate over time.

The end of the preferential trade agreements has a permanent, adverse effect on Mauritius's terms of trade. The restoration of external balance would require a depreciation of the real effective exchange rate. If the exchange rate is not allowed to depreciate sufficiently, the country's external and savings-investment balances will deteriorate. Reforms implemented to bolster competitiveness would reduce the required extent of the exchange rate's depreciation.

[1] See the companion Selected Issues paper for a detailed analysis of Mauritius's real effective exchange rate.

Box 6. Mauritius: Determinants of Inflation

A study examined data between 1977 and 2004 to identify the key domestic and external determinants of inflation.[1] It found that changes in broad money had a strong impact on inflation, whenever supply exceeded money demand (the latter has grown strongly during the period under consideration, largely reflecting rapid financial deepening). By contrast, and in line with earlier findings by the BoM, the pass-through of exchange rate changes to domestic prices was found to be limited.

The results confirm the need to keep the increase of the money supply in line with changes in demand to avoid inflationary pressures. Regarding the limited impact of the exchange rate, the result may underestimate the current pass-through because domestic price controls were more common in the past. This said, the remaining administered prices only delay the needed adjustments.

[1] See the companion Selected Issues paper for a more comprehensive analysis.

24. **Accordingly, the staff encouraged the authorities to manage liquidity more actively.** Noting the authorities' concern that the BoM had so far relied on its own securities for its open market operations, which entailed significant costs to the BoM, the staff stressed that the use of these instruments was indispensable as long as alternatives had not been fully developed and accepted by the market. It also noted that the BoM's financial position had so far not been jeopardized by the use of these instruments.[3] The authorities are looking forward to IMF technical assistance to diversify their range of instruments.

25. **More active liquidity management would also strengthen the BoM's efforts to use interest rates to signal the desired stance of its monetary policy.** At present, the BoM uses the Lombard rate for signaling purposes, but it has been unable to influence other key market interest rates. The staff suggested that the BoM move toward short-term rates as the operational target while underpinning its signaling through interest rates by managing liquidity more actively. The authorities concurred with the thrust of this recommendation.

26. **The authorities are monitoring closely the effects of the deteriorating external environment on the financial sector.** The exposure of Mauritian banks to the textile and sugar sectors has declined steadily over the past few years, to around 14 percent of bank loans. Provisioning requirements have been strengthened, resulting in a reduction of the ratio of nonperforming loans to capital and reserves. The authorities expect that possible further provisioning needs would be met from profits (which are comfortable), without affecting capital.[4] Nevertheless, the BoM is considering heightened collateral requirements for new lending, and is closely monitoring a comprehensive set of financial indicators.

27. **Regarding the potential effect of an exchange rate depreciation on the banking system, the staff agreed that the small net open position in foreign exchange suggests a limited degree of vulnerability.**[5] That said, the authorities were encouraged to begin collecting information on corporate debt-to-equity ratios and the currency composition of corporate debt, so as to assess the indirect credit risk that could arise from the credit worthiness of firms borrowing in foreign currency.

28. **Overall, the financial system is liquid and well-capitalized.** The authorities have recently begun to publish key financial soundness indicators on a consolidated basis.

29. **The monetary authorities indicated that they did not intend to adopt a formal inflation-targeting scheme until they had addressed institutional issues, external conditions had improved, and fiscal consolidation was well under way**. They welcomed the forthcoming technical assistance from MFD to help them meet the preconditions for such

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[3] The BoM recorded a small deficit in 2003/04 and a surplus in 2004/05.

[4] The Basel capital ratio stands at 15 percent, largely Tier 1.

[5] The net open position was about 3 percent of capital (June 2005).

a step, including inflation forecasting and modeling capabilities, more effective monetary policy instruments, and sufficiently deep and diversified capital markets.

30. **The BoM has made progress in implementing the Banking Act and the BoM Act (both approved in 2004).** Both Acts reflect recommendations by the FSAP conducted in 2002 and subsequent technical assistance. Specifically, the autonomy of the central bank was strengthened; rules for an orderly resolution of failed banks were introduced; and provisions were made to enable the BoM to apply sanctions against cases of noncompliance with AML/CFT (anti-money laundering and combating the financing of terrorism) regulations.[6] The new banking regulations include guidance on credit classification for provisioning, credit concentration limits, credit risk management, and related-party transactions. The authorities intend to establish a deposit insurance.

31. **Regarding offshore financial activities, the authorities have moved toward a single license for domestic and offshore banks and intend to harmonize the tax treatment of both activities shortly.** The unified treatment of all banking activities is expected to enhance the overall attractiveness of Mauritius's financial system.

D. Structural Issues

32. **Discussions focused on labor market issues and the role of the public sector in commercial activities, with an emphasis on their role in fostering economic growth.** The outlook for the textile and sugar sectors and the authorities' plans to restructure them were also reviewed.

33. **On labor market issues, the need to increase labor flexibility and the effects of the centralized wage-bargaining system on labor costs were reviewed.** The authorities concurred with the staff's view that labor flexibility would facilitate the deployment of workers from declining to expanding sectors. In that regard, the staff urged the authorities to carefully review current hiring and firing rules. In recognizing the need for such a review, the authorities stressed that more flexible rules had already been applied to the EPZ and that similar arrangements were envisaged for the ICT sector.

34. **Regarding the centralized wage-settlement mechanism, the authorities emphasized that it was geared toward offsetting some loss of purchasing power, while additional decentralized negotiations would allow wages to better reflect sectoral differences in productivity.** The World Bank is analyzing the impact of the wage-settlement mechanism on labor costs in the whole economy and at the sectoral level. The staff encouraged the authorities to quickly advance the policy actions in this area, taking into account the rising trend of labor costs over the past few years, as well as private sector

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[6] BoM regulations require all banks to apply the higher of the home or the host country's AML/CFT requirements.

concerns about the impact of the current wage-settlement arrangements on employment and investment.

35. **The staff agreed with the authorities that the current unemployment benefit system did not discourage job searches because there were no recurrent unemployment benefits.** The current system consists largely of lump-sum payments to individuals when their job terminates; the payments increase with the years of employment, but the amounts are not large enough to discourage the unemployed from searching new jobs. The authorities underscored that overall benefits were insufficient to sustain extended periods of unemployment.

36. **The role of the public sector in commercial activities was also discussed.** The authorities explained that the country's small market size and lack of competition in certain activities called for the involvement of public enterprises to ensure a steady supply of key commodities at a reasonable cost. The staff encouraged them to consider measures that could attract additional private sector interest in these areas, with a view to strengthening growth and investment. Generally, the authorities agreed that the financial soundness of public enterprises needed to be monitored carefully so as to avoid costs to the budget.

37. **On textile and sugar activities, the authorities explained their restructuring plans and accompanying measures aimed at mitigating the impact of the phasing out of trade preferences.** On textiles, they were encouraging firms to cooperate in business planning, market development, and financial restructuring to strengthen their operations; some had already succeeded in moving to higher-quality products and had secured long-term contracts with international high-end retailers. In the context of bilateral trade negotiations with a number of emerging markets, the authorities were seeking access for Mauritian textile products to certain high-quality segments of these markets.

38. **Efforts are also under way to restructure the sugar sector.** The authorities have encouraged firms to move toward the production of goods with higher value added (such as refined sugar) and to explore fully the scope for side products that could be used for energy generation (such as ethanol).[7] To reduce costs, the authorities intend to implement a program to combine plantations into larger, more efficient units and to support investment in irrigation. They were also hopeful that negotiations with the EU could result in more gradual price reductions and some financial support for their restructuring efforts.

39. **The staff recognized the need for a sectoral strategy that would take into account the potential loss of employment and livelihoods for a large number of smallholder households.** However, the staff urged the authorities to use great care in designing sectoral

[7] During the sugar harvest season, these products already cover about 40 percent of Mauritius's electricity needs.

measures to avoid creating any disincentives for existing sugar activities. In the current difficult fiscal situation, the authorities need to minimize their recourse to fiscal incentives.

E. External Sector Issues

40. **The authorities have begun to phase out all import tariffs to bolster external competitiveness.** Furthermore, they have embarked on bilateral trade negotiations with major Asian economies (India, Pakistan) to secure market access for their textile sector. They are aware of the need to coordinate these steps with the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) to avoid conflicts with regional trade arrangements. There have been no other changes to Mauritius's trade and exchange system since the last Article IV consultation.

41. **Mauritius is not very vulnerable to shocks to its external debt-servicing capacity because its external public debt is low (14½ percent of GDP).** Nonetheless, the authorities were encouraged to strengthen their collection of detailed data on private external debt so as to make future vulnerability assessments more comprehensive.

42. **Despite the deterioration of Mauritius's external environment, largely as a result of the erosion of trade preferences, the authorities saw no need to consider financial support from the Fund, including under the IMF's Trade Integration Mechanism (TIM), at this stage.** They pointed at the comfortable reserve level, equivalent to 6 months of imports, and expressed their confidence that a strong reform package would prevent a further significant worsening of their external and reserve positions. However, they asked for closer IMF involvement in designing and implementing reform measures.

F. Statistical Issues

43. **Mauritius's data availability is adequate for surveillance purposes.** Recent discrepancies between monetary and fiscal statistics and the emergence of significant errors and omissions in the balance of payments data has been addressed. The authorities have also begun to publish quarterly national accounts data. On the staff's suggestion to move the fiscal accounts to an accrual basis, they considered that further technical work was needed, particularly on the valuation of public sector assets and liabilities. Regarding external debt data, the authorities should explore discrepancies between official and external data (which indicate that the total stock of external debt could be higher than officially recorded).

III. Staff Appraisal

44. **Economic conditions in Mauritius and its outlook have deteriorated markedly since the last Article IV consultation as a result of adverse external developments.** The effects of the phasing out of trade preferences for textiles and sugar and the recent surge in world oil prices pose significant policy challenges in the short and medium term. Economic management is further complicated by the country's high domestic public debt, which severely limits the scope for using fiscal policy to reenergize the economy.

45. **The new government's recognition of the need for fundamental reforms to boost competitiveness and ensure fiscal sustainability is welcome.** A comprehensive policy response, combining appropriate macroeconomic and structural reforms, will be required. It would also help to restore investor confidence early on. As the authorities recognize, they need to redouble their efforts to attract foreign direct investment to the sectors that could help rekindle growth and job creation.

46. **A more flexible labor market will be key to facilitating the transition of workers from declining sectors to growing ones**. Hiring and firing rules for the entire economy need to be adjusted to the more flexible standards applied to some sectors, and the impact of the current centralized wage-settlement mechanism on labor cost and competitiveness must be examined without delay. These efforts need to be underpinned by well-targeted training programs so as to provide growing sectors with skilled workers.

47. **A medium-term fiscal strategy needs to be formulated as soon as possible to move the public sector deficit toward sustainable levels**. The authorities are encouraged to follow through with their plan to gradually phase out all import tariffs, also to bolster competitiveness, but need to implement measures to offset the associated revenue loss. There is ample scope to broaden the tax base and streamline expenditure while protecting the needs of disadvantaged groups more effectively through well-targeted transfers and subsidies. The financial soundness of public enterprises needs to be monitored carefully to avoid any cost to the budget.

48. **Immediate measures need to be put in place to avoid a further deterioration of Mauritius's overall fiscal position in 2005/06**. The authorities need to reinstate the automatic price adjustment mechanism for domestic retail prices of petroleum products without delay and should begin implementing revenue-enhancing measures that have already been identified. The schemes to support the textile and sugar sectors that are under consideration should not lead to additional budgetary outlays.

49. **Over the short term, monetary and exchange rate policies will play a crucial role in supporting external competitiveness while maintaining macroeconomic stability**. The exchange rate needs to be allowed to move to a level commensurate with the worsened external environment and to protect international reserves. In parallel, liquidity conditions should be tightened to keep inflation low.

50. **The risks to the banking sector from the deteriorating external environment require constant monitoring.** While the authorities have stepped up efforts in this area, further actions, including the collection and monitoring of corporate debt information, are required.

51. **The staff agrees that the current conditions are not favorable for moving to a formal inflation-targeting regime**. Before such a step should be seriously considered, monetary policy instruments have to be sharpened, the external environment needs to become more predictable, and fiscal consolidation should be advanced. Meanwhile, the

authorities are encouraged to work with forthcoming technical assistance from the IMF to meet the technical preconditions for such a step.

52. **The staff stands ready to support the authorities' reform efforts through stepped-up policy and technical advice**, including, as requested, in formulating of the macroeconomic framework and budget for 2006/07.

53. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle.**

Table 1. Mauritius: Selected Economic and Financial Indicators, 2000/01-2010/011 1/

				Prov.	Est.	Baseline Scenario Projections					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	(Annual percentage changes, unless otherwise indicated)										
National income, prices, and employment											
Real GDP	6.0	2.5	2.9	4.2	3.5	2.7	2.9	3.1	3.2	3.2	3.3
GDP deflator	4.3	6.4	5.9	6.1	4.1	5.7	5.3	5.8	5.9	5.9	6.2
Domestic demand at current prices 2/ 3/	6.6	7.5	11.3	9.7	14.4	8.1	8.4	8.4	8.5	8.8	9.6
Consumer prices (period average)	4.4	6.3	5.1	4.1	5.6	7.2	6.2	6.5	6.5	6.5	6.5
Unemployment rate (in percent)	9.1	9.7	10.2	10.3	11.0	...	...	...	...	...	...
External sector (in U.S. dollar terms)											
Exports, f.o.b.	7.6	-3.2	15.7	5.4	4.2	-8.5	2.2	0.4	0.8	0.6	2.6
Imports, f.o.b. 3/	-5.7	-5.4	19.1	8.3	17.3	-3.3	2.9	1.1	1.5	2.8	3.3
Nominal effective exchange rate 4/	0.9	-5.8	-4.5	-5.9	-8.9	...	...	...	...	...	...
Real effective exchange rate 4/	2.8	-1.4	-1.7	-3.8	-6.0	...	...	...	...	...	...
Terms of trade	-2.5	0.9	0.1	-0.9	-3.3	-2.3	-2.1	-1.6	-1.2	-1.1	-0.5
Central government budget											
Revenue and grants	-3.4	11.3	19.9	11.1	7.0	5.0	8.1	4.7	4.7	6.9	9.5
Of which : tax revenue	-0.9	6.6	20.3	12.3	12.6	5.3	6.8	5.8	4.3	6.6	9.6
Expenditure and net lending	7.3	12.5	17.8	7.7	5.8	9.8	7.2	21.0	2.6	8.4	10.3
	(Annual change in percent of beginning of period M2)										
Money and credit											
Net foreign assets	7.4	9.0	7.0	1.4	2.4	-5.6	-3.3	-1.5	-0.3	0.9	1.0
Domestic credit	5.3	7.7	6.5	19.1	10.4	10.1	11.7	10.5	9.6	8.4	8.7
Net claims on government	-1.1	1.3	2.2	11.9	3.6	4.8	4.7	7.5	6.8	9.2	9.2
Credit to private sector	6.4	6.3	4.3	7.2	6.8	5.4	7.0	3.0	2.9	-0.8	-0.5
Broad money (annual percentage growth)	9.9	13.0	11.7	14.4	8.5	8.6	8.4	9.0	9.4	9.3	9.7
Yield on treasury bill (weighted average/primary auctions)	11.4	10.5	9.1	4.7	6.7	8.0	9.0	9.0	10.0	10.0	10.0
Income velocity of broad money (GDP/M2)	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	(In percent of GDP at market prices)										
Central government budget											
Overall balance (including grants)	-5.7	-6.0	-6.2	-5.4	-5.0	-6.0	-5.8	-9.3	-8.4	-8.5	-8.7
Domestic financing	4.5	5.3	6.1	5.7	4.8	6.1	6.0	9.6	8.6	8.8	8.9
Of which : banking system (net)	-0.8	1.0	1.7	8.4	3.1	3.8	3.7	5.9	5.3	5.4	5.5
External financing	-2.8	0.7	0.1	-0.3	0.2	-0.1	-0.3	-0.3	-0.3	-0.3	-0.2
Domestic debt of central government	42.4	48.8	57.7	51.3	54.1	56.0	57.7	62.5	65.8	68.9	71.8
External debt of central government	7.8	5.0	5.9	5.5	4.7	4.7	4.2	3.6	3.0	2.5	2.3
Gross domestic investment	23.3	21.6	22.9	24.2	22.2	21.9	20.5	20.3	20.1	19.7	19.4
Public	6.8	6.9	7.9	7.7	7.5	7.5	7.0	6.9	6.8	6.8	6.8
Private	16.1	15.3	14.3	14.5	14.7	14.4	13.5	13.4	13.2	13.0	12.6
Gross national savings	26.7	27.0	25.3	25.0	19.2	19.6	18.0	18.5	19.1	19.3	19.0
Public	-3.2	-1.9	-0.8	-0.8	-1.1	-2.5	-2.3	-5.8	-4.9	-5.0	-5.2
Private	29.9	28.9	26.1	25.8	20.3	22.1	20.3	24.3	24.0	24.3	24.2
External current account balance 5/	3.4	5.4	2.4	0.8	-3.0	-2.3	-2.5	-1.8	-0.9	-0.5	-0.4
Total external debt (including the debt of state-owned firms)	22.2	21.8	19.1	15.5	14.5	14.5	16.0	15.2	13.0	11.9	10.8
	(In percent of exports of goods and nonfactor services)										
Total external debt	36.6	35.8	32.8	27.8	25.0	26.4	28.5	26.5	22.1	20.1	18.4
Of which : government	8.9	10.5	10.4	9.2	8.8	8.4	7.0	5.7	4.7	4.2	3.9
Total external debt service	9.8	8.4	8.2	6.5	6.5	5.4	4.8	4.3	4.1	3.8	3.3
Of which : interest payments	1.8	1.4	1.2	1.0	0.9	0.9	0.8	0.9	0.9	0.7	0.6
	(In U.S. dollars, unless otherwise indicated)										
Net international reserves of the Bank of Mauritius	786.0	1,010.3	1,366.8	1,550.5	1,473.3	1,278.8	1,079.1	965.8	918.0	931.3	955.9
In months of imports, c.i.f. 3/	4.7	6.5	7.3	7.5	6.1	5.5	4.5	4.0	3.7	3.7	3.6
Net international reserves of the banking system	1,081.3	1,344.0	1,637.5	1,757.6	1,649.4	1,454.9	1,255.2	1,141.9	1,094.1	1,107.4	1,132.0
In months of imports, c.i.f. 3/	6.4	8.4	8.6	8.5	6.8	6.2	5.2	4.7	4.4	4.3	4.3
Memorandum item:											
GDP at current market prices (in millions of Mauritian rupees)	126,063	137,466	149,853	165,686	178,491	193,803	210,068	229,075	250,557	273,880	300,504

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

1/ Fiscal year (July-June).
2/ Excluding changes in stocks.
3/ Excluding the acquisition of aircraft and ships.
4/ Trade-weighted period averages (a negative sign signifies a depreciation).
5/ Including transfers, aircraft, and ships.

Table 2. Mauritius: Balance of Payments, 2000/01- 2010/11 1/
(In millions of U.S. dollars, unless otherwise indicated)

						Baseline Scenario Projections					
	2000/01	2001/02	2002/03	Prov. 2003/04	Est. 2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Current account balance	154.3	246.7	122.5	47.6	-184.6	-142.4	-159.5	-115.7	-59.8	-30.8	-24.8
In percent of GDP	3.4	5.4	2.4	0.8	-3.0	-2.3	-2.5	-1.8	-0.9	-0.5	-0.4
Trade balance	-252.9	-204.4	-297.9	-374.7	-692.1	-773.2	-808.1	-829.9	-854.4	-921.8	-965.9
Exports, f.o.b.	1,639.0	1,586.0	1,834.8	1,934.5	2,015.7	1,844.5	1,886.0	1,893.5	1,908.7	1,920.0	1,970.2
Percentage change	7.6	-3.2	15.7	5.4	4.2	-8.5	2.2	0.4	0.8	0.6	2.6
Of which : export processing zone (EPZ)	1,177.1	1,088.2	1,106.9	1,162.7	1,061.6	876.7	865.3	854.1	843.1	832.1	821.3
sugar	272.9	296.1	285.4	323.6	356.8	320.6	294.0	232.4	173.7	129.1	118.4
Imports, f.o.b.	-1,891.9	-1,790.4	-2,132.7	-2,309.2	-2,707.7	-2,617.7	-2,694.1	-2,723.4	-2,763.1	-2,841.8	-2,936.1
Percentage change	-5.7	-5.4	19.1	8.3	17.3	-3.3	2.9	1.1	1.5	2.8	3.3
Of which : EPZ	-607.9	-554.4	-560.1	-599.6	-566.2	-453.6	-416.3	-390.4	-385.3	-380.3	-375.4
petroleum products	-213.5	-180.9	-216.7	-252.1	-369.4	-490.9	-536.3	-538.9	-546.9	-560.5	-574.7
aircraft and ships	-14.4	-52.1	-37.0	-8.0	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Services (net)	332.0	394.0	345.1	402.0	454.2	559.3	589.5	652.2	729.8	823.4	870.6
Of which : tourism	387.5	409.6	433.7	563.6	566.4	645.7	675.9	729.9	798.3	875.2	939.1
credit	562.8	630.1	620.2	798.8	832.1	865.3	909.1	973.7	1,053.0	1,138.8	1,219.9
debit	-175.3	-220.5	-186.5	-235.2	-265.7	-219.6	-233.2	-243.7	-254.7	-263.6	-280.8
Income (net)	12.2	-8.2	-1.6	-35.7	-4.6	11.4	-3.3	-3.1	-2.9	-2.7	-2.6
Current transfers (net)	63.0	65.3	76.9	56.0	57.8	60.1	62.5	65.0	67.6	70.3	73.1
Capital and financial account	-95.7	-256.7	-219.2	-62.3	116.9	142.4	159.5	115.7	59.8	30.8	24.8
Capital account	-1.4	-1.0	-2.0	-1.4	-1.0	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Financial account	-94.2	-255.7	-217.2	-60.9	117.9	143.9	161.0	117.2	61.3	32.3	26.3
Direct investment	197.3	48.2	60.6	34.4	-30.6	18.0	25.0	45.0	55.0	55.0	55.0
Abroad	-4.7	-1.5	1.9	-17.9	-28.5	-14.0	-15.0	-15.0	-15.0	-15.0	-15.0
In Mauritius	202.0	49.7	58.8	52.3	-2.1	32.0	40.0	60.0	70.0	70.0	70.0
Portfolio investment	-139.0	-19.9	-21.2	-26.5	-11.2	-34.7	-32.0	-15.7	-4.7	6.1	17.2
Other investment	33.3	-39.5	82.7	66.9	51.6	-33.9	-31.6	-25.4	-36.8	-15.4	-21.4
Government	-16.6	35.4	-2.6	-5.5	7.3	8.0	5.0	1.5	-1.9	9.3	3.3
Other public sector	37.2	-51.4	-80.7	-92.1	-40.5	-57.0	-51.6	-41.8	-49.8	-39.7	-39.7
Other 2/	12.7	-23.5	166.0	164.5	84.8	15.0	15.0	15.0	15.0	15.0	15.0
Errors and omissions 3/	-58.6	9.9	96.7	14.7	67.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	185.8	244.5	339.4	135.7	-108.2	-194.5	-199.6	-113.3	-47.8	13.4	24.5
Reserve assets of the Bank of Mauritius	-185.8	-244.5	-339.4	-135.7	108.2	194.5	199.6	113.3	47.8	-13.4	-24.5
Memorandum items:											
Current account balance, excluding aircraft and ships	168.7	298.9	159.4	55.6	-180.5	-142.4	-159.5	-115.7	-59.8	-30.8	-24.8
In percent of GDP	3.7	6.6	3.1	0.9	-2.9	-2.3	-2.5	-1.8	-0.9	-0.5	-0.4
Overall balance (in percent of GDP)	4.1	5.4	6.7	2.3	-1.8	-3.1	-3.2	-1.8	-0.7	0.2	0.4
Net international reserves of the banking system 4/	1,081.3	1,344.0	1,637.5	1,757.6	1,649.4	1,454.9	1,255.2	1,141.9	1,094.1	1,107.4	1,132.0
Net international reserves of the Bank of Mauritius 4/	786.0	1,010.3	1,366.8	1,550.5	1,473.3	1,278.8	1,079.1	965.8	918.0	931.3	955.9
In months of imports, c.i.f. 5/	4.7	6.5	7.3	7.5	6.1	5.5	4.5	4.0	3.7	3.7	3.6
Total external debt-service ratio (in percent of exports of goods and services)	9.8	8.4	8.2	6.5	6.5	5.4	4.8	4.3	4.1	3.8	3.3
Mauritian rupees per U.S. dollar (period average) 6/	27.59	30.23	29.02	28.04	28.96						
Mauritian rupees per U.S. dollar (end of period) 6/	29.36	30.16	29.50	28.46	29.61						

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

1/ Fiscal year (July-June).
2/ Including movements in international reserves of commercial banks.
3/ Including valuation adjustments.
4/ End of period.
5/ Excluding the acquisition of aircraft and ships.
6/ Market rate.

Table 3. Mauritius: Summary of Public Sector Finances, 2001/02-2010/11 1/

			Actual	Actual	Budget		Baseline Scenario Projections				
				Prov.	Rev est.	Staff Proj.					
	2001/02	2002/03	2003/04	2004/05	2005/06	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
					(In millions of Mauritian rupees)						
Total revenue and grants	25,270	30,298	33,676	36,049	38,782	37,868	40,918	42,851	44,869	47,970	52,545
Tax revenue	21,519	25,879	29,068	32,719	35,066	34,449	36,791	38,938	40,601	43,273	47,417
Nontax revenue	3,435	4,056	3,920	2,473	3,215	2,918	3,432	3,713	4,061	4,439	4,871
External grants	317	363	618	444	496	496	689	195	200	250	250
Capital revenue			69.7	413.8	5.0	5.0	5.4	5.4	6.5	7.1	7.8
Total expenditure and net lending	33,569	39,533	42,567	45,046	48,350	49,442	53,020	64,134	65,808	71,334	78,653
Current expenditure	27,881	31,538	34,885	38,062	41,384	42,676	45,693	56,145	57,070	61,782	68,173
Wages and salaries	8,854	9,366	10,901	11,682	12,325	12,325	13,359	14,339	15,433	16,596	18,209
Other goods and services	2,927	3,168	3,502	3,746	4,344	4,344	4,709	5,135	5,616	6,139	6,736
Interest payments	4,541	6,390	6,586	7,184	6,809	8,101	8,819	17,216	15,676	17,928	20,436
External interest	207	189	206	216	270	270	275	301	317	286	251
Domestic interest 2/	4,334	6,202	6,380	6,968	6,539	7,831	8,544	16,914	15,359	17,643	20,185
Current transfers and subsidies	11,558	12,614	13,897	15,450	17,906	17,906	18,806	19,456	20,345	21,119	22,792
Capital expenditure	5,043	7,015	7,078	6,342	7,053	6,853	7,326	7,989	8,739	9,552	10,481
Net lending 3/	645	980	604	642	-87	-87	0	0	0	0	0
Overall public sector balance	-8,299	-9,235	-8,891	-10,058	-12,244	-13,411	-13,939	-23,120	-22,776	-25,202	-27,945
Central government overall balance	-8,299	-9,235	-8,891	-8,997	-9,568	-11,574	-12,102	-21,283	-20,939	-23,365	-26,108
Parastatal balance	0	0	0	-1,061	-2,676	-1,837	-1,837	-1,837	-1,837	-1,837	-1,837
Financing	8,299	9,235	8,891	10,058	12,244	13,411	13,939	23,120	22,776	25,202	27,945
External (net)	1,030	87	-486	438	-346	-280	-594	-703	-686	-686	-724
Disbursements	1,738	923	396	1,368	667	667	667	667	667	667	667
Amortization	-708	-836	-882	-930	-1,013	-947	-1,261	-1,370	-1,353	-1,353	-1,391
Domestic	7,269	9,148	9,378	9,620	12,590	13,691	14,533	23,823	23,462	25,888	28,669
Banking system (net)	1,314	2,496	13,870	6,560	8,779	9,134	9,652	15,370	15,149	16,642	18,354
Nonbank	5,955	6,803	-3,462	3,060	3,811	4,557	4,881	8,452	8,314	9,246	10,315
				(In percent of GDP, unless otherwise indicated)							
Total revenue and grants	18.4	20.2	20.3	20.2	19.5	19.5	19.5	18.7	17.9	17.5	17.5
Of which: tax revenue	15.7	17.3	17.5	18.3	17.6	17.8	17.5	17.0	16.2	15.8	15.8
Of which: taxes on imports	4.3	4.4	4.5	4.3	3.9	3.9	3.8	3.3	2.5	2.1	2.1
taxes on goods and services	7.9	9.3	9.4	9.8	9.6	9.6	9.6	9.6	9.6	9.6	9.6
income tax	2.5	2.7	2.8	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
nontax revenue	2.5	2.7	2.4	1.4	1.6	1.5	1.6	1.6	1.6	1.6	1.6
Total expenditure and net lending	24.4	26.4	25.7	25.2	24.3	25.5	25.2	28.0	26.3	26.0	26.2
Current expenditure	20.3	21.0	21.1	21.3	20.8	22.0	21.8	24.5	22.8	22.6	22.7
Of which: wages and salaries	6.4	6.3	6.6	6.5	6.2	6.4	6.4	6.3	6.2	6.1	6.1
other goods and services	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2
interest payments	3.3	4.3	4.0	4.0	3.4	4.2	4.2	7.5	6.3	6.5	6.8
current transfers and subsidies	8.4	8.4	8.4	8.7	9.0	9.2	9.0	8.5	8.1	7.7	7.6
Capital expenditure	3.7	4.7	4.3	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Net lending 2/	0.5	0.7	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall public sector balance after grants	-6.0	-6.2	-5.4	-5.6	-6.2	-6.9	-6.6	-10.1	-9.1	-9.2	-9.3
Public sector primaray balance 4/	-2.7	-1.9	-1.4	-1.6	-2.7	-2.7	-2.4	-2.6	-2.8	-2.7	-2.5
Overall central government balance after grants	-6.0	-6.2	-5.4	-5.0	-4.8	-6.0	-5.8	-9.3	-8.4	-8.5	-8.7
Central government primary balance 4/	-2.7	-1.9	-1.4	-1.0	-1.4	-1.8	-1.6	-1.8	-2.1	-2.0	-1.9
Overall public sector financing	6.0	6.2	5.4	5.6	6.2	6.9	6.6	10.1	9.1	9.2	9.3
External	0.7	0.1	-0.3	0.2	-0.2	-0.1	-0.3	-0.3	-0.3	-0.3	-0.2
Domestic	5.3	6.1	5.7	5.4	6.3	7.1	6.9	10.4	9.4	9.5	9.5
Of which : banking system	1.0	1.7	8.4	3.7	4.4	4.7	4.6	6.7	6.0	6.1	6.1
Memorandum items:											
Central government domestic debt (in percent of GDP)	48.8	57.7	51.3	54.1	53.5	56.0	57.7	62.5	65.8	68.9	71.8
Nominal GDP (in millions of Mauritian rupees)	137,466	149,853	165,686	178,491	199,000	193,803	210,068	229,075	250,557	273,880	300,504

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

1/ Budgetary central government, Government Finance Statistics basis, unless otherwise indicated; fiscal year from July to June.
2/ Deferred interest payments on treasury bills during 2004/05-2006/07 are due in 2007/08.
3/ In 2000/01 and 2001/02, net lending includes the repayment of US$33 million, US$111 million, and US$6 million of the international floating rate note of US$150 million, respectively.
4/ Overall balance after grants, excluding interest payments.

Table 4. Mauritius: Monetary Survey, 2003-2011

	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011
			Baseline Scenario Projections						
				(In millions of Mauritian rupees; end of period)					
Net foreign assets	48,301	50,013	53,446	44,922	39,463	36,779	36,275	38,211	40,605
Monetary authorities	40,317	44,120	43,622	38,308	32,350	28,982	27,962	29,429	31,417
Commercial banks	7,984	5,892	9,824	6,614	7,113	7,797	8,313	8,782	9,188
Domestic credit	107,517	131,068	145,802	161,294	180,703	199,688	218,617	236,685	257,124
Claims on government (net)	21,312	36,000	41,107	48,404	56,219	69,753	83,064	102,869	124,386
Monetary authorities	-11,285	-982	453	5,767	11,725	15,092	16,113	19,646	22,658
Commercial banks	32,596	36,982	40,654	42,637	44,494	54,660	66,952	83,223	101,728
Claims on private sector 1/	86,206	95,068	104,695	112,890	124,484	129,936	135,553	133,816	132,738
Broad money (M2)	123,365	141,099	153,084	166,216	180,166	196,468	214,892	234,895	257,729
Money (M1)	17,437	21,321	22,646	24,371	26,204	28,253	30,508	32,948	35,644
Quasi money	105,928	119,777	130,438	141,845	153,962	168,215	184,384	201,948	222,085
Money market instruments 2/	0	3,837	3,735	0	0	0	0	0	0
Other items (net)	32,453	36,145	42,429	40,000	40,000	40,000	40,000	40,000	40,000
				(Annual change in millions of Mauritian rupees)					
Net foreign assets	7,770	1,712	3,433	-8,524	-5,459	-2,684	-505	1,936	2,395
Monetary authorities	9,848	3,804	-499	-5,314	-5,958	-3,367	-1,020	1,467	1,988
Commercial banks	-2,078	-2,092	3,932	-3,210	499	684	516	469	407
Domestic credit	7,194	23,551	14,733	15,492	19,409	18,985	18,929	18,068	20,439
Claims on government	2,454	14,689	5,107	7,297	7,815	13,534	13,312	19,805	21,517
Claims on private sector 1/	4,741	8,863	9,627	8,196	11,594	5,451	5,617	-1,737	-1,078
Broad money (M2)	12,926	17,734	11,985	13,133	13,950	16,301	18,424	20,003	22,834
Money (M1)	2,306	3,884	1,325	1,725	1,833	2,048	2,255	2,440	2,696
Quasi money	10,620	13,849	10,660	11,407	12,117	14,253	16,169	17,564	20,138
				(Annual change in percent)					
Domestic credit	7.2	21.9	11.2	10.6	12.0	10.5	9.5	8.3	8.6
Claims on government	13.0	68.9	14.2	17.8	16.1	24.1	19.1	23.8	20.9
Claims on private sector 1/	5.8	10.3	10.1	7.8	10.3	4.4	4.3	-1.3	-0.8
Broad money (M2)	11.7	14.4	8.5	8.6	8.4	9.0	9.4	9.3	9.7
Money (M1)	15.2	22.3	6.2	7.6	7.5	7.8	8.0	8.0	8.2
Quasi money	11.1	13.1	8.9	8.7	8.5	9.3	9.6	9.5	10.0
				(As a percent of beginning-of-period M2)					
Net foreign assets	7.0	1.4	2.4	-5.6	-3.3	-1.5	-0.3	0.9	1.0
Domestic credit	6.5	19.1	10.4	10.1	11.7	10.5	9.6	8.4	8.7
Claims on government (net)	2.2	11.9	3.6	4.8	4.7	7.5	6.8	9.2	9.2
Claims on private sector 1/	4.3	7.2	6.8	5.4	7.0	3.0	2.9	-0.8	-0.5

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: GDP and Savings-Investment Balance, 2000/01-2010/11

						Baseline Scenario Projections					
				Prov.	Est.						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	(Annual percentage changes)										
Real GDP	6.0	2.5	2.9	4.2	3.5	2.7	2.9	3.1	3.2	3.2	3.3
Agriculture, forestry, hunting, and fishing	18.1	-4.9	-8.0	3.6	3.2	1.1	0.1	-1.2	-1.4	-3.2	-1.9
Sugarcane growing	30.5	-8.4	-12.9	4.8	2.7	-0.5	-2.7	-5.7	-6.6	-11.5	-9.3
Mining and quarrying	-1.9	-26.9	-32.1	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	6.9	0.6	-1.7	0.0	-1.8	-2.1	0.2	1.5	2.4	2.6	3.0
Export processing zone	5.2	-0.9	-6.0	-6.4	-10.8	-12.2	-7.4	-4.0	-1.6	-0.7	-0.4
Electricity, gas, and water	13.5	6.2	4.1	4.2	3.8	5.0	5.0	5.0	5.0	5.0	5.0
Construction	7.1	5.8	8.3	4.8	1.9	4.0	4.0	4.0	4.0	4.0	4.0
Wholesale and retail trade	2.7	3.2	2.2	2.7	3.6	3.1	3.1	3.1	3.1	3.1	3.1
Hotels and restaurants	6.4	2.2	3.1	2.7	3.2	4.0	4.0	4.0	4.0	4.0	4.0
Transport, storage, and communications	11.0	8.3	7.3	6.8	4.8	3.0	3.0	3.0	3.0	3.0	3.0
Financial intermediation	5.5	-1.2	5.3	6.0	5.3	4.6	4.2	3.9	3.9	3.9	3.9
Real estate, renting, and business activities	7.4	6.7	6.0	6.1	5.9	5.0	4.4	4.4	4.4	4.5	4.5
Public administration, defense, and social security	4.1	5.0	5.8	5.0	4.6	4.9	4.9	4.9	4.9	4.9	4.9
Education	6.3	5.1	5.4	5.6	6.2	6.0	6.0	6.0	6.0	6.0	6.0
Health and social work	5.7	7.3	7.9	7.1	6.7	6.1	6.1	6.1	6.1	6.1	6.1
Other services	5.9	6.1	6.4	7.0	6.8	6.0	6.0	6.0	6.0	6.0	6.0
GDP at factor cost (GDP at basic prices)	7.7	3.7	2.9	4.0	3.1	2.6	2.9	3.1	3.3	3.2	3.4
Net indirect taxes (taxes on products net of subsidies)	-5.7	-7.4	2.8	6.3	6.4	3.5	3.0	3.0	3.0	3.0	3.0
GDP deflator	4.3	6.4	5.9	6.1	4.1	5.7	5.3	5.8	5.9	5.9	6.2
GDP at market prices	10.6	9.0	9.0	10.6	7.7	8.6	8.4	9.0	9.4	9.3	9.7
	(In percent of GDP at market prices)										
External current account balance	3.4	5.4	2.4	0.8	-3.0	-2.3	-2.5	-1.8	-0.9	-0.5	-0.4
Gross National Savings	26.7	27.0	25.3	25.0	19.2	19.6	18.0	18.5	19.1	19.3	19.0
Private	29.9	28.9	26.1	25.8	20.3	22.1	20.3	24.3	24.0	24.3	24.2
Government	-3.2	-1.9	-0.8	-0.8	-1.1	-2.5	-2.3	-5.8	-4.9	-5.0	-5.2
Investment	23.3	21.6	22.9	24.2	22.2	21.9	20.5	20.3	20.1	19.7	19.4
Private	16.1	15.3	14.3	14.5	14.7	14.4	13.5	13.4	13.2	13.0	12.6
Government	6.8	6.9	7.9	7.7	7.5	7.5	7.0	6.9	6.8	6.8	6.8
Consumption	75.0	74.3	76.2	75.3	81.7	81.5	83.0	82.5	81.9	81.7	82.0
Private	61.0	60.4	62.1	61.0	67.6	67.6	69.9	69.6	69.2	69.2	69.4
Government	14.0	13.8	14.1	14.3	14.0	14.0	13.0	12.9	12.7	12.6	12.6

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

Table 6. Mauritius: Selected Economic and Financial Indicators, 2000/01-2010/11 1/

						Strong Reform Scenario Projections					
	2000/01	2001/02	2002/03	Prov. 2003/04	Est. 2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	(Annual percentage changes, unless otherwise indicated)										
National income, prices, and employment											
Real GDP	6.0	2.5	2.9	4.2	3.5	3.5	4.7	5.0	5.1	5.1	5.2
GDP deflator	4.3	6.4	5.9	6.1	4.1	5.8	4.8	4.8	4.6	4.6	4.5
Domestic demand at current prices 2/ 3/	6.6	7.5	11.3	9.7	14.4	8.2	9.1	9.2	9.5	9.7	10.0
Consumer prices (period average)	4.4	6.3	5.1	4.1	5.6	7.2	5.7	5.4	5.0	4.7	4.5
Unemployment rate (in percent)	9.1	9.7	10.2	10.3	11.0	...	...	...	...	...	...
External sector (in U.S. dollar terms)											
Exports, f.o.b.	7.6	-3.2	15.7	5.4	4.2	-2.3	3.5	4.6	5.0	3.2	3.9
Imports, f.o.b. 3/	-5.7	-5.4	19.1	8.3	17.3	-1.2	2.8	3.3	4.2	2.8	3.1
Nominal effective exchange rate 4/	0.9	-5.8	-4.5	-5.9	-8.9	...	...	...	...	...	...
Real effective exchange rate 4/	2.8	-1.4	-1.7	-3.8	-6.0	...	...	...	...	...	...
Terms of trade	-2.5	0.9	0.1	-0.9	-3.3	-2.2	-2.0	-1.3	-0.5	0.0	0.1
Central government budget											
Revenue and grants	-3.4	11.3	19.9	11.1	7.0	9.6	10.4	10.7	10.6	8.6	9.7
Of which : tax revenue	-0.9	6.6	20.3	12.3	12.6	8.3	10.2	12.5	10.5	8.4	9.7
Expenditure and net lending 5/ 6/	7.3	12.5	17.8	7.7	5.8	10.0	-0.1	21.4	1.4	7.8	9.1
	(Annual change in percent of beginning-of-period broad money)										
Money and credit											
Net foreign assets	7.4	9.0	7.0	1.4	2.4	-3.7	-0.6	1.3	2.0	2.3	2.2
Domestic credit	5.3	7.7	6.5	19.1	10.4	9.2	10.4	8.7	8.1	7.6	7.7
Net claims on government	-1.1	1.3	2.2	11.9	3.6	2.3	1.3	2.3	1.4	1.3	1.2
Credit to private sector	6.4	6.3	4.3	7.2	6.8	6.9	9.1	6.4	6.7	6.3	6.5
Broad money (annual percentage growth)	9.9	13.0	11.7	14.4	8.5	9.5	9.7	10.0	10.0	9.9	10.0
Yield on treasury bill (weighted average/primary auctions)	11.4	10.5	9.1	4.7	6.7						
Income velocity of broad money (GDP/M2)	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	(In percent of GDP at market prices)										
Central government budget											
Overall balance (including grants)	-5.7	-6.0	-6.2	-5.4	-5.0	-5.1	-2.7	-5.0	-2.9	-2.7	-2.6
Domestic financing	4.5	5.3	6.1	5.7	4.8	5.3	3.0	5.3	3.2	2.9	2.8
Of which : banking system (net)	-0.8	1.0	1.7	8.4	3.1	1.8	1.0	1.8	1.1	1.0	1.0
External financing	-2.8	0.7	0.1	-0.3	0.2	-0.1	-0.3	-0.3	-0.3	-0.2	-0.2
Domestic debt of central government	42.4	48.8	57.7	51.3	54.1	54.7	52.8	53.3	51.6	49.9	48.2
External debt of central government	7.8	5.0	5.9	5.5	4.7	4.7	4.1	3.5	2.9	2.4	2.2
Gross domestic investment	23.3	21.6	22.9	24.2	22.2	22.4	21.5	21.7	22.0	22.1	22.3
Public	6.8	6.9	7.9	7.7	7.5	7.4	6.7	6.5	6.7	6.7	6.7
Private	16.1	15.3	14.3	14.5	14.7	15.0	14.8	15.1	15.3	15.4	15.5
Gross national savings	26.7	27.0	25.3	25.0	19.2	20.9	20.4	21.4	22.1	22.4	22.5
Public	-3.2	-1.9	-0.8	-0.8	-1.1	-1.6	1.6	-0.7	1.4	1.6	1.8
Private	29.9	28.9	26.1	25.8	20.3	22.5	18.8	22.1	20.7	20.8	20.8
External current account balance 3/	3.4	5.4	2.4	0.8	-3.0	-1.5	-1.1	-0.3	0.1	0.3	0.3
Total external debt (including the debt of state-owned firms)	22.2	21.8	19.2	15.5	14.5	14.3	15.7	14.8	12.6	11.4	10.4
	(In percent of exports of goods and nonfactor services)										
Total external debt	36.6	35.8	32.9	27.8	25.0	25.5	27.3	25.7	21.8	20.4	19.1
Of which : government	8.9	10.5	10.4	9.2	8.8	8.1	6.7	5.6	4.7	4.3	4.1
Total external debt service	9.8	8.4	8.2	6.5	6.5	5.2	4.6	4.2	4.1	3.8	3.4
Of which : interest payments	1.8	1.4	1.2	1.0	0.9	0.8	0.8	0.9	0.8	0.7	0.6
	(In millions of U.S. dollars, unless otherwise indicated)										
Net international reserves of the Bank of Mauritius 6/	786	1,010	1,367	1,551	1,473	1,366	1,296	1,328	1,403	1,509	1,620
In months of imports, c.i.f. 3/	4.7	6.5	7.3	7.5	6.1	5.7	5.3	5.2	5.3	5.5	5.8
Net international reserves of the banking system	1,081	1,344	1,638	1,758	1,649	1,543	1,472	1,504	1,579	1,685	1,796
In months of imports, c.i.f. 3/	6.4	8.4	8.6	8.5	6.8	6.4	6.0	5.9	6.0	6.2	6.4
Memorandum item:											
GDP at current market prices (in millions of Mauritian rupees	126,063	137,466	149,853	165,686	178,491	195,454	214,488	235,901	259,535	285,333	313,728

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

1/ Fiscal year (July-June).
2/ Excluding changes in stocks.
3/ Including the acquisition of aircraft and ships.
4/ Trade-weighted period averages (a negative sign signifies a depreciation).
5/ Including transfers, aircraft, and ships.

Table 7. Mauritius: Indicators of Financial and External Vulnerability, 2000/01-2004/05 1/

	2000/01	2001/02	2002/03	2003/04	2004/05
Financial indicators					
Total public sector debt, in percent of GDP	63.9	70.2	80.2	69.9	71.8
Broad money (percent change; 12-month basis)	9.9	13.0	11.7	14.4	8.5
Private sector credit (percent change; 12-month basis)	8.1	8.2	5.8	10.3	10.1
Treasury Bill rate (weighted average of primary auctions)	11.4	10.5	9.1	4.7	6.7
External indicators					
Exports (percentage change, in U.S. dollar terms)	7.6	-3.2	15.7	5.4	4.2
Imports (percentage change, in U.S. dollar terms) 2/	-5.7	-5.4	19.1	8.3	17.3
Terms of trade (percentage change)	-2.5	0.9	0.1	-0.9	-3.3
Current account balance, in percent of GDP	3.4	5.4	2.4	0.8	-3.0
Capital and financial account balance, in percent of GDP	-2.1	-5.6	-4.2	-1.1	1.9
Net international reserves of the Bank of Mauritius					
In millions of U.S. dollars 3/	786	1,010	1,367	1,551	1,473
In months of prospective imports, c.i.f. 2/	4.7	6.5	7.3	7.5	6.1
Net international reserves of the banking system					
In millions of U.S. dollars	1,081	1,344	1,638	1,758	1,649
In months of prospective imports, c.i.f. 2/	6.4	8.4	8.6	8.5	6.8
Total external debt					
In percent of exports of goods and nonfactor services	36.6	35.8	32.8	27.8	25.0
Total external debt service					
In percent of exports of goods and nonfactor services	9.8	8.4	8.2	6.5	6.5
Of which: interest payments	1.8	1.4	1.2	1.0	0.9
Of which: principal repayments	8.0	7.0	7.0	5.5	5.6
Exchange rate (Mauritian rupees per U.S. dollar; period average)	27.6	30.2	29.0	28.0	29.0
Financial market indicators					
Mauritius stock exchange index (SEMDEX; July 1989 = 100) 5/	388	359	454	635	736
Change in percent 4/	-4.9	-7.6	26.7	39.8	15.9
Foreign currency long-term debt rating by Moody's 5/	Baa2	Baa2	Baa2	Baa2	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.

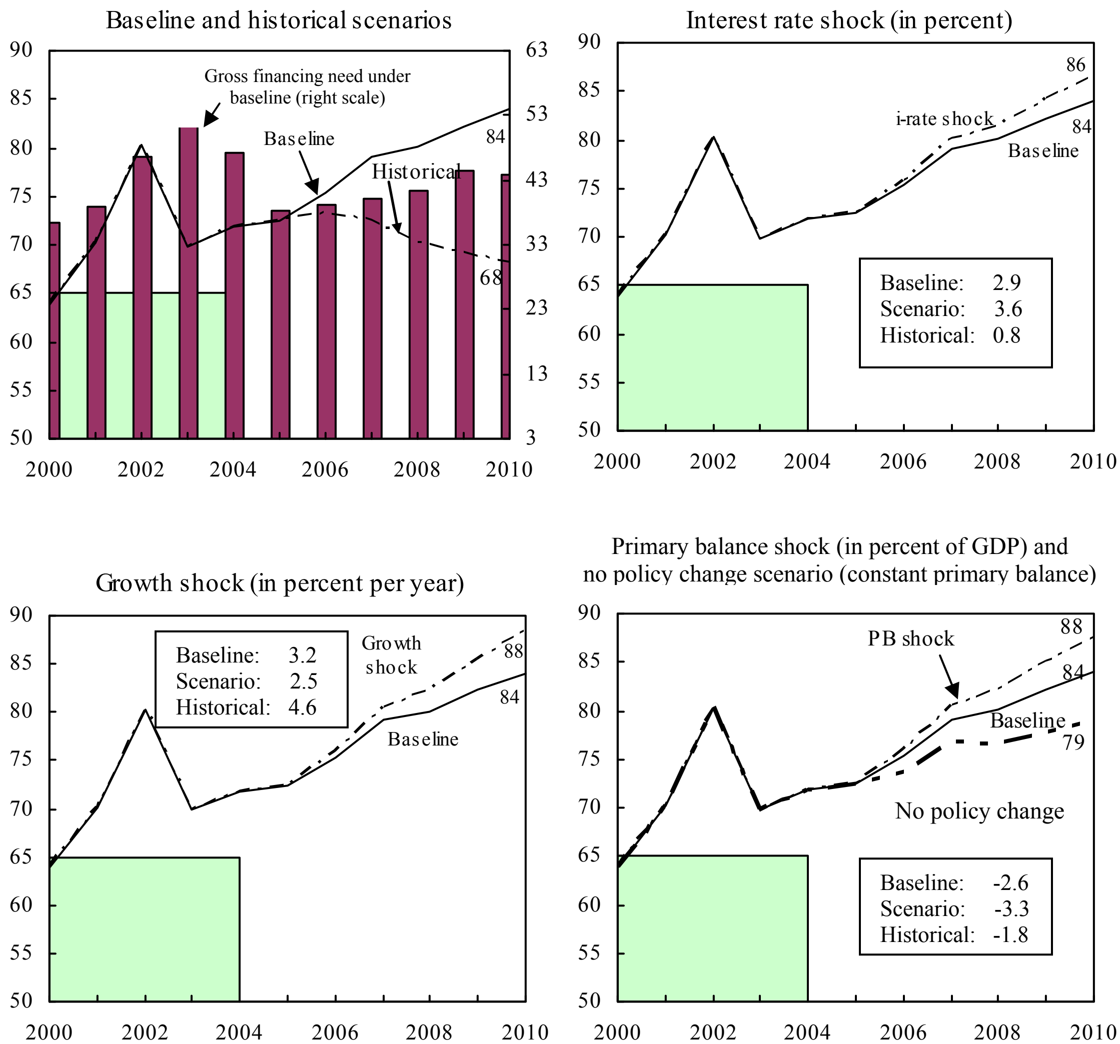
Table 8. Mauritius: Financial Soundness Indicators for the Banking Sector, 2001-04
(In percent, unless indicated otherwise)

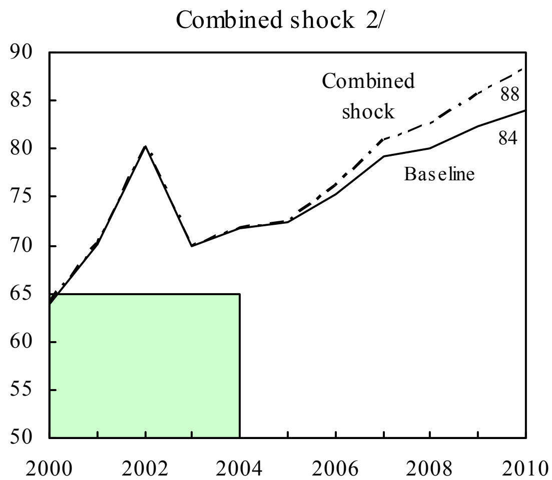
	Dec. 01	Dec. 02	Dec. 03	Dec. 04	June 05
Capital adequacy					
Regulatory capital to risk-weighted assets 1/*	13.0	12.3	14.2	15.0	15.0
Regulatory Tier I capital to risk-weighted assets 2/*	12.7	13.0	13.7	13.7	14.4
Total (regulatory) capital to total assets	8.4	7.2	8.0	7.8	7.8
Asset composition and quality					
Share of loans (exposures) per risk-weight (RW) category					
RW = 0%	6.8	9.5	5.2	6.4	6.5
RW = 20%	0.4	0.4	4.8	6.7	6.4
RW = 50%	8.9	7.0	7.9	9.6	10.1
RW = 100%	83.8	83.2	82.1	77.3	77.0
Total exposures/Total assets	59.2	51.6	47.8	45.9	46.1
Sectoral distribution of loans to total loans					
Agriculture	8.3	9.7	9.1	7.5	7.0
of which: sugar	*7.0*	*8.6*	*8.0*	*6.4*	*6.0*
Manufacturing	18.2	16.1	14.8	13.6	14.0
of which: export enterprise certificate holders	*10.8*	*9.4*	*7.5*	*6.1*	*6.2*
Traders	14.1	14.1	14.9	14.5	15.2
Personal and professional	9.5	9.2	9.8	10.0	10.4
Construction	14.2	13.9	14.2	16.2	17.0
of which: housing	*11.0*	*10.5*	*9.0*	*10.8*	*11.5*
Tourism/hotels 3/*	14.1	15.0	15.9	15.4	14.3
Other	21.6	21.3	21.2	22.8	22.0
Foreign currency loans to total loans	13.1	10.3	10.9	12.2	12.1
NPLs to gross loans - excluding accrued/unpaid interest	8.0	8.3	9.6	8.1	7.6
NPLs net of provisions to capital*	37.8	34.0	28.1	22.4	21.9
Large exposure to capital*	270.1	263.7	220.9	200.0	228.0
Earnings and Profitability					
ROA (Pre-tax net income/average assets)*	2.3	2.0	2.1	2.1	...
ROE (Pre-tax net income/average equity)*	20.6	18.1	19.2	19.2	...
Interest margin to gross income*	30.1	32.6	32.1	34.7	...
Noninterest expenses to gross income*	20.8	23.1	23.9	27.7	...
Expenses/revenues	10.3	10.5	10.6	10.2	...
Earnings/employee - in Rs 000s	1,670	1,819	2,212	2,433	...
No. of employees	*3,362*	*3,456*	*3,568*	*4,080*	*4,206*
Liquidity					
Liquid assets to total assets*	29.2	32.7	36.6	37.9	37.7
Liquid assets to total short-term liabilities*	60.2	65.3	71.0	71.7	71.4
Funding volatility ratio	21.1	16.4	13.9	14.0	14.6
Demand deposits/Total liabilities	10.9	10.3	10.3	10.7	10.8
FX deposits to total deposits	12.1	11.7	11.0	13.8	15.2
Sensitivity to market risk					
Net open positions in FX to capital*	3.2	7.5	20.8	1.9	3.1

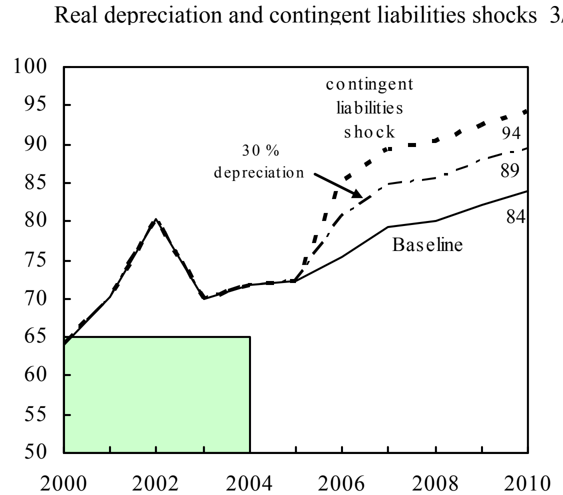
Source: Mauritian authorities.
1/ Total of Tier I and Tier 2 less investments in subsidiaries and associates.
2/ Does not reflect deductions for investments in subsidiaries and associated companies.
numbers from 2001 onwards may not refer to the exact same industries as those before that date.
3/ Refers to hotels and hotel management certificate companies only up to 2000, entire tourism industry after that d
*Part of the core set of financial soundness indicators.

Mauritius: Public and External Debt Sustainability

Figure 1. Mauritius: Public Debt Sustainability: Bound Tests—Baseline 1/
(Public debt in percent of GDP)

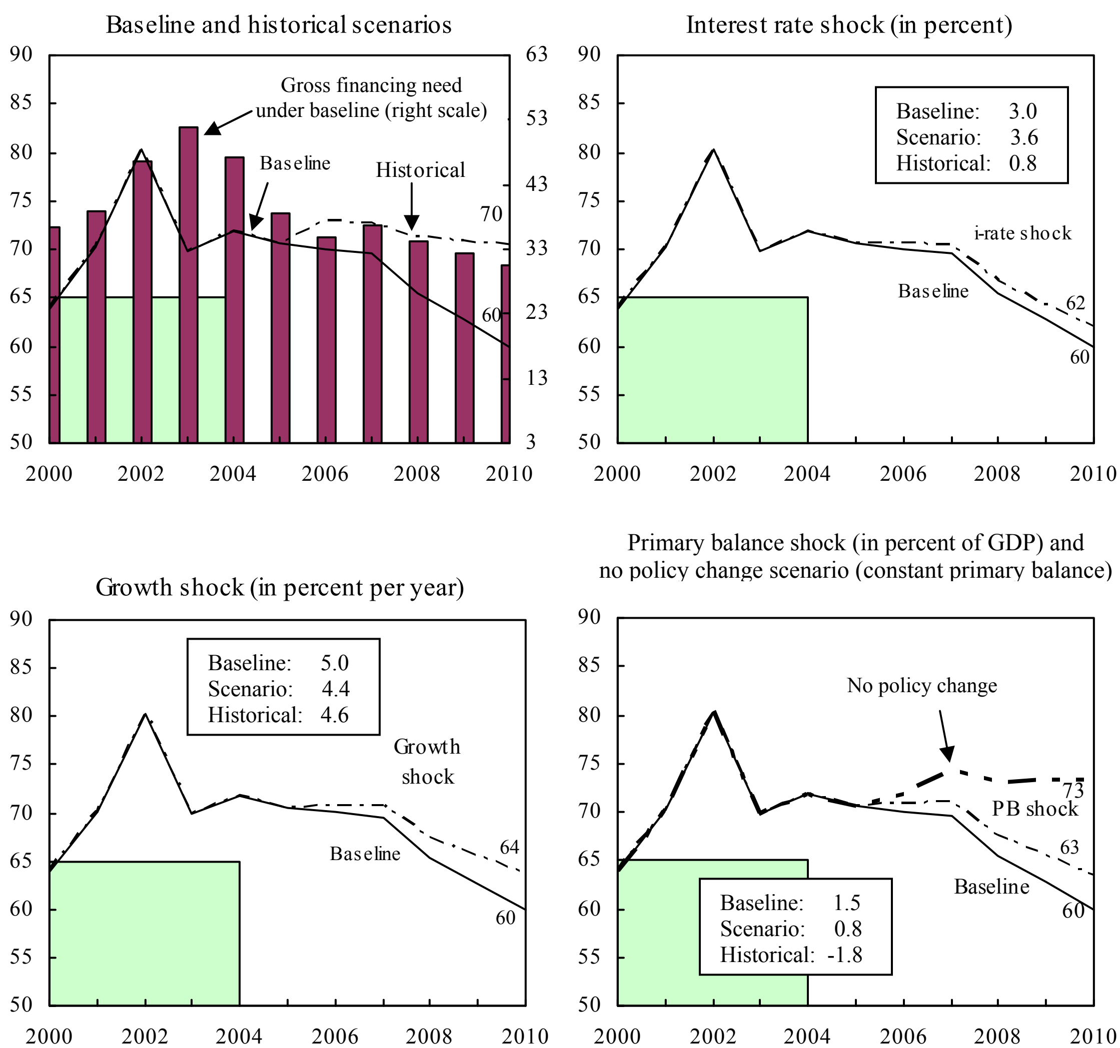


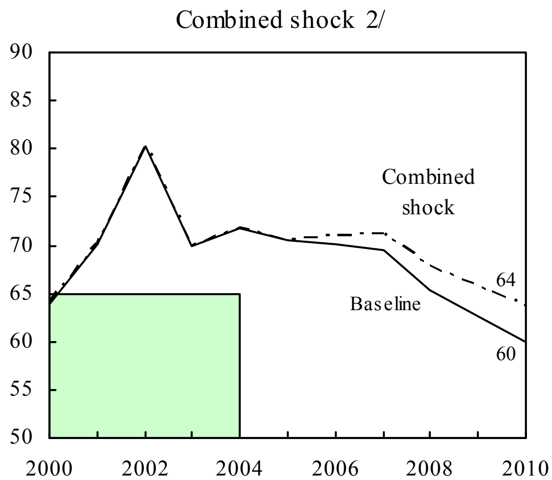


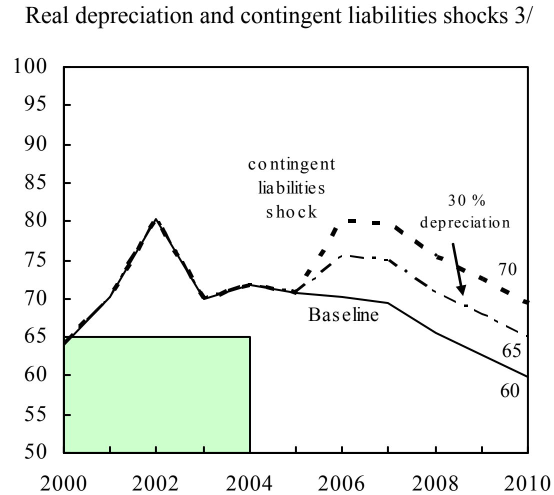


Sources: IMF, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent one-fourth standard deviation shocks are applied to real interest rate, growth rate, and primary balance.
3/ Onetime real depreciations of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 2. Mauritius: Public Debt Sustainability: Bound Tests—Strong Reform Scenario 1/
(Public debt in percent of GDP)

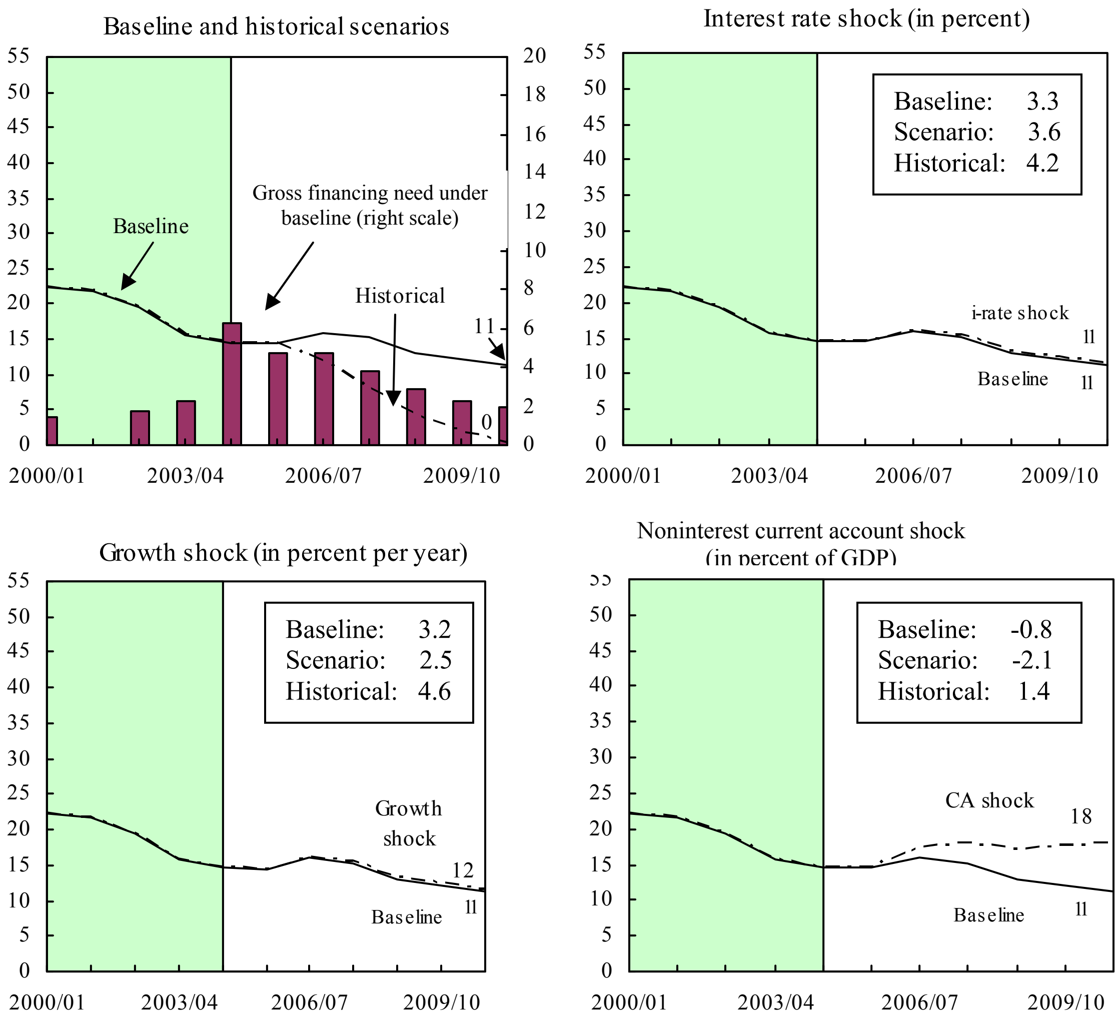


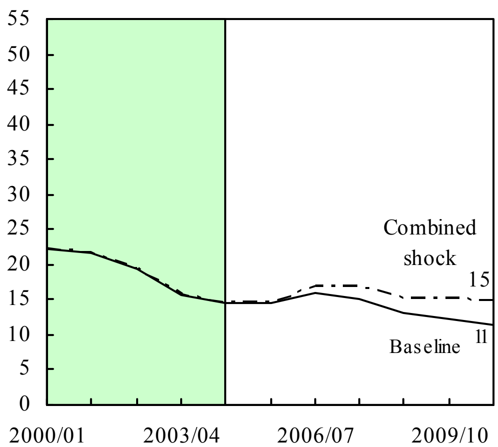


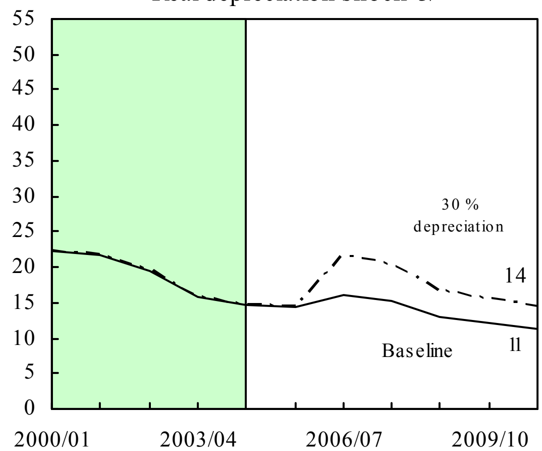


Sources: IMF, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent one-fourth standard deviation shocks are applied to real interest rate, growth rate, and primary balance.
3/ Onetime real depreciations of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 3. Mauritius: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)







Sources: IMF, 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-fourth standard deviation shocks are applied to real interest rate, growth rate, and current account balance.
3/ Onetime real depreciation of 30 percent occurs in 2006/07.

Table 1. Mauritius: Public Sector Debt Sustainability Framework, 2000/01-2010/11

(In percent of GDP, unless otherwise indicated)

	Actual					Projections (Baseline)						
	2000/01	2001/02	2003/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	63.9	70.2	80.2	69.9	71.8	**72.4**	**75.3**	**79.2**	**80.0**	**82.2**	**84.0**	**-0.2**
o/w foreign-currency denominated	20.0	19.9	17.8	14.3	13.3	12.1	10.9	9.7	8.6	7.6	6.7	
Change in public sector debt	-1.4	6.3	10.1	-10.3	2.0	0.5	2.9	3.9	0.9	2.2	1.8	
Identified debt-creating flows (4+7+12)	7.3	1.1	0.2	-2.8	1.1	1.2	1.0	3.8	2.3	2.4	2.0	
Primary deficit	1.3	2.6	2.1	1.4	1.6	2.7	2.4	2.6	2.8	2.7	2.5	
Revenue and grants	18.0	18.4	20.2	20.3	20.2	19.5	19.5	18.7	17.9	17.5	17.5	
Primary (noninterest) expenditure	19.3	21.0	22.3	21.7	21.8	22.3	21.9	21.3	20.7	20.2	20.0	
Automatic debt dynamics 2/	0.7	-1.5	-1.9	-4.3	-0.5	-1.5	-1.4	1.3	-0.5	-0.3	-0.5	
Contribution from interest rate/growth differential 3/	-1.9	-2.0	-1.5	-3.7	-1.0	-1.5	-1.4	1.3	-0.5	-0.3	-0.5	
Of which contribution from real interest rate	1.7	-0.5	0.3	-0.6	1.3	0.3	0.6	3.4	1.8	2.1	2.0	
Of which contribution from real GDP growth	-3.6	-1.4	-1.9	-3.1	-2.3	-1.8	-2.0	-2.1	-2.3	-2.3	-2.5	
Contribution from exchange rate depreciation 4/	2.6	0.5	-0.4	-0.6	0.4	...	...	...	...	...	...	
Other identified debt-creating flows	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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	0.0	
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	0.0	
Residual, including asset changes (2-3) 5/	-8.7	5.1	9.9	-7.5	0.9	-0.7	1.9	0.0	-1.4	-0.2	-0.2	
Public sector debt-to-revenue ratio 1/	354.8	381.6	397.0	344.6	355.7	370.4	386.4	423.1	446.8	469.5	480.5	
Gross financing need 6/	36.5	39.0	46.7	51.9	47.3	38.3	39.1	40.0	41.3	44.4	44.0	
in billions of U.S. dollars	1.7	1.8	2.4	3.1	2.9	2.4	2.5	2.5	2.7	2.9	3.0	
Scenario with key variables at their historical averages 7/						**72.4**	**73.3**	**72.4**	**70.1**	**69.1**	**68.1**	**-2.2**
Scenario with no policy change (constant primary balance) in 2005-2010						**72.4**	**73.7**	**76.8**	**76.6**	**77.9**	**79.0**	**-0.2**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.0	2.5	2.9	4.2	3.5	2.7	2.9	3.1	3.2	3.2	3.3	
Average nominal interest rate on public debt (in percent) 8/	7.4	5.6	6.6	5.5	6.2	6.3	6.3	10.9	8.6	8.9	9.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.2	-0.8	0.7	-0.6	2.1	0.6	1.0	5.1	2.7	3.0	2.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-11.1	-2.6	2.2	3.7	-3.2	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.3	6.4	5.9	6.1	4.1	5.7	5.3	5.8	5.9	5.9	6.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.6	11.6	9.2	1.5	1.1	3.3	1.5	0.3	0.9	0.6	2.7	
Primary deficit	1.3	2.6	2.1	1.4	1.6	2.7	2.4	2.6	2.8	2.7	2.5	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

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 2. Mauritius: Public Sector Debt Sustainability Framework, 2000/01-2010/11
(In percent of GDP, unless otherwise indicated)

Strong Reform Scenario

	Actual					Projections						
	2000/01	2001/02	2003/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	63.9	70.2	80.2	69.9	71.8	**70.6**	**70.1**	**69.5**	**65.4**	**62.7**	**59.9**	**-1.1**
o/w foreign-currency denominated	20.0	19.9	17.8	14.3	13.3	12.3	13.6	12.9	10.8	10.0	9.3	
Change in public sector debt	-1.4	6.3	10.1	-10.3	2.0	-1.2	-0.5	-0.5	-4.1	-2.7	-2.8	
Identified debt-creating flows (4+7+12)	7.3	1.2	0.0	-2.9	1.1	-0.4	-3.5	-1.4	-3.4	-3.2	-3.1	
Primary deficit	1.3	2.7	1.9	1.4	1.6	1.7	-0.9	-1.6	-1.7	-1.8	-1.7	
Revenue and grants	18.0	18.4	20.2	20.3	20.2	20.2	20.3	20.5	20.6	20.3	20.3	
Primary (noninterest) expenditure	19.3	21.1	22.1	21.7	21.8	21.9	19.4	18.9	18.9	18.6	18.5	
Automatic debt dynamics 2/	0.7	-1.5	-1.9	-4.3	-0.5	-2.1	-2.6	0.2	-1.7	-1.5	-1.4	
Contribution from interest rate/growth differential 3/	-1.9	-2.0	-1.5	-3.7	-1.0	-2.1	-2.6	0.2	-1.7	-1.5	-1.4	
Of which contribution from real interest rate	1.7	-0.5	0.3	-0.6	1.3	0.2	0.4	3.4	1.5	1.6	1.6	
Of which contribution from real GDP growth	-3.6	-1.4	-1.9	-3.1	-2.3	-2.3	-3.0	-3.2	-3.3	-3.0	-3.0	
Contribution from exchange rate depreciation 4/	2.6	0.5	-0.4	-0.6	0.4	...	...	...	...	...	...	
Other identified debt-creating flows	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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	0.0	
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	0.0	
Residual, including asset changes (2-3) 5/	-8.7	5.0	10.1	-7.5	0.9	-0.8	3.0	0.8	-0.7	0.5	0.4	
Public sector debt-to-revenue ratio 1/	354.8	381.6	396.7	343.7	355.7	349.2	344.6	339.6	318.0	308.5	295.7	
Gross financing need 6/	36.5	39.1	46.7	51.9	47.3	38.6	34.8	36.6	34.3	32.3	30.6	
in billions of U.S. dollars	1.7	1.8	2.4	3.1	2.9	2.5	2.3	2.5	2.5	2.5	2.5	
Scenario with key variables at their historical averages 7/						**70.6**	**72.8**	**72.7**	**71.0**	**70.7**	**70.2**	**-2.3**
Scenario with no policy change (constant primary balance) in 2005-2010						**70.6**	**72.0**	**74.3**	**73.1**	**73.3**	**73.3**	**-1.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.0	2.5	2.9	4.2	3.5	3.5	4.7	5.0	5.1	5.1	5.2	
Average nominal interest rate on public debt (in percent) 8/	7.4	5.6	6.6	5.5	6.2	6.2	5.7	10.3	7.3	7.5	7.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.2	-0.8	0.7	-0.6	2.1	0.5	0.9	5.5	2.7	2.8	3.0	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-11.1	-2.6	2.2	3.7	-3.2	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.3	6.4	5.9	6.1	4.1	5.8	4.8	4.8	4.6	4.6	4.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.6	12.2	7.8	2.4	1.1	5.0	-5.5	2.3	4.9	3.4	5.1	
Primary deficit	1.3	2.7	1.9	1.4	1.6	1.7	-0.9	-1.6	-1.7	-1.8	-1.7	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

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 3. Country: External Debt Sustainability Framework, 2000/01-2010/11
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	22.3	21.7	19.4	15.7	14.5	**14.5**	**16.0**	**15.2**	**13.0**	**12.2**	**11.3**	**-1.0**
Change in external debt	-3.0	-0.5	-2.3	-3.7	-1.2	-0.1	1.5	-0.7	-2.3	-0.8	-0.9	
Identified external debt-creating flows (4+8+9)	-8.2	-6.4	-6.2	-3.9	2.9	1.6	1.7	0.6	-0.4	-0.8	-0.8	
Current account deficit, excluding interest payments	-4.5	-6.3	-3.1	-1.4	2.5	1.8	2.0	1.3	0.4	0.0	0.0	
Deficit in balance of goods and services	-1.7	-4.2	-0.9	-0.5	3.9	3.4	3.4	2.8	1.9	1.5	1.4	
Exports	60.7	60.7	59.3	56.5	58.1	54.7	56.1	57.5	58.8	59.2	58.9	
Imports	59.0	56.5	58.3	56.1	61.9	58.1	59.6	60.3	60.7	60.7	60.3	
Net non-debt creating capital inflows (negative)	-4.3	-1.1	-1.2	-0.6	0.5	-0.3	-0.4	-0.7	-0.9	-0.8	-0.8	
Automatic debt dynamics 1/	0.6	1.0	-1.9	-1.9	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	
Contribution from nominal interest rate	1.1	0.9	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	
Contribution from real GDP growth	-1.5	-0.6	-0.6	-0.7	-0.5	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4	
Contribution from price and exchange rate changes 2/	0.9	0.7	-2.0	-1.7	-0.1	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	5.3	5.9	3.9	0.1	-4.0	-1.7	-0.2	-1.4	-1.8	0.0	-0.1	
External debt-to-exports ratio (in percent)	36.7	35.8	32.8	27.8	25.0	26.4	28.5	26.5	22.1	20.6	19.1	
Gross external financing need (in billions of US dollars) 4/	0.1	-0.1	0.1	0.1	0.4	0.3	0.3	0.2	0.2	0.1	0.1	
in percent of GDP	1.5	-1.2	1.8	2.3	6.3	4.7	4.7	3.8	2.9	2.3	2.0	
Scenario with key variables at their historical averages 5/						**14.5**	**11.9**	**8.1**	**4.2**	**2.1**	**0.2**	**-0.6**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.0	2.5	2.9	4.2	3.5	2.7	2.9	3.1	3.2	3.2	3.3	
GDP deflator in US dollars (change in percent)	-3.6	-2.9	10.3	9.8	0.8	-0.5	-2.2	-2.6	-1.9	-0.2	1.0	
Nominal external interest rate (in percent)	4.5	3.9	3.6	3.4	3.4	3.4	3.3	3.3	3.3	3.4	3.0	
Growth of exports (US dollar terms, in percent)	6.4	-0.2	8.8	9.3	8.7	-3.8	3.3	2.9	3.5	3.6	3.9	
Growth of imports (US dollar terms, in percent)	-1.5	-4.3	15.0	10.2	16.9	-4.2	3.2	1.6	2.0	2.9	3.8	
Current account balance, excluding interest payments	4.5	6.3	3.1	1.4	-2.5	-1.8	-2.0	-1.3	-0.4	0.0	0.0	
Net non-debt creating capital inflows	4.3	1.1	1.2	0.6	-0.5	0.3	0.4	0.7	0.9	0.8	0.8	

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 deflat

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.

Mauritius: Relations with the Fund
(As of September 30, 2005)

I. Membership Status

Joined on September 23, 1968; Article VIII.

II. General Resources Account	SDR Million	Percent of Quota
Quota	101.60	100.00
Fund holdings of currency	78.72	77.48
Reserve position in Fund	22.88	22.52

III. SDR Department	SDR Million	Percent of Allocation
Net cumulative allocation	15.74	100.00
Holdings	17.85	113.35

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. Safeguards Assessments

Not applicable.

IX. Exchange Rate Arrangement

The currency of Mauritius is the Mauritian rupee, and the exchange rate regime is a managed float with no preannounced 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 also maintains a liberal capital account. On September 22, 2005, the US$1 was equivalent to MUR 28.88.

X. Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation discussions were held during March 19–April 1, 2004. The staff report (Country Report No. 05/281, 6/21/04) was considered by the Executive Board on July 23, 2004. A Financial System Stability Assessment was completed by a joint IMF–World Bank team on June 5, 2003.

XI. Technical Assistance (1997–2005)

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

MAE missions on bank supervision during 2001: the first of three in May–June 2001; the second in September 2001; and the third in November-December 2001.
STA mission on the Coordinated Portfolio Investment Survey 2001, May 2001.
STA mission to prepare a Report on the Observance of Standards and Codes (ROSC) for data compilation and dissemination, July 2001.
STA mission on government finance statistics, January 2002.
STA mission on monetary and financial statistics, March–April 2002.
MAE missions on general central banking during 2002: the first of three in February–April 2002; the second in June 2002; and the third in October–November 2002.
MAE missions on bank supervision during 2003: the first of four in February-March 2002; the second in May–June 2002; and the third in September–October 2002; and the fourth in November–December 2002.
MAE missions on bank supervision during 2003: the first of three in February–March 2003.
Joint MAE–World Bank mission on anti–money laundering and combating the financing of terrorism, February-March 2003.
FAD mission on revenue administration and tax policy, February 2004.
FAD mission on revenue administration and tax policy, May 2004.
MFD mission on banking supervision and legislation, October 2004.
MFD mission on banking supervision, January 2005.
FAD mission on revenue administration and tax policy, January 2005.
MFD mission on banking supervision, April 2005.

Resident Representative: None.

World Bank Group
(As of September 22, 2005)

The Bank Group strategy and lending operations

1. 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$5,100. 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.

2. The World Bank's role in Mauritius is evolving, reflecting the country's past success in gaining access to capital markets. 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 project totaling $12.4 million in the environment sewerage and sanitation sectors, of which $7.6 million was disbursed as of August 29, 2005.

3. The Bank also supports the government of Mauritius through analytical and advisory assistance. The Bank has carried out a country procurement assessment review, a public expenditure review to assess the sustainability of the new economic agenda, a transport action plan, and a report on modernizing the pension system. The Bank has also been supporting the government with a medium-term economic framework (MTEF), and a labor market study. An investment climate assessment and country economic memorandum are under way.

4. The World Bank’s last country assistance strategy (CAS) from May 7, 2002, supported the government’s five-year Economic Agenda for the New Millennium (NEA), with policy advice and direct budget assistance, around the three objectives of (i) increasing Mauritius’s competitiveness; (ii) bringing about deeper social development and social cohesion; and (iii) preserving and protecting Mauritius’s fragile environment. A new Bank strategy for Mauritius is under preparation.

5. The International Finance Corporation’s (IFC) main focus for future activity in Mauritius is support for financial market deepening and development and advisory work and investments in private infrastructure. IFC is also actively seeking projects with Mauritian sponsors investing elsewhere in Africa. In 2003, IFC began an advisory mandate for structuring private participation in the water and sewer utility, but this project is currently on hold, awaiting a decision from the Mauritian government. 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. IFC is currently discussing the provision of a US$75 million line of credit to a local bank. It is also

exploring ways and means to provide technical assistance support to the textile industry, following the end of the Multi-Fiber Agreement.

6. 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 office has helped to identify more than 30 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 at US$53.1 million, and net exposure at US$48.1 million, for projects in Burundi, Mozambique, and Pakistan.

7. 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

8. Overall, the staffs of the IMF and the World Bank maintain a collaborative relationship in supporting sound budgetary and fiscal management. The World Bank is supporting the government's MTEF, has prepared a public expenditure review, and has provided just-in-time advice on a budget framework paper to lead the 04/05 budget cycle, which feeds into the IMF's work on budgetary management and macroeconomic policy. Cooperation is also taking place on financial sector reforms and trade and labor market issues (the World Bank completed a Trade Mauritius Membership in SADC Note in FY04 and is undertaking a labor market review).

Areas in which the World Bank leads

9. World Bank support is demand driven. Areas where it has taken the lead are related to specific sector advice, such as the environment, sewerage and sanitation, education and training, social welfare, pensions, the transport sector, MTEF, health, insurance, procurement, restructuring the EPZ sector, and privatization, as well as through a number of analytical studies as described above, including an ongoing investment climate assessment.

Areas in which the IMF leads

10. 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 accounting (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 Mr. Robert Keyfitz (email: rkeyfitz@worldbank.org**).**

Mauritius: Statistical Issues

The quality and timeliness of Mauritius's reporting of core data, as well as of other economic and financial statistics to the IMF is, in general, satisfactory for conducting surveillance. Efforts are under way to improve the frequency and quality of fiscal data, particularly their consistency with monetary sector data. The authorities already publish economic data for Mauritius, including a monthly bulletin published by the Bank of Mauritius (BoM) and a number of statistics reports published by the Central Statistics Office (CSO), which are accessible on the Internet. Mauritius started participating in the IMF's General Data Dissemination System (GDDS) in September 2000. Metadata updates were received in September 2005 and are currently being reviewed by IMF staff. The authorities have shown interest in subscribing to the Special Data Dissemination Standard (SDDS), but improvements in the periodicity and timeliness of several data series are required before subscription can take place.

Real sector

Mauritius's annual national accounts are based on the concepts and definitions recommended by the *System of National Accounts 1993*. National accounts data are prepared by the CSO on a calendar-year basis and cover all transactions categories except financial transactions. Estimating GDP on the basis of production uses the ratios from the Census of Economic Activities (CEA), which are compiled every five years. Following the 2002 CEA, a major revision of the national accounts was undertaken and completed in September 2005. Most government operations and external transactions other than goods are recorded on a cash basis rather than on an accrual basis. GDP estimates on the basis of expenditure are not derived independently because household final consumption expenditure is determined as a residual. Although the household budget survey, complied every five years, generates an independent estimate, this estimate is considerably lower than the one resulting from the commodity-flow approach. GDP volume change is published as real growth rates over the previous year. Following IMF technical assistance in 1999 and 2000, the CSO started to compile national accounts on a quarterly basis from 1999, and publication started in August 2005. Improvements in the timeliness and quality of domestic production indicators are still needed.

The consumer price index is regularly rebased as consumption patterns and relative prices change. In July 2002, a new series of the consumer price index was introduced (July 2001-June 2002=100), with weights derived from the 2001/02 household budget survey that followed the Classification of Individual Consumption According to Purpose to classify goods and services. Producer price indices 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).*

Government finance

Mauritius continues to be a regular and timely reporter of fiscal data for surveillance, including quarterly data and annual projections. The July 2001 mission to collect data for the ROSC highlighted statistical improvements needed in the fiscal data, especially to reduce duplication in data collection, publish quarterly central government data, and improve the timeliness of consolidated government data. The data for surveillance purposes would be enhanced significantly if they contained information on the overall public accounts, in particular off-budget accounts should be included in general government accounts and the scope of reporting could be improved to include nonfinancial public sector corporations in data on the nonfinancial public sector. Follow-up technical assistance was provided in January 2002 to assist the authorities with the compilation of nonfinancial public sector data. The authorities reported data for the consolidated central government for publication in the IMF's *Government Finance Statistics (GFS) Yearbook.* Starting with data for fiscal year ending in June 2002, the authorities also report data for the consolidated general government sector. Although, the authorities produce quarterly *GFS* data for budgetary central government, they do not report these for publication in *IFS.*

Monetary accounts

The authorities report money and banking statistics on a timely and regular basis. In March 2002, the IMF provided technical assistance to implement the *Monetary and Financial Statistics Manual (MFSM)*. The BoM successfully implemented the compilation procedures for the new Depository Corporations Survey (DCS) as recommended in the *MFSM* and compiled data in this framework for the period beginning in August 2001. However, the monetary survey is still used for monetary policy purposes (in the Monetary Targeting Framework) and for reporting to the Fund. In June 2005, the BoM started sending monetary data to STA using also the new standardized report forms.

Balance of payments

Mauritius provides quarterly balance of payments and international investment position data to the IMF's Statistics Department on the basis of the classification system of the fifth edition of the *Balance of Payments Manual*. Coverage is limited for data in the financial account of the balance of payments and in the international investment position statement, particularly those on direct investment and portfolio investment. To address these gaps, a 2001 ROSC mission recommended the establishment of a survey of enterprises, banks and other financial institutions, both onshore and offshore, to obtain data on claims and liabilities regarding nonresidents. The authorities are investigating the possibility of conducting such a survey.

Mauritius. Table of Common Indicators Required for Surveillance (as of July 28, 2005)

	Date of latest observation	Date received	Frequency of data 6/	Frequency of reporting 6/	Frequency of publication	Memo Items 7/ Data quality methodological soundness 8/	Data quality accuracy and reliability 9/
Exchange Rates	Jul-05		D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authority 1/	May-05		M	M	M		
Reserve/Base Money	May-05		M	M	M		
Broad Money	May-05		M	M	M		
Central Bank Balance Sheet	May-05		M	M	M		
Consolidated Balance Sheet of the Banking System	May-05		M	M	M		
Interest Rates 2/	May-05		M	M	M		
Consumer Price Index	Jun-05		M	M	M		
Revenue, Expenditure, Balance and Composition of Financing 3/ -- General Government 4/	Mar-05		Q	Q	Q		
Revenue, Expenditure, Balance and Composition of Financing 3/-- Central Government	Mar-05		Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt 5/	Mar-05		Q	Q	Q		
External Current Account Balance	Q1-05		Q	Q	Q		
Exports and Imports of Goods and Services	Q1-05		Q	Q	Q		
GDP/GNP	2004		A	A	A		
Gross External Debt	Mar-05		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 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), Not Available (NA)
7/ These columns should only be included for countries for which a Data ROSC (or a substantive update) has been prepared
8/ Reflects the assessment provided in the data ROSC or the Substantive Update (published on... and based on the findings of the mission that took place during...) for the data set 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) or not observed (NO)
9/ Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs and revision studies.

Millennium Development Goals 1/

	1990	1997	2000	2003	2015 Target
General Social Indicators					
Population, total (millions)	1.1	1.1	1.2	1.2	..
Adult literacy rate (% of people ages 15 and over)	..	..	84.3	..	..
Fertility rate, total (births per woman)	2.3	2.0	2.0	2.0	..
Life expectancy at birth, total (years)	69.4	70.4	71.7	72.3	..
Goal 1: Eradicate extreme poverty and hunger					
Target: Halve between 1990 and 2015 the proportion of people whose income is less than one dollar a day and who suffer from hunger					
1. Prevalence of underweight in children (under five years of age)	..	..	..	..	..
2. Population below minimum level of dietary energy consumption (%)	..	6.0	..	6.0	3.0
Goal 2: Achieve universal primary education					
Target: Ensure that, byt 2015, children everywhere will be able to complete a full course of primary schooling					
3. Net primary enrollment ratio (% of relevant age group)	94.9	97.6	95.8	96.6	100.0
4. Proportion of pupils starting grade 1 who reach grade 5	98.4	99.4	99.3	..	100.0
5. Youth literacy rate (% ages 15-24)	..	..	94.5	..	100.0
Goal 3: Promote gender equality					
Target: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015					
6. Ratio of girls to boys in primary and secondary education (%)	100.4	100.5	98.3	100.3	100.0
7. Ratio of young literate females to males (% ages 15-24)	..	..	101.7	..	..
8. Share of women employed in the nonagricultural sector (%)	36.7	36.7	38.6	38.5	..
9. Proportion of seats held by women in national parliament (%)	7.0	8.0	8.0	6.0	..
Goal 4: Reduce child mortality					
Target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.					
10. Under 5 mortality rate (per 1,000)	25.0	..	20.0	18.0	8.3
11. Infant mortality rate (per 1,000 live births)	21.0	..	17.0	16.0	..
12. Immunization, measles (% of children ages 12-23 months)	76.0	87.0	84.0	94.0	..
Goal 5: Improve maternal health					
Target: Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio.					
13. Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	24.0	..	..
14, Births attended by skilled health staff (% of total)	..	..	98.5	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Target: have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.					
15. Prevalence of HIV, total (% of population aged 15-49)	..	..	..	..	..
16. Contraceptive prevalence rate (% of women ages 15-49)	75.0	..	26.0	..	..
17. Incidence of tuberculosis (per 100,000 people)	67.7	65.7	64.9	64.1	..
18. Number of children orphaned by HIV/AIDS	..	..	..	..	..
19. Tuberculosis cases detected under DOTS (%)	..	31.9	33.2	28.1	..
Goal 7: Ensure environmental sustainability					
Target: Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources. Halve by 2015 the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million dwellers.					
20. Forest area (% of total land area)	8.4	..	7.9	..	..
21. Nationally protected areas (% of total land area)	..	..	..	..	..
22. GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	..	..	..	..	..
23. CO2 emissions (metric tons per capita)	1.1	1.7	2.4	..	..
24. Access to an improved water source (% of population)	100.0	..	..	100.0	..
25. Access to improved sanitation (% of population)	99.0	..	..	99.0	..
Goal 8: Develop a global partnership for development					
Target: Develop further an open rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of the least-developed countries and landlocked countries 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.					
26. Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..
27. Fixed line and mobile phone subscribers (per 1,000 people)	54.5	232.5	386.1	552.2	..
28. Personal computers (per 1,000 people)	3.8	78.9	100.5	116.5	..

Source: World Development Indicators database, April 2005.

1/ Includes only indicators for which data are available for any given year.

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IMF Executive Board Concludes 2005 Article IV Consultation with Mauritius

On December 2, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[1]

Background

Mauritius has been increasingly affected by the phasing out of external trade preferences for its textile exports and, more recently, by higher prices for petroleum product imports. Growth has slowed to 3.5 percent in 2004/05 and is expected to remain subdued during the next two fiscal years. The surplus on the external current account has recently turned into a deficit, owing to a decline in exports and a price-related surge in petroleum product imports. The real effective exchange rate has depreciated and net foreign official reserves have dropped, although they remain at relatively comfortable levels.

The slowdown of economic activity and the suspension of periodic adjustments of retail petroleum prices have negatively affected Mauritius' fiscal position. While the central government deficit was kept at about 5 percent of GDP during 2004/05, the State Trading Company (STC) incurred a rising deficit owing to the lack of adjustment of retail petroleum prices since early 2005. Unless corrective action is taken, the overall fiscal position during 2005/06 is expected to deteriorate further, owing to lower than originally projected revenue collections associated with lackluster activity and a further

[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.

increase of the STC's deficit as the gap between retail prices and import costs of petroleum products widens.

Inflation has picked up since mid-2004, reflecting ample liquidity and higher import prices for petroleum products. More recently, price developments have moderated largely because of slower monetary growth and because increases in international oil prices have not yet been passed on due to the suspension of the adjustment of domestic oil prices.

Executive Board Assessment

Executive Directors commended Mauritius' impressive economic and social progress over the past two decades. However, they noted that a deteriorating external economic environment, particularly for the sugar and textile sectors, recently has led to a slowdown of economic activity, an increase in the external current account deficit, and a loss of international reserves. Directors underscored that the challenging external environment, the high level of domestic public debt, and the risk of higher inflation pose considerable policy challenges in the short and medium term. Against this background, Directors welcomed the authorities' recognition of the need for fundamental reforms to boost external competitiveness and ensure fiscal sustainability.

Directors urged the authorities to develop a comprehensive economic strategy early on, that combines structural reform measures and policies geared toward macroeconomic stability. Such an agenda would reassure international and domestic investors, improve the environment for private sector activity, and lay the basis for a return to high growth rates and the creation of employment opportunities.

In the structural area, Directors encouraged the authorities to explore options for a more active involvement of the private sector, including privatization, which would help foster investment and growth. In this context, they stressed the need to review the role of the public sector in commercial activities, including the financial soundness of the major public enterprises. Directors also underscored the importance of creating a more flexible labor market to facilitate the transfer of workers from declining to more dynamic sectors. However, they stressed that efforts to facilitate inter-sectoral movement of labor will need to be accompanied by training programs geared toward the needs of growing segments of the economy. Also, the impact of centralized wage negotiations on labor costs and competitiveness needs to be examined soon.

Regarding the textile and sugar sectors, Directors were encouraged by the authorities' restructuring plans, aimed at mitigating the effects of a loss of trade preferences. They welcomed steps under way to increase the overall efficiency of enterprise operations and seek new export opportunities for textiles. However, they cautioned against the use of fiscal incentives for the sectors, taking into account the difficult fiscal situation.

Directors commended the authorities' steady progress on financial sector reform, including implementation of several key Financial Sector Assessment Program (FSAP) recommendations. This has strengthened the banking system despite the adverse developments in the textile and sugar sectors. Directors welcomed the authorities' plans to intensify financial sector monitoring and to harmonize the tax treatment of domestic and offshore banks.

Directors urged the authorities to take steps to stem a further deterioration of the fiscal position in 2005/06. In this regard, they recommended careful monitoring of the financial situation of the major state-owned enterprises. They welcomed the recent adjustment of domestic petroleum prices and supported reinstatement of the automatic petroleum price adjustment mechanism to ensure full pass-through of the cost of imported petroleum products to domestic retail prices while cautioning that well-targeted safety nets will be needed to mitigate the impact on the poor. Directors also stressed the need to devise support schemes for the sugar and textile sectors that would not add to public outlays.

Directors emphasized that a strong and credible medium-term fiscal strategy will need to be formulated as quickly as possible to contain the public debt and ensure fiscal sustainability. They noted the scope for broadening the tax base and streamlining outlays through better targeting to groups in need of assistance. They encouraged the authorities to follow through with their plan to phase out all import tariffs, which will support efforts to bolster competitiveness. Directors also recommended that debt management be improved, including through a further diversification of debt instruments.

Directors emphasized that exchange rate and monetary policies will play a key role in securing external competitiveness in the short term while longer-term structural reforms are being implemented. Most Directors supported a cautious approach to tightening of monetary conditions in order to contain inflationary pressures and encouraged the authorities to manage liquidity more actively. In this regard, Directors supported the authorities' request for Fund technical assistance to develop a more diversified range of monetary policy instruments. Directors also cautioned against adopting a fully-fledged inflation targeting regime in light of the need to refine the instruments of monetary policy, the uncertain external outlook, and the need for fiscal consolidation.

Directors stressed that the exchange rate should reflect movements in macroeconomic fundamentals. To this end, they supported greater flexibility of the exchange rate, observing that interventions in the foreign exchange market should be limited to smoothing short-term volatility with a view to protecting international reserves.

Directors noted that Mauritius' data availability and quality are generally adequate for surveillance purposes. They encouraged the authorities to reconcile differences between official and externally collected debt data and to move the fiscal accounts to an accrual basis as soon as feasible.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report for the Article IV consultation with Mauritius may be made available at a later stage if the authorities consent.

Mauritius: Selected Economic and Financial Indicators 2000/01-2004/05 1/

	2000/01	2001/02	2002/03	Prov. 2003/04	Est. 2004/05
	(Annual percentage changes, unless otherwise indicated)				
Domestic economy					
Real GDP	6.0	2.5	2.9	4.2	3.5
Consumer Prices (period average)	4.4	6.3	5.1	4.1	5.6
Unemployment rate (in percent)	9.1	9.7	10.2	10.3	11.0
	(In millions of U.S. dollars, unless otherwise indicated)				
External economy					
Exports, f.o.b.	1639.0	1586.0	1834.8	1934.5	2015.7
Imports, f.o.b. 2/	-1891.9	-1790.4	-2132.7	-2309.2	-2707.7
Current account balance	154.3	246.7	122.5	47.6	-184.6
(in percent of GDP)	3.4	5.4	2.4	0.8	-3.0
Capital and financial account balance	-95.7	-256.7	-219.2	-62.3	116.9
Net international reserves of the BoM (end of period)	786.0	1010.3	1366.8	1550.5	1473.3
(in months of imports, c.i.f.) 3/	4.7	6.5	7.3	7.5	6.1
Change in real effective exchange rate (in percent) 2/	2.8	-1.4	-1.7	-3.8	-6.0
	(In percent of GDP, unless otherwise indicated)				
Financial variables					
Total public debt	63.9	70.2	80.2	69.9	71.8
Total revenues and grants	18.0	18.4	20.2	20.3	20.2
Total expenditure and net lending	23.7	24.4	26.4	25.7	25.2
Central government fiscal balance 4/	-5.7	-6.0	-6.2	-5.4	-5.0
Central government primary fiscal balance 4/ 5/	-1.3	-2.7	-1.9	-1.4	-1.0
Change in broad money (in percent)	11.7	14.4	8.5	8.6	8.4
Interest rate (in percent) 6/	11.4	10.5	9.1	4.7	6.7

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

1/ Fiscal year from July to June.
2/ Trade-weighted period averages (a negative sign signifies a depreciation).
3/ Excluding the acquisition of aircraft and ships.
4/ After grants.
5/ Overall central government fiscal balance, excluding interest payments.
6/ Yield on Treasury Bill (weighted average/primary auctions).

Statement by Damien Ondo Mañe, Executive Director for Mauritius
December 2, 2005

1. I would like to express my Mauritian authorities' appreciation to the staff for the constructive discussions on issues pertaining to the Mauritian economy during the last Article IV consultation exercise. My authorities are in broad agreement with staff's analysis and policy recommendations regarding the main challenges facing the economy, and they thank staff for the informative set of papers. My authorities also appreciate the excellent and timely technical assistance provided by the Fund. In this context, the authorities valued the two seminars presented by staff on the topic of Inflation and Exchange Rate during the mission.

2. As has been noted by the Board, during past Article IV Consultation discussions, Mauritius, over the past two decades, has made impressive social and economic progress. Real GDP growth was among the highest in the world, with real per capita income more than doubled. The external account remained strong and the level of international reserves increased significantly. These achievements have been underpinned by large private and public investments which relied mainly on the high rate of domestic savings, strong public institutions, and importantly by taking full advantage of existing international trade agreements.

3. The changes in trade agreements, namely the phasing out of trade preferences for textiles at end-2004, and that for sugar starting in 2007, two sectors on which the growth of the Mauritian economy had been built, are posing severe challenges to the authorities and are creating an uncertain medium-term outlook. As I explained in my last Buff statement on Mauritius, the authorities have recognized the challenges facing the country and the need to restructure the economy. In this context, they have embarked on an ambitious program to find new drivers for economic growth. The country is reengineering itself to move up the value chain and build a knowledge economy based on financial services, and information and communication technologies. Measures are also being taken to modernize the sugar and textile sectors through higher productivity, better technology, and greater capitalization.

Recent Developments

4. Macroeconomic performance in 2004/2005 has been adversely affected by the retrenchment in the textile and garments sector with the coming to expiration of the Multifiber Agreement, and the sharp increase in the import price of petroleum products. Sugar production will also be lower than earlier forecast due to heavy rains early in the year. Although the tourism sector is expected to show robust growth, the authorities now project real GDP to grow by about 3.5 percent this fiscal year. Inflation has been revised upwards and is projected at 5 percent for 2005, compared to 4.7 percent in 2004. The increase is due mostly to higher costs of imports. Unemployment continued to increase, due to retrenchment in the textile and sugar sectors, and was estimated at about 10 percent at end -2004. The decline in exports of

textile and garments and the higher import price of petroleum products caused the external current account which has been in surplus in the recent past to turn into a deficit. The fiscal deficit for 2004/05 is expected to be about 6 percent of GDP.

5. In July 2005, elections for the National Assembly were held and were won by the Labor Party and a coalition of smaller parties. The new Government issued from the elections has recognized the major macroeconomic and structural challenges facing the country and has indicated its determination to address them. In presenting its economic program, the government has announced that its efforts will focus on reducing the fiscal deficit and implementing comprehensive structural reforms to diversify the economy and enhance competitiveness.

Macroeconomic Policies

6. The authorities agree that macroeconomic policies need to be tightened. It is their intention to take measures that will gradually reduce the fiscal deficit over the medium term, and to tighten monetary policy. However, with GDP growth slowing down, the authorities feel that they need to proceed carefully in their approach. At a time of slow growth and rising unemployment, policies have to be carefully balanced so that they do not make the situation worse by creating more unemployment.

7. Moreover, the new development strategy that is being put in place may also not help to reduce unemployment significantly, at least in the beginning. Indeed, diversification may create a period of jobless growth, as more emphasis is placed on the development of more capital- and knowledge-intensive sectors that demand high skills and create fewer jobs.

8. In the **fiscal area**, for the short term, the authorities are focusing their efforts on containing expenditure, especially through cuts in capital outlays, at least for the remainder of this fiscal year. Cuts in transfers and subsidies will be difficult in this period of increasing unemployment, but will be looked at as the economy improves. However, the authorities did raise petroleum prices by the full 15 percent in October, in accordance with the automatic price adjustment mechanism. Further price adjustments will be made quarterly following the mechanism in place. It is to be noted that this increase followed the increase in September in the price of natural gas for commercial users.

9. The authorities are in the process of developing a comprehensive medium-term strategy to return the economy toward fiscal sustainability, and also address the public debt problem. They expect to announce new revenue-enhancing and expenditure-reducing measures in the next Budget. As a first step the authorities intend to tighten tax loopholes and broaden the tax base.

10. The objectives of **monetary and exchange rate policies** are to support external competitiveness and maintain macroeconomic stability. As inflationary pressures have increased, the Bank of Mauritius has already raised interest rates. However, the

monetary authorities feel that they need to move carefully as regards interest rate so as not to discourage investment, and also to pay close attention to the financial health of the banking sector at a time when many factories are closing down. In any case, policies will remain prudent. In their efforts to better manage liquidity, the authorities are considering diversifying their monetary instruments, and have requested technical assistance from the Fund.

11. The Bank of Mauritius has made good progress in the adoption of an **informal inflation-targeting framework** for monetary policy. However, they do not feel that all the conditions exist to adopt a formal inflation targeting framework. Box 2 of the Selected Issues paper outlines well the conditions that Mauritius has to meet before it can move to a formal inflation-targeting regime. In this regard, the authorities look forward to the next T/A mission from MFD to help them develop the necessary instruments and meet the preconditions for such a move.

12. The **financial sector** remains in sound health. In anticipation of the shocks to the textile and sugar sectors, provision requirements had been strengthened, and the exposure of the Mauritian banks to these two sectors have declined significantly over the past few years. The authorities are confident that further provisioning needs could be met from profits which remain strong. Nevertheless, the Bank of Mauritius continues to monitor the situation closely. It is also to be noted that there is now a single license for domestic and offshore banks, and the authorities intend to harmonize the tax treatment of both activities shortly.

Structural Issues

13. As noted above, changes in the international environment are adversely affecting the Mauritian economy. To maintain the growth momentum, and take full opportunity of the globalization process, fundamental structural changes are being implemented. Comprehensive restructuring plans for the sugar and textile sectors have been developed through close cooperation between the private sector and the government, and broad consultation with stakeholders, and have relied entirely on domestic financing. The restructuring plans aimed at bolstering competitiveness in both the textile and sugar sectors and to encourage diversification within those sectors. At the same time the government has put in place a retraining program to enable displaced workers both in the sugar and textiles sectors to acquire new skills that could help them find employment in other sectors.

14. In **the sugar sector,** the measures being implemented have already helped to reduce production costs, but the social costs are high, with the loss of more than 10,000 jobs, since 2000. The number of sugar mills which stood at 20 have now been reduced to 11 and will be reduced further to 5 within 5 years. The mechanization process will continue and more layoffs will occur. At the same time, a process of diversification is underway within the sugar sector, with the production of ethanol, rum, specialty sugar, and greater use of the residue from sugar cane in the production of energy. As

an example of the diversification process, Mauritius now exports over 60,000 tons of specialty sugar which has a high market value and is not subject to any quota.

15. In **the textile sector**, the loss of employment is estimated at about 15,000 since 2000. However, the authorities expect the situation to start stabilizing by year-end. Already some of the more efficient factories have started to hire employees. The restructuring strategy has also focused on upgrading technology, diversifying products and markets such as taking better advantage of preferential access to the U.S. market under the AGOA, developing skills and human resources, and attracting foreign direct investment. Large investments have been made, often with foreign partners, in spinning technology which will enable vertical integration and lower costs. Already, the industry is regaining some competitiveness as regards upscale products.

16. Together with the restructuring of the these two sectors, the authorities are continuing their efforts to deepen **the tourism sector** which has done very well. The strategy put in place and which has relied on the development of an upscale tourist industry has been successful. The authorities are building on the this success to expand this sector further. New hotels are being built and air-link networks are being developed with other countries. This sector is expected to make significant contribution towards employment creation. Concurrently, the authorities are also working closely with the private sector in developing a new strategy aimed at making the island a "shopping paradise" through the gradual elimination of all import tariffs, and through a policy of attracting regional tourists.

17. As regards **other growth sectors**, good progress is being achieved in the development of the Information and Communications Technology (ICT) sector, with the assistance of foreign partners. This sector is absorbing much of the more educated workers, and is expected to grow further over the medium term. The seafood sector is fully operational and has large potential. The financial services sector aslo continues to make positive contribution to growth. This sector employs about 7,000 highly skilled workers.

18. On the **labor market,** while more flexibility could help to reduce some unemployment, the authorities are of the view that the market is not as rigid as one might think. In the EPZ, for example, where most of the textile and garments factories are located, labor laws are flexible and firms can hire and fire at any time. Similarly, in the new ICT sector which has many outcall centers and which needs to be opened 24/7, labor laws are flexible, and wages are determined by supply and demand. In the tourism and in particular in the hotel sector where there is union activity, the hiring of workers has not been a constraint. The Tripartite Negotiations (Labor, Management and Government) has generally not been a source of rigidity. In fact, it has contributed to peaceful industrial relations in Mauritius, an important factor in attracting foreign investors. As regards the inflation-biased argument of the wage negotiation system, my authorities would point out that the implementation of the salary increase recommended has been generally tapered, such that the average salary increase has been overall half the inflation rate. Over the years, different

governments have looked at the many proposals with a view to changing the system, but none has gathered a consensus. Moreover, none of the other system is as transparent and easy to understand as the inflation-related wage increase. In cases where there have been large wage increases, it has come on top of what the Tripartite Negotiations had proposed and was the result of direct sectoral negotiations. Nevertheless, the authorities will continue to work closely with all stakeholders with a view to make the present system less rigid. My authorities would also like to point out that the unemployment issue is more a problem of a lack of employment opportunities rather than one of rigidities in the labor market.

19. Overall, while the economic situation in the short term is difficult, the outlook for the medium to longer term seems brighter as Mauritius continues to adapt and re-engineer its economy to the new realities. In designing their development strategies, the authorities remain in close consultation with the World Bank. The authorities also look for closer relation with the Fund, in assisting them in the analysis of the economic and financial situation, and in helping them design the appropriate policies to meet the ongoing challenges.