4 Review of The Economy: 2013-14

The world economy has continued to show signs of recovery in 2013-14, driven by advanced economies and resilient growth in emerging and developing countries in a context of low inflation. Growth in advanced economies, particularly the US and UK was sustained or accelerated, while growth in the euro area remained positive, but weak. Growth in emerging and developing economies has remained relatively strong, albeit some deceleration in economic performance was observed in recent years, particularly in emerging and developing Asia, and in Latin America. In its July 2014 World Economic Outlook Update, the IMF reduced its forecast of world growth to 3.4 per cent in 2014 but pointed that the global recovery was regaining strength. Despite major central banks retaining an accommodative monetary policy stance, inflation remained low worldwide, partly reflecting stable food and oil prices, modest global growth and high unemployment. Inflation in emerging and developing countries has generally remained at historically low levels.

The domestic economy withstood the global slowdown relatively well in spite of its heavy exposure to the euro area. The economy is forecast to grow by 3.5 per cent in 2014 (Statistics Mauritius June 2014), up from 3.2 per cent in 2013. Economic performance, however, remained below the trend registered in the early 2000s. A muted external demand and weak growth of domestic consumption and investment continued to weigh on the domestic economy's overall performance. All major economic sectors, except construction, contributed positively to the growth rate in 2013 and are expected to do the same in 2014. The unemployment rate stood at 8.0 per cent in 2012 and 2013.

Headline inflation increased from 3.5 per cent in September 2013 to 4.0 per cent in March 2014, before stabilising in recent months. At the same time, y-o-y CPI inflation went up from 3.1 per cent in August 2013 to 5.6 per cent in February 2014 before sliding to 3.3 per cent in June 2014. In January and February 2014, hikes in vegetable prices due to bad weather conditions pushed up the y-o-y CPI inflation rate. A relatively stable rupee exchange rate, coupled with the moderate fuel prices, contributed to the low inflation rate registered during the period under review.

After increasing in 2013, the fiscal deficit (as a percentage of GDP) is expected to decline in 2014, while monetary policy remains accommodative. The fiscal deficit fell from 3.5 per cent of GDP in 2013 to 3.2 per cent in 2014 along with a relatively sharp increase in revenue, while public debt stood at 60.8 per cent of GDP as of end-June 2014. Monetary policy remained accommodative throughout the period under review in order to support domestic growth. The MPC held three regular meetings during 2013-14 and the Key Repo Rate was kept unchanged at 4.65 per cent at these meetings.

The current account deficit edged up to 9.7 per cent of GDP in 2013-14 and continued to be financed mainly by direct investment and portfolio inflows. The surplus registered on the services and income accounts was lower than in 2012-13 and partly offset a lower merchandise trade deficit registered in 2013-14. The gross official international reserves of the country, made up of the gross foreign assets of the Bank, foreign assets of Government and the country's reserve position in the IMF, increased from an equivalent of 5.2 months of imports of goods and services as at end-June 2013 to 6.0 months of imports by end-June 2014.

During 2013-14, the Bank monitored developments in the money and foreign exchange markets to ensure their efficient functioning and took appropriate actions. The Bank intervened on the money market to mop up the persistent excess liquidity by issuing its own instruments. It also intervened on the domestic foreign exchange market to smooth out any excess volatility in the rupee exchange rate. The Bank maintained the Operation Reserves Reconstitution (ORR) programme with the aim of increasing the level of foreign currency reserves.

The exchange rate of the rupee reflected international exchange rate movements and demand and supply conditions in the domestic foreign exchange market. Between end-June 2013 and end-June 2014, on a point-to-point basis, the rupee appreciated against the US dollar, but depreciated vis-à-vis the Pound sterling and the euro. In nominal and real effective terms, the rupee appreciated significantly between mid-2013 and March 2014, before depreciating somewhat subsequently.

The domestic banking sector remained resilient, profitable and well-capitalised, while the Bank introduced a number of macro-prudential policies to safeguard the sector against shocks. The banking sector continued to expand in 2013-14, with two new banks engaged in private banking business starting operations. Nevertheless, its overall balance sheet grew at a lower pace in 2013-14 than in the preceding year. The Bank improved its regulatory framework by issuing new guidelines on a number of banking-related matters and introducing macro prudential policies in the area of loan-to-value ratios, debt-to-income ratios and other indicators to address potential systemic risk and emerging vulnerabilities in the financial system. Issues of financial inclusion were also addressed with the publication of Banking the Future report in June 2014.

The international and domestic economic and financial developments during 2013-14 are reviewed in greater detail below and covers data up to end-June 2014.

INTERNATIONAL DEVELOPMENTS

The world economy continued its recovery phase in 2013-14, albeit at a lower pace than projected in early 2014. Advanced economies' economic recovery has gradually strengthened, while growth across major emerging and developing economies has slowed somewhat in recent months. Nevertheless, emerging market and developing economies continue to contribute significantly to global growth. The US and, in particular, the UK economy have recovered markedly. Notwithstanding regional differences, conditions in the Eurozone showed some signs of improvement, although overall regional economic growth remained lacklustre and volatile, as shown by recent data. In early 2014, as the US Federal Reserve announced tapering of its asset-purchase programme, several emerging economies experienced significant depreciations of their currencies amid a marked reduction in capital inflows. Global financial markets have since calmed, while capital flows to leading emerging economies have stabilised. Countries, such as India, Indonesia, South Africa and Turkey, weathered the turmoil in early 2014, following improvements in key macroeconomic indicators, including hikes in interest rates, as well as assurances from the US Fed about a gradual tapering of its asset-purchase program. The July 2014 World Economic Outlook Update of the IMF forecasts world economic growth to improve from 3.4 per cent in 2014 to 4.0 per cent in 2015.

Despite an accommodative monetary policy stance, inflation remained tame in most advanced economies, partly reflecting modest

global growth, stable food and oil prices, and forward guidance on monetary policy. While average inflation for advanced economies was expected to increase slightly, inflation in the Eurozone declined owing to a sizable negative output gap. Also, during the period under review, the FAO food price index was stable, despite volatility in dairy and sugar prices due to climatic conditions. WTI crude oil prices have declined considerably since September 2013 due to higher supply, but prices have somewhat recovered amid geopolitical tensions in the Middle-East and Ukraine. ICE Brent prices have remained mostly stable, hovering between US$107 and US$112 a barrel during 2013-14. Major central banks have used forward guidance as an important tool for reducing uncertainties and managing market expectations.

Global equity markets generally posted positive growth during 2013-14. In major advanced economies, equity markets were supported by improving growth prospects in the US and UK and measures taken by the ECB to support activity in the Eurozone. The Nikkei was among the best performing indices, as easing of monetary and fiscal policies to support economic growth sparked market optimism. In emerging market economies, equity markets' performance was rather mixed. Equity indices in those markets were subject to bouts of volatility following the US Fed's announcement of the tapering of its asset-purchase program in early 2014. However, indices recovered somewhat following policy initiatives taken by several emerging economies to reassure investors, as well as assurances by the US Fed over a more cautious tapering than earlier envisaged by market participants.

DOMESTIC DEVELOPMENTS

Real Sector

During 2013-14, Mauritius weathered the global slowdown relatively well with the economy expanding by more than 3 per cent. Along with countercyclical fiscal policies adopted in the aftermath of the global financial crisis, the economy has been able to maintain positive growth rates. In nominal terms, GDP at market prices increased by 6.6 per cent to Rs366,479 million in 2013, compared to a growth of 6.4 per cent in 2012. Per capita GNI at market prices increased by 6.2 per cent to Rs291,234 in 2013, from Rs274,321 in 2012.

During 2013-14, the domestic economy continued to operate with some degree of spare capacity, given the fragile external environment and weak growth of final consumption. A frail export growth mirrored underlying challenges facing key trading partners, although a moderate growth of commodity imports resulted in a decline in the trade deficit (as a percentage of GDP), compared to 2012-13. Growth in consumption expenditure remained low and fell short of the rates observed in the early 2000s. Final consumption expenditure grew by 2.3 per cent in 2013, compared to 2.8 per cent in 2012. Household consumption expenditure, which represented 83.7 per cent of total consumption expenditure, grew by 2.6 per cent in 2013, compared to 2.7 per cent in 2012. Growth in general Government consumption expenditure fell to 0.7 per cent, from 2.9 per cent in 2012. Final consumption expenditure is forecast to grow by 2.6 per cent in 2014, as a result of the increase in salaries in the public sector.

Table 4.1 Expenditure on GDP – Real Growth Rates (y-o-y)

Per cent

	2011	2012 [1]	2013 [1]	2014 [2]
1. Final consumption expenditure	**+2.6**	**+2.8**	**+2.3**	**+2.6**
Households	+2.5	+2.7	+2.6	+2.8
General Government	+2.9	+2.9	+0.7	+2.0
2. Gross domestic fixed capital formation	**+1.4**	**-0.8**	**-3.3**	**+0.4**
Private sector	+3.4	-1.9	-2.8	-3.7
Public sector	-4.7	+2.9	-4.9	+13.7
3. Gross domestic fixed capital formation *(exclusive of aircraft and marine vessel)*	**+1.4**	**-0.8**	**-6.7**	**-0.8**
Private sector	+3.4	-1.9	-2.8	-3.7
Public sector	-4.7	+2.9	-4.9	+13.7
4. Exports of goods & services	**+5.2**	**+3.5**	**+4.4**	**+4.3**
Goods (f.o.b)	+2.0	+0.9	+4.7	+1.7
Services	+7.8	+5.4	+4.2	+6.3
5. Less Imports of goods & services	**+6.2**	**+1.3**	**+6.0**	**+3.6**
Goods (f.o.b)	+4.1	+2.5	+4.8	+3.8
Services	+10.6	-0.8	+8.3	+3.2

[1] *Revised.* [2] *Forecast.*
Source: Statistics Mauritius.

The sluggish growth momentum also reflected the dynamics of domestic investment. Total investment contracted in volume terms by 3.3 per cent in 2013, after shrinking by 0.8 per cent in 2012. Private investment declined to 16.2 per cent of GDP in 2013, down from 17.5 per cent in 2012, and it is projected to fall further to 15.2 per cent of GDP in 2014. It is expected that private investment will continue to be negatively affected by the muted business confidence, the slow recovery in our main export markets, and the high levels of corporate indebtedness. After declining in 2013, public investment is projected to recover from 5.0 per cent of GDP in 2013 to 5.5 per cent in 2014 due to berth extension at Mauritius Container Terminal, additional investment in Bagatelle Dam and acquisition of a patrol vessel.

Gross Domestic Savings (as a share of GDP) and Gross National Savings (as a share of Gross National Disposable income) have declined in tandem with the decline in private investment. In particular, the ratio of Gross Domestic Savings (GDS) to GDP declined from 12.6 per cent in 2012 to 11.9 per cent in 2013, while the ratio of Gross National Savings (GNS) to Gross National Disposable Income (GNDI) - including the activities of Global Business Companies (GBCs) - declined from 16.7 per cent in 2012 to 13.9 per cent in 2013. For 2014, GDS and GNS (as a share of GDP and GNDI, respectively) are projected to remain broadly unchanged vis-à-vis 2013.

The contribution of net exports of goods and services to GDP growth was in negative territory in 2013. Exports of goods and services

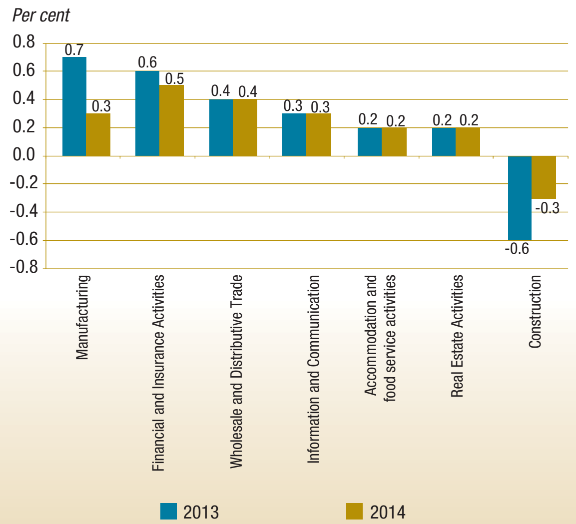
Table 4.2 Gross Domestic Product - Sectoral Real Growth Rates (y-o-y)

Per cent

	2011	2012	2013 [1]	2014 [2]
Agriculture, forestry and fishing	+4.1	-0.2	+0.4	+7.4
Manufacturing	+0.7	+2.2	+4.4	+1.7
of which: Textile	*3.0*	*-1.1*	*+2.6*	*+1.5*
Construction	-2.0	-3.0	-9.4	-4.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	+3.7	+3.9	+3.1	+3.3
Transportation and storage	+2.5	+2.1	+2.0	+2.7
Accommodation and food service activities	+3.5	+0.0	+2.5	+3.5
Information and communication	+9.0	+8.6	+6.9	+6.5
Financial and insurance activities	+5.6	+5.7	+5.4	+5.3
Real estate activities	+2.9	+2.8	+2.9	+2.7
Gross Domestic Product at basic prices	**+3.6**	**+3.4**	**+3.2**	**+3.5**

[1] Revised. [2] Forecast.
Source: Statistics Mauritius.

Chart 4.1 Selected Economic Sectors: Contribution to GDP Growth in 2013 and 2014



Source: Statistics Mauritius.

grew by 4.4 per cent in 2013, following a growth of 3.5 per cent in 2012. Growth in imports of goods and services rose to 6.0 per cent in 2013, up from 1.3 per cent in 2012. For 2014, the growth of exports of goods and services will likely remain the same as in 2013, although there may be an important deceleration of imports of services, in particular. Table 4.1 shows the real growth rates of expenditure on GDP.

At a sectoral level, all major economic sectors, except construction, contributed positively to the 3.2 per cent growth rate registered in 2013. The manufacturing, financial and insurance activities and wholesale and distributive trade sectors made the highest contributions to GDP growth in 2013. Chart 4.1 shows the contribution of selected economic sectors to GDP growth in 2013 and 2014.

In 2014, key economic sectors appear to be weathering global uncertainties reasonably well, although the manufacturing sector's contribution to growth may decline. A sluggish growth of manufacturing reflects the subdued performance of a number of sectors, including *'food (non-sugar)'*, *'textiles'* and *'other manufacturing'*. Construction is projected to maintain its declining trend. However, Agriculture, foresty and fishing is forecast to post growth of 7.4 per cent in 2014 (Table 4.2).

Risks to the domestic growth outlook still persist as the domestic economy continues to face low growth in final consumption and investment, while some structural sectoral challenges may prevent local businesses from taking full advantage of an eventual global recovery.

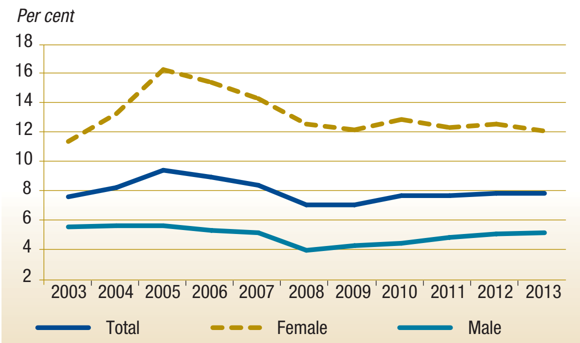
LABOUR MARKET

The labour market in Mauritius revealed a challenging picture in 2013-14:

- The labour force in Mauritius increased from 567,600 in 2013Q2 to 568,500 in 2014Q1, while employment rose from 522,000 to 523,200 over the same period.
- The unemployment rate rose to 8.0 per cent in 2014Q1 after declining to 7.5 per cent in 2013Q4. The seasonally-adjusted rate increased steadily from 7.8 per cent in 2013Q2 to 8.3 per cent in 2013Q4 before declining to 7.4 per cent in 2014Q1.
- Along recent trends, the male unemployment rate increased marginally from 5.2 per cent in 2012 to 5.3 per cent in 2013, while the female unemployment rate declined by 0.5 percentage point to 12.2 per cent over the same period. The unemployment rate for persons aged between 16-24 years and 25-29 years stood at 24.7 per cent and 9.6 per cent, respectively, in 2014Q1. Chart 4.2 shows the unemployment rate from 2003 to 2013.

Looking ahead, subdued economic conditions underpinned by low private sector investment and business confidence, as well as a structural mismatch between available jobs and skills, may continue to weigh on labour market conditions. The need to supplement the Youth Employment Programme with other private sector initiatives, has become increasingly apparent, given the persistently high youth and female unemployment.

Chart 4.2 Unemployment Rate



Source: Statistics Mauritius.

Unit Labour Cost and Productivity

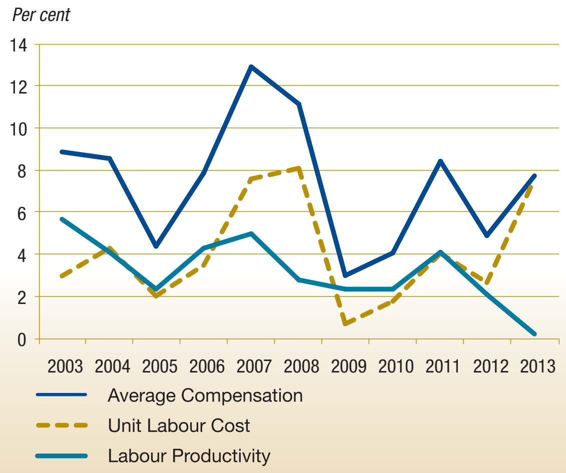
Unit labour costs increased rapidly in 2013. They increased by 7.6 per cent in 2013, compared with a 2.7 per cent increase in 2012. Labour productivity, defined as the ratio of real output to labour input, grew by 0.2 per cent in 2013, compared to 2.1 per cent in 2012. At the same time, average employee compensation increased by 7.8 per cent relative to the 4.9 per cent increase in 2012, largely reflecting the impact of wage increases to civil servants in the wake of the PRB Report implementation. Chart 4.3 shows the growth rates of average compensation, unit labour cost and labour productivity for the total economy for the years 2003 through 2013.

FINANCIAL MARKETS DEVELOPMENTS

Domestic Foreign Exchange Market

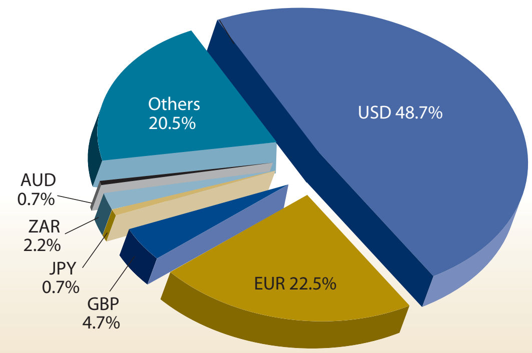
Total turnover in the foreign exchange market increased during the period under review, while the exchange rate appreciated

Chart 4.3 Growth Rates of Average Compensation, Unit Labour Cost and Labour Productivity – Total Economy



Source: Statistics Mauritius.

Chart 4.4 Foreign Exchange Transactions by Banks: Turnover by Currency (FY 2013-2014)



Source: Financial Markets Operations Division.

in nominal and real effective terms. Between July 2013 and June 2014, total turnover (including spot and forward dealt transactions, but excluding transactions conducted with the Bank of Mauritius) increased by 16.7 per cent to an equivalent of US$8,757 million, from an equivalent of US$7,506 million in 2012-13. Transactions were mostly denominated in the two largest reserve currencies, with 48.7 per cent in US dollars and 22.5 per cent in euros. Chart 4.4 shows the currency composition for dealt spot and forward transactions in 2013-14.

Between end-June 2013 and end-June 2014, on a point-to-point basis, the weighted average daily dealt ask rates of the rupee appreciated against the US dollar by 2.7 per cent but depreciated vis-à-vis the Pound sterling and euro by 7.5 per cent and 1.8 per cent, respectively. In nominal and real effective terms, the rupee appreciated between mid-2013 and early 2014 on account of the nominal appreciation of the rupee against the US dollar and the inflation spike recorded during that period. Since April 2014, however, there has been some partial unwinding of the appreciation recorded earlier in the period.

Chart 4.5 shows the evolution of the weighted average daily dealt ask rates of the rupee against major currencies in 2013-14 and Chart 4.6 shows the movements of MERI1, MERI2 and REER.

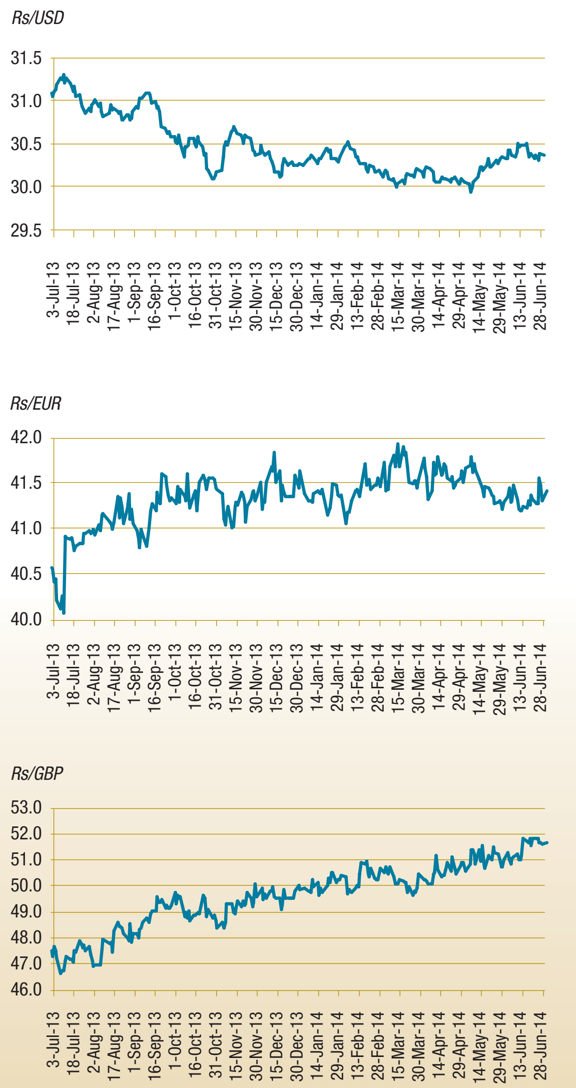
Domestic Stock Market

There were a number of key developments on the local stock market:

- The domestic stock market mostly tracked global equities and posted overall gains during 2013-14. The SEMDEX and SEM-7 reached new highs of 2,134.3 and 411.2, respectively, in January 2014, before retreating to some extent towards end-June 2014.

- The number of domestic listed companies on the Official Market totalled 46 as at end-June 2014, compared to 42 as at end-June 2013. Of these, 45 were local equities. On the Development and Enterprise Market (DEM), the number of listed companies decreased to 46, from 47 a year earlier.

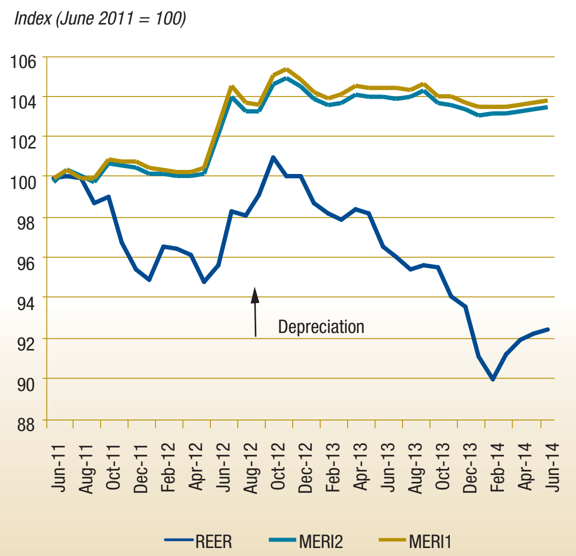
Chart 4.5 Weighted Average Daily Dealt Ask Rates of the Rupee against Major Currencies



Source: Financial Markets Operations Division.

- Market capitalisation on the Official Market stood at Rs229.2 billion as at end-June 2014, compared to Rs194.5 billion as at end-June 2013. The aggregate value of transactions in 2013-14 amounted to Rs13.8 billion for a volume of 2,287.0 million shares traded, up from an aggregate value of Rs11.0 billion for a volume of 869.8 million shares traded in 2012-13.

Chart 4.6 Evolution of MERI1, MERI2 and REER



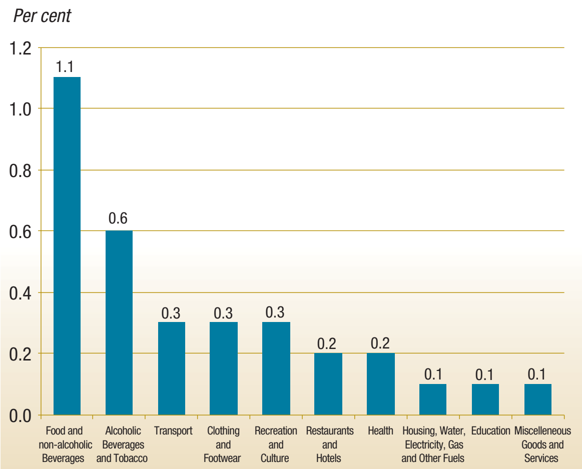
Source: Financial Markets Operations Division.

- During 2013-14, disinvestment by foreigners amounted to Rs123.9 million on the local stock market and was mostly related to the Official Market. On the DEM, purchases and sales of shares by foreigners amounted to Rs227.9 million and Rs132.1 million, respectively, representing a net investment of Rs95.8 million compared to Rs73.6 million in 2012-13.

PRICE DEVELOPMENTS

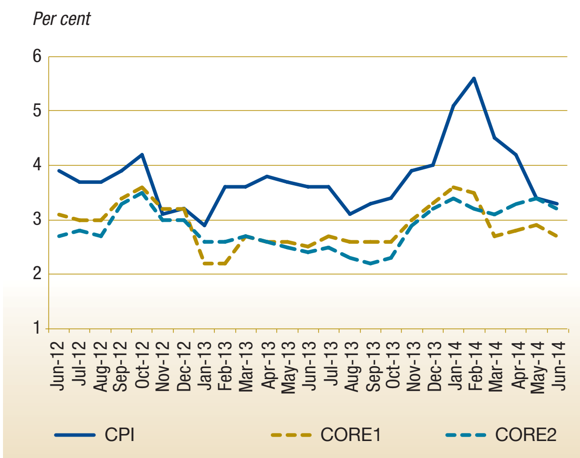
Inflation indices showed a rapid acceleration of inflation between mid-2013 and March 2014, before posting stability thereafter. Headline inflation, as measured by the percentage change in the yearly average Consumer Price Index (CPI) in Mauritius, increased from 3.6 per cent in July 2013 to 3.9 per cent in February 2014. Headline inflation remained unchanged at 4.0 per cent throughout the four months to June 2014. Y-o-y CPI inflation rose sharply between August 2013 and February 2014 in line with the hike in excise

Chart 4.7 Contribution to the Increase in CPI



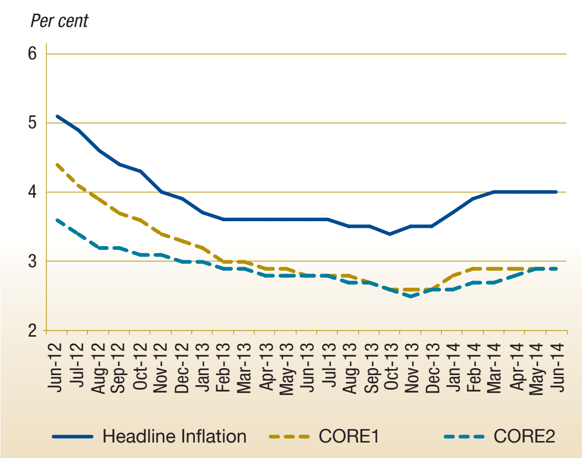
Sources: Statistics Mauritius and Statistics Division, Bank of Mauritius.

Chart 4.9 CPI and Core Inflation based on Y-o-Y Methodology



Sources: Statistics Mauritius and Statistics Division, Bank of Mauritius.

Chart 4.8 Headline and Core Inflation



Sources: Statistics Mauritius and Statistics Division, Bank of Mauritius.

duties on alcoholic beverages and tobacco in November 2013 and substantial increases in the price of vegetables in January and February 2014 on account of poor weather conditions. Overall, the CPI increased from 103.4 in June 2013 to 106.8 in June 2014. Chart 4.7 shows the main contributors to the increase in CPI between June 2013 and June 2014.

Core Inflation

Underlying inflationary pressures remained tame as shown in the evolution of the core measures of inflation. In general, the evolution of core inflation has tracked headline and y-o-y CPI inflation. Chart 4.8 shows the movements of headline and core inflation over the period June 2012 through June 2014. Chart 4.9 shows the y-o-y movements of CPI and core inflation over the same period.

MONETARY AND CREDIT AGGREGATES

Depository Corporations Survey[3]

Broad Money Liabilities (BML) grew faster than nominal GDP growth, largely mirroring an expansion of domestic claims. Net foreign assets (NFA) of depository corporations declined along a fall in net foreign assets of Other Depository Corporations (ODCs), which more than offset an increase in central bank net international reserves between end-June 2013 and end-June 2014.

[3] The Depository Corporations Survey (DCS) shows consolidated data from the balance sheets of the Bank of Mauritius and Other Depository Corporations (ODCs), which comprised 23 banks and 8 non-bank deposit-taking institutions at end-June 2014.

Table 4.3 Depository Corporations Survey[1]

	Jun-12 (1) (Rs million)	Jun-13 (2) (Rs million)	Jun-14 (3) (Rs million)	Change Between (1) and (2) (Rs million)	Change Between (1) and (2) (Per cent)	Change Between (2) and (3) (Rs million)	Change Between (2) and (3) (Per cent)
1. Net Foreign Assets	**358,616**	**394,122**	**382,242**	**35,506**	**9.9**	**-11,880**	**-3.0**
Claims on Non-residents	924,975	938,844	828,604	13,869	1.5	-110,240	-11.7
Liabilities to Non-residents	-566,360	-544,722	-446,363	21,637	-3.8	98,360	-18.1
2. Domestic Claims	**367,427**	**395,942**	**426,481**	**28,516**	**7.8**	**30,539**	**7.7**
A. Net Claims on Central Government	***27,435***	***24,490***	***34,504***	***-2,944***	***-10.7***	***10,014***	***40.9***
Claims on Central Government	62,494	63,203	74,355	709	1.1	11,151	17.6
Liabilities to Central Government	-35,060	-38,713	-39,851	-3,653	10.4	-1,138	2.9
B. Claims on other Sectors	***339,992***	***371,452***	***391,977***	***31,460***	***9.3***	***20,525***	***5.5***
3. ASSETS = LIABILITIES	**726,043**	**790,064**	**808,723**	**64,022**	**8.8**	**18,658**	**2.4**
4. Broad Money Liabilities	**327,851**	**351,376**	**378,456**	**23,525**	**7.2**	**27,080**	**7.7**
A. Currency outside Depository Corporations	*19,014*	*20,523*	*21,685*	*1,510*	*7.9*	*1,162*	*5.7*
B. Transferable Deposits	*72,253*	*74,121*	*85,000*	*1,868*	*2.6*	*10,879*	*14.7*
C. Savings Deposits	*118,176*	*132,413*	*145,274*	*14,237*	*12.0*	*12,862*	*9.7*
D. Time Deposits	*116,534*	*120,353*	*123,269*	*3,820*	*3.3*	*2,916*	*2.4*
E. Securities other than Shares	*1,875*	*3,966*	*3,227*	*2,090*	*111.5*	*-738*	*-18.6*
5. Other	**398,192**	**438,688**	**430,266**	**40,497**	**10.2**	**-8,422**	**-1.9**

Figures may not add up to totals due to rounding.
[1] Following IMF recommendations in January 2013, with effect from January 2010, liabilities to Central Government now include deposits of budgetary central Government, extra-budgetary units and social security funds, as well as their holdings of Bank of Mauritius securities, which were formerly classified as "Deposits and Securities Other than Shares, Excluded from Monetary Base".
Source: Statistics Division.

The expansion in domestic claims reflected important increases in depository corporations' net claims on Central Government and an expansion in claims on other sectors. Net claims on central Government expanded by 40.9 per cent from Rs24,490 million as at end-June 2013 to Rs34,504 million as at end-June 2014, as against a contraction of 10.7 per cent a year earlier. Claims on other sectors increased by 5.5 per cent as at end-June 2014 compared to an annual growth of 9.3 per cent as at end-June 2013.

BML increased by 7.7 per cent, from Rs351,376 million as at end-June 2013 to Rs378,456 million as at end-June 2014, compared to an increase of 7.2 per cent in the preceding financial year. Table 4.3 shows the Depository Corporations Survey as at end-June 2012, 2013 and 2014.

Central Bank Survey

The Central Bank Survey (CBS) shows the components of the monetary base, which

Table 4.4 Central Bank Survey

	Jun-12 (1) (Rs million)	Jun-13 (2) (Rs million)	Jun-14 (3) (Rs million)	Change Between (1) and (2) (Rs million)	(Per cent)	Change Between (2) and (3) (Rs million)	(Per cent)
1. Net Foreign Assets	**85,159.2**	**103,579.9**	**119,619.6**	**18,420.6**	**21.6**	**16,039.7**	**15.5**
Claims on Non-residents	85,301.2	103,679.9	119,944.7	18,378.7	21.5	16,264.7	15.7
less: Liabilities to Non-residents	141.9	100.0	325.0	-41.9	-29.5	225.0	224.9
2. Domestic Claims	**-10,587.5**	**-16,367.8**	**-16,338.4**	**-5,780.4**	**-54.6**	**29.5**	**0.2**
A. Net Claims on Central Government	-11,179.9	-18,112.1	-18,912.3	-6,932.1	-62.0	-800.2	-4.4
B. Claims on Other Sectors	142.3	198.1	159.6	55.8	39.2	-38.5	-19.4
C. Claims on Other Depository Corporations	450.1	1,546.1	2,414.3	1,096.0	243.5	868.2	56.2
3. ASSETS = LIABILITIES	**74,571.8**	**87,212.0**	**103,281.2**	**12,640.3**	**17.0**	**16,069.2**	**18.4**
4. Monetary Base	**45,911.0**	**53,094.0**	**62,137.0**	**7,183.0**	**15.6**	**9,043.0**	**17.0**
A. Currency in Circulation	21,745.5	24,405.0	26,344.9	2,659.5	12.2	1,939.9	7.9
B. Liabilities to Other Depository Corporations	23,977.4	28,377.5	35,505.5	4,400.1	18.4	7,128.0	25.1
C. Liabilities to Other Sectors	188.1	311.5	286.6	123.4	65.6	-24.9	-8.0
5. Other Liabilities to Other Depository Corporations	**4,898.3**	**10,207.0**	**17,166.0**	**5,308.6**	**108.4**	**6,959.1**	**68.2**
6. Other	**23,762.5**	**23,911.1**	**22,012.9**	**148.6**	**0.6**	**-1,898.1**	**-7.9**

Figures may not add up to totals due to rounding.
Source: Statistics Division.

comprises the central bank's liabilities that support the expansion of broad money and credit. The monetary base expanded by 17.0 per cent, from Rs53,094 million as at end-June 2013 to Rs62,137 million as at end-June 2014, compared to an increase of 15.6 per cent in 2012-13. Of the major components of the monetary base, currency in circulation rose by 7.9 per cent, which was lower than the rise of 12.2 per cent recorded in 2012-13, while banks' deposits with the Bank of Mauritius increased by 25.1 per cent compared to an increase of 18.4 per cent in 2012-13.

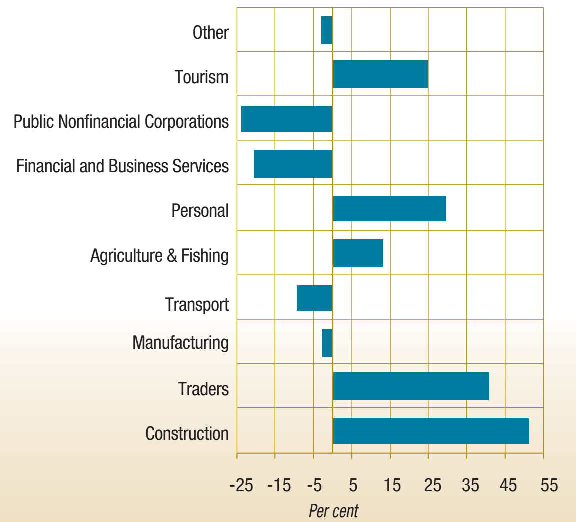
On the sources side of the monetary base, net foreign assets of the Bank expanded by 15.5 per cent, from Rs103,580 million as at end-June 2013 to Rs119,620 million as at end-June 2014, compared to an increase of 21.6 per cent in the previous year. Domestic claims of the Bank grew by 0.2 per cent as against a drop of 54.6 per cent in 2012-13. Net claims on Government fell by 4.4 per cent, reflecting mainly a rise in Government deposits at the Bank. Claims on other depository corporations grew by 56.2 per cent from Rs1,546 million at end-June 2013 to reach Rs2,414 million at end-June 2014. Other liabilities to ODCs increased by 68.2 per cent between June 2013 and June 2014 due to an increase in holdings of BoM securities by ODCs. Table 4.4 shows the Central Bank Survey as at end-June 2012, 2013 and 2014.

Sector-wise Distribution of Banks' Credit

Credit extended by banks to the private sector grew by 3.6 per cent during 2013-14, with construction, traders, and personal loans taking the lion's share of this expansion. In particular, construction, traders and personal sectors accounted for 51.2 per cent, 40.8 per cent and 29.6 per cent of the rise in credit in

2013-14, respectively. Other important recipients of additional credit were the tourism and the agriculture and fishing sectors. Chart 4.10 shows the sector-wise contribution to the increase in credit to the private sector by banks in 2013-14.

Chart 4.10 Distribution of the Increase in Bank Credit to the Private Sector – end-June 2013 to end-June 2014



Source: Statistics Division.

Cash Reserve Ratio

During the year 2013-14, the Bank of Mauritius adjusted the base and the rate of banks' cash reserve ratio (CRR) in an effort to tackle excess bank liquidity, albeit with limited success. Main policy actions included:

- Effective 26 July 2013, the Bank broadened the deposit base for the computation of CRR to include Government deposits held with other depository corporations. In addition, banks were requested to keep cash reserves of their rupee-denominated deposits in Mauritian rupees only. For the foreign currency-denominated deposits, they were required to keep foreign currency balances with the Bank of Mauritius in US dollar, euro and Pound sterling, only. Banks' excess cash holdings amounted to Rs4.7 billion in early October 2013.

- To mop up the excess liquidity, the Bank raised the CRR on rupee deposits effective 4 October 2013. The fortnightly average CRR and the daily minimum CRR on rupee deposits were raised from 7.0 per cent and 5.0 per cent to 8.0 per cent and 5.5 per cent, respectively. In parallel, the Bank of Mauritius lowered the fortnightly average CRR and the daily minimum CRR on foreign currency deposits from 7.0 per cent and 5.0 per cent to 6.0 per cent and 4.5 per cent, respectively. The main objective was to encourage banks to hold deposits in foreign currency.

- The effect of the CRR increases was, however, temporary, as excess cash balances of banks with the central bank continued to increase fairly rapidly, reflecting inter alia: (i) the rupee liquidity counterpart of the Bank's intervention on the domestic foreign exchange market; (ii) the impact of foreign financing of the Government deficit; and (iii) the underlying low growth in private sector credit. Banks' excess cash balances with the central bank thus reached Rs11.0 billion for the maintenance period ended 23 January 2014 compared to Rs4.7 billion in October 2013.

- Effective 2 May 2014, the fortnightly average CRR and the daily minimum CRR on rupee deposits were raised from 8.0 per cent and 5.5 per cent to 9.0 per cent and 6.5 per cent, respectively. Banks' excess cash balances stood at Rs10.0 billion by end-June 2014.

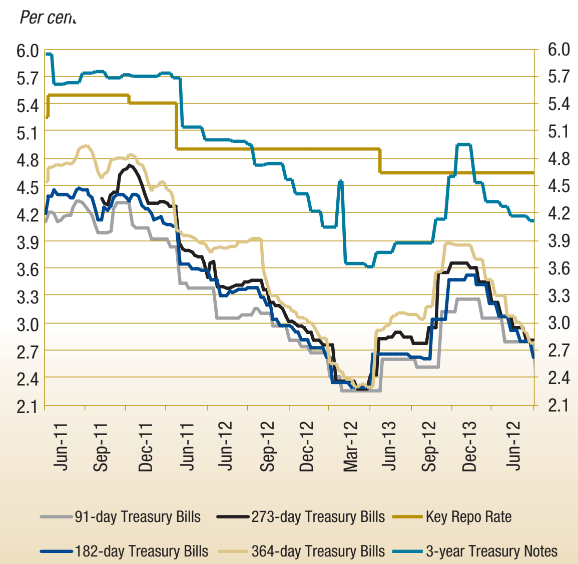
Table 4.5 Banks' Interest Rate Structure

(Per cent per annum)

		Prime Lending Rate	Interest Rate on Rupee Savings Deposits with Banks	Interest Rate on Rupee Term Deposits with Banks	Interest Rate on Rupee Loans and Advances by Banks	Weighted Average Rupee Deposits Rate of Banks	Weighted Average Rupee Lending Rate of Banks
2013							
	Jul	6.75-8.50	2.75-3.40	1.00-16.00	2.00-19.65	3.21	8.22
	Aug	6.75-8.50	2.75-3.40	1.15-16.00	2.00-19.78	3.24	8.18
	Sep	6.75-8.50	2.75-3.40	1.00-16.00	2.00-21.00	3.26	8.15
	Oct	6.25-8.50	2.50-3.40	1.00-16.00	2.00-19.91	3.26	8.10
	Nov	6.25-8.50	2.50-3.40	1.15-14.00	2.00-21.00	3.25	8.09
	Dec	6.25-8.50	2.50-3.40	1.15-12.00	2.00-21.18	3.22	8.07
2014							
	Jan	6.25-8.50	2.50-3.40	1.15-12.25	2.00-22.11	3.27	8.14
	Feb	6.25-8.50	2.50-3.40	1.15-12.00	2.00-21.91	3.16	8.12
	Mar	6.25-8.50	2.40-3.40	1.15-12.00	2.00-19.50	3.18	8.12
	Apr	6.25-8.50	2.40-3.40	1.00-12.00	2.00-21.90	3.16	8.08
	May	6.25-8.50	2.40-3.40	1.15-12.00	2.00-19.89	3.38	8.11
	Jun	6.25-8.50	2.40-3.40	1.00-12.00	2.00-19.68	3.30	8.04

Source: Statistics Division.

Chart 4.11 KRR, Weighted Average Yields on Treasury Bills and 3-Year Treasury Notes



Source: Statistics Mauritius.

Interest Rates

Interest rates generally declined during the period under review.

- In June 2013, the KRR was reduced by 25 basis points from 4.90 per cent to 4.65 per cent and was subsequently maintained at that level. Chart 4.11 shows the KRR and weighted average yields on Government securities.

- For the period ending June 2014, the Savings Deposits Rate and Prime Lending Rate were within a range of 2.40-3.40 per cent and 6.25-8.50 per cent, respectively, compared to 2.75-3.65 per cent and 7.00-8.50 per cent for the corresponding period in 2013.

- Banks' weighted average lending rate which stood at 8.26 per cent in June 2013 declined to 8.04 per cent in June 2014. Table 4.5 shows the movements of interest rates during 2013-14.

- During 2013-14, despite the KRR remaining unchanged, yields on Government securities fluctuated noticeably. This was partly explained by changes brought to the CRR and the persistent high excess liquidity in the system.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

The current account deficit to GDP ratio increased to 9.7 per cent in 2013-14 from 8.8 per cent in 2012-13 on the back of the lower surpluses on the services and income accounts. In absolute terms, the current account deficit, inclusive of cross-border transactions of GBC1s, widened from Rs31.4 billion in 2012-13 to Rs36.4 billion in 2013-14. The merchandise trade deficit narrowed on the back of a rapid growth in exports that was more than twice the growth of imports. The surpluses in the services and income accounts declined mainly due to lower tourism earnings and net outflows of portfolio investment income than in 2012-13.

Year-on-year, exports of goods grew by a marked 9.4 per cent during 2013-14, outpacing the expansion in nominal imports. The significant exports growth was primarily led by a pickup in 're-exports' and 'ships, stores and bunkers'. Domestic exports rose by a marginal 0.8 per cent in 2013-14, reflecting to a large extent the sub-par growth in our main exports markets. In terms of commodity structure, exports of 'Machinery and transport equipment' accounted for 61 per cent of the overall increase in total exports. On a balance of payments basis, imports of goods f.o.b. grew by 4.6 per cent in 2013-14 compared with a 1.8 per cent growth 2012-13. The largest increase was recorded in imports of 'telecommunications and sound recording and reproducing apparatus and equipment' that were meant to a large extent for re-exports.

Services, Income and Current Transfers

The surpluses on the services account declined from Rs24.6 billion in 2012-13 to Rs22.2 billion in 2013-14. The lower surplus was largely due to lower travel receipts compared with the previous year that offset the lower deficit on the transportation account combined with the higher surplus recorded on the 'other services' account. Gross tourism earnings amounted to Rs41.1 billion in 2013-14, lower than the Rs42.9 billion registered in 2012-13, in spite of an increase in tourist arrivals. The drop in tourism receipts could be partly attributed to the performance of key source markets like France and Italy, from which a contraction in tourist arrivals was recorded. Tourists coming from UK and Germany continued to increase moderately.

The income account, inclusive of cross-border transactions of Global Business Companies (GBC1s), posted a net surplus of Rs6.2 billion. The 'Other investment income' account recorded lower net inflows in 2013-14, while the 'Portfolio investment income' account registered net outflows as against net inflows a year earlier. Net current transfers remained stable at Rs3.0 billion in 2013-14 as higher net inflows of private current transfers made up for the lower net inflows on Government current transfers.

Table 4.6 Balance of Payments Summary

	2009-10	2010-11	2011-12	2012-13	2013-14 [1]
			(Rs million)		
Current Account	**-24,655**	**-34,405**	**-36,021**	**-31,406**	**-36,430**
Goods	**-55,600**	**-62,339**	**-72,118**	**-68,538**	**-67,754**
Exports f.o.b.	64,469	72,444	77,165	83,491	91,313
Imports f.o.b.	120,069	134,783	149,283	152,029	159,067
Services	**22,031**	**23,089**	**27,484**	**24,588**	**22,153**
Income	**2,328**	**-1,745**	**5,332**	**9,711**	**6,202**
Current Transfers	**6,586**	**6,590**	**3,281**	**2,835**	**2,969**
Capital and Financial Account	**-14,162**	**57,741**	**58,786**	**17,257**	**31,306**
Capital Account	**-169**	**-58**	**-141**	**-183**	**-111**
Financial Account	**-13,992**	**57,799**	**58,927**	**17,440**	**31,417**
Direct Investment	145,112	316,481	17,990	118,710	77,158
Portfolio Investment	-101,162	-81,767	164,022	58,219	40,117
Other Investment	-48,248	-168,517	-120,394	-139,153	-69,919
Reserve Assets	-9,694	-8,399	-2,692	-20,335	-15,939
Net Errors and Omissions	**38,817**	**-23,336**	**-22,765**	**14,148**	**5,125**
			(USD million)		
Current Account	**-803**	**-1,164**	**-1,240**	**-1,020**	**-1,199**
Goods	**-1,810**	**-2,109**	**-2,483**	**-2,227**	**-2,230**
Exports f.o.b.	2,090	2,451	2,657	2,713	3,005
Imports f.o.b.	3,909	4,561	5,140	4,940	5,235
Imports c.i.f.	4,134	4,792	5,372	5,202	5,489
Services	**717**	**781**	**946**	**799**	**729**
Income	**76**	**-59**	**184**	**316**	**204**
Current Transfers	**214**	**223**	**113**	**92**	**98**
Capital and Financial Account	**-461**	**1,954**	**2,024**	**561**	**1,030**
Capital Account	**-6**	**-2**	**-5**	**-6**	**-4**
Financial Account	**-456**	**1,956**	**2,029**	**567**	**1,034**
Direct Investment	4,724	10,709	619	3,857	2,539
Portfolio Investment	-3,294	-2,767	5,647	1,892	1,320
Other Investment	-1,571	-5,702	-4,145	-4,522	-2,301
Reserve Assets	-316	-284	-93	-661	-525
Net Errors and Omissions	1,264	-790	-784	460	169

[1] *Provisional*

(a) Imports for 2009-10 are inclusive of aircrafts (Rs2,862 million).

(b) As from 2010-11, the balance of payments includes cross-border transactions of GBC1s and are not strictly comparable with prior years' data.

Source: Statistics Division.

Capital and Financial Account

The capital and financial account, inclusive of reserve assets, posted higher net inflows of Rs28.2 billion in 2013-14 compared to Rs17.3 billion recorded in the previous year. Direct investment, inclusive of GBC1s cross-border transactions, recorded net lower inflows of Rs76.8 billion in 2013-14. Excluding cross-border transactions of GBC1s, non-residents' direct investment in Mauritius net of repatriation flows amounted to Rs11.1 billion in 2013-14 compared to Rs14.8 billion in 2012-13[4]. Residents' direct investment abroad net of repatriation and excluding cross-border transactions of GBC1s decreased to Rs3.4 billion in 2013-14 compared to Rs4.4 billion in 2012-13.

On a gross basis, excluding direct investment in GBC1s, Mauritius attracted Rs12.7 billion by way of foreign direct investment in 2013-14. However, the data exclude retained earnings and intra-company debt and are therefore not strictly comparable to the Rs17.2 billion recorded in the preceding fiscal year. Foreign direct investment was mainly channelled into real estate activities to the tune of Rs6.2 billion, out of which IRS/RES/IHS accounted for Rs4.4 billion.

The portfolio investment account, inclusive of GBC1s cross-border transactions, posted lower net inflows of Rs40.1 billion in 2013-14 compared to Rs58.2 billion registered in 2012-13.

The 'Other investment' account recorded lower net outflows of Rs70.0 billion in 2013-14 compared to net outflows of Rs139.2 billion in 2012-13. The Government sector registered net inflows of Rs8.5 billion in 2013-14 on account of long-term external loan disbursements of Rs10.1 billion that were partly offset by capital repayments of Rs1.6 billion. This compares to net inflows of Rs7.6 billion in 2012-13. 'Private long-term capital' recorded net outflows of Rs0.8 billion in 2013-14 compared to net outflows of Rs0.6 billion during the preceding fiscal year. Table 4.6 provides a summary of the balance of payments from 2009-10 to 2013-14.

[4] *2013 data are not strictly comparable to 2012 data as the latter have been supplemented with results obtained from the Foreign Assets and Liabilities Survey (FALS 2013). Data for 2013 would be revised once FALS 2014 results are finalised.*

Gross Official International Reserves

The gross official international reserves of the country increased significantly during the period under review. Gross official reserves, which comprise the gross foreign assets of the Bank of Mauritius, the foreign assets of Government and the country's reserve position in the Fund, increased from Rs105.0 billion as at end-June 2013 to an all-time high of Rs121.4 billion as at end-June 2014. The gross foreign assets of the Bank increased from Rs103.4 billion to Rs119.6 billion over the same period, while the reserve position in the Fund went up to Rs1.8 billion as at end-June 2014. Based on the value of imports of goods *f.o.b.* and non-factor services for calendar year 2013, the level of GOIR as at end-June 2014 represented 6.0 months of imports, compared to 5.2 months as at end-June 2013.

Table 4.7 shows the monthly level of gross official international reserves of the country during 2013-14.

GOVERNMENT FINANCE

During 2013, the overall fiscal deficit doubled to 3.5 per cent of GDP along with a rapid increase in current expenditure. The deficit was mainly financed through net external borrowing. For 2014, the budget projects a marginal reduction in the overall fiscal deficit (as a percentage of GDP) along a rapid increase in taxes on goods and services, grants, and other revenue. Deficit financing will continue to depend heavily on foreign funding.

Table 4.7 Gross Official International Reserves

End of Month	Gross Foreign Assets of Bank of Mauritius	Reserve Position in the IMF	Foreign Assets of the Government	Gross Official International Reserves	Gross Official International Reserves [1]
2013	(Rs million)				(US$ million)
July	100,495	1,619	0.1	102,114.1	3,316.3
August	99,096	1,620	0.1	100,716.1	3,271.5
September	100,729	1,717	0.1	102,446.1	3,362.5
October	100,016	1,698	0.1	101,714.1	3,384.8
November	99,026	1,761	0.1	100,787.1	3,326.4
December	103,258	1,751	0.1	105,009.1	3,491.1
2014					
January	102,732	1,751	0.1	104,483.1	3,459.3
February	108,445	1,761	0.1	110,206.1	3,662.5
March	110,261	1,757	0.1	112,018.1	3,722.9
April	114,698	1,782	0.1	116,480.1	3,885.8
May	117,036	1,788	0.0	118,824.0	3,927.7
June	119,631	1,793	0.1	121,424.1	4,015.5

[1] Valued at end-of-period exchange rate.
Source: Statistics Division.

Government Revenue and Expense

Government revenue as a share of GDP remained rather stable in 2012 and 2013. It amounted to Rs78,224 million in 2013, representing 21.3 per cent of GDP at market prices compared to 21.5 per cent in 2012. However, total revenues were around 6.1 per cent lower than budget estimates. Taxes which constituted the major share of Government revenue (86.9 per cent) were 4.3 per cent below budget estimates. The remaining components of revenue were 'other revenue' (Rs7,562 million), grants (Rs1,403 million) and social contributions (Rs1,269 million).

Government expense as a share of GDP increased between 2012 and 2013. It totalled Rs79,886 million in 2013, representing 21.8 per cent of GDP at market prices compared to 20.4 per cent in 2012. Compensation of employees amounting to Rs22,698 million accounted for the largest share of expense (28.4 per cent). Subsidies and social benefits increased by 28.3 per cent and 13.7 per cent respectively, compared to the corresponding period of the previous year.

Table 4.8 provides details about budgetary central Government operations for the years 2010 to 2014.

Table 4.8 Statement of Budgetary Central Government Operations

		2010	2011	2012	2013	2014[1]
						(Rs million)
		(Actual)	(Actual)	(Actual)	(Prov. Actual)	Estimates
1.	**Revenue**	**65,479.5**	**69,223.2**	**73,793.7**	**78,224.2**	**86,270.0**
2.	**Expense**	**75,059.3**	**79,569.9**	**79,871.3**	**91,047.5**	**98,891.0**
	Current	66,983.2	70,937.5	70,255.3	79,886.4	86,709.9
	of which Interest	10,261.9	9,629.2	10,129.3	9,629.4	10,870.0
	Capital	8,076.1	8,632.5	9,616.0	11,161.1	12,181.1
3.	**Gross Operating Balance/Overall Balance (1-2)**	**-9,579.8**	**-10,346.8**	**-6,077.6**	**-12,823.3**	**-12,621.0**
	Primary Balance	**682.1**	**-717.6**	**4,051.7**	**-3,193.9**	**-1,751.0**
	Financing	**9,579.8**	**10,346.8**	**6,077.6**	**12,823.3**	**12,621.0**
	Domestic	4,680.2	5,316.4	3,461.2	2,315.7	4,537.7
	Foreign	5,330.0	5,463.5	2,711.9	10,698.5	8,083.3
	Other*	**-430.4**	**-433.1**	**-95.5**	**-190.9**	**0.0**
		In Per cent of GDP				
1.	**Revenue**	**21.9**	**21.4**	**21.5**	**21.3**	**22.1**
2.	**Expense**	**25.1**	**24.6**	**23.2**	**24.8**	**25.4**
	Current	22.4	22.0	20.4	21.8	22.2
	of which Interest	3.4	3.0	2.9	2.6	2.8
	Capital	2.7	2.7	2.8	3.0	3.1
3.	**Gross Operating Balance/Overall Balance (1-2)**	*-3.2*	*-3.2*	*-1.8*	*-3.5*	*-3.2*
	Primary Balance	0.2	-0.2	1.2	-0.9	-0.4
	Financing	3.2	3.2	1.8	3.5	3.2
	Domestic	1.6	1.6	1.0	0.6	1.2
	Foreign	1.8	1.7	0.8	2.9	2.1
	Other*	-0.1	-0.1	0.0	-0.1	0.0

** Refers to Monetary Gold and SDRs*
[1] As per Programme Based Budget Estimates 2014.
Notes: (i) Figures have been compiled using the IMF's GFS Manual 2001.
(ii) Figures may not add up to totals due to rounding.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

2014 Budget

The 2014 budget targeted fiscal consolidation along with efforts to support inclusive economic growth. The 2014 budget sought a rapid increase in revenue and expenditure along with a number of tax administration reforms and better quality spending. The budget aimed at a reduction in the overall budget deficit from 3.7 per cent of GDP in 2013 to 3.5 per cent in 2014. The theme of the 2014 Budget was 'Creating the Next Wave of Prosperity'. To realize this goal, a two-pronged strategy was set out and grounded in efforts to: (i) invigorate investment and growth, and (ii) build a modern, inclusive and caring society for all citizens. In general, the overriding objective was to put Mauritius back on a path of sustained, high, long-term growth centred on different pillars, including the ocean economy, the petroleum hub, the film industry, and the Africa strategy, while at the same time consolidating traditional pillars of the economy. More opportunities were being offered to SMEs. Provisions were being made for the Government to purchase more services from SMEs with a view to accelerating the process of democratization of the Mauritian economy. Moreover, efforts to improve the performance of the tourism sector were deepened through a focus on destination marketing, improved air access and product quality.

Public Sector Debt

Public sector debt increased by 10.2 per cent, from Rs207,438 million as at end-June 2013 to Rs228,551 million as at end-June 2014. As a percentage of GDP, total public sector debt increased by 2.4 percentage points to 60.8 per cent. The increase in debt has been broadly evenly distributed between foreign and domestic debt, with the latter registering a lengthening of maturity. Most of the external debt has been contracted at floating interest rates (Tables 4.9 and 4.10) .

MONETARY POLICY

The KRR was kept unchanged at 4.65 per cent between June 2013 and June 2014. Summaries of the MPC discussions and announcements are presented below:

- **In the September 2013 MPC meeting, members noted that the global economy had improved slightly with higher activity in the US and UK, while the euro area and Japan returned to positive growth.** However, growth slowed down in several major emerging economies, including China and India. Members observed that the outlook for world growth continued to face downside risks mainly emanating from fiscal policy issues in the US, the still fragile financial and economic conditions in the euro area and the slowdown in emerging economies that could potentially drag on world growth. Global inflation was broadly benign with low pressures from commodity prices but in some emerging economies inflation increased as a result of depreciating currencies.

- On the domestic front, the economy continued to face headwinds from the soft economic conditions in main export markets. While some members emphasised the fragile economic environment, the negative output gap and the lingering downside risks to the growth outlook; others found that the economy was weathering the global economic slowdown rather well. The excess liquidity prevailing in the money market was a matter of concern as was the decline in private and public investment and the savings rate.

Table 4.9 Public Sector Debt

(Rs million)

		Dec-12	Jun-13	Dec-13	Jun-14 (Provisional)
1.	**Short-term Domestic Obligations [1]**	**31,093**	**29,880**	**27,497**	**22,984**
	o/w: Treasury Bills	29,486	29,861	27,497	22,984
2.	**Medium-term Domestic Obligations [1]**	**40,174**	**40,697**	**43,251**	**50,692**
	o/w: Treasury Notes	40,157	40,680	43,251	50,692
3.	**Long-term Domestic Obligations [1]**	**69,539**	**73,309**	**79,212**	**83,301**
	o/w: MDLS/Government of Mauritius Bonds	39,892	42,287	46,062	49,079
	Five-Year Government of Mauritius Bonds	29,647	31,022	33,150	34,222
4.	**Domestic Central Government Debt (1+2+3)**	**140,806**	**143,886**	**149,960**	**156,977**
		(41.0)	*(40.5)*	*(40.9)*	*(41.8)*
5.	**External Central Government Debt**	**35,918**	**42,106**	**47,133**	**51,427**
		(10.4)	*(11.9)*	*(12.9)*	*(13.7)*
	(a) Foreign Loans	31,134	37,434	42,214	46,483
	(b) Foreign Investment in Government Securities	241	157	427	418
	(c) IMF SDR Allocations	4,543	4,515	4,493	4,525
6.	**Extra Budgetary Unit Domestic Debt**	**105**	**105**	**24**	**24**
7.	**Extra Budgetary Unit External Debt**	**180**	**171**	**160**	**147**
8.	**Local Government Domestic Debt**	**2**	**1**	**0**	**0**
9.	**Public Enterprise Domestic Debt**	**11,130**	**10,175**	**12,062**	**9,319**
10.	**Public Enterprise External Debt**	**10,888**	**10,994**	**10,569**	**10,657**
11.	**Domestic Public Sector Debt**	**152,043**	**154,167**	**162,046**	**166,320**
		(44.2)	*(43.4)*	*(44.2)*	*(44.3)*
12.	**External Public Sector Debt**	**46,986**	**53,271**	**57,862**	**62,231**
		(13.7)	*(15.0)*	*(15.8)*	*(16.6)*
13.	**Total Public Sector Debt (11+12)**	**199,029**	**207,438**	**219,908**	**228,551**
		(57.9)	(58.4)	(60.0)	(60.8)

[1] By original maturity.
Notes: (i) Short-term: Up to 12 months; Medium-term: Over 1 year but less than 5 years; Long-term: 5 years and above.
(ii) Figures in brackets are percentages to GDP.
(iii) Figures may not add up to totals due to rounding.
Sources: Financial Markets Operations Division, Bank of Mauritius; Ministry of Finance and Economic Development, Government of Mauritius.

Table 4.10 Government External Debt by Interest Rate Mix

(Per cent)

	Dec-12	Jun-13	Dec-13	Jun-14 (Provisional)
Fixed Rate	21.7	19.1	19.5	17.1
Floating Rate	74.1	76.9	77.0	79.8
Interest-Free	4.2	3.9	3.5	3.1

Figures may not add up to totals due to rounding.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

Some members viewed the vulnerabilities building up in the economy as being attributed to the prolonged negative real savings deposit rate. Members took note of the decline in inflation but had divergent views on the outlook. A majority of members believed that risks to inflation were contained amid benign global inflation and spare capacity both in Mauritius and abroad. The Committee voted with a majority 5-3 to keep the KRR unchanged at 4.65 per cent.

- **At its February 2014 meeting, the MPC noted that global economic activity had firmed, with recovery taking hold in the US and UK.** The improvement in the US economy prompted the US Fed to reduce its asset-purchase programme. The euro area stayed out of recession but growth was expected to remain weak and uneven. Emerging markets economies continued to face external headwinds, mainly from US Fed tapering and internal rebalancing in China. While global inflation remained muted, a number of emerging economies experienced increases in inflation as a result of currency depreciations. The domestic economy continued to perform relatively well against the global backdrop. The recovery in global economic activity coupled with diversification efforts was projected to have a positive impact on external demand. However, some members pointed that domestic growth was still fragile and should continue to be supported by an accommodative monetary policy. Members continued to express concerns about the declining investment trends and domestic savings rate and discussed extensively the large increase in excess liquidity in the banking system. It was expected that the Ministry of Finance would coordinate with the Bank to remove the excess liquidity from the banking system. Inflationary pressures had increased in the domestic economy but members appraised the inflation outlook differently. The Committee voted with a majority 5-3 to keep the KRR unchanged at 4.65 per cent.

- **At its April 2014 meeting, the MPC noted that the global economy had improved slightly but growth remained slow and uneven.** Economic activity was firming up in the US and UK but the pace of recovery was weak in the euro area. In emerging market economies, data released pointed to decelerating economic activity as they pursued policies to address internal imbalances. Global inflation was relatively low with few pressures from commodity prices. Monetary policy was accommodative in advanced economies but was being tightened in some emerging market economies to tackle inflationary pressures as a result of depreciating currencies.

  The MPC viewed that the domestic economy had continued to perform well amid the challenging economic environment. Though some members pointed that the economy remained fragile, the pick-up in global economic activity as well as continued diversification efforts, were expected to have a positive impact on domestic growth. It was observed that inflation increased due to seasonal factors in 2014Q1 and was expected to remain subdued. However, some members underscored the need to stay cautious as upcoming wage awards in the private sector constituted an upside risk to the inflation outlook. Members also discussed the need for normalising interest rates taking into consideration growing financial sector and external vulnerabilities. After weighing risks to growth and inflation outlook, a majority of members considered that the economic outlook in main export markets was still uncertain and that the domestic economy remained at risk from adverse developments in those countries. Other members were of the view that the domestic economy had withstood global headwinds relatively well and that growth will accelerate close to potential in 2014. The Committee voted with a majority 5-3 to keep the KRR unchanged at 4.65 per cent.

FINANCIAL STABILITY

The domestic financial system remains sound and resilient. In contrast to some other emerging economies, the impact of the US Fed tapering of its asset-purchase programme on the financial sector in Mauritius was limited during 2013-14. Yet, with potential sources of external and internal vulnerabilities on the horizon, the Bank has taken several initiatives including the implementation of macro-prudential policies to address high credit growth in some sectors; phasing in of Basel III capital standards; addressing the issue of domestic-systemically important banks; and simplifying the corporate structure of complex banks.

Despite the still challenging economic environment, banks in Mauritius remained broadly profitable and well capitalised, albeit confronting excess liquidity. Banks continued to operate with ample funding from domestic and international sources. Deposits from customers rather than short-term wholesale funding remained the main source of banks' funding. Excess liquidity increased and remained significantly high in the domestic money market on account of part of the foreign exchange interventions that were not sterilised, foreign financing of the budget deficit, and low private sector credit growth. Excess liquidity has exerted downward pressures on interbank rates and led to concerns about the effectiveness of monetary policy transmission mechanism. Further, the high level of excess reserves can potentially increase credit risk, especially if banks reduce lending standards. Yet, stress tests carried on by the Bank showed that banks had enough capital to withstand a wide range of shocks.

Though credit expansion have slowed down, the high growth rates recorded in the past few years have led to an accumulation of debt in household and corporate sectors posing challenges to banks. In the household sector, a shift from housing to consumption loans has warranted greater vigilance amid signs of lower growth in household disposable income and eventual increase in nominal interest rate. Asset quality of banks has deteriorated with rising non-performing loans, especially in the construction and tourism sectors. Non-performing loans arising from cross-border exposures increased and were mainly related to India where asset quality has been declining. It is observed that banks have adopted a more cautious approach to lending to the construction sector after the implementation of macro-prudential measures.

Non-bank deposit-taking institutions performed well and were adequately capitalised during the period under review. According to the Financial Services Commission, the insurance sector recorded a sound performance with improving profitability. The interlinkages between banks and insurance companies were not considered as significant and contagion risks are deemed to be moderate. The payment and settlement system operated efficiently and without any major disruptions during the period under review.