INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/223

MAURITIUS

July 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 10, 2022, with the officials of Mauritius on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 2, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.

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

Selected Issues

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

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PRESS RELEASE

PR22/212

IMF Executive Board Concludes 2022 Article IV Consultation with Mauritius

FOR IMMEDIATE RELEASE

Washington, DC – June 17, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Mauritius on a lapse-of-time basis.[2]

Mauritius has been gradually recovering from the pandemic. The authorities have successfully managed the health impact of the pandemic and vaccinated most of the population. Real GDP expanded by 4 percent in 2021 as many sectors recovered to pre-pandemic levels of economic activity while the tourism sector remained subdued. Against this backdrop, the current account deficit widened substantially. Fiscal performance is expected to improve in FY2021/22 helped by quasi-fiscal operations although the pandemic and new pressures on current spending burden the fiscal balance. Inflation increased substantially from 2.7 percent at end-2020 to 6.8 percent at end-2021 and further to 11 percent at end-April 2022. The financial sector, including the Global Business Companies (GBCs) segment was stable in 2021. Mauritius exited from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring in October 2021 and the analogous EU and UK lists soon after.

Staff projects real GDP growth of 6.1 percent in 2022. The economic rebound is expected to be driven primarily by the tourism sector with tourist arrivals expected at 60 percent of pre-pandemic levels. Unemployment is expected to decline as the economy recovers and to return to trend in the medium-term. Annual inflation is expected to rise to 11.4 percent in 2022 due to surging commodity prices, past depreciation of the rupee, and recovering domestic demand. The economy is expected to converge to its pre-pandemic trend growth of 3-3½ percent in the medium term.

The outlook for Mauritius is subject to downside risks, including due to the war in Ukraine. Rising global inflation reduces real disposable income and may weigh on global demand, including for tourism, and freight costs.

Executive Board Assessment

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

The economy is recovering from the pandemic following a substantial contraction in 2020. The health impact of the pandemic was successfully managed, including by a remarkable

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

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

vaccination campaign covering over 90 percent of the eligible population by May 2022. Economic growth has started to recover, with most sectors broadly back to pre-pandemic output levels, except tourism, where activity remains subdued.

The key macroeconomic challenge for Mauritius is to continue its economic recovery, while controlling inflation in a global environment with high fuel and food prices and slower recovery. The recovery in Mauritius is expected to continue, albeit at a slower pace than projected before the war in Ukraine, reflecting lower growth in trading partners, less optimistic prospects for tourist flows, and worsening terms of trade. Inflation has picked up substantially due to global supply bottlenecks, higher fuel and food prices, freight costs, and the past depreciation of the rupee.

The fiscal consolidation path needs to be carefully calibrated to balance recovery from the pandemic with long-term fiscal and debt sustainability. Adhering to fiscal rules remains critical to preserve fiscal sustainability and reduce debt vulnerabilities in the medium term. Public debt is elevated after increasing during the pandemic. Fiscal performance continues to be impacted by the pandemic and renewed pressures on current spending. Targeted transfers to the vulnerable may be needed in the face of sharp increases in food and fuel prices. If the economy continues to recover, revenue should increase and spending be reduced, including through pension system reform, to put debt on a declining path in the medium term.

The monetary policy normalization cycle needs to proceed to minimize potential second-round effects from supply-side shocks and to control inflation in the medium term. Supply-side pressures on inflation and inflation expectations have presented a challenge post pandemic. The war in Ukraine adds to these pressures and will require engineering tighter policy in an increasingly complicated environment.

The monetary policy framework needs to be modernized and credibility and independence of the central bank to be safeguarded. Staff recommends that the new monetary policy framework be rolled out soon to support policy effectiveness. Consistent with the inflation targeting framework, the Bank of Mauritius' (BOM's) FX intervention strategy should aim to smooth volatility while generally allowing for exchange rate flexibility, facilitating macroeconomic adjustment. The government needs to recapitalize the BOM per existing legislation for the BOM to accommodate the monetary policy costs. To strengthen the central bank's operational independence and financial position, the reform of the BOM law should prohibit central bank's transfers to the government and quasi-fiscal financing. Relinquishing the BOM ownership of the MIC would also help in this regard.

The external position of Mauritius at end-2021 was substantially weaker than is suggested by fundamentals and desirable policies, although official foreign reserves remained broadly adequate. The current account gap was large and negative, pointing to substantial overvaluation of the rupee compared to its level consistent with the long-term fundamentals. The external assessment remains highly uncertain due to the transitory supply shock to tourism. The financing of the current account will continue to depend on the financial and capital flows in the GBC sector. While the successful exit from the AML/CFT listings of FATF, EU, and the UK should support the flows, the indirect impact of sanctions on Russia may pose risks.

Mauritius should embrace structural transformation to continue along the path to sustainable and resilient long-term growth. Priorities should be on enhancing diversification and competitiveness, including greater digitalization of the economy and adaptation and mitigation policies to tackle climate change vulnerabilities.

Mauritius: Selected Economic and Financial Indicators, 2019-2023

	2019	2020	2021	2022	2023
National income, prices, and employment					
Real GDP (percentage change)	3.0	-14.9	4.0	6.1	5.6
Consumer prices (period average, percentage change)	0.5	2.5	4.0	11.9	5.8
Unemployment rate (percent)	6.7	9.2	9.5	7.8	7.5
Money and credit (percent change)					
Net foreign assets	13.5	16.4	18.6	2.0	-1.3
Net claims on government	-3.8	8.8	34.8	7.5	9.5
Credit to non-government sector	17.1	2.7	-0.4	5.5	8.2
Broad money	6.2	17.7	8.6	1.9	4.0
Central government finances [1] (percent of GDP)					
Overall borrowing requirement [2]	-13.1	-23.1	-7.6	-3.9	-6.1
Revenues, including grants	22.7	22.7	24.0	23.9	23.8
Expenditure, excluding net lending	34.5	42.3	33.1	29.5	29.5
External sector					
Current account balance (percent of GDP)	-5.1	-9.2	-13.7	-13.5	-8.1
Gross international reserves (millions of U.S. dollars)	7,329	7,242	8,513	6,801	6,371
Memorandum items:					
GDP at current market prices (billions of Mauritian rupees)	498.3	429.7	465.1	520.1	581.3
Public sector debt, fiscal year (percent of GDP)	84.6	99.2	92.4	88.1	86.1

Sources: Country 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] Following the *GFSM 2014,* Sections 5.111.5.116, the transfers from the BOM to the Central Government are considered as financing.

INTERNATIONAL MONETARY FUND

MAURITIUS

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

June 2, 2022

KEY ISSUES

Long-term Vision. Mauritius aspires to become a high-income country within the current decade. The authorities have laid out a development strategy centered on spurring innovation through skill development, technological upgrading, and improving the ICT infrastructure. Achieving these long-term goals will require macroeconomic stability, reducing risks from declining growth, surging debt, and rising inflation.

Recovery from the Pandemic and Policy Responses. Mauritius has been gradually recovering after successfully managing the health impact of the pandemic and timely vaccinating its population. Although many sectors have recovered to pre-pandemic levels, activity in tourism and related sectors remains subdued.

Outlook and Risks. The main economic challenge is to find a fine balance between supporting recovery and controlling inflation while starting to consolidate the fiscal position. The economy continues to recover following the sharp contraction in 2020 due to the pandemic, but it is faced with new challenges. The war in Ukraine has amplified the increase and volatility in commodity prices following the pandemic, and constrained real incomes abroad and domestically. Consequently, tourism flows may be delayed, making the recovery slower.

Key Policy Recommendations.

- Develop and deploy a comprehensive fiscal consolidation plan to restore fiscal space and sustain public debt. Carefully balance the fiscal and debt sustainability objective with support to post-pandemic recovery. Introducing and adhering to a fiscal rule and reforming the pension system are critical elements to reduce fiscal vulnerabilities.

- Proceed with monetary policy normalization to minimize potential second-round effects from supply-side shocks and control inflation in the medium-term. Rollout the new policy framework to improve policy effectiveness. Support central bank independence and policy credibility by adopting the new Bank of Mauritius (BOM) Act consistent with best international practices, relinquishing Mauritius Investment Corporation (MIC) ownership, and timely recapitalizing the BOM.

- Embrace structural transformation supporting diversification and competitiveness to get Mauritius firmly on the path to a sustainable and resilient economy driven by knowledge and technology. Long-term priorities should include greater digitalization of the economy, and climate change adaptation and mitigation measures.

Approved By
Vivek Arora (AFR) and Martin Čihák (SPR)

Discussions took place during April 27-May 10, 2022. The staff team comprised Ms. Cemile Sancak (head), and Messrs. Mikhail Pranovich and Felix Simione (all AFR). Mr. Kelvio Carvalho da Silveira (OED) participated in some of the meetings. Ms. Tebo Molosiwa (AFR) provided support. The mission met with the Prime Minister, the Honorable Pravind Jugnauth, the Minister of Finance, Economic Planning and Development, Mr. Renganaden Padayachy, the Governor of the Bank of Mauritius, Mr. Harvesh Seegolam, other senior officials, the Leader of the Opposition, representatives of the private sector and civil society, academia, and international development partners.

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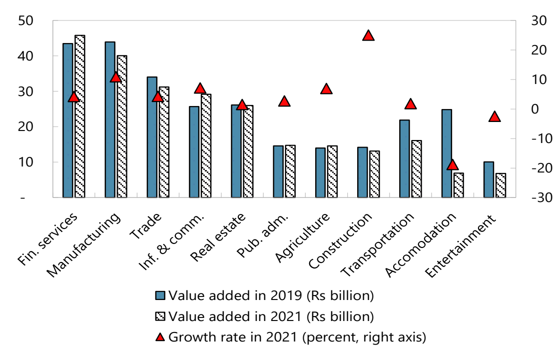
ANNEXES

RECOVERY FROM THE PANDEMIC AND POLICY RESPONSES

1. Mauritius is gradually recovering from the pandemic. The public health impact of the pandemic was well managed, including by a remarkable vaccination campaign covering over 90 percent of the eligible population by May 2022. On- and off-budget support measures, amounting to 28 percent of GDP, helped cushion the economic impact of the pandemic, but also created pressures on fiscal and monetary policies going forward. As the economy started to recover and border restrictions were fully removed in October 2021, the authorities started to gradually phase out support measures. The wage subsidy to the tourism sector and self-employed workers was completely phased out in April 2022. The financial support through the COVID-19 Projects Development Fund was also reduced. The BOM-regulated moratorium on loans to assist SMEs, households, and individuals impacted by the pandemic is expected to cease by end-June 2022.

2. While most sectors have returned to pre-pandemic levels of economic activity, the tourism sector is recovering more gradually and inflation has picked up substantially. Real GDP growth bounced back to 4 percent in 2021, from a contraction of around 15 percent in 2020, led by a strong rebound in construction and manufacturing. However, tourist arrivals—at 13 percent of the 2019 level—were adversely impacted by the full reopening of the border only in October 2021, travel restrictions amid the Omicron variant, and limited flight availability for Mauritius.[1] The unemployment rate declined to 8.1 percent in 2021Q4 compared to 10.4 percent in 2020Q4. Year-on-year inflation accelerated due to higher fuel and food prices and freight costs, and the depreciation of the rupee. Inflation increased from 2.7 percent at end-2020 to 6.8 percent at end-2021 and further to 11 percent at end-April 2022. The rupee depreciated by about 9 percent in real effective terms in 2021, and the current account deficit remained large at 13.7 percent compared to 9.2 percent in 2020 as tourist arrivals remained subdued. Compared to the pre-pandemic level, the net inflows of primary income in the Global Business Companies (GBCs) sector were much larger, which helped limit the current account deficit.

Real Value Added and Growth, 2019 and 2021



Source: Country authorities.

3. The financial sector, including the GBC segment, was stable in 2021. The banking system as a whole remained well capitalized, the share of non-performing loans declined, and return indicators improved. The amount of loans under moratorium declined as companies started to repay banks on a voluntary basis. Deposits in domestic banks have grown steadily, however the credit to

[1] The tourism sector, which came to a sudden stop in March 2020, accounts directly and indirectly for over a fifth of the economy.

the private sector marginally contracted. GBCs' dollar-denominated deposits in the banking system have substantially increased, and GBCs' net financial flows in the balance of payments have been large positive.

OUTLOOK AND RISKS

4. Staff projects growth of 6.1 percent in 2022 and a further rise in inflation. The war in Ukraine has weighed on growth projections due to lower growth in trading partners, less optimistic prospects for tourist flows, and worsening terms of trade. Nevertheless, the recovery is expected to continue, driven essentially by the tourism sector. Tourist arrivals are expected to reach about 800,000 in 2022, representing about 60 percent of pre-pandemic levels, and regain those levels by 2024. The economy is expected to converge to its pre-pandemic trend growth of 3-3½ percent by 2025. Annual inflation is expected to further rise to 11.4 percent in 2022, driven by surging fuel and food prices, the past depreciation of the rupee, and recovering domestic demand.

5. The outlook is subject to downside risks, including due to the war in Ukraine (Annex I). The rise in global inflation due to higher fuel and food prices and supply constraints and the resulting decline in real income may weigh on global demand, including for tourism travel, and freight costs. Travel to and from Mauritius is still constrained by limited flight availability, which needs to improve to effectively support the recovery of tourism. Statistics Mauritius estimates that growth could increase by 0.6 percent for every additional 100,000 tourists. As inflation rises and public debt remains high, the calibration of fiscal and monetary policies remains important to avoid further increase of debt vulnerabilities and embedded expectations of higher inflation. Mauritius' growth potential is also subject to climate change risks to which the country will need to adapt as it is among the most vulnerable in the world (selected issues paper).

POLICY DISCUSSIONS

The key macroeconomic challenge for Mauritius is to continue its economic recovery while keeping inflation under control in a global environment with high fuel and food prices and slow recovery in demand due to the war in Ukraine. As the recovery solidifies, further fiscal consolidation is needed to restore fiscal space and ensure debt sustainability. Normalizing the monetary policy stance in a timely manner should help to address rising inflation expectations and potential second-round effects. Phasing in a modernized monetary policy framework and revising the FX interventions strategy will support policy effectiveness. Improving competitiveness and embarking on structural transformation to increase sustainability and resilience of the economy should remain priorities.

Macroeconomic policy mix will be complicated by potential policy trade-offs, which requires coordinated and well communicated policy. Limiting FX interventions in the context of the new inflation targeting framework could lead to a depreciated exchange rate in the near-term—especially if the recovery in tourism is delayed, add to inflationary pressures and negatively impact sectoral balance sheets. To address such consequences, a more pronounced monetary policy tightening may be needed for price stability, and macroprudential measures may need to be taken to preserve financial sector *stability. However, the tighter monetary policy and financial conditions more broadly will elevate the cost of borrowing for the public and private sectors, reducing fiscal space and slowing recovery. Finally, the rollout of the new monetary policy framework, recapitalization of the BOM, and takeover of the MIC will require fiscal resources.*

A. Fiscal Policy

6. The fiscal and debt position deteriorated significantly in FY2020/21 due to the pandemic.[2] The overall borrowing requirement increased to 23.1 percent of GDP in FY2020/21, as expenditure increased by over 10 percent of GDP, mostly to address the pandemic. A transfer amounting to 13 percent of GDP from the BOM to the Ministry of Finance, Economic Planning and Development (MOFED) helped finance the high deficit. Public debt rose to 99.2 percent of GDP from 84.6 percent in FY2019/20.

7. In FY2021/22, fiscal performance is expected to improve. Deficit reduction has been helped by receipts from quasi-fiscal operations although it remains burdened by the pandemic and renewed pressures on current spending.

- **Staff projects the overall borrowing requirement to improve to 7.6 percent of GDP in FY2021/22.** The improvement is mostly due to the sale of shares of Airport Holdings Ltd to the BOM-owned Mauritius Investment Corporation (MIC), amounting to Rs13 billion (2.6 percent of GDP), in December 2021, which helped reduce the net acquisition of financial assets and hence the overall borrowing requirement.

- **Tax revenue is expected to be lower than the budget projection**. Key taxes, notably VAT and excises, stood below targets through March 2022 due to the prolonged closure of borders and entertainment venues as well as lower-than-expected tourist arrivals. The authorities foresee greater financing from state-owned enterprises (SOEs), which will compensate for the shortfall (additional 1.3 percent of GDP).[3]

- **Expenditures are slightly higher than initially expected**. A new pay structure was rolled out in November 2021 mainly to reduce the salary gap between low- and high-grade public servants. The new structure entails additional spending on wages, transfers, and social benefits amounting to about 1 percent of GDP in FY2021/22. Although capital expenditure estimates have been revised down due to slower-than-expected execution of public projects, total expenditures are marginally higher by 0.1 percent of GDP relative to the budget.

- **Given rising fuel and food prices, the overall borrowing requirement could be higher if fuel subsidies were to increase.** Fuel, rice, and flour are normally cross-subsidized off-budget by the State Trading Corporation (STC). Staff estimates that the recent increase of global oil prices would require fuel subsidies amounting to 0.6 percent of GDP under the authorities' quarterly

[2] The fiscal year in Mauritius runs from July to June.

[3] The authorities record such receipts as non-tax revenue while staff records them as a financing item.

price setting formula. As the balance on STC's price stabilization account is exhausted, replenishing it could require transfers from the government.

- **Staff recommends that targeted transfers through social safety net programs, rather than broad-based subsidies, be used to protect the vulnerable.** The authorities have let the automatic fuel price setting mechanism operate since December 2021. Staff recommends continuing to pass through global prices to domestic petroleum products while protecting the vulnerable population.

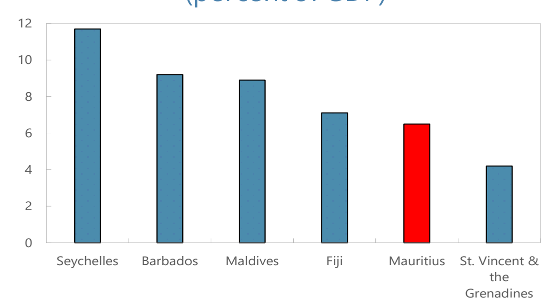
8. **For FY2022/23, staff recommends that the budget aims for a further improvement of the fiscal position without reliance on quasi-fiscal operations.** The guiding principle should remain to further reduce the budget deficit through a reduction in current and capital expenditures. The adjustment will mostly reflect the phasing-out of the pandemic-era support.

- **The overall borrowing requirement is expected to further decline to 3.9 percent of GDP in FY2022/23 partly due to the authorities' plan to sell non-strategic assets.** Additional cash inflows are expected from sales of government assets with proceeds to be used to repay debt. While the MOFED assumes that the disposal of assets could reach Rs22 billion (4 percent of GDP), staff projects that only half of these sales would be executed in FY22/23. Absent one-off operations, the overall borrowing requirement would be higher at 5.9 percent of GDP in FY2022/23.

- **Tax revenue is expected to keep pace with economic recovery, remaining at 20.4 percent of GDP in FY2022/23**. Given that the tax ratio is below that in comparable small islands, there is room for new revenue measures. Staff recommended measures to increase VAT efficiency by scaling back exemptions and zero-rates and strengthening VAT administration. These measures would help increase VAT revenue without increasing the standard rate.[4]

Mauritius and Selected Comparators: VAT Revenue, 2018/19

(percent of GDP)



Source: Country authorities.

- **Staff suggests that expenditures be further reduced by phasing out pandemic-related support measures and scaling back capital spending.** Wage subsidies to tourism sector workers and the self-employed were phased out in April 2022. The remaining transfers to the COVID-19 Projects Development Fund (about 2.3 percent of GDP) should be phased out in FY2022/23 as the economy recovers. Execution challenges associated with significantly increased capital expenditure in FY2021/22 underscore the need to scale back such expenditure by reprioritizing projects that

[4] Detailed tax policy recommendations are presented in the 2021 IMF technical assistance report titled *Tax Policy for a Changing World*. The VAT C-efficiency in Mauritius is low at 54 percent. Raising it to the average of small islands (75 percent), without changing the standard rate, would increase revenue by about 2.5 percentage points of GDP.

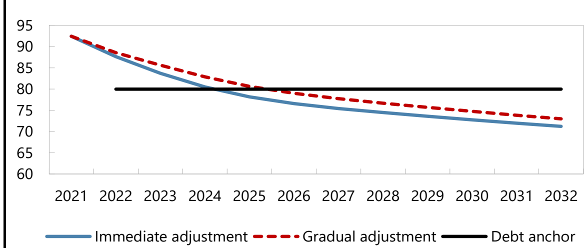
suffer significant implementation delays. Staff projects total expenditure to decline by 3.2 percent of GDP.

9. Reforming the pension system remains a critical step to support fiscal sustainability. Any fiscal consolidation plan will have to tackle the disparity between pension spending and pension revenue, which is set to widen with the enactment of new benefit payments in FY2023/24, increasing pension spending to 8.1 percent of GDP. To make the system sustainable, a combination of expenditure reductions and revenue increases would be required (Annex IV).

10. Mauritius' public debt remains subject to notable vulnerabilities and risks. The public debt sustainability analysis (DSA) indicates that debt vulnerabilities remain elevated. The baseline is susceptible to a range of shocks, particularly the contingent liability shocks affecting the financial sector and the BOM's balance sheet. The debt-to-GDP ratio, which rose notably amid the pandemic, is set to stay at elevated levels in the medium term (Annex II).

11. As the economy exits the pandemic, reinstating fiscal rules will help reduce debt vulnerabilities while allowing for flexibility to address shocks (selected issues paper). A new medium-term debt anchor could be up to 80 percent of GDP compared to the anchor of 60 percent of GDP repealed early in the pandemic. To reduce debt towards the proposed anchor, an operational rule could be adopted consisting of a ceiling for the overall borrowing requirement of 3 percent of GDP starting in FY2022/23. To limit the negative effects of this rule on economic growth, a five-year transition period could be allowed during which the borrowing requirement would gradually decline to 3 percent of GDP in FY2027/28 and beyond, pushing the debt ratio to the anchor in FY2026/27. To allow for flexibility to implement counter-cyclical policy, the anchor does not need to be binding in every fiscal year. Introducing well-designed escape clauses would also allow temporary suspension of the anchor to address extraordinary shocks.

Debt-to-GDP ratio
(percent)



Source: Country authorities; and IMF staff estimates.

12. Staff recommends fiscal consolidation through credible revenue and expenditure measures. The goal to reduce the stock of public debt should not justify deploying quasi-fiscal financing. One such measure was the injection by the MIC of Rs25 billion (around 5 percent of GDP) into Airport Holdings Ltd in December 2021 in exchange for shares from the government-controlled Air Mauritius Ltd, which helped reduce domestic debt by 6.7 percentage points of GDP from June to December 2021. While quasi-fiscal measures can help reduce debt in the short term, they can lead to pressures in the medium and long term.

Authorities' views

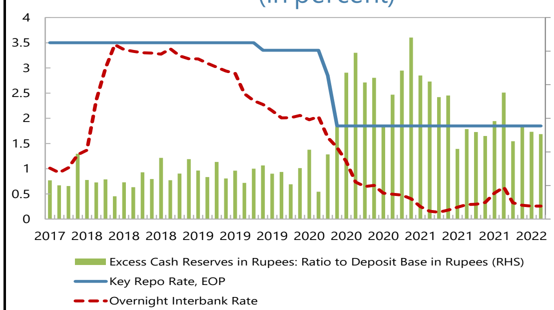
13. The authorities have worked on a plan for further fiscal consolidation to increase the resilience of the country to future shocks and reduce public debt levels in the medium term. They have phased out almost all pandemic-related spending and plan to reduce public sector debt faster than in staff's baseline. The authorities welcomed the possibility of recalibrating the medium-term debt anchor to 80 percent of GDP. The authorities highlighted that, in addition to expenditure measures, revenue measures such as social contributions (CSG) and the solidarity levy have increased revenue by approximately 10 percent and will help to reduce the budget deficit.

B. Monetary Policy

14. The BOM maintained an accommodative monetary policy stance in 2021. The announced policy interest rate was increased to 2 percent in March 2022 from 1.85 percent after remaining unchanged since April 2020. Although excess rupee liquidity declined from its peak in 2020, it still led to an exceptionally low short-term interest rate since early 2021. Coupled with rising inflation expectations since the second half of 2021, the current policy rate implies accommodative monetary policy.

Key Repo Rate, Overnight Interbank Rate, and Excess Cash Reserves

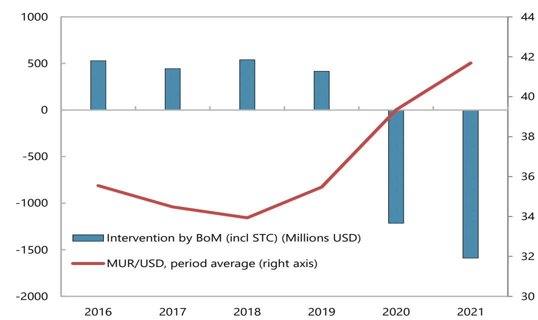
(in percent)



Source: BoM and IMF staff estimates.

15. Some exchange rate adjustment has been allowed. However, the BOM continued substantial foreign exchange sales interventions and borrowed foreign currency to maintain official reserves. The rupee depreciated by about 10 percent in nominal terms and 9 percent in real effective terms in 2021. While FX interventions primarily aimed at clearing the market, there is scope to let the exchange rate adjust more flexibly to achieve warranted external adjustment. The BOM's total FX sales to banks and the STC increased to US$1.5 billion in 2021 compared to about US$1 billion in 2020, reflecting market supply shortage amidst the large current account deficit. At the same time, the BOM borrowed from non-residents and accumulated FX deposits of domestic banks, the sum of which exceeded the volume of FX sales interventions and subsequently led to an increase in its foreign assets. Gross official reserves increased to US$8.5 billion (almost 22 months of imports) by end-2021 compared to US$7.2 billion at end-2020. Increasing FX obligations to maintain

Interventions by BOM and Nominal Exchange Rate



Source: Country authorities and IMF staff estimates.

Notes: The amount of BOM interventions is estimated in USD at the monthly period average exchange rate.

the level of official reserves exposes the BOM to the risk of reversal of volatile FX domestic deposits: banks' withdrawal of such FX deposits contributed to a decline of official reserves to US$7.3 billion by end-April 2022.[5]

16. Improving monetary policy effectiveness and safeguarding central bank independence need to be priorities. Tackling the legacies of the policy choices made during the COVID-19 pandemic, implementing modernized monetary policy framework, introducing an upgraded central bank legislation, and improving governance would help in this regard.

17. Staff welcomes the BOM's review of the monetary policy framework and recommends rolling out the modernized framework promptly. Effective policy implementation has been impaired by excess domestic liquidity and gaps in the system of instruments for reliable interest rate management, which becomes a more pressing issue now, when interest rate tightening is due. The BOM's new policy framework design features an explicit inflation target and policy implementation based on the fixed-rate full-allotment, mid-corridor system and is in line with staff advice.

18. Staff recommends that the BOM actively tightens the policy stance to control inflation and counter un-anchoring of inflation expectations and second-round effects. Inflation was already on the rise post-COVID due to supply chain bottlenecks, increasing transportation costs, and higher commodity prices. The war in Ukraine led to new pressures in the global commodity markets. This worsened the outlook for domestic inflation and increased the risk of un-anchoring inflation expectations and second-round effects if higher expectations are priced in nominal wages. A continued recovery may further increase domestic cost pressures. Policy tightening does not need to wait for the rollout of the new policy framework. While the new framework would allow for better management of interest rates, the BOM could deploy the existing framework in the interest of timely action. It could mop up excess domestic cash reserves in full through the issue of BOM bills at a rate that induces the money market rate to align with the operational target (the announced policy rate). The maturity of BOM bills could be reduced from 3 months to 7 days to make operations more effective. The pace of policy rate adjustment should depend on the macroeconomic and inflation outlook and aim to bring inflation back to its medium-term target over the monetary policy horizon. Increasing the announced policy rate and not fully transmitting it to the money market rate by means of open market operations will not suffice for tighter conditions.

19. Consistent with the BOM Act, the government needs to cover the BOM's losses which may materialize due to increasing policy implementation costs already in the near- to medium-term. The BOM accounted the transfer to the government in 2021 as a dividend by exhausting the special reserves fund (SRF) of its accumulated valuation gains. The BOM capital is relatively low at Rs10 billion (about 2 percent of both GDP and BOM liabilities), which limits resources to sustain policy costs at higher interest rates and increased sterilization amounts. In staff's baseline projections, inflation normalizes by 2025 assuming policy is tightened appropriately. A key risk to the outlook is delayed or incomplete tightening. This may happen if the government signals

[5] It also complicates the official reserve adequacy assessment (Annex III).

unwillingness to increase the BOM's capital and the BOM decides to limit expenses on domestic liquidity sterilization.[6] Delayed tightening will inspire un-anchoring expectations and more inflation in the alternative scenario. Recapitalizing the BOM upfront is preferable to address the risk and create buffers in advance, but it is also more demanding for the fiscal sector.[7] The Rs5 billion (1 percent of GDP) in the BOM's accounts receivable should not be transferred to the government to limit further deficit monetization.

20. To provide for an important adjustment mechanism and consistent with the inflation targeting framework, the exchange rate needs to be allowed more flexibility and a new FX intervention strategy should be oriented toward smoothing excessive volatility. The new strategy would allow for stronger monetary policy transmission and help avoid conflicts regarding policy objectives. The BOM interventions in the FX market should focus on smoothing volatility, rather than on market clearing and intermediation. The new strategy can be usefully supported by communications with the market on the transition to a greater exchange rate flexibility.

21. To support policy credibility and remove unnecessary credit risk from the BOM's balance sheet, staff recommends the BOM to relinquish ownership of the MIC, the MIC to return undisbursed financing to the BOM, and avoid quasi-fiscal financing. The BOM's ownership of the MIC weighs on the BOM's independence, blurs the separation of monetary and fiscal policies, and will likely contribute to higher monetary policy costs and/or higher inflation going forward. In addition, the MIC competes with the financial sector for some profitable projects. The MIC can either be taken over by the government or folded into the Development Bank of Mauritius. To finance the takeover, the government could raise liquidity from the market and/or deploy resources accumulated in government deposits—Rs90 billion (about 20 percent of GDP) at end-2021. Such a step would also alleviate excess domestic liquidity. Currently, the authorities do not have formal plans to phase out the MIC and envisage financing strategic projects with its resources.

22. Improving the legal framework and addressing some governance issues would be welcome to further safeguard central bank independence. The ongoing review of the banking legislation is welcome, and staff advised expediting the work on the new BOM Act and submitting it to the National Assembly soon. The new Act needs to match best international practices and prohibit direct financing of non-banks, other quasi-fiscal activities, and transfers to the government beyond regular profit transfers. The governance of the BOM and the MIC could be usefully reformed to support central bank independence. The Monetary Policy Committee (MPC) includes an adviser to the MOFED and three representatives from the private sector, which may challenge the BOM's

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[6] The BOM will likely receive net interest income in 2022 and 2023 despite increasing gross policy costs, as expenses will be more than offset by the interest income from foreign assets. The net interest costs in 2024-25 may reach about 0.2-0.4 percent of GDP.

[7] The authorities expressed their intention not to transfer BOM profits to the government in the future and add them to the BOM's capital. Per their estimates this may provide about Rs0.3 billion per year. There are no other formal plans to recapitalize the BOM.

independent decision making. Two Deputy Governors of the BOM are in the Board of Directors at the MIC, which creates potential for conflict of interest.

Authorities' Views

23. The authorities concurred that inflationary pressures call for policy tightening. The timing and pace of policy tightening will depend on the assessment of inflation and growth outlook. Upcoming MPC meetings will discuss appropriate policy moves. The authorities confirmed that the new policy framework would be rolled out this year. In authorities' view, the current level of BOM capital and income suffice to cover policy costs.

24. The authorities confirmed their intention to submit the new banking legislation to the National Assembly at its last session for 2022. They intend to send the draft BOM Bill to the IMF in June for consultation.

25. The authorities considered creating the MIC as a way to support systemically important and viable firms and hence to safeguard financial sector stability during the pandemic. They considered different models when setting up the MIC, including the Fed's Primary Market Corporate Credit Facility (PMCCF). They expected profits from MIC investments and viewed the MIC as an appropriate mechanism to support investment in strategic enterprises and projects.

26. The authorities agreed to review the FX intervention strategy. They viewed their approach to exchange rate policy during the pandemic as appropriate, including large FX sales intervention aimed at preventing disorderly market conditions. The exchange rate remained flexible, and its evolution was consistent with market conditions. They expect FX market pressures to subside and the BOM's interventions to decline as FX flows return.

C. Financial Sector Policies

27. While the level of systemic risks in the financial sector currently appears low, staff advises the BOM to continue monitoring them and the quality of loans under moratorium. The banking system's capital adequacy ratios were substantially above benchmarks at end 2021Q3. The share of non-performing loans (NPLs) declined to 5.3 percent compared to 6.2 percent at end-2020. Return indicators and provisioning for NPLs have also improved. Notably, although the moratorium for the loans service introduced in response to the pandemic has not been formally lifted, the amount of such loans declined from Rs73 billion to about Rs34 billion. While voluntary unwinding is encouraging, banks and the BOM should continue assessing how ending the moratorium in June 2022 may affect the quality of the remaining loans and stability of banks. Staff pointed out that any further support should be targeted, transparent, and temporary. Loan classification standards should be maintained and, if some loans become impaired, the legal and operational frameworks should support timely resolution. Banks and the BOM will need to continue tracking systemic risks. Notably, three quarters of public debt is held domestically implying substantial financial sector exposure to it. Exposure to the household sector also appears substantial, with the households' loan-to-GDP ratio at 38 percent. Banks will need to continue maintaining their short-term FX liquidity. Authorities need to monitor the risk of disruptions to FX funding of the GBC sector and potential spillovers to the domestic economy, in the context of tightening in global financial conditions.

28. Extending regular stress testing towards more complex scenarios would be welcome. Authorities explained that the regularly held exercises in 2021 indicated that the banking system as a whole is resilient. Staff recommends expanding the stress testing to assess banks' resilience in more complex and realistic scenarios.[8]

29. Exiting the FATF list of jurisdictions under increased monitoring is commendable. FATF removed Mauritius from the list in October 2021 and EU and the UK soon followed suit with their listings. Staff welcomed the authorities' reform efforts and urged Mauritius to continue strengthening its AML/CFT regime, particularly as related to non-resident and cross-border activity. The Financial Services Commission should build on the momentum in strengthening a supervisory framework for risk-based AML/CFT supervision of GBCs, including imposition of proportionate and dissuasive sanctions.

Authorities' Views

30. The authorities agreed that close monitoring and stress testing of banks should continue. They emphasized that the banking system is resilient and able to sustain a wide range of shocks. The BOM deploys a comprehensive approach to monitor banks' soundness and is proactive in preempting financial stress at macro- and micro-levels. The moratorium for loans is likely to end in June 2022, but targeted support to specific sectors could continue depending on the pace of economic recovery.

D. External Competitiveness and Structural Policies for a Sustainable and Resilient Recovery

31. Mauritius' external position at end-2021 was substantially weaker than is suggested by the level of the medium-term fundamentals and desirable policy settings, while the official foreign reserves coverage was within the adequacy range. The current account deficit expanded to 13.7 percent of GDP in 2021 from 9.2 percent in 2020 and is expected to be at 13.5 percent in 2022.[9] The real effective exchange rate (REER) depreciated by 8.5 percent year-on-year in 2021. The current account gap is at -13 percent, and the domestic currency appears overvalued by 26-39 percent.[10] Similar to a year earlier, the external assessment is characterized by elevated uncertainty

[8] The BOM evaluates the system's resilience to isolated shocks, for example, to economic growth. A more comprehensive scenario could, for example, comprise a simultaneous reduction in tourism flows and elevated depreciation pressures.

[9] The 2020 balance of payments (BOP) outturn has been substantially revised by the BOM. In particular, the current account deficit has been revised to 9.2 percent of GDP from the 12.5 percent reported in the 2021 Article IV Staff Report.

[10] The current account deficit may also be overstated as exports by the GBC sector are not covered in the BOP statistics. The BOM, Statistics Mauritius, and Financial Sector Commission currently work on estimating such flows.

due to the adverse supply shock to tourism in a tourism-dependent economy, which, in staff's view, is a transitory development. The current account imbalance and the misalignment are expected to be significantly lower as tourism continues to recover and commodity markets stabilize.

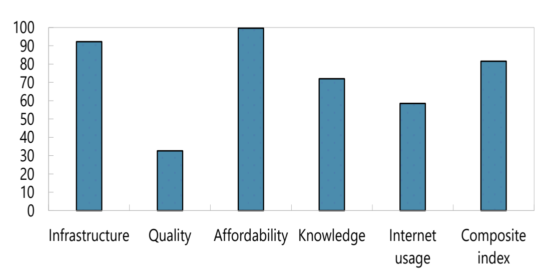
32. The level of gross official reserves appears adequate. Reserves remain close to the middle of the 100-150 percent adequacy range of the Fund's Assessing Reserve Adequacy (ARA) metric: accounting for financial sector vulnerabilities associated with the offshore GBC deposits, reserves covered 120 percent of the metric at end-2021 (Annex III).

33. External debt increased and will require continued monitoring. It reached 130 percent of GDP in 2021 (from 116 percent in 2020) and appears to be at an elevated level. A large part of the debt is held by domestic banks (94 percent of GDP in 2021) and therefore the sector will need to continue to carefully manage foreign liquidity, exchange rate, and rollover risks. Notably, the public external debt is low at 24 percent of GDP and remains less of a concern as it is mostly concessional, long-term, and at a fixed interest rate. Improving competitiveness and addressing external imbalances would help to sustain the debt in the long run across all economic sectors.

34. Diversifying the economy will remain critical to support Mauritius' aspiration to become a high-income country. The African Continental Free Trade Agreement (AfCFTA) and new trade agreements with China and India provide an important opportunity for diversification. Given its high reliance on tourism, the Mauritian economy would benefit from diversifying into other sectors in which it has an advantage relative to other countries in the region, including the ITC and digital-related sectors. To achieve this, the authorities need to consider policy options to reduce the shortage of suitably skilled workers, which could become more pressing in the long run given the rapidly ageing population. Economic diversification and resilience need to be supported by a comprehensive reform agenda to identify priorities, address obstacles, and increase efficiency, including by finding complementarities between the public and private sectors. This agenda could be formulated in consultation with the private sector and civil society.

35. Policies to foster diversification should place focus both *within* and *across* sectors. There is room to diversify the tourism sector from *within*. Two thirds of tourist flows originate from only six countries. Diversifying the customer base would make the sector more resilient. This can be achieved by upgrading the international marketing strategy to reach new markets and resolving structural problems that keep Mauritius underserved in terms of international flights. Embracing higher-value added tourism products will also be key for the resilience and sustainability of the sector as tourists shift preferences towards low density, health- and eco-friendly tourism.

Enhanced Digital Access Index (0-100 scale), 2019



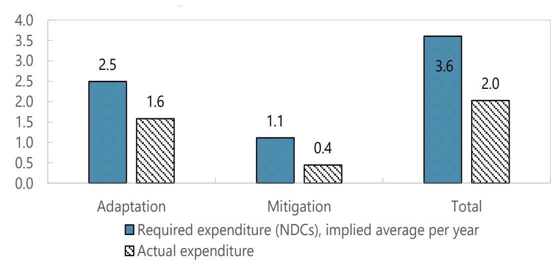
Source: IMF staff estimates.

36. Greater digitalization should help further promote diversification and move up the value chain but will require policies to improve digital connectivity. The authorities aim to diversify the sources of growth towards the ICT sector and turn the country into a regional hub for digital knowledge. The BOM is also considering issuing central bank digital currency (CBDC) (selected issues paper). Policies to deepen digitalization will become a higher priority. According to the *Enhanced Digital Access Index* (EDAI) computed by the IMF, Mauritius ranks high in terms of digital infrastructure, affordability, and knowledge. Going forward, policies should seek to improve the quality of digital connectivity which ranks low in Mauritius. This will require increasing the broadband speed and international bandwidth, among other measures.

37. Addressing climate change is another priority to help the economy build resilience against shocks, albeit the authorities' climate goals face financing constraints (selected issues paper). Mauritius is among the most vulnerable to climate shocks. Climate shocks are frequent, with an average of four adverse events taking place every 10 years. Fully financing climate adaptation and mitigation will be nearly impossible without a mix of further external grants or concessional loans. Mauritius' total climate change expenditure is on average 2 percent of GDP per year, of which adaptation accounts for around 1.6 percent of GDP. To achieve their climate change goals by 2030, the authorities would need to close a financing gap of around 1.6 percent of GDP per year on average. The authorities can seek to close this gap by tapping into the global climate funds to which Mauritius' access has been modest. However, higher access will require, among other things, measures to improve planning, appraisal, execution, and reporting of climate-related projects.

Required and Actual Financing of Environment Expenditure

(Percent of FY2017/18 GDP)



Source: Country authorities; and IMF staff estimates.

Authorities' Views

38. The authorities agreed that building the economic, social, and environmental resilience is key for long-term growth. They are devising new policies and measures to unlock private investment and exports that will push medium-term growth above staff's baseline projection. They are working to improve the business environment by further consolidating the public-private partnership.

OTHER ISSUES

39. Continued efforts are necessary to further strengthen public financial management and fiscal transparency, and safeguard independence of Statistics Mauritius. The February 2022 report of the National Audit Office drew attention to lapses in procurement and deficiencies in the management of government projects and reiterated the need to obtain value for money as well as strict observance of procurement rules and proper management of capital projects. It is also important to safeguard statistical independence of Statistics Mauritius in its estimations of economic developments and outlook.

40. Capacity development (CD) helps support improvements in authorities' macroeconomic policy. Current CD priorities support modernizing the monetary policy framework, strengthening the fiscal framework and sustainability, enhancing public financial management, improving compilation of national accounts and BOP. Consistent with priorities, the authorities requested technical assistance to review the Central Bank Act and Banking Bill, upgrade the central bank's Forecasting and Policy Analysis System (FPAS), and review BOP statistics. The CD on real sector and price statistics, customs and tax administration, PFM, banking regulation and supervision, monetary policy operations, FX interventions, payment system and Central Bank Digital Currency (CBDC) have been planned or are executed.

STAFF APPRAISAL

41. The economy is recovering from the pandemic following a substantial contraction in 2020. The health impact of the pandemic was successfully managed, including by a remarkable vaccination campaign covering over 90 percent of the eligible population by May 2022. Economic growth has started to recover, with most sectors broadly back to pre-pandemic output levels, except tourism, where activity remains subdued.

42. The key macroeconomic challenge for Mauritius is to continue its economic recovery, while controlling inflation in a global environment with high fuel and food prices and slower recovery. The recovery in Mauritius is expected to continue, albeit at a slower pace than projected before the war in Ukraine, reflecting lower growth in trading partners, less optimistic prospects for tourist flows, and worsening terms of trade. Inflation has picked up substantially due to global supply bottlenecks, higher fuel and food prices, freight costs, and the past depreciation of the rupee.

43. The fiscal consolidation path needs to be carefully calibrated to balance recovery from the pandemic with long-term fiscal and debt sustainability. Adhering to fiscal rules remains critical to preserve fiscal sustainability and reduce debt vulnerabilities in the medium term. Public debt is elevated after increasing during the pandemic. Fiscal performance continues to be impacted by the pandemic and renewed pressures on current spending. Targeted transfers to the vulnerable may be needed in the face of sharp increases in food and fuel prices. If the economy continues to recover, revenue should increase and spending be reduced, including through pension system reform, to put debt on a declining path in the medium term.

44. The monetary policy normalization cycle needs to proceed to minimize potential second-round effects from supply-side shocks and to control inflation in the medium term. Supply-side pressures on inflation and inflation expectations have presented a challenge post pandemic. The war in Ukraine adds to these pressures and will require engineering tighter policy in an increasingly complicated environment.

45. The monetary policy framework needs to be modernized and credibility and independence of the central bank to be safeguarded. Staff recommends that the new monetary policy framework be rolled out soon to support policy effectiveness. Consistent with the inflation targeting framework, the BOM's FX intervention strategy should aim to smooth volatility while generally allowing for exchange rate flexibility, facilitating macroeconomic adjustment. The government needs to recapitalize the BOM per existing legislation for the BOM to accommodate the monetary policy costs. To strengthen the central bank's operational independence and financial position, the reform of the BOM law should prohibit central bank's transfers to the government and quasi-fiscal financing. Relinquishing the BOM ownership of the MIC would also help in this regard.

46. The external position of Mauritius at end-2021 was substantially weaker than is suggested by fundamentals and desirable policies, although official foreign reserves remained broadly adequate. The current account gap was large and negative, pointing to substantial overvaluation of the rupee compared to its level consistent with the long-term fundamentals. The external assessment remains highly uncertain due to the transitory supply shock to tourism. The financing of the current account will continue to depend on the financial and capital flows in the GBC sector. While the successful exit from the AML/CFT listings of FATF, EU, and the UK should support the flows, the indirect impact of sanctions on Russia may pose risks.

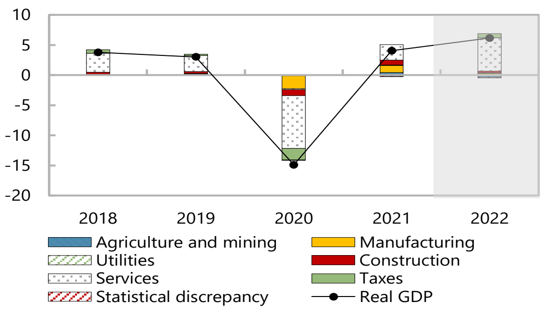
47. Mauritius should embrace structural transformation to continue along the path to sustainable and resilient long-term growth. Priorities should be on enhancing diversification and competitiveness, including greater digitalization of the economy and adaptation and mitigation policies to tackle climate change vulnerabilities.

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

Figure 1. Mauritius: Real Sector Developments

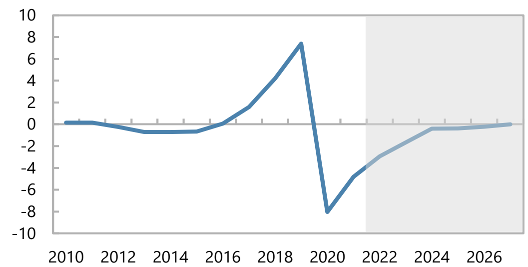
The economy is recovering from the pandemic after a contraction across the board in 2020…

Contribution to Real GDP Growth: Supply Side
(in percent of GDP)



…and the output gap is gradually closing…

Output Gap
(in percent of potential GDP)

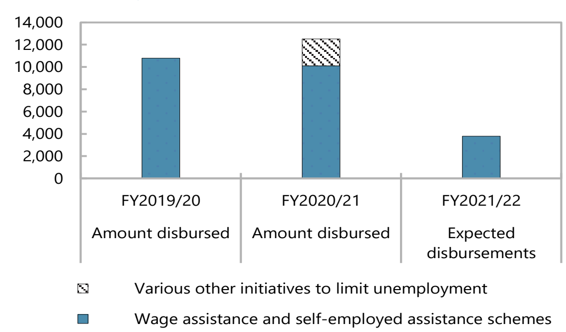


….as tourism arrivals and receipts pick up, despite remaining below pre-pandemic levels.

Tourism Arrivals and Receipts
(millions)

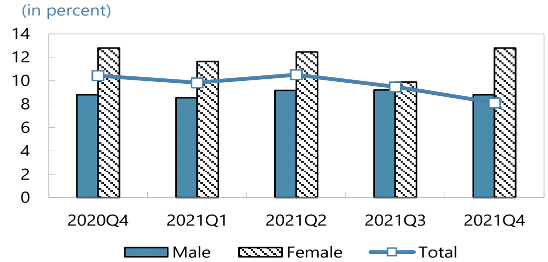
The comprehensive stimulus measures are being gradually phased out…

Main Support Measures in Response to COVID-19
(millions of rupees)



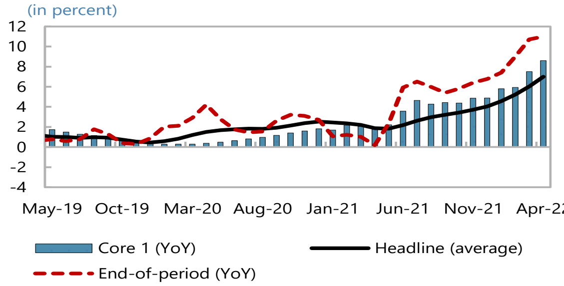
…as unemployment recedes slowly.

Unemployment Rate
(in percent)



However, inflation has picked up substantially.

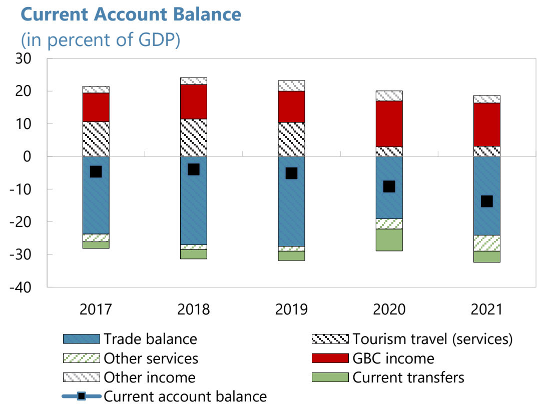
Monthly Inflation
(in percent)



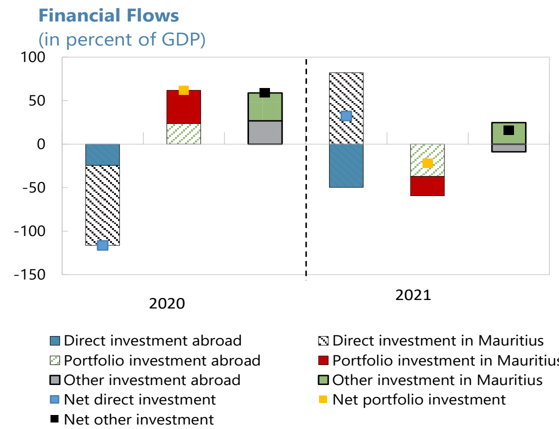
Sources: Country authorities, Statistics Mauritius and IMF staff estimates. Notes: Shaded areas and asterisks are projections. The services sector includes wholesale and retail trade, financial and insurance activities, information and communication, accommodation and food, and other services.

Figure 2. Mauritius: External Sector Developments

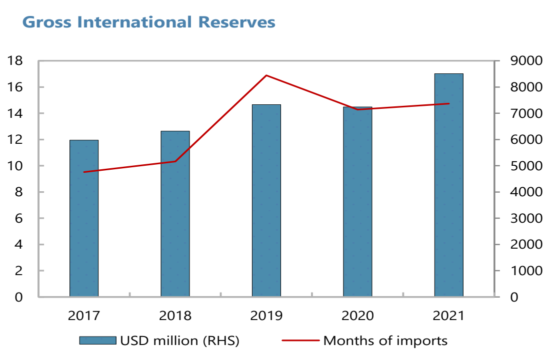
The current account balance deteriorated due to a drop in tourism and trade balance…



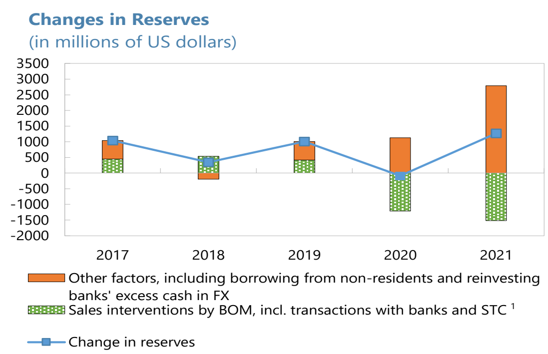
…while gross financial inflows sustained, and net inflows increased…



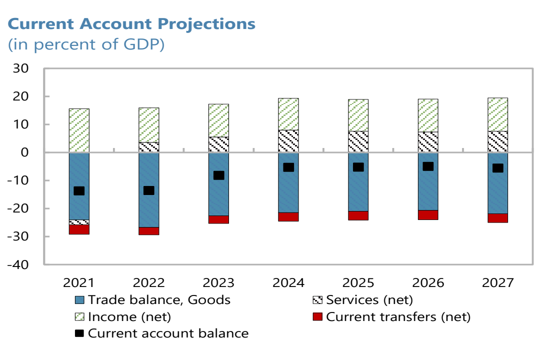
Gross international reserves have increased,…



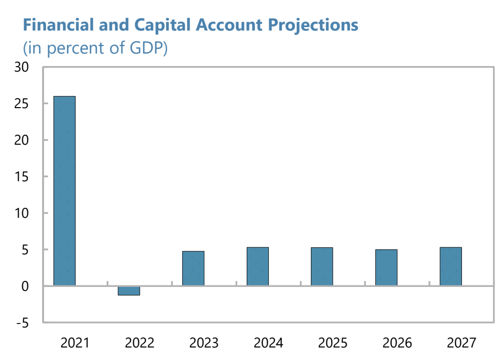
…driven by the new borrowing and accumulation of banks' excess FX deposits at the BOM.…



The current account balance will remain in large deficit in 2022, but will improve close to pre-pandemic levels in the medium term…



… while net financial inflows are expected to moderate in 2022 after a spike in 2021 and remain in surplus afterwards.



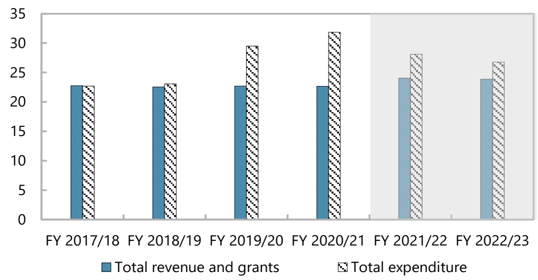
Sources: Country authorities; and IMF staff estimates and projections.

1 The amount of BOM interventions is estimated at the monthly average exchange rate.

Figure 3. Mauritius: Fiscal Sector Developments

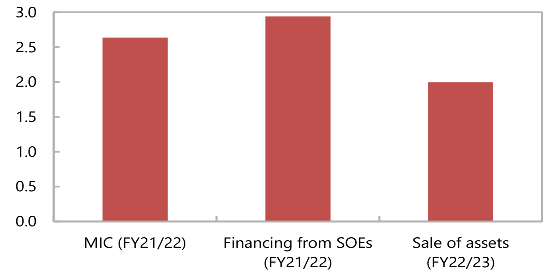
The fiscal performance is expected to improve in the medium term…

Total Revenue and Expenditure
(In Percent of Fiscal Year GDP)



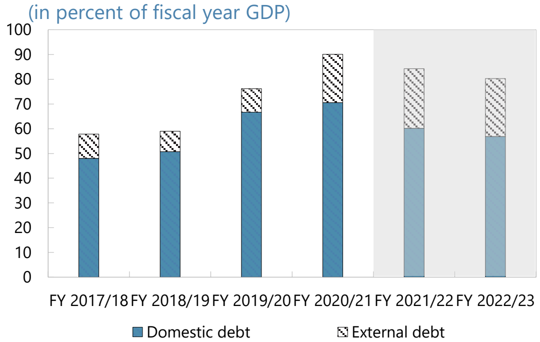
…helped by quasi-fiscal and one-off operations.

Sources of Quasi-Fiscal Financing and One-Off Financing
(percent of fiscal year GDP)



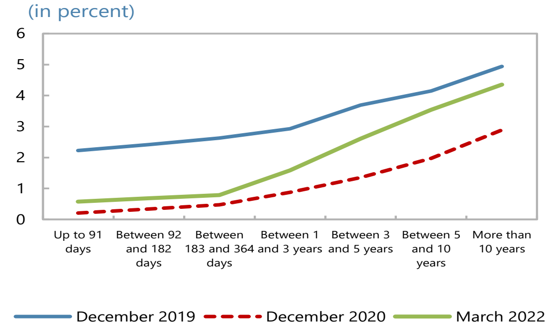
After rising markedly in FY20/21, central government debt is expected to decline gradually.

Central Government Debt-to-GDP
(in percent of fiscal year GDP)



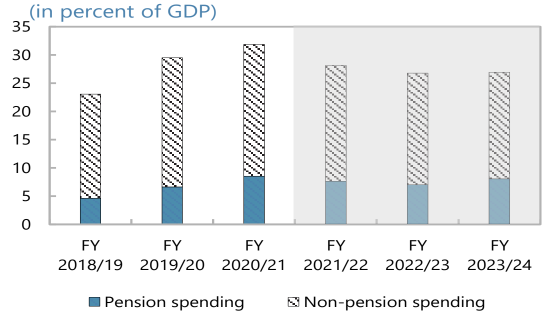
Interest rates on central government securities have increased recently.

Yield on Government Treasury Bills and Bonds
(in percent)



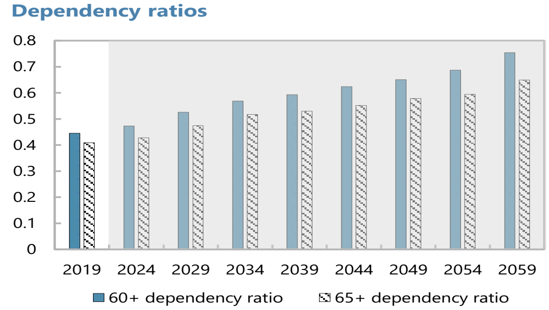
Going forward, growing pension costs will continue to put pressure on overall spending…

Pension and Non-Pension Spending
(in percent of GDP)



…and these challenges will be exacerbated by demographic trends in the long term.

Dependency ratios



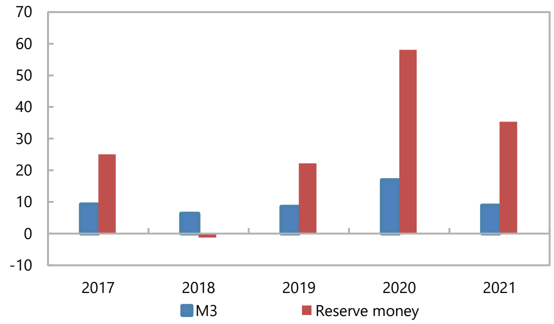
Sources: Country authorities, Statistics Mauritius, and IMF staff estimates.

Notes: All years FY2021/22 and beyond are projections and shaded.

Figure 4. Mauritius: Monetary Sector Developments

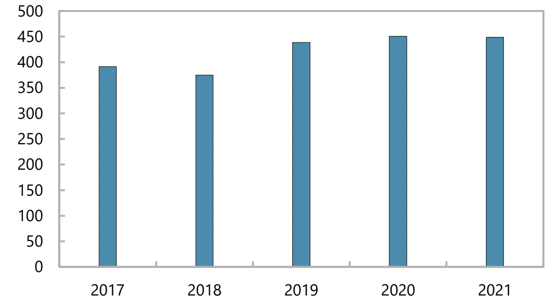
Monetary expansion slowed down from the 2020 peak...

Annual Change in Broad (M3) and Reserve Money
(in percent)



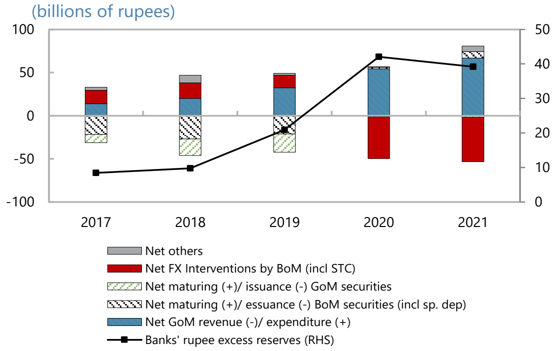
...while credit to the private sector did not grow...

Credit to the private sector
(billions of rupees)



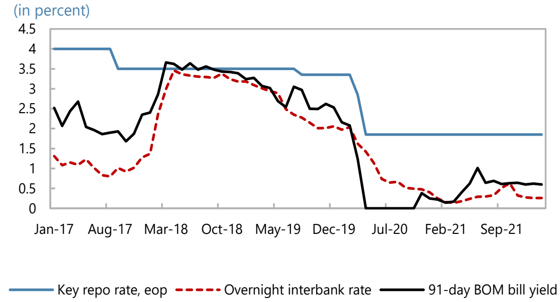
...and large excess liquidity remained in the system...

Dynamics of Excess Liquidity with Decomposition into Sources
(billions of rupees)



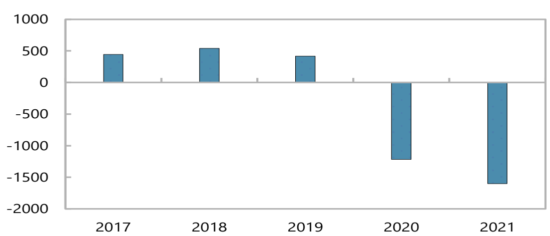
... which limits effective monetary policy control of the interest rate, increasing inflation expectations...

Announced Key Repo Rate, Overnight Interbank Rate, 91-Day BOM Bill Yield
(in percent)



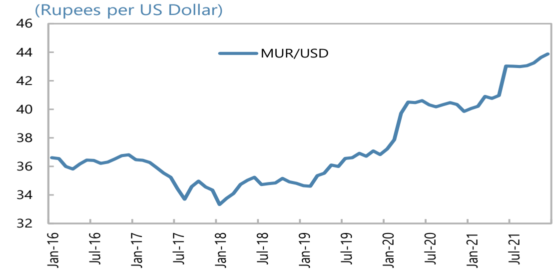
The BOM increased sales interventions in the FX market in 2021...

Net FX Interventions by BOM (including STC)
(USD million)



... while the nominal exchange rate depreciated.

Average Exchange Rate
(Rupees per US Dollar)



Sources: Country authorities and IMF staff estimates.

Notes: The amount of BOM interventions is estimated in USD at the monthly average exchange rate.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Est.			Proj.			
					(Annual percent change, unless otherwise indicated)					
National income, prices and employment										
Real GDP	3.8	3.0	-14.9	4.0	6.1	5.6	4.1	3.3	3.3	3.3
Real GDP per capita	3.7	2.9	-14.9	4.1	6.2	5.6	4.1	3.3	3.3	3.5
GDP per capita (in U.S. dollars)	11,206	11,088	8,619	8,807	9,135	10,008	11,101	12,001	12,788	13,503
GDP deflator	1.4	0.5	1.3	4.0	5.3	5.8	4.6	3.4	2.8	2.3
Consumer prices (period average)	3.2	0.5	2.5	4.0	11.9	5.8	5.2	4.2	3.8	3.5
Consumer prices (end of period)	1.8	0.9	2.7	6.8	11.4	5.9	4.6	3.9	3.6	3.4
Unemployment rate (percent)	6.9	6.7	9.2	9.5	7.8	7.5	7.3	7.3	7.3	7.3
					(Annual percent change, in US Dollars)					
External sector										
Exports of goods and services, f.o.b.	3.6	-5.9	-41.3	3.5	32.8	15.6	15.6	5.2	4.0	3.0
Of which : tourism receipts	8.2	-5.9	-73.8	-23.8	199.4	41.7	34.0	7.4	5.8	4.7
Imports of goods and services, f.o.b.	5.0	-2.2	-29.1	16.5	13.9	2.2	7.1	5.7	4.6	4.0
Nominal effective exchange rate (annual average)	0.2	-0.4	-8.7	-8.8	...	...	...	...	...	...
Real effective exchange rate (annual average)	1.5	-2.5	-8.3	-8.3	...	...	...	...	...	...
Terms of trade	-6.1	0.4	3.9	-10.0	-7.7	2.7	1.4	1.3	1.2	0.8
					(Annual change in percent)					
Money and credit										
Net foreign assets	0.7	13.5	16.4	18.6	2.0	-1.3	-0.4	-0.6	0.4	0.7
Domestic credit	-6.8	6.1	7.9	15.6	5.1	7.4	7.5	6.5	5.9	5.1
Net claims on government	8.1	-3.8	8.8	34.8	7.5	9.5	8.4	7.3	5.8	2.3
Credit to non-government sector	-4.2	17.1	2.7	-0.4	5.5	8.2	8.5	7.3	6.7	6.3
Broad money	2.1	6.2	17.7	8.6	1.9	4.0	4.3	10.4	9.2	8.8
Income velocity of broad money (M2)	1.1	1.1	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
					(Percent of GDP, unless otherwise indicated)					
Central government finances [1]										
Overall borrowing requirement [2]	-4.7	-13.1	-23.1	-7.6	-3.9	-6.1	-5.2	-4.5	-4.0	-3.7
Primary balance (excluding grants)	-1.5	-9.8	-17.3	-6.9	-3.7	-4.1	-3.2	-2.6	-2.2	-2.0
Revenues (incl. grants)	22.5	22.7	22.7	24.0	23.9	23.8	23.7	23.6	23.6	23.5
Expenditure, excl. net lending	25.8	34.5	42.3	33.1	29.5	29.5	28.6	27.8	27.4	27.2
Domestic debt of central government	50.8	66.7	70.6	60.2	56.8	57.2	58.1	59.8	61.8	64.0
External debt of central government	8.2	9.5	19.5	24.1	23.4	21.8	20.5	19.5	18.7	17.9
Investment and saving										
Gross domestic investment	19.4	19.8	19.0	19.2	21.2	20.4	20.1	20.4	20.2	20.1
Public	4.5	5.3	4.3	4.3	4.1	3.8	4.0	4.7	4.6	4.6
Private [3]	14.9	14.5	14.7	14.8	17.1	16.6	16.0	15.7	15.6	15.5
Gross national savings	18.7	18.7	18.6	21.8	16.1	15.9	15.0	14.2	14.1	13.3
Public	-0.2	-3.4	-8.3	-6.5	-3.5	-3.0	-2.7	-2.0	-1.5	-1.3
Private	19.0	22.1	26.9	28.3	19.6	19.0	17.8	16.2	15.6	14.6
External sector										
Balance of goods and services	-13.7	-15.0	-19.5	-25.9	-23.2	-17.1	-13.6	-13.4	-13.4	-13.6
Exports of goods and services, f.o.b.	39.4	37.4	28.3	28.7	36.7	38.7	40.4	39.3	38.3	37.5
Imports of goods and services, f.o.b.	-53.1	-52.4	-47.8	-54.5	-59.9	-55.9	-53.9	-52.7	-51.8	-51.1
Current account balance	-3.9	-5.1	-9.2	-13.7	-13.5	-8.1	-5.3	-5.3	-5.0	-5.3
Capital and financial account	8.1	1.3	4.1	26.0	-1.3	4.7	5.3	5.3	5.0	5.3
Overall balance	3.5	-3.5	-3.9	11.6	-14.8	-3.4	0.0	0.0	0.0	0.0
Total external debt	79.2	91.4	115.6	129.6	138.0	124.1	116.7	111.1	107.6	104.8
Gross international reserves (millions of U.S. dollars)	6,321.6	7,329	7,242	8,513	6,801	6,371	6,371	6,371	6,371	6,371
Months of imports of goods and services, f.o.b.	10.3	16.9	14.3	14.7	11.5	10.1	9.5	9.0	8.6	8.1
Memorandum items:										
GDP at current market prices (billions of Mauritian rupees)	481.3	498.3	429.7	465.1	520.1	581.3	632.4	675.1	716.5	757.2
GDP at current market prices (millions of U.S. dollars)	14,182	14,046	10,921	11,157	11,570	12,676	14,058	15,196	16,192	17,055
Public sector debt, fiscal year (percent of GDP)	66.2	84.6	99.2	92.4	88.1	86.1	85.2	84.4	83.8	...
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa1	Baa2	...	...	...	...	...	...

Sources: Country 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] Following the *GFSM 2014,* Sections 5.111.5.116, the transfers from the BOM to the Central Government are considered as financing.

[3] Includes changes in inventories.

Table 2a. Mauritius: Summary of Central Government Finances, 2017/18–27/28[1]
(Millions of Rupees, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Est.				Proj.			
Total revenue and grants (1)	**106,831**	**110,665**	**103,873**	**98,711**	**118,465**	**131,563**	**144,177**	**154,833**	**164,282**	**173,889**	**182,927**
Domestic revenue	103,522	106,465	99,585	96,494	116,351	129,200	141,573	152,028	161,296	170,727	179,586
Tax revenue	91,492	98,898	91,879	86,028	100,743	112,482	123,783	133,343	141,809	150,456	158,515
Income tax - Individuals	9,527	10,450	11,221	11,450	13,500	15,092	16,630	17,915	19,067	20,192	21,339
Income tax - Corporations	12,403	16,267	13,876	11,760	15,018	16,789	18,500	19,930	21,211	22,462	23,739
Value added tax (VAT)	32,989	31,938	32,658	28,490	34,968	39,091	43,076	46,404	49,387	52,301	55,273
Excise duties	20,109	20,892	18,925	18,680	19,510	21,810	23,982	25,831	27,392	29,305	30,547
Customs	1,335	1,379	1,216	1,180	1,500	1,539	1,581	1,703	1,806	1,894	1,936
Other taxes	15,129	17,972	13,891	14,467	16,247	18,163	20,015	21,561	22,947	24,301	25,682
Social contributions	1,337	1,317	1,384	6,548	9,407	10,516	11,588	12,483	13,286	14,070	14,869
Nontax revenue	10,115	6,250	6,414	3,918	6,201	6,201	6,201	6,201	6,201	6,201	6,201
Grants	3,309	4,200	4,288	2,217	2,114	2,363	2,604	2,805	2,986	3,162	3,342
Total expense (current spending) (2)	**106,582**	**113,214**	**134,917**	**138,792**	**138,543**	**147,498**	**163,518**	**170,081**	**176,215**	**183,649**	**192,979**
Expenditures on goods and services	39,461	40,812	42,957	42,997	49,100	53,854	56,909	59,809	62,695	65,672	68,794
Compensation of employees	29,485	30,516	30,979	32,034	37,100	40,439	42,865	45,437	48,163	51,053	54,117
Use of goods and services	9,976	10,296	11,978	10,963	12,000	13,415	14,043	14,372	14,531	14,619	14,677
Interest payments	11,500	12,850	13,365	12,415	12,543	12,876	12,908	13,625	14,372	14,613	16,587
Domestic interest	10,728	12,219	12,775	12,095	12,243	11,989	11,588	12,067	12,677	12,761	14,529
External interest	772	631	591	320	301	887	1,320	1,558	1,695	1,852	2,058
Transfers and subsidies	22,786	23,725	32,666	29,540	26,500	27,953	29,085	29,716	29,997	30,132	30,207
Subsidies	1,733	1,569	10,097	7,904	1,700	1,615	1,513	1,500	1,468	1,431	1,391
Grants and transfers	21,053	22,156	22,569	21,636	24,800	26,338	27,572	28,217	28,529	28,702	28,816
Social benefits	29,456	31,953	41,905	45,655	47,200	49,238	60,675	62,683	64,631	68,445	72,334
Social assistance pensions	20,750	22,682	30,236	37,061	37,650	38,562	48,911	50,011	51,144	54,161	57,239
Other	8,706	9,271	11,669	8,594	9,550	10,676	11,764	12,673	13,488	14,283	15,095
Other expense	3,379	3,874	4,024	8,185	3,200	3,577	3,942	4,247	4,520	4,786	5,058
Contingencies	0	0	0	0	0	0	0	0	0	0	0
Gross operating balance ((3)=(1)-(2))	**249**	**-2,549**	**-31,044**	**-40,080**	**-20,078**	**-15,935**	**-19,341**	**-15,247**	**-11,933**	**-9,760**	**-10,052**
Net acquisition of non-financial assets (capital spending)	**8,098**	**8,390**	**7,536**	**7,609**	**10,056**	**9,555**	**10,529**	**11,343**	**12,072**	**12,785**	**13,511**
Budget balance[2]	**-7,849**	**-10,939**	**-38,580**	**-47,689**	**-30,134**	**-25,491**	**-29,871**	**-26,590**	**-24,005**	**-22,545**	**-23,563**
Net lending / borrowing (special funds)	**-7,600**	**-4,943**	**-15,316**	**-37,935**	**-14,371**	**-5,275**	**-5,275**	**-5,275**	**-5,275**	**-5,275**	**-5,275**
CONSOLIDATED BALANCE	**-15,449**	**-15,882**	**-53,896**	**-85,624**	**-44,505**	**-30,766**	**-35,146**	**-31,865**	**-29,280**	**-27,820**	**-28,838**
Transactions in financial assets/liabilities	**3,805**	**7,245**	**6,107**	**15,152**	**-7,134**	**-9,145**	**1,962**	**2,113**	**2,238**	**1,466**	**326**
Net acquisition of financial assets	4,231	8,045	8,473	15,143	-6,624	-9,095	1,752	1,886	1,997	1,211	57
Of which: net lending	-696	850	645	489	709	-631	149	161	171	-86	-316
Adjustment for non-cash transactions	0	0	-2,000	0	0	0	0	0	0	0	0
Adjustment for difference in cash and accrual	-426	-800	-366	9	-510	-50	210	226	241	255	269
OVERALL BORROWING REQUIREMENT	**-19,254**	**-23,127**	**-60,003**	**-100,776**	**-37,371**	**-21,621**	**-37,108**	**-33,978**	**-31,518**	**-29,286**	**-29,164**
FINANCING	**19,254**	**23,127**	**60,003**	**100,776**	**37,371**	**21,621**	**37,108**	**33,978**	**31,518**	**29,286**	**29,164**
Domestic	21,294	26,664	61,061	64,751	16,175	15,849	32,266	32,591	30,535	29,092	21,582
Banks	7,098	8,888	29,354	21,584	5,392	5,283	10,755	10,864	10,178	9,697	7,194
Nonbanks	14,196	17,776	13,707	-11,833	-12,177	10,566	21,511	21,727	20,357	19,395	14,388
BOM transfers[3]			18,000	55,000							
Foreign	-2,040	-3,537	-1,058	36,025	21,197	5,772	4,841	1,387	983	193	7,582
Memorandum items:											
Central government debt	**271,374**	**289,613**	**348,642**	**392,670**	**415,000**	**442,133**	**479,700**	**514,134**	**547,043**	**578,906**	**569,237**
Public sector debt	**302,124**	**325,207**	**387,178**	**432,177**	**455,253**	**485,200**	**522,729**	**556,720**	**587,479**	**617,192**	**605,836**
GDP at current market prices (FY, in billions of Rupees)	470	491.1	458	436	493	551	607	654	696	737	779
Expenditure, excluding net lending	122,280	126,547	157,769	184,336	162,970	162,329	179,322	186,699	193,562	201,708	211,765
Primary balance (incl. grants)	-3,949	-3,032	-40,531	-73,210	-31,962	-17,890	-22,238	-18,240	-14,908	-13,206	-12,251
Primary balance (excl. grants)	-7,258	-7,232	-44,819	-75,427	-34,076	-20,253	-24,842	-21,046	-17,894	-16,368	-15,593

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

[1] *GFSM 2001* presentation.

[2] Corresponds to the authorities' budget presentation.

[3] Following the *GFSM 2014,* Sections 5.111.5.116, the transfers from the BOM to the Central Government are considered as financing.

Table 2b. Mauritius: Summary of Central Government Finances, 2017/18–27/28[1]
(Percent of GDP, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Est.				Proj.			
Total revenue and grants (1)	**22.7**	**22.5**	**22.7**	**22.7**	**24.0**	**23.9**	**23.8**	**23.7**	**23.6**	**23.6**	**23.5**
Domestic revenue	**22.0**	**21.7**	**21.8**	**22.1**	**23.6**	**23.5**	**23.3**	**23.3**	**23.2**	**23.2**	**23.1**
Tax revenue	19.5	20.1	20.1	19.7	20.4	20.4	20.4	20.4	20.4	20.4	20.4
Income tax - Individuals	2.0	2.1	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Income tax - Corporations	2.6	3.3	3.0	2.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Value added tax (VAT)	7.0	6.5	7.1	6.5	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Excise duties	4.3	4.3	4.1	4.3	4.0	4.0	4.0	4.0	3.9	4.0	3.9
Customs	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Other taxes	3.2	3.7	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Social contributions	0.3	0.3	0.3	1.5	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Nontax revenue	2.2	1.3	1.4	0.9	1.3	1.1	1.0	0.9	0.9	0.8	0.8
Grants	0.7	0.9	0.9	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total expense (current spending) (2)	**22.7**	**23.1**	**29.5**	**31.9**	**28.1**	**26.8**	**26.9**	**26.0**	**25.3**	**24.9**	**24.8**
Expenditures on goods and services	8.4	8.3	9.4	9.9	10.0	9.8	9.4	9.1	9.0	8.9	8.8
Compensation of employees	6.3	6.2	6.8	7.4	7.5	7.3	7.1	7.0	6.9	6.9	6.9
Use of goods and services	2.1	2.1	2.6	2.5	2.4	2.4	2.3	2.2	2.1	2.0	1.9
Interest payments	2.4	2.6	2.9	2.8	2.5	2.3	2.1	2.1	2.1	2.0	2.1
Domestic interest	2.3	2.5	2.8	2.8	2.5	2.2	1.9	1.8	1.8	1.7	1.9
External interest	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Transfers and subsidies	4.9	4.8	7.1	6.8	5.4	5.1	4.8	4.5	4.3	4.1	3.9
Subsidies	0.4	0.3	2.2	1.8	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Grants and transfers	4.5	4.5	4.9	5.0	5.0	4.8	4.5	4.3	4.1	3.9	3.7
Social benefits	6.3	6.5	9.2	10.5	9.6	8.9	10.0	9.6	9.3	9.3	9.3
Social assistance pensions	4.4	4.6	6.6	8.5	7.6	7.0	8.1	7.6	7.4	7.4	7.4
Other	1.9	1.9	2.6	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other expense	0.7	0.8	0.9	1.9	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance ((3)=(1)-(2))	0.1	-0.5	-6.8	-9.2	-4.1	-2.9	-3.2	-2.3	-1.7	-1.3	-1.3
Net acquisition of non-financial assets (capital spending)	1.7	1.7	1.6	1.7	2.0	1.7	1.7	1.7	1.7	1.7	1.7
Budget balance[2]	-1.7	-2.2	-8.4	-10.9	-6.1	-4.6	-4.9	-4.1	-3.5	-3.1	-3.0
Net lending / borrowing (special funds)	-1.6	-1.0	-3.3	-8.7	-2.9	-1.0	-0.9	-0.8	-0.8	-0.7	-0.7
CONSOLIDATED BALANCE	**-3.3**	**-3.2**	**-11.8**	**-19.7**	**-9.0**	**-5.6**	**-5.8**	**-4.9**	**-4.2**	**-3.8**	**-3.7**
Transactions in financial assets/liabilities	0.8	1.5	1.3	3.5	-1.4	-1.7	0.3	0.3	0.3	0.2	0.0
Net acquisition of financial assets	0.9	1.6	1.9	3.5	-1.3	-1.7	0.3	0.3	0.3	0.2	0.0
Of which: net lending	-0.1	0.2	0.1	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Adjustment for non-cash transactions	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment for difference in cash and accrual	-0.1	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
OVERALL BORROWING REQUIREMENT	**-4.1**	**-4.7**	**-13.1**	**-23.1**	**-7.6**	**-3.9**	**-6.1**	**-5.2**	**-4.5**	**-4.0**	**-3.7**
FINANCING	**4.1**	**4.7**	**13.1**	**23.1**	**7.6**	**3.9**	**6.1**	**5.2**	**4.5**	**4.0**	**3.7**
Domestic	4.5	5.4	13.3	14.9	3.3	2.9	5.3	5.0	4.4	3.9	2.8
Banks	1.5	1.8	6.4	5.0	1.1	1.0	1.8	1.7	1.5	1.3	0.9
Nonbanks	3.0	3.6	3.0	-2.7	-2.5	1.9	3.5	3.3	2.9	2.6	1.8
BOM transfers[3]			3.9	12.6							
Foreign	-0.4	-0.7	-0.2	8.3	4.3	1.0	0.8	0.2	0.1	0.0	1.0
Memorandum items:											
Central government debt	57.8	59.0	76.2	90.1	84.2	80.3	79.0	78.6	78.6	78.6	73.1
Public sector debt	64.3	66.2	84.6	99.2	92.4	88.1	86.1	85.2	84.4	83.8	77.8
Central government expenditure, excluding net lending	26.0	25.8	34.5	42.3	33.1	29.5	29.5	28.6	27.8	27.4	27.2
Central government primary balance (incl. grants)	-0.8	-0.6	-8.9	-16.8	-6.5	-3.2	-3.7	-2.8	-2.1	-1.8	-1.6
Central government primary balance (excl. grants)	-1.5	-1.5	-9.8	-17.3	-6.9	-3.7	-4.1	-3.2	-2.6	-2.2	-2.0

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] Following the *GFSM 2014*, Sections 5.111.5.116, the transfers from the BOM to the Central Government are considered as financing.

Table 3. Mauritius: Balance of Payments, 2018–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.			Proj.			
					(Millions of US dollars)						
Current account balance	**-612**	**-555**	**-718**	**-1,003**	**-1,527**	**-1,567**	**-1,031**	**-742**	**-798**	**-806**	**-903**
Trade balance	**-2,648**	**-3,015**	**-3,071**	**-2,126**	**-2,688**	**-3,099**	**-2,866**	**-3,025**	**-3,193**	**-3,355**	**-3,546**
Exports of goods, f.o.b.	2,342	2,366	2,223	1,789	1,964	2,204	2,382	2,570	2,709	2,837	2,944
Imports of goods, f.o.b.	-4,990	-5,381	-5,294	-3,915	-4,652	-5,302	-5,248	-5,595	-5,902	-6,191	-6,490
Of which: Oil Imports	-885	-1,133	-1,025	-633	-788	-1,164	-1,162	-1,198	-1,212	-1,240	-1,254
Services (net)	**871**	**1,074**	**964**	**-8**	**-197**	**416**	**696**	**1,118**	**1,151**	**1,183**	**1,226**
Of which: tourism travel	1,186	1,284	1,163	333	346	755	1,069	1,433	1,538	1,627	1,704
Income (net)	**1,438**	**1,792**	**1,797**	**1,867**	**1,737**	**1,425**	**1,485**	**1,597**	**1,721**	**1,898**	**1,927**
Of which: GBCs	1,173	1,489	1,341	1,530	1,478	1,140	1,250	1,402	1,512	1,677	1,696
Current transfers (net)	**-272**	**-406**	**-409**	**-736**	**-380**	**-309**	**-347**	**-432**	**-476**	**-533**	**-509**
Capital and financial accounts	**1,295**	**1,146**	**185**	**451**	**2,897**	**-145**	**601**	**742**	**798**	**806**	**903**
Capital account	**-3**	**-6**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial account	**1,298**	**1,151**	**185**	**451**	**2,897**	**-145**	**601**	**742**	**798**	**806**	**903**
Non-GBCs	-249	312	117	-531	-63	-718	-684	-223	-111	-106	-32
Direct investment (net)	385	366	416	209	168	239	287	441	477	508	535
Abroad	-89	-98	-57	-16	-83	-86	-158	-176	-190	-202	-213
In Mauritius	474	464	473	226	251	325	445	617	667	711	749
Portfolio investment (net)	-445	-1,803	-609	-1,101	-2,235	-551	-603	-669	-723	-771	-812
Other investment (net)	-189	1,748	311	361	2,005	-406	-367	5	135	157	245
Government (net)	-179	-97	-107	330	355	300	116	69	27	13	88
Other (net)	-10	1,845	418	31	1,650	-706	-483	-64	109	144	157
GBCs	1,547	839	68	982	2,960	573	1,285	965	909	912	935
Direct investment (net)	24,720	1,090	1,596	-12,943	3,430	3,144	3,400	3,810	4,111	4,358	4,628
Portfolio and other investment (net)	-23,173	-251	-1,528	13,925	-470	-2,571	-2,115	-2,845	-3,202	-3,446	-3,693
Errors and omissions	**149**	**-96**	**1,467**	**127**	**-77**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**832**	**494**	**-494**	**-425**	**1,293**	**-1,712**	**-430**	**0**	**0**	**0**	**0**
Change in official reserves (- = increase)	**-832**	**-494**	**-934**	**425**	**-1,293**	**1,712**	**430**	**0**	**0**	**0**	**0**
					(Percent of GDP)						
Current account balance	**-4.6**	**-3.9**	**-5.1**	**-9.2**	**-13.7**	**-13.5**	**-8.1**	**-5.3**	**-5.3**	**-5.0**	**-5.3**
Trade balance	**-20.0**	**-21.3**	**-21.9**	**-19.5**	**-24.1**	**-26.8**	**-22.6**	**-21.5**	**-21.0**	**-20.7**	**-20.8**
Exports of goods, f.o.b.	17.7	16.7	15.8	16.4	17.6	19.0	18.8	18.3	17.8	17.5	17.3
Imports of goods, f.o.b.	-37.6	-37.9	-37.7	-35.8	-41.7	-45.8	-41.4	-39.8	-38.8	-38.2	-38.1
Services (net)	**6.6**	**7.6**	**6.9**	**-0.1**	**-1.8**	**3.6**	**5.5**	**8.0**	**7.6**	**7.3**	**7.2**
Of which: tourism travel	8.9	9.1	8.3	3.1	3.1	6.5	8.4	10.2	10.1	10.0	10.0
Income (net)	**10.8**	**12.6**	**12.8**	**17.1**	**15.6**	**12.3**	**11.7**	**11.4**	**11.3**	**11.7**	**11.3**
Of which: GBCs	8.8	10.5	9.6	14.0	13.2	9.9	9.9	10.0	9.9	10.4	9.9
Current transfers (net)	**-2.1**	**-2.9**	**-2.9**	**-6.7**	**-3.4**	**-2.7**	**-2.7**	**-3.1**	**-3.1**	**-3.3**	**-3.0**
Capital and financial accounts	**9.8**	**8.1**	**1.3**	**4.1**	**26.0**	**-1.3**	**4.7**	**5.3**	**5.3**	**5.0**	**5.3**
Capital account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**9.8**	**8.1**	**1.3**	**4.1**	**26.0**	**-1.3**	**4.7**	**5.3**	**5.3**	**5.0**	**5.3**
Non-GBCs	-1.9	2.2	0.8	-4.9	-0.6	-6.2	-5.4	-1.6	-0.7	-0.7	-0.2
GBCs	11.7	5.9	0.5	9.0	26.5	5.0	10.1	6.9	6.0	5.6	5.5
Errors and omissions	**1.1**	**-0.7**	**10.4**	**1.2**	**-0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**6.3**	**3.5**	**-3.5**	**-3.9**	**11.6**	**-14.8**	**-3.4**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Gross international reserves, BOM, (mill. of U.S. dollars)	5,979	6,322	7,329	7,242	8,513	6,801	6,371	6,371	6,371	6,371	6,371
In months of imports of goods and services, f.o.b.	9.5	10.3	16.9	14.3	14.7	11.5	10.1	9.5	9.0	8.6	8.1
Percent of external short term debt	1.1	1.3	1.3	1.2	1.2	1.0	0.9	0.9	0.9	0.8	0.8
Total external debt	77.1	79.2	91.4	115.6	129.6	138.0	124.1	116.7	111.1	107.6	104.8
Exports of G&S, percentage change	3.7	3.6	-5.9	-41.3	3.5	32.8	15.6	15.6	5.2	4.0	3.0
Imports of G&S, percentage change	11.0	5.0	-2.2	-29.1	16.5	13.9	2.2	7.1	5.7	4.6	4.0
Mauritian rupees per U.S. dollar (period average)	34.5	33.9	35.5	39.3							
Mauritian rupees per U.S. dollar (end of period)	33.5	34.2	36.6	39.5							
GDP (millions of U.S. dollars)	13,259	14,182	14,046	10,921	11,157	11,570	12,676	14,058	15,196	16,192	17,055

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

Table 4. Mauritius: Monetary Survey, 2018 -27

	2018[1]	2019	2020	2021	2022	2023	2024	2025	2026	2027
		Actual		Est.			Proj.			
	(Millions of rupees, end of period; unless otherwise indicated)									
Central Bank of Mauritius										
Net foreign assets	217,004	269,147	284,981	337,064	230,580	205,817	202,600	200,725	201,016	202,050
(in millions of US dollars)	6,336	7,354	7,210	7,743	4,971	4,539	4,539	4,539	4,539	4,539
Net domestic assets	-116,233	-145,972	-90,266	-73,480	-54,651	-54,580	-57,326	-50,295	-40,491	-31,081
Net domestic credit	-14,898	-19,808	15,120	57,510	57,635	57,762	57,887	58,013	58,139	58,265
Government (net)	-19,273	-23,863	-27,033	-32,087	-31,972	-31,857	-31,740	-31,623	-31,505	-31,386
Commercial banks	448	23	2,053	88	98	110	119	127	135	143
Other sectors	3,927	4,032	40,101	89,509	89,509	89,509	89,509	89,509	89,509	89,509
Other items (net)	-101,335	-126,164	-105,386	-130,989	-112,286	-112,342	-115,213	-108,307	-98,630	-89,346
Reserve money	100,772	123,175	194,716	263,584	175,929	151,237	145,274	150,431	160,525	170,969
Currency outside banks	39,340	42,909	46,561	50,200	51,311	53,392	55,486	60,184	64,905	69,700
Bank reserves	61,431	80,266	148,154	213,383	124,618	97,845	89,788	90,246	95,620	101,269
Banks										
Net foreign assets	353,672	378,325	468,678	557,097	681,387	694,697	694,019	690,617	693,619	699,064
(in millions of US dollars)	10,327	10,337	11,857	12,798	14,691	15,322	15,550	15,618	15,663	15,705
Net domestic assets	148,011	161,329	143,989	110,371	2,270	16,244	47,231	125,286	194,426	263,704
Net domestic credit	683,314	752,523	810,715	927,141	852,413	895,700	963,844	1,020,579	1,070,259	1,115,287
Credit to BoM	132,372	164,461	210,880	276,261	165,690	154,124	162,419	163,344	159,428	155,445
o/w Other Claims on BoM[2]	45,129	63,441	79,745	95,470	58,767	63,756	69,823	64,809	54,875	44,588
Central Government (net)	94,606	96,370	105,925	138,452	146,356	157,050	167,455	177,276	185,603	189,081
Other financial and public sector[3]	79,871	91,959	81,893	102,246	107,625	116,082	125,540	134,337	142,996	151,701
Claims on private sector[4]	376,464	399,733	412,018	410,182	432,742	468,444	508,430	545,622	582,233	619,059
Other items (net)	-535,303	-591,195	-666,726	-816,770	-850,142	-879,456	-916,613	-895,293	-875,833	-851,583
o/w Deposits excluded from broad money: GBC deposits	-344,593	-385,057	-439,048	-572,122	-552,192	-539,798	-531,361	-526,444	-527,208	-529,935
Total deposits, securities and liabilities to BoM	501,683	539,654	612,667	667,468	683,658	710,941	741,250	815,903	888,046	962,768
Monetary Survey										
Net foreign assets	570,677	647,472	753,659	894,161	911,967	900,514	896,619	891,343	894,635	901,114
(in millions of US dollars)	16,663	17,690	19,066	20,542	19,662	19,861	20,089	20,158	20,203	20,244
Net domestic assets	-15,784	-45,499	-50,066	-128,313	-122,004	-71,382	-22,982	72,940	158,718	245,355
Net domestic credit	535,595	568,231	612,903	708,302	744,260	799,228	859,193	915,120	968,835	1,017,964
Central government (net)	75,333	72,507	78,892	106,365	114,384	125,194	135,715	145,652	154,098	157,695
Other financial and public sector	83,665	95,856	121,879	191,619	196,998	205,455	214,913	223,710	232,369	241,074
Claims on the private sector[4]	376,597	399,868	412,132	410,318	432,878	468,579	508,566	545,757	582,368	619,195
o/w Credit to the private sector[5]	374,811	438,825	450,868	448,850	473,532	512,591	556,338	597,028	637,082	677,372
Other items (net)	-551,379	-613,730	-662,969	-836,615	-866,264	-870,610	-882,174	-842,180	-810,117	-772,609
M1	325,826	357,449	442,612	495,690	505,253	524,265	551,084	601,742	648,943	696,883
Money and quasi-money (M2)	443,913	471,653	554,951	602,831	614,432	635,458	668,093	729,588	786,818	844,943
M2 plus resident FC deposits and securities other than shares	554,893	601,973	703,593	765,847	789,963	829,133	873,637	964,283	1,053,353	1,146,469
	(Annual percent change; unless otherwise specified)									
Memorandum items										
M2	2.1	6.2	17.7	8.6	1.9	3.4	5.1	9.2	7.8	7.4
M3	6.3	8.5	16.9	8.8	3.1	5.0	5.4	10.4	9.2	8.8
Deposits	3.5	7.6	13.5	8.9	2.4	4.0	4.3	10.1	8.8	8.4
Reserve money	-1.3	22.2	58.1	35.4	-33.3	-14.0	-3.9	3.5	6.7	6.5
Net domestic credit	-6.8	6.1	7.9	15.6	5.1	7.4	7.5	6.5	5.9	5.1
Government (net)	8.1	-3.8	8.8	34.8	7.5	9.5	8.4	7.3	5.8	2.3
Private Sector Credit	-4.2	17.1	2.7	-0.4	5.5	8.2	8.5	7.3	6.7	6.3
Multiplier (average M3/RM)	5.5	4.9	3.6	2.9	4.5	5.5	6.0	6.4	6.6	6.7
Velocity (GDP/M3)	0.9	0.8	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7
	(As percent of GDP)									
M3	115.3	120.8	163.7	164.6	151.9	142.6	138.1	142.8	147.0	151.4
Deposits	104.2	108.3	142.6	143.5	131.4	122.3	117.2	120.9	123.9	127.1
Reserve money	20.9	24.7	45.3	56.7	33.8	26.0	23.0	22.3	22.4	22.6
Net domestic credit	111.3	114.0	142.6	152.3	143.1	137.5	135.9	135.6	135.2	134.4
Government (net)	15.7	14.6	18.4	22.9	22.0	21.5	21.5	21.6	21.5	20.8
Private	78.3	80.3	95.9	88.2	83.2	80.6	80.4	80.8	81.3	81.8
	(in millions USD)									
Deposits excluded from broad money: GBC deposits	10,061	10,521	11,107	13,143	11,906	11,906	11,906	11,906	11,906	11,906

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]This amount primarily reflects the ammount of liquidity mopped-up in the BoM instruments, i.e., BoM Bills.

[3]Excluding liabilities to the Central Bank.

[4]Includes derivatives and other related financial instruments.

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

Table 5. Mauritius: Financial Soundness Indicators for Banks and Non-Bank Deposit-Taking Institutions, 2017-2021 Q3[1]

	2017	2018				2019				2020				2021		
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec	Mar.	Jun.	Sep.
Capital adequacy																
Regulatory capital to risk-weighted assets	18.8	18.6	18.0	18.4	19.2	19.5	20.0	19.8	19.6	19.3	20.4	19.9	19.7	19.8	19.7	20.7
Regulatory Tier 1 capital to risk-weighted assets	17.4	17.2	16.7	17.1	17.9	18.2	18.5	18.4	18.2	18.0	19.0	18.5	18.3	18.4	18.3	19.4
Non-performing loans net of provisions to capital	16.3	15.6	14.3	9.9	13.9	13.0	12.7	11.5	10.4	11.5	12.2	11.1	10.2	10.6	8.2	7.6
Asset Quality																
Non-performing loans to total loans[2]	7.0	7.2	6.9	5.3	6.5	6.3	6.3	5.8	4.9	5.3	5.8	6.1	6.2	6.2	5.6	5.3
Sectoral distribution** of loans to total loans[2]																
Interbank loans	1.6	1.8	2.4	3.6	2.1	3.1	3.6	2.4	2.5	4.4	4.6	2.8	4.3	4.5	5.0	4.9
Other financial corporations	3.8	3.9	3.9	3.9	11.8	11.5	12.2	13.0	12.1	11.7	11.4	9.8	9.6	8.9	9.8	9.1
Non-financial corporations	33.1	33.0	33.3	32.9	26.7	26.8	25.7	26.2	26.4	25.9	27.1	28.3	27.8	27.3	26.4	26.6
Other domestic sectors	21.8	21.9	21.8	21.6	22.0	22.7	22.6	23.0	23.4	21.1	20.9	22.0	22.0	22.3	21.7	22.3
Non-residents	39.7	39.3	38.6	38.1	37.3	35.9	36.0	35.4	35.6	36.8	35.9	37.1	36.3	36.9	37.0	37.0
Earnings and Profitability																
Return on assets	1.6	1.5	1.5	1.7	1.6	2.2	2.0	2.0	1.9	1.2	1.1	1.1	1.0	1.2	1.3	1.3
Return on equity	15.2	14.9	14.6	15.7	15.1	19.0	17.4	17.3	16.7	11.0	9.5	9.7	8.9	11.4	12.7	12.4
Interest margin to gross income	69.6	66.9	71.5	71.3	72.9	72.7	73.8	72.8	69.3	71.7	65.9	68.2	69.0	63.1	69.3	66.6
Non-interest expenses to gross income	42.9	41.1	40.5	41.5	39.6	38.4	40.4	42.5	41.1	41.8	40.0	43.3	44.1	44.0	43.2	45.9
Liquidity																
Liquid assets to total assets	22.2	23.2	25.4	21.6	22.5	22.6	21.0	21.7	25.3	24.5	26.4	27.7	26.0	29.4	27.3	26.5
Liquid assets to short-term liabilities	28.9	30.0	28.8	24.5	25.5	25.6	23.9	24.7	28.5	27.7	29.7	31.1	29.3	32.8	30.5	29.6
Sensitivity to Market Risk																
Net open position in foreign exchange to capital	3.2	4.8	3.0	2.6	2.1	3.6	2.8	1.9	2.1	1.7	1.7	1.6	1.6	1.9	2.2	1.8
Encouraged Set of Financial Soundness Indicators																
Capital to assets	10.1	10.0	11.6	11.8	11.5	11.8	11.9	11.8	11.3	11.2	11.0	10.6	10.8	10.2	10.3	10.3
Value of large exposures to capital *	224.4	228.3	235.3	262.2	249.4	232.1	248.4	237.9	237.3	244.8	258.5	257.7	242.3	237.5	253.1	236.5
Customer deposits to total (non-interbank) loans	153.4	159.3	155.2	148.3	154.6	161.2	159.9	161.5	174.7	179.4	182.7	194.8	197.4	213.0	219.2	230.8
Residential real estate loans to total loans[2]	10.2	10.3	10.3	10.3	10.5	10.7	11.0	11.1	10.8	10.6	10.6	11.3	11.5	12.5	11.3	11.7
Commercial real estate loans to total loans[2]	3.9	4.1	4.4	3.9	4.6	4.3	4.2	4.7	5.0	4.7	5.0	5.1	5.4	5.5	5.5	5.5
Trading income to total income	10.2	12.5	8.2	11.5	10.2	9.2	7.7	10.3	11.7	13.0	16.4	13.3	11.0	17.9	7.6	12.8
Personnel expenses to non-interest expenses	49.5	49.3	49.4	46.2	49.3	49.0	46.8	46.2	45.4	46.5	48.0	45.6	51.1	48.7	47.6	45.3

Source: Bank of Mauritius

[1] FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide (2006) of the International Monetary Fund.

[2] Total loans include commercial loans, installment loans, hire-purchase credit, loans to finance trade credit and advances, finance leases, repurchase agreements 'not classified as a deposit, and overdrafts.

* As from December 2017, the measurement of credit concentration ratio has been revised to aggregate large credit exposure (above 10 per cent of Tier 1 capital) as a percentage of aggregate Tier 1 capital. Based on previous Guideline, the corresponding ratio for large exposures would have been 171.8 per cent, 178.3 per cent and 186.1 per cent for the quarters ended December 2017, March 2018 and June 2018, respectively.

**Following adoption of ISIC codes for sectoral definition in October 2018, the corresponding sectoral figures have changed. Hence, data are not strictly comparable 'with those prior to December 2018.

Annex I. Risk Assessment Matrix[1]

	Risks	Likelihood	Expected Impact	Policy Recommendation
Conjunctural shocks and scenarios	**Emergence of the new Covid-19 variants,** which are harder to eradicate. Prolonged lockdowns, further disruptions to supply chains.	Medium	**Medium.** Constrained tourism; delayed economic recovery. Prolonged policy support requires additional fiscal resources. Further monetization of public deficit and/or increase in public debt.	Provide targeted and temporary support to mitigate economic impact. These could be financed by deploying government deposits in banks and issuing domestic debt, if needed. Avoid BOM transfers to the government.
	Rising and volatile food and energy prices. Global commodity prices increase and remain volatile due to supply disruptions, amidst the war in Ukraine and sanctions on oil and gas exports from Russia.	High	**High.** Bouts of price, real sector volatility and decline in real income globally. Lower demand for tourism, increasing domestic inflation.	Allow for gradual pass through of commodity prices according to the STC pricing mechanism and provide targeted fiscal transfers to vulnerable households. The pace of monetary tightening will need to balance slower recovery and higher inflation expectations.
	De-anchoring of inflation expectations and sharper tightening of monetary policy in advanced economies. Recovery in demand amid lagging supply, rapid de-anchoring of inflation expectations, abrupt monetary tightening by central banks globally leads to spiking risk premia and tightening financial conditions.	Medium	**Medium.** Asset market selloffs, rupee depreciation, additional pressure on inflation.	Tighten monetary policy consistent with the macroeconomic outlook and domestic inflation expectations. Intervene in the FX market to smooth exchange rate volatility, but generally allowing for its flexibility and adjustment.
	Delayed and incomplete tightening of monetary policy stance by the Bank of Mauritius. The BOM chooses not to tighten to avoid facing larger policy implementation costs.	Medium	**Medium.** Inflation expectations un-anchor, inflation elevates. Larger policy tightening is required to re-anchor expectations down the road and triggers a recession.	The BOM should tighten monetary policy guided by the outlook. Allow for greater exchange rate flexibility to foster policy transmission. Government should recapitalize the BOM to finance monetary policy costs.
	Slower fiscal consolidation. Further pandemic-related support, including the new wage requires higher-than-expected spending. Rising fuel and food prices call for higher subsidies.	Medium	**Medium.** Fiscal deficit and financing stay higher than envisaged, keeping debt vulnerabilities more elevated.	Develop and communicate credible long-term consolidation strategy, prioritizing expenditure measures. Allow for commodity price pass through deploying the STC pricing mechanism.
Structural risks	**Geopolitical tensions and de-globalization.** Disorderly migration, decline in global trade, lower investor confidence, associated supply chain disruptions and commodity price shocks.	High	**High.** Elevated inflationary pressures. Reduction in current and long-term potential growth.	Accelerate structural reforms for competitiveness and growth, prioritize fiscal expenditure accordingly. BOM should stand ready to counter second-round effects.
	Higher frequency and severity of natural disasters related to climate change. Economic damage to smaller economies susceptible to disruptions, accelerated emigration from these economies. Reduced global GDP, recalculation of risk and growth prospects. Damages to key infrastructure, disruption to trade, rise in commodity price levels and volatility.	Medium/ Low	**Medium-Low.** Damage to local infrastructure. Pressure on external demand, including for tourism services. Slower economic growth, elevated inflationary pressures.	Prioritize fiscal expenditure for climate change adaptation and mitigation measures. Accelerate structural reforms supporting adaptation and growth in new conditions.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex II. Debt Sustainability Analysis

An updated public debt sustainability analysis (DSA) indicates that Mauritius' public debt sustainability risks remain high. The baseline is susceptible to a range of shocks and particularly vulnerable to contingent liability shocks affecting the financial sector. The debt-to-GDP ratio, which rose notably amid the pandemic, is set to stay at elevated levels in the medium term. The total external debt has increased substantially which elevates the exposure of the domestic economy to the exchange rate and current account shocks.

Background

1. **This DSA updates the analysis in the June 2021 DSA (Country Report 21/139), which showed a rapidly deteriorating, albeit sustainable, debt outlook.** In that DSA, the debt-to-GDP ratio had risen notably in the wake of the pandemic and was expected to rise further in the near term due to higher pension spending in FY2023/24. Public debt indicators had increased above their thresholds over the medium-term and were susceptible to a range of shocks. This DSA accounts for updated macroeconomic projections, consistent with the framework underlying the staff report for the 2022 Article IV consultation (see main text).

2. **Public debt vulnerabilities remain elevated.**[1] The public sector debt-to-GDP ratio increased to 99.2 percent of GDP in FY2020/21 from 66.2 percent of GDP before the pandemic in FY2018/19. This reflected both nominal increases in debt and the sharp decline in GDP in 2020.[2] Staff forecasts a decline to 92.4 percent in FY2021/22 (Text Table 1). With the gradual recovery from the pandemic and substantial improvements in the fiscal position, staff projects that the debt-to-GDP ratio will decline to 83.8 percent of GDP in FY2026/27.

3. **Recent quasi-fiscal operations helped temporarily reduce public sector debt by end-December 2021.** No new transfers have been made by the BOM following the Rs55 billion transfer (13 percent of GDP) in FY2020/21 which helped provide financing without increasing debt. However, in December 2021 a government's asset disposal to the BOM-owned MIC, in the amount of Rs25 billion (5 percent of GDP), allowed the government to use part of the proceeds to reduce the stock of public sector debt by 6.7 percent of GDP from July to December 2021. This DSA baseline assumes that, over the projection horizon, the government does not recapitalize the BOM to compensate for earlier BOM transfers and does not cover the cost of sterilization

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[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). The Mauritian authorities exclude from their total debt figures (i) central government securities held by SOEs and (ii) government deposits. As a result, staff's public debt figures are higher than those presented by the authorities.

[2] In March 2021, Moody's downgraded Mauritius from Baa1 to Baa2, the second lowest investment grade. The agency cited the country's weakened fiscal and economic position because of the pandemic.

going forward. Should such recapitalization take place, the level of public sector debt would increase. It also assumes no further quasi-fiscal debt-reducing operations going forward.

Text Table 1. Mauritius: Public Debt-to-GDP Ratio, 2019-22[1]

	FY2019/20	FY2020/21	FY2021/22[2]
Total Public Debt	88.4	99.7	92.4
Central Government	76.2	90.1	84.2
State-Owned Enterprises	8.4	9.1	8.2
Domestic	68.6	74.0	62.8
External	19.8	25.7	29.6

[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

4. **Mauritius continues to have a strong creditworthiness and has been able to issue debt in the domestic financial market at very low rates.** The government mostly fulfills its borrowing requirement from the highly liquid domestic market. Short-term debt has fallen notably in the last few years and stood at 8.8 percent of total debt in FY2020/21, in line with the authorities' policy of lengthening the maturity profile of public securities. Overall, the maturity structure of public sector debt remains strong, with medium- and long-term domestic debt comprising over 90 percent of the total (Figure 2). Government bond auctions continued to be oversubscribed. For example, all auctions from February 2022 were oversubscribed by more than 150 percent, with the weighted interest rate ranging from 2.2 percent for 3-year treasury notes and 4.6 percent for 20-year bonds. Thus, the government is expected, under the baseline, to finance its borrowing requirements relying mainly on domestic debt.

5. **The share of external debt in total public sector debt remains low, although it has risen recently**. External debt constituted about one-quarter of total public debt although increasing in FY2020/21 driven mostly by lower nominal GDP and the depreciation of the rupee. The entirety of the central government external debt is concessional. Mauritius has no history of debt difficulties. External debt is expected to rise to around 30 percent of GDP in FY2021/22, and thereafter decline to around 23 percent of GDP in the medium-term.

6. **The lack of a medium-term debt ceiling leaves the country without an explicit fiscal anchor.** Early in the pandemic, to allow for the needed increase in spending, the authorities repealed the debt rule which capped public sector debt at 60 percent of GDP. In the context of their FY2021/22 budget preparation, the authorities announced intentions to reduce the public debt-to-GDP ratio to 80 percent in 2025 and below 70 percent in 2030. However, the size and path of the underlying medium-term fiscal adjustment were not clear given the lack of a binding debt rule.

Public DSA Risk Assessment

7. **Public debt risks remain elevated.** The baseline is particularly vulnerable to contingent liability shocks affecting the financial sector, and the Central Bank balance sheet. Ten upper-bound early warning thresholds are crossed, compared to eleven in the previous DSA. As in the previous DSA, all upper-bound thresholds for the debt level and gross financing needs are breached, and the lower-bound threshold is breached for external financing requirements and public debt held by non-residents. Unlike in the previous DSA, the lower-bound threshold for the change in the share of short-term debt is not breached, but the lower-bound threshold for foreign currency debt is now breached. Gross financing needs are susceptible to combined macro-fiscal and contingent liability shocks. These risks are mitigated somewhat by preponderance of domestic debt at longer maturities.

Realism of the Baseline Scenario

8. **The baseline assumptions of the current DSA are consistent with the macroeconomic framework underlying the staff report for the 2022 Article IV consultation (see main text).** The key assumptions under the current and previous DSA are shown in Text Table 2. Figure 3 assesses the realism of the baseline scenario for DSA purposes. The forecast errors in recent years for Mauritius' real GDP growth and the primary balance have been in line with those for other countries, while inflation has been under-forecasted.

Text table 2: Mauritius: Changes in Assumption for Current DSA Compared with June 2021 DSA

		2021	2022	2023	2024	2025	2026	2027
Real GDP Growth	Current DSA	4.0	6.1	5.6	4.1	3.3	3.3	3.3
	June 2021 DSA	5.0	6.7	4.0	3.5	3.3	3.3	n.a
Average Inflation	Current DSA	4.0	11.9	5.8	5.2	4.2	3.8	3.5
	June 2021 DSA	2.3	3.7	3.5	3.4	3.3	3.2	n.a
GDP Deflator	Current DSA	4.0	5.3	5.8	4.6	3.4	2.8	2.3
	June 2021 DSA	0.6	3.0	2.8	2.7	2.6	2.5	n.a
Borrowing Requirement*	Current DSA	-7.6	-3.9	-6.1	-5.2	-4.5	-4.0	-3.7
	June 2021 DSA	-8.4	-5.6	-6.7	-5.6	-4.9	n.a	n.a
Current Account Balance	Current DSA	-13.7	-13.5	-8.1	-5.3	-5.3	-5.0	-5.3
	June 2021 DSA	-15.6	-6.8	-6.6	-4.0	-4.5	-4.5	n.a

Source: IMF staff estimates and projections.
*Fiscal year (ex. 2021=FY2021/22)

- **Growth.** After falling dramatically in 2020, growth rebounded to 4 percent in 2021, although less than the projected 5 percent in the previous DSA. It is projected to further recover to 6.1 percent in 2022 and converge to slightly above 3 percent in the medium term.
- **GDP deflator and consumer prices.** Consumer prices are projected to increase significantly in 2022 by around 11.9 percent due to higher oil and food prices and the recovery in demand. The GDP deflator is projected to increase in 2022 and is higher than in the previous DSA.
- **Fiscal strategy.** The overall borrowing requirement is projected to improve in FY2021/22 and FY2022/23 on the back of the emerging economic recovery and quasi-fiscal and one-off operations, despite a temporary uptick in FY2023/24 due to the planned increase in pension spending.
- **Current Account.** The current account deficit will remain elevated in 2021-2022, but it is expected to decline to around 5 percent of GDP in the medium-term as the tourism sector recovers.

Baseline Scenario

9. The baseline scenario foresees a decline of public sector debt over the medium term, though room to absorb shocks remain limited. As the economy recovers from the pandemic and the fiscal position improves, public sector debt will decline to around 84 percent of GDP in the medium term. However, given the high level of projected debt, there is little room to absorb additional shocks. The adjustment to the cyclically-adjusted primary balance envisaged in the baseline is much greater than the median of past adjustments observed in other market-access countries (MAC) countries (Figure 3). This reflects the unprecedented shock to growth that Mauritius has experienced and the need for immediate fiscal stimulus when the pandemic struck.

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):

- **Growth shock**. Lower real output growth by one standard deviation relative to the baseline for two years starting in FY2022/23 would push debt up to 100.8 percent in FY2023/24, compared to 86.1 percent in the baseline. By FY2026/27, debt would be 97.2 percent, compared to 83.8 percent in the baseline.
- **Real interest rate shock.** An increase in sovereign risk premia by more than 200 basis-points starting in FY2022/23 would have limited short-term effects but would push debt up to 89.1 percent by FY2026/27, compared to 83.8 in the baseline.

- **Primary balance shock.** Fiscal slippage, in the form of a cumulative deterioration in the primary balance of about 4 percent of GDP over FY2022/23-FY2023/24, would push total debt up to 92.3 percent of GDP in FY2023/24 compared to 86.1 percent in the baseline.
- **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. The public debt-to-GDP ratio would pick at 112.7 percent by FY2023/24. The public debt-to-revenue ratio and public gross financing needs would also remain at an elevated level over the medium-term.
- **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 135.8 percent of GDP in FY2023/24 and remain elevated throughout the forecast period. Gross financing needs in FY2022/23 would spike to 56.2 percent of GDP, though would fall off rapidly in subsequent years.

11. The probability of debt exceeding 100 percent of GDP in the medium term is high. The distribution of risks presented in the asymmetric fan chart (Figure 5) shows tail risks, with probabilities of around 20 percent of debt exceeding 100 percent of GDP by the end of the projection window.

12. Mauritius faces several risks and challenges to fiscal sustainability. In the short term, a delayed recovery in tourism could lead to lower growth and exchange rate depreciation, pushing the nominal stock of external public debt higher. In the short to medium term, the monetary policy normalization may require the government to recapitalize the BOM to cover the sterilization costs which, although estimated at only 0.5 percent of GDP, should be monitored carefully. 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 to both GDP and debt. Weak public investment management could also jeopardize debt sustainability. In the longer term, population aging will put greater financial pressure on the country's pension system, and climate change shocks may make long-term growth more vulnerable.

Conclusion

13. Mauritius' public-sector debt is subject to notable vulnerabilities. Under the baseline scenario, public debt will remain elevated, reaching around 84 percent of GDP in the medium term. Moreover, public debt is highly vulnerable to a range of shocks.

14. To mitigate risks, public sector debt should be put on a downward path in the medium term. In the medium term, risks may rise due to the offshore financial sector and competitive challenges to exports and tourism. Risks appear even larger beyond medium term, due to ageing population combined with policy choices on pension generosity, and climate change risks. Recently Mauritius has been able to finance high deficits, albeit helped by the significant transfer from the BOM. However, the debt level is still high and, if unaddressed, will leave the country highly susceptible to shocks.

15. To reduce debt, fiscal reforms to raise revenue and contain spending, while safeguarding fiscal sustainability, will be necessary. The guiding principle for the fiscal framework should remain to further reduce the borrowing requirement through higher revenue mobilization and moderation in spending growth as the economy recovers from the pandemic. In pursuing this goal, reinstating fiscal rules through a recalibrated medium-term debt anchor would also be helpful to preserve fiscal and debt sustainability (selected issues paper). Should efforts be undertaken to recapitalize the central bank, which currently has negative net worth, such efforts would engender a tradeoff in pushing public sector debt levels still higher.

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

(In percent of GDP, unless otherwise indicated; data for fiscal years (e.g., 2018=FY2018/19))

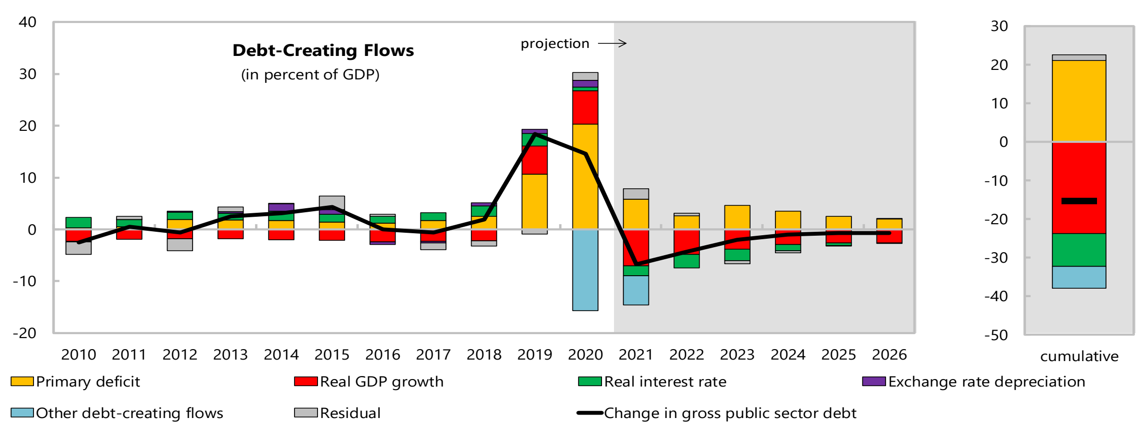
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	60.5	84.6	99.2	92.4	88.1	86.1	85.2	84.4	83.8
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	15.9	29.6	43.8	27.0	18.6	19.6	19.6	18.6	20.1
Net public debt	60.5	84.6	99.2	92.4	88.1	86.1	85.2	84.4	83.8
Real GDP growth (in percent)	3.7	-7.7	-7.3	8.0	5.9	4.8	3.6	3.3	3.3
Inflation (GDP deflator, in percent)	1.8	0.9	2.7	4.7	5.6	5.2	4.0	3.1	2.6
Nominal GDP growth (in percent)	5.6	-6.8	-4.8	13.1	11.8	10.2	7.7	6.4	5.9
Effective interest rate (in percent) [4/]	4.7	4.1	3.2	2.9	2.8	2.6	2.6	2.6	2.5

As of May 11, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	Baa2
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.0	18.4	14.6	-6.8	-4.3	-2.0	-1.0	-0.7	-0.7	-15.4	
Identified debt-creating flows	1.2	19.3	13.1	-8.8	-4.8	-1.4	-0.6	-0.6	-0.7	-16.9	
Primary deficit	1.5	10.7	20.3	5.8	2.6	4.6	3.5	2.5	2.0	21.1	-2.7
Primary (noninterest) revenue and grants	20.9	22.7	22.6	24.0	23.8	23.7	23.6	23.6	23.6	142.3	
Primary (noninterest) expenditure	22.3	33.3	42.9	29.8	26.4	28.3	27.1	26.1	25.6	163.4	
Automatic debt dynamics [5/]	-0.3	8.6	8.4	-8.9	-7.4	-6.0	-4.1	-3.1	-2.7	-32.3	
Interest rate/growth differential [6/]	-0.5	7.8	7.1	-8.9	-7.4	-6.0	-4.1	-3.1	-2.7	-32.3	
Of which: real interest rate	1.6	2.3	0.6	-1.9	-2.6	-2.2	-1.2	-0.5	-0.1	-8.5	
Of which: real GDP growth	-2.1	5.5	6.5	-7.0	-4.8	-3.8	-2.9	-2.6	-2.6	-23.8	
Exchange rate depreciation [7/]	0.3	0.9	1.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	-15.7	-5.7	0.0	0.0	0.0	0.0	0.0	-5.7	
Privatization/Drawdown of Deposits (+ reduces financing need)	0.0	0.0	-15.7	-5.7	0.0	0.0	0.0	0.0	0.0	-5.7	
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/]	-0.2	-0.9	1.5	2.0	0.5	-0.6	-0.4	-0.1	0.0	1.5	



Source: IMF staff.

1/ Public sector debt is defined as Central Government (CG) debt and guarantees 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 which to compare to international 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 $ae(1+r)$.

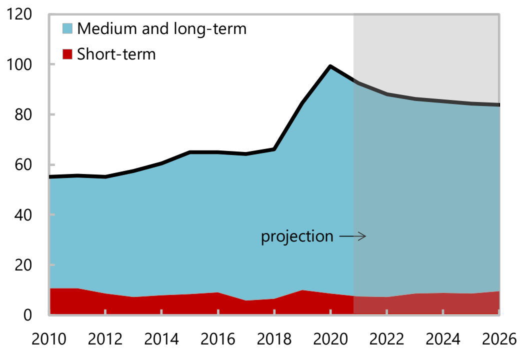
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

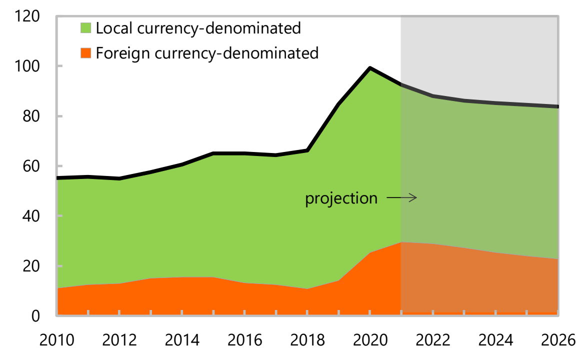
Figure 2. Mauritius: Public DSA – Composition and Alternative Scenarios
(data for fiscal years (e.g., 2018=FY2018/19))

Composition of Public Debt

By Maturity
(in percent of GDP)



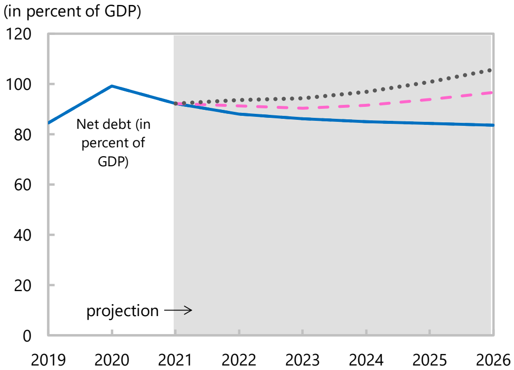
By Currency
(in percent of GDP)



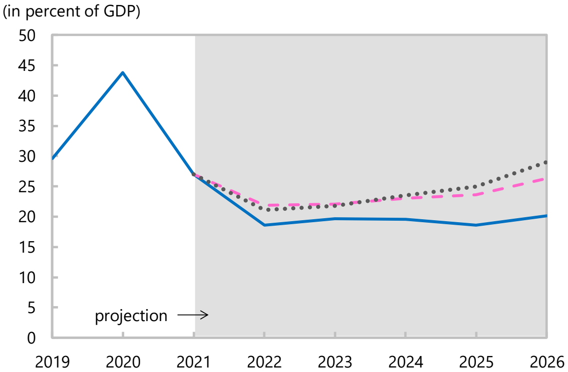
Alternative Scenarios

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	2021	2022	2023	2024	2025	2026
Real GDP growth	8.0	5.9	4.8	3.6	3.3	3.3
Inflation	4.7	5.6	5.2	4.0	3.1	2.6
Primary Balance	-5.8	-2.6	-4.6	-3.5	-2.5	-2.0
Effective interest rate	2.9	2.8	2.6	2.6	2.6	2.5
Constant Primary Balance Scenario						
Real GDP growth	8.0	5.9	4.8	3.6	3.3	3.3
Inflation	4.7	5.6	5.2	4.0	3.1	2.6
Primary Balance	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8
Effective interest rate	2.9	2.8	2.6	2.6	2.6	2.5

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	8.0	1.4	1.4	1.4	1.4	1.4
Inflation	4.7	5.6	5.2	4.0	3.1	2.6
Primary Balance	-5.8	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	2.9	2.8	3.4	3.8	4.3	4.6

Source: IMF staff.

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

(Data for Fiscal Years (e.g., 2018=2018/19))

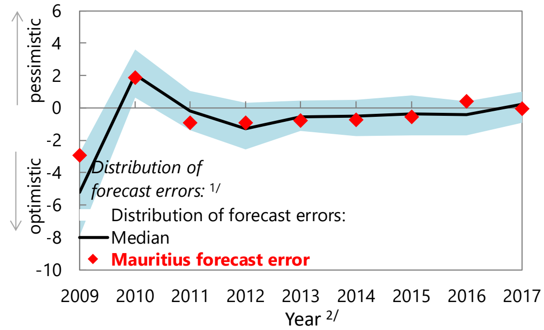
Forecast Track Record, versus all countries

Real GDP Growth

(in percent, actual-projection)

Mauritius median forecast error, 2009-2017: **-0.73**

Has a percentile rank of: **33%**

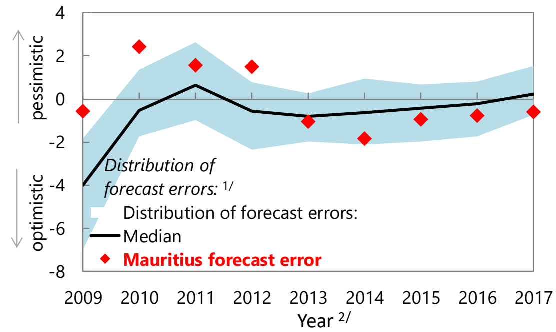


Primary Balance

(in percent of GDP, actual-projection)

Mauritius median forecast error, 2009-2017: **-0.59**

Has a percentile rank of: **48%**

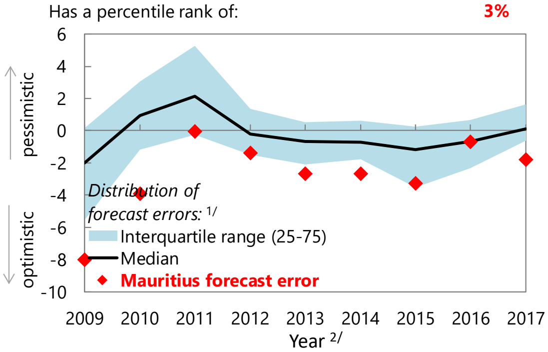


Inflation (Deflator)

(in percent, actual-projection)

Mauritius median forecast error, 2009-2017: **-2.68**

Has a percentile rank of: **3%**



Boom-Bust Analysis [3]

Not applicable to Mauritius

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/ Mauritius has had a cumulative increase in private sector credit of 20 percent of GDP, 2017-2020. For Mauritius, t corresponds to 2021; for the distribution, t corresponds to the first year of the crisis.

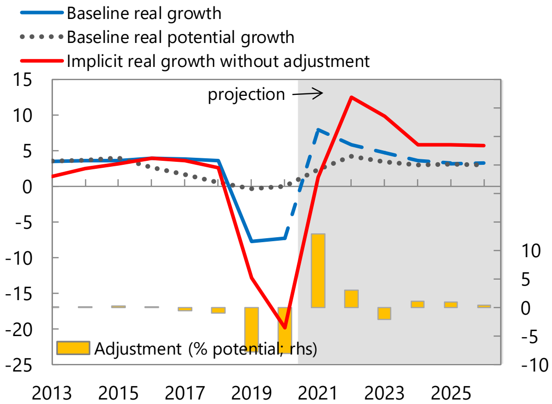
Figure 3. Mauritius: Public DSA – Realism of Baseline Assumptions (Concluded)

Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 1, persistence of 0.6

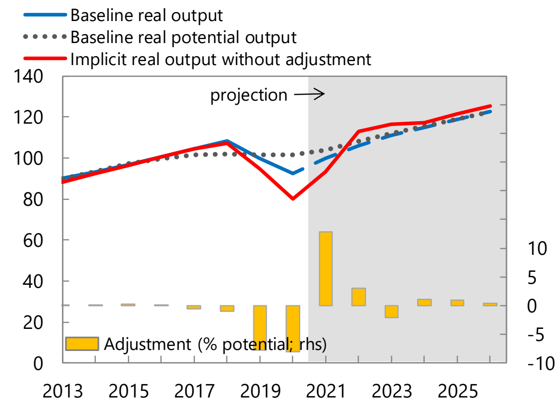
Real GDP Growth

(in percent)



Real Output Level

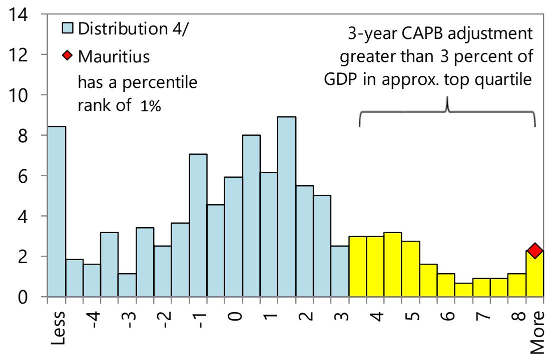
(Baseline real output in 2021=100)



Assessing the Realism of Projected Fiscal Adjustment

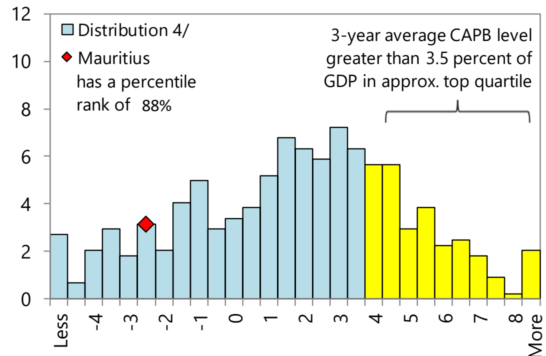
3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)

(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)

(Percent of GDP)



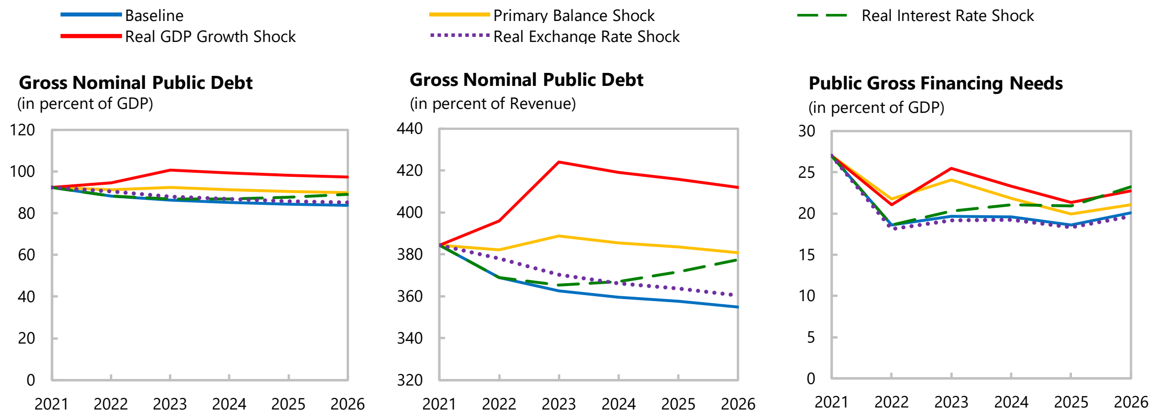
Source : IMF staff.

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

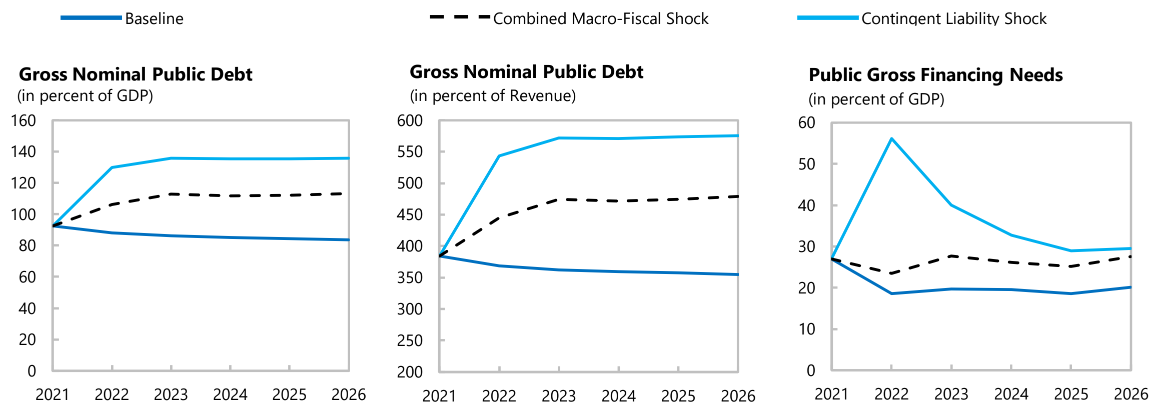
Figure 4. Mauritius: Public DSA – Stress Tests

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

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	8.0	5.9	4.8	3.6	3.3	3.3
Inflation	4.7	5.6	5.2	4.0	3.1	2.6
Primary balance	-5.8	-5.8	-7.8	-3.5	-2.5	-2.0
Effective interest rate	2.9	2.8	2.8	2.9	2.8	2.7
Real Interest Rate Shock						
Real GDP growth	8.0	5.9	4.8	3.6	3.3	3.3
Inflation	4.7	5.6	5.2	4.0	3.1	2.6
Primary balance	-5.8	-2.6	-4.6	-3.5	-2.5	-2.0
Effective interest rate	2.9	2.8	3.5	4.0	4.6	5.0
Combined Shock						
Real GDP growth	8.0	1.2	0.1	3.6	3.3	3.3
Inflation	4.7	4.4	4.0	4.0	3.1	2.6
Primary balance	-5.8	-5.8	-8.1	-3.5	-2.5	-2.0
Effective interest rate	2.9	2.9	3.3	4.0	4.5	4.9

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	8.0	1.2	0.1	3.6	3.3	3.3
Inflation	4.7	4.4	4.0	4.0	3.1	2.6
Primary balance	-5.8	-4.1	-8.1	-3.5	-2.5	-2.0
Effective interest rate	2.9	2.8	2.7	2.8	2.7	2.6
Real Exchange Rate Shock						
Real GDP growth	8.0	5.9	4.8	3.6	3.3	3.3
Inflation	4.7	14.3	5.2	4.0	3.1	2.6
Primary balance	-5.8	-2.6	-4.6	-3.5	-2.5	-2.0
Effective interest rate	2.9	2.9	2.5	2.4	2.4	2.4
Contingent Liability Shock						
Real GDP growth	8.0	1.2	0.1	3.6	3.3	3.3
Inflation	4.7	4.4	4.0	4.0	3.1	2.6
Primary balance	-5.8	-39.1	-4.6	-3.5	-2.5	-2.0
Effective interest rate	2.9	3.0	5.8	4.9	4.8	4.6

Source: IMF staff.

Figure 5. Mauritius: Public DSA Risk Assessment

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

Heat Map

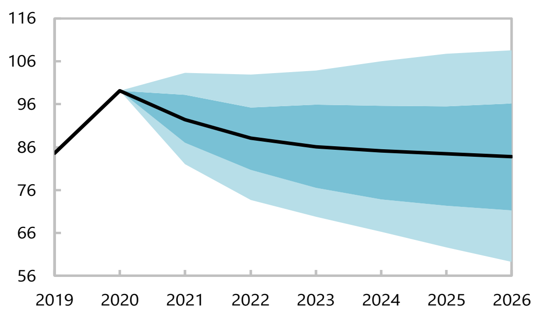
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	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

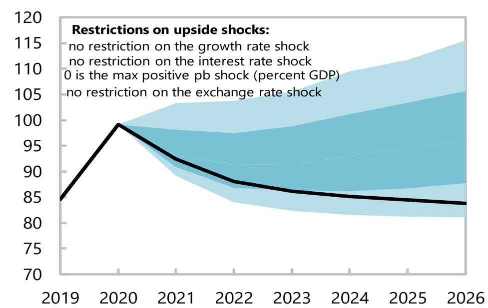
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution



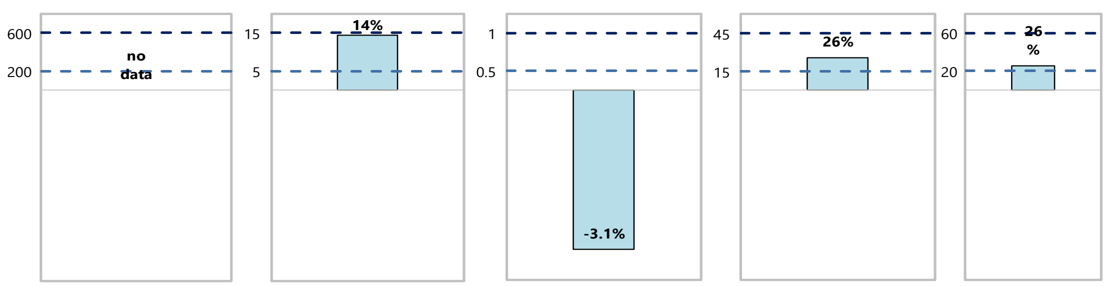
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)

Mauritius Lower early warning Upper early warning



Bond spread (in basis points) 4/

External Financing Requirement (in percent of GDP) 5/

Annual Change in Short-Term Public Debt (in percent of total)

Public Debt Held by Non-Residents (in percent of total)

Public Debt in Foreign Currency (in percent of total)

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 Sector Assessment[1]

The external position of Mauritius at end-2021 was substantially weaker than is consistent with the medium-term fundamentals and desirable policy settings. The overall current account deficit was at 13.7 percent of GDP in 2021 after 9.2 percent deficit in 2020. The assessment remains highly uncertain and reflects primarily a still depressed tourism sector in a tourism-dependent economy as well as Mauritius' traditionally very open economy and position as a financial center. The reserve adequacy assessment suggests that international reserves at end-2021 remain within the advisable range.

A. External Balance Sheet[2]

1. Background. Mauritius' net asset position declined by 39 percent in USD equivalent according to the available outturns for end-2020. The NIIP is equivalent to 151 percent of GDP in 2020 and recorded a decline from 193 percent in 2019. This reduction in net position was mostly due to an increase of foreign direct and portfolio liabilities of the GBC. At end-2020, direct investment accounted for 59 percent of total gross assets and 72 percent of gross liabilities while portfolio investment was about 28 percent of gross assets and 11 percent of liabilities.

2. Assessment. The external balance sheet remains volatile due to a large offshore GBC sector. Potential vulnerabilities posed by the gross liabilities (about 4100 percent of GDP in 2021) are expected to be mitigated by large external assets (about 4200 percent of GDP in 2021). However, given a potentially complex nature of transactions in the GBC sector, the authorities are advised to continue monitoring exposures of domestic banks to the liquidity risk, including due to large GBC deposits (about 120 percent of GDP). Given Mauritius' financial center status, authorities should carefully monitor developments in the GBC sector as well as the sensitivity of flows to changing financial conditions in foreign economies, which are the source and destination of the offshore sector flows. Authorities should also assess the potential direct and indirect exposure of Mauritius to flows that may be impacted by sanctions on Russia introduced in response to the war in Ukraine.

B. Current Account

3. Background. Mauritius' current account deficit expanded from 9.2 percent of GDP in 2020 to 13.7 percent of GDP in 2021. This large deficit continues to be driven primarily by the service balances due to suspension of tourism during the COVID-19 pandemic. The current account deficit is expected to be at 13.5 percent of GDP this year, before stabilizing at close to 5 percent of GDP in the medium-term. This still large deficit will be primarily driven by higher

[1] This assessment is based on the updated External Balance Assessment (EBA)-lite methodology incorporating an adjuster for the contraction in tourism balance, which is applied to correct the size of the current account gap.

[2] The External Sustainability (ES) approach appears unsuitable for the ESA and has not been applied, given a large offshore financial sector in Mauritius with large external asset and liability positions and a large positive Net International Investment Position.

commodity prices, including prices for food and oil, against the backdrop of the war in Ukraine and sanctions that affect supply of commodities in the global market. Service balance is expected to improve in the meantime as recovery in tourism continues.

4. Assessment. According to the EBA-lite current account model, Mauritius' external position at end-2021 was substantially weaker than is suggested by medium-term fundamentals and desirable policy settings. The current account gap is estimated at -13 percent of GDP, and the current account balance deviated from the norm of surplus equal to 1.9 percent of GDP. The substantial gap continued to be conditioned by the adverse supply shock to the tourism sector in a tourism-dependent economy with service balances declining from a surplus of 6.9 percent in 2019 before COVID-19 to -1.8 percent in 2021. Staff views this development as mostly transitory and as complicating the assessment of the external imbalances to be attributed to the medium-term structural factors.[3] It is expected that the current account gap will be substantially reduced as tourism continues to recover and commodity markets stabilize.

Table 1. Mauritius: EBA-lite Exchange Rate Assessment for 2021
(in percent of GDP)

	CA model	REER model
CA-Actual	**-13.7**	
Cyclical contributions (from model) (-)	0.2	
COVID-19 adjustor (+) 1/	2.9	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-10.9**	
CA Norm (from model) 2/	**1.9**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**1.9**	
CA Gap	**-12.8**	
o/w Relative policy gap	6.1	
Elasticity	-0.33	
REER Gap (in percent)	**38.9**	**26.1**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (3.5 percent of GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments.

[3] Some medium-term structural factors may be at play and affecting the current account gap non-trivially. The Article IV assessments prior to the pandemic pointed to a current account gap of -5.6 percent in 2017 and -7.4 gap in 2018.

C. Real Exchange Rate

5. Background. The real effective exchange rate (REER) depreciated by 8.5 percent year-on-year (y-o-y) in 2021. This was mostly owing to nominal depreciation of rupee, which weakened during this period by 10.1 percent relative to the USD and 7.1 percent relative to the Euro. This followed depreciation of REER by 8.3 percent in 2020 and cumulative appreciation of REER by 3.6 percent between 2015 and 2019.

6. Assessment. Based on the Current Account (CA) model and estimated current account elasticities, the CA gap implies an REER misalignment (overvaluation) of about 39 percent. Based on the Index of Real Effective Exchange Rate (IREER)-model, staff assesses that the exchange rate is overvalued by 26 percent compared to the level that is consistent with desired policies and fundamentals. The latter assessment is broadly consistent with the CA-model based assessment. However, it is subject to the same qualifications due to the impact of the supply side shock in the tourism sector, which persisted in 2021.

D. Capital and Financial Flows

7. Background. Mauritius maintains an open capital account with minimal capital controls.[4] In total, net international capital and financial flows increased substantially from 4.1 percent in 2020 to 26 percent in 2021.[5] This was mostly driven by massive inflows through financial and capital account in the GBC sector at 26.5 percent of GDP in 2021 (compared to inflows of 9 percent of GDP in 2020), while the domestic sector recorded net outflows at 0.6 percent of GDP in 2021 (compared to outflows of 4.9 percent in 2020). This net inflow stands out as unusually large and reflects that GBCs were not reinvesting resources brought to Mauritius as intensively as in previous years.

8. Assessment. The capital and financial account is likely to remain in surplus in the following years provided the GBC sector maintains operations as before the COVID-19 pandemic. The orderly operation and attracting new businesses in the GBC sector will likely be supported by Mauritius' successful exit from the FATF's list of jurisdictions under increased monitoring and analogous EU and UK AML/CFT lists. However, new risks may emerge due to sanctions imposed on Russia amidst the war in Ukraine.

E. Reserve Adequacy

9. Background. The exchange rate regime of Mauritius was classified as crawl-like in December 2020. In line with earlier Fund advice, the BOM accumulated international reserves through foreign exchange interventions in 2017–19. Consequently, the end-year stock of

[4] The Chinn-Ito index for Mauritius is 0.3.

[5] The estimates of the capital and financial flows are preliminary and based on the outturns for 3 quarters of 2021. They remain subject to heightened uncertainty due to particularly volatile non-GBC flows, which complicates predicting them for 2021Q4 and 2021.

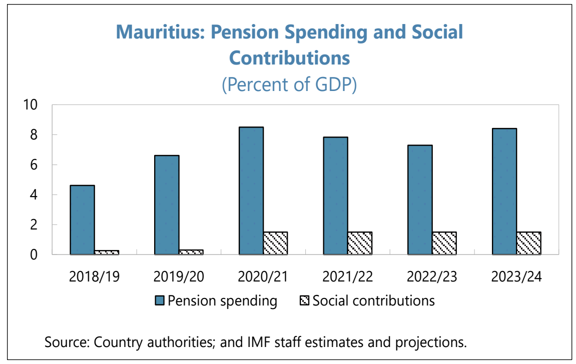
international reserves increased from US$4.9 billion at end-2016 to US$7.3 billion in 2019. In 2020 the reserves declined by 2 percent to US$7.2 billion (63 percent of GDP) and in 2021 they increased by 17 percent to US$8.5 billion. The BOM sold US$1.6 billion on a net basis in 2021 (compared to about US$1 billion in 2020). The key factors that more than offset the adverse impact of sales were the BOM's borrowing in FX from non-residents (US$0.8 billion) and a substantial increase in domestic banks' excess cash FX balances at the central bank (US$1.4 billion, including US$0.75 billion in the last two days of December 2021), which the BOM invested in foreign assets. The BOM's large FX interventions in 2020-21 took place amidst deterioration of the current account balance during the COVID-19 pandemic and limited nominal exchange rate flexibility.

10. Assessment. As in the earlier staff assessments (Country Reports 19/108 and 21/139), evaluation of reserve adequacy is based on the standard metric, which is augmented with a portion of the deposits of the global business companies (GBCs) held in non-systemic small and medium-sized banks. The augmented metric therefore incorporates the financial risks of disruptions to foreign currency funding of the GBC sector.[6] The stock of international reserves at end-2020 covered about 123 percent of the metric and about 120 percent of it at end-2021, and hence the coverage is within the advisable range. As noted in earlier assessments, the large size and complex structure of the GBC sector and its potentially non-trivial linkages with the domestic economy warrant stronger buffers against external shocks. Notably, increasing BOM's foreign reserves by deploying excess FX cash of domestic banks is not sustainable as is indicated by the reversal in January-April 2022.[7] Future opportunistic reserve accumulation may be desirable if interventions in the FX market remain consistent with the BOM's price stabilization monetary policy mandate and when the situation permits. Swap arrangements or credit lines with other central banks, as well as addressing the structural bottlenecks to boost competitiveness should also be considered going forward to allow for additional insurance mechanisms.

[6] The adequacy assessment excludes GBCs' other external liabilities, which are large and matched by their external asset holdings. However, if such liabilities were fully included in the metrics along with liabilities of domestic actors, the reserves coverage would drop well below the advisable level of above 100 percent.

[7] The assessment was cross-checked by adjusting the metric and reducing the reserves by the amount of the increase in excess FX cash deposits of banks in the BOM in the last two days of December 2021 (USD 0.75 billion). Further, two variants of the metric were calculated: (i) One variant assumed that the increase in excess FX deposits is fully due to the increase in GBC deposits, which banks did not immediately reinvest in foreign assets. Hence, the GBC deposits have to be decreased with the downward adjustment of official reserves (and therefore the metric—the denominator, and the reserves—the numerator—both decrease); (ii) The other variant assumed that the increase in excess FX deposits is not related to GBC deposits, but rather reflects that domestic banks closed positions in foreign assets and delayed opening new positions (in this case, the denominator is unchanged, while the numerator decreases). The reserve coverage is closer to the lower bound of the adequacy range in both variants: (i) 111 percent and (ii) 109 percent.

Annex IV. Pension System Sustainability



1. Mauritius' pension system is not sustainable on current policies. The system builds on two key schemes: (i) the basic retirement pension (BRP), a non-contributory system that pays benefits to all Mauritians aged 60 and older; and (ii) the *Contribution Social Generalize* (CSG), a contributory system introduced in FY2020/21, which is expected to pay benefits, starting in FY2023/24, to all persons aged 65 and older, in addition to the BRP benefit. The BRP at Rs9,000 per month already puts Mauritius among countries with the highest paid universal benefits in the world with respect to average wage (World Bank 2021). With the enactment of the CSG payments in FY2023/24, the combined pension expenditure is projected to reach 8.4 percent of GDP, while pension revenue will stand at 1.5 percent of GDP. This gap is expected to increase given that the Mauritian society is rapidly ageing, which will worsen the old-age dependency ratio and increase pension spending.

2. Several factors hinder sustainability of the pension system. An assessment by the World Bank finds that the BRP, which currently accounts for more than 50 percent of pension spending, is increasingly costly, poorly targeted, and creates adverse labor market incentives. The BRP is not pro-poor because the per capita amount received does not decline with a beneficiary's pre-tax income, rendering it less justifiable on poverty and equity grounds. As the BRP is paid to all Mauritians who reach the age of 60, it also encourages early retirement and adversely affects labor force participation. This lack of a link between contributions and benefits may create incentives for employers and employees to contribute to CSG as little as possible.

3. While politically difficult, there are several policy options that would help balance the pension system sustainability with benefit adequacy, in line with international best practice. These would require measures aimed at reducing pension expenditures and increasing pension revenue. They include: (i) gradually increasing the BRP eligibility age from 60 to 65, putting it in line with the age threshold for the contributory CGS benefits; (ii) keeping the BRP benefit fixed at the current Rs9,000 until it reaches 20 percent of average wage, which is the benchmark for poverty alleviation for non-contributories, and thereafter making it wage-indexed; (iii) narrowing the BRP targeting by offering it only to a subset of the elderly who are most in need; and (iv) reforming the *CSG* contributory system such that it collects contributions from workers and provide benefits only to contributors. These measures would gradually reduce the fiscal cost of the pension system, while providing adequate pensions in terms of poverty alleviation and wage replacement.

References

International Monetary Fund. 2021. Mauritius 2021 Article IV Consultation. IMF Country Report No. 21/139.

World Bank. 2021. Mauritius Country Economic Memorandum: Through the Eye of a Perfect Storm.

Annex V. Status of the 2021 Article IV Consultation Main Recommendations

Policy Area	Key Policy Recommendations	Status
Fiscal Policy and Debt Sustainability	The fiscal stance should remain accommodative in the near term, though consolidation will be necessary in the medium term. The authorities' significant fiscal expansion has been warranted by the pandemic. Once the country has moved past the crisis, revenue will need to be increased and spending reduced to put debt on a declining path. A successful adjustment will require addressing the burgeoning divergence between pension spending and revenue.	The FY2021/22 budget maintained the accommodative fiscal stance, while the headline deficit is projected to decline to about 7.6 percent compared to 23 percent in FY2020/21. A quasi-fiscal operation deployed MIC resources to reduce public debt. Credible revenue and expenditure measures are needed to put debt on a declining path in the medium to long term. The unsustainability of the pension system needs to be addressed: the disparity between pension spending and pension revenue is set to widen with the enactment of new benefit payments in FY2023/24 under the new CSG system introduced in FY2020/21.
Monetary Policy	Accommodative monetary policy should be maintained in the near term while preparing for the normalization of monetary and exchange rate policies. Effective monetary instruments need to be developed to guide the economy as it emerges from the crisis. The BOM law should be reformed, including to preempt further exceptional transfers to the government, in line with international best practices. Furthermore, staff recommended that the BOM relinquishes ownership of the MIC and that the financing of the MIC should be provided through the budgetary process. The exchange rate intervention strategy should be revised to support exchange rate flexibility, while smoothing extreme exchange rate volatility and ensuring market liquidity.	Short-term interest rates were kept at close-to-zero level, and policy stance remained accommodative throughout 2021. The BOM designed a new policy framework to be rolled over in 2022. The BOM drafted the new BOM Act, which will be sent to the IMF TA experts for consultations. The authorities aim to submit the new BOM Act to the National Assembly in September 2022. The MIC continues to operate and uses BOM resources. There are no clear plans for the MIC takeover by the government. The BOM continued interventions in the FX market based on the market clearing approach. The BOM is developing a new foreign exchange intervention (FXI) strategy and will receive TA on FXIs in 2022.
Financial Sector	Sector developments should be monitored, and loan classification standards maintained. Policies to assist distressed borrowers should be transparent, temporary, and targeted. The legal and operational frameworks need to be prepared for debt restructuring and possible bankruptcies to ensure speedy resolutions.	On average, capital adequacy remained substantially above benchmarks in 2021, the share of NPLs declined, and return indicators and provisioning for NPLs have improved. The amount of loans under service moratorium declined following voluntary unwinding, and the moratorium is due to expire on June 30th, 2022.
AML/CFT	The mission encouraged the authorities to continue their strong efforts to exit from the FATF and EU AML/CFT lists.	Mauritius successfully exited the FATF list in October 2021, and the EU and the UK soon followed suit removing the country from their listings.
Structural Reforms	Mauritius should sustain reforms to support its structural transformation to a strong and resilient growth path. Staff supports the authorities' commitment to enhance diversification, strengthen competitiveness, improve public sector procurement practices, and mitigate vulnerabilities to climate change.	The 2022 report of the National Audit Office continued to draw attention to lapses in procurement and deficiencies in the management of government projects. A comprehensive reform strategy to enhance diversification and strengthen competitiveness needs to be developed. Authorities' climate goals face financing constraints: to achieve the goals by 2030, the authorities would need to close a financing gap of around 1.6 percent of GDP per year on average.

Annex VI. Status of Implementation of Key 2015 FSAP Recommendations

Recommendation	Updated Status for 2022 IMF Staff Report
Banking Supervision and Regulation	
Conduct regular macroprudential solvency and liquidity stress tests.	Solvency and liquidity stress testing exercises are conducted quarterly; results are published bi-annually in the BOM's Financial Stability Report.
Establish a macroprudential body with a clear financial stability objective, and adequate enabling framework.	The BOM considers establishing the Financial Stability Committee within the Bank with the mandate of conducting macroprudential policy and maintaining financial stability in the banking sector. The existing Financial Stability Committee includes representatives of the BOM, FSC, and the Ministry of Finance and serves as a forum for discussing financial stability issues.
Improve monitoring and supervision of the GBC sector; seek significant consolidation of the management companies (MC) industry and raise its standards.	Reforms to Global Business were brought in 2018, with the abolishment of GBC 2s and the restyling of GBC 1s into GBCs. These reforms included implementation of Economic Substance and its monitoring. The focus on consolidation of the industry was pushed forward, as requirements to comply with international standards (BEPS and OECD) were adjudged to be of utmost importance. Grandfathering provisions for GBC2s will end on June 30, 2021. The GBC sector is being assessed for a complete structuring overhaul, implying a consolidation of the MC industry and supervision of the sector. The timeframe for the execution of new reforms is by the end of 2021.
Implement measures to ensure that banking system liquidity is not adversely affected by developments in the GBC sector and cross-border sectors.	Basel III *Liquidity Coverage Ratio* (LCR) has been implemented in 2017. Reporting requirements have been enhanced. Stress tests scenarios assess banking sector vulnerability to adverse developments in the GBC sector. Risk assessment of GBC deposits conducted and published in the Financial Stability Report (December 2021). Oversight of the liquidity risk was enhanced by adopting the risk-based supervision framework and coordinating with the FSC. The risk-based framework gathers information on funding risks, which largely meets the needs of the NSFR.
Financial Sector Oversight	
Establish a framework for conglomerate supervision, strengthen consolidated supervision, and develop a supervisory framework for D-SIBs.	The framework for conglomerate and consolidated supervision has been agreed between the BOM and the FSC, and joint on-site examinations are conducted. D-SIB framework is fully operational. Terms of Reference for the Lead Regulator and the list of financial conglomerates (falling under the purview of the BOM and the FSC) have been approved by the BOM and the FSC. Joint Co-ordination Committee Working Group on Financial Stability fine-tunes data collection returns.
Improve bank rating systems and develop more comprehensive remedial action program.	Enhancement of bank rating system is ongoing with the risk-based supervision framework. Comprehensive remedial action program is fully operational.

Recommendation	Updated Status for 2022 IMF Staff Report
Financial Sector Oversight	
Amend the law to facilitate conglomerate supervision, improve consolidated supervision, and strengthen the corrective actions toolkit.	Banking Act and BOM Act have been amended to improve conglomerate/consolidated supervision. As part of its corrective actions' toolkit, the BOM has issued instructions and directives to ultimate and intermediate financial holding companies incorporated in Mauritius. Such companies have at least one subsidiary or joint venture or such other ownership structure as the central bank may determine within the group that is a bank or a non-bank deposit-taking institution. Financial Services Act was amended in 2020 to allow collection of statistics from competent authorities or any other entity (e.g., ultimate and intermediate holding companies incorporated in Mauritius, which have, within the group, at least one subsidiary or joint venture, or such ownership structure as the FSC may determine, which holds a license under the relevant Acts issued by the FSC).
Financial Safety Net	
Modify the Banking Act to make the resolution framework more efficient.	The legal framework for resolution has been drafted with technical assistance from the IMF but not yet enacted. The updated draft will be sent to the IMF TA team for consultations. The new Banking Act is planned to be submitted to the National Assembly in September 2022.
Introduce an industry-funded deposit insurance scheme with powers to facilitate resolution.	Mauritius Deposit Insurance Scheme Act enacted in April 2019, but not yet proclaimed, and provides for the establishment of the Mauritius Deposit Insurance Scheme. The BOM is working on the operationalization of the Mauritius Deposit Insurance Company Limited.
Introduce, through changes in the current legal and regulatory framework, a comprehensive framework for crisis prevention and management.	Draft legislation for resolution, prepared with technical assistance from the IMF, is currently under review. A draft guideline on Recovery and Resolution Plan was issued to the industry for consultation. The draft is under review based on comments received, the draft legislation for resolution, and latest international standards and practices.
Note: The update is based on the information provided by the authorities.	

INTERNATIONAL MONETARY FUND

MAURITIUS

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 2, 2022

Prepared by The African Department

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2022)

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)	102.21	71.88
Reserve Tranche Position	40.05	28.17

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	233.10	100.00
Holdings	226.46	97.15

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				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest	0.02	0.04	0.04	0.04	0.04
Total	0.02	0.04	0.04	0.04	0.04

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

Implementation of HIPC Initiative: Not Applicable

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

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

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangement

The *de jure* exchange rate arrangement is floating. From May to December 2020, the Mauritius rupee stabilized against the US dollar, and it followed a depreciating trend within a 2 percent band thereafter, with one realignment in June 2021. Therefore, the *de facto* exchange rate arrangement was reclassified retroactively twice: (1) to "stabilized" from "floating", effective May 6, 2020, and (2) to "crawl-like" from stabilized", effective December 18, 2020. Mauritius continues to intervene in the foreign exchange market. Mauritius has accepted the obligations under Article VIII, Section 2(a), 3, and 4 and maintains an exchange system free of multiple currency practices, and restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account.

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation was completed by the Executive Board on June 21, 2021 (Country Report No. 21/139, June 2021).

Resident Representative: None.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

As of June 2, 2022, 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

I. Assessment of Data Adequacy for Surveillance (As of June 2, 2022)
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.
National Accounts: Statistical discrepancies between the expenditure and production measures of GDP remain substantial, both for the nominal and real estimates. Statistics Mauritius made notable progress updating supply and use tables, with capacity development support from STA and AFRITAC South. Progress has also been made in quantifying the Global Business Companies (GBCs) sector's contribution to GDP, which should address the discrepancies between expenditure and production measures of GDP: the BOM, Financial Services Commission (FSC) and Statistics Mauritius have established the working group that is expected to address the issue in 2022. Support has been provided through AFRITAC South to rebase the GDP estimates by June 2022 to the 2018 base year, and additional support will be provided in FY2023. Statistics Mauritius started dissemination of monthly index of industrial production in September 2021 and plans to start updating annual growth projections in every quarterly release of national accounts beginning in June 2022.
Price Statistics: Statistics Mauritius compiles and disseminates a monthly CPI using weights based on expenditure data collected during 2018. CPI compilation methods largely reflect international standards and best practice. However, the index coverage could be expanded to include owner occupied housing. Producer price indexes are compiled and disseminated monthly for agriculture and manufacturing. The weights for both indexes are derived from values of production in 2013 and should be updated. Also, there is need to expand PPI coverage to include services. The weights used for the quarterly import and export price indexes are derived from 2013 data and should be updated, too. In April 2021, a quarterly residential property price index (RPPI) was disseminated (covering the period from Q3:2014 through Q2:2019). Statistics Mauritius continues to benefit from technical assistance to review RPPI methods.
External Sector Statistics (ESS): The authorities should continue to strengthen their tracking of the GBC sector, particularly in the context of the elimination of GBC2s and the introduction of the authorized company classification. With support of the IMF TA and in collaboration with FSC and Statistics Mauritius the BOM works towards producing estimates for exports of special purpose vehicles (incl. GBCs).
Fiscal Statistics: The coverage of central government accounts is comprehensive, as is coverage of central government and state-owned enterprise debt, though the timely publication of fiscal data has been delayed during the pandemic. The authorities are taking steps to implement IPSAS. Progress should be accelerated towards the goal of implementing general government accounting which will require compilation of statement of operations for the non-financial public sector

entities. The authorities currently net out from total public sector debt the stock of government securities held by SOEs. To refine this consolidation exercise, it will be necessary to distinguish between public corporations (i.e., those producing and selling goods and services at market price) and state-owned entities that are part of government units (i.e., those producing and selling at non-market price).
Monetary and Financial Statistics (MFS): Progress has been achieved by the BOM in most areas of the collection, compilation, and dissemination of 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 continue to broaden 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. Mauritius reports data on several series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals.

II. Data Standards and Quality	
After participating in the GDDS since September 2000, Mauritius subscribed to the Special Data Dissemination Standard (SDDS) on February 28, 2012, becoming 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
June 2, 2022

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality-Methodological soundness[7]	Data Quality-Accuracy and reliability[8]
Exchange Rates	May 2022	5/2022	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April 2022	5/2022	M	M	M		
Reserve/Base Money	April 2022	5/2022	M	M	M	O, LO, LO, LO	O, O, O, O, LO
Broad Money	March 2022	5/2021	M	M	M		
Central Bank Balance Sheet	April 2022	5/2022	M	M	M		
Consolidated Balance Sheet of the Banking System	March 2022	5/2021	M	M	M		
Interest Rates[2]	March 2022	5/2022	M	M	M		
Consumer Price Index	April 2022	5/2022	M	M	M	O, LO, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	January 2022	5/2022	M	M	M	LO, O, O, O	LO, O, O, O, NO
Stocks of Central Government and Central Government-Guaranteed Debt[4]	Q1/2022	5/2022	Q	Q	Q		

Mauritius: Table of Common Indicators Required for Surveillance
June 2, 2022 (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	Q4/2021	3/2022	Q	Q	Q		
External Current Account Balance	Q4/2021	3/2022	Q	Q	Q	O, LO, LO, LO	LNO, LNO, LO, LO, NO
GDP/GNP	Q4/2021	4/2022	Q	Q	Q	O, LO, O, LO	L, O, LNO, LO, O
Gross External Debt	Q1/2022	4/2022	Q	Q	Q		
International Investment Position[5]	December 2020	9/2021	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 and domestic 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.

INTERNATIONAL MONETARY FUND

MAURITIUS

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By	African Department

On June 7, 2022, the government presented the FY2022/23 budget for consideration by Parliament. This supplement provides a summary of the main differences between the staff report and the draft budget. It reinforces the thrust of staff advice by underscoring the need for medium-term fiscal consolidation.

1. The FY2021/22 fiscal deficit is almost unchanged from the staff report. The authorities released revised fiscal projections for FY2021/22 as part of the FY2022/23 budget. Revenue, including grants, is 0.2 percent of GDP lower than in the staff report owing to a downward revision in non-tax revenue. Total expenditure is lower by 0.3 percent of GDP as compensation of employees, grants and transfers, other expense, and acquisition of non-financial assets were revised marginally down. This results in a decline in the overall borrowing requirement of 0.1 percent of GDP relative to the staff report.

2. The FY2022/23 fiscal deficit is expected to be higher than in the staff report by 1.9 percent of GDP. For revenues, staff has broadly maintained the revenue projections of the staff report, while revising non-tax revenue down by 0.3 percent of GDP as the budget envisages lower non-tax revenue than expected at the time of the mission. Higher revenue projections as envisaged in the budget would be subject to significant uncertainty and downside risks. For expenditure, staff has revised its projections for FY2022/23 in line with the budget, except for (i) compensation of employees for which staff's projection is higher than the budget, which shows a decline in nominal terms and (ii) acquisition of non-financial assets, for which staff's projection is lower than the budget and consistent with historical patterns. The budget envisages social spending measures that increase current expenditure by 1.4 percent of GDP relative to the staff report.

Key measures include increases in the basic retirement and other pensions that increase pension spending by 0.8 percent of GDP relative to the staff report, as well as increases in other social aid benefits and unspecified expenditure to protect the vulnerable (by 1.2 percent of GDP relative to the staff report) amidst rising living costs. As a result, staff's projection for the overall borrowing requirement increases from 3.9 percent of GDP in the staff report to 5.8 percent of GDP.[1]

3. Given the higher overall borrowing requirement in FY2022/23, staff envisages higher public sector debt in FY2022/23 compared with the staff report and the budget. Public sector debt is projected to reach 90.6 percent of GDP by end-June 2022 compared to 88.1 percent in the staff report (Text Table 1).

4. The rise in the FY2022/23 budget deficit relative to expectations reinforces the thrust of staff's fiscal policy advice about the importance of medium-term fiscal consolidation through credible revenue and expenditure measures. Staff recommends that the authorities increase the pace of fiscal consolidation in the post-pandemic period. Given the substantial increase in the public debt level compared to the staff report, staff expects public sector debt to reach 89.4 percent of GDP in FY2026/27 compared to 83.8 percent in the staff report. Stabilizing the debt-to-GDP ratio toward the proposed anchor of 80 percent will require a greater fiscal consolidation effort in the medium term. It will be important to reduce debt through credible revenue and expenditure measures rather than through quasi-fiscal measures, which can lead to expenditures being moved off-budget.

[1] The budget projects a lower overall borrowing requirement of 0.6 percent of GDP compared to the staff's projection of 5.8 percent due to differences in assumptions. The budget projects a higher nominal GDP than the staff report, more optimistic tax revenue assumptions, and higher receipts from sales of government assets. Moreover, the budget treats some SOE transfers as nontax revenue (above the line) whereas in the Fund's accounting treatment, reflected in the staff report, these transfers are a financing item (below the line).

Table 1. Mauritius: Revised Projections for Central Government
(In percent of GDP)

	2021/22		2022/23		
	Staff Report	Proj.[1]	Staff Report	Budget	Proj.[2]
Total revenue and grants	24.0	23.8	23.9	26.0	23.6
Domestic revenue	23.6	23.3	23.5	25.6	23.2
Grants	0.4	0.4	0.4	0.4	0.4
Total expense (current spending)	28.1	28.0	26.8	26.8	28.2
Net acquisition of non-financial assets (capital spending)	2.0	1.8	1.7	2.1	1.7
Budget balance	**-6.1**	**-6.1**	**-4.6**	**-2.9**	**-6.3**
Net lending/borrowing (special funds and other capital transfers)	-2.9	-2.9	-1.0	-1.1	-1.1
Consolidated balance	**-9.0**	**-9.0**	**-5.6**	**-4.0**	**-7.4**
Transactions in financial assets/liabilities	-1.4	-1.4	-1.7	-2.4	-1.6
Overall borrowing requirement	**-7.6**	**-7.5**	**-3.9**	**-0.6**	**-5.8**
Public sector debt	92.4	93.4	88.1	78.0	90.6

Sources: Country authorities and IMF staff estimates.

[1] Updated projections by staff based on new information from the authorities.

[2] Updated projections by staff, taking into account the draft budget for FY2022/23.