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Mauritius: 2001 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

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 2001 Article IV consultation with Mauritius, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 10, 2001 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 27, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during its May 14, 2001 discussion** of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Statistical Annex

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INTERNATIONAL MONETARY FUND

MAURITIUS

Staff Report for the 2001 Article IV Consultation

Prepared by the Staff Representatives for
the 2001 Consultation with Mauritius

Approved by José Fajgenbaum and Shigeo Kashiwagi

April 27, 2001

The 2001 Article IV consultation discussions were held in Port Louis during January 27-February 10, 2001. The staff team met with the Prime Minister, Sir Anerood Jugnauth; Deputy Prime Minister and Minister of Finance, Mr. Paul Bérenger; Governor of the Bank of Mauritius (BOM), Mr. Rameswurlall Basant Roi; Minister of Economic Development, Financial Services, and Corporate Affairs, Mr. Sushil Khushiram; other senior government officials; and representatives of business and labor. [1]

Following elections in September 2000, the ruling Labor government was replaced by an alliance of the Mouvement Socialiste Militant (MSM) and the Mouvement Militant Mauricien (MMM), which won 54 of the 62 elected seats in the National Assembly. The coalition agreement envisages that after three years Sir Anerood Jugnauth (MSM) would become president (after the constitution is amended to confer greater power to that office), handing over the prime ministership to Mr. Bérenger (MMM) to complete the five-year term of office.

The last Article IV consultation was concluded by the Executive Board on August 3, 1999. On that occasion, Directors commended the authorities for the economy's resilience in the wake of turbulence in the global economy, and encouraged them to downsize the civil service and scale down the large tax exemptions and concessions, while providing adequate resources for enhancing the skills levels of the labor force. Directors also urged the authorities to lower tariffs, replace the tripartite wage negotiation system, liberalize the labor market to foster efficiency gains and employment growth, and strengthen prudential requirements and banking supervision.

Mauritius accepted the obligations of Article VIII, Sections 2(a), 3, and 4 on September 29, 1993, and its exchange system is free of restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account.

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[1] The staff team comprised Mr. Subramanian (head), Mr. El-Masry, and Mr. Xiao (all AFR), and was assisted by Mr. McConnell (resident MAE advisor) and Mr. Barewal (visiting MAE consultant). Mr. Ismael, Advisor to the Executive Director for Mauritius, participated in the policy discussions.

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Executive Summary

- **Mauritius is experiencing a rebound in economic activity in 2000/01 following a severe drought in the previous year that affected the key sugar sector.** Inflation is on a declining trend and the external balances remain healthy, but the trend rise in unemployment, evident since the early 1990s, continues.

- **The near-term outlook is generally encouraging, but the significant deterioration in the fiscal position in recent years poses downside risks.** This deterioration, which has occurred despite the remedial actions taken by the government recently to raise domestic petroleum and electricity prices, would likely burden monetary policy, crowd out private investment, and undermine international competitiveness. In the long run, threats to fiscal stability could jeopardize the economy's growth performance.

- **Accordingly, the authorities should seize the opportunity afforded by the forthcoming budget to initiate the process of deficit reduction.** Comprehensive tax and institutional reform, to which the government is committed, will help attain medium-term fiscal objectives.

- **The experience of the past two years supports the case for strengthening the institutional framework for the conduct of monetary and exchange rate policy.** This would include conferring greater independence on the central bank in the conduct of monetary policy and mandating that price stability be its primary objective, with the exchange rate allowed to be determined by market conditions.

- **Several initiatives are under way to strengthen and modernize Mauritius's financial sector.** The banking sector remains essentially sound, and its supervision is being improved, including through planned changes in its legal framework. The proposed Financial Services Development Bill will rationalize the legal framework and strengthen supervision of the nonbank sector. These actions, as well as the recent passage of the Economic Crime and Anti-Money Laundering Act, demonstrate the authorities' commitment to strengthening domestic institutions, while also addressing the concerns of the international community.

- **The government is responding to the challenge of sustaining the economic success of the past against the backdrop of a changing economic environment.** Demographic developments will reduce future labor supply, and changes in the external environment will likely limit capital accumulation. Consequently, economic growth will require greater reliance on boosting productivity growth than previously. The government's steps to improve fundamentally basic education and to strengthen domestic institutions will help in this regard. Placing greater emphasis on trade liberalization and injecting competition into key infrastructure service sectors will also contribute to enhancing productivity growth.

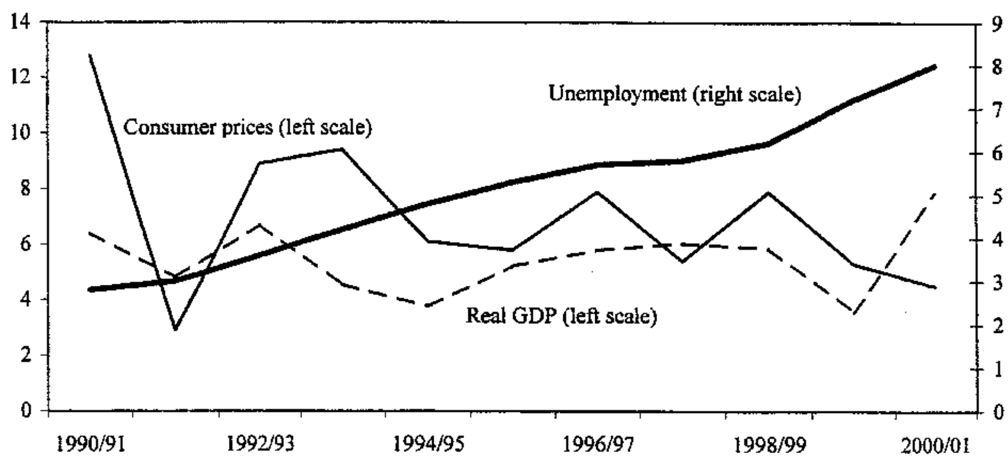
- **The rising trend in unemployment poses another serious challenge.** The government is attempting to enhance the skills levels of the labor force, while building appropriate safety nets for the unemployed. Efforts to inject greater flexibility into the current centralized tripartite wage-negotiating system would usefully complement these initiatives.

I. Recent Economic Developments

1. **Mauritian economic performance over the last two decades has been remarkable and among the best in sub-Saharan Africa**. Real GDP growth has averaged 5.4 percent per year, while inflation has declined from over 10 percent to less than 5 percent. At the same time, social conditions have also improved, with life expectancy at birth having increased from 61 years in the 1960s to 71 in the 1990s, primary enrollment from 93 to 105 percent, and the Gini coefficient, a measure of inequality, having declined from 0.5 to 0.37.

2. **In 2000/01 (July-June), Mauritius is enjoying an economic recovery, spurred by a rebound in agricultural production following the drought in 1999/2000** (Figure 1). Real GDP is projected to grow at 7.8 percent in 2000/01, up from 3.6 percent in the previous year (Table 1). Aided by the nominal appreciation of the Mauritian rupee and restrained monetary conditions, measured consumer price inflation (annual average) is on a downward trend, declining from 7.9 percent in 1998/99 to a projected level of less than 5 percent in 2000/01. However, inflation would have been higher had the government passed through in full the higher import prices for petroleum products to the consumer.

Mauritius: Output, Employment, and Prices, 1990/91-2000/01 1/
(Annual percentage changes; percent)



Sources: Central Statistical Office; and Fund staff estimates and projections.
1/ Fiscal year from July to June.

3. **The trend rise in unemployment, evident since the early 1990s, has continued, with the unemployment rate climbing to 7.2 percent in 1999/2000, and close to 8 percent in 2000/01 (see figure above).** Real wage growth in excess of productivity growth has accounted in part for this development.

4. Notwithstanding a decline in the terms of trade of about 4.4 percent (reflecting higher oil import prices) and a real effective appreciation of the Mauritian rupee of close to 6 percent in 1999/2000, the external current account balance shifted from a deficit of 1.6 percent of GDP in 19998/99 to a surplus of 0.5 percent of GDP in 1999/2000 (Table 2). A resilient tourism

sector and buoyant exports to the United States, both reflecting the strength of the world economy, as well as significant sugar reinsurance receipts and strong productivity performance in the manufacturing sector, contributed to this strong external performance. As the effects of the currency appreciation are felt, and consistent with the global economic slowdown, the current account balance is projected to revert to a deficit of 1.2 percent of GDP in 2000/01.

5. **Fiscal policy was relaxed in 1999/2000.** The ensuing deterioration in the public finances was mainly the result of a downward adjustment in domestic petroleum prices of about 10-20 percent (and only a marginal increase in electricity prices) in the wake of a sharp rise in international petroleum prices through 1999 and 2000. Large operating losses were accumulated at the state-owned enterprises responsible for oil imports (the State Trading Corporation, STC) and electricity generation and distribution (the Central Electricity Board, CEB). As a result, the overall fiscal deficit (including parastatal accounts) increased from 4.0 percent of GDP in 1998/99 to 5.5 percent of GDP in 1999/2000 (Table 3).

6. **In September 2000, the incoming government attempted to reverse the deterioration in the public finances.** While raising domestic consumer prices of petroleum products by 50-90 percent and electricity by some 20 percent, it lowered excise taxes on petroleum products,[2] zero-rated the value-added tax (VAT) for electricity and water, introduced a temporary subsidy for bus operators, and granted the electricity parastatal additional rebates on customs duty for the import of oil. The net fiscal improvement due to these measures was estimated at about 1.3 percent of GDP.

7. **Notwithstanding the corrective actions taken, the overall fiscal deficit is likely to widen from 5.5 percent of GDP in 1999/2000 to 7.6 percent of GDP in 2000/01** (Table 3). This widening is attributable to lower revenue resulting from the tariff cuts introduced in June 2000 (1.3 percent of GDP) and to lower nontax revenue (0.9 percent of GDP), and it is being reined in by reduced expenditure of 0.9 percent of GDP (mainly owing to a large repayment to the budget of the previously on-lent floating rate note).[3] Nevertheless, the government's net borrowing needs were sharply reduced by the proceeds from the privatization of Mauritius Telecom (see below).

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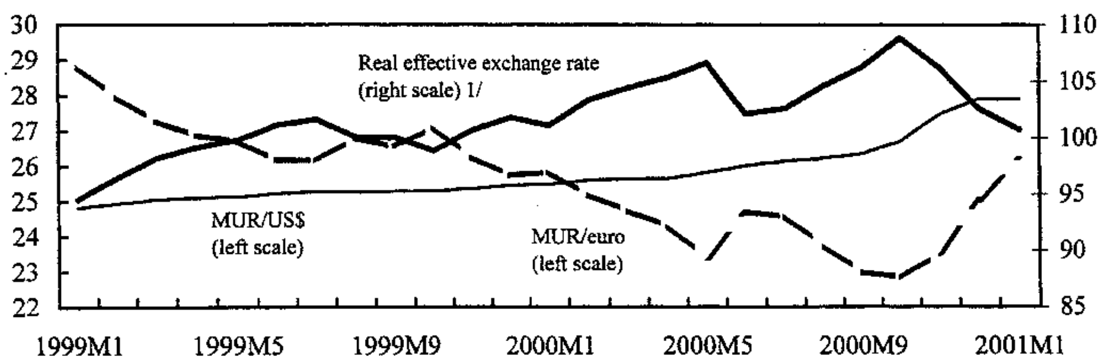
[2] The rate of excise duty on premium gasoline was reduced from 220 percent to 150 percent, and on diesel from 75 percent to 25 percent.

[3] In July 2000, significant reductions in import tariffs went into effect that eliminated the customs duty on about 1,500 raw materials and intermediates, while reducing it on another 300 items. Some surcharges on imports from "nonpreferential" countries were also reduced. The 2000/01 budget also included a reduction in the top personal income tax rate from 28 percent to 25 percent and in the corporate tax rate from 35 to 25 percent; increases in certain deductions and allowances; and elimination of the hotel and restaurant tax of 2 percent. On tax administration, the Mauritian Revenue Authority, which comprises the VAT, Customs, Income Tax, Large Taxpayer, and Registrar Departments, was established.

8. **Monetary policy was also tightened in September 2000.** To head off inflationary pressures at a time of recovering growth, the authorities raised the Lombard rate[4] to 12.5 percent in two steps of 50 basis points each in late-September and November 2000. This action reversed a sequence of previous interest rate reductions, when the Lombard rate was cut from 14 percent in December 1999 to 13 percent in March 2000, and to 11.5 percent in June 2000.[5]

9. **Starting in October 2000, the Mauritian rupee depreciated against the U.S. dollar, reflecting the adjustment to the accumulated financial imbalances**. As the euro, in turn, stabilized against the U.S. dollar, the rupee eased in real effective terms by about 7.5 percent between October 2000 and January 2001, reversing almost entirely the appreciation during 1999 and 2000 (see figure below and Figure 2A). In mid-2000, the Bank of Mauritius (BOM) reintroduced a 50 percent surrender requirement on the export proceeds of the Mauritius Sugar Syndicate. The BOM provided targeted assistance to firms in the export processing zone (EPZ) through much of 1999 and 2000.[6] This assistance reflected the accommodation by the BOM of pressures from the export industry in the wake of the appreciation of the rupee in real effective terms through late 2000.

Mauritius: Nominal Exchange Rates, January 1999-January 2001
(Monthly period averages)



Source: IMF, *International Financial Statistics.*
1/ Foreign currency per Mauritian rupee; index 1990=100; increase denotes appreciation.

[4] This is the rate at which commercial banks can borrow overnight funds from the central bank against eligible securities.

[5] The June 2000 cut was announced by the Minister of Finance in his budget speech.

[6] In March 2000, the BOM introduced a rediscount facility for EPZ firms at below-market rates, which was discontinued in July 2000. However, in November 2000, the authorities reintroduced concessional lending to EPZ firms exporting to Europe.

10. **After long delays, the government's privatization program got off the ground** when in November 2000 it sold 40 percent of its shares in Mauritius Telecom for US$261 million (or 5.7 percent of GDP) to France Telecom. This large inflow of foreign direct investment more than offset the final repayment of US$117 million on the floating rate note (outflow of portfolio investment) that was borrowed in 1995/96.

11. **The near-term outlook for growth remains generally encouraging, but the deterioration in the public finances and the continuing rise in unemployment pose downside risks**. Following the recovery in 2000/01, real GDP growth is expected to converge to its trend level of 5.5-6 percent. Inflation is likely to remain largely unchanged at about 5 percent, and the current account deficit is expected to widen slightly to about 1.5 percent of GDP in 2001/02.

II. Report on the Discussions

A. Overall Framework

12. The discussions with the authorities focused on (1) the medium-term growth strategy, including the appropriate structural reforms, and (2) the appropriate short-term financial policies, which would not only address the emerging macroeconomic imbalances but also support the medium-term economic expansion.

13. **The challenge facing the new government of Mauritius is to perpetuate the economic success of the past against the backdrop of a changing economic environment.** A favorable external environment, overall stable macroeconomic policies, and a development strategy of targeted intervention, as reflected in the support of selected industries located in the EPZ, has contributed to sustained economic growth, averaging close to 6 percent annually (Box 1 and Figure 3).

14. **Two developments in the economic environment—demographics and external trade—were likely to warrant changes in the current strategy** (Box 2). First, the decline in fertility and the aging of the population would decrease the available pool of labor for the economy, thus reducing the long-term growth potential. Second, changes in the World Trade Organization (WTO) rules would constrain export subsidization policies, while likely changes in the trading environment[7] would weaken the profitability of the two main export sectors, sugar and clothing. The consequences for exports and private savings could be substantial.[8] However, the U.S. African Growth and Opportunity Act (AGOA) could mitigate the impact

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[7] Although the preferential access of Mauritian exports to the United States and Europe is likely to be eroded over time, considerable uncertainty clouds its magnitude and timing.

[8] The staff estimates that the current arrangements in sugar is providing a rent transfer from European consumers to Mauritius on the order of about 3 percent of GDP in 2000/01.

Box 1. Mauritius: Targeted Intervention and Preferential Market Access

Mauritius has followed an unorthodox development strategy. While incentives are broadly neutral between the import-competing and exporting sectors, neutrality was the result of heavy intervention in both sectors.

Imports were, and continue to be, restricted. Mauritius elicited a rating of 6 on the Fund's restrictiveness index in 2000 (down from 10 in 1990). While tariffs have recently been reduced, particularly for intermediate goods and raw materials, they remain high and dispersed, and the tariff schedule riddled with exemptions. Nontariff barriers, in the form of state trading in selected commodities, are also present.

However, the anti-export bias stemming from import restrictions has been offset by extensive "export subsidization." The latter has resulted from government policies, as well as those of partner countries:

- Preferential treatment (on corporate income taxation and terms of credit and, until the late 1980s, in regard to labor laws) of companies based in the export processing zone (EPZ) has provided substantial export subsidization.

- Externally, Mauritius has benefited from preferential access for its two main export products: on sugar exports mainly to the European Union (EU), it has a guaranteed quota and a guaranteed export price that is well above international market prices; on clothing, it has benefited from unrestricted access to the EU market, while competitors have faced quotas. These benefits have improved the terms of trade and increased the returns to exports. Thus, the arrangements in sugar have provided an implicit export subsidy that has averaged about 90 percent during the last 25 years. Crucially, from a macroeconomic perspective, the benefits have led to increased private savings and investment in the economy. It is estimated that preferential access for sugar alone has resulted in a transfer from EU consumers to the Mauritian economy of about 5.4 percent of GDP a year between 1975 and 2000.

The successful elimination of the anti-export bias is reflected in the performance by firms in the EPZ, which has driven Mauritian growth.

Output in the EPZ (which accounts for about 12 percent of total value added) grew at an annual rate of 10.2 percent between 1982 and 1999. During this period, it accounted for about one-fourth of overall growth.

Moreover, EPZ growth performance, unlike aggregate growth, has been underpinned not just by rapid factor accumulation, but also by very high rates of total factor productivity (TFP) growth.

Mauritius: Growth Accounting for the Export Processing Zone, 1982-99

Period	Output Growth	Contributions from Growth in		
		Capital formation	Labor force	TFP
1982-90	19.0	24.1	17.5	-0.8
1991-99	5.7	0.7	0.0	5.4
1982-99	10.2	9.5	5.4	3.5

Source: Fund staff estimates.

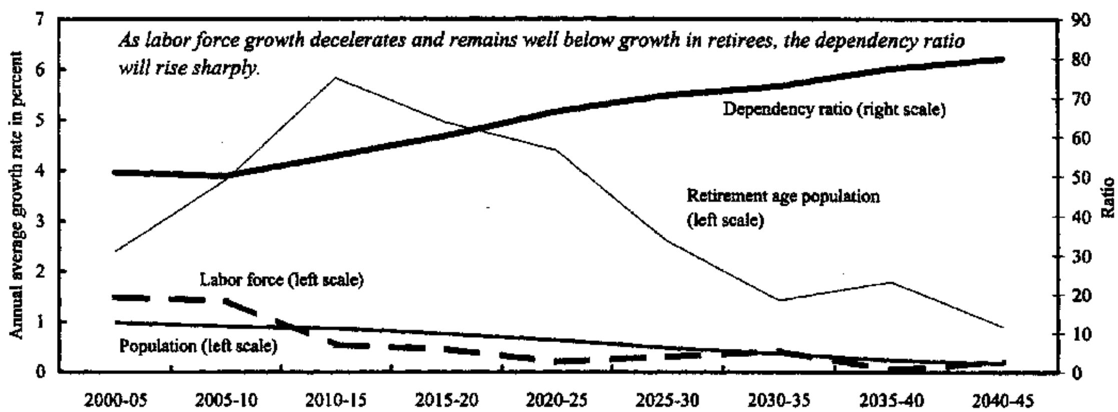
Box 2. Mauritius: Changes in the Economic Environment

The Mauritian economy is likely to experience a number of economic changes over the medium to long term, with important consequences for policy.

On the domestic side, future demographic changes will reduce the long-term growth potential, strain the public finances, and depress aggregate savings:

- As the figure below shows, as fertility rates decline and the population ages, labor force growth is likely to decline to less than 1 percent per annum over the next 10-15 years and to about 0.6 percent thereafter. In this context, the ratio of retirement age population to working-age population will increase from 14 percent to 46 percent and the overall dependency ratio from 51 percent to 80 percent.

Mauritius: Projected Demographic Trends, 2000-45



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

- These developments will have two key macroeconomic effects: the decline in labor force will, ceteris paribus, reduce the economy's long-run growth potential; and increasing dependency rates will likely reduce both private and government savings rates.

On the external front, changes in the trading environment will constrain export policies, reduce the returns to exports, and decrease private savings.

The elimination of the global quotas on clothing under the Multifibre Arrangement (MFA) by the European Union (EU) and the United States by end-2004 will reduce the preferential access enjoyed by Mauritian exporters by exposing them to competition from other exporting countries, including those in Asia. Ongoing negotiations between the EU and sugar-exporting countries and future multilateral liberalization will likely reduce the profitability of the Mauritian sugar industry. However, the adverse effects of these developments in the apparel sector could be offset—at least in part—by the recently enacted U.S. African Growth and Opportunity Act, which provides preferential access for apparel exports to the U.S. market from sub-Saharan Africa, including Mauritius (see Box 3).

of some of these adverse developments, particularly in relation to exports of clothing (Box 3). Nevertheless, the combined impact of population aging and loss in preferential access would likely reduce domestic savings by up to 4-5 percentage points of GDP in the medium to long term, placing limits on the amount of domestic investment.

15. **Future economic growth would, therefore, need to rely to a greater extent on productivity growth than previously.** The staff outlined a growth accounting model that suggested that, in order to maintain past levels of economic growth rates against a background of declining contributions from labor and largely unchanged levels of investment, a significantly higher contribution from growth of total factor productivity (TFP) would be needed than in the past (see Figure 3 and table below). Reaping these efficiency gains would require exposing the economy to greater competition, particularly through trade liberalization. The constraints on growth could, however, be alleviated if Mauritius chose to augment its labor force through imports of foreign, particularly skilled, labor.

Mauritius: Sources of Growth
(Growth in percent)

		Contributions from		
	Real GDP	Labor	Capital	TFP
Past (1991-99)	5.3	1.7	5.8	1.4
Future	5.5 (target)	1.0 1/	4.0 2/	3.0

Source: Fund staff estimates.
1/ Exogenously determined by demographic developments.
2/ This would imply that the investment level remains at about 25-26 percent of GDP.

16. **The authorities concurred with the staff's assessment of the medium- to long-term outlook and challenges ahead, particularly with the need to boost productivity growth.** To this end, they had planned a number of actions. First, recognizing that the skills base of the population had to be enhanced commensurate with the needs of an economy that was moving up the value-added chain, the government was proposing to improve fundamentally basic education and move from a compulsory six-year to an eleven-year cycle. Concurrently, greater emphasis would be placed on information technology (IT) at all levels of education, and the IT base of the economy would be strengthened.[9] Second, the government was planning to introduce greater competition in key services, notably the communications industry. Third, considerable effort was being devoted to upgrading the regulatory framework in the financial

[9] The government was considering the relaxation of restrictions on temporary visa and work permits in order to attract high-skilled IT specialists from abroad.

Box 3. Mauritius: The Impact of the African Growth and Opportunity Act

The African Growth and Opportunity Act (AGOA) enacted in 2000 by the United States could have a significant impact on Mauritius. The key provisions of the act that will affect Mauritius will involve extending:

- quota-free access in apparel from sub-Saharan Africa, including Mauritius, until 2008 (when AGOA expires);
- duty-free access in apparel until 2008 subject to a rule-of-origin requirement, namely, that Mauritius source inputs (yarn/fabric) from the United States or other sub-Saharan African countries; however, for Madagascar and other least-developed countries in sub-Saharan Africa, duty-free access in apparel to the U. S. market will be exempt from the rule-of-origin requirement until end-2004; and
- duty-free access for a number of items that are currently subject to tariffs under the U. S. Generalized System of Preferences.

A rough estimate of the impact of the AGOA on Mauritius would be as follows:

- Until the elimination of quotas under the Multifibre Arrangement (MFA) at end-2004, the AGOA will lift constraints affecting 70 percent of Mauritius's current textile and apparel exports to the U.S. market, which amounted to US$172 million in 1998 (20 percent of its total textile and clothing exports). This could increase exports by about US$30 million (17 percent).
- Beyond 2005, the impact will depend crucially on the rule-of-origin requirement. Without it, Mauritius could be expected to obtain a terms of trade gain of about 17 percent, which could translate into increased exports of about 33 percent. The rule-of-origin requirement would reduce this by about 50 percent (assuming that U.S. or African fabric is about 30-50 percent more expensive than that from the cheapest source), reducing the gain by half.
- When the impact of the MFA elimination, which is likely to be negative for Mauritius, is superimposed on the AGOA, the net effect on Mauritius would be either a small gain or none at all. Thus, the AGOA will serve to mitigate the likely negative effect of the elimination of the MFA.
- Finally, an important channel by which Mauritius would benefit from the AGOA could be the higher income from Mauritian foreign direct investment (FDI) in neighboring African countries, such as Madagascar. As a result of rising unit labor costs at home, and in view of the benefits under the AGOA flowing to least-developed countries, including Madagascar, Mauritian clothing firms have been investing in neighboring countries. Mauritian FDI is likely to experience a boost consistent with increased exports from Madagascar to the United States (estimated at about 45 percent of current exports), resulting in higher income for Mauritius.

sector, including the proposed Financial Services Development Bill. Finally, mindful of the potential loss of preferential access for sugar, the authorities had started consultations with the social partners to make the sugar sector more competitive by reviewing laws that required labor to be employed even in the intercrop season and formulating plans for rationalizing labor under a voluntary retirement scheme.

17. **The staff welcomed these initiatives, which demonstrated the authorities' ability to anticipate, and their resolve to respond to, emerging challenges.** The emphasis on upgrading human capital was necessary, particularly since Mauritius seemed to have fallen behind some of the fast-growing Asian economies in educational attainment (see table below). The staff cautioned, however, that the success of the authorities' medium-term strategy would require maintaining short-term macroeconomic stability and achieving savings-investment balances that would underpin the growth effort.

Mauritius: Comparative Educational Attainment, 1965-2000

(Average years of schooling in population above 15 years of age)

	1965	1980	1990	2000
Fast-growing Asian economies				
Hong Kong S. A. R.	5.9	8.0	9.2	9.4
Korea	5.4	7.9	9.9	10.8
Singapore	4.6	5.5	6.0	7.1
Taiwan Province of China	4.6	7.6	8.0	8.8
Mauritius	**3.5**	**5.2**	**5.6**	**6.0**

Source: Robert J. Barro and Jong-Wha Lee, "International Data on Education Attainment - Updates and Implications," NBER Working Paper No. 7911, (Cambridge, Massachusetts: National Bureau of Economic Research, 2000).

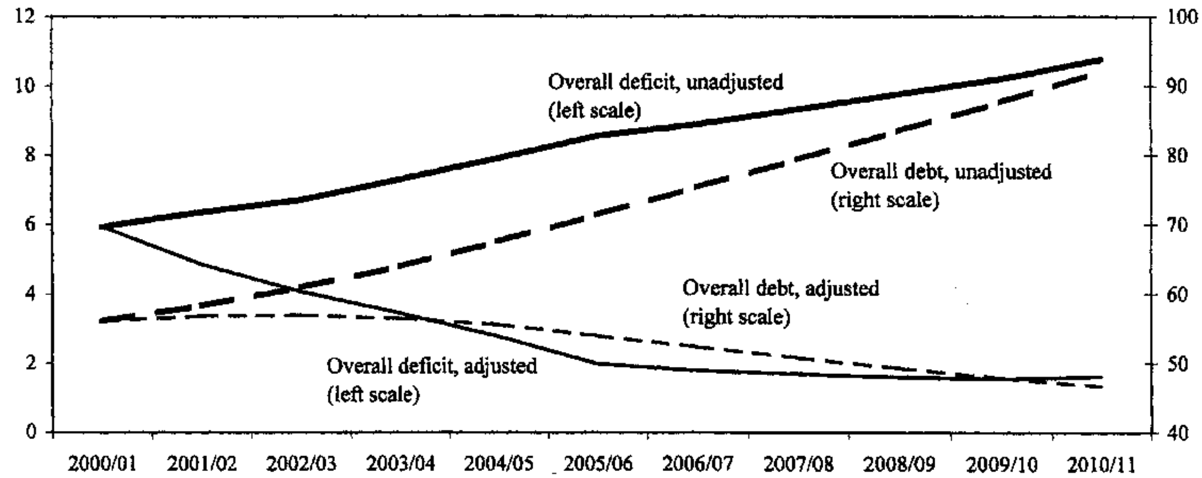
B. Financial Policies

Fiscal policy

18. **The staff argued that the current state of the public finances threatened short-term stability by undermining external competitiveness and crowding out private sector activity. It also raised doubts about fiscal sustainability in the medium term.** Under current policies, including the measures that the authorities were contemplating (increased spending on education and IT), and taking into account the rising pension expenditures because of demographic changes, the public sector's debt-to-GDP ratio was expected to increase sharply over the medium term to about 71 percent by 2005/06 and 92 percent by 2010/11 (see figure below). While recognizing the need for these measures and their contribution to sustaining higher

productivity growth in the future, the staff cautioned, that unless corrective actions were taken elsewhere, the ensuing macroeconomic instability could jeopardize growth prospects.

Mauritius: Medium-Term Fiscal Projections, 2000/01-2010/11 1/
(In percent of GDP)



Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Fiscal year from July to June.

19. **Corrective fiscal measures of about 5-6 percentage points of GDP (cumulative over the medium term) were necessary to place the public finances on a sound medium-term footing.** In the illustrative adjustment scenario prepared by the staff (see figure above and Appendix V), the fiscal deficit would be reduced from about 6 percent of GDP in 2000/01 to about 1.5-2 percent of GDP in 2005/06 and beyond, allowing the debt-to-GDP ratio to gradually fall to 54 percent of GDP in 2005/06 and 47 percent of GDP by 2010/11.[10] This reduction would ensure that the ratio of public debt (internal and external) to GDP remained at sustainable levels.[11] Moreover, targeting a debt-to-GDP ratio that was on a declining trajectory would accommodate the buildup of pension-related fiscal pressures in the longer term.

20. **Consistent with this profile of medium-term adjustment, fiscal policy in the immediate future needed to be tightened considerably.** While the authorities had taken some corrective fiscal actions in September 2000, these were insufficient in view of the deteriorating

[10] In the adjustment scenario, the projections assume annual GDP growth rates of 5.5-6 percent and a real interest rate of 5 percent through 2004/05, with the latter gradually declining to about 4 percent by 2010/11, reflecting a reduction in the risk premium.

[11] With an open capital account, it was important to focus on overall debt rather than its composition.

situation. The staff considered that the next budget should begin the medium-term adjustment with an ambitious corrective action of about 1.5 percent of GDP. Fiscal consolidation would also help monetary policy to maintain low inflation, without crowding out the private sector.

21. **For the next budget, the staff proposed a number of revenue-enhancing measures.** These included (1) raising the VAT rate from 10 percent to 12 percent and broadening its base by applying the standard rate to the currently zero-rated goods (except for the socially most sensitive items and for exports); (2) increasing the excise duty on diesel from 25 percent to 50 percent; and (3) eliminating certain import duty exemptions. The staff also advised the authorities to adopt a revised system for pricing petroleum products. The experience of the past two years had demonstrated that it was important for domestic petroleum prices to be more responsive to movements in international prices. Ideally, the distribution and marketing of petroleum products should be in the domain of the private sector (see below). In the interim, however, the government needed to consider instituting an automatic price-setting mechanism for all petroleum products, based on transparent rules.[12]

22. **For the medium term, the authorities should consider a comprehensive reform of the tax system, accompanied by institutional changes that would improve the transparency and predictability of the budgetary process and help the fiscal consolidation effort** (Box 4). Fiscal adjustment over the medium term would also need to aim at rationalizing expenditures, including the reform of the welfare state and, in particular, the pension system.

23. **The authorities recognized the need for fiscal adjustment**. For the forthcoming budget, they indicated their willingness to consider some of the staff's proposals but had yet to decide on the magnitude of the adjustment. They concurred with the staff's assessment on the need for medium-term tax and institutional reform, the broad outlines of which they planned to announce in the next budget. To help design and implement this reform, they were requesting technical assistance from the Fund. The authorities were consulting closely with their social partners and the World Bank on the parameters of pension reform, which would also constitute an essential plank of medium-term fiscal consolidation.

Monetary and exchange rate policies

24. **The staff welcomed the tightening of the monetary policy stance following the elections in September 2000 and the declining trend of measured inflation** (Figure 4). Macroeconomic stability had underpinned the strong growth performance in Mauritius. For 2001/02, the authorities had targeted money growth consistent with trend GDP growth of 5.5-6 percent

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[12] The proposed rules would stipulate that (1) the ad valorem excise tax rate be converted into a fixed excise tax per volume measure (for example, liter), preferably in U.S. dollar equivalents; (2) the retail prices be adjusted every month to reflect the average international petroleum prices and exchange rates of the preceding three months; and (3) the price change in any given month be limited to ± 5-15 percent.

Box 4. Mauritius: Fiscal Policy — Structure, Outlook, and Reform Agenda

Mauritius's current tax structure is characterized by the following:

- **The corporate tax base is narrow and the system is highly discretionary.** There are a variety of exemptions, preferential rates, and varying treatments of dividends, investment allowances, etc. Corporate income taxes represent 5.7 percent of total revenue and 1.2 percent of GDP. Distinctions made under the various incentives schemes are highly subjective (e.g., pioneer status enterprises, strategic local enterprises, etc.).
- **The personal income tax has a narrow base, and is possibly inequitable, and its administration is inefficient.** A variety of exemptions, allowances, and deductions lead to a taxpaying population of 58,000 out of a population of 1.2 million. Personal income taxes represent 6.6 percent of total revenue and 1.4 percent of GDP. Salaried employees pay the bulk of this tax (85 percent) while higher-income groups pay little, owing to generous exemptions and deductions, particularly on financial savings, and inadequate enforcement.
- **The tariff structure is inefficient.** The average import-weighted tariff is 12 percent (2000), dispersion is great (the top rate is 80 percent), and the system is riddled with exemptions. Customs duties account for a high (30 percent) but declining share of total revenue.
- **The indirect tax rate is low and the base is narrow.** The standard value-added tax (VAT) rate is 10 percent and the base now excludes most services. Nevertheless, VAT collections amount to about 5 percent of GDP.

The medium-term fiscal outlook for Mauritius is based on the following assumptions:

- **Demographic changes will lead to sharply rising social expenditures.** The number of pensioners—including from the civil service—is expected to increase substantially over the next 20 years and will entail higher expenditures of about 1 percent of GDP a year.
- **Trade reform will lead to declining revenues.** Further tariff reform will likely reduce customs revenues by about 1.5 percent of GDP.
- **Expenditures on education may have to rise.** Commensurate with the need to upgrade the skills of the workforce as Mauritius moves up the value-added chain, the government may have to devote greater resources to secondary, tertiary, and vocational education.
- **Other government expenditures will add to fiscal pressures.** The government is planning to invest over the medium term in infrastructure for information technology and a new transport system, as well as develop social programs to support the unemployed.

Based on these assumptions, projections indicate threats to medium-term fiscal sustainability. On current policies, the debt-to-GDP ratio would rise from about 56 percent to 92 percent in 2010. Any assessment of sustainability over this period should factor in the strains likely to persist beyond the ten-year horizon.

The reform agenda, as proposed by Fund staff, is as follows:

- **Tariffs.** Rates, especially top ones, and exemptions (which should be limited to duty drawback schemes) need to be reduced.
- **VAT.** It would be important to extend the tax to goods and services that are presently zero rated and increase the rate to at least 12 percent.
- **Direct taxes.** Corporate tax incentives need be reduced and rationalized. On personal income taxes, exemptions and allowances should be reduced.
- **Pensions.** Options could include raising the retirement age, targeting the basic pension, and reducing pension benefits for civil servants and old-age pensioners.
- **Institutional reform.** Adopting a medium-term fiscal framework, tax expenditure budgeting, and consolidated fiscal accounting could be important in themselves for increasing transparency and also for facilitating other fiscal reforms. Adoption of rules that link more fully and automatically domestic prices of fuels, electricity, and other essential items to cost is needed.

and inflation of about 4.5-5 percent. Over the medium term, the aim was to achieve an inflation target consistent with that in trading partners.

25. **The staff expressed concern about the conduct of monetary and exchange rate policy in 1999 and 2000.** It recognized that the real currency appreciation that had occurred during 1999 and much of 2000 had since been largely reversed (Figure 2), and the value of the Mauritian rupee did not appear to be significantly misaligned.[13] However, the staff noted that, during 1999 and 2000, the exchange rate had not been adequately sensitive to market pressures, leading to a larger appreciation of the rupee than might have been appropriate. Furthermore, the staff emphasized that, by providing targeted subsidies on at least two occasions in 2000 in response to the demands from the export industries, and by reimposing the 50 percent surrender requirement on sugar exports, the central bank risked undermining its own credibility. Furthermore, market participants had perceived the interest rate reduction in June 2000 (announced by the Minister of Finance) as having been motivated by political considerations in anticipation of the general elections.

26. **The authorities responded that they did not have a target for the exchange rate.** Nevertheless, they considered that the real appreciation in 1999 and 2000 might have had the advantage of dampening entrenched expectations of currency depreciation and, hence, of forcing the tradable sector to improve competitiveness through cost reductions and productivity gains. The reimposition of the surrender requirement was necessitated by the structure of the foreign exchange market—its thinness and seasonality, as well as the concentration of foreign exchange suppliers—that made it vulnerable to disruptive movements, which the BOM wished to avoid.

27. **In the staff's view, disruptive movements were best avoided by maintaining sound monetary and fiscal policies, thereby reducing uncertainty and engendering confidence.** In this context, it was important that the monetary authorities' primary objective be the maintenance of price stability, with the exchange rate allowed to respond to market conditions and intervention in the foreign exchange market confined to smoothing short-term volatility. In the event that undue pressures did arise, a tightening of monetary policy was a more appropriate response than the use of nonmarket means, such as the surrender requirement, especially since Mauritius was committed to maintaining a liberal exchange regime with an open capital account. At the same time, measures needed to be taken to deepen the foreign exchange market and improve its efficiency, so that greater reliance could be placed on market forces to determine the exchange rate.

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[13] The Mauritian rupee depreciated in real effective terms by about 7.5 percent between October 2000 and January 2001. A modest external current account deficit and favorable productivity developments in manufacturing provided evidence against serious misalignment.

28. **The authorities concurred with the staff's assessment that the experience of the last two years supported the case for strengthening the institutional framework for the conduct of monetary and exchange rate policy.** Such a strengthening would include conferring greater independence on the BOM in conducting monetary policy and mandating that price stability be its primary objective, while increasing its transparency and accountability. To this end, they have requested technical assistance from the Fund so that the necessary revisions to the Bank of Mauritius Act could be submitted to the National Assembly during the current legislative session.

C. Financial Sector and Bank Supervision

29. **The authorities highlighted a number of initiatives to strengthen and modernize Mauritius's financial sector, with a view to positioning Mauritius as an international center for financial intermediation.** A Financial Services Development Bill had been submitted to the National Assembly that would rationalize, strengthen, and bring under one umbrella the regulation and supervision of the nonbank financial sector. The bill proposed to eliminate the distinction between onshore and offshore activities. It also envisaged, at a later stage, integrated supervision of the nonbank and banking sector. In June 2000, the National Assembly passed the Economic Crime and Anti-Money Laundering (ECAML) Act,[14] which established an Economic Crime Office (ECO) with the authority to investigate suspicious transactions and economic offenses. Mauritius also made an advance commitment to the OECD to eliminate harmful tax practices and has cooperated with the Financial Action Task Force (FATF). The BOM (with Fund technical assistance) continued to strengthen banking supervision by clarifying the legal framework, as well as by increasing on-site inspection. It has also introduced (with World Bank technical assistance) a real-time gross settlement system.

30. **The staff welcomed these initiatives, as they would strengthen the domestic institutional framework while responding to the concerns of the international community.**[15] Key indicators of financial system health suggested that the banking sector remained essentially sound (Box 5). Furthermore, banking supervision had been strengthened recently with the help of Fund technical assistance. The large increase in credit in recent years, which held the potential for a decline in credit quality, combined with the structure of Mauritius's banking sector (which had a high concentration of banking activities and high degree of connectedness between firms), warranted heightened attention by the authorities, including in the area of banking supervision. Steps to improve off-site monitoring would usefully complement the BOM's on-site inspection.

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[14] The ECAML Act requires banks and other financial institutions to demand proof of identity from their clients and lays down measures to control large cash transactions.

[15] Mauritius has been listed as a Category III offshore financial center by the Financial Stability Forum.

Box 5. Mauritius: Banking Soundness and Supervision

The ten onshore commercial banks operating in Mauritius (two of which account for about three-fourths of the market) are profitable, benefiting from healthy interest rate spreads that average about 4 percent. Interest income remains the principal source of their profitability, accounting for about 85 percent of their net income. Although the average return on equity of banks has fluctuated in recent years, it has remained above 20 percent. The banks are well capitalized, with an average risk-weighted capital adequacy ratio in the range of 12-13 percent in the past three years, above the Basel requirement of 8 percent. At end-June 2000, one-half of the banks had capital adequacy ratios greater than 16 percent, while the others were between 10 percent and 14 percent. Nonperforming loans amounted to about 8 percent of total loans, having declined from the previous year's level of 9 percent. Three small banks, however, had ratios higher than 10 percent.

Mauritius: Indicators of the Banking Sector, 1998-2000

(In percent, unless otherwise indicated)

	June 1998	June 1999	June 2000
Number of banks	10	10	10
Capital adequacy ratio	12.5	12.9	12.2
Total assets (in billions of Mauritian rupees)	83.2	97.2	110.0
Total deposits (in billions of Mauritian rupees)	66.7	75.8	84.5
Total private sector credit growth	35.9	21.3	13.0
Loans/deposits	75.9	80.2	81.9
Nonperforming loans/total loans	8.5	9.0	8.1
Loan provisions/nonperforming loans	41.6	37.4	36.6
Large credit exposure/capital 1/	255	278	268
Return on equity	20.4	24.0	20.6

Source: Bank of Mauritius.

1/ Aggregate large exposure is the sum of all exposures that individually exceed 15 percent of a bank's capital base.

Private sector credit has increased at a brisk pace in recent years, which raises the potential for a decline in credit quality. This situation highlights the need for constant monitoring. On average, large credit exposure ratios have been in the range of 255-278 percent for the last three years. However, three banks have exceeded the overall threshold of 600 percent prescribed by the Bank of Mauritius (BOM), and they have submitted plans to achieve compliance with BOM guidelines within the transition period allowed. The concentrated nature of the banking sector and the high degree of connectedness between firms warrant close monitoring of large exposure ratios by the BOM.

The BOM has enhanced its supervision capacity. It developed and implemented a supervision framework for banks covering on-site inspections, off-site monitoring methodology, special purpose guides for the staff, and inspection modules. It issued four guidelines to the industry on liquidity, credit classification for provisioning purposes and income recognition, credit concentration limits, and internet banking. A guideline on corporate governance has been completed and is awaiting release to the industry. The BOM has made significant efforts in providing on-the-job training to the supervision staff in conducting on-site inspections. The legal framework for banking supervision has been improved, and further changes are contemplated with the help of Fund technical assistance.

31. **The staff stressed the need to further strengthen the framework for banking supervision, consistent with the efforts being taken with respect to the nonbank financial institutions.** One particular area would be to establish full regulatory oversight by the BOM over nonbank deposit-taking institutions that were currently not adequately supervised. Concurring with the staff's assessment, the authorities have requested Fund technical assistance to revise their banking legislation, with a view to submitting it to the National Assembly before the end of the current legislative session.[16]

D. Structural Issues

Trade liberalization

32. **The staff noted that Mauritius had made progress in liberalizing its trade regime.** Most quantitative restrictions had been eliminated, and in June 2000 significant tariff cuts had been implemented. Effective June 2001, the favorable treatment of firms located in the EPZ, which could have violated WTO rules on export subsidization, will be eliminated. The authorities viewed regional integration as affording an important vehicle for Mauritius to further its economic prospects. Outward investment in, and possible sourcing of inputs from, countries in the region—for which the AGOA had created opportunities —would be an important part of Mauritius's strategy to sustain high levels of growth.

33. **The staff stressed that trade liberalization, in the context of the changing external environment, would be critical for accelerating productivity and, hence, future economic growth.** With export subsidization no longer an option, maintaining neutrality of incentives required significant import liberalization. Moreover, recent tariff cuts had been concentrated on inputs and as such had increased effective protection for domestic producers of final goods. A medium-term preannounced tariff reform, including reduction of the levels and numbers of tariff rates and a curtailment of exemptions, should be a high priority and part of the medium-term tax reform being contemplated by the government. The government also needed to eliminate state trading in cement and petroleum products, as well as the discrimination against certain ("nonpreferential") countries in its external trading regime.

34. **While broadly agreeing with the staff's assessment, the authorities argued that trade liberalization would have to be gradual and afford time for domestic industry to become competitive.** They concurred with the staff's view on the need to rationalize the multiplicity of regional initiatives in eastern and southern Africa.

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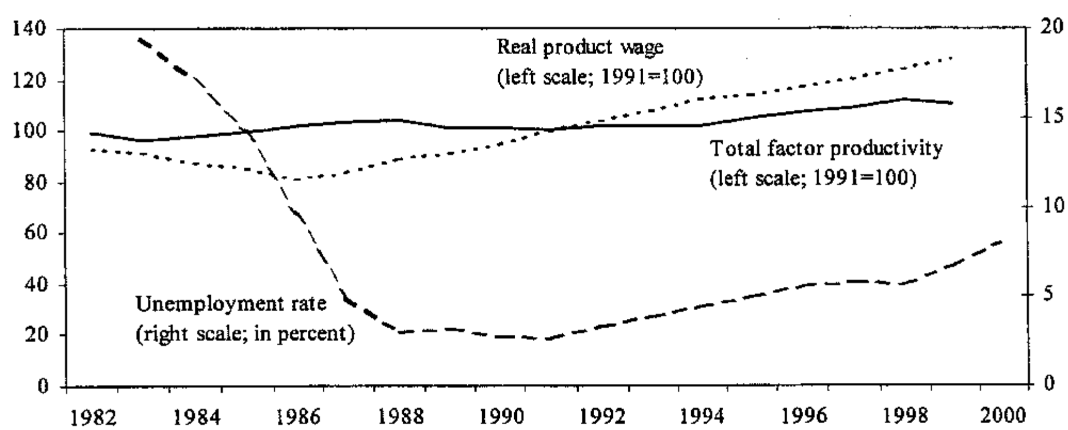
[16] The revisions would aim, inter alia, to (1) further strengthen the enforcement capability of the BOM; and (2) introduce improvements related to governance and disclosure, in order to increase market discipline on, and internal controls within, banks consistent with the spirit of the revised Basel banking supervision guidelines.

35. **The staff welcomed the privatization of Mauritius Telecom**. It was encouraged by the authorities' determination to lift Mauritius Telecom's monopoly as the international gateway for voice and data communications by end-December 2003. It stressed that establishing and strengthening the regulatory framework governing key sectors, such as telecommunications, water, and power, would be essential to promoting competition and reaping efficiency gains. These actions would also pave the way for commercialization and eventual privatization of other state utilities.

Unemployment

36. **Addressing the rising trend of unemployment was a big challenge for the authorities**. The staff drew attention to the impact on unemployment of contrasting developments of wage and productivity growth between the 1980s and 1990s (see figure below and Figure 5). It noted that some aspects of the labor market, in particular the tripartite wage setting system and the automatic application of annual wage increases that were announced by the Minister of Finance to the whole economy, may have prevented wages in the 1990s from growing in line with productivity.

Mauritius: Labor and Productivity Indicators, 1982-2000



Sources: Central Statistical Office; and staff estimates.

37. **The authorities argued in favor of a multipronged approach to remedying the unemployment problem.** Introducing greater flexibility in the labor market, while ultimately desirable, could not be the sole or even the priority objective. In their view, unemployment increasingly reflected a mismatch between the skills of the unemployed workforce and the demands of the workplace. Despite the large pool of unemployed, growth industries (particularly the EPZ sector) were finding it difficult to fill vacancies with local staff and were forced to employ foreign workers, whose numbers were limited. The government was seeking to improve the skills levels of the labor force consistent with the needs of the economy, including through retraining and vocational programs. Furthermore, anecdotal evidence supported the view that, to some extent, high unemployment also reflected high and rising

reservation wages.[17] While acknowledging that the present tripartite wage determination process needed reforming, the authorities considered that the political costs of effecting changes in the immediate future would be very high, particularly since the process had contributed significantly to the industrial peace and social stability that Mauritius had enjoyed for several decades.

E. Statistical Issues

38. Mauritius started participating in the Fund's General Data Dissemination System (GDDS) in September 2000, but improvements are required before it can subscribe to the Special Data Dissemination Standard (SDDS). The quality and timeliness of Mauritius's reporting to the Fund of core minimum and other economic and financial statistics are, in general, satisfactory from the standpoint of conducting surveillance. However, more complete information on the overall public accounts (including government off-budget accounts and the parastatal sector) would be helpful, particularly for policy formulation and monitoring. For this, the authorities have requested technical assistance from the Fund. The authorities have recently started to compile quarterly national accounts and balance of payments statistics, and are working on improving coverage of external transactions of offshore banks and nonbank financial entities in the balance of payments. Mauritius has agreed to the preparation of a Report on the Observance of Standards and Codes (ROSC) for data dissemination during 2001/02.

III. Staff Appraisal

39. **Mauritius is experiencing a rebound in economic activity, following a severe drought that affected the key sugar sector, while inflation is on a declining trend. The near-term outlook for growth is encouraging.** Real GDP growth is expected to recover to 7.8 percent in 2000/01 before reverting to its trend level of 5.5-6 percent in the medium term.

40. **Near- and medium-term prospects are, however, marred by the deterioration in the public finances in recent years.** While the new government has taken some corrective actions in the form of long-overdue adjustments of petroleum and electricity prices, these have been insufficient. Moreover, new expenditure initiatives, while contributing to higher productivity growth in the future, will nevertheless add to fiscal pressures. Hence, the current fiscal stance would likely burden monetary policy, crowd out private investment, and undermine international competitiveness. It is also likely to give rise to an unsustainable debt burden that could further jeopardize growth prospects in the medium term.

41. **The staff encourages the authorities to take the opportunity afforded by the forthcoming budget to initiate the process of medium-term deficit reduction with up-front actions**. Complementary institutional reforms, such as tax expenditure budgeting, the

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[17] For example, it has been reported that Mauritian women were increasingly unwilling to work evening and night shifts because of family and other social obligations.

establishment of a medium-term framework, and the undertaking of fiscal responsibility commitments, will help consolidate the policy reforms. The staff welcomes the authorities' request for Fund technical assistance to design and implement these reforms.

42. **The staff endorses the recent tightening of the monetary policy stance.** The real currency appreciation that occurred during 1999 and much of 2000 has since been largely reversed, and the value of the Mauritian rupee does not appear to be seriously misaligned.

43. **Nevertheless, the staff considers that the experience of the last two years supports the case for strengthening the institutional framework for the conduct of monetary and exchange rate policy.** Inadequate flexibility of the exchange rate during 1999 and 2000, the perception that monetary policy is sensitive to the election cycle, and the reintroduction of the surrender requirement on exports of sugar, as well as the episodic subsidization of the export sector by the BOM, underpin this view. Strengthening the institutional framework would include conferring greater independence on the central bank in conducting monetary policy, mandating that price stability be its primary objective—with the exchange rate allowed to be determined by market conditions—and increasing the BOM's transparency and accountability. The staff welcomes the government's request for technical assistance aimed at achieving this strengthening and its intention to implement these changes expeditiously.

44. **The staff supports the authorities' recent initiatives to strengthen and modernize Mauritius's financial sector.** The proposed Financial Services Development Bill would rationalize the legal framework and strengthen the supervision of the nonbank sector. The banking sector remains essentially sound, and its supervision is being substantially improved. The staff welcomes the government's desire to enhance the legal framework for the supervision of banks, as reflected in its request for Fund technical assistance. These actions along with the recent passage of the Economic Crime and Anti-Money Laundering Act, demonstrate the authorities' commitment to strengthening domestic institutions while also responding to the concerns of the international community.

45. **With remedial fiscal actions in place, the prospects for sustaining long-run growth at current levels are encouraging.** Changes in the economic environment will entail a shift in the sources of growth, requiring greater reliance on growth of productivity rather than of inputs. Demographic changes will likely reduce the available supply of labor, while changes in the external economic environment will mean that Mauritius's privileged market access for its exports will come under threat, thereby reducing savings and limiting capital accumulation.

46. **The staff is confident that the authorities will rise to the challenges posed by the changing economic environment.** A number of initiatives demonstrate that they are anticipating these changes and taking the appropriate actions. Thus, proposals to fundamentally improve basic education by moving from a compulsory six-year to an eleven-year education cycle, strengthen the IT base of the economy, inject greater competition into the key services sectors, and bolster domestic institutions, particularly in the financial sector, will serve to enhance the economy's skills base while also raising productivity growth. The staff endorses these initiatives. However, given the scarcity of skilled labor, the authorities may wish to

consider relaxing restrictions on imports of skilled foreign workers as a way of alleviating the constraints on medium-term growth.

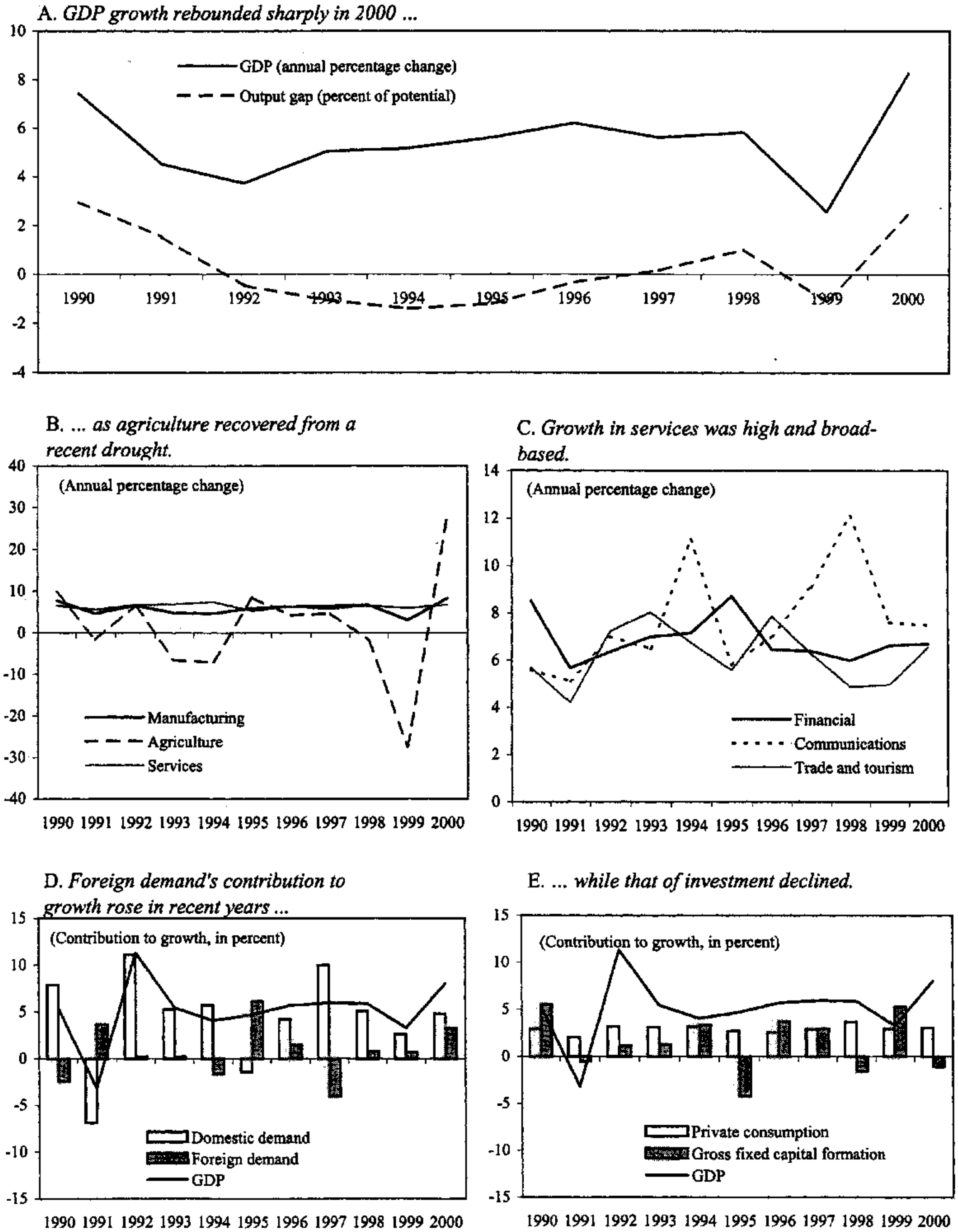
47. **Trade liberalization and the exposure to foreign competition will be key to accelerating productivity growth.** As export subsidization policies are constrained by WTO rules, the restoration of neutrality of incentives between import-competing and export sectors will require a medium-term preannounced liberalization of the import regime, including the elimination of state trading. Strengthening the appropriate regulatory framework in the services sector while injecting greater competition, including through the privatization of state utilities, will provide a further fillip to productivity growth.

48. **The rising trend in unemployment poses another serious challenge.** The government's initiatives to address the growing mismatch between demands of the workplace and the skills of the labor force, while creating social safety nets for the unemployed, are commendable. The government is urged to consider efforts to inject greater flexibility into the current centralized tripartite wage negotiating system as a way of usefully complementing these initiatives.

49. **The quality and timeliness of Mauritius's reporting to the Fund of core minimum and other economic and financial statistics, are, in general, satisfactory from the standpoint of conducting surveillance.** However, more complete information on the overall public accounts (including government off-budget accounts and the parastatal sector) would be helpful. Mauritius has agreed to the preparation in the coming year of a Report on the Observance of Standards and Codes (ROSC) for data dissemination.

50. **The staff recommends that the next Article IV consultation with Mauritius be held on the standard 12-month cycle.**

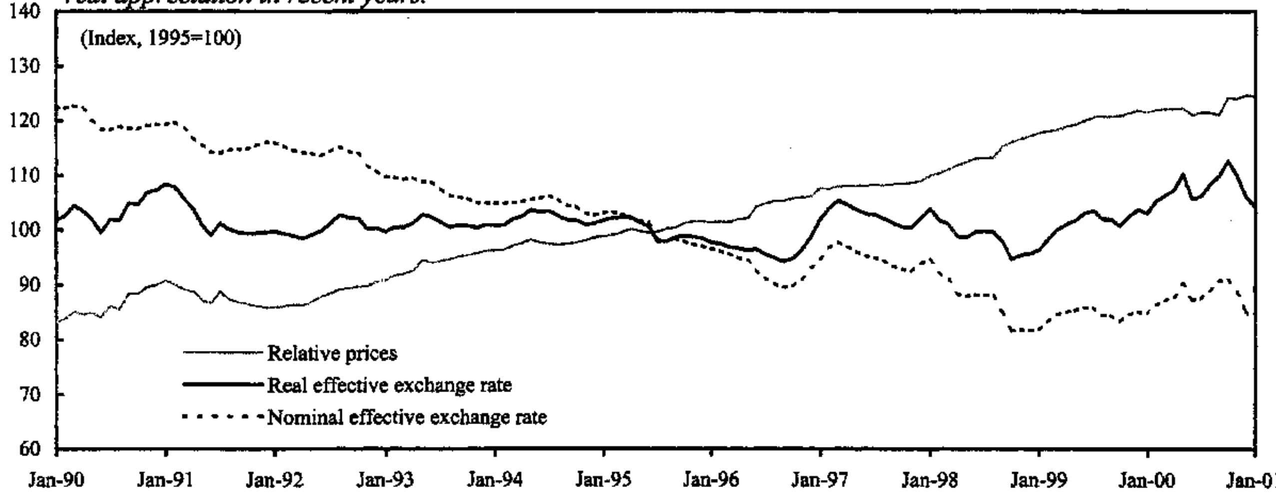
Figure 1. Mauritius: Output and Demand, 1990-2000



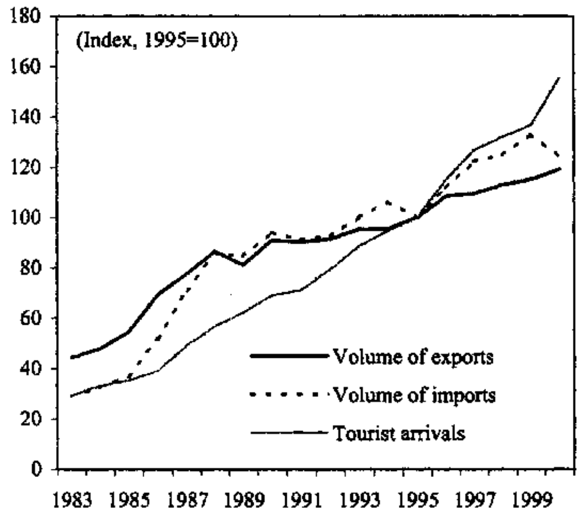
Sources: Mauritian authorities; and Fund staff estimates.

Figure 2. Mauritius: External Sector, 1983-2000

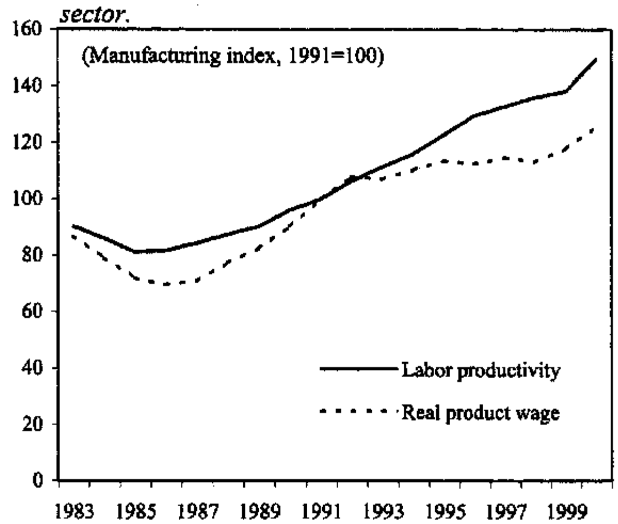
A. *The appreciation of the nominal effective exchange rate, along with declining world inflation, led to a real appreciation in recent years.*



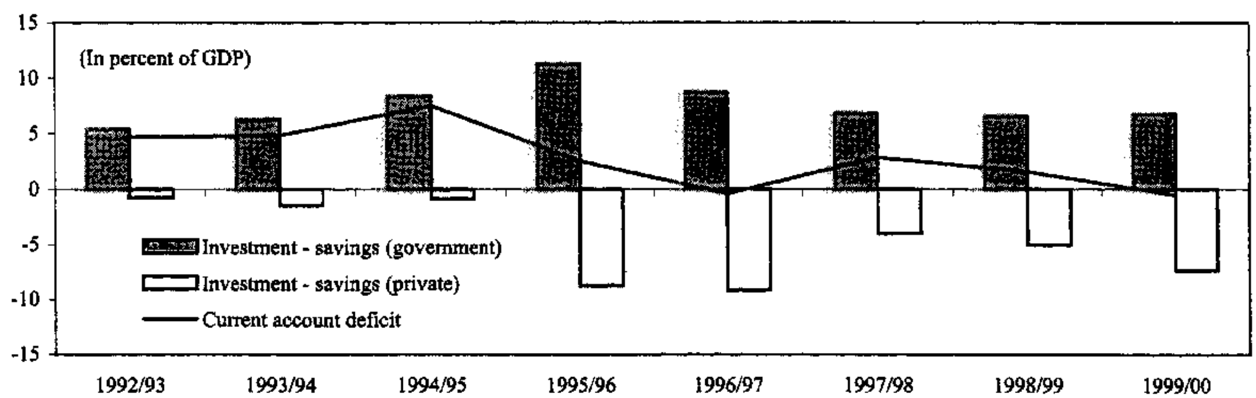
B. *Nevertheless, trade volumes rose ...*



C. *... as did the profitability of the tradables sector.*



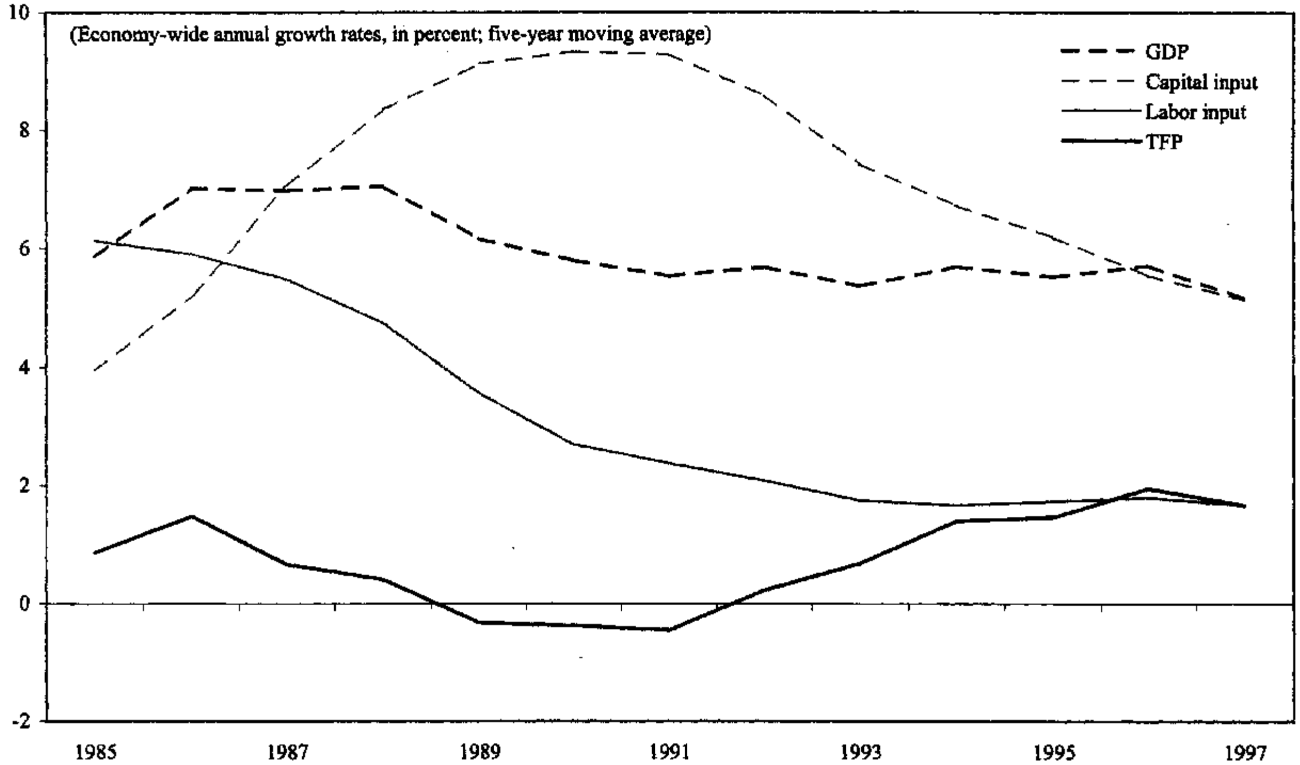
D. *Improving private sector financial balances contributed to a strengthened current account.*



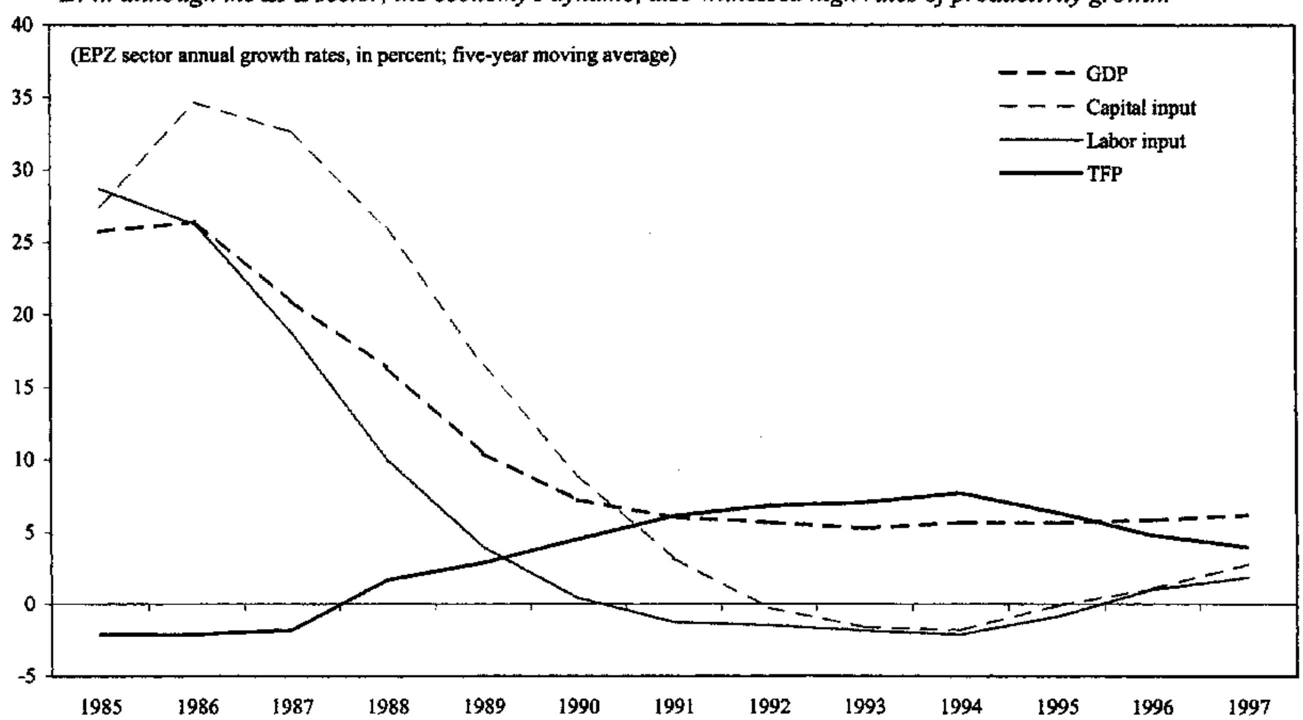
Sources: Mauritian authorities; and Fund staff estimates.

Figure 3. Mauritius: Growth Accounting, 1985-97

A. *Sustained high growth rates were driven predominantly by factor accumulation ...*

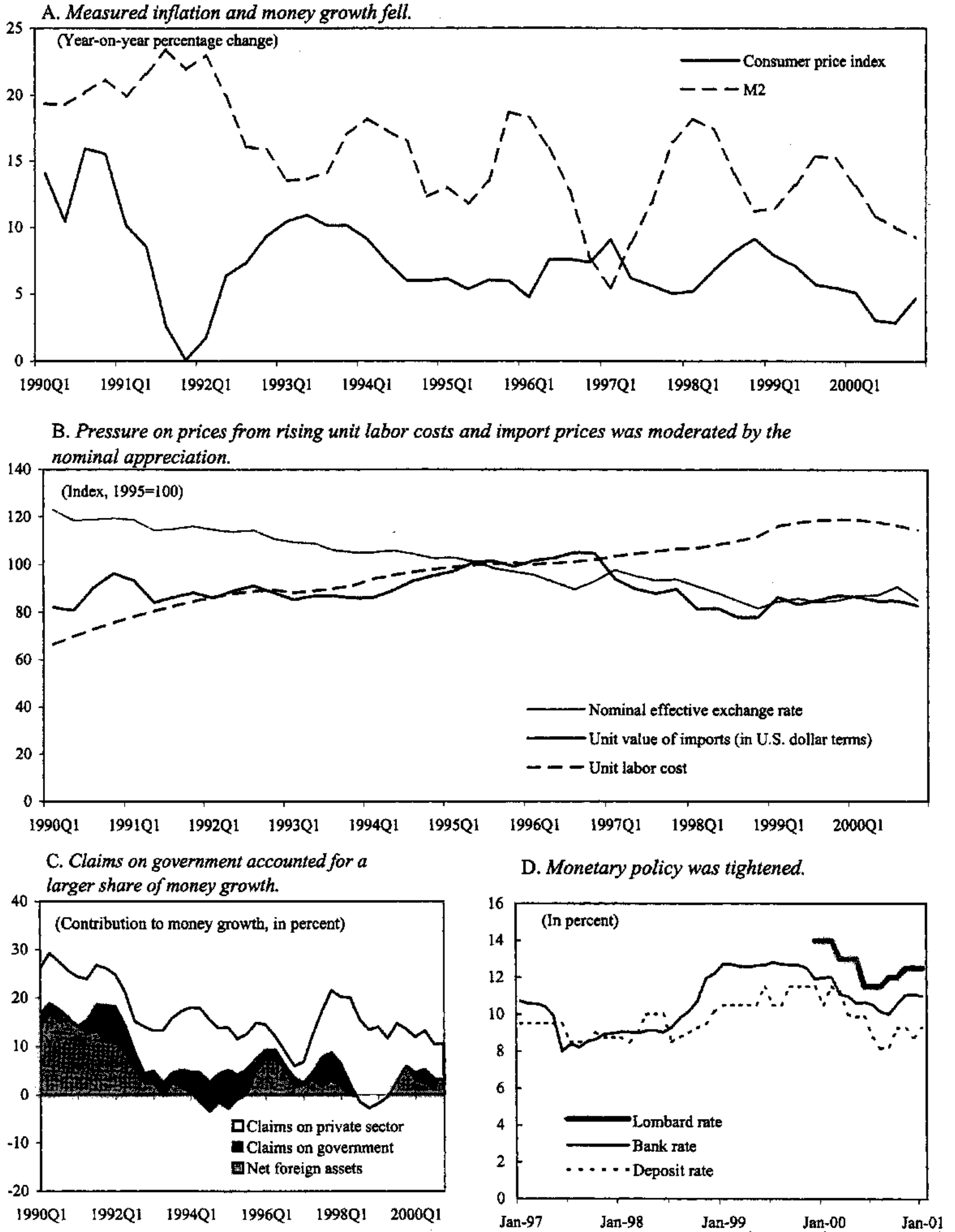


B. *... although the EPZ sector, the economy's dynamo, also witnessed high rates of productivity growth.*



Sources: Mauritian authorities; and Fund staff estimates.

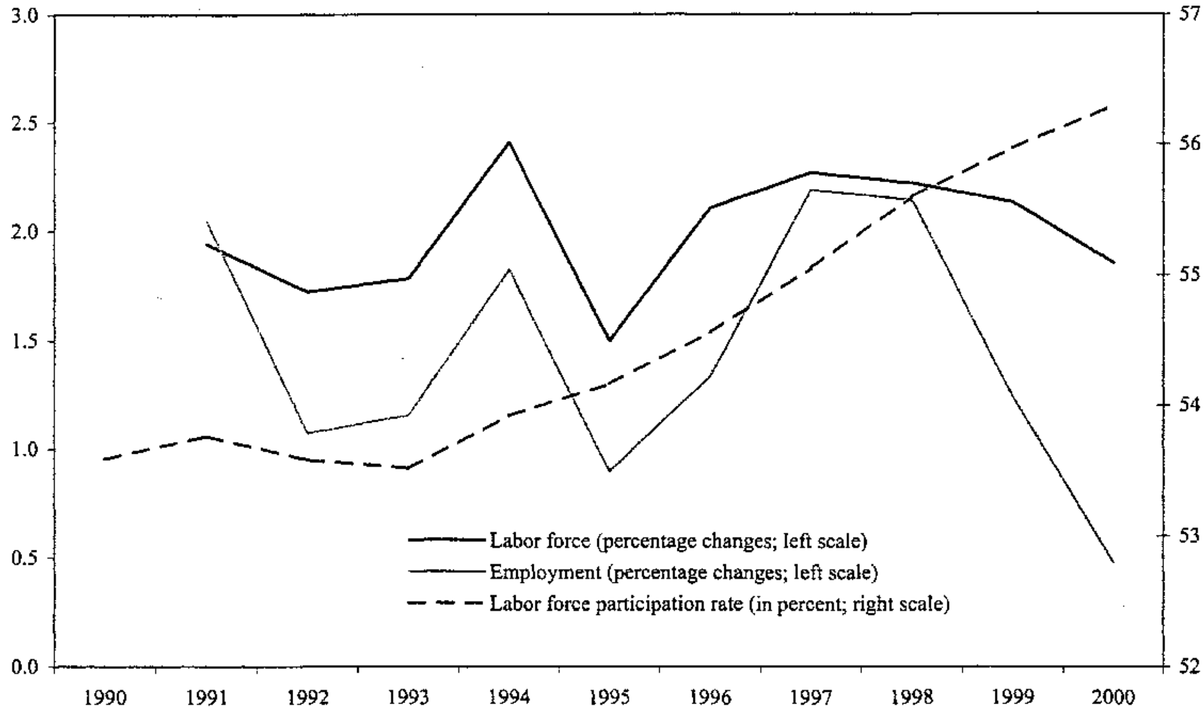
Figure 4. Mauritius: Prices, Money, and Interest Rates, 1990-2001



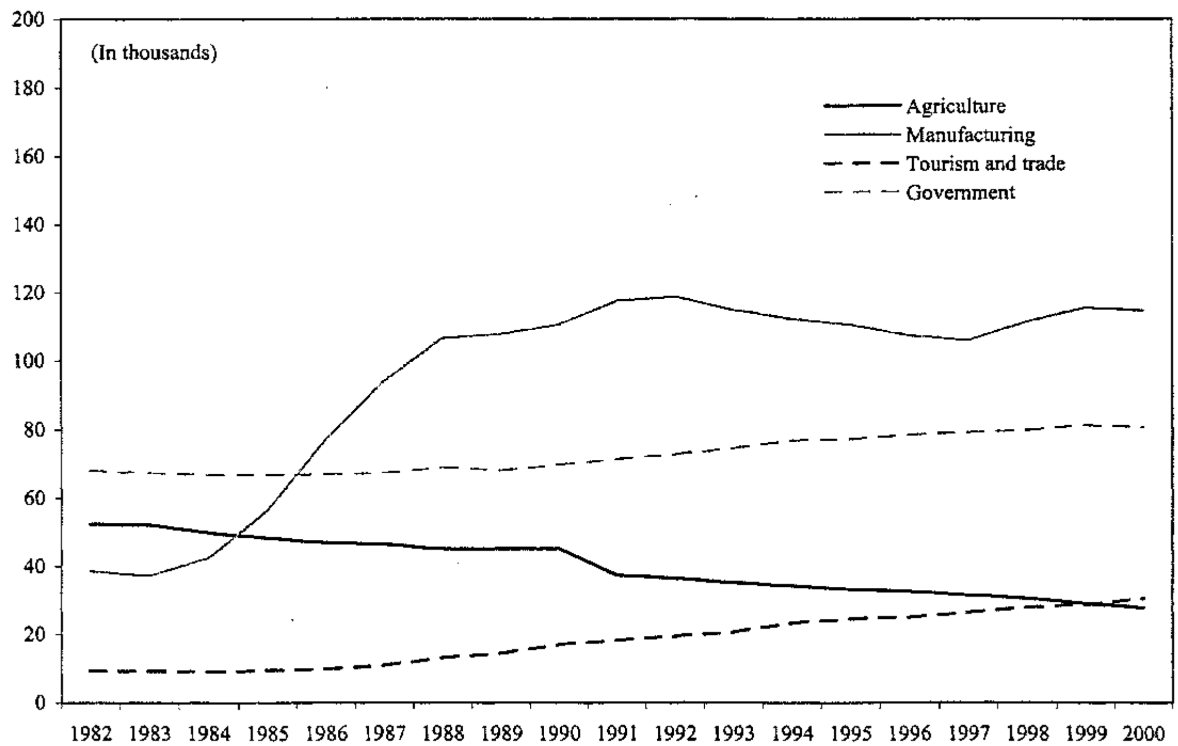
Sources: Mauritian authorities; and Fund staff estimates.

Figure 5. Mauritius: Labor Market, 1982-2000

A. *Labor force participation rose and employment growth lagged labor force growth.*



B. *Employment in manufacturing plateaued, in agriculture it continued to decline, and in services it grew.*



Sources: Mauritian authorities; and Fund staff estimates.

Table 1. Mauritius: Selected Economic and Financial Indicators, 1996/97-2000/01 1/

	1996/97	1997/98	1998/99	1999/2000 Prov.	2000/01 Proj.
	(Annual percentage changes, unless otherwise indicated)				
National income, prices, and employment					
GDP at constant market prices 2/	5.8	6.0	5.9	3.6	7.8
GDP deflator 2/	6.1	5.5	6.9	2.2	5.5
Domestic demand at current prices 3/ 4/	11.1	12.0	13.0	7.1	14.9
Consumer prices (period average)	7.9	5.4	7.9	5.3	4.5
Unemployment rate (in percent)	5.7	5.8	6.2	7.2	8.0
External sector (in U.S. dollar terms)					
Exports, f.o.b.	5.2	-7.4	4.7	-9.2	5.7
Imports, f.o.b. 4/	2.8	-3.5	1.6	2.1	5.7
Nominal effective exchange rate 5/	-3.0	-1.6	-8.3	2.3	-6.0
Real effective exchange rate 5/	2.1	1.4	-2.4	5.6	3.9
Terms of trade	-1.0	1.4	-0.5	-4.4	-1.7
Central government budget					
Revenue and grants	28.4	12.3	15.3	10.2	-2.6
Of which: tax revenue	21.9	12.0	14.1	13.8	0.5
Expenditure and net lending 6/	24.6	-2.2	12.3	11.5	9.3
	(Contribution to changes in broad money, unless otherwise indicated) 7/				
Money and credit					
Net foreign assets	3.9	-0.1	1.7	3.3	5.6
Domestic credit	11.1	24.9	13.1	13.2	9.7
Net claims on government	1.8	2.7	-2.2	3.2	3.6
Credit to private sector	9.3	22.2	15.3	10.0	6.1
Broad money	8.8	17.4	13.2	10.9	12.5
Interest rate (one-year term deposits, in percent) 8/	12.5	10.0	12.0	10.8	11.8
Income velocity of broad money (GDP/M2)	1.4	1.4	1.4	1.3	1.3
	(In percent of GDP at market prices)				
Central government budget					
Current balance (including grants)	-1.4	-0.8	-0.5	0.2	-3.2
Overall balance (including grants) 6/	-7.5	-4.0	-3.4	-3.8	-5.9
Domestic financing	6.4	4.4	4.0	4.3	3.0
Of which: banking system (net)	1.2	1.8	-1.5	2.4	2.6
External financing	0.2	-0.3	-1.1	-0.5	-2.7
Domestic debt	34.6	35.2	35.6	37.9	36.3
External debt	11.8	11.8	9.7	9.0	5.4
Gross domestic investment	28.7	27.6	25.7	26.3	27.3
Government	7.8	6.3	6.4	7.3	7.8
Private (including public enterprises)	20.9	21.3	19.3	19.0	19.5
Gross national savings	29.1	24.7	24.1	26.8	26.1
Government	-0.9	-0.5	-0.1	0.5	-3.0
Private (including public enterprises)	30.0	25.2	24.3	26.4	29.2
External current account balance 9/	0.4	-2.9	-1.6	0.5	-1.2
Total external debt	31.2	32.5	29.4	26.2	22.4
Of which: short-term public debt on a remaining-maturity basis	0.1	1.0	1.1	2.9	0.3

Table 1. Mauritius: Selected Economic and Financial Indicators, 1996/97-2000/01 1/ (concluded)

	1996/97	1997/98	1998/99	1999/2000 Prov.	2000/01 Proj.
	(In percent of exports of goods and nonfactor services)				
Total external debt	46.5	48.8	45.6	41.5	35.4
Of which: government	17.6	17.7	15.0	14.3	8.6
Total external debt service	6.8	7.0	7.6	7.7	9.4
Of which: interest payments	2.3	2.3	2.1	2.0	1.8
	(In millions of U.S. dollars, unless otherwise indicated)				
Net international reserves of the Bank of Mauritius	831.4	622.2	625.4	688.0	774.4
In months of prospective imports, c.i.f. 4/ 10/	4.8	3.6	3.5	3.6	3.8
Net international reserves of the banking system	1,026.2	879.6	893.7	966.0	1,052.4
In months of prospective imports, c.i.f. 4/	5.9	5.1	5.0	5.1	5.2
Memorandum item:					
GDP at current market prices (in millions of Mauritian rupees)	81,737	91,424	103,504	109,611	124,702

Sources: Bank of Mauritius; Central Statistical Office; Ministry of Finance; and Fund staff estimates and projections.

1/ Fiscal year from July to June.
2/ Sugar crops and milling included in fiscal year harvested; otherwise, averages of calendar-year data.
3/ Excluding changes in stocks.
4/ Excluding the acquisition of aircraft and ships.
5/ Trade-weighted period averages (a negative sign signifies a depreciation). Data for 2000/01 are for July 2000 to January 2001.
6/ From 1995/96 to 1997/98, net lending includes the on-lending of the proceeds from an international floating-rate note (FRN) issue of US$150 million. In 1998/99 and 2000/01, it includes the repayment of US$33 million and US$117 million of the FRN, respectively.
7/ Changes in indicated aggregates as percent of broad money at the beginning of the period.
8/ Maximum interest rate on fixed deposits with maturities of between six and twelve months. The rate for 2000/01 is for January 2001.
9/ Including transfers.
10/ The reserves of the Bank of Mauritius are not pledged as collateral for short-term liabilities, nor are they sold forward.

Table 2. Mauritius: Balance of Payments, 1996/97- 2000/01 1/
(In millions of U.S. dollars, unless otherwise indicated)

	1996/97	1997/98	1998/99	1999/00 Prov.	2000/01 Proj.
Current account balance	18.3	-115.8	-65.3	22.8	-54.4
In percent of GDP	0.4	-2.9	-1.6	0.5	-1.2
Trade balance	-283.7	-410.4	-365.5	-451.9	-478.0
Exports, f.o.b.	1,734.8	1,605.5	1,680.2	1,525.4	1,613.0
Percentage change	5.2	-7.4	4.7	-9.2	5.7
Of which : export processing zone (EPZ)	1,151.5	1,067.5	1,135.4	1,175.1	1,216.0
sugar	419.6	358.0	371.7	214.8	266.9
Imports, f.o.b.	-2,018.5	-2,016.0	-2,045.7	-1,977.4	-2,091.0
Percentage change	2.6	-0.1	1.5	-3.3	5.7
Of which : EPZ	-661.4	-688.8	-651.7	-618.9	-658.4
petroleum products	-161.3	-125.4	-108.8	-177.5	-201.0
aircraft and ships	-41.9	-109.4	-108.8	0.0	0.0
Services (net)	204.8	193.1	232.5	423.3	369.2
Of which: tourism	308.5	307.9	327.4	376.5	426.1
Income (net)	-20.8	-18.4	-23.7	-35.1	-29.8
Current transfers (net)	118.0	119.9	91.4	86.6	84.3
Capital and financial account	-44.5	73.8	23.5	-175.7	54.4
Capital account	-0.6	-0.7	-0.6	-0.5	-0.7
Financial account	-43.9	74.4	24.2	-175.2	55.1
Direct investment	4.6	44.8	30.5	12.2	253.8
Abroad	-2.1	-9.8	0.0	-12.2	-31.6
In Mauritius	6.7	54.6	30.5	24.4	285.3
Portfolio investment 2/	-0.3	-28.1	28.8	-12.1	-105.6
Other investment	37.3	-42.0	-8.0	-90.4	-6.6
Government	10.4	-12.2	-15.0	-20.0	-11.0
Other public sector	41.1	81.9	54.6	-42.4	39.0
Other 3/	-14.2	-111.8	-47.5	-28.0	-34.6
Reserve assets of the Bank of Mauritius	-85.5	99.8	-27.2	-84.9	-86.5
Errors and omissions 4/	26.2	42.0	41.7	152.9	0.0
Memorandum items:					
Current account balance, excluding aircraft and ships	60.2	-6.4	43.5	22.8	-54.4
In percent of GDP	1.4	-0.2	1.0	0.5	-1.2
Net international reserves of the banking system 5/	1,026.2	879.6	893.7	966.0	1,052.4
In months of prospective imports, c.i.f. 6/	5.9	5.1	5.0	5.1	5.2
Total debt-service ratio (in percent of exports of goods and services)	6.8	7.0	7.6	7.7	9.4
Mauritian rupees per U.S. dollar (period average) 7/	19.10	22.59	24.82	25.51	27.70
Mauritian rupees per U.S. dollar (end of period) 7/	20.89	24.28	25.24	26.09	28.70

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

1/ Fiscal year from July to June.
2/ In 1998/99, portfolio investment outflows include the partial repayment of US$33 million of the floating-rate note (FRN). In 2000/01, they include the repayment of the balance of the FRN of US$117 million.
3/ Includes movements in international reserves of commercial banks.
4/ Including valuation adjustments.
5/ End of period.
6/ Excluding the acquisition of aircraft and ships.
7/ Market rate.

Table 3. Mauritius: Summary of Government Finances, 1996/97 - 2000/01 1/

	1996/97	1997/98	1998/99	1999/00 Prov.	2000/01 Proj.
	(In millions of Mauritian rupees)				
Total revenue and grants	16,474	18,501	21,329	23,500	22,890
Tax revenue	14,001	15,686	17,900	20,373	20,467
Nontax revenue	2,410	2,599	3,294	2,966	2,248
External grants	63	217	135	161	175
Total expenditure and net lending	22,634	22,125	24,851	27,702	30,280
Current expenditure	17,632	19,264	21,847	23,277	26,937
Wages and salaries	5,897	6,508	7,457	7,762	8,213
Other goods and services	2,132	1,920	2,180	2,354	2,567
Interest payments	2,875	3,503	3,626	3,748	5,963
External interest	473	512	501	453	430
Domestic interest	2,402	2,992	3,125	3,295	5,533
Current transfers and subsidies	6,729	7,333	8,584	9,414	10,194
Capital expenditure and net lending 2/	5,001	2,761	2,129	3,542	2,643
Expenditure by the Privatization Fund	0	100	875	883	700
Overall balance after grants	-6,160	-3,623	-3,522	-4,202	-7,390
Consolidated with accounts of state-owned enterprises 3/	...	-4,338	-4,120	-6,029	-9,485
Overall balance, excluding exceptional factors 4/	-4,414	-3,508	-4,830	-4,702	-9,060
Financing	6,160	3,623	3,522	4,202	7,390
External (net)	198	-275	-1,170	-510	-3,429
Disbursements	916	531	464	410	425
Amortization	-718	-805	-1,634	-920	-3,854
Domestic	5,204	4,005	4,150	4,712	3,718
Banking system (net)	988	1,631	-1,571	2,579	3,218
Nonbank	4,216	2,374	5,721	2,133	500
Sale of equity in state-owned enterprises	748	0	0	0	7,100
Residual	11	-108	543	0	0
	(In percent of GDP)				
Total revenue and grants	20.2	20.2	20.6	21.4	18.4
Of which: tax revenue	17.1	17.2	17.3	18.6	16.4
Of which: taxes on imports	7.5	6.5	6.2	6.3	4.9
sales tax/value-added tax (VAT)	3.3	5.1	5.4	5.1	4.8
income tax	2.9	3.0	2.9	2.6	2.5
Total expenditure and net lending	27.7	24.2	24.0	25.3	24.3
Current expenditure	21.6	21.1	21.1	21.2	21.6
Of which: wages and salaries	7.2	7.1	7.2	7.1	6.6
interest payments	3.5	3.8	3.5	3.4	4.8
Capital expenditure and net lending 2/	6.1	3.0	2.1	3.2	2.1
Overall balance after grants	-7.5	-4.0	-3.4	-3.8	-5.9
Consolidated with accounts of state-owned enterprises 3/	...	-4.7	-4.0	-5.5	-7.6
Overall balance, excluding exceptional factors 4/	-5.4	-3.8	-4.7	-4.3	-7.3
Primary balance (overall balance excluding interest) 5/	-4.0	-0.1	0.1	-0.4	-1.1
Financing					
External	0.2	-0.3	-1.1	-0.5	-2.7
Domestic	6.4	4.4	4.0	4.3	3.0
Of which: banking system	1.2	1.8	-1.5	2.4	2.6
Residual	0.0	-0.1	0.5	0.0	0.0
Memorandum items:					
Changes in cash flow of state-owned enterprises 3/	...	-0.8	-0.6	-1.7	-1.7
Of which: State Trading Corporation	...	0.0	0.4	-0.7	-1.1

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

1/ Budgetary central government, *Government Finance Statistics* basis, unless otherwise indicated; fiscal year from July to June.

2/ In 1996/97 and 1997/98, net lending includes the on-lending of the proceeds from an international floating-rate note (FRN) issue of US$150 million. In 1998/99 and 2000/01, it includes the repayment of US$33 million and US$117 million of the FRN, respectively.

3/ The consolidated state-owned enterprises comprise the State Trading Corporation, the Central Electricity Board, and the Central Water Authority.

4/ Exceptional factors include the on-lending of the proceeds from the FRN equivalent to 2.2 percent of GDP in 1996/97 and 0.1 percent of GDP in 1997/98. They also include the repayment of the FRN on-lending equivalent to 0.8 percent of GDP in 1998/99, and 1.3 percent of GDP in 2000/01, as well as the proceeds from the sale of fixed assets equivalent to 0.5 percent of GDP in 1998/99 and 0.4 percent of GDP in 1999/2000.

5/ Overall balance after grants, excluding interest payments.

Table 4. Mauritius: Monetary Survey, 1996-2000

	1996	1997	1998	1999		2000	
	June	June	June	June	Dec.	June	Dec.
	(In millions of Mauritian rupees)						
Net foreign assets	19,281	21,433	21,359	22,556	26,045	25,204	33,535
Monetary authorities	15,732	17,365	15,109	15,784	18,925	17,950	25,347
Commercial banks	3,548	4,068	6,249	6,772	7,120	7,254	8,188
Domestic credit	47,069	53,225	68,280	77,541	82,002	88,128	85,972
Claims on government (net)	14,876	15,864	17,495	15,924	17,715	18,503	13,586
Monetary authorities	1,871	914	2,583	4,476	2,220	2,980	-1,225
Commercial banks	13,005	14,950	14,912	11,448	15,495	15,522	14,810
Claims on private sector 1/	32,193	37,361	50,785	61,618	64,287	69,626	72,387
Broad money (M2)	55,450	60,343	70,836	80,172	86,853	88,910	94,871
Money (M1)	8,233	8,873	10,150	10,905	12,002	11,065	13,297
Quasi money	47,218	51,471	60,686	69,267	74,852	77,846	81,574
Money market instruments	0	215	0	0	0	0	0
Other items (net)	10,899	14,100	18,802	19,925	21,193	24,421	24,636
	(Annual change in millions of Mauritian rupees)						
Net foreign assets	4,287	2,153	-75	1,197	6,131	2,648	7,489
Monetary authorities	3,828	1,633	-2,256	674	4,790	2,166	6,422
Commercial banks	459	520	2,181	523	1,342	482	1,068
Domestic credit	2,842	6,156	15,055	9,262	6,756	10,587	3,971
Claims on government (net)	1,256	988	1,631	-1,571	-453	2,579	-4,129
Claims on private sector 1/	1,586	5,168	13,424	10,832	7,209	8,008	8,100
Broad money (M2)	7,619	4,893	10,493	9,335	11,444	8,739	8,018
Money (M1)	101	640	1,278	755	412	160	1,295
Quasi money	7,518	4,253	9,216	8,581	11,032	8,579	6,722
	(Annual change in percent)						
Domestic credit	6.4	13.1	28.3	13.6	9.0	13.7	4.8
Claims on government (net)	9.2	6.6	10.3	-9.0	-2.5	16.2	-23.3
Claims on private sector 1/	5.2	16.1	35.9	21.3	12.6	13.0	12.6
Broad money (M2)	15.9	8.8	17.4	13.2	15.2	10.9	9.2
Money (M1)	1.2	7.8	14.4	7.4	3.6	1.5	10.8
Quasi money	18.9	9.0	17.9	14.1	17.3	12.4	9.0
	(Annual change in percent of beginning-of-period broad money)						
Net foreign assets	9.0	3.9	-0.1	1.7	8.1	3.3	8.6
Domestic credit	5.9	11.1	24.9	13.1	9.0	13.2	4.6
Claims on government (net)	2.6	1.8	2.7	-2.2	-0.6	3.2	-4.8
Claims on private sector 1/	3.3	9.3	22.2	15.3	9.6	10.0	9.3
Broad money (M2)	15.9	8.8	17.4	13.2	15.2	10.9	9.2

Sources: Bank of Mauritius; and Fund staff estimates.

1/ Including claims on public enterprises.

Table 5. Mauritius: Indicators of External Vulnerability, 1996/97-2000/01 1/
(In percent of GDP, unless otherwise indicated)

	1996/97	1997/98	1998/99	1999/2000 Prov.	2000/01 Proj.
Financial indicators					
Total public sector debt	60.7	63.4	61.7	61.2	56.1
Broad money (percent change; 12-month basis)	8.8	17.4	13.2	10.9	12.5
Private sector credit (percent change; 12-month basis)	16.1	35.9	21.3	12.6	12.5
Interest rate (one-year term deposits) 2/	12.5	10.0	12.0	10.8	11.8
External indicators					
Exports (percentage change; in U.S. dollar terms)	5.2	-7.4	4.7	-9.2	5.7
Imports (percentage change; in U.S. dollar terms) 3/	2.8	-3.5	1.6	2.1	5.7
Terms of trade (percentage change)	-1.0	1.4	-0.5	-4.4	-1.7
Current account balance	0.4	-2.9	-1.6	0.5	-1.2
Capital and financial account balance	-1.0	1.8	0.6	-4.1	1.2
Net international reserves of the Bank of Mauritius					
(in millions of U.S. dollars) 4/	831.4	622.2	625.4	688.0	774.4
In months of prospective imports, c.i.f. 3/	4.8	3.6	3.5	3.6	3.8
Net international reserves of the banking system					
(in millions of U.S. dollars)	1,026.2	879.6	893.7	966.0	1,052.4
In months of prospective imports, c.i.f. 3/	5.9	5.1	5.0	5.1	5.2
Total external debt	31.2	32.5	29.4	26.2	22.4
In percent of exports of goods and nonfactor services	46.5	48.8	45.6	41.5	35.4
Total short-term public debt on a remaining-maturity basis	0.1	1.0	1.1	2.9	0.3
In percent of exports of goods and nonfactor services	0.2	1.6	1.7	4.7	0.5
Total external debt service (in percent of exports of goods					
and nonfactor services)	6.8	7.0	7.6	7.7	9.4
Interest payments	2.3	2.3	2.1	2.0	1.8
Principal repayments	4.5	4.7	5.5	5.7	7.6
Exchange rate (Mauritian rupees per U.S. dollar, period average)	19.10	22.59	24.82	25.51	27.70
Financial market indicators					
Mauritius stock exchange index (SEMDEX, July 1989 = 100) 5/	381.5	456.4	409.8	407.8	397.2
Change in percent 5/	18.7	19.6	-10.2	-0.5	-2.6
Foreign currency long-term debt rating by Moody's 6/	Baa2	Baa2	Baa2	Baa2	Baa2

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

1/ Fiscal year from July to June.
2/ End of period; maximum interest rate on fixed deposits with maturities of between six and twelve months. The rate for 2000/01 is for end-January 2001.
3/ Excluding the acquisition of aircraft and ships.
4/ The reserves of the Bank of Mauritius are not pledged as collateral for short-term liabilities, nor are they sold forward.
5/ End of period. Data for 2000/01 are as of April 19, 2001.
6/ Bonds rated "Baa2" by Moody's are considered as medium-grade obligations.

Table 6: Mauritius: Medium-Term Projections, 1999/2000 - 2005/06 (Nonadjustment Scenario) 1/

	1999/00 Prov.	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
		Projections					
		(Annual percentage changes, unless otherwise indicated)					
National income and prices							
GDP at constant market prices 2/	3.6	7.8	6.2	5.0	4.7	4.0	3.8
GDP deflator 2/	2.2	5.5	5.0	5.4	5.5	5.7	5.9
Domestic demand at current prices 3/ 4/	7.1	14.9	10.5	9.5	11.3	10.9	10.9
Consumer prices (period average)	5.3	4.5	5.0	5.7	5.9	6.1	6.3
External sector (in U.S. dollars terms)							
Exports, f.o.b.	-9.2	5.7	11.2	7.3	6.4	6.4	6.3
Imports, f.o.b. 4/	2.1	5.7	9.7	5.4	8.8	8.8	8.8
Real effective exchange rate 5/	5.6	3.9	0.0	0.3	0.4	0.4	0.4
Terms of trade (1987/88=100)	-4.4	-1.7	1.1	0.5	0.3	0.1	0.1
		(In percent of GDP at market prices)					
Central government budget							
Revenue and grants	21.4	18.4	18.1	18.0	18.0	17.9	17.9
Of which: tax revenue	18.6	16.4	16.3	16.2	0.0	0.0	0.0
Expenditure and net lending 6/	25.3	24.3	24.4	24.7	25.3	25.8	26.4
Current balance (including grants)	0.2	-3.2	-3.7	-4.0	-4.5	-5.1	-5.6
Overall balance (including grants)	-3.8	-5.9	-6.3	-6.7	-7.3	-7.9	-8.6
Total public debt	61.2	56.1	58.3	60.9	63.9	67.5	71.3
Gross domestic investment	26.3	27.3	27.8	26.0	25.8	25.3	25.1
Public	7.3	7.8	9.8	9.0	8.8	8.8	8.6
Private (including public enterprises)	19.0	19.5	18.0	17.0	17.0	16.5	16.5
Gross national savings	26.8	26.1	26.3	25.9	25.6	24.1	23.1
Public	0.5	-3.0	-3.5	-3.8	-4.3	-4.8	-5.4
Private (including public enterprises)	26.4	29.2	29.8	29.7	29.9	29.0	28.4
External current account balance 7/	0.5	-1.2	-1.5	-0.2	-0.2	-1.2	-2.1
		(In millions of U.S. dollars, unless otherwise indicated)					
External sector							
Current account balance	22.8	-54.4	-72.8	-9.6	-13.8	-68.1	-129.3
Exports, f.o.b.	1,525.4	1,613.0	1,793.0	1,923.2	2,046.4	2,177.4	2,315.2
Imports, f.o.b.	-1,977.4	-2,091.0	-2,344.6	-2,456.9	-2,630.7	-2,862.6	-3,113.6
Services (net)	423.3	369.2	425.2	471.6	517.9	562.0	611.5
Factor income (net)	-35.1	-29.8	-36.5	-43.0	-47.0	-49.0	-51.0
Current transfers (net)	86.6	84.3	90.2	95.6	99.7	104.0	108.5
Net international reserves of the banking system	966.0	1,052.4	934.3	874.3	781.7	817.5	797.2
In months of prospective imports, c.i.f. 4/	5.1	5.2	4.3	3.7	3.0	2.9	2.6

Sources: Bank of Mauritius; Central Statistical Office; Ministry of Finance; and Fund staff estimates and projections.

1/ Fiscal year from July to June.
2/ Sugar crops and milling included in fiscal year harvested; otherwise, averages of calendar-year data.
3/ Excluding changes in stocks.
4/ Excluding the acquisition of aircraft and ships.
5/ Trade-weighted period averages (a negative sign signifies a depreciation). Data for 2000/01 are for July 2000 to January 2001.
6/ In 2000/01, net lending includes the repayment of US$117 million of the international floating-rate note.
7/ Including transfers.

Table 7: Mauritius: Medium-Term Projections, 1999/2000 - 2005/06 (Adjustment Scenario) 1/

	1999/00 Prov.	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
		Projections					
	(Annual percentage changes, unless otherwise indicated)						
National income and prices							
GDP at constant market prices 2/	3.6	7.8	6.2	5.9	5.7	5.7	5.7
GDP deflator 2/	2.2	5.5	5.0	4.5	4.5	4.0	4.0
Domestic demand at current prices 3/ 4/	7.1	14.9	10.5	9.2	11.0	10.6	10.6
Consumer prices (period average)	5.3	4.5	4.2	4.1	4.0	3.5	3.3
External sector (in U.S. dollars terms)							
Exports, f.o.b.	-9.2	5.7	11.2	7.7	6.8	6.8	6.8
Imports, f.o.b. 4/	2.1	5.7	9.7	5.3	8.6	8.7	8.7
Real effective exchange rate 5/	5.6	3.9	-0.3	-0.4	-0.5	-0.5	-0.9
Terms of trade (1987/88=100)	-4.4	-1.7	1.1	0.5	0.3	0.1	0.1
	(In percent of GDP at market prices)						
Central government budget							
Revenue and grants	21.4	18.4	19.9	20.4	20.8	21.0	21.4
Of which: tax revenue	18.6	16.4	18.0	18.4	18.8	19.0	19.5
Expenditure and net lending 6/	25.3	24.3	24.7	24.3	24.1	23.6	23.3
Current balance (including grants)	0.2	-3.2	-0.4	0.1	0.6	1.2	1.9
Overall balance (including grants)	-3.8	-5.9	-4.8	-4.0	-3.3	-2.7	-1.9
Total public debt	61.2	56.1	56.8	56.9	56.4	55.5	53.9
Gross domestic investment	26.3	27.3	29.3	28.5	29.3	30.1	30.1
Public	7.3	7.8	9.8	9.0	8.8	8.8	8.6
Private (including public enterprises)	19.0	19.5	19.5	19.5	20.5	21.3	21.5
Gross national savings	26.8	26.1	27.8	28.6	29.6	29.9	29.4
Public	0.5	-3.0	-0.3	0.2	0.8	1.4	2.1
Private (including public enterprises)	26.4	29.2	28.1	28.4	28.9	28.5	27.3
External current account balance 7/	0.5	-1.2	-1.5	0.1	0.3	-0.2	-0.7
	(In millions of U.S. dollars, unless otherwise indicated)						
External sector							
Current account balance	22.8	-54.4	-72.8	2.9	18.5	-13.6	-45.8
Exports, f.o.b.	1,525.4	1,613.0	1,793.0	1,930.7	2,062.7	2,203.8	2,353.2
Imports, f.o.b.	-1,977.4	-2,091.0	-2,344.6	-2,454.5	-2,625.4	-2,854.4	-3,101.9
Services (net)	423.3	369.2	425.2	472.7	523.2	573.8	628.7
Factor income (net)	-35.1	-29.8	-36.5	-41.4	-43.3	-44.2	-39.6
Current transfers (net)	86.6	84.3	90.2	95.6	101.3	107.4	113.8
Net international reserves of the banking system	966.0	1,052.4	934.3	888.0	863.8	979.2	1,067.4
In months of prospective imports, c.i.f. 4/	5.1	5.2	4.3	3.7	3.3	3.5	3.5

Sources: Bank of Mauritius; Central Statistical Office; Ministry of Finance; and Fund staff estimates and projections.

1/ Fiscal year from July to June.
2/ Sugar crops and milling included in fiscal year harvested; otherwise, averages of calendar-year data.
3/ Excluding changes in stocks.
4/ Excluding the acquisition of aircraft and ships.
5/ Trade-weighted period averages (a negative sign signifies a depreciation). Data for 2000/01 are for July 2000 to January 2001.
6/ In 2000/01, net lending includes the repayment of US$117 million of the international floating-rate note.

Mauritius: Relations with the Fund
(As of March 31, 2001)

Membership Status

Joined 9/23/68; Article VIII.

General Resources Account	SDR Million	% Quota
Quota	101.60	100.0
Fund holdings of currency	87.14	85.8
Reserve position in Fund	14.47	14.2

SDR Department	SDR Million	% Allocation
Net cumulative allocation	15.74	100.0
Holdings	16.56	105.2

Outstanding Purchases and Loans

None.

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	3/1/85	8/31/86	49.00	49.00
Stand-By	5/18/83	8/17/84	49.50	49.50
Stand-By	12/21/81	12/20/82	30.00	30.00

Projected Obligations to Fund

None.

Exchange Rate Arrangement

An interbank foreign exchange market in U.S. dollars was established in July 1994 through a page on the Reuters screen. Prior to that, the Mauritian rupee was pegged to a basket of currencies. On March 31, 2001, US$1 was equivalent to MUR 28.34. There are no restrictions on the making of payments and transfers for current international transactions. Mauritius also maintains a liberal capital account.

Article IV Consultation

Mauritius is on the standard 12-month cycle. The last Article IV consultation discussions were held during March 14–29, 1999. The staff report (SM/99/161; 7/7/99) was considered by the Executive Board on August 3, 1999.

Technical Assistance (1996–2001)

MAE mission on policy and technical aspects of monetary and foreign exchange operations, January 1996.
FAD mission on specific revenue measures for the 1996/97 (July–June) budget and on medium-term structural tax reforms, April 1996.
LEG diagnostic mission on reform of the Bank of Mauritius Act and other banking legislation, June 1996.
MAE/LEG joint follow-up mission on the reform of the Bank of Mauritius Act and other banking legislation, December 1996.
FAD mission on fiscal management, May 1997.
FAD advisor on introduction of a value-added tax system, October 1997–June 1999.
MAE mission on monetary operations, banking supervision, and payment system structures, January–February 1998.
MAE missions on bank supervision: the first of three in April–June 1998; the second in September-December 1998; and the third in February–April 1999.
MAE mission on monitoring of the financial system under Article IV surveillance and on monetary operations, January 1999.
STA mission on quarterly national accounts, February–March 1999.
MAE mission on monetary operations, May 1999.
MAE missions on bank supervision: the first of three in June–August 1999; the second in October–December 1999, and the third in February–March 2000.
MAE missions on monetary operations: the first of two in August–September 1999, and the second in November 1999.
MAE General Advisor to the Governor of the Bank of Mauritius, February 2000–February 2001.
STA mission on quarterly balance of payments statistics, March 2000.
STA mission on quarterly national accounts and General Data Dissemination System (GDDS), June 2000.
MAE missions on bank supervision: the first of four in August 2000; the second in November–December 2000; and the third in February-March 2001.
MAE/LEG joint mission on the revision of the Bank of Mauritius Act and the Banking Act, March-April 2001.
FAD mission on tax reform, May 2001 (planned).

Resident Representative

None.

Mauritius: Relations with the World Bank Group
(As of April 2, 2001)

Mauritius has been a World Bank borrower for the past 22 years, the last IDA credit having been made in July 1974. In the 1980s, the World Bank supported macroeconomic and sectoral policy reforms through quick-disbursing loans. With the success of the structural adjustment effort, the need for such lending declined, and there has been a return to more traditional project lending.

The World Bank's past assistance strategy aimed to help Mauritius forge a consensus on and implement policies that support productivity growth to (1) improve the quality and productivity of human resources; (2) develop high-quality and well-targeted public sector services in a low-tax, open economy through improved efficiency of the civil service and of welfare expenditures; (3) enhance private sector competitiveness, focusing on reducing protection and providing incentives to raise productivity and investment; and (4) better manage the environment, addressing, in particular, ecology and waste management.

Under this strategy, examples of achievements under recently closed and ongoing projects include a reduction in infrastructure bottlenecks under the Highways II Project; an improvement in the productivity and sales of participating firms under the Technology Diffusion Scheme (which is attracting foreign donors' attention and will be replicated in tourism and agriculture); efficiency improvements in the sugar industry and in the use of bagasse (a residue of sugar cane) to produce energy under the Sugar Energy Development Project; an improved regulatory framework and more efficient cargo handling under the Port Development Project; institution building and better compliance under the Environmental Monitoring and Development Project; and increased efficiency and integrity of the banking system under the Financial Sector Infrastructure Project.

Future World Bank lending will tackle issues in the financial sector to enable the country to maintain its competitiveness, as well as in the social sectors, such as education reform, to increase access to, and improve the quality of, education. Future economic and sector work will focus on the reform of the welfare state, including the pension system, and the development of Rodrigues, one of the poorest regions of Mauritius. A new Country Assistance Strategy is under preparation to be delivered early next fiscal year.

The IFC made four loans—in 1971, 1981, 1990, and 1992, respectively—for tourism development; two loans—in 1986 and 1990—for textile projects; and one loan in 1991 for transport and storage. In 1992, the IFC made a loan for capital market development, and in 1993 and 1996 it also invested in fund and venture capital companies.

I. Statement of World Bank Loans and IDA Credits

(In millions of U.S. dollars)

Loan Number	Year	Purpose	IBRD/IDA	Undisbursed
			(Commitments less cancellations)	
Closed loans and credits				
31 Bank loans and 6 IDA credits have been fully disbursed			314.23	6.70
Active loans				
MU-PE 1926	1995	Port Development and Environmental Protection	23.50	2.50
MU-PE 1921	1998	Environmental Sewerage and Sanitation	12.40	9.40
MU-PE 66198	2000	Financial Sector Infrastructure	4.80	2.40
Total			354.93	21.00
Of which: repaid			309.90	0.00
Total outstanding			45.03	21.00

II. Statement of IFC's Held and Disbursed Portfolio

(In millions of U.S. dollars)

FY Approval	Company	Committed		Disbursed	
		Loan	Equity	Loan	Equity
1986	Socota Textile	0.00	0.00	0.00	0.00
1990	Textile Industries, Ltd.	0.00	0.00	0.00	0.00
1991	Consolidated Steel, Ltd.	0.00	0.19	0.00	0.19
1993	Mauritius Fund, Ltd.	0.00	5.00	0.00	3.99
1996	Mauritius Venture Capital Fund	0.00	1.44	0.00	1.44
Total portfolio		3.02	7.62	3.02	6.61

Mauritius: Statistical Issues

The quality and timeliness of Mauritius's reporting of core minimum data, as well as of other economic and financial statistics to the Fund, are, in general, satisfactory. Efforts are under way to improve the frequency and quality of fiscal data, particularly regarding their consistency with monetary sector data. There is also a need to produce and report to the Fund balance of payments data on a quarterly basis. The authorities already publish economic data on Mauritius, including a *Monthly Bulletin*, published by the Bank of Mauritius, which is accessible via the Internet. Mauritius started participating in the Fund's General Data Dissemination System (GDDS) in September 2000. The authorities have shown interest in subscribing to the Special Data Dissemination Standard (SDDS), but improvements in the timeliness of data are required before subscription can take place.

Real Sector

Annual national accounts data are prepared on a calendar-year basis, and expenditure components are reported regularly by the Bank of Mauritius. National accounts at constant prices use 1992 as a base year. Following Fund technical assistance in 1999 and 2000, the Central Statistical Office (CSO) started to compile to compile national accounts on a quarterly basis for past years. The CSO has not yet compiled quarterly national accounts for the current year, and improvements are still needed regarding the timeliness and quality of domestic production indicators and foreign trade statistics.

The consumer price index is calculated on the basis of actual prices (i.e., excluding controlled or "official" prices) and is regularly rebased as consumption patterns and relative prices change (most recently to July 1996-June 1997 = 100, using weights from a 12-month 1996/97 household expenditure survey). Indices on producer prices, unit labor costs, and employment have been developed but have not been reported for publication in the *IFS*.

Government finance

Mauritius continues to be a regular and timely reporter of fiscal data for surveillance, including quarterly data and annual projections. The data for surveillance purposes would be enhanced significantly if it would comprise information on the overall public accounts, in particular government off-budget accounts and the parastatal sector. The authorities also report data for the consolidated central government for publication in the *Government Finance Statistics (GFS) Yearbook.* While the authorities produce quarterly *GFS* data, they do not report these for publication in the *IFS.*

Monetary accounts

The authorities report money and banking statistics on a timely and regular basis.

Balance of payments

Mauritius supplies annual balance of payments and international investment position data to the Statistics Department. Data are provided on the basis of the classification system of the *Balance of Payments Manual* (fifth edition). The Bank of Mauritius has recently started to compile and publish in its *Monthly Bulletin* (December 2000) quarterly balance of payments statistics. Since Mauritius does not regularly compile stock data on private investment to provide full coverage for an international investment position, a survey was recently introduced to improve the coverage of the international activities of the private sector, including external transactions of offshore banks and nonbank financial entities.

Mauritius: Core Statistical Indicators

(As of March 31, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	External Public Debt	GDP/ GNP
Date of latest observation	2/01	2/01	1/01	1/01	1/01	1/01	2/01	9/00	1997/98	12/00	12/01	2000
Date received	3/01	3/01	3/01	3/01	3/01	3/01	3/01	2/01	2/01	2/01	2/01	2/01
Frequency of data	M	M	M	M	M	M	M	Q	A	Q	A	A
Frequency of reporting	M	M	M	M	M	M	M	Q	A	Q	A	A
Frequency of publication	M	M	M	M	M	M	M	A	A	A	A	A
Source of update	A	A	A	A	A	A	A	N	A	A	A	A
Mode of reporting	C	C	C	C	C	C	C	V	V	V	V	V
Confidentiality	C	C	C	C	C	C	C	C	C	R	C	C

Notes: Frequency of data: M=monthly; Q=quarterly; A=annually.

Frequency of reporting and publication: D=daily; M=monthly; Q=quarterly; A=annually.

Source of update: A=direct reporting by central bank, Ministry of Finance, or other official agency; N=official publication or press release.

Mode of reporting: C=cable or facsimile; M=mail; V=staff visits.

Confidentiality: C=unrestricted use; R=restricted use.

Mauritius: Social and Demographic Indicators 1/

Population		Education	
Population (thousands; 1999)	1,174	Adult illiteracy rate (percent; 1995)	17
Annual rate of growth (percent; average 1990-99)	1.2	Female	21
Population under age 15 (percent; 1999)	26	Male	13
Density (per square km.; 1999)	579	Gross primary school enrollment (percent; 1999) 2/	105
Land area (square km.)	2,040	Gross secondary school enrollment (percent; 1999) 2/	58
Population characteristics		Income	
Life expectancy at birth (years; 1999)		GDP per capita (U.S. dollars; 1999/2000) 3/	3,640
Male	67	Poverty	
Female	75	Head count index (percent of population; 1989-94)	5
Infant mortality (per thousand; 1999)	19		
Crude birth rate (per thousand; 1999)	17		
Crude death rate (per thousand; 1999)	7		
Fertility rate (births per woman; 1998)	2	Health	
Labor force		Health care access (percent of population; 1991)	99
Total (thousands, including foreigners; 1999)	530	Immunization for measles (percent of population less than 12 months; 1995)	85
Of which: female (percent; 1999)	35		
Annual growth rate (percent; average 1995-99)	2	Population per physician (1999)	1,107
Sugar workers (percent of total employment; 1999)	7	Population per hospital bed (1999)	294
Export processing zone workers (percent of total employment; 1999)	18	Safe water access (percent of population; 1993)	100
		Sanitation access (percent of population; 1993)	100

Sources: Central Statistical Office; IMF, *International Financial Statistics*; World Bank, *World Development Indicators*, 2000; and World Bank, *Country Assistance Strategy of the World Bank Group for the Republic of Mauritius, 1997*.

1/ The Republic of Mauritius consists of the islands of Mauritius and Rodrigues, and two very small "outer" islands. Population density varies greatly among these.

2/ Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown.

3/ Fiscal year July to June.

Mauritius: Medium-Term Projections

Compared with the nonadjustment scenario (Table 6), the medium-term adjustment scenario (Table 7) assumes that the government will undertake the necessary fiscal correction to place the public finances on a sound medium-term footing. This action, along with the implementation of structural reforms and institutional strengthening, should ensure that the preconditions for medium-term economic growth are in place. Specifically, the scenario assumes (1) the implementation of tax and institutional reform; (2) that inflation will gradually converge to that in Mauritius's trading partners; (3) continuing trade reform and deregulation of key infrastructure sectors; and (4) implementation of the African Growth and Opportunity Act (AGOA), which would increase Mauritius's exports of textiles and clothing products as discussed in Box 3.

Under these assumptions, and using the growth accounting framework described in the staff report, real GDP growth is expected to grow at a trend rate of 5.5-6 percent over the medium term, supported by moderately rising investment levels in the initial years, and higher total factor productivity growth in the outer years, as the effects of the reform kick in.

The implementation of comprehensive tax reform will involve a cumulative adjustment of about 5-6 percentage points of GDP in the budget deficit, beginning with a fiscal correction of about 1.5 percent of GDP in 2001/02 (July-June). This would allow the debt-to-GDP ratio to gradually decline to about 54 percent in 2005/06.

As a result of the reforms and opportunities offered by the AGOA, exports are projected to increase by about 7 percent annually. The current account deficit is likely to move to a deficit in the outer years, and the resulting higher levels of foreign savings will support the higher levels of investment as pressures on domestic savings begin to emerge. The stable macroeconomic environment should attract healthy levels of capital inflows, allowing the import cover of net reserves to stabilize at about 3.5 months in 2005/06.

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/52
FOR IMMEDIATE RELEASE
May 22, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Mauritius

On May 14, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritius.[1]

Background

Mauritius is enjoying a strong recovery, spurred by a rebound in agricultural production following the drought in 1999/2000 (July-June). Real GDP growth is now projected to grow at 7.8 percent in 2000/01, up from 3.6 percent in 1999/2000. Aided by the nominal appreciation of the rupee and restrained monetary conditions, consumer price inflation is on a downward trend, declining to 5.3 percent in 1999/2000 from 7.9 percent in 1998/99, and is likely to decrease further to about 4.5 percent in 2000/01. However, the trend rise in unemployment, evident since the early 1990s, has continued with the unemployment rate climbing to 7.2 percent in 1999/2000, and close to 8 percent in 2000/01. Real wage growth in excess of increases in productivity accounted in part for this development.

Despite a 4.4 percent decline in the terms of trade (resulting mainly from higher oil prices), and a real effective appreciation of the Mauritian rupee of 5.6 percent, the external current account balance shifted to a surplus of 0.5 percent of GDP in 1999/2000 from a deficit of 1.6 percent of GDP in 1998/99. A resilient tourism sector and buoyant exports to the United States, both reflecting the strength of the world economy, as well as significant sugar reinsurance receipts and strong productivity performance in the manufacturing sector, contributed to this strong external performance. As the effects of the currency appreciation are felt, and consistent with the global economic slowdown, the current account deficit is expected to revert to a deficit of about 1.2 percent of GDP in 2000/01. However, the overall balance of payments is likely to

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the May 14, 2001 Executive Board discussion based on the staff report.

remain in surplus at about 2 percent of GDP, reflecting the receipts in November 2000 of about 5.7 percent of GDP from the partial privatization of Mauritius Telecom. Net international reserves of the banking system are likely to remain healthy, with the import cover at end-June 2001 projected at five months.

The stance of fiscal policies was relaxed in 1999/2000. The reduction in domestic petroleum prices in June 1999, in the wake of sharply escalating international prices through much of 1999 and 2000, led to the accumulation of large operating losses by the state oil company and electricity utility. As a result, the overall fiscal deficit (including parastatals) increased to 5.5 percent of GDP in 1999/2000 from 4.0 percent of GDP in 1998/99.

In July 2000, significant reductions in external tariffs, mainly on raw materials and intermediates, went into effect, together with certain income tax and indirect tax reductions. As a result, and notwithstanding the increases in domestic prices of petroleum products and electricity implemented by the new government in September 2000, the overall fiscal deficit in 2000/01 is likely to further widen to 7.6 percent of GDP. The public sector's net borrowing requirement in 2000/01, however, will be sharply reduced by privatization proceeds.

On monetary policy, the authorities lowered the Lombard rate to 13 percent in March 2000, and to 11.5 percent in June 2000 from 14 percent in December 1999. To head off inflationary pressures during the recovery in growth, the Lombard rate was raised to 12.0 percent and to 12.5 percent in late-September and November 2000, respectively.

The Mauritian rupee, which had been appreciating in real terms through much of 1999 and 2000, has been allowed to respond to market pressures since October 2000, and by January 2001 had depreciated in real effective terms by 7.5 percent, reversing much of the earlier decline in competitiveness. On a number of occasions in 2000, the Bank of Mauritius provided targeted subsidies to firms in the export processing zone that had sought relief from the effects of the appreciating rupee. In mid-2000, the Bank of Mauritius reintroduced a 50 percent surrender requirement on the export proceeds of the Mauritius Sugar Syndicate.

After long delays, the government's privatization program got off the ground in November 2000 when it sold 40 percent of its shares in Mauritius Telecom for US$261 million (or 5.7 percent of GDP) to France Telecom.

Executive Board Assessment

Executive Directors were encouraged by the current rebound in economic activity in Mauritius following the severe drought in 1999/2000 that affected the key sugar sector and noted that inflation was on a declining trend. Considering the fiscal deterioration in the previous years, Directors welcomed the recent steps by the new government, including the long-overdue adjustments of petroleum and electricity prices, but stressed that much more needed to be done. The new spending initiatives, while contributing to higher productivity growth in the future, were likely to add to the immediate fiscal pressures and give rise to an unsustainable debt burden that could further jeopardize growth prospects in the medium term. Nevertheless, Directors considered that Mauritius is well placed to face its challenges in the period ahead.

In this context, Directors encouraged the authorities to seize the opportunity afforded by the forthcoming 2001/02 budget to initiate the process of medium-term deficit reduction with up-front actions. Complementary institutional reforms, such as the establishment of a medium-term framework and greater transparency in the tax regime, would also be necessary.

Directors welcomed the recent tightening of monetary policy and noted the recent reversal of the real currency appreciation that had occurred during 1999 and much of 2000. They endorsed the proposed revisions to the Bank of Mauritius (BOM) Act, aimed at strengthening the central bank's institutional framework—including giving it greater independence, mandating that price stability be its primary objective, and allowing for a market-determined exchange rate—while increasing the BOM's transparency and accountability.

Directors viewed favorably the authorities' recent initiatives to strengthen and modernize Mauritius's financial sector, with technical assistance from the IMF properly prioritized. The proposed Financial Services Development Bill would rationalize the legal framework and strengthen the supervision of the nonbank sector. Directors noted that the banking sector remained essentially sound. These actions, along with the recent passage of the Economic Crime and Anti-Money Laundering Act, demonstrated the authorities' commitment to strengthen domestic institutions, while at the same time bringing these areas in line with international standards.

With remedial fiscal actions in place, Directors considered that the prospects for sustaining long-run growth at historic levels were encouraging. However, demographic developments were likely to reduce the available supply of labor, and changes in the external trade environment could threaten Mauritius's privileged market access for its exports, thereby limiting capital accumulation. Hence, appropriate actions needed to be taken to raise productivity growth. In this regard, Directors endorsed the government's proposals to enhance the economy's skill base by increasing markedly the compulsory education cycle, reinforcing the information technology base of the economy, and bolstering domestic institutions, particularly in the financial sector. Strengthening the regulatory framework in the services sector while allowing for greater competition—including through the privatization of state utilities—would also further boost productivity growth.

Directors emphasized that trade liberalization and the resulting exposure to foreign competition would be key to accelerating productivity growth. As export subsidization policies were constrained by WTO rules, there was a need for a preannounced medium-term liberalization of the import regime—including the elimination of state trading—to ensure neutrality between the import-competing and exporting sectors.

Directors recognized that the rising trend in unemployment posed a serious challenge. They supported the authorities' initiatives to address the growing mismatch between the demands of the workplace and the skills of the labor force while creating social safety nets for the unemployed, and encouraged the authorities to intensify their efforts to inject greater flexibility into the current centralized tripartite wage-negotiating system.

Directors noted that the quality and timeliness of Mauritius reporting to the IMF of core minimum and other economic and financial statistics were, in general, satisfactory for surveillance purposes and supported the authorities' request for technical assistance from the IMF to improve the quality and coverage of the overall public accounts.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The staff report for the 2001 Article IV Consultation with Mauritius is als available.

Mauritius: Selected Economic Indicators 1/

	1996/97	1997/98	1998/99	1999/00 Prov.	2000/01 Proj.
			(Annual percentage change)		
Domestic economy					
Real GDP	5.8	6.0	5.9	3.6	7.8
Consumer prices (period averages)	7.9	5.4	7.9	5.3	4.5
Unemployment	5.7	5.8	6.2	7.2	8.0
			(In millions of U.S. dollars, unless otherwise indicated) 2/		
External economy					
Exports, f.o.b.	1,734.8	1,605.5	1,608.2	1,525.4	1,613.0
Imports, f.o.b.	-2,018.5	-2,016.0	-2,045.7	-1,977.4	-2,091.0
Current account balance 3/	18.3	-115.8	-65.3	22.8	-54.4
(in percent of GDP) 3/	0.4	-2.9	-1.6	0.5	-1.2
Capital and financial account balance	-44.5	73.8	23.5	-175.7	54.4
Net international reserves of the banking system (end of period)	1,026.2	879.6	893.7	966.0	1,052.4
(in months of prospective imports, c.i.f.) 3/	5.9	5.1	5.0	5.1	5.2
Debt service (in percent of exports of goods and nonfactor services)	6.8	7.0	7.6	7.7	9.4
Change in real effective exchange rate (in percent) 4/	2.1	1.4	-2.4	5.6	3.9
			(In percent of GDP, unless otherwise indicated) 2/		
Financial variables					
Total revenues and grants	20.2	20.2	20.6	21.4	18.4
Total expenditures and net lending	27.7	24.2	24.0	25.3	24.3
Central government fiscal balance 5/	-7.5	-4.0	-3.4	-3.8	-5.9
Balance of selected state-owned enterprises 6/	...	-0.8	-0.6	-1.7	-1.7
Consolidated fiscal balance (including selected state-owned enterprises) 5/ 6/	...	-4.7	-4.0	-5.5	-7.6
Change in broad money (in percent)	8.8	17.4	13.2	10.9	12.5
Interest rate (in percent) 7/	12.5	10.0	12.0	10.8	11.8

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

1/ Fiscal year from July to June.

2/ Unless otherwise indicated.

3/ Excluding the acquisition of aircraft and ships.

4/ Trade-weighted period averages; the figure for 2000/01 is for July 2000 to January 2001. A negative sign signifies a depreciation.

5/ Including grants.

6/ Change in cash flows of the Central Electricity Board, the Central Water Authority, and the State Trading Corporation.

7/ Maximum interest rate on fixed-time deposits with maturities between six and twelve months, end of period; the figure for 2000/01 is for January 2001.