INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/139

MAURITIUS

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MAURITIUS

May 2024

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 2024 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 15, 2024, consideration of the staff report that concluded the Article IV consultation with Mauritius.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 15, 2024, following discussions that ended on February 21,2024, with the officials of Mauritius on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 29, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Mauritius.

The document listed below have 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

PR24/168

IMF Executive Board Concludes 2024 Article IV Consultation with Mauritius

FOR IMMEDIATE RELEASE

Washington, DC – May 16, 2024: On May 15, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Mauritius.

The economy has rebounded strongly from the pandemic on the back of buoyant tourism, social housing construction, and financial services. Supportive policies also facilitated the strong recovery, including fiscal measures. Real GDP growth reached 8.9 percent in 2022 and an estimated 7 percent in 2023—such that output has now exceeded its pre-pandemic level. Inflation has declined supported by lower international commodity prices, averaging 7 percent in 2023. The external current account deficit narrowed sharply in 2023 to 4.5 percent of GDP, reflecting a strong rebound in tourism earnings. Looking ahead, securing a sustainable and resilient economy presents challenges: fiscal and external buffers were eroded during the pandemic, and vulnerabilities to climate change and an ageing population loom over longer-term economic prospects.

The outlook is favorable, with real GDP growth projected at 4.9 percent in 2024 and around 3.5 percent in the medium term, in line with pre-pandemic growth. Headline inflation is projected to ease to 4.9 percent on average in 2024 and 3.5 percent thereafter, in line with the Bank of Mauritius' medium-term inflation target. The external current account deficit is expected to remain at 4.5 percent of GDP in 2024 and about 4 percent over the medium term. The fiscal stance in fiscal year 2023-24 is expected to be expansionary as revenue growth has decelerated and extra-budgetary spending for social housing construction increased. Public debt, estimated at 81 percent of GDP in June 2023, is projected to moderate over the medium term.

Risks to the outlook are on the downside, including from a deterioration in global growth, higher-than-anticipated fuel and food prices, and extreme climate events.

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

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Mauritius' strong economic recovery from the pandemic, which has been underpinned by the authorities' supportive policy response. While recognizing the favorable growth outlook, Directors stressed that challenges and downside risks remain. Against this backdrop, they called for continued prudent policies to rebuild fiscal and external buffers and for structural reforms to tackle challenges, particularly from climate change and an ageing population.

Directors agreed that a gradual and growth-friendly fiscal consolidation over the medium term is needed to rebuild fiscal buffers and further reduce public debt. They recommended mobilizing tax revenue and containing current spending, while safeguarding critical social spending to protect the most vulnerable. Directors called for reforming the pension system and for strengthening public financial management, including by streamlining extra-budgetary special funds. They welcomed the reinstatement of the public debt ceiling framework, which should be further strengthened.

Directors commended the new monetary policy framework, which has helped contain inflationary pressures. They agreed that the Bank of Mauritius (BOM) should stand ready to tighten the monetary policy stance should inflationary pressures reemerge. Directors called on the BOM to resume uncapped auctions to better align the interbank rate with the key policy rate. They encouraged further strengthening monetary policy transmission, including by enhancing the communication strategy. To help preserve the BOM's independence, Directors recommended amendments to the BOM Act and suggested exploring options to gradually phase out the central bank's ownership of the Mauritius Investment Corporation. Directors called for continued exchange rate flexibility and concurred that opportunistic foreign exchange purchases, consistent with the monetary policy framework, would help bolster foreign reserve buffers. They stressed the need for continued close monitoring of financial sector risks.

Directors agreed that embracing structural transformation is key to strengthening Mauritius' external position, securing resilient and sustainable long-term growth, and achieving high-income status. In particular, they encouraged boosting female labor force participation, addressing skill mismatches, fostering digitalization, and strengthening governance and anti-corruption frameworks. Directors recommended promoting external competitiveness and diversification, as well as enhancing climate-resilient infrastructure investment. They commended the strengthening of the AML/CFT framework and encouraged sustaining this progress.It is expected that the next Article IV consultation with Mauritius will be held on the standard 12-month cycle.

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

Mauritius: Selected Economic and Financial Indicators, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.					
(Annual percent change, unless otherwise indicated)											
National Income, Prices and Employment											
Real GDP	2.9	-14.5	3.4	8.9	7.0	4.9	3.7	3.5	3.3	3.3	3.3
Real GDP per capita	2.9	-14.6	3.6	9.1	7.0	4.9	3.7	3.5	3.3	3.3	3.3
GDP per capita (in U.S. dollars)	11,408	9,011	9,087	10,251	11,417	12,997	14,025	15,061	16,045	17,078	18,157
GDP deflator	-0.5	2.6	3.2	9.6	6.7	5.7	3.5	4.0	3.8	3.7	3.7
Consumer prices inflation (period average)	0.5	2.5	4.0	10.8	7.0	4.9	3.6	3.8	3.5	3.5	3.5
Consumer prices inflation (end of period)	0.9	2.7	6.8	12.2	3.9	5.1	4.0	3.6	3.5	3.5	3.5
Unemployment rate (percent)	6.7	9.2	9.1	6.8	6.3	6.3	6.3	6.3	6.3	6.3	6.3
(Annual percent change)											
External Sector											
Exports of goods and services, f.o.b.	-5.9	-41.3	3.4	56.7	9.9	13.3	7.9	8.3	5.8	4.3	4.3
Of which : tourism receipts	-5.9	-73.8	-23.8	313.1	29.7	12.0	6.7	6.9	6.0	5.7	5.5
Imports of goods and services, f.o.b.	-2.2	-29.1	16.0	32.9	-0.2	12.3	4.1	6.4	5.0	4.5	3.9
Nominal effective exchange rate (annual average)	0.0	-8.5	-8.7	3.0	1.2	...	...	...	...	...	...
Real effective exchange rate (annual average)	-2.2	-8.1	-8.3	5.6	2.3	...	...	...	...	...	...
Terms of trade	0.9	4.4	-11.3	-4.6	8.1	2.2	0.5	1.0	0.9	0.7	0.5
Money and credit											
Net foreign assets	13.5	16.4	18.6	-3.6	-0.3	2.4	0.5	1.6	1.7	1.3	1.4
Domestic credit	6.1	7.9	15.6	13.1	9.7	7.4	7.3	7.2	6.8	6.7	6.8
Net claims on government	-3.8	8.8	34.8	24.6	26.1	10.6	10.9	9.1	8.1	7.8	8.1
Credit to non-government sector	17.1	2.7	0.4	0.7	8.5	7.1	7.3	7.6	7.2	7.1	7.1
Broad money	6.2	17.7	8.6	4.1	7.8	8.3	8.9	9.3	8.9	8.8	8.8
Income velocity of broad money (M2)	1.1	0.8	0.8	0.9	1.0	1.0	1.0	1.0	0.9	0.9	0.9
(Percent of GDP, unless otherwise indicated)											
Central Government Finances [1]											
Overall borrowing requirement [2]	-12.7	-22.1	-5.4	-4.7	-5.2	-5.4	-4.4	-4.1	-3.7	-3.8	-4.0
Primary balance (excluding grants)	-9.5	-16.5	-4.9	-2.7	-2.9	-3.1	-2.0	-1.7	-1.3	-1.3	-1.3
Revenues (incl. grants)	22.1	21.6	24.1	24.3	24.2	23.3	23.0	23.2	23.2	23.2	23.2
Expenditure, excl. net lending	33.5	40.4	31.0	29.2	28.9	28.4	27.3	27.3	27.0	27.1	27.2
Domestic debt of central government	63.6	67.5	61.7	56.9	53.7	54.3	55.1	55.5	55.6	55.8	56.5
External debt of central government	9.3	15.8	14.0	13.7	14.2	13.9	13.6	13.5	13.5	13.4	13.1
Investment and Saving											
Gross domestic investment	19.4	18.2	19.8	20.4	23.3	23.3	22.8	22.4	22.1	21.9	21.7
Public	5.2	4.1	4.1	3.9	6.2	7.0	6.9	6.9	6.9	6.9	6.9
Private [3]	14.2	14.1	15.7	16.5	17.1	16.3	15.8	15.5	15.2	15.0	14.8
Gross national savings	21.5	19.7	21.6	26.3	31.3	31.4	29.4	29.2	28.9	28.9	29.1
Public	-3.3	-7.9	-5.6	-2.0	-1.5	-1.7	-1.6	-1.3	-1.2	-1.1	-0.7
Private	24.8	27.6	27.1	28.3	32.8	33.2	31.0	30.5	30.1	30.1	29.8
External Sector											
Balance of goods and services	-14.6	-18.7	-24.9	-23.6	-17.6	-17.0	-15.1	-14.3	-13.8	-13.6	-13.2
Exports of goods and services, f.o.b.	36.4	27.1	27.8	38.7	38.2	38.0	38.0	38.4	38.1	37.4	36.7
Imports of goods and services, f.o.b.	-51.0	-45.8	-52.7	-62.3	-55.8	-55.1	-53.1	-52.7	-51.9	-51.0	-49.8
Current account balance	-5.0	-8.8	-13.0	-11.1	-4.5	-4.5	-4.3	-4.1	-4.1	-4.1	-4.1
Capital and financial account	11.9	4.0	24.3	8.2	0.4	6.6	6.3	6.0	5.8	5.7	5.6
Overall balance	7.2	-3.7	11.3	-2.4	-3.4	2.1	2.0	1.8	1.7	1.6	1.5
Total external debt	88.9	110.7	134.0	132.0	128.9	119.8	112.3	105.4	99.6	93.8	88.4
Gross international reserves (millions of U.S. dollars)	7,354	7,242	7,805	7,740	7,254	7,604	7,954	8,304	8,654	9,004	9,354
Months of imports of goods and services, f.o.b.	16.9	14.3	11.6	11.6	9.6	9.7	9.5	9.5	9.5	9.5	9.5
Memorandum items:											
GDP at current market prices (billions of Mauritian rupees)	512.1	448.9	478.8	571.2	651.7	722.7	775.3	834.3	894.4	958.0	1,026.1
GDP at current market prices (millions of U.S. dollars)	14,436	11,408	11,484	12,928	14,397	16,388	17,683	18,988	20,226	21,526	22,883
Public sector debt, fiscal year (percent of GDP)[4]	81.1	91.9	85.9	81.2	78.3	78.3	78.3	78.1	77.6	77.3	76.9
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa2	Baa3	Baa3	...	...	...	...	...	...

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.

[4] The public debt series has been reclassified starting in the 2024 AIV Mission to allow consolidation of central government securities held by non-financial public corporations.

INTERNATIONAL MONETARY FUND

MAURITIUS

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 29, 2024

KEY ISSUES

Strong Recovery and Challenges. Mauritius has rebounded strongly from the pandemic on the back of buoyant tourism, social housing construction, and financial services. Supportive policies facilitated the strong recovery, but challenges remain for securing a sustainable and resilient economy: (i) fiscal and external buffers were eroded during the pandemic, and (ii) vulnerabilities to climate change and an ageing population loom over the medium- to long-term economic prospects.

Outlook and Risks. The outlook for growth remains favorable, headline inflation is projected to ease further, and public debt is projected to continue moderating over the medium term. Risks to the outlook are on the downside, including from a deterioration in global growth, higher-than-anticipated fuel and food prices, and extreme climate events.

Policy Advice. The macroeconomic policy mix should be recalibrated to rebuild fiscal and external buffers and maintain financial stability. Achieving high-income status will require continued structural reforms to promote competitiveness and economic diversification. Key recommendations include:

- Rebuild fiscal buffers and reduce public debt via a gradual and growth-friendly consolidation that contains extrabudgetary spending in the near term while protecting the most vulnerable. To enhance resilience to shocks, foreign reserves should also be bolstered.
- Strengthen the effectiveness of the new monetary policy framework and stand ready to tighten the monetary policy stance should inflationary pressures reemerge. With the Mauritius Investment Corporation (MIC) transitioning from a pandemic support initiative to a longer-term development function, consider options for the central bank to gradually phase out its ownership of MIC. Promptly adopt amendments to the Bank of Mauritius Act to protect central bank independence and reinforce the credibility of the monetary policy framework.
- Continue to closely monitor financial sector risks, including of global business companies operating in the Mauritius International Financial Center, and sustain AML/CFT compliance.
- Advance structural reforms, including those that bolster skills in the domestic labor market and support female labor force participation, foster digitalization, and enhance climate-resilient infrastructure investment.

Approved By
Andrea Richter Hume (AFR) and Fabian Bornhorst (SPR)

Discussions took place in Mauritius between January 9 and January 18, 2024, and continued virtually up to February 21, 2024. The team comprised Ms. Mariana Colacelli (head), Ms. Concha Verdugo Yepes, and Messrs. Salifou Issoufou and Félix Simione (all AFR). Mr. Azar Sultanov (RES) and Ms. Silvia Nunez (SPR) joined analytical presentations. Mr. Kelvio Carvalho da Silveira (OED) also joined the meetings. The mission met with the Minister of Finance, Economic Planning and Development Dr. Renganaden Padayachy, Governor of the Bank of Mauritius Mr. Harvesh Seegolam, Deputy Prime Minister and Minister of Housing and Land Use Planning and Minister of Tourism Mr. Louis Steven Obeegadoo, Minister of Financial Services and Good Governance Mr. Mahen Kumar Seeruttun, Minister of Gender Equality and Family Welfare Ms. Kalpana Devi Koonjoo-Shah, other senior government officials, as well as representatives of the private sector, opposition leadership, civil society, academia, and international development partners. Mr. Hatem Alsokhebr and Mmes. Vaishali Ashtakala, Danielle Bieleu, and Elena Esbaile (all AFR) assisted in the preparation of this report.

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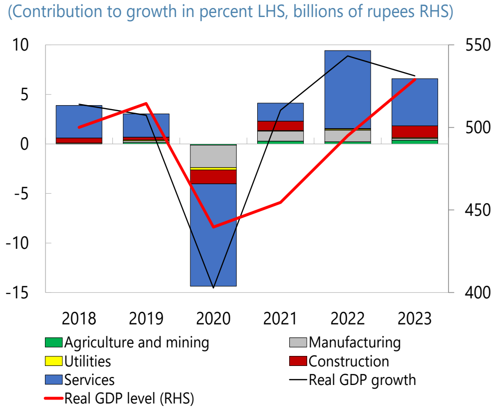
CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

1. Over the past decades, Mauritius has had a strong economic track record. Inequality and other social indicators have improved, reflecting robust growth and public social programs.[1] The authorities have focused on reaching the high-income country status while fostering inclusive growth by protecting households impacted by the rising cost of living since 2022, broadening social benefits to the most vulnerable, and fostering entrepreneurship. Looking forward, structural challenges—notably an ageing population and vulnerability to climate change—confront Mauritius in pursuing its goal of further diversifying the economy and moving up the value chain. Elections are planned to take place by early 2025.

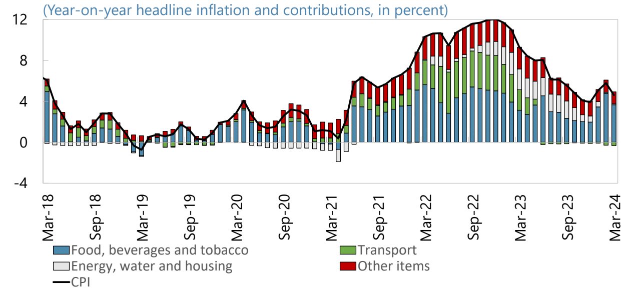
2. The economy rebounded strongly from the pandemic. Real GDP growth reached 8.9 percent in 2022 driven by rebounding tourism and manufacturing. Rapid growth was sustained in 2023—estimated at 7 percent—such that output has now exceeded its pre-pandemic level. Buoyant tourism, social housing construction, and continued strong performance of transport and financial services supported growth. Total unemployment fell to 6.3 percent in the third quarter of 2023, its lowest level in 27 years, while youth unemployment declined to 17.8 percent (from 25 percent in the fourth quarter of 2022). Inflation and inflation expectations fell during 2023, supported by lower international commodity prices. Headline inflation averaged 7 percent in 2023 and moderated to 4.9 percent in March after an uptick in early 2024 due to higher food prices. As of February 2024, one-year-ahead inflation expectations were 6.1 percent.

Growth and Inflation

Real GDP Now Exceeds Its Pre-pandemic Level[1]
(Contribution to growth in percent LHS, billions of rupees RHS)



Inflation Fell During 2023
(Year-on-year headline inflation and contributions, in percent)

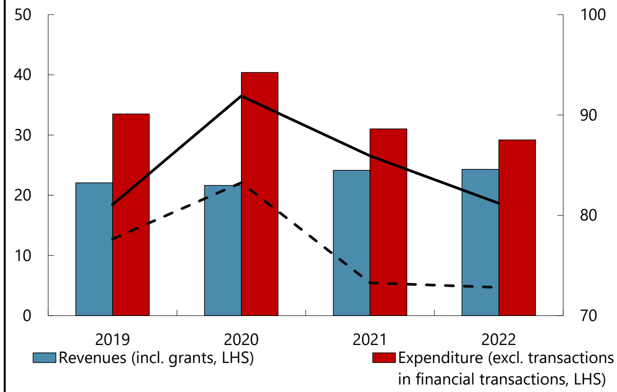


Sources: Country authorities and IMF staff calculations.
1/ Services include financial and insurance activities, wholesale and retail trade, transport and information/communication, accommodation, and food service activities, etc.

[1] The income Gini coefficient decreased from 0.392 in 2017 to 0.304 in 2022; "Building Bridges: Reducing Inequalities through Government Intervention" by Maurice Stratégie (2023).

3. While fiscal policy was expansionary during the post-pandemic period, fiscal imbalances narrowed and public debt declined in fiscal year (FY) 22/23, in line with recommendations of the 2022 Article IV Consultation (Annex V). The primary fiscal deficit (excluding grants) was halved to 2.7 percent of GDP in FY22/23, supported by contained spending. Including net spending by extra-budgetary special funds (ESFs), the augmented primary fiscal deficit was 3.3 percent of GDP (5 percent in FY21/22). While COVID-19 measures were unwound in FY22/23, current spending remained above pre-pandemic levels as new social measures were introduced to mitigate the impact of high inflation on households, notably the *Contribution Sociale Généralisée* (CSG) income allowance scheme (0.6 percent of GDP), and housing subsidies (0.3 percent of GDP) were extended. In terms of financing, as planned sales of public assets did not materialize, the overall borrowing requirement (4.7 percent of GDP) was about 4 ppt of GDP larger than anticipated in FY22/23. Financing needs were covered by a US$250 million budget loan from the African Development Bank (1.4 percent of GDP) and higher domestic borrowing. On the back of strong economic growth, the public sector debt-to-GDP ratio continued to decline, reaching 81.2 percent of GDP in June 2023 from its peak of 91.9 percent in June 2021.

Fiscal Revenues, Expenditure and Financing Needs[1]
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.
1/ The data refer to fiscal year.

4. The monetary policy stance was accommodative in 2023. The implementation of the BOM's new monetary policy framework (launched in January 2023), with enhanced features related to operations and forecasting, helped remove excess liquidity from the system in H1 2023 but less so in H2 2023. The BOM has held the key policy rate at 4.5 percent since December 2022, amounting to a negative key real policy rate in 2023 (as average inflation was 7.0 percent). The interbank (market) rate aligned with the BOM key policy rate during H1 2023 as intended by the new framework. However, it declined in H2 2023 to around 3.1 percent, significantly below the key policy rate, as BOM's open market operations remunerated at 4.5 percent have been limited since mid-2023.

5. The external current account deficit narrowed sharply in 2023. A strong rebound in tourism earnings, higher net income from portfolio investment, and a lower commodity import bill helped reduce the current account deficit to 4.5 percent of GDP, from 11.1 percent in 2022. Meanwhile, the real effective exchange rate appreciated by 2.3 percent, driven by Mauritius' relatively higher inflation than trading partners.

6. Financial sector risks are contained. Risks to financial stability eased in H2 2023. While residential real estate prices increased sharply in the first half of 2023 (27 percent increase in Q2) they stopped increasing in Q3 (Panel Chart in paragraph 33). Housing credit growth slowed in H2 2023 after a period of fast growth (having peaked at 20 percent in February 2023), curtailing cyclical risks from recent housing credit dynamics. Banks' claims on central government-to-GDP ratio remains elevated at 20 percent. Bank loans' concentration in the corporate and households' sectors continued to decrease in 2023 (reaching 69.5 percent, from 74.5 and 71 percent in 2021 and 2022 respectively). Private sector credit growth rebounded to 8.5 percent in 2023, up from 0.7 percent in 2022. The share of non-performing loans (NPLs) in the overall financial sector increased to 5.8 percent in Q3 2023 from 4.9 percent at end-2022. Capital ratios of the banking system were substantially above benchmarks as of September 2023, and return indicators and provisioning for NPLs improved in 2023. The net open FX positions of banks have slightly increased (from 1.7 to 1.9 percent of Tier 1 Capital) but remain well below the regulatory limit of 15 percent. In February, BOM placed Silver Bank (under 2 percent of total system rupee deposits) under conservatorship, to protect and recover its assets.

7. The BOM has an adequate range of macroprudential tools to manage systemic risk (e.g., Loan to Value, Debt to Income, Liquidity Coverage Ratio, Capital Conservation Buffer, risk weights and sectoral macroprudential provisions). Additionally, BOM requires banks to adopt a series of regulations and frameworks to strengthen macroprudential policies, including under two Guidelines issued in December 2023: (i) Guideline on the classification, provisioning, and write-off of credit exposures requires banks to make additional macro-prudential provisions for household, construction, and commercial real estate loans; and (ii) Guideline on Net Stable Funding Ratio (NSFR) requires an enhanced liquidity risk management framework for the banking sector.

8. While linkages between Mauritius' global business companies (GBC) and the domestic banking sector are a source of vulnerability to financial stability, this exposure has been declining.[2] The share of GBCs' foreign exchange deposits in total foreign exchange deposits in the banking sector, has declined, from over 60 percent in 2015–19 to 48 percent at end-2023. The introduction of the Liquidity Coverage Ratio (LCR) in 2017 improved the capacity of the banking system to respond to shocks associated with the underlying volatility of GBC deposits, with FX LCR standing at 213 percent in September 2023.

Authorities' Views

9. The authorities stressed that the overall improvement of economic conditions was supported by bold measures taken by the government and the central bank. They noted that, thanks to support measures for the hotel industry, the accommodation sector has recovered, and tourist arrivals reached 1.3 million in 2023, close to pre-pandemic levels. They stressed that, despite higher international fuel and food prices, the budget deficit declined in FY22/23 and the debt ceiling was reinstated (at 80 percent of GDP) to anchor fiscal policy. The

[2] The GBC sector encompasses resident corporations operating in the Mauritius International Financial Centre that conduct most of their business outside Mauritius. The sector's direct economic contribution is estimated at 8.3 percent of GDP in 2023 and its total portfolio is estimated at US$705 billion (about 50 times GDP).

authorities assessed that, even though the key policy rate has been maintained at 4.5 percent, monetary conditions were broadly neutral by end-2023 as inflation had declined. They assess that financial sector stability risks are contained.

OUTLOOK AND RISKS

10. The outlook for growth remains favorable. In 2024, real GDP growth is projected at 4.9 percent—more modest than the authorities' projection of 6.5 percent—driven by construction (as major social housing and public transportation projects are ramped up) and the recovery of tourism to pre-pandemic levels. Real output is projected to be close to potential. Over the medium term, growth is projected at around 3.5 percent, in line with pre-pandemic growth, as the output gap fully closes.

11. Headline inflation is projected to ease to 4.9 percent on average in 2024, mainly reflecting international oil and food prices, while the temporary uptick in food prices in early 2024 was the result of cyclone damage to local agriculture. Over the medium term, with a closed output gap, inflation is projected at 3.5 percent in line with BOM's medium-term inflation target.

12. The external current account deficit is expected to remain at 4.5 percent of GDP in 2024 and about 4 percent over the medium term. Continued improvements in services exports are expected to outweigh higher imports associated with public infrastructure projects. Financial inflows, especially FDI, are expected to finance the current account deficit, with international reserves gradually increasing over the medium term to cover 9.5 months of imports.

13. The fiscal stance in FY23/24 is expected to be expansionary as revenue growth decelerates, while current spending remains relatively more rigid and extra-budgetary spending increases for social housing construction. The primary fiscal deficit (excluding grants) is projected to widen by 0.2 percentage point (to 2.9 percent of GDP), with the overall borrowing requirement increasing to 5.2 percent of GDP (from 4.7 percent in FY22/23). Including ESFs' net spending, the augmented primary fiscal deficit—used to assess the fiscal stance—is projected at 5.7 percent of GDP in FY23/24, compared to 3.3 percent in FY22/23, entailing a fiscal stimulus of 2.4 percent of GDP. A World Bank budget loan (US$250 million, 1.6 percent of GDP) is expected to help finance the budget. The fiscal stance is projected to turn contractionary in FY24/25 as ESF's net spending is expected to decline by 1.4 percentage points of GDP.

14. Based on the IMF's Sovereign Risk and Debt Sustainability Framework, Mauritius' overall risk of sovereign stress is assessed as high, albeit public debt is projected to decline further. After peaking at 92 percent of GDP in June 2021, public sector debt is projected to decline to around 78 percent in June 2024, slightly below the statutory ceiling. Under the baseline, the overall risk of sovereign stress is assessed as high on account of historical debt shocks, the level of debt projected at the end of the medium-term horizon, projected financing needs, contingent liabilities related to BOM's potential recapitalization needs and external debt, as well as risks emanating from population ageing and climate events (Annex II).

15. Risks to the outlook are tilted to the downside. A deterioration in global growth could depress tourism, while higher-than-anticipated fuel and food prices (due to spillovers from Russia's war in Ukraine and the conflict in Gaza and Israel) could exacerbate inflation, worsen the external position, and weaken the recovery (Annex I). Delays in recalibrating the macroeconomic policy mix to rebuild macroeconomic buffers ahead of elections would exacerbate risks. Extreme climate events could weaken tourism and damage local infrastructure, thus weakening growth. While a faster execution of the social housing project could boost growth, it could also increase pressures on inflation and the exchange rate.

Authorities' Views

16. The authorities agreed that, as the economy continues to recover, some challenges will need to be addressed over the medium term.

- They noted that the recovery has taken place amid external shocks, including high inflation in 2022 due to higher international fuel and food prices, and monetary policy tightening in advanced economies. They underscored that they expect inflationary pressures to moderate further and inflation to converge to the medium-term target.

- They stressed that policies in place will help boost exports and investment, supporting growth at 6.5 percent in 2024, including through construction of 8,000 social housing units by February 2025 and additional 4,000 in a second phase. They envisage growth around 5 percent in the medium term as projects are implemented to modernize and diversify the economy.

- The authorities flagged as main risks to the outlook the uncertainty related to global geopolitics and fragmentation, U.S. elections, and wars. On the upside, they noted that faster conclusion of new bilateral trade agreements—on which work is ongoing—would help boost growth and diversify exports in the medium term.[3] The authorities noted that they also contemplate a potential set of tail-risk events related to the evolving geopolitical landscape in the Middle East—where an escalation to a regional conflict involving major oil producers could further undermine global activity and trigger commodity price surges.

POLICY DISCUSSIONS

The macroeconomic policy mix should be recalibrated to rebuild fiscal and external buffers that were eroded during the pandemic and to maintain financial stability. Over the longer term,

[3] In December 2023, the authorities concluded the second round of negotiations on the new trade agreement (the Comprehensive Economic Partnership Agreement or CEPA) with the United Arab Emirates. Draft provisions relating to trade in goods and services—among other key areas—were agreed upon. This new agreement would add to the trade agreements with India and China, which became effective in 2021.

promoting economic diversification and relevant skills is essential, while fostering sustainable and inclusive private sector-led growth.

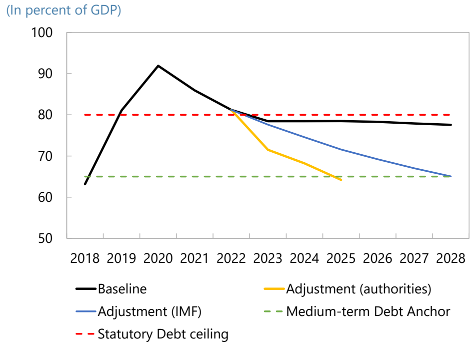
A. Rebuilding Fiscal Buffers While Protecting the Most Vulnerable

17. Gradual fiscal consolidation is needed to rebuild pre-pandemic buffers and contain inflationary pressures. As the economy is operating close to potential, containing the overall fiscal impulse (including extra-budgetary spending by ESFs and quasi-fiscal operations via the MIC) in FY23/24 and beyond will be important to support macroeconomic stability and contain inflationary pressures. This would also reduce potential monetary policy costs from sterilization to offset expansionary fiscal policy. In this context, the expected contractionary fiscal stance in FY24/25 is appropriate.

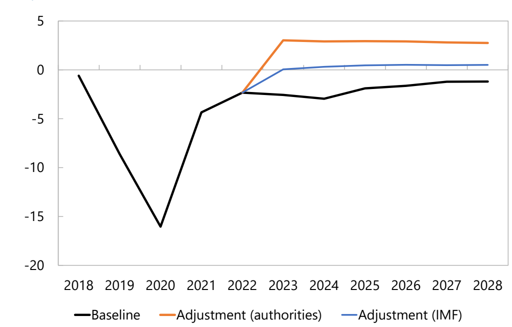
18. Over the medium term, fiscal policy should pursue growth-friendly fiscal consolidation to reduce public debt. The fiscal space is at risk and the authorities aim to reduce public debt to about 65 percent of GDP by mid-2026. While this level of public debt could be an appropriate anchor to ensure medium-term macroeconomic stability in the context of elevated global interest rates, achieving it within two years looks challenging—including due to its potential growth impact—as it would require fiscal adjustment of about 6.7 percent per year. A more gradual path, targeting achieving 65 percent in the public debt-to-GDP ratio by mid-2029, could be feasible and more growth friendly—implying a fiscal adjustment in the overall primary balance of about 2.3 percent of GDP per year on average, relative to staff baseline where debt ratio is close to 80 percent. This could be achieved through measures that increase tax revenue (+1 percent of GDP yield) and cut current spending (+1.3 percent of GDP savings), with options as detailed below.[4]

Scenarios for Fiscal Projections

Public Sector Debt under Different Scenarios
(In percent of GDP)



Overall Primary Balance Under Different Scenarios
(In percent of GDP)

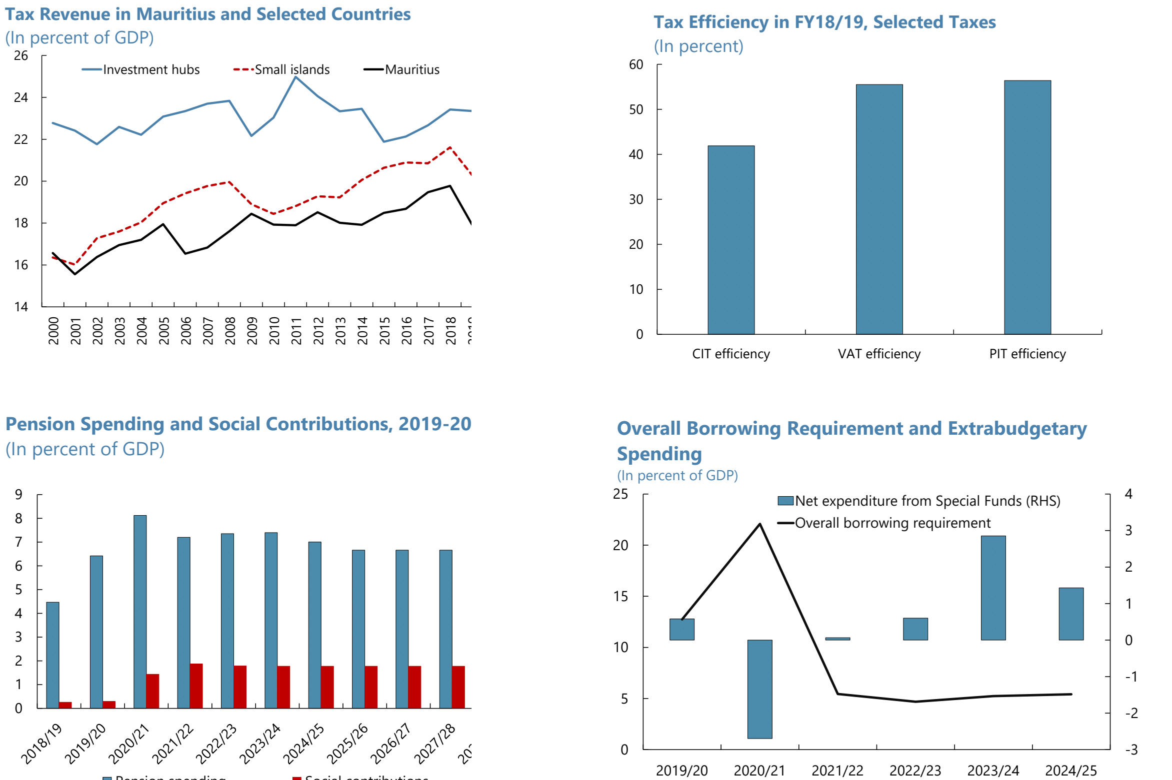


Sources: Country authorities and IMF staff calculations.

[4] The fiscal adjustment (of 2.3 percent of GDP per year) is the difference between (i) the fiscal primary balance under the IMF adjustment scenario (blue line in the RHS text chart) and (ii) the fiscal primary balance under staff baseline (black line). The adjustment could be achieved via higher revenue and lower spending (by 1.0 and 1.3 percent of GDP, respectively) in each of the projection years through mid-2029, compared to the baseline projection path.

19. Tax revenue should be increased, and current spending contained while ensuring that critical social spending remains protected.

Tax Revenues, Pension and Special Funds Spending[1]



Note: Extrabudgetary spending excludes Mauritius Investment Corporation.

Sources: Country authorities and IMF staff calculations and projections.
1/ Relevant comparators for Mauritius include investment hubs and small islands (nine countries for each group). Investment hubs are defined as countries with high ratios of foreign direct investment to GDP similar to Mauritius, while small islands are identified using the UN's Small Islands Developing States (SIDS) definition. The selected investment hubs comprise high-income countries, while the small islands group include mostly middle-income countries.

- Tax revenue in Mauritius—at 21 percent of GDP in FY22/23—is estimated to be at about 6 percent of GDP below its potential, based on cross-country analysis (Selected Issues Paper). Measures to increase tax revenues (and their expected yield) could include (i) removing zero-rating for VAT and reducing the VAT threshold (0.2 percent of GDP); (ii) lowering the minimum income tax paying threshold and increasing the top rates (0.8 percent of GDP); and (iii) streamlining the CIT exemption regime for offshore companies (3.5 percent of GDP for all tax expenditures in Mauritius, including CIT exemption).

- Current spending could be reduced. As growth has rebounded, unemployment has fallen, and inflation has receded, the authorities should consider a gradual and targeted phasing out of the CSG income allowance scheme (0.6 percent of GDP).[5] Housing and loan

[5] This is a temporary measure introduced in 2022 to support households amid the higher cost of living.

subsidies could also be streamlined to help preserve financial stability. These measures should be informed by appropriate targeting to ensure that vulnerable groups remain protected.

20. Pension system reform remains key to support fiscal sustainability, especially given the ageing of Mauritius' population. Reforms to shore up the sustainability of the system should be considered, such as: (i) gradually increasing the Basic Retirement Pension (BRP) eligibility age from 60 to 65—entailing potential savings of about 1.4 percent of GDP while targeting benefits to the most vulnerable elderly; (ii) keeping the Contribution Sociale Généralisée (CSG) pension benefits fixed at the current level over the medium term for those aged between 65 and 75—with potential savings of 0.4 percent of GDP, while keeping the BRP benefit fixed until it reaches 20 percent of average wage; and (iii) reforming the CSG to collect contributions from workers and provide benefits only to contributors.

21. Adjustments of domestic fuel prices in line with the existing automatic price mechanism have been implemented regularly and should continue. This will be important to protect fiscal space, while using targeted transfers to mitigate the impact of price increases on the most vulnerable, reducing the need for budgetary transfers to the State Trading Corporation (STC).[6]

22. Strengthening public financial management (PFM), including by streamlining ESFs, will support fiscal consolidation, transparency, and good governance. Mauritius ranks high regionally in the quality of PFM. Progress was made in rolling-out International Public Sector Accounting Standards (IPSAS). At the same time, there is room to strengthen the PFM system. The pre-appraisal stage of public investment is not yet fully in line with best international practices. Sizable off-budget spending conducted through extrabudgetary funds challenges the assessment of the fiscal stance. PFM could be enhanced further by: (i) standardizing the pre-appraisal preparation, assessment, and review of public investments to develop a portfolio of strategic, best public value, and commercially viable projects in line with IMF TA recommendations; (ii) strengthening financial reporting in line with IPSAS, including the planned publication in 2024 of consolidated statements of the public sector; and (iii) reviewing the scope of ESFs (with a view to reducing their number) and publishing ESFs' spending execution.

23. The new public debt ceiling framework can be strengthened by adjusting escape clauses for ceiling breaches. While escape clauses provide flexibility to address extraordinary events or shocks, existing clauses (for a natural emergency, a large Cabinet-approved investment, and an economic slowdown) could undermine the credibility of the public debt ceiling. The framework could be strengthened by defining the terms "natural disaster" and "economic slowdown" more precisely, and by dropping the clause on large public investments. The framework could be further enhanced by (i) introducing a medium-term debt target in the debt

[6] While the deficit in STC's Price Stabilization Account is small at 0.6 percent of GDP as of January 2024, it has increased from 0.3 percent at end-2021, and has motivated a budgetary transfer to STC of 0.04 percent of GDP in October 2023.

ceiling legislation, and (ii) adopting a short-term operational rule for the fiscal balance to achieve the medium-term debt target.

Authorities' Views

24. The authorities restated their commitment to rebuilding fiscal buffers and consider public sector debt to be sustainable. They noted that they expect continued revenue growth to help reduce the primary deficit (including grants and excluding net expenditures from ESFs) to 1.1 percent of GDP in FY23/24. They noted that Mauritius has never experienced sovereign stress and that their debt management strategy is prudent, ensuring favorable maturity and currency composition. They highlighted that they aim to keep public sector debt significantly below 80 percent of GDP in the medium term, targeting 65 percent by June 2026. They agreed that there is room to increase domestic revenue mobilization and noted that tax revenue could reach at least 25 percent of GDP. They consider that there is room to make the corporate income tax more progressive and mobilize more revenue from some specific sectors. The authorities also noted that they have taken preemptive measures to address any challenges from the potential implementation of the global minimum tax. They agreed that containing current spending would be important. However, they stressed that, given several shocks, protecting the vulnerable requires that critical social spending be maintained.

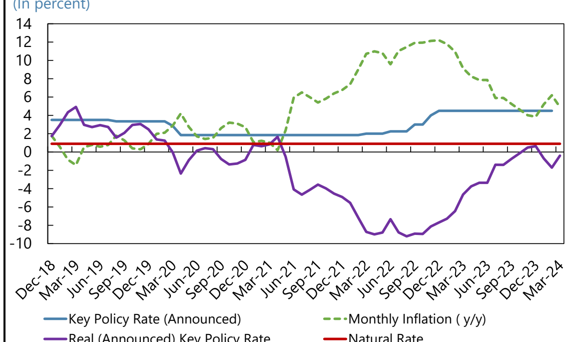
B. Managing Inflation Pressures, Strengthening the Effectiveness of the Monetary Policy Framework, and Rebuilding External Buffers

25. The BOM's new inflation-targeting framework has contributed to the containment of inflationary pressures. The framework in place since January 2023 has (i) a 2 to 5 percent inflation target range, with the aim of reaching 3.5 percent over the medium term, (ii) modernized operations, and (iii) a Forecasting and Policy Analysis System (FPAS) to support forward-looking monetary policy. The key policy rate is defined as the rate that BOM pays for 7-Day BOM Bills—which are used to manage excess liquidity—which has been at 4.5 percent since end-2022.

26. The BOM should remain vigilant and stand ready to tighten monetary conditions should inflationary pressures reemerge, maintaining forward-looking interest rate steering. Inflation has declined but Q1 2024 average inflation remains above BOM's target range (though is expected in range for 2024), while the monetary policy stance has remained accommodative. The real key policy rate (measured as the key policy rate minus inflation) has been negative since August 2021 but turned positive at the end of 2023 towards the natural rate (estimated at 0.9 percent).

Inflation and Interest Rates

(In percent)

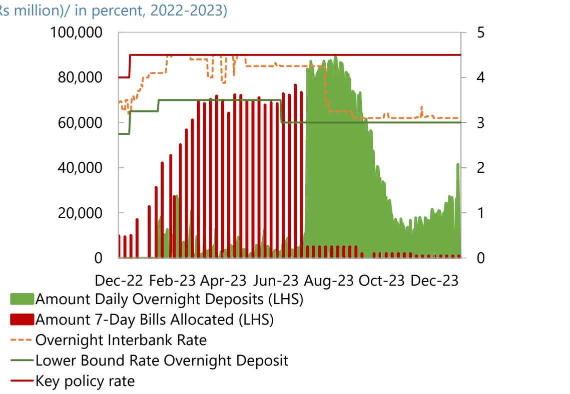


Source: Bank of Mauritius and IMF estimates.

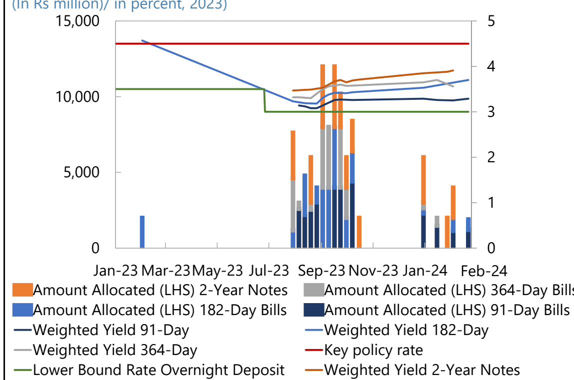
27. The implementation of the new monetary policy framework could be strengthened, including by resuming uncapped issuance of 7-Day BOM bills. During the first half of 2023, the BOM drained excess liquidity from the system such that the interbank (market) rate became aligned with the key policy rate of 4.5 percent as intended under the new framework. However, with the issuance of 7-Day BOM Bills capped in H2 2023 (to up to Rs 1,000 to 5,000 million per week), the *effective* key policy rate fell as indicated by the fall in the interbank rate to 3.1 percent, below the key policy rate of 4.5 percent and close to the 3.0 percent rate on the uncapped overnight deposit facility. (Issuance of BOM longer-term securities increased mid-2023, though at relatively low volumes.) To strengthen the effectiveness of the policy framework via a realignment between the key policy rate and the interbank rate, BOM should resume uncapped 7-Day Bill auctions (remunerated at the key policy rate).

Bank of Mauritius' Operations and Rates[1]

7 Days Bills vs. Overnight Deposits Facility
(In Rs million)/ in percent, 2022-2023)



Long Term Bills
(In Rs million)/ in percent, 2023)



Sources: Country authorities and IMF staff calculations.
1/ Since January 2023, an Overnight Deposit/Lending Facility is available to banks at the Key Rate (-/+) 100 basis points. Effective July 7, 2023, the Overnight Deposit/Lending Facility is available at the Key Rate (-/+) 150 basis points.

28. Prompt adoption of amendments to the BOM Act, including to ensure fiscal backing, would help protect central bank independence. The amendments should reinforce the credibility of BOM's inflation-targeting monetary policy framework by enabling smooth open market operations to implement its price and financial stability mandate.[7] A policy solvency assessment, together with a study of the BOM's operational costs compared with those in peer central banks, could provide guidelines to assess BOM's annual accounts. Any boosting of BOM capital by the government should be done in a manner that is consistent with the amendments to the BOM Act.

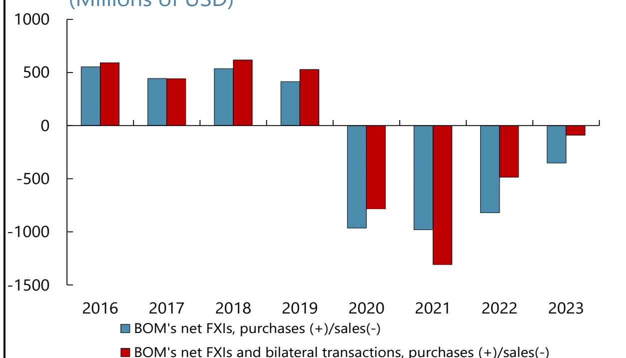
29. Monetary policy transmission could be strengthened, including via enhancements in the monetary policy communication strategy. With the introduction of the new monetary

[7] BOM is preparing amendments to the BOM Act that will help protect its financial independence, addressing issues including profit retention, automatic recapitalization, and limiting monetary financing. The IMF Legal Department is providing TA in this area.

policy framework (and unchanged key policy rate over the year at 4.5 percent), the savings deposit rate and the prime lending rate remained broadly stable—as opposed to activating the credit channel of monetary policy transmission as intended. Deeper analysis of the various channels of monetary policy transmission in Mauritius—including via the interest rate, credit, exchange rate, and expectations—could help fine tune BOM's policy framework. Additional enhancements of the BOM's monetary policy communication strategy, for example by announcing the schedule for monetary policy committee meetings, could also help strengthen monetary policy transmission.

30. Rebuilding external buffers would help enhance the resilience of the economy in the face of shocks. Against the backdrop of a widening interest rate differential with the U.S. over the recent Fed tightening cycle, BOM's net sales of FX contributed to smoothing excess volatility of the rupee. BOM's FX interventions (net sales) decreased to US$0.4 billion in 2023 compared to US$0.8 billion in 2022, reflecting reduced pressures in the FX market resulting from a strong rebound in tourism and higher inflows. Gross official reserves fell to US$7.3 billion (about 9.7 months of imports) at end-2023 compared to US$7.7 billion at end-2022. Using a modified IMF reserve adequacy metric (ARA), gross official reserves at the end-2023 amounted to 97.9 percent of the metric, near the lower bound of the recommended 100–150 percent range (Annex III). Continued exchange rate flexibility and FX purchases when opportunities arise—and in line with the monetary policy framework—will help bolster foreign reserves buffers and guard against external shocks. With inflation expected to be within the BOM target range in 2024 and continued improvements in the FX market, conditions are expected to be favorable in 2024 for a smooth adoption of BOM's new FXI strategy—under which BOM would intervene in the FX market only to avoid disorderly market conditions. Robust macroeconomic policy including rebuilding fiscal buffers and maintaining financial sector soundness, would help further boost external buffers.

BOM's Net FXIs and Bilateral FX Transactions
(Millions of USD)



Sources: Country authorities and IMF staff estimates.

31. The BOM should consider options to gradually phase out its ownership in the Mauritius Investment Corporation (MIC). MIC was created and financed by BOM in 2020-21—via transfers for Rs 81 billion or 17 percent of 2021 GDP—to support domestic systemically important firms and employment during the pandemic, and contain risks to the financial sector. As the economy has recovered, MIC's focus has shifted to diversifying its investment portfolio to achieve higher returns and supporting domestic economic development more broadly.[8]

[8] As of end-2023, MIC has invested Rs 52 billion (8 percent of GDP) in 52 entities in Mauritius.

- To help preserve BOM's independence to fulfill its price stability mandate and related conduct of monetary policy, alternative institutional arrangements for MIC might include MIC being placed (and funded) under a separate government entity from BOM, or with the private sector. Buying out BOM's full ownership of MIC (including MIC deposits equivalent to 4 percent of GDP) would entail a fiscal cost of 12 percent of 2023 GDP.

- In addition, MIC's commitment to uphold the Santiago Principles for Sovereign Wealth Funds would strengthen institutional safeguards of MIC to pursue the government's development goals. Nevertheless, potentially significant contingent liability risks to the central government from BOM's operations via MIC remain, and an independent audit of MIC's asset quality should be considered.

Authorities' Views

32. The authorities concurred that the monetary policy stance was broadly accommodative in 2023 but considered that it turned neutral from the end of 2023 as inflation is on a downward trend, and agreed on the importance of remaining vigilant to tighten the stance if inflationary pressures emerge.

- They noted that while the new monetary framework facilitated the withdrawal of excess rupee liquidity from the system in 2023, it did not work as expected as the savings deposit rate and the prime lending rate remained broadly stable (instead of increasing) and pointed to the long-standing disconnect between BOM's key policy rate and market rates.

- The authorities noted their commitment to a floating exchange rate regime and broadly agreed with the need to bolster external buffers, which they intend to achieve by opportunistically accumulating FX reserves when market conditions allow, with a goal to reach US$8 billion by end-2024. They appreciated staff's revised methodology used to compute the ARA metric, which better reflects Mauritius' robust liquidity risk management framework for the banking sector and in line with international norms, including FX liquidity risk.[9]

- The authorities expressed strong reservations against BOM withdrawing its ownership from MIC. They stressed that MIC plays a role in the investment strategy and diversification of BOM's portfolio, is performing well and has started to generate profits (0.4 percent of GDP per the 2022 MIC audited financial statements), and supports strategic domestic development. They also highlighted that BOM's policy actions are not affected by MIC operations. They noted that they have guided the design of MIC with the

[9] For example, the Guideline on Liquidity Risk Management includes a set of minimum standards that banks must adhere to when managing liquidity risk, with this guideline having been upgraded seven times since its introduction in 2000, with the most recent upgrade in 2023. Furthermore, besides investments in High Quality Liquid Assets (HQLA), banks hold significant deposits with banks abroad as supplementary liquidity buffers.

experience of other central banks that established investment corporations to manage public funds.

- The authorities noted that the BOM increased its capital from Rs 2 billion to Rs 10 billion in July 2020 and consider this to be sufficient. They aim to adopt amendments to the BOM Act in 2025, prepared with Fund assistance.

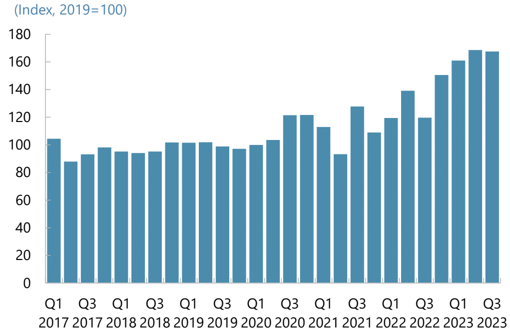
C. Strengthening Resilience and Managing Macro-Financial Risks

33. Strengthening the resilience of the financial sector and managing macro-financial risks will support financial stability. Macro-financial risks have eased with the recent slowdown in housing loan growth, while the macroprudential framework has been strengthened. Close monitoring of financial sector risks—including the recent increase in NPLs—should continue, and sound lending standards should be maintained. Building on policy advice discussed at the time of the 2015 FSAP (Annex VI), further enhancing the macroprudential framework and crisis management resolution framework would strengthen resilience, while regular stress testing of banks' assets and portfolios remains vital to identify problems early and allow for proactive management of macro-financial risks. Medium-term fiscal consolidation and a strengthening in SOEs' financial position would help reduce banks' exposure to public sector risks. Exchange rate exposure in Mauritius' sectoral balance sheets is limited and financial stability risks from exchange rate flexibility appear contained.

Macro-Financial Risks

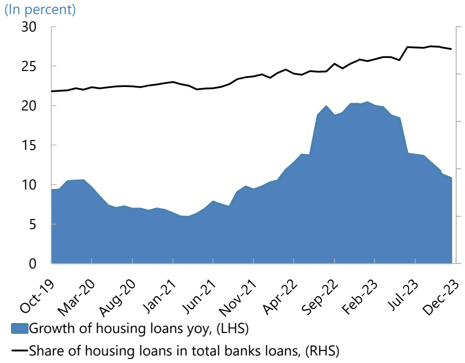
Residential property prices increased in H1-2023...

Residential Property Price Index[1]
(Index, 2019=100)



...but housing credit growth slowed in H2-2023 after a period of fast growth.

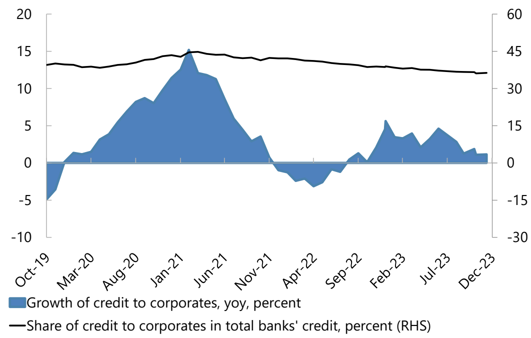
Housing Credit
(In percent)



Macro-Financial Risks (Concluded)

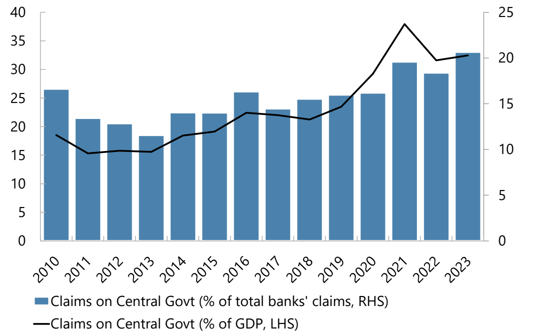
Growth in banks' credit to corporates decreased in H2-2023…

Banks' Credit to Private Non-Financial Corporations (PNFC)
(In percent)



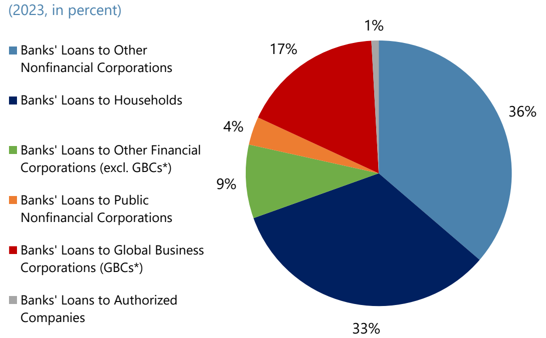
…while banks' claims on central government-to-GDP ratio remains elevated.

Exposure of Banks to Central Government
(In percent)



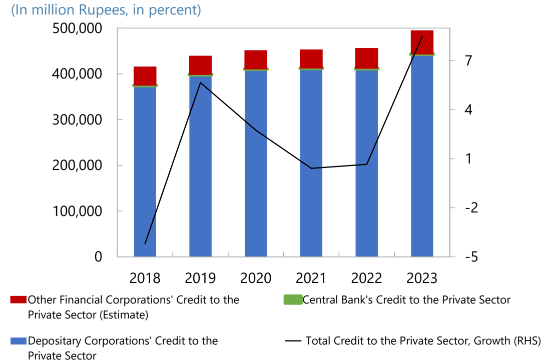
Banks' loans to corporates and households represent almost 70 percent of total bank loans in 2023.

Distribution of Banks' Loans
(2023, in percent)



Credit to the private sector increased in 2023, supporting the economic recovery.

Components of Credit to the Private Sector[2]
(In million Rupees, in percent)



Sources: Country authorities and IMF staff calculations.

1/ The residential property price index methodology published by Statistics Mauritius is currently under review.

2/ Credit to the private sector includes banks' loans and other components. OFCs credit to the private sector reflects estimates until Q32023.

34. **Recent progress in strengthening the AML/CFT framework is welcome and should be sustained to mitigate non-resident risks,** including developing Beneficial Ownership Register and the Financial Services Commission capacity (Box 1). Swift implementation of planned actions to strengthen risk-based AML/CFT supervision of the financial sector and GBCs is encouraged.

Box 1. AML/CFT Developments

Mauritius was removed from FATF increased monitoring in 2021 due to progress in strengthening the AML/CFT framework. Mauritius had been placed on the FATF list of "Jurisdictions under Increased Monitoring" in February 2020,[1] and subsequently added to the EU List of High-Risk Third Countries (EU Blacklist) and UK list of high-risk countries (UK blacklist). Mauritius thereafter initiated measures to swiftly address the deficiencies identified in its AML/CFT framework and achieve technical compliance and removal from the lists.[2]

Mauritius has strengthened institutional arrangements to better coordinate actions to comply with the AML/CFT requirements:

- Enacted the Financial Crimes Commission Act, an important step in the country's efforts to combat financial crime.
- Set up of the core group consisting of specific stakeholders, which reports to a ministerial committee chaired by the Prime Minister.[3] These new institutional arrangements have now incorporated under the Financial Intelligence and Anti-Money Laundering Act (FIAMLA).[4]
- The core group is planning for the upcoming ESAAMLG AML/CFT assessment scheduled for 2027. Mauritius also provides annual follow-up reports to ESAAMLG.
- The Financial Services Commission developed a supervisory framework, hired and trained new staff, but further efforts are required. They are also working on technology upgrades and other efforts to improve understanding of ML/TF risks, which would be instrumental for their supervision capacity.
- Additionally, the authorities are currently conducting the second National Risk Assessment (NRA) by using the World Bank methodology and are expecting to finalize the NRA report during Q1 2024. Subsequently, the authorities will disseminate the findings and recommendations.

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[1] Mauritius was also placed under the formal FATF International Cooperation Review Group (ICRG) process.

[2] As a result of an overhaul of the AML/CFT legal framework, Mauritius is technically compliant or largely compliant with 40 out 40 FATF recommendations.

[3] The Minister of Finance's financial secretary chairs the core group, having the deputy chair of the BOM, and the director general of the Anti-Corruption Commission (ICAC).

[4] The 2002 Financial Intelligence and Anti-Money Laundering Act (FIAMLA) sets up the National Committee, which coordinates the development, regular review, and implementation of national policies and activities to combat money laundering, terrorist financing, and financing proliferation.

Authorities' Views

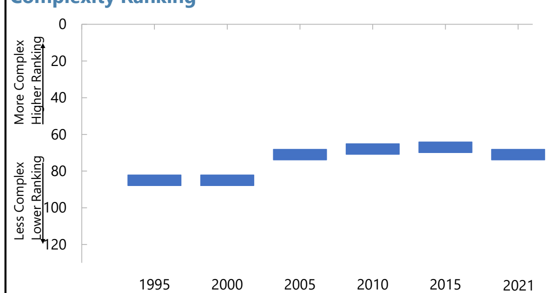
35. **The authorities agreed that close monitoring of financial sector risks and ongoing efforts to sustain compliance with AML/CFT regime should continue.** They noted that the banking system is resilient and can sustain a wide range of shocks as banks have adequate capital and liquidity buffers. The BOM emphasized that it continuously monitors banks and GBCs' portfolios and is proactive in preempting financial stress thanks to recently updated stress tests. The authorities stressed that they are committed at the highest levels and have taken steps to improve the AML/CFT regulatory and institutional framework in preparation for the 2027 AML/CFT assessment.

D. External Competitiveness and Structural Policies to Foster Sustainable and Inclusive Private Sector-Led Growth

36. Advancing key structural reforms to foster external competitiveness will support private sector-led growth and help reduce external imbalances. Mauritius' external position at end-2023 is assessed as moderately weaker than the level implied by fundamentals and desirable policies (Annex III). The estimated 2023 current account gap (of -1.2 percent of GDP) indicates a real exchange rate assessment of 3.9 percent overvaluation in 2023. Structural reforms to foster private sector investment and economic diversification would support external competitiveness and sustainable financial inflows, including FDIs in new productive sectors, boosting the external current account balance and economic growth. Efforts to promote more open, stable, and transparent trade policies should continue.

37. As Mauritius aims to attain high-income status, economic diversification will be essential for fostering sustainable and inclusive growth. While the share of services in value added has increased over time, Mauritius remains a relatively less diversified economy with low economic complexity compared to some of its peers (other investment hubs).[10] However, Mauritius' complexity ranking has improved over time, despite a slight worsening in 2021. In pursuit of economic diversification, a cornerstone of the authorities' strategy is to support the development of the information and communication technology (ICT) and digital sectors, pharmaceuticals, and renewable energy.

Complexity Ranking[1]



Sources: "The Growth Lab at Harvard University. The Atlas of Economic Complexity. http://www.atlas.cid.harvard.edu."
1/ The left axis measures Mauritius' economic complexity ranking, i.e., the position of Mauritius' economic complexity index relative to other countries'. A lower ranking means less complexity. Rankings reflect relative (and not absolute) performance.

38. Advancing structural reforms is key to supporting private sector investment and promoting economic diversification. Key reform priorities are:

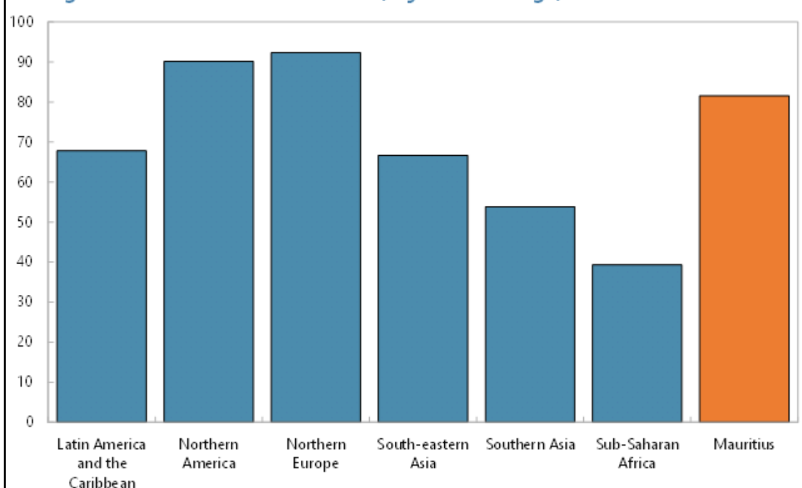
- **Reducing skill mismatches in the domestic labor market.** Ongoing efforts with public and private sector-funded training schemes and reforms to facilitate the inclusion of foreign workers in the domestic labor market should advance. Progress in the implementation of the National Skills Development Strategy is welcome, and regular consultations with the private sector should continue to ensure that policies and programs are fit-for-purpose.

[10] The Economic Complexity Index (ECI) measures an economy's capabilities based on the diversity, ubiquity, and complexity of its export basket.

- **Further strengthening governance and the anti-corruption framework**, to ensure that Mauritius remains attractive to private investors. Plans to strengthen accountability and anti-corruption mechanisms should advance, and ongoing efforts to maintain strong institutions and good governance, and improving the business environment should be sustained.

- **Fostering digitalization**, to support diversification and enhance public services. Efforts to further strengthen the quality of digital connectivity and internet usage should continue. Ongoing efforts are welcome to strengthen institutional and technological safeguards on digitalization (including supported by IMF TA on cybersecurity). Digitalization could also enhance revenue collection and strengthen the efficiency of public spending and fiscal transparency.

Digital Access Around the World, by Index Range, 2020[1]



Source: IMF's Enhanced Digital Access Index database.

1/ The shown index builds on five sub-indices, each capturing a different dimension of digitalization (infrastructure, internet usage, knowledge, quality, and affordability). While it aims to reflect the multifaceted nature of digitalization, it should be interpreted along with other available indicators.

39. Increasing women's labor force participation would support inclusive and higher growth and can help mitigate the impact of an ageing population. Female labor force participation (FLFP) and employment in Mauritius are well below that of men, and below that of women in comparator countries. Boosting FLFP to the OECD average could raise potential growth by 0.8 percentage point per year over the medium term (Selected Issues Paper). Ongoing efforts should be sustained to foster women's skills and education, notably in science and technology, improving the availability of childcare, and improving maternal and paternal leave policies. The recent government initiative *Prime à L'Emploi* aims to support women employment (Box 2).

Box 2. Women in Mauritius' Labor Force and Prime à L'Emploi

A major policy initiative—*Prime à L'Emploi*—was recently enacted to support female participation in the labor force. The scheme was introduced in the 2022 Finance Act to incentivize young people and women to join the labor force. Under the scheme, the government provides a monthly contribution to firms up to Rs 15,000 for the first year of employment of youths aged between 18 and 35 years and women aged up to 50 years. The scheme has been modified under the 2023 Finance Act by extending its duration by two years while resetting the coverage to women and disabled individuals. The fiscal cost of the program was 0.3 percent of GDP in FY2022/23 (1.2 percent of government current spending).

The *Prime à L'Emploi* is a step in the right direction but, as a new scheme, its effectiveness is yet to be assessed. As of February 2024, about 6,500 women, representing about 1 percent of the labor force, had benefited from the scheme. However, about 30 percent of eligible beneficiaries (including women) did not take advantage of the scheme as of February 2024. While the reason is still to be fully understood, the authorities assess that some employees, after having been registered under the scheme, voluntarily leave their jobs for better prospects. Other factors can help explain why 30 percent of eligible beneficiaries haven't benefitted, including that employers: (i) bear additional costs per each new employee under the scheme, including those related to traveling, training levy and other emoluments, (ii) cannot claim the salary subsidy before fully complying with tax laws, and (iii) are required to safeguard employment for two additional years, beyond the first year which is when the salary subsidy is provided.

40. Increasing adaptation investment can help Mauritius smooth the impact of extreme climate events (Annex IV). Building resilience to climate shocks is a national priority. Efforts should continue to scale-up public investment in resilient infrastructure to help mitigate the impact of climate shocks, while considering a financing mix that includes grants, concessional financing, and domestic revenue mobilization to help preserve debt sustainability.

Authorities' Views

41. The authorities broadly agreed with the external sector assessment. They agreed that structural reforms remain key for diversification and building resilience to shocks. They stressed that their goal to achieve high-income status encompasses comprehensive reforms, including their aim to creating new growth poles building on sectors such as the pharmaceutical industry, biotechnology, information technology, and renewable energy. Given Mauritius' location and population dynamics, they highlighted that their strategy encompasses the development of the blue and silver economy—encompassing ocean resources and the needs of the elderly. Recent and planned measures include to requalify coastal development and reclaim land from the sea. They also restated their commitment to deploy measures to reduce skill mismatches in the labor market, facilitating hiring of foreign labor and encouraging women employment to close the labor supply shortfall estimated at 50,000 workers. The authorities also noted that smoothing the impact of climate shocks will require continued investment in climate-resilient infrastructure preferably with grant or concessional financing. They have also advanced reforms in support of climate change mitigation, including tax incentives on electric vehicles whose sales doubled in 2023.

E. Statistics and Technical Assistance

42. Data provision is assessed as broadly adequate for surveillance. Ongoing efforts by Statistics Mauritius (SM) are welcome to narrow discrepancies between the demand- and supply-side GDP methodologies, and to improve measurement of some sectors of the economy (including the GBC sector) and external sector statistics. Improvements in the compilation of the residential property price index are also welcome. Staff welcomes SM's plans to streamline its activities to focus on estimations of economic activity including high-frequency and leading indicators. SM should advance efforts to increase its data dissemination to reach the Special Data Dissemination Standard Plus level.

43. Capacity development (CD) continues to strongly support the authorities' macroeconomic policies and reforms. Implementation of recommendations from Fund Technical Assistance (TA) has been satisfactory. Priority CD areas include strengthening the fiscal and debt framework, improving revenue mobilization, ongoing FPAS development, safeguarding BOM independence, and strengthening financial stability. Continuing ongoing CD projects to strengthen statistics (real sector, prices, monetary and financial sector, and balance of payments) will be important to continue to advance sound macroeconomic policies.

Authorities' Views

44. The authorities expressed appreciation for Fund TA and highlighted new capacity development areas to consider going forward. On priority areas such as the FPAS, the authorities welcomed the technical assistance of the IMF on the new monetary policy framework and noted that they are interested in further customization of the framework for Mauritius. On legal issues, the BOM requested assistance to finalize the Banking Bill and amend the BOM Act, as well as CBDC regulation. BOM also requested further assistance to develop a climate macro framework tool, and climate risk integration. On fiscal issues, their short-term priorities focus on transitioning to accrual accounting and reporting in line with IPSAS. They expressed interest in TA to boost revenue mobilization. They also expressed interest in TA to strengthen the coverage and granularity of exports statistics, including by destination countries.

STAFF APPRAISAL

45. The economy rebounded strongly from the pandemic and the outlook remains favorable, but challenges remain. Supportive policies facilitated the strong recovery, but securing a sustainable and resilient economy presents challenges: (i) fiscal and external buffers were eroded during the pandemic, and (ii) vulnerabilities to climate change and an ageing population loom over the medium- to long-term economic prospects. Growth is expected to moderate in the medium term in line with potential, and risks to the outlook are on the downside.

46. Fiscal policy should pursue growth-friendly fiscal consolidation over the medium term, helping rebuild fiscal buffers while protecting the most vulnerable. Tax revenue should be increased and current and ESFs' spending contained while safeguarding critical social spending. Pension system reform remains key to support fiscal sustainability, especially given the ageing of Mauritius' population. Strengthening public financial management, including by streamlining ESFs, will support fiscal consolidation, transparency, and good governance. The new public debt ceiling framework can be strengthened by adjusting escape clauses for ceiling breaches.

47. While the BOM's new monetary policy framework has helped contain inflationary pressures, its effectiveness would be strengthened by being implemented more robustly, and by adopting amendments to the BOM Act. BOM should resume uncapped auctions to better align the interbank rate with the key policy rate. Monetary policy transmission could further be strengthened, including via enhancements in the monetary policy communication strategy. BOM should stand ready to tighten the monetary policy stance should inflationary pressures reemerge. Continued exchange rate flexibility and advancing FX purchases when opportunities arise, and in line with the monetary policy framework, will help bolster foreign reserves buffers. To help preserve BOM's independence in the conduct of monetary policy, it should consider options to gradually phase out its ownership of the MIC and promptly adopt amendments to the BOM Act including to ensure fiscal backing of the central bank.

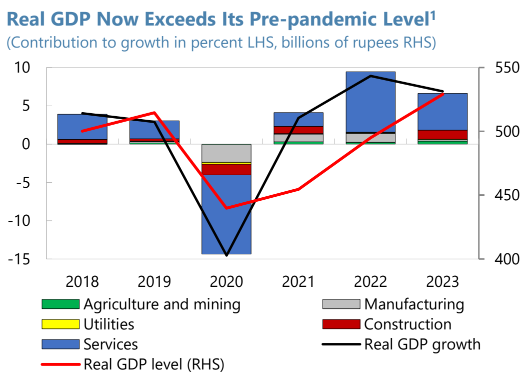
48. Mauritius' external position at end-2023 was moderately weaker than the level implied by fundamentals and desirable policies, and structural reforms to foster external competitiveness are needed to reduce external imbalances. Recent progress in strengthening the AML/CFT framework is welcome and should be sustained, including provisions related to non-resident and cross-border activity. Ongoing efforts to improve external sector statistics, including measurement of the GBCs sector, should be sustained.

49. Mauritius should continue to embrace structural transformation to secure resilient and sustainable long-term growth. Advancing structural reforms is key to supporting private sector investment and promoting economic diversification. Priorities include boosting female labor force participation and expanding skills, fostering digitalization, and enhancing climate-resilient infrastructure investment.

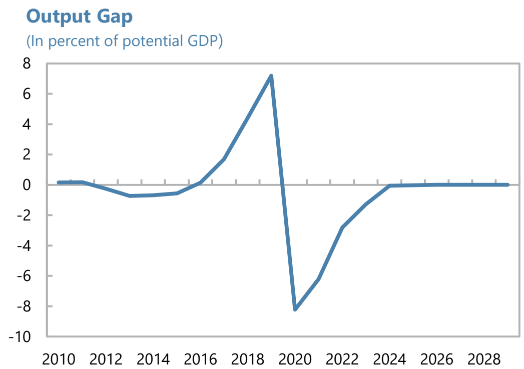
50. Staff recommends that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Mauritius: Real Sector Developments

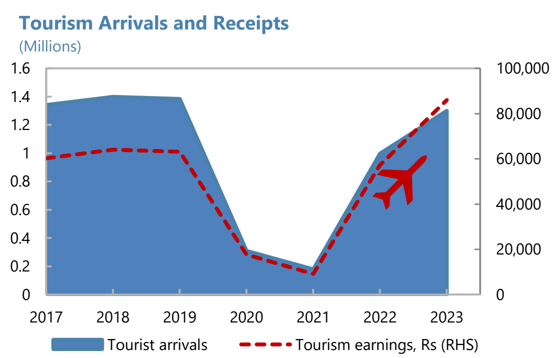
The economy has recovered from the pandemic…



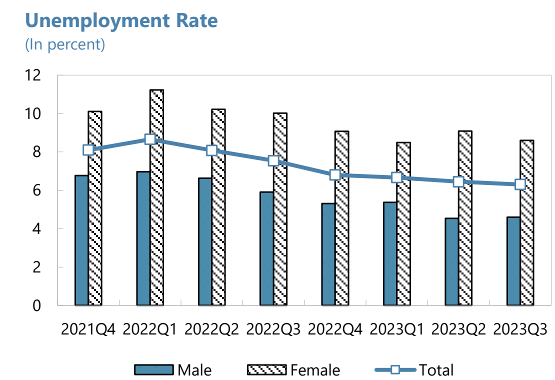
…and the output gap is nearly closed.



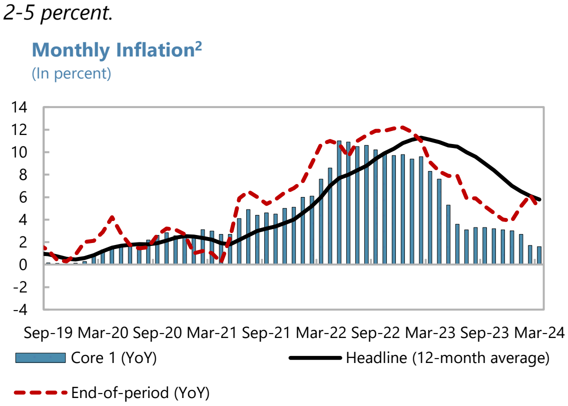
Tourist arrivals and receipts have picked up strongly.



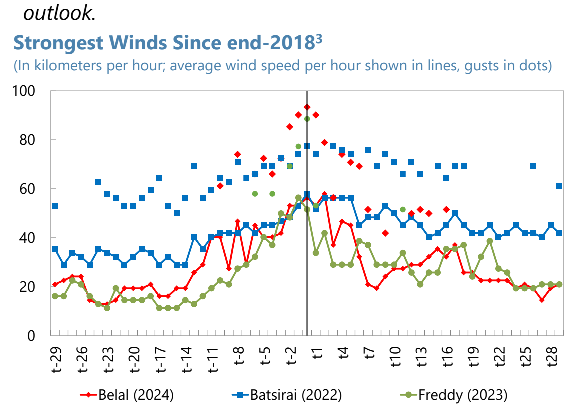
Unemployment has receded to the lowest level in decades.



Inflation has declined but remains above the target range of 2-5 percent.



Significant weather events present a downside risk to the outlook.

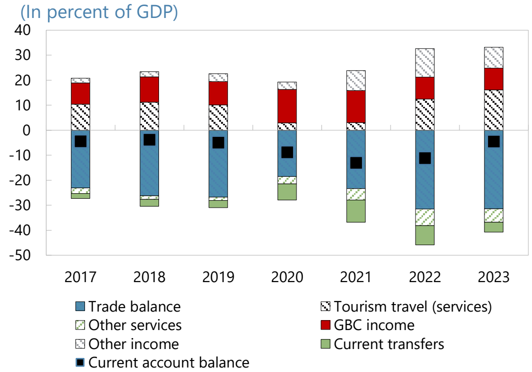


Sources: Country authorities, IMF staff estimates and National Oceanic and Atmospheric Administration (US Dept. of Commerce).
1/ The services sector includes wholesale and retail trade, financial and insurance activities, information and communication, accommodation and food, and other services.
2/ Core 1 excludes food, beverages and tobacco components and mortgage interest on housing loan from headline inflation.
3/ For each storm, t=0 is set at the hour with the highest wind gusts. A wind gust is a rapid fluctuation in wind speed with a variation of 10 knots or more between peaks. Gusts are usually short, lasting less than 20 seconds.

Figure 2. Mauritius: External Sector Developments

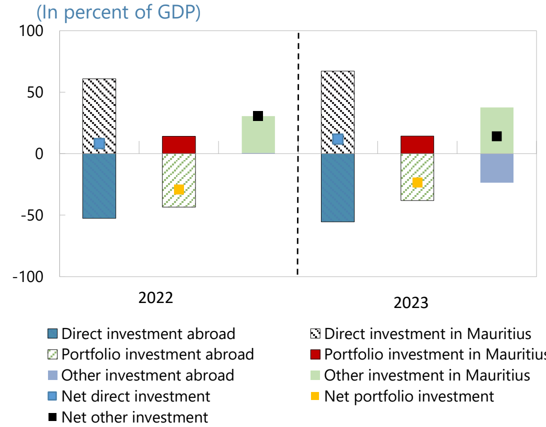
The current account balance improved in 2023 supported by the rebound in tourism....

Current Account Balance
(In percent of GDP)



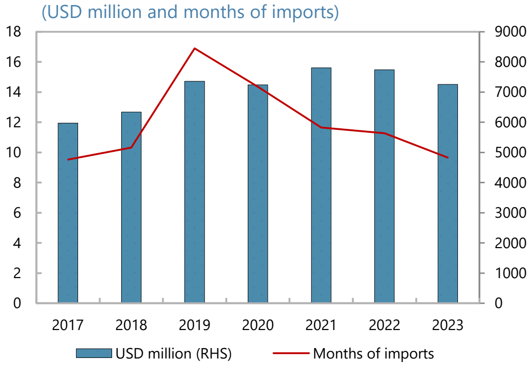
... while direct investment in Mauritius increased.

Financial Flows
(In percent of GDP)



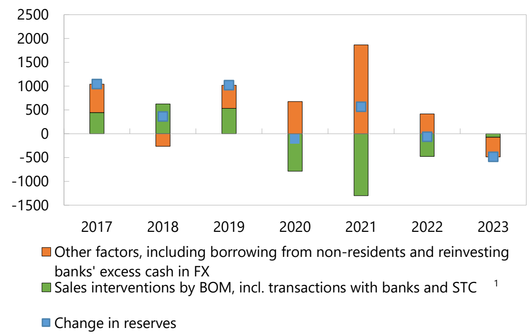
Gross international reserves fell in 2023...

Gross International Reserves
(USD million and months of imports)



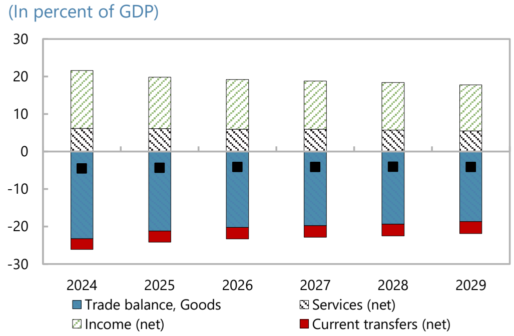
... driven by a drop in banks' FX deposits at the BOM and net FX sales by the BOM.

Changes in Reserves
(In millions of US dollars)



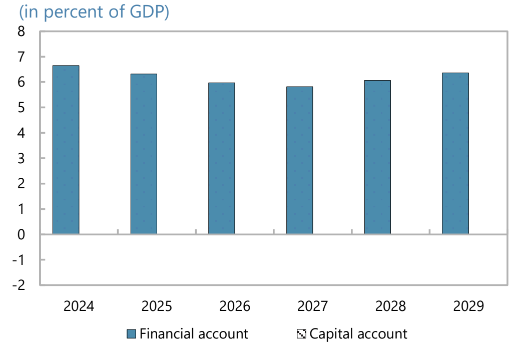
The current account balance is expected to continue improving in 2024 and converge to pre-pandemic levels in the medium term.

Current Account Projections
(In percent of GDP)



Net financial inflows are expected to improve in 2024 and remain in surplus over the medium term

Financial and Capital Account Projections
(in percent of GDP)

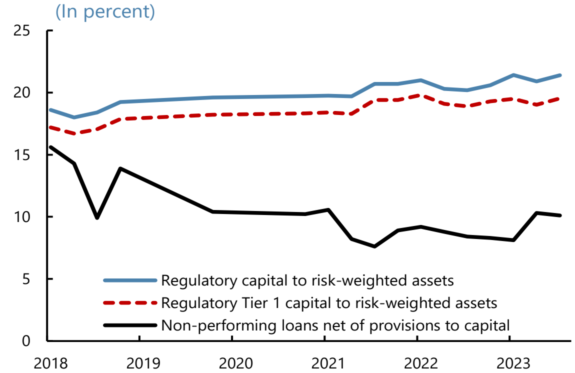


Sources: Country authorities and IMF staff estimates and projections.

Figure 3. Mauritius: Financial Sector Developments, 2018–Q3 2023

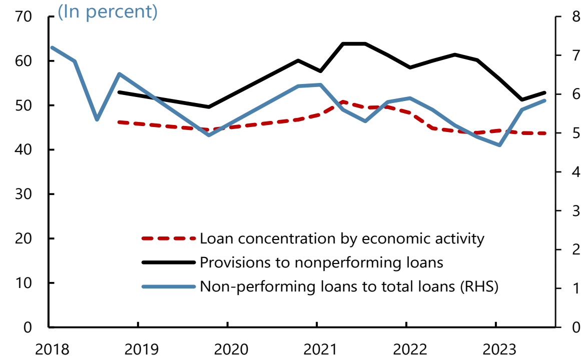
Capital ratios of the banking system are substantially above benchmarks…

Capital Adequacy
(In percent)



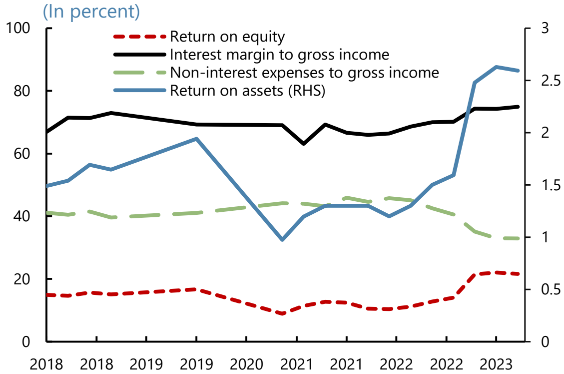
…while the NPL ratio slightly increased in September.

Asset Quality
(In percent)



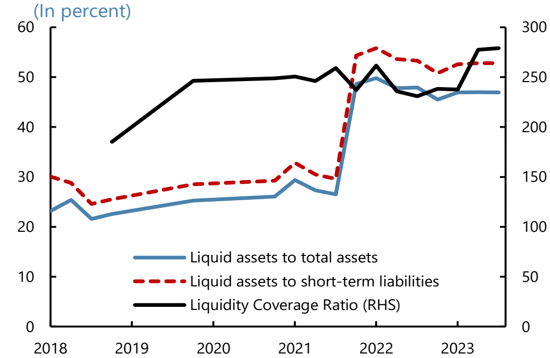
Banks profitability was relatively high in 2023 on the back of higher domestic interest rates….

Earnings and Profitability
(In percent)



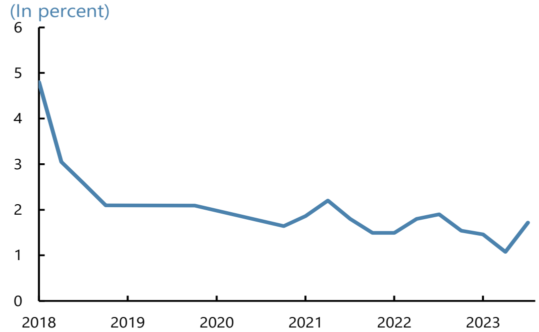
…which helped banks maintain their consolidated Liquidity Coverage Ratio above the regulatory limit of 100 percent.

Liquidity
(In percent)



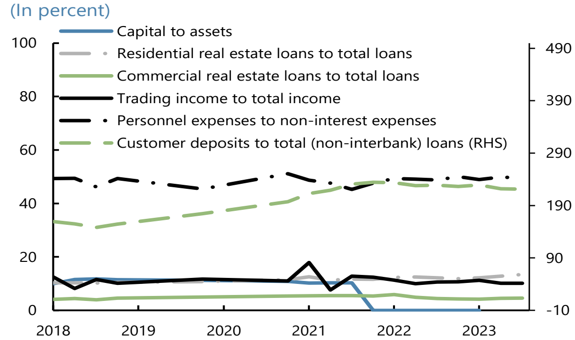
The net FX positions are well below the regulatory limit of 15 percent.

Sensitivity: Net Opening Position in Foreign Exchange to Capital
(In percent)



The banking sector demonstrated resilience in 2023.

Encouraged Set of Financial Soundness Indicators
(In percent)

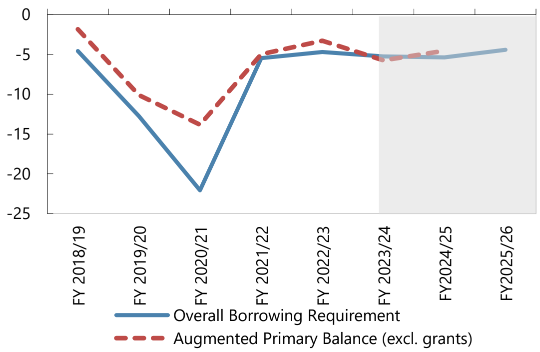


Sources: Country authorities and IMF staff estimates.

Figure 4. Mauritius: Fiscal Sector Developments

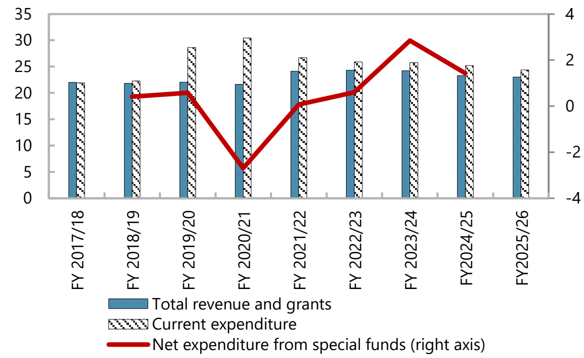
The fiscal stance is expected to be expansionary in FY23/24 and turn contractionary in FY24/25…

Fiscal Balances
(In Percent of Fiscal Year GDP)



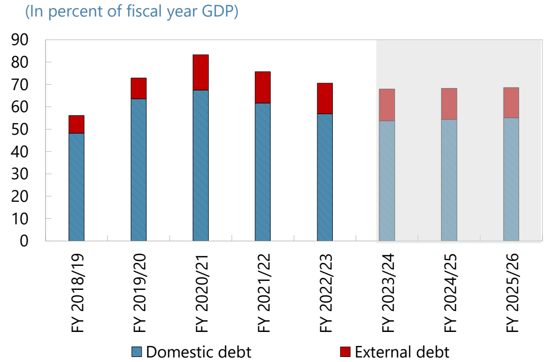
…as revenue growth decelerates, current expenditure remains above the pre-pandemic level, and extrabudgetary net spending declines in FY24/25.

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



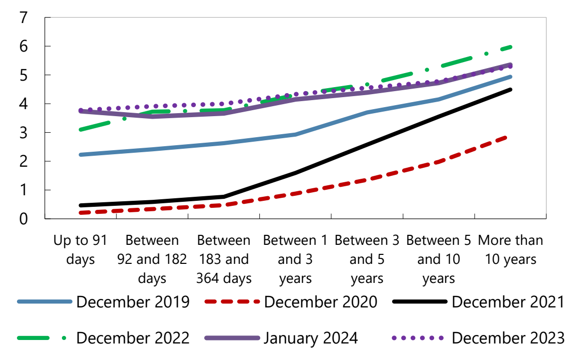
The stock of public debt is expected to remain relatively high in the medium term.

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



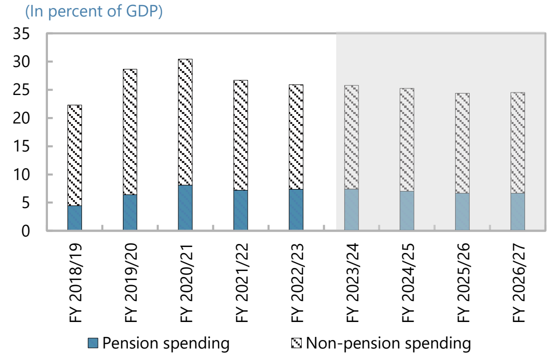
Despite recent declines, interest rates remain relatively high, putting pressure on debt service.

Yield on Government Treasury Bills and Bonds
(In percent)



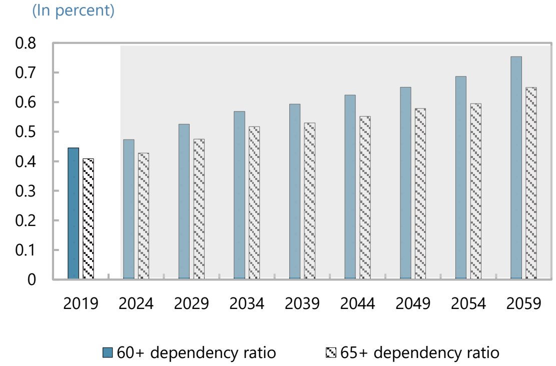
Pension costs will continue to put pressure on overall spending…

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



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

Dependency Ratios
(In percent)



Sources: Country authorities and IMF staff estimates.
Notes: All years FY2023/24 and beyond are projections and shaded.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.			Proj.			
	(Annual percent change, unless otherwise indicated)										
National Income, Prices and Employment											
Real GDP	2.9	-14.5	3.4	8.9	7.0	4.9	3.7	3.5	3.3	3.3	3.3
Real GDP per capita	2.9	-14.6	3.6	9.1	7.0	4.9	3.7	3.5	3.3	3.3	3.3
GDP per capita (in U.S. dollars)	11,408	9,011	9,087	10,251	11,417	12,997	14,025	15,061	16,045	17,078	18,157
GDP deflator	-0.5	2.6	3.2	9.6	6.7	5.7	3.5	4.0	3.8	3.7	3.7
Consumer prices inflation (period average)	0.5	2.5	4.0	10.8	7.0	4.9	3.6	3.8	3.5	3.5	3.5
Consumer prices inflation (end of period)	0.9	2.7	6.8	12.2	3.9	5.1	4.0	3.6	3.5	3.5	3.5
Unemployment rate (percent)	6.7	9.2	9.1	6.8	6.3	6.3	6.3	6.3	6.3	6.3	6.3
	(Annual percent change)										
External Sector											
Exports of goods and services, f.o.b.	-5.9	-41.3	3.4	56.7	9.9	13.3	7.9	8.3	5.8	4.3	4.3
Of which : tourism receipts	-5.9	-73.8	-23.8	313.1	29.7	12.0	6.7	6.9	6.0	5.7	5.5
Imports of goods and services, f.o.b.	-2.2	-29.1	16.0	32.9	-0.2	12.3	4.1	6.4	5.0	4.5	3.9
Nominal effective exchange rate (annual average)	0.0	-8.5	-8.7	3.0	1.2	...	...	...	...	...	...
Real effective exchange rate (annual average)	-2.2	-8.1	-8.3	5.6	2.3	...	...	...	...	...	...
Terms of trade	0.9	4.4	-11.3	-4.6	8.1	2.2	0.5	1.0	0.9	0.7	0.5
Money and credit											
Net foreign assets	13.5	16.4	18.6	-3.6	-0.3	2.4	0.5	1.6	1.7	1.3	1.4
Domestic credit	6.1	7.9	15.6	13.1	9.7	7.4	7.3	7.2	6.8	6.7	6.8
Net claims on government	-3.8	8.8	34.8	24.6	26.1	10.6	10.9	9.1	8.1	7.8	8.1
Credit to non-government sector	17.1	2.7	0.4	0.7	8.5	7.1	7.3	7.6	7.2	7.1	7.1
Broad money	6.2	17.7	8.6	4.1	7.8	8.3	8.9	9.3	8.9	8.8	8.8
Income velocity of broad money (M2)	1.1	0.8	0.8	0.9	1.0	1.0	1.0	1.0	0.9	0.9	0.9
	(Percent of GDP, unless otherwise indicated)										
Central Government Finances [1]											
Overall borrowing requirement [2]	-12.7	-22.1	-5.4	-4.7	-5.2	-5.4	-4.4	-4.1	-3.7	-3.8	-4.0
Primary balance (excluding grants)	-9.5	-16.5	-4.9	-2.7	-2.9	-3.1	-2.0	-1.7	-1.3	-1.3	-1.3
Revenues (incl. grants)	22.1	21.6	24.1	24.3	24.2	23.3	23.0	23.2	23.2	23.2	23.2
Expenditure, excl. net lending	33.5	40.4	31.0	29.2	28.9	28.4	27.3	27.3	27.0	27.1	27.2
Domestic debt of central government	63.6	67.5	61.7	56.9	53.7	54.3	55.1	55.5	55.6	55.8	56.5
External debt of central government	9.3	15.8	14.0	13.7	14.2	13.9	13.6	13.5	13.5	13.4	13.1
Investment and Saving											
Gross domestic investment	19.4	18.2	19.8	20.4	23.3	23.3	22.8	22.4	22.1	21.9	21.7
Public	5.2	4.1	4.1	3.9	6.2	7.0	6.9	6.9	6.9	6.9	6.9
Private [3]	14.2	14.1	15.7	16.5	17.1	16.3	15.8	15.5	15.2	15.0	14.8
Gross national savings	21.5	19.7	21.6	26.3	31.3	31.4	29.4	29.2	28.9	28.9	29.1
Public	-3.3	-7.9	-5.6	-2.0	-1.5	-1.7	-1.6	-1.3	-1.2	-1.1	-0.7
Private	24.8	27.6	27.1	28.3	32.8	33.2	31.0	30.5	30.1	30.1	29.8
External Sector											
Balance of goods and services	-14.6	-18.7	-24.9	-23.6	-17.6	-17.0	-15.1	-14.3	-13.8	-13.6	-13.2
Exports of goods and services, f.o.b.	36.4	27.1	27.8	38.7	38.2	38.0	38.0	38.4	38.1	37.4	36.7
Imports of goods and services, f.o.b.	-51.0	-45.8	-52.7	-62.3	-55.8	-55.1	-53.1	-52.7	-51.9	-51.0	-49.8
Current account balance	-5.0	-8.8	-13.0	-11.1	-4.5	-4.5	-4.3	-4.1	-4.1	-4.1	-4.1
Capital and financial account	11.9	4.0	24.3	8.2	0.4	6.6	6.3	6.0	5.8	5.7	5.6
Overall balance	7.2	-3.7	11.3	-2.4	-3.4	2.1	2.0	1.8	1.7	1.6	1.5
Total external debt	88.9	110.7	134.0	132.0	128.9	119.8	112.3	105.4	99.6	93.8	88.4
Gross international reserves (millions of U.S. dollars)	7,354	7,242	7,805	7,740	7,254	7,604	7,954	8,304	8,654	9,004	9,354
Months of imports of goods and services, f.o.b.	16.9	14.3	11.6	11.6	9.6	9.7	9.5	9.5	9.5	9.5	9.5
Memorandum items:											
GDP at current market prices (billions of Mauritian rupees)	512.1	448.9	478.8	571.2	651.7	722.7	775.3	834.3	894.4	958.0	1,026.1
GDP at current market prices (millions of U.S. dollars)	14,436	11,408	11,484	12,928	14,397	16,388	17,683	18,988	20,226	21,526	22,883
Public sector debt, fiscal year (percent of GDP)[4]	81.1	91.9	85.9	81.2	78.3	78.3	78.3	78.1	77.6	77.3	76.9
Foreign and local currency long-term debt rating (Moody's)	Baa1	Baa1	Baa2	Baa3	Baa3	...	...	...	...	...	...

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.
[4] The public debt series has been reclassified starting in the 2024 AIV Mission to allow consolidation of central government securities held by non-financial public corporations.

Table 2a. Mauritius: Summary of Central Government Finances, 2018/19–29/30[1]

(Millions of Rupees)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/2029	2029/2030
					Est.				Proj.			
Total revenue and grants (1)	**110,665**	**103,873**	**98,711**	**126,244**	**148,360**	**166,530**	**174,595**	**185,364**	**200,542**	**215,088**	**230,527**	**246,668**
Domestic revenue	106,465	99,585	96,494	123,364	146,238	164,354	173,203	184,579	199,698	214,185	229,559	245,631
Tax revenue	98,898	91,879	86,028	107,720	129,787	145,961	153,156	163,038	176,563	189,394	203,006	217,191
Income tax - Individuals	10,450	11,221	11,450	13,944	15,632	15,225	16,594	17,831	19,607	21,010	22,503	24,103
Income tax - Corporations	16,253	13,876	11,760	16,446	22,542	28,313	27,987	28,791	30,921	32,418	34,028	36,447
Value added tax (VAT)	31,910	32,658	28,490	38,273	47,759	55,324	57,379	60,454	63,505	68,049	72,158	77,287
Excise duties	20,892	18,925	18,680	20,144	21,055	21,729	23,565	26,317	30,643	33,727	37,290	39,557
Customs	1,379	1,216	1,180	1,528	1,825	1,885	2,035	2,142	2,348	2,538	3,125	3,485
Other taxes	18,013	13,891	14,467	17,385	20,974	23,484	25,596	27,503	29,539	31,652	33,902	36,312
Social contributions	1,317	1,384	6,548	9,803	10,896	12,184	13,279	14,269	15,325	16,421	17,589	18,839
Nontax revenue	6,250	6,414	3,918	5,840	5,554	6,210	6,768	7,272	7,811	8,369	8,964	9,602
Grants	4,200	4,288	2,217	2,880	2,122	2,176	1,392	785	843	903	968	1,036
Total expense (current spending) (2)	**113,214**	**134,917**	**138,792**	**139,493**	**158,119**	**176,857**	**188,878**	**196,050**	**211,612**	**225,186**	**242,128**	**260,852**
Expenditures on goods and services	40,812	42,957	42,997	49,882	50,010	53,614	58,435	62,790	70,238	75,263	80,613	86,344
Compensation of employees	30,516	30,979	32,034	37,217	37,143	39,908	43,497	46,738	52,998	56,790	60,827	65,151
Use of goods and services	10,296	11,978	10,963	12,665	12,867	13,706	14,938	16,052	17,240	18,473	19,786	21,193
Interest payments	12,850	13,365	12,415	13,250	15,609	14,510	16,119	19,285	21,969	23,975	26,613	30,017
Domestic interest	12,219	12,775	12,095	12,975	14,532	13,481	15,138	18,361	21,101	23,159	25,848	29,304
External interest	631	591	320	275	1,077	1,029	982	924	868	816	764	713
Transfers and subsidies	23,725	32,666	29,540	26,215	30,090	32,973	35,938	37,907	40,712	41,624	44,583	47,753
Subsidies	1,569	10,097	7,904	1,815	1,890	2,679	2,920	3,138	3,370	3,611	3,867	4,142
Grants and transfers	22,156	22,569	21,636	24,400	28,200	30,294	33,018	34,769	37,343	38,014	40,716	43,610
Social benefits	31,953	41,905	45,655	47,280	54,436	61,511	63,509	64,879	69,681	74,666	79,974	85,659
Social assistance pensions	22,682	30,236	37,061	37,650	44,879	50,750	52,367	53,505	57,464	61,576	65,953	70,641
Other	9,271	11,669	8,594	9,630	9,557	10,761	11,142	11,374	12,216	13,090	14,021	15,017
Other expense	3,874	4,024	8,185	2,866	7,974	13,649	14,876	11,190	9,013	9,658	10,345	11,080
Contingencies	0	0	0	0	0	600	0	0	0	0	0	0
Gross operating balance ((3)=(1)-(2))	**-2,549**	**-31,044**	**-40,080**	**-13,249**	**-9,759**	**-10,327**	**-14,283**	**-10,686**	**-11,071**	**-10,098**	**-11,600**	**-14,185**
Net acquisition of non-financial assets (capital	**8,390**	**7,536**	**7,609**	**8,027**	**9,143**	**11,867**	**12,934**	**13,126**	**14,097**	**15,106**	**16,180**	**17,330**
Budget balance[2]	**-10,939**	**-38,580**	**-47,689**	**-21,276**	**-18,902**	**-22,194**	**-27,217**	**-23,812**	**-25,168**	**-25,204**	**-27,780**	**-31,515**
Net lending / borrowing (special funds)	**-4,943**	**-15,316**	**-37,935**	**-14,714**	**-10,918**	**-9,911**	**-10,802**	**-10,447**	**-10,659**	**-9,708**	**-10,398**	**-11,137**
CONSOLIDATED BALANCE	**-15,882**	**-53,896**	**-85,624**	**-35,990**	**-29,820**	**-32,105**	**-38,019**	**-34,258**	**-35,827**	**-34,912**	**-38,178**	**-42,652**
Transactions in financial assets/liabilities	**7,245**	**6,107**	**15,152**	**-7,503**	**-1,191**	**3,820**	**2,256**	**1,165**	**-343**	**-370**	**-399**	**-431**
Net acquisition of financial assets	8,045	8,473	15,143	-6,725	1,347	4,145	2,610	1,546	66	68	70	72
Of which: net lending	850	645	489	459	181	447	607	89	-377	-377	-377	-377
Adjustment for non-cash transactions	0	-2,000	0	0	-1,047	0	0	0	0	0	0	0
Adjustment for difference in cash and accrual	-800	-366	9	-778	-1,491	-325	-354	-381	-409	-438	-469	-503
OVERALL BORROWING REQUIREMENT	**-23,127**	**-60,003**	**-100,776**	**-28,487**	**-28,629**	**-35,926**	**-40,275**	**-35,423**	**-35,484**	**-34,542**	**-37,779**	**-42,221**
FINANCING	**23,127**	**60,003**	**100,776**	**28,487**	**28,629**	**35,926**	**40,275**	**35,423**	**35,484**	**34,542**	**37,779**	**42,221**
Domestic	26,664	61,061	64,732	31,464	20,253	23,673	35,523	31,445	30,960	29,698	32,935	37,377
Banks	8,888	29,354	21,577	5,461	12,152	14,204	21,314	18,867	18,576	17,819	19,761	22,426
Nonbanks	17,776	13,707	-11,845	13,853	8,101	9,469	14,209	12,578	12,384	11,879	13,174	14,951
BOM transfers[3]		18,000	55,000									
Foreign	-3,537	-1,058	36,044	-2,977	8,376	12,253	4,752	3,978	4,524	4,844	4,844	4,844
Memorandum items:												
Central government debt	**285,061**	**343,260**	**379,851**	**396,055**	**430,943**	**466,591**	**511,069**	**552,491**	**596,615**	**639,874**	**686,290**	**739,076**
Public sector debt[5]	**316,111**	**381,796**	**419,358**	**449,294**	**495,567**	**538,160**	**586,351**	**629,890**	**674,846**	**719,011**	**766,506**	**817,239**
GDP at current market prices (FY, in billions of Rupees)	507.8	471	456	523	610	687	749	805	864	926	992	1,063
Expenditure, excluding net lending	126,547	157,769	184,336	162,234	178,180	198,635	212,614	219,622	236,369	250,000	268,706	289,320
Primary balance (incl. grants)	-3,032	-40,531	-73,210	-22,740	-14,211	-17,595	-21,900	-14,973	-13,858	-10,937	-11,566	-12,635
Primary balance (excl. grants)	-7,232	-44,819	-75,427	-25,620	-16,334	-19,771	-23,292	-15,758	-14,701	-11,841	-12,533	-13,671
Quasi-fiscal net expenditure from extra-budgetary special f	2,093	2,736	-12,306	341	3,670	19,573	10,700	…	…	…	…	…

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.

[4] Net of transfers from central government; Expenditure from Mauritius Investment Corporation (MIC) is not included.

[5] The public debt series has been reclassified starting in the 2024 AIV Mission to allow consolidation of central government securities held by non-financial public corporations.

Table 2b. Mauritius: Summary of Central Government Finances, 2018/19–29/30[1]

(Percent of GDP)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
								Proj.				
Total Revenue and Grants (1)	**21.8**	**22.1**	**21.6**	**24.1**	**24.3**	**24.2**	**23.3**	**23.0**	**23.2**	**23.2**	**23.2**	**23.2**
Domestic revenue	**21.0**	**21.1**	**21.1**	**23.6**	**24.0**	**23.9**	**23.1**	**22.9**	**23.1**	**23.1**	**23.1**	**23.1**
Tax revenue	19.5	19.5	18.9	20.6	21.3	21.2	20.4	20.3	20.4	20.4	20.5	20.4
Income tax - Individuals	2.1	2.4	2.5	2.7	2.6	2.2	2.2	2.2	2.3	2.3	2.3	2.3
Income tax - Corporations	3.2	2.9	2.6	3.1	3.7	4.1	3.7	3.6	3.6	3.5	3.4	3.4
Value added tax (VAT)	6.3	6.9	6.2	7.3	7.8	8.1	7.7	7.5	7.3	7.3	7.3	7.3
Excise duties	4.1	4.0	4.1	3.9	3.5	3.2	3.1	3.3	3.5	3.6	3.8	3.7
Customs	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	3.5	2.9	3.2	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Social contributions	0.3	0.3	1.4	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Nontax revenue	1.2	1.4	0.9	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.9	0.5	0.6	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Total Expense (Current Spending) (2)	**22.3**	**28.6**	**30.4**	**26.7**	**25.9**	**25.7**	**25.2**	**24.4**	**24.48**	**24.31**	**24.41**	**24.55**
Expenditures on goods and services	8.0	9.1	9.4	9.5	8.2	7.8	7.8	7.8	8.1	8.1	8.1	8.1
Compensation of employees	6.0	6.6	7.0	7.1	6.1	5.8	5.8	5.8	6.1	6.1	6.1	6.1
Use of goods and services	2.0	2.5	2.4	2.4	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Interest payments	2.5	2.8	2.7	2.5	2.6	2.1	2.2	2.4	2.5	2.6	2.7	2.8
Domestic interest	2.4	2.7	2.7	2.5	2.4	2.0	2.0	2.3	2.4	2.5	2.6	2.8
External interest	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers and subsidies	4.7	6.9	6.5	5.0	4.9	4.8	4.8	4.7	4.7	4.5	4.5	4.5
Subsidies	0.3	2.1	1.7	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grants and transfers	4.4	4.8	4.7	4.7	4.6	4.4	4.4	4.3	4.3	4.1	4.1	4.1
Social benefits	6.3	8.9	10.0	9.0	8.9	9.0	8.5	8.1	8.1	8.1	8.1	8.1
Social assistance pensions	4.5	6.4	8.1	7.2	7.4	7.4	7.0	6.6	6.6	6.6	6.6	6.6
Other	1.8	2.5	1.9	1.8	1.6	1.6	1.5	1.4	1.4	1.4	1.4	1.4
Other expense	0.8	0.9	1.8	0.5	1.3	2.0	2.0	1.4	1.0	1.0	1.0	1.0
Contingencies	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross Operating Balance ((3)=(1)-(2))	-0.5	-6.6	-8.8	-2.5	-1.6	-1.5	-1.9	-1.3	-1.3	-1.1	-1.2	-1.3
Net Acquisition of Non-financial Assets (Capital Spending)	1.7	1.6	1.7	1.5	1.5	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Budget Balance[2]	-2.2	-8.2	-10.5	-4.1	-3.1	-3.2	-3.6	-3.0	-2.9	-2.7	-2.8	-3.0
Net Lending / Borrowing (Special Funds)	-1.0	-3.3	-8.3	-2.8	-1.8	-1.4	-1.4	-1.3	-1.2	-1.0	-1.0	-1.0
CONSOLIDATED BALANCE	**-3.1**	**-11.4**	**-18.8**	**-6.9**	**-4.9**	**-4.7**	**-5.1**	**-4.3**	**-4.1**	**-3.8**	**-3.8**	**-4.0**
Transactions in Financial Assets/Liabilities	1.4	1.3	3.3	-1.4	-0.2	0.6	0.3	0.1	0.0	0.0	0.0	0.0
Net acquisition of financial assets	1.6	1.8	3.3	-1.3	0.2	0.6	0.3	0.2	0.0	0.0	0.0	0.0
Of which: net lending	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Adjustment for non-cash transactions	0.0	-0.4	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment for difference in cash and accrual	-0.2	-0.1	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OVERALL BORROWING REQUIREMENT	**-4.6**	**-12.7**	**-22.1**	**-5.4**	**-4.7**	**-5.2**	**-5.4**	**-4.4**	**-4.1**	**-3.7**	**-3.8**	**-4.0**
FINANCING	**4.6**	**12.7**	**22.1**	**5.4**	**4.7**	**5.2**	**5.4**	**4.4**	**4.1**	**3.7**	**3.8**	**4.0**
Domestic	5.3	13.0	14.2	6.0	3.3	3.4	4.7	3.9	3.6	3.2	3.3	3.5
Banks	1.8	6.2	4.7	1.0	2.0	2.1	2.8	2.3	2.1	1.9	2.0	2.1
Nonbanks	3.5	2.9	-2.6	2.6	1.3	1.4	1.9	1.6	1.4	1.3	1.3	1.4
BOM transfers[3]		3.8	12.1									
Foreign	-0.7	-0.2	7.9	-0.6	1.4	1.8	0.6	0.5	0.5	0.5	0.5	0.5
Memorandum items:												
Central Government Debt	56.1	72.9	83.2	75.7	70.6	67.9	68.2	68.6	69.0	69.1	69.2	69.6
Public Sector Debt[5]	62.3	81.1	91.9	85.9	81.2	78.3	78.3	78.3	78.1	77.6	77.3	76.9
Central government expenditure, excluding net lending	24.9	33.5	40.4	31.0	29.2	28.9	28.4	27.3	27.3	27.0	27.1	27.2
Central government primary balance (incl. grants)	-0.6	-8.6	-16.0	-4.3	-2.3	-2.6	-2.9	-1.9	-1.6	-1.2	-1.2	-1.2
Central government primary balance (excl. grants)	-1.4	-9.5	-16.5	-4.9	-2.7	-2.9	-3.1	-2.0	-1.7	-1.3	-1.3	-1.3
Quasi-fiscal net expenditure from extra-budgetary special funds[4]	0.4	0.6	-2.7	0.1	0.6	2.8	1.4	…	…	…	…	…

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.

[4] Net of transfers from central government; Expenditure from Mauritius Investment Corporation (MIC) is not included.

[5] The public debt series has been reclassified starting in the 2024 AIV Mission to allow consolidation of central government securities held by non-financial public corporations.

Table 3. Mauritius: Balance of Payments, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.				Proj.		
					(Millions of US dollars)						
Current Account Balance	**-718**	**-1,003**	**-1,497**	**-1,437**	**-654**	**-739**	**-767**	**-783**	**-826**	**-877**	**-937**
Trade Balance	**-3,071**	**-2,126**	**-2,683**	**-3,618**	**-3,607**	**-3,807**	**-3,752**	**-3,844**	**-3,998**	**-4,164**	**-4,272**
Exports of goods, f.o.b.	2,223	1,789	1,962	2,388	2,300	2,651	2,849	3,085	3,249	3,361	3,478
Imports of goods, f.o.b.	-5,294	-3,915	-4,644	-6,005	-5,906	-6,459	-6,602	-6,929	-7,247	-7,525	-7,750
Of which: Oil Imports	-1,025	-633	-889	-1,510	-1,291	-1,292	-1,367	-1,486	-1,567	-1,615	-1,678
Services (Net)	**964**	**-8**	**-180**	**569**	**1,068**	**1,015**	**1,081**	**1,132**	**1,206**	**1,230**	**1,255**
Of which: tourism travel	1,201	262	232	1,091	1,401	1,389	1,412	1,406	1,456	1,491	1,528
Income (Net)	**1,797**	**1,867**	**2,387**	**2,608**	**2,456**	**2,529**	**2,430**	**2,512**	**2,593**	**2,734**	**2,818**
Of which: GBCs	1,341	1,530	2,126	2,216	1,646	1,786	1,830	2,023	2,149	2,299	2,394
Current Transfers (Net)	**-409**	**-736**	**-1,022**	**-997**	**-571**	**-476**	**-525**	**-583**	**-627**	**-676**	**-737**
Capital and Financial Accounts	**1,718**	**451**	**2,790**	**1,056**	**56**	**1,089**	**1,117**	**1,133**	**1,176**	**1,227**	**1,287**
Capital Account	**0**	**0**	**0**	**47**	**10**	**0**	**0**	**0**	**0**	**0**	**0**
Financial Account	**1,718**	**451**	**2,790**	**1,008**	**46**	**1,089**	**1,117**	**1,133**	**1,176**	**1,227**	**1,287**
Non-GBCs	89	-531	-38	395	699	-188	123	113	97	230	173
Direct investment (net)	388	209	193	416	746	437	476	539	575	613	659
Abroad	-58	-16	-66	-128	-16	-93	-91	-93	-104	-108	-111
In Mauritius	446	226	259	545	762	530	567	632	679	720	770
Portfolio investment (net)	-609	-1,101	-2,235	-3,765	-470	-618	-670	-687	-706	-700	-787
Other investment (net)	311	361	2,005	3,744	423	-7	317	261	228	317	300
Government (net)	-114	384	1,115	576	312	193	100	97	106	109	54
Other (net)	425	-23	890	3,168	111	-200	218	164	123	208	246
GBCs	1,629	982	2,828	614	-653	1,277	994	1,020	1,079	997	1,114
Direct investment (net)	3,157	-12,943	-2,620	-9,755	-1,170	2,666	2,870	3,058	3,297	3,509	3,730
Portfolio and other investment (net)	-1,528	13,925	5,448	10,369	517	-1,389	-1,875	-2,038	-2,218	-2,511	-2,616
Errors and Omissions	**-66**	**127**	**0**	**65**	**112**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**1,040**	**-425**	**1,293**	**-316**	**-486**	**350**	**350**	**350**	**350**	**350**	**350**
Change in Official Reserves (- = Increase)	**-934**	**425**	**-1,293**	**316**	**486**	**-350**	**-350**	**-350**	**-350**	**-350**	**-350**
					(Percent of GDP)						
Current Account Balance	**-5.0**	**-8.8**	**-13.0**	**-11.1**	**-4.5**	**-4.5**	**-4.3**	**-4.1**	**-4.1**	**-4.1**	**-4.1**
Trade Balance	**-21.3**	**-18.6**	**-23.4**	**-28.0**	**-25.1**	**-23.2**	**-21.2**	**-20.2**	**-19.8**	**-19.3**	**-18.7**
Exports of goods, f.o.b.	15.4	15.7	17.1	18.5	16.0	16.2	16.1	16.2	16.1	15.6	15.2
Imports of goods, f.o.b.	-36.7	-34.3	-40.4	-46.5	-41.0	-39.4	-37.3	-36.5	-35.8	-35.0	-33.9
Services (Net)	**6.7**	**-0.1**	**-1.6**	**4.4**	**7.4**	**6.2**	**6.1**	**6.0**	**6.0**	**5.7**	**5.5**
Of which: tourism travel	8.3	2.3	2.0	8.4	9.7	8.5	8.0	7.4	7.2	6.9	6.7
Income (Net)	**12.4**	**16.4**	**20.8**	**20.2**	**17.1**	**15.4**	**13.7**	**13.2**	**12.8**	**12.7**	**12.3**
Of which: GBCs	9.3	13.4	18.5	17.1	11.4	10.9	10.3	10.7	10.6	10.7	10.5
Current Transfers (Net)	**-2.8**	**-6.5**	**-8.9**	**-7.7**	**-4.0**	**-2.9**	**-3.0**	**-3.1**	**-3.1**	**-3.1**	**-3.2**
Capital and Financial Accounts	**11.9**	**4.0**	**24.3**	**8.2**	**0.4**	**6.6**	**6.3**	**6.0**	**5.8**	**5.7**	**5.6**
Capital Account	**0.0**	**0.0**	**0.0**	**0.4**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**11.9**	**4.0**	**24.3**	**7.8**	**0.3**	**6.6**	**6.3**	**6.0**	**5.8**	**5.7**	**5.6**
Non-GBCs	0.6	-4.7	-0.3	3.1	4.9	-1.1	0.7	0.6	0.5	1.1	0.8
GBCs	11.3	8.6	24.6	4.7	-4.5	7.8	5.6	5.4	5.3	4.6	4.9
Errors and Omissions	**-0.5**	**1.1**	**0.0**	**0.5**	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**7.2**	**-3.7**	**11.3**	**-2.4**	**-3.4**	**2.1**	**2.0**	**1.8**	**1.7**	**1.6**	**1.5**
Memorandum items:											
Gross international reserves, BOM, (mill. of U.S. dollars)	7,354	7,242	7,805	7,740	7,254	7,604	7,954	8,304	8,654	9,004	9,354
In months of imports of goods and services, f.o.b.	16.9	14.3	11.6	11.6	9.6	9.7	9.5	9.5	9.5	9.5	9.5
Percent of external short term debt	1.3	1.2	1.1	0.9	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Total external debt	88.9	110.7	134.0	132.0	128.9	119.8	112.3	105.4	99.6	93.8	88.4
Exports of G&S, percentage change	-5.9	-41.3	3.4	56.7	9.9	13.3	7.9	8.3	5.8	4.3	4.3
Imports of G&S, percentage change	-2.2	-29.1	16.0	32.9	-0.2	12.3	4.1	6.4	5.0	4.5	3.9
Mauritian rupees per U.S. dollar (period average)	35.5	39.3	41.7	44.2	45.3						
Mauritian rupees per U.S. dollar (end of period)	36.6	39.5	43.5	43.9	44.3						
GDP (millions of U.S. dollars)	14,436	11,408	11,484	12,928	14,397	16,388	17,683	18,988	20,226	21,526	22,883

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

Table 4. Mauritius: Monetary Survey, 2019–29[1]

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Actual			Est.			Proj.			
	(Millions of rupees, end of period; unless otherwise indicated)										
Central Bank of Mauritius											
Net foreign assets	269,147	284,981	306,242	290,734	255,938	266,395	276,141	288,371	300,664	313,155	326,506
(in millions of US dollars)	7,354	7,210	7,035	6,624	5,777	6,069	6,305	6,541	6,778	7,014	7,250
Net domestic assets	-145,972	-90,266	-73,480	-42,570	-79,039	-80,611	-80,318	-80,167	-79,243	-77,066	-73,894
Net domestic credit	-19,808	15,120	57,510	71,987	74,446	74,565	74,684	74,804	74,925	75,047	75,171
Government (net)	-23,863	-27,033	-32,087	-18,478	-16,877	-16,762	-16,647	-16,531	-16,414	-16,297	-16,178
Commercial banks	23	2,053	88	117	44	49	53	57	61	65	70
Other sectors	4,032	40,101	89,509	90,348	91,278	91,278	91,278	91,278	91,278	91,278	91,278
Other items (net)	-126,164	-105,386	-130,989	-114,557	-153,485	-155,176	-155,002	-154,971	-154,168	-152,113	-149,065
Reserve money	123,175	194,716	263,584	248,164	176,899	185,784	195,823	208,204	221,421	236,089	252,611
Currency outside banks	42,909	46,561	50,200	54,642	59,911	67,883	73,786	80,450	87,383	94,829	102,909
Bank reserves	80,266	148,154	213,383	193,522	116,988	117,902	122,037	127,754	134,038	141,261	149,702
Banks											
Net foreign assets	378,325	468,678	557,097	571,652	603,741	613,763	608,813	611,107	614,393	614,254	614,114
(in millions of US dollars)	10,337	11,857	12,798	13,023	13,628	13,983	13,901	13,862	13,850	13,758	13,637
Net domestic assets	161,329	143,989	110,371	142,599	175,212	243,220	334,411	430,550	531,952	646,561	773,033
Net domestic credit	752,523	810,715	927,141	982,692	1,022,037	1,103,184	1,181,115	1,263,224	1,345,820	1,431,760	1,523,829
Credit to BoM	164,461	210,880	276,261	253,772	215,311	234,285	243,795	252,974	262,006	270,702	279,067
o/w Other Claims on BoM[2]	63,441	79,745	95,470	67,796	81,718	93,163	93,537	91,857	89,413	85,602	80,125
Central Government (net)	96,370	105,925	138,452	150,985	183,957	201,602	221,577	240,182	258,263	276,935	297,910
Other financial and public sector[3]	91,959	81,893	98,702	164,521	177,863	190,580	204,416	219,932	235,778	252,506	270,421
Claims on private sector[4]	399,733	412,018	413,726	413,413	444,906	476,716	511,326	550,136	589,773	631,617	676,431
Other items (net)	-591,195	-666,726	-816,770	-840,092	-846,825	-859,964	-846,704	-832,674	-813,867	-785,199	-750,796
o/w Deposits excluded from broad money: GBC deposits	-385,057	-439,048	-572,122	-580,753	-550,965	-545,908	-544,678	-548,257	-551,705	-555,271	-560,078
Total deposits, securities and liabilities to BoM	539,654	612,667	667,468	714,251	778,953	856,983	943,224	1,041,657	1,146,346	1,260,815	1,387,147
Monetary Survey											
Net foreign assets	647,472	753,659	894,161	862,386	859,679	880,158	884,954	899,477	915,057	927,409	940,620
(in millions of US dollars)	17,690	19,066	20,542	19,647	19,405	20,051	20,206	20,404	20,627	20,772	20,887
Net domestic assets	-45,499	-50,066	-128,313	-56,281	4,995	76,957	167,622	261,988	362,071	476,062	602,158
Net domestic credit	568,231	612,903	708,302	800,790	878,470	943,415	1,011,951	1,084,997	1,158,678	1,236,040	1,319,863
Central government (net)	72,507	78,892	106,365	132,507	167,081	184,839	204,930	223,651	241,849	260,638	281,732
Other financial and public sector	95,856	121,879	188,075	254,647	266,158	281,533	295,369	310,884	326,731	343,459	361,374
Claims on the private sector[4]	399,868	412,132	413,862	413,636	445,231	477,042	511,652	550,461	590,099	631,943	676,756
o/w Credit to the private sector[5]	438,825	450,868	452,729	455,785	494,555	529,907	568,369	611,498	655,547	702,049	751,851
Other items (net)	-613,730	-662,969	-836,615	-857,071	-873,475	-866,458	-844,329	-823,010	-796,607	-759,979	-717,704
M1	357,449	442,612	495,690	514,805	550,020	601,760	655,579	716,417	779,932	848,320	922,705
Money and quasi-money (M2)	471,653	554,951	602,831	627,747	677,008	733,074	798,673	872,828	950,252	1,033,619	1,124,300
M2 plus resident FC deposits and securities other than shares (M3)	601,973	703,593	765,847	806,105	864,674	957,114	1,052,577	1,161,465	1,277,128	1,403,471	1,542,778
Memorandum items											
M2	6.2	17.7	8.6	4.1	7.8	8.3	8.9	9.3	8.9	8.8	8.8
M3	8.5	16.9	8.8	5.3	7.3	10.7	10.0	10.3	10.0	9.9	9.9
Deposits	7.6	13.5	8.9	7.0	9.1	10.0	10.1	10.4	10.1	10.0	10.0
Reserve money	22.2	58.1	35.4	-5.9	-28.7	5.0	5.4	6.3	6.3	6.6	7.0
Net domestic credit	6.1	7.9	15.6	13.1	9.7	7.4	7.3	7.2	6.8	6.7	6.8
Government (net)	-3.8	8.8	34.8	24.6	26.1	10.6	10.9	9.1	8.1	7.8	8.1
Private Sector Credit	17.1	2.7	0.4	0.7	8.5	7.1	7.3	7.6	7.2	7.1	7.1
Multiplier (average M3/RM)	4.9	3.6	2.9	3.2	4.9	5.2	5.4	5.6	5.8	5.9	6.1
Velocity (GDP/M3)	0.9	0.6	0.6	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.7
	(As percent of GDP)										
M3	117.5	156.7	159.9	141.1	132.7	132.4	135.8	139.2	142.8	146.5	150.4
Deposits	105.4	136.5	139.4	125.0	119.5	118.6	121.7	124.8	128.2	131.6	135.2
Reserve money	24.1	43.4	55.1	43.4	27.1	25.7	25.3	25.0	24.8	24.6	24.6
Net domestic credit	111.0	136.5	147.9	140.2	134.8	130.5	130.5	130.0	129.5	129.0	128.6
Government (net)	14.2	17.6	22.2	23.2	25.6	25.6	26.4	26.8	27.0	27.2	27.5
Private	78.1	91.8	86.4	72.4	68.3	66.0	66.0	66.0	66.0	66.0	66.0
	(in millions USD)										
Deposits excluded from broad money: GBC deposits	10,521	11,107	13,143	13,231	12,437	12,437	12,437	12,437	12,437	12,437	12,437

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 ammount 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]Credit to the private sector accounts for the financial resources provided to the resident private sector (in domestic and foreign currency) by the Central Bank and by Other Depositary Corporations, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, that establish a claim for repayment. The component on Other Depository Corporations excludes the following categories: i) financial derivatives to other non-financial corporations and other resident sectors; ii) shares to non-financial corporations; iii) settlements accounts to other non-financial corporations and other resident sectors, both in national and foreign currency. From 2019-2023, credit to the private sector by OFCs is estimated at 40.500 million of Rs.

Table 5. Mauritius: Financial Soundness Indicators for Banks and Non-Bank Deposit-Taking Institutions, 2019–2023 Q3[1]

	2019				2020				2021				2022				2023		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec	Mar.	Jun.	Sep.	Dec	Mar.	Jun.	Sep.	Dec	Mar.	Jun.	Sep
Capital Adequacy																			
Regulatory capital to risk-weighted assets	19.5	20.0	19.8	19.6	19.3	20.4	19.9	19.7	19.8	19.7	20.7	20.7	21.0	20.3	20.2	20.6	21.4	20.9	21.4
Regulatory Tier 1 capital to risk-weighted assets	18.2	18.5	18.4	18.2	18.0	19.0	18.5	18.3	18.4	18.3	19.4	19.4	19.8	19.1	18.9	19.3	19.5	19.0	19.5
Non-performing loans net of provisions to capital	13.0	12.7	11.5	10.4	11.5	12.2	11.1	10.2	10.6	8.2	7.6	8.9	9.2	8.8	8.4	8.3	8.1	10.3	10.1
Asset Quality																			
Non-performing loans to total loans[2]	6.3	6.3	5.8	4.9	5.3	5.8	6.1	6.2	6.2	5.6	5.3	5.8	5.8	5.6	5.2	4.9	4.7	5.6	5.8
Earnings and Profitability																			
Return on assets	2.2	2.0	2.0	1.9	1.2	1.1	1.1	1.0	1.2	1.3	1.3	1.3	1.2	1.3	1.5	1.6	2.5	2.6	2.6
Return on equity	16.3	15.3	15.3	14.8	9.7	8.5	8.6	7.7	10.0	11.1	10.7	10.5	10.4	11.2	12.8	14.0	21.4	22.1	21.6
Interest margin to gross income	72.7	73.3	73.1	72.1	71.7	68.8	68.6	68.7	63.1	66.2	66.3	65.9	66.4	68.6	70.0	70.1	74.4	74.2	74.9
Non-interest expenses to gross income	38.4	39.4	40.4	40.6	41.8	40.9	41.7	42.3	44.0	43.6	44.4	44.6	45.8	45.1	42.5	40.6	35.1	33.0	32.9
Liquidity																			
Liquid assets to total assets	48.9	48.5	50.2	52.2	52.0	53.7	56.5	55.5	58.4	58.5	59.2	48.6	49.8	47.8	47.9	45.5	46.9	47.0	46.9
Liquid assets to short-term liabilities	55.5	55.2	57.1	58.9	58.8	60.5	63.3	62.3	65.2	65.3	66.1	54.3	55.8	53.6	53.3	50.8	52.6	52.8	52.8
Sensitivity to Market Risk																			
Net open position in foreign exchange to capital	3.4	2.6	1.8	1.9	1.6	1.6	1.5	1.5	1.7	2.0	1.6	1.5	1.5	1.8	1.9	1.5	1.5	1.1	1.7
Encouraged Set of Financial Soundness Indicators																			
Capital to assets	10.4	10.5	10.4	10.2	10.0	9.8	9.4	9.6	9.2	9.1	9.2	9.1	9.2	9.1	8.8	9.0	9.2	9.3	9.4
Value of large exposures to capital *	249.7	268.0	255.9	255.4	262.1	276.7	276.6	260.4	254.9	271.3	252.3	284.0	270.8	308.2	322.1	278.5	289.8	280.2	240.6
Customer deposits to total (non-interbank) loans	161.2	159.9	161.5	174.7	179.4	182.7	194.8	197.4	213.0	219.2	230.8	234.3	233.7	228.1	228.8	226.3	229.1	222.0	221.3
Residential real estate loans to total loans[2]	10.7	11.0	11.1	10.8	10.6	10.6	11.3	11.5	12.5	11.3	11.7	11.6	12.3	12.5	12.2	11.9	12.2	12.8	13.4
Commercial real estate loans to total loans[2]	4.3	4.2	4.7	5.0	4.7	5.0	5.1	5.4	5.5	5.5	5.5	5.4	5.9	4.9	4.4	4.3	4.2	4.5	4.6
Trading income to total income	9.2	8.4	9.1	9.7	13.0	14.7	14.3	13.5	17.9	12.7	12.7	12.4	11.3	10.0	10.6	10.7	11.2	10.1	10.2
Personnel expenses to non-interest expenses	49.0	47.9	47.3	46.8	46.5	47.2	46.7	47.8	48.7	48.2	47.2	47.6	49.3	49.1	48.8	50.0	49.0	49.9	49.5

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.

Annex I. Risk Assessment Matrix[1]

	Risks	Likelihood	Expected Impact	Policy Recommendation
Global Risks				
Conjunctural Risks	**Commodity price volatility.** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	**High.** Increase in commodity prices leads to real sector volatility and decline in real income globally. Lower external demand for tourism, higher cost of commodity imports, higher untargeted fuel subsidies, accelerating domestic inflation.	Allow fuel prices to adjust in line with fuel price adjustment mechanism. Use targeted transfers to support vulnerable households from the impact of higher fuel prices. Outlook-based monetary tightening to address inflationary pressures and prevent de-anchoring inflation expectations. Strengthen external buffers.
	Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. **China:** Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops. **Europe:** Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn. **U.S.:** Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction.	Medium	**Medium.** Lower external demand for export of goods and tourism negatively impacts the balance of payments and the growth outlook. Volatility of the exchange rate. Lower activity in the GBC and banking sector.	Adjust the pace of monetary tightening and fiscal consolidation. FX interventions to smooth excessive volatility, while allowing for flexible exchange rate.
	Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	**Medium.** Capital outflows to "safe havens" and sudden stops in FDIs. Slowdown and elevated liquidity and rollover risks in GBC and banking sectors.	Adopt measures to ensure financial system FX liquidity (incl. swaps with AEs central banks, FX intervention), while generally allowing for exchange rate flexibility. Monitor prudential risks at macro- and micro-level including through stress testing, adopt targeted macroprudential measures. Calibrate fiscal and monetary policies consistent with the medium-term objectives and outlook. Implement structural reforms to support private sector investment. Sustain compliance with AML/CFT standards.

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 scenarios 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.

	Risks	Likelihood	Expected Impact	Policy Recommendation
Structural Risks	**Deepening geoeconomic fragmentation.** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Medium.** Emerging barriers to trade and lower eternal demand for exports and tourism, rising cost of external funding, slow-down in growth and reduction in potential growth.	Implement structural reforms to support private sector investment and economic diversification. Calibrate fiscal and monetary policies consistent with supporting growth while preserving macroeconomic stability. Support price competitiveness via flexible exchange rate.
	Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**High.** Lower external demand, including for tourism and negative impact on the growth outlook. Inflationary pressure. Damage to local infrastructure in case of local extreme climate events.	Build resilience to climate change including through climate adaptation investment while preserving debt sustainability. Structural reforms to support private sector investment and promoting economic diversification.
Domestic Risks				
Conjunctural Risks	**Large fiscal slippages ahead of elections.** Higher public wages and pensions increase current spending while no new revenue mobilization measures are adopted. Large expenditure from extra-budgetary funds.	**High**	**High.** Deterioration of the fiscal position, larger financing needs and worsening debt dynamics. Aggregate demand induces activity above capacity.	Adopt a medium-term fiscal consolidation strategy, underpinned by credible measures to foster revenue mobilization, and increase spending efficiency. Reform the pension system to support fiscal sustainability. Strengthen the new debt framework. Strengthen the monetary policy framework and implement a forward-based monetary tightening to counter any inflationary pressures.
	Delayed and incomplete tightening of monetary policy stance by the Bank of Mauritius. Given limited resources, the BOM does not tighten monetary policy to address inflationary pressures so that to minimize policy costs.	**Medium**	**Medium.** Inflation persistently above the BOM's target and inflation expectations de-anchored. Larger policy tightening is required to re-anchor expectations down the road with a negative impact on the growth outlook.	Assess whether more capital buffers are needed to support BOM independence and implementation of its price and financial stability mandate. Strengthen the monetary policy framework and tighten monetary policy guided by the macroeconomic outlook.

Annex II. Sovereign Risk and Debt Sustainability Framework

Figure 1. Mauritius: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	The overall risk of sovereign stress is high, reflecting mostly a high level of vulnerability in the medium- and long-term horizons.
Near term 1/			
Medium term	**Moderate**	**High**	Significant quasi-fiscal operations from the MIC (fully owned by the BOM), recapitalization needs of the BOM, and the large stock of the BOM external debt pose significant contingent liability risks to the central government in the medium term. High vulnerability to climate shocks poses significant growth and fiscal risks.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test	...	...	
Long term	...	**High**	Long-term risks are high as Mauritius faces a declining population due to ageing and is highly vulnerable to climate shocks. On current policies, pension spending would increase over the long term, leading to unsustainable financing needs. A scaling up in climate adaptation investment would also push financing needs and the stock of debt above the baseline in the long term.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Mauritius is at a high overall risk of sovereign stress. Although debt is projected to decline further, it is expected to remain high in the baseline during an extended time horizon. This risk is mitigated by a favorable currency and maturity composition of debt which make liquidity risks moderate in the medium term, as assessed by the GFN Financeability Module. The deep domestic capital markets and banks' excess liquidity further mitigate the risks. As the post-pandemic recovery continues, implementing a credible medium-term fiscal consolidation would help reduce debt vulnerabilities. Reforms to tackle risks arising from population ageing and increase resilience to climate change shocks would support fiscal and debt sustainability.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Mauritius: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Sector	No.	Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	Yes	Includes the National Property Fund.
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	Yes	Mauritius' Development Bank is included, but not the State Bank of Mauritius.

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage · Missing from recommended coverage · Not applicable

Reporting on intra-government debt holdings

Sector	No.	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt		13.9	56.5		0.4	3.5	15.0	25.4	114.7
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0.0
CPS / NFPS / GG: expected / CG	3	Social security funds									0.0
CPS / NFPS / GG: expected	4	State govt.									0.0
CPS / NFPS / GG: expected	5	Local govt.									0.0
CPS / NFPS	6	Nonfin pub. corp.									0.0
CPS	7	Central bank		0.6	4.9			0.2		1.2	7.0
CPS	8	Oth. pub. fin. corp									0.0
		Total	0	14.5	61.4	0.0	0.4	3.7	15.0	26.6	121.6

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

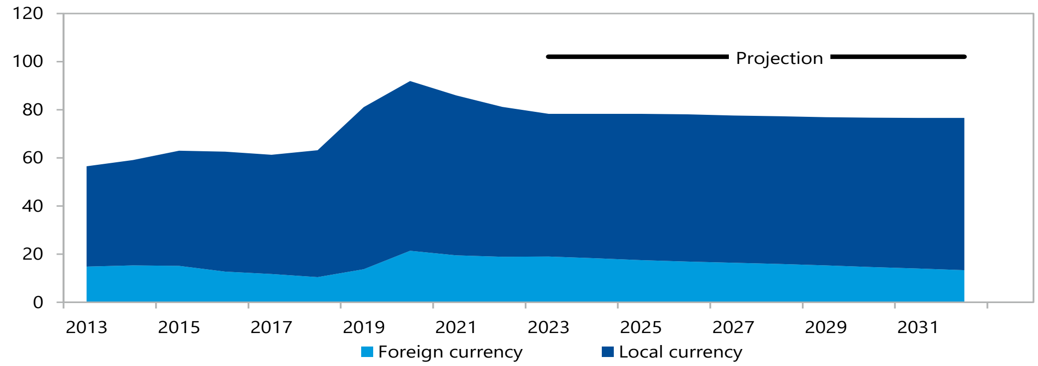
Commentary: Public financial corporations exclude public sector commercial banks (i.e., Mauritius' Development Bank is included, but not the State Bank of Mauritius). Local governments may borrow only with the approval and guarantee of the central government, provided that they demonstrate capability to repay. Major social security funds include the National Pensions Fund and the National Savings Fund which have no reported debt but a small amount of payables.

Source: IMF staff.

Figure 3. Mauritius: Public Debt Structure Indicators

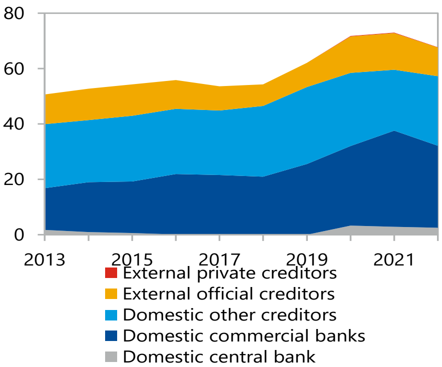
Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



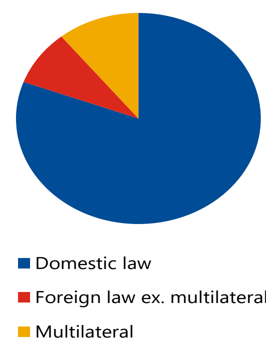
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



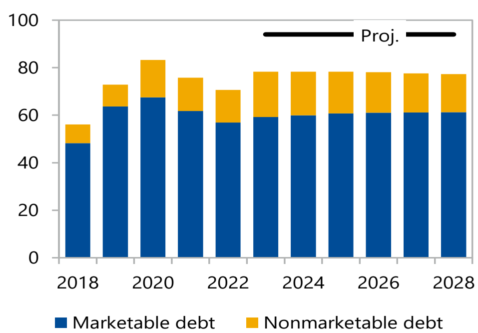
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



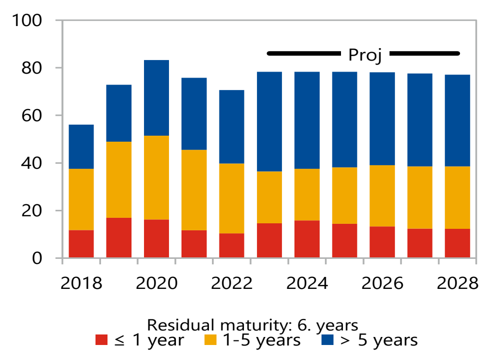
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: The debt-to-GDP ratio will remain elevated in the medium term given the projected primary fiscal deficit. Nevertheless, debt composition is projected to remain relatively favorable as domestic financing and longer maturities will account for most of the debt, and the bulk of debt is potentially marketable.

Source: IMF staff.

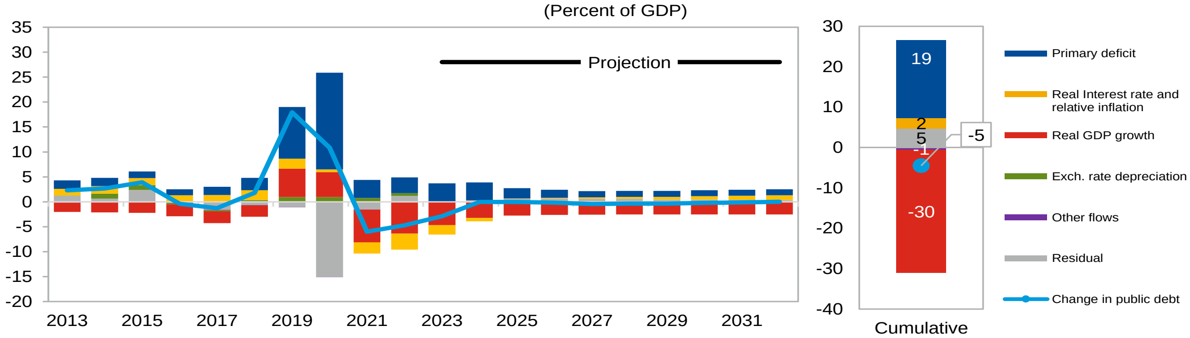
Figure 4. Mauritius: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	81.2	78.3	78.3	78.3	78.1	77.6	77.3	76.9	76.7	76.6	76.6
Change in public debt	-4.7	-2.9	0.0	0.0	-0.2	-0.4	-0.4	-0.4	-0.2	-0.1	0.0
Contribution of identified flows	-5.9	-2.9	-0.3	-0.6	-0.9	-1.1	-1.0	-0.8	-0.7	-0.5	-0.4
Primary deficit	3.2	3.7	3.6	2.1	1.6	1.2	1.2	1.2	1.2	1.2	1.2
Noninterest revenues	24.3	24.2	23.3	23.0	23.1	23.2	23.2	23.2	23.2	23.2	23.2
Noninterest expenditures	27.5	27.9	26.8	25.0	24.8	24.4	24.4	24.4	24.4	24.4	24.4
Automatic debt dynamics	-9.0	-6.5	-3.8	-2.7	-2.4	-2.2	-2.1	-1.9	-1.8	-1.6	-1.5
Real interest rate and relative inflation	-3.2	-1.9	-0.7	0.0	0.1	0.3	0.4	0.5	0.7	0.8	1.0
Real interest rate	-3.4	-2.3	-1.1	-0.2	-0.2	0.0	0.1	0.3	0.4	0.6	0.7
Relative inflation	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Real growth rate	-6.4	-4.6	-3.2	-2.7	-2.6	-2.5	-2.5 .	-2.5	-2.5	-2.5	-2.5
Real exchange rate	0.5	…	…	…	…	…	… .	…	…	…	…
Other identified flows	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contribution of residual	1.2	0.0	0.3	0.6	0.7	0.6	0.6	0.5	0.4	0.4	0.4
Gross financing needs	24.0	13.5	20.8	22.4	22.2	22.2	22.0	22.2	22.0	21.6	21.0
of which: debt service	20.9	9.9	17.3	20.4	20.7	21.0	20.9	21.1	20.9	20.4	19.9
Local currency	18.1	9.1	16.6	19.7	20.0	20.4	20.3	20.5	20.3	19.9	19.3
Foreign currency	2.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Memo:											
Real GDP growth (percent)	8.0	6.0	4.2	3.6	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Inflation (GDP deflator; percent)	8.0	6.2	4.6	3.7	3.9	3.7	3.7	3.7	3.7	3.7	3.7
Nominal GDP growth (percent)	16.7	12.6	9.0	7.5	7.4	7.2	7.1	7.1	7.1	7.1	7.1
Effective interest rate (percent)	3.5	3.0	3.1	3.4	3.6	3.7	3.8	4.0	4.3	4.5	4.7

Contribution to Change in Public Debt

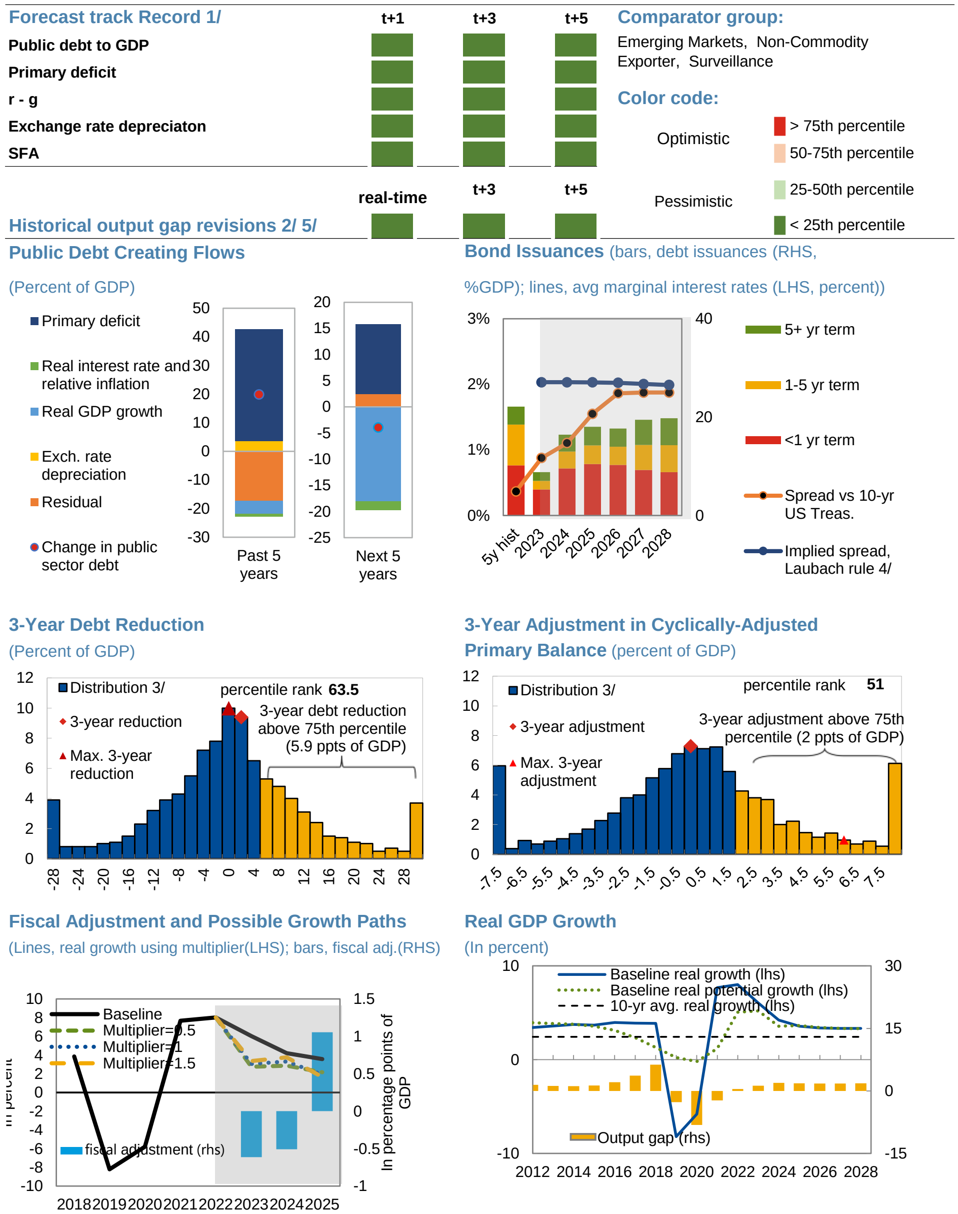
(Percent of GDP)



Staff commentary: Public debt will remain high over the projection period driven by the r-g dynamics. While the projected real GDP over the period should contribute to reduce debt, it will be insufficient to offset the effects of a relatively high primary deficit and real interest rate which will put pressure towards higher debt. Gross financing needs will remain elevated, only declining slowly towards the end of the projection horizon. While total public debt in the SRDSF includes SOEs debt, the government budget does not consolidate SOEs, hence the table shows a marginal contribution of unidentified residuals to the change in debt.

Source: IMF staff.
Figures in the SRDSF refer to fiscal year (FY) rather than calendar year. For example, “2023” stands for FY2023/24, i.e., the fiscal year running from July 2023 to June 2024.

Figure 5. Mauritius: Realism of Baseline Assumptions



Commentary: The forecast track record tool does not show any projection realism issues as all cells are green throughout the table. As the post-pandemic recovery continues, growth will be the major contributor to debt reduction in the projection period. The adjustment to the cyclically-adjusted primary balance envisaged in the baseline is not unrealistic given that it falls below the 75th percentile of past adjustments observed in other market access countries. The potential negative impact of fiscal adjustment on growth could be contained by improving the efficiency of public spending.

Source : IMF Staff.
1/ Projections made in the October and April WEO vintage.
2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.
5/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

Figure 6. Mauritius: Medium-Term Risk Analysis

Medium-term Risk Analysis

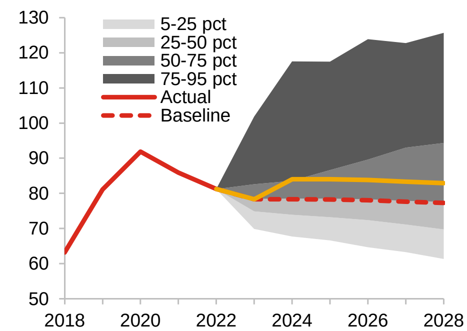
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

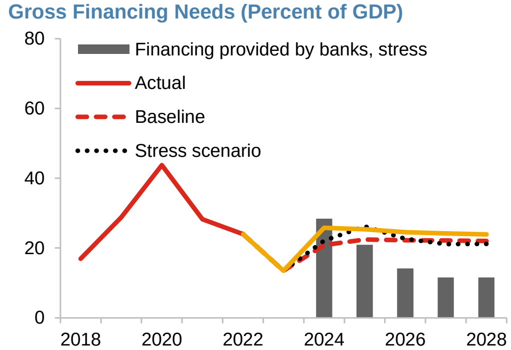
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	64.3	0.9	…	
	Probability of debt not stabilizing (pct)	31.0	0.3	…	
	Terminal debt level x institutions index	26.5	0.6	…	
	Debt fanchart index	**…**	**1.8**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	20.5	7.0	…	
	Bank claims on government (pct bank assets)	8.0	2.6	…	
	Chg. in claims on govt. in stress (pct bank assets)	0.0	0.0	…	
	GFN financeability index	**…**	**9.6**	**Moderate**	

Legend: Interquartile range; Mauritius

Final fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)

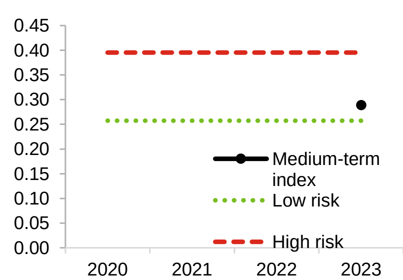


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index

(Index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.2
Medium-term index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 31.8 pct.

Commentary: The Debt Fanchart and the GFN modules point to a moderate level of risk as the fan chart width and average financing needs fall above the median of the historical cross-country distribution. In the event of natural disaster shocks (to which Mauritius is highly vulnerable), gross financing needs would increase and remain permanently higher than in the baseline projection.

Source: IMF staff.

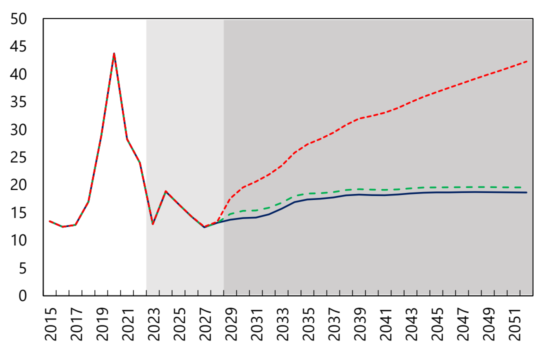
Figure 7. Mauritius: Long-Term Risk Analysis

Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

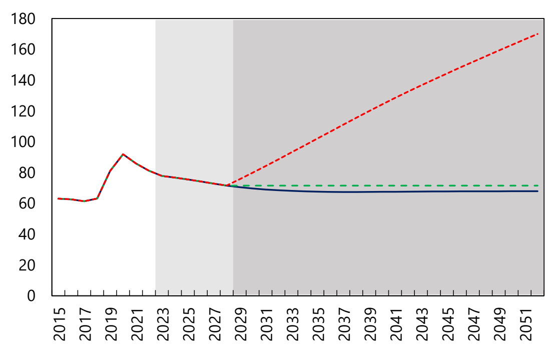
GFN-to-GDP Ratio



Projection
Long run projection
Baseline with t+5
Baseline with t+5 and DSPB*
Historical 10-year average

* DSPB: Debt Stabilizing Primary Balance.

Total Public Debt-to-GDP Ratio



Projection
Long run projection
Baseline with t+5
Baseline with t+5 and DSPB*
Historical 10-year average

* DSPB: Debt Stabilizing Primary Balance.

Commentary: The risk from abnormally large debt amortizations over the longer-term horizon is overall low. Under a scenario in which the primary balance and other debt drivers would stay at their 10-year historical average, the risk would be high. Given the large pandemic-induced primary deficits in some historical years, this scenario is unrealistic. Under the baseline scenarios, financing needs and debt would stabilize in the long run, albeit at high levels.

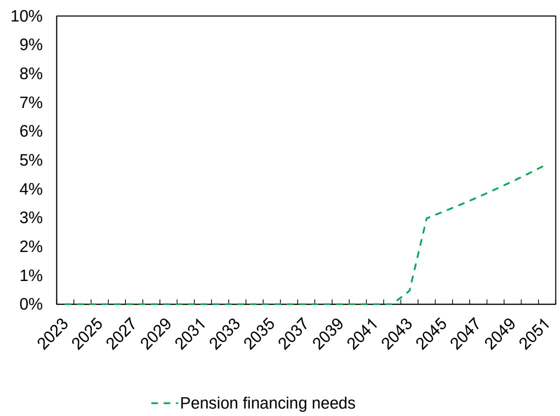
Source: IMF staff.

Figure 7. Mauritius: Long-Term Risk Analysis (Continued)

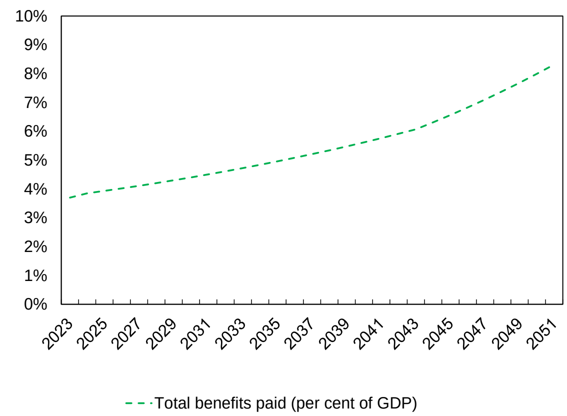
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	1.29%	4.98%	16.40%

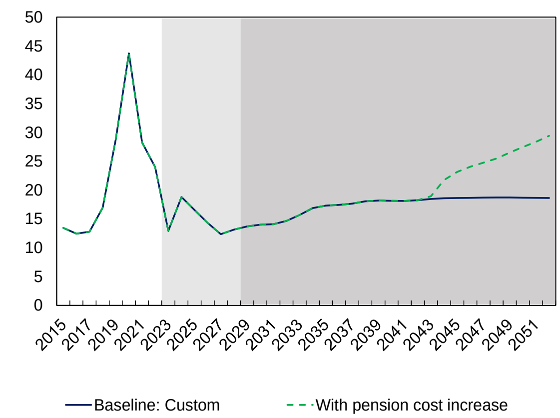
Pension Financing Needs



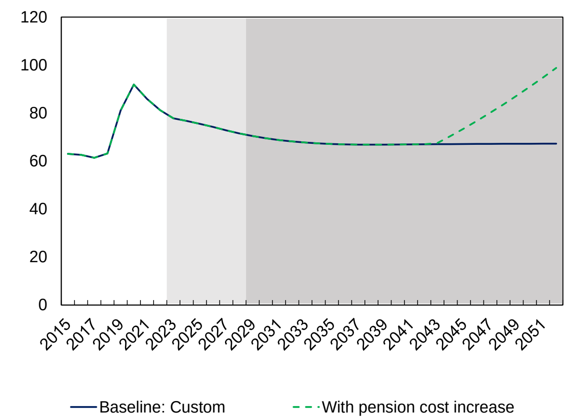
Total benefits paid



GFN-to-GDP ratio



Total public debt-to-GDP ratio



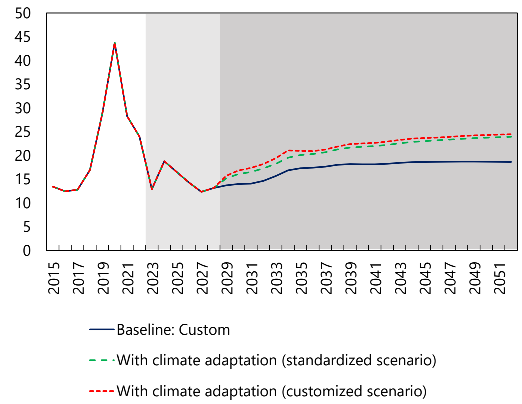
Commentary: The Long-Term Risk Analysis suggests that demographic pressures may be a significant source of risk. Mauritius faces significant pension imbalances with benefits paid in FY22/23 estimated at around 7 percent of GDP and contributions at around 2 percent. Mauritius is already facing a declining population due to ageing, with the dependency ratio projected to worsen over time. Assuming that (i) pension contributions are doubled, and benefits halved in the medium term, (ii) contributions grow at the same rate as GDP per worker over time, and (iii) the labor force participation rate increases gradually over the next 20 years, stabilizing at over 70 percent, pension financing needs would gradually increase over the long run. This would push gross financing needs on a rising path and above the baseline. An alternative scenario with no policy changes would result in a more adverse path.

Source: IMF staff.

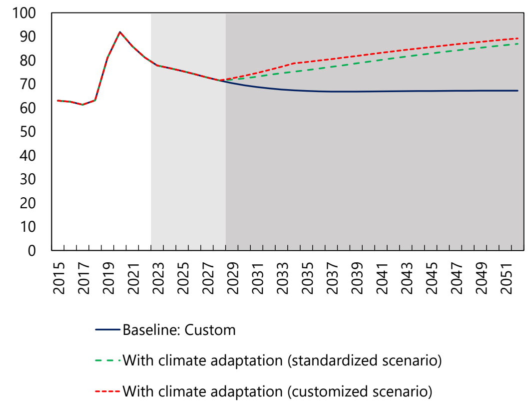
Figure 7. Mauritius: Long-Term Risk Analysis (Concluded)

Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Mauritius is vulnerable to climate shocks, which have caused average damages estimated at 1.5 to 2.3 percent of GDP per year during 1960-2022. Under a scenario in which public investment is scaled up permanently by 1.5 percent of GDP in each year beyond t+5 to finance climate adaptation (standardized scenario), gross financing needs and public debt would increase permanently above the baseline. Financing needs and debt would be higher under a more aggressive scaling up of 2 percent of GDP per year (customized scenario).

Source: IMF staff

Annex III. External Sector Assessment

Overall Assessment: *The external position of Mauritius at end-2023 was moderately weaker than the level implied by fundamentals and desirable policies. The current account deficit narrowed to 4.5 percent of GDP in 2023 (from 11.1 percent of GDP in 2022) on the back of rebounding tourism service receipts, strong income flows, and lower international commodity prices. The reserve adequacy assessment suggests that international reserves at end-2023 were below the lower bound of the advisable range.*

Potential Policy Responses: *Implementing a medium-term growth-friendly fiscal consolidation would help reduce external imbalances. Reserve accumulation would strengthen Mauritius' external buffers against shocks. Preserving financial stability and continuing to strengthen the AML/CFT framework would help sustain capital and financial flows in Mauritius. Structural reforms to foster private sector investment and economic diversification would support sustainable financial inflows, including FDIs in new productive sectors, and improve resilience to global shocks.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP is estimated at 223 percent of GDP in 2023, down from 252 percent of GDP in 2022. About 64 percent of the 2023 NIIP comes from the volatile Global Business Centers (GBCs) while the less volatile domestic economy's NIIP makes up the remaining 36 percent. The decrease in NIIP in 2023 was primarily driven by increases in foreign direct and other investment liabilities of GBCs. FDI and other investment accounted for 67 and 17 percent of total gross liabilities, respectively. Portfolio investments accounted for 30 percent of gross assets and 16 percent of liabilities.

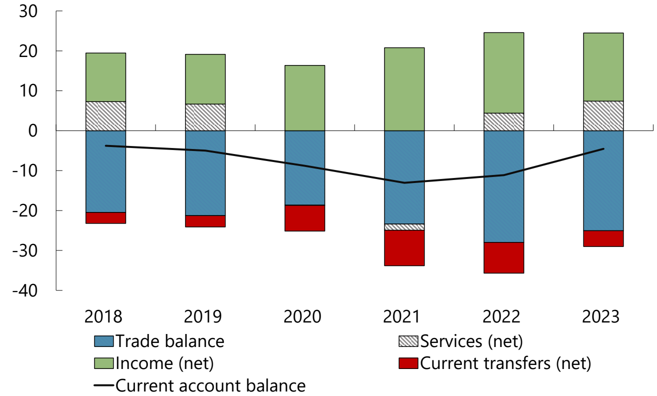
Assessment. Vulnerabilities from large gross liabilities (about 3967 percent of GDP in 2023) are expected to be mitigated by large external assets (about 4191 percent of GDP in 2023). However, given Mauritius' financial center status, the complex nature of transactions in the GBC sector and domestic banks' large exposure to GBC deposits (about 87 percent of GDP), it would be important to continue monitoring banks' exposure and credit risks, developments in the GBC sector and the sensitivity of GBCs and non-resident flows to global financial conditions. Closely following changes in foreign legal and taxation frameworks is also important as they may also impact GBC flows.

2023 (% GDP)	NIIP: 223	Gross Assets: 4191	Debt Assets: 181	Gross Liab.: 3967	Debt Liab.: 619

Current Account

Background. Mauritius' current account deficit narrowed from 11.1 percent of GDP in 2022 to 4.5 percent of GDP in 2023 on the back of strong rebound in tourism service receipts, income flows, and lower international commodity prices. Over the medium term, the current account is expected to converge to about 4 percent of GDP, as the trade balance, net services, and net income return to pre-pandemic levels.

Current Account Balance
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Assessment. Based on the EBA-lite current account (CA) model, the CA norm is estimated at 3.3 percent of GDP in 2023. Given Mauritius' extremely large NIIP, it is estimated that the current account balance understates income inflows related to retained earnings on portfolio equity investment and overstates income debit on portfolio and other debt instruments (see IMF Working Paper 19/132, "*The Measurement of External Accounts*"). To account for a downward bias in measurement of net income flows, the -4.5 percent of GDP CA balance in 2023 is adjusted upwards (by +6.8 percent of GDP). The CA adjustor is estimated with disaggregated NIIP data.[1] Given the adjusted CA in 2023 (of 2.1 percent of GDP) and the estimated CA norm (of 3.3 percent of GDP), the model delivers a CA gap of -1.2 percent of GDP. The 2023 CA gap is less negative than that in 2021-22, which reflected a sharp deterioration in the CA due to the pandemic-related adverse shock to tourism and the surge in commodity prices following Russia's invasion of Ukraine.

Mauritius: EBA-lite Model Results, 2023

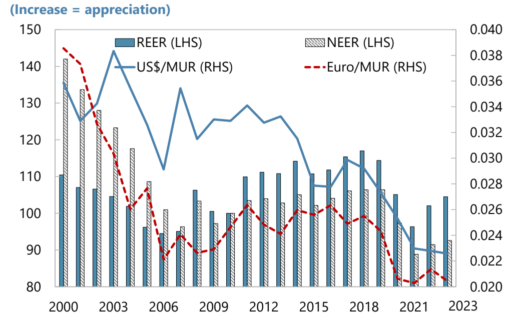
	CA model 1/ (in percent of GDP)
CA-Actual	**-4.5**
Cyclical contributions (from model) (-)	0.1
Adjustment due to understated net income 2/	6.8
Adjusted CA	**2.1**
CA Norm (from model)	**3.3**
Adjusted CA Norm	**3.3**
CA Gap	**-1.2**
o/w Relative policy gap	2.0
Elasticity	-0.3
REER Gap (in percent)	**3.9**

1/ Based on the EBA-lite 3.0 methodology
2/ Includes adjustor to account for the impact of understated net income in the income account.

Real Exchange Rate

Background. After depreciating by about 16 percent in 2020-2021, the real effective exchange rate (REER) appreciated by 5.6 percent in 2022 and 2.3 percent in 2023. The REER appreciation in 2022 and 2023 is driven mainly by a higher inflation differential between Mauritius and trading partners, due to Mauritius' relatively higher inflation. Between end-December 2023 and mid-April 2024, the Mauritian rupee depreciated by 5.7 percent relative to the U.S. dollar.

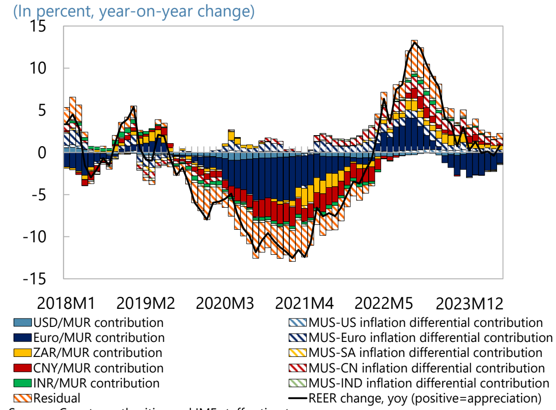
Annual Exchange Rate
(Increase = appreciation)



Source: IMF staff estimates.
Note: REER and NEER equal to 100 in 2010. An increase in each series indicates rupee appreciation.

Assessment. The Index Real Effective Exchange Rate model (IREER) estimates an undervaluation of the REER in 2023 of 0.2 percent. However, the IREER-model results are characterized by large residuals entailing high uncertainty. As a result, staff assesses the REER using instead the staff-assessed 2023 CA gap (of -1.2 percent of GDP) and a staff-estimated elasticity of 0.3, delivering an assessment of overvaluation of the 2023 REER by 3.9 percent.

Real Effective Exchange Rate, Decomposition
(In percent, year-on-year change)

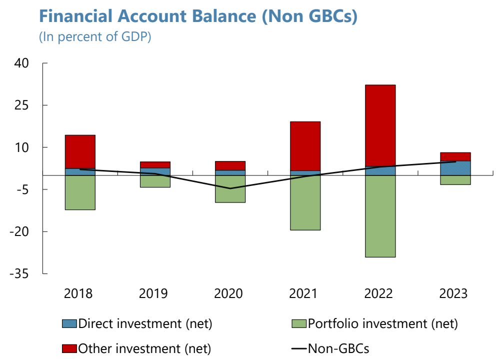


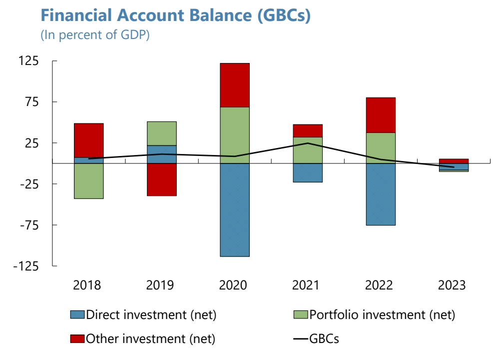
Sources: Country authorities and IMF staff estimates.

Capital and Financial Accounts: Flows and Policy Measures

Background. Mauritius' capital account is open.[2] Total net international capital and financial flows declined to about 0.4 percent of GDP in 2023 (from 8.2 percent in 2022). The GBC sector experienced a net outflow of 4.5 percent of GDP in 2023, from a net inflow of 4.7 percent in 2022 reflecting GBCs' large portfolio investment abroad. The domestic sector (excluding GBC) recorded net inflows of 4.9 percent of GDP (from net inflows of 3.1 percent of GDP in 2022). Gross FDI inflows in the domestic economy improved to 5.3 percent of GDP in 2023 from 4.2 percent of GDP in 2022 and remain concentrated in the real estate sector. In the medium term, the capital and financial account is expected to record a surplus, with the GBC sector operating as in the pre-pandemic years.

Assessment. Steady net financial inflows in the medium term will depend on the dynamics of the GBC sector, including how to attract new businesses in the sector. The operations of this sector will need to be maintained against the continued implementation of AML/CFT measures. Structural reforms to foster economic diversification would help attract FDI inflows into domestic economy. High concentration of FDI inflows in real estate should continue to be monitored and regulatory incentive schemes may need to be reviewed if signs of a real estate price boom appear.





Sources: Country authorities and IMF staff estimates.

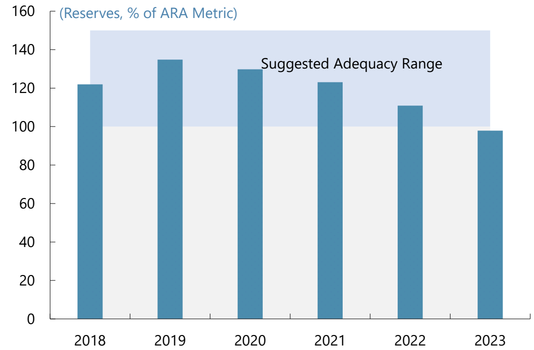
FX Intervention and Reserves Level

Background. Gross official international reserves (GOIR) stood at US$7.3 billion at end-2023 (down from US$7.7 in 2022)—about 9.7 months of imports, 50 percent of GDP, 315 percent of exports, and 73 percent of short-term external debt. The decline in GOIR in 2023 relative to 2022 reflects BOM's net interventions (about US$ 0.4 billion) and the outflow of banks' deposit from the BOM (US$1.2 billion). BOM external borrowing (US$0.3 billion) and investment income helped mitigate the decline in reserves between 2022 and 2023. Mauritius' *de jure* exchange rate arrangement is floating while its *de facto* exchange rate arrangement has been reclassified to stabilized arrangement for the period from May 5, 2023 until January 2024—with latest data (between end-January and mid-April 2024) showing a depreciation of the Mauritian rupee of 3.5 percent relative to the U.S. dollar.

BOM intervened in the foreign exchange market during 2017-19 to accumulate international reserves, which reached US$7.3 billion (equivalent to 16.9 months of imports) at end-2019. During 2020-23, BOM conducted interventions in the foreign exchange market, selling foreign exchange for a total of about US$3.1 billion (on net basis). This took place against the backdrop of a sharp deterioration of the current account during the pandemic, and high international oil and food prices. Over 2021-23, international reserves were supported by BOM's external borrowing (about US$1.5 billion) and income on investments (US$0.485 billion).

Assessment. Foreign reserve adequacy is assessed with the IMF standard ARA metric methodology, modified to reflect Mauritius-specific risks of disruptions to foreign funding of GBCs. The evaluation of reserve adequacy for end-2023 is based on the standard ARA metric augmented with 15 percent of all gross deposits of GBCs. This entails an updated methodology from the prior staff assessment (Country Report 22/223), which had augmented the standard ARA metric with 100 percent of deposits of GBCs held in non-systemic small and medium-sized banks, net of short-term assets. The use of gross GBCs' deposits in the updated methodology aligns the GBCs component with the terms in the standard metric (also gross). In addition, the change in the weight associated with the GBC component (from 100 to 15 percent) reflects risks and vulnerabilities of GBCs that are assessed to be comparable to those of other external liabilities. In addition, the Bank of Mauritius has put in place relatively stringent regulations for the banking sector to manage liquidity risk efficiently (including FX liquidity risk), with regular upgrades and in line with international norms. On this basis, the stock of international reserves at end-2023 is estimated to cover 97.9 percent of the ARA metric (while this metric calculated for end-2022 would deliver 111 percent), slightly below adequacy level.[3]

Modified ARA Metric
(Reserves, % of ARA Metric)



Sources: Country authorities and IMF staff estimates.

The large size and complex structure of the GBC sector, the relatively shallow foreign exchange market, and openness to capital and financial flows warrant strong buffers against external shocks. To this end, opportunistic BOM foreign exchange purchases, consistent with inflation targeting, would support reserve accumulation. Foreign exchange swap arrangements and credit lines with other central banks could provide for additional liquidity insurance mechanisms in a situation of market distress.

ARA Metric 2023 (billion of US$)

	Adjusted	Unadjusted
ARA metric 1/	7.4	5.5
Reserves	7.3	7.3
in percent of the ARA metric	97.9	130.8

1/ Assessing Reserve Adequacy (ARA) Metric.The unadjusted ARA metric captures the standard emerging market vulnerabilities from the following risks: lower export income, lower rollover rates of short-term debt, non-resident capital outflows proxied by the sum of portfolio liabilities and other liabilities excluding short-term debt, and resident capital flight proxied by broad money. The adjusted ARA metric augments the standard metric to account for the complexity of the interactions of the Mauritian Global Business Company (GBC) sector with the financial sector by including as idiosyncratic factor a portion of gross deposits of the GBCs.

[1] The adjustor is calibrated based on a granular CA regression model—applied to the EBA sample only—that substitutes total NIIP with separate components of net FDIs, net portfolio equity, net debt, and official reserves. The actual CA balance is then adjusted by the difference between the impact of a single NIIP variable and the impact of NIIP components. To make the estimation of the adjustor consistent with the EBA-lite sample, staff applied the percent deviation of EBA-lite coefficient on aggregate NIIP from that of EBA to adjust the coefficients obtained from the granular CA regression model.

[2] The Financial Account Restriction Index (FARI), a measure of *de jure* capital controls on a scale of 0 to 1, is at 0.14 indicating an open capital account.

[3] The revised methodology was also motivated by the need to avoid taking out of the components of the metric portions that are considered more liquid, which would go against the spirit of the ARA metric exercise. One of the main intentions of the ARA metric exercise is to estimate the potential FX liquidity needs of a country in adverse scenarios against which reserves could be held as a precautionary buffer. Therefore, the goal is not to accumulate gross reserves to meet the minimum FX liquidity needs but to prepare for tail risk events in case the Central Bank must play the role of the lender of last resort.

Annex IV. Macro-Fiscal Implications of Climate Change Adaptation in Mauritius[1]

The IMF Debt, Investment, Growth, and Natural Disaster (DIGNAD) model is used to analyze Mauritius' climate vulnerability. Model simulations suggest that public investment in adaptation infrastructure would increase Mauritius's resilience to climate shocks in terms of output growth and public finances.

1. **The DIGNAD model is a dynamic general equilibrium model designed to analyze the impact of public investment on economic growth and debt sustainability.** The model accounts for climate shocks by considering the resulting damage to public and private capital, temporary productivity loss, reduced public investment efficiency, and creditworthiness decline. It also assesses debt sustainability risks following a climate disaster and evaluates the effects of ex-ante policies, such as adaptive infrastructure development, fiscal buffer increases, and improved public investment efficiency. The model also considers public investment inefficiency and limitations posed by absorptive capacity constraints.

2. **This application of the DIGNAD model has been tailored to the Mauritian economy.** While its steady state is aligned to historical averages (excluding the COVID-19 period), initial values of the model are based on the latest available data from the authorities or staff estimates. Public infrastructure investment is set at 3.5 percent of GDP based on the estimate for FY2022/23 and its efficiency is set at around 60 percent broadly in line with the average in emerging market economies as estimated by the IMF Tool for Investment and Efficiency (2021). The initial public debt value is calibrated using the FY2022/23 debt-to-GDP ratio. The economic impact of a natural disaster shock is set at 4 percent of GDP based on historical shocks, though this may be viewed as conservative since the most extreme shock in Mauritius, in 1979, caused a 14 percent of GDP loss.[2]

Financing Sources	Scenario 1	Scenario 2
Grant	1/3	0
Concessional debt	1/3	0
Domestic revenue	1/3	1/3
Domestic debt	0	2/3
Total	1	1

3. **Two model simulation scenarios illustrate the macro-fiscal implications of climate change adaptation and reforms for Mauritius:**

- **Baseline Scenario:** *No policy change*. The baseline scenario assumes no adaptation actions and no reform measures. Public capital spending is projected to remain at 3.5 percent of GDP in the first five years of the projection period. A climate disaster is simulated in the sixth year, leading to a decline in GDP, private investment, and private consumption. At the same

[1] Prepared by Félix F. Simione (AFR) and Azar Sultanov (RES).

[2] Excluding the outlier shock in 1979, the most disruptive cyclone (1994) caused damage assessed at around 4 percent of GDP. The terms "natural disaster shock" and "climate shock" are used interchangeably in this annex. In the case of Mauritius, tropical cyclones are the most common of such shocks.

time, the public debt-to-GDP ratio would increase following the need for reconstruction spending by the government and a lower GDP.

- **Adaptation Scenario 1:** *Increased adaptation investment financed evenly by grants, concessional foreign borrowing, and domestic fiscal revenue from consumption and labor taxes*. In this scenario, it is assumed that an additional 1 percent of GDP is spent by the government on adaptation investment each year over the period 2024-2028. Under this scenario ("Scenario 1" in Figure 1), real GDP growth is stronger (up to 0.8 percentage point more) than in the baseline during the investment phase due to higher public investment and return on adaptation investment. When a climate shock hits (in 2029 in this illustration), output growth losses are about 1.5 percentage points on average in the first three years. These losses would reduce gradually over time and growth would recover to the steady state level five years after the shock. As a result of partial debt-financing (in concessional debt), the level of public debt would be higher than in the baseline during the investment phase. However, when a shock hits, the impact on debt would be less severe than in the baseline. Debt would peak in 2030 at a level lower than in the baseline, declining thereafter as the economy recovers. The impact on private investment and consumption growth would also be less severe than in the baseline during the four years following the shock. While financing adaptation and reconstruction trough revenue mobilization (i.e., higher consumption and labor income tax) reduces pressure on debt, it nonetheless would negatively impact private consumption, even so during the post-shock period when reconstruction is fully financed by domestic revenue.

- **Adaptation Scenario 2:** *Increased adaptation investment financed mostly by domestic debt*. This scenario ("Scenario 2" in Figure 1) modifies the sources of financing such that two thirds come from domestic debt (instead of grants or foreign concessional debt) and one third from domestic fiscal revenue. Simulation results suggest that, when compared with Adaptation Scenario 1, GDP growth losses would be higher after the shock hits (by 0.2 percentage point on average in the first three years) because private investment and consumption would be lower including in the investment phase due to crowding out effects from domestic debt financing. It would also take seven extra years for growth to recover to the steady state level. The public debt-to-GDP ratio would peak at a much higher level (85.6 percent in 2029). On the other hand, consumption and labor income taxes are the same in Adaptation Scenarios 1 and 2, as both entail the same amount of financing through taxes (domestic fiscal revenue).

4. **Simulation results suggest that public investment in adaptation infrastructure would increase Mauritius's resilience to climate shocks.** Increasing public investment would result in higher public debt initially but it would lower the adverse impact of future climate shocks on output, support post-disaster recovery and reduce reconstruction costs. Financing public investment through a combination of grants, concessional borrowing, and domestic fiscal revenue (such as Scenario 1) would help maintain debt sustainability as opposed to financing it predominantly through domestic debt (such as Scenario 2). Reforms such as green public

investment management could help Mauritius access global climate funds that provide grants and concessional loans in support of climate investment.

Figure 1. Mauritius: Simulation Results Using DIGNAD Model

Source: Staff calculations DIGNAD model simulations.

Annex V. Status of the 2022 Article IV Consultation Main Recommendations

Key Policy Recommendations	Updated Status for 2024 IMF Staff Report
Fiscal Policy and Debt Sustainability	
Implement fiscal consolidation through credible revenue and expenditure measures. Aim for a further improvement of the fiscal position without reliance on quasi-fiscal operations. Further reduction of expenditure by phasing out pandemic-related support and scaling back capital spending.	Fiscal imbalances narrowed in FY22/23 supported by contained spending. Pandemic-related measures were unwound in FY22/23, although current spending remained above pre-pandemic levels as new social measures were introduced to mitigate the impact of high inflation on households. While the fiscal position in FY23/24 is expected to be expansionary, it is projected to turn contractionary in FY24/25.
Use targeted transfers through social safety net programs, rather than broad-based subsidies, to protect the vulnerable.	Some newly introduced social measures are narrowly targeted, while others remain broadly targeted.
Reinstating fiscal rules to help reduce debt vulnerabilities while allowing for flexibility to address shocks.	The debt ceiling was reinstated in June 2023 at 80 percent of GDP. Escape clauses were also reinstated to allow for flexibility, although the amount of discretion they provide could undermine the credibility of the ceiling.
Reform the pension system to make it more sustainable.	No significant reforms have been implemented on pensions. While they continued to increase, the latest increase in January 2024 was targeted to a sub-group of old-age pensioners.
Monetary Policy	
Tighten the policy stance to control inflation and counter un-anchoring of inflation expectations and second-round effects. Rollout the new policy framework to improve policy effectiveness.	The authorities adopted a target range for inflation recognizing the fact that exogenous factors, including supply-side shocks, might limit the ability of the central bank to steer inflation to an exact number. The stance was accommodative, with the BOM holding the key policy rate at 4.5 percent since December 2022, while absorbing some portion of excess liquidity in the first half of 2023.

Key Policy Recommendations	Updated Status for 2024 IMF Staff Report
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, MIC return of undisbursed funds to the BOM, and timely recapitalizing the BOM. The exchange rate needs to be allowed more flexibility and a new FX intervention strategy should be oriented toward smoothing excessive volatility.	The authorities rolled out the new framework at the beginning of 2023. BOM is exploring options to improve the effectiveness of the new policy framework and communications. The authorities are receiving TA from the Fund to support central bank independence and plan to adopt amendments to the BOM Act in 2025. The BOM has not relinquished MIC's ownership. MIC has not returned the undisbursed funds to the BOM. The authorities consider that the BOM is properly capitalized. As foreign exchange market pressures eased in 2023 relative to 2022, the pace of BOM's intervention slowed. BOM's net sales of FX contributed to smoothing excess volatility of the rupee.
Financial Sector	
Continue monitoring risks and the quality of loans under moratorium. Extending regular stress testing towards more complex scenarios. Continue strengthening the AML/CFT regime, particularly as related to non-resident and cross-border activity.	The authorities continued to monitor the risks and lifted the COVID related loans moratorium. The authorities carried out banking sector stress testing with more complex scenarios. The authorities are committed at the highest level to sustain compliance with AML/CFT standards.
Structural Reforms	
Embrace structural transformation to diversify and digitalize the economy in support of Mauritius' aspiration to become a high-income country. Long-term priorities should include greater investment in climate change adaptation and mitigation.	The authorities started to prepare a new long-term vision document *Mauritius 2050* which is expected to redefine new economic diversification and digitalization goals and update the long-term reform agenda. A new bilateral trade agreement is also under discussion with the United Arab Emirates that is expected to help secure new export markets. With Fund technical assistance, the authorities have started working on scenario analysis for financing of climate adaptation. They also continue to work to secure accreditation of more Mauritian institutions with global climate funds.

Annex VI. Status of Implementation of Key 2015 FSAP Recommendations

Recommendation	Updated Status for 2024 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 has been designated to act as the macroprudential authority in Mauritius. The Bank of Mauritius Act is currently under review with the assistance of the IMF and the BOM Bill will clarify the financial stability objectives and also provide for an enabling framework for the macroprudential authority. 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.	Grandfathering provisions for GBC2s ended on June 30, 2021. The GBC sector has undergone a complete structuring overhaul, including a consolidation of the MC industry and supervision of the sector since end-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 continues to be conducted and published in the Financial Stability Report (last was published December 2023). 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 meets the needs of the Net Stable Funding Ratio that was introduced in December 2023 and will become effective in June 2024.
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) were approved by the BOM and the FSC. Joint Co-ordination Committee Working Group on Financial Stability fine-tunes data collection returns.

Recommendation	Updated Status for 2024 IMF Staff Report
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. BOM has recently placed Silver Bank under conservatorship.
Amend the law to facilitate conglomerate supervision, improve consolidated supervision, and strengthen the corrective actions toolkit.	The 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. The 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 banking legislation is being revamped and a draft Banking Bill has been prepared with assistance from the IMF, taking into consideration the key FSB attributes of Effective Resolution Regimes for financial institutions. The draft legislation is expected to be finalized during 2024.
Introduce an industry-funded deposit insurance scheme with powers to facilitate resolution.	The Mauritius Deposit Insurance Scheme Act (MDIS Act) enacted in April 2019 was proclaimed in a phased manner on December 2, 2023. The relevant provisions for the incorporation of the Mauritius Deposit Insurance Corporation Ltd (MDIC) became effective December 15, 2023, while the remaining provisions would be effective by mid-June 2024. The MDIC is expected to be operational by December 2024.
Introduce, through changes in the current legal and regulatory framework, a comprehensive framework for crisis prevention and management.	The draft Banking Bill includes a comprehensive framework for crisis prevention and management. A Draft Guideline on Recovery Planning has also been prepared for operationalizing the requirements laid down in the draft legislation on recovery planning.

INTERNATIONAL MONETARY FUND

MAURITIUS

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 29, 2024

Prepared By | The African Department.

CONTENTS

FUND RELATIONS

(As of March 28, 2024)

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)	104.41	73.42
Reserve Tranche Position	37.90	26.65

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	233.10	100.00
Holdings	226.77	97.29

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				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	0.25	0.26	0.26	0.26	0.26
Total	0.25	0.26	0.26	0.26	0.26

[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 currency of Mauritius is the Mauritian rupee. Mauritius' *de jure* exchange rate arrangement is floating while its *de facto* exchange rate arrangement has been reclassified to stabilized arrangement for the period from May 5, 2023 until January 2024. From end March 2022 until May 5, 2023, the *de facto* exchange rate arrangement is classified as floating. The reclassification is based on statistical methodology that is implemented by staff evenhandedly across member countries. The methodology follows a backward-looking statistical approach that relies on past exchange rate movement and historical data. Therefore, this reclassification does not imply statements or views on future or intended policies nor does it imply a policy commitment on the part of the country authorities. 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 an open 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 17, 2022 (Country Report No. 22/223, July 15, 2022).

Resident Representative: None.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

As of March 26, 2024, 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 March 2024)
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 have been largely reduced, although small discrepancies remain. Strengthening the tracking of GBC transactions would help improve external sector statistics.
National Accounts: Statistical discrepancies between the expenditure and production measures of GDP have been reduced significantly with Fund TA support. Small discrepancies remain and are reported along with demand-side GDP components. As a result, individual demand components do not add up to total GDP. As constant GDP values are computed using the annual chain link growth rates, individual components do not add up to subtotals and totals. 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) and informal sectors' contribution to GDP. With support through AFRITAC South, the GDP estimates were rebased to the 2018 base year in 2022. Additional support will be provided to rebase to the 2023 base year by 2025. Statistics Mauritius plans to start compiling flash GDP estimates and other high-frequency indicators of economic activity with support from AFRITAC South.
Price Statistics: Statistics Mauritius compiles and disseminates a monthly CPI using weights based on expenditure data collected during 2017. 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 2017-19 and should be updated. Also, there is need to expand PPI coverage to include services. In April 2021, a quarterly residential property price index (RPPI) was disseminated. Statistics Mauritius continues to benefit from technical assistance to review the RPPI compilation method so as to allow greater data coverage and granularity.
External Sector Statistics (ESS): The authorities should continue to strengthen their tracking of the GBC sector. As the International Investment Position (IIP) and financial account of the Balance of Payment (BOP) include data for the GBC, including some corresponding transactions in goods, services, and the income account in the data would help improve ESS. With support of the IMF TA and in collaboration with FSC and Statistics Mauritius the BOM continues to work towards producing high-quality estimates for transactions in goods, services and net income account and including data on Authorized Companies (ACs) in the ESS.
Fiscal Statistics: The coverage of central government accounts is comprehensive, as is coverage of central government and state-owned enterprise debt. The authorities continue to take 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.

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.

In October 2022, a TA mission assisted the BOM in compiling MFS for the OFCs sector. As a result, BOM started to disseminate MFS for OFCs in July 2023. OFCs for which data are now available include insurance companies, pension funds, investment funds (collective investment schemes and close-end funds, and global business funds), offshore entities (global business companies), and financial auxiliaries (collective investment schemes managers and pension scheme administrators).

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. Statistics Mauritius in January 2024 expressed interest and readiness to move to the Special Data Dissemination Standard Plus (SDDS Plus) level.

A data ROSC report was published in August 2008.

<table>
<tr><th colspan="8">Mauritius: Table of Common Indicators Required for Surveillance
March 2024</th></tr>
<tr><th rowspan="2"></th><th rowspan="2">Date of latest observation</th><th rowspan="2">Date received</th><th rowspan="2">Frequency of data[6]</th><th rowspan="2">Frequency of reporting[6]</th><th rowspan="2">Frequency of publication[6]</th><th colspan="2">Memo Items:</th></tr>
<tr><th>Data Quality-Methodological soundness[7]</th><th>Data Quality-Accuracy and reliability[8]</th></tr>
<tr><td>Exchange Rates</td><td>February 2024</td><td>3/2024</td><td>D</td><td>D</td><td>D</td><td></td><td></td></tr>
<tr><td>International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]</td><td>February 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td><td></td><td></td></tr>
<tr><td>Reserve/Base Money</td><td>February 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td><td rowspan="4">O, LO, LO, LO</td><td rowspan="4">O, O, O, O, LO</td></tr>
<tr><td>Broad Money</td><td>February 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Central Bank Balance Sheet</td><td>February 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Consolidated Balance Sheet of the Banking System</td><td>January 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Interest Rates[2]</td><td>February 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td><td></td><td></td></tr>
<tr><td>Consumer Price Index</td><td>February 2024</td><td>3/2024</td><td>M</td><td>M</td><td>M</td><td>O, LO, O, O</td><td>O, O, O, O, O</td></tr>
<tr><td>Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government</td><td>December 2023</td><td>1/2024</td><td>M</td><td>M</td><td>M</td><td>LO, O, O, O</td><td>LO, O, O, O, NO</td></tr>
<tr><td>Stocks of Central Government and Central Government-Guaranteed Debt[4]</td><td>Q4/2023</td><td>3/2024</td><td>Q</td><td>Q</td><td>Q</td><td></td><td></td></tr>
</table>

Mauritius: Table of Common Indicators Required for Surveillance (Concluded)

March 2024

	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	Q4/2023	3/2024	Q	Q	Q		
External Current Account Balance	Q4/2023	3/2024	Q	Q	Q	O, LO, LO, LO	LNO, LNO, LO, LO, NO
GDP/GNP	Q3/2023	12/2023	Q	Q	Q	O, LO, O, LO	L, O, LNO, LO, O
Gross External Debt	Q4/2023	3/2024	Q	Q	Q		
International Investment Position[5]	December 2022	9/2023	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.

Statement by Mr. Regis N'Sonde, Executive Director for Mauritius, and Mr. Carvalho da Silveira, Advisor to the the Executive Director
Board Meeting
May 15, 2024

1. On behalf of the Mauritius authorities, we express our appreciation to Management and Staff for the open and constructive dialogue during the 2024 Article IV consultation. The Staff report offers a fair assessment of the macroeconomic performance and challenges facing the country following the Covid-19 pandemic as well as the policies implemented in response. The authorities generally concur with the analysis and recommendations presented in the report and will duly consider them in the execution of their strategic initiatives aimed at transforming Mauritius into a more sustainable and resilient economy and achieving high-income status.

2. The Mauritius authorities' proactive efforts in recent years to address the economic crisis, strengthen the underlying economic structure, and implement an effective policy mix have successfully driven a strong recovery from the pandemic. The economy is currently experiencing vigorous growth, exceeding earlier GDP projections, highlighting the government's effective crisis management and positioning Mauritius well for a stable and sustained recovery in the period.

Recent Developments and Outlook

3. The strong post-pandemic economic recovery is attributed to effective policy strategies and support measures that have invigorated key economic sectors and fostered resilience. Real GDP grew by 8.9 percent in 2022, the fastest in over 35 years, further expanding by 7 percent in 2023. The main sectors driving the robust domestic economic activity included construction and accommodation and food service activities. Tourism continues to thrive, bolstered by strong global demand and crucial support for the hotel industry, which significantly aided the recovery of the accommodation sector. In 2023, tourist arrivals nearly reached pre-pandemic levels, with approximately 1.3 million visitors. Against this background, labor market conditions have improved significantly, with the unemployment rate dropping to 6.3 percent in the third quarter of 2023, marking the lowest rate in over 25 years. Additionally, the female unemployment rate has reached an all-time low.

4. Despite higher international fuel and food prices, the government managed to reduce the budget deficit in FY22/23 while reinstating the debt ceiling fiscal policy anchor of 80 percent of GDP. As a result, the primary fiscal deficit was halved to 2.7 percent of GDP, and the public debt-to-GDP ratio fell to 80.9 percent, from nearly 86 percent in 2021/22.

5. Inflation was kept on a downward trajectory, with headline inflation easing to 6.1 per cent in February 2024 and then 5.2 percent in April 2024, aided by the normalization of global supply chains and stabilizing international commodity prices. The current account deficit significantly improved to 4.5 per cent of GDP in 2023 and the Gross Official International Reserves remain comfortable – at about 11 months of imports at end April 2024 - providing adequate buffer against external shocks. Financial sector risks remained low, with robust capital ratios, declining credit concentration, and increased provisioning for non-performing loans.

6. Despite challenging global conditions, including the ongoing Russia-Ukraine conflict, high global interest rates, and increased tensions in the Middle East, the Mauritius International Financial Center (IFC) continues to draw strong financial inflows thanks mainly to the resilience of global cross-border investment activities. Additionally, non-Global Business Companies (GBC) financial flows in Mauritius have seen significant increases in gross foreign direct investment in both 2022 and 2023.

7. The authorities are optimistic about the economic outlook. Policies supporting exports and investment, including the construction of 8,000 social housing units by February 2025, should drive a projected 6.5 percent growth in 2024. The authorities expect inflationary pressures to ease further, converging to the Bank of Mauritius' (BOM) medium-term target range. They see lingering global geopolitical tensions, the U.S. elections, and ongoing conflicts as major risks that could impact the GBC sector but remain optimistic about accelerated bilateral trade agreements to help boost growth and diversify exports. The authorities also recognize potential tail risks from escalating Middle Eastern geopolitical tensions, which could affect global economic activity and spike commodity prices and domestic inflation.

Policy Priorities for 2024 and Beyond

Fiscal Policy

8. The authorities concur on the need for a growth-friendly fiscal consolidation strategy over the medium term to continue building fiscal buffers while protecting the most vulnerable populations. They reiterate their commitment to fiscal responsibility, aiming to reduce the primary deficit to 1.1 percent of GDP in FY23/24 through continued revenue growth and prudent spending. The government has initiated comprehensive tax reforms to make the fiscal regime fairer and more equitable. These reforms included significant changes in personal income tax rates and the abolition of the solidarity levy to promote fairness and incentivize economic activity. The authorities plan to mobilize additional revenue by continuing to reform corporate income tax progressively and implement sector-specific revenue measures with the support of Fund TA.

9. The authorities have also proactively prepared for potential impacts of global minimum tax reforms and agree on the importance of curbing current spending. However, they advocate for maintaining critical social spending to protect vulnerable groups amid recent shocks, thus balancing fiscal consolidation with social welfare.

10. The authorities will maintain a prudent debt management strategy to keep public sector debt below 80 percent of GDP in the medium-term, supported by favorable maturity and currency compositions. Their strategy includes targeting a reduction in public sector debt from around 80.9 percent in June 2023 to 75 percent by the end of June 2024. Their medium-term target is to return to pre-pandemic debt levels of around 60 percent.

Monetary Policy, External Buffers, and Mauritius Investment Corporation (MIC)

11. The authorities recognize that the monetary policy in Mauritius was broadly accommodative throughout 2023 but transitioned to a neutral stance by year-end and inflation trended downward. They remain vigilant and prepared to tighten the monetary policy stance if inflationary pressures reemerge.

12. The authorities acknowledged that the new monetary policy framework needs to be further improved to meet initially intended objectives. Although the framework was successful in withdrawing excess rupee liquidity from the system, it did not influence the savings deposit rate and the prime lending rate as expected. This issue points to the persistence of the disconnect between the BOM's key policy rate and market rates, highlighting a need for enhancing the effectiveness of the new framework. The BOM is exploring various options and will continue to discuss them with the IMF as was the case throughout the design of the framework.

13. On external buffers, given the importance of strengthening these reserves, the authorities have outlined plans to capitalize on favorable foreign exchange market conditions to further accumulate foreign exchange reserves, aiming for a target of US$8 billion by the end of 2024, equivalent to over 12 months of prospective imports.

14. The Mauritius Investment Corporation (MIC) remains a critical part of the central bank's broader economic strategy. It has played a crucial role in preserving financial stability by safeguarding the banking system and rescuing systemically important corporations since the onset of the pandemic, but also shielded the economic architecture and safeguarded thousands of Mauritian families. The authorities highlight that the MIC plays a critical role in BOM's investment strategy and portfolio diversification, has started to generate profits, and supports strategic domestic development initiatives in line with the BOM's mandate of promoting orderly and balanced economic development. They also noted that MIC's operations do not influence BOM's policy actions and that the design of the institution was informed by practices in other central banks.

Financial Sector Policies

15. Maintaining a rigorous oversight of the financial sector remains a top priority for the authorities. They expressed confidence in the resilience of the banking system, underscoring that the banks are well-equipped to withstand a diverse range of economic shocks, thanks to robust capital and liquidity buffers. The banking sector's resilience is supported by the BOM's strong bank supervision and monitoring frameworks, which include regular reviews of banks and GBCs portfolios, and the proactive use of updated stress tests to preempt financial stress. The BOM has implemented stringent regulations to ensure banks adopt effective risk management practices. In December 2023, it issued a guideline mandating banks to make additional macro-prudential provisions for various sectors including housing and commercial real estate. Additionally, the BOM has issued a Guideline on the Net Stable Funding Ratio (NSFR) to further improve the liquidity profiles and resilience of banks, enhancing their ability to manage long-term liquidity risks effectively. A new Systemic Risk Indicator has also been adopted to better identify the sources and evaluate the level of systemic risk.

16. In 2021, Mauritius successfully exited the Financial Action Task Force (FATF) list of "Jurisdictions under Increased Monitoring" by implementing comprehensive reforms that addressed its Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) framework deficiencies. As a result, Mauritius was rated as technically compliant or largely compliant with all 40 FATF recommendations. Key initiatives included the enactment of the Financial Crimes Commission Act and the establishment of a core group under the Financial Intelligence and Anti-Money Laundering Act (FIAMLA), led by a ministerial committee chaired by the Prime Minister. These initiatives significantly strengthened Mauritius's AML/CFT coordination and compliance with international AML/CFT standards. Efforts will continue to strengthen the AML/CFT regulatory and institutional framework in anticipation of the 2027 AML/CFT assessment.

17. The BOM has prioritized digitalization to enhance the banking and payments systems. It has implemented guidelines to foster a secure and advanced financial ecosystem and established the Mauritius Financial Sector Cyber Committee to protect against cyber threats. Efforts to promote cashless transactions include adopting the ISO 20022 format for seamless cross-border payments and launching the Government Payment Portal to digitize services and streamline processes. Pilot testing of the 'Digital Rupee' has started, aligning with global central bank endeavors, with Fund TA.

18. The BOM has actively developed a sustainable and greener financial system in Mauritius, recognizing climate change as a critical priority. The Climate Change Centre, established in October 2021, has made significant strides, including issuing guidelines on climate-related financial risk management, and pioneering sectoral risk identification and financial loss assessments. The BOM has also ensured that financial institutions are effectively implementing climate-related risk management frameworks and improving their expertise in this area. Moreover, in collaboration with the Ministry of Finance and private sector stakeholders, the BOM helped develop a Sustainable Finance Framework, which aligns with international sustainability standards and enables Mauritius to issue a variety of sustainable financial instruments.

External Competitiveness and Structural Policies

19. The authorities recognize the pivotal role of structural reforms in enhancing economic diversification and resilience against external shocks. They are focused on achieving high-income status through comprehensive reforms targeting the creation of new growth poles. Key sectors identified for development include the pharmaceutical industry, biotechnology, information technology, and renewable energy.

20. The authorities are also prioritizing the expansion of the blue and silver economies to capitalize on ocean resources and address the needs of an aging population, respectively. Initiatives such as coastal redevelopment and sea land reclamation are key components of this strategy. Furthermore, addressing labor market challenges is crucial. Labor market imbalances are notably tackled by policies to reduce skills mismatches, facilitate the hiring of foreign labor, and promote women's employment, which are critical to filling a labor shortfall estimated at 50,000 workers. On the environmental front, continuous investment in climate-resilient infrastructure and supportive policies for climate change mitigation, such as tax incentives for electric vehicles, underscore the authorities' commitment to sustainable development and economic resilience.

Conclusion

21. The Mauritian authorities express their sincere appreciation to the Fund for steadfast support and invaluable guidance during these challenging and uncertain times. They reiterate their determined commitment to advancing their policy and reform agenda, aimed at fostering a resilient, inclusive, and prosperous future for Mauritius. Continuing Fund support will be essential to the achievement of their economic development ambitions.