ANNUAL REPORT

Year ended 30 June 2016

CONTENTS

Letter of Transmittal

The Governor

Bank of Mauritius
Port Louis

28 October 2016

The Honourable Pravind Kumar Jugnauth
Minister of Finance and Economic Development
Government House
Port Louis

Dear Minister of Finance and Economic Development

Annual Report and Audited Accounts 2015-16

In accordance with the provision of Section 32(3) of the Bank of Mauritius Act 2004, I transmit herewith the forty-ninth Annual Report of the Bank, which also contains the audited Accounts of the Bank for the year ended 30 June 2016.

Yours sincerely

Rameswurlall Basant Roi, GCSK

STATEMENT FROM THE GOVERNOR

Global growth remained subdued in 2015-16, with uncertainties hampering a sustained turnaround. Leading international institutions have revised downward their global growth projections as economic prospects continue to weaken in major advanced economies while emerging market economies and developing countries are experiencing manifold challenges, notably anaemic recovery in their partner countries, volatile global financial conditions, persistently low commodity prices, and dim prospects for world trade and capital flows. In June 2016, Britain's decision to leave the European Union (EU) sent shockwaves across the world and added a further layer of uncertainty to an already vulnerable global financial market. The 'Brexit' phenomenon led to rising financial market volatility in the days immediately following the event, although volatility somewhat eased in subsequent days.

Monetary policy continues to be divergent across various parts of the world. After increasing interest rate in December 2015, the US Federal Reserve looks poised to delay a further hike in its federal funds rate until late 2016. While the Bank of England left its key policy rate unchanged at 0.5 per cent at the July 2016 meeting, the European Central Bank continued its program of injecting liquidity into the euro area – already plagued with negative interest rates – by activating a corporate bond purchase program as from June 2016. Concerns over inflationary outlook have led the central banks of Brazil and of South Africa to hike interest rates. In contrast, emerging nations such as India and China have cut interest rates in order to boost economic activity. In a similar vein, some of our other trading partners, Australia and New Zealand in particular, have pursued expansionist monetary policies, on account of their bleak growth outlook and lesser concerns about inflation. The divergent approaches to monetary policy worldwide coupled with unanticipated events have contributed to exchange rate volatilities among major international currencies, thus impacting on international flows of capital.

The Mauritian economy performed moderately well in 2015-16. It started 2016 on a strong footing as real economic growth hovered at 3.7 per cent in 2016Q1 – the fastest expansion in seven successive quarters. Buttressing this performance was continued support from household consumption and an increase in government expenditure. Consumption, which accounts for the lion's share of GDP among aggregate demand components, made positive contributions to GDP growth in 2015. Investment performance, however, remained lacklustre, weighed down by the decline in private investment amid high corporate indebtedness and deleveraging process initiated by some corporate entities. On the external front, in real terms, exports of goods and services contracted by 0.9 per cent in 2015 compared to an expansion of 10.9 per cent in 2014, while imports of goods and services grew by 6.2 per cent. This contraction of the export sector in 2015, notwithstanding a more favourable exchange rate of the rupee, raises concerns about prospects for the sector the more so given tepid outlook for our main exports markets, barring the exceptional performance of the tourism sector.

As I mentioned in the last edition of the Annual Report, the current account has persistently been in deficit since 2003-04, mainly due to the widening balance of trade deficit. Key behind the growing merchandise deficit over the years has been bleak growth outlook among the main trading partners, growing competition from low-cost competitors, and eroding competitiveness as a result of wage increases in excess of productivity gains. The current account situation has improved slightly as of late. For the fiscal year 2015-16, the current account deficit is projected to decline to Rs15.9 billion (3.8 per cent of GDP) compared to Rs23.1 billion (5.8 per cent of GDP) in 2014-15, mainly on account of lower merchandise trade deficit (Rs64.4 billion in 2014-15, as opposed to Rs70 billion in 2015-16).

Net inflows into the capital and financial account, including reserve assets, are estimated at Rs18.0 billion in 2015-16, an increase of over Rs2.2 billion compared to 2014-15. Exclusive of transactions by Global Business Companies, direct investment flows in Mauritius net of repatriation are projected at Rs7.7 billion while direct investment flows abroad net of repatriation are forecast at Rs2.0 billion. The country recorded a balance of payments surplus of Rs26.8 billion in 2015-16 compared to a surplus of Rs15.1 billion in 2014-15.

The level of international reserves, in terms of US dollar, rose from US$3,980 million as at end-June 2015 to US$4,745 million on 30 June 2016, representing an import cover of 8.5 months as at end-June 2016. As regards foreign exchange reserves, the Bank continued its active and judicious foreign exchange reserves management initiated since early 2015. This strategy has permitted a gradual shift from fixed-income assets to a more diversified, multi-asset portfolio as well as satisfactory returns on the country's reserves in an environment of low interest rates globally. With a view to enhancing governance and conducting proper risk appraisals while pursuing active reserves management, the risk management framework was strengthened this year with the creation of a separate Risk and Product Control Division.

Domestic inflation has remained low, reflecting subdued global economic activity that supressed commodity prices and an absence of upward domestic price pressures. Between July 2015 and June 2016, inflation was contained in the range of 0.9 per cent to 1.5 per cent. Inflation stood at 0.9 per cent in June 2016 and stayed at that rate even in August 2016. Overall, food and non-alcoholic beverages remained important drivers of the overall Consumer Price Index. Reflecting benign external commodity price outlook, imported inflation dropped to 0.8 per cent in June 2016. Inflation is forecast at around 1.5 per cent for the calendar year 2016.

The rupee has remained relatively stable and is broadly in line with macroeconomic fundamentals. The Bank has been conducting sterilised interventions in the foreign exchange market in order to prevent undue volatility in the exchange rate.

In the current conjuncture, the domestic economy is subject to the vicissitudes of a number of key risk drivers, namely (a) the fallouts of Brexit, (b) prospects in the global business sector stemming from the revisions to the Double Taxation Avoidance Agreement (DTAA) with India, and (c) structural supply-side bottlenecks. These factors represent sources of downside risks to economic growth. There is still ambiguity regarding how Brexit will affect growth trajectory in the UK and in Europe. Moreover, the imbroglio persists about the shape of future trade agreements between the UK and Europe, and between the UK and the rest of the world. In the very short term, the sharp depreciation of the Pound sterling will impact on exports of Mauritian goods to UK (which represent around 12.5 per cent of our exports) and on earnings from British tourists (UK tourist arrivals represent around 11 per cent of total tourist arrivals). It is noteworthy that out of total exports, excluding re-exports, a proportion of 6.5 per cent is invoiced in Pound sterling while 58.7 per cent is denominated in US dollar. If the Brexit phenomenon results in negative spill-over effects on Europe at large in the medium term, the odds will be high that our economy will catch the cold, given its relatively high degree of euro-centricity.

On 10 May 2016, Mauritius signed a protocol with India to amend the Double Tax Avoidance Agreement (DTAA) between the two countries. The initial fears in the financial industry that this would be a severe blow to the jurisdiction has subsided to some extent. Looking ahead, however, the mass of businesses generated on the basis of the DTAA could suffer in the absence of further compelling actions to innovate the business models that the sector has embraced for years.

It is reassuring to note that since the announcement of the General Anti-Avoidance Rule (GAAR) by India in 2012 and protracted debates heralding the amendments to the DTAA, domestic banks had started diversifying their deposit base and asset exposures and to tap new opportunities. The Bank had established prudential norms on liquidity risk several years ago which all banks, including those exposed to GBCs doing businesses with India, have been observing. In parallel, banks dealing with the GBC sector also had comfortable capital buffers. The strong capital base of international banks adds an extra layer of comfort regarding their capacity to withstand adverse GBC-related shocks.

Domestic supply-side hurdles represent a third challenge to growth as evidenced by delays in the implementation of projects. The contribution of investment to GDP growth remains significantly below that needed to steer the economy up to achieve high-income country status. In this realm, measures to fast-track the implementation of public and private sector projects – some of which have been announced in the Budget 2016-17 – are important pre-requisites to help lift the country out of the middle-income trap and allow it to graduate to high-income status.

After joining the Bank back again in January 2015, I have endeavoured to consolidate the foundation underpinning the Mauritian financial sector. The Bank embarked on a multi-pronged strategy to improve the efficacy of monetary policy, to upgrade the regulatory and supervisory framework to keep up with fast-evolving standards in the global financial industry, and to modernise the domestic financial markets infrastructure. In view of the pivotal role the Bank plays in our economy, safeguarding the safety, soundness, attractiveness and resilience of our financial sector is crucial. In the ensuing few paragraphs I also delve on the key measures currently in the pipeline to enhance the robustness and attractiveness of the financial sector.

The monetary policy stance has remained broadly accommodative in 2015-16, underpinned by falling inflation in an environment of declining in global energy, food and other commodity prices. The Key Repo Rate was reduced to 4.40 per cent by the Bank's Monetary Policy Committee (MPC) in November 2015 and further to 4.00 per cent in July 2016 in view of downside risks to the growth outlook amidst low inflation prospects. The Bank is vigilant to upside risk to the inflation outlook that may emerge from global economic recovery going forward and to an increase in the domestic growth momentum, as these are potential vectors of inflationary pressures in the economy.

The Bank pursued active open market operations and successfully kept excess reserves in the domestic money market within acceptable limits. Treasury Bills were issued for liquidity management purposes, in addition to Bank of Mauritius securities and the conduct of sterilised intervention by way of special deposits at the Bank. The Bank absorbed a net amount of Rs26 billion from the monetary system in the financial year 2015-16 to keep excess reserves in check and improve the transmission of monetary policy signals to the economy.

Active open market operations to manage excess liquidity coupled with the announcement made by the Bank on the introduction of a revamped operational framework for the conduct of monetary policy have contributed towards improving the transmission of monetary policy impulses to market interest rates. Last year I had announced the implementation of a new monetary policy framework, but the process was delayed due to operational considerations. Wide fluctuations in money market yields as excess liquidity subsided in 2015-16 and protracted discussions on the most suitable monetary policy framework and strategy have warranted careful attention. Now that interest rates on the money market have stabilised, the upgraded framework is being finalised and will be introduced in the near future.

During the financial year 2015-16, banks in general remained sound and were well capitalised. Total assets of banks expanded by 2.1 per cent, while their deposit base grew at a rapid pace of 1.8 per cent. The asset quality of the banking system, gauged through periodic off-site and on-site surveillance, is judged to be good even though there has been a rise in non-performing loans. The capital adequacy ratio (CAR) averaged 17.5 per cent as at end-June 2016, well above the minimum of 10 per cent. Banks have, in general, maintained healthy capital buffers and their funding profiles are sound enough to deal with stressed situations.

Impaired credit in the *Construction*, *Tourism*, *Personal* and *Traders* sectors made up almost 70 per cent of total impaired credit in Mauritius. In view of the difficulties that some of these sectors have been experiencing in recent years, the Bank closely monitors the exposure of banks to these sectors. Banks increased their coverage ratio (ratio of specific provision to impaired credit) from 48.7 per cent as at end-December 2015 to 51.3 per cent as at end-June 2016. As I mentioned in the last edition of the Annual Report, with the implementation of Basel III framework being phased in from July 2014 till January 2020, banks are called upon to meet higher capital standards through retention of earnings and capital raising programs. In addition, the five Domestic Systemically Important Banks are required to gradually raise their minimum capital buffers to bolster their resilience to stressed economic conditions.

Following the revocation of the banking licence of the defunct Bramer Banking Corporation Ltd in April 2015, the Bank had commissioned a forensic investigation by enlisting the services of nTan Corporate Advisory Pte Ltd of Singapore to examine the facts behind the complex financial transactions carried out by the defunct bank, its related parties, affiliates, shareholders, directors, and its connection with other financial institutions. The redacted report on the forensic investigation was released by the Bank on 29 January 2016. As I mentioned in a press interview, the findings of the report about the state of governance in the defunct bank constitutes a wake-up call for all of us.

A joint IMF/World Bank mission conducted a Financial Sector Assessment Program (FSAP) in November 2015 and, inter alia, reviewed the oversight of the financial system with the objective of assessing the effectiveness of the existing regulatory and supervisory framework. In the aftermath of the Bramer event, a key challenge that has cropped up in our regulatory regime is the need to consolidate the supervisory framework for large conglomerates. The FSAP Mission made several suggestions on the measures needed to further strengthen the regulatory and supervisory framework. The main emphasis of the FSAP Mission was on prompt corrective action, consolidated supervision and supervision of financial conglomerates.

I am pleased to note that the Finance Act 2016 passed in the Parliament provides for amendments to the Bank of Mauritius Act 2004 and the Banking Act 2004 to reinforce the regulatory powers of the Bank. Pertinent among these are the powers conferred upon the Bank to regulate and supervise the ultimate and intermediate financial holding companies that have at least one subsidiary that is a bank or a non-bank deposit-taking institution. This was deemed necessary to remove gaps in the conduct of effective consolidated supervision by the Bank and, at the same time, upgrade the supervision of financial conglomerates, with emphasis on systemic ones and their interconnectedness. Going forward, these financial holding companies will be expected to comply with prudential requirements that the Bank will specify. As such, the Bank will be in a better position to monitor intra-group transactions as well as those between the group entities and related parties.

In parallel, progress is already under way in several areas to reinforce the regulatory and supervisory regime. The Bank has embarked, in January 2016, on a revision of its guidelines to make them more comprehensive and simple and to incorporate latest developments at the international level that are pertinent for our jurisdiction. The guidelines that have undergone revision so far are the *Guideline on Corporate Governance*, *Guideline on Credit Impairment Measurement & Income Recognition* and the *Guideline on the Recognition and Use of External Credit Assessment Institutions*. The draft framework for the Liquidity Coverage Ratio, a key component of the Basel III framework, is being finalised and will be rolled out to the banking industry soon. Several other guidelines are at various stages of revision. Further, the Bank is in the process of enhancing its supervisory framework with the development of a risk-based approach for the supervision of its licensees.

A crisis management and resolution framework is being established and a Deposit Insurance Scheme (DIS) introduced so as to better protect the interests of depositors and to guarantee the repayment of their deposits, to such extent as may be feasible, in case of failure of a bank or non-bank deposit taking institution licensed by the Bank. The Bank has already proposed a draft DIS Bill and once the Bill is passed by the Parliament, the DIS will be established. To address non-performing assets of banks and to afford a better deal to bank borrowers in realisation of better value for their mortgaged assets, an Asset Management Company (AMC) is proposed to be set up. Work on the concept paper has reached an advanced stage. The AMC is a fairer, more efficient and transparent way of cleaning up clogged balance sheets of banks and helps preserve the integrity of banks' balance sheets by releasing capital ascribed as provisions on non-performing loans. With the assistance of an external expert, the Bank is currently developing a stress testing framework on credit and liquidity risk which will be deployed in 2017. The framework will assist the Bank to identify vulnerabilities and to assess the resilience of banks, as well as the banking system as a whole, to adverse shocks. The findings will help the Bank design appropriate policy responses for individual banking institutions, including for Domestic Systemically Important Banks, and for the banking industry with a view to safeguarding financial stability.

Payment systems play a key role in maintaining stability of the financial system and I have seen to it that our payment infrastructures are modern, resilient and stable. During my first stint as Governor, I initiated the payment systems modernisation project in 1999 and the Bank successfully implemented the Mauritius Automated Clearing and Settlement System (MACSS) in December 2000. Standardisation of cheques started in 2002 and was completed with the rolling out of the Cheque Truncation system. The next phase of modernisation has started with the forthcoming implementation of the National Payment Switch, which reinforces the foundation of a digital economy for Mauritius. The technology-driven upgrade of the financial markets infrastructure is expected to facilitate the use of electronic payments channels and lower transactions cost for customers.

The pace of technological advancement, especially in the payments domain, has been compelling banking and financial businesses to move fast with digitalisation of the services they offer. Banks are constrained to shift services from a product-centric to a customer-centric model. The market wants payment services that are available round the clock and across devices. To satisfy this exigency, the National Payment Switch will become an over-arching market infrastructure capable of reaching all payment service providers, all markets and customers, whether banked or not. The payment switch will make banking, e-commerce and mobile payments interoperable while at the same time provide opportunities for other players to compete in the retail payment area. The payment switch will pave the way for Government to align its processes to accept and effect payments by electronic means. To ensure effective oversight of the payment and settlement system, the Bank has prepared a National Payment System legislation, which has been reviewed by several international authorities, for consideration by the National Assembly.

The Bank is exploring possibilities of using the blockchain technology to enhance operational efficiency of some local financial market activities.

The Bank of China (Mauritius) Ltd, a subsidiary of Bank of China, was granted a banking licence on 18 March 2016. The new bank commenced business on 27 September 2016. The presence of the Bank of China in Mauritius opens a new avenue for Mauritius to act as a financial hub between Africa and Asia. With no exchange controls and a stable environment, the country offers considerable potential for the establishment of Renminbi trading platform.

The Bank launched its new website in July 2016. The new website is more user-friendly and offers better surfing experience to users wishing to access the Bank's online repertoire of published documents and other information.

As part of its economy-wide supervisory overhaul, the Bank holds tripartite meeting with the Financial Services Commission (FSC) and the Financial Intelligence Unit to discuss and attend to issues of common interest, including information-sharing. In parallel, the Bank of Mauritius/FSC Joint Coordination Committee convenes quarterly to foster inter-regulator dialogue.

The Bank officially joined the International Financial Consumer Protection Organisation (FinCoNet) in May 2016. FinCoNet, an organisation for financial regulators and consumer protection agencies having as mandate financial market conduct and financial consumer protection, was established in 2013 following growing focus on financial consumer protection worldwide and the need for better coordination among relevant supervisory bodies. It endeavours to make progress in the G20's financial consumer protection agenda. The Bank is expected to benefit from the experience of and practices in other jurisdictions in financial consumer protection. Such knowledge will help the Bank align current consumer safeguards in our banking industry with international norms.

Overall, the primary goals of the recent initiatives taken by the Bank are to sustain financial stability and to preserve the reputation of Mauritius as a safe, sound and competitive jurisdiction. As the on-going projects I have outlined above are executed, it is expected that Mauritius will become still more attractive as a leading financial hub in the region. The Bank continues to support the regional integration agenda and has participated actively in regional and international fora over the past year.

On behalf of the Board of Directors of the Bank and on my own behalf, I would like to thank all staff members for their unwavering support and dedication in discharging their duties and in ensuring that the Bank fulfils its mandate as laid out in the Bank of Mauritius Act 2004.

I wish to thank the directors of the Board of the Bank and the members of the MPC for the congenial working relations we have had over the past year and for their constructive support.

Rameswurlall Basant Roi, GCSK
28 October 2016

1. ABOUT BANK OF MAURITIUS

OBJECTIVES AND BASIC FUNCTIONS OF THE BANK

The Bank of Mauritius was established under the Bank of Mauritius Ordinance 1966 and started its operations on 14 August 1967. The Bank is governed by the Bank of Mauritius Act 2004 and in terms of Section 3 of the Act, the Bank is a body corporate with perpetual succession. In the pursuit of its objects, the Bank performs its functions independently.

The primary object of the Bank is to maintain price stability and to promote orderly and balanced economic development in Mauritius. The other objects of the Bank are to regulate credit and currency in the best interests of the economic development of Mauritius, and to ensure stability and soundness of the financial system of Mauritius. To fulfil its objectives, the Bank conducts monetary policy and manages the exchange rate of the rupee; regulates and supervises financial institutions carrying on activities in, or from within, Mauritius as well as ultimate and intermediate financial holding companies incorporated in Mauritius which have, within the group, at least one subsidiary or joint venture or such other ownership structure as the Bank may determine, which is a bank or non-bank deposit-taking institution licensed by the Bank; manages, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius; collects, compiles, disseminates, on a timely basis, monetary and related financial statistics; and manages the foreign exchange reserves of Mauritius.

The basic functions of the Bank are summarised below.

Monetary Policy

The Monetary Policy Committee (MPC), established under Section 54 of the Act, formulates and determines the monetary policy to be conducted by the Bank, and accordingly sets the Key Repo Rate (that is, the policy rate) while taking into account the orderly and balanced economic development of Mauritius. In order to achieve its monetary policy objectives, the Bank uses several means and instruments, including open market operations.

Financial Stability

In line with international best practices, the Bank has put in place a sound regulatory and supervisory framework for banks, non-bank deposit-taking financial institutions, and cash dealers. The Bank monitors Financial Soundness Indicators on a regular basis, and assesses vulnerabilities arising in the financial system, including those emanating from the household and corporate sectors. The Bank also monitors system-wide factors that might have or potentially have an adverse impact on the financial conditions of the institutions falling under its purview.

Licensing, Regulation and Supervision

The Bank is responsible for the licensing and supervision of banks, non-bank deposit-taking institutions and cash dealers. The Bank sets in place the prevalent regulatory regime and financial institutions are required to fully comply with governing laws, rules and regulations. The regulatees are further required to adopt policies and procedures that allow them to assess, manage and mitigate risks effectively. Through regulation and supervision, the Bank safeguards the rights and interests of depositors and creditors of financial institutions, and it promotes fair and competitive practices in the banking industry.

Money and Foreign Exchange Markets

The Bank is responsible for promoting the development of the money and foreign exchange markets. With a view to developing an efficient financial market, the Bank has taken several initiatives to improve the functioning of the primary and secondary markets for Government securities. By acting as agent for Government, the Bank regularly auctions Government securities. The Bank formulates and implements appropriate intervention policies whenever necessary to ensure that the foreign exchange market functions smoothly and in an orderly manner.

Currency in Circulation

In terms of the provisions of Sections 35 and 37 of the Bank of Mauritius Act 2004, the Bank has the sole right to issue rupee notes and coins. Currency issued by the Bank is legal tender in Mauritius. The Bank safeguards the authenticity of the Mauritian currency as banknotes generally incorporate innovative and covert security features that minimise the risk of counterfeiting. The Bank handles the volume of currency in circulation by ensuring that the supply of banknotes and coins is adequate to meet demand. Soiled banknotes are exchanged and destroyed on a regular basis to ensure that banknotes in circulation are of good quality.

Payment Systems

The Bank manages, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius. The payments infrastructure is presently built on the backbone of a high value interbank payment system, and financial transactions are generally settled on real-time basis.

MCIB

The Bank hosts the Mauritius Credit Information Bureau (MCIB), which is engaged in the collection of real-time credit information on borrowers and credit guarantors of banks, non-bank deposit-taking institutions, insurance companies, leasing companies, utility companies and microfinance companies. The MCIB contributes significantly to enhancing banks' credit appraisal and assessment and to the overall credit quality in the financial sector.

Reserve Management

The Bank is the custodian of the country's reserves of international currencies. The Bank determines the composition of and manages the official foreign exchange reserves, taking into key consideration liquidity, security and return.

Compilation and Dissemination of Statistics

By virtue of its activities and functions, the Bank is the official institution responsible for the collection, compilation and dissemination, on a timely basis, of monetary, balance of payments and banking statistics. The Bank has been participating in the IMF's Special Data Dissemination Standard (SDDS) since 28 February 2012 and ensures that all the dimensions required under the SDDS are duly met.

BOARD OF DIRECTORS

The Board's statutory responsibility is to formulate the general policy of the affairs and business of the Bank other than the formulation and determination of monetary policy.

Sitting from left to right: Mr Joseph E Charles Cartier, Mr Ranapartab Tacouri, Mr Rameswurlall Basant Roi, GCSK (Governor and Chairperson), Mr Antoine Seeyave, Dr Renganaden Padayachy

Standing from left to right: Mr Mahendra Vikramdass Punchoo (Second Deputy Governor), Ms Hemlata Sadhna Sewraj-Gopal (Secretary to the Board), Mr Yandraduth Googoolye (First Deputy Governor)

As at 30 June 2016, the Board of Directors was as follows:

Chairperson	Mr Rameswurlall Basant Roi, GCSK, Governor
Director	Mr Yandraduth Googoolye, First Deputy Governor
Director	Mr Mahendra Vikramdass Punchoo, Second Deputy Governor
Director	Mr Ranapartab Tacouri
Director	Mr Antoine Seeyave
Director	Mr Joseph E Charles Cartier
Director	Dr Renganaden Padayachy

Dr Yousouf Ismael, who was appointed as a member of the Board of Directors of the Bank on 4 March 2015, resigned effective 12 February 2016, to assume the post of Managing Director of the Central Water Authority.

Board Directors	Date of first appointment	2015						2016				
		29.07	07.08	30.09	03.11	09.12	18.12	19.02	03.03	25.03	30.05	20.06
Governor - Mr R. Basant Roi, GCSK - Chairperson	08.01.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
First Deputy Governor - Mr Y. Googoolye	13.07.06	✓	✓	✓	✓	✓	✓	✓	O	✓	✓	✓
Second Deputy Governor - Mr M. V. Punchoo	31.12.14	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr R. Tacouri	04.03.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr A. Seeyave	04.03.15	✓	✓	A	✓	✓	✓	✓	✓	✓	✓	✓
Mr J. E. C. Cartier	04.03.15	✓	A	✓	A	✓	✓	✓	✓	✓	✓	✓
Dr Y. Ismaël *	04.03.15*	✓	✓	✓	✓	✓	✓	-	-	-	-	-
Dr R. Padayachy	13.03.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 1.1: Board of Directors Meetings

** Dr Y. Ismaël resigned with effect from February 2016.*
✓: Attended O: Overseas Mission A: Absent with apologies.

Section 21(1) of the Bank of Mauritius Act 2004 stipulates that the Board of Directors has to meet at least once every 2 months. The Board of Directors met on eleven occasions during FY2015-16, as summarised in Table 1.1. At any meeting of the Board, six members constitute a quorum. Decisions are taken by simple majority. In the event of an equality of votes, the Chairperson has a casting vote.

AUDIT COMMITTEE

The Audit Committee is an advisory committee established to assist the Board in its oversight responsibilities with respect to audit and the implementation of the financial reporting system in compliance with the relevant legislation. The Audit Committee is appointed by the Board of Directors and comprises at least three members chosen among the members of the Board of Directors. All members of the Audit Committee are independent of Management.

Presently, the Audit Committee consists of the following three non-executive Board Directors:

Chairman	Mr Ranapartab Tacouri
Member	Dr Renganaden Padayachy
Member	Mr Joseph E Charles Cartier (*appointed on 25 March 2016*)
Member	Dr Yousouf Ismael (*resigned on 12 February 2016*)

The Audit Committee met twelve times during FY2015-16. The Head - Internal Audit is in attendance at the Audit Committee meetings, whilst the Secretary of the Bank acts as Secretary to the Audit Committee.

The Audit Committee shall carry out the following responsibilities:

(i) review the implementation of key accounting policies and financial reporting in conformity with principles applicable to central banks and best international practices;

(ii) review the budget of the Bank;

(iii) consider the scope of work and review and approve the annual audit plan;

(iv) review and approve the audit reports;

(v) review the "Terms of Engagement" of the external auditor;

(vi) review the "Report on the annual audit of the financial statements of the Bank";

(vii) review from time to time with the external auditor the appropriateness of the accounting policies applied in the Bank's financial reports;

(viii) ensure that findings and recommendations communicated by the external auditor and Management's proposed responses are received, discussed and appropriately addressed;

(ix) review the effectiveness of the Bank's system for monitoring compliance with relevant laws and regulations (including internal rules) and the measures taken by Management as a result of its investigation of material incidents of non-compliance;

(x) review the effectiveness of the Bank's internal control system and recommend improvements where necessary;

(xi) review and assess the adequacy of the Audit Committee Charter periodically, request Board approval for proposed changes and ensure appropriate disclosure as may be required by law or regulation;

(xii) require every Member to disclose his/her interest in any matter being discussed by the Committee; and

(xiii) request the Head - Internal Audit/ Officer in Charge or the External Auditor to conduct any inquiry on an issue falling within the scope of its responsibilities.

The Audit Committee shall have unrestricted access to any information it needs to discharge its responsibilities under the Charter regarding staff, with the exception of the Governor and Deputy Governors.

MONETARY POLICY COMMITTEE

The MPC[1] formulates and determines monetary policy to achieve price stability while taking into account orderly and balanced economic development. The Committee determines the appropriate monetary policy stance through changes in the Key Repo Rate. In the decision-making process, MPC members assess the balance of risks between economic growth and inflation by considering a wide range of domestic and international economic data and information.

Composition of the MPC

The MPC comprises the Governor (Chairperson), the two Deputy Governors, two members appointed by the Prime Minister and three members appointed by the Minister of Finance and Economic Development. As at 30 June 2016, members of the MPC were as follows:

- Mr Rameswurlall Basant Roi, GCSK, Governor and Chairperson of the MPC;
- Mr Yandraduth Googoolye, First Deputy Governor;
- Mr Mahendra Vikramdass Punchoo, Second Deputy Governor;
- Mr Mohammad Mushtaq Namdarkhan, appointed by the Prime Minister;
- Mr Guy Wong So, appointed by the Prime Minister;
- Mr Nishan Degnarain, Consultant, appointed by the Finance Minister;
- Mr Pierre Dinan, CSK, GOSK, Consultant, appointed by the Finance Minister; and
- Dr Streevarsen Narrainen, Senior Economic Adviser, Ministry of Finance and Economic Development, appointed by the Finance Minister.

Five members, including at least four from members appointed by the Prime Minister and Minister of Finance and Economic Development, constitute the quorum.

Meetings of the MPC

The MPC announces its decision through a Media Release that is posted on the Bank's website at latest by 18.00 hours on the day of the MPC meeting. The Governor, as Chairperson of the MPC, holds a press conference to explain the decision of the MPC after the meeting. The minutes of the meeting are released two weeks after the meeting is held, outlining the assessment of prevailing conditions, forecasts for inflation and real GDP growth. Table 1.2 provides details on the MPC meetings held during FY2015-16 that include attendance, remuneration of members and other associated costs incurred, as well as decisions on the Key Repo Rate.

[1] *Section 55 of the Bank of Mauritius Act 2004.*

Table 1.2: Monetary Policy Committee Meetings							
		Meetings attended	16.07.15	9.11.15	17.02.16	Total fees Rs	Other associated costs[3] Rs
Mr Rameswurlall Basant Roi, GCSK	Governor, Chairperson	3	✓	✓	✓	0	0
Mr Yandraduth Googoolye	First Deputy Governor	3	✓	✓	✓	0	0
Mr Mahendra Vikramdass Punchoo	Second Deputy Governor	3	✓	✓	✓	0	0
Mr Nishan Degnarain[2]	External Member	3	✓	✓	✓	360,000*	656,275
Mr Pierre Dinan[2]	External Member	3	✓	✓	✓	360,000*	0
Mr Mohammad Mushtaq Namdarkhan[1]	External Member	3	✓	✓	✓	360,000*	0
Mr Guy Wong So[1]	External Member	3	✓	✓	✓	360,000*	0
Dr Streevarsen P. Narrainen[2]	External Member	2	A	✓	✓	360,000*	0
Decision on the Key Repo Rate			Unchanged	Cut	Unchanged		
Key Repo Rate *(per cent per annum)*			4.65	4.40	4.40		

[1] *Appointed by the Prime Minister.* [2] *Appointed by the Minister of Finance and Economic Development.*
[3] *Other associated costs comprise travel and accommodation expenses.*

✓ *: Attended.* * *: Mauritian external MPC members receive a monthly fee.* *A: Absent with apologies.*

ORGANISATIONAL REVIEW

As at 30 June 2016, the Bank employed a total of 250 staff members out of which 233 were on the permanent and pensionable establishment and 17 were on contractual basis. During the year under review, 14 employees left the service of the Bank either at retirement age or at the expiry of their contract of employment.

Human Resources

Restructuring Exercise

Since the beginning of 2015, the Management reviewed the organisational structure of the Bank with a view to enhancing functional and operational efficiency with well-defined functions and objectives. New divisions were created, for example, the Asset Management Division (renamed Reserve Management Division) and the Risk and Product Control Division. Three separate units each headed by one Assistant Director were created within the Supervision Department. Each unit is responsible for the supervision of a specific portfolio of financial institutions. Two new sections were created within the Governor's Office, namely Communications and International Relations. A Chief Communications and an Executive Officer joined the Governor's Office team.

The Bank recruited new staff with specific skills in specialised fields. In March 2016, the Bank enlisted the services of a Director for the Financial Markets and Reserves Management Department.

Evolution of the Workforce

The Bank of Mauritius has adopted an unbiased and transparent approach in its recruitment policy. New staff were recruited in the grades of Chief (7), Analyst (9), BI Analyst (1), Bank Officer Grade I (15), Bank Officer Grade II (14) and Security Officers (3). With the batch of new recruits, the Bank's workforce was rejuvenated - 43 per cent of the workforce are now below the age of 45 years. The male and female staff represent 54 per cent and 46 per cent of total workforce, respectively. During the year, 10 staff were promoted - 2 Analysts were promoted to the grade of Chief and 8 Bank Officers Grade I were promoted to the grade of Analyst. The Bank has a diverse and talented pool of professionals to enable it to achieve its mandate and take it to a higher level of performance.

Performance-based Culture

The Bank continued with its objective of developing a performance-based culture, such that the work on the setting up of a Performance Management System is still on-going. The HR Consultant appointed by the Bank in January 2015 to review the Performance Management System of the Bank made recommendations for the setting up of a Performance Related Bonus at the Bank and detailed a series of steps that would ultimately lead to the successful rolling out of a Performance Management System.

Internship Programme

Six students in various fields related to finance, banking, accounting and economics amongst others, were enrolled as interns during the year for a specific period of time. The Bank also took on board a group of HSC holders who were in search of a job for a short work-related assignment. The contribution of the group was instrumental in building up the archives section for the Bank's new website.

CORPORATE SOCIAL RESPONSIBILITY

Sponsorship of Sports Activities

The 9th Edition of the Annual Inter-Club Athletics National Youth Championship sponsored by the Bank was held on 14 November 2015 in Rodrigues, and on 28 and 29 November 2015 at the Maryse Justin Stadium, Réduit. The event, which has gradually contributed to becoming a breeding ground for young athletes and champions for the country, was co-sponsored by several banks.

Safety and Health

In line with the requirements of the Occupational Safety and Health Act (OSHA) 2005, the Bank endeavours to provide a safe and healthy working environment to ensure the safety, health and welfare for all of its employees. Representatives of various Divisions of the Bank form part of the Safety and Health Committee which meets every three months. The Safety and Health Committee is the platform where information relating to potential health hazards at the Bank is conveyed.

Employee Welfare Committee

The Bank has set up an Employee Welfare Committee in September 2015 under the responsibility of the Human Resources Section. Various activities were organised to allow staff members to socialise in an environment other than the workplace. The activities were also an opportunity for team building at the Bank.

IT SUPPORT AND FACILITIES

During FY2015-16, the IT infrastructure of the Bank was upgraded to render it more robust, resilient, modern, secure and fast. The next step is to streamline the processes within the Bank with the use of technology. All legacy systems would be reviewed and replaced if need be. With regards to preparedness for business continuity, the Bank operated successfully from its Disaster Recovery site in Ebene on multiple occasions to ensure that any disruptions at its main office can be adequately dealt with.

Currently, a network links each bank's main and Disaster Recovery (DR) sites to the Bank's main and DR sites. This network is a vital element for the provision of the Bank's services such as real-time payment, clearing of cheques, credit bureau, submission of returns (XBRL), among others. The network was upgraded to a Fiber Optics network providing a bandwidth capacity of 4Mbps to each bank. Traffic over the network is encrypted.

Infrastructural Changes

The internal IT network equipment and IP telephony system were replaced in 2015. The Bank has new servers at both its main and DR sites. All systems are replicated at the DR site which is fully operational and can accommodate about 40 staff members in case of unavailability of the Bank's main building.

Adoption of IT Governance Framework

The SADC central banks have adopted COBIT 5 as the IT Governance framework for all member central banks. The Bank is currently in the process of implementing COBIT 5.

IT Transformation Project

The Bank is in the process of reviewing its core banking system and legacy systems. Along with the change in system, the Bank intends to review its operational procedures and streamline them in accordance with the new system to be set up.

Major Achievements

The XBRL system went live in October 2015. Some 86 returns are submitted by banks and other financial institutions regulated by the Bank through modern online reporting system. With the XBRL system, data is uniquely defined and standardised and can be submitted in a straight-through-processing (STP) fashion, from regulatees' systems to the Bank.

The Bank's website went live on 29 July 2016. The website, over and above the new design and layout, offers a login feature where users can have access to a specific space. The website provides an improved content and navigation experience for users through a more intuitive, logical and responsive design that adapts to any device (desktop, laptop, tablet or smartphone). An innovative feature is the access to the archives of the Bank which are being reconstructed in digital format. The Bank has adopted a phased approach for the scanning and uploading of documents. The objective is to provide access to publications and other information of economic, financial and historical importance. In the first instance, all Annual Reports and Quarterly Bulletins dating as far back as June 1968 have already been uploaded on the website.

Rodrigues Office

The IT Infrastructure at the Rodrigues Office was changed in 2015 and the network was upgraded. Rodrigues Office is also equipped to access the MCIB and carries out the clearing of cheques.

Visit at the Bank of Her Excellency Mrs Ameenah Gurib-Fakim, GCSK, CSK, PhD, President of the Republic of Mauritius, on 21 August 2015

The Bank was privileged to have received the visit of Her Excellency Mrs Ameenah Gurib-Fakim on 21 August 2015. The Governor, Mr R. Basant Roi, GCSK, qualified her visit as an "... *extraordinary visit in the ordinary course of our central banking life*".

Her Excellency Mrs Ameenah Gurib-Fakim addressed the staff members and stressed that:

"We are in the midst of a changing paradigm that calls for a profound rethinking of the manner in which we do business, and how best can we serve our clientele more expediently, and at less cost, especially with the onslaught of technology and innovation. Reengineering, continuous improvement, quality service, have all proved to be vital for survival....."

2. REVIEW OF THE ECONOMY

Despite the challenging global economic conditions that persisted in FY2015-16 as evidenced by systematic downward revisions of global growth projections, the domestic economy was fairly resilient and macroeconomic stability was ensured with low inflation, a narrowing of the current account deficit and contained fiscal deficit. The Bank provided appropriate policy responses to address the global headwinds, thereby mitigating risks to the economy. The Bank also ensured that the rupee broadly remained in line with its fundamental value in order to support macroeconomic and financial stability.

The economy grew by 3.3 per cent in FY2015-16, up from 3.1 per cent in FY2014-15, benefiting partly from an improved performance of the tourism sector. Despite the contraction of private sector investment, economic growth remained cushioned by the relative resilience of consumption growth. Inflation continued its downward trend, with headline inflation falling from 1.7 per cent in June 2015 to 0.9 per cent in June 2016, the lowest recorded since June 1988. The low inflation outcome reflected mainly weak global commodity prices and subdued global and domestic demand conditions. Reflecting domestic demand conditions, banks' private sector credit grew by 3.1 per cent in FY2015-16.

The fiscal deficit, estimated at 3.5 per cent of GDP for FY2015-16, is projected to decline to 3.3 per cent of GDP for FY2016-17. However, public sector debt rose from 63.1 per cent of GDP as at end-June 2015 to 65.0 per cent as at end-June 2016, underscoring the need for fiscal consolidation. The current account deficit as a ratio to GDP is projected to decline from 5.8 per cent in FY2014-15 to 3.6 per cent in FY2015-16, benefiting from the favourable terms of trade developments and buoyant performance of the tourism sector. The balance of payments posted a higher surplus, leading to gross official international reserves increasing by 20.6 per cent to Rs168.7 billion as at end-June 2016, equivalent to an import cover of 8.5 months of goods and services. In light of the recent unfolding of events on the international stage with marked slowdown of the Chinese economy and the uncertainties surrounding UK's exit from the European Union, amid broadly weak global economic environment, downside risks to the domestic economic outlook cannot be underestimated. In response to external headwinds, the monetary and fiscal policy mix adopted has been somewhat accommodative. In the context of muted inflation risks, the Monetary Policy Committee of the Bank reduced the Key Repo Rate by a cumulative 65 basis points to 4.00 per cent to support investment and economic growth. The Budget 2016-17 announced a number of socio-economic measures and public investment programmes which are expected to reinvigorate the economy and move it to a higher growth trajectory.

NATIONAL INCOME AND PRODUCTION[2]

The domestic economy continued to operate with a degree of unused capacity during 2015, with some major sectors recording sub-par growth. The economy grew by 3.0 per cent in 2015, down from 3.6 per cent in 2014. Apart from the construction sector, which contracted for the fifth consecutive year, and the manufacturing sector, which recorded flat growth, all the major sectors of the economy registered positive growth during 2015. The *'Financial and insurance activities'*, *'Accommodation and food service activities'*, *'Information and communication'*, and *'Wholesale and retail trade'* sectors remained the main drivers of economic activity. Growth in *'Accommodation and food service activities'* accelerated significantly in 2015 as a result of successful targeted tourism promotion campaigns and the gradual liberalisation of air access policy.

[2] *The National Accounts data are based on the results of the 2013 Census of Economic Activities.*

GDP at basic prices rose in nominal terms by 4.4 per cent, from Rs348.0 billion in 2014 to Rs363.2 billion in 2015. GDP at market prices also increased by 4.4 per cent, from Rs392.1 billion in 2014 to Rs409.5 billion in 2015. Per capita GNI at market prices went up by 6.2 per cent, from Rs302,989 in 2014 to Rs321,905 in 2015, while in US dollar terms, it declined from US$9,896 in 2014 to US$9,166 in 2015, reflecting the depreciation of the rupee against the US dollar as a result of the significant strengthening of the US currency on international markets in the first quarter of 2015.

Aggregate final consumption expenditure grew, in nominal terms, by 4.7 per cent, from Rs350.5 billion in 2014 to Rs366.9 billion in 2015. Household consumption expenditure, which makes up about 75 per cent of GDP, rose in real terms, by 2.9 per cent in 2015, higher than the 2.6 per cent growth recorded in 2014. Government consumption expenditure growth slowed sharply from 4.6 per cent in 2014 to 1.8 per cent in 2015. Table 2.1 shows the main national accounting aggregates and ratios for the years 2013 through 2015.

Gross fixed capital formation (GFCF) declined by 3.8 per cent, from Rs74.0 billion in 2014 to Rs71.2 billion in 2015. In real terms, it contracted by 5.4 per cent, weighed down by the decline in private sector investment. The investment rate, defined as the ratio of GFCF to GDP at market prices, dropped to 17.4 per cent in 2015, from 18.9 per cent in 2014. Table 2.2 shows the real growth rates of GFCF by type of capital goods.

Exports of goods and services increased, in nominal terms, by 0.3 per cent to Rs200.8 billion in 2015, driven by the exports of services. Despite the increase in volume terms, nominal imports of goods and services fell by 1.1 per cent to Rs241.2 billion in 2015, reflecting the sharp drop in import prices.

In nominal terms, Gross National Disposable Income (GNDI) went up by 6.2 per cent in 2015 compared to a growth of 2.2 per cent in 2014. Gross National Savings increased by 21.4 per cent in 2015. The ratio of Gross National Savings (GNS) to GNDI excluding GBC, improved from 9.0 per cent in 2014 to 10.3 per cent in 2015. Accordingly, the Resource Balance (defined as Saving minus Investment) as a percentage of GDP at market prices improved from -8.3 per cent in 2014 to -7.0 per cent in 2015. Chart 2.1 depicts the movements in the ratios of GFCF and GNS to GDP at market prices for the years 2006 through 2015.

The *'Agriculture'* sector contracted by 0.3 per cent in 2015 after growing by 3.7 per cent in 2014, reflecting the significant drop in sugar production to 366,070 tonnes and lower sugar prices. The share of sugar exports in total exports fell from 9.5 per cent in 2014 to 8.9 per cent in 2015. The contraction of the agricultural sector was, however, mitigated by a growth of 1.6 per cent in the *'Other agriculture'* sub-sector.

The *'Manufacturing'* sector was flat in 2015, that is, recorded zero growth. The *'Sugar milling'* sub-sector contracted by 8.9 per cent in 2015 as against a growth of 0.8 per cent in 2014, while *'Textile'* contracted by 2.8 per cent after growing by 4.2 per cent in 2014. Value added by the manufacturing sector represented 14.7 per cent of total value added in the economy in 2015.

The *'Construction'* sector remained a drag on the economy and contracted for the fifth consecutive year in 2015. After shrinking by 8.5 per cent in 2014, the sector registered a lower contraction of 4.9 per cent in 2015. While the number of building permits for residential buildings rose from 6,124 in 2014 to 6,538 in 2015, those for non-residential buildings fell from 465 to 375 over the same period.

Table 2.1: Main National Accounting Aggregates and Ratios: 2013-2015			
	2013 [1]	2014 [1]	2015 [1]
A. Aggregates (Rs million)			
1. GDP at basic prices	329,009	348,012	363,178
Annual Real Growth Rate (Per cent)	*3.6*	*3.0*	*3.7*
2. GDP at current market prices	372,397	392,062	409,524
3. GNI at current market prices*	373,127	382,132	406,527
4. Per capita GNI at current market prices*	296,171	302,989	321,905
5. Final Consumption Expenditure	330,896	350,457	366,892
6. Compensation of Employees	136,685	141,394	146,830
7. Gross Fixed Capital Formation	77,618	73,989	71,155
8. Gross Domestic Savings	41,501	41,605	42,631
9. Resource Balance (8-7)	-36,117	-32,384	-28,524
10. Gross National Disposible Income*	377,181	385,321	409,227
B. Ratios: As a Percentage of GDP at market prices			
1. Gross Domestic Savings	11.1	10.6	10.4
2. Final Consumption Expenditure	88.9	89.4	89.6
3. Gross Fixed Capital Formation	20.8	18.9	17.4
4. Resource Balance	-9.7	-8.3	-7.0
C. Ratio: As a Percentage of GDP at basic prices			
1. Compensation of Employees	41.5	40.6	40.4

[1] Revised. ** Excluding net primary income of GBC from abroad.*
Source: Statistics Mauritius.

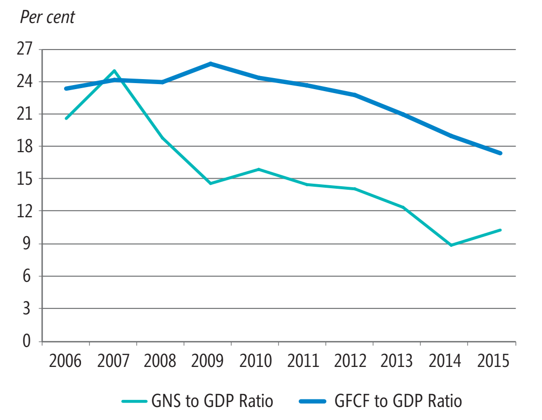
Table 2.2: Real Growth Rates of GFCF by Type of Capital Goods: 2013-2015			
			(Per cent)
	2013 [1]	2014 [1]	2015 [1]
A. Building and Construction Work	**-10.1**	**-7.5**	**-4.0**
Residential Building	+3.1	-8.8	+0.5
Non-residential Building	-17.5	-20.3	-17.8
Other Construction Work	-21.4	+14.1	+2.3
B. Machinery and Equipment	**+11.7**	**-3.2**	**-7.8**
Machinery and Equipment (excluding aircraft & marine vessel)	+0.8	-0.9	-0.3
Passenger Car	-5.0	-4.2	+1.1
Other Transport Equipment	+80.3	-13.0	-53.8
Other Transport Equipment (excluding aircraft & marine vessel)	-10.1	-0.9	-18.7
Other Machinery and Equipment	+3.9	-0.2	+2.0
Gross Fixed Capital Formation	**-3.3**	**-6.0**	**-5.4**

[1] Revised.
Source: Statistics Mauritius.

'Accommodation and food service activities' recorded robust growth of 8.7 per cent in 2015 compared to 6.1 per cent in 2014, benefiting from higher tourist arrivals, which increased from 1,038,968 to 1,151,252, as a result of successful targeted promotion campaigns and the gradual liberalisation of air access. Total tourist nights also went up from 11,266,346 in 2014 to 12,042,910 in 2015.

The *'Information and communication'* sector, which was the second best performing sector in 2015, grew by 6.9 per cent, up from 6.4 per cent in 2014. Table 2.3 shows sectoral real growth rates.

Chart 2.1: Ratios of GFCF and GNS to GDP at Market Prices



Source: Statistics Mauritius.

Table 2.3: Gross Domestic Product - Sectoral Real Growth Rates (y-o-y): 2013-2015

(Per cent)

	2013 [1]	2014 [1]	2015 [1]
Agriculture, forestry and fishing	+0.5	+3.7	-0.3
Sugarcane	*-2.2*	*-3.5*	*-6.2*
Manufacturing	+4.7	1.8	+0.0
Sugar milling	*+0.4*	*0.8*	*-8.9*
Food (excluding sugar)	*-0.3*	*2.4*	*+3.0*
Textile	*+2.6*	*+4.2*	*-2.8*
Electricity, gas, steam and air conditioning supply	+4.4	+4.0	+3.8
Water supply, sewerage, waste management and remediation activities	+2.5	+3.0	+3.0
Construction	-8.2	-8.5	-4.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	+2.8	+3.0	+2.8
Transportation and storage	+2.4	+2.8	+3.4
Accommodation and food service activities	+2.9	+6.1	+8.7
Information and communication	+7.1	+6.4	+6.9
Financial and insurance activities	+5.5	+5.5	+5.3
Monetary Intermediation	*+5.6*	*+5.5*	*+5.4*
Financial leasing and other credit granting	*+6.5*	*+6.5*	*+6.3*
Insurance, reinsurance and pension	*+4.9*	*+5.0*	*+4.6*
Real estate activities	+6.1	+5.3	+4.3
Professional, scientific and technical activities	+6.9	+5.5	+5.1
Administrative and support service activities	+8.1	+7.9	+6.7
Public administration and defence; compulsory social security	+0.9	+5.4	+0.8
Education	+1.6	+2.6	+2.5
Human health and social work activities	+5.3	+6.8	+3.4
Arts, entertainment and recreation	+7.7	+6.8	+4.8
Other service activities	+4.3	+3.4	+3.0
Gross Value Added (GVA) at current basic prices	**+3.4**	**+3.6**	**+3.0**

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

BOX I: Revision of National Accounts

In June 2016, Statistics Mauritius (SM) revised national accounts estimates for the period 2013 to 2016 following a rebasing exercise in the light of the results of the 2013 Census of Economic Activities, improved data sources, and changes in concepts and methodologies, including the implementation of SNA 2008 recommendations. SM used the results of the 2014 Census of Agriculture to update the value added of the agricultural sector while the direct contribution of Global Business Companies was incorporated using the results of annual GBC1 surveys conducted jointly by the Bank of Mauritius and the Financial Services Commission.

The estimation process has also been improved through several conceptual and methodological changes. The output of ownership of dwellings is now based on the user cost approach. Measurement of Financial Intermediation Services Indirectly Measured (FISIM) is now as per SNA 2008. The output of non-life insurance services is now calculated using adjusted claims. The value added of public administration currently takes into consideration Government's contribution as employer to the Civil Service Family Protection Scheme. Finally, the double deflation method (i.e. deflating gross output and intermediate consumption separately) is used to calculate the value added at constant prices for '*sugarcane*' and '*manufacture of sugar'*.

The rebasing exercise brought about an increase in nominal Gross Value Added (GVA) ranging from around 1.3 per cent to 1.5 per cent over the period 2013 to 2016 and changed the relative shares of industry groups in total GVA. Although the revision in real GDP growth rate is marginal, some changes were noted at the industry level, in particular, for '*Other financial services*', '*Real estate activities including ownership of dwellings*' and '*Other service activities*' (Table 1).

Table 1: Main Aggregates under the Old and New National Accounts

	2013		2014		2015		2016	
	Old series	New series	Old series	New series	Old series	New series	Old series	New series
GDP at current markets prices (Rs billion)	366.3	371.0	386.2	390.7	403.5	408.3	431.8	436.8
GDP growth rate at current market prices (%)	3.2	3.4	3.6	3.7	3.5	3.5	3.9	3.9
GVA at current basic prices (Rs billion)	322.9	327.7	342.2	346.6	357.2	362.0	382.9	388.0
GVA growth rate current basic prices (%)	3.2	3.4	3.4	3.6	3.1	3.0	3.9	3.9
Final Consumption Expenditure (Rs billion)	323.0	330.3	341.9	349.6	357.5	365.8	382.3	388.1
Gross Fixed Capital Formation - GFCF (Rs billion)	77.6	77.6	74.0	74.0	71.3	71.3	78.8	78.1
Saving Rate (GNS as a % of GNDI excl. GBC)	13.7	12.1	11.0	9.0	11.1	10.4	10.5	10.8
Investment Rate (GFCF as a % of GDP)	21.2	20.9	19.2	18.9	17.7	17.5	18.2	17.9

Source: Statistics Mauritius.

Growth Outlook

SM expects real GDP growth to pick up to 3.7 per cent in 2016. The '*Agriculture*' sector is expected to recover in 2016 and grow by 4.3 per cent with local sugar production of around 400,000 tonnes. '*Manufacturing*' is projected to rebound slightly by around 0.6 per cent in 2016 as a result of higher output from '*sugar milling*' and budgetary measures to support the sector.

For 2016, the '*Accommodation and food service activities*' sector is forecast to grow by 7.5 per cent, with around 1,250,000 tourists expected to visit the country. The sector is poised to benefit further from a more open air access policy and diversification of the customer base. The '*Financial and insurance activities*', '*Transportation and storage*', and '*Public administration and defence*' sectors are projected to perform better in 2016 compared to 2015. The '*Construction*' sector is expected to register no growth in 2016 and the rebound of the sector is likely to be contingent on the timely take-off of public infrastructural projects, smart city development, and reforms in the submission of permits with improved time frames for their issuance.

Domestic demand is foreseen to support growth for 2016. Meanwhile, investment is projected to recover mainly on account of policy support through easing of monetary policy and fiscal support measures such as tax credit for investment in capital goods. Private investment is deemed to grow by 6.1 per cent in 2016 after contracting by 7.6 per cent in 2015. Public investment, especially on infrastructure development, is forecast to register a significant jump.

However, external risks from a slower-than-expected recovery in global demand could still weigh on the country's economic outlook. In the event Brexit has adverse spillover effects on Europe and the global economy, domestic growth would most likely suffer. Sustaining strong growth will also depend on the effective implementation of infrastructural projects and enhancing productivity and competitiveness in the economy.

LABOUR MARKET DEVELOPMENTS

Domestic labour market conditions remained more or less unchanged during FY2015-16. Government implemented all the recommendations of the Pay Research Bureau (PRB) Report, as from 1 January 2016, at a cost of about Rs3 billion. The unemployment rate was marginally higher in 2015 at 7.9 per cent, compared to 7.8 per cent in 2014. Persistent skills mismatch in the labour market has contributed to a high level of youth and female unemployment. In the short- to medium-term, targeted measures aimed at addressing the issue of skills mismatch while expanding the potential of the economy through higher productivity and innovation should bring down the structural unemployment rate.

Wage Developments

For the year 2016, employees whose basic wage or salary was Rs10,000 or less per month, received a monthly increase of Rs250. Those employees who earned a monthly salary above Rs10,000 were awarded an additional compensation of Rs150.

According to the Survey on Employment and Earnings in 'Large' Establishments carried out by Statistics Mauritius, the average monthly earnings for all industrial groups increased by 0.7 per cent between March 2015 and March 2016, lower than the 6.2 per cent recorded in the corresponding period of the previous year. Adjusted for the twelve-month running inflation rate, the average monthly earnings for all industrial groups fell by 0.2 per cent, compared to the increase of 3.7 per cent in the preceding year.

By industrial group, average monthly earnings contracted by more than 5 per cent in '*Mining and quarrying*' and '*Water supply, sewerage, waste management and remediation activities*'.

Other sectors, namely '*Agriculture, forestry and fishing*', '*Construction*', '*Professional, scientific and technical activities*', '*Financial and insurance activities*' and '*Wholesale and retail trade*', also recorded declines in average monthly earnings, although the fall was marginal in the latter two sectors. Average earnings in the remaining sectors grew within a range of 1.2 per cent in '*Arts, entertainment and recreation*' to 9.3 per cent in '*Electricity, gas, steam and air conditioning supply*'. Rapidly growing service sectors such as '*Accommodation and food service activities*' and '*Information and communication*' recorded growth in earnings of 2-3 per cent in 2016.

Wage Rate Index

The Wage Rate Index measures changes in the average rates paid by employers for normal time work and changes to the index provide an indication of changes in the cost of labour in the economy. The Wage Rate Index rose by 5.6 points in FY2015-16, or by 4.5 per cent, mainly attributed to wage increases in '*Public administration and defence*' (1.1 points), '*Manufacturing*' (0.8 point), '*Education*' (0.7 point), '*Accommodation and food service activities*' and '*Financial and insurance activities*' (0.4 point each).

An analysis of changes in wage rates by industry groups indicated that '*Real estate activities*' registered the highest increase in wages (13.7 per cent), followed by '*Mining and quarrying*' (8.1 per cent), '*Other service activities*' (7.4 per cent each), '*Agriculture, forestry and fishing*' (7.0 per cent) and '*Administrative and support service activities*' (6.9 per cent each). Among key sectors of the economy, notable increases were recorded in '*Manufacturing*' (5.5 per cent), '*Accommodation and food service activities*' (4.9 per cent), '*Education*' (4.5 per cent), '*Public administration*' (4.4 per cent), '*Distributive trade*' and '*Financial and insurance activities*' (3.9 per cent each). The remaining industry groups recorded a rise in their respective indices varying between 1.8 per cent and 6.0 per cent. Wage rate for the General Government increased by 4.3 per cent in FY2015-16, following the implementation of the PRB report.

Labour Force

The population of the Republic of Mauritius, including Rodrigues, Agalega and St Brandon, was estimated at 1,263,747 as at 1 July 2016, of which 625,380 were males and 638,367 were females, giving a gender ratio of 98 males to 100 females. The population growth rate declined to a low of 0.1 per cent in 2015. Mauritius is also facing a gradual ageing of its population over the decades as the dependency ratio[3] decreased slightly from 410 in 2014 to 409 in 2015.

Based on the 'Continuous Multi-Purpose Household Survey', the total labour force, inclusive of foreign workers, grew by 1.5 per cent between 2014 and 2015, from 604,000 to 612,900. The number of foreign workers remained unchanged at 28,300.

The Mauritian labour force reached 584,600 in 2015, of which 353,300 were males and 231,300 were females. It grew by 1.5 per cent in 2015, nearly twice the increase in 2014, but marginally below the annual average growth rate of 1.6 per cent between 2012 and 2014. Participation rates rose by 0.5 percentage point to 60.4 per cent in 2015. Data released by Statistics Mauritius showed that in the second quarter of 2016, total labour force, exclusive of foreign workers, stood at 580,100, comprising 352,800 males and 227,300 females. Chart 2.3 provides labour market indicators for the period 2010 to 2015.

Employment

Total employment, including foreign workers went up from 559,200 in 2014 to 566,600 in 2015, or by 1.3 per cent, the same growth as in the previous year. Male employment in 2015 represented 62.0 per cent of total employment,

[3] Dependency ratio is defined as the child population under 15 years of age and the elderly population aged 65 years and above per 1,000 population aged 15 to 64 years of age.

standing at 352,400. It has remained nearly constant, growing by 0.2 per cent in 2015, down from a growth of 1.0 per cent in 2014. Female employment on the other hand, rose by 3.2 per cent in 2015, from 1.9 per cent in 2014.

An analysis of the sector-wise employment in 2015 showed that the '*Manufacturing*' sector, despite the challenges with the emergence of low-cost competitors, employed the largest number of workers, around 112,000, which represented a share of around 20.0 per cent of total employment. '*Wholesale and retail trade, repair of motor vehicles and motorcycles*', was the second largest employer with around 100,000 workers, or a share of 17.6 per cent. The '*Construction*', '*Agriculture*', '*Public administration*' and '*Accommodation and food service activities*' are also important employment sectors, each with a share ranging from 7 to 8 per cent of total employment.

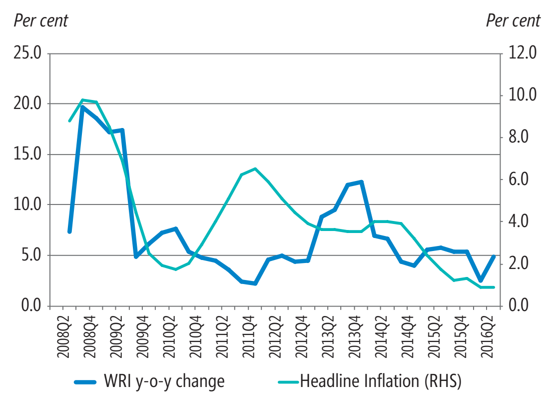
In terms of sectoral change in employment level in 2015, the increase of 7,400 was mainly driven by increases in employment in '*Wholesale and retail trade*' (+3,400), '*Accommodation and food service activities*' (+800), '*Human health and social work activities*' (+700) and '*Education*' (+600), which more than offset declines in employment in '*Manufacturing*' and '*Construction*'.

Unemployment

In 2016Q2, the unemployment rate stood at 7.4 per cent, lower than the 7.8 per cent recorded in 2015Q2. The number of unemployed fell by 6.3 per cent, from 46,000 in 2015Q2 to 43,100, as against a growth of 3.4 per cent in 2015Q2. Women represented 57 per cent of the total unemployed and they outnumbered men by 6,300. Since 2010, the unemployment rate has hovered around 8.0 per cent but is projected to decline to 7.5 per cent in 2016.

The female unemployment rate remains disproportionately high, estimated at 10.9 per cent in 2016Q2, compared to male unemployment

Chart 2.2: Wage Rate Index and CPI Inflation



Source: Statistics Mauritius.

rate of 5.2 per cent. It is observed that the unemployment rate is the highest among young people and it declines progressively with rising age. The youth (16 to 24 years age group) unemployment rate stood at 24.9 per cent in 2016Q2, marginally up from 24.8 per cent in the preceding year.

In terms of unemployment by educational attainment, 45 per cent of the unemployed had not passed their School Certificate and graduates represented 23 per cent of the unemployed, highlighting the persisting mismatch between employers' requirements and skills available on the job market. On average, around 76 per cent of the unemployed had been looking for a job for up to one year. Chart 2.4 shows the quarterly unemployment rate from 2010Q1 to 2016Q2.

Labour Productivity and Unit Labour Cost

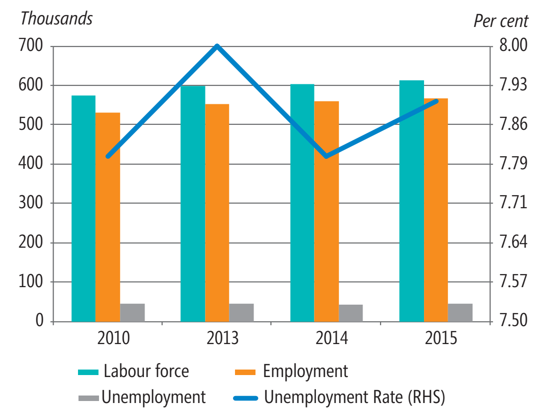
Labour productivity, which is defined as the ratio of real output to labour input, increased by 1.8 per cent in 2015, 0.3 percentage point lower compared to the previous year. Average compensation growth decelerated from 4.7 per cent in 2014 to 2.6 per cent in 2015. As a result, unit labour cost grew by 0.9 per cent in 2015, its lowest level since 2010. Over the past decade, the rise in compensation of employees has largely outpaced labour productivity improvements, leading to sustained increases in the cost of labour. Labour productivity grew on average by 2.7 per cent annually, while annual average compensation growth rose by 6.6 per cent, resulting in an annual increase in unit labour cost of 3.8 per cent, on average. Chart 2.5 shows growth in labour productivity, compensation of employees and unit labour costs for the total economy.

Labour Market Outlook

Structural unemployment remains prominent in the labour market with the enduring skills mismatch. The labour market faces four key challenges: youth unemployment among fresh graduates, youth unemployment among the low skilled youth segment, high female unemployment and low female participation rates.

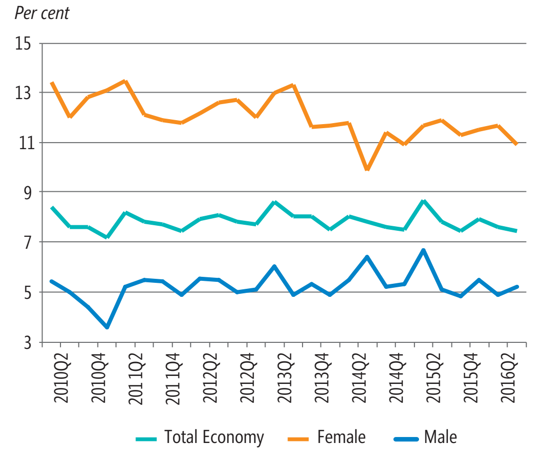
Budget 2016-17 measures involving a National Skills Development Programme and the extension of active labour market policies such as the Youth Employment Programme as well as new graduate programmes are likely to support job creation, both for fresh graduates and those with low levels of educational attainment requiring reskilling. Given further planned economic diversification of the economy with the development of new sectors, including the ocean economy, renewable energy, agro-business among others, a medium-term skills development strategy focusing on the requirements of these emerging sectors is required.

Chart 2.3: Labour Force, Employment, Unemployment and Unemployment Rate



Source: Statistics Mauritius.

Chart 2.4: Unemployment Rate for the Total Economy and by Gender



Source: Statistics Mauritius.

PRICE DEVELOPMENTS

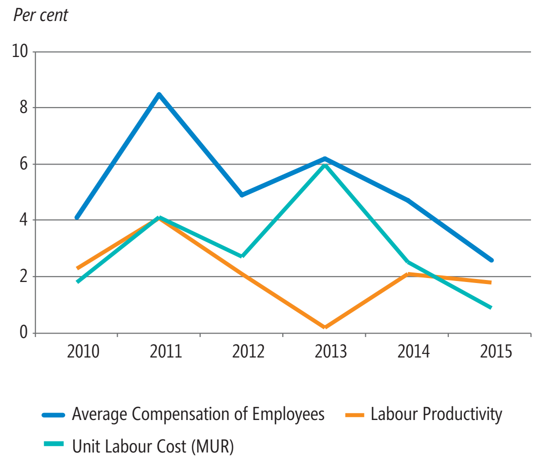
Inflation declined to the lowest level over nearly three decades in June 2016, reflecting low global commodity prices, weak global economic activity coupled with low global inflation and subdued domestic demand conditions. Headline inflation, as measured by the percentage change in the yearly average Consumer Price Index (CPI) in Mauritius, retreated from 1.7 per cent in June 2015 to 1.3 per cent in January 2016 and remained around 0.9 per cent by the close of FY2015-16. Y-o-y inflation, defined as the percentage change in the CPI of a given month compared to the same month of the preceding year, remained volatile, albeit moderate, reflecting the impact of the gyrations in the prices of vegetables and base effects. Y-o-y inflation, which stood at 0.4 per cent in June 2015, reached a historically low of -0.5 per cent in February 2016, before rising to 1.1 per cent in June 2016.

Overall, the CPI inched up by 1.2 index points, or 1.1 per cent, from 107.2 in June 2015 to 108.4 in June 2016. Of the 1.2 points increase in the CPI during FY2015-16, vegetables contributed 1.3 index points followed by other goods and services (0.4 index point), air tickets (0.2 index point), private tuition fees (0.2 index point), ready-made clothing (0.2 index point) and fruits (0.1 index point). These increases have been partially offset by the negative contributions of gasoline (0.6 index point), other food products (0.4 index point), traders' rice (0.2 index point) and interest payment on housing loan (0.1 index point). Chart 2.6 shows the monthly evolution of the CPI during FY2015-16.

Chart 2.7 shows the contribution of selected CPI items in the consumer basket to the change in CPI during FY2015-16 while Chart 2.8 shows the main contributors by divisions to the change in CPI. Chart 2.9 depicts the monthly evolution of the twelve divisions of the CPI basket of goods and services during FY2015-16.

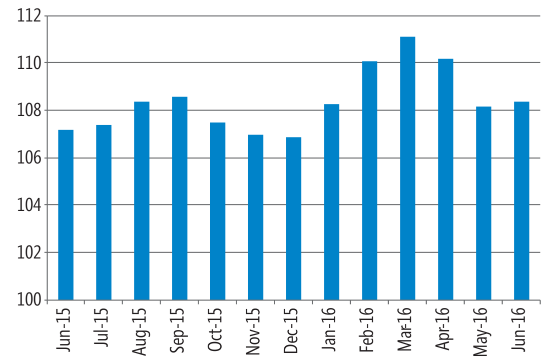
The underlying inflation measures, as evidenced by the evolution of the core measures of inflation, underscored almost muted price pressures. For the twelve-month period ended June 2016, CORE1 inflation and CORE2 inflation stood at 0.7 per cent and 2.2 per cent, respectively. During FY2015-16, CORE1 and CORE2 inflation fluctuated in the range of 0.4 per cent to 2.3 per cent. On a y-o-y basis, CORE1 inflation reached a trough of -0.1 per cent in May 2016 before closing at 0.4 per cent in June 2016, while CORE2 inflation rose from 2.1 per cent in June 2015 to 3.5 per cent in January 2016 before subsiding to 2.3 per cent at the close of FY2015-16.

Chart 2.5: Productivity, Compensation and Unit Labour Costs for the Economy



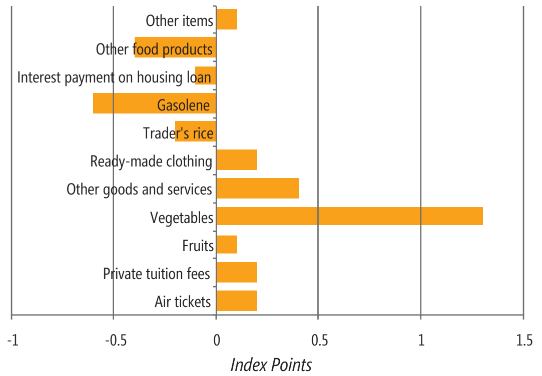
Source: Statistics Mauritius.

Chart 2.6: Monthly Consumer Price Index (Base year January - December 2012=100)



Source: Statistics Mauritius.

Chart 2.7: Contribution of Selected CPI Items in the Consumer Basket to Change in CPI



Source: Statistics Mauritius.

Chart 2.10 shows the movements of headline and core inflation over the period June 2014 through June 2016. Chart 2.11 shows the y-o-y inflation and core inflation over the same period.

MONETARY AGGREGATES

Monetary and credit developments remained broadly subdued during FY2015-16, reflecting subdued economic activity. While broad money supply increased at a moderate pace, credit to the private sector was mostly routed to the construction, agriculture and fishing, financial and business services and manufacturing sectors. Bank credit to the private sector as a percentage of GDP decreased from 67.2 per cent as at end-June 2015 to 64.9 per cent as at end-June 2016. The income velocity of circulation of broad money declined marginally to 0.93 in FY2015-16, from 0.95 in FY2014-15.

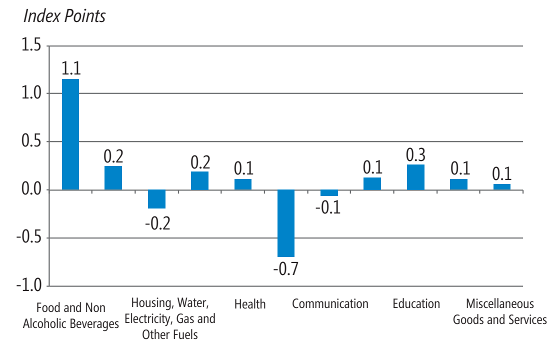
Depository Corporations Survey

The Depository Corporations Survey (DCS) covers the accounts of the depository corporations (i.e., all deposit-taking institutions in Mauritius) and is a consolidation of the central bank survey (CBS) and the other depository corporations survey (ODCS), which are compiled from the sectoral balance sheets of the central bank and the ODCs, respectively. As at end-June 2016, the ODCs comprised 23 banks and 8 non-bank deposit-taking institutions.

The net foreign assets (NFA) of depository corporations went up by 1.9 per cent, from Rs519.9 billion as at end-June 2015 to Rs529.8 billion as at end-June 2016 compared to a hefty expansion of 36.0 per cent in FY2014-15, which reflected exchange rate valuations to some extent.

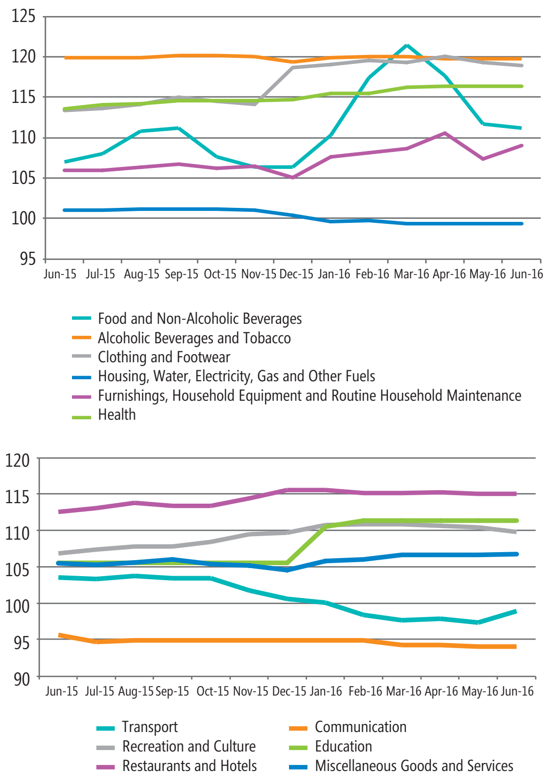
Domestic claims of depository corporations grew by 5.4 per cent, from Rs461.0 billion as at end-June 2015 to Rs485.7 billion as at end-June 2016, compared to a rise of 8.1 per cent in FY2014-15, mainly on the back of slower growth in one of its components. Net claims on Central Government expanded by 4.5 per cent from Rs46.5 billion as

Chart 2.8: Contribution by Divisions to the Change in CPI



Source: Statistics Mauritius.

Chart 2.9: Monthly Evolution of the Twelve Divisions of the CPI Basket of Goods and Services during FY2015-16
(Base: January – December 2012 = 100)



Source: Statistics Mauritius.

at end-June 2015 to Rs48.6 billion as at end-June 2016 compared to a growth of 34.7 per cent registered in FY2014-15. Claims on other sectors went up by 5.5 per cent as at end-June 2016, lower than the increase of 5.7 per cent recorded as at end-June 2015.

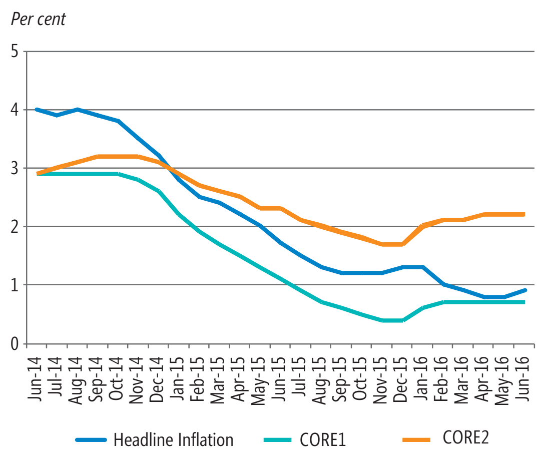
Broad Money Liabilities (BML), the broadest measure of the money supply in the country, expanded by 8.7 per cent, from Rs418.4 billion as at end-June 2015 to Rs455.0 billion as at end-June 2016, compared to an increase of 10.6 per cent in the preceding fiscal year. Among the components of BML, currency with public went up by 9.3 per cent in FY2015-16, lower than the increase of 10.8 per cent registered in FY2014-15; but higher than nominal GDP growth, thereby indicating sustained demand for cash in a low interest rate environment. Transferable deposits increased by 13.9 per cent compared to a rise of 20.3 per cent in FY2014-15; while savings deposits increased by 12.4 per cent, higher than the growth of 11.8 per cent registered in the preceding fiscal year. However, time deposits went down by 1.5 per cent compared to an increase of 2.5 per cent in FY2014-15, partly associated to the low interest rate environment; and securities other than shares included in broad money went up by 57.5 per cent compared to 6.4 per cent in the previous fiscal year as a result of the other financial corporations' increased holdings of BoM securities. Table 2.4 shows the Depository Corporations Survey as at end-June 2014, 2015 and 2016.

Central Bank Survey

The Central Bank Survey (CBS) is an analytic presentation of the central bank positions vis-à-vis domestic sectors and non-residents. It shows the components of the monetary base, which comprises the central bank liabilities that support the expansion of broad money and credit.

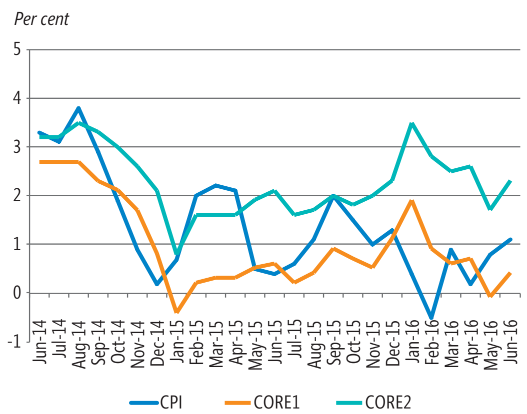
Reflecting the Bank's active liquidity management operations, the monetary base contracted by 1.6 per cent, from Rs71.6 billion as at end-June 2015 to Rs70.4 billion as at end- June 2016, as

Chart 2.10: Headline and Core Inflation



Note: (i) Headline inflation is measured by comparing the average level of prices, as measured by the CPI, during a twelve-month period with the average level during the corresponding previous twelve-month period; (ii) CORE1 excludes "Food, Beverages and Tobacco" components and mortgage interest on housing loan from the CPI basket; and (iii) CORE2 excludes Food, Beverages, Tobacco, mortgage interest, energy prices and administered prices from the CPI basket.
Sources: Statistics Mauritius and Bank of Mauritius.

Chart 2.11: Year-on-year Inflation and Year-on-year Core Inflation



Note: (i) Year-on-Year CPI inflation is computed as the change in the Consumer Price Index (CPI) for a given month compared with the same month of the preceding year in percentage terms; (ii) Year-on-Year CORE1 excludes "Food, Beverages and Tobacco" components and mortgage interest on housing loan from Year-on-Year CPI inflation; and (iii) Year-on-Year CORE2 excludes Food, Beverages, Tobacco, mortgage interest, energy prices and administered prices from Year-on-Year CPI inflation.
Sources: Statistics Mauritius and Bank of Mauritius.

against an increase of 15.2 per cent in FY2014-15. Of the major components of the monetary base, currency in circulation rose by 7.7 per cent, marginally lower than the increase of 7.8 per cent recorded in FY2014-15. However, banks' deposits with the Bank of Mauritius contracted by 7.7 per cent as against an increase of 21.1 per cent in FY2014-15.

On the sources side of the monetary base, net foreign assets of the Bank expanded by 20.3 per cent, from Rs138.6 billion in June 2015 to Rs166.7 billion in June 2016, compared to an increase of 15.9 per cent in the previous fiscal year. Domestic claims of the Bank shrunk by 95.7 per cent as against a growth of 2.2 per cent in FY2014-15. Net claims on Central Government declined by 65.4 per cent, reflecting mostly an increase in Government deposits, which accumulated as the Government issued Treasury Bills in excess of its requirements for monetary policy purposes. Claims on other depository corporations went down by 57.2 per cent, from Rs2.0 billion as at end-June 2015 to Rs0.9 billion as at end-June 2016. Table 2.5 shows the Central Bank Survey as at end-June 2014, 2015 and 2016.

Reflecting the lower monetary base, the average money multiplier for BML increased from 5.8 as at end-June 2015 to 6.2 as at end-une 2016. The average money multiplier for Narrow Money Liabilities went up from 1.2 to 1.3 over the period under review. Table 2.6 gives details on monetary ratios for the years ended June 2012 through June 2016.

Table 2.4: Depository Corporations Survey [1]

				Change Between (1) and (2)		Change Between (2) and (3)	
	Jun-14 (1) *(Rs million)*	Jun-15 (2) *(Rs million)*	Jun-16 (3) *(Rs million)*	*(Rs million)*	*(Per cent)*	*(Rs million)*	*(Per cent)*
1. Net Foreign Assets	**382,242**	**519,851**	**529,765**	**137,610**	**36.0**	**9,914**	**1.9**
Claims on Non-residents	828,604	927,862	897,376	*99,258*	*12.0*	*-30,487*	*-3.3*
Liabilities to Non-residents	-446,363	-408,011	-367,611	*38,352*	*-8.6*	*40,400*	*-9.9*
2. Domestic Claims	**426,481**	**460,965**	**485,682**	**34,483**	**8.1**	**24,718**	**5.4**
A. Net Claims on Central Government	***34,504***	***46,468***	***48,559***	***11,964***	***34.7***	***2,091***	***4.5***
Claims on Central Government	74,355	79,660	94,350	*5,306*	*7.1*	*14,689*	*18.4*
Liabilities to Central Government	-39,851	-33,192	-45,790	*6,658*	*-16.7*	*-12,598*	*38.0*
B. Claims on Other Sectors	***391,977***	***414,497***	***437,123***	***22,520***	***5.7***	***22,626***	***5.5***
3. ASSETS = LIABILITIES	**808,723**	**980,816**	**1,015,447**	**172,093**	**21.3**	**34,631**	**3.5**
4. Broad Money Liabilities	***378,456***	***418,402***	***454,966***	***39,946***	***10.6***	***36,564***	***8.7***
A. Currency outside Depository Corporations	*21,685*	*24,018*	*26,254*	*2,333*	*10.8*	*2,236*	*9.3*
B. Transferable Deposits	*85,000*	*102,270*	*116,496*	*17,270*	*20.3*	*14,226*	*13.9*
C. Savings Deposits	*145,274*	*162,368*	*182,446*	*17,093*	*11.8*	*20,078*	*12.4*
D. Time Deposits	*123,269*	*126,313*	*124,362*	*3,044*	*2.5*	*-1,951*	*-1.5*
E. Securities other than Shares	*3,227*	*3,434*	*5,409*	*206*	*6.4*	*1,975*	*57.5*
5. Other	**430,266**	**562,414**	**560,481**	**132,147**	**30.7**	**-1,933**	**-0.3**

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: Research and Economic Analysis Department.

Sector-wise Distribution of Banks' Credit

Credit extended by banks to the private sector rose by 3.1 per cent, from Rs275.3 billion as at end-June 2015 to Rs283.8 billion as at end-June 2016, compared to an increase of 2.7 per cent registered over the preceding fiscal year. The additional credit was mainly directed towards '*Construction*', '*Agriculture and fishing*' and '*Financial and business services*' sectors, which contributed 38.0 per cent, 22.2 per cent and 18.6 per cent, respectively, to the expansion in credit in FY2015-16. The '*Manufacturing*' and '*Traders*' sectors were the other major recipients of additional credit with around 30.4 per cent of the increase channeled to these sectors altogether.

The expansion in credit was, however, weighed down by net repayments in the '*Public non-financial corporations*', '*Personal*', '*Transport*' and '*Tourism*' sectors. These sectors pulled down the expansion in credit in FY2015-16 by 27.1 per cent. Chart 2.12 shows the sector-wise contribution to the increase in credit to the private sector by banks in FY2015-16.

Table 2.5: Central Bank Survey

	Jun-14	Jun-15	Jun-16	Change Between		Change Between	
	(1)	(2)	(3)	(1) and (2)		(2) and (3)	
	(Rs million)	*(Rs million)*	*(Rs million)*	*(Rs million)*	*(Per cent)*	*(Rs million)*	*(Per cent)*
1. Net Foreign Assets	**119,619.6**	**138,628.5**	**166,725.9**	**19,008.9**	**15.9**	**28,097.4**	**20.3**
Claims on Non-residents	119,944.7	138,736.4	167,032.8	18,791.7	15.7	28,296.4	20.4
less: Liabilities to Non-residents	325.0	107.9	306.9	-217.2	-66.8	199.0	184.4
2. Domestic Claims	**-16,338.4**	**-15,983.2**	**-31,285.8**	**355.1**	**2.2**	**-15,302.6**	**-95.7**
A. Net Claims on Central Government	-18,912.3	-21,714.8	-35,913.5	-2,802.5	-14.8	-14,198.6	-65.4
B. Claims on Other Sectors	159.6	3,704.0	3,760.7	3,544.4	2,220.9	56.6	1.5
C. Claims on Other Depository Corporations	2,414.3	2,027.6	867.0	-386.7	-16.0	-1,160.6	-57.2
3. ASSETS = LIABILITIES	**103,281.2**	**122,645.3**	**135,440.1**	**19,364.0**	**18.7**	**12,794.9**	**10.4**
4. Monetary Base	**62,137.0**	**71,594.1**	**70,419.8**	**9,457.1**	**15.2**	**-1,174.3**	**-1.6**
A. Currency in Circulation	26,344.9	28,401.2	30,580.8	2,056.3	7.8	2,179.7	7.7
B. Liabilities to Other Depository Corporations	35,505.5	42,987.3	39,659.1	7,481.7	21.1	-3,328.2	-7.7
C. Liabilities to Other Sectors	286.6	205.7	179.9	-80.9	-28.2	-25.8	-12.5
5 Other Liabilities to Other Depository Corporations	**17,166.0**	**24,624.0**	**35,387.9**	**7,457.9**	**43.4**	**10,763.9**	**43.7**
6. Other	**22,012.9**	**24,373.3**	**25,711.0**	**2,360.4**	**10.7**	**1,337.6**	**5.5**

Figures may not add up to totals due to rounding.
Source: Research and Economic Analysis Department.

Credit granted to the *'Construction'* sector accounted for 30.5 per cent of total outstanding bank credit as at end-June 2016, slightly up from 30.2 per cent as at end-June 2015. Credit allocated to this sector grew by 3.9 per cent, from Rs83.2 billion as at end-June 2015 to Rs86.4 billion as at end-June 2016, mainly reflecting credit granted for housing purposes.

Bank credit to the *'Traders'* sector constituted 10.9 per cent of total outstanding bank credit as at end-June 2016, unchanged from its end-June 2015 share. Bank credit to this sector picked up by 3.4 per cent, from Rs30.0 billion as at end-June 2015 to Rs31.1 billion as at end-June 2016.

Credit to the *'Manufacturing'* sector increased by 7.7 per cent and stood at Rs21.5 billion as at end-June 2016, up from Rs20.0 billion as at end-June 2015. Credit growth in this sector was mainly fuelled by a pick-up in credit demand from the *'Export Service Certificate Holders'* and *'Steel/Metal Products'* sub-sectors. The share of the *'Manufacturing'* sector to total private sector credit increased to 7.6 per cent as at end-June 2016, from 7.2 per cent as at end-June 2015.

Table 2.6: Monetary Ratios

	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
1. Monthly Average for year ended (Rs million)					
A. Monetary Base	**44,147**	**49,428**	**57,993**	**68,506**	**70,691**
	7.6	*12.0*	*17.3*	*18.1*	*3.2*
B. Broad Money Liabilities (BML)	**316,314**	**340,377**	**363,032**	**397,079**	**437,190**
	7.7	*7.6*	*6.7*	*9.4*	*10.1*
(a) Narrow Money Liabilities (NML)	63,449	68,500	74,671	81,622	89,897
	8.5	*8.0*	*9.0*	*9.3*	*10.1*
(i) Currency with Public	18,711	20,273	21,580	23,350	25,760
	8.4	*8.3*	*6.4*	*8.2*	*10.3*
(ii) Transferable Deposits	44,738	48,227	53,092	58,273	64,137
	8.5	*7.8*	*10.1*	*9.8*	*10.1*
(b) Quasi Money Liabilities	250,818	269,304	284,990	311,837	342,630
	7.4	*7.4*	*5.8*	*9.4*	*9.9*
(c) Securities other than Shares	2,047	2,573	3,371	3,620	4,663
	39.0	*25.7*	*31.0*	*7.4*	*28.8*
2. Average Money Multiplier					
A. Narrow Money Liabilities	1.4	1.4	1.3	1.2	1.3
B. Broad Money Liabilities	7.2	6.9	6.3	5.8	6.2
3. Other Monetary Ratios (Per cent)					
A. Currency with Public to NML	29.5	29.6	28.9	28.6	28.7
B. Transferable Deposits to NML	70.5	70.4	71.1	71.4	71.3
C. Currency with Public to BML	5.9	6.0	5.9	5.9	5.9
D. Transferable Deposits to B ML	14.1	14.2	14.6	14.7	14.7
E. Narrow Money Liabilities to BML	20.1	20.1	20.6	20.6	20.6
F. Quasi Money Liabilities to BML	79.3	79.1	78.5	78.5	78.4
G. Securities other than Shares to BML	0.6	0.8	0.9	0.9	1.1

(i) Figures in italics represent percentage change over previous period.
(ii) The average Money Multiplier for Narrow Money Liabilities is defined as the ratio of average Narrow Money Liabilities to average Monetary Base.
(iii) The average Money Multiplier for Broad Money Liabilities is defined as the ratio of average Broad Money Liabilities to average Monetary Base.
Source: Research and Economic Analysis Department.

Credit granted to the *'Financial and business services'* sector increased by 6.3 per cent, from Rs25.0 billion as at end-June 2015 to Rs26.6 billion as at end-June 2016. Its share of total private sector credit edged up from 9.1 per cent to 9.4 per cent.

Credit to the *'Tourism'* sector decreased by 0.2 per cent to Rs47.5 billion as at end-June 2016. This sector accounted for 16.7 per cent of total bank credit, down from 17.3 per cent as at end-June 2015.

Credit extended to the *'Personal'* sector contracted by 2.0 per cent, from Rs29.3 billion as at end-June 2015 to Rs28.7 billion as at end-June 2016. Its share of total private sector credit also declined, from 10.6 per cent at the end of June 2015 to 10.1 per cent at the end of June 2016.

Maintenance of Cash Ratio

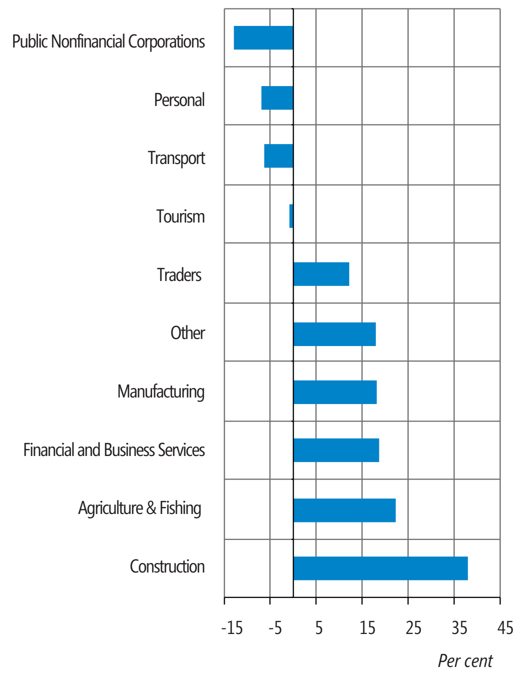
The minimum cash reserve requirement (CRR) that banks needed to maintain remained unchanged during the year under review. The average cash balances held by banks at the Bank of Mauritius ranged between Rs37.1 billion and Rs45.8 billion in FY2015-16, compared to a range of Rs34.3 billion and Rs46.6 billion in FY2014-15. The average excess reserves held by banks varied in a range of Rs5.6-12.6 billion in FY2015-16, compared to Rs5.2-16.5 billion in FY2014-15.

The average cash ratio fluctuated between 9.9-11.7 per cent in FY2015-16 compared to 10.0-13.2 per cent in the preceding fiscal year. The highest and lowest average cash ratios were recorded in July 2015 and September 2015, respectively. Chart 2.13 shows the evolution of excess cash holdings and average cash ratio during FY2015-16.

Interest Rates

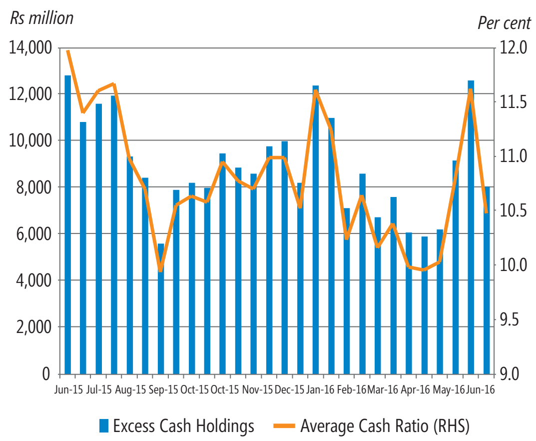
During FY2015-16, banks in general adjusted their deposit and lending rates in line with the changes in the Key Repo Rate (KRR) brought about at Monetary Policy Committee (MPC) meetings. The KRR was reduced by 25 basis points to 4.40 per cent, on 9 November 2015 and thererafter remained unchanged till the close of FY2015-16.

Chart 2.12: Distribution of the Increase in Bank Credit to the Private Sector – end-June 2015 to end-June 2016



Source: Research and Economic Analysis Department.

Chart 2.13: Excess Cash Holdings and Average Cash Ratio



Source: Research and Economic Analysis Department.

Table 2.7: Sectorwise Distribution of Credit						
SECTORS	Jun-15	Jun-16	Increase/Decrease		Share of total credit as at end-June 15	Share of total credit as at end-June 16
	(Rs million)	*(Rs million)*	*(Rs million)*	*(Per cent)*	*(Per cent)*	*(Per cent)*
Agriculture and Fishing	**17,667.4**	**19,555.1**	**1,887.7**	**10.7**	**6.4**	**6.9**
- of which						
Sugar Industry - Estates	7,112.7	9,998.3	2,885.6	40.6	2.6	3.5
Sugar Industry - Others	3,431.2	2,935.3	-495.8	-14.5	1.2	1.0
Sugarcane Planters	2,773.6	3,095.9	322.2	11.6	1.0	1.1
Other	4,349.9	3,525.6	824.3	-19.0	1.6	1.2
Manufacturing	**19,952.5**	**21,496.4**	**1,543.9**	**7.7**	**7.2**	**7.6**
- of which						
Export Enterprise Certificate Holders	5,559.9	5,647.9	88.0	1.6	2.0	2.0
Steel/Metal Products	1,577.6	1,975.4	397.8	25.2	0.6	0.7
Food and Beverages	4,805.7	4,885.4	79.8	1.7	1.7	1.7
Other	8,009.3	8,987.6	978.3	12.2	2.9	3.2
Tourism	**47,536.4**	**47,461.3**	**-75.1**	**-0.2**	**17.3**	**16.7**
- of which						
Hotels	27,877.1	27,714.8	-162.3	-0.6	10.1	9.8
Hotel Management Service Certificate Holders	15,284.3	15,810.3	526.0	3.4	5.6	5.6
Other	4,375.0	3,936.2	-438.8	-10.0	1.6	1.4
Transport	**4,924.9**	**4,390.1**	**-534.8**	**-10.9**	**1.8**	**1.5**
Construction	**83,190.5**	**86,410.7**	**3,220.1**	**3.9**	**30.2**	**30.5**
- of which						
Property Development	23,785.3	23,315.8	-469.5	-2.0	8.6	8.2
Housing	51,777.8	55,689.4	3,911.6	7.6	18.8	19.6
Other	7,627.4	7,405.5	-222.0	-2.9	2.8	2.6
Traders	**30,034.3**	**31,066.6**	**1,032.3**	**3.4**	**10.9**	**10.9**
Information Communication and Technology	**1,492.0**	**1,853.3**	**361.3**	**24.2**	**0.5**	**0.7**
Financial and Business Services	**25,012.2**	**26,592.8**	**1,580.6**	**6.3**	**9.1**	**9.4**
Infrastructure	**4,251.7**	**4,582.6**	**330.9**	**7.8**	**1.5**	**1.6**
Public Non-financial Corporations	**3,120.8**	**2,022.7**	**-1,098.0**	**-35.2**	**1.1**	**0.7**
Personal	**29,304.1**	**28,711.2**	**-592.9**	**-2.0**	**10.6**	**10.1**
Professional	**1,260.6**	**1,284.1**	**23.5**	**1.9**	**0.5**	**0.5**
Education	**1,422.0**	**1,379.1**	**-42.9**	**-3.0**	**0.5**	**0.5**
Others	**6,096.7**	**6,945.1**	**848.4**	**13.9**	**2.2**	**2.4**
TOTAL	**275,266.1**	**283,751.1**	**8,485.0**	**3.1**	**100.0**	**100.0**

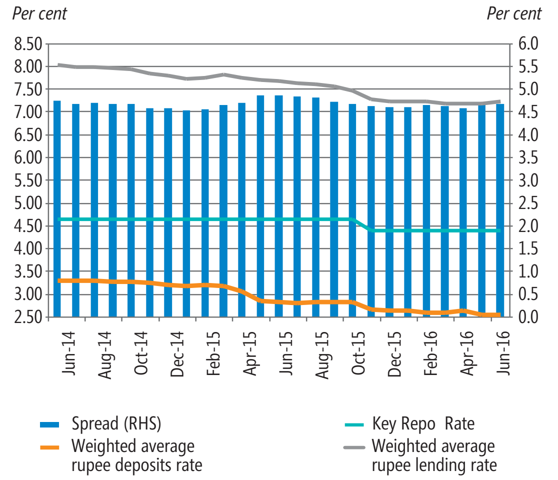
Source: Research and Economic Analysis Department.

For the year ended June 2016, the Savings Deposits Rate and Prime Lending Rate remained contained within a range of 2.00-4.00 per cent and 6.25-8.25 per cent, respectively.

From a peak of 7.64 per cent at the end of July 2015, the weighted average lending rate reached a trough of 7.19 per cent at the end of April 2016 before closing at 7.23 per cent in June 2016. The weighted average deposits rate has also been on a downtrend during FY2015-16 and fluctuated within a range of 2.55-2.83 per cent. Table 2.8 shows the movements of interest rates during FY2015-16.

In spite of lingering excess liquidity during fiscal year 2015-16, the spread between lending and deposit rates did not change much. The spread between the weighted average lending and deposits rates varied between 4.57 percentage points and 4.84 percentage points during FY2015-16 compared to a range of 4.54-4.86 percentage points in FY2014-15. Chart 2.14 depicts the evolution of the KRR, weighted average lending and deposits rates and the spread from June 2014 through June 2016.

Chart 2.14: KRR, Weighted Lending and Deposits Rate and Spread



Source: Research and Economic Analysis Department.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

Benefiting from improved terms of trade developments mainly on the back of persistently low commodity prices, the country is projected to record a lower current account deficit in FY2015-16 compared to a year earlier. Moreover, sustained financial inflows contributed to a higher balance of payments surplus. Table 2.9 provides a summary of the main components of the balance of payments for FY2011-12 to FY2015-16.

The current account deficit decreased from Rs23.1 billion in FY2014-15 to an estimated Rs15.3 billion in FY2015-16, supported by a lower deficit on the goods account and a higher surplus on the services account. As a ratio to GDP, the deficit on the current account fell from 5.8 per cent in FY2014-15 to 3.6 per cent in FY2015-16.

The deficit on the goods account declined from Rs70.0 billion in FY2014-15 to Rs65.9 billion in FY2015-16. Total imports (f.o.b.) declined by 7.5 per cent, from Rs167.4 billion to Rs154.8 billion, driven mostly by a lower import bill for petroleum products combined with a significant decrease in the imports of telecommunications equipment mainly meant for re-exports. Total exports (f.o.b.) decreased by 8.7 per cent, from Rs97.4 billion to Rs88.9 billion, reflecting mainly a fall in the re-exports of *'Machinery and transport equipment'* and lower *'Ships' stores and bunkers'* transactions.

The surplus on the services account rose from Rs19.6 billion in FY2014-15 to Rs24.8 billion in FY2015-16, reflecting essentially the higher surplus on the travel account and the lower deficit on the other services account. Gross tourism earnings rose from Rs46.0 billion to Rs52.9 billion. Other services recorded a lower net deficit of Rs0.1 billion compared to Rs1.4 billion in FY2014-15.

Table 2.8: Other Interest Rates

(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
2015							
	Jul	6.25-8.50	2.00-4.00	0.25-11.00	2.00-19.25	2.80	7.64
	Aug	6.25-8.50	2.00-4.00	0.25-10.50	2.00-19.25	2.81	7.62
	Sep	6.25-8.50	2.00-4.00	0.25-10.50	2.00-19.30	2.83	7.55
	Oct	6.25-8.50	2.00-4.00	0.25-10.30	2.00-19.00	2.81	7.47
	Nov	6.25-8.50	2.00-4.00	0.25-10.30	1.50-18.50	2.66	7.28
	Dec	6.25-8.50	2.00-4.00	0.25-10.30	1.50-18.50	2.63	7.24
2016							
	Jan	6.25-8.50	2.00-4.00	0.05-10.30	1.50-19.25	2.62	7.23
	Feb	6.25-8.50	2.00-4.00	0.05-10.30	1.50-19.25	2.59	7.23
	Mar	6.25-8.50	2.00-4.00	0.05-10.30	1.98-19.25	2.58	7.21
	Apr	6.25-8.50	2.00-4.00	0.05-10.30	1.97-19.25	2.62	7.19
	May	6.25-8.50	2.00-4.00	0.05-10.30	1.97-19.25	2.57	7.21
	Jun	6.25-8.50	2.00-4.00	0.05-10.30	1.94-19.25	2.55	7.23

Source: Research and Economic Analysis Department.

Table 2.9: Balance of Payments Summary

	2011-12	2012 -13	2013-14 [1]	2014-15 [1]	2015-16 [1]
					Rs million
Current Account	**-36,021**	**-29,698**	**-20,315**	**-23,083**	**-15,348**
Goods	**-72,118**	**-68,586**	**-68,097**	**-70,004**	**-65,896**
Exports (f.o.b.)	77,165	83,359	90,997	97,400	88,944
Imports (f.o.b.)	149,283	151,945	159,094	167,404	154,840
Services	**27,484**	**24,113**	**17,338**	**19,555**	**24,788**
Income	**5,332**	**14,788**	**35,060**	**34,059**	**34,849**
o/w global business	*2,142*	*12,094*	*34,126*	*37,619*	*34,113*
Current Transfers	**3,281**	**-12**	**-4,616**	**-6,693**	**-9,089**
Capital and Financial Account	**58,786**	**12,610**	**19,401**	**15,841**	**16,137**
Capital Account	**-141**	**-183**	**-111**	**-186**	**-69**
Financial Account	**58,927**	**12,793**	**19,512**	**16,027**	**16,206**
Direct Investment	17,990	108,797	-2,875	51,565	244,553
o/w global business	10,416	*98,411*	*-10,536*	*45,353*	*236,185*
Portfolio Investment	164,022	14,363	-6,379	-24,672	-143,017
o/w global business	158,831	*9,706*	*-10,724*	*-17,826*	*-135,017*
Other Investment	-120,394	-90,033	44,705	4,240	-58,409
o/w global business	-189,627	*-82,390*	*1,758*	*81,951*	*-83,876*
Reserve Assets	-2,692	-20,335	-15,939	-15,105	-26,921
Net Errors and Omissions	**-22,765**	**17,089**	**914**	**7,242**	**-789**

[1] Provisional.

Note: As from the year 2013, the income and current transfers accounts have been supplemented with improved GBC1 Survey results and are not strictly comparable with prior years' data.

Source: Research and Economic Analysis Department.

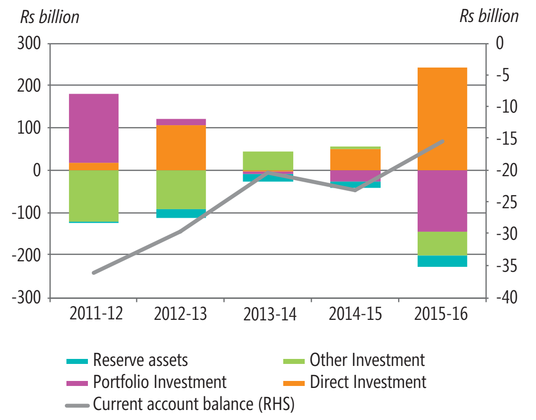
The surplus on the income account increased from Rs34.1 billion in FY2014-15 to Rs34.8 billion in FY2015-16, mainly on account of higher direct investment income received from non-residents. The deficit on the current transfers account increased from Rs6.7 billion to Rs9.1 billion.

Financial inflows during FY2015-16 were more than adequate to finance the current account deficit, thereby allowing the country to record a balance of payments surplus of Rs26.9 billion compared to a surplus of Rs15.1 billion in FY2014-15. Exclusive of transactions in reserve assets, the capital and financial account recorded estimated net inflows of Rs43.0 billion.

During FY2015-16, inclusive of GBC1s cross-border transactions, an estimated Rs427.5 billion of direct investment was recorded in Mauritius. Excluding cross-border transactions of GBC1s, direct investment in Mauritius, net of repatriation, stood at Rs9.6 billion in FY2015-16, largely directed to the '*Real estate*' sector. Direct investment abroad, inclusive of GBC1s cross-border transactions, registered lower net outflows of Rs182.9 billion in FY2015-16. Excluding cross-border transactions of GBC1s, direct investment abroad, net of repatriation, recorded net outflows of Rs1.2 billion in FY2015-16. Chart 2.15 shows the financing of the current account from FY2011-12 through FY2015-16.

The portfolio investment account, inclusive of GBC1s cross-border transactions, recorded net outflows of Rs143.0 billion in FY2015-16. This reflected higher net portfolio investments abroad effected by residents to the tune of Rs142.6 billion and non-residents' net portfolio investments in Mauritius, inclusive of GBC1s cross-border transactions, amounting to net outflows of Rs392 million. Non-residents' net investment transactions in equity securities on the domestic stock market resulted into a net sale of Rs1.5 billion.

Chart 2.15: Financing of the Current Account



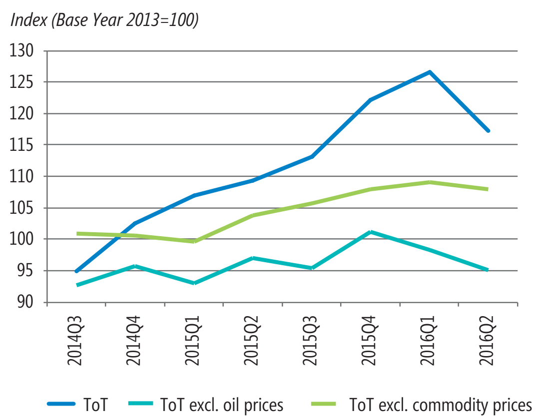
Source: Research and Economic Analysis Department.

The 'Other investment' account, inclusive of GBC1s cross-border transactions, recorded net outflows of Rs58.4 billion in FY2015-16. The Government sector registered net outflows of Rs1.3 billion as against net inflows of Rs19.0 million in FY2014-15. Private long-term capital investments, inclusive of GBC1s cross-border transactions, recorded net outflows of Rs86.1 billion in FY2015-16.

Terms of Trade Developments

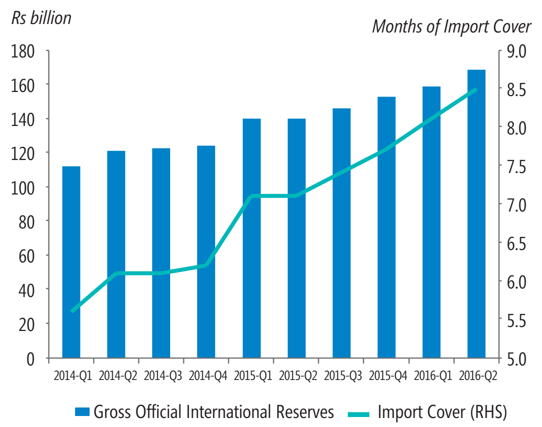
In FY2015-16, the terms of trade moved in favour of Mauritius as a result of falling global commodity prices, especially oil, thereby contributing to narrowing the trade deficit. The export price index (EPI) went up by 3.5 per cent in FY2015-16, while the import price index (IPI) declined by 10.7 per cent. The terms of trade index (ToT) thus improved by 15.9 per cent, from 103.2 in FY2014-15 to 119.6 in FY2015-16. However, the index was less favourable when oil prices or when commodity prices were excluded. The ToT rose by 6.2 per cent when commodity prices were excluded, while when only oil prices were excluded, the ToT rose by only 3.0 per cent.

Chart 2.16: Terms of Trade



Source: Statistics Mauritius.

Chart 2.17: Gross Official International Reserves and Import Cover: 2014Q1 to 2016Q2



Source: Research and Economic Analysis Department.

Gross Official International Reserves

The gross official international reserves of the country, made up of the gross foreign assets of the Bank of Mauritius, the foreign assets of Government and the country's Reserve Position in the IMF, increased by Rs28.8 billion, from Rs139.9 billion at the end of June 2015 to Rs168.7 billion at the end of June 2016. The level of gross official international reserves of the country at the end of June 2016 represented 8.5 months of imports compared to 7.1 months of imports[4] at the end of June 2015. Chart 2.17 shows the level of gross official international reserves of the country and corresponding import cover from 2014Q1 to 2016Q2.

[4] *Based on the value of the import of goods (f.o.b) and non-factor services for 2015.*

Box II: External Vulnerabilities

The gross external debt of the country is estimated at around Rs96.3 billion as at end-June 2016, representing 22.9 per cent of GDP, down from Rs99.3 billion at end-June 2015, which represented 24.8 per cent of GDP. Concurrently, the external debt service decreased from Rs9.5 billion for FY2014-15 to Rs8.9 billion for FY2015-16.

The evolution of the external vulnerability indicators suggests that conditions remained broadly stable during FY2015-16. The ratio of gross external debt to exports of goods and services hovered around 50 per cent, while the ratio of external debt service to exports of goods and services decreased from 4.9 per cent to 4.7 per cent.

Over two-third of gross external debt consist of public sector gross external debt. The management of public sector external debt is therefore crucial for containing vulnerabilities that may arise from shocks to gross external debt. The Budget 2016-17 provides for an early repayment of Rs4.3 billion of USD-denominated loans and converting some external loans in view of reducing foreign exchange risks exposure. It is also noteworthy that debt affordability of the Government has improved significantly with decline in the ratio of interest payments to Government revenue as well as to GDP.

An additional measure of comfort relating to external vulnerabilities is reserve adequacy. The gross official international reserves of the country have been increasing and stood at Rs168.7 billion as at end-June 2016, representing 73.5 per cent of imports of goods and services and 175.2 per cent of gross external debt. The reserves buffer thus provides the country with adequate resources to cushion against potential external shocks. On current trends, external vulnerability risks are assessed to be broadly contained. Table 1 depicts the evolution of some external vulnerability indicators from end-December 2014 to end-June 2016.

Table 1: External Vulnerabilities Indicators					
		Dec-14	Jun-15	Dec-15	Jun-16
					(Rs million)
Gross External Debt[1]	as at end	94,678	99,322	99,423	96,292
External Debt Service[1]	year ended	9,331	9,536	7,820	8,924
Exports of Goods	year ended	94,776	97,400	94,108	88,944
Exports of Goods and Services	year ended	192,497	196,490	193,743	188,410
Imports of Goods and Services	year ended	240,737	246,939	237,278	229,518
Gross Official International Reserves[2]	as at end	124,344	139,894	152,902	168,679
GDP at market prices	year ended	392,062	400,419	409,524	421,274
Broad Money Liabilities	as at end	397,557	418,402	437,999	454,966
					(Per cent)
I. Solvency		**Dec-14**	**Jun-15**	**Dec-15**	**Jun-16**
Gross External Debt/GDP		24.1	24.8	24.3	22.9
Gross External Debt/Exports of Goods		99.9	102.0	105.6	108.3
Gross External Debt/Exports of Goods and Services		49.2	50.5	51.3	51.1
External Debt Service/Exports of Goods		9.8	9.8	8.3	10.0
External Debt Service/Exports of Goods and Services		4.8	4.9	4.0	4.7
II. Reserve Adequacy					
Reserves/Imports of Goods and Services		51.7	56.7	64.4	73.5
Reserves/Broad Money Liabilities		31.3	33.4	34.9	37.1
Reserves/Gross External Debt		131.3	140.8	153.8	175.2

[1] *Gross external debt outstanding as at end of period excludes global business companies' and other deposit-taking institutions' debts.*
[2] *Gross Official International Reserves as at end of period comprise gross foreign assets of the Bank of Mauritius, Reserve Position in the IMF and the foreign assets of Government.*

International Investment Position

The net creditor position of Mauritius vis-à-vis non-residents was further reinforced as at end-December 2015. Preliminary estimates of the International Investment Position (IIP) showed that the country's net foreign asset position stood at Rs1.1 trillion as at end-December 2015, up from Rs427 billion as at end-December 2014, mainly as a result of an increase in the country's claims on non-residents. Total claims on non-residents as at end-December 2015 are estimated at Rs15.2 trillion, up from Rs14.0 trillion as at end-December 2014, while total liabilities owed to non-residents are estimated at Rs14.1 trillion, up from Rs13.6 trillion. GBC1s' foreign assets and liabilities accounted for around 90 per cent of total claims and liabilities vis-à-vis non-residents. The net foreign asset position of the non-GBC sector is estimated to have increased by Rs94 billion or 29.2 per cent, from Rs322 billion as at end-December 2014 to Rs416 billion as at end-December 2015. Non-GBC residents' claims on non-residents are estimated to have increased by Rs83 billion to Rs1.1 trillion as at end-December 2015, while their liabilities towards non-residents decreased by Rs10 billion to Rs670 billion. Table 2.10 shows the country's claims on non-residents and liabilities due to non-residents, by sector and by main category of investment, namely, direct investment, portfolio investment and other investment as at end-December 2014 and 2015.

GOVERNMENT FINANCE

Developments in FY2015-16

Budgetary outturn in FY2015-16 was broadly below projections, albeit the budget deficit was contained at initial projections. Recurrent

Table 2.10: International Investment Position: end-2014 to end-2015

(Rs billion)

	Provisional Dec-2014	Preliminary Estimates, Dec-2015		Provisional Dec-2014	Preliminary Estimates, Dec-2015
Claims on Non-residents	**14,004**	**15,178**	**Liabilities to Non-residents**	**13,577**	**14,106**
Direct Investment	7,295	7,943	Direct Investment	9,431	9,658
o/w: Non-GBCs	*44*	*31*	*o/w: Non-GBCs*	*111*	*154*
GBC1s	*7,251*	*7,911*	*GBC1s*	*9,320*	*9,504*
Portfolio Investment	3,834	4,372	Portfolio Investment	1,132	1,164
o/w: Non-GBCs	*126*	*207*	*o/w: Non-GBCs*	*45*	*42*
GBC1s	*3,708*	*4,165*	*GBC1s*	*1,087*	*1,122*
Other Investment	1,520	1,578	Other Investment	1,971	2,334
o/w: Non-GBCs	*586*	*575*	*o/w: Non-GBCs*	*402*	*355*
GBC1s	*934*	*1,002*	*GBC1s*	*1,569*	*1,979*
Financial Derivatives	1,230	1,133	Financial Derivatives	1,043	950
o/w: Non-GBCs	*121*	*119*	*o/w: Non-GBCs*	*121*	*119*
GBC1s	*1,109*	*1,014*	*GBC1s*	*921*	*830*
Reserve Assets	124	153			

Source: Research and Economic Analysis Department.

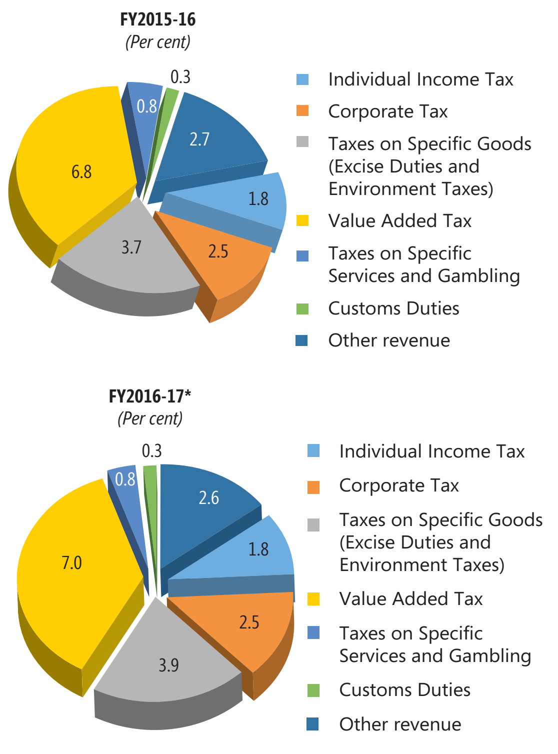
revenue amounted to Rs86.0 billion, lower than the estimate of Rs87.6 billion. Recurrent expenditure amounted to Rs92.4 billion, lower than the initial estimates of Rs93.6 billion. Capital revenue totalled Rs2.2 billion compared to Rs3.2 billion originally estimated. However, capital expenditure stood at Rs10.8 billion, lower than the planned expenditure of Rs12.6 billion, reflecting partly delays in the implementation of public infrastructure projects. As a result, the budget deficit for FY2015-16 amounted to Rs14.9 billion, slightly lower than the estimate of Rs15.4 billion. As a percentage of GDP at market prices, the budget deficit stood at 3.5 per cent, in line with forecasts. The budget deficit was financed solely from domestic sources, given foreign financing was negative.

As a percentage of GDP, recurrent revenue stood at 20.4 per cent in FY2015-16. The main contributor to recurrent revenue is tax revenue, which accounted for around 91 per cent of recurrent revenue in FY2015-16. The buoyancy of tax revenue was estimated at 1.1, almost unchanged from previous years. Chart 2.18 depicts the composition of tax revenue as a share of GDP for FY2015-16 and FY2016-17.

Recurrent expenditure stood at 21.9 per cent of GDP in FY2015-16. The three largest components of recurrent expenditure were compensation of employees, social benefits and grants to public bodies and accounted for 28.4 per cent, 27.1 per cent and 20.2 per cent, respectively, in FY2015-16, or altogether made up for slightly over three-quarter of total recurrent expenditure. Social benefits amounted to Rs25.0 billion in FY2015-16, reflecting mainly the increase in pensions as from January 2015. Table 2.11 provides details on the recurrent budget for the years 2014 through FY2016-17. Chart 2.19 shows the composition of recurrent expenditure for 2014, FY2015-16 and FY2016-17.

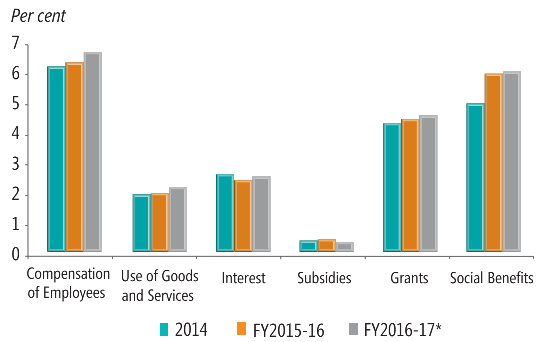
Reflecting the disproportionate increase in recurrent expenditure compared to revenue,

Chart 2.18: Composition of Tax Revenue as a Share of GDP



* Estimates
Source: Ministry of Finance and Economic Development, Government of Mauritius.

Chart 2.19: Composition of Recurrent Expenditure as a Share of GDP



* Estimates
Source: Ministry of Finance and Economic Development, Government of Mauritius.

the recurrent deficit amounted to Rs6.4 billion or 1.5 per cent of GDP during FY2015-16.

Capital revenue amounted to Rs2.2 billion in FY2015-16, mainly attributed to a transfer from Special Funds amounting to Rs1.9 billion.

Table 2.11: Recurrent Budget

			(Rs million)
	2014 Jan-Dec	**FY2015-16 July-June**	**FY2016-17* July-June**
1. Recurrent Revenue	**79,268**	**85,988**	**93,987**
	(20.2)	***(20.4)***	***(20.8)***
(a) Taxes	71,992	78,224	84,720
	(18.4)	*(18.6)*	*(18.8)*
(i) Individual Income Tax	7,049	7,621	8,270
	(1.8)	*(1.8)*	*(1.8)*
(ii) Corporate Tax	8,972	10,459	11,069
	(2.3)	*(2.5)*	*(2.5)*
(iii) Taxes on Specific Goods (Excise Duties and Environment Taxes)	14,423	15,633	17,439
	(3.7)	*(3.7)*	*(3.9)*
(iv) Value Added Tax	26,060	28,805	31,430
	(6.6)	*(6.8)*	*(7.0)*
(v) Taxes on Specific Services and Gambling	3,413	3,163	3,560
	(0.9)	*(0.8)*	*(0.8)*
(vi) Customs Duties	1,238.7	1,347	1,150
	(0.3)	*(0.3)*	*(0.3)*
(vii) Other Revenue	10,836.5	11,197	11,802
	(2.8)	*(2.7)*	*(2.6)*
(b) Social Contributions	1,284	1,375	1,417
	(0.3)	*(0.3)*	*(0.3)*
(c) Other Revenue	5,992	6,390	7,850
	(1.5)	*(1.5)*	*(1.7)*
2. Recurrent Expenditure	**80,726**	**92,395**	**102,885**
	(20.6)	***(21.9)***	***(22.8)***
(a) Compensation of Employees	24,025	26,208	29,597
	(6.1)	*(6.2)*	*(6.6)*
(b) Purchase of Goods and Services	7,546	8,363	9,783
	(1.9)	*(2.0)*	*(2.2)*
(c) Interest (Accrual basis)	10,118	10,119	11,296
	(2.6)	*(2.4)*	*(2.5)*
(d) Subsidies	1,577	1,768	1,513
	(0.4)	*(0.4)*	*(0.3)*
(e) Grants to Parastatal Bodies/Local Authorities/RRA	16,769	18,684	20,364
	(4.3)	*(4.4)*	*(4.5)*
(f) Social Benefits	19,250	25,023	27,080
	(4.9)	*(5.9)*	*(6.0)*
(g) Other Expense	1,441	2,231	3,253
	(0.4)	*(0.5)*	*(0.7)*
3. Recurrent Deficit	**1,458**	**6,407**	**8,898**
	(0.4)	**(1.5)**	**(2.0)**

** Estimates.*
Figures in brackets are percentages of GDP.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

External grants received by Government were Rs336 million over the same period. Capital expenditure stood at Rs10.8 billion in FY2015-16, reflecting mainly lower acquisition of non-financial assets. Consequently, the capital deficit amounted to Rs8.5 billion in FY2015-16, or 2.0 per cent of GDP. Table 2.12 provides details on the capital budget for the years 2014 through FY2016-17.

Budget Deficit and Financing

The budget deficit as a share of GDP stood at 3.5 per cent while, in absolute terms, it was Rs14.9 billion in FY2015-16. The deficit was financed only from domestic sources to the tune of Rs15.8 billion. Foreign loans amounting to Rs1.3 billion were repaid by Government. The primary deficit, which is computed by deducting interest payments from the budget deficit, stood at 1.1 per cent of GDP in FY2015-16. Table 2.13 provides details on the budget deficit and financing for the years 2014 through FY2016-17.

FY2016-17 Budget and Budgetary Estimates

The Budget for FY2016-17 focused on ten key strategies to usher in a New Era of Development. Various facilities have been announced to promote modern entrepreneurs, including among others, the suspension of the payment of trade fees for licenses of Rs5,000 and below for a period of three years, tax holidays on business income of new and existing enterprises, extension of the SME Financing Scheme for another three years and the setting up of SMEs industrial parks in various regions.

Government has announced its decision to address the skills-mismatch issue and create more job opportunities for the unemployed. A key objective of the FY2016-17 Budget is to boost private investment and exports through enhanced productivity and innovation. New niches - oil refinery and storage, gold business and a Pharmaceutical Village - will be launched and a series of measures, including a major Air Freight Rebate Scheme for the textile industry, have been announced to diversify and modernise the manufacturing sector. With regards to the financial services sector, GBC2 companies will be allowed to invest in listed securities and tax holidays would be extended to encourage specialised services such as global headquarters administration, treasury management, asset and fund management, investment banking, etc. Targeted measures have also been announced to boost the agri-business, tourism, ocean and renewable energy sectors.

Mauritius is aiming to become a full-fledged digital economy and society. A National Payment Switch would be established by the Bank of Mauritius to reduce transaction costs and stimulate e-commerce. To fundamentally reform business facilitation and expand the economic horizons of the country, measures proposed included the faster delivery of Building and Land Use Permits, the setting up of an e-licensing platform, introduction of a Regulatory Sandbox Licence (RSL) for investment of innovative projects and building on the Africa Strategy.

In terms of infrastructure development, a new mass transit system with a network of Urban Terminals - known as the Metro Express - is expected to be launched. Public investment is also planned to address road congestion, transform Port Louis and enhance sea and air connectivity.

In line with Government's efforts to achieve fiscal consolidation, the budget deficit is estimated at Rs15.0 billion in FY2016-17, or 3.3 per cent of GDP, lower than the 3.5 per cent recorded for FY2015-16. The recurrent deficit is projected to worsen from 1.5 per cent of GDP to 2.0 per cent of GDP following higher increase in recurrent expenditure (11.4 per cent) relative to the increase in recurrent revenue (9.3 per cent). External grants received by Government are projected at Rs6.4 billion, thereby pulling up capital revenue

Table 2.12: Capital Budget

			(Rs million)
	2014	FY2015-16	FY2016-17*
	Jan-Dec	July-June	July-June
1. Capital Revenue	**406**	**2,248**	**8,413**
	(0.1)	***(0.5)***	***(1.9)***
(a) External Grants	406	336	6,413
	(0.1)	*(0.1)*	*(1.4)*
(b) Transfer from Special Funds		1,911	2,000
	0.0	*(0.5)*	*(0.4)*
2. Capital Expenditure	**11,500**	**10,758**	**14,469**
	(2.9)	***(2.6)***	***(3.2)***
(a) Acquisition of Non-financial Assets	9,528	5,987	10,020
	(2.4)	*(1.4)*	*(2.2)*
(b) Transfer to Special Funds	288	2,000	0
	(0.1)	*(0.5)*	*0.0*
(c) Grants to Parastatal Bodies/Local Authorities/RRA	1,024	1,417	2,344
	(0.3)	*(0.3)*	*(0.5)*
(d) Other Transfers	660	1,354	2,104
	(0.2)	*(0.3)*	*(0.5)*
3. Capital Deficit	**11,093**	**8,510**	**6,056**
	(2.8)	***(2.0)***	***(1.3)***

** Estimates.*
Figures in brackets are percentages of GDP.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

Table 2.13: Budget Deficit and Financing

			(Rs million)
	2014	FY2015-16	FY2016-17*
	Jan-Dec	July-June	July-June
1. Budget Deficit	**12,551**	**14,916**	**14,954**
	(3.2)	***(3.5)***	***(3.3)***
2. Borrowing Requirements	**13,156**	**14,534**	**18,546**
	(3.4)	***(3.5)***	***(4.1)***
Domestic financing	8,923	15,833	23,555
	(2.3)	*(3.8)*	*(5.2)*
Foreign financing	4,233	-1,299	-5,009
	(1.1)	*(-0.3)*	*(-1.1)*
3. Primary Deficit	**2,433**	**4,797**	**3,658**
	(0.6)	***(1.1)***	***(0.8)***

** Estimates.*
Figures in brackets are percentages of GDP.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

to Rs8.4 billion in FY2016-17, from Rs2.2 billion in FY2015-16. Thus, capital revenue is projected to increase almost four-fold to 1.9 per cent of GDP. Capital expenditure is estimated to increase to Rs14.5 billion, amounting to 3.2 per cent of GDP, mainly reflecting an increase in acquisition of non-financial assets to Rs10.0 billion, and representing 2.2 per cent of GDP. As a result, the deficit on the capital budget is projected to improve markedly from 2.0 per cent to 1.3 per cent over the same period.

Government's borrowing requirements are projected at Rs18.5 billion, or 4.1 per cent of GDP in FY2016-17, and would be met solely from domestic sources. Domestic financing is estimated at Rs23.6 billion, up from Rs15.8 billion. In line with Government's decision to reduce its exposure to foreign currency through early repayment of part of its external debt, foreign financing of the budget deficit would stand at a negative amount of Rs5.0 billion. The primary deficit is also projected to improve to 0.8 per cent of GDP in FY2016-17, from 1.1 per cent in FY2015-16.

Public Sector Debt

Public sector debt increased by 8.9 per cent, from Rs251.9 billion as at end-June 2015 to Rs274.3 billion as at end-June 2016. As a share of GDP, total public sector debt is estimated at 65.0 per cent at the end of June 2016, up from 63.1 per cent a year ago. The discounted public sector debt as a ratio of GDP is estimated at 55.8 per cent at the end of June 2016, broadly unchanged from a year earlier. The increase in the public sector debt was driven solely by domestic debt, which surged by 13.1 per cent between end-June 2015 and end-June 2016. In line with recent trends, the share of long-term domestic obligations in domestic Central Government debt increased from 55.7 per cent as at end-June 2015 to 57.5 per cent as at end-June 2016. The external public sector debt declined by 2.5 per cent in nominal terms, and as a share of GDP, it stood at 12.7 per cent, down from 13.7 per cent a year earlier.

The currency composition of budgetary Central Government external debt remained skewed towards the two major reserve currencies. At the end of June 2016, debt denominated in US dollar accounted for nearly 42 per cent of Central Government external debt, followed by debt denominated in euro (32 per cent). Regarding the interest rate mix of public sector external debt, it is noted that the share of variable interest rate declined from 62.8 per cent in June 2015 to 58.3 per cent in June 2016. Table 2.14 gives details on public sector debt from end-June 2013 to end-June 2016.

The recent trend in public sector debt underscores the need for Government to step up efforts aimed at fiscal consolidation to bring down public debt to more sustainable levels.

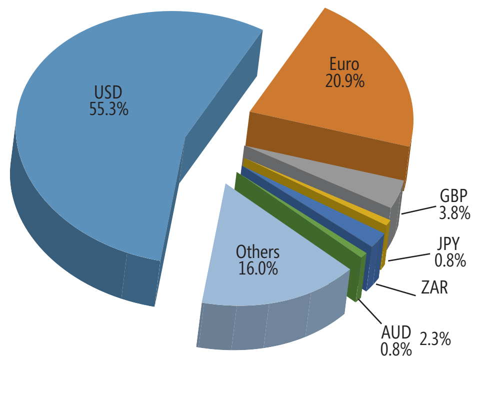
EXCHANGE RATE DEVELOPMENTS

Total turnover on the domestic foreign exchange market declined during FY2015-16, while the rupee exchange rate depreciated in nominal effective terms. Total turnover (including spot and forward dealt transactions, but excluding interbank transactions and interventions conducted by the Bank) dropped by 5.6 per cent to an equivalent of USD8.3 billion, from an equivalent of USD8.8 billion in FY2014-15. Three-quarter of these transactions were denominated in the two most liquid and largest reserve currencies, namely US dollar (55.3 per cent) and euro (20.9 per cent). Chart 2.20 shows the currency composition for dealt spot transactions in FY2015-16.

The exchange rate of the rupee was largely influenced by developments on the international foreign exchange market in FY2015-16. The anticipation of and eventual normalisation of interest rates in the US resulted in a rebalancing of portfolio investment, which contributed to an appreciation of the US dollar. In FY2015-16, net sales on the domestic stock market amounted to nearly Rs1.4 billion, with the most significant portfolio outflows occurring in December 2015. The Bank continued to monitor developments in the exchange rate of the rupee during the period under review and intervened to smooth out undue volatility in the rupee exchange rate. Chart 2.21 depicts the exchange rate of the Mauritian rupee against major currencies and Chart 2.22 provides a summary of the performance of the Mauritian rupee against major trading partners as per the currency distribution of trade.

On a point-to-point basis, between end-June 2015 and end-June 2016, the weighted average dealt rate of the rupee depreciated against the US dollar and the euro by 1.4 per cent and 1.0 per cent, respectively, but appreciated vis-à-vis the Pound sterling by 15.0 per cent. The latter dropped sharply on 24 June 2016 following the outcome of the UK's referendum on exiting the European Union. In nominal effective terms, as measured by MERI1 and MERI2, the rupee remained relatively stable and range-bound over

Chart 2.20: Foreign Exchange Transactions by Banks: Turnover by Currency



Source: Financial Markets Operations Division.

Table 2.14: Public Sector Debt

	Jun-13	Jun-14	Jun-15	Jun-16
				(Rs million)
				Provisional
1. Short-term Domestic Obligations [1]	29,880	22,984	25,916	34,383
2. Medium-term Domestic Obligations [1]	40,697	50,692	50,218	49,730
3. Long-term Domestic Obligations [1]	73,309	83,301	95,774	113,788
4. Domestic Central Government Debt (1+2+3)	143,886	156,977	171,908	197,901
	(40.0)	*(41.1)*	*(43.1)*	*(46.9)*
5. External Government Debt	42,530	51,456	54,711	53,361
	(11.8)	*(13.5)*	*(13.7)*	*(12.6)*
6. Extra Budgetary Unit Domestic Debt	105	24	24	24
7. Extra Budgetary Unit External Debt	171	149	136	115
8. Local Government Domestic Debt	1	0	0	0
9. Public Enterprise Domestic Debt	10,175	9,437	12,507	10,608
10. Public Enterprise External Debt	10,994	10,838	12,618	12,317
11. Domestic Public Sector Debt	154,167	166,438	184,439	208,533
	(42.9)	*(43.6)*	*(46.2)*	*(49.4)*
12. External Public Sector Debt	53,695	62,443	67,465	65,793
	(14.9)	*(16.4)*	*(16.9)*	*(15.6)*
13. Total Public Sector Debt (11+12)	207,862	228,881	251,904	274,326
	(57.8)	*(60.0)*	*(63.1)*	*(65.0)*

[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.
Source: Ministry of Finance and Economic Development, Government of Mauritius.

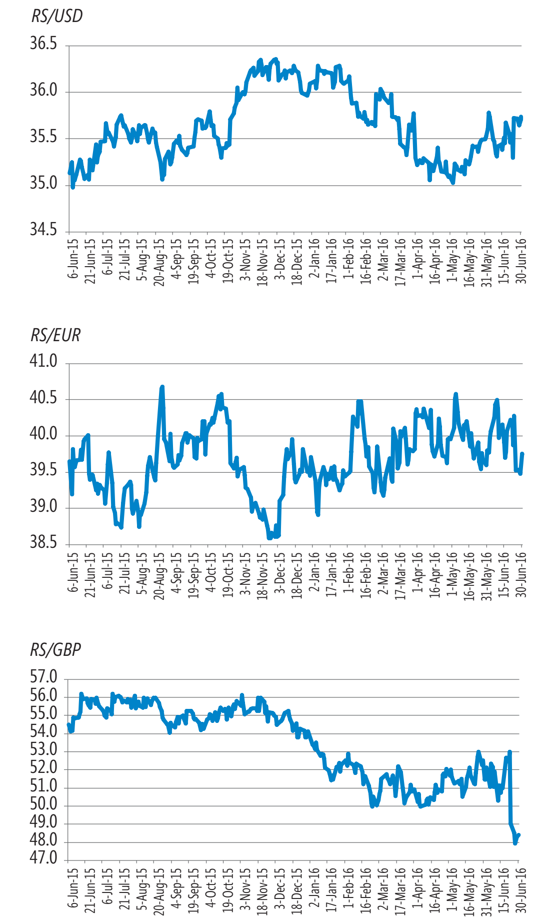
the period. In real effective terms, based on the trade weights, the rupee broadly strengthened during the period under review, mainly on account of the appreciation of the Mauritian rupee against the Indian rupee, Chinese yuan, South African rand and the British Pound sterling. Towards the end of the fiscal year, the rupee depreciated in real terms, driven by a pick-up of the euro on international markets that reflected on the Rs/euro exchange rate in the domestic foreign exchange market. Chart 2.23 shows the evolution of the Mauritian rupee and an index of selected currencies and the US dollar. Chart 2.24 depicts the movements of MERI1, MERI2 and REER.

STOCK MARKET REVIEW

During FY2015-16, global stock markets were marked with episodes of volatility mainly related to the stock market outburst in China, the massive sell-offs at the beginning of 2016 and the global rout in June 2016 after the UK's referendum outcome. The sharp market correction that followed had contagious effects on regional stocks and, to a lesser extent, in developed markets.

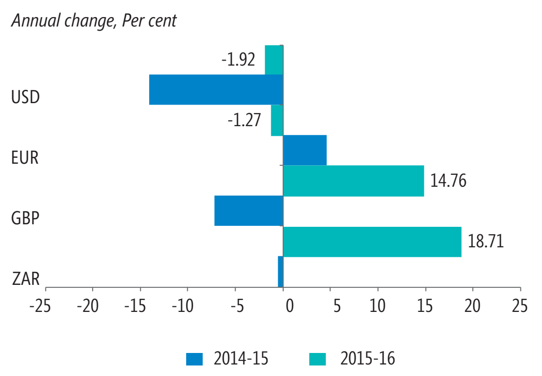
Equity markets recovered somewhat in the last quarter of 2015 but were pulled down again by the sharp sell-offs in the Chinese stock market in January 2016. By March 2016, markets had fully recovered and maintained an uptrend until Brexit fears dented investor sentiment. Markets reacted negatively to the outcome of the UK referendum and equities plunged across the globe. Even though Brexit nerves have calmed somewhat, uncertainty remains high and investors cautious. The MSCI World Index fell by 4.7 per cent between end-June 2015 and end-June 2016 while the MSCI Emerging Markets Index was lower by a marked 14.2 per cent. In frontier markets, the index fell by 11.7 per cent.

Chart 2.21: Ask Rates of the Rupee against Major Currencies



Source: Financial Markets Operations Division.

Chart 2.22: Summary of the Performance of the Mauritian Rupee vis-à-vis Major Trading Partners' Currencies



Source: Financial Markets Operations Division.

In Mauritius, the SEMDEX maintained a general downtrend during FY2015-16. While the SEMDEX was on the downfall during 2015H2, it recouped some losses in January 2016 through mid-February 2016 on commendable performance of tourism operators and announcement of a merger of two major operators in the economy. The SEMDEX stood at 1,752 as at end-June 2016 and was 11.5 per cent lower compared to end-June 2015. The SEM-10[5] fell by 10.9 per cent during FY2015-16 and stood at 337 as at end-June 2016. Total market capitalisation on the Official Market fell to Rs199 billion as at end-June 2016 compared to Rs220 billion a year earlier, representing a decline of 9.6 per cent. The aggregate value of transactions in the Official Market during FY2015-16 amounted to Rs628.1 million for a volume of 106.8 million of shares traded, down from an aggregate value of Rs643.7 million for a volume of 197.5 million shares traded in FY2014-15.

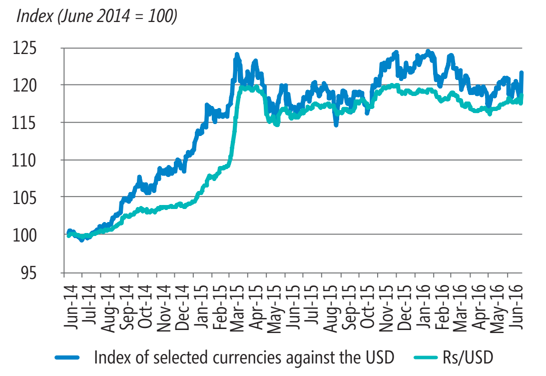
Foreign investors' holdings fell from Rs35.6 billion as at end-June 2015 to Rs31.3 billion as at end-June 2016, and represented 12.9 per cent of total market capitalisation. Net sales by foreigners amounted to Rs1.4 billion during FY2015-16, significantly lower compared to net sales of Rs4.6 billion in FY2014-15. Noteworthy, investment by foreigners in the domestic stock market improved during 2016H1, with net purchases amounting to Rs37 million as against net sales of Rs1.4 billion during 2015H2. Purchases by foreign investors amounted to Rs4.9 billion during FY2015-16 and was higher by 25.2 per cent compared to FY2014-15. Sales, on other hand, totalled Rs6.3 billion during FY2015-16 and were lower by 25.5 per cent compared to a year earlier.

GLOBAL ECONOMIC DEVELOPMENTS

Global growth forecasts have consistently been downgraded during FY2015-16, indicating the

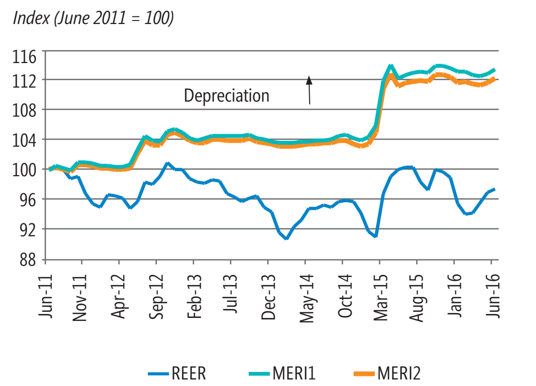
[5] SEM-10 comprises the 10 largest eligible shares of the Official Market, measured in terms of average market capitalisation, liquidity and investibility criteria.

Chart 2.23: Evolution of the Mauritian Rupee and an Index of Selected Currencies and the US Dollar



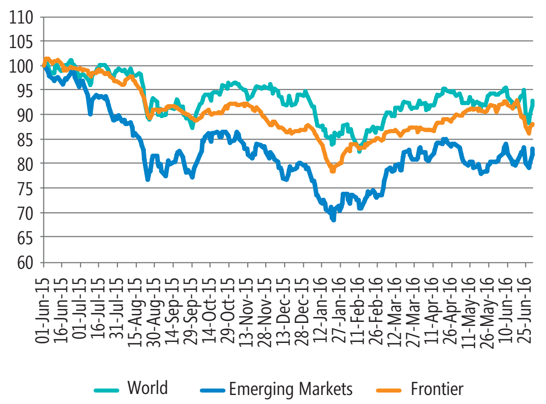
Source: Financial Markets Operations Division.

Chart 2.24: Evolution of MERI1, MERI2 and REER



Source: Financial Markets Operations Division.

Chart 2.25: MSCI World, Emerging Markets and Frontier Indices



Source: Thomson Reuters.

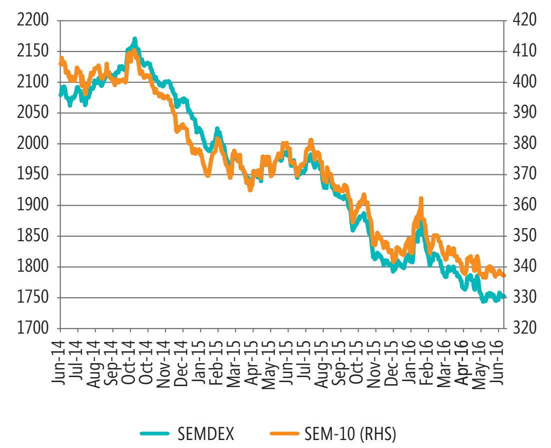
fragility of global economic activity. According to the October 2016 issue of the IMF's World Economic Outlook (WEO), world output is forecast to expand at a lower rate of 3.1 per cent in 2016 compared to 3.2 per cent in 2015, but would pick up to 3.4 per cent in 2017, reflecting mostly the higher contribution from emerging market and developing economies (EMDEs).

While the 2016 and 2017 growth forecasts are same as in the July 2016 WEO Update, they represent a downward revision of 0.1 percentage point each from the projections made in the April 2016 WEO report. This can partly be attributed to more muted growth prospects for advanced economies in the aftermath of the June 2016 referendum results of the withdrawal of the UK from the European Union and lower-than-expected economic activity in the US.

Advanced economies are projected to grow at a slower pace of 1.6 per cent in 2016, from 2.1 per cent in 2015 but to slightly recover to 1.8 per cent in 2017. Factors impacting adversely on the outlook for advanced economies include elevated debt levels, weaknesses in the financial sector, subdued investment and anaemic productivity growth. Major economies in Europe are also exposed to uncertainty prevailing on the economic, political and institutional front emanating from the exit of the UK from the European Union. The moderate increase in economic activity in 2017 parallels better growth prospects for the US, Canada and Japan.

EMDEs, on their part, are forecast to expand by 4.2 per cent in 2016 and further by 4.6 per cent in 2017. Notwithstanding higher output going forward, these economies are subject to broadly gloomier and diverse outlook as compared to previous years, with a number of factors hitting growth. These comprise lower growth in China, sustained adjustment by commodity exporters to declining revenue, stubbornly anaemic demand from advanced economies and associated spillovers, coupled with non-economic factors, namely domestic political conflict and geopolitical stress in several countries.

Chart 2.26: Evolution of the SEMDEX and SEM-10



Source: Stock Exchange of Mauritius.

During FY2015-16, average global inflation has remained benign amid persistent negative output gaps, subdued demand, tepid wage growth and declines in commodity prices, namely oil and food. While inflation rates in advanced economies continue to undershoot inflation targets, the path of inflation has been rather diverse in emerging market economies, reflecting the contradictory implications of muted domestic demand and lower commodity prices on the one hand, and the substantial depreciation of currencies, on the other. Inflation in advanced economies is forecast to increase from 0.3 per cent in 2015 to 0.8 per cent in 2016 and further to 1.7 per cent in 2017, mirroring a rise in energy prices and lowering output gap. On the other hand, inflation in EMDEs is expected to continuously edge down from 4.7 per cent in 2015 to 4.5 per cent in 2016 and 4.4 per cent in 2017, partly due to the diminishing impact of previous weakening of currencies.

During FY2015-16, financial markets were subject to occasional episodes of intensified volatility. Market turmoil began in 2015Q3 following a downgrade of the growth outlook of several major advanced economies and EMDEs, especially China which was subjected to a bursting equity bubble and a currency devaluation that led to heightened market volatility. China's equity market contracted sharply, reflecting weaker economic data and on-going deleveraging in its corporate sector. Although markets stabilised in October 2015, they did not recover previous losses. The result of the UK referendum on its membership in the European Union on 23 June 2016 added another surge of volatility in financial markets at the end of fiscal year 2015-16.

Concurrently, currency markets were volatile during FY2015-16. On average, the US dollar remained well supported, although its bullish trend in 2015H2 lost steam in 2016H1. The euro depreciated against the US dollar in most of 2015H2, but appeared to have bottomed at the end of 2015, before appreciating to some extent in 2016H1. The Pound sterling moved in tandem with the euro in most of 2015H2 before survey results of the potential outcome of the UK referendum on its exit from Europe started weighing more on it in 2016H1. Reports of surveys showing a majority of British voters preferring to exit Europe weakened the Pound. Finally, the British currency fell significantly after UK citizens voted UK out of Europe at the referendum held on 23 June 2016, reaching a 31-year low against the US dollar on 27 June. The currencies of key commodity exporters (including the Russian Federation and South Africa) and of developing countries that are subject to heightened political risk (including Brazil and Turkey) fell to multi-year lows against the US dollar. The devaluation of the Renminbi in 2015H2 weighed on EMDEs' currencies as well as the outcome of the UK's referendum.

Monetary policy stances across most economies remained largely accommodative amid a slowdown in economic growth and persistently low inflation. In mid-December 2015, the US Federal Reserve hiked interest rates for the first time in over nine years on account of an improvement in labour market conditions, a pick-up in inflation and better economic prospects. However, the US Fed held back its interest rate normalisation cycle due to increased downside risks to the growth outlook and a rise in global financial market volatility. In early 2016, the European Central Bank (ECB) and the Bank of Japan reduced interest rates to below zero and increased non-conventional accommodative measures to fight deflation and re-launch their respective economy. The Bank of England left its key policy rate unchanged during the period under review. Among the major EMDEs, India and China have eased policy in a bid to bolster economic activity against the backdrop of deteriorating growth prospects. In contrast, Brazil, Mexico and Chile tightened monetary policy to stem further weakening of their domestic currencies and address stubbornly above-target inflation. In South Africa, rates have been increased four times during FY2015-16 to contain mounting inflationary pressures. Russia, Australia, New Zealand and Indonesia have lowered policy rates to counter a slowdown in their economies in a low inflation environment. Looking ahead, while monetary policy is expected to remain largely accommodative globally, monetary policy path will continue to diverge across regions.

STATEMENT ON PRICE STABILITY

In terms of Section 33(2)(b) of the Bank of Mauritius Act 2004, the Bank of Mauritius is required to publish twice a year a 'Statement on Price Stability'. This statement provides an assessment of factors underpinning monetary policy decisions taken by the Bank.

The Bank broadly pursued an accommodative monetary policy stance during FY2015-16 to support investment and domestic growth given the moderate inflation outlook and well-anchored inflation expectations.

Between January and July 2016, two MPC meetings were held. At its 39th meeting held on 17 February 2016, the MPC decided by majority vote to keep the KRR unchanged at 4.40 per cent per annum. However, at its 40th meeting held on 20 July 2016, the MPC unanimously decided to cut the KRR by 40 basis points to 4.00 per cent. The MPC's decision to extend the accommodative monetary policy stance was motivated after a careful review of domestic and external economic and financial developments. Protracted muted and uneven global economic growth, tame global inflationary impulses, subdued commodity prices and trading partner countries' economic performance were prudently analysed by the MPC.

On the domestic front, weak inflationary pressures have persisted amidst prevailing domestic slack, subdued imported inflation and well contained inflation expectations. Headline inflation declined from 1.7 per cent in June 2015 to 1.3 per cent in December 2015 and, further, to 0.9 per cent in June 2016. Y-o-y inflation rose from 0.4 per cent in June 2015 to 1.1 per cent in June 2016, broadly reflecting base effects.

Several factors have contributed to keep domestic inflationary impulses low. Muted external price pressures; low exchange rate pass-through to the domestic CPI; and subdued domestic demand conditions have stabilised domestic inflation at a low level. MPC members viewed that the inflation outlook was relatively moderate and, in the absence of any major shock, headline inflation would remain contained at relatively low levels over the forecast horizon. Conditional on a set of assumptions, both external and domestic, Bank staff have revised down headline inflation forecasts to below 1.5 per cent for the year 2016 and below 3.0 per cent for 2017.

The MPC also noted that the economy continued to perform below its potential level. Adverse domestic and external demand shocks have been a major drag on growth prospects, leading to a persistent negative output gap. Headwinds to real GDP growth still prevail, arising from delays in launching public and private investment projects, low savings rate and the unforeseen effects of Brexit. Bank staff have revised their real GDP growth projections to 3.7 per cent for 2016 and 4.0 per cent for 2017, taking into consideration the accommodative monetary and fiscal policy stances and various measures announced in the FY2016-17 Budget to boost domestic economic activity.

The Bank of Mauritius has been pursuing active open market operations to maintain excess liquidity within acceptable limits. The Bank also strived to ensure that the rupee remains in line with its fundamental value in supporting the domestic growth agenda and financial stability.

Note: The cut-off date for technical assumptions and including other information in real GDP projections was 31 August 2016.

3. REGULATION AND SUPERVISION

REGULATORY UPDATES

One of the major objects of the Bank is to ensure the stability and soundness of the financial system in Mauritius. In this respect, the Bank is empowered to regulate and supervise all deposit-taking institutions as well as foreign exchange dealers and money changers carrying on activities in, or from within, Mauritius. Accordingly, the Bank ensures a close monitoring of its regulatees and remains watchful of any potential impact of global and domestic developments that could disturb the safety and soundness of the banking system.

A major achievement during FY2015-16 was the on-going review of guidelines and instructions pertaining to the operations and activities as well as standards to be maintained by banks and other regulatees. Amendments have also been brought to banking legislation to ensure that consolidated and conglomerate supervision are integrated within the current practice, with the objective of building a stronger regulatory and supervisory framework. Additionally, for financial stability purposes, the Bank is now empowered to request information from competent authorities or any other entity, in Mauritius.

Further, the Bank embarked on a number of key initiatives that include the setting-up of an explicit Deposit Insurance Scheme to protect depositors, an Asset Management Company to primarily address the adverse impact of non-performing loans on the stability of the financial system, and the designing of a formal framework for crisis management/resolution.

Box III highlights the policy guidelines which were issued during FY2015-16. Box IV underscores the amendments to the Bank of Mauritius Act 2004 and Banking Act 2004 under the Finance (Miscellaneous Provisions) Act 2016.

BOX III: POLICY GUIDELINES ISSUED IN FY2015-16

- The *Guideline on Credit Concentration Risk* was amended in August 2015 wherein the aggregate large credit exposure limit was increased from 600 per cent to 800 per cent.
- The *Guideline on Credit Impairment Measurement and Income Recognition* was revised in April 2016. The major amendment pertains to the need for banks to compute provisions both on prudential norm and accounting basis. The excess of provisions computed under the prudential rule over the accounting rule needs to be reckoned as general provisions and charged to equity at the financial year end. Under the prudential rule, banks are now required to compute specific provisions ranging from 20 per cent to 100 per cent, based on the number of days for which a credit facility is impaired.
- The *Guideline on Corporate Governance* was revised in May 2016. The guideline has been simplified, without diluting the essential governance norms that should be followed. A notable change is that the Chairpersons of banks can now be independent or a non-executive director. When the Chairperson is not an independent director, the board of the financial institution must be composed of at least 50 per cent independent directors.
- A draft *Deposit Insurance Scheme Bill* was prepared by the Bank and issued to the public for consultation on 29 February 2016. The views of the International Monetary Fund have also been sought on the Bill. Comments received from stakeholders have, as appropriate, been incorporated in the document which has been submitted to the Ministry of Finance and Economic Development in August 2016 for enactment.

- A *Consultation Document on the Setting up of an Asset Management Company in Mauritius* was released by the Bank for public consultation on the 8 January 2016. The setting up of the Asset Management Company (AMC), as a specialised institution to take over non-performing loans (NPLs) from banks, will improve the efficiency in the resolution of NPLs over the medium to long term. Another implication of the establishment of the AMC is the eventual replacement of the Sale By Levy system.

BOX IV: THE FINANCE (MISCELLANEOUS PROVISIONS) ACT 2016

The Finance (Miscellaneous Provisions) Act 2016, Act No. 18 of 2016, was enacted on 7 September 2016 and brought the following amendments to the Bank of Mauritius Act 2004 and Banking Act 2004:

I. Bank of Mauritius Act

Section 5 – Functions of the Bank

Section 5(1) has been amended to provide that, in addition to financial institutions carrying on activities in, or from within, Mauritius, the Bank of Mauritius shall also regulate and supervise ultimate and intermediate financial holding companies, incorporated in Mauritius, which have, within the group at least one subsidiary or joint venture, or such other ownership structure as the Bank may determine, which is a bank or non-bank deposit taking institution licensed by the Bank of Mauritius.

Section 6 – Powers of the Bank

Section 6(1)(o) has been amended to allow the Bank of Mauritius, in exceptional circumstances, to grant advances to financial institutions and such other entities on such terms and conditions and against such securities as may be issued by Government or the Bank of Mauritius.

Section 9 – Limitation on activities of the Bank

A new subsection 3(A) has been added to section 9 to allow the Bank of Mauritius to lease its premises to such public bodies and for such purposes as the Board of Directors may determine.

Section 27 – Execution of documents

Subsection (2) of section 27 has been repealed and replaced by a new subsection which extends the power to execute documents of the Bank of Mauritius to the Secretary and such other officers as may be approved by the Board.

Section 36 – Printing of bank notes and minting of coins

Amendments have been brought to section 36(1)(a) and (b) to provide that any currency notes and coins issued under the Bank of Mauritius Act shall be of such denomination, form, weight and design, amongst others, as the Bank of Mauritius may, with the concurrence of the Minister of Finance and Economic Development, determine.

Section 43A – Reproduction of currency notes, bank notes or coins

Subsection (1) of section 43A has been repealed and replaced by a new subsection which allows the reproduction of currency notes, bank notes and coins for educational and informational purposes. In all other cases the written permission of the Bank of Mauritius is required.

A new subsection (1A) has also been added to section 43A to allow the Bank of Mauritius to impose a non-refundable processing fee for the grant of any permission for the reproduction of currency notes, bank notes and coins.

Section 50A – Power to make rules

A new section 50A has been added to enable the Bank of Mauritius to issue Rules without the need for prior approval of the Minister of Finance. These Rules shall be published in the Government Gazette.

Section 51B – Collection of statistics

A new section 51B has been added to allow the Bank of Mauritius to request competent authorities or any other entity to furnish it with the necessary statistical information with a view to carrying out its objects pursuant to section 4(2) and discharging its functions pursuant to section 5 of the Bank of Mauritius Act. The Bank is also required to coordinate and collaborate with the Financial Services Commission and Statistics Mauritius with a view to harmonizing the rules and practices governing the collection, compilation and dissemination of statistics.

Section 52 – Establishment of a Credit Information Bureau

Section 52(1) has been amended by, *inter alia*, including a new paragraph (e) therein, to empower the Bank of Mauritius to use the data maintained in the Mauritius Credit Information Bureau for the purposes of discharging its functions under section 5(1) of the Bank of Mauritius Act.

Section 55A – Financial Stability Committee

A new paragraph (aa) has been added to Section 55A(1) to include the Minister responsible for financial services as a member of the Financial Stability Committee.

II. Banking Act 2004

Section 2 – Interpretation

The following amendment have been brought to section 2:

(i) the definition of 'affiliate' has been deleted and replaced with a broader definition;

(ii) 'investment banking business' has been removed from the definition of 'bank'.

Accordingly, a bank licensed under section 7(5) of the Banking Act may henceforth carry on any of the following: (a) banking business; (b) Islamic banking business; and (c) private banking business.

(iii) the definition of 'banking licence' has been replaced with a new definition whereby a banking licence means a banking licence, an Islamic banking licence or a private banking licence granted under section 7 of the Banking Act;

(iv) A definition of 'private banking business' has been included in section 2;

(v) the definition of 'significant interest' has been amended to incorporate therein the concept of beneficial interest in the determination of significant interest.

Section 3 – Application of the Act

Two new subsections (7) and (8) have been added to section 3.

Subsection (7) requires any ultimate and intermediate financial holding company, incorporated in Mauritius, which has, within the group, at least one subsidiary or joint venture or such other ownership structure, as the Bank of Mauritius may determine, which is a bank or a non-bank deposit taking institution to comply with such prudential requirements as the central bank may, by guidelines, instructions or directives, specify.

Subsection (8) further provides that the provisions of Part XI of the Banking Act shall prevail, in the event of any conflict or inconsistency between any provision of Part XI and other enactment, other than sections 110A and 110B of the Insurance Act.

Section 5 – Application for banking licence

Section 5(1) has been repealed and replaced by a new subsection to provide that no person shall engage in banking business, Islamic banking business or private banking business in Mauritius without a banking licence issued by the Bank of Mauritius.

Paragraph (b) of section 5(4) has been repealed and replaced by a new paragraph which, inter alia, requires a foreign bank wishing to establish a branch, subsidiary or joint venture in Mauritius, to provide the Bank of Mauritius with a statement of no objection from the regulatory authority in the applicant's country for the foreign bank to carry on banking business in Mauritius.

Section 7 – Grant or refusal to grant banking licence

A new paragraph (e) has been added in section 7(2) which require the Bank of Mauritius not to grant a banking licence, where the applicant forms part of a group predominantly engaged in banking activities, unless it is satisfied that the corporate structure of the group or its geographical location or the banking law in the home country of the group does not hinder effective consolidated supervision.

A new subsection (7D) has been added to section 7, to empower the Bank of Mauritius to exempt a bank which has been granted a banking licence to carry on exclusively private banking business from such provisions of the Banking Act as it may determine and also impose such terms and conditions and guidelines as it may determine.

Section 9 – Display of banking licence

The words "other place of business" in section 9(1) has been replaced with the words "branch or office" such that banks are now required to display an authenticated copy of its licence in each branch or office of the bank.

Section 32A – Transfer of undertaking by bank

In subsection (5A) of section 32A, the word 'transferee' has been replaced by the word 'transferor' and in subsection 14, in the definition of "transferee bank", the words 'or the financial institution' has been replaced by the words 'the financial institution or specialised financial institution'.

Section 34 – Financial statements

Subsection (7) of section 34 has been amended to provide that in addition to branches of foreign financial institutions, subsidiaries and joint venture of financial institutions incorporated outside Mauritius must also submit to the Bank of Mauritius, within one month after publication, a copy of their audited annual consolidated financial statements.

Section 35 – Monthly statements

Section 35(2) has been amended to empower the Bank of Mauritius to require financial institutions to furnish such information relating to their operations and those of their affiliates in Mauritius or their branches and affiliates outside Mauritius as the Bank of Mauritius may consider necessary for the purposes of carrying out effective consolidated supervision.

Section 36 – Credit assessments and asset appraisals

Section 36(1) has been amended by inserting a new paragraph (ba) therein to allow the Bank of Mauritius to require a bank to undergo an independent valuation of the assets which it holds a collateral, by a person or organisation nominated or approved by it.

Section 39 – Appointment, powers and duties of auditors

Amendments have been brought to subsection (4) and (5) of section 39, to make it mandatory for a financial institution to rotate its audit firm, instead of its partner in the audit firm, every 5 years.

Section 50 – Automated teller machines

Section 50(1) has been amended to clarify that any bank which sets up automated teller machines for the use by customers, needs to inform the Bank of Mauritius instead of seeking the approval of the Bank of Mauritius under section 7(7) of the Banking Act.

Section 64 – Confidentiality

A new subsection (7A) has been added in section 64 to allow financial institutions to disclose to their head office or their parent company, under conditions of confidentiality, any information relating to the affairs of the financial institutions or their customers for the purpose of conducting centralised functions of audit, risk management, compliance, finance, information technology or such other centralised function as the Bank of Mauritius may approve.

Section 78 – Powers of receiver

Section 78(1)(b) has been amended to provide that a Receiver can only discontinue the operations of a financial institution which has been placed into receivership and not continue with its operations.

In addition, section 78(1)(g) which allowed the Receiver to restore the financial institution placed in receivership to its board of directors, has been repealed.

Section 79 – Powers of central bank

Section 79(3) has been amended to limit the period of operation of a temporary financial institution to a maximum of 2 years.

Section 79A – Licensing of temporary financial institution

A new section 79A has been included to provide for a simplified licensing procedure for a temporary financial institution to take over the assets and liabilities of a financial institution which has been put into receivership by the Bank of Mauritius.

Section 97 – Offences and penalties

Section 97(1) has been amended to clarify that it is an offence for any person to transact private banking business without a licence.

Section 100 – Guidelines or instructions

Two new subsections (2B) and (2C) have been inserted in section 100 to enable the Bank (i) to issue specific guidelines, instructions or directives to ultimate and intermediate financial holding companies, incorporated in Mauritius, which have, within the group at least one subsidiary or joint venture, or such other ownership structure as the Bank may determine, which is a bank or non-bank deposit taking institution and (ii) also to require, by those guidelines, instructions or directives, the ultimate and intermediate financial institution to comply with such specific provisions of the Banking Act as it considers appropriate so as to ensure effective supervision of the institution.

PERFORMANCE OF THE BANKING SECTOR

As at end-June 2016, 23 banks were licensed by the Bank of Mauritius, of which 10 were local banks, 9 were subsidiaries of foreign banks and 4 were branches of international banks. Of the 23 banks, 2 banks provided private banking services exclusively, while 1 bank conducted Islamic banking exclusively.

The banking sector comprised a network of 221 branches in the Republic of Mauritius, including 4 in Rodrigues, 10 counters, 1 mobile van and 461 Automated Teller Machines (ATMs). As at 30 June 2016, 7,936 persons were employed in the sector, of which 102 were expatriates. In addition to traditional banking facilities, 15 banks offered card-based payment services such as credit and debit cards and 16 banks offered internet banking facilities. Four banks provided mobile banking services including payment facilities to their customers.

The total assets of banks increased by 2.1 per cent to Rs1,208.0 billion as at end-June 2016, from Rs1,183.3billion at end-June 2015. Nine banks recorded declines in their total assets during FY2015-16 ranging from 1.7 per cent to 44.8 per cent, while 13 banks posted asset growth ranging from 4.3 per cent to 55.2 per cent. Acceptances, guarantees and documentary credits, which form part of off-balance sheet assets, went down by 23.4 per cent to Rs60.8 billion as at end-June 2016, from Rs79.3 billion as at end-June 2015.

During FY2015-16, the on-balance sheet assets of the banking sector contracted by 0.1 per cent as against an expansion of 1.1 per cent in the preceding financial year. The off-balance sheet assets dropped by 43.4 per cent as against an increase of 19.0 per cent recorded in FY2014-15.

Banks were well-capitalised with overall Capital Adequacy Ratio (CAR) of 17.5 per cent at end-June 2016, up from 17.2 per cent at end-June 2015. Deposits of the banking sector expanded by 1.8 per cent, from Rs869.5 billion at end-June 2015 to Rs884.9 billion at end-June 2016 led by Segment A deposits. Advances extended by the banking sector decreased by 3.7 per cent, falling to Rs654.6 billion as at end-June 2016. Total profits posted by banks for FY2015-16 stood at Rs11.3 billion, down from Rs13.3 billion for FY2014-15. The sector continued to remain profitable in spite of increasing non-performing loans impacting on return on assets and return on equity ratios. Non-performing loans as a ratio to total credit outstanding reached 7.1 per cent as at end-June 2016, from 5.0 per cent as at end-June 2015.

It may be recalled that on 2 April 2015, the Bank had revoked the banking licence of Bramer Banking Corporation Ltd under section 17 of the Banking Act 2004 and a new banking licence was issued to National Commercial Bank Ltd on 10 April 2015, with the assets of ex-Bramer Banking Corporation Ltd transferred to the new bank. On 4 January 2016, the assets and liabilities of the National Commercial Bank Ltd were transferred to the Mauritius Post and Cooperative Bank Ltd. The new banking entity now operates under the name of MauBank Ltd. A banking licence was issued to Bank of China on 18 March 2016 and the bank started operations on 27 September 2016.

Capital Adequacy

The CAR is a measure of a bank's capital resources in relation to its risk-weighted assets. The on- and off-balance sheet exposures are weighted according to their perceived level of risks, and thereafter computed as the aggregate risk-weighted assets. The capital base is then evaluated against the risk-weighted assets. A strong capital base reduces the risk of bank failure by providing a cushion against potential losses. The Bank has been implementing the Basel III capital standards in Mauritius on a phased approach since July 2014. Accordingly, the Bank aims at raising the quality of capital, with strong focus being laid on common equity.

In Mauritius, banks are required to maintain, at all times, a minimum risk-weighted capital adequacy ratio of 10.0 per cent. During FY2015-16, banks' aggregate capital base (net of adjustment and capital deductions) increased by 3.6 per cent to Rs122.1 billion. Tier 1 capital rose by 9.2 per cent to Rs110.6 billion, which represented 90.6 per cent of gross capital. The rise in Tier 1 capital is largely explained by undistributed balance in the profit and loss account created by appropriations of retained earnings. However, Tier 2 capital contracted by a significant 31.1 per cent, from Rs16.6 billion as at end-June 2015 to Rs11.5 billion as at end-June 2016, with its share representing 9.4 per cent of gross capital. The fall in the Tier 2 capital occurred following the phasing out of capital instruments that no longer qualify as Tier 2 capital as per Basel III requirements.

Table 3.1 shows the risk-weighted capital adequacy ratio maintained by banks from end-June 2015 through end-June 2016, together with components of the capital base and risk-weighted assets. The rise in the risk-weighted capital adequacy ratio from 17.2 per cent to 17.5 per cent over the period under review is due to the capital base increasing by 3.6 per cent relative to a rise of 1.3 per cent in the risk-weighted assets.

Risk Profile of On- and Off-Balance Sheet Assets

Total on-balance sheet assets of banks increased by 2.4 per cent, from Rs1,129.7 billion as at end-June 2015 to Rs1,157.2 billion as at end-June 2016. The corresponding total risk-weighted on-balance sheet assets went up by 1.7 per cent to Rs602.3 billion over the same period.

The risk profile of on-balance sheet assets indicates that 36 per cent of the total assets were allocated in the 100 per cent risk-weight basket, while 22.6 per cent were in the zero per cent risk-weight basket. The 20 per cent and 50 per cent risk-weight buckets had respective shares of 15.1 and 15.2 per cent of the on-balance sheet assets. In terms of the risk profile of on-balance sheet assets, an increase was recorded in the respective shares in the 0 per cent, 20 per cent, 35 per cent, 50 per cent and 150 per cent risk-weight buckets while the proportion for the 75 per cent, 100 per cent and 250 per cent risk-weight buckets have declined.

Table 3.2 compares the total on- and off-balance sheet assets of banks with corresponding risk-weights as at end-June 2015 and end-June 2016. Following the phased implementation of the Basel III capital disclosure requirements, additional risk-weight buckets of 125 per cent, 250 per cent and 1,250 per cent have been incorporated in the risk-weights.

The average combined risk-weighted ratio increased from 38.4 per cent as at end-June 2015 to 43.0 per cent as at end-June 2016 on account of a large contraction of 9.5 per cent in the on- and off-balance sheet assets relative to the increase of 1.3 per cent in total risk-weighted assets. Table 3.3 compares the total on- and off-balance sheet assets of banks with corresponding risk-weighted values and average combined risk weighting as at end-June 2015 and end-June 2016.

Advances

Total advances, including debentures and fixed-dated securities, fell by 3.7 per cent during FY2015-16 to Rs654.6 billion, compared to an increase of 7.8 per cent in the preceding financial year. As at end-June 2016, total advances represented 74.0 per cent and 54.2 per cent of total deposits and total assets, respectively, compared to 78.2 per cent and 57.4 per cent as at end-June 2015.

Loans and overdrafts in Mauritian rupees amounted to Rs227.3 billion, or 34.7 per cent of total advances, while loans and other financing in foreign currencies in Mauritius amounted to Rs93.3 billion, or 14.3 per cent of total advances.

Table 3.1: Risk-Weighted Capital Adequacy Ratio

(Rs million)

As at end of period	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Capital Base (A)	**117,917**	**119,339**	**120,089**	**121,666**	**122,106**
Tier 1 capital	101,276	108,589	110,728	112,144	110,633
Tier 2 capital	16,641	10,751	9,361	9,522	11,473
Total Risk-Weighted Assets (B)	**686,823**	**678,750**	**676,612**	**673,288**	**695,767**
Total on-balance sheet risk-weighted credit exposures	591,678	583,362	585,148	580,106	602,319
Total non-market-related off-balance sheet risk-weighted credit exposures	43,251	43,607	39,126	40,005	39,647
Total market-related off-balance sheet risk-weighted credit exposures	2,950	1,692	2,152	2,345	2,024
Total risk-weighted assets for operational risk	45,841	46,995	46,463	46,578	47,180
Total foreign currency exposures	3,071	3,067	3,700	3,120	3,467
Capital charge for trading book position exceeding 5% or more of its total assets	32	27	23	1,135	1,131
Capital Adequacy Ratio (A/B)	**17.2%**	**17.6%**	**17.7%**	**18.1%**	**17.5%**

Source: Supervision Department.

Table 3.2: Risk-Weights of Banks' On-Balance Sheet Assets

	On-balance sheet assets	Percentage to total on-balance sheet assets	On-balance sheet assets	Percentage to total on-balance sheet assets
	(Rs million)	*(Per cent)*	*(Rs million)*	*(Per cent)*
Risk Weights (%)	**Jun-15**		**Jun-16**	
0	236,167	20.9	260,961	22.6
20	168,633	14.9	192,314	15.1
35	43,847	3.9	46,296	4.0
50	166,738	14.8	175,100	15.2
75	33,352	3.0	29,246	2.8
100	442,705	39.2	369,938	36.0
125	21,979	1.9	22,107	1.9
150	14,398	1.3	24,665	2.2
250	1,908	0.2	1,167	0.1
1250	0	-	0	-
	1,129,728	**100.0**	**1,157,214**	**100.0**

Source: Supervision Department.

Table 3.3: Combined Risk-Weights of Banks' Assets

		End-June 2015	End-June 2016
A	Total On-Balance Sheet Assets *(Rs million)*	1,129,728	1,157,214
B	Total Off-Balance Sheet Assets *(Rs million)*	656,819	459,379
C	Total On and Off-Balance Sheet Assets (A + B) *(Rs million)*	1,786,547	1,616,593
D	Total Risk-Weighted Assets *(Rs million)*	686,823	695,767
E	Average Combined Risk Weighting (D/C) *(Per cent)*	38.4	43.0

Source: Supervision Department.

Loans and other financing in foreign currencies outside Mauritius stood at Rs251.1 billion as at end-June 2016, representing 38.4 per cent of total advances. The remaining facilities consisted of local and foreign bills purchased and discounted, bills receivable and other fixed-dated securities.

Deposits

Deposits are the principal source of funding of banks and constituted the highest share of their total liabilities, albeit recording a marginal drop from 73.5 per cent as at end-June 2015 to 73.2 per cent as at end-June 2016. Total deposits increased by 1.8 per cent to Rs884.9 billion as at end-June 2016, from Rs869.5 billion as at end-June 2015. The rise in the deposit base of the banking sector was driven by an expansion of 7.6 per cent in Segment A deposits while Segment B deposits contracted by 2.5 per cent.

The share of foreign currency deposits to total deposits stood at 61.4 per cent as at end-June 2016, down from 63.3 per cent as at end-June 2015. Demand, savings and time deposits accounted for 45.4 per cent, 22.2 per cent and 30.5 per cent of total deposits, respectively, compared to 43.1 per cent, 24.6 per cent and 34.7 per cent as at end-June 2015.

The advances-to-deposits ratio, which indicates the extent to which funds mobilised by way of deposits have been utilised to finance lending activities, decreased from 78.2 per cent as at end-June 2015 to 74.0 per cent as at end-June 2016. This ratio stood at 71.6 per cent for Segment A activities and 75.8 per cent for Segment B activities as at end-June 2016 compared to 74.9 per cent and 80.5 per cent, respectively, as at end-June 2015.

Concentration of Risks

Credit concentration risk, which represents one of the major risks faced by banks in Mauritius, refers to the risk of loss arising from a bank's overexposure to particular sectors of the economy and/or different entities. Non-exempt large exposures in the banking sector, that is, exposures above 15 per cent of the bank's capital base, aggregated Rs241.9 billion, representing 33.8 per cent of total fund and non-fund based facilities extended as at end-June 2016. The aggregated large exposures to borrowers represented 197.7 per cent of the capital base of banks as at end-June 2016 compared to 224.3 per cent as at end-June 2015.

Sectorwise Distribution of Credit to the Private Sector in Mauritius

During FY2015-16, bank credit to the private sector (including Global Business Companies) increased by 4.2 per cent, lower than the growth of 4.7 per cent recorded in FY2014-15. As at end-June 2016, the share of credit to the construction, tourism, traders and personal sectors declined to 26.2 per cent, 14.4 per cent, 9.4 per cent and 8.7 per cent, respectively compared to 26.3 per cent, 15.0 per cent, 9.5 per cent and 9.3 per cent as at end-June 2015. The share of credit to 'Global Business Companies ', 'Financial and Business Services', 'Manufacturing' and 'Agriculture & Fishing' rose from 13.1 per cent, 7.9 per cent, 6.3 per cent and 5.6 per cent, respectively, as at end-June 2015 to 14.0 per cent, 8.1 per cent, 6.5 per cent and 5.9 per cent as at end-June 2016. Chart 3.1 shows the outstanding sectorwise distribution of credit to the private sector from June 2015 through June 2016.

Asset Quality

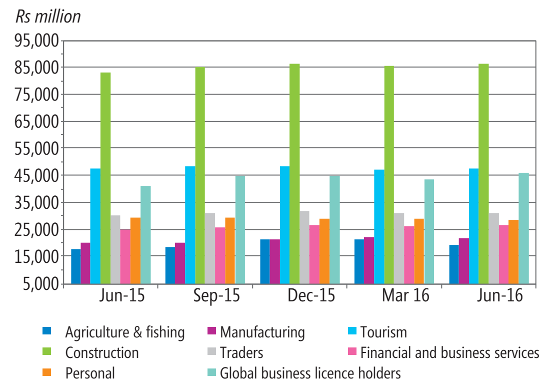
The financial soundness of banks is intrinsically linked to their asset quality and is generally reflected in liquidity, profitability and overall financial strength of a bank. Poor asset quality can jeopardise the soundness of a bank, while good asset quality constitutes the foundation of a sound financial system. Total non-performing advances of banks rose by 38.5 per cent, from Rs33.7 billion as at end-June 2015 to Rs46.7 billion as at end-June 2016. This resulted in a deterioration of the ratio of non-performing advances to total advances from 5.0 per cent to 7.1 per cent (Chart 3.2). Impaired credit on facilities extended in Mauritius went up by 12.9 per cent to Rs28.3 billion. Concurrently impaired credit extended outside Mauritius expanded by 112.2 per cent to Rs18.4 billion over the same period.

Specific provisions for loan losses made by banks rose by 80.0 per cent, from Rs13.3 billion as at end-June 2015 to Rs23.9 billion as at end-June 2016. Specific provisions made on impaired credits in Mauritius increased by Rs1.5 billion or 14.4 per cent, while specific provisions on impaired credit outside Mauritius went up by Rs9.1 billion or 322.6 per cent. The coverage ratio, that is the specific provisions to non-performing advances, increased significantly from 39.5 per cent at end-June 2015 to 51.3 per cent as at end-June 2016.

Market Concentration

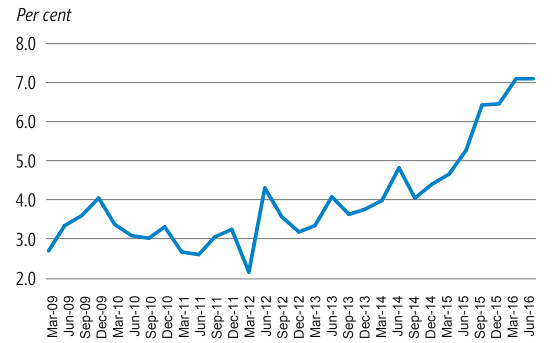
The four largest banks operating in the domestic banking sector accounted for 56.5 per cent of total assets as at end June 2016 compared to 54.7 per cent, a year earlier, thus confirming a somewhat high degree of market concentration. Despite higher concentration in the upper segment of the market, Herfindahl-Hirschman Index (HHI) for the banking sector increased during the period under review, pointing to increased competition, a priori in the lower end of the market. The HHI for total assets and deposits stayed in the moderate concentration band but went up to 1,158 and 1,266, respectively, as at end-June 2016, from 1,033 and 1,094 in the corresponding period of 2015. With regards to the HHI for advances, it fell from 1,380 to 1,289 over the year under review. Over a five-year period, the Lorenz curve indicates that the

Chart 3.1: Sectorwise Distribution of Credit to Private Sector



Source: Supervision Department.

Chart 3.2: Non-Performing Loans of Banks



Source: Supervision Department.

persistence in inequality in the distribution of assets and advances in the banking sector has deteriorated slightly.

Chart 3.3 depicts the distribution of banks' assets and advances. Table 3.4 shows the Herfindahl-Hirschman indices for total assets, deposits and advances for the banking sector.

Table 3.4: Herfindahl-Hirschman Index for the Banking Sector

	Jun-11	Jun-15	Jun-16
Total Assets	1,082	1,033	1,158
Deposits	1,209	1,094	1,266
Advances	1,307	1,380	1,289

Source: Bank of Mauritius staff estimates.

Profitability

During FY2015-16, except for four banks, all the remaining banks operating in Mauritius realised profit after tax. One of the loss-making banks started operations in April 2015 while another bank reported high impairment charges. Aggregate pre-tax profit of banks fell to Rs13.4 billion in FY2015-16, from Rs15.4 billion in FY2014-15. Table 3.5 shows the consolidated income statements of the banking sector for the past three years based on the audited financial statements of banks for the financial years ended March, June and December.

Components of Income

Total income of banks declined by Rs1.2 billion or 2.22 per cent, from Rs53.8 billion in FY2014-15 to 52.8 billion in FY2015-16, mainly driven by a decrease of Rs3.4 billion or 21.7 per cent in non-interest income that was partly offset by an increase of Rs2.2 billion in interest income. Chart 3.4 shows the movements in components of total income of banks from FY2013-14 through FY2015-16.

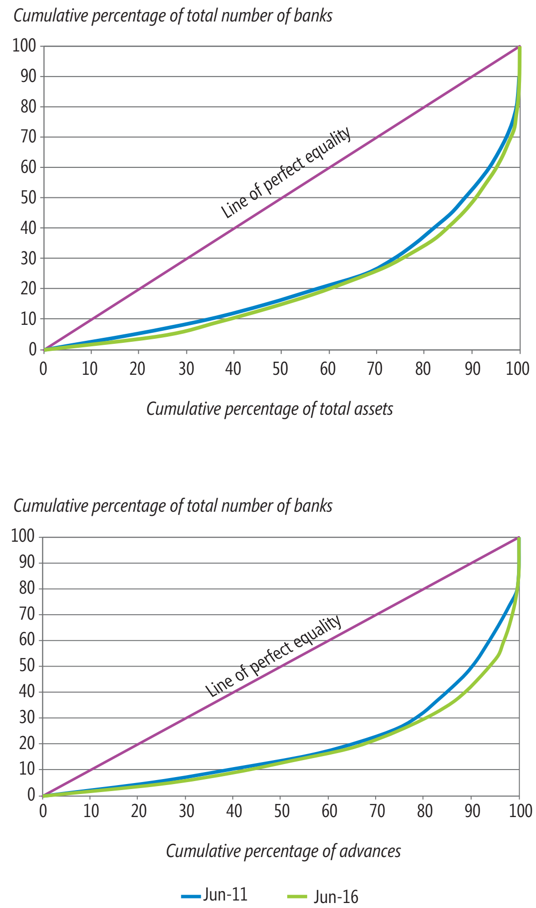
Interest Income

Interest income increased by 5.7 per cent to Rs40.4 billion in FY2015-16 as against a decrease of 5.7 per cent in FY2014-15. Interest earned from advances, representing 72.5 per cent of total interest income, increased by 4.2 per cent to Rs29.3 billion in FY2015-16. Interest received from placements and loans to banks and other interest income rose by 29.1 per cent to Rs3.8 billion while interest earned on securities increased by 1.9 per cent to Rs7.2 billion in FY2015-16.

Non-Interest Income

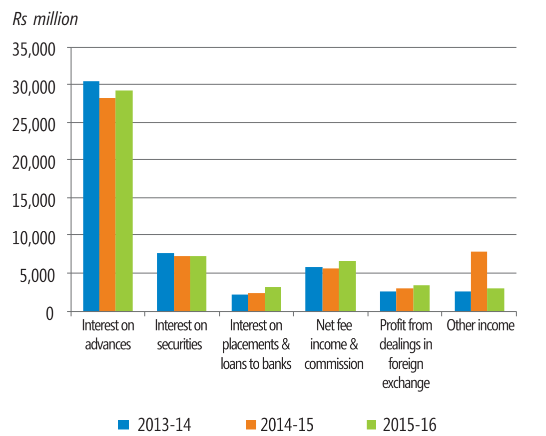
Non-interest income, another important source of revenue for banks, went down by Rs3.4 billion, from Rs15.6 billion in FY2014-15 to Rs12.2 billion in FY2015-16. During the year under review, other non-interest income fell by Rs4.9 billion. Fee-related income went up by 19.0 per cent,

Chart 3.3: Distribution of Banks' Assets and Advances



Source: Bank of Mauritius staff estimates.

Chart 3.4: Components of Income of Banks



Source: Supervision Department.

Table 3.5: Consolidated Income Statements of Banks			
			(Rs million)
	2013-14	**2014-15**	**2015-16**
Interest Income	**40,474**	**38,178**	**40,359**
Interest on Advances	*30,327*	*28,094*	*29,273*
Interest on Securities	*7,516*	*7,113*	*7,249*
Interest on Placements and Loans to banks	*2,207*	*2,390*	*3,184*
Other Interest Income	*424*	*581*	*653*
Interest Expense	**17,429**	**15,723**	**15,880**
Interest on Deposits	*12,328*	*10,439*	*11,277*
Interest on Borrowings from banks	*4,214*	*4,066*	*3,633*
Other Interest Expenses	*887*	*1,218*	*970*
Net Interest Income	**23,045**	**22,455**	**24,479**
Non-Interest Income	**10,341**	**15,604**	**12,218**
Net Fee Income and Commission	*5,733*	*5,496*	*6,539*
Profit from Dealings in Foreign Currencies	*2,441*	*2,970*	*3,414*
Other Non-Interest Income	*2,167*	*7,138*	*2,265*
Operating Income	**33,386**	**38,059**	**36,697**
Non-Interest Expense	**13,705**	**14,537**	**16,591**
Staff Costs	*7,468*	*7,404*	*7,836*
Operating Expenses	*6,237*	*7,133*	*8,755*
Operating Profit before Provisions	**19,681**	**23,522**	**20,106**
Provision and Adjustments to Income from Credit Losses	*3,120*	*8,095*	*6,738*
Profit before Tax	**16,561**	**15,427**	**13,368**
Provision for Income Taxes	*2,062*	*2,157*	*2,036*
Profit after Tax	**14,499**	**13,270**	**11,332**

Source: Supervision Department.

while profit arising from dealings in foreign currencies grew by 14.9 per cent. Together, they accounted for 81.5 per cent of total non-interest income in FY2015-16 compared to 54.3 per cent in FY2014-15.

Components of Expense

Total expenses of banks increased by Rs0.9 billion or 2.2 per cent, from Rs38.4 billion in FY2014-15 to Rs39.2billion in FY2015-16, mainly driven by an increase of Rs2.1 billion in non-interest expense with a marginal increase in interest expense of Rs0.2 billion partly set off by a decrease of Rs1.4 billion in credit impairment losses together. Chart 3.5 shows the evolution of the components of expense of banks from FY2013-14 through FY2015-16.

Interest Expense

Total interest expense rose from Rs15.7billion in FY2014-2015 to Rs15.9 billion in FY2015-2016. A rise by Rs838 million or 8 per cent was registered in interest paid on deposits which was offset by a decrease of Rs248 million in other interest expenses.

Non-Interest Expense

Non-interest expense, comprising staff costs and other operating expenses, grew by 14.1 per cent to Rs16.6 billion in FY2015-16 compared to an increase of 6.1 per cent a year earlier. This was mainly driven by 22.7 per cent increase in operating expenses, offset by a drop of 5.8 per cent in staff costs. Provision and adjustments to income from credit losses decreased from Rs8.1 billion in FY2014-15 to Rs6.7 billion in FY2015-16. Overall, the cost-to-income ratio for the banking sector stood at 44.3 per cent in FY2015-16, compared to 37.6 per cent in FY2014-15.

Operating Profit

Banks' operating profit before provision for credit losses went down from Rs23.5 billion in FY2014-15 to Rs20.1 billion in FY2015-16. On the other hand, post-tax profits fell by 14.6 per cent to Rs11.3 billion in FY2015-16 compared to a drop of 8.5 per cent in the preceding financial year.

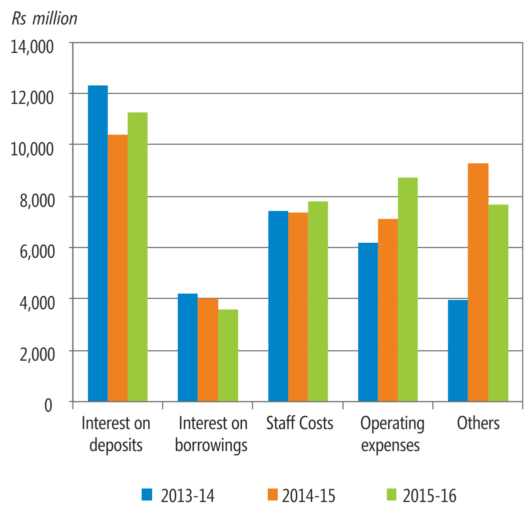
Return on Assets and Return on Equity

The pre-tax return on average assets for the banking sector decreased from 1.4 per cent in FY2014-15 to 1.2 per cent in FY2015-16. It ranged between negative 15.1 per cent and positive 3.7 per cent for individual banks. Four banks posted a return on average assets of above 2.0 per cent. On the other hand, post-tax return on equity for the banking sector declined from 12.1 per cent in FY2014-15 and to 9.3 per cent in FY2015-16. It ranged from negative 10.0 per cent to positive 49.7 per cent in FY2015-16 for individual banks. Chart 3.6 depicts the return on average assets and return on equity of banks from FY2010-11 through FY2015-16.

Interest Rate Spread

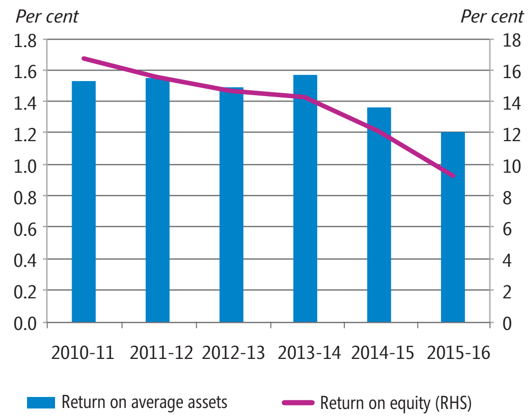
Interest rate spread widened from Rs2.89 to Rs3.12 during FY2015-16, reflecting diverging path in the interest on advances and deposits. Interest earned per Rs100 of advances increased from Rs4.33 to Rs4.47, while the cost per Rs100 of deposits dropped from Rs1.44 to Rs1.35. Table 3.6 shows the interest rate spread for FY2013-14 through FY2015-16.

Chart 3.5: Components of Expense of Banks



Source: Supervision Department.

Chart 3.6: Return on Average Assets and Return on Equity of Banks



Source: Supervision Department.

PERFORMANCE OF NON-BANK DEPOSIT-TAKING INSTITUTIONS

Eight non-bank deposit-taking institutions (NBDTIs) were in operation in Mauritius as at end-June 2016. Four of the NBDTIs were subsidiaries or related companies of banking institutions or insurance companies. As at end-June 2016, all

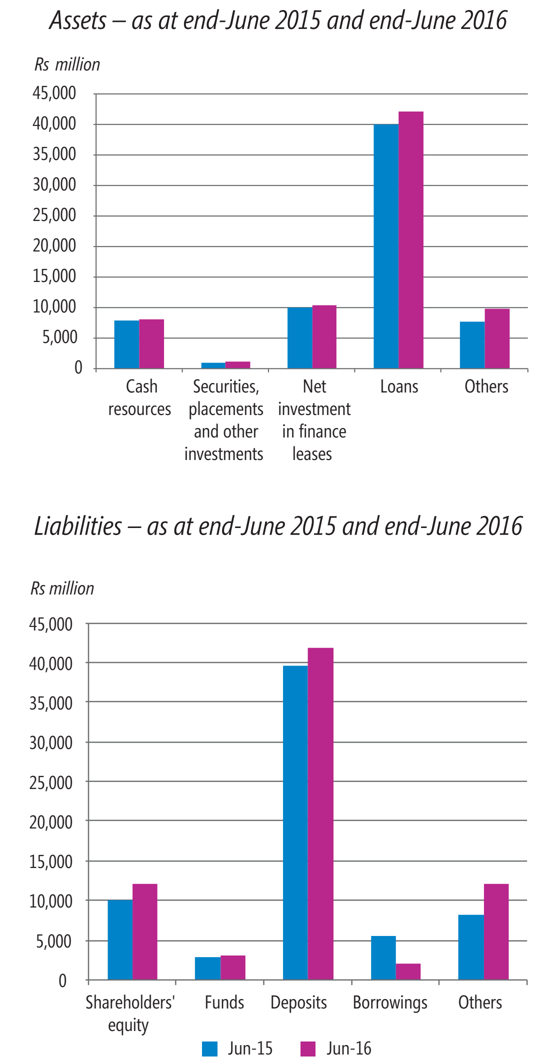
NBDTIs met the minimum required capital of Rs200 million. In addition, they are required to maintain a capital adequacy ratio of 10 per cent as per the Guideline on Capital Adequacy Ratio for NBDTIs and to comply with the Guidelines issued by the Bank of Mauritius, as applicable.

Balance Sheet Structure

The assets of NBDTIs increased by 7.5 per cent from end-June 2015 to Rs71.7 billion as at end-June 2016. The share of loans to total assets and of investment in finance leases to total assets declined from 60.1 per cent and 15.0 per cent, respectively, to 58.8 per cent and 14.5 per cent over the year under review.

Deposits remained the main source of funding and accounted for 58.5 per cent of NBDTIs' liabilities as at end-June 2016 compared to 59.5 per cent as at end-June 2015. During the year under review, deposits went up by 5.6 per cent to Rs41.9 billion at the end-June 2016. Chart 3.7 illustrates the composition of assets and liabilities of NBDTIs as at end-June 2015 and 2016. The advances-to-deposits ratio decreased from 126.1 per cent at end-June 2015 to 125.3 per cent at end-June 2016. Leases-to-deposits ratio (based on deposits held by leasing companies only) went up from 76.4 per cent as at end-June 2015 to 77.4 per cent as at end-June 2016.

Chart 3.7: Balance Sheet Structure of NBDTIs



Source: Supervision Department.

Capital Adequacy

The capital adequacy ratio of NBDTIs improved from 25.6 per cent as at end-June 2015 to 28.4 per cent as at end-June 2016, due to a higher increase of 20.6 per cent in aggregate capital base of the sector compared to an increase of 8.6 per cent in the total risk-weighted assets.

Table 3.6: Interest Rate Spread of Banks

(Rupees)

	2013-14	2014-15	2015-16
Interest Earned on Rs100 of Advances	4.96	4.33	4.47
Cost per Rs100 of Deposits	1.87	1.44	1.35
Interest Rate Spread	3.09	2.88	3.12

Source: Supervision Department.

As at end-June 2016, one NBDTI had a capital adequacy ratio marginally below the required minimum of 10 per cent. The capital adequacy ratio maintained by individual NBDTIs ranged from 9.6 per cent to 64.7 per cent.

Profitability

The consolidated profitability figures for NBDTIs are based on the audited results covering financial years ended 30 June, 30 September and 31 December 2015. In 2015, NBDTIs' aggregate profit before tax grew by 17.5 per cent to Rs2.1 billion. Table 3.7 summarises the performance of the NBDTIs over the last three financial years. Interest earned on Rs100 of loans/leases decreased by Re0.02 while interest paid on Rs100 of deposits decreased by Re0.28. Thus, the interest spread increased to Rs2.91 in 2015, from Rs2.66 in 2014. Chart 3.8 shows the evolution of net interest income, other income, operating income and operating profit over the years 2012 to 2015.

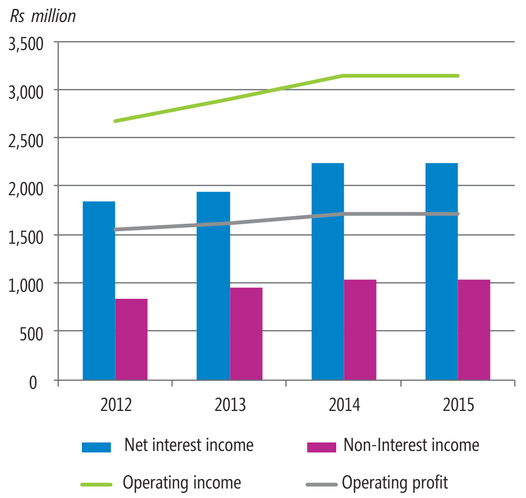
Return on Assets and Return on Equity

The pre-tax return on average assets increased slightly from 3.1 per cent in 2014 to 3.2 per cent in 2015. Individual NBDTIs posted pre-tax return on average assets in the range of negative 4.7 per cent to 4.7 per cent in 2015. The post-tax return on equity declined from 17.2 per cent in 2014 to 16.7 per cent in 2015. Chart 3.9 shows the return on average assets and equity over the years 2012 to 2015.

FINANCIAL SOUNDNESS INDICATORS

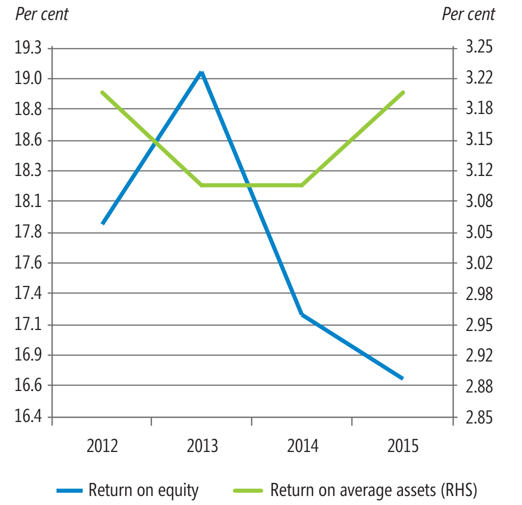
Financial Soundness Indicators (FSIs) are methodological tools that are utilised to quantify the soundness and vulnerabilities of the financial system. Box V provides further details on the combined performance of banks and NBDTIs for quarters ended March 2015 through March 2016.

Chart 3.8: Profitability of NBDTIs



Source: Supervision Department.

Chart 3.9: Return on Average Assets and Return on Equity of NBDTIs



Source: Supervision Department.

Liquidity

NBDTIs are required to maintain liquid assets representing a minimum of 10 per cent of their deposit facilities. As at 30 June 2016, liquid assets held by NBDTIs amounted to Rs8.4 billion or 20 per cent of their deposits.

BOX V: Selected Financial Soundness Indicators[1] (Banks and NBDTIs[2])

(Per cent)

Core Set of Financial Soundness Indicators	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Capital Base					
Regulatory Capital to Risk-Weighted Assets	17.7	17.6	18.2	18.4	18.7
Regulatory Tier 1 Capital to Risk-Weighted Assets	15.4	15.2	16.6	17.0	17.2
Non-performing Loans Net of Provisions to Capital	16.4	17.4	17.9	19.1	18.7
Asset Quality					
Non-performing Loans to Total Gross Loans	5.1	5.7	7.0	7.2	7.8
Sectoral Distribution of Total Loans					
Interbank Loans	0.4	0.1	0.0	0.1	0.2
Central Bank	0.0	0.0	0.0	0.0	0.0
General Government	0.0	0.0	0.0	0.0	0.0
Other Financial Corporations	1.5	1.5	1.4	1.5	1.6
Nonfinancial Corporations	33.6	34.8	35.8	36.8	37.1
Other Domestic Sectors	18.6	20.2	20.5	21.0	21.6
Nonresidents	45.8	43.4	42.2	40.6	39.5
Earnings and Profitability					
Return on Assets	1.3	1.1	1.2	1.2	1.4
Return on Equity	13.7	11.4	11.9	12.1	13.1
Interest Margin to Gross Income	64.9	62.0	61.8	68.5	62.7
Non-interest Expenses to Gross Income	43.6	40.6	39.5	44.3	36.2
Liquidity					
Liquid Assets to Total Assets	26.0	25.1	24.3	27.1	27.4
Liquid Assets to Short Term Liabilities	33.0	31.7	31.1	34.5	34.4
Sensitivity to Market Risk					
Net Open Position in Foreign Exchange to Capital	3.4	2.8	2.6	3.0	2.5

Encouraged Set of Financial Soundness Indicators	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Capital to assets	9.2	10.3	10.4	10.5	10.5
Value of large exposures to capital	190.9	204.7	191.0	184.3	190.2
Customer deposits to total (noninterbank) loans	141.5	142.3	140.3	146.8	144.4
Residential real estate loans to total loans[3]	6.0	8.7	8.9	9.1	9.4
Commercial real estate loans to total loans[3]	4.9	5.6	6.0	5.8	5.8
Trading income to total income	13.1	15.0	17.7	10.0	16.2
Personnel expenses to noninterest expenses	47.6	48.5	48.8	50.5	50.6

[1] FSIs are calculated on a domestic consolidation basis using the Financial Soundness Indicators Compilation Guide of the International Monetary Fund. Figures may be slightly different from other parts of this Report.
[2] NBDTIs refer to Non-Bank Deposit-Taking Institutions.
[3] Total gross loans include commercial loans, instalment loans, hire purchase credit, loans to finance trade credit and advances, finance leases repurchase agreement not classified as a deposit, and overdrafts.
Source: Supervision Department.

CASH DEALERS

Eight money changers and five foreign exchange dealers, collectively known as cash dealers, were in operation in Mauritius as at end-June 2016. Unlike money changers, which deal principally in the exchange of foreign currency notes, foreign exchange dealers are authorised to carry out other activities in addition to the money changing business. A non-negligible part of their business comprises the provision of remittance facilities and the conduct of forward transactions.

Total assets of cash dealers amounted to Rs954 million as at 30 June 2016, with assets of foreign exchange dealers totalling Rs855 million. The bulk of the assets of these institutions consisted of cash in hand and at bank (38 per cent), receivables (34 per cent), investment in Treasury Bills/Government Securities (10 per cent) and inventories of foreign currencies (7 per cent). During the year ended 30 June 2016, cash dealers sold foreign currencies for a total amount of Rs22.5 billion, while the cost of sales amounted to Rs21.6 billion. Operating expenses incurred by cash dealers amounted to Rs234.9 million during the period under review, of which staff costs accounted for Rs113.1 million.

MAURITIUS CREDIT INFORMATION BUREAU

Credit information sharing systems play a critical role in the stability of the financial sector as it contributes significantly to improve the management of credit risk by credit institutions and creates a powerful incentive for debt repayment among borrowers. The effectiveness of a credit information system is highly dependent on the depth and breadth of its coverage. The Mauritius Credit Information Bureau (MCIB), which was originally designed to collect data from banks only, started its operation with 11 banks in December 2005. The Bank has been progressively expanding the coverage of the MCIB well beyond

Table 3.7: Consolidated Profit and Loss Account of NBDTIs

(Rs million)

	2013	2014	2015
Interest Income	4,486	4,906	5,358
Interest Expense	2,540	2,664	2,841
Net Interest Income	1,947	2,242	2,517
Non-Interest Income	965	1,051	1,118
Operating Income	2,912	3,293	3,634
Non-Interest Expense	1,274	1,423	1,307
Operating Profit	1,638	1,870	2,328
Other Non-Operating Profit			
Profit before Provision & Adjustment for credit losses	**1,638**	**1,870**	**2,328**
Provision & Adjustment for credit losses	*28*	*111*	*262*
Profit before tax	**1,610**	**1,759**	**2,065**
Income Tax Expense	*87*	*76*	*98*
Profit after tax	**1,523**	**1,683**	**1,968**

Source: Supervision Department.

the banking sector, and the latest addition to the participant base is microfinance companies. The broadening of access also helps in widening coverage and deepening the information base of the MCIB on borrowers. Lenders have thus a more comprehensive picture of the level of indebtedness of borrowers. The MCIB currently has 45 participants in different categories as shown in Table 3.8.

The number of reported entities increased from 729,867 as at end-June 2015 to 759,293 as at end-June 2016. As at end-June 2016, the MCIB database contained 2,525,466 credit records on 710,527 individuals and 48,666 firms.

Amendments to the Terms and Conditions of the MCIB

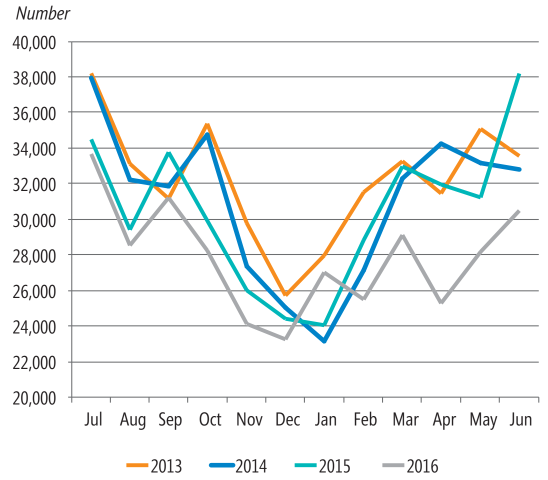
A strong legal framework is a pre-requisite for the good functioning of the credit information system. Section 52 of the Bank of Mauritius Act 2004, under which the MCIB was set up and the Terms and Conditions of the MCIB are issued, defines the legal responsibilities of the operator and participants of the MCIB as well as the rights of borrowers. In September 2015, the Bank amended the Terms and Conditions of the MCIB to provide for more comprehensive instructions with regards to the reporting of data on restructured, non-performing and written-off

Table 3.8: Participants in the MCIB

Category	Number
Commercial banks	17
Leasing companies	9
Insurance companies	9
Other non-bank financial institutions	6
Utility companies	3
Microfinance companies	1
Total	**45**

Source: Payment Systems and MCIB Division.

Chart 3.10: Number of Reports Drawn Over the Past Four Financial Years



Source: Payment Systems and MCIB Division.

Table 3.9: New Credit Facilities by Credit and Borrower Type

Credit Type	Borrower Type	Year ended June 2015	Year ended June 2016
Credit Card	Corporates	1,526	1,231
	Individuals	34,333	33,051
Loans	Corporates	10,269	9,958
	Individuals	79,293	67,413
Overdraft	Corporates	1,392	2,966
	Individuals	1,585	3,086
Finance Leases	Corporates	3,105	2,793
	Individuals	8,244	3,564
Total number of new facilities		**139,747**	**124,061**

Source: Payment Systems and MCIB Division.

credit facilities to provide lenders with a deeper insight on applicants' history records and to discipline borrowers towards meeting their debt obligations. This amendment was carried out in line with the Bank's mandate to maintain the stability and soundness of the financial sector.

Consultation of the MCIB Database

Participants have a legal obligation to consult the MCIB database prior to approving, increasing or renewing credit facilities. A year-on-year comparison shows that the number of reports drawn during FY2015-16 was generally lower than during FY2014-15. Chart 3.10 shows the monthly number of reports drawn during the past four financial years ended June 2016.

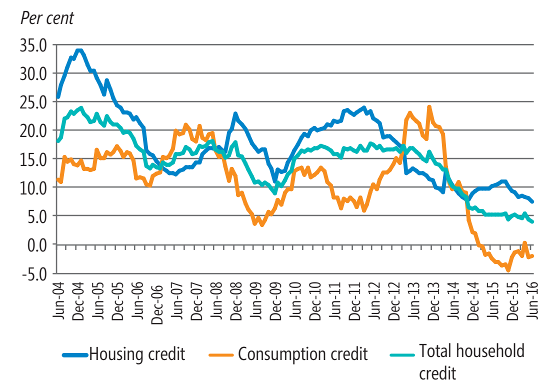
The decline in number of reports issued was mirrored in the number of new credit facilities reported in respect of loans, overdrafts, credit cards and finance leases which fell from 139,747 in FY2014-15 to 124,061 in FY2015-16, or by 11.2 per cent. Table 3.9 gives a comparison by credit type and borrower type.The number of loans, finance leases and credit card facilities decreased for both individuals and corporates while overdrafts increased more than two-fold over the year for both categories. The most significant declines were noted in loans and finance leases which contracted by 13.6 per cent and 44.0 per cent, respectively during FY2015-16.

HOUSEHOLD AND CORPORATE SECTORS

HOUSEHOLDS

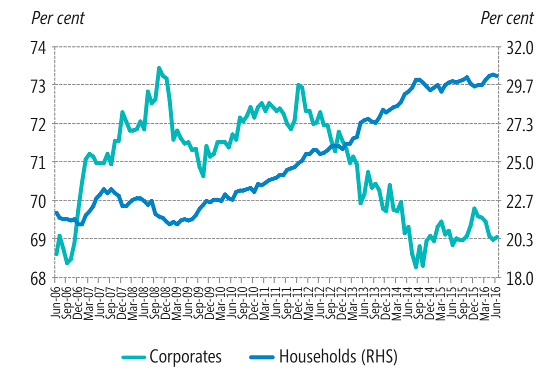
Household credit growth remained almost flat during FY2015-16. The two components of household credit showed diverging paths both during 2015H2 and 2016H1. During 2015H2, consumption credit growth rate fell further into negative territory while growth of housing credit improved somewhat. In the first six months of 2016, however, housing credit growth slowed to below 10 per cent while the decline

Chart 3.11: Y-o-y Growth of Credit to Households



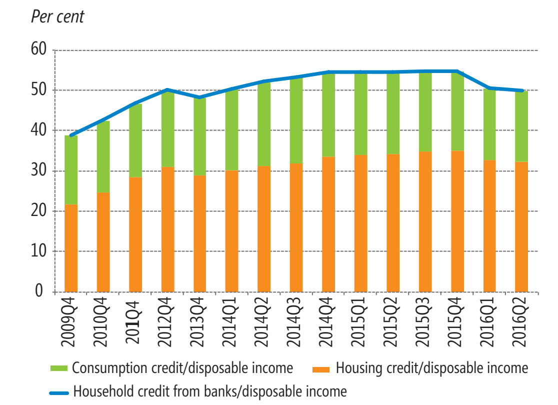
Source: Research and Economic Analysis Department.

Chart 3.12: Share of Credit Extended by Banks to Households and Corporates



Source: Research and Economic Analysis Department.

Chart 3.13: Household Debt to Disposable Income



Source: Research and Economic Analysis Department.

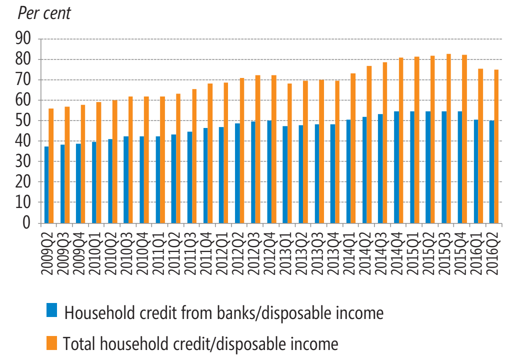
in consumption seemed to have bottomed out (Chart 3.11). Housing credit are backed by robust collaterals and accounted for nearly two-third of total household credit as at end-June 2016. Notwithstanding flat growth, the share of household credit in total private sector credit moved slightly past 30 per cent as corporate credit declined (Chart 3.12).

Indebtedness of households as measured by bank credit to households as a ratio to disposable income was almost flat in 2015 but fell during the first two quarters of 2016. The ratio of household debt to household disposable income dropped to 50.0 per cent as at end-June 2016, from 54.4 per cent a year earlier (Chart 3.13). The decline is consistent with the reported slowdown in credit extended by banks to households while disposable income is estimated to have grown at a relatively higher rate amid the PRB wage award.

Household borrowings from banks, non-bank deposit-taking institutions and insurance companies accounts for some 66 per cent, 29 per cent and 5 per cent, respectively, of total household debt. The broader measure of household indebtedness, which includes debt from banks, NBDTIs and insurance companies fell to 75.3 per cent as at end-June 2016 from 81.8 per cent as at end-June 2015(Chart 3.14).

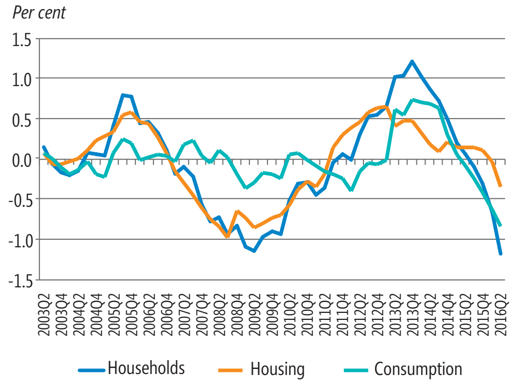
As a result of the slowdown in credit facilities availed, household credit-to-GDP gap maintained a downtrend and stayed in negative territory during FY2015-16. The gap between credit-to-GDP ratio and an estimate of its long-term trend (credit-to-GDP gap) is very useful in identifying vulnerabilities and deploying macroprudential policies. Basel III uses the credit-to-GDP gap as a reference for setting countercyclical buffers. Household credit-to-GDP gap had increased markedly between 2009Q2 and 2013Q4, reflecting rapid credit accumulation amid low interest rates. As at end-June 2016, household credit-to-GDP gap fell to -1.2 per cent, from a high of 1.2 per cent as at 2013Q4 (Chart 3.15).

Chart 3.14: Alternative Estimates of Household Indebtedness Ratio



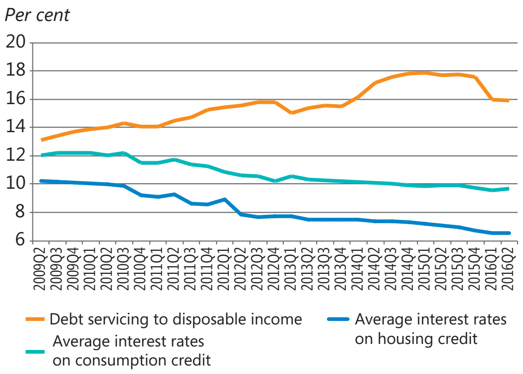
Source: Research and Economic Analysis Department.

Chart 3.15: Household Credit-to-GDP Gap



Source: Bank of Mauritius staff estimates.

Chart 3.16: Household Debt Service Cost and Interest Rates



Source: Research and Economic Analysis Department.

Household Debt Service Ratio

The debt service cost of households as a ratio to disposable income fell from 17.6 per cent as at end-June 2015 to 15.9 per cent as at end-June 2016 (Chart 3.16). The decline was a consequence of debt accumulation at a diminishing rate, lower average interest rates on both housing and consumption credit and rising disposable income of households. The average interest rate on housing and consumption credit fell 40 basis points and 28 basis points, respectively, over the year under review.

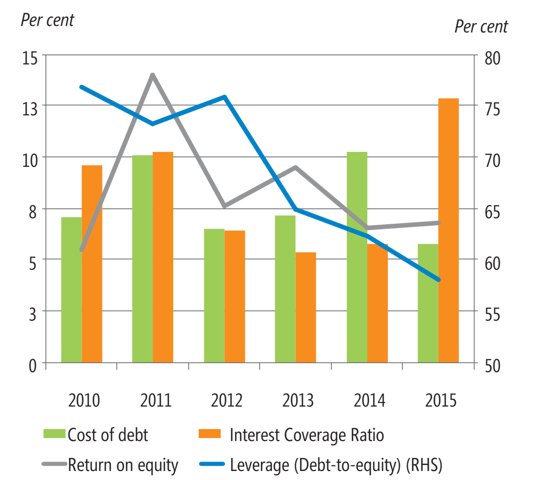
Despite the recent decline in household indebtedness ratios, prudence should be exercised, taking into account the relative increase in household disposable income with the PRB wage award. It is important to highlight that the 2013 PRB wage award also led to an almost similar decline in the indebtedness ratio. Households have continued to accumulate debt in a low interest rate environment and risks of the sector to be further leveraged are non-negligible with the persistent excess liquidity in the banking system and relatively lower financing costs. In addition, banks have become increasingly exposed to households over the past decade as evidenced by the rise in the share of household credit in total private sector credit. On a different note, the Budget Speech measures aimed at encouraging home ownership may further support demand for housing credit. Further, the decision to allow foreigners to tap a segment of the housing market may address the perceived demand and supply mismatch while at the same time reduce default risks of operators in that sector.

CORPORATES

Corporates have continued to deleverage as evidenced by a lower debt-to-equity ratio of major listed companies on the SEM. The decline in the debt-to-equity ratio was the result of higher equity addition relative to debt accumulation. Cost of debt has also fallen and was a consequence of lower interest rates and leverage. While coverage of finance costs improved with the lower debt servicing costs, profitability has remained rather flat as depicted by the return on equity ratio (Chart 3.17).

During the year under review, total corporate debt, as a percentage of GDP, continued to decline, driven by both external and domestic debt. Corporate debt fell from 55.7 per cent of GDP in 2013-14 to 54.5 per cent in 2014-15 and further to 53.9 per cent in 2015-16. Domestic debt of corporates, which account for around 88 per cent of total corporate debt, fell to 47.4 per cent of GDP in 2016Q2 compared to 47.4 per cent in the corresponding quarter of 2015 (Table 3.10). While exposures of banks to corporates is important to assessing credit risks, the external debt stock is an important yardstick to measuring external solvency risks. As a percentage to GDP, external debt of corporates stood at 6.5 per cent as at end-June 2016 while against gross official international reserves and total export proceeds it stood at 16.3 per cent and 13.4 per cent, respectively.

Chart 3.17: Fundamentals of Listed Corporates on the SEM



Sources: Stock Exchange of Mauritius and Bank of Mauritius staff estimates.

The decline in the domestic debt of corporates as a ratio to GDP was driven by key sectors of the economy like construction, tourism and traders. Banks were nevertheless heavily exposed to these sectors that in aggregate accounted for 58 per cent of total private sector credit. Construction credit-to-GDP ratio fell to 20.5 per cent as at end-June 2016 compared to 21.0 per cent a year earlier. With regard to tourism and traders, their respective credit-to-GDP ratio fell to 11.2 per cent and 7.4 per cent from 11.9 per cent and 7.5 per cent, respectively. ICT, a fast growing sector, had a credit-to-GDP ratio 0.4 per cent. The credit-to-GDP ratio for the manufacturing and agricultural sectors increased somewhat over the year under review.

The corporate credit-to-GDP gap has stayed in negative territory during the period under review. As at end-June 2016, corporate credit-to-GDP gap was estimated at -4.2 per cent compared to 1.7 per cent a year earlier. The decline in corporate credit-to-GDP gap was principally accounted by tourism, construction and traders. In the tourism and construction sectors, the respective credit-to-GDP gaps fell further into negative, reaching -2.1 per cent and -1.6 per cent, respectively, as at end-June 2016. With regard to traders, the credit-to-GDP gap stayed negative but was little changed over the year. Reflecting some improvements, manufacturing credit-to-GDP gap has increased in recent quarters.

Table 3.10: Domestic and External Corporate Debt

	2012	2013	2014	2015		2016	
				3rd Quarter	4th Quarter	1st Quarter	2nd Quarter*
							(Rs million)
Total Corporate Debt	**204,863**	**215,579**	**216,977**	**220,911**	**227,552**	**227,370**	**227,168**
Corporate External Debt	**21,680**	**26,468**	**27,316**	**28,016**	**27,875**	**27,692**	**27,489**
Short Term[1]	3,534	3,861	4,269	4,642	4,733	4,825	4,825
Long Term[2]	18,146	22,607	23,047	23,375	23,142	22,867	22,664
Corporate Domestic Debt	**183,183**	**189,110**	**189,661**	**192,894**	**199,677**	**199,678**	**199,679**
							(Per cent of total corporate debt)
Corporate External Debt	**10.6**	**12.3**	**12.6**	**12.7**	**12.3**	**12.2**	**12.1**
Short Term[1]	1.7	1.8	2.0	2.1	2.1	2.1	2.1
Long Term[2]	8.9	10.5	10.6	10.6	10.2	10.1	10.0
Corporate Domestic Debt	**89.4**	**87.7**	**87.4**	**87.3**	**87.7**	**87.8**	**87.9**
							(Per cent of GDP)
Total Corporate Debt	58.6	58.1	55.5	54.6	55.7	55.0	53.8
Corporate External Debt	**6.2**	**7.1**	**7.0**	**6.9**	**6.8**	**6.7**	**6.5**
Short Term[1]	1.0	1.0	1.1	1.1	1.2	1.2	1.1
Long Term[2]	5.2	6.1	5.9	5.8	5.7	5.5	5.4
Corporate Domestic Debt	**52.4**	**51.0**	**48.5**	**47.7**	**48.9**	**48.3**	**47.3**
Memo item: GDP (Rs million)	*349,401*	*371,047*	*390,692*	*404,379*	*408,307*	*413,350*	*421,500*

** Provisional.*
[1] Refers to mainly to trade credit as recorded in balance of payments statistics.
[2] Excluding loans of Global Business Companies.
Sources: Mauritius SDDS country page and Bank of Mauritius.

BOX VI: COBWEB MODEL FOR FINANCIAL STABILITY

The Bank uses a 5-pronged approach to design a cobweb model for assessing financial stability in Mauritius. The process examines global economy risk, domestic economy risk, household debt risk, corporate debt risk and banking sector risk. Under each dimension there are a number of sub-indicators that are considered to best reflect financial stability conditions and are used to quantify risks that may arise.

In designing the cobweb, the sub-indicators are diagnosed for normality, skewness and kurtosis, and are subject to various transformations. As a first step, the data are standardised into z-scores, described by the following formula:

$$z = \frac{x-\mu}{\sigma}$$

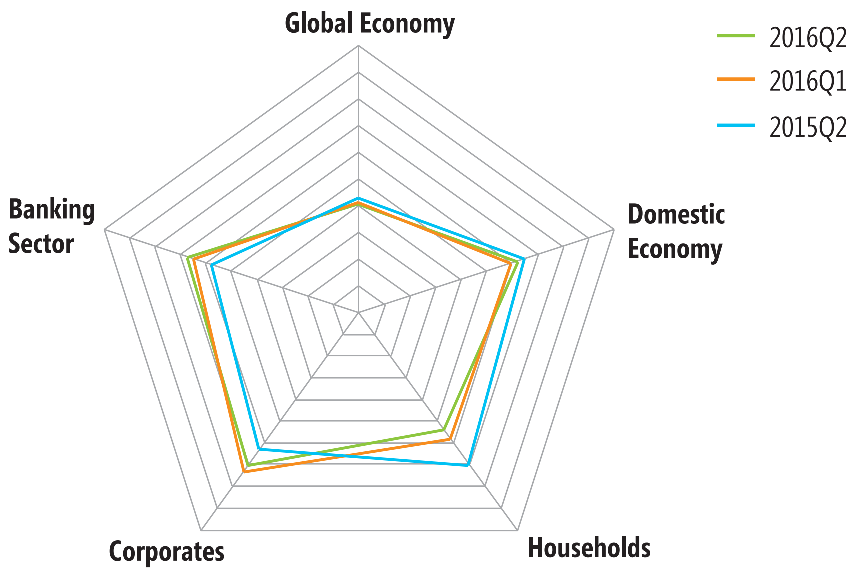
where x is the data point, μ is the series average, and σ is the standard deviation of the series. The range of the z-scores of each sub-indicator are divided into 10 equally sized data subsets (percentiles) corresponding to a rank between 0 and 10. This scale is then used to rank the actual z-scores obtained for each sub-indicators at every data point. The final rank of a particular dimension at one point in time is the weighted average of the ranks of all sub-indicators that fall under that dimension. The rank of each dimension is mapped into a cobweb-style diagram whereby a lower rank indicates lower risk and vice versa.

A zero rank corresponds to the dot in the middle of the cobweb, that is relatively low risk. The rank increases as we move away from the centre, indicating higher risk. It is important to note that the concept of risks remains relative. The mean and median of each dimension, which equal 5, do not correspond to 'normal risk' or to any vulnerability level.

The final score of the different dimensions are shown in the figure below for the periods 2016Q2, 2016Q1 and 2015Q2. Between 2015Q2 and 2016Q2, risks to financial stability stemming from the global economy were little changed while those stemming from the domestic economy fell slightly. Banking sector risks increased over the year but did not change much over the previous quarter. Risks to financial stability arising from indebtedness of households declined both over the year and over the quarter. Corporate debt risks increased over the year but were little changed compared to a quarter earlier.

Over the year, food and oil prices were lower while volatility was generally higher. Growth in major trading partner countries was lower. More recent dynamics, on a quarter-to-quarter basis, indicate that food and oil prices have increased but volatility and growth in major trading partners were lower. On the domestic front, risks were little changed over the year but fell slightly over the quarter. The decline in the quarter-to-quarter score of the indicator was the result of a lower deficit in the current account, higher domestic savings and low inflation while GDP growth and investment rate were rather flat.

The decline in indebtedness of households resulted from the low growth of credit that kept household credit-to-GDP gap in negative territory, while disposable income increased further



with the Pay Research Bureau wage award. Impairment ratios for consumption credit and credit cards were slightly higher over the year. Corporate debt risks were little changed but were driven by opposing forces within. On the positive side, corporates deleveraged further as evidenced by the lower debt-to-equity ratio while interest coverage improved and cost of debt fell. However, profitability, as measured by return on equity stayed almost range-bound. Banking sector risks increased somewhat over the year, driven by the deterioration in asset quality and lower profitability. Though banks remained well capitalised, non-performing loans to gross loans ratio increased over the year. The NPL ratio for credit extended outside Mauritius more than doubled in 2016Q2 compared to a year earlier. In Mauritius, key sectors of the economy like tourism, construction and traders reported high NPL ratios. The value of large exposure to capital was slightly lower over the year.

RISK ANALYSIS OF THE DOMESTIC BANKING SYSTEM

Risks to financial stability emanating from the global economic developments are important given that Mauritius is a small and open economy. With elevated downside risks to growth against the backdrop of sustained weakness in aggregate demand, sluggish investment and financial markets volatility, the potential for negative feedback loops is pertinent. Markets may continue facing bouts of volatility as Brexit nerves settle and its impact on global trade and finance unfolds. Nevertheless, uncertainty remains high. The euro area, our major trading partner, continues to face meagre growth and this constitutes a major drag on domestic growth prospects. In the US, normalisation of interest rates may lead to declining flows in emerging markets, with non-negligible implications for Mauritius.

On the domestic front, growth has remained below potential but is expected to improve going forward based on implementation of major announced projects in the Budget and a projected increase in investment. Moderate international commodity and energy prices together with broadly favourable domestic food supply conditions have kept inflation low and supported private consumption. The trends in international commodity and energy prices and robust tourist earnings were also favourable to lowering the deficit in the current account to a broadly sustainable level. The investment rate however remains low notwithstanding a low interest rate environment. Nonetheless, Budgetary measures, implementation of major infrastructure projects and expected increase in private sector investment would be key factors supporting the recovery of the domestic economy.

Household indebtedness as measured as a share of disposable income has fallen during 2016H1 amid a relatively higher increase in disposable income with the PRB wage award. However, caution should be exercised as households have continued to accumulate debt in a low interest rate environment. In addition, over the past years, banks have become increasingly exposed to households amid a rising share in total credit facilities availed by the private sector. On a positive note, households in Mauritius have an asset-building culture as evidenced by the share of housing credit in total household credit. It is equally important to note that housing credit is backed by robust collaterals and generally have low default rates. Nonetheless, NPLs resulting from household credit need closer monitoring to assess problem loans and an early detection of emerging pockets of vulnerabilities for remedial actions.

Corporates have continued to deleverage given the decline in their debt-to-equity ratios. Corporate debt as a share of GDP has also fallen given the deceleration of credit to the private sector. Notwithstanding the decline in the debt-to-equity ratio, the deleveraging process is still on-going and operators in some sectors are still operating with relatively high leverage ratios. While coverage of interest improved, profitability ratios have fallen compared to the highs a few years back and are not cloistered from the economic lacklustre. The successive cuts in the Key Repo Rate should relieve some cash flow pressures while allowing further deleveraging to make room for increased investment.

Banks in Mauritius have strengthened their capital positions with higher capital adequacy ratio but face a number of challenges. Profitability is on the decline as the low interest rates continue to sap revenue of banks. In addition, banks face increasing pressures from deteriorating asset quality both in and outside Mauritius. The Bank initiated the setting-up of an Asset Management Company primarily to address the adverse impact of non-performing loans on the stability of the financial system. The proposed amendments in the DTAA between India and Mauritius could be a matter of concern especially on the liquidity position of international banks exposed to GBCs doing business in India. Nonetheless, the last FSAP Mission conducted by the IMF and World Bank showed that the banking sector was resilient to liquidity shocks arising from withdrawals of GBC deposits in the event of an unfavourable DTAA.

Table 3.11: Risks to Financial Stability for the Upcoming Six Months

	Risk Probability	Change Probability*
Global Economy		
Global economic slowdown		Unchanged
Oil price		Up
Food prices		Up
Volatitlity (ViX)		Up
Domestic Economy		
Economic growth		Up
Inflation		Up
Terms of trade		Unchanged
Domestic savings		Unchanged
Investment/GDP		Up
Exchange rate		Unchanged
Household Debt Risks		
Household debt-to-disposable income		Up
Household debt service-to-disposable income		Down
Corporate Debt Risks		
Corporate debt-to-GDP		Down
Return on equity		Up
Leverage		Down
Banking		
Large exposures		Down
Return on equity		Up
Asset quality (domestic market)		Up
Cross-border exposures		Unchanged

Risk analysis key

High		Medium		Low	
6	5	4	3	2	1

** Change between June 2016 and December 2016.*
Source: Bank of Mauritius staff estimates.

STATEMENT ON FINANCIAL STABILITY

Section 4(2)(b) of the Bank of Mauritius Act 2004 confers upon the Bank the mandate to ensure the stability and soundness of the financial system of the country. This Financial Stability Statement is issued in compliance with Section 33(2)(b) of the Act, and provides an assessment of the resilience of the domestic financial system for the period ended June 2016, unless otherwise stated.

The domestic financial system in Mauritius is assessed to have remained resilient during FY2015-16. The Bank continued its close monitoring of the banking system with a view to addressing vulnerabilities in a timely manner. Negative spillover effects following the collapse of a large financial conglomerate in 2015, the BAI group, were adequately contained due to the prompt intervention and coordination by the relevant authorities. In addition, thus far, risks arising from the fallouts of both the DTAA and Brexit appear to have been successfully contained.

The global economic and financial assessments since the last MPFSR has not changed materially except for risks emanating from the fallouts of Brexit. Global growth would remain disappointing and uneven across advanced and emerging market economies. The referendum in Britain, which tilted in favour of an exit of the UK from the EU, has added a legion of uncertainty to growth prospects in UK and the euro zone given their intrinsic ties. The Bank reassured the domestic financial market that it was ready to provide liquidity assistance and support should the need arise.

On the domestic front, growth has remained moderate. Statistics Mauritius has revised real GDP growth on the downside to 3.7 per cent for 2016, largely on account of subdued investment performance, arising out of implementation lags. The decline in the ratio of investment to GDP remains nonetheless a major drag on medium-term potential growth prospects, especially against a backdrop of unsettled economic outlook in many of the country's trading partners. Assessment of the external vulnerability indicators suggest that conditions remained stable during the FY2015-16.

The domestic banking sector remains supported by strong capital positions, albeit some financial soundness indicators deteriorated somewhat. As at end-June 2016, the aggregate capital adequacy ratio was above the regulatory requirement of 10 per cent at 17.5 per cent, compared to 17.2 per cent as at end-June 2015. However, profitability of banks deteriorated as evidenced by lower return on equity. In addition, asset quality worsened, with NPL ratio increasing to 7.1 per cent as at end-June 2016, from 5.0 per cent as at end-June 2015. The coverage ratio - reflecting the level of provisioning to cater for NPL - increased to 51.3 per cent as at end-June 2016, from 39.5 per cent at end-June 2015. Exposure of banks to large borrowers, measured as a percentage of banks' capital base, has fallen to 197.7 per cent as at end-June 2016, compared to 224.3 per cent as at end-June 2015. Notwithstanding this improvement, credit concentration exposures continue to remain a source of potential risk and need to be monitored.

Against a backdrop of low interest rate environment, indebtedness of households, measured as the ratio of household debt to disposable income, has hovered at a high level in 2015 but subsequently fell during the first semester of 2016. As at end-June 2016, the ratio stood at 50.0 per cent, compared to 54.4 per cent a year earlier. Corporate indebtedness - measured as the ratio of corporate debt to GDP - declined from 54.5 per cent in 2014-15 to 53.8 per cent in 2015-16. Corporates from the construction, tourism and trade sectors have deleveraged further with a decline in debt-to-equity ratios. Nonetheless, in view of banks' exposures to large corporates, constant vigilance is being maintained by the Bank.

The payment systems have operated smoothly during the year under review, with transactions settled without delay or loss. The national payment systems remain robust to cater for the needs of the banking sector and is a critical pre-requisite for maintaining financial stability. The forthcoming implementation of the National Payment Switch is expected to further strengthen the payment infrastructure.

Overall, the financial system is assessed to be sound and stable. Key challenges, nonetheless, remain. The need for consolidating the supervisory framework for large financial conglomerates, has become more pronounced, and in terms of amendments brought to the Banking Act 2004, Section 5(1)(b)(ii) prescribes that the Bank shall, henceforth, regulate and supervise ultimate and intermediate financial holding companies having within the group, joint ventures or subsidiaries that are banks or non-bank deposit-taking institutions licensed by the Bank. In addition, discussions are under way at the Bank for the design of a formal framework for crisis management and resolution. The regulatory framework is being strengthened through the review and rationalisation of guidelines issued to factor in the latest developments in international banking.

4. FINANCIAL MARKETS OPERATIONS

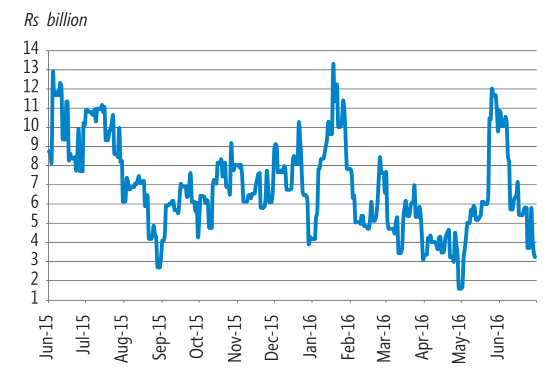
The Bank implements monetary policy through open market operations and monitors developments in the money and foreign exchange markets to ensure that they function efficiently. The Bank intervenes on the domestic foreign exchange market to smooth out volatility in the rupee exchange rate. During FY2015-16, the Bank maintained its active liquidity management operations as well as its sterilised foreign exchange intervention policy. The Bank also issued its own securities in order to curb the disproportionate build-up in banks' excess reserves to extreme levels.

Effective September 2015, the Bank, in collaboration with the Ministry of Finance and Economic Development, started the issuance of Government of Mauritius Treasury Bills, both, for Government cash flow requirements and liquidity management purposes. Simultaneously, the Bank began issuing the three maturities of Treasury Bills and discontinued the issuance of 273-Day Treasury Bills. Primary dealers could submit bids for maturities of their preference, and multiple maturities were issued at the weekly auction.

The pursuit of active liquidity management operations brought about the decline in excess liquidity in the banking sector from a daily average of Rs11.1 billion in FY2014-15 to a daily average of Rs6.7 billion in FY2015-16. During the year, banks' rupee excess reserves depicted extreme volatility on a daily basis, soaring to Rs13.4 billion by mid-January 2016 on account of seasonal developments as currency issued were repatriated to banks' reserves but dropped to their lowest daily levels of Rs1.6 billion around the end of April 2016. Notwithstanding substantial variation thereafter, which reflected net maturing securities, they closed at Rs3.3 billion on the last day of the FY2015-16.

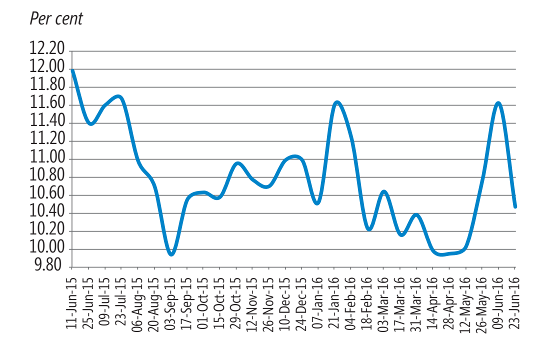
Consequent to these gyrations, the average cash reserve ratio that banks are required to maintain declined steadily from 11.60 per cent

Chart 4.1: Banks' Excess Reserves



Source: Financial Markets Operations Division.

Chart 4.2: Banks' Average Cash Reserve Ratio



Source: Research and Economic Analysis Department.

for the monitoring period ended 9 July 2015 to 9.95 per cent for the period ended 28 April 2016 before rising to 10.11 per cent for the two-week period ended 7 July 2016. During FY2015-16, the peak cash reserve ratio of 11.62 per cent was recorded for the two-week maintenance period ended 9 June 2016 compared to 13.19 per cent recorded during FY2014-15, for the two-week maintenance period ended 16 April 2015. Charts 4.1 and 4.2 show banks' excess reserves and the average cash reserve ratio maintained by banks, respectively.

In an effort to address the issue of liquidity overhang and repair the transmission channel of monetary policy, the Bank intervened on the money market through the issue of Bank of Mauritius instruments. Concurrently, the Bank also maintained its sterilised foreign exchange intervention policy, which had started since January 2015. The outstanding nominal amount of Bank of Mauritius instruments peaked at Rs56.8 billion as at end-June 2016, of which an amount of Rs9.5 billion was sterilised through Special Deposits held at the Bank for a period ranging from one to three years.

Issue of Government Securities

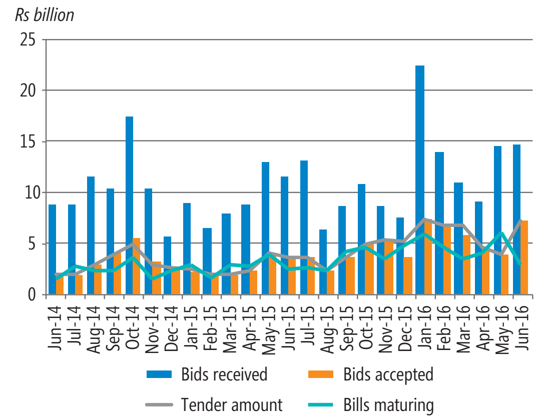
Government securities are issued in accordance with the Government Issuance Plan, which is available on the Bank's website. Effective September 2015, the Bank, in collaboration with the Ministry of Finance and Economic Development, began issuing Government of Mauritius Treasury Bills, both for Government cash flow requirements and liquidity management purposes. Over the period September 2015 to June 2016, Treasury Bills for a total nominal amount of Rs23.5 billion were issued by the Bank for liquidity management purposes. As on 30 June 2016, the outstanding Treasury Bills issued for liquidity management purposes were Rs10.4 billion.

Treasury Bills

The Bank continued its smoothing exercise to mitigate any volatility in the weekly amount of Treasury Bills put on tender. The market is informed of the range of weekly issues of Treasury Bills for the coming two months in advance. The actual amount and tenor of Treasury Bills for the next two weeks is also communicated to the market ahead of the auction. Effective 1 June 2015, the issue of 273-Day Treasury Bills has been discontinued and as from 1 September 2015, Bills of all three maturities (91-Day, 182-Day and 364-Day) are being issued simultaneously.

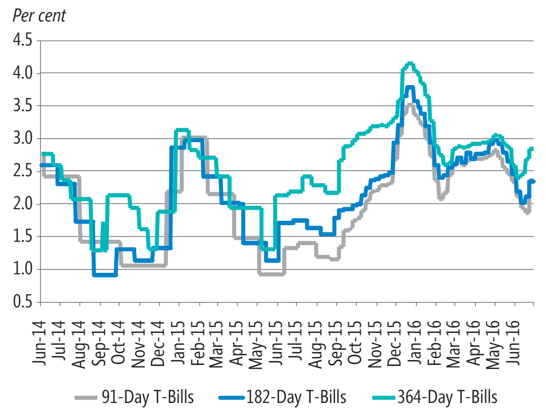
Reflecting the excess liquidity in the banking sector, the total bids received remained well in excess of the amount tendered. During FY2015-16, bids for a total nominal amount of Rs141.4 billion were received in the 91-Day, 182-Day and 364-Day maturities against a tender amount of Rs60.9 billion, that is, by more than two-fold. The value of bids accepted amounted to Rs59.4 billion while maturing Treasury Bills stood at Rs49.6 billion. The bid-cover ratio varied between 1.06 and 4.18 in FY2015-16, compared to a wider range of 1.16 to 5.08 in FY2014-15. The total amount of bids accepted represented 97.5 per cent of the total tender amount and 42.0 per cent of the total value of bids received compared to 101.7 per cent and 30.3 per cent, respectively, in FY2014-15.

Chart 4.3: Auctioning of Government of Mauritius Treasury Bills



Source: Financial Markets Operations Division.

Chart 4.4: Yields on Government of Mauritius Treasury Bills at Primary Auctions



Source: Financial Markets Operations Division.

During FY2015-16, the weighted average yields on Treasury Bills increased primarily as a result of the falling excess liquidity in the banking system. The weighted average yields on the 91-Day, 182-Day and the 364-Day tenors went up from 1.34 per cent, 1.74 per cent and 2.21 per cent at their issues in June 2015 to 2.13 per cent, 2.15 per cent and 2.68 per cent, respectively, in June 2016. The overall weighted average yield rose by 51 basis points, from 1.78 per cent in June 2015 to 2.29 per cent in June 2016. Charts 4.3 and 4.4 provide details on the auctioning of Treasury Bills in FY2015-16.

Government of Mauritius Treasury Notes

During FY2015-16, the Bank continued the monthly issuance of Three-Year Government of Mauritius Treasury Notes. The aggregate amount of Three-Year Treasury Notes that was put on tender during FY2015-16 was lower by Rs700 million, but the weighted yields on such securities were higher compared to FY2014-15. The value of bids received exceeded the tender amount by about 74 per cent in FY2015-16 compared to 175 per cent in FY 2014-15, thus reflecting the liquidity conditions prevailing in the money market. Four new benchmark issues and nine re-openings of previous issues were held with a view to providing ample liquidity in the instruments. A total amount of Rs18 billion was put on tender and the amount accepted stood at Rs16.4 billion, while a total of Rs16.9 billion matured. Table 4.1 provides details on the auctioning of Three-Year Treasury Notes during FY2015-16.

Long-Term Government of Mauritius Bonds

Five-Year Government of Mauritius Bonds

During FY2015-16, the Government raised a total amount of Rs18,043 million through the net issue of long-term Government of Mauritius

Table 4.1: Auctions of Three-Year Government of Mauritius Treasury Notes

Issue Date	Amount put on Tender	Value of Bids Received	Value of Bids Accepted	Interest Rate	Weighted Yield on Bids Accepted
	(Rs million)	*(Rs million)*	*(Rs million)*	*(Per cent per annum)*	*(Per cent per annum)*
2015					
24-Jul	1,300	3,240.0	1,300	2.46	3.94
21-Aug	1,500	1,850.0	1,500	3.72	4.09
25-Sep	1,500	1,830.0	1,500	3.72	4.24
23-Oct	1,500	2,380.0	540	3.72	4.51
30-Oct	1,000	2,625.6	1,000	3.72	4.56
20-Nov	1,500	1,985.0	1,500	4.25	4.56
18-Dec	1,600	1,156.0	1,016	4.25	4.78
2016					
18-Jan	1,500	4,235.5	1,500	4.25	4.51
19-Feb	1,300	2,463.5	1,300	3.59	3.72
25-Mar	1,300	3,237.4	1,300	3.59	3.68
29-Apr	1,300	2,621.1	1,300	3.59	3.63
24-May	1,400	2,435.0	1,400	3.59	3.48
24-Jun	1,300	1,285.0	1,285	3.40	3.62
2015-16	**18,000**	**31,344.1**	**16,441**	**2.46-4.25**	**3.48-4.78**
2014-15	**17,300**	**47,605.0**	**17,220**	**2.46-3.88**	**2.50-3.93**

Source: Financial Markets Operations Division.

Bonds. The auctions of Five-Year Government of Mauritius Bonds were also largely oversubscribed by two-fold, notwithstanding that a lower amount was put on auction. Six auctions of Five-Year Government of Mauritius Bonds were carried out and a total nominal amount of Rs8,054 million was accepted. These included the issue of two New Benchmark Bonds and four re-openings aimed at creating adequate liquidity to foster the development of the secondary market trading of these Government securities. Table 4.2 provides details on the six auctions of Five-Year Government of Mauritius Bonds held in 2015-16.

Ten-Year Government of Mauritius Bonds

During FY2015-16, the Bank held three issues of Ten-Year Government of Mauritius Bonds, namely on 11 September 2015, 5 February 2016 and 13 May 2016, respectively. These auctions were also oversubscribed with a bid-cover ratio of 2.37 compared to 2.91 in FY2014-15. The weighted yields on these were also lower compared to their previous year's issue. The total nominal amount put on tender was Rs4.6 billion and total bids received amounted to Rs10,886.8 billion. Details of the auctions of Ten-Year Government of Mauritius Bonds are given in Table 4.3.

Fifteen-Year Government of Mauritius Bonds

The Bank conducted three issues of the Fifteen-Year Government of Mauritius Bonds for a total nominal amount of Rs4.5 billion during FY 2015-16. All the three auctions were oversubscribed with bid-cover ratios of 1.8, 2.2 and 2.3 respectively. Details of the auctions of Fifteen-Year Government of Mauritius Bonds are given in Table 4.4.

The Bank held an auction of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds on 9 March 2016. The Bonds were issued at par, bearing interest payable annually at the weighted accepted bid margin plus the 12-month average inflation rate published by Statistics Mauritius as at end-January, every year. Bids for a total nominal amount of Rs1,950.8 billion were received and a total amount of Rs1.5 billion was issued at the weighted bid margin of 2.81 per cent. Details of the auction of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds are given in Table 4.5.

Twenty-Year Government of Mauritius Bonds

During FY2015-16, the Bank conducted two auctions of Twenty-Year Government of Mauritius Bonds, on 13 January 2016 and 13 April 2016, for a nominal amount of Rs1.5 billion each. Both auctions were oversubscribed with bid-cover ratios of 2.6 and 1.8, respectively. Details of the auctions of the Twenty-Year Government of Mauritius Bonds are given in Table 4.6.

Bank of Mauritius Securities

During FY2015-16, the Bank continued to issue its own instruments to mop up the persistent excess liquidity prevailing in the banking sector. Bills for a maturity of one year as well as Two-Year, Three-Year and Four-Year Bank of Mauritius Notes were issued and bids were allocated on a market preference basis. A total nominal amount of Rs19.0 billion were issued against maturing securities of Rs9.9 billion. As at close of business on 30 June 2016, the total outstanding amount of Bank of Mauritius securities issued for liquidity management stood at Rs36.0 billion.

PRIMARY DEALER SYSTEM AND SECONDARY MARKET TRADING

The Bank continued to endeavour towards the enhancement of the Primary Dealer System in Mauritius. Such an initiative aimed towards contributing to the development of a secondary market for Government securities for improving liquidity conditions and to derive a benchmark yield curve. For the period ended 30 June 2016, eight banks were eligible to act as Primary Dealers.

	Table 4.2: Auctions of Five-Year Government of Mauritius Bonds						
		Issue Date					
		7-Aug-15	9-Oct-15	4-Dec-15	22-Jan-16	22-Apr-16	20-May-16
1.	Amount of Bonds put on Tender *(Rs million)*	1,300	1,300	1,400	1,500	1,400	1,400
2.	Value of Bids Received *(Rs million)*	2,511.0	1,439.0	1,832.5	4,812.5	2,310.1	3,011.7
3.	Value of Bids Accepted *(Rs million)*	1,300	1,054	1,400	1,500	1,400	1,400
4.	Interest Rate *(% p.a.)*	4.45	4.45	4.85	4.85	4.85	4.10
5.	Highest Yield Accepted *(% p.a.)*	4.75	5.12	5.20	4.69	4.60	4.29
6.	Weighted Yield on Bids Accepted *(% p.a.)*	4.53	4.95	5.01	4.53	4.30	4.23
7.	Weighted Price of Bids Accepted *(%)*	99.651	97.939	99.300	101.379	102.277	99.420

Source: Financial Markets Operations Division.

	Table 4.3: Auctions of Ten-Year Government of Mauritius Bonds			
		Issue Date		
		11-Sep-15	5-Feb-16	13-May-16
1.	Amount of Bonds put on Tender *(Rs million)*	1,600	1,500	1,500
2.	Value of Bids Received *(Rs million)*	3,580.0	4,025.1	3,281.7
3.	Value of Bids Accepted *(Rs million)*	1,600.0	1,500.0	1,500.0
4.	Interest Rate *(% p.a.)*	5.95	5.60	5.46
5.	Highest Yield Accepted *(% p.a.)*	6.15	5.83	5.49
6.	Weighted Average Yield on Bids Accepted *(% p.a.)*	6.03	5.75	5.47
7.	Weighted Price of Bids Accepted *(%)*	99.406	98.871	99.924

Source: Financial Markets Operations Division.

	Table 4.4: Auctions of Fifteen-Year Government of Mauritius Bonds			
		Issue Date		
		17 Jul 2015	13-Nov-15	10-Jun-16
1.	Amount of Bonds put on Tender *(Rs million)*	1,500	1,500	1,500
2.	Value of Bids Received *(Rs million)*	2,736.1	3,360.3	3,399.0
3.	Value of Bids Accepted *(Rs million)*	1,500.0	1,500.0	1,500.0
4.	Interest Rate *(% p.a.)*	6.55	6.50	6.20
5.	Highest Yield Accepted *(% p.a.)*	7.00	7.12	6.38
6.	Weighted Average Yield on Bids Accepted *(% p.a.)*	6.85	6.88	6.29
7.	Weighted Price of Bids Accepted *(%)*	97.215	96.479	99.134

Source: Financial Markets Operations Division.

During FY2015-16, total transactions of Treasury Bills carried out by Primary dealers increased significantly by about 83.7 per cent, from Rs11,811 million during FY2014-15 to Rs21,695 million.

Transactions carried out among Primary dealers amounted to Rs6.8 billion during FY2015-16, representing about 31.3 per cent of the total amount transacted compared to about 58.4 per cent during the preceding fiscal year. Deals conducted with corporates and pension funds accounted for about 37.9 per cent of the total transactions during FY2015-16, while transactions with non-primary dealers and individuals constituted the remaining 30.8 per cent. Most of the transactions were carried out between Bands 1 (2 to 30 days) to 4 (91 to 135 days) for a total amount of Rs16.0 billion, representing 73.7 per cent of total transactions. Yields varied between 0.75 per cent and 4.20 per cent during 2015-16 compared to a range of 0.60 per cent to 3.04 per cent in FY2014-15. Charts 4.5 and 4.6 provide information on transactions carried out by Primary dealers and activities on the Secondary Market, respectively.

Interbank Transactions

The interbank money market enables the redistribution of liquidity among banks. Funds are available either at call or on overnight basis; at short notice (up to 7 days) and at term notice (over 7 days) on a non-collateralised basis. Total turnover on the interbank money market during FY2015-16 decreased by 65.6 per cent to Rs115,006 million, equivalent to a daily average of Rs415 million compared to Rs1,043 million during FY2014-15. About 93.5 per cent of total transactions, representing a total amount of Rs107,551 million was carried out on the Call money market segment, albeit some 58.0 per cent lower than were transacted during

Table 4.5: Auction of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds

		Issue Date
		11-Mar-16
1.	Amount of Bonds put on Tender (Rs million)	1,500
2.	Value of Bids Received (Rs million)	1,950.8
3.	Value of Bids Accepted (Rs million)	1,500.0
4.	Highest Bid Margin Accepted (% p.a.)	3.50
5.	Weighted Bid Margin Accepted (% p.a.)	2.81

Source: Financial Markets Operations Division.

Table 4.6: Auctions of Twenty-Year Government of Mauritius Bonds

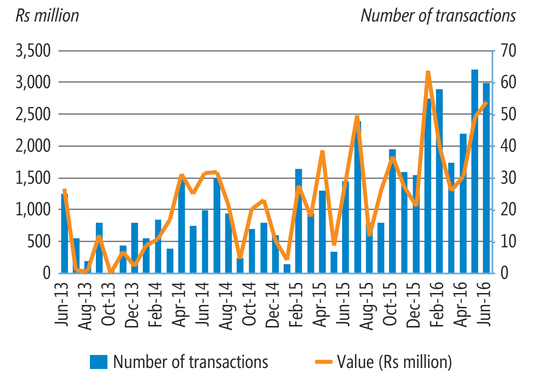
		Issue Date	
		15-Jan-16	15-Apr-16
1.	Amount of Bonds put on Tender (Rs million)	1,500	1,500
2.	Value of Bids Received (Rs million)	3,916.7	2,738.0
3.	Value of Bids Accepted (Rs million)	1,500.0	1,500.0
4.	Interest Rate (% p.a.)	7.00	6.95
5.	Highest Yield Accepted (% p.a.)	7.52	7.29
6.	Weighted Average Yield on Bids Accepted (% p.a.)	7.44	7.09
7.	Weighted Price of Bids Accepted (%)	95.458	98.516

Source: Financial Markets Operations Division.

FY2014-15. On a daily average basis, transactions amounted to Rs394 million compared to Rs818 million in FY2014-15. Short notice transactions fell by 92.1 per cent to Rs4,665 million in FY2015-16. The daily average amount of transactions was Rs86 million compared to Rs455 million during the preceding fiscal year, representing a drop of 81.1 per cent. Transactions on the Term money market slumped by 85.2 per cent to Rs2.8 billion in FY2015-16 or a daily average of Rs70 million compared to Rs233 million in FY2014-15.

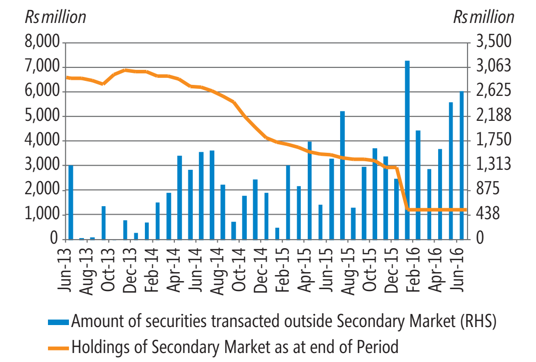
Interbank interest rates, which are determined primarily by the prevailing liquidity conditions, fluctuated between 0.85-2.00 per cent in FY2015-16 compared to 0.60-5.00 per cent for the preceding fiscal year. Rates on the Call Money market hovered in the range of 0.85-2.00 per cent compared to 0.60-5.00 per cent in FY2014-15. Interest rates on Money at Short Notice varied between 1.25-2.00 per cent compared to 0.70-4.00 per cent in FY2014-15, while interest rates on Term Money transactions ranged between 1.70-1.90 per cent for the period under review against 1.70-3.25 per cent in FY2014-15. The overall weighted average interbank interest rate increased by 5 basis points from 1.33 per cent to 1.38 per cent in FY2015-16.

Chart 4.5: Primary Dealers Transactions



Source: Financial Markets Operations Division.

Chart 4.6: Secondary Market Activity



Source: Financial Markets Operations Division.

Interbank Foreign Exchange Market

Total turnover on the domestic Interbank Foreign Exchange market increased by US$107 million, from US$1,352 million in FY2014-15 to US$1,385 million in FY2015-16, of which US$1,221 million represented purchases of US dollar against the rupee and US$164 million for purchases of US dollar against other foreign currencies. Foreign exchange transactions were carried out at exchange rates ranging from Rs34.9550 to Rs36.3825 per US dollar in FY2015-16.

Purchases and Sales of Foreign Currencies by Bank of Mauritius

The Bank intervenes on the domestic foreign exchange market to smooth out undue volatility in the rupee exchange rate. In FY2015-16, the Bank's purchases of foreign currencies increased by US$58.0 million, from US$757.2 million to US$815.2 million, out of which a total amount of US$738.4 million were bought through intervention from banks. However, sales of foreign currencies fell from US$347.5 million to US$122.2 million, including a total amount of US$74.3 million sold to the State Trading Corporation for part financing of its import of foodstuff and petroleum products. The remaining amount of US$693 million were directed towards consolidating the Bank's foreign currency reserves. The rupee proceeds arising out of foreign exchange intervention were sterilised for a total amount of Rs9.5 billion which was placed as special deposits for periods of one year and three years.

CREDIT FACILITIES

Special Line of Credit to the Mauritius Sugar Syndicate

The Special Line of Credit made available by the Bank to banks for on-lending to the Mauritius Sugar Syndicate (MSS) for upfront payment of 80 per cent of sugar proceeds was discontinued in 2015. The Bank advised that it would be in the best interest of small and medium planters to borrow from banks since interest rates have declined significantly. In fact, following the Bank's advice, the MSS has had recourse to banks and obtained the required funds at a rate of interest similar to what it paid to the Bank in the previous years.

Special Line of Credit in Foreign Currency

Since the introduction in 2012 of the Special Foreign Currency Line of Credit for the export and tourism operators to the tune of EUR600 million, only an amount of EUR40.299 million and USD650,000 were disbursed. Given the low interest shown by operators, the line of credit was reduced to EUR100 million. As at 30 June 2016, the outstanding balance to be repaid by banks amounted to EUR21.742 million and USD188,000.

Credit Facilities to National Property Fund Ltd

In June 2015, the Bank made available a bridging loan of Rs3.5 billion to the National Property Fund Ltd against a letter of comfort issued by the

Table 4.7: Transactions on the Interbank Money Market

	Amount Transacted			Daily Average[1]	Range of Interbank
	Lowest	Highest	Total		Rates
	(Rs million)				(% p.a)
2013-14	5	2,825	265,937	799	1.25-1.85
2014-15	20	2,880	334,714	1043	0.60-5.00
2015-16	16	1,980	115,006	415.18	0.85-2.00

[1] For transactions days only.
Figures may not add up to totals due to rounding.
Source: Financial Markets Operations Division.

Table 4.8 : Transactions on the Interbank Foreign Exchange Market

	Purchase of US$ against Rupee	Purchase of US$ against Other Foreign Currencies	Total Purchases US$ Equivalent #	Total Purchases Rupee Equivalent	Opening Interbank Min-Max Ask Rate[1]
	(US$ million)	(US$ million)	(US$ million)	(Rs million)	(Rs/US$)
2011-12	504.70	153.62	732.54	21,605.54	28.0750-31.2500
2012-13	659.08	116.72	1,145.06	37,777.35	30.2500-31.4375
2013-14	596.79	149.99	1,421.90	43,275.63	30.0425-31.4000
2014-15	1,039.44	147.00	1,352.37	44,550.70	30.3550-36.6750
2015-16	1,146.29	123.71	1,384.80	49,455.08	34.9550-36.3825

[1] The Rs/US$ ask rate is based on the average of daily wholesale Rs/US$ ask rates of four major banks.
 # Includes purchases of foreign currencies other than US dollar and intervention carried out by BOM.
Source: Financial Markets Operations Division.

Government of Mauritius in favour of the Bank, with interest accrued on 30 June 2016.

In May 2016, the Bank acceded to the request made by the National Property Fund Ltd to extend the credit facilities with interest accrued for a further period of one year and repayable on 30 June 2017, against a fresh letter of comfort issued by the Government in favour of the Bank.

RESERVES MANAGEMENT

The net foreign assets of the Bank increased from Rs138.6 billion as at end-June 2015 to Rs166.7 billion as at end-June 2016. The Bank has, by adopting a modern reserves management framework, been able to continue to improve the risk-adjusted returns of the international reserves of the country during FY2015-16. This would be the second consecutive year in which returns have improved over those of previous years despite less favourable market conditions.

Global economic growth has, over the past financial year, continued to slow down and markets have faced rising bouts of volatility. Diverging monetary policies globally, the diminishing returns to scale of central bank quantitative easing in the developed world leading to low interest rates for a longer period of time, and the Chinese economic slowdown have contributed to significant repricing of risk in global equity, bond and commodity markets. Over the medium to longer term, continued deleveraging within the Asian corporate space, unfavourable demographics in Europe, Japan and China as well as the continued rise of populism and nationalism in Europe and the UK are expected to continue to depress returns across the asset class spectrum, with volatility expected to remain above levels seen since the 2008 financial crisis.

In a world characterised by secular stagnation and lower returns, reserve managers must increasingly adjust and modernise the way in which reserves are managed whilst meeting the capital preservation mandate. During this financial year, the Bank has adopted a series of proactive measures aimed at optimising the way in which it manages international reserves: the Board of the Bank in December 2015 approved a multi-asset Strategic Asset Allocation (SAA), including setting risk and return targets for the entire reserves portfolio and the formal tranching of the portfolio with different risk and return profiles, to grapple with challenges faced by reserve and asset managers globally; a risk committee and an investment committee have been set up and meet regularly in order to effectively manage reserves, monitor risks and review latest market developments; the governance structure of the Bank with regard to reserve management has been strengthened, with clear segregation of duties between the front, middle and back offices; there are continuous efforts to develop the infrastructure and support systems, with the on-boarding of a global custodian and the acquisition of modern portfolio and risk management systems. Finally, the reserve management team has been reinforced with focus on capacity building.

5. PAYMENT AND SETTLEMENT SYSTEMS AND CURRENCY MANAGEMENT

The payment, clearing and settlement system is an important component of the Financial Market Infrastructure (FMI). While FMIs are key to the clearance and settlement of transactions in financial markets and the movement of money and securities around the world, improper management of FMIs may entail significant systemic risks and operational inefficiency as well as financial losses.

The Bank has issued statutes as well as regulations to govern the domestic FMI. The Bank provides oversight of the payment systems in Mauritius as this core function is directly linked to its mandate of maintaining price stability and ensuring the safety and soundness of the financial system.

The Bank has the statutory obligation to promote, regulate and organise the operations of the payment and clearing system in Mauritius. In this regard, the Bank undertook some important initiatives during the year under review to further mitigate risks in the payment system and reduce cost and uncertainty of settlement of payment transactions.

During FY2015-16, the payments systems operated by the Bank remained robust and flawlessly handled large volume of transactions during peak periods.

Legal Framework

Currently, the regulation of payment systems is conferred upon the Bank under Section 48 of the Bank of Mauritius Act 2004. However, in the wake of worldwide adoption of digital banking and payment options in recent years, banks are already struggling to hold their traditional customer base against competitors from other domains, particularly, those from mobile and electronic commerce. Concurrently, the regulation of digital banking services requires central banks to re-define their supervisory framework.

It is from this perspective that the Bank of Mauritius has proposed a National Payment System Law with a view to improving the efficiency in the processing of electronic payments and enhancing customer protection. Given the national importance of the payments system, the Bank deemed it necessary to have the views of all stakeholders in formulating policies governing the National Payment System. The Bank has accordingly issued a Draft National Payment System Bill for public consultation and feedback.

National Payment Switch

As the number of payment operators is growing in banking and non-banking sectors, the Bank is working on the next phase of payments innovation that will open the way for inter-operable digital banking systems. This will be achieved through the implementation of a National Payment Switch (NPS).

A Payment Switch is a system which can interface with any Point Of Sale (POS) system, ATM, mobile payment system and e-commerce portals. It consolidates all the electronic transactions and, then, intelligently channels them to one or more payment processors for authorisation and settlement. The NPS will simplify the current system of card payment. It will route all transactions made with locally issued cards to a central point (the Switch), for settlement at the Bank.

Mauritius Automated Clearing and Settlement System

The Mauritius Automated Clearing and Settlement System (MACSS) is the country's only large value payment system and is owned and operated by the Bank. Payments are settled through banks' accounts held with the Bank, based on Real Time Gross Settlement (RTGS) principles.

During FY2015-16, MACSS did not experience any significant downtime even while processing a high volume of transactions. The MACSS has a multi-currency feature and it settles transactions in Mauritian rupee, Pound sterling, US dollar, euro, Swiss franc and South African rand. In addition to the settlement of large value transactions, MACSS is also used to:

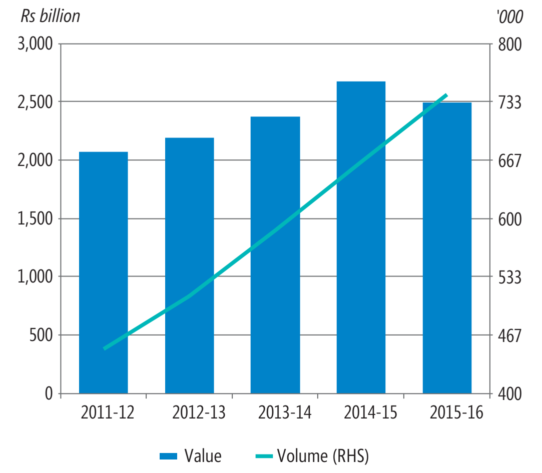
- settle cheques electronically and low value electronic fund transfers in bulk four times per day;
- effect settlements for the Central Depository System (CDS) in Mauritian rupee, US dollar, euro, Pound sterling and South African rand. CDS transactions are operated by the Stock Exchange of Mauritius. There are eight participating banks in the settlement mechanism of CDS. AfrAsia Bank Limited joined this mechanism in October 2015; and
- carry out the final settlement of the Contribution Network Project (CNP) to the accounts of the Mauritius Revenue Authority.

Throughput on MACSS

Throughput, measured in terms of volume and value of transactions through the MACSS over the year, is an indicator of performance of the payment system. During FY2015-16, MACSS settled 742,478 transactions for a total value of Rs2.5 trillion, representing an average of Rs3.4 million per transaction. While the volume of transactions increased by 11.8 per cent during FY2015-16, the value of transactions went down by 6.7 per cent compared to the preceding fiscal year.

The daily average volume of transactions settled on MACSS during FY2015-16 was 2,935 and had an average value of Rs9.9 billion. The daily average volume of transactions increased by 10.0 per cent

Chart 5.1: Transactions on MACSS



Source: Payment Systems and MCIB Division.

compared to the previous fiscal year whilst the daily average value of transactions fell by 8.1 per cent. The value of MACSS transactions processed during FY2015-16 represented around six times the annual GDP of Mauritius. Chart 5.1 shows the volume and value of MACSS transactions from FY2011-12 through FY2015-16.

The value of foreign currency transactions processed on MACSS during FY2015-16 was equivalent to US$3.5 billion, that is an increase of 19.0 per cent over FY2014-15.

Cheque Truncation and Bulk Clearing System

Retail payment refers to low value and high volume payments made through credit cards or bulk payment schemes like Direct Debit or Credit. The Bank presently operates the Bulk Clearing System (BCS), which is the clearing engine of the Port Louis Automated Clearing House (PLACH) used for the settlement of cheques electronically through truncation and electronic fund transfers. Settlements are effected in bulk four times a day on MACSS at 10h00, 12h00, 15h00 and 16h00. The BCS has several other features such as online clearing facility to clear and settle cheques immediately as well as high-value cheques and office cheques that have been tested and would be rolled-out subsequently.

Direct Debit

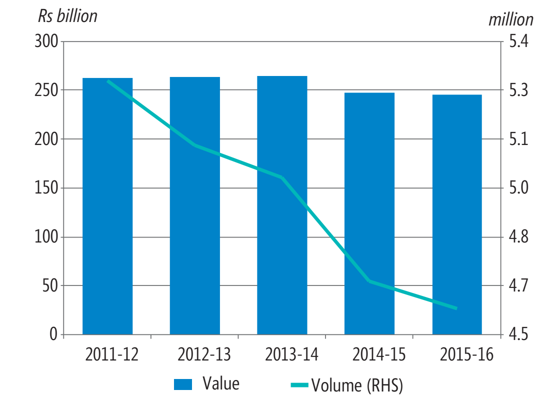
With a view to increasing efficiency and convenience in recurrent low value payments, such as utility bills, the Bank has deemed it necessary to roll out the direct debit feature of the BCS. The direct debit module would, thus, allow for settlement of claims from accounts held at banks. It may also be used for any one-off payment. Technical aspects of the direct debit feature have been successfully tested by banks. The Bank will issue the Direct Debit Scheme Rules that govern direct debit operations shortly. The Scheme would be launched with trusted parties such as utility companies, the Registrar General's Department and the Mauritius Revenue Authority.

Transaction Throughput via the BCS

The BCS again maintained its resilience to handle the large volume of cheques in FY2015-16. 4,579,928 cheques were cleared for a total amount of Rs246.1 billion during FY2015-16 via the Bulk Clearing System. The volume and value of cheques cleared dropped marginally by 1.7 per cent and 0.9 per cent, respectively, compared to FY2014-15. The daily average volume and value of cheques cleared stood at 18,102 and Rs972.8 million, respectively. Charts 5.2 depicts volume and value of cheques cleared from FY2011-12 through FY2015-16.

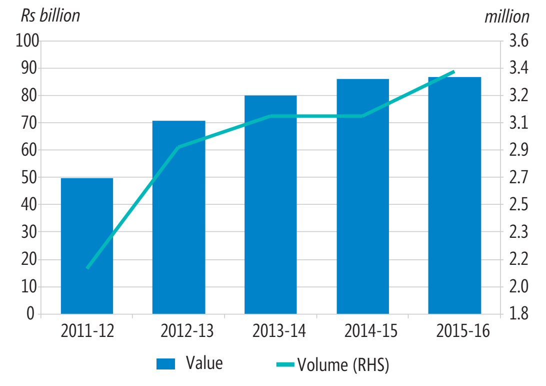
During FY2015-16, the BCS cleared 3,436,615 Electronic Fund Transfers (EFTs) for a total value of Rs87.2 billion. EFTs posted an increase of 10.9 per cent in volume terms and 2.1 per cent in value terms compared to FY2014-15. The average monthly volume of EFTs cleared was 286,385 while the average monthly value

Chart 5.2: Cheques Cleared



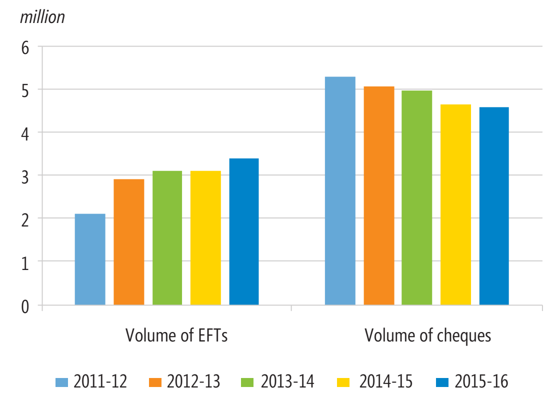
Source: Payment Systems and MCIB Division.

Chart 5.3: Electronic Clearing Transactions



Source: Payment Systems and MCIB Division.

Chart 5.4: Volume and Cheques and EFTs on BCS



Source: Payment Systems and MCIB Division.

was Rs7.3 billion. Chart 5.3 shows the monthly volume and value of EFTs cleared from FY2011-12 through FY2015-16.

Regional Payment and Settlement System and SADC Integrated Regional Settlement System

The development of regional payment systems provides several benefits to countries in the region in terms of cost savings and reduced transaction time. The COMESA Regional Payment and Settlement System (REPSS) and SIRESS (SADC Integrated Regional Settlement System) are two such initiatives.

REPSS started live operations on 3 October 2012. It is a cross-border fund transfer system for countries in the COMESA region with the objectives of enhancing intra-regional trade by decreasing the cost of transfer and reducing the time taken for effective transfer of funds from 5 days to same day. The Bank of Mauritius is the settlement bank in the REPSS set-up. Accounts in euro and US dollar have been opened for twenty participating central banks. The following eleven central banks have funded their settlement accounts: Banque Centrale de Congo, Central Bank of Kenya, Reserve Bank of Malawi, Bank of Mauritius, Banque Nationale du Rwanda, Central Bank of Swaziland, Central Bank of Sudan, Central Bank of Egypt, Bank of Uganda, Bank of Zambia and Reserve Bank of Zimbabwe. The Central Bank of Sudan has funded its account in euro only due to US dollar ban on this country. The Reserve Bank of Zimbabwe was the last participant to fund its US dollar account in June 2016.

REPSS has 8 live participants namely, Banque Centrale de Congo, Central Bank of Kenya, Reserve Bank of Malawi, Bank of Mauritius, Banque Nationale du Rwanda, Central Bank of Swaziland, Bank of Uganda and Bank of Zambia. The Central Bank of Egypt has already funded its account in early June 2015 and is expected to join the system shortly upon completion of the testing phase.

The volume and value of transactions settled on REPSS picked up as a result of the Central Bank of Kenya and Central Bank of Uganda joining the platform. The volume and value of transactions settled on REPSS during FY2015-16 are given in Table 5.1.

Table 5.1: Summary of REPSS Transactions July 2015 - June 2016

Month	Amount in US dollar	No of US dollar transactions	Amount in Euro	No of Euro transactions
Jul-15	931,641	25	1,540.0	1
Aug-15	597,557	20	1,465.5	1
Sep-15	605,677	17	1,444.4	1
Oct-15	796,529	46	1,491.2	1
Nov-15	943,785	74	35,222.9	6
Dec-15	4,772,945	55	732,350.0	5
Jan-16	383,744	17	3,400.0	1
Feb-16	425,839	8	1,495.8	1
Mar-16	571,114	14	0	0
Apr-16	59,851	7	1,135.4	1
May-16	62,883	7	1,144.1	1
Jun-16	880,175	17	1,132.4	1
TOTAL	**11,031,738**	**307**	**781,821.7**	**20**

Source: Payment Systems and MCIB Division.

The SADC payments modernisation project was initiated by the Committee of Central Bank Governors (CCBG) to achieve the objectives of the SADC Finance and Investment Protocol, which states, inter alia, that SADC countries should cooperate on payment, clearing and settlement systems in order to facilitate the process of trade integration. In July 2013, the SIRESS went live in the Rand Common Monetary Area (CMA), which comprises South Africa, Namibia, Lesotho and Swaziland. SIRESS which is a cross-border payment system dealing in South African Rand, is operated by the South African Reserve Bank. On 15 September 2014, SIRESS was extended to non-CMA countries to effect transactions using the new platform. The inclusion of the non-CMA countries is on a country-by-country basis. The SIRESS team conducts workshops and assists commercial banks in their preparation to join SIRESS.

Five banks in Mauritius were granted approval by the SIRESS operator to go live on the SIRESS platform on 15 September 2014. However, only four Banks are connected to the SIRESS platform: Barclays Bank Mauritius Limited, Standard Bank (Mauritius) Limited, The Mauritius Commercial Bank Limited and Standard Chartered Bank (Mauritius) Limited. Banks from Angola, Botswana, Malawi and Seychelles are in the process of joining the system. The SIRESS web platform allows participants to view their positions and transactions effected on a near real-time basis.

Electronic Banking Transactions

Fifteen banks offered electronic banking facilities and card services as at end-June 2016. The number of credit, debit and other cards in circulation rose from 1,604,014 as at end-June 2015 to 1,687,913 as at end-June 2016, together with a concomitant increase in the monthly average number of transactions from 5,600,019 during FY2014-15 to 5,737,373 during FY2015-16.

The number of Automated Teller Machines (ATMs) in operation increased from 460 as at end-June 2015 to 461 as at end-June 2016. The monthly average value of card transactions carried out via ATMs and merchant point of sales increased from Rs11.3 billion as at end-June 2015 to Rs12.1 billion as at end-June 2016.

Outstanding advances on credit cards increased by 1.8 per cent to Rs2.3 billion at the end of June 2016. While outstanding advances per credit card in circulation increased by 5.6 per cent from Rs8,378 as at end-June 2015 to Rs8,845 as at end-June 2016, the number of credit cards in circulation over the same period dropped by 3.5 per cent. Table 5.4 summarises electronic banking transactions as at end-June 2012 through 2016.

Internet Banking

Internet banking facilities are gathering momentum in the country, with the number of bank customers availing of such facilities rising by 27.8 per cent from 278,541 as at end-June 2015 to 356,070 as at end-June 2016. As a result, the number of internet banking transactions increased by 9.2 per cent, from 533,719 to 582,876 over the same period while the value of internet banking transactions rose significantly from Rs267.8 billion to Rs369.8 billion, or by 38.1 per cent. Notwithstanding these developments, the amount per internet banking transaction made by each customer edged down from Rs1.80 as at end-June 2015 to Rs1.78 as at end-June 2016.

Mobile Banking

As at end-June 2016, five banks were offering mobile banking facilities to their customers. Reflecting the growing technological trends in the banking industry, the number of mobile payment and banking transactions rose by 15.5 per cent, from 398,362 as at end-June 2015 to 460,015 as at end-June 2016, while the amount of mobile payments increased by 66.0 per cent from Rs98.5 million to Rs163.5 million over the same period.

ISSUE OF NOTES AND COINS

The Bank of Mauritius has the statutory obligation to ensure an adequate supply of banknotes and coins to meet the demand of members of the public in Mauritius. This includes:

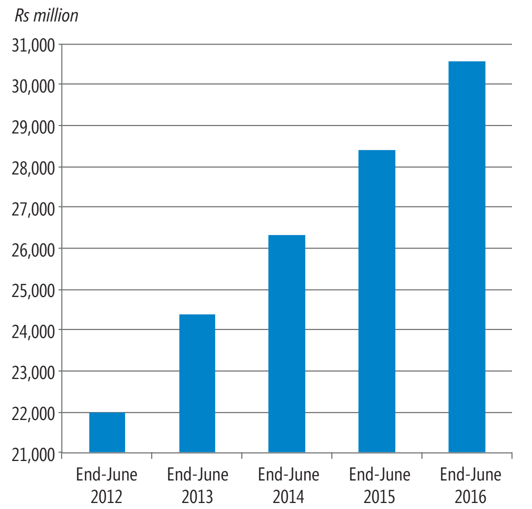
- ensuring the availability and supply of good quality banknotes and coins to banks;
- accepting the deposits of banknotes and coins from banks;
- attending to the destruction of soiled banknotes; and
- exchanging soiled and mutilated banknotes.

Notwithstanding the use of technology driven non-cash modes of payment, the demand for banknotes and coins increased in FY2015-16. The value of banknotes and coins deposited at and issued by the Bank during the year under review amounted to Rs36.0 billion and Rs38.3 billion, respectively. The Bank examined 63.3 million banknotes equivalent to an amount of Rs33.1 billion, of which 11.5 per cent for an amount of Rs2.5 billion were found to be unfit for circulation. As at 30 June 2016, 88.5 per cent of the soiled banknotes amounting to Rs2.2 billion were destroyed.

In FY2015-16, the value of banknotes in circulation rose by 7.7 per cent compared to 7.8 per cent in FY2014-15, while the volume of banknotes rose by 8.2 per cent compared to an increase of 8.0 per cent in FY2014-15. Chart 5.5 shows currency in circulation from FY2011-12 through to FY2015-16.

Banknotes of Rs1,000 denomination accounted for 60.9 per cent of the total value of banknotes in circulation, followed by banknotes of Rs2,000 denomination, which represented 15.9 per

Chart 5.5: Currency in Circulation



Source: Banking and Currency Division.

cent of the total. In volume terms, banknotes of Rs1,000 denomination represented 27.2 per cent of all banknotes in circulation followed by banknotes of Rs100 denomination, with a share of 22.6 per cent. Chart 5.6 depicts the total value and volume of banknotes in circulation by denomination.

During FY2015-16, the total value and volume of coins in circulation increased by 4.8 per cent and 4.6 per cent, respectively.

Sale of Gold to Licensed Jewellers

The Bank imports and sells gold of high quality, that is, 24 carats 999.9 assay in bar forms of 1000 grams, 500 grams and 100 grams as well as in grain forms to industrialists and licensed jewellers. The selling prices of industrial gold and gold bars are based on prevailing international gold market prices and are posted daily in the Bank's Banking Hall and website.

Sale of Dodo Gold Coins

Dodo Gold coins of 22 carats are issued by the Bank in four different denominations, namely, one ounce with a face value of Rs1,000, half an ounce with a face value of Rs500, quarter of an ounce with a face value of Rs250 and one-tenth of an ounce with a face value of Rs100. The coins are legal tender in Mauritius for the value stated thereon.

The Dodo Gold coins are on sale at the counter of the Bank of Mauritius and banks in Mauritius. They are also marketed overseas by the Royal Mint of the United Kingdom. The daily selling prices of the coins, based on their gold content and on international gold market prices, are posted in the Bank's Banking Hall and on its website.

Sale of Commemorative Coins

The Bank offers for sale of several commemorative coins as well as platinum coins at the counters to members of the public.

1. Tenth Anniversary of the Independence of Mauritius

   A silver commemorative coin of Rs25 denomination was issued to mark the 10th anniversary of the independence of Mauritius. The selling price of the coin is Rs700.

2. 1997 Golden Wedding Collector Coin

   A silver commemorative coin of Rs20 denomination was issued in May 1998 in proof condition to mark the 50th wedding anniversary of Queen Elizabeth II and Prince Philip. The selling price of the coin in a presentation case is the rupee equivalent of GBP26.

3. 'Father of the Nation' Platinum Coin Series

The Bank sells a complete set of the unique, exclusive and prestigious collection of the three Platinum Coin Series in proof condition released in 2009, 2010 and 2011 in a presentation box. These coins were issued in the 'Father of the Nation' Platinum Series to pay tribute to Sir Seewoosagur Ramgoolam in laying the foundation stone of the Mauritian nation. The selling price of each platinum coin is computed daily based on the London Metal Exchange-Euro P.M Fixing. These coins are also available in separate individual presentation cases with a certificate of authenticity.

Table 5.2: Electronic Banking Transactions

	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
Number of ATMs in operation as at end of period	430	450	454	460	461
Monthly average number of transactions for the quarter ended	4,700,339	5,040,158	5,503,820	5,414,196	5,643,401
Monthly average value of transactions[1] for the quarter ended (Rs million)	9,087	10,506	11,253	11,339	12,128
Number of Credit Cards in circulation as at end of period	226,293	249,000	253,033	267,241	257,767
Number of Debit & other Cards in circulation as at end of period	1,152,561	1,190,074	1,271,746	1,336,773	1,430,146
Total number of cards in circulation as at end of period[2]	1,378,854	1,439,074	1,524,779	1,604,014	1,687,913
Outstanding advances on credit cards as at end of period (Rs million)	2,058	2,288	2,184	2,239	2,280

[1] Involving the use of Credit Cards at ATMs and Merchant points of sale.
[2] Restated figures.
Source: Supervision Department.

The first platinum commemorative coin of Rs1,500 denomination in proof condition was issued in October 2009. The design on the obverse depicts the State House, Réduit with the inscription "Rs1,500" underneath. The second commemorative coin of Rs1,200 denomination in proof condition was issued in November 2010. The design on the obverse depicts the Aapravasi Ghat, with the inscription "Rs1,200" underneath. The third platinum commemorative coin of Rs1,200 denomination in proof condition was issued in December 2011. The design on the obverse depicts Le Morne Brabant with the inscription "Rs1,200" underneath. The design on the reverse of the three coins bears an effigy of Sir Seewoosagur Ramgoolam, the first Prime Minister of Mauritius.

Clean Banknote Programme

The Bank maintained its Clean Banknote Programme, which was launched in April 2010 and revamped in June 2014. The main objective of this programme is to improve the overall quality of banknotes in circulation in Mauritius.

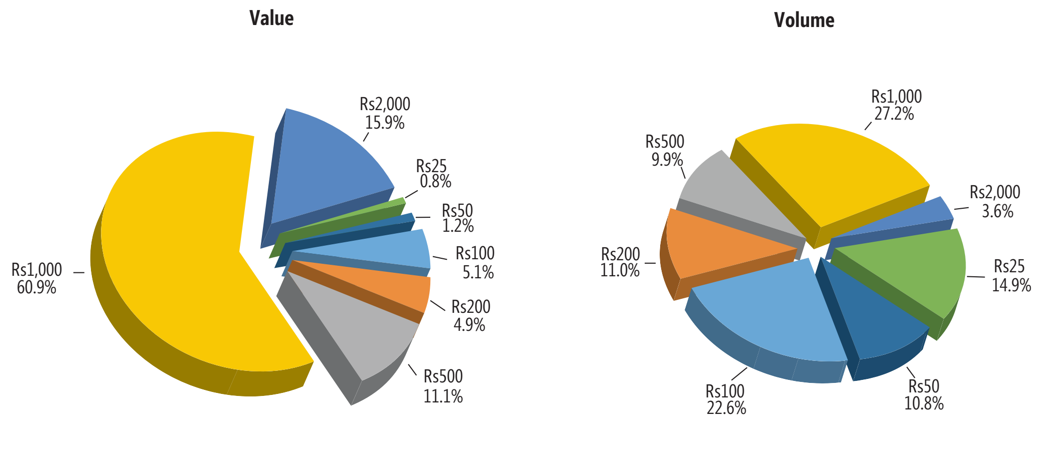
Polymer Banknotes

The Bank has introduced Polymer banknotes in denominations of Rs25, Rs50 and Rs500 since August 2013. Polymer banknotes are cleaner and more durable, besides containing enhanced security features.

Coin Deposit Campaign

The Bank launched a Coin Deposit Campaign in July 2012 with the objective of encouraging members of the public to deposit excess coins in their possession with banks or to exchange them at the banking counter of the Bank of Mauritius. This campaign is still being pursued.

Chart 5.6: Banknotes in Circulation as at 30 June 2016



Source: Banking and Currency Division.

	Table 5.3: Value and Volume of Banknotes and Coins in Circulation			
	Banknotes in circulation			
	End-June 2015	**End-June 2016**	**End-June 2015**	**End-June 2016**
Denomination	*(Rs million)*		*(millions of pieces)*	
Rs25	242.2	248.4	9.7	9.9
Rs50	345.3	358.2	6.9	7.2
Rs100	1,304.4	1,499.3	13.0	15.0
Rs200	1,384.9	1,463.1	6.9	7.3
Rs500	3,211.9	3,304.2	6.4	6.6
Rs1000	15,797.8	18,070.6	15.8	18.1
Rs2000	5,248.6	4,728.7	2.6	2.4
Banknotes, total	**27,534.9**	**29,672.5**	**61.4**	**66.5**
	Coins in circulation			
	End-June 2015	**End-June 2016**	**End-June 2015**	**End-June 2016**
Denomination	*(Rs million)*		*(millions of pieces)*	
Rs20	201.5	206.7	10.1	10.3
Rs10	284.1	297.4	28.4	29.7
Rs5	128.5	138.3	25.7	27.7
Re1	154.1	163.3	154.1	163.3
50c	34.3	36.3	68.6	72.6
25c	6.3	6.3	25.3	25.3
20c	44.3	46.4	221.4	232.2
10c	2.4	2.4	24.2	24.2
5c	10.3	10.8	206.8	216.4
2c	0.3	0.3	16.5	16.5
1c	0.2	0.2	22.3	22.3
Coins, total	**866.3**	**908.5**	**803.4**	**840.5**
TOTAL	**28,401.2**	**30,581.0**	**864.8**	**907.0**

Note: Figures may not add up to total due to rounding.
Source: Banking and Currency Division.

6. REGIONAL COOPERATION AND INTERNATIONAL AFFILIATION

The Bank pursued its active involvement in regional and international fora over the period July 2015 to June 2016. At the regional level, the Bank participated in meetings of the Association of African Central Banks (AACB), the Financial Stability Board Regional Consultative Group (FSB RCG) for Sub-Saharan Africa, the Committee of Governors of the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern African (COMESA). On the international front, the Bank became a member of the International Financial Consumer Protection Organisation (FinCoNet) in May 2016 and, by virtue of being a board member of the International Islamic Liquidity Management Corporation (IILM), it was appointed on the Board Audit Committee of the IILM. The Bank hosted the SADC Committee of Central Bank Governors (CCBG) Legal Subcommittee in May 2016. The Africa Training Institute of the IMF, based in Mauritius, and the Banque de France co-hosted the *High-Level Seminar on The Future of Monetary Integration* on 8 and 9 March 2016. The Bank participated as a panel member for the session on *Regional Integration Starts at Home: The Role of Capacity Development.* The Governor of the Central Bank of Seychelles visited the Bank in January 2016 and made a presentation on *The Seychelles' Economy and its Experience with Macroeconomic Reforms* to a select audience at the Bank on 11 January 2016.

Discussions on the regional and continental integration agenda include, amongst others, policy issues pertaining to the economy and monetary and financial stability mandates of central banks. An overview of the policy issues raised by central bankers or ministers of finance at meetings held during the year under review are highlighted in the following sections.

ASSOCIATION OF AFRICAN CENTRAL BANKS

Annual Meetings of the AACB, 10-14 August 2015 in Malabo, Equatorial Guinea

The Bank passed on the chairmanship of the AACB to Banque des Etats de l'Afrique Centrale (BEAC) at the 38th Assembly of Governors[6] on 14 August 2015. Governors took stock of developments during the two-year period, 2013-15, as the Assembly of Governors had not met in 2014 following the last-minute postponement of the Annual Meetings due to the Ebola epidemic. The Symposium, which preceded the Assembly of Governors, had as theme *"Independence of Central Banks: Myth or Reality"*. The accountability of central bank officers, transparency of measures adopted by central banks, including the need for effective communication, and close collaboration between the monetary authorities and fiscal authorities, were largely discussed. The independence of central banks was underscored as an important point in the proposed creation of the African Central Bank.

The Assembly of Governors deliberated over the status of implementation of the African Monetary Cooperation Programme (AMCP)[7]. Governors noted the difficulties of African States to fulfil the macroeconomic convergence criteria despite that Stage III of the AMCP was extended at the 37th Ordinary Meeting of the Assembly of Governors

---

[6] *The Assembly of Governors is the governing body of the AACB. It comprises Governors of the 40 member central banks.*

[7] *The AMCP was adopted in Algiers in September 2002. It involves the collective policy measures to achieve a harmonised monetary system and common management institution for the African continent. It envisages the harmonisation of the monetary cooperation programmes of the various sub-regional groupings as building blocks with the ultimate aim of creating a single monetary zone by 2021 having a common currency and a common central bank at the continental level. The AMCP builds on progress achieved in the various sub-regional groupings based on the set of primary and secondary criteria before the launching of the African Monetary Union. The AMCP comprises the following stages: Stage I (2002-03), Stage II (2004-08), Stage III (2009-12), Stage IV (2013-15), Stage V (2016-20) and Stage VI (2021).*

held in August 2013 in Mauritius. The main reasons for non-convergence were decline in commodity prices and rising capital expenditure to address infrastructure gaps. Governors urged member countries to pursue their efforts to consolidate their macroeconomic foundations and diversify the productive base of their economies. Stage III of AMCP was extended for two more years as countries were not expected to attain Stage IV targets given current circumstances. Governors also decided to set up an expert group drawn from central banks of the AACB Bureau[8] for the purpose of refining macroeconomic convergence criteria, and working towards harmonisation at the sub-regional and continental levels within a time frame of one year.

The programme and budget of the Community of African Banking Supervisors (CABS)[9], including its internal rules for the years 2014-16 were also adopted. "*Macroprudential Surveillance*", "*Cross-border Banking*" and "*Crisis Management and Banking Resolution*" were some of the themes discussed at seminars organised by CABS. Governors endorsed the initiative aimed at enhancing information exchange and collaboration on cross-border banking for which a draft project would be submitted to the Financial Sector Reform and Strengthening Initiative (FIRST) Initiative[10]. The Chairmanship of CABS was handed over by the Bank to the BEAC, the incoming Chair of the AACB, at the AACB Annual Meetings held in August 2015.

[8] The Bureau members for the year 2015-16 were the Central Bank of Egypt, Banque Centrale du Congo, Central Bank of Kenya, Bank of Namibia, Bank of Ghana, Central Bank of Nigeria (Vice-Chair), and Banque des Etats de l'Afrique Centrale (Chair).

[9] The Community of African Banking Supervisors has the status of a subsidiary body of the AACB. It is a platform for exchanging views at the level of bank supervisors, learning from peers, reflecting on relevant global discussions, and voicing the concerns of the African continent.

[10] Launched in 2002, the FIRST is a multi-donor grant facility that provides short- to medium-term technical assistance to promote sounder, more efficient, and inclusive financial systems. FIRST is currently supported by five donors: the Department for International Development of the United Kingdom, Germany's Federal Ministry of Economic Cooperation and Development, the Ministry of Finance of Luxembourg, the Ministry of Foreign Affairs of the Netherlands, and the State Secretariat for Economic Affairs of Switzerland, as well as the World Bank Group and the International Monetary Fund.

Ordinary Meeting of the Bureau of the AACB, 3 March 2016 in Dakar, Senegal

At its first Ordinary Meeting of 2016, the Bureau reviewed the implementation of the decisions taken by the Assembly of Governors on 14 August 2015. It noted that the African Union Commission-AACB Joint Strategy adopted in Malabo, was submitted to the African Union decision-making bodies for consideration. The Bureau also took note of the phased approach to African monetary integration, as proposed in the Joint Strategy, which advocated for more emphasis on the strengthening of monetary integration at sub-regional levels. The Strategy recommended a gradual approach to the establishment of the African Central Bank by 2034. Proposals include the establishment of Free Trade Area, Customs Union, Common Market, and Single Currency and Central Bank at regional level, prior to establishing the continental African Monetary and Economic Union. The Strategy also recommended the setting up of the African Monetary Institute as a transitional organisation with the mandate to continue and complete the preparatory technical, policy, financial, statistical, legal and institutional groundwork leading to the establishment of the African Central Bank.

The Bureau pressed for the experts group on convergence criteria to be set up, as decided by the Assembly of Governors on 14 August 2015, and its report to be presented to the forthcoming Assembly of Governors in August 2016. The Bureau noted the coming into force of the amended Statutes on 13 January 2016. Given that only 20 AACB members had ratified the Statutes, the Bureau invited the central banks that had not yet signed the Amended Statutes to do so.

Continental Seminar, 9-11 May 2016 in Cairo, Egypt

The theme of the 2016 Continental Seminar was "*Financial Stability: New Challenges for Central*

Banks". Most African jurisdictions had not been directly affected by the international financial crisis, mainly because of their low interconnectedness with the global financial system. Members were called to lay emphasis on financial stability with a view to increasing the resilience of their financial sector and the economy. The various sessions of the Continental Seminar considered the mandates of central banks regarding financial stability, micro- and macro-prudential instruments, institutional arrangements, and challenges of financial stability amid innovations and the expansion of cross-border banking activities. Central banks of the AACB sub-regions shared their experiences, especially on the effectiveness of existing frameworks. One pertinent observation was that some central banks had more resources compared to other regulatory institutions to monitor vulnerabilities in the financial system and to address issues relating to financial stability. For the central banks not having specific financial stability mandates, their core responsibilities could be broadened to enable them to conduct macroprudential surveillance. The main tools available included financial soundness indicators, early warning indicators, stress testing exercises, analysis of macro-financial linkages, development of policies for the mitigation of potential vulnerabilities as well as crisis preparedness.

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA

COMESA Committee of Governors of Central Banks, 18-19 November 2015 in Lusaka, Zambia

At their 21st Meeting, Governors[11] reviewed the activities undertaken by COMESA Monetary Institute (CMI) and the COMESA Clearing House towards enhancing monetary cooperation in the region, and endorsed a 2016 Work Plan for the two COMESA institutions. With respect to progress made in macroeconomic convergence in 2014, Governors noted that average growth in the COMESA region was 6.4 per cent in 2014, up from 6.3 per cent in 2013. They also noted that the savings rate in most COMESA member countries remained below 20 per cent of GDP as a large proportion of the population within the COMESA region is not connected to the financial system. A number of COMESA member countries recorded investment performance of less than 20 per cent of GDP. The region's average fiscal deficit, excluding grants, as a percentage of GDP widened from 6.8 per cent in 2013 to 9.1 per cent in 2014. The increase resulted mainly from the rise in spending on investment in infrastructure and poverty-eradication programmes, weak public spending controls and deteriorating relations of some countries with foreign donors. Region-wide inflation declined from 8.0 per cent in 2013 to 7.4 per cent in 2014. Lower commodity prices, improved domestic food supply and prudent macroeconomic policies were some of the factors containing inflationary pressures. A few countries experienced an increase in annual inflation rate, mainly on account of exchange rate depreciation. In 2014, the average level of external reserves for the COMESA region stood at 3.6 months of imports of goods and services, lower than the required 6 months as per the COMESA macroeconomic convergence criteria. The analysis of the macroeconomic convergence criteria with regard to compliance with the secondary criteria, namely the use of indirect monetary policy instruments, moving towards market-determined exchange rates, and adherence to the Basel Core Principles for Effective Banking Supervision, suggested progress in the right direction.

At the 10th Meeting of the Financial System Development and Stability Subcommittee, which preceded the Governors' meeting, member

[11] Governors agreed on the membership of the COMESA Bureau for the year under review as follows: Chairperson - Central Bank of Congo DR, First Vice Chair - Reserve Bank of Malawi, Second Vice Chair - Central Bank of Burundi, First Rapporteur - Central Bank of Djibouti, Second Rapporteur - Central Bank of Sudan.

countries reviewed the status of implementation of recommendations made at the previous meeting. Based on the recommendations of the 10th Meeting, Governors decided that the CMI would work with the Bank of Uganda and the Reserve Bank of Malawi, which had volunteered to pilot the implementation of SHIELDS[12], before rolling out its application to other central banks.

Extra-Ordinary COMESA Council of Ministers Meeting, 16 March 2016 in Lusaka, Zambia

The COMESA Council of Ministers took decisions regarding various issues on the implementation of regional integration programmes and the budget for the year 2016 at the Extra-Ordinary Meeting held on 16 March 2016. The Ministers noted that since the launch of the Tripartite Free Trade Area (TFTA)[13] in June 2015, though 16[14] out of the 26 countries had signed the agreement, none had ratified it so far.

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Macroeconomic Convergence Peer Review Panel, 1-4 August 2015 in Bulawayo, Zimbabwe

The Macroeconomic Convergence Peer Review Panel, which comprises Ministers of Finance and Central Bank Governors, met from 1 to 4 August 2015 in Zimbabwe. The Peer Review Panel considered the paper prepared by the SADC and CCBG Secretariats on "Effective Involvement of Central Bank Governors in Regional Integration". Two features, in particular, were addressed: first, the structures of SADC should be reviewed to ensure that central bank Governors are more involved in regional integration under the current SADC institutional framework, and second, the SADC structures should be continuously assessed to ensure that they have the proper and relevant systems and processes to address new challenges of regional integration. The Peer Review Panel recommended that (a) the CCBG be part of the Ministerial Task Force (MTF) which reports directly to the SADC Summit of Heads of State or Government, and (b) with the inclusion of the CCBG in the MTF, the expanded MTF be called the Joint Ministerial and Central Bank Governors Task Force on Regional Economic Integration. The Peer Review Panel submitted its proposal to the SADC Council for approval. The SADC Council of Ministers[15] directed that the recommendations be taken to the next meeting of the MTF for consideration. However, at the 16th Meeting of the MTF on regional economic integration held on 13 March 2016 in Botswana, the MTF decided that Central Bank Governors would be attending the MTF upon invitation only.

Mauritius was one of the three countries tasked to review three other SADC member states at the Panel meeting held in August 2015. The Peer Review Panel adopted the Memorandum of Understanding between SADC and the African Development Bank (AfDB) regarding collaboration on SADC Macroeconomic Convergence peer review process. The Peer Review Panel also directed the SADC Secretariat to engage the AfDB and the

*[12] The standardised overall financial stability rating system, code-named SHIELDS, facilitates the assessment of financial stability of COMESA member countries over time. SHIELDS is an acronym for: **S**olvency conditions; **H**ealth of the macroeconomy; **I**nstitutional quality; **E**arning conditions; **L**iquidity conditions; **D**efault conditions; and **S**ystemic losses.*

[13] In 2008, the SADC, COMESA and Eastern Africa Community concluded a tripartite agreement, involving a Free Trade Area for their 26 member states, to overcome sub-regional and continental barriers to economic development. The initiative aims to boost intra-regional trade; attract investment for development; promote cross-regional infrastructure projects; and remove the costs of overlapping regional memberships by harmonising integration programmes.

[14] Countries having signed the Tripartite Free Trade Area are Angola, Burundi, Comoros, D R Congo, Djibouti, Egypt, Kenya, Malawi, Namibia, Seychelles, Rwanda, Sudan, Tanzania, Uganda, Swaziland and Zimbabwe.

[15] The Council consists of Ministers from each member state, usually from the Ministries of Foreign Affairs, Economic Planning, or Finance. It meets twice a year in January or February and immediately prior to the Summit in August or September.

IMF, and to ensure that the technical support provided in capacity-building is operational and effective. The Peer Review Panel approved, in the interim, the third set of indicators established to measure the harmonisation and strengthening of the financial sector, namely linking individual payment systems to regional payment systems, harmonising the regulatory and supervisory frameworks and financial inclusion.

SADC Ministerial Meeting, 14-15 August 2015 in Gaborone, Botswana

The SADC Ministerial Meeting, held in August 2015 in Botswana, provided a platform to take stock of the implementation of decisions taken by the Council of Ministers and progress made in pursuit of the SADC regional integration agenda. Two major achievements include the formulation of the Industrialisation Strategy and Roadmap 2015-2063, and the finalisation of the Revised Regional Indicative Strategic Development Plan (RISDP) 2015-2020. Both the roadmap and the RISDP are crucial in setting the region's long-term socio-economic landscape.

41st Meeting of the CCBG, 30 October 2015 in Luanda, Angola

The 41st Meeting of the CCBG in SADC, held on 30 October 2015, was preceded by the Technical Meeting held on 28-29 October 2015. Governors requested that financial stability in the SADC region be tested through a cross-border crisis simulation exercise, and the exercise be extended to test the impact of a crisis that may originate from outside the SADC region. The SADC Integrated Regional Settlement System (SIRESS) Cooperative Oversight Committee has been working with the CCBG Payment System Steering Committee on the fees charged by participants for services offered through SIRESS. Governors approved that all currencies of the SADC member states, as well as the US dollar, be eligible as currencies of settlement in SIRESS. During the year under review, the Financial Markets Subcommittee undertook a study on the appropriateness of primary dealers systems in member countries and initiated work on a guideline for the implementation of a primary dealer system in SADC countries. Work is also on-going on various chapters of the SADC Banking Model Law and on the SADC National Payment Systems Model Law. Governors took note that Zimbabwe had acceded to the Finance and Investment Protocol (FIP), bringing the number of member states that had ratified the FIP to 13. Madagascar and Seychelles had not yet ratified and acceded to the FIP.

42nd Meeting of the CCBG, 1 April 2016 in Gaborone, Botswana

At the meeting of the CCBG in SADC held in Botswana on 1 April 2016, Governors reviewed the progress reports on activities of the CCBG Subcommittees and other structures reporting to the CCBG. Governors took note of the recent economic developments in the SADC region as well as the paper entitled "*Reserve management trends and practices*". The Payment Systems Subcommittee was mandated to work with the ICT Subcommittee to develop proposals that would accommodate more than one currency of settlement in SIRESS. Governors directed central banks to request banks to submit the details of fees that banks charge on SIRESS transactions. Regarding the involvement of the CCBG in SADC structures, Governors were of the view that central bank Governors should be invited to the MTF meetings on a permanent basis and not upon invitation only.

43rd Meeting of the CCBG, 21 June 2016 in Dar es Salaam, Tanzania

Governors of central banks in SADC member states met on 21 June 2016 in Dar es Salaam, Tanzania.

They agreed that, when reviewing the revised RISDP, institutional arrangements for regional integration have to be sequenced and prioritised. In this respect, Governors directed the CCBG Macroeconomic Subcommittee to assess regional integration in SADC, including achievements and failures compared to experiences of other regions, and to consider a variable geometry approach to regional integration.

Governors noted that the Payment Systems Subcommittee was working on controls that would be implemented to reinforce the monitoring of anti-money laundering/combating the financing of terrorism, and transactions settled in SIRESS. Governors took note of the breakdown of fees charged for SIRESS transactions and that the Subcommittee would prepare an action plan to address the SIRESS pricing issue. It was also agreed that the collection of SIRESS pricing information would initially be done twice per year, and once per annum in the long term. Governors also decided that all CCBG subcommittees and their work programmes would be reviewed. Governors took note of the rotation of the Chairperson, the Deputy Chairperson and membership of the Steering Committee for the next two years, with the new members of the Steering Committee being the central banks of Angola, Malawi, Mauritius, Tanzania and Swaziland.

Governors directed the CCBG Banking Supervision Subcommittee to initiate work on financial inclusion. The *SADC Strategy for Financial Inclusion*, prepared by the SADC Secretariat, was discussed at the CCBG meeting. The strategy aims to support SADC member states in the development and implementation of national financial inclusion strategies. Governors noted that the *SADC Strategy for Financial Inclusion* would be submitted to the SADC Ministers of Finance and Investment for approval.

FINANCIAL STABILITY BOARD REGIONAL CONSULTATIVE GROUP FOR SUB-SAHARAN AFRICA

The two-year term of Mauritius as co-chair of the FSB RCG for Sub-Saharan Africa expired on 30 June 2015 and the Governor of the Central Bank of Nigeria was appointed as co-chair with effect from 1 July 2015. The South African Reserve Bank remains the permanent co-chair of the RCG and is represented by its Governor.

The FSB RCG met on two occasions during the period under review. Several topics of direct relevance to the Sub-Saharan African region were discussed. The Working Group on *Home-Host Cooperation and Information Sharing,* currently chaired by the Second Deputy Governor of the Bank, met on various occasions. In January 2016, it issued a questionnaire to the 10 members of the FSB RCG as well as 23 other African jurisdictions for the purpose of gathering information on the practices of home-host cooperation and information sharing. Several jurisdictions have already submitted their responses which have been compiled for further analysis. The working group expects to submit a report detailing the main practices of home-host cooperation and information sharing, together with the impediments and challenges by the end of 2016.

INTERNATIONAL ISLAMIC LIQUIDITY MANAGEMENT CORPORATION

Established on 25 October 2010, the International Islamic Liquidity Management Corporation (IILM) seeks to facilitate cross-border liquidity management among institutions offering Islamic financial services by making available a variety of Shariah-compliant instruments, on commercial terms, to suit the varying liquidity needs of these institutions. The Governing Board[16] is the strategy and policy-making body of the IILM. The Board Executive Committee is a committee of the Governing Board responsible for oversight of the general conduct and operations of the IILM. Since May 2016, the Bank is a member of the Board Audit Committee, which is responsible for assisting the Governing Board in its oversight of the financial reporting of the IILM. The Board Audit Committee plays an active role in overseeing the effectiveness of internal control systems, the performance of the internal audit function and the compliance of the IILM with legal and regulatory requirements.

ISLAMIC FINANCIAL SERVICES BOARD

The Bank is represented on the newly-established Islamic Financial Services Board (IFSB) Working Group on *Core Principles for Islamic Finance Regulation* since April 2016. The proposed standard would be the second in the series IFSB Core Principles for effective regulation and supervision of institutions offering Islamic financial services and would focus on the Islamic Capital Markets Sector.

AFRICAN EXPORT AND IMPORT BANK

The African Export and Import Bank (Afrexim Bank)[17] is an international financial institution headquartered in Cairo, Egypt, and having as primary objective the promotion of trade finance within the African continent and trade between Africa and other continents. At the 21st Annual General Meeting of shareholders held in June 2014 in Libreville, Gabon, the shareholders endorsed a general capital increase of USD500 million consisting of an offer of shares to existing shareholders at a discount and on a pro-rata basis. In June 2016, the Bank responded favourably to the request by increasing its shareholding in the Afrexim Bank.

IRVING FISHER COMMITTEE

The Bank is a member of the Irving Fisher Committee (IFC)[18], a forum allowing the exchange of views in the discussions of statistical issues of interest to central banks, including those relating to economic, monetary and financial stability. The IFC strives to strengthen the relationship between compilers of statistics and the community of users and analysts of statistical information, both in and outside central banks.

INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION

Since the global financial crisis of 2008, consumer protection and financial access have become key concerns for central banks, which are increasingly endeavouring to promote an enabling environment for financial institutions to tailor their services to the needs of the market. The Bank joined the International Financial Consumer Protection Organisation[19] (FinCoNet) in May 2016 to benefit

[16] *The ten Governing Board members are Bank Indonesia, Islamic Development Bank Group, Central Bank of Kuwait, Banque Centrale du Luxembourg, Bank Negara Malaysia, Bank of Mauritius, Central Bank of Nigeria, Qatar Central Bank, Central Bank of the Republic of Turkey and Central Bank of the United Arab Emirates.*

[17] *The Afrexim Bank was established in October 1993 by African Governments, African private and institutional investors, as well as non-African financial institutions and private investors. Its main purpose is to finance, promote and expand intra-African and extra-African trade by extending direct credit to eligible African exporters or importers, amongst others. The Bank of Mauritius is a shareholder of the Afrexim Bank since 1993.*

[18] *The IFC operates under the auspices of the Bank for International Settlements (BIS) and is associated with the International Statistical Institute (ISI).*

[19] *Established in 2013, FinCoNet is a non-profit organisation of regulators and public entities with a financial market conduct and financial consumer protection supervision mandate. It aims at better coordination among supervisory bodies responsible for the oversight of the various national financial consumer protection regimes. The work of FinCoNet currently focuses on consumer credit and banking issues, and aims to strengthen consumer confidence.*

from the experiences of other FinCoNet members – which are mainly regulatory and supervisory institutions in other countries – with a view to enhancing efficiency in the delivery of banking services, strengthening consumer confidence, expanding choice of banking and financial products, as well as optimising on the value for money.

INTERNATIONAL STATISTICAL INSTITUTE

In June 2016, the Bank became a corporate member of the International Statistical Institute (ISI), a non-profit, non-government organisation operating under the auspices of the Bank for International Settlements, and which has as mission, the promotion of "understanding, development and good practice of statistics worldwide". The Bank is expected to gain from the statistical research, training, promotion of professional standards, and outreach programmes undertaken by the ISI.

BANK OF MAURITIUS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS	PAGE

INTRODUCTION

Due to the persistent excess liquidity conditions prevailing in the domestic rupee market, the Bank of Mauritius (the "Bank") continued its open market operations to mop up the excess liquidity and this had impacted negatively on the operating results of the Bank which has resulted in a net loss of Rs628.3 million for the financial year ended 30 June 2016, as determined under section 11(1) of the Bank of Mauritius Act 2004 (the ''Act"). Excluding the cost for conducting monetary policy, the Bank would have realized net profits of Rs793.0 million for the financial year ended 30 June 2016 compared to net profits of Rs446.6 million for the year ended 30 June 2015. Persistent low yield environment in the international markets continued to exert pressure on interest income from foreign assets which, however, have been mitigated by positive returns yielded by realignment of strategic investment decisions.

According to section 11(1) of the Act, the Board of Directors shall determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies. The Board met on 29 September 2016 to consider the financial statements of the Bank for the financial year ended 30 June 2016 and determined the financial performance for the year then ended.

Assets

Foreign assets of the Bank increased mainly due to purchases of foreign currency denominated assets while domestic assets decreased due to repayments made under the Special Line of Credit.

Liabilities

Liabilities recorded an increase mainly due to the continued issue of Bank of Mauritius Securities and also due to an increase in demand deposits and special deposits from banks.

Capital and Reserves

Total reserves increased due to gain on Revaluation of Foreign Currencies, Special Drawing Rights (''SDR"), Gold and valuation of portfolio investments, the whole amount of which was transferred to the Special Reserve Fund in accordance with sections 47(1) and 47(1A) of the Act.

Statement of Responsibilities

The Bank, which acts as the central bank for Mauritius, is set up under the Act as a body corporate. Section 3(4) of the Act states that the Companies Act 2001 shall not apply to the Bank.

The Board of Directors has, under section 12 of the Act, been entrusted with the general policy of the affairs and business of the Bank. Responsibility for the running of the operations and day-to-day management of the Bank has been entrusted, in terms of section 14(3) of the Act, to the two Deputy Governors who shall act under the supervision of the Governor.

The Governor is the principal representative of the Bank and is responsible for the execution of the policy of the Board. Further, he is responsible for the general supervision of the Bank. In the discharge of his functions, the Governor is answerable to the Board.

The Board presently consists of the Governor as Chairperson, two Deputy Governors and four other Directors. The Act provides for not less than five but not more than seven other Directors. The

Governor and Deputy Governors are appointed by the President of the Republic of Mauritius, on the recommendation of the Prime Minister and may hold office for a term not exceeding five years and are eligible for re-appointment. The Minister of Finance appoints the other Directors who may hold office for a term not exceeding three years. They are eligible for re-appointment at the end of their term of office.

The Bank is responsible for the preparation and fair presentation of the financial statements in conformity with accounting principles applicable to central banks and best international practices in accordance with section 31(1) of the Act and the implementation of an internal control structure to maintain the reliability of the financial statements and to provide reasonable but not absolute assurance against the possibility of errors and irregularities that are material to the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF BANK OF MAURITIUS

This report is made solely to the Board of Directors of Bank of Mauritius (the "Bank"), as a body. Our audit work has been undertaken so that we might state to the Board of Directors of the Bank those matters we are required to state to them in an auditors' report and for no other purpose. We do not accept or assume responsibility to anyone other than the Board of Directors of the Bank as a body, for our audit work, for this report, or for the opinion we have formed.

Report on the Financial Statements

We have audited the financial statements of the Bank set out on pages 121 to 164 which comprise the statement of financial position as at 30 June 2016 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements which include summary of significant accounting policies and other explanatory information.

Bank's Responsibility for the Financial Statements

The Bank is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles applicable to central banks and best international practices pursuant to section 31(1) of the Bank of Mauritius Act 2004 and in accordance with International Financial Reporting Standards. This responsibility includes the implementation of an internal control structure to maintain the reliability of the financial statements and provide reasonable, but not absolute, assurance against the possibility of errors and irregularities that are material to the financial statements.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 121 to 164 give a true and fair view of the financial position of the Bank as at 30 June 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Bank of Mauritius Act 2004.

Deloitte

Deloitte
Chartered Accountants

Twaleb BUTONKEE
Licensed by FRC

Date: 29 September 2016

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

	Note	2016	2015
		Rs	Rs
ASSETS			
Foreign Assets:			
Cash and Cash Equivalents	6	**70,308,276,156**	54,485,340,629
Other Balances and Placements	7	**96,044,264,662**	83,514,388,323
Interest receivable		**421,446,293**	304,128,180
Other Investments	8	**450,794,378**	421,885,514
		167,224,781,489	138,725,742,646
Domestic Assets:			
Loans and Advances	9	**4,515,845,652**	5,420,026,158
Investment in Government Securities	10	**1,252,146,212**	3,456,734,753
Computer Software	11	**58,108,513**	3,810,308
Property, Plant and Equipment	12	**1,590,542,150**	1,643,437,603
Other Assets	13	**377,946,253**	524,988,063
		7,794,588,780	11,048,996,885
TOTAL ASSETS		**175,019,370,269**	149,774,739,531
LIABILITIES			
Currency in Circulation	14(a)	**30,818,441,617**	28,639,197,844
Demand Deposits:			
Government	14(b)	**27,303,819,898**	15,339,826,479
Banks		**39,659,050,253**	42,987,276,963
Other Financial Institutions		**320,648,775**	311,390,585
Others		**389,585,786**	356,658,153
		67,673,104,712	58,995,152,180
Bank of Mauritius Securities	15	**35,834,289,564**	26,756,149,406
Provisions	16	**100,000,000**	100,000,000
Employee Benefits	17	**836,927,596**	615,611,721
Other Liabilities	18	**14,818,649,576**	10,949,654,570
TOTAL LIABILITIES		**150,081,413,065**	126,055,765,721
CAPITAL AND RESERVES			
Stated and Paid up Capital	5	**2,000,000,000**	2,000,000,000
Reserves	5	**22,937,957,204**	21,718,973,810
TOTAL CAPITAL AND RESERVES		**24,937,957,204**	23,718,973,810
TOTAL LIABILITIES, CAPITAL AND RESERVES		**175,019,370,269**	149,774,739,531

J. Pandoo
Assistant Secretary
Accounting and Budgeting

M.V. Punchoo
Second Deputy Governor

R. Basant Roi, GCSK
Governor

Date: 29 September 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Rs	2015 Rs
REVENUE			
Income from Financial Assets			
Interest and Similar Income on Foreign Assets	19 (a)	**1,594,205,403**	1,032,399,190
Interest and Similar Income on Domestic Assets	19 (b)	**264,775,015**	247,543,021
Others	19 (c)	**40,352,584**	1,444,787
	19	**1,899,333,002**	1,281,386,998
(Loss)/Gain on Foreign Exchange Transactions, Revaluation of Foreign Currencies and SDR		**(401,140,131)**	1,412,250,349
Miscellaneous Income	20 (a)	**144,345,388**	93,765,231
Gain on Financial Instruments at Fair Value Through Profit or Loss	20 (b)	**1,991,515,354**	878,786,269
TOTAL REVENUE		**3,634,053,613**	3,666,188,847
EXPENDITURE			
Interest Expense and Similar Charges	21	**71,101**	17,536
Staff Salaries and Other Benefits	22	**316,427,161**	313,449,419
General Expenditure		**347,887,563**	205,718,666
Fees Payable		**31,651,877**	29,278,551
Coin Issue Expenses		**24,674,380**	25,763,676
Note Issue Expenses		**17,252,662**	32,768,859
Depreciation and Amortisation		**150,636,551**	111,618,332
Directors Remuneration	23	**17,540,364**	19,477,224
IMF Charges	32	**1,799,306**	1,546,546
Other Expenditure	24	**48,410,803**	23,589,830
TOTAL EXPENDITURE		**956,351,768**	763,228,639
OPEN MARKET OPERATIONS			
Cost of Conducting Monetary Policy	25	**1,421,384,349**	730,704,565
NET PROFIT FOR THE YEAR		**1,256,317,496**	2,172,255,643
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit liability		**(192,282,208)**	(76,214,555)
		1,064,035,288	2,096,041,088
Items that will be reclassified subsequently to profit or loss:			
Net fair value gain/(loss) on available-for-sale financial assets during the year		**120,481,326**	-
Reclassification adjustments in relation to available-for-sale financial assets disposed of in the year		**34,466,780**	-
TOTAL COMPREHENSIVE INCOME		**1,218,983,394**	2,096,041,088

STATEMENT OF DISTRIBUTION FOR THE YEAR ENDED 30 JUNE 2016

	Note		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR - AS PER IFRS		**1,218,983,394**	2,096,041,088
Transfer to Special Reserve Fund in terms of sections 47(1) and 47(1A) of the Bank of Mauritius Act 2004	5	**(1,847,325,763)**	(2,380,180,789)
NET LOSS FOR THE YEAR IN TERMS OF SECTION 11 (1) OF THE BANK OF MAURITIUS ACT 2004		**(628,342,369)**	(284,139,701)
Transfer from Special Reserve Fund in terms of section 47(5)(b) of the Bank of Mauritius Act 2004		**628,342,369**	207,925,146
Transfer from General Reserve Fund in terms of section 11(7) of the Bank of Mauritius Act 2004		**-**	76,214,555
BALANCE OF NET PROFITS PAYABLE INTO THE CONSOLIDATED FUND IN TERMS OF SECTION 11(3) OF THE BANK OF MAURITIUS ACT 2004		**-**	-

The above Statement of Distribution has been prepared according to the requirements of the Bank of Mauritius Act 2004. It does not form part of the primary statements, but has been compiled from information contained in the Statement of Changes in Equity.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Stated and Paid Up Capital	General Reserve Fund	Special Reserve Fund	Accumulated Profit	Total
	Rs	Rs	Rs	Rs	Rs
Balance at 01 July 2014	2,000,000,000	2,681,871,181	16,941,061,541	-	21,622,932,722
Net profit for the year	-	-	-	2,172,255,643	2,172,255,643
Other Comprehensive loss for the year	-	-	-	(76,214,555)	(76,214,555)
Total comprehensive income	-	-	-	2,096,041,088	2,096,041,088
Transfer to Special Reserve Fund	-	-	2,380,180,789	(2,380,180,789)	-
Transfer from Special Reserve Fund	-	-	(207,925,146)	207,925,146	-
Transfer from General Reserve Fund	-	(76,214,555)	-	76,214,555	-
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-	-	-	-
Balance at 30 June 2015	**2,000,000,000**	**2,605,656,626**	**19,113,317,184**	**-**	**23,718,973,810**
Balance at 01 July 2015	2,000,000,000	2,605,656,626	19,113,317,184	-	23,718,973,810
Net profit for the year	-	-	-	1,256,317,496	1,256,317,496
Other Comprehensive loss for the year	-	-	-	(37,334,102)	(37,334,102)
Total comprehensive income	-	-	-	1,218,983,394	1,218,983,394
Transfer to Special Reserve Fund	-	-	1,847,325,763	(1,847,325,763)	-
Transfer from Special Reserve Fund	-	-	(628,342,369)	628,342,369	-
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-	-	-	-
Balance at 30 June 2016	**2,000,000,000**	**2,605,656,626**	**20,332,300,578**	**-**	**24,937,957,204**

Special Reserve Fund includes net unrealised investment fair value reserve of Rs154,948,106 (gain) which shall be reclassified to the statement of profit or loss upon disposal of the related investments.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Rs	2015 Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Cash Generated From Operating Activities	26	**24,479,427,282**	13,686,212,260
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Other Balances and Placements		**(12,268,620,941)**	(23,452,739,530)
Decrease in Investment in Government Securities		**2,202,971,304**	2,758,810,182
Additions to Computer Software	11	**(50,254,453)**	(1,922,189)
Acquisition of Property, Plant and Equipment	12	**(101,833,411)**	(107,506,723)
Proceeds from Sale of Property, Plant and Equipment		**1,553,849**	20,470
Increase in Other Investments		**(78,415,647)**	(98,198,994)
Dividend Received		**2,841,230**	-
Net Cash Used In Investing Activities		**(10,291,758,069)**	(20,901,536,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Balance of net profits paid into the Consolidated Fund		**-**	-
Net increase/(decrease) in Cash and Cash Equivalents		**14,187,669,213**	(7,215,324,524)
Cash and Cash Equivalents at start of the year		**54,485,340,629**	59,615,507,853
Effect of exchange rate fluctuations on Cash and Cash Equivalents		**1,635,266,314**	2,085,157,300
Cash and Cash Equivalents at end of the year	6	**70,308,276,156**	54,485,340,629

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. LEGAL FRAMEWORK

In terms of section 4(2)(c) of the Bank of Mauritius Act 2004 (the "Act"), the Bank is established to act as the Central Bank for Mauritius. Its main place of business is at Sir William Newton Street, Port Louis, and it operates an office in Rodrigues. The Bank is an independent institution with its own legal personality and submits, in accordance with section 32 (3) of the Act, a copy of its audited financial statements to the Minister of Finance who lays a copy thereof before the National Assembly.

The primary objective of the Bank is to maintain price stability and to promote orderly and balanced economic development.

To attain these objectives, the Bank's principal functions are to:

- conduct monetary policy and manage the exchange rate of the Mauritian Rupee, taking into account the orderly and balanced economic development of Mauritius;
- regulate and supervise financial institutions carrying on activities in, or from within, Mauritius;
- manage, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius;
- collect, compile, disseminate, on a timely basis, monetary and related financial statistics; and
- manage the foreign exchange reserves of Mauritius.

Under section 10 of the Act, the stated and paid up capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government of Mauritius. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve.

Under section 11(1) of the Act, the Board shall determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provision as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies.

Under section 11(2) of the Act, the Bank shall establish a General Reserve Fund to which shall be allocated, at the end of every financial year of the Bank, 15 per cent of the net profits of the Bank.

Under section 11(3) of the Act, the balance of the net profits for the financial year remaining after the allocation made under subsection 11(2) shall, subject to subsection 11(4), be paid into the Consolidated Fund as soon as practicable after the end of every financial year. Section 11(4) of the Act provides that subject to subsection 11(5), the balance in the General Reserve Fund shall be at least equivalent to the amount paid as capital of the Bank. Under section 11(5) of the Act, where, at any time, the balance in the General Reserve Fund is less than the amount paid as capital of the Bank, the Bank shall endeavour to bring the balance to the required level.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Further, under section 11(6) of the Act, no allocation under subsection 11(3) shall be made where, in the opinion of the Board:

(a) the assets of the Bank are, or after such allocation would be, less than the sum of its liabilities and paid up capital; or

(b) the Bank would not be in a financial position to conduct its activities properly.

2. BASIS OF PREPARATION

(a) Statement of Compliance

In terms of section 31(1) of the Act, the accounting of the Bank shall, at all times be carried out in conformity with accounting principles applicable to central banks and best international practices. In line with best practices, the Bank has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value; and
- the liability for defined benefit obligations is recognised as the fair value of plan assets less the present value of the defined benefit obligations.

(c) Functional and Presentation Currency

These financial statements are presented in Mauritian Rupee ("Rs"), rounded to the nearest rupee, which is the Bank's functional currency.

(d) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are described in Note 4.

(e) Application of New and Revised International Financial Reporting Standards (IFRS)

In the current year, the Bank has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Interpretations Committee ("IFRS IC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 July 2015.

(i) Relevant Standards and Interpretations applied with no effect on the financial statements

During the year, no new and revised Standards and Interpretations are relevant to these financial statements.

(ii) New and Revised Standards and Interpretations in issue but not yet effective

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

As at 30 June 2016, the following Standards and Interpretation were effective. However, they did not have any impact on the Bank's financial statements.

IAS 1	Presentation of Financial Statements - Amendments resulting from the disclosure initiative (effective 1 January 2016)
IAS 7	Statement of Cash Flows - Amendments resulting from the Disclosure initiative (effective 1 January 2017)
IAS 12	Income Taxes - Amendments regarding the recognition of deferred tax assets for unrealised losses (effective 1 January 2017)
IAS 16	Property, plant and Equipment - Amendments regarding the clarification of acceptable methods of depreciation and amortisation (effective 1 January 2016)
IAS 19	Employee Benefits - Amendments resulting from September 2014 Annual Improvements to IFRS (effective 1 January 2016)
IAS 38	Intangible Assets - Amendments regarding the clarification of acceptable methods of depreciation and amortisation (effective 1 January 2016)
IAS 39	Financial Instruments: Recognition and Measurement - Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception (effective 1 January 2018)
IFRS 7	Financial Instruments: Disclosures - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures (effective 1 January 2018)

Disclosures - Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (effective 1 January 2018)

IFRS 9	Financial Instruments: Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective 1 January 2018)
IFRS 15	Revenue from Contracts with Customers - Original issue (effective 1 January 2018)
IFRS 15	Revenue from Contracts with Customers - Amendments to defer the effective date (effective 1 January 2018)
IFRS 15	Clarifications to IFRS 15 (effective beginning on or after 1 January 2018)
IFRS 16	Leases - Original issue (effective 1 January 2019)

Management anticipates that the application of the above Standards in future years will have no material impact on the financial statements of the Bank on their effective dates in future periods.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

3. ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank are as follows:

(a) Financial Instruments

(i) Initial Recognition

The Bank recognises all financial instruments on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. All regular transactions entered by the Bank are recognised on a settlement date basis.

(ii) Classification and measurement

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity (HTM)' investments, 'available-for sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised on the value date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss, and subsequently measured at fair value. The Bank's Foreign Investments, Gold deposits, Other Investments and Investment in Government Securities fall under this category. All other investments are held in the HTM portfolio and are measured at amortised cost. During the year, in view of the heightened volatility in the international financial markets, although the Bank had the intent at the time of investment, to hold the securities to maturity, it had to liquidate part of the securities from the HTM portfolio in order to mitigate the rising risks and comply with the Strategic Assets Allocation guidelines approved by the Board and also to ensure the availability of liquidity. The remaining investments in the HTM portfolio have been reclassified to AFS portfolio in accordance with IAS 39 – Financial Instruments: Recognition and Measurements.

AFS financial assets are non-derivatives that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss.

Investments held by the Bank that are classified as AFS are stated at fair value at each reporting date. Fair value is determined in the manner described in note 29. Changes in the carrying amount of AFS financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest rate method and dividends on AFS equity investments are recognised in statement of profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated in the Special Reserve Fund. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the Special Reserve Fund is reclassified to statement of profit or loss.

Dividends on AFS equity instruments are recognised in the statement of profit or loss

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

when the Bank's right to receive the dividends is established. The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the rate of exchange ruling at the reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Loans and receivables comprise Cash and Cash Equivalents (excluding Gold Deposits and foreign investments), Deposit Accounts, Loans and Advances to commercial banks or other financial institutions under Special Lines of Credit and certain Other Assets of the Bank.

Financial liabilities comprise of demand deposits, currency in circulation, Bank of Mauritius Securities and other liabilities. The Bank recognises all its financial liabilities initially at the value of the consideration received for those liabilities, excluding transaction costs and subsequently measures them at amortised cost.

The Bank has the possibility to designate any financial asset or financial liability at FVTPL, that is, at fair value with changes in fair value recognised through profit or loss provided that the financial asset or financial liability satisfies certain conditions.

(iii) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards of ownership have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Fair Value Measurement Principles

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation wholly supported by observable market data or the transaction is closed out.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Gold Deposits

Gold Deposits are held by the Bank for reserve management purposes. IAS 39 specifically excludes from its scope gold deposits and therefore *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, has been considered to assess the most appropriate accounting for the gold deposits. IAS 39 has been applied by analogy and gold deposits are classified as a financial asset reported at fair value through profit or loss. Accordingly, all gains and losses on revaluation of gold are recognised in profit or loss. Gold is valued at the price ruling on the international market.

Government of Mauritius Treasury Bills

Government of Mauritius Treasury Bills have been revalued based on the latest market data available for these instruments.

Other Government Securities

Other Government Securities comprise Treasury Notes, Bonds and Mauritius Development Loan Stocks (MDLS) with maturities ranging between two to twenty years which have been revalued using the discounted cash flow techniques, based on the latest market data available for these instruments and other similar instruments as at the reporting date.

Gains and Losses on Subsequent Measurement

Gains or losses on FVTPL financial assets and financial liabilities arising from changes in their fair value are recognised in profit or loss in the period in which they arise. For those financial instruments carried at amortised cost, gains or losses are recognised in profit or loss when the financial instrument is de-recognised or impaired and through the amortisation process.

(vi) Bank of Mauritius Securities

Bank of Mauritius securities, which are issued for liquidity management, are measured at amortised cost using the straight line method.

(vii) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, gold deposits, cash balances, call deposits with other financial institutions and short-term highly liquid debt investments with maturity of three months or less from date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(viii) Other balances and placements

Other balances and placements comprise balances with more than three months' maturity from the date of acquisition, including deposits held with banks abroad.

(b) Computer Software

Under IAS 38 Intangible assets, Computer Software which does not form an integral part of computer hardware, is classified as an intangible asset. Intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis at the rate of 33 $^1/_3$% per annum so as to write off the depreciable value of the assets over their estimated useful lives. A full year of amortisation is charged in the year of purchase. Depreciation methods, useful lives and residual values if not insignificant, are reviewed at each reporting date and adjusted if appropriate.

(c) Property, Plant and Equipment

Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives (except for motor vehicles which are depreciated as stated below), and is generally recognised in profit or loss. Freehold land and capital work in progress are not depreciated.

Depreciation is provided at the following annual percentage rates:

Buildings	-	2%
Furniture, Equipment, Fixtures and Fittings	-	10%
Computer Equipment, Cellular Phones and ICT Systems	-	33 $^1/_3$%
Motor Vehicles	-	40% for 1st year then 20% for each of the three subsequent years

Depreciation methods, useful lives and residual values if not insignificant, are reviewed at each reporting date and adjusted if appropriate.

(d) Industrial Gold, Dodo Gold Coins and Gold Bars

Inventories of Industrial Gold, Dodo Gold Coins and Gold Bars are measured at the lower of cost and net realisable value. The costs of inventories are based on a first-in-first-out principle and include all expenditure incurred in acquiring the inventories and in bringing them to their existing location and condition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Net realisable value is the estimated selling price in the ordinary course of business less the estimated selling expenses.

(e) Currency in Circulation

Notes and coins issued represent an unserviced liability of the Bank and are recorded at face value. The costs of minting coins are amortised in the profit and loss account over three years while that of printing banknotes are amortised over two years.

The Bank also issues a range of Mauritius commemorative coins. All costs associated with the production of these numismatic coins are expensed in profit or loss when incurred.

(f) Employee Benefits

Defined Benefit Pension Plan

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary. Currently, the Bank employs the State Insurance Company of Mauritius as its actuary. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

One of the significant changes in the amended standard is the elimination of the 'corridor method' under which the recognition of actuarial gains and losses could be deferred. Instead, all actuarial gains and losses are recognised immediately in other comprehensive income.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in staff expenses and other benefits in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Termination Benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits. If benefits are not expected to be settled wholly within 12 months at the end of the reporting period then they are discounted.

State Pension Plan

Contribution to the National Pension Scheme is expensed to profit or loss in the period in which it falls due.

(g) Income and Expenditure Recognition

Income and Expenditure are recognised as they are earned or incurred and are recorded in the financial statements on an accruals basis to accurately reflect the period to which they relate.

Dividend income from equity investments is accounted for in profit or loss as "others" when the right to receive payment is determined.

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis,
- Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are presented in gain or loss from other financial instruments carried at fair value through profit or loss.

(h) Foreign Currencies

Transactions in foreign currencies are recorded in Mauritian Rupees using the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated in Mauritian Rupees using the rate of exchange ruling at the reporting date. Foreign exchange differences arising on translation are included in profit or loss in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates). However, for the purpose of determining the net profits of the Bank in terms of section 11 of the Bank of Mauritius Act 2004, foreign exchange differences are excluded in accordance with section 47(2) of the Act. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transactions.

(i) Impairment

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are determined by the Bank through their best estimate of the expenditure required to settle the obligation at the reporting date. These are calculated by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(k) Operating Leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. USES OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in accordance with IFRS requires management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Judgements and estimates are continuously evaluated and are based on historical experience and other factors, including expectations and assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results could, by definition therefore, often differ from the related accounting estimates.

Particular areas where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

market price requires the use of valuation techniques as described in accounting policy 3 (a) (vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Employee Benefits

The present value of the employee benefits, consisting of gratuity and compensation, depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the employee benefit obligations.

The main assumption used in determining the net cost or income for employee benefits is the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employee benefit obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds or its equivalent that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. Details of the defined benefit obligation are disclosed in Note 17.

Key judgements

Determination of Functional Currency

Functional currency is the currency of the primary economic environment in which the Bank operates. When indicators of the primary economic environment are mixed, management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. Management has determined that the functional currency of the Bank is Mauritian Rupees (“Rs”) as majority of the Bank’s transactions, operating expenses and liabilities are denominated in Mauritian Rupees.

5. CAPITAL AND RESERVES

Stated and Paid up Capital

The stated and paid up capital of the Bank is Rs2 billion in accordance with section 10(4) of the Bank of Mauritius Act 2004. All amounts paid as Capital are subscribed and held solely by the Government of Mauritius (refer to Note 1).

General Reserve Fund

The General Reserve Fund is a reserve fund created in accordance with section 11(2) of the Bank of Mauritius Act 2004 (refer to Note 1).

Special Reserve Fund

In terms of section 47(1) of the Bank of Mauritius Act 2004, the Special Reserve Fund is a reserve built up from any net realised gains or losses in any financial year of the Bank arising from changes in the valuation of its assets or liabilities in, or denominated in gold, SDR, or foreign currencies subsequent to any change in the values or exchange rates of gold, SDR, or foreign currencies in terms of the domestic currency.

Section 47(1A) of the Bank of Mauritius Act 2004 introduced in December 2011 provides that any unrealised gains or losses of the Bank in any financial year arising from changes in the valuation of investments held by the Bank shall be credited to or debited from the Special Reserve Fund.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

As per section 47(2) of the Bank of Mauritius Act 2004, neither net gains nor net losses in any financial year of the Bank arising from changes in the valuation of its assets or liabilities in, or denominated in gold, Special Drawing Rights, or foreign currencies shall be included in the computation of annual income of the Bank.

	2016	2015
	Rs	Rs
Loss/(Gain) on revaluation of Foreign Currencies and SDR	**299,137,697**	(1,501,394,520)
Gain on Financial Instruments at Fair Value Through Profit or Loss	**(1,991,515,354)**	(878,786,269)
	(1,692,377,657)	(2,380,180,789)
Net fair value gain on AFS financial assets to be reclassified subsequently to profit or loss	**(154,948,106)**	-
Transfer to Special Reserve Fund in terms of sections 47(1) and 47(1A) of the Bank of Mauritius Act 2004	**(1,847,325,763)**	(2,380,180,789)

6. CASH AND CASH EQUIVALENTS

	2016	2015
	Rs	Rs
Short Term Deposit Accounts	**877,261**	3,747,021,041
Foreign Investments	**3,499,108,426**	-
Special Drawing Rights (SDR) (note 32)	**4,459,923,672**	4,933,758,461
Repurchase Agreement	**48,278,961,090**	31,764,792,960
Current Accounts	**4,448,860,795**	2,218,576,128
Foreign Currency Notes and Coins	**5,595,666**	532,156
Gold Deposits	**9,614,949,246**	11,820,659,883
	70,308,276,156	54,485,340,629

Gold deposits under cash and cash equivalents represent gold bars held by the Bank for reserve management purposes and are readily convertible into cash.

7. OTHER BALANCES AND PLACEMENTS

	2016	2015
	Rs	Rs
Foreign Investments	**88,442,789,815**	83,475,684,209
Long Term Deposit Accounts	-	38,704,114
Gold Deposits	**7,601,474,847**	-
	96,044,264,662	83,514,388,323

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Foreign Investments represent funds outsourced to Fund Managers and comprise long term deposits, securities and bonds. It also includes investment in foreign currency denominated government securities. Gold deposits refer to gold bars held for long term investment purposes.

8. OTHER INVESTMENTS

	2016	2015
	Rs	Rs
Unquoted Investments	**450,794,378**	421,885,514

Unquoted Investments have been valued on the basis of the latest net asset values in respect of the investee entities.

9. LOANS AND ADVANCES

	2016	2015
	Rs	Rs
Special Line of Credit in Foreign Currency	**866,108,585**	1,478,013,207
Special Line of Credit in Local Currency	**3,631,969,178**	3,900,000,000
Others	**17,767,889**	42,012,951
	4,515,845,652	5,420,026,158

Advances under Special Lines of Credit are granted to banks and other economic operators to support the economic development of the country. Advances under the Special Lines of Credit are guaranteed/ collateralised and are at fixed and variable interest rates.

10. INVESTMENT IN GOVERNMENT SECURITIES

	2016	2015
	Rs	Rs
Government of Mauritius Treasury Bills	-	99,923,500
Other Government Securities	**1,252,146,212**	3,356,811,253
	1,252,146,212	3,456,734,753

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

11. COMPUTER SOFTWARE

	Rs
COST	
At 1 July 2014	130,752,867
Additions	1,922,189
At 30 June 2015	132,675,056
Additions	50,254,453
Transfer from Capital Work in Progress (Note 12)	35,920,514
At 30 June 2016	**218,850,023**
AMORTISATION	
At 1 July 2014	125,583,302
Charge for the year	3,281,446
At 30 June 2015	128,864,748
Charge for the year	31,876,762
At 30 June 2016	**160,741,510**
NET BOOK VALUE	
At 30 June 2016	**58,108,513**
At 30 June 2015	3,810,308

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings Rs	Capital Work in Progress Rs	Furniture, Equipment, Fixtures and Fittings Rs	Computer Equipment Rs	Motor Vehicles Rs	Total Rs
COST						
At 30 June 2014	1,631,321,218	11,459,740	664,914,560	108,631,649	28,036,010	2,444,363,177
Additions	3,029,420	93,430,399	3,133,114	5,723,790	2,190,000	107,506,723
Scrapped *	(12,573,570)	-	(926,138)	-	-	(13,499,708)
Disposals	-	-	(18,378)	(30,705)	-	(49,083)
At 30 June 2015	1,621,777,068	104,890,139	667,103,158	114,324,734	30,226,010	2,538,321,108
Additions	3,896,611	60,162,834	15,576,862	8,398,703	13,798,400	101,833,411
Transfer	-	(16,193,492)	1,316,472	14,877,020	-	-
Transfer to Computer Software	-	(35,920,514)	-	-	-	(35,920,514)
Write-Off	-	(31,499)	-	-	-	(31,499)
Scrapped	-	-	(51,800)	-	-	(51,800)
Disposals	-	-	(329,833)	(6,830,756)	(8,108,982)	(15,269,571)
At 30 June 2016	**1,625,673,679**	**112,907,468**	**683,614,859**	**130,769,701**	**35,915,428**	**2,588,881,135**
DEPRECIATION						
At 1 July 2014	206,339,680	-	464,741,404	97,382,436	22,521,333	790,984,853
Charge for the year	29,501,241	-	66,698,868	7,464,541	4,672,216	108,336,866
Scrapped*	(3,725,094)	-	(684,509)	-	-	(4,409,603)
Disposals	-	-	(18,376)	(10,234)	-	(28,610)
At 30 June 2015	232,115,827	-	530,737,387	104,836,743	27,193,549	894,883,505
Charge for the year	29,579,173	-	68,769,534	12,899,792	7,511,290	118,759,789
Scrapped	-	-	(51,797)	-	-	(51,797)
Disposals	-	-	(323,474)	(6,824,056)	(8,104,982)	(15,252,512)
At 30 June 2016	**261,695,000**	-	**599,131,650**	**110,912,479**	**26,599,857**	**998,338,985**
CARRYING AMOUNT						
At 30 June 2016	**1,363,978,679**	**112,907,468**	**84,483,209**	**19,857,222**	**9,315,571**	**1,590,542,150**
At 30 June 2015	1,389,661,241	104,890,139	136,365,771	9,487,991	3,032,461	1,643,437,603

Relates to partitions and false ceilings of the Bank's Old Building which is being refurbished

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

13. OTHER ASSETS

	2016 Rs	2015 Rs
Net balances due in clearing	-	148,729,621
Staff Loans	**81,811,692**	89,305,436
Prepayments	**45,221,895**	37,873,981
Industrial Gold and Dodo Gold Coins	**104,283,871**	91,202,203
Gold Bars	**114,522,667**	88,358,535
Interest Receivable on domestic assets	**27,620,274**	65,025,013
Others	**4,485,854**	4,493,274
	377,946,253	524,988,063

Net balances due in clearing are cheques collected and outstanding at close of business and which would be cleared on the next working day.

14(a). CURRENCY IN CIRCULATION

	2016 Rs	2015 Rs
Notes issued		
Face value		
2,000	**4,728,718,000**	5,248,576,000
1,000	**18,070,604,000**	15,797,778,000
500	**3,304,223,500**	3,211,885,000
200	**1,463,062,400**	1,384,852,200
100	**1,499,329,500**	1,304,346,400
50	**358,241,800**	345,261,750
25	**248,350,775**	242,179,175
Demonetised Notes	**215,007,745**	215,709,845
Total	**29,887,537,720**	27,750,588,370
Coins issued		
Face value		
20 rupees	**206,688,660**	201,500,240
10 rupees	**297,418,990**	284,089,590
5 rupees	**138,343,945**	128,467,895
1 rupee	**163,270,796**	154,079,357
50 cents	**36,324,848**	34,323,810
25 cents **	**6,329,323**	6,330,061
20 cents	**46,433,160**	44,270,451
10 cents **	**2,418,092**	2,418,457
5 cents	**10,818,297**	10,340,647
2 cents **	**330,333**	330,358
1 cent	**222,980**	222,915
Others***	**22,304,473**	22,235,693
Total	**930,903,897**	888,609,474
Total face value of Notes and Coins in Circulation	**30,818,441,617**	28,639,197,844

***These denominations have ceased to be issued by the Bank.*
****Others include Gold Coins and Commemorative Coins.*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

14(b). GOVERNMENT DEMAND DEPOSITS

Government Demand deposits of Rs27,303,819,898 (2015:Rs15,339,826,479) includes an amount of Rs11,169,608,056 (2015:nil) in respect of Government of Mauritius Treasury Bills issued for liquidity management.

15. BANK OF MAURITIUS SECURITIES

	2016	2015
	Rs	Rs
Bank of Mauritius Savings Bonds	**907,400**	907,400
Bank of Mauritius Bonds	**2,669,182,643**	2,667,573,086
Bank of Mauritius Notes	**31,669,293,027**	17,617,842,749
Bank of Mauritius Bills	**1,494,906,494**	6,469,826,171
	35,834,289,564	26,756,149,406

16. PROVISIONS

	2016	2015
	Rs	Rs
Balance at 30 June	**100,000,000**	100,000,000

The provision relates to the liquidation of the MCCB Limited. Under the MCCB Limited (Liquidation) Act 1996, the Bank may make additional funds available to the liquidator of MCCB Limited where the liabilities of the MCCB Limited exceed the proceeds from the realisation of its assets. The liquidation of MCCB Limited is still in progress.

17. EMPLOYEE BENEFITS

Amounts recognised in the Statement of Financial Position:

	2016	2015
	Rs	Rs
Defined Benefit Plan (Note (a))	**737,585,354**	520,051,024
Short Term Employee Benefits (Note (b))	**99,342,242**	95,560,697
	836,927,596	615,611,721

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined Benefit Plan

The Bank operates a defined benefit plan for most of its employees and the plan is wholly funded. The assets of the funded plan are held independently and are administered by The State Insurance Company of Mauritius Ltd.

The plan is exposed to risks such as: investment risk, interest rate risk, longevity risk, and salary risk.

The report dated 1 July 2016 submitted by The State Insurance Company of Mauritius Ltd, who also acts as independent actuaries, is produced hereunder.

Amounts recognised in profit or loss:

	2016	2015
	Rs	Rs
Current Service Cost	**19,353,252**	14,542,138
Employee Contributions	**(9,859,352)**	(9,883,414)
Fund Expenses	**691,499**	693,351
Net interest expense	**40,057,659**	39,347,211
Net Periodic Pension Cost included in Staff Salaries and other benefits	**50,243,058**	44,699,286
Remeasurement of defined benefit liability recognised in Other Comprehensive Income (OCI):		
Actuarial Loss	**192,282,208**	76,214,555

Movements in liability recognised in the Statement of Financial Position:

	2016	2015
	Rs	Rs
At start of the year	**520,051,024**	424,196,676
Total Expenses as per above	**50,243,058**	44,699,286
Actuarial Losses recognised in OCI	**192,282,208**	76,214,555
Bank of Mauritius share of pension (topping-up)	**(275,357)**	(275,357)
Employer Contributions	**(24,715,579)**	(24,784,136)
At end of the year	**737,585,354**	520,051,024

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

17. EMPLOYEE BENEFITS (CONT'D)

Movements in the present value of the Defined Benefit Obligations in the current period were as follows:

	2016 Rs	2015 Rs
At start of the year	**858,900,658**	769,503,867
Current Service Cost	**19,353,252**	14,542,138
Interest Cost	**64,417,550**	69,255,349
Actuarial loss	**165,450,448**	65,837,950
Benefits Paid	**(62,260,944)**	(60,238,646)
At end of the year	**1,045,860,964**	858,900,658

Movements in the fair value of the Plan Assets in the current period were as follows:

	2016 Rs	2015 Rs
At start of the year	**338,849,634**	345,307,191
Expected Return on Plan Assets	**24,359,891**	29,908,138
Actuarial Losses	**(26,831,760)**	(10,376,605)
Contributions from the Employer	**24,715,579**	24,784,136
Employee Contributions	**9,859,352**	9,883,414
Benefits Paid (Excluding BOM share of pension)	**(61,985,587)**	(59,963,289)
Fund Expenses	**(691,499)**	(693,351)
At end of the year	**308,275,610**	338,849,634

The major categories of plan assets at the reporting date are as follows:

	30 June 2016 %	30 June 2015 %
Major categories of Plan Assets		
Local Equities	**15.3**	19.7
Overseas Equities and Bonds	**21.6**	20.5
Fixed Interest	**57.9**	55.0
Others	**5.2**	4.8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

17. EMPLOYEE BENEFITS (CONT'D)

The overall expected rate of return on Plan Assets is determined by reference to market yields on bonds.

The actual return on plan assets was Rs(1.0) million (2015: Rs18.1 million).

The history of experience adjustments is as follows:-

	2016	2015
	Rs	Rs
Experience (losses)/gains on plan liabilities	**(165,450,448)**	(65,837,950)
Experience (losses)/gains on plan assets	**(26,831,760)**	(10,376,605)
	(192,282,208)	(76,214,555)

The Bank expects to make a contribution of Rs25.9 million (2015: Rs25.9 million) to the defined benefit plans during the next financial year. This estimate may be amended by the Bank of Mauritius on the basis of availability of more accurate information.

Additional disclosure on assets issued or used by the reporting entity

	2016	2015
	%	%
Percentage of assets at end of year		
Assets held in the entity's own financial instruments	**0**	0
Property occupied by the entity	**0**	0
Other assets used by the entity	**0**	0
Weighted average duration of the defined benefit obligation (Calculated as a % change in PV of liabilities for a 1% change in discount rate)		**13 years**

The principal assumptions used for actuarial valuation were:

	2016	2015
Discount Rate	**7.5%**	9.0%
Future Long-term Salary Increases	**4.0%**	4.0%
Post Retirement Mortality Tables Increases	**2.5%**	2.5%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

17. EMPLOYEE BENEFITS (CONT'D)

Mortality before retirement	A 6770 Ultimate Tables
Mortality in retirement	PA (90) Tables (adjusted)
Retirement age	As per Second Schedule of the Statutory Bodies Pension Funds Act

The discount rate is determined by reference to market yields on bonds.

Significant actuarial assumptions for determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based reasonably on possible changes of the assumptions occurring at the end of the reporting period.

If the discount rate would be 100 basis points (one percent) higher (lower), the defined benefit obligation would decrease by Rs109.8 million (increase by Rs132.2 million) if all other assumptions were held unchanged.

If the expected salary growth would increase (decrease) by 1%, the defined benefit obligation would increase by Rs53.2 million (decrease by Rs47.2 million) if all assumptions were held unchanged.

If the expected pension growth would increase (decrease) by 1%, the defined benefit obligation would increase by Rs71.1 million (decrease by Rs62.3 million) if all assumptions were held unchanged.

If life expectancy would increase (decrease) by one year, the defined benefit obligation would increase by Rs27 million (decrease by Rs27 million) if all assumptions were held unchanged.

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected salary increases, given that both depends to a certain extent on expected inflation rates. The analysis above abstracts from these interdependence between the assumptions.

(b) Short Term Employee Benefits

	2016	2015
	Rs	Rs
Provision for Annual and Sick Leaves	**57,527,322**	55,671,515
Provision for Passage Benefits	**41,814,920**	39,889,182
	99,342,242	95,560,697

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(c) Employer Contribution Towards Pension Cost

	2016	2015
	Rs	Rs
Contributions Expensed (Note 22)	**26,096,922**	25,422,821

(d) State Pension Plan

	2016	2015
	Rs	Rs
National Pension Scheme Contributions (Note 22)	**1,862,265**	1,828,666

18. OTHER LIABILITIES

	2016	2015
	Rs	Rs
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-
Creditors	**157,588,136**	183,947,471
Abandoned Funds from Financial Institutions	**1,174,727,200**	1,105,584,813
Interests and Charges Payable	**409,659,869**	161,255,320
Foreign Bills sent for Collection	**10,510**	17,933
Interest accrued on Bank of Mauritius Savings Bonds	**97,200**	97,200
Special Drawing Rights (SDR) (Note 32)	**3,519,183,573**	3,999,089,739
Special Deposits from banks	**9,557,364,967**	5,499,643,967
Others	**18,121**	18,127
	14,818,649,576	10,949,654,570

19. INCOME FROM FINANCIAL ASSETS

(a) Interest and Similar Income on Foreign Assets

	2016	2015
	Rs	Rs
Deposit Accounts	**79,741,696**	611,063,820
Fixed Income	**1,422,671,382**	406,336,308
Special Drawing Rights	**2,430,427**	2,504,602
Repurchase Agreements	**86,526,208**	11,430,262
Current Accounts	**2,835,690**	1,064,198
	1,594,205,403	1,032,399,190

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(b) Interest and Similar Income on Domestic Assets

	2016	2015
	Rs	Rs
Loans and Advances		
Special Line of Credit - Sugar Industry	-	11,547,236
Special Foreign Currency Line of Credit	**10,869,741**	22,969,981
Special Line of Credit in local currency	**131,623,148**	-
Loans and Advances to banks	**1,729,197**	2,377,405
	144,222,086	36,894,622
Government Securities	**118,229,711**	204,271,373
Other Loans	**2,323,218**	6,377,026
	264,775,015	247,543,021

(c) Others

	2016	2015
	Rs	Rs
Dividend and other income	**2,841,230**	-
Gain on Sale/Revaluation of Industrial Gold and Dodo Gold Coins	**16,409,774**	302,829
Gain on Sale/Revaluation of Gold Bars	**21,011,611**	935,515
Profit on Issue of Mauritius Commemorative Coins	**89,969**	206,443
	40,352,584	1,444,787
Total Income from Financial Assets	**1,899,333,002**	1,281,386,998

20(a). MISCELLANEOUS INCOME

	2016	2015
	Rs	Rs
Processing and Licence Fees	**82,002,923**	43,398,699
MACSS & MCIB Fees	**59,066,708**	52,357,483
Fees and Charges	**749,763**	767,940
Profit on Sale of Property, Plant and Equipment	**1,542,258**	-
Scrapped Property, Plant and Equipment	-	(9,090,107)
Sponsorship income	**475,000**	4,722,011
Penalty	**87**	269,768
Sundry income	**508,649**	1,339,437
	144,345,388	93,765,231

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

20(b). GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 Rs	2015 Rs
Foreign Investments	**305,037,031**	198,710,167
Unquoted Investments	**(54,249,725)**	96,313,323
Gold Deposits	**1,740,728,048**	583,762,779
	1,991,515,354	878,786,269

21. INTEREST EXPENSE AND SIMILAR CHARGES

	2016 Rs	2015 Rs
Government of Mauritius Accounts	**71,101**	17,536

22. STAFF SALARIES AND OTHER BENEFITS

	2016 Rs	2015 Rs
Staff Salaries and Allowances	**280,225,755**	276,304,859
Employer Contribution Towards Pension Cost (Note 17(c))	**27,007,801**	25,422,821
Staff Family Protection Scheme	**7,102,077**	9,092,137
National Pension Fund (Note 17(d))	**1,862,265**	1,828,666
HRDC Levy	**229,263**	800,936
	316,427,161	313,449,419

The amount of Rs280,225,755 includes an increase in the liability for short term employee benefits amounting to Rs3,781,545 (see Note 17(b)).

23. DIRECTORS' REMUNERATION

	2016 Rs	2015 Rs
Governor	**7,502,124**	8,831,137
Deputy Governors (2)	**8,358,240**	9,326,087
Other Directors (5)	**1,680,000**	1,320,000
	17,540,364	19,477,224

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Directors' remuneration for 2015 also includes emoluments paid/payable to former Governor and former Second Deputy Governor

Directors are paid a monthly fee of Rs30,000 (2015: Rs30,000)

24. OTHER EXPENDITURE

	2016	2015
	Rs	Rs
Stationery and Library	**4,395,250**	3,558,167
Communication Charges	**41,161,432**	18,987,788
Others	**2,854,121**	1,043,875
	48,410,803	23,589,830

25. OPEN MARKET OPERATIONS

The Bank, in the pursuit of its objectives to maintain price stability and to promote orderly and balanced economic development undertakes open market operations to manage liquidity conditions in the domestic money markets. The cost of open market operations conducted through the issue of Bank of Mauritius securities and Government of Mauritius Treasury Bills (GMTB) for liquidity management and also through special deposits from banks are provided below.

	2016	2015
Interest	**Rs**	Rs
Bank of Mauritius Securities	**1,132,593,770**	703,086,421
Government of Mauritius Treasury Bills	**117,842,229**	-
Special Deposits	**170,948,350**	27,618,144
	1,421,384,349	730,704,565

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

26. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	2016 Rs	2015 Rs
Net profit for the year	**1,256,317,496**	2,172,255,643
Adjustments for:		
Non-Cash Increase in Employee Benefits	**29,033,667**	17,469,464
Amortisation of Intangible Assets	**31,876,762**	3,281,446
Depreciation of Property, Plant and Equipment	**118,759,789**	108,336,886
Profit on Sale of Property, Plant and Equipment	**(1,542,258)**	-
Scrapped Property, Plant and Equipment	**-**	9,090,107
Dividend Received	**(2,841,230)**	-
Gain on Financial Instruments at Fair Value Through Profit or Loss	**(1,991,515,354)**	(878,786,269)
Loss/(Gain) on revaluation of foreign currencies and SDR	**299,137,697**	(1,501,394,520)
Gain on revaluation of Government Securities	**1,965,041**	347,805
Operating Profit Before Working Capital Changes	**(258,808,390)**	(69,399,438)
Increase in Interest Receivable	**(117,318,113)**	(151,906,682)
Decrease/(Increase) in Loans and Advances	**904,180,506**	(3,105,030,360)
Decrease in Other Assets	**147,041,810**	26,281,522
Increase in Notes and Coins in Circulation	**2,179,243,773**	2,055,758,515
Increase/(Decrease) in Government Demand Deposits	**11,963,993,419**	(1,531,183,482)
(Decrease)/Increase in Banks' Demand Deposits	**(3,328,226,710)**	7,481,740,696
Increase in Other Financial Institutions' Demand Deposits	**9,258,190**	211,195,243
Increase/(Decrease) in Other Demand Deposits	**32,927,633**	(22,754,398)
Increase in Bank of Mauritius Securities	**9,078,140,158**	3,080,139,684
Increase in Other Financial Liabilities	**3,868,995,006**	5,711,371,004
Net Cash Generated From Operating Activities	**24,479,427,282**	13,686,212,260

27. COMMITMENTS AND OTHER CONTINGENCIES

Commitment not otherwise provided for in the financial statements and which existed at 30 June 2016 is as follows:

The Bank has a commitment to pay on call USD3,294,000 (2015:USD2,118,000) for capital subscription in the African Export-Import Bank. This amount has not been accounted for as a liability in the financial statements.

Other capital commitments at reporting date amounted to Rs342 million (2015:Rs454 million).

There was no other contingent liability that existed at 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

28. OPERATING LEASE COMMITMENTS

	1 year	>1 - 5yrs	> 5 yrs	Total
	Rs	Rs	Rs	Rs
Archiving - Plaine-Lauzun DBM	166,968	-	-	166,968
Fallback Site – Cyber Tower	1,073,235	4,743,276	-	5,816,511
Lease of Residential Property	682,500	340,000	-	1,022,500
	1,922,703	**5,083,276**	**-**	**7,005,979**

An amount of Rs2,293,251 (2015: Rs2,273,945) has been expensed in profit or loss for the year.

29. FINANCIAL INSTRUMENTS

(a) Introduction

A financial instrument, as defined by IAS 32 (Financial Instruments: Presentation), is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

As the monetary authority for Mauritius, the Bank's activities are policy orientated. In the course of carrying out its functions, the Bank is faced with financial risks, operational risks and reputational risks. The main financial risks to which the Bank is exposed to are credit risk, interest rate risk, liquidity risk, price risk and foreign exchange risk. A significant proportion of these risks arise from the management of foreign exchange reserves of the Bank.

The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of currency portfolios in which the Bank invests. In the management of foreign exchange reserves, minimising liquidity risk and maximising safety and preservation of capital are the prime considerations in order to achieve its prime objectives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(b) (i) Categories of Financial Instruments

	Carrying Amount 2016 Rs	**Fair Value 2016 Rs**	Carrying Amount 2015 Rs	Fair Value 2015 Rs
Financial Assets				
Fair value through profit or loss (FVTPL)				
Investment in Government Securities	**1,252,146,212**	**1,252,146,212**	3,456,734,753	3,456,734,753
Foreign Investment	**22,750,933,999**	**22,750,933,999**	27,537,911,427	27,537,911,427
Gold deposits	**17,216,424,093**	**17,216,424,093**	11,820,659,883	11,820,659,883
Other Investment	**450,794,378**	**450,794,378**	421,885,514	421,885,514
	41,670,298,682	**41,670,298,682**	43,237,191,577	43,237,191,577
Available-For-Sale				
Foreign Investments	**69,190,964,242**	**69,190,964,242**	-	-
Held-To-Maturity				
Foreign Investments	-	-	55,937,772,783	55,573,811,428
Loans and receivables				
Cash & Cash Equivalents (Excl. Gold deposits)	**57,194,218,484**	**57,194,218,484**	42,664,680,745	42,664,680,745
Long Term Deposits Accounts	-	-	38,704,114	38,704,114
Loans and Advances	**4,515,845,652**	**4,515,845,652**	5,420,026,158	5,420,026,158
Staff Loans	**81,811,692**	**81,811,692**	89,305,436	89,305,436
Interest Receivable on foreign assets	**421,446,293**	**421,446,293**	304,128,180	304,128,180
Interest Receivable on domestic assets	**27,620,274**	**27,620,274**	65,025,013	65,025,013
	62,240,942,394	**62,240,942,394**	48,581,869,646	48,581,869,646
Total Financial Assets	**173,102,205,318**	**173,102,205,318**	147,756,834,005	147,392,872,651

	2016 Rs	**2016 Rs**	2015 Rs	2015 Rs
Financial Liabilities				
Amortised cost	**149,144,474,961**	**149,144,474,961**	125,339,739,483	125,339,739,483

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(b) (ii) Fair Value of Financial Instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. Reasonable possible changes to one of the significant unobservable inputs at reporting date would have no material effect on the fair value of the equity securities.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 Rs	Level 2 Rs	Level 3 Rs	Total carrying amount Rs	Total fair value Rs
2016					
Financial Assets					
Gold Deposits	**17,216,424,093**	**-**	**-**	**17,216,424,093**	**17,216,424,093**
Foreign Investments	**69,190,964,242**	**22,750,933,999**	**-**	**91,950,923,706**	**91,941,898,241**
Other Investments	**-**	**-**	**450,794,378**	**450,794,378**	**450,794,378**
Investment in Government Securities	**-**	**1,252,146,212**	**-**	**1,252,146,212**	**1,252,146,212**
	86,407,388,335	**24,003,080,211**	**450,794,378**	**110,870,288,388**	**110,861,262,924**
2015					
Financial Assets					
Gold Deposits	11,820,659,883	-	-	11,820,659,883	11,820,659,883
Foreign Investments	-	27,537,911,427	-	27,537,911,427	27,537,911,427
Other Investments	-	-	421,885,514	421,885,514	421,885,514
Investment in Government Securities	-	3,456,734,753	-	3,456,734,753	3,456,734,753
	11,820,659,883	30,994,646,180	421,885,514	43,237,191,577	43,237,191,577

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

There have been no transfers during the year between levels 1 and 2. A reconciliation of fair value measurements in level 3 is set out below:

Equity Securities	**2016** **Rs**	2015 Rs
Opening balance	**421,885,514**	227,397,412
Additions during the year	**77,915,140**	63,588,512
Change in fair value	**(49,006,276)**	130,899,590
Closing balance	**450,794,378**	421,885,514

Reasonable possible changes to one of the significant unobservable inputs at reporting date would have no material effect on the fair value of the equity securities.

Valuation techniques used

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For those investments where there is no active market, these are stated at cost less impairment. However, for the other financial instruments, the Bank determines fair values using the valuation technique as per table below:

Description	Valuation technique		Sensitivity analysis **2016** **Rs**	2015 Rs
Other investments	Net asset value of the investee company	10% Increase/Decrease	45,049,438	42,188,551

(b) (iii) Financial Asset and Financial Liability Classification

The Bank's accounting policies provide scope for financial assets and financial liabilities to be designated on inception into different accounting categories in certain circumstances as described in note 3 (a) (ii).

(c) Credit Risk

Disclosure of credit risk enables the users of financial statements to assess the extent to which failures by counterparties to discharge their obligations could adversely impact on the Bank's future cash inflows from financial assets held at the reporting date.

The Bank is exposed to credit risk which is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. Credit risk on the securities held by the Bank is managed by holding only high quality marketable securities issued chiefly by Government of Mauritius. Credit risk also arises as a result of investment of foreign exchange reserves with foreign counterparties. Credit risk also arises when the Bank provides liquidity to financial institutions through open market operations as part of monetary policy implementation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(i) Concentration of Credit Exposure by Geographical Area

The Bank's significant end-of-year concentration of credit exposure by geographical area was as follows:

	2016	2015
	Rs	Rs
Mauritius	**5,877,423,829**	9,036,315,302
USA	**96,575,712,563**	73,901,578,639
United Kingdom	**11,433,546,208**	7,371,392,781
Europe	**34,697,546,246**	39,710,051,068
Others	**24,517,976,472**	17,737,496,215
	173,102,205,318	147,756,834,005

(ii) Concentration of Credit Exposure by Counterparty Types

The Bank's significant end-of-year concentration of credit exposure by counterparty types was as follows:

	2016	2015
	Rs	Rs
Government	**83,085,079,775**	91,528,659,170
Supranational Financial Institutions	**8,167,834,055**	8,563,866,247
Foreign Banks and Financial Institutions	**74,074,222,701**	42,163,483,112
Other	**7,775,068,787**	5,500,825,476
	173,102,205,318	147,756,834,005

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(iii) Credit Exposure by Credit Rating

The following table presents the credit ratings of respective financial assets based on the ratings of Moody's. The Bank's investment in equity shares which typically do not obtain ratings and in Gold are denoted as Others. The Bank's investments with foreign central banks are presented separately.

	Credit Rating	2016 Rs	%	2015 Rs	%
Cash & Cash Equivalents	Central Banks	**55,315,146,826**	**33.08**	42,604,947,756	30.71
	Aaa	**1,800,229,329**	**1.08**	12,319,721	0.01
	Aa	**50,813,337**	**0.03**	-	-
	A	**27,152,554**	**0.02**	46,560,567	0.03
	Baa	**876,440**	**0.00**	852,702	0.00
	Others	**13,114,057,670**	**7.84**	11,820,659,883	8.52
Other Balances and Placements	Central Banks	**22,750,933,999**	**13.61**	78,276,907,781	56.40
	Aaa	**21,509,213,720**	**12.86**	-	-
	Aa	**628,576,561**	**0.38**	5,237,480,542	3.77
	A	**1,158,776,878**	**0.69**	-	-
	Baa	**6,748,850,346**	**4.04**	-	-
	Ba	**774,506,649**	**0.46**	-	-
	Others	**42,473,406,509**	**25.40**	-	-
Interest Receivable	Central Banks	-	-	286,012,519	0.21
	Aaa	**124,251,328**	**0.07**	18,115,661	0.01
	Aa	**3,617,620**	**0.00**	-	-
	A	**6,828,425**	**0.00**	-	-
	Baa	**38,724,983**	**0.02**	-	-
	Ba	**4,434,886**	**0.00**	-	-
	Others	**243,589,051**	**0.15**	-	-
Other Investments	Others	**450,794,378**	**0.27**	421,885,514	0.30
Total External Assets		**167,224,781,489**	**100.00**	138,725,742,646	100.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

	Credit Rating	2016 Rs	%	2015 Rs	%
Loans and Advances	Baa	**179,855,130**	**3.06**	229,575,645	2.54
	Others	**4,335,990,521**	**73.77**	5,190,450,513	57.47
Investment in Government Securities	Others	**1,252,146,212**	**21.30**	3,456,734,753	38.28
Other Assets	Others	**109,431,966**	**1.86**	154,330,449	1.71
Total Domestic Financial Assets		**5,877,423,829**	**100.00**	9,031,091,360	100.00

	Credit Rating	2016 Rs	%	2015 Rs	%
Summary by Major Credit Category					
External Assets	Central Banks	**78,066,080,825**	**46.68**	121,167,868,056	87.34
	Aaa	**23,433,108,629**	**14.01**	5,267,915,923	3.80
	Aa	**683,003,851**	**0.41**	-	-
	A	**1,192,591,732**	**0.71**	46,560,567	0.03
	Baa	**6,788,528,785**	**4.06**	852,702	0.00
	Ba	**778,959,616**	**0.47**	-	-
	Others	**56,281,847,608**	**33.66**	12,242,545,398	8.82
Total External Assets		**167,224,781,489**	**100.00**	138,725,742,646	100.00
Domestic Financial Assets	Baa	**179,855,129**	**3.06**	229,575,645	2.56
	Others	**5,697,568,700**	**96.94**	8,801,515,715	97.46
Total Domestic Financial Assets		**5,877,423,829**	**100.00**	9,031,091,360	100.00
Total Financial Assets		**173,102,205,318**		147,756,834,005	

(d) Liquidity Risk

Liquidity risk is the difficulty that an entity will encounter in raising funds at short notice to meet financial commitments as and when they arise. Liquidity risk is also the risk arising from the possibility of an entity not realising the fair value of a financial asset that it may have to dispose of to meet a financial obligation. In order to reduce the level of liquidity risk arising out of open market operations, the Bank requires highly liquid marketable securities such as Government of Mauritius Treasury Bills as collateral for loans after applying a haircut.

The Bank manages liquidity of its foreign currency assets in order to settle commitments of the Bank and Government as and when they arise, as well as to intervene on the domestic foreign exchange market. The Bank has set limits with regard to currency and counterparty exposures to contain the risk.

The table below shows the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, net of interest receivable or payable on interest bearing non-derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity Analysis (Cont'd)

At 30 June 2016	Up to 3 months	Above 3 and up to 6 months	Above 6 and up to 12 months	Between 1 and 5 years	Above 5 years	Total
	Rs	Rs	Rs	Rs	Rs	Rs
Non Derivative Financial Assets						
Foreign Assets	82,778,577,864	4,860,455,077	36,033,935,069	26,275,417,257	16,854,949,929	166,803,335,197
Loans and Advances	3,889,496	96,139,281	3,753,805,544	662,011,331	-	4,515,845,652
Investment in Government Securities	594,092,548	-	-	310,452,600	347,601,064	1,252,146,212
Other Assets	-	-	-	29,965,328	51,846,364	81,811,692
Total Financial Assets	83,376,559,908	4,956,594,358	39,787,740,613	27,277,846,516	17,254,397,357	172,653,138,753
Non Derivative Financial Liabilities						
Currency in circulation	30,818,441,617	-	-	-	-	30,818,441,617
Demand Deposits	67,673,104,712	-	-	-	-	67,673,104,712
Bank of Mauritius Securities	1,495,813,894	-	6,191,251,626	27,671,559,262	475,664,782	35,834,289,564
Other Liabilities	1,270,785,303	800,018,123	10,163,448,573	2,174,727,199	-	14,408,979,199
Total Financial Liabilities	101,258,145,526	800,018,123	16,354,700,199	29,846,286,461	475,664,782	148,734,815,092
Net Liquidity Gap	(17,881,585,618)	4,156,576,235	23,433,040,414	(2,568,439,945)	16,778,732,575	23,918,323,661

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity Analysis (Cont'd)

At 30 June 2015	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
Non Derivative Financial Assets						
Foreign Assets	55,065,261,685	3,353,419,237	39,756,629,155	27,612,610,362	12,642,279,571	138,430,200,011
Loans and Advances	309,611,726	77,318,420	4,058,984,637	966,916,618	7,194,757	5,420,026,158
Investment in Government Securities	176,889,388	327,597,341	1,706,698,000	897,006,024	348,544,000	3,456,734,753
Other Assets	-	-	-	41,182,007	48,123,428	89,305,435
Total Financial Assets	55,551,762,799	3,758,334,998	45,522,311,792	29,517,715,011	13,046,141,756	147,396,266,357
Non Derivative Financial Liabilities						
Currency in circulation	28,639,197,844	-	-	-	-	28,639,197,844
Demand Deposits	58,994,755,594	-	-	-	-	58,994,755,594
Bank of Mauritius Securities	1,713,318,884	3,781,392,512	4,366,014,666	16,421,688,591	473,734,753	26,756,149,406
Other Liabilities	184,044,675	18,123	9,498,733,706	1,105,584,813	-	10,788,381,317
Total Financial Liabilities	89,531,316,997	3,781,410,635	13,864,748,372	17,527,273,404	473,734,753	125,178,484,161
Net Liquidity Gap	(33,979,554,198)	(23,075,637)	31,657,563,420	11,990,441,625	12,572,407,003	22,217,782,196

The Bank did not have any derivative financial assets and liabilities at 30 June 2016 (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk

Repricing Analysis

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with specific financial assets and financial liabilities, whose interest rates are periodically reset to market, as well as the fair values of other instruments on which the interest rates are fixed throughout the period of the contract. The policy pertaining to changes in fair values due to changes on exchange rates is explained at section (f) below.

The rates on financial assets and financial liabilities which are interest-bearing are set at or around current market levels.

The Bank's reserves management includes investments in a variety of foreign currency denominated cash, deposits and other securities. The Bank's objective is to maximise return within the constraints of liquidity and safety and these are effected through investments with sound financial institutions.

The following table demonstrates the sensitivity of the Bank's profit to interest rate changes, all other variables held constant.

	Change in yield (basis points)	**Effect on Profit and equity 2016 Rs**	Effect on Profit and equity 2015 Rs
Foreign Currency Portfolio	**+50**	**624,604,970**	669,971,043
	-50	**(164,704,233)**	(430,646,940)
Government Securities	**+50**	**(9,867,774)**	(20,388,182)
	-50	**9,245,687**	23,973,508

Government securities are marked to market in the Statement of Financial Position of the Bank as they are sold over the counter and traded on the Stock Exchange of Mauritius.

The tables below summarise the Bank's exposure to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk (Cont'd)

Repricing Analysis (Cont'd)

	Up to 3 months	Above 3 and up to 6 months	Above 6 and up to 9 months	Above 9 and up to 12 months	Over 12 months	Non-interest bearing	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
At 30 June 2016							
Financial Assets							
Foreign Assets	74,152,356,814	4,860,455,077	34,236,086,944	1,797,848,125	42,679,572,808	9,077,015,429	166,803,335,197
Loans and Advances	3,889,496	96,139,281	121,836,366	4,276,397,987	-	17,582,522	4,515,845,652
Investment in Government Securities	594,092,548	-	-	-	658,053,664	-	1,252,146,212
Other Assets	-	-	-	-	81,811,692	-	81,811,692
Total Financial Assets	74,750,338,858	4,956,594,358	34,357,923,310	6,074,246,112	43,419,438,164	9,094,597,951	172,653,138,753
Financial Liabilities							
Currency in circulation	-	-	-	-	-	30,818,441,617	30,818,441,617
Demand Deposits	6,444,485,188	-	-	-	-	61,228,619,525	67,673,104,712
Bank of Mauritius Instruments	1,494,906,494	-	910,468,301	5,280,783,325	28,147,224,044	907,400	35,834,289,564
Other Liabilities	1,113,099,967	800,000,000	3,219,750,000	3,424,515,000	1,000,000,000	4,851,614,232	14,408,979,199
Total Financial Liabilities	9,052,491,649	800,000,000	4,130,218,301	8,705,298,325	29,147,224,044	96,899,582,773	148,734,815,092
Interest Sensitivity Gap	65,697,847,208	4,156,994,358	30,227,705,009	(2,631,052,213)	14,272,214,120	(87,804,984,822)	23,918,323,661

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk (Cont'd)

Repricing Analysis (Cont'd)

	Up to 3 months	Above 3 and up to 6 months	Above 6 and up to 9 months	Above 9 and up to 12 months	Over 12 months	Non-interest bearing	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
At 30 June 2015							
Financial Assets							
Foreign Assets	51,330,757,182	3,353,419,237	39,735,501,841	27,633,737,675	12,220,394,058	4,156,390,017	138,430,200,011
Loans and Advances	309,611,726	106,701,261	418,188,908	3,611,412,888	961,481,264	12,630,111	5,420,026,158
Investment in Government Securities	176,889,388	327,597,341	1,706,698,000	-	1,245,550,024	-	3,456,734,753
Other Assets	-	-	-	-	89,305,435	-	89,305,435
Total Financial Assets	51,817,258,296	3,787,717,839	41,860,388,749	31,245,150,563	14,516,730,781	4,169,020,128	147,396,266,357
Financial Liabilities							
Currency in circulation	-	-	-	-	-	28,639,197,844	28,639,197,844
Demand Deposits	4,075,729,136	-	-	-	-	54,919,026,458	58,994,755,594
Bank of Mauritius Instruments	1,713,318,885	3,781,392,512	593,804,543	3,772,210,124	16,895,423,342	-	26,756,149,406
Other Liabilities	-	-	2,419,455,000	2,969,445,000	-	5,399,481,317	10,788,381,317
Total Financial Liabilities	5,789,048,021	3,781,392,512	3,013,259,543	6,741,655,124	16,895,423,342	88,957,705,619	125,178,484,161
Interest Sensitivity Gap	46,028,210,275	6,325,327	38,847,129,206	24,503,495,439	(2,378,692,561)	(84,788,685,491)	22,217,782,196

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Interest Rate Risk (Cont'd)

Effective Interest Rates

For assets:

The interest-bearing Mauritian rupee denominated assets earn interest at rates ranging from 3.0% p.a. to 8.75% p.a. (2015: 1.75% p.a. to 8.75% p.a.) and from -0.40% p.a. to 10.50% p.a. (2015: -0.35% p.a. to 8.27% p.a.) for foreign currency denominated assets.

For liabilities:

The interest-bearing Mauritian rupee denominated liabilities bear interest at rates ranging from 2.22% p.a. to 6.95% p.a. (2015: 0.85% p.a. to 6.95% p.a.) and from -0.40% p.a. to 0.30% p.a. (2015: -0.24% p.a. to 0.18% p.a.) for liabilities denominated in foreign currencies.

(f) Foreign Currency Risk

The Bank of Mauritius has monetary assets and liabilities denominated in foreign currencies, which consist mainly of currencies of the major trading partners of Mauritius. The liabilities represent mainly deposit accounts maintained by its customers.

The Bank does not hedge against risk of fluctuations in exchange rates. However, it has set aside a reserve called Special Reserve Fund, which is used to cater for movements due to appreciation/depreciation in foreign currencies, Gold and SDR.

The Bank considers it has a diversified portfolio of foreign currencies which would mitigate any foreign currency risk that may arise from volatility in exchange rates. The composition of the Bank's Foreign Assets based on the SDR Basket is as follows:

	2016	2015
	Rs	Rs
SDR Basket	**131,119,928,684**	100,970,241,671
Non SDR Basket	**36,104,852,805**	37,755,500,975
	167,224,781,489	138,725,742,646

The SDR Basket comprises the following currencies: JPY, EUR, GBP and USD.

The following table demonstrates the sensitivity of the Bank's equity to exchange rate changes, all other variables held constant.

	Change in MUR Exchange Rate	**Effect on Profit and Equity 2016**	Effect on Profit and Equity 2015
		Rs	Rs
Foreign Currency Portfolio	**+50 cents**	**8,944,273,627**	8,343,991,145
	-50 cents	**(8,944,273,627)**	(8,343,991,145)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

30. CAPITAL RISK MANAGEMENT

Under section 10 of the Bank of Mauritius Act 2004, the Stated and Paid Up Capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve. The paid up capital presently stands at Rs2 billion after a transfer of Rs1 billion from the Special Reserve Fund on 7 November 2011.

31. RELATED PARTY TRANSACTIONS

The balances and transactions with Government of Mauritius are disclosed in Notes 10, 19, 21 and 25 to the financial statements.

Emoluments payable to Directors are disclosed in Note 23 as per their terms of appointment.

The Bank contributes for the post-retirement benefits of its employees as disclosed in Note 17(c), including for the Deputy Governors. The contribution for the First Deputy Governor was Rs684,029 (2015: Rs683,084) and Second Deputy Governor was Rs682,101 (2015: Rs341,768)

32. TRANSACTIONS WITH THE INTERNATIONAL MONETARY FUND ("IMF")

As a member of IMF, Mauritius was initially allocated an amount of SDR15,744,000. In August 2009, the IMF Board of Governors approved an additional allocation of Special Drawing Rights to member countries. Accordingly, a total amount of SDR81,061,549 (Rs4,022,905,658) was allocated to Mauritius, bringing the total allocations to SDR96,805,549. IMF charges the Bank on the SDR allocations and also remunerates it on the SDR holdings on a quarterly basis. IMF charges for the current year amounted to Rs1,799,306 (2015: Rs1,546,546).

The Bank maintains two current accounts and one securities account for the IMF. The IMF No 1 and No 2 current accounts appear in the Statement of Financial Position under the heading "Demand Deposits from Other Financial Institutions". The securities account is not included in the Statement of Financial Position and is kept separately.

The Government of Mauritius has been participating in the IMF Quarterly Financial Transactions Plan. Participation in the plan entails the obligation to provide usable currencies in exchange for SDRs when designated, and accords the right to use SDRs in case of a balance of payment need.

33. SUBSEQUENT EVENTS

There were no material subsequent events after the reporting date.

34. TAXATION

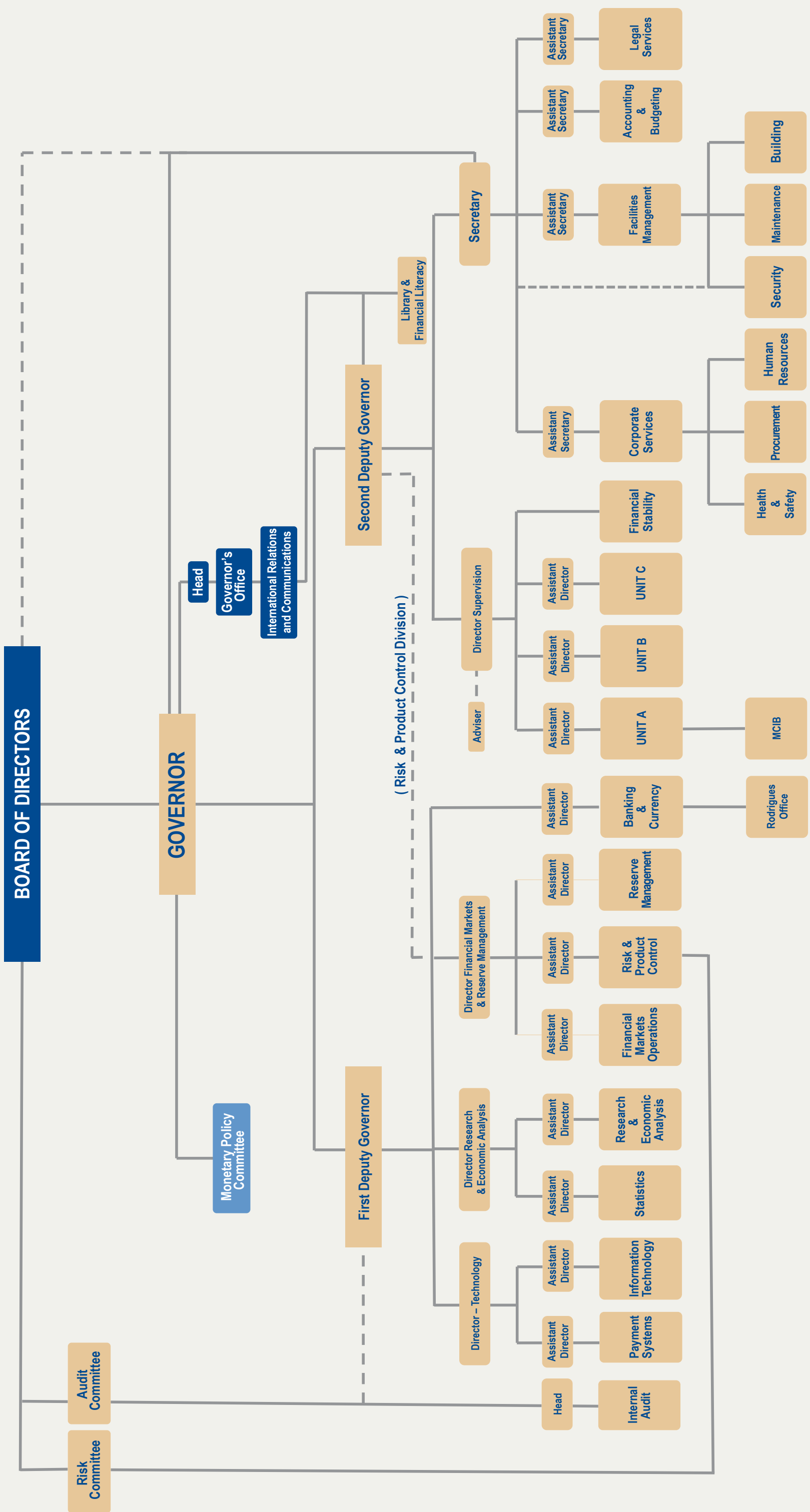
The Bank is exempted from any tax imposed on income, profits or capital gains under section 64 of the Bank of Mauritius Act 2004.

APPENDICES

Appendices

Appendix I	The organisation structure of the Bank
Appendix II	Senior Management Officials
Appendix III	Meetings attended by Governor, First Deputy Governor and Second Deputy Governor
Appendix IV	Overseas Meetings, Training Courses, Seminars and Workshops
Appendix V	Local Courses, Seminars and Workshops
Appendix VI	Staff Turnover
Appendix VII	List of Banks, Non-Bank Deposit-Taking Institutions, Money- Changers and Foreign Exchange Dealers licensed by the Bank of Mauritius as at 30 June 2016

The Organisation Structure of the Bank as at 30 June 2016



Senior Management Officials

Governor	Mr Rameswurlall Basant Roi, GCSK MA Economics with specialisation in Monetary and International Economics, BA (Hons) Economics
First Deputy Governor	Mr Yandraduth Googoolye FCCA, FAIA
Second Deputy Governor	Mr Mahendra Vikramdass Punchoo Maitrise en Sciences Economiques, MSc Economics
Secretary	Mrs Hemlata Sadhna Sewraj-Gopal BA (Hons) Economics, ACA (Chartered Accountant)
Director-Supervision	Mr Amar Kumar Bera MA (Economics), LLB, MBA (Banking & Finance), Certified Associate of Indian Institute of Banking & Finance
Director-Financial Markets & Reserve Management	Dr Chiragra Tapas Kumar Chakrabarty Doctor of Philosophy in Economics, MA (Econometrics & Mathematical Economics)
Director-Technology	*(Vacant)*
Director-Research & Economic Analysis	*(Vacant)*
Assistant Director-Supervision	Mr Ramsamy Chinniah FCCA, MSc Financial Economics
Assistant Secretary-Accounting & Budgeting	Mr Jaywant Pandoo FCCA , MSc Finance
Assistant Director-Financial Markets & Reserve Management	Mrs Marjorie Marie-Agnes Heerah Pampusa MA Economics, BSc (Hons) Economics
Assistant Director-Financial Markets	*(Vacant)*
Assistant Director-Research and Economic Analysis	Mr Jitendra Nathsingh Bissessur MSc Applied Economics, BA (Hons) Mathematical Statistics
Assistant Director-Banking & Currency Division	Mr Anil Kumar Tohooloo MSc Finance, BSc Accounting

Assistant Director-Supervision	Mrs Sudha Hurrymun FCCA, MSc Finance, Associateship of Chartered Institute of Bankers
Head-Internal Audit	Mr Yuntat Chu Fung Leung MBA Finance, BA (Hons) Economics and Social Studies
Assistant Director-Payment Systems	Mr Dhanesswurnath Thakoor MBA - Finance, Ingénieur en Informatique - Mesures - Automatique
Assistant Director-IT	Mr Ng Cheong Jose Li Yun Fong BSc Computer Science
Head-Governor's Office	Mr Youssouf Waesh Khodabocus BA (Hons) Economics
Assistant Secretary-Legal	Mr Mardayah Kona Yerukunondu LLB (Hons)
Assistant Director-Statistics	*(Vacant)*
Assistant Secretary-Corporate Services	*(Vacant)*
Assistant Secretary-Facilities Management	*(Vacant)*
Assistant Director-Supervision	(Vacant - 3 posts)

Meetings attended by Governor, First Deputy Governor and Second Deputy Governor

The Governor, Mr Rameswurlall Basant Roi, GCSK, attended:

i. official meetings with the People's Bank of China in Beijing and with the Bank of China in Shanghai, China, from 7 to 12 September 2015.

ii. the 2015 IMF/World Bank Annual Meetings, from 6 to 11 October 2015 in Lima, Peru.

iii. official meetings at the IMF and the World Bank with a delegation led by the Minister of Finance and Economic Development, from 1 to 5 February 2016 in Washington DC, USA.

iv. the 42nd Meeting of the SADC Committee of Central Bank Governors and the Bank of Botswana 40th Anniversary in Gaborone, Botswana, and a meeting with the Chief Executive Officer of Barclays Bank Africa in Johannesburg, South Africa, from 29 March to 2 April 2016.

v. official meetings with the Canadian Bank Note Company Ltd in Ottawa, Canada, on 11 April 2016 and the 2016 IMF/World Bank Spring Meetings, from 15 to 18 April 2016 in Washington DC, USA.

vi. several meetings between 25 June to 8 July 2016 as follows:

   a. the 86th Annual General Meeting of the Bank for International Settlements, from 25 to 26 June 2016 in Basel, Switzerland;

   b. the Oxford Roundtable of Central Bank Governors from Africa, organised by JP Morgan and Oxford University, from 27 to 29 June 2016 in Oxford, UK;

   c. visit at De La Rue on 30 June 2016 in Westhoughton, UK;

   d. official meetings at the European Central Bank and Deutsche Bank AG in Frankfurt, Germany, on 4 July 2016, and

   e. visit at Giesecke and Devrient, from 6 to 8 July 2016 in Munich, Germany.

The First Deputy Governor, Mr Yandraduth Googoolye, attended:

i. An official mission, from 28 February to 4 March 2016 in Mumbai, India;

ii. Following a tender exercise, the First Deputy Governor led a delegation to London, Frankfurt, Geneva, San Francisco and Newport Beach, California to conduct a due diligence exercise for the selection of External Fund Managers, from 25 April to 6 May 2016.

He represented the Governor at:

i. the 15th Ordinary Meeting of the Association of African Central Banks (AACB) - Eastern Africa Sub-Region on 9 July 2015 in Kampala, Uganda;

ii. the AACB Annual Meetings and the 38th Meeting of the Assembly of Governors of the AACB, from 10 to 14 August 2015 in Malabo, Equatorial Guinea; and

iii. the 41st Meeting of the SADC Committee of Governors of Central Banks on 30 October 2015 in Luanda, Angola.

The Second Deputy Governor, Mr Mahendra Vikramdass Punchoo, attended:

i. a high-level Reserve Management Conference, hosted by the Bank for International Settlement and the People's Bank of China, from 24 to 25 September 2015 in Beijing, China;

ii. the 8th Meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa hosted by the South African Reserve Bank on 4 December 2015 in Cape Town, South Africa;

iii. the 11th High Level Meeting for Africa on Strengthening Financial Sector Supervision and Current Regulatory Priorities organised by the Bank for International Settlements, from 4 to 5 February 2016 in Cape Town, South Africa; and

iv. the Emerging Markets Forum organised by Banque de France and Emerging Markets Forum from 11 to 12 April 2016, Paris, France and a study mission at the Central Bank of Ireland and National Asset Management Agency in respect of the setting up of an Asset Management Company, from 14 to 19 April 2016 in Dublin, Ireland.

He represented the Governor at:

i. the 16th Governance Board Meeting and the 7th General Assembly Meeting of the International Islamic Liquidity Management Corporation Ltd on 17 May 2016 in Jakarta, Indonesia and 3rd Roundtable on Liquidity Management, from 19 to 20 May 2016 in Jakarta, Indonesia.

Overseas Training Courses/Seminars/Workshops

a) Overseas Training Courses/Seminars/Workshops attended by The Secretary

Mrs Hemlata Sadhna Sewraj-Gopal, Secretary:

i. attended a Workshop on Fundamentals of Fixed Income Risk Management hosted by the World Bank Treasury and RAMP, from 18 to 22 January 2016 in Rome, Italy; and

ii. accompanied the Governor to the IMF/World Bank 2016 Spring Meetings and the RAMP Executive Forum, from 15 to 18 April 2016 in Washington DC, USA.

b) Overseas Training Courses/Seminars/Workshops attended by Assistant Directors/Heads of Divisions

1. Mr Jitendra Nathsingh Bissessur, Assistant Director-Research and Economic Analysis, accompanied the Governor to a meeting with De La Rue on 30 June 2016 in Westhoughton, UK.

2. Mr Ramsamy Chinniah, Assistant Director-Supervision, attended:

   i. the Standard Chartered Global Supervisory College hosted by UK's Prudential Regulation Authority, from 21 to 22 July 2015 in London, UK; and

   ii. an AACB Seminar on Cross-Border Supervision hosted by the South African Reserve Bank, from 24 to 29 January 2016 in Cape Town, South Africa.

3. Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director-Financial Markets and Reserve Management:

   i. attended the SADC Committee of Central Bank Officials, and accompanied the First Deputy Governor to the 41st Meeting of the Committee of Central Bank Governors hosted by Banco Nacional de Angola, from 28 to 30 October 2015 in Luanda, Angola;

   ii. accompanied the Second Deputy Governor to the 11th High-Level Meeting for Africa on Strengthening Financial Sector Supervision and Current Regulatory Priorities, from 4 to 5 February 2016 in Cape Town, South Africa;

   iii. accompanied the Governor to an Official Meeting in South Africa, back-to-back with the 42nd Meeting of the SADC Committee of Central Bank Governors and the Bank of Botswana 40th Anniversary, hosted by Bank of Botswana, from 28 March to 1 April 2016 in Gaborone, Botswana; and

   iv. accompanied the First Deputy Governor on a due diligence mission of selected External Fund Managers, from 25 April to 6 May 2016.

4. Mrs Sudha Hurrymun, Assistant Director-Supervision:

   i. accompanied the Governor to attend official meetings with the People's Bank of China in Beijing and with the Bank of China in Shanghai, China from 7 to 12 September 2015;

   ii. attended a Course on Financial Institution Supervision hosted by the Federal Reserve Bank of New York, from 28 September 2015 to 1 October 2015 in New York, USA;

   iii. accompanied the Governor in the Mauritian delegation to attend official meetings with the IMF and the World Bank, from 1 to 5 February 2016 in Washington DC, USA;

   iv. attended the Annual Meeting of the CCBG Subcommittee of Banking Supervisors hosted by Central Bank of Seychelles and Secretariat of the CCBG in SADC, from 29 February 2016 to 2 March 2016 in Mahé, Seychelles;

   v. proceeded on an On-Site Inspection of the subsidiary of The Mauritius

Commercial Bank Limited in Seychelles, from 22 to 28 February 2016, and from 3 to 4 March 2016 in Mahé, Seychelles;

vi. accompanied the Governor to the 86th Annual General Meeting of the BIS, from 25 to 26 June 2016, in Basel, Switzerland; the Oxford Roundtable of Central Bank Governors from Africa, organised by JP Morgan and Oxford University, from 27 to 29 June 2016 in Oxford, UK; the visit at De La Rue in Westhoughton, UK, on 30 June 2016; the meetings with the European Central Bank and Deutsche Bank AG in Frankfurt, Germany, on 4 July 2016; the visit at Giesecke and Devrient, from 6 to 8 July 2016 in Munich, Germany.

5. Mr Youssouf Waesh Khodabocus, Head-Governor's Office:

   i. accompanied the Governor to the 2015 IMF/World Bank Annual Meetings, from 6 to 11 October 2015 in Lima, Peru; and

   ii. attended the SADC Committee of Central Bank Official Meeting and accompanied the Governor to the 42nd meeting of the Committee of Central Bank Governors at the Bank of Botswana 40th Anniversary, hosted by the Bank of Botswana, from 29 March to 2 April 2016 in Gaborone, Botswana.

6. Mr Ng Cheong Jose Li Yun Fong, Assistant Director-IT, attended:

   i. the 16th Annual International Conference on Policy Challenge for the Financial Sector - Theme: Finance in Flux-The Technological Transformation of the Financial Sector, hosted by the World Bank Group, IMF and Board of Governors of the Federal Reserve System, from 1 to 3 June 2016 in Washington DC, USA; and

   ii. the Indian Ocean Network Forum hosted by Union des Chambres de Commerce et d'Industrie de L'Océan Indien, from 28 to 29 June 2016 in Antananarivo, Madagascar.

7. Mr Jaywant Pandoo, Assistant Secretary-Accounting and Budgeting, attended a Workshop on Accounting for Financial Instruments - Getting ready for IFRS 9, hosted by the World Bank Treasury and RAMP, from 7 to 11 March 2016 in Washington DC, USA.

8. Mr Dhanesswurnath Thakoor, Assistant Director-Payment Systems and MCIB:

   i. attended the SADC Payment System Integration and Legal Workshop, back-to-back with the SADC Payment System Oversight Committee (PSOC) Meeting, hosted by the Central Bank of Swaziland, from 17 to 19 November 2015 in Mbabane, Swaziland;

   ii. accompanied the First Deputy Governor to an official meeting, from 28 February to 4 March 2016 in Mumbai, India; and

   iii. attended the Indian Ocean Network Forum hosted by Union des Chambres de Commerce et d'Industrie de L'Océan Indien, from 28 to 29 June 2016 in Antananarivo, Madagascar.

c) Overseas Training Courses/Seminars/ Workshops attended by Chiefs

1. Mr Dooneshsingh Audit, Chief-Statistics, attended:

   i. a Validation Workshop on studies conducted by member central banks on Study of Effects of Fiscal Policy on the Conduct and Transmission Mechanism of Monetary Policy, back-to-back with the 13th Meeting of the COMESA Monetary and Exchange Rate Policies Subcommittee hosted by COMESA Monetary Institute, from 19 to 21 October 2015 in Nairobi, Kenya; and

   ii. a SADC Regional Statistics Workshop hosted by SADC Secretariat, from 10 to 12 February 2016 in Johannesburg, Pretoria.

2. Mr Jean Claude Benoit Chamary, Chief-Supervision, attended:

   i. a Seminar on Stress Testing in Banks

as a Risk Management Tool hosted by Afritac South, from 3 to 7 August 2015 in Pretoria, South Africa; and

ii. the FSI Seminar on Applied Risk Management - Credit Risk and Asset Securitisation hosted by the Financial Stability Institute, from 13 to 17 June 2016 in Beatenberg, Switzerland.

3. Mr Jayvind Kumar Choolhun, Chief-Payment Systems and MCIB:

i. attended the SADC Payment System Oversight Committee, hosted by the South African Reserve Bank, from 5 to 6 May 2016 in Pretoria, South Africa; and

ii. proceeded on a study visit at JP Morgan and Deutsche Bank, from 16 to 20 May 2016 in London and Bournemouth, UK.

4. Mr Chitananda Ellapah, Chief-Statistics, attended:

i. the Research Review Panel and Macroeconomic Subcommittee Meetings of the Committee of Central Bank Governors in SADC, hosted by the Reserve Bank of Zimbabwe, from 4 to 6 July 2015; and

ii. a Regional Workshop on International Data Standards in Country Open Data Platforms hosted by African Development Bank and the IMF, from 23 to 27 May 2016 in Pretoria, South Africa.

5. Mr Qayyum Ali Ismael Ghanty, Chief-IT, attended the 6th MAS Information Technology Supervision Workshop hosted by Monetary Authority of Singapore, from 16 to 20 November 2015, Singapore.

6. Mrs Tilotma Gobin Jhurry, Chief-Payment Systems and MCIB, attended:

i. the SADC Mobile Payment and Financial Inclusion Convention, co-hosted by SADC and The Bill and Melinda Gates Foundation, from 28 to 29 September 2015 in Dar es Salaam, Tanzania; and

ii. the SADC Payment System Integration and Legal Workshop hosted by the Reserve Bank of Zimbabwe, from 9 to 10 March 2016 in Zimbabwe.

7. Mr Shardhanand Gopaul, Chief-Accounting and Budgeting, attended:

i. a Workshop on Securities Accounting hosted by World Bank Treasury and RAMP, from 24 to 28 August 2015 in Pretoria, South Africa; and

ii. a Workshop on Accounting for Financial Instruments - Getting ready for IFRS 9, hosted by World Bank and RAMP, from 7 to 11 March 2016 in Washington DC, USA.

8. Miss Bibi Koraïsha Jeewoot, Chief-Risk and Product Control:

i. attended a Workshop on Advanced Portfolio Analytics for Fixed Income hosted by World Bank Treasury and RAMP, from 9 to 13 May 2016 in Washington DC, USA; and

ii. proceeded on a study visit at JP Morgan and Deutsche Bank, from 16 to 20 May 2016 in London and Bournemouth, UK.

9. Mrs Rajshri Jutton-Gopy, Chief-Legal Services:

i. attended a Workshop on Legal Aspects of Governance and Asset Management hosted by World Bank Treasury and RAMP, from 31 August to 4 September 2015 in Baku, Azerbaijan;

ii. attended the Round of Trade in Services Agreement Negotiations, from 30 January to 5 February 2016 in Geneva, Switzerland; and

iii. proceeded on a study visit at the Central Bank of Ireland and National Asset Management Agency, from 14 to 18 April 2016 in Dublin, Ireland.

10. Mr Neetyanand Kowlessur, Chief-Research and Economic Analysis, attended:

i. the Technical Committee Meetings and accompanied the First Deputy Governor to the 15th Ordinary Meeting of the AACB-Eastern Africa Sub-region, hosted by the Bank of Uganda, from 7 to 9 July 2015, in Kampala, Uganda;

ii. the Annual Meetings of the AACB, hosted by Banque des Etats de l'Afrique Centrale, from 10 to 14 August 2015, in Malabo, Equatorial Guinea;

iii. the Research Review Panel and Macroeconomic Subcommittee Meetings of the Committee of Central Bank Governors in SADC, hosted by Banco Nacional de Angola, from 24 to 26 February 2016 in Luanda, Angola.

11. Mrs Powkeem Lo Tiap Kwong, Chief-Statistics, attended the Peer Review Panel Meetings of the Committee of Ministers of Finance and Investment, hosted by SADC Secretariat, from 1 to 4 August 2015 in Bulawayo, Zimbabwe.

12. Dr Ashwin Moheeput, Chief-Research and Economic Analysis, attended the Workshop on Macroprudential Frameworks entitled: Nascent Financial Stability Frameworks in Sub-Saharan Africa, hosted by IMF and Bank of Tanzania, from 3 to 4 March 2016 in Dar es Salaam, Tanzania.

13. Mrs Hemlata Nundoochan, Chief-Supervision, attended:

i. an AACB Seminar on Macroprudential Surveillance, hosted by Bank of Algeria, from 5 to 10 September 2015 in Algiers, Algeria; and

ii. a Workshop on Macroprudential Frameworks entitled: Nascent Financial Stability Frameworks in Sub-Saharan Africa, hosted by IMF and Bank of Tanzania, from 3 to 4 March 2016 in Dar es Salaam, Tanzania.

14. Mr Ashootosh Pramaha Seeneevassen Palayathan, Chief-Reserve Management:

i. attended the 42nd Annual Official Reserves Management Seminar hosted by JP Morgan, from 9 to 13 May 2016 in New York, USA; and

ii. accompanied the First Deputy Governor on a due diligence mission of selected External Fund Managers, from 25 April to 6 May 2016.

15. Mr Shakti Proag, Chief-Facilities Management, attended a Course on Management in the Central Bank hosted by Federal Reserve Bank of New York, from 13 to 15 October 2015 in New York, USA.

16. Mrs Malini Ramdhan, Chief-Supervision:

i. attended an AACB Seminar on Cross-Border Supervision, hosted by South African Reserve Bank, from 24 to 29 January 2016 in Cape Town, South Africa; and

ii. proceeded on an On-Site Inspection of the subsidiary of The Mauritius Commercial Bank Limited in Seychelles, from 22 February to 4 March 2016.

17. Mr Arvind Sharma Ramful, Chief-IT, attended the CCBG ICT Subcommittee and the Steering Committee Meetings hosted by Banco de Mozambique, from 29 to 31 July 2015 in Tete, Mozambique.

18. Mr Chandradeo Sharma Rutah, Chief-Supervision, attended the Programme for Principal Inspecting Officer/Chief Bank Examiners, hosted by Reserve Bank of India Staff College, India, from 1 to 5 February 2016 in Chennai, India.

19. Mr Sameer Kumar Sharma, Chief-Reserve Management, attended a Workshop on Beyond Plain Vanilla - A Practical Introduction to Structured Instruments for Reserve Managers, hosted by World Bank Treasury and RAMP, from 28 September 2015 to 2 October 2015, Washington DC, USA.

d) Overseas Training Courses/Seminars/ Workshops attended by Executive Officer

Mr Louis Mario Hennequin, Executive Officer-Governor's Office proceeded on a study visit at the Central Bank of Ireland and National Asset Management Agency, from 14 to 18 April 2016 in Dublin, Ireland.

e) Overseas Training Courses/Seminars/ Workshops attended by Analysts

1. Mrs Falzana Atchia, Analyst-Statistics, attended the Third IMF Statistical Forum on Official Statistics to Support Evidence-based Economic Policy making, hosted by IMF and Deutsche Bundesbank, from 19 to 20 November 2015 in Frankfurt, Germany.
2. Mr Ravishin Bullyraz, Analyst-Legal Services, attended the SADC Payment System Integration and Legal Workshop hosted by SADC Payment System Project, from 9 to 10 March 2016 in Zimbabwe.
3. Mr Veekash Singh Busgeeth, Analyst-Supervision, attended a Seminar on Capital Planning and Stress Testing hosted by Federal Reserve System and Reserve Bank of India, from 18 to 22 January 2016 in Mumbai, India.
4. Miss Archana Devi Gobin, Analyst-IT, attended the IT Governance and BCM Projects Champions Meeting hosted by CCBG ICT Subcommittee, from 21 to 24 June 2016 in Maseru, Lesotho.
5. Mrs Tameshwaree Gokool, Analyst-Supervision, attended the 21st MAS Banking Supervisors' Training Programme hosted by Monetary Authority of Singapore, from 6 to 11 December 2015, Singapore.
6. Mr Manod Saive Gopaul, Analyst-Supervision, attended a Programme on Basel III hosted by Reserve Bank Staff College, India, from 7 to 11 March 2016 in Chennai, India.
7. Mr Beemalsing Jawaheer, Analyst-Supervision, attended a Pilot Programme on Off-Site Supervision and Analytics hosted by Reserve Bank Staff College, India, from 4 to 8 January 2016 in Chennai, India.
8. Miss Monysha Lyna Jany Singh Jhamna, Analyst-Risk and Product Control, attended a Workshop on Credit Risk Management hosted by World Bank and RAMP, from 22 to 26 February 2016 in Washington DC, USA.
9. Mrs Lutchmee Devi Maistry, Analyst-Supervision, attended a Seminar on Capital Planning and Stress Testing hosted by Federal Reserve System and Reserve Bank of India, from 18 to 22 January 2016 in Mumbai, India.
10. Mrs Kaveeta Nowbutsing-Hurynag, Analyst-Governor's Office, attended a Workshop on Governance and Fundamentals of Asset Allocation hosted by World Bank Treasury and RAMP, from 11 to 15 January 2016 in Washington DC, USA.
11. Mr Premchand Nundlall, Analyst-Supervision, attended:
    i. a Seminar on Macroprudential Surveillance hosted by AACB, from 5 to 10 September 2015 in Algiers, Algeria; and
    ii. the Supervision and Risk Assessment for Islamic Banks Programme hosted by Bank Negara Malaysia, from 16 to 20 May 2016 in Kuala Lumpur, Malaysia.
12. Mr Yahseen Peerbocus, Analyst-Reserve Management, attended a Workshop on Governance and Fundamentals of Asset Allocation for Reserve Managers hosted by World Bank Treasury and RAMP, from 30 November 2015 to 4 December 2015 in Washington DC, USA.
13. Ms Marie-Line Gilberte Philibert, Analyst-Supervision, attended the 21st MAS Banking Supervisors' Training Programme hosted by Monetary Authority of Singapore, from 6 to 11 December 2015, Singapore.
14. Mrs Shakuntala Devi Ramanah, Analyst-Supervision, attended the 22nd MAS Banking Supervisors' Training Programme hosted by Monetary Authority of Singapore, from 15 to 20 May 2016, Singapore.
15. Miss Yogeeta Devi Ramphul, Analyst-Supervision:
    i. attended the Conference on Bank Resolution, Crisis Management and Deposit Insurance Issues, hosted by the FSI and International Association of Deposit Insurers, from 8 to 10 September 2015 in Basel, Switzerland.
    ii. proceeded on an On-Site Inspection of the

subsidiary of The Mauritius Commercial Bank Limited, from 22 February to 4 March 2016, Seychelles; and

iii. attended the FSI Seminar on Financial Stability and Stress Testing co-hosted by BIS/FSI, from 31 May 2016 to 2 June 2016 in Basel, Switzerland.

16. Mr Dhirajsingh Rughoobur, Analyst-Supervision, attended:

i. a Seminar on Applied Risk Management - Credit Risk and Asset Securitisation, hosted by the Financial Stability Institute, from 14 to 18 September 2015 in Beatenberg, Switzerland;

ii. the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa (FSB RCG) Roundtable on Correspondent Banking, back-to-back with FSB RCG for Sub-Saharan Africa Meeting, hosted by South African Reserve Bank, from 3 to 4 December 2015 in Cape Town, South Africa; and

iii. proceeded on a study visit at the Central Bank of Ireland and National Asset Management Agency, from 14 to 18 April 2016 in Dublin, Ireland.

17. Mr Yashwantsingh Rughoobur, Analyst-Supervision, attended:

i. a Workshop on Financial Soundness Indicators, hosted by African Development Bank, from 7 to 11 September 2015 in Pretoria, South Africa; and

ii. a Seminar on Management and Supervision of Liquidity Risk hosted by Financial Stability Board, from 26 to 28 January 2016 in Basel, Switzerland.

18. Mrs Nivedita Sajadah-Aujayeb, Analyst-Legal Services, attended:

i. the Meetings of the CCBG Legal Subcommittee and Model Bank Law Project Team, hosted by Bank of Tanzania, from 27 to 31 July 2015 in Dar es Salaam, Tanzania;

ii. the SADC National Payment System Model Law Working Group Meeting, hosted by South African Reserve Bank, from 11 to 13 August 2015 in Pretoria, South Africa;

iii. the 30th Task Force of Senior Officials Meeting of ESAAMLG hosted by South African Reserve Bank, from 23 to 27 August 2015 in Johannesburg, South Africa;

iv. the SADC National Payment System Model Law Work Group Meeting, hosted by South African Reserve Bank, from 8 to 9 December 2015 in Pretoria, South Africa.

19. Mrs Yasmatee Seeburrun, Analyst-Supervision, attended the 22nd MAS Banking Supervisors' Training Programme hosted by Monetary Authority of Singapore, from 15 to 20 May 2016, Singapore.

20. Mr Sandiren Vadeevaloo, Analyst-Supervision, attended:

i. a Seminar for Senior Bank Supervisors from Emerging Economies hosted by World Bank, from 19 to 30 October 2015 in Washington DC, USA; and

ii. a Seminar on Financial Stability Issues of Relevance to Africa: What is new? co-osted by South African Reserve Bank and the Bank of International Settlement, from 25 to 27 May 2016 in Pretoria, South Africa.

f) Overseas Training Courses/Seminars/ Workshops attended by Bank Officers Grade 1

1. Mrs Maita Devi Rambojun, Bank Officer Grade 1-Internal Audit, attended the International Programme on Central Banking hosted by Reserve Bank of India Staff College, India, from 15 to 19 February 2016 in Chennai, India.

2. Mrs Rajwantee Lulith, Bank Officer Grade 1-Accounting and Budgeting, attended the International Programme on Central Banking hosted by Reserve Bank of India Staff College, India, from 15 to 19 February 2016 in Chennai, India.

Local Courses/Seminars/Workshops

a) Local Courses/Seminars/Workshops attended by Heads of Division

1. Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director-Financial Markets and Reserve Management, attended the Consultative Workshop - Evaluating the Social Protection of Women Entrepreneur Operating in the Informal Sector in Mauritius, hosted by the University of Mauritius on 7 October 2015 in Réduit.

b) Local Courses/Seminars/Workshops attended by Chiefs

1. Mr Dooneshsingh Audit, Chief-Statistics, attended the National Workshop on COMESA Common Investment Area (CCIA) and International Investment Agreements Regime, hosted by Board of Investment, from 7 to 9 October 2015 in Ebène.

2. Mrs Marie Lily Claude Bastien Sylva, Chief-Human Resource, attended a One-day Seminar on Employment Rights Act 2008, as amended, hosted by Ministry of Labour on 15 December 2015 in Port Louis.

3. Mr Jayvind Kumar Choolhun, Chief-Payment Systems and MCIB, attended:

   i. the SWIFT User one-day Corporate Workshop, hosted by SWIFT on 15 July 2015 in Pierrefonds; and

   ii. the SWIFT User Group Meeting, hosted by SWIFT on 10 March 2016 in Ebène.

4. Mr Arvind Kumar Dowlut, Chief-IT, attended a Meeting on Finalisation of the Cybercrime Strategy, hosted by National Computer Board on 3 June 2016 in Port Louis.

5. Mr Qayyum Ali Ismael Ghanty, Chief-IT, attended:

   i. the Train the Trainers Course on Standard Operating Procedures for Law Enforcement Agencies, hosted by Attorney General Office, from 17 to 21 August 2015 in Beau Bassin;

   ii. a CISCO Expressway Advanced Configuration Training, hosted by Mauritius Telecom, from 7 to 11 December 2015 in Cassis; and

   iii. a Seminar on ITU Alert Cyber Security Drill 2016, hosted by National Computer Board, from 4 to 8 April 2016 in Pointe aux Piments.

6. Mr Gunness Gonpot, Chief-Supervision, attended a One-day Conference on the Theme: Global Cost of Corruption; Top Ten Enforcement Trends Worldwide; Demand Side Bribery; and Supply Side Bribery, hosted by the Embassy of USA on 17 September 2015 in Balaclava.

7. Mrs Rajshri Jutton-Gopy, Chief-Legal Services, attended a Workshop under Glacy Project, hosted by the Institute for Judicial and Legal Studies on 24 June 2016 in Port Louis.

8. Dr Ashwin Mooheeput, Chief-Research and Economic Analysis, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

9. Mrs Hemlata Nundoochan, Chief-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

10. Mrs Malini Ramdhan, Chief-Supervision, attended a One-day Conference on the theme: Global Cost of Corruption; Top Ten Enforcement Trends Worldwide; Demand

Side Bribery; and Supply Side Bribery, hosted by the Embassy of USA on 17 September 2015 in Balaclava.

11. Mr Keshwarajsingh Ramnauth, Chief-Financial Markets Operations, attended:

    i. a Course on Economic Issues in Regional Integration, hosted by ATI, from 19 to 30 October 2015 in Ebène; and

    ii. a Course on Macroeconomic Diagnostics, hosted by Afritac South/AFS, from 25 January to 5 February 2016 in Ebène.

12. Mr Harryram Ramsurn, Chief-Supervision, attended a Seminar on Risk-Based Supervision and Pillar 2 of Basel II, hosted by Afritac South and IMF, from 22 to 26 February 2016 in Ebène.

13. Mr Chandradeo Sharma Rutah, Chief-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

c) Local Courses/Seminars/Workshops attended by Analysts

1. Mrs Mahima Bhurtha, Analyst-Research and Economic Analysis, attended a Seminar on Monetary Policy Communication, hosted by Afritac South and IMF, from 23 to 27 May 2016 in Ebène.

2. Mr Minesh Bhundoo, Analyst-Supervision, attended a One-day Seminar on Employment Rights Act 2008, as amended, hosted by Ministry of Labour on 15 December 2015 in Port Louis.

3. Mr Veekash Singh Busgeeth, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

4. Mr Rajcoomasingh Dawonath, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

5. Miss Archana Gobin, Analyst-IT, attended an International Workshop on Electronic Evidence, from 21 to 23 March 2016 in Balaclava.

6. Mrs Tameshwaree Gokool, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

7. Mrs Sheik Sooraya Bibi Goolam Hossen, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

8. Mr Manod Saive Gopaul, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

9. Mr Sahadeosing Gungabissoon, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

10. Mr Beemalsing Jawaheer, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

11. Mr Adarsh Juwaheer, Analyst-Economic Research, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

12. Mr Ved Prakash Anand Koonjul, Analyst-Financial Markets Operations, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

13. Miss Marie Medgee Lauricourt, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

14. Mrs Lutchmee Devi Maistry, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

15. Mr Abdool Anwar Massafeer, Analyst-Statistics, attended a Workshop on the Sustainable Development Goals, hosted by Statistics Mauritius on 31 May 2016 in Ebène.

16. Mrs Nitisha Mihdidin, Analyst-Supervision, attended a Course on Macroeconomic Diagnostics, hosted by Afritac South/AFS, from 25 January to 5 February 2016 in Ebène.

17. Mr Kumaravel Mootoosamy, Analyst-Legal Services, attended:

    i. a One-day conference on the theme: Global Cost of Corruption; Top Ten Enforcement Trends Worldwide; Demand Side Bribery; and Supply Side Bribery, hosted by the Embassy of USA on 17 September 2015 in Balaclava;

    ii. a Workshop on the Code of Conduct for Public Officials Involved in Procurement, hosted by ICAC on 17 November 2015 in Moka;

    iii. a SWIFT Compliance Workshop, hosted by SWIFT Users of Mauritius on 20 April 2016 in Ebène; and

    iv. a Seminar on Anti-Money Laundering/ Combating Financing Terrorism, hosted by Afritac South and IMF, from 16 to 20 May 2016 in Ebène.

18. Mrs Anuja Nababsing, Analyst-Research and Economic Analysis, attended a One-day Seminar on Employment Rights Act 2008, as amended, hosted by Ministry of Labour on 15 December 2015 in Port Louis.

19. Mr Premchand Nundlall, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

20. Miss Marie-Line Gilberte Philibert, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

21. Mr Karankumar Pitteea, Analyst-Research and Economic Analysis, attended

    i. a Course on Economic Policies for Financial Stability, hosted by ATI, from 27 July to 7 August 2015 in Ebène; and

    ii. a Seminar on Monetary Policy Communication, hosted by Afritac South and IMF, from 23 to 27 May 2016 in Ebène.

22. Mrs Shakuntala Ramanah, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

23. Mr Leckraz Ramful, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

24. Mr Ramanand Ramsohok, Analyst-Human Resource, attended:

    i. a Course on the Entire Examination

Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

ii. a SWIFT Compliance Workshop, hosted by SWIFT Users of Mauritius on 20 April 2016 in Ebène.

25. Mr Vasan Kumar Ranlaul, Analyst-IT, attended:

i. a SWIFT User one-day Corporate Workshop, hosted by SWIFT on 15 July 2015 in Pierrefonds.

ii. a SWIFT User Group Meeting, hosted by SWIFT on 10 March 2016 in Ebène.

26. Mr Dhirajsing Rughoobur, Analyst-Supervision, attended a Seminar on Risk-Based Supervision and Pillar 2 of Basel II, hosted by Afritac South and IMF, from 22 to 26 February 2016 in Ebène.

27. Mr Yashwantsingh Rughoobur, Analyst-Supervision, attended a Seminar on Risk-Based Supervision and Pillar 2 of Basel II, hosted by Afritac South and IMF, from 22 to 26 February 2016 in Ebène.

28. Mrs Nivedita Sajadah-Aujayeb, Analyst-Legal Services, attended:

i. a Workshop-Enhancing Domestic AML/CFT Cooperation, hosted by COMESA/FIU on 4 March 2016 in Ebène; and

ii. a National Workshop on Law Enforcement Training Strategies, hosted by Institute of Judicial and Legal Studies on 24 March 2016 in Port Louis.

29. Mrs Yasmatee Seeburrun, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

30. Mr Itranjan Seetohul, Analyst-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

31. Mr Feisal Bin Khalid Sooklall, Analyst-Research and Economic Analysis, attended a Seminar on Monetary Policy Communication, hosted by Afritac South and IMF, from 23 to 27 May 2016 in Ebène.

32. Mr Sandiren Vadeevaloo, Analyst-Supervision, attended a Seminar on Anti-Money Laundering/Combating Financing Terrorism, hosted by Afritac South and IMF, from 16 to 20 May 2016 in Ebène.

d) Local Courses/Seminars/Workshops attended by Bank Officers Grade I

1. Mr Stephan Soon Chan Ah Kine, Bank Officer Grade I-Supervision, attended a Seminar on Anti-Money Laundering/Combating Financing Terrorism, hosted by Afritac South and IMF, from 16 to 20 May 2016 in Ebène.

2. Mr Rajeev Luchmun, Bank Officer Grade I-Financial Markets Operations, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

3. Miss Reena Kangloo, Bank Officer Grade I-Legal Services, attended:

i. a SWIFT Compliance Workshop, hosted by Swift Users of Mauritius on 20 April 2016 in Ebène; and

ii. a 1st African International Council for Commercial Arbitration Congress 2016, hosted by ICCA Mauritius, from 8 to 11 May 2016 in Trou aux Biches.

4. Miss Vijayluxmi Ramdonee, Bank Officer Grade I-Supervision, attended a Course on the Entire Examination Process for On-Site Examiners of the Bank Covering All Types of Risks, hosted by Afritac South, from 6 to 15 October 2015 in Ebène.

Appendix VI

Staff Turnover

RECRUITMENT

Dr Ashwin Moheeput was appointed Chief-Economic Research Division, with effect from 1 July 2015.

Mr Sameer Kumar Sharma was appointed Chief-Middle Office and Risk Division with effect from 1 July 2015.

Mrs Pushpa Devi Gopee-Somra was appointed BI Analyst with effect from 6 July 2015.

Miss Bibi Koraïsha Jeewoot was appointed Chief-Financial Markets Operations Division with effect from 3 August 2015.

Mr Mardayah Kona Yerukunondu was appointed Assistant Secretary-Legal Services with effect from 1 September 2015.

Mr Narayan Gangalaramsamy was appointed Chief-IT Division with effect from 1 September 2015.

Dr Ashwin Kumar Madhou was appointed Chief-Research and Economic Analysis with effect from 1 October 2015.

Miss Ahmira Jamalsah, Mr Jacques Adriano Berthy Marianen and Mr Percy Fabrice Dabeesing were appointed Bank Officers Grade II with effect from 2 October 2015.

Mr Reeshideo Soobhug was appointed Assistant Security Manager with effect from 9 October 2015.

Mr Rajkumar Chummun, Mr Devraj Ramsawmy and Mr Veeraj Ramhit were appointed Security Officers with effect from 9 October 2015.

Miss Chitra Deepun and Miss Kovila Soobrayen were appointed Bank Officers Grade II with effect from 22 October 2015.

Mrs Allee C. Vythalingum was appointed Bank Officer Grade II with effect from 23 October 2015.

Mrs Saraspadee Ramalingum and Miss Vishista Adwaita Seeboo were appointed Bank Officers Grade II with effect from 9 November 2015.

Mr Ashootosh Pramaha Seeneevassen Palayathan was appointed Chief-Financial Markets and Asset Management with effect from 3 December 2015.

Mr Atish Babboo, Mrs Jazbeen Banu Edoo, Mr Yashilall Gopaul, Mrs Rajni Devi Jangi-Kistoo, Miss Reena Kangloo, Miss Bihisht Mautadin, Miss Koveena Mootoosamy, Mrs Hema Ramnial-Tacouri, Miss Tayushma Sewak and Miss Rajlukshmee Tengur were appointed Bank Officers Grade I with effect from 3 December 2015.

Mr Shehzad Chutoo, Miss Meenakshi Ramchurn and Mr Uttam Deepak Seetul were appointed Analysts with effect from 3 December 2015.

Miss Pooja Yashni Mohesh was appointed Bank Officer Grade I with effect from 9 December 2015.

Mr Avisen Mootealloo and Mr Kheelesh Poonye were appointed Bank Officers Grade I with effect from 4 January 2016.

Mr Rajive Ajodhea, Mr Suyash Dhurmea, Miss Archana Puttyah and Miss Komal Rughoo were appointed Analysts with effect from 4 January 2016.

Mr Konalsingh Seewooraz was appointed Bank Officer Grade II with effect from 7 January 2016.

Mrs Hesheeni Ghoorah-Ramchurter and Mr Nadeem Azad Jeetun were appointed Analysts with effect from 18 January 2016.

Mr Stephan Soon Chan Ah Kine was appointed Bank Officer Grade I with effect from 3 February 2016.

Mr Arjun Munbodh was appointed Bank Officer Grade I with effect from 15 February 2016.

Dr Chiragra Tapas Kumar Chakrabarty was appointed Director-Financial Markets and Asset Management with effect from 1 March 2016.

Mr Louis Mario Hennequin was appointed Executive Officer-Governor's Office with effect from 1 March 2016.

Miss Florence Anasthasia L`espérance and Miss Pratima Saitee were appointed Bank Officers Grade II with effect from 4 March 2016.

Mr Mohammud Feyçal Caunhye was appointed Chief-Communications with effect from 4 April 2016.

Mrs Dhaneshwari Angnoo, Miss Shilpa Busgopal and Miss Doushy Jeeana were appointed Bank Officers Grade II with effect from 9 May 2016.

Mr Roy Bhicka was appointed Bank Attendant/Driver with effect from 1 June 2016.

RETIREMENT

Mr Bimlall Doolar, Analyst, retired from the service of the Bank with effect from 16 July 2015.

Mr Soodiadev Ramrutton, Senior Research Officer, retired from the service of the Bank with effect from 29 September 2015.

Dr Daneshwar Doobree, who held the post of Head-Banking and Currency Division, was compulsorily retired from the services of the Bank with effect from 17 September 2015.

RESIGNATION

Mr Adarsh Juwaheer, Analyst, resigned from the service of the Bank with effect from 3 January 2016.

Mr Arvind Sharma Ramful, Chief-IT Infrastructure, resigned from the service of the Bank with effect from 1 April 2016.

Mr Rajive Ajodhea, Analyst-Statistics Division, resigned from the service of the Bank with effect from 6 June 2016.

EXPIRY OF CONTRACT OF EMPLOYMENT

The contract of employment of Mr Narayan Gangalaramsamy, Chief-IT Division, expired with effect from 15 July 2015.

The contract of employment of Dr John Laing Roberts, Consulting Editor, expired with effect from 12 August 2015.

The contracts of employment of Miss Ahmira Jamalsah, Mr Jacques Adriano Berthy Marianen and Mr Percy Fabrice Dabeesing, Tellers, expired with effect from 1 October 2015.

The contract of employment of Mr Dhaneshwur Bhoosungur, Security Manager, expired with effect from 14 October 2015.

The contracts of employment of Miss Chitra Deepun, Miss Kovila Soobrayen and Mrs Allee C. Vythalingum, Tellers, expired with effect from 22 October 2015.

The contract of employment of Mr Ashootosh Pramaha S. Palayathan, Chief-Asset Management, expired with effect from 3 December 2015.

The contract of employment of Mr Gunness Gonpot, Chief-Supervision, expired with effect from 3 February 2016.

The contract of employment of Mr Jayendra Kumar Ramtohul, Assistant Secretary-Corporate Services, expired with effect from 3 February 2016.

The contract of employment of Mr Deenesh Ghurburrun, Assistant Director-Supervision, expired with effect from 3 February 2016.

The contracts of employment of Miss Florence Anasthasia L`espérance and Miss Pratima Saitee, Receptionists, expired with effect from 3 February 2016.

The contracts of employment of Mrs Dhaneshwari Angnoo, Miss Shilpa Busgopal and Miss Doushy Jeeana, Bank Officers Grade II, expired with effect from 7 April 2016.

The contracts of employment of Mr Khemraj Aubeeluck and Mr Manohar Ubheeram, Security Officers, expired with effect from 2 May 2016.

The contract of employment of Dr Premduth Aubeeluck, Head-Research and Publications, expired with effect from 2 May 2016.

The contract of employment of Mr Christian Fanchette, HR Consultant, expired with effect from 30 June 2016.

APPOINTMENT

Mrs Marie Lily Claude Bastien Sylva was appointed Chief-Human Resource with effect from 1 December 2015.

Mr Chetanand Christna, Mrs Tameshwaree Gokool, Mrs Sheik Sooraya Bibi Goolam Hossen, Mrs Bindoomatee Gungaram, Mr Kumaravel Mootoosamy, Mr Yahseen Mohammad Peerbocus, Mrs Soobadra Ramnauth and Miss Yogeeta Devi Ramphul were appointed Analysts with effect from 3 December 2015.

Mr Hedley Jean Claude David was appointed Chief in the Rodrigues' Office with effect from 18 April 2016.

Appendix VII

List of Banks, Non-Bank Deposit-Taking Institutions, Money-Changers and Foreign Exchange Dealers licensed by the Bank of Mauritius as at 30 June 2016

The following is an official list of banks holding a Banking Licence, institutions other than banks which are licensed to transact deposit-taking business and cash dealers licensed to transact the business of money-changer or foreign exchange dealer in Mauritius and Rodrigues as at 30 June 2016.

Banks Licensed to carry Banking Business

1. ABC Banking Corporation Ltd
2. AfrAsia Bank Limited
3. Bank One Limited
4. Bank of Baroda
5. Bank of China (Mauritius) Limited[1]
6. Banque des Mascareignes Ltée
7. Banque Privée de Fleury Limited[2]
8. BanyanTree Bank Limited
9. Barclays Bank Mauritius Limited
10. Century Banking Corporation Ltd[3]
11. Deutsche Bank (Mauritius) Limited
12. Habib Bank Limited
13. HSBC Bank (Mauritius) Limited
14. Investec Bank (Mauritius) Limited
15. MauBank Ltd
16. PT Bank Maybank Indonesia
17. SBI (Mauritius) Ltd
18. Standard Bank (Mauritius) Limited
19. Standard Chartered Bank (Mauritius) Limited
20. SBM Bank (Mauritius) Ltd
21. The Hongkong and Shanghai Banking Corporation Limited
22. The Mauritius Commercial Bank Limited
23. Warwyck Private Bank Ltd[4]

[1] *Bank of China (Mauritius) Limited was granted a banking licence on 18 March 2016 but has yet to start its operations.*

[2] *The bank carries on exclusively private banking business.*

[3] *The bank carries on exclusively Islamic banking business.*

[4] *The bank carries on exclusively private banking business.*

Non-Bank Deposit-Taking Institutions

1. AXYS Leasing Ltd
2. Cim Finance Ltd
3. Finlease Company Limited
4. La Prudence Leasing Finance Co. Ltd
5. Mauritius Housing Company Ltd
6. Mauritian Eagle Leasing Company Limited
7. SICOM Financial Services Ltd
8. The Mauritius Civil Service Mutual Aid Association Ltd

Money-Changers (Bureaux de Change)

1. Abbey Royal Finance Ltd
2. Change Express Ltd
3. EFK Ltd
4. Iron Eagle Ltd
5. Moneytime Co. Ltd
6. Unit E Co Ltd
7. Viaggi Finance Ltd
8. Vish Exchange Ltd

Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Cim Forex Ltd
3. Island Premier Foreign Exchange Ltd
4. Shibani Finance Co. Ltd
5. Thomas Cook (Mauritius) Operations Company Limited

List of Charts

List of Tables

List of Boxes

List of Acronyms

AACB	Association of African Central Banks
AfDB	African Development Bank
Afrexim	African Export and Import Bank
AMCP	African Monetary Cooperation Programme
ATM	Automated Teller Machine
BCS	Bulk Clearing System
BEAC	Banque des Etats de l'Afrique Centrale
BIS	Bank for International Settlements
BML	Broad Money Liabilities
BoJ	Bank of Japan
CABS	Community of African Banking Supervisors
CBS	Central Bank Survey
CCBG	Committee of Central Bank Governors
CCBO	Committee of Central Bank Officials
CDS	Central Depository System
c.i.f	Cost, insurance, freight
CMA	Common Monetary Area
CMI	COMESA Monetary Institute
CNP	Contribution Network Project
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
DCS	Depository Corporations Survey
DR	Disaster Recovery
DTAA	Double Taxation Avoidance Agreement
ECB	European Central Bank
EFTs	Electronic Funds Transfers
EIA	Energy Information Administration
EMDEs	Emerging Market and Developing Economies
EME	Emerging Market Economies
EPI	Export Price Index
FAO	Food and Agricultural Organisation
FDI	Foreign Direct Investment
FIP	Finance and Investment Protocol
FIRST	Financial Sector Reform and Strengthening Initiative
FISIM	Financial Intermediation Services Indirectly Measured
f.o.b	Free on board
FMI	Financial Market Infrastructure
FSB	Financial Stability Board

FSI	Financial Soundness Indicators
FSR	Financial Stability Report
FY	Financial Year
GBC	Global Business Company
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GFCF	Gross Fixed Capital Formation
GMTB	Government of Mauritius Treasury Bill
GNDI	Gross National Disposable Income
GNI	Gross National Income
GNS	Gross National Savings
GVA	Gross Value Added
H-P	Hodrick-Prescott
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
ICT	Information and Communication Technology
IFC	Irving Fisher Committee
IFSB	Islamic Financial Services Board
IPI	Import Price Index
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
IIP	International Investment Position
ISI	International Statistical Institute
IT	Information Technology
KRR	Key Repo Rate
MACSS	Mauritius Automated Clearing and Settlement System
MCIB	Mauritius Credit Information Bureau
MERI	Mauritius Exchange Rate Index
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
MPFSR	Monetary Policy and Financial Stability Report
MSCI	Morgan Stanley Capital International
MSS	Mauritius Sugar Syndicate
MTF	Ministerial Task Force
NBDTI	Non-Bank Deposit-Taking Institutions
NFA	Net Foreign Assets
NML	Narrow Money Liabilities
NPL	Non-Performing Loans
NPS	National Payment Switch

NYMEX	New York Mercantile Exchange
ODCs	Other Depository Corporations
OPEC	Organization of the Petroleum Exporting Countries
OSHA	Occupational Safety and Health Act
O/W	Of Which
PLACH	Port-Louis Automated Clearing House
POS	Point of Sale
PRB	Pay Research Bureau
RCG	Regional Consultative Group
REER	Real Effective Exchange Rate
REPSS	Regional Payment and Settlement System
RES	Real Estate Scheme
RISDP	Regional Indicative Strategic Development Plan
ROA	Return on Assets
ROE	Return on Equity
RSL	Regulatory Sandbox Licence
RTGS	Real Time Gross Settlement
SAA	Strategic Asset Allocation
SADC	Southern African Development Community
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
SEM	Stock Exchange of Mauritius
SEMDEX	Stock Exchange of Mauritius Index
SIRESS	SADC Integrated Regional Settlement System
SM	Statistics Mauritius
SME	Small and Medium Enterprises
SNA	System of National Accounts
SSA	Sub-Saharan Africa
STP	Straight-through-processing
TFTA	Tripartite Free Trade Area
ToT	Terms of Trade
US Fed	US Federal Reserve
VAT	Value-added Tax
WEO	World Economic Outlook
XBRL	eXtensible Business Reporting Language
YEP	Youth Employment Programme

BANK OF MAURITIUS

Address Sir William Newton Street
Port Louis
Mauritius

Website https://www.bom.mu
Email communications@bom.mu

Designed & Printed by **LOVELLS PRINTING AND ARTWORK LTD**

BANK OF MAURITIUS

Address Sir William Newton Street
Port Louis
Mauritius

Website https://www.bom.mu
Email communications@bom.mu