INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/108

MAURITIUS

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

April 2019

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 2019 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 22, 2019 consideration of the staff report that concluded the Article IV consultation with Mauritius.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 22, 2019, following discussions that ended on January 30, 2019, 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 April 4, 2019.
- **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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April 23, 2019

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IMF Executive Board Concludes Article IV Consultation with Mauritius

On April 22, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Mauritius.

The Mauritian economy continues to grow at a steady pace, benefiting from a vibrant services sector and strong domestic demand. Real GDP expanded by 3.8 percent in 2017 and is estimated to have grown at a similar rate in 2018. Inflationary pressures are contained, and the unemployment rate has fallen to about 6.9 percent. The external balance continues to deteriorate due to a rising trade deficit in goods, but the overall balance of payments remains in surplus. International reserves have improved significantly since 2016, supported by continued financial inflows. Monetary policy remains accommodative, while the fiscal stance continues to be expansionary.

A prudent stance by financial services firms and supervisory agencies has helped to maintain financial stability. Activity in the offshore global business sector has been broadly resilient while reforms to the sector are underway. Notable efforts are being pursued to meet the international anti-tax avoidance initiatives and to strengthen the AML/CFT framework in line with the Financial Action Task Force (FATF) recommendations, though further reforms are needed to fully meet them.

Going forward, the growth momentum is expected to continue. Real GDP growth is projected at about 4 percent in the medium term. Without fiscal consolidation, the authorities' debt target of 60 percent of GDP by FY2020/21 is unlikely to be met. Rather, public debt is projected to stay elevated over the forecast horizon, with the debt outlook being susceptible to a range of macro-fiscal shocks. As the revised tax treaty with India comes into effect, the global business sector is entering a transition phase, with efforts underway to move into high-value added services and tap into other markets, notably in the region.

[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.

Executive Board Assessment[2]

Executive Directors welcomed Mauritius' steady economic growth momentum and broadly positive macroeconomic outlook. Noting the rising fiscal and external sector vulnerabilities, Directors encouraged the authorities to pursue prudent policies to strengthen macroeconomic and financial resilience and to continue reforms to boost productivity and competitiveness.

Directors underscored the need for fiscal adjustment to enhance fiscal credibility, preserve debt sustainability, and reduce the external imbalance. Given the public investment needs, the authorities' debt target of 60 percent of GDP for FY2020/21 is unlikely to be met without a significant policy adjustment. While the authorities are considering extending the target by two years, Directors urged a gradual fiscal consolidation beginning with the next budget for FY2019/20 to enhance fiscal credibility and to put public debt on a declining path.

Directors agreed that the monetary policy stance is broadly appropriate at the current juncture. They encouraged the authorities to continue their efforts to contain excess liquidity in the banking system. Further modernizing the monetary policy framework by building the necessary capacity to announce and track a medium-term inflation objective would help to enhance policy credibility and improve resilience to shocks.

Directors highlighted the widening external imbalance. While international reserves have improved significantly on the back of strong financial inflows, given the large size of the offshore sector, Directors agreed that the foreign exchange intervention policy should continue to build reserves buffers as conditions permit, to strengthen resilience to shocks.

Directors appreciated the authorities' efforts to bolster competitiveness by introducing effective and efficient initiatives to improve the business climate, build innovation capacity, reduce the skill mismatch, and increase female workforce participation. Maintaining strong and independent institutions is essential to ensure the country remains an attractive investment and employment destination.

Directors stressed the importance of implementing the outstanding FSAP recommendations for further strengthening financial stability. They also welcomed the steps taken to comply with the international anti-tax avoidance initiatives and the efforts to strengthen the AML/CFT framework. In this context, they underscored the need to expeditiously implement the remaining recommendations of the Eastern and Southern African Anti Money Laundering Group (ESAAMLG). Directors also encouraged the authorities to continue to improve data quality.

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

Table 1. Mauritius: Selected Economic and Financial Indicators, 2015-24

	2015	2016	2017	2018		2019	2020	2021	2022	2023	2024
			Est.	Budget	Proj.			Proj.			
	(Annual percent change, unless otherwise indicated)										
National income, prices and employment											
Real GDP	3.6	3.8	3.8		3.8	3.9	3.9	4.0	4.0	4.0	4.0
Real GDP per capita	3.4	3.8	3.7		3.7	3.8	3.9	4.0	4.0	4.0	4.0
GDP per capita (in U.S. dollars)	9,259	9,681	10,491		11,281	11,694	12,433	13,226	14,097	14,947	15,835
GDP deflator	1.0	2.1	1.4		2.2	2.6	3.0	3.0	2.9	2.5	2.4
Consumer prices (period average)	1.3	1.0	3.7		3.2	2.1	3.7	3.5	3.4	3.4	3.4
Consumer prices (end of period)	1.3	2.3	4.3		1.8	4.1	3.6	3.5	3.4	3.4	3.4
Unemployment rate (percent)	7.9	7.3	7.1		6.9	6.9	6.9	6.8	6.8	6.8	6.7
	(Annual percent change, in US Dollars)										
External sector											
Exports of goods and services, f.o.b.	-10.1	-3.5	3.9		5.9	3.8	5.0	5.5	5.7	5.7	5.7
Of which: tourism receipts	-1.0	9.8	11.2		7.2	7.7	7.9	7.9	7.9	7.8	0.0
Imports of goods and services, f.o.b.	-12.2	-1.7	11.4		6.8	6.2	3.2	2.5	2.5	2.6	2.6
Nominal effective exchange rate (annual average)	-1.0	1.8	2.5		…	…	…	…	…	…	…
Real effective exchange rate (annual average)	-1.0	1.2	3.9		…	…	…	…	…	…	…
Terms of trade	8.7	1.9	-4.1		-4.4	2.1	0.1	0.4	0.3	0.1	0.1
	(Annual change in percent)										
Money and credit											
Net foreign assets	15.6	3.8	3.2		0.7	4.3	5.3	6.0	6.3	6.5	7.6
Net claims on government	-6.2	29.1	28.5		8.1	8.3	6.8	6.2	5.7	5.2	5.3
Credit to non-government sector	7.9	-0.8	4.1		6.1	5.4	5.8	6.0	6.1	6.1	6.1
Broad money	7.8	8.7	8.7		2.1	6.6	7.0	7.1	7.0	6.6	6.5
Income velocity of broad money (M2)	1.1	1.1	1.1		1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	1.9	2.5	2.1		…	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)										
Central government finances [1,2]											
Overall consolidated balance (including grants)	-3.7	-3.3	-2.9	-3.3	-3.0	-3.0	-2.9	-2.9	-2.9	-2.8	-2.8
Primary balance (excluding grants)	-1.4	-1.5	-1.0	-2.9	-1.8	-1.8	-1.6	-1.6	-1.6	-1.6	-1.6
Revenues (incl. grants)	20.8	21.1	21.4	23.3	22.4	22.1	22.0	21.7	21.6	21.5	21.5
Expenditure, excl. net lending	24.5	24.4	24.3	27.1	25.4	25.1	24.9	24.6	24.5	24.2	24.2
Domestic debt of central government	46.9	49.2	47.9	49.4	48.5	48.6	48.2	47.5	46.8	46.1	45.3
External debt of central government	12.7	10.4	9.4	8.6	9.5	9.4	9.2	9.2	9.4	9.6	9.6
Investment and saving											
Gross domestic investment	18.1	17.9	18.3		18.4	21.1	22.0	21.2	20.3	20.4	20.9
Public	4.7	4.4	4.1		4.7	7.0	7.6	6.6	5.4	5.3	5.3
Private [2]	13.4	13.5	14.1		13.6	14.1	14.4	14.6	14.9	15.1	15.6
Gross national savings	16.8	17.3	17.9		16.8	17.1	16.9	15.6	15.5	15.4	16.3
Public	-1.8	-2.1	-1.4		-0.7	-0.8	-1.0	-1.2	-1.4	-1.4	-1.3
Private	18.6	19.4	19.3		17.6	17.9	17.9	16.8	16.8	16.9	17.6
External sector											
Balance of goods and services	-10.0	-10.3	-13.5		-13.7	-15.0	-13.8	-12.2	-10.5	-9.1	-7.6
Exports of goods and services, f.o.b.	46.1	42.5	40.7		40.1	40.1	39.6	39.3	39.0	38.9	38.8
Imports of goods and services, f.o.b.	-56.2	-52.8	-54.2		-53.8	-55.1	-53.5	-51.5	-49.5	-47.9	-46.4
Current account balance	-3.6	-4.0	-5.6		-6.2	-7.4	-6.7	-5.7	-5.5	-5.3	-5.0
Capital and financial account	9.3	10.9	10.8		8.7	8.0	7.5	6.9	6.8	6.3	6.8
Overall balance	4.9	6.0	6.2		2.5	0.6	0.8	1.2	1.3	1.1	1.8
Total external debt	90.3	86.6	77.0		78.5	83.0	82.9	81.6	80.4	79.7	78.9
Gross international reserves (millions of U.S. dollars)	4,222	4,934	5,974		6,329.9	6,423	6,552	6,754	6,978	7,178	7,534
Months of imports of goods and services, f.o.b.	7.8	8.2	9.3		9.3	9.2	9.1	9.2	9.2	9.3	9.3
Memorandum items:											
GDP at current market prices (billions of Mauritian rupees)	409.9	434.8	457.5		485.2	517.0	553.5	592.9	634.6	676.6	720.6
GDP at current market prices (millions of U.S. dollars)	11,692	12,232	13,267		14,277	14,812	15,757	16,757	17,856	18,929	20,051
Public sector debt, fiscal year (percent of GDP)	66.9	65.0	63.7		64.9	67.5	67.8	66.7	65.5	64.4	63.3
Public sector debt, calendar year (percent of GDP)	63.6	64.4	63.7		65.1	…	…	…	…	…	…
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa1		…	…	…	…	…	…	…

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

[1] *GFSM 2001* concept of net lending/net borrowing, includes special and other extrabudgetary funds. Fiscal data reported for fiscal years (e.g, 2018=2018/19).

[2] Includes changes in inventories.

INTERNATIONAL MONETARY FUND

MAURITIUS

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

April 4, 2019

KEY ISSUES

Context. Mauritius is pursuing an ambitious strategy—centered around upgrading the infrastructure, promoting diversification, and spurring private investment—to foster inclusive growth and reach the high-income country milestone. Several structural challenges, notably, a shortage of suitably skilled workers, an aging population, and declining productivity and cost competitiveness confront Mauritius in meeting these goals. Moreover, speedy compliance with international anti-tax avoidance initiatives and AML/CFT standards is necessary to remain an attractive investment destination. Notable efforts are underway to address these challenges.

Outlook and Risks. The economy is expected to continue expanding at a steady pace, with real GDP growth projected at about 4 percent in the medium term. The fiscal stance remains expansionary and public debt is projected to stay elevated over the forecast horizon. The current account deficit is expected to widen further in the near term before stabilizing at about 5 percent of GDP. Key risks to the outlook stem from a tightening of global financial conditions, a growth slowdown in major partners, and a contraction in the activity of the offshore business sector.

Focus of the Consultation. Discussions during the 2019 Article IV consultation focused on preserving fiscal sustainability, regaining external competitiveness, and maintaining financial integrity and stability.

Main Policy Recommendations.

- Pursue fiscal consolidation from the forthcoming budget FY2019/20 to build fiscal credibility and set public debt firmly on a declining path into the medium term.
- The current monetary policy stance is broadly appropriate, but vigilance is warranted against any emerging inflationary pressures.
- The declining external competitiveness needs to be addressed through concerted efforts to boost productivity, labor market efficiency, and economic diversification.
- Measures introduced to improve the business climate and support small-scale entrepreneurs, youth skill development, and female labor force participation are welcome, but efforts should focus on enhancing their effectiveness.
- The recommendations of the FATF-style regional body to strengthen the AML/CFT framework should be expeditiously implemented.

Approved By
David Owen (AFR) and Kevin Fletcher (SPR)

Discussions took place in Port Louis and Ebène during January 16–30, 2019. The staff team comprised Ms. Mahvash Qureshi (head), Messrs. Sandesh Dhungana, Lennart Erickson, Salifou Issoufou, and Torsten Wezel (all AFR). Mr. David Owen (AFR) and Mr. Kelvio Carvalho da Silveira (OED) participated in some of the meetings. Mmes. Raveesha Gupta and Danielle Bieleu (both AFR) provided support from headquarters. The mission met with the Prime Minister and Minister of Finance and Economic Development, the Honorable Mr. Pravind Jugnauth, senior officials, parliamentarians, and representatives of the private sector, academia, unions, and the donor community.

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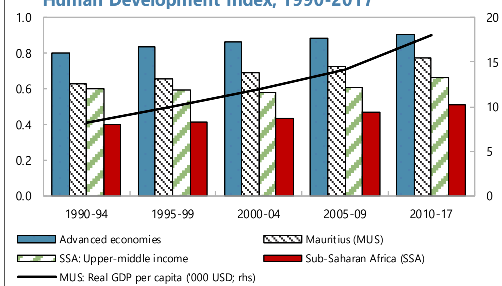
CONTEXT

1 **Mauritius is a small open economy that has shown remarkable resilience and agility over the years to become an upper middle-income country.** Political stability and strong institutions have helped to maintain macroeconomic stability and make major strides in economic and human development. An ambitious strategy—centered around upgrading the physical infrastructure through public investments, promoting economic diversification, and spurring private investment—is being pursued to foster inclusive growth and reach the high-income country milestone within the next decade.

Human Development Index, 1990-2017



Sources: WEO; UNDP Human Development Report 2018; and IMF staff calculations.
Note: Real GDP per capita is in PPP terms. SSA Upper middle income countries exclude oil exporters.

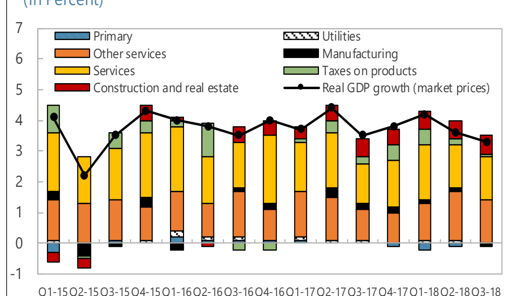
2. **Several challenges confront Mauritius in meetings its ambitious goals.** Since its independence five decades ago, Mauritius has achieved a remarkable transformation from a monocrop economy to a sophisticated services-oriented economy. However, efforts to diversify further and move up the value chain are hampered by several structural challenges—notably, a shortage of suitably skilled workers, an aging population, and declining cost competitiveness and productivity. Public investments to upgrade infrastructure have resulted in an elevated debt level and a growing external imbalance. Moreover, speedy compliance with international anti-tax avoidance initiatives and AML/CFT standards is necessary to remain an attractive investment destination.

3. **Efforts are underway to address these challenges.** Several steps have been undertaken to boost skill development, improve the business climate, and build innovation capacity. Compliance with international anti-tax avoidance initiatives has made significant progress, while identified areas for improvement in the AML/CFT framework are being addressed.

RECENT MACRO-FINANCIAL DEVELOPMENTS

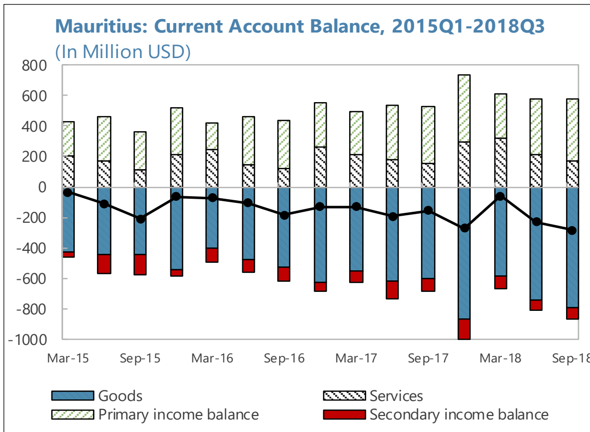
4. **Economic growth momentum remains strong and inflationary pressures have receded.** Real GDP growth is estimated at 3.8 percent in 2017 on the back of strong domestic demand, with outturns through 2018Q3 showing a similar path for 2018. On the supply side, the services sector remains the most important contributor to economic growth and employment. While the unemployment rate has fallen to its lowest level in a decade (6.9 percent) and staff estimates show that output is close to potential, the headline inflation rate has declined from 3.7 percent in 2017 to 3.2 percent in 2018 (Figure 1).

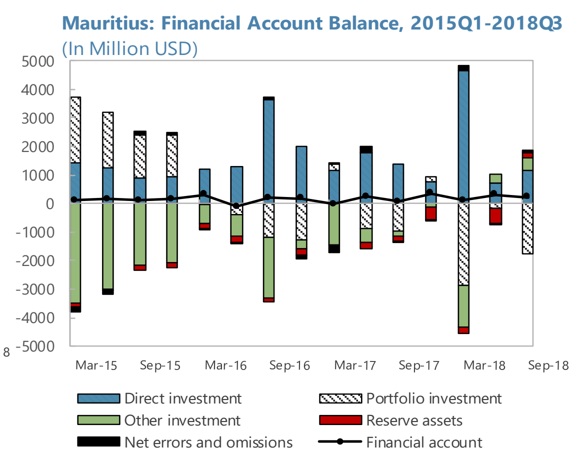
Mauritius: Contribution to Real GDP Growth, 2015Q1-2018Q3
(In Percent)



Source: Statistics Mauritius.
Note: Primary=agriculture and mining; services=wholesale and retail trade, tourism, ICT, financial and insurance activities.

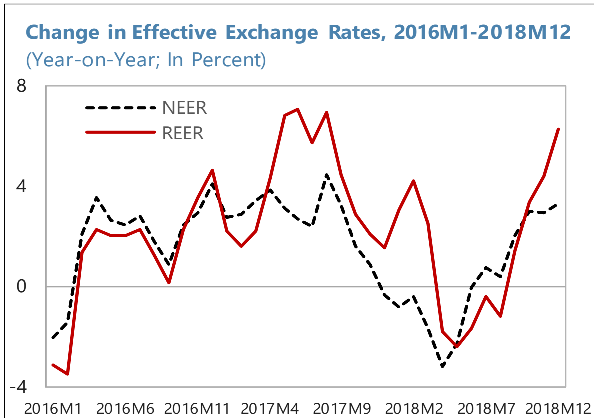
5. **The current account deficit has widened, but the overall balance of payments has remained in surplus.** The current account deficit (CAD) jumped from 4 percent of GDP in 2016 to 5.6 percent of GDP in 2017, largely reflecting a deteriorating trade balance of goods. It is estimated to have widened further to 6.2 percent of GDP in 2018, despite improvements in net exports of services and the income account. Large financial inflows—in particular, foreign direct investment (FDI) into the offshore and real estate sectors—more than covered the CAD in 2017–18, resulting in an overall balance of payments (BOP) surplus and an increase in official foreign exchange (FX) reserves of about US$1.4 billion between end-2016 and end-2018 (Figure 2).

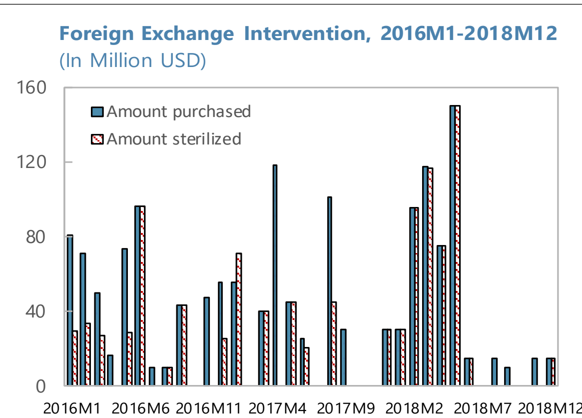




Source: Mauritian authorities.
Note: The financial account is presented in BPM5 terms with positive values indicating inflows.

6. **The nominal and real effective exchange rates have appreciated considerably since 2016.** In cumulative terms, the nominal and real effective exchange rate have appreciated by about 3 and 5 percent, respectively, since 2016 (Figure 2). The average pace of appreciation, however, slowed down in 2018 relative to 2017, partly because of sustained foreign exchange intervention. The Exchange Rate Support Scheme introduced by the authorities in September 2017 to provide a temporary subsidy to exporters was removed in March 2018, ending a multiple currency practice.





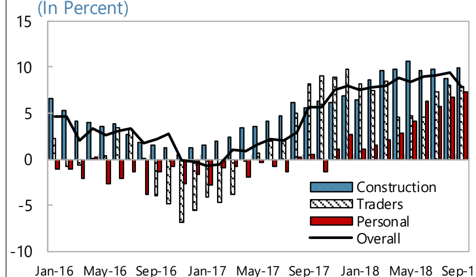
Sources: IMF Information Notice System database; Bank of Mauritius; and IMF staff calculations.

7. The fiscal outturn for FY2017/18 was broadly in line with the budget. The central government's total revenue for FY2017/18 was lower than budgeted (by about 2.5 percent of GDP) due to lower than anticipated nontax revenues and external grants. The shortfall was, however, more than offset by restraint in current spending and under execution of capital spending that led to a smaller fiscal deficit (by 0.3 percent of GDP) than budgeted. While public-sector debt grew by 3 percent in nominal terms, the public debt-to-GDP ratio declined to 63.7 percent by end-FY2017/18 from 65.0 percent in end-FY2016/17.[1] Based on the fiscal outturns for the first half of FY2018/19, the overall fiscal deficit for FY2018/19 is also estimated to be 0.3 percent of GDP smaller than budgeted, while public debt is expected to rise to 64.9 percent of GDP by end-FY2018/19 owing to increased external borrowing by state-owned enterprises to finance investment spending.

8. Monetary policy remains accommodative. The Key Repo Rate (KRR) has remained at a historically low level of 3.5 percent since September 2017, while broad money growth has been fairly stable. In line with previous recommendations, the Bank of Mauritius (BOM) has undertaken substantive efforts to contain excess liquidity in the banking sector by issuing securities and sterilizing proceeds from FX intervention. As a result, the targeted 91-day public sector bill rate has moved within the KRR corridor (Figure 3).

9. Bank lending has continued to recover amid improving financial conditions. Credit to the private sector grew at about 4 percent in 2017, after registering negative growth in 2016. Private sector credit growth has remained robust in 2018—with the year-on-year growth rate estimated at about 6 percent at end-2018. Staff's newly-constructed financial conditions index to gauge financial market developments also indicates an improvement in financial conditions in 2018 (Appendix I).

Private Sector Credit Growth, 2016M1-2018M9
(In Percent)



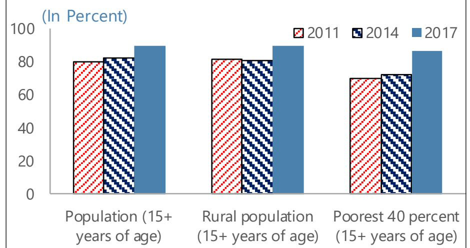
Source: Bank of Mauritius.
Note: Housing loans are included in construction loans.

10. Financial soundness indicators point to continued financial sector stability. Bank capital is well above the regulatory minimum, and banks meet enhanced liquidity requirements under Basel III (i.e., the new liquidity coverage ratio (LCR), including in foreign currency). Banks have increased exposure to the region, and the BOM has strengthened cross-border supervision and cooperation with foreign supervisors. The non-performing loan (NPL) ratio has declined from 7.8 percent at end-2016 to 6.4 percent at end-2018Q3 and will fall further with the transfer of a majority of state-owned Maubank's NPLs to a special purpose vehicle and the requirement for banks to accelerate write-offs, in line with previous recommendations. BOM stress tests using severe scenarios proposed by staff suggest that banks' capital is adequate to absorb sizable shocks to NPLs, while liquidity and market risks also appear manageable. Non-bank financial institutions have been growing by double digits, spurred by pent-up demand for pension and

[1] Public-sector debt is defined as debt of the central government and nonfinancial state-owned enterprises.

insurance services, and are being monitored for stability risks by the Financial Services Commission (FSC).

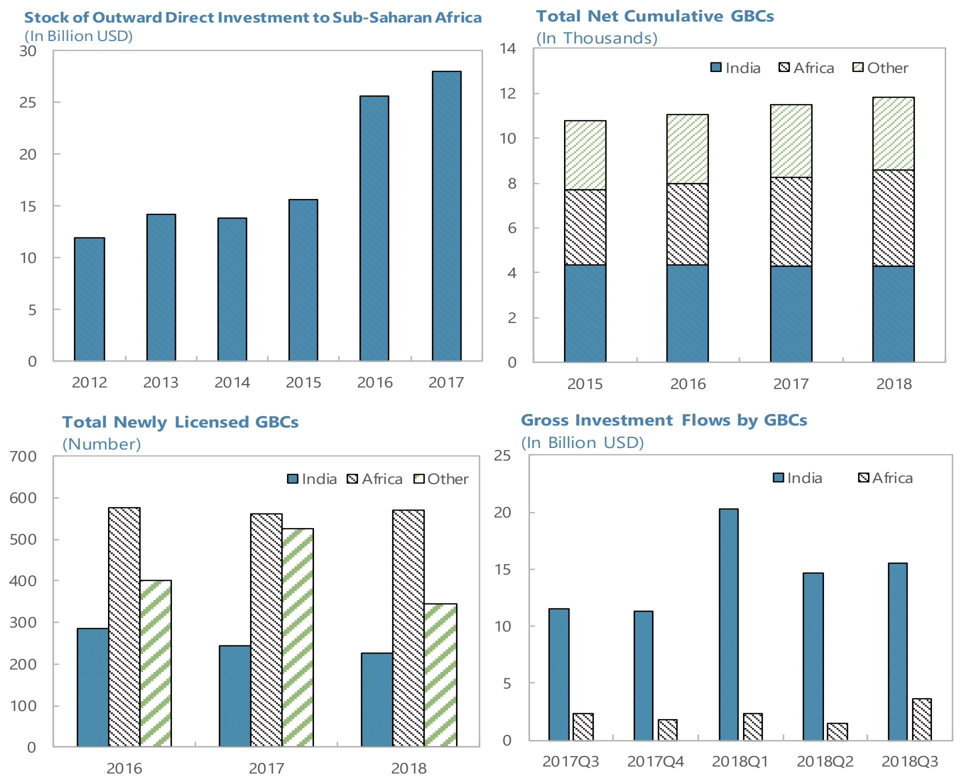
11. Initiatives to foster financial inclusion are underway. The BOM has opened the secondary market for government paper to small investors, launched financial literacy programs and proposed measures for a more inclusive banking sector. The pace of credit to SMEs accelerated in 2018, averaging over 6 percent (year-on-year) relative to 4 percent in 2017, aided by government programs subsidizing loan rates and granting grace periods for repayment.



Source: The Global Findex Database 2017.
Note: Data reflects the percentage of respondents reporting as having an account (individually or jointly) at a bank or another financial institution, or report personally using a mobile money service in the past 12 months.

12. Activity in the offshore global business sector has been broadly resilient. Ahead of the expiry in end-March 2019 of the grandfathered tax benefit under the revised tax treaty with India, performance of the global business sector has remained steady—not least because of the growing importance of Mauritius as a regional investment hub. Estimates show that FDI into Africa from Mauritius doubled during 2012–17, and a majority of the new Global Business License (formerly Category 1 Global Business License, GBC1) applications in 2017 targeted Africa.

Mauritius: Global Business Companies and Investment Flows



Sources: IMF CDIS survey and Mauritius Financial Services Commission.
Note: Statistics pertain to GBC1s.

13. Notable steps have been taken to meet the international anti-tax avoidance initiatives. Significant reforms related to the global business sector were introduced in 2018 to comply with the OECD/EU anti-tax avoidance initiatives (Box 1). Consequently, in November 2018, the OECD concluded that Mauritius meets the requirements of the Base Erosion and Profit Shifting (BEPS) Action 5 and does not have any harmful features in its tax regimes. Moreover, Mauritius has placed all its applicable tax treaties under the coverage of the OECD's Multilateral Instrument, with the ratification process establishing new provisions expected to be completed by end-2019. The EU, as part of its own tax transparency initiative, has expressed some concerns about the new tax regime, which the authorities have indicated their commitment to address by end-2019.

Box 1. Update on International Tax Transparency and Anti-Tax Avoidance Initiatives

In the last few years, Mauritius has been facing demands for reform in conjunction with tax transparency and anti-avoidance initiatives by the OECD and the EU. Under the OECD's BEPS initiative, Mauritius had committed to including minimum standards and possibly other BEPS-compliant features into its laws and bilateral double taxation avoidance agreements (DTAs), while the EU had also objected to the Deemed Foreign Tax Credit (DFTC) that was available to GBC1s but not to domestic firms ("ring-fencing"). Steps have been undertaken toward meeting these demands, including:

Revision of DTAs: The authorities have placed all the applicable DTAs (41 in total) under the coverage of the OECD's Multilateral Instrument—a synchronized framework for enshrining BEPS actions in existing DTAs in a time-efficient manner. These treaties will therefore be amended to comply with the BEPS minimum standards, which include provisions forestalling treaty shopping (e.g., a "principal purpose test" to check whether a business was primarily set up to avoid taxes). The ratification process for the submitted DTAs is expected to be completed by end-2019. Additional BEPS-related substance requirements were met by enshrining appropriate provisions in the Income Tax Act.

Elimination of the DFTC: The DFTC that allowed GBC1s to reduce their domestic tax liability by 80 percent without furnishing proof of actual payment abroad has been replaced with a new partial exemption system, which stipulates that qualifying foreign income of up to 80 percent of any firm (i.e., of both global and domestic companies) will be exempt from domestic taxation, subject to meeting enhanced substance requirements.

Elimination of the GBC2 license: The license for the less-transparent Category 2 Global Business Company (GBC2) is being phased out through mid-2021 and a new vehicle of "Authorized Company" (AC) has been introduced. ACs are required to conduct business and have their place of effective management outside Mauritius. If found not to meet these requirements, ACs would be subject to domestic taxation.

OUTLOOK AND RISKS

14. Economic activity is projected to continue at a steady pace. Real GDP growth is projected at 3.9 percent in 2019–20, and at about 4.0 percent thereafter, as performance of the construction and services sectors remains robust. On the expenditure side, economic activity is expected to be spurred in the near term by public spending on infrastructure projects and sustained in the medium term as those projects and productivity-enhancing reforms improve private-sector competitiveness. With oil prices expected to decline in 2019, inflation is projected to drop to 2.1 percent in 2019 and remain contained in the medium term.

15. External imbalances are expected to widen in the near term. The CAD is projected to increase to about 7 percent of GDP in 2019–20 owing to lackluster merchandise export performance and higher imports associated with public infrastructure projects, as well as the planned aircraft purchases by the state-owned airline. It is expected to decline to about 5 percent of GDP over the medium term on the back of lower projected oil prices and capital imports, while being fully financed by financial inflows.

16. The fiscal stance will remain expansionary, as several initiatives are undertaken to boost employment and growth. Staff's baseline scenario presumes a fiscal deficit in FY2019/20 of a similar magnitude as in FY2018/19 (about 3 percent of GDP), as election-related spending pressures are likely to preclude fiscal consolidation.[2] At the same time, increased borrowing for public capital spending is projected to push public debt to 67.5 percent of GDP by end-FY2019/20 and to 67.8 percent of GDP by end-FY2020/21. Thereafter, public debt is projected to decline gradually to about 63 percent of GDP by end-FY2024/25 as public spending tails off.

17. The vibrant global business sector is entering a transition phase. With the expiration of the tax benefit granted by India, some equity investment may channel through other global financial centers with specific locational advantages. Nevertheless, Mauritius could become an important source of debt investment into India as a tax benefit for such flows is retained in the renegotiated treaty. Moreover, Mauritius is also becoming a gateway for investment flows into Africa—though the volume of such transactions is presently smaller than flows to India (Appendix II). The future growth of the sector hinges on how quickly it can tap into other markets and diversify into high-value added services to remain globally competitive.

18. The outlook is exposed to several types of risks. Being a small open economy, Mauritius is highly vulnerable to adverse external shocks (Annex I). Key risks include a tightening of global financial conditions that could reduce financial inflows and threaten macro-financial stability; a growth slowdown in major partners that could affect exports and financial flows; and higher commodity prices that could exacerbate the external imbalance. On the domestic front, given the strong macro-financial linkages (see Appendix I), a slowdown in the global business sector could pose a downside risk to the outlook. Economic growth could, however, surprise on the upside if the initiatives to support SMEs, youth skill development, and female labor force participation (FLFP) spur private investment and employment.

POLICY DISCUSSIONS

Mauritius' key economic challenge is to boost economic growth, while preserving fiscal sustainability, regaining external competitiveness, and maintaining financial integrity and stability. The policy discussions thus focused around these priority areas.

[2] The next general elections in Mauritius will be held before May 2020.

A. Ensuring Fiscal Sustainability and Sound Fiscal Management

19. On current policies, the public statutory debt target will be missed. The expansionary fiscal stance in FY2018/19 deviates from the medium-term fiscal framework announced with the FY2017/18 budget, which projected a consolidation through FY2020/21 to meet the statutory public debt target of 60 percent of GDP by the end of FY2020/21. While the FY2018/19 budget also foresees a fiscal consolidation (a smaller primary deficit averaging 0.4 percent of GDP) in FY2019/20 and FY2020/21 to meet the target, its projected adjustment is based on public debt statistics that do not fully factor in borrowing outside of the central government. Meeting the debt target on schedule thus requires a much larger consolidation than envisaged in the FY2018/19 budget.

20. The authorities are considering extending the deadline to meet the debt target. Given the large adjustment required to meet the debt target by FY2020/21 (a primary surplus averaging about 2.2 percent of GDP; Text Table 1: Adjustment scenario 1), which could potentially disrupt efforts to upgrade infrastructure and boost long-term growth, the authorities are considering extending the timeline to meet the debt target two years later in FY2022/23. In staff's view, while such an extension seems warranted in current circumstances, fiscal consolidation while protecting the social safety net should be pursued from the forthcoming budget (FY2019/20) to bolster the credibility of the government's fiscal plans and to put public sector debt firmly on a declining path into the medium term.

21. Gradual fiscal consolidation appears feasible to reach the revised debt target. Under the baseline scenario, which presumes borrowing for aircraft purchases in the near term, a primary balance adjustment of about 0.5 percent of GDP in FY2019/20 and 0.8 percent of GDP a year thereafter appears feasible to achieve the debt target of 60 percent of GDP by FY2022/23 (Text Table 1: Adjustment scenario 2). If the aircrafts were to be leased, as is an option discussed by the authorities during the mission, public debt would be lower by about 1-2 percent of GDP in the near term than in the baseline, and the pace of adjustment could be modestly slower. Recently, the authorities have also indicated the possibility of postponing the aircraft purchases to FY2022/23, which would imply lower debt levels and financing needs in the near term but would require a similar adjustment as in scenario 2 (Text Table 1) to reach the debt target of 60 percent of GDP by FY2022/23. The choice among these various options should be based on longer-term considerations (that is, the most beneficial option in net present value terms).

22. Both revenue and expenditure-side measures can support consolidation. To achieve the desired consolidation, there is scope to:

- Mobilize domestic revenue, notably, through higher excise taxes on alcohol, tobacco, and luxury items; imposition of toll taxes on repaired/new roads; increase in the solidarity levy; introduction of property taxes; streamlining the tax incentive framework; and improvements in tax auditing efficiency.

- Rationalize spending by better targeting social spending and subsidies; allowing subsidies to support the national minimum wage implementation to lapse as scheduled; reining in wage growth; and reforming the national pension system.

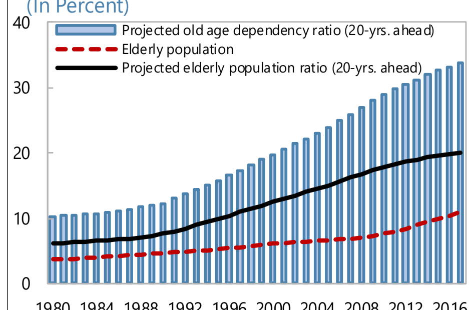
Text Table 1. Fiscal Adjustment Path Baseline Scenario

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
			Est.	Projection					
Baseline: [1]									
Consolidated fiscal balance	-3.7	-3.3	-2.9	-3.0	-3.0	-2.9	-2.9	-2.9	-2.8
Primary fiscal balance (excl. grants)	-1.4	-1.5	-1.0	-1.8	-1.8	-1.6	-1.6	-1.6	-1.6
Public sector debt	65.0	65.0	63.7	64.9	67.5	67.8	66.7	65.4	64.4
Authorities' budget, FY18/19: [2]									
Consolidated fiscal balance	-3.7	-3.3	-3.3	-3.3	-3.1	-2.1	…	…	…
Primary fiscal balance (excl. grants)	-1.4	-1.5	-1.5	-2.3	-1.1	0.4	…	…	…
Public sector debt	65.0	64.9	63.0	63.1	62.8	60.0	…	…	…
Adjustment scenario 1 (over FY19/20-FY20/21): [3]									
Consolidated fiscal balance	-3.7	-3.3	-2.9	-3.0	1.0	1.1	1.2	1.4	1.6
Primary fiscal balance (excl. grants)	-1.4	-1.5	-1.0	-1.8	2.2	2.2	2.2	2.2	2.2
Public sector debt	65.0	65.0	63.7	64.9	63.5	60.0	55.3	50.5	46.0
Adjustment scenario 2 (over FY19/20-FY22/23): [4]									
Consolidated fiscal balance	-3.7	-3.3	-2.9	-3.0	-2.5	-1.8	-1.0	0.0	0.0
Primary fiscal balance (excl. grants)	-1.4	-1.5	-1.0	-1.8	-1.3	-0.5	0.3	1.1	1.0
Public sector debt	65.0	65.0	63.7	64.9	67.0	66.2	63.2	59.3	55.8

Source: IMF staff estimates and projections.
1 The baseline assumes a drawdown of government deposits in 2018/19 in line with the budget.
2 The budget for FY17/18 projected a consolidated fiscal balance of -3.3 pecent of GDP, compared to the outturn of -2.9 percent of GDP considered in the baseline. The budget also did not include full borrowing costs for the light rail project. These costs have subsequently been incorporated.
3 Estimated adjustment required to meet the public debt target by end-FY20/21.
4 Estimated adjustment required to meet the public debt target by end-FY22/23.

23. **A decline in public debt over the medium term will help to safeguard macroeconomic stability and create room to respond to shocks.** The Debt Sustainability Analysis (DSA) under the baseline scenario indicates that Mauritius' public debt level is sustainable, but the outlook is susceptible to a range of macro-fiscal shocks (Annex II). While the maturity structure of public debt is favorable, and most of the external debt has been contracted on concessional terms, the elevated debt level and notable short-term gross financing needs make the outlook particularly vulnerable to adverse growth, interest rate, and fiscal shocks. Additional staff analysis indicates that Mauritius has some fiscal space—reflecting the country's institutional strength, deep domestic financial markets, and sustainable debt profile—but that this could be at risk in significant adverse scenarios. Possible contingent liabilities (including those associated with a large financial sector) and the costs associated with a rapidly aging population pose additional fiscal risks that require the debt level to be contained.

Mauritius: Old-Age Dependency Ratio
(In Percent)



Source: World Bank's World Development Indicators, and UN's World Populations Prospects database.
Notes: Projected old age dependency ratio is the ratio of population over 65 years of age to population between 20-64 years. Elderly population is population over the age of 65 years to total population.

24. Improvements in fiscal transparency and public investment management will also help to preserve debt sustainability. Enhancing fiscal transparency by moving towards general government reporting and implementing the International Public Sector Accounting Standards (IPSAS) will bolster credibility and help to maintain sustainability. Steps taken to improve public investment efficiency (including the establishment of project monitoring and coordination ministerial committees) are welcome, but there remains room for improvement in line with the 2017 Public Investment Management Assessment (PIMA) recommendations. Transparency in the public procurement process could also be strengthened by clarifying the processes and outcomes—including those for special purpose entities.

Authorities' Views

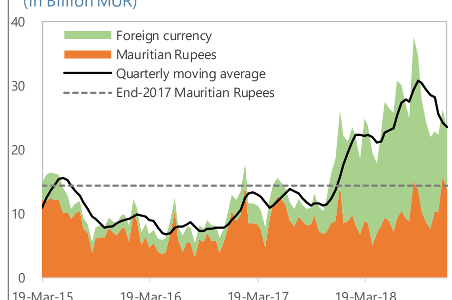
25. The authorities' agreed with the thrust of staff advice. While extension of the timeline to meet the debt target by FY2022/23 is under consideration, options to mobilize revenue and streamline expenditure to support consolidation are being explored. On IPSAS implementation, the authorities indicated their full commitment to follow the roadmap and implement the standards by FY2022/23. Along with several departmental technical committees, a steering committee has been created at the Ministry of Finance and Economic Development (MOFED) to oversee IPSAS implementation.

B. Maintaining Monetary Stability

26. The current monetary policy stance appears broadly appropriate against the backdrop of subdued inflation. With inflationary pressures contained, the accommodative monetary policy stance remains appropriate at the current juncture. However, given the nearly closed output gap and upside risks to inflation, vigilance is warranted against emerging inflationary pressures.

27. Efforts to contain the level of excess liquidity in the banking system are welcome and should continue. As a result of the BOM's efforts to contain excess liquidity in the banking system, banks' excess cash holdings in local currency during 2018 mostly stayed below the end-2017 level, and the gap between the KRR and the money market rates (91-day bill rate and the overnight interbank rate) narrowed (Figure 3).[3] While issuance of securities to absorb liquidity entails costs for the BOM, the alignment of the money market rate with

Mauritius: Banks' Excess Liquidity, 2015M3-2018M12
(In Billion MUR)



Source: Bank of Mauritius.
Note: Foreign currency (FC) refers to Mauritian Rupees equivalent of foreign currencies. The increase in banks' excess FC holding since November 2017 corresponds with the implementation of the Liquidity Coverage Ratio.

[3] Banks' excess liquidity comprises both domestic and foreign currency, but the increase in the latter since November 2017 is largely a consequence of the introduction of the LCR by the BOM. To manage excess liquidity, the BOM has been focusing on the 91-day bill yield (at issuance) as its operating target, as opposed to the interbank rate which is the announced operational target. The BOM views the 91-day bill rate as an appropriate target since excess liquidity has been successfully managed by sustaining the level of the 91-day bill rate consistent with the KRR. The BOM indicated that it is monitoring developments in both the 91-day bill and the interbank rates to assess their sustainability before formalizing the choice of the operational target.

the policy rate is important to improve the operational efficiency of monetary policy. In line with previous staff recommendations, staff encouraged the MOFED and the BOM to reach a tractable agreement on financing the costs of these monetary policy interventions.

28. Staff discussed the potential benefits of a more forward-looking monetary policy framework. The current monetary policy framework of implicit inflation targeting (IT) has served Mauritius well, but moving toward a more formal framework with a clearly defined medium-term inflation objective could help to enhance monetary policy credibility and better anchor inflation expectations, thereby providing greater flexibility to respond to shocks. While several elements for formal IT are already in place, efforts should focus on determining the appropriate medium-term inflation target (and the band around it), further strengthening the BOM's forecasting capacity, and setting up institutional mechanisms (particularly for transparency and accountability) to effectively implement the framework.

Authorities' Views

29. The authorities broadly agreed with staff assessment that monetary policy should remain cautiously accommodative and respond to inflation developments. On banks' excess liquidity, the BOM indicated that a large part in foreign currency corresponds to the LCR, while that in domestic currency partly reflects banks' precautionary holdings. Given the alignment of the KRR and the money market rate, the BOM plans to focus on managing liquidity to meet demand from banks. The BOM reiterated its concerns about the costs associated with open market operations and sterilized FX intervention, and the desire to have in place a cost-sharing arrangement with MOFED, but the details of such a mechanism remain to be worked out. The authorities saw merit in modernizing the monetary policy framework but provided some caveats regarding adoption of a formal IT regime—including practical difficulties in determining the optimal inflation target.

C. Regaining External Competitiveness

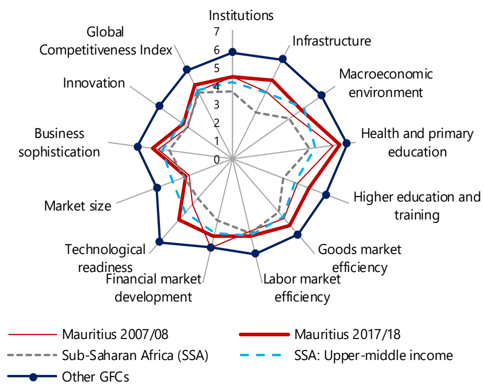
30. The deteriorating external competitiveness warrants attention. Staff's external sector assessment suggests that Mauritius' external position at end-2017 was substantially weaker than implied by medium-term fundamentals and desirable policy settings (Annex IV). While the estimates of the current account gap obtained from the EBA-lite methodology are subject to considerable uncertainty, not least because of Mauritius's status as a global financial center, other approaches and indicators also point to a substantially weak external position. The CAD is estimated to have widened further in 2018, implying a similar assessment.

31. International reserves stand within the advisable range of the adjusted reserve adequacy metric. International reserves have improved since 2016 and, at about 120 percent of the adjusted reserve adequacy metric, are in the middle of the advisable range. Given the large size of the offshore sector, however, FX intervention policy should continue to opportunistically build reserves to further strengthen resilience.

Advancing Reforms

32. Boosting external competitiveness requires a concerted effort to enhance productivity, labor market efficiency, and diversification. While both Doing Business and global competitiveness indicators show that Mauritius has made considerable progress along various dimensions and continues to outperform regional peers, it lags other international competitors—most notably in technological readiness, innovation, infrastructure, higher education and training, labor market efficiency, and institutional quality. These gaps manifest in unfavorable productivity and diversification trends for the country (Box 2; Appendix II).

Global Competitiveness Index, 2017-18



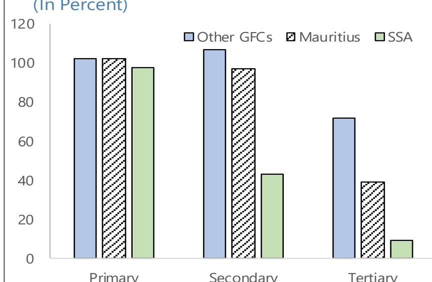
Source: World Economic Forum, IMF staff calculations.
Notes: Index ranges from 1 (lowest) to 7 (highest). Statistics for comparator groups are averages. SSA upper-middle income=Nonoil exporting upper-middle income countries of sub-Saharan Africa. Other GFCs=Other financial centers (Hong Kong SAR, Ireland, Luxembourg, Singapore, Switzerland, UAE).

33. Steps taken to improve the business climate and facilitate structural transformation are welcome, but more could be done to improve effectiveness. In recent years, several initiatives and reforms have been introduced to improve the business climate, build innovation capacity, and move into higher value-added sectors—including introduction of the Business Facilitation Act 2017, development of a Financial Sector Blueprint, and creation of the National Economic Development Board to promote private investment and exports. In addition, several incentives to support SMEs, youth skill development, and FLFP have been put forward. However, there remains room to:

- Improve synergies between the various initiatives and coordination among the stakeholders to enhance the effectiveness of reforms.
- Conduct regular monitoring and evaluation of the initiatives to track progress and prevent wastage of public resources.
- Generate greater awareness about the initiatives among the targeted groups and make information easily available.

34. Structural transformation requires expeditiously addressing the skill mismatch. While Mauritius has a generally educated workforce, a critical mismatch exists between the available and required technical skills for value upgrading, which is inhibiting the pace of structural transformation and translating into a lower level of economic complexity than potential (Box 2). The authorities' focus on skill development is a step in the right direction, which could be made more fruitful by

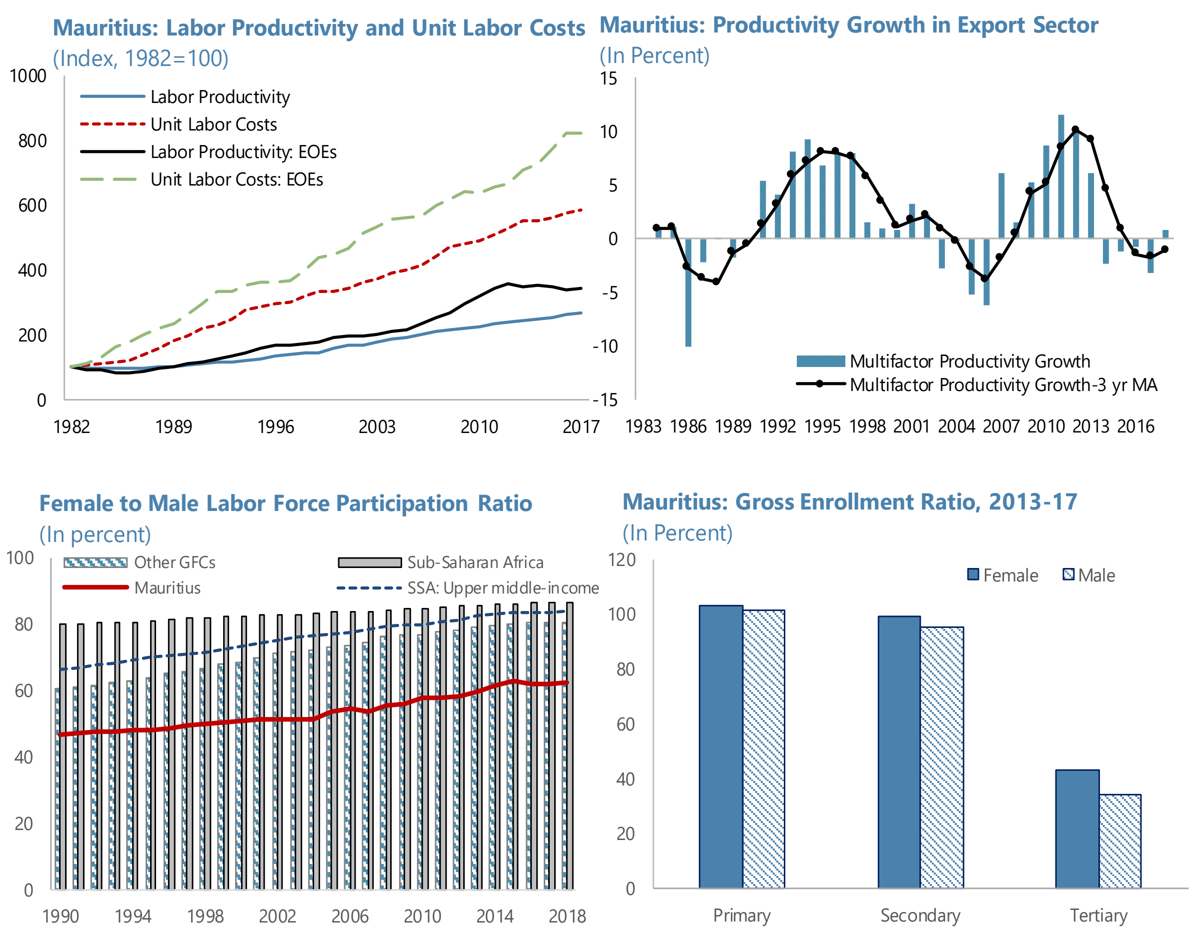
Gross Enrollment Ratio, 2013-17
(In Percent)



Sources: World Bank's World Development Indicators and IMF staff calculations.
Notes: SSA=Sub-Saharan Africa. Other GFCs=Other global financial centers (Hong Kong SAR, Ireland, Singapore, Switzerland). Values are period averages.

conducting regular establishment surveys to better identify and address the skill needs across the economy. Strengthening partnerships with leading international academic and research institutions could also help to foster skills and knowledge sharing.

35. Broader reforms in the labor market will help to improve cost competitiveness. Real wages have generally outpaced labor productivity in the export-oriented sector in Mauritius. The current salary compensation mechanism—based on annual changes to the cost of living negotiated by the government, trade unions, and businesses—could be improved to better align productivity with real wages. The national minimum wage introduced in 2018 is an important step toward safeguarding social objectives, but its impact on SME competitiveness and job creation should be monitored to strike the right balance. Furthermore, while FLFP has improved in recent years, it remains well below peers. Given the high education level among females, bolstering their workforce participation will help to alleviate labor supply constraints and reduce the economy's skill gap. In this context, efforts should be made to better understand the reasons for the limited FLFP across the different age groups/education levels to improve the targeting and design of programs aimed at boosting FLFP.

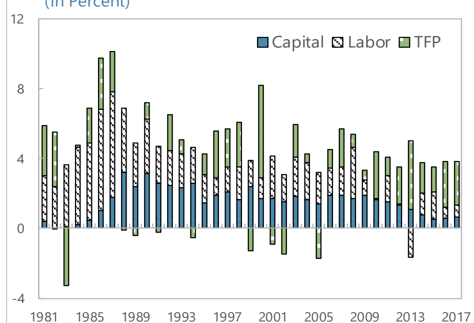


Sources: Statistics Mauritius, World Bank's World Development Indicators, and IMF staff calculations.
Notes: SSA=Sub-Saharan Africa. Other GFCs=Other global financial centers (Hong Kong SAR, Ireland, Singapore, Switzerland).

36. Strong and independent institutions are key to overcoming policy challenges. Mauritius has a track record of good governance and strong institutions, but recent years have seen a slight deterioration in some aspects of institutional quality indicators, including an increase in the perception of corruption. Staff urged the authorities to maintain strong and independent institutions to remain an attractive investment and employment destination. Improving fiscal transparency and strengthening the AML/CFT framework could help to improve public perceptions regarding corruption (see ¶24 and ¶41). The recent adoption of the Declaration of Assets Bill, which extends the scope of the assets to be declared and the categories of public officials obliged to declare their assets, is a welcome step and should be effectively implemented.

Box 2. Unlocking Structural Transformation in Mauritius

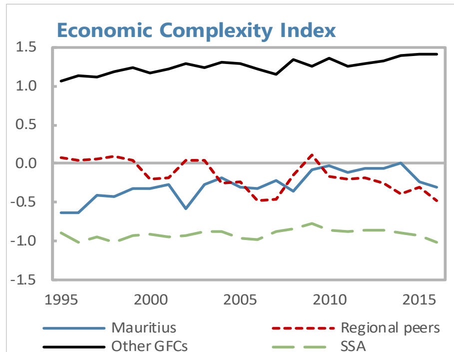
Real GDP growth in Mauritius has slowed down over the years, largely due to a decline in physical and human capital accumulation. Confronted with negligible population growth and tepid private investment, robust productivity growth will be a key driver of economic growth going forward. Recent productivity trends, especially among the export-oriented enterprises (EOEs), however, are not encouraging—EOE productivity growth averaged about 2 percent over 2000–17, compared to 5 percent in the 1990s.



Source: Statistics Mauritius and IMF staff

Applying the growth diagnostic framework of Hausman, Rodrik, and Velasco (2005), staff analysis suggests that growth in Mauritius is constrained by low economic returns due to limited physical infrastructure, human capital, and innovation capacity (see Selected Issues Paper for details). Self-discovery externalities (i.e., learning about profitable new products) and co-ordination externalities (i.e., new economic activities often require simultaneous and lumpy investments in related enterprises) appear to be other possible factors constraining private investment and structural transformation, which manifest in terms of low economic diversification and sophistication in the country.

Indeed, Mauritius lags global peers in economic complexity, but the actual level is even lower than that predicted by its macro-structural characteristics. Improving sophistication requires building innovation capacity (notably through skill development, R&D, and improvement in the ICT infrastructure) and better coordination between the public and private sectors to overcome the externalities. In the near term, a pragmatic strategy would entail focusing on value upgrading in the traditional sectors to spur productivity and transformation.



Sources: Harvard CID and IMF staff calculations.
Note: SSA=Sub-Saharan Africa; Regional peers=Non-oil exporting SSA countries (Botswana, Namibia, South Africa); Other GFCs=Ireland, Singapore, Switzerland, UAE.

Bolstering Savings

37. From a saving-investment perspective, the external imbalance over the last decade has been driven by a decline in national savings, including private savings. While fiscal consolidation will contribute to raising national savings and reducing the large CAD, staff analysis shows that the private saving rate is also around 3 percent of GDP lower than potential, given Mauritius' economic and structural characteristics (Appendix III). Economic growth would help to boost private savings, but a rapidly rising old-age dependency ratio requires a higher level of savings to alleviate fiscal pressures and avoid abrupt policy adjustments in the future. In this regard, efforts should focus on increasing public awareness of the importance of savings, encouraging private savings, e.g., through old-age related saving schemes, and reforming the national pension system in line with previous recommendations (IMF Country Report 14/107).

Authorities' Views

38. The authorities concurred on the importance of boosting productivity and accelerating structural transformation to improve competitiveness. They expressed satisfaction with the level of FX reserves and agreed that given the vulnerabilities associated with a large offshore sector, further reserve accumulation may be warranted. They highlighted their ongoing efforts to create an innovation ecosystem (including through the creation of Smart Cities); address the skill gap through training programs and introduction of new technology-related courses at universities; boost trade by signing several bilateral and multilateral free trade agreements (including with China); and establish strong investment links with the region through the Africa Strategy. They expressed optimism that these efforts would bring tangible results in the medium term. They attributed the high youth unemployment rate and low FLFP to work preferences and cultural issues but agreed that better coordination and monitoring of government initiatives is required to improve results. In this context, they pointed to the creation of a ministerial committee to oversee the implementation of budget-related measures.

D. Strengthening Financial Stability and Integrity

AML/CFT Framework

39. As a prominent international financial center, Mauritius' financial sector is exposed to money laundering and terrorist financing threats. The evaluation report by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) published in 2018 identified several deficiencies in Mauritius' AML/CFT framework (Box 3). Consequently, in October 2018, the Financial Action Task Force (FATF) placed Mauritius on a one-year observation period, at the end of which progress in addressing the key identified deficiencies and potential listing by the FATF will be discussed.

Box 3. Key Deficiencies in the AML/CFT Framework Identified by ESAAMLG

- Lack of understanding of money laundering and terrorist financing risk across the jurisdiction.

- Inadequate risk-based AML/CFT supervision of reporting entities.

- Poor implementation of the AML/CFT framework by reporting entities.

- Gaps in the legal framework pertaining to customer due diligence measures including with respect to beneficial ownership of legal entities and arrangements.

40. Mauritius has undertaken substantial steps to address its AML/CFT deficiencies. In 2018, it amended its AML Law to include, *inter alia*, customer due diligence (CDD) requirements for reporting entities, enhanced obligations pertaining to politically exposed persons and groupwide internal controls, and new provisions relating to the gathering and maintenance of beneficial ownership information. To improve understanding of ML/TF risks, Mauritius has undertaken a National Risk Assessment (NRA) to be finalized in 2019. It has also initiated piloting a risk-based plan of AML/CFT supervision of banks. To address shortcomings in the CDD of reporting agencies and in the availability and accuracy of the beneficial ownership information on legal persons and arrangements, a centralized know-your-customer system is being developed.

41. Further progress is warranted to meet the ESAAMLG recommendations. While Mauritius has made significant strides in amending its legal framework, improving the effectiveness of the overall regime will also require strengthening the understanding of ML/TF risks among designated non-financial businesses and professions (DNFBPs), improving implementation of AML/CFT measures by reporting entities, and improving the availability and accessibility of beneficial ownership information in the offshore sector.

Financial Supervision

42. Outstanding issues in the financial supervisory and regulatory frameworks need to be addressed. While several recommendations of the last FSAP have been adopted (Annex V), other recommendations—including implementation of risk-based and consolidated supervision, adoption of the remaining Basel III instruments, legal changes to upgrade the financial safety net, and establishing a macroprudential authority—should also be followed. As the loan-to-value ratio was effectively suspended in mid-2018, staff advised close monitoring of credit and property market developments to periodically evaluate the need for its re-introduction.

Fintech Development

43. Mauritius aspires to become a regional hub for fintech activities. A regulatory sandbox licensing (RSL) regime for fintech start-ups has already been set up, along with a National RSL Committee to coordinate and assess all fintech-related RSL applications. Within the fintech domain, the authorities are initially focusing on activities relating to digital assets, but a more detailed fintech strategy, including for mobile money and payments, should be informed by an assessment of comparative strengths and limitations (Appendix II).

44. Adequate AML/CFT safeguards should be put in place for fintech-related activities. Specifically, when adopting regulation on services in digital assets, as was recently done for custodian services, AML/CFT risks should be evaluated and addressed. Proper safeguards relating to CDD and beneficial ownership of digital assets should be established, which will be facilitated by the ongoing work on the centralized know-your-customer system.

Authorities' Views

45. The authorities agreed with the importance of expeditiously meeting ESAAMLG recommendations and upgrading financial regulation. They highlighted the significant steps taken to address the identified weaknesses in the AML/CFT framework and expressed commitment to remedy the remaining deficiencies, including with technical assistance from international institutions. They broadly agreed with the recommendations on financial sector regulatory reforms, some of which have been implemented and others are in progress. They contended, however, that the current arrangement of committees coordinating macroprudential policies across the regulatory bodies has served them well and that there is no pressing need to create a macroprudential authority.

OTHER ISSUES

46. Data provision is broadly adequate for surveillance, but there is room for improvement. The ongoing efforts of Statistics Mauritius to improve the national accounts data following TA recommendations are welcome (Annex VI). Further progress is warranted to validate the GBC1 annual survey data quality, improve its timeliness, and set a revision policy.

47. Capacity development—including through AFRITAC South—will help support authorities' key policy objectives. Capacity development priorities relate to strengthening the AML/CFT framework, further improving the quality of national accounts data, and strengthening public financial management (Annex VI).

STAFF APPRAISAL

48. The macroeconomic outlook is broadly positive, but vulnerabilities remain. Growth is projected at about 4 percent in the medium term, driven by robust performance in the construction and services sectors. Unemployment is expected to decline further, while inflationary pressures are likely to remain contained. The CAD is projected to widen in 2019–20, before stabilizing at around 5 percent of GDP. Risks to the outlook stem from changes in both global and domestic conditions and are mostly tilted to the downside.

49. Fiscal adjustment is necessary to enhance fiscal credibility, preserve debt sustainability, and reduce external imbalances. With financing for public investments exerting upward pressure on public debt in the near term, the authorities' debt target of 60 percent of GDP for FY2020/21 is unlikely to be met without a significant policy adjustment. While extension of the target by two years is being considered by the authorities, gradual fiscal consolidation should commence from the next budget FY2019/20 to enhance fiscal credibility and to put public debt on a declining path.

50. The monetary policy stance is broadly appropriate. Efforts to contain excess liquidity in the banking system should continue. The monetary policy framework could be modernized further by building the necessary capacity and institutional arrangements to announce and track a medium-term inflation objective, which will help to enhance policy credibility and improve resilience to shocks.

51. The widening external imbalance needs attention. Staff's analysis indicates that the external position of Mauritius is substantially weaker than implied by medium-term fundamentals and desirable policy settings. While international reserves have improved significantly supported by financial inflows and are within the advisable range, given the large size of the offshore sector, FX intervention policy should continue to opportunistically build reserves buffers to strengthen resilience to shocks.

52. External competitiveness concerns should be addressed by concerted efforts to boost national savings, improve productivity and expedite structural transformation. Increasing national savings, including through fiscal consolidation and pension reforms, will help to address the growing external imbalance. While promising steps have been taken to improve the business climate, build innovation capacity, and support SMEs, skill development and female workforce participation, these have yet to deliver tangible results. Coordination among the initiatives and stakeholders should be improved to enhance the effectiveness of reforms. Systematic monitoring and evaluation of the initiatives is also essential to track progress and prevent resource wastage. Broader labor market reforms (including improvements to the wage-setting mechanism) will contribute toward addressing the declining cost competitiveness. Moreover, strong and independent institutions must be maintained to remain an attractive investment and employment destination.

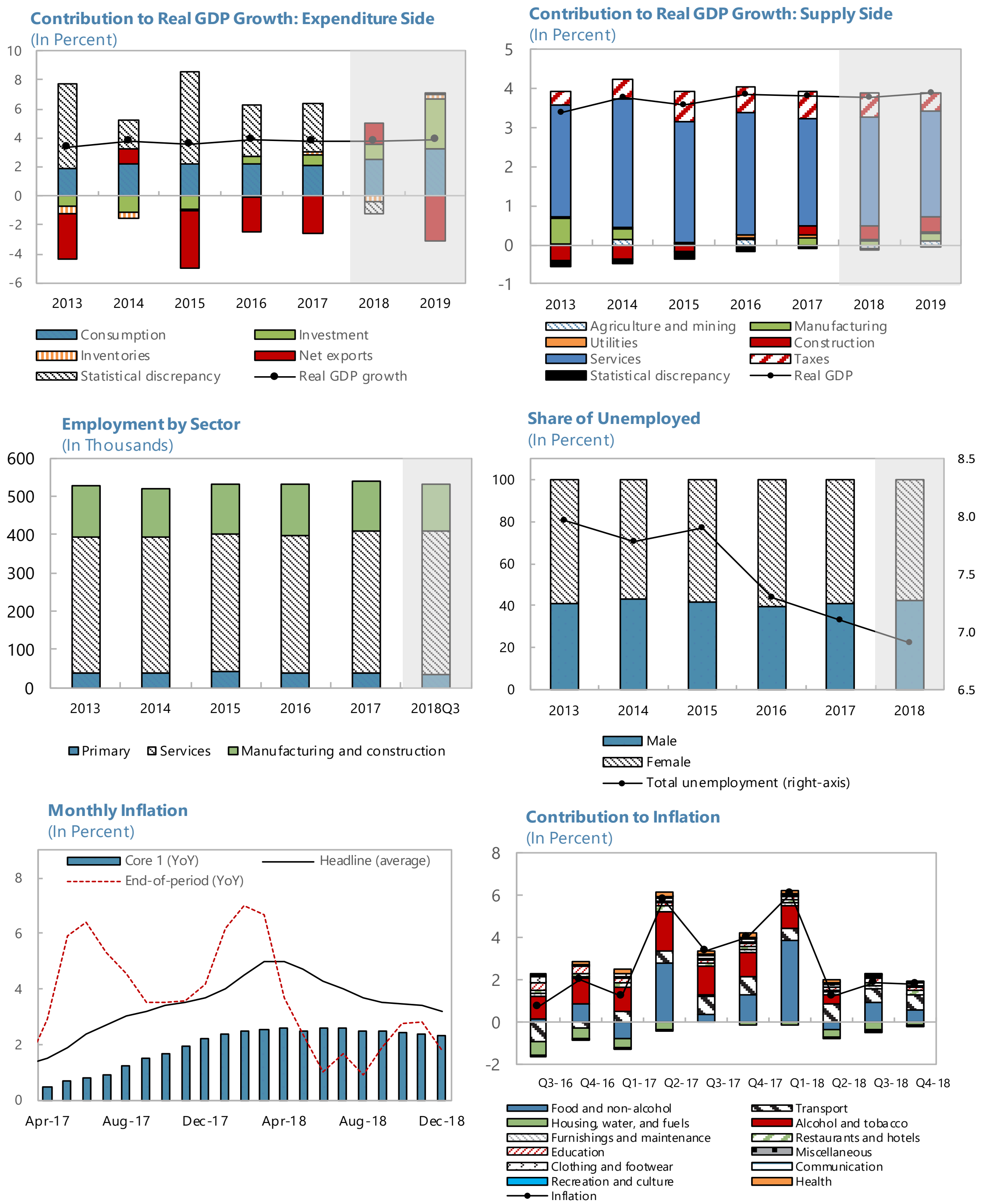
53. Outstanding FSAP recommendations should be implemented. While several recommendations of the last FSAP have been adopted, other recommendations—including implementation of risk-based and consolidated supervision, adoption of the remaining Basel III instruments, and establishment of a macroprudential authority—should also be followed.

54. The steps taken to comply with the international anti-tax avoidance initiatives are welcome. The progress made in compliance with international anti-tax avoidance initiatives and the conclusion by the OECD that Mauritius does not have any harmful features in its tax regimes are notably positive developments. The remaining requirements to meet international standards should also be swiftly implemented to strengthen Mauritius' image as a globally competitive financial center.

55. The ESAAMLG recommendations should be expeditiously implemented. Significant steps have been undertaken to address the identified deficiencies in the AML/CFT framework, but further progress is needed to meet all ESAAMLG recommendations. In particular, the NRA exercise should be completed; risk-based AML/CFT supervision of banks should be further strengthened; AML/CFT oversight of DNFBPs should be enhanced; and the availability and accessibility of beneficial ownership information in the offshore sector should be improved. Adequate AML/CFT safeguards should also be put in place for fintech-related activities.

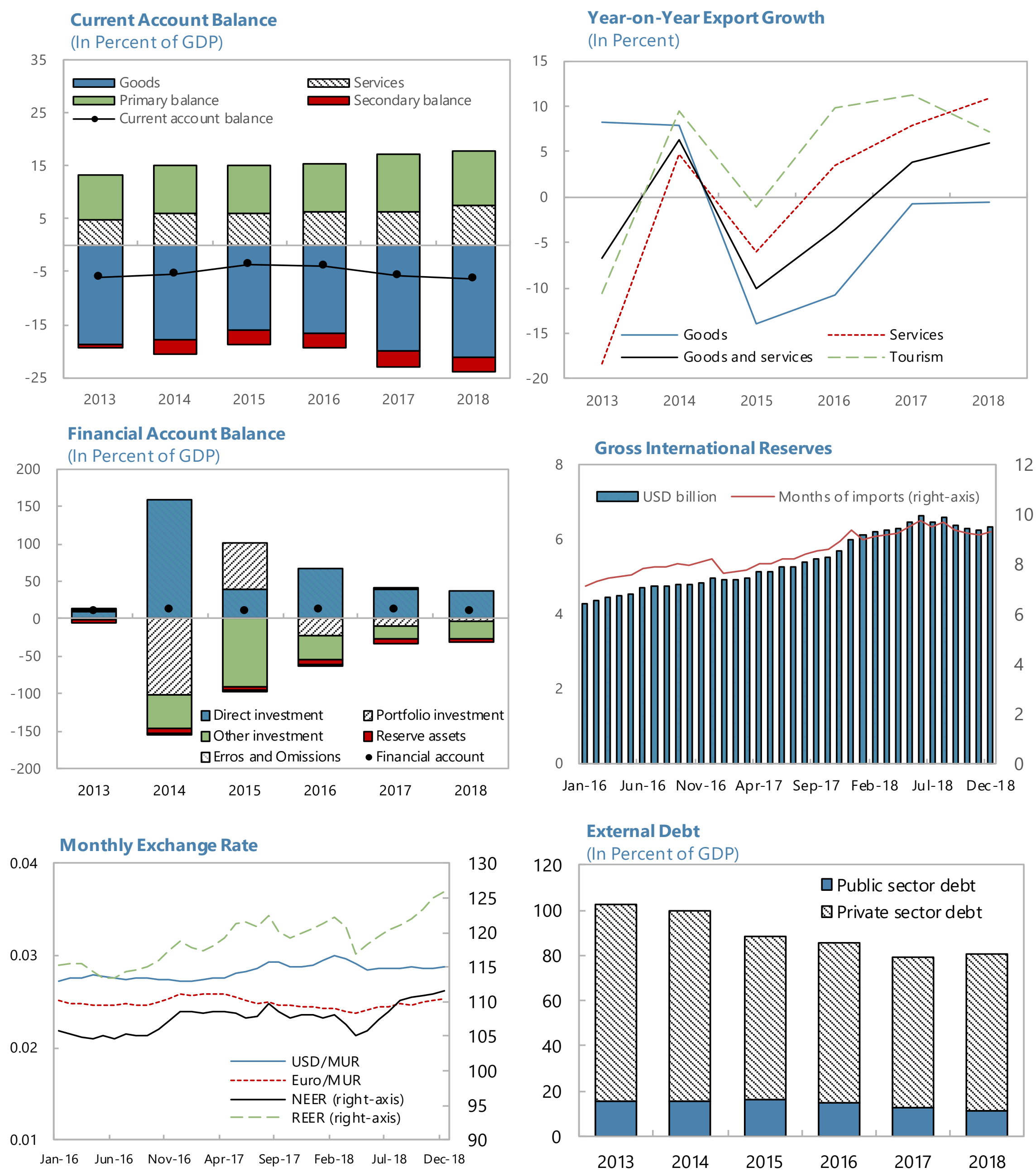
56. Staff recommends that the next Article IV consultation takes place in the standard 12-month cycle.

Figure 1. Mauritius: Real Sector Developments, 2013–19



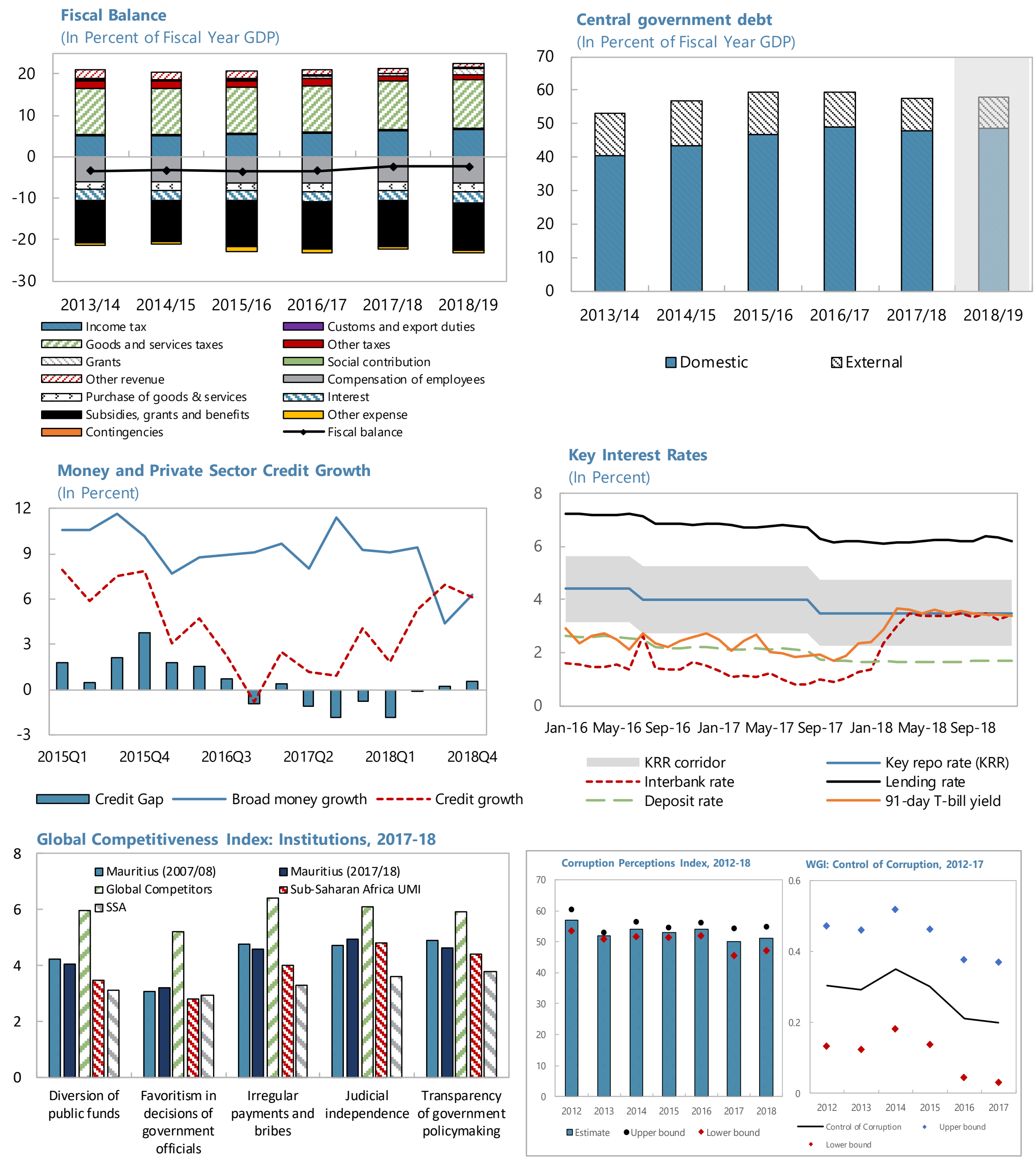
Sources: Country authorities and IMF staff estimates.
Notes: Shaded areas are projections. The services sector includes wholesale and retail trade, financial and insurance activities, information and communication, accomodation and food, and other services. CORE1 inflation excludes "Food, Beverages and Tobacco" and mortgage interest on housing loans. The annual average method compares the average level of prices during a 12-month period with the average level during the corresponding previous 12-month period. The year-on-year methodology is computed as the change in the Consumer Price Index for a given month compared with the same month of the preceding year in percentage terms.

Figure 2. Mauritius: External Sector Developments, 2013–18



Sources: Country authorities and IMF staff estimates.
Notes: Data for 2018 are provisional. An increase in the exchange rates signals an appreciation, and vice versa. The financial account is presented in BPM5 terms with positive values indicating inflows. External debt is calculated as end of year.

Figure 3. Mauritius: Fiscal, Financial, and Institutional Indicators, 2013–2018



Sources: Country authorities, IMF staff calculations, World Economic Forum, Transparency International, and Worldwide Governance Indicators (D. Kaufmann and A. Kraay, 2017)

Notes: Shaded area in the top two charts indicates projections. Credit gap is defined as the difference between the actual and the HP-filtered credit-to-GDP ratio (in percentage points). The KRR corridor is set by the BOM as KRR +/- 125 bps. The Global Competitiveness Index ranges from 1 (lowest) to 7 (highest). Data for irregular payments and bribes begins from 2010/11. Corruption Perceptions Index ranges from 0 (highly corrupt) to 100 (least corrupt). WGI refers to the Worldwide Governance Indicators, for which values range from -2.5 (high corruption) to 2.5 (low corruption). Statistics for comparator groups are averages. SSA Upper-middle income group excludes the oil exporters. Global competitors include other financial centers: Hong Kong SAR, Ireland, Luxembourg, Singapore, Switzerland, and the United Arab Emirates.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2015–24

	2015	2016	2017	2018	2018	2019	2020	2021	2022	2023	2024
			Est.	Budget	Est.			Proj.			
					(Annual percent change, unless otherwise indicated)						
National income, prices and employment											
Real GDP	3.6	3.8	3.8		3.8	3.9	3.9	4.0	4.0	4.0	4.0
Real GDP per capita	3.4	3.8	3.7		3.7	3.8	3.9	4.0	4.0	4.0	4.0
GDP per capita (in U.S. dollars)	9,259	9,681	10,491		11,281	11,694	12,433	13,226	14,097	14,947	15,835
GDP deflator	1.0	2.1	1.4		2.2	2.6	3.0	3.0	2.9	2.5	2.4
Consumer prices (period average)	1.3	1.0	3.7		3.2	2.1	3.7	3.5	3.4	3.4	3.4
Consumer prices (end of period)	1.3	2.3	4.3		1.8	4.1	3.6	3.5	3.4	3.4	3.4
Unemployment rate (percent)	7.9	7.3	7.1		6.9	6.9	6.9	6.8	6.8	6.8	6.7
					(Annual percent change, in US Dollars)						
External sector											
Exports of goods and services, f.o.b.	-10.1	-3.5	3.9		5.9	3.8	5.0	5.5	5.7	5.7	5.7
Of which: tourism receipts	-1.0	9.8	11.2		7.2	7.7	7.9	7.9	7.9	7.8	0.0
Imports of goods and services, f.o.b.	-12.2	-1.7	11.4		6.8	6.2	3.2	2.5	2.5	2.6	2.6
Nominal effective exchange rate (annual average)	-1.0	1.8	2.5		0.3	…	…	…	…	…	…
Real effective exchange rate (annual average)	-1.0	1.2	3.9		1.3	…	…	…	…	…	…
Terms of trade	8.7	1.9	-4.1		-4.4	2.1	0.1	0.4	0.3	0.1	0.1
					(Annual change in percent)						
Money and credit											
Net foreign assets	15.6	3.8	3.2		0.7	4.3	5.3	6.0	6.3	6.5	7.6
Net claims on government	-6.2	29.1	28.5		8.1	8.3	6.8	6.2	5.7	5.2	5.3
Credit to non-government sector	7.9	-0.8	4.1		6.1	5.4	5.8	6.0	6.1	6.1	6.1
Broad money	7.8	8.7	8.7		2.1	6.6	7.0	7.1	7.0	6.6	6.5
Income velocity of broad money (M2)	1.1	1.1	1.1		1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest rate (weighted average TBs, primary auctions)	1.9	2.5	2.1		…	…	…	…	…	…	…
					(Percent of GDP, unless otherwise indicated)						
Central government finances [1,2]											
Overall consolidated balance (including grants)	-3.7	-3.3	-2.9	-3.3	-3.0	-3.0	-2.9	-2.9	-2.9	-2.8	-2.8
Primary balance (excluding grants)	-1.4	-1.5	-1.0	-2.9	-1.8	-1.8	-1.6	-1.6	-1.6	-1.6	-1.6
Revenues (incl. grants)	20.8	21.1	21.4	23.3	22.4	22.1	22.0	21.7	21.6	21.5	21.5
Expenditure, excl. net lending	24.5	24.4	24.3	27.1	25.4	25.1	24.9	24.6	24.5	24.2	24.2
Domestic debt of central government	46.9	49.2	47.9	49.4	48.5	48.6	48.2	47.5	46.8	46.1	45.3
External debt of central government	12.7	10.4	9.4	8.6	9.5	9.4	9.2	9.2	9.4	9.6	9.6
Investment and saving											
Gross domestic investment	18.1	17.9	18.3		18.4	21.1	22.0	21.2	20.3	20.4	20.9
Public	4.7	4.4	4.1		4.7	7.0	7.6	6.6	5.4	5.3	5.3
Private [2]	13.4	13.5	14.1		13.6	14.1	14.4	14.6	14.9	15.1	15.6
Gross national savings	16.8	17.3	17.9		16.8	17.1	16.9	15.6	15.5	15.4	16.3
Public	-1.8	-2.1	-1.4		-0.7	-0.8	-1.0	-1.2	-1.4	-1.4	-1.3
Private	18.6	19.4	19.3		17.6	17.9	17.9	16.8	16.8	16.9	17.6
External sector											
Balance of goods and services	-10.0	-10.3	-13.5		-13.7	-15.0	-13.8	-12.2	-10.5	-9.1	-7.6
Exports of goods and services, f.o.b.	46.1	42.5	40.7		40.1	40.1	39.6	39.3	39.0	38.9	38.8
Imports of goods and services, f.o.b.	-56.2	-52.8	-54.2		-53.8	-55.1	-53.5	-51.5	-49.5	-47.9	-46.4
Current account balance	-3.6	-4.0	-5.6		-6.2	-7.4	-6.7	-5.7	-5.5	-5.3	-5.0
Capital and financial account	9.3	10.9	10.8		8.7	8.0	7.5	6.9	6.8	6.3	6.8
Overall balance	4.9	6.0	6.2		2.5	0.6	0.8	1.2	1.3	1.1	1.8
Total external debt	90.3	86.6	77.0		78.5	83.0	82.9	81.6	80.4	79.7	78.9
Gross international reserves (millions of U.S. dollars)	4,222	4,934	5,974		6,329.9	6,423	6,552	6,754	6,978	7,178	7,534
Months of imports of goods and services, f.o.b.	7.8	8.2	9.3		9.3	9.2	9.1	9.2	9.2	9.3	9.3
Memorandum items:											
GDP at current market prices (billions of Mauritian rupees)	409.9	434.8	457.5		485.2	517.0	553.5	592.9	634.6	676.6	720.6
GDP at current market prices (millions of U.S. dollars)	11,692	12,232	13,267		14,277	14,812	15,757	16,757	17,856	18,929	20,051
Public sector debt, fiscal year (percent of GDP)	66.9	65.0	63.7		64.9	67.5	67.8	66.7	65.5	64.4	63.3
Public sector debt, calendar year (percent of GDP)	63.6	64.4	63.7		65.1	…	…	…	…	…	…
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa1		…	…	…	…	…	…	…

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

[1] *GFSM 2001* concept of net lending/net borrowing, includes special and other extrabudgetary funds. Fiscal data reported for fiscal years (e.g, 2018=2018/19).

[2] Includes changes in inventories.

Table 2A. Mauritius: Summary of Central Government Finances, 2015/16–23/24[1]

(Millions of Rupees; unless otherwise indicated)

	2015/16	2016/17		2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
		Budget	Est.	Budget	Est.	Budget	Proj.					
Total revenue and grants (1)	**87,848**	**102,400**	**94,100**	**112,242**	**100,987**	**117,437**	**112,894**	**118,203**	**125,841**	**133,033**	**141,418**	**149,881**
Domestic revenue	87,514	95,987	91,196	105,264	98,387	108,540	105,773	111,780	118,963	125,668	133,551	**141,498**
Tax revenue	77,810	84,720	84,147	92,259	91,492	99,723	99,274	104,900	111,567	117,779	125,092	132,519
Income tax - Individuals	7,621	8,270	8,661	9,467	9,527	9,850	10,001	10,630	11,383	12,189	13,019	13,873
Income tax - Corporations	10,459	11,069	11,881	12,525	12,403	14,750	14,524	15,437	16,532	17,702	18,908	20,148
Value added tax (VAT)	28,805	31,430	30,231	32,835	32,989	36,125	35,783	38,031	40,728	43,611	46,688	49,749
Excise duties	15,633	17,439	17,275	20,180	20,109	20,932	20,785	21,536	22,385	22,384	23,184	24,020
Customs	1,343	1,150	1,177	1,305	1,335	1,440	1,426	1,459	1,468	1,473	1,482	1,487
Other taxes	13,950	15,362	14,922	15,947	15,129	16,626	16,755	17,808	19,071	20,421	21,812	23,242
Social contributions	1,375	1,417	1,377	1,545	1,349	1,297	1,322	1,378	1,505	1,581	1,721	1,799
Nontax revenue	8,329	9,850	5,672	11,460	5,546	7,520	5,176	5,501	5,891	6,308	6,738	7,180
Grants	333	6,413	2,904	6,978	2,600	8,897	7,122	6,423	6,878	7,365	7,867	8,383
Total expense (current spending) (2)	**97,152**	**107,334**	**103,225**	**115,003**	**104,549**	**122,136**	**116,421**	**123,032**	**132,041**	**141,133**	**150,601**	**160,079**
Expenditures on goods and services	40,160	44,137	41,381	47,221	41,467	49,527	46,609	50,031	53,373	57,151	61,044	64,968
Compensation of employees	26,208	29,597	28,364	30,552	29,233	31,396	31,323	33,785	35,652	38,175	40,776	43,371
Use of goods and services and other expense	13,952	14,540	13,016	16,669	12,234	18,131	15,286	16,246	17,721	18,976	20,268	21,598
Interest payments	10,119	11,296	10,958	11,900	11,378	13,375	13,245	12,744	14,138	15,371	16,271	17,020
Domestic interest		10,561	10,228	11,145			12,614	11,928	12,918	13,866	14,641	15,296
External interest		735	730	755			631	816	1,220	1,505	1,630	1,723
Transfers and subsidies	21,850	24,221	23,484	25,632	22,458	26,818	24,045	25,556	27,368	29,305	31,302	33,354
Subsidies	1,768	1,513	1,517	1,955	1,674	1,648	1,612	1,713	1,835	1,965	2,099	2,236
Grants and transfers	20,082	22,708	21,966	23,677	20,784	25,170	22,433	23,843	25,533	27,340	29,203	31,118
Social benefits	25,023	27,080	27,401	29,550	29,246	31,916	32,521	34,564	37,016	39,635	42,336	45,112
Contingencies	0	600	0	700	0	500	0	136	146	-329	-352	-375
Gross operating balance ((3)=(1)-(2))	**-9,304**	**-4,934**	**-9,125**	**-2,761**	**-3,562**	**-4,699**	**-3,527**	**-4,829**	**-6,200**	**-8,100**	**-9,182**	**-10,198**
Net acquisition of non-financial assets (capital spending)	**5,793**	**10,020**	**6,330**	**12,713**	**7,951**	**9,320**	**8,311**	**10,264**	**9,308**	**8,737**	**8,523**	**7,931**
Net lending / borrowing (central governm. budget balance)[2]	**-15,098**	**-14,954**	**-15,455**	**-15,474**	**-11,513**	**-14,019**	**-11,838**	**-15,093**	**-15,507**	**-16,837**	**-17,706**	**-18,129**
Net lending / borrowing (special funds)[3]	**-490**	**-4,748**	**858**	**-47**	**-2,030**	**-4,843**	**-3,243**	**-1,023**	**-1,096**	**-1,173**	**-1,253**	**-1,335**
CONSOLIDATED BALANCE	**-15,588**	**-19,702**	**-14,597**	**-15,521**	**-13,543**	**-16,455**	**-15,081**	**-16,116**	**-16,603**	**-18,010**	**-18,959**	**-19,465**
Transactions in financial assets/liabilities	**-364**	**3,592**	**-39**	**5,514**	**2,268**	**8,430**	**8,163**	**2,877**	**1,941**	**1,467**	**915**	**975**
Net acquisition of financial assets	31	3,782	339	6,150	2,829	9,320	8,963	3,727	2,851	2,442	1,957	2,085
Of which: net lending	-2,227	695	-825	-34	-1,025	721	871	926	991	1,062	1,134	1,208
Adjustment for difference in cash and accrual	-395	-190	-378	-636	-561	-890	-800	-850	-911	-975	-1,041	-1,110
OVERALL BORROWING REQUIREMENT	**-15,224**	**-23,294**	**-14,558**	**-21,035**	**-15,811**	**-24,885**	**-23,244**	**-18,994**	**-18,543**	**-19,477**	**-19,874**	**-16,884**
FINANCING	**15,224**	**23,294**	**14,558**	**21,035**	**15,811**	**24,756**	**23,244**	**18,994**	**18,543**	**19,477**	**19,874**	**20,440**
Domestic	10,035	21,994	20,146	21,787	17,851	27,413	20,294	17,058	16,078	16,092	15,556	15,107
Banks	3,345	7,331	6,715	7,262	5,950		6,765	5,686	5,359	5,364	5,185	5,036
Nonbanks	6,690	14,663	13,430	14,525	11,901		13,530	11,372	10,719	10,728	10,371	10,071
Foreign	5,188	1,300	-5,588	-752	-2,040	-2,657	2,949	1,935	2,465	3,385	4,318	5,333
Disbursements	7,775	6,500		2,348			6,994	6,100	6,636	7,212	7,806	8,364
Amortization	-2,587	-5,200		-3,100			-4,045	-4,165	-4,171	-3,827	-3,488	-3,031
Memorandum items:												
Central government debt	**251,401**	**262,811**	**265,547**	**271,393**	**270,413**		**290,805**	**310,336**	**328,928**	**348,555**	**368,514**	**389,084**
Public sector debt[4]	**274,326**	**283,629**	**290,103**	**303,376**	**300,164**		**326,714**	**361,262**	**388,672**	**409,313**	**429,271**	**449,842**
GDP at current market prices (FY, in billions of Rupees)	422	451	446	469	471		504	535	573	614	656	699
Expenditure, excluding net lending	103,435	122,102	108,696	127,763	114,530	136,299	127,975	134,319	142,444	151,043	160,377	169,346
Primary balance (incl. grants)	-5,469	-8,406	-3,638	-3,621	-2,165	-5,487	-1,836	-3,372	-2,465	-2,639	-2,688	-2,445
Primary balance (excl. grants)	-5,802	-14,819	-6,542	-10,599	-4,765	-14,384	-8,957	-9,795	-9,343	-10,004	-10,555	-10,828

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

[1] *GFSM 2001* presentation.

[2] Corresponds to the authorities' budget presentation.

[3] Includes the following special and other extra-budgetary funds: Maurice Ile Durable Fund; Human Resource, Knowledge and Arts Development Fund; Food Security Fund; Local Infrastructure Fund; and Social Housing Development Fund; National Resillience Fund (named Business Growth Fund prior to 2012); Road Decongestion; Program Fund; Build Mauritius Fund and Lotto Fund.

[4] For the purposes of calculating the public debt ceiling, the 2008 Public Debt Management Act requires netting certain types of State-Owned Enterprises' debt.

Table 2B. Mauritius: Summary of Central Government Finances. 2015/16–23/24[1]

(Percent of GDP; unless otherwise indicated)

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
		Est.	Budget	Est.	Budget	Proj.	Proj.				
Total revenue and grants (1)	**20.8**	**21.1**	**23.9**	**21.4**	**23.3**	**22.4**	**22.1**	**22.0**	**21.7**	**21.6**	**21.5**
Domestic revenue	**20.7**	**20.4**	**22.4**	**20.9**	**21.6**	**21.0**	**20.9**	**20.8**	**20.5**	**20.4**	**20.3**
Tax revenue	18.4	18.9	19.7	19.4	19.8	19.7	19.6	19.5	19.2	19.1	19.0
Income tax - Individuals	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Income tax - Corporations	2.5	2.7	2.7	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Value added tax (VAT)	6.8	6.8	7.0	7.0	7.2	7.1	7.1	7.1	7.1	7.1	7.1
Excise duties, incl. "Maurice Ile Durable" levy	3.7	3.9	4.3	4.3	4.2	4.1	4.0	3.9	3.6	3.5	3.4
Customs	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Other taxes	3.3	3.3	3.4	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Social contributions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	2.0	1.3	2.4	1.2	1.5	1.0	1.0	1.0	1.0	1.0	1.0
Grants	0.1	0.7	1.5	0.6	1.8	1.4	1.2	1.2	1.2	1.2	1.2
Total expense (current spending) (2)	**23.0**	**23.1**	**24.5**	**22.2**	**24.3**	**23.1**	**23.0**	**23.0**	**23.0**	**23.0**	**22.9**
Expenditures on goods and services	9.5	9.3	10.1	8.8	9.8	9.3	9.3	9.3	9.3	9.3	9.3
Compensation of employees	6.2	6.4	6.5	6.2	6.2	6.2	6.3	6.2	6.2	6.2	6.2
Use of goods and services and other expense	3.3	2.9	3.6	2.6	3.6	3.0	3.0	3.1	3.1	3.1	3.1
Interest payments	2.4	2.5	2.5	2.4	2.7	2.6	2.4	2.5	2.5	2.5	2.4
Domestic interest	0.0	2.3	2.4	0.0	0.0	2.5	2.2	2.3	2.3	2.2	2.2
External interest	0.0	0.2	0.2	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Transfers and subsidies	5.2	5.3	5.5	4.8	5.3	4.8	4.8	4.8	4.8	4.8	4.8
Subsidies	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants and transfers	4.8	4.9	5.0	4.4	5.0	4.5	4.5	4.5	4.5	4.5	4.5
Social benefits	5.9	6.1	6.3	6.2	6.3	6.5	6.5	6.5	6.5	6.5	6.5
Other expense	1.3	0.9	1.2	0.6	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Contingencies	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1
Gross operating balance ((3)=(1)-(2))	-2.2	-2.0	-0.6	-0.8	-0.9	-0.7	-0.9	-1.1	-1.3	-1.4	-1.5
Net acquisition of non-financial assets (capital spending)	1.4	1.4	2.7	1.7	1.9	1.7	1.9	1.6	1.4	1.3	1.1
Net lending / borrowing (central governm. budget balance)[2]	-3.6	-3.5	-3.3	-2.4	-2.8	-2.4	-2.8	-2.7	-2.7	-2.7	-2.6
Net lending / borrowing (special funds)[3]	-0.1	0.2	0.0	-0.4	-1.0	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2
CONSOLIDATED BALANCE	**-3.7**	**-3.3**	**-3.3**	**-2.9**	**-3.3**	**-3.0**	**-3.0**	**-2.9**	**-2.9**	**-2.9**	-2.8
Transactions in financial assets/liabilities	-0.1	0.0	1.2	0.5	1.7	1.6	0.5	0.3	0.2	0.1	0.1
Net acquisition of financial assets	0.0	0.1	1.3	0.6	1.9	1.8	0.7	0.5	0.4	0.3	0.3
Of which: net lending	-0.5	-0.2	0.0	-0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Adjustment for difference in cash and accrual	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
OVERALL BORROWING REQUIREMENT	**-3.6**	**-3.3**	**-4.5**	**-3.4**	**-4.9**	**-4.6**	**-3.5**	**-3.2**	**-3.2**	**-3.0**	-2.4
FINANCING	**3.6**	**3.3**	**4.5**	**3.4**	**4.9**	**4.6**	**3.5**	**3.2**	**3.2**	**3.0**	2.9
Domestic	2.4	4.5	4.6	3.8	5.4	4.0	3.2	2.8	2.6	2.4	2.2
Banks	0.8	1.5	1.5	1.3		1.3	1.1	0.9	0.9	0.8	0.7
Nonbanks	1.6	3.0	3.1	2.5		2.7	2.1	1.9	1.7	1.6	1.4
Foreign	1.2	-1.3	-0.2	-0.4	-0.5	0.6	0.4	0.4	0.6	0.7	0.8
Disbursements	1.8	0.0	0.5	0.0		1.4	1.1	1.2	1.2	1.2	1.2
Amortization	-0.6	0.0	-0.7	0.0		-0.8	-0.8	-0.7	-0.6	-0.5	-0.4
Memorandum items:											
Central government debt	59.5	59.5	57.9	57.4		57.7	58.0	57.4	56.8	56.2	55.7
Public sector debt[4]	65.0	65.0	64.7	63.7		64.9	67.5	67.8	66.7	65.5	64.4
Central government expenditure, excluding net lending	24.5	24.4	27.2	24.3	27.1	25.4	25.1	24.9	24.6	24.5	24.2
Central government primary balance (incl. grants)	-1.3	-0.8	-0.8	-0.5	-1.1	-0.4	-0.6	-0.4	-0.4	-0.4	-0.3
Central government primary balance (excl. grants)	-1.4	-1.5	-2.3	-1.0	-2.9	-1.8	-1.8	-1.6	-1.6	-1.6	-1.6

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

[1] *GFSM 2001* presentation.

[2] Corresponds to the authorities' budget presentation.

[3] Includes the following special and other extra-budgetary funds: Maurice Ile Durable Fund; Human Resource, Knowledge and Arts Development Fund; Food Security Fund; Local Infrastructure Fund; and Social Housing Development Fund; National Resillience Fund (named Business Growth Fund prior to 2012); Road Decongestion; Program Fund; Build Mauritius Fund and Lotto Fund.

[4] For the purposes of calculating the public debt ceiling, the 2008 Public Debt Management Act requires netting certain types of State-Owned Enterprises' debt.

Table 3. Mauritius: Balance of Payments, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.				
	(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance	**-420**	**-491**	**-750**	**-892**	**-1,095**	**-1,053**	**-959**	**-987**	**-1,002**	**-1,004**
Trade balance	**-1,865**	**-2,031**	**-2,629**	**-3,016**	**-3,336**	**-3,413**	**-3,393**	**-3,419**	**-3,462**	**-3,507**
Exports of goods, f.o.b.	2,661	2,376	2,358	2,345	2,355	2,391	2,451	2,491	2,512	2,514
Imports of goods, f.o.b.	-4,527	-4,407	-4,987	-5,362	-5,691	-5,804	-5,844	-5,910	-5,974	-6,021
Of which: Oil Imports (refined)	-724	-635	-885	-1,185	-1,227	-1,259	-1,265	-1,278	-1,304	-1,338
Services (net)	691	775	841	1,061	1,120	1,235	1,347	1,539	1,746	1,978
Of which: tourism	884	956	1,079	1,155	1,240	1,368	1,519	1,677	1,849	2,039
Income (net)	**1,081**	**1,094**	**1,448**	**1,472**	**1,526**	**1,527**	**1,487**	**1,291**	**1,108**	**914**
Of which: GBCs	912	1,066	1,155	1,321	1,368	1,361	1,306	1,093	889	670
Current transfers (net)	**-326**	**-328**	**-410**	**-408**	**-405**	**-403**	**-400**	**-397**	**-393**	**-389**
Capital and financial accounts	**1,092**	**1,329**	**1,436**	**1,247**	**1,188**	**1,182**	**1,161**	**1,211**	**1,202**	**1,361**
Capital account	-4	-1	-3	-3	-3	-3	-3	-4	-4	-4
Financial account	**1,096**	**1,330**	**1,439**	**1,250**	**1,191**	**1,185**	**1,164**	**1,214**	**1,206**	**1,365**
Direct investment (net)	4,490	8,077	5,123	5,219	5,269	5,642	5,963	6,301	6,655	6,681
Abroad	-10,515	6,899	5,492	-2,253	-1,766	-508	1,606	1,300	566	871
In Mauritius	15,005	1,179	-369	7,472	7,036	6,150	4,357	5,001	6,089	5,810
Portfolio investment (net)	7,255	-2,881	-1,396	-552	-499	-27	701	1,113	1,575	2,019
Other investment (net)	-10,649	-3,867	-2,288	-3,416	-3,579	-4,429	-5,499	-6,199	-7,025	-7,335
Of which: SDR allocation	…	…	…	…	…	…	…	…	…	…
Government (net)	-101	-99	-67	-68	777	323	120	123	149	149
Private (net)	-10,548	-3,768	-2,221	-3,348	-4,356	-4,751	-5,620	-6,323	-7,173	-7,484
Errors and omissions	-103	-100	135	0	0	0	0	0	0	0
Overall balance	569	738	821	356	93	129	202	224	200	356
Change in official reserves (- = increase)	**-569**	**-738**	**-821**	**-356**	**-93**	**-129**	**-202**	**-223**	**-199**	**-354**
	(Percent of GDP, unless otherwise indicated)									
Memorandum items:										
Balance of goods and services	**-10.0**	**-10.3**	**-13.5**	**-13.7**	**-15.0**	**-13.8**	**-12.2**	**-10.5**	**-9.1**	**-7.6**
Exports of goods and services, f.o.b.	46.1	42.5	40.7	40.1	40.1	39.6	39.3	39.0	38.9	38.8
Imports of goods and services, f.o.b.	-56.2	-52.8	-54.2	-53.8	-55.1	-53.5	-51.5	-49.5	-47.9	-46.4
Volume of goods exports (annual percent change)	-3.3	-8.8	-5.1	-3.7	2.9	1.5	3.2	1.8	1.3	-0.7
Volume of goods imports (annual percent change)	10.1	2.8	4.0	-3.4	15.4	0.9	-1.6	1.1	0.8	1.0
Foreign direct investment	**38.4**	**66.0**	**38.6**	**36.6**	**35.6**	**35.8**	**35.6**	**35.3**	**35.2**	**33.3**
Current account balance	**-3.6**	**-4.0**	**-5.6**	**-6.2**	**-7.4**	**-6.7**	**-5.7**	**-5.5**	**-5.3**	**-5.0**
Current account balance, excluding GBCs	-7.9	-9.3	-11.1	-12.5	-13.7	-12.5	-10.9	-9.2	-7.6	-6.1
Overall balance	4.9	6.0	6.2	2.5	0.6	0.8	1.2	1.3	1.1	1.8
Errors and omissions	-0.9	-0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves, BOM, (mill. of U.S. dollars)	**4,222**	**4,934**	**5,974**	**6,330**	**6,423**	**6,552**	**6,754**	**6,978**	**7,178**	**7,534**
In months of imports of goods and services, f.o.b.	7.8	8.2	9.3	9.3	9.2	9.1	9.2	9.2	9.3	9.3
Percent of external short term debt	121.7	107.2	113.7	125.5	123.0	119.8	117.9	115.9	113.4	113.4
Percent of broad money	33.8	36.7	39.5	38.8	37.9	36.3	35.2	34.2	33.1	32.8
Gross reserves, BOM, (mil. of U.S. dollars)	4,228	4,939	5,979	6,334	6,427	6,556	6,758	6,982	7,182	7,539
GDP (millions of U.S. dollars)	11,692	12,232	13,267	14,277	14,812	15,757	16,757	17,856	18,929	20,051
Total external debt[1]	90.3	86.6	77.0	78.5	83.0	82.9	81.6	80.4	79.7	78.9
Total debt service ratio (% of goods & services exports)	4.1	4.2	6.2	4.2	4.1	4.0	3.9	3.5	3.3	2.9
Mauritian rupees per U.S. dollar (period average)	35.1	35.5	34.5	34.0	…	…	…	…	…	…
Mauritian rupees per U.S. dollar (end of period)	35.9	36.0	33.5	33.0	…	…	…	…	…	…

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

[1] Includes SDR allocation in 2009.

Table 4. Mauritius: Depository Corporations Survey, 2015–24

	2015	2016	2017	2018[1]	2019	2020	2021	2022	2023	2024
				Est.			Proj.			
	(Millions of rupees, end of period; unless otherwise indicated)									
Central Bank of Mauritius										
Net foreign assets	151,519	177,669	200,039	217,004	218,456	224,020	232,405	240,951	249,056	262,647
(in millions of US dollars)	4,222	4,934	5,974	6,576	6,445	6,568	6,764	6,982	7,176	7,526
Net domestic assets	-78,194	-96,076	-97,977	-116,233	-111,073	-109,069	-109,256	-109,148	-108,539	-112,986
Net domestic credit	-23,910	-33,716	-20,414	-14,898	-14,862	-14,820	-14,777	-14,732	-14,686	-14,639
Government (net)	-28,635	-38,387	-24,932	-19,273	-19,267	-19,259	-19,252	-19,245	-19,239	-19,232
Commercial banks (net)	4,725	4,671	4,518	4,376	4,405	4,439	4,475	4,514	4,552	4,593
Other items (net)	-54,284	-62,360	-77,563	-101,335	-96,212	-94,249	-94,479	-94,416	-93,853	-98,347
Reserve money	73,326	81,592	102,063	100,772	107,383	114,951	123,149	131,803	140,517	149,661
Currency outside banks	33,337	35,918	38,711	39,340	41,921	44,876	48,076	51,455	54,857	58,427
Bank reserves	39,988	45,674	63,351	61,431	65,461	70,075	75,072	80,348	85,660	91,235
Banks										
Net foreign assets	377,506	371,482	366,873	353,672	376,966	402,786	431,970	465,127	503,023	546,220
(in millions of US dollars)	10,519	10,316	10,957	10,717	11,122	11,809	12,571	13,477	14,493	15,652
Credit to BoM	72,682	86,193	123,969	132,372	132,372	132,372	132,372	132,372	132,372	132,372
Net domestic assets	30,577	72,779	118,031	148,132	149,201	160,464	171,449	180,697	185,500	187,108
Net domestic credit	574,301	614,052	719,637	683,314	684,328	695,591	706,576	715,824	720,627	722,236
Central Government (net)	70,615	92,592	94,611	94,606	100,832	106,355	111,716	116,991	122,102	127,511
Other sectors[2]	10,144	16,857	33,144	79,871	76,198	76,267	76,338	76,409	76,482	76,557
Claims on private sector[3]	493,542	504,603	591,882	508,836	507,299	512,969	518,522	522,424	522,043	518,167
o/w Credit to the private sector[4]	378,957	376,019	391,388	415,311	437,738	463,126	490,914	520,860	552,632	586,343
Other items (net)	-543,724	-541,272	-601,606	-535,182	-535,127	-535,127	-535,127	-535,127	-535,127	-535,127
Total deposits	407,068	443,464	484,258	501,352	526,167	563,250	603,419	645,824	688,523	733,329
Monetary Survey										
Net foreign assets	529,026	549,151	566,913	570,677	595,422	626,806	664,375	706,078	752,080	808,867
(in millions of US dollars)	14,741	15,250	16,931	17,292	17,567	18,377	19,335	20,459	21,669	23,179
Net domestic assets	-91,027	-71,362	-44,830	-15,663	-3,997	6,301	13,883	19,845	21,837	15,412
Net domestic credit	476,653	493,258	574,578	535,595	536,616	547,887	558,878	568,134	572,943	574,558
Central government (net)	41,980	54,205	69,678	75,333	81,565	87,096	92,464	97,746	102,863	108,279
Other sectors	13,649	20,506	36,845	83,665	75,227	80,805	86,848	93,228	99,651	106,391
Claims on the private sector[3]	421,023	418,546	468,055	376,597	375,897	376,059	375,639	373,233	366,502	355,961
o/w Credit to the private sector[4]	378,957	376,019	391,388	415,311	437,738	463,126	490,914	520,860	552,632	586,343
Other items (net)	-567,680	-564,619	-619,408	-551,258	-540,613	-541,586	-544,995	-548,288	-551,106	-559,146
M1	91,398	102,001	112,961	325,826	347,202	371,672	398,178	426,160	454,336	483,902
Money and quasi-money (M2)	368,020	400,153	434,814	443,913	473,035	506,375	542,487	580,610	618,998	659,279
M2 plus resident foreign currency deposits (M3)	437,999	477,789	522,083	533,114	568,088	608,126	651,495	697,279	743,380	791,755
M3 plus nonbank holdings of government debt (L)	437,999	477,789	522,083	555,014	591,425	633,108	678,258	725,923	773,917	824,280
	(Annual percent change; unless otherwise specified)									
Memorandum items										
M2	7.8	8.7	8.7	2.1	6.6	7.0	7.1	7.0	6.6	6.5
M3	10.2	9.1	9.3	2.1	6.6	7.0	7.1	7.0	6.6	6.5
Deposits	10.4	8.9	9.2	3.5	4.9	7.0	7.1	7.0	6.6	6.5
Reserve money	8.1	11.3	25.1	-1.3	6.6	7.0	7.1	7.0	6.6	6.5
Net domestic credit	6.7	3.5	16.5	-6.8	0.2	2.1	2.0	1.7	0.8	0.3
Government (net)	-6.2	29.1	28.5	8.1	8.3	6.8	6.2	5.7	5.2	5.3
Private Sector Credit	7.9	-0.8	4.1	6.1	5.4	5.8	6.0	6.1	6.1	6.1
Multiplier (average M3/RM)	6.0	5.9	5.1	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Velocity (GDP/M3)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	(As percent of GDP)									
M3	106.9	109.9	114.1	109.9	109.9	109.9	109.9	109.9	109.9	109.9
Deposits	99.3	102.0	105.9	103.3	101.8	101.8	101.8	101.8	101.8	101.8
Reserve money	17.9	18.8	22.3	20.8	20.8	20.8	20.8	20.8	20.8	20.8
Net domestic credit	116.3	113.5	125.6	110.4	103.8	99.0	94.3	89.5	84.7	79.7
Government (net)	10.2	12.5	15.2	15.5	15.8	15.7	15.6	15.4	15.2	15.0
Private	102.7	96.3	102.3	77.6	72.7	67.9	63.4	58.8	54.2	49.4

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

[1] In October 2018, the methodology used to construct monetary accounts was revised to be better aligned with the IMF Financial Statistics Manual and compilation guide 2016. The revision led to structural breaks in some series, notably in claims on the private sector.

[2] Excluding liabilities to the Central Bank.

[3] Includes derivatives and other related financial instruments.

[4] Excludes derivatives and other related financial instruments. Credit to the private sector for 2018 is an estimate that has been adusted to correct for the methodological structural break between end-2017 and end-2018. See note 1 above.

Table 5. Mauritius: Financial Soundness Indicators for the Banking Sector[1], 2015–2018Q3

(End of Period, in percent; unless otherwise indicated)

	2015	2016				2017				2018		
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Capital adequacy												
Regulatory capital to risk-weighted assets [2]	18.4	18.7	18.2	18.2	18.2	18.5	18.6	18.2	18.8	18.6	18.0	18.3
Regulatory Tier I capital to risk-weighted assets	17.0	17.2	16.5	16.6	16.7	16.9	17.2	16.8	17.4	17.2	16.7	16.9
Capital to total assets	10.5	10.5	10.5	10.6	10.6	10.2	10.4	10.0	10.1	10.0	11.6	11.8
Asset composition and quality												
Sectoral distribution of loans to total loans												
Residents	59.4	60.5	60.5	60.8	60.5	60.6	61.5	61.0	60.3	60.7	61.4	61.9
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Deposit-takers	0.6	0.7	0.6	0.7	0.9	0.9	0.8	1.3	1.6	1.8	2.4	3.6
Other domestic sectors	21.0	21.6	21.8	21.8	22.0	21.6	22.5	22.1	21.8	21.9	21.8	21.6
Other financial corporations	1.0	1.1	1.1	1.8	1.9	2.4	2.7	3.8	3.8	3.9	3.9	3.9
Nonfinancial corporations	36.8	37.1	37.0	36.4	35.6	35.7	35.6	33.7	33.1	33.0	33.3	32.9
Nonresidents	40.6	39.5	39.5	39.2	39.5	39.4	38.5	39.0	39.7	39.3	38.6	38.1
Geographic distribution of loans to total loans												
Domestic economy	55.0	54.9	54.0	54.2	56.2	58.0	58.1	59.4	58.2	59.4	59.5	58.8
Advanced economies	5.9	6.7	7.6	7.2	8.6	9.1	9.7	9.4	10.3	10.0	8.2	8.1
Loans to other emerging market & developing countries	39.1	38.4	38.3	38.6	35.3	32.9	32.1	31.2	31.5	30.6	32.2	33.1
Real Estate Markets												
Residential Real Estate Loans to Total Loans	5.8	5.8	5.5	5.1	4.6	4.3	4.3	4.2	3.9	4.1	4.4	3.9
Commercial Real Estate Loans to Total Loans	9.1	9.4	9.5	9.3	9.4	9.2	9.7	9.7	10.2	10.3	10.3	10.3
Nonperforming loans (NPLs) to total gross loans	7.2	7.8	8.0	8.0	7.8	7.9	7.9	7.8	7.0	7.2	6.9	6.4
NPLs net of provisions to capital	19.1	18.7	19.1	18.7	18.7	19.3	17.9	18.3	16.3	15.6	14.3	13.2
Large exposures to capital	184.3	190.2	188.4	176.5	159.8	150.0	136.6	157.4	224.4	228.3	235.3	230.2
Earnings and Profitability												
Return on assets	1.2	1.4	1.4	1.5	1.5	1.4	1.5	1.5	1.6	1.5	1.5	1.7
Return on equity	12.1	13.1	13.6	14.0	13.9	13.2	14.9	14.7	15.2	14.9	14.6	15.7
Interest margin to gross income	68.5	62.7	67.2	63.0	71.5	69.2	68.8	70.2	69.6	66.9	71.5	71.3
Noninterest expenses to gross income	44.3	36.2	41.8	38.9	45.9	42.3	40.2	44.3	42.9	41.1	40.5	41.5
Personnel expenses to non-interest expenses	50.5	50.6	52.0	47.7	47.3	49.4	49.5	49.1	49.5	49.3	49.4	46.2
Trading income to total income	10.0	16.2	7.9	17.9	9.5	10.3	8.7	12.3	10.2	12.5	8.2	11.5
Liquidity												
Liquid assets to total assets (liquid asset ratio)	27.1	27.4	27.9	28.3	27.9	26.8	28.1	25.0	22.2	23.2	25.4	21.6
Liquid assets to total short-term liabilities	34.5	34.4	34.1	34.3	33.9	33.3	35.2	32.2	28.9	30.0	28.8	24.6
Foreign-currency-denominated loans to total loans	55.9	54.9	54.8	54.8	56.4	56.0	55.0	54.3	55.0	55.2	54.4	53.8
Foreign-currency-denominated liabilities to total liabilities	52.7	52.0	51.8	52.0	51.6	52.0	50.8	49.8	49.7	51.1	50.6	49.1
Customer deposits to total (non-interbank) loans	147.4	145.1	148.9	151.6	150.5	152.4	156.6	157.1	153.4	159.3	155.2	148.3
Sensitivity to market risk												
Net open positions in FX to capital	3.0	2.5	2.9	3.0	3.1	4.7	3.7	3.3	3.2	4.8	3.0	2.6

Source: Bank of Mauritius.

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

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

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Impact	Policy Response
External Risks				
Sharp tightening of global financial conditions	Low/ Medium	ST	**High:** Capital flow reversal could affect the external and fiscal positions, requiring an abrupt and potentially disruptive adjustment. Spillovers to the financial system would be likely.	Allow exchange rate flexibility and tighten monetary policy if inflationary pressures emerge. Let automatic fiscal stabilizers operate. Provide foreign exchange liquidity if dollar shortages appear. Accelerate adoption of FSAP recommendations to mitigate risks to the banking sector.
Rising protectionism and retreat from multilateralism	High	ST, MT	**High/Medium:** Impact on the Balance of Payments and economic growth would depend on the extent to which trade and financial flows are disrupted.	Adopt labor market reforms and improve the business climate to boost competitiveness. Allow greater exchange rate flexibility and fiscal adjustment to reduce external imbalances and ensure medium-term debt stabilization, while protecting social spending.
Weaker-than-expected global growth: • **Euro Area** • **U.S.** • **China**	 High Medium Medium	 ST, MT ST, MT ST, MT	**High/Medium:** The US, EU, and China are Mauritius' major trading and financial partners. Significant impact on the external sector is likely.	Allow monetary easing if medium-term inflation expectations are contained and let automatic fiscal stabilizers operate. Adopt labor market reforms and improve infrastructure to boost competitiveness. Facilitate export diversification. Allow exchange rate flexibility to absorb shocks.
Large swings in energy prices	Medium	ST, MT	**High:** Increase in oil prices would worsen the current account deficit and increase inflation.	Tighten monetary policy if second-round effects start to build up. Tighten fiscal policy and improve external competitiveness through structural reforms.
Domestic Risks				
Changes to the business model. Activity in the offshore global business sector is weakened following expiration of tax benefits granted by India.	Medium	ST, MT	**High:** Impact on financial stability, economic activity, fiscal revenues, and employment.	Facilitate diversification to develop new growth drivers and improve the competitiveness of traditional sectors.
AML/CFT concerns. Loss of market confidence and correspondent banking relationships due to the identified deficiencies in the AML/CFT framework.	Medium	ST, MT	**High:** Impact on growth and employment.	Strengthen the AML/CFT framework in line with the FATF standards.
Lack of fiscal credibility reduces market confidence	Low	ST, MT	**High/Medium:** Increase in interest rates, credit rating downgrade, capital outflows, and financial instability.	Fiscal consolidation, while protecting the poor, to meet the debt target. Improve public financial management and fiscal transparency.
Natural disasters	Medium	ST, MT	**High:** Lower growth because of disruption to agriculture, tourism, manufacturing, and damage to infrastructure.	Build ex-ante resilience with fiscal buffers and better infrastructure. Mobilize revenue to meet fiscal costs. Loosen monetary policy if inflation is not a concern.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium-term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Debt Sustainability Analysis

An updated public debt sustainability analysis (DSA) indicates that Mauritius' public debt remains sustainable under the baseline scenario. The debt-to-GDP ratio is expected to rise in the near term due to higher public-sector investments, but then decline as capital projects wind down. A shock to real interest rates, the primary balance, a combined macro-fiscal shock, and a shock to contingent liabilities would see a sustained divergence of public sector debt dynamics from the baseline scenario. Although the debt path is sustainable, public debt will remain elevated through the medium-term and is unlikely to reach the authorities' public debt target in the absence of significant policy adjustments.

Background

1. **The last debt sustainability analysis (DSA) for Mauritius, published in December 2017, showed a moderately deteriorating, but manageable, debt outlook.** Mauritius' public debt outlook in the last DSA (see Country Report 17/362) showed that public debt indicators were generally below their relevant indicative thresholds over the medium-term, but some were vulnerable to combined macro-fiscal shocks. This note updates that analysis.

2. **Public-sector debt as a share of GDP declined between FY2016/17 and FY2017/18 but is projected to increase again in the near term.**[1] The public-sector debt-to-GDP ratio was 65.0 percent at end-June 2017 but declined to 63.7 percent at end-June 2017.[2] Under baseline projections, public debt is set to rise to 67.8 percent of GDP by FY20/21 on the back of major public-sector investments, most notably, a new light-rail system and aircraft purchases by the state-owned airline. Thereafter, the debt-to-GDP ratio is projected to decline gradually to 64.4 percent by FY23/24 (Text Table 1).

Text Table 1. Mauritius: Public Debt-to-GDP, 2015-19[1]

	FY2015/16	FY2016/17	FY2017/18	FY2018/19[2]
Total Public Debt	65.0	65.0	63.7	64.9
Central Government	59.5	59.5	57.4	57.7
State-Owned Enterprises	5.4	5.5	6.3	7.1
Domestic	49.4	51.8	51.6	52.0
External	15.6	13.2	12.2	12.8

[1] The fiscal year runs from July to June. Debt stocks as of end June.

[2] Projections.

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

[1] Public-sector debt for the purposes of this DSA is defined as central government (including extrabudgetary units) and state-owned enterprise (SOE) debt (including loan guarantees extended to SOEs by central government).

[2] The authorities switched from calendar to fiscal year accounting in mid-2015 (the fiscal year ends in June of each year). The authorities' public debt target is also in fiscal year terms. Fiscal and debt data in the DSA and the main text of the Staff Report are shown on a fiscal-year basis, unless otherwise indicated. Considered in calendar year terms, however, the figures are very similar with end-year public debt being 63.7 and 65.1 percent of GDP in 2017 and 2018, respectively.

3. Mauritius has a strong track record of credit worthiness. The lion's share of public debt that fulfills the government's borrowing requirement is sourced from the highly liquid domestic market. Short-term debt has fallen notably in the last few years and stood at 5.6 percent of GDP in FY17/18, in line with the authorities' policy of lengthening the maturity profile of public securities. In December 2018, an auction of 10-year bonds was oversubscribed at an interest rate of 5.2 percent. Overall, the maturity structure of public sector debt remains strong, with long-term domestic debt comprising more than half of the total (Figure 2).[3]

4. The share of external debt in total public-sector debt remains low. External debt constituted less than one-fifth of total public debt (about 12 percent of GDP) in FY17/18, with the entirety of the central government external debt being concessional. Mauritius has no history of debt difficulties, and indicators of capacity to repay, such as interest payments to revenue, are at manageable levels.[4]

5. The authorities' public debt target cannot be achieved in the absence of a major policy change. The statutory public-sector debt target of 60 percent of GDP by FY20/21 cannot be achieved without a significant and potentially economically disruptive fiscal adjustment in the near-term. The baseline envisages a debt-to-GDP level of 67.8 percent of GDP by FY20/21, falling to about 64.4 percent over the duration of the DSA projection horizon.

Public DSA Risk Assessment

6. Overall, the debt profile appears sustainable, though there are some areas of concern. Five upper-bound early warning thresholds are crossed, compared to none in the previous DSA. However, all of these relate to the gross financing needs (GFN) and mainly reflect the repayment of short-term debt in FY2018/19, with the GFN projected to fall markedly in the medium-term. Risks associated with exposure to non-resident liabilities have risen due to increased borrowing to finance public infrastructure projects. Other debt profile vulnerabilities remain at or close to lower-bound early warning thresholds.

Realism of the Baseline Scenario

7. The baseline assumptions of the current DSA are consistent with the macroeconomic framework underlying the 2019 Article IV Staff Report (see main text). Figure 3 assesses the realism of the baseline scenario for DSA purposes. The forecast errors in recent years for Mauritius' real GDP growth, the primary balance, and inflation (deflator), have

[3] In recent years, SOEs have increased their holdings of central government securities, which stood at a modest 0.6 percent of GDP at end-2018. The authorities' presentation of public-sector debt nets out these securities from total public-sector debt. However, the DSA presented here does not net out these securities since the corresponding (consolidated) fiscal accounts for the nonfinancial public sector are not available.

[4] Interest payments stood at about 11 percent of domestic revenues at end FY2017/18.

been low or at the median for all countries. This gives confidence in the forecasts underpinning the macroeconomic framework.

- **Growth.** Real output growth is expected to maintain a steady pace over the forecast horizon, averaging about 4 percent over the medium-term.
- **GDP deflator and consumer prices.** The deflator is expected to average about 2¾ percent over the medium-term, while consumer prices are likely to average about 3⅓ percent over the forecast horizon.
- **Fiscal strategy.** The central government primary balance (including grants) is expected to remain at about -½ percent of GDP in the near term, improving marginally in later years. However, the state-owned enterprises (SOEs) are expected to contract external debt of about 3 percent of GDP over FY19/20 and FY20/21, mostly for financing the light-rail project and aircraft purchases.
- **Current Account.** The current account deficit is expected to average about 5½ percent of GDP in the medium-term and will be largely financed by private financial flows.

Baseline Scenario

8. The baseline scenario is predicated on public financing needs as elaborated in the FY2018/19 budget. Following the authorities' medium-term fiscal and debt management strategy, new debt issuances are assumed to principally consist of domestic debt. Medium-to-long term debt will continue to form the largest share of the debt stock, in line with the authorities' objective to maintain an advantageous debt maturity structure and low rollover risk. Debt will continue to be principally local-currency denominated, minimizing exchange rate risk.[5]

9. The baseline scenario foresees that public-sector debt dynamics are sustainable over the medium-term, despite the spike through FY2020/21. Overall, the path of public debt over the forecast horizon is assessed as sustainable (Figure 4). As noted above, after peaking in FY2020/21, the reduction in public capital spending will reduce upward pressures on debt. The ensuing gradual decline in the debt-to-GDP ratio is aided by sustained real growth, while the principal debt creating flows are the primary deficit and real interest rates.

Stress Tests and Distribution of Risks

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

[5] The full terms of the loans associated with the aircraft purchases had not been finalized until the preparation of this DSA, and there is a possibility that the aircrafts are leased, rather than purchased, by the state-owned airline. Any financing is expected to be long term with amortization not beginning until after FY2023/24.

- **Growth shock**. Lower real output growth by one standard deviation relative to the baseline for two years starting in FY19/20 would push debt up to 68.6 percent in FY20/21, compared to 67.8 percent in the baseline. By FY23/24, debt would be 0.6 percentage points higher than the baseline.

- **Real interest rate shock.** An increase in sovereign risk premia by more than 200 basis-points starting in FY19/20 would set both the public-sector debt level and public gross financing needs on an upward path, reaching 70.3 percent and 11.1 percent, respectively, by FY23/24.

- **Primary balance shock.** Fiscal slippage, in the form of a cumulative deterioration in the primary balance of about 4 percent of GDP over FY19/20-FY20/21, would have the strongest near-term effect, pushing total debt up to 72 percent of GDP in FY20/21.

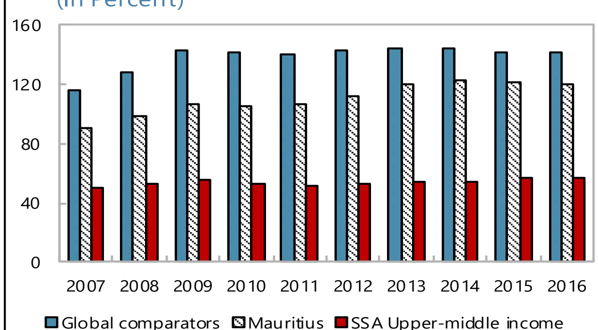
- **Combined macro-fiscal shock.** Combining the above three shocks into a single scenario would imply a sustained divergence of public debt dynamics from the baseline scenario (public debt-to-GDP ratio would reach about 75.2 percent by FY23/24). The public debt-to-revenue ratio and public gross financing needs would also remain at an elevated level over the medium-term, and on an increasing course toward the end of the projection period, in this scenario.

- **Contingent liability shock.** The realization of a contingent liability shock equal to 10 percent of banking sector assets would have the largest effect of the scenarios considered, reflecting the relatively large size of the Mauritian banking sector. Debt would rise to 96.7 percent of GDP in FY19/20 and remain elevated throughout the forecast period. Gross financing needs in FY19/20 would spike to 45 percent of GDP, though would fall off rapidly in subsequent years.

The distribution of risks (fan charts, Figure 4) indicates that the public debt level is unlikely to exceed 72 percent of GDP, even during the upcoming period of elevated public-sector investment.

11. Mauritius faces additional challenges to fiscal sustainability. The large financial sector—significantly larger than that of peers in the region and approaching the size of more advanced global financial centers—could pose potentially large contingent liability risks. Weak public investment management (particularly, by SOEs) could also jeopardize debt sustainability. In the longer term, population aging will put greater financial pressure on the country's pension system (see IMF Country Report No. 14/107).

Bank Assets to GDP Ratio, 2007-16
(In Percent)



Source: World Bank's Global Financial Development and Structure Database.
Notes: Global comparators indicates the average for other major international financial centers (Hong Kong SAR, Ireland, Luxembourg, Singapore, Switzerland, and the United Arab Emirates). SSA upper-middle income countries indicates the average for other non-oil exporting sub-Saharan African upper-middle income countries (Botswana, Namibia, and South Africa).

Conclusion

12. Mauritius' public-sector debt level—despite an investment-driven increase in the near term—appears sustainable, though subject to notable vulnerabilities in some areas. The debt sustainability analysis indicates that public-sector debt dynamics are sustainable. Nonetheless, under the baseline scenario, public debt will exceed the authorities' target of 60 percent of GDP over the medium term. Moreover, the analysis reveals that both public debt and public gross financing needs are highly vulnerable to a real interest rate shock, as well as to a combined macro-fiscal shock.

13. While the projected path of public debt is sustainable, the baseline debt path depends on the return of public-sector investment to historical levels. The main driver of the increase in public debt in the near term is the rise in public capital spending (notably, the new light-rail system and aircraft purchases by the state-owned airline), which is likely to taper off in the medium-term. A prudent and credible medium-term fiscal stance is essential to ensure that downside risks to the debt outlook are contained.

Figure 1. Mauritius: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated: data for fiscal year (e.g., 2018=FY2018/19))

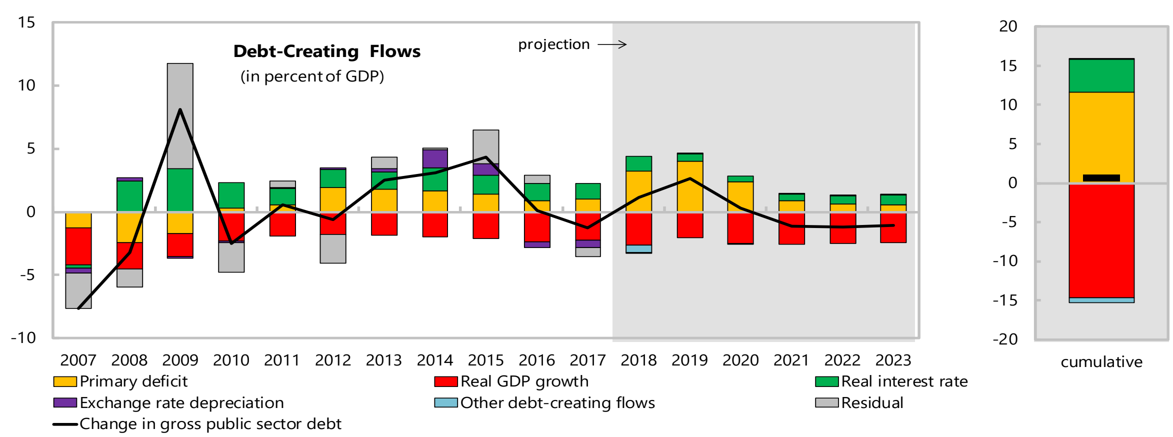
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	56.5	65.0	63.7	64.9	67.5	67.8	66.7	65.5	64.4
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	16.4	12.5	12.5	17.9	15.7	14.1	9.2	7.9	8.4
Net public debt	56.5	65.0	63.7	64.9	67.5	67.8	66.7	65.5	64.4
Real GDP growth (in percent)	4.0	3.8	3.7	4.4	3.4	4.0	4.0	4.0	4.0
Inflation (GDP deflator, in percent)	2.5	1.7	1.8	2.4	2.8	3.0	2.9	2.7	2.4
Nominal GDP growth (in percent)	6.6	5.6	5.6	6.9	6.3	7.1	7.1	6.8	6.6
Effective interest rate (in percent) [4/]	5.8	4.0	3.9	4.4	3.9	3.9	3.9	3.9	3.9

As of 2/29/2019		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	Baa1
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.5	0.1	-1.3	1.1	2.6	0.3	-1.1	-1.2	-1.1	0.7	
Identified debt-creating flows	0.1	-0.6	-0.6	1.2	2.6	0.3	-1.1	-1.2	-1.1	0.6	
Primary deficit	0.3	0.9	1.0	3.3	4.0	2.4	0.9	0.6	0.5	11.6	-1.6
Primary (noninterest) revenue and grants	20.1	21.0	21.4	22.4	22.0	21.9	21.6	21.5	21.4	130.9	
Primary (noninterest) expenditure	20.3	21.9	22.4	25.6	26.1	24.3	22.5	22.1	21.9	142.5	
Automatic debt dynamics [5/]	-0.2	-1.5	-1.6	-1.5	-1.5	-2.0	-2.0	-1.8	-1.6	-10.5	
Interest rate/growth differential [6/]	-0.4	-1.0	-1.0	-1.5	-1.5	-2.0	-2.0	-1.8	-1.6	-10.5	
Of which: real interest rate	1.7	1.3	1.3	1.1	0.6	0.5	0.5	0.7	0.8	4.2	
Of which: real GDP growth	-2.1	-2.3	-2.3	-2.6	-2.1	-2.5	-2.5	-2.5	-2.5	-14.7	
Exchange rate depreciation [7/]	0.3	-0.5	-0.5	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	-0.6	
Privatization/Drawdown of Deposits (+ reduces financing need)	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	-0.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt-creating flows (+ increases financing need)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.4	0.7	-0.7	0.0	0.1	0.0	0.0	0.0	0.0	0.1	



Source: IMF staff.

1/ Public sector debt is defined as Central Government (CG) debt and guarantess plus debt of State-Owned Enterprises (SOEs). The holdings of CG securities by SOEs are not consolidated.

2/ Based on available data.

3/ The government of Mauritius has not issued foreign-currency denominated bonds with with to compare to internationl bond yields.

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

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

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

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

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

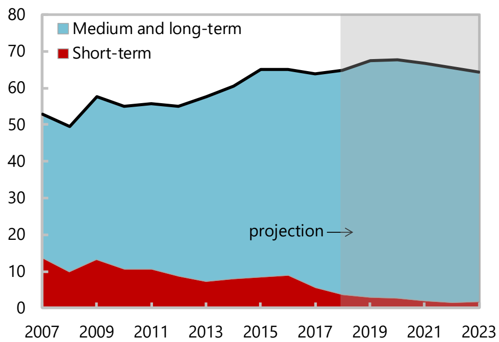
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Mauritius: Public DSA – Composition of Public Debt and Alternative Scenarios

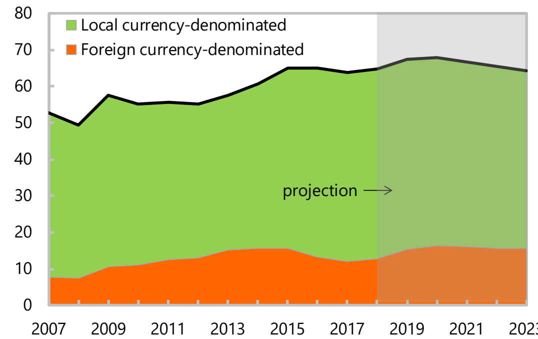
(data for fiscal year (e.g. 2018-FY2018/19)

Composition of Public Debt

By Maturity
(in percent of GDP)



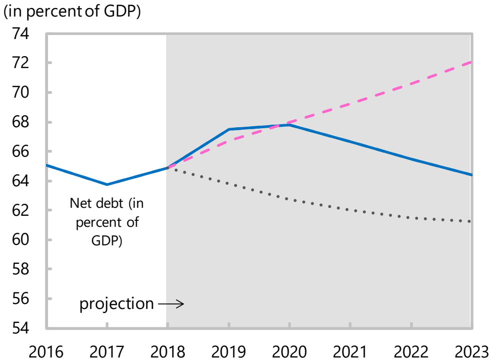
By Currency
(in percent of GDP)



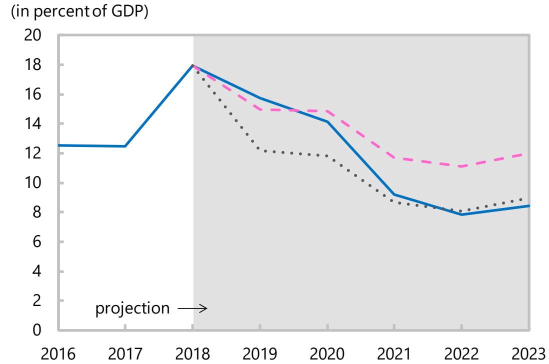
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

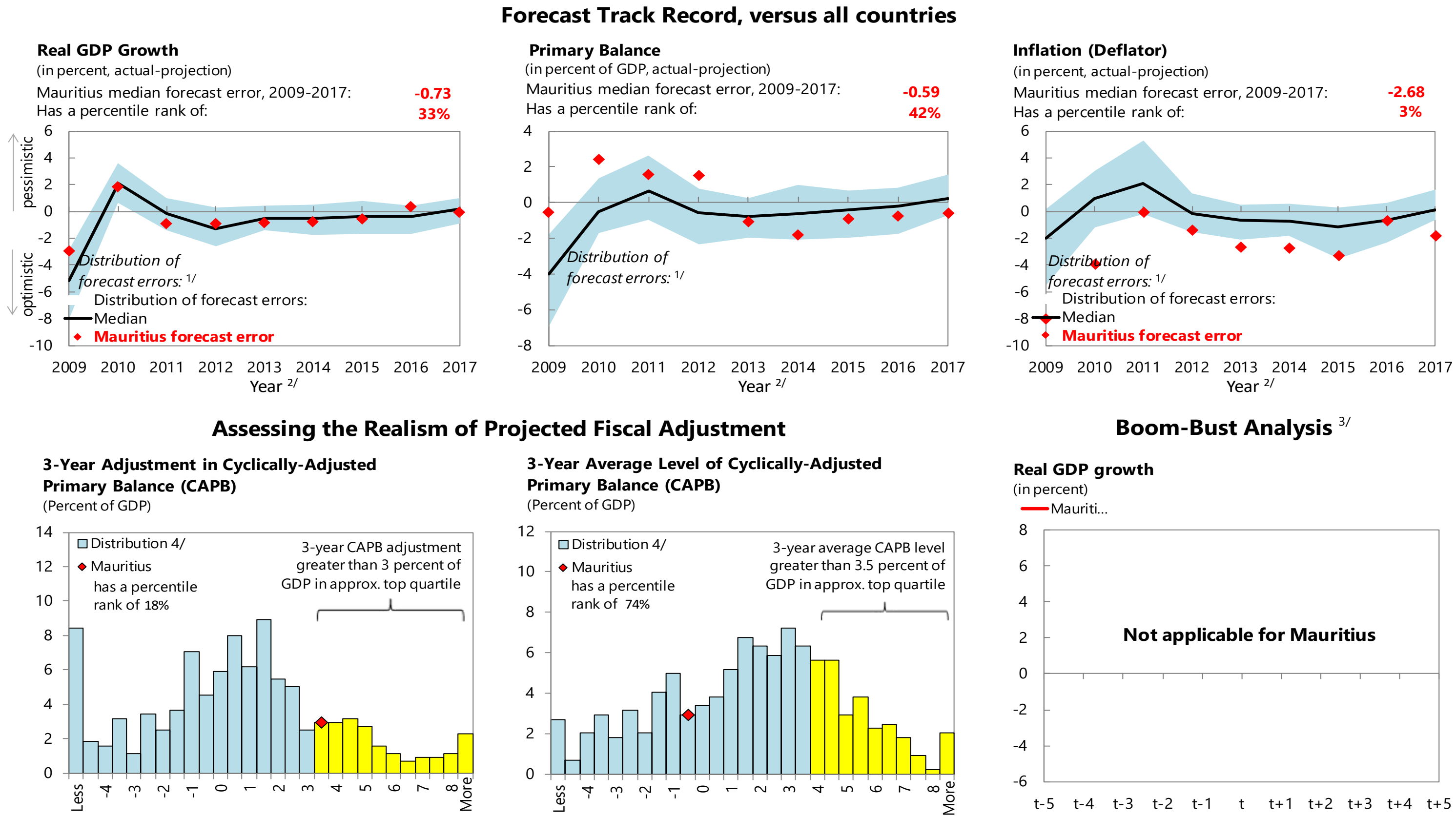
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	4.4	3.4	4.0	4.0	4.0	4.0
Inflation	2.4	2.8	3.0	2.9	2.7	2.4
Primary Balance	-3.3	-4.0	-2.4	-0.9	-0.6	-0.5
Effective interest rate	4.4	3.9	3.9	3.9	3.9	3.9
Constant Primary Balance Scenario						
Real GDP growth	4.4	3.4	4.0	4.0	4.0	4.0
Inflation	2.4	2.8	3.0	2.9	2.7	2.4
Primary Balance	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Effective interest rate	4.4	3.9	3.9	3.9	3.9	3.9

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	4.4	3.8	3.8	3.8	3.8	3.8
Inflation	2.4	2.8	3.0	2.9	2.7	2.4
Primary Balance	-3.3	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	4.4	3.9	4.3	4.6	4.8	5.0

Source: IMF staff.

Figure 3. Mauritius: Public DSA - Realism of Baseline Assumptions

(data for fiscal year (e.g., 2018=FY2018/19)



Source : IMF Staff.

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

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

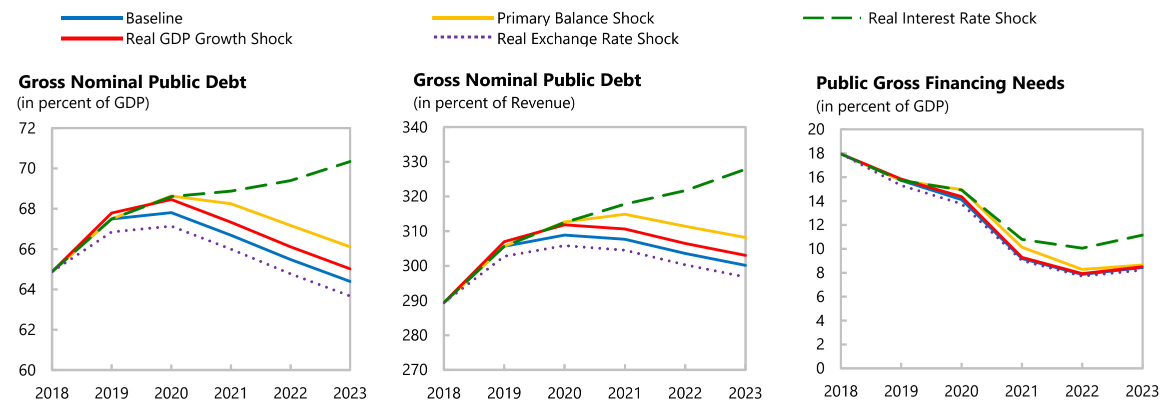
3/ Not applicable for Mauritius, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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

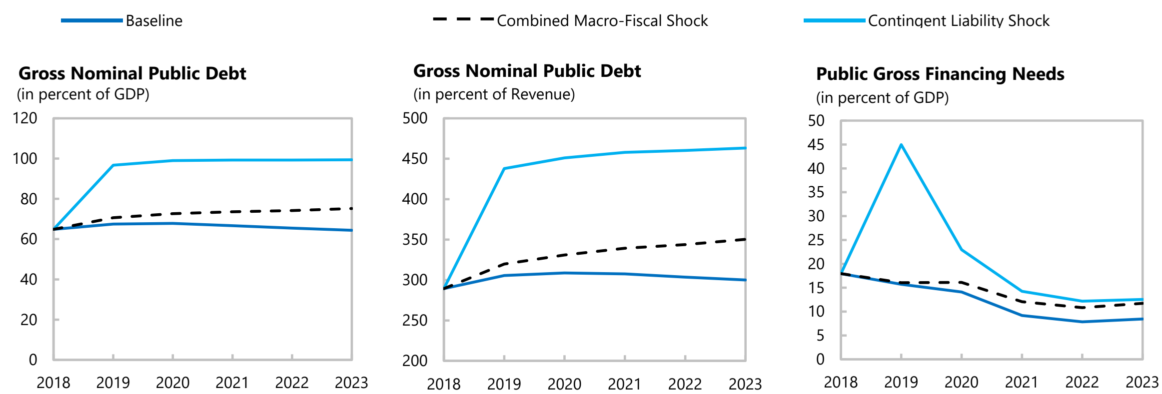
Figure 4. Mauritius: Public DSA – Stress Tests

(data fiscal years (e.g. 2018 =FY2018/2019)

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2018	2019	2020	2021	2022	2023
Primary Balance Shock						
Real GDP growth	4.4	3.4	4.0	4.0	4.0	4.0
Inflation	2.4	2.8	3.0	2.9	2.7	2.4
Primary balance	-3.3	-4.0	-3.2	-1.6	-0.7	-0.6
Effective interest rate	4.4	3.9	3.9	3.9	4.0	4.0
Real Interest Rate Shock						
Real GDP growth	4.4	3.4	4.0	4.0	4.0	4.0
Inflation	2.4	2.8	3.0	2.9	2.7	2.4
Primary balance	-3.3	-4.0	-2.4	-0.9	-0.6	-0.5
Effective interest rate	4.4	3.9	5.1	6.1	6.7	7.2
Combined Shock						
Real GDP growth	4.4	3.1	3.7	4.0	4.0	4.0
Inflation	2.4	2.7	2.9	2.9	2.7	2.4
Primary balance	-3.3	-4.1	-3.2	-1.6	-0.7	-0.6
Effective interest rate	4.4	3.9	5.0	6.0	6.6	7.1

	2018	2019	2020	2021	2022	2023
Real GDP Growth Shock						
Real GDP growth	4.4	3.1	3.7	4.0	4.0	4.0
Inflation	2.4	2.7	2.9	2.9	2.7	2.4
Primary balance	-3.3	-4.1	-2.5	-0.9	-0.6	-0.5
Effective interest rate	4.4	3.9	3.9	3.9	3.9	3.9
Real Exchange Rate Shock						
Real GDP growth	4.4	3.4	4.0	4.0	4.0	4.0
Inflation	2.4	8.5	3.0	2.9	2.7	2.4
Primary balance	-3.3	-4.0	-2.4	-0.9	-0.6	-0.5
Effective interest rate	4.4	3.9	3.8	3.8	3.8	3.8
Contingent Liability Shock						
Real GDP growth	4.4	3.1	3.7	4.0	4.0	4.0
Inflation	2.4	2.7	2.9	2.9	2.7	2.4
Primary balance	-3.3	-33.0	-2.4	-0.9	-0.6	-0.5
Effective interest rate	4.4	4.2	6.7	6.3	6.2	6.1

Source: IMF staff.

Figure 5. Mauritius: Public DSA Risk Assessment

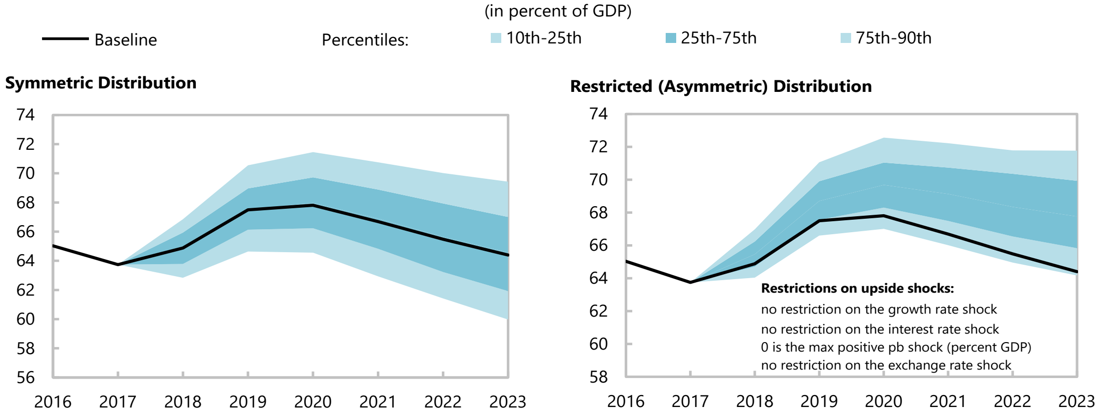
(data fiscal years (e.g.,2018=FY2018/19)

Heat Map

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

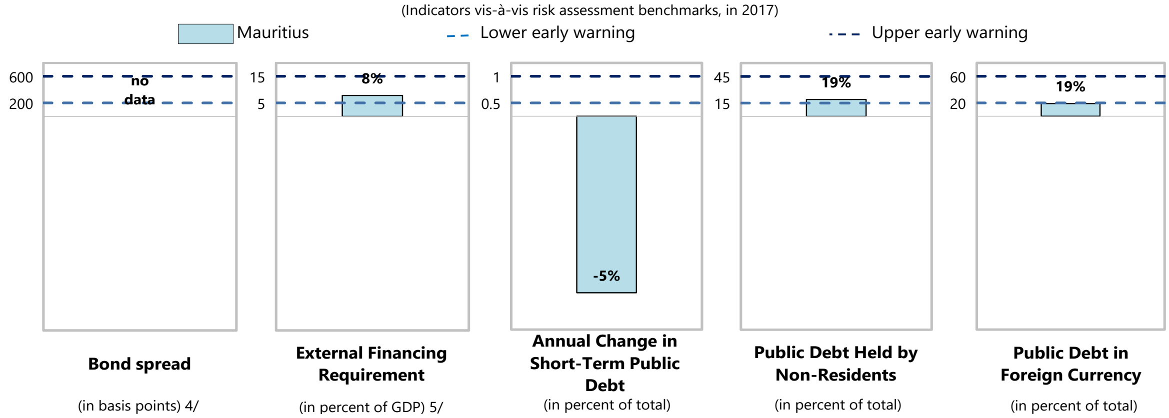
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

4/ N.A.

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

Annex III. External Debt Sustainability Analysis

Mauritius' total external debt stock has declined in recent years, reaching about 78 percent of GDP at end-2018. The external DSA framework—which includes data on both public and private sector external debt but excludes banking sector's external liabilities, as is standard practice in financial centers such as Mauritius—suggests that external debt will remain sustainable over the medium-term but is particularly susceptible to shocks, especially real exchange rate depreciation and non-interest current account shocks.

1. **Mauritius' external debt stock is dominated by banking sector liabilities, with a relatively small share of the public sector (Table 1).** At end-2018, the total external debt stock comprised mainly banking sector external liabilities, that are excluded from the DSA. Public sector external debt, which is mostly sourced from multilateral lenders on a long-term basis, accounted for less than one-fifth of the total at end-2018.

Table 1. Mauritius: Stock of Gross External Debt at End-2018
(USD millions, percent of GDP)

	USD Millions[1]	Percent of GDP
Total Gross External Debt	**11536.8**	**78.5**
without banking sector liabilities	2220.8	15.1
Public	**1646.2**	**11.2**
of which : central government	1254.9	8.5
of which : multilateral	818.0	5.6
bilateral	431.5	2.9
other lenders	5.5	0.0
Private	**9890.7**	**67.3**

Sources: Country authorities and IMF staff estimates.
[1] Calculated using end-of-period exchange rate.

2. **The total external debt stock has declined in recent years and is expected to remain stable over the medium term**. The total external debt stock including banking sector liabilities fell from a peak of 103 percent of GDP at end-2014 to 78.5 percent of GDP at end-2018. It is expected to increase to around 83 percent of GDP in 2019, owing to an increase in public-sector external debt (reflecting new borrowing to finance public infrastructure projects and purchase of aircrafts for the state-owned airline), and to stabilize at about 80 percent of GDP in the medium term.

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

baseline scenario, external debt without banking sector liabilities is projected to increase to 21.2 percent of GDP by 2020 before declining to 19.6 percent of GDP by 2024.

4. Standard stress tests highlight that Mauritius' external debt is particularly sensitive to non-interest current account and real exchange rate depreciation shocks. A negative shock to the baseline non-interest current account of one-half standard deviation would increase the external debt ratio by 6 percentage points relative to the baseline by 2024. A one-time 30 percent currency depreciation in 2019 would increase the external debt to GDP ratio by 9 percentage points relative to the baseline by 2024.

5. Shocks to interest rates and growth do not have implications for external debt sustainability and a combined shock would have limited implications for external debt sustainability.[1] The effect of growth and interest rate shocks is nil while a combined macroeconomic shock scenario would imply a 3 percentage points increase in the external debt ratio in the medium-term.

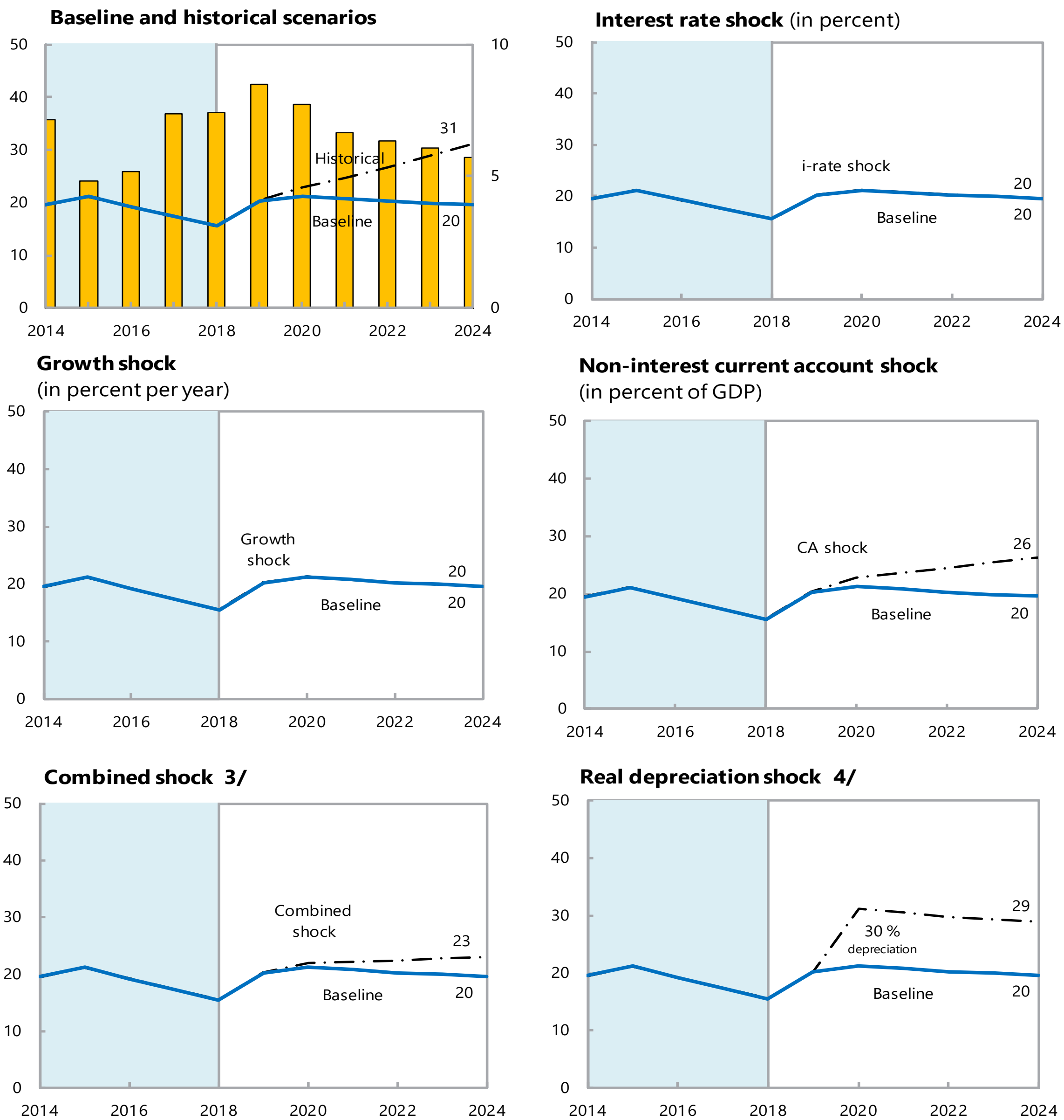
Conclusion

6. Mauritius' external debt is sustainable, yet susceptible to large exogenous shocks. With public sector external debt slightly increasing over the medium-term, the total external debt stock (excluding banking sector liabilities) is expected to slightly decline over the forecast horizon. However, large negative shocks to the non-interest current account balance and real exchange rate could worsen the external debt sustainability outlook, highlighting the importance of reforms to bolster international competitiveness and address the growing external imbalances.

[1] A combined shock consists of permanent ¼ standard deviation shocks applied to real interest rate, growth rate, and current account balance.

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

(External Debt in Percent of GDP)



Sources: IMF staff estimates.

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

2/ For historical scenarios, averages are calculated over the past ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and the current account balance.

4/ Scenario assumes one-time real exchange rate depreciation of 30 percent in 2019.

Table 2 Mauritius: External Debt Sustainability Framework, 2014-2024

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	19.5	21.2	19.3	17.4	15.6			**20.3**	**21.2**	**20.8**	**20.2**	**19.9**	**19.6**	**-3.2**
Change in external debt	-4.8	1.6	-1.9	-1.9	-1.9			4.8	0.9	-0.5	-0.5	-0.3	-0.3	
Identified external debt-creating flows (4+8+9)	4.1	6.6	2.3	4.7	2.9			4.9	3.6	2.6	2.4	2.2	1.9	
Current account deficit, excluding interest payments	5.1	3.3	3.8	5.4	6.0			7.2	6.5	5.5	5.3	5.1	4.8	
Deficit in balance of goods and services	11.6	10.0	10.3	13.5	13.7			15.0	13.8	12.2	10.5	9.1	7.6	
Exports	46.9	46.1	42.5	40.7	40.1			40.1	39.6	39.3	39.0	38.9	38.8	
Imports	58.5	56.2	52.8	54.2	53.8			55.1	53.5	51.5	49.5	47.9	46.4	
Net non-debt creating capital inflows (negative)	0.0	1.1	-0.8	0.6	-2.2			-1.9	-2.4	-2.3	-2.3	-2.3	-2.3	
Automatic debt dynamics 2/	-1.0	2.1	-0.7	-1.3	-1.0			-0.4	-0.5	-0.5	-0.5	-0.6	-0.6	
Contribution from nominal interest rate	0.3	0.3	0.2	0.2	0.2			0.2	0.2	0.3	0.2	0.2	0.2	
Contribution from real GDP growth	-0.9	-0.8	-0.8	-0.7	-0.6			-0.6	-0.8	-0.8	-0.8	-0.8	-0.8	
Contribution from price and exchange rate changes 3/	-0.4	2.6	-0.2	-0.8	-0.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	-9.0	-4.9	-4.2	-6.6	-4.7			-0.1	-2.6	-3.0	-3.0	-2.5	-2.3	
External debt-to-exports ratio (in percent)	41.6	45.9	45.3	42.7	38.8			50.6	53.6	52.8	51.9	51.2	50.4	
Gross external financing need (in billions of US dollars) 5/	0.9	0.6	0.6	1.0	1.1			1.3	1.2	1.1	1.1	1.2	1.1	
including banks external debt	3.9	4.2	4.2	5.7	6.4			6.4	6.5	6.6	6.9	7.2	7.5	
in percent of GDP	7.1	4.8	5.2	7.4	7.4	10-Year	10-Year	8.5	7.7	6.7	6.4	6.1	5.7	
including banks external debt	30.1	35.9	33.9	42.6	44.5			42.9	41.2	39.6	38.7	38.2	37.5	
Scenario with key variables at their historical averages 6/								**20.3**	**22.8**	**24.8**	**26.7**	**28.9**	**31.2**	**-2.2**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Nominal GDP (US dollars)	12.8	11.7	12.2	13.3	14.3			14.8	15.8	16.8	17.9	18.9	20.1	
Real GDP growth (in percent)	3.7	3.6	3.8	3.8	3.8	3.7	0.3	3.9	3.9	4.0	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	1.7	-11.8	0.8	4.5	3.7	0.1	7.1	-0.1	2.4	2.2	2.4	1.9	1.8	
Nominal external interest rate (in percent)	1.4	1.3	1.2	1.3	1.4	1.3	0.2	1.2	1.1	1.3	1.2	1.1	1.0	
Growth of exports (US dollar terms, in percent)	6.4	-10.1	-3.5	3.9	5.9	2.1	11.3	3.8	5.0	5.5	5.7	5.7	5.7	
Growth of imports (US dollar terms, in percent)	1.9	-12.2	-1.7	11.4	6.8	2.8	12.9	6.2	3.2	2.5	2.5	2.6	2.6	
Current account balance, excluding interest payments	-5.1	-3.3	-3.8	-5.4	-6.0	-6.7	3.0	-7.2	-6.5	-5.5	-5.3	-5.1	-4.8	
Net non-debt creating capital inflows	0.0	-1.1	0.8	-0.6	2.2	1.4	1.8	1.9	2.4	2.3	2.3	2.3	2.3	

1/ Debt stocks calculated using average exchange rates.

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

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

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

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

6/ 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.

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

Annex IV. External Sector Assessment

Mauritius' external position at end-2017 was substantially weaker than implied by medium-term fundamentals and desirable policy settings. The overall current account deficit widened to 5.6 percent of GDP at end-2017 and is estimated to have widened further in 2018, leading to a similar preliminary external sector assessment. The external assessment is, however, subject to considerable uncertainty, reflecting Mauritius's highly open economy and status as a global financial center. The reserve adequacy assessment suggests that, accounting for financial sector vulnerabilities associated with the offshore global business sector's deposits at small and medium-sized banks, international reserves at end-2017 were within the advisable range of the adjusted reserve adequacy metric.

A. External Balance Sheet

1. Background. The latest available official data on Mauritius' International Investment Position (IIP) for end-2017 indicate that Mauritius' net asset position improved by 45 percent in absolute terms relative to 2016. In percent of GDP, the net international investment position (NIIP) increased to about 204 percent of GDP in 2017 from about 142 percent of GDP in 2016 (averaging about 147.6 over 2013–17), as the increase in international liabilities was outstripped by an increase in cross-border asset holdings. While the latter could mainly be attributed to higher foreign portfolio and direct investments by the offshore global business sector, it needs to be noted that the 2017 data has a broader coverage of global business companies and thus, strictly speaking, this data is not comparable to the 2016 figures. By end-2017, direct investment represented about 55 percent of gross assets and 72 percent of gross liabilities while portfolio investment was about 30 percent of gross assets and about 8 percent of gross liabilities.

2. Assessment. The external balance sheet does not appear to be a major source of risk for Mauritius. Potential vulnerabilities posed by the large gross non-FDI liabilities (1,119 percent of GDP in 2017) are expected to be mitigated by large non-FDI short-term external assets (about 1,900 percent of GDP in 2017). Mauritius official reserves increased by 7.8 percent of GDP to about 45 percent of GDP in 2017.[1] According to staff's projections, the NIIP is expected to average 146 percent of GDP over 2018–23.

[1] Given that Mauritius has a sizable offshore financial sector with large and volatile external asset and liability positions (around 3,000 percent of GDP at end-2017) and a positive net foreign asset (NFA) position, the External Sustainability (ES) approach appears to be unsuitable for assessing Mauritius' external stability. Nevertheless, using the External Balance Sheet model, the current account (CA) norm that would stabilize NIIP at the target level of about 173 percent of GDP (average over 2012–16) is estimated at 0.1 percent of GDP, implying a CA gap of -6.3 percent of GDP, and a real effective exchange rate (REER) overvaluation of about 19 percent.

B. Current Account

3. Background. Mauritius' current account (CA) deficit widened from 4 percent of GDP in 2016 to 5.6 percent of GDP in 2017, largely because of a worsening of the goods trade balance. The current account deficit is expected to widen further to 6.2 percent of GDP in 2018 due to higher oil prices, and to around 7.4 percent of GDP in 2019 on the back of higher capital imports associated with large-scale public infrastructure projects, before declining to about 5 percent of GDP in the medium term.

4. Assessment. Using the CA model of the EBA-lite methodology suggests that Mauritius' external position at end-2017 was substantially weaker than medium-term fundamentals and desirable policy settings. The CA norm is estimated at a surplus of 0.2 percent of GDP, implying a CA gap of -5.8 percent of GDP in 2017 and a real effective exchange rate (REER) misalignment (overvaluation) of about 17 percent.[2] This assessment is, however, subject to considerable uncertainty, reflecting Mauritius's highly open economy and status as a global financial center, as well as the uncertainty regarding the elasticity of the CA to the REER.[3] Staff estimates indicate that the standard deviation of the CA norm is about 1 percent of GDP, implying the CA gap and REER overvaluation to be in the range of -6.8 to -4.8 percent of GDP and 14.4 to 20.4 percent, respectively. Preliminary data for 2018 indicate that the CA gap increased to -7.4 percent, implying an overvaluation of about 22 percent in 2018.

Table 1. Mauritius: EBA-lite Exchange Rate Assessment (CA model)

	2017
Real Exchange Rate Gap	
Current Account Approach (baseline)	17.3
Current Account Approach (excluding GBCs flows)	33.6
Current Account	
Current Account (baseline)	-5.6
Current Account (excluding GBC flows)	-11.1
Current Account Norm	0.2
Current Account Norm (excluding GBC flows)	0.2
Current Account Gap	-5.8
Current Account Gap (excluding GBC flows)	-11.3
Current Account Elasticity	-0.3

[2] The estimated overvaluation is larger than in 2016 (10 percent). The estimate for 2017 is, however, based on the revised External Balance Assessment (EBA)-lite methodology (see IMF's *2018 External Sector Report—Refinements to the External Balance Assessment Methodology—Technical* Supplement) and is not fully comparable to the earlier external assessments. Nevertheless, even if the old methodology is applied, the extent of REER overvaluation has increased.

[3] As an illustrative exercise, excluding the offshore global business sector-related flows from the current account balance would imply an even higher overvaluation of the REER and a substantially weaker external position.

C. Real Exchange Rate

5. Background. Mauritius' real effective exchange rate (REER) appreciated by 3.9 percent on a year-on-year (y-o-y) basis in 2017—both because of high inflation and a 2.5 percent y-o-y nominal effective exchange rate (NEER) appreciation. This followed cumulative appreciation of the REER by 3.3 percent and the NEER by 2.8 percent over 2014–16. Recent data show that the REER and NEER appreciated by 1.4 percent and 0.3 percent, respectively, in 2018 on a y-o-y basis.

6. Assessment. Based on the Index of Real Effective Exchange Rate (IREER) model of the EBA-lite approach, the estimated REER gap implies an overvaluation of about 25 percent (or a range of 15 to 35 percent), which is broadly consistent with the CA-model based assessment but is also subject to considerable uncertainty. Using preliminary data for 2018, the estimated REER gap indicates a similar overvaluation in 2018.

D. Capital and Financial Flows

7. Background. Mauritius has a highly open financial account regime. International capital flows remained resilient in 2017, driven largely by direct investment inflows pertaining to the offshore global business sector. The net capital and financial account balance increased from about 8 percent of GDP in 2016 to about 11 percent of GDP at end-2017.

8. Assessment. The capital and financial account is likely to remain in surplus in the near and medium-term, resulting in an overall balance of payments surplus.

E. Reserve Adequacy

9. Background. The exchange rate regime of Mauritius was classified as floating in 2017. Foreign exchange intervention in 2017–18 was aimed at accumulating international reserves, in line with earlier Fund advice. Consequently, the end-year stock of international reserves increased from about USD 5 billion in 2016 to USD 6 billion in 2017, and further to USD 6.3 billion in 2018.

10. Assessment. To assess the adequacy of Mauritius' foreign exchange reserves, as in the previous assessments (Country Reports 16/89 and 17/362), the standard reserve adequacy metric is augmented with a portion of the deposits of the offshore global business companies (GBCs) held in small and medium-sized banks (net of liquid assets). The augmented metric, therefore, helps to capture financial risks stemming from the offshore global business sector in the form of disruptions to foreign currency funding, while considering the liquidity of commercial banks' foreign currency assets.[4] Per the adjusted metric, staff estimates the stock of international

[4] The reserve adequacy assessment excludes the external other liabilities of the global business sector, which are large and matched by their external asset holdings.

reserves at end-2017 to be about 121 percent of the adjusted metric (higher than 115 percent of the adjusted metric in end-2016) and at about 133 percent in end-2018, and hence within the advisable range (Figure 2).[5] As noted in earlier staff assessments (Country Report 16/89), however, the large size and complex structure of the global business sector, and its strong linkage with the real sector, warrants stronger buffers against external shocks.[6] In this respect, and considering the substantial overvaluation of the currency, further reserve accumulation may be desirable, while considering insurance mechanisms such as swap arrangements or credit lines with other central banks, alongside addressing the structural bottlenecks to boost competitiveness (as discussed in the main text).

F. Overall Assessment and Policy Implications

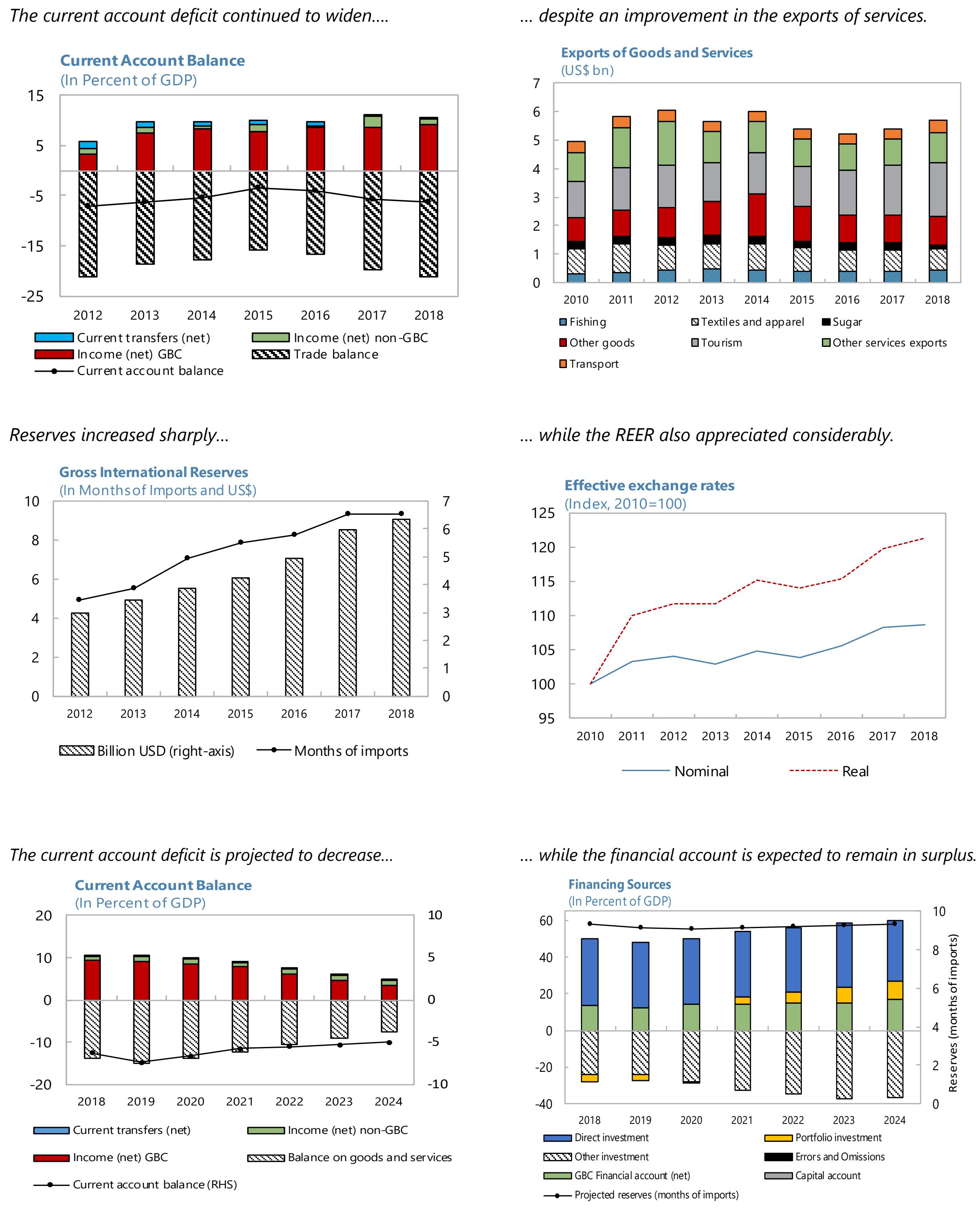
11. Overall, staff assesses that the external position in 2017 was substantially weaker than what is consistent with fundamentals and desirable policies. Specifically, staff estimates the CA gap to be -5 to -7 percent of GDP and the REER overvaluation to be 14-20 percent. While these estimates are based on the analysis above, especially the EBA-lite model results, they are subject to considerable uncertainty, reflecting Mauritius' highly open economy and position as a financial center. Preliminary data indicate that the external assessment for 2018 is also likely to be similar.

12. Mauritius's external imbalances should be primarily addressed through fiscal adjustment and reforms to boost productivity and diversify the economy. As discussed in the main text of the Staff Report, fiscal consolidation would help in containing Mauritius' deteriorating current account position, while improvements in competitiveness require a concerted effort to enhance productivity, labor market efficiency, and diversification. While the stock of international reserves is within the advisable range, given the large and complex structure of the GBC sector, reserve buffers could be strengthened further, while the Bank of Mauritius could also consider other insurance mechanisms such as swap arrangements or credit lines with other central banks to deal with large adverse financial shocks.

[5] The assessment for 2018 is preliminary.

[6] As mentioned in footnote 4, the reserve adequacy assessment for Mauritius is conducted excluding the external other investment liabilities of the offshore sector. If such liabilities are included, the reserves level drops to 29 percent of the metric, well below the advisable range of over 100 percent.

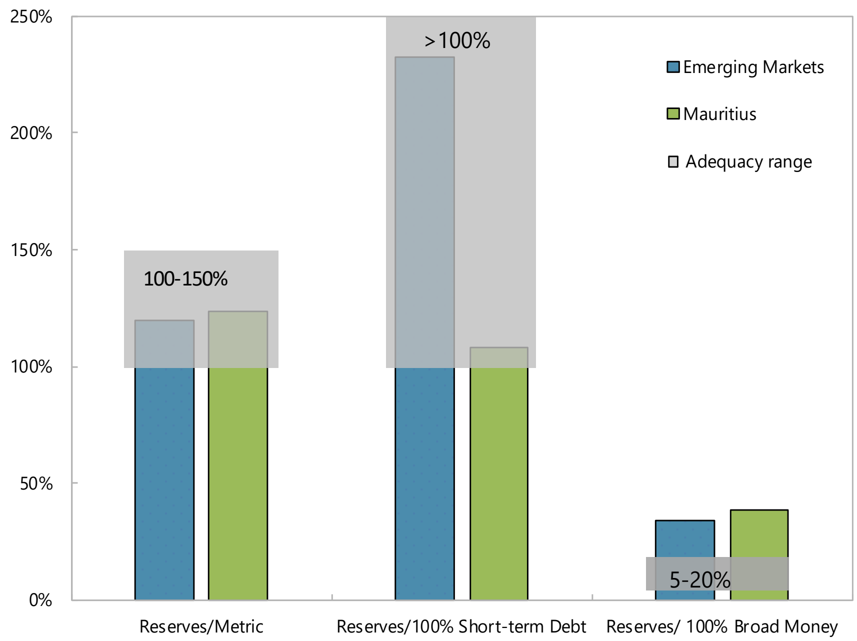
Figure 1. Mauritius: Recent External Developments and Outlook



Sources: Country authorities and IMF staff estimates.
Note: Data for 2018 are provisional. Figures for 2019-24 are based on staff projections.

Figure 2. Mauritius: Comparison of Reserve Adequacy Measures

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



Source: IMF staff calculations.

Annex V. Status of Implementation of Key FSAP Recommendations

Recommendation	Status
Banking Supervision and Regulation	
Conduct regularly macroprudential solvency and liquidity stress tests.	Solvency stress testing implemented; tests for liquidity and other risks being validated.
Establish a macroprudential body with a clear financial stability objective, and adequate enabling framework.	Not implemented. The Financial Stability Committee serves as forum for discussing macroprudential issues.
Improve the monitoring and supervision of the GBC sector; seek significant consolidation of the MC industry and raise its standards.	Data collection on GBC has been expanded and supervisory powers strengthened; a draft framework for oversight of management companies is expected for February 2019.
Implement measures to ensure that banking system liquidity is not adversely affected by developments in the GBC and cross-border sectors.	Basel III *Liquidity Coverage Ratio* (LCR) implemented in 2017; *Net Stable Funding Ratio* (NSFR) pending. Risk assessment of stability of GBC deposits conducted in 2018.
Financial Sector Oversight	
Establish a framework for conglomerate supervision, strengthen consolidated supervision, and develop a supervisory framework for D-SIBs.	Framework for conglomerate and consolidated supervision agreed between BOM and FSC and joint on-site examinations conducted; D-SIB framework enacted.
Improve bank rating systems and develop more comprehensive remedial action program.	Implemented: bank rating (CAMEL) system expanded; remedial action program to be implemented as part of risk-based supervision (work in progress).
Amend law to facilitate conglomerate supervision, improve consolidated supervision, and strengthen the corrective actions toolkit.	Banking Act and BOM Act amended to improve conglomerate/consolidated supervision. Changes to Financial Services Act submitted by FSC to parent ministry. Action on corrective actions toolkit pending.
Financial Safety Net	
Modify the Banking Act in order to make the resolution framework more efficient.	In the process of implementation, supported by IMF technical assistance.
Introduce an industry-funded deposit insurance scheme with powers to facilitate resolution.	A draft Deposit Insurance Scheme (DIS) bill was developed in 2018 and is being considered by the National Assembly.
Introduce, through changes in the current legal and regulatory framework, a comprehensive framework for crisis prevention and management.	In the process of implementation, supported by IMF technical assistance.

Annex VI. Summary of the Capacity Development Strategy

A. Background

1. **Mauritius aspires to become an inclusive high-income economy within the next decade.** To achieve this goal, an ambitious growth strategy anchored on significant public investments in infrastructure, boosting human capital, and improving the business environment, to stimulate private investment is being pursued.

2. **Overall, the macroeconomic situation remains stable.** The economy continues to grow at a steady pace and inflation is contained in low single digits. While the current account deficit continues to deteriorate, gross official international reserves increased to USD 6.4 billion (about 10.5 months of import coverage) by end-2018. Regaining external competitiveness by improving productivity and promoting economic diversification is a key priority for Mauritius. Other priorities are preserving fiscal sustainability and maintaining financial stability and integrity.

3. **Mauritius has provided significant support to strengthen regional capacity development**. Mauritius hosts the IMF's Africa Training Institute (ATI) and the Technical Assistance Center for Southern Africa (AFRITAC South) and has been an important financial contributor to these initiatives. Its continued support of these centers demonstrates its commitment to becoming a regional knowledge hub and foster partnerships with the region to boost growth and development.

B. Capacity Development Assessment

4. **Notable progress has been made over the years in terms of improving data quality and implementing reforms.** Technical assistance (TA) to Mauritius is demand-driven and has encompassed a broad range of issues. Much progress has been observed in several areas—including the quality and coverage of macroeconomic statistics, modernization of the monetary policy framework, introduction of Basel III financial regulations, strengthening of the bank resolution and crisis management framework, as well as in improving revenue administration. Yet, there remains scope for improvement, especially, with regard to the compilation of national and external sector accounts, monetary policy implementation, fiscal reporting to cover general government accounts and implement the International Public-Sector Accounting Standards (IPSAS), improving budget planning and execution, and strengthening the AML/CFT framework.

5. **Key risks to the implementation of TA recommendations stem from limited implementation capacity.** Implementation capacity constraints could be alleviated by training and recruiting expert staff, as well as by following a gradual but time-bound approach of phasing in the recommendations. Coordination across institutions should be strengthened to ensure knowledge sharing, as well as timely dissemination of data and consistency in data reporting. The implementation of TA recommendations needs to be monitored to track progress.

C. Capacity Development Priorities

6. Going forward, resources should be allocated to improve capacity in key financial, fiscal, and statistical issues. The most pressing capacity development (CD) needs correspond to strengthening the AML/CFT framework to meet the ESAAMLG recommendations and to improve the quality of national accounts data, especially by resolving the statistical discrepancy between the expenditure and production sides. Other priority areas include strengthening Public Financial Management (PFM) systems, modernizing the monetary policy framework and strengthening external sector statistics in line with long-standing TA recommendations. Efforts to increase capacity in these areas will help Mauritius build resilience to shocks, preserve debt and fiscal sustainability, and strengthen governance and institutional quality.

Authorities' Views

The authorities appreciated the ongoing TA provided by the IMF and broadly agreed with staff assessment of CD priorities. They requested further assistance to strengthen the AML/CFT Risk-Based Supervisory framework, national account statistics (especially, compilation of the GDP by the expenditure approach), and the financial stability operational framework. The authorities also identified CD in tax administration (including big data analysis and trade-based money laundering) and PFM (consolidation of public sector financial reporting and implementation of the IPSAS) as high priority areas.

Mauritius: Capacity Development

Priorities	Objectives
AML/CFT framework	Meet FATF recommendations.
Macroeconomic statistics	Reduce the discrepancy between expenditure and value-added measures of GDP, review contribution of the global business companies (GBCs) in national accounts, modernize data collection, assess adherence to SDDS plus, improve institutional capacity and enhance co-ordination between data institutions.
Financial Stability	Review the legal underpinnings on financial stability, establishing clearly the attributes for lead responsibility. Propose a framework for macroprudential analysis and assessing interconnectedness.
Consolidated Financial System Supervision	Continue to strengthen the supervisory framework to better monitor domestic banks' cross-border activities, set up a macroprudential authority, and improve inter-agency cooperation, in line with FSAP recommendations.
External Sector Statistics	Implement a revision policy, initiate quarterly compilation of the international investment position, improve coverage of the offshore sector by strengthening quarterly data collection for the GBCs, and further improve consistency within external sector statistics and coordination with other statistical domains.
Debt Management	Development of government securities market.
Tax Administration	Improve tax efficiency. Key areas to focus on include big data analysis and trade-based money laundering.
Public Financial Management (local government finances, public investment management, fiscal transparency and risks management)	Enhance public investment management and link sector strategies with medium-term budget and public investment plans. Improve accounting and reporting functions, including implementation of IPSAS and compilation and consolidation of Public Sector Financial Reporting to help strengthen fiscal transparency and enhance capacity to address risks potentially arising from state-owned enterprises.

Annex VII. Status of the 2017 Article IV Consultation Main Recommendations

Policy Area	Key Policy Recommendations	Status
Fiscal Policy and Debt Sustainability	Adopt further revenue mobilization efforts to build fiscal space, support the fiscal anchor and preserve debt sustainability. Tax efficiency should be improved to yield additional revenues. Continued improvements in public investment management and identifying pressure points in debt management should also be elements of the fiscal strategy.	Fiscal revenue in FY2017/18 fell short of the budget target by about ½ percent of GDP, but the consolidated balance target was met as the public investment budget was under executed. The FY2018/19 budget remains expansionary. While debt is projected to be sustainable, the statutory debt target of 60 percent of GDP by FY2020/21 is unlikely to be met. On debt management, the maturity structure of new issuances is more favorable. Programs are underway to improve tax efficiency. Some public financial management concerns remain around investments by SOEs.
Monetary Policy	Tighten monetary policy to address inflationary pressures. Announce a medium-term inflation objective to better anchor inflation expectations. Absorb excess liquidity in the banking system through open market operations.	Amid a decline in inflation, an accommodative monetary policy stance has been maintained. Banks' excess liquidity has been contained owing to improved liquidity management, and the average overnight bank rate has moved into the policy rate corridor. A medium-term inflation objective has not been announced.
Exchange Rate Policy	Foreign exchange intervention should be geared towards maintaining adequate reserve coverage, opportunistically building reserves and curbing excess volatility.	Reserves increased to about USD 6.3 billion by end-2018, falling in the middle of the range of the adjusted reserve adequacy metric.
Financial Sector	Take additional steps to shore up financial stability including by lowering the high NPL stock through a more stringent approach to writing-off legacy exposures, and by safeguarding the longer-term forex funding needs stemming from banks' swift expansion abroad. In addition, consider establishing a formal macroprudential body.	The Bank of Mauritius (BOM) has asked banks to develop their own write-off policies and progress in this area is ongoing. In 2018, the BOM introduced a forex liquidity requirement for short-term positions, prescribing a minimum liquidity buffer per currency. However, it does not cover longer-term forex funding above one year in residual maturity. No formal plans are in train to establish a macroprudential body.
International tax avoidance and AML/CFT	Address the concerns raised by the OECD and the EU about the tax regime and ensure compliance with FATF standards, particularly with regard to AML/CFT supervision and entity transparency.	Reforms have been introduced and the OECD has concluded that Mauritius' tax regime does not have harmful features. Decision by the EU is pending. Following the ESAAMLG mutual evaluation, reforms to address the identified shortcomings in the AML/CFT framework are being pursued.
Structural reforms	Pursue reforms to improve cost competitiveness. Simplify the wage-setting mechanism and strengthen efforts to boost youth and female labor force participation.	While fiscal initiatives have been undertaken to boost female labor force participation and address youth unemployment, broader labor market reforms—including to the overall wage-setting mechanism—are pending.

Appendix I. Financial Conditions Index for Mauritius

Financial Conditions Indices (FCIs) have become a widely-used instrument to gauge the operational state of the financial sector and to act as a reliable predictor for real economy activity. Constructing a country-specific FCI for Mauritius—which reflects both external and domestic financial conditions—the results show that the FCI is a leading indicator of economic activity, as well as of trends in private sector credit. The FCI could thus serve as a potentially useful forecasting tool for the Mauritian economy and as an instrument for macroprudential supervision purposes.

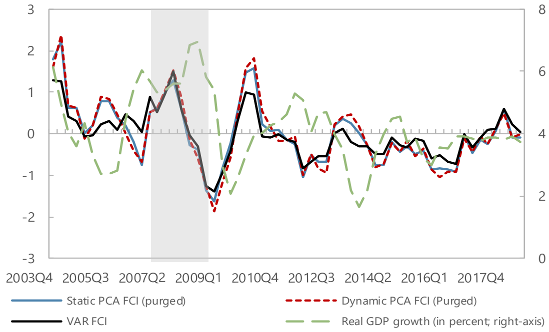
1. Mauritius is a highly financially integrated economy, with the financial services sector being a key pillar of the economy. The development of a financial conditions index (FCI) for Mauritius could be useful for detecting changes in domestic financing supply or demand, thereby acting as an early warning indicator of economic output. Applying standard econometric methodologies, FCIs are developed for Mauritius (see Selected Issues Paper for details).

2. The constructed FCIs track economic activity well. Overall, external factors (such as stock market indicators in major partner countries) turn out to be relatively more important than domestic factors in explaining financial conditions in Mauritius. Notably, the constructed FCIs appear to track GDP growth well—a testament to the importance of the financial sector in the domestic economy and the FCIs' potential forecasting power (Figures 1 and 2). Estimating real GDP growth with the FCIs in a diffusion index model yields significantly lower root mean squared errors than when the FCIs are excluded.

3. The FCI may also be used for macroprudential policy purposes. Going forward, if the authorities decide to introduce the countercyclical capital buffer (CCB)—an additional capital cushion built during upswings to absorb losses in downturns—in their policy toolkit, the FCI could potentially serve as an important indicator for triggering the CCB. Specifically, a comparison of the predictive quality of the computed FCIs with the private sector credit-to-GDP gap ("credit gap") variable that the Basel Committee for Banking Supervision recommends following for setting the CCB, shows that the FCI performs better in tracking credit growth accelerations and loan quality deterioration. While the FCIs lead the turning points in private sector credit growth by about four quarters, particularly during 2007–10, the credit gap variable almost moves in tandem with credit growth (Figure 3). Similarly, the FCI also appears to be a better predictor of a rise in the NPL ratio (Figure 4).

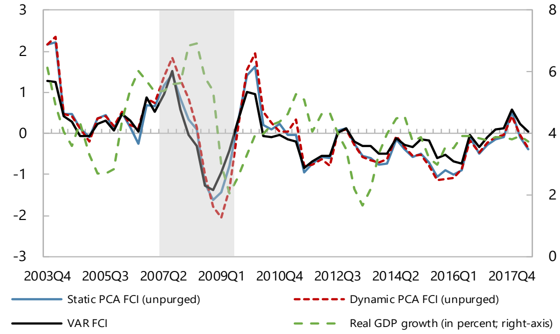
4. The FCIs can thus be considered as a useful tool for forecasting economic activity and monitoring financial stability in Mauritius. Overall, the analysis suggests that FCIs are a good leading indicator of real GDP and private sector credit growth in Mauritius—thereby also showing that external financial conditions play a key role in explaining economic and financial activity in the country. The authorities could include the FCI in their forecasting toolkit, or consider using it for macroprudential policy purposes, possibly together with other external and domestic finanical indicators (including the credit gap, as well as developments in credit standards and asset prices).

Figure 1. Mauritius: GDP Growth, PCA (purged) and VAR FCIs 2003Q4-2018Q2



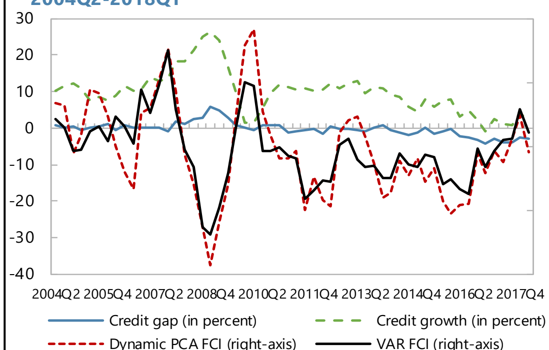
Sources: Bank of Mauritius, Bloomberg, Statistics Mauritius, and IMF staff estimates.

Figure 2. Mauritius: GDP Growth, PCA (unpurged) and VAR FCIs 2003Q4-2018Q2



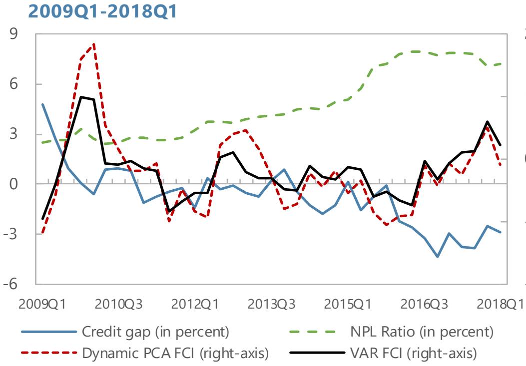
Sources: Bank of Mauritius, Bloomberg, Statistics Mauritius, and IMF staff estimates.

Figure 3. Mauritius: Credit Growth, FCI, and Credit Gap 2004Q2-2018Q1



Sources: Bank of Mauritius, Statistics Mauritius, and IMF staff estimates.

Figure 4. Mauritius: NPL Ratio, FCI, and Credit Gap 2009Q1-2018Q1



Sources: Bank of Mauritius, Statistics Mauritius, and IMF staff estimates.

Appendix II. Mauritius as a Financial Center: Current Standing and Prospects

The financial center of Mauritius is a key part of the economy. While cross-border investment has been the core activity of the center, efforts are underway to move into more high-value added services. Staff analysis suggests that transformation of the sector requires addressing the skills, infrastructure, and innovation capacity gaps expeditiously. Moreover, development of fintech requires ensuring that adequate AML/CFT safeguards are put in place.

1. **Mauritius' International Financial Center (IFC)—comprising commercial banks and offshore global business companies (GBCs)—plays a major role in the economy.** With assets under management over 50 times the country's GDP, the IFC's contribution to domestic output reached about 12 percent during 2016–18. The IFC and adjunct service providers such as law and audit firms have also been a source of employment and tax revenue for Mauritius—accounting for about 3 percent of employment and generating tax revenue of about 6 percent of GDP.

2. **Cross-border investment is a core activity of the IFC.** While the IFC is built upon three major pillars—cross-border investment, cross-border corporate banking, and private banking and wealth management—the facilitation of cross-border investment and related fund administration activities is its core area of specialization, which contributes about 60 percent to the IFC's economic value added, 90 percent to its tax payments, and 70 percent to its employment. Cross-border corporate banking follows, accounting for about 30 percent of the IFC's economic value added.

3. **The IFC has grown on the back of a favorable tax regime, supportive regulatory framework, and a well-educated labor force.** The government's Financial Sector Blueprint highlights certain features of the Mauritian economy that support its IFC including a stable legal and regulatory environment, a business-friendly tax policy, a generally talented workforce, and a network of bilateral double taxation and investment protection treaties that help to foster investment linkages. However, the report also notes that a significant upgrading of human and physical capital, and ICT infrastructure is needed to move into higher value-added financial services (such as asset and treasury management and trade finance) and boost the IFC's contribution to growth.

4. **Comparing the competitiveness of the IFC with other global financial centers conveys a mixed picture.** Mauritius ranks mid-range among comparator financial centers in financial sector depth (measured by private sector credit relative to GDP), and while its capital account openness is among the highest in the world, the magnitude of investments (both inward and outward) is relatively small in absolute terms. In terms of doing business, the indicators

generally show a favorable perception of investors, yet Mauritius lags advanced financial centers in higher (tertiary) education enrollment and the ICT infrastructure (Figure 1).[1]

5. The IFC is successfully diversifying into sub-Saharan Africa (SSA). With the tax advantage vis-à-vis India being phased out at end-March 2019, Mauritius' IFC has been increasingly tapping the SSA market, supported by the authorities' Africa Strategy.[2] The number of GBCs with an Africa focus is comparable to those investing in India, though the total amount of investment is considerably lower (Figure 2). During 2012–17, foreign direct investment (FDI) from Mauritius into SSA doubled to USD25 billion, with nearly 25 percent of FDI into Kenya and 12 percent into Senegal and Côte d'Ivoire originating from Mauritius or passing through its IFC.

6. In its transition to the next level, the IFC faces two key challenges. First, certain investment flows may be diverted to other financial centers that are geographically closer to source markets and offer more diversified products than Mauritius. In 2018, for example, Singapore appears to have captured some equity investment into India that traditionally passed through the IFC. Second, investments into SSA may not be enough to compensate for the slowdown in financial activity with India, at least in the short run. To meet these challenges, Mauritius needs to address the skill gap and infrastructure needs swiftly, so that it can expand its range of financial services and grow its client base.

7. Within its IFC strategy, Mauritius aspires to become a regional fintech hub. A recent report by a high-level committee on fintech prospects notes that the mature banking sector stimulating business-to-business demand, along with supportive regulators offers opportunities for the sector to grow, while low venture capital investment, limited ties with other fintech hubs, and difficulties in recruiting tech talent are areas for development. Cross-country comparison with other financial centers indicates that Mauritius lags significantly in innovation capacity (especially, the quality of research institutions, R&D spending, and university-industry collaboration), ICT infrastructure (e.g., secure internet servers and mobile broadband subscriptions), as well as in the energy generation capacity required for certain crypto asset activities (Figure 3).

8. Mauritius has been an early promoter of fintech, but some safeguards need to be strengthened. In 2016, the Mauritian authorities were among the first to introduce a regulatory sandbox licensing (RSL) regime—an enabling yet controlled environment for fintech activities still lacking a regulatory framework—under which licenses for innovative products have been issued (e.g., peer-to-peer lending and robo-advisor). While some RSL requirements match those of

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[1] According to the *Global Financial Centres Index 24* (September 2018), the competitiveness of Mauritius' IFC has improved, yet it is still perceived as a "local specialized" center as opposed to a "global leader."

[2] The Africa Strategy aims to reinforce economic collaboration with the African states to leverage on Mauritius' comparative advantage as a well-established IFC and drive investment into the region.

other regional fintech hubs (e.g., fit-and-proper checks), overall the framework appears less stringent in risk identification and consumer protection.[3]

9. Some traditional fintech activities such as mobile money are not as prominent in Mauritius as in peers. Mauritius has the highest share of adult bank account holders in SSA (90 percent versus 43 percent for SSA), but it also has one of the lowest shares of mobile money accounts (6 percent versus 21 percent for SSA).[4] Deficiencies in the quality of the systems of mobile network operators is considered as one reason for this gap—with a new standardized open platform under the National Payment Switch aiming to provide a level playing field for banks and non-bank operators, thereby addressing certain hindrances to fintech providers.

10. The authorities are initially focusing on activities relating to digital assets. Following the recognition of digital assets as an asset class for investment in November 2018, and consultations with the industry, a new regulatory framework for licensing of custodians of digital assets entered into force in March 2019, based on the high-level committee's recommendations.[5] Outside digital assets activity, however, the authorities have not yet launched a strategy for promoting other key fintech activities such as mobile money and payments, peer-to-peer lending and crowdfunding, and tech-enabled investment services.

11. In pursuit of becoming a regional fintech hub, the legal and regulatory gaps—particularly concerning AML/CFT and crypto exchange service providers—should be addressed. Under the relevant FATF standard, countries must identify and address the ML/TF risks and should ensure that virtual asset providers are regulated for AML/CFT purposes, licensed or registered, and subject to effective systems of monitoring and ensuring compliance with the FATF standard. Ambiguities in Mauritius' AML/CFT framework potentially result in gaps in the coverage of certain digital assets (e.g. payment tokens), service providers (e.g. mobile wallet operators, issuers of non-security tokens) and crypto asset exchangers not licensed as a financial institution. The FIAMLA and AML/CFT regulations should be amended to implement the new FATF standard on virtual asset service providers. The authorities should also thoroughly vet and monitor the newly-licensed custodians of digital assets for AML/CFT compliance. Furthermore, financial-stability risks can arise when, for example, a dominant fintech provider to which many financial institutions are linked ceases operations. The authorities should focus on monitoring and assessing concentration risk by gathering appropriate data and metrics.

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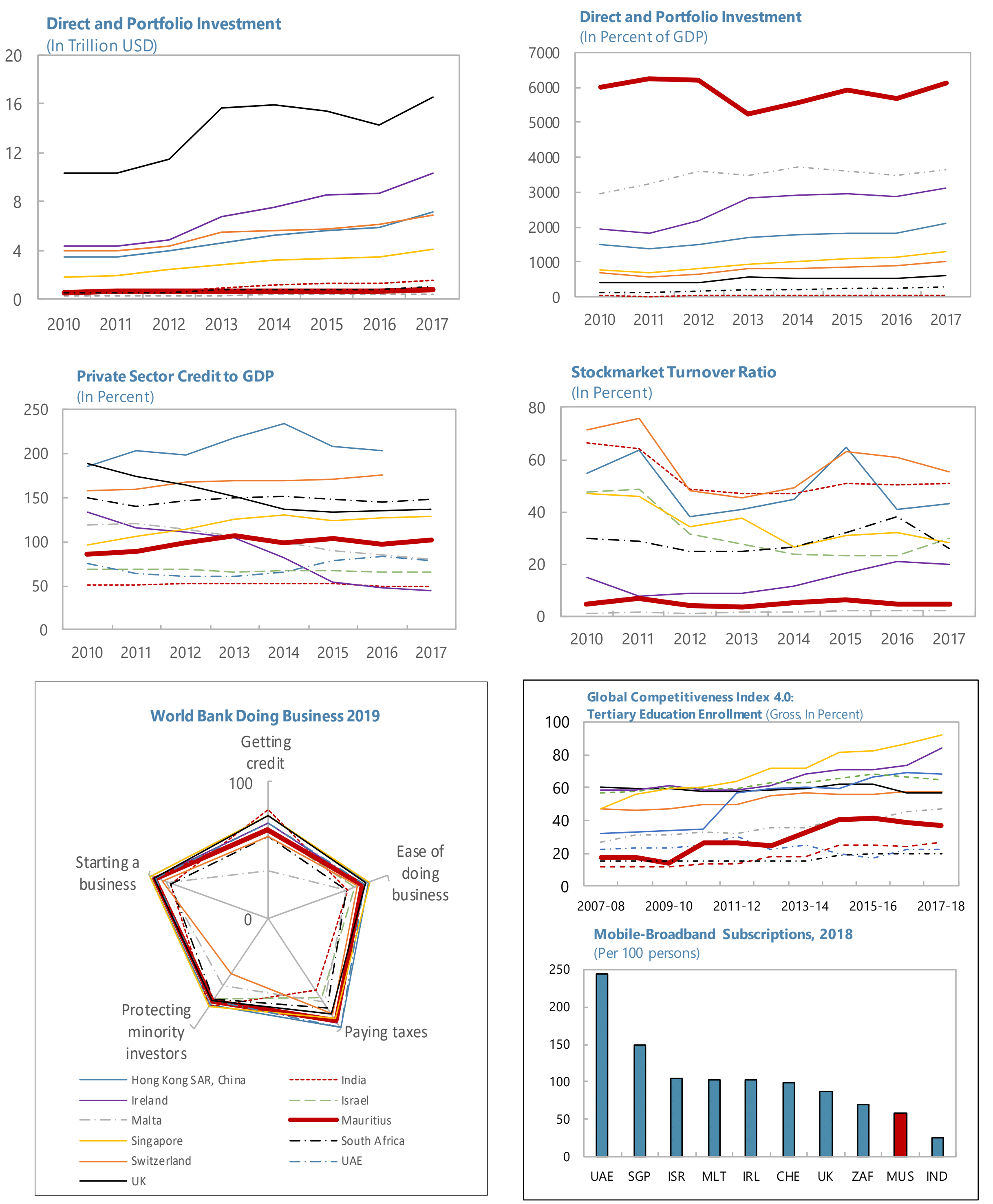
[3] Safeguards are stronger in Singapore where preliminary testing to identify risks is required before applying to the RSL. The consumer protection aspect is also not as explicit in Mauritius' regime as in some other cases (e.g., India).

[4] Source: World Bank's Findex database.

[5] Separately, the committee also suggested changes to the RSL regime and the AML/CFT law (FIAMLA) with respect to fintech as well as enhancements to supervisory technology. As an example, Singapore uses technologies for data validation, including data-cleaning and quality checks, to allow supervisors to focus more on investigations.

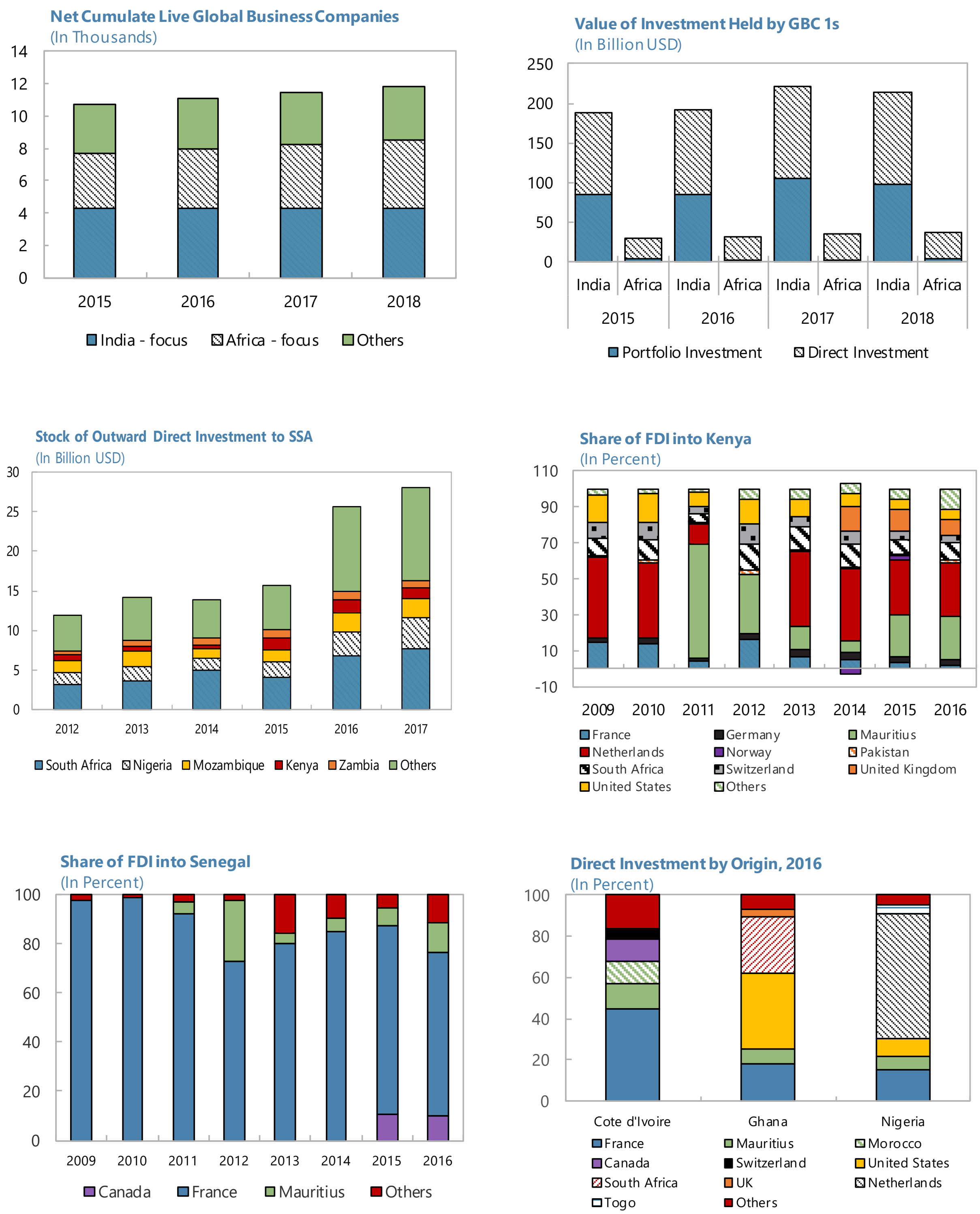
12. Greater international cooperation in fintech is requisite. The IMF's Bali Fintech Agenda envisions a framework for facilitating further cooperation between industry and regulators—both within countries and across borders—to foster fintech opportunities, while mitigating financial-stability risks. In this context, Mauritius will benefit by following the example of fintech frontrunners Australia, Singapore and the U.K. that have signed cooperation agreements among themselves as well as with other countries. These agreements enable regulators to share information about emerging fintech trends and policy issues, share regulatory expertise to facilitate the entry of fintech start-ups into the other jurisdiction's regulatory sandbox, and promote engagement between the respective fintech bodies to discuss collaboration opportunities.

Figure 1. Mauritius: Financial Sector and Business Climate Indicators



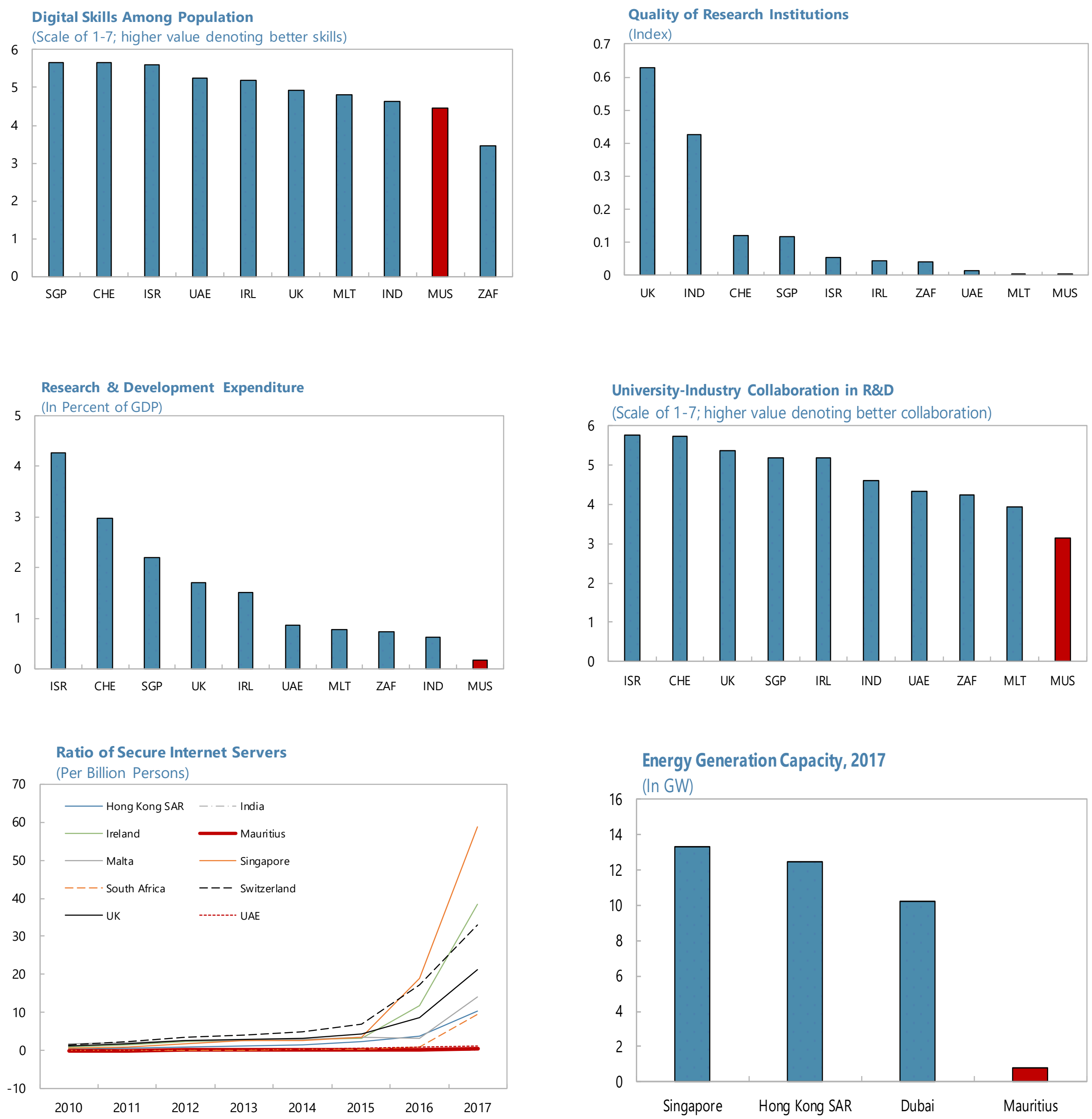
Sources: IMF CDIS and CPIS surveys, World Bank, and World Economic Forum.
Notes: The same legend is followed in all charts. UAE=United Arab Emirates. UK=United Kingdom. SGP=Singapore. ISR=Israel. MLT=Malta. IRL=Ireland. CHE=Switzerland. ZAF=South Africa. MUS=Mauritius. IND=India.

Figure 2. Mauritius: International Investment Patterns



Sources: IMF CDIS survey and Mauritius authorities.

Figure 3. Mauritius: Innovation Competitiveness Indicators



Sources: World Economic Forum, World Bank and Mauritius authorities.
Note: Secure internet servers denote the number of distinct, publicly-trusted TLS/SSL certificates found in the Netcraft Secure Server Survey. CHE=Switzerland. IND=India. IRL=Ireland. ISR=Israel. MLT=Malta. MUS=Mauritius. SGP=Singapore. UAE=United Arab Emirates. UK=United Kingdom. ZAF=South Africa.

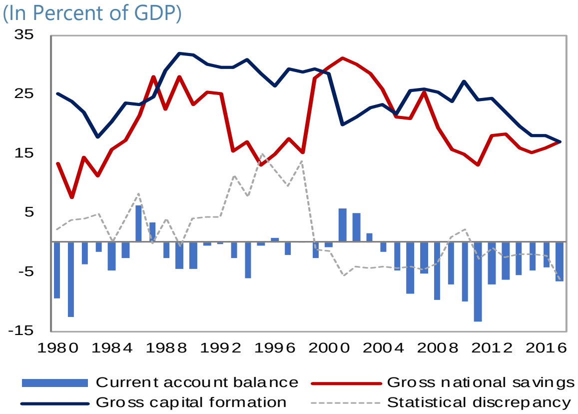
Appendix III. Private Savings in Mauritius

The private saving rate in Mauritius has declined over the years, contributing to a lower national saving rate and a sizable current account deficit. Using data over the last four decades, the analysis shows that the deposit rate and economic growth are the key drivers of private savings in Mauritius. Given the economic and demographic characteristics, private saving rate is about 3 percent of GDP lower than potential in Mauritius.

1. **The current account balance of Mauritius has been in a persistent deficit since the mid-2000s, peaking at about 10 percent of GDP in 2010**. From a savings and investment perspective, Mauritius' current account deficit can be largely attributed to a decline in national savings, as investment has remained tepid (Figure 1). National savings fell sharply during the global financial crisis in 2008–09, but recovered somewhat in 2011, and have averaged about 17 percent of GDP since then. This ratio is one of the lowest among middle-income sub-Saharan African (SSA) countries—most of which have also been running current account deficits in recent years, though generally of a smaller magnitude than Mauritius.

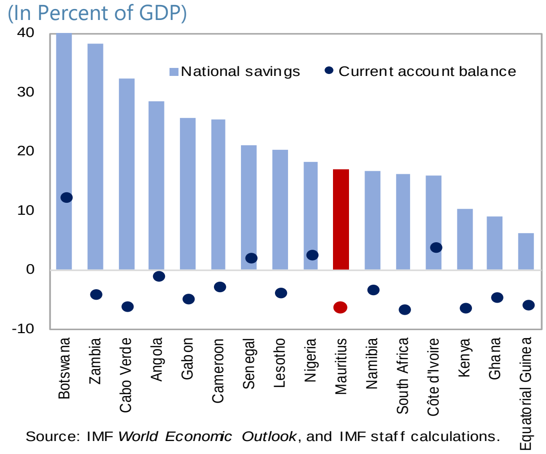
Figure 1. Current Account Balance and National Savings

Mauritius: Current Account Balance, National Saving, and Investment, 1980–2017
(In Percent of GDP)



Source: IMF *World Economic Outlook*, and IMF staff calculations.

Sub-Saharan Africa: Current Account Balance and National Saving, 2017
(In Percent of GDP)



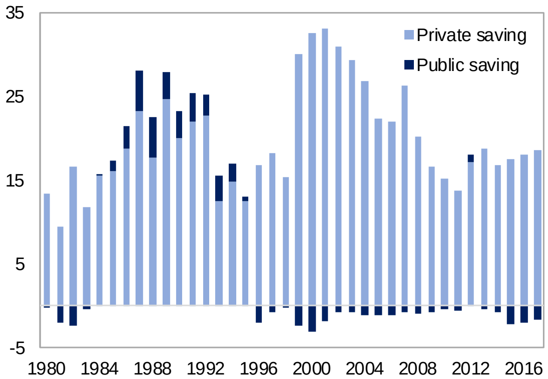
Source: IMF *World Economic Outlook*, and IMF staff calculations.

2. **The main contributor to national saving is private saving, which has averaged about 18 percent of GDP in recent years.** As in other countries in SSA, national savings in Mauritius are mainly driven by private savings, which have fallen from a peak of 32 percent of GDP in the early 2000s to about 18 percent of GDP over the last decade (Figure 2). This rate is lower than the average private saving rate for other emerging market and developing countries (EMDEs), as well as the average for Mauritius' middle-income peers in the region (Figure 3).

3. **The deposit rate and income growth are important determinants of private saving in Mauritius**. Empirical analysis shows that the deposit rate and income growth are key drivers of private saving in Mauritius, while there is no strong evidence that public saving or demographic trends are associated with private saving in the country (see Selected Issues Paper).

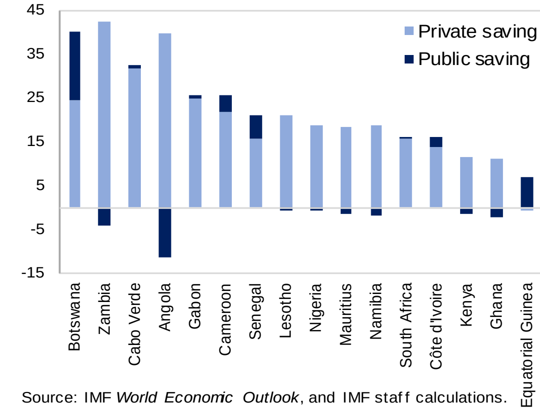
Figure 2. Public and Private Saving

Mauritius: Public and Private Saving
(In Percent of GDP)



Source: IMF World Economic Outlook, and IMF staff calculations.

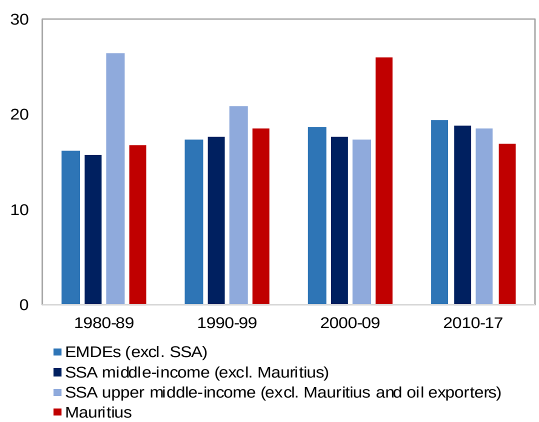
Sub-Saharan Africa: Public and Private Saving, 2017
(In Percent of GDP)



Source: IMF *World Economic Outlook*, and IMF staff calculations.

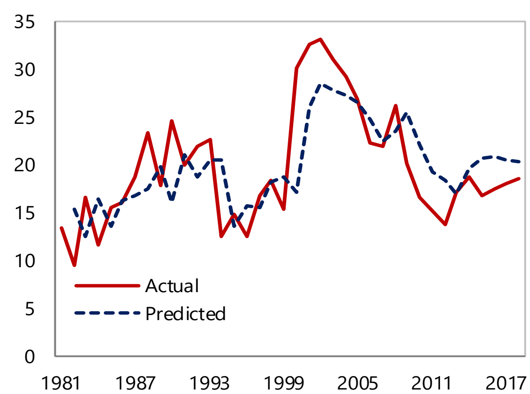
4. **Mauritius' private saving rate is lower than potential.** Benchmarking Mauritius' private saving rate based on panel data analysis for a large sample of EMDEs suggests that given its economic and demographic characteristics, Mauritius' private saving rate is about 3 percent of GDP lower than potential. While economic growth would boost private savings, a rapidly rising old-age dependency ratio requires a higher level of savings to alleviate fiscal pressures and avoid abrupt policy adjustments in the future. In this regard, efforts should focus on generating greater public awareness and encouraging private savings—e.g., through old-age related saving schemes. Better targeting of social benefits and broader pension reforms could also help to boost savings.

Figure 3. Private Saving across Country Groups
(In Percent of GDP)



Source: IMF *World Economic Outlook*, and IMF staff calculations.

Figure 4. Mauritius: Actual and Predicted Private Saving (In Percent of GDP)



Source: IMF, *World Economic Outlook*, and IMF staff calculations.

INTERNATIONAL MONETARY FUND

MAURITIUS

April 4, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by The African Department

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2019)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	142.20	100.00
Fund holdings of currency (Exchange Rate)	120.76	84.92
Reserve Tranche Position	21.54	15.15

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	96.81	100.00
Holdings	90.01	92.98

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

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

			Forthcoming		
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	0.08	0.08	0.08	0.08	0.08
Total	0.08	0.08	0.08	0.08	0.08

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

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Arrangement

The *de jure* exchange rate arrangement is classified as floating. The *de facto* exchange rate arrangement is classified as floating. Mauritius has accepted the obligations of Article VIII, Section 2, 3, and 4. The country maintains an exchange system free of multiple currency practices, and of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account. Mauritius continues to intervene in the foreign exchange market with an objective to smooth excess volatility. On February 28, 2019, US$1 was equivalent to MUR 34.2. The Exchange Rate Support Scheme that was implemented in September 2017 to provide a temporary subsidy to exporters and constituted a multiple currency practice (MCP) under Article VIII, Section 3, was removed in March 2018.

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation was completed by the Executive Board on November 21, 2017 (Country Report No. 17/362, December 2017).

Technical Assistance (2012–2018)

AFRITAC South

Updating the Finance & Audit Act (2008) and drafting revised underlying financial regulations, February 2012.
Multi-topic mission on PFM Legal framework and developing a new PFM Act, May/June 2012
Implementation of Basel III, September 2012
Fiscal Legal Framework, September 2012
Multi-topic mission on revenue mobilization and on the finalization of the Tax Administration Act, February/March 2013
The Development of Public Finance Management Act, August 2013
Fiscal Law VAT/Tax Law Reform, August/September 2013
Fiscal Risks Related to Operation of SOEs, September 2013
Grant in Aid Formula for Local Authorities, September/October 2013
Customs Law, January/February 2014 Inflation Targeting, August 2014
Onsite Supervisory Process, October 2015
Risk Based Supervision & Pillar 2 of Basel II Seminar, February 2016
Enhancing Compliance of the Insurance Sector, April/May 2016
Implementation of Risk Based Supervision, June 2016
Modeling and Forecasting, October 2016
Modeling and Forecasting, March 2017
Forecasting and Policy Analysis Systems, 2015 – Ongoing

National Accounts (Joint with STA), March 2018
National Accounts: GDP (Joint with STA), July 2018
Improving Public Sector Debt Management, July 2018
Sectoral Financial Accounts and Financial Balance Sheets (Joint with STA), July 2018

FAD

Public Investment Management Assessment (PIMA), November-December 2016
Tax Administration Diagnostic Assessment (TADAT), August/September 2017
Grant in Aid Formula (Joint with AFRITAC South), January 2018
Accrual Accounting (Joint with AFRITAC South), February 2018
Review of Customs Legislation and regulations (Joint with LEG), March 2018
Managing Government Cash and Debt (Joint with MCM), May 2018
IPSAS based partially consolidated (Joint with AFRITAC South), August 2018
Big Data Analytics and Communications for Better Revenue Administration, August 2018
MRA Review of Communications Strategy (Joint with AFRITAC South), August 2018

LEG

AML/CFT, February 2012
Central banking legislation, February 2012
Monetary Policy Framework and Central Bank Act, June 2013
Legal Reform on Central Banking, Banking Supervision, Crisis Management and Resolution, Deposit Insurance and Payments Systems, September 2017
Central Bank Legislation, September 2018

MCM

Multi-topic mission on financial sector reform, April/May 2012
Liquidity and Debt management and Secondary Market Development, December 2012
Monetary Policy Implementation, May/June 2013
Public Debt Management, December 2013
Inflation Forecasting and Modeling, January 2014
Review of the Functioning of Supervisory College, February 2014
Compliance with Basel II Capital Adequacy Framework, March 2014
Contingency Planning for Crisis Preparedness and Management, November 2014
TA Need Assessment on Monetary Policy Operations, 2014
Diagnostic mission for monetary policy framework and operations, 2014
Bank and Insurance Resolution, June 2015
Financial Sector Assessment Program (FSAP), November 2015.
Bank Resolution and Crisis Management, March 2017
Enhancing near-term forecasting capacity (Joint with AFRITAC South), January 2018
FPAS (Joint with AFRITAC South), January 2018
Financial Stability Analysis, including Stress Testing and Early Warning Systems, April 2018
Sub Regional Seminar and Workshop (Joint with AFRITAC South), July 2018
FPAS-Near-Term Forecasting (Joint with AFRITAC South), November 2018

STA

Balance of Payments Statistics and International Investment Position, November 2012
Multi-sector statistics, January/February 2013
External Statistics, September 2013 External Statistics, March 2014
Monetary and Financial Statistics, March/April 2014
Government Financial Statistics, April/May 2014 Price Statistics, August 2014
External Statistics, February/March 2015
Real Sector Statistics, November 2015
National Accounts, April 2016 National Account, August 2016
National Accounts - Sectoral Accounts, December 2016
Residential Property Price Index, March 2017
National Accounts Statistics, April 2017
Monetary and Financial Statistics, January 2018
Price Statistics (Joint with AFRITAC South), March 2018
Balance of Payments Statistics, June 2018
External Debt Statistics Workshop, August 2018

Resident Representative: None.

RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

As of March 29, 2019, Mauritius collaborates with the World Bank Group and the African Development Bank. Further information may be obtained from the following websites:

http://www.worldbank.org/en/country/mauritius

https://www.afdb.org/en/countries/southern-africa/mauritius/

STATISTICAL ISSUES

Statistical Issues Appendix

(As of March 29, 2019)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance but there is room for improvement. The statistical discrepancies between the expenditure and production sides in the revised national accounts data need to be addressed. Following TA recommendations, quarterly data collection of the balance sheets of global business companies holding license 1 (GBC1s) has been initiated, but further efforts are needed to validate and effectively use the annual survey data of GBC1s.

National Accounts: Statistical discrepancies between the expenditure and production measures of GDP have increased significantly, both on the nominal and real accounts. AFRITAC South and STA have provided recent TA and are working with Statistics Mauritius and the Bank of Mauritius (BOM) in resolving these discrepancies through better collection of GBC data and a change in treatment of GBC output in the national accounts.

External Sector Statistics (ESS): Following TA recommendations, quarterly data collection on GBC1s has been initiated, but further efforts are needed to improve its timeliness. Authorities should strengthen efforts to implement past TA advice to set a revision policy, initiate quarterly compilation of the international investment position, further improve consistency within ESS and coordination with other statistical domains, and improve the coverage of the offshore sector by strengthening GBC1s quarterly data compilation and including cross-border statistics of GBCs holding License 2/Authorized Companies replacing GBC2s.

Fiscal Statistics: The coverage of central government accounts is comprehensive, as is coverage of central government and state-owned enterprise debt. The authorities are taking steps to implement IPSAS and should also move towards general government accounting.

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

II. Data Standards and Quality	
Participant in the GDDS since September 2000, Mauritius subscribed to Special Data Dissemination Standard (SDDS) on February 28, 2012. Mauritius is the second Sub-Saharan African country to subscribe to the SDDS.	A data ROSC report was published in August 2008.

Mauritius: Table of Common Indicators Required for Surveillance
March 29, 2019

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality-Methodological soundness[7]	Memo Items: Data Quality-Accuracy and reliability[8]
Exchange Rates	March 2019	3/2019	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	February 2019	3/2019	M	M	M		
Reserve/Base Money	February 2019	3/2019	M	M	M	O, LO, LO, LO	O, O, O, O, LO
Broad Money	February 2019	3/2019	M	M	M		
Central Bank Balance Sheet	December 2018	2/2019	M	M	M		
Consolidated Balance Sheet of the Banking System	February 2019	3/2019	M	M	M		
Interest Rates[2]	February 2019	3/2019	M	M	M		
Consumer Price Index	February 2019	3/2019	M	M	M	O, LO, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Q2 FY18/19	02/2019	Q	Q	Q	LO, O, O, O	LO, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Q2 FY18/19	02/2019	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[4]	Q2 FY18/19	01/2019	Q	Q	Q		

Mauritius: Table of Common Indicators Required for Surveillance
March 29, 2019 (concluded)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality-Methodological soundness[7]	Memo Items: Data Quality-Accuracy and reliability[8]
Exports and Imports of Goods and Services	Q4/2018	03/2019	Q	Q	Q		
External Current Account Balance	Q4/2018	03/2019	Q	Q	Q	O, LO, LO, LO	LNO, LNO, LO, LO, NO
GDP/GNP	Q4/2018	03/2019	Q	Q	Q	O, LO, O, LO	L, O, LNO, LO, O
Gross External Debt	Q4/2018	01/2019	Q	Q	Q		
International Investment Position[5]	Q4/2017	09/2018	A	A	A		

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Including currency and maturity composition.

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

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

[8] Same as footnote 7, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Mohamed-Lemine Raghani, Executive Director for Mauritius
Thierry Paul Nguema-Affane, Senior Advisor to the Executive Director, and
Kelvio Carvalho da Silveira, Advisor to the Executive Director
Executive Board Meeting
April 22, 2019

1. On behalf of the Mauritian authorities, we would like to thank Management and staff for the candid and constructive dialogue and invaluable technical assistance which have contributed to strengthen the authorities' policy framework and preserve macroeconomic stability and steady growth over the years. The authorities welcome the staff report which provides a balanced assessment of the macroeconomic situation, including progress achieved to date as well as challenges and policy priorities. They also found the focus of the Selected Issues paper on savings, the financial conditions index, and structural transformation in Mauritius to be particularly relevant and informative.

2. Mauritius has embarked on an ambitious journey of structural transformation of the economy in the context of their Mauritius Vision 2030. The vision aims to boost long-term inclusive growth and ultimately reach the high-income status by 2030 by updating the country's business model, which over the past decade focused on tourism and financial services and enabled to position Mauritius as a highly attractive and competitive touristic destination and financial hub. The new model seeks to strengthen the island's global competitiveness and develop its innovation capacity, building on the country's attractive traits including its political stability and strategic location between Africa and Asia.

3. The strategy underpinning this model revolves around three pillars: (i) economic diversification into high-value added services, (ii) public investment in urban and transport infrastructure, and (iii) promotion of private investment notably in new growth sectors such as ICT and the maritime or blue economy. This strategy should strengthen Mauritius' destination for FDI, enhance its position as a financial center, and improve its position as regional logistics and transport hub. The authorities remain determined to pursue these objectives while maintaining macroeconomic stability. In implementing the strategy, the authorities will manage no efforts to address key structural bottlenecks, including the aging population, skills mismatch and declining productivity.

Recent Developments and Outlook

4. The Mauritian economy continues to perform well, with real GDP growth estimated at around 3.8 percent in 2017 and 2018, driven mainly by tourism, construction, Information Technology and financial services sectors. The expansion in these sectors has led the unemployment to reach its lowest rate in a decade at about 6.9 percent in 2018. Inflation has fallen to 3.2 percent in 2018. Although the current account deficit widened in 2018 due to higher oil prices but large capital inflows kept the overall balance of payment (BOP) in surplus. Foreign exchange reserves increased from 8.2 months of imports in 2017 to 9.3 months in 2018. Fiscal policy in 2018 has been prudent and the deficit continued to decline despite a shortfall in non-tax revenues and external grants. Public debt decreased to 63.7 percent of GDP, still above the statutory 60-percent target, but is sustainable as underscored in the Debt

Sustainability Analysis (DSA). Credit to the private sector continued to grow in 2018 and the banking sector remains sound.

5. Mauritius' economic outlook is positive. Real GDP growth is projected to remain strong at around 4.0 percent in the medium-term underpinned by a favorable performance in service sector. In the near-term, the materialization of key infrastructure projects will also support economic activity. Inflation is expected to decline further to 2.1 percent in 2019 and would remain relatively low in the medium term. As staff rightly noted, risks to the outlook could stem from domestic and external factors most notably (i) disruptions to the off-shore global business due to the expiration of tax treaty with India; (ii) tightening of global financial conditions; and (iii) rising protectionism. However, the Mauritian authorities are of the view that actions implemented to encourage greater female labor force participation, youth skill and small-scale entrepreneurs, could potentially surprise growth on the upside.

Policies Priorities for 2019 and the Medium-Term

Ensuring Fiscal Sustainability and Sound Fiscal Management

6. The authorities remain committed to fiscal and debt sustainability consistent with the country's fiscal rule. They agree with staff that given the debt vulnerability to macro-fiscal shocks in the medium-term, putting debt on a downward path in the medium-term will be important to maintain macroeconomic stability and help the country absorb shocks. They acknowledge that, under the current expansionary fiscal stance in FY2018/19 driven by higher public investment, the statutory public debt target of 60 percent of GDP will not be met by FY2020/21 as initially envisaged. The authorities are determined to meet the debt target but are considering extending the deadline by two years to allow a smoother fiscal adjustment in the near-term while carrying out their infrastructure projects. It is worth stressing that with regards to the aircrafts, no decision has so far been taken. However, Air Mauritius' favored option is leasing as it would not impact public sector debt.

7. Fiscal consolidation efforts will focus on both additional revenue-enhancing and expenditures-controlling measures but will need to be considered in view of the political cycle. In the Budget Circular issued in March 2019, it has been clearly stated that the 2019-2020 Budget would be formulated on the basis of the following four fundamental principles: (i) use the limited resources judiciously by right prioritizing of investment projects; (ii) eliminate wastage and unproductive expenditure in the public sector; (iii) ensure buoyancy in revenue collection; and (iv) adhere to the golden rule in public finance, that is, borrowing only to finance quality investment. Attention will also be paid to protecting the safety net for the most vulnerable.

8. Fiscal reforms are being implemented to enhance fiscal transparency and public investment management and help preserve fiscal and debt sustainability. In particular, the International Public Sector Accounting Standards (IPSAS) are currently being implemented, under the oversight of the newly created Ministry of Finance committee and several other project monitoring and coordinating commissions were created to support public investment efficiency. Steps are also underway to implement the remaining recommendations of the 2017

Public Investment Management Assessment (PIMA), including for public procurement process.

Maintaining Monetary Stability

9. The authorities concur that the current accommodative monetary policy stance continues to be appropriate considering subdued inflationary pressures. Bank of Mauritius (BOM) has made noteworthy efforts to improve the operational efficiency of its monetary policy. Through open market operations to address excess liquidity, the gap between the Key Repo Rate (KRR) and the money market rates narrowed. They will continue to monitor developments in both money market rates before formalizing the choice of the operational target. While efforts to mop up excess liquidity will continue, the high and increased cost associated with conducting monetary operations is a source of concern for BOM, as it has a serious bearing on the Bank's already thin balance sheet. At times, this limits the Bank from further mopping up the excess liquidity. They request the support of the Fund in the drafting of a cost-sharing agreement with MOFED to lessen the financial burden on BOM. In addition, BOM has requested the IMF's TA on asset and liability management, including reserve management to help support the high costs of absorbing liquidity.

10. The authorities are aware of the benefits that the establishment of a formal medium-term inflation target carry. Consideration will be given to this issue when the BOM finalizes its revised monetary policy framework.

Regaining External Competitiveness

11. The authorities share staff's concerns on external competitiveness and are aware that there is significant room for improvement. In this connection, measures are being taken to boost trade and investments. For instance, new bilateral and multilateral free trade agreements are being negotiated and new paths of economic diplomacy with the African States are being developed under the Government's Africa Strategy. The authorities also recognize the need to address the skill mismatch and promote innovation. Beside the focus on education and vocational systems, new tech-related courses are being introduced, the smart-city scheme is advancing and initiatives to facilitate access to finance, particularly for Small and Medium Enterprises (SMEs) were launched. Reflection is also ongoing on ways to further bolster female workforce participation. The authorities are confident that these measures, undertaken on several fronts, together with better coordination and monitoring will generate growth dividends in the coming years.

Strengthening Financial Stability and Integrity

12. Pursuing the strengthening of the AML/CFT framework ranks high in the authorities' policy priorities. At the recent Eastern and Southern Africa Anti-Money Laundering Group (ESSAMLG) Task Force Plenary meeting, the Mauritius Follow-up report and application for technical compliance re-ratings were considered by the Review Group. It is to be noted that significant progress has been made to comply, and therefore, Mauritius has been upgraded by ESSAMLG on 12 recommendations. . Several AML laws and regulations have been amended,

a dedicated unit for AML/CFT supervision was set up, and cooperation is actively ongoing with Financial Services Commission (FSC), Financial Intelligence Unit (FIU), Mauritius Revenue Authorities (MRA), Independent Commission Against Corruption (ICAC) and the Mauritius Police Force (MPF). Additionally, they have already conducted and are conducting more awareness and workshops on the subject across various target markets (The IMF AFRITAC is facilitating a week's training at the FSC on risk-based approach to AML/CFT supervision). Given the importance attached to capacity building, a number of targeted courses offered by the Chartered Institute of Bankers of Scotland are being rolled out to raise the standards of professionalism and conduct in the banking and financial service sector in Mauritius. Going forward, the authorities reiterate their commitment to implement the recommendations of the ESAAMLG report as well as the National Risk Assessment to ensure that Mauritius continues to develop an effective AML/CFT framework aligned with the highest international standards.

13. Regarding financial supervision, the "Mauritius Deposit Insurance Scheme" (DIS) bill was recently approved by the National Assembly. The BOM has requested technical assistance from the Fund to implement the DIS project.

14. Mauritius also made great strides in the regulatory landscape for Fintech. Following the publication of the Guidance Note on the "Recognition of Digital Assets as an asset-class for investment" in September 2018, they also established a regulatory framework for the licensing of Custodian Services for digital asset. This framework makes Mauritius the first jurisdiction globally to offer a regulated landscape for the custody of digital assets. Further to this, a Guidance Note on "Securities Token Offering" was also issued in April 2019. Licensees will equally have to comply with the applicable framework for AML/CFT, in line with international best practices.

Compliance with International Tax Initiatives

15. Compliance with international tax initiatives has improved and will be further strengthened. The latest Organization for Economic Co-operation and Development (OECD) report indicated that Mauritius meets all the international requirements of the Base Erosion and Profit Shifting Project (BEPS) Action 5 and consequently has no harmful tax practices in its tax regime. Notwithstanding these positive developments, the European Union (EU) still considers that further changes are needed to their tax regimes to bring them into line with international standards. Although they expressed their unease over the lack of coordination between different anti-tax avoidance initiatives, the authorities will continue to work in this area to ensure that the country upholds its adherence to international best practices.

Data Provision

16. Efforts to strengthen statistics continue. A revision policy on external sector statistics (ESS) has been posted on the Bank's website early April 2019 when revised 2017 ESS data were disseminated.

Conclusion

17. The Mauritian authorities recognize the challenges and are mindful of the need to ensure fiscal consolidation to put public debt on a downward trajectory, regain external competitiveness and maintain financial integrity and stability. They are committed to continue to implement their reforms policies to sustain macroeconomic stability and boost long-term inclusive growth. Lastly, the authorities would like to express their appreciation to the Fund for its policy advice and invaluable technical support and look forward to continued cooperation.