Bank of Mauritius

50 Years of Central Banking

ANNUAL REPORT

YEAR ENDED 30 JUNE 2018

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YEARS OF CENTRAL BANKING

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Bank of Mauritius
Port Louis

22 October 2018

The Honourable Pravind Kumar Jugnauth
Prime Minister
Minister of Home Affairs, External Communications
and National Development Unit
Minister of Finance and Economic Development
Prime Minister's Office
New Treasury Building
Intendance Street
Port Louis

Dear Prime Minister

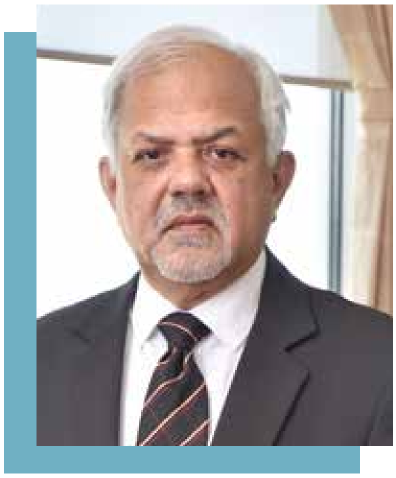
Annual Report and Audited Accounts 2017-18

In accordance with the provision of Section 32(3) of the Bank of Mauritius Act 2004, I transmit herewith the fifty-first Annual Report of the Bank, which also contains the audited Accounts of the Bank for the year ended 30 June 2018.

Yours sincerely

Yandraduth Googoolye

Statement From The Governor



Financial Year (FY) 2017/18 marked the 50th anniversary celebrations of the Bank of Mauritius, and I am honoured to have initiated and been closely associated with landmark events to showcase the work of the Bank and, further, increase its visibility. Since assuming office as Governor in January 2018, I prioritised a few issues to enhance the Bank's operational efficiency.

First and foremost, we addressed the excess liquidity legacy that has hindered the transmission of monetary policy, which was the subject of various concerns expressed by the IMF in its various Article IV Consultation Reports. Indeed, we have repaired the monetary policy framework and brought short-term money market rates within the corridor of the Key Repo Rate (KRR). Since January 2018, these rates have been increasing and, as from March 2018, have been hovering around the KRR, our policy rate. We have been conducting aggressive open market operations to remove the structural excess liquidity from the system and the disconnect between the KRR and money market rates. Whilst rupee liquidity over and above the cash reserve ratio requirement fluctuated between Rs8-9 billion in the first semester of 2018, we estimate that a large portion of this liquidity represents voluntary reserves held by banks to meet their commitments.

Over time, evidence has shown that trading on the overnight interbank money market has remained generally thin, and liquidity distribution is skewed towards a few banks. The Bank has recently been focusing on the 91-day Bill yield as its short-term operating target. The 91-day Bill yield, which is market-determined, can be viewed as an appropriate measure of the efficiency of the Bank's operations. Following the gradual removal of the excess liquidity from the system, the average yield on the 91-day Bill has risen consistently to 3.62 per cent in June 2018, from a low of 1.68 per cent in October 2017. The Bank has successfully been able to manage liquidity to keep the 91-day Bill yield at a level consistent with its monetary policy stance.

The rise in the short-term money market rates has resulted in a widening of the spread vis-à-vis savings deposit rates. In this context, I have called upon banks to increase their savings deposit rates so that savers can benefit from a higher return. I am pleased to note that some banks have already increased their rates and I hope that the remaining banks will follow. The higher yields on risk-free Government/Bank of Mauritius instruments can also benefit savers on the secondary market. We have engaged with banks with a view to opening up access to these instruments to the public and it is noteworthy that the amount traded on the secondary market for individuals are on the increase. I deeply acknowledge the cooperation of banks for supporting this investment outlet.

To provide retail customers with an attractive investment opportunity at a time when interest rates on deposits offered by banks were relatively low, the Bank came up with the Over the Counter sale of the Three-Year Bank of Mauritius Golden Jubilee Bonds to retail customers and Non-Governmental Organisations. I thank CEOs of banks for their fruitful collaboration for the success of these bonds, which have been listed on the Stock Exchange of Mauritius on 26 June 2018.

In the process of mopping up excess liquidity, the Bank's operations have been conducted at a cost. Between the end of December 2017 and June 2018, outstanding Bank of Mauritius instruments have increased from nearly Rs70 billion to Rs92 billion, and sterilisation costs have soared to nearly Rs2.4 billion in FY2017/18. These costs have had a bearing on the Bank's profitability such that measured on the basis of accounting standards, which bring to profit and loss both realised and unrealised valuation changes, the Bank recorded a net loss of Rs587 million. I must stress here that the Bank has a mandate to carry out open market operations in order to ensure that the appropriate monetary conditions prevail for an adequate transmission of monetary policy to support the economy. It must be noted that the Bank has, since FY2014/15, been making losses except in FY2016/17 when it exceptionally made a net profit of Rs561.1 million as a result of the disposal of some financial instruments. The Bank kept its intervention on the domestic foreign exchange market to smooth out any excessive volatility in the rupee exchange rate and to align the rupee with its macroeconomic fundamentals. In FY2017/18, the Bank's purchases of foreign currencies amounted to US$727 million and a large part of the rupee proceeds arising therefrom was sterilised for a total amount of Rs18.8 billion.

The domestic economy is on a positive path, which must not only be sustained but also strengthened. Real GDP growth at market prices is projected to grow at around 4 per cent in 2018, the highest since 2012. Almost all sectors of the economy are supporting the growth momentum. Growth in construction activity has accelerated over the past two years, amidst large infrastructural projects in the economy. The unemployment rate is projected to dip below the 7 per cent mark this year, an indication of job creation. Headline inflation has gradually risen to 4.3 per cent in June 2018, reflecting the impact of adverse shocks to food prices and adjustments in administered goods. In recent months, however, inflation dynamics exhibited a turnaround and in the absence of severe adverse supply shocks, the inflation rate is projected at around 3 per cent in FY2018/19.

The current account deficit deteriorated in 2017 largely due to a worsening of the merchandise trade deficit. While imports increased reflecting higher prices of commodities abroad, the performance of our exports of goods remains a cause of concern. Fortunately, our services and income accounts provide the cushion. I must point out that many of our corporates have set up plants overseas and are repatriating their proceeds. On the other hand, the country remained blessed with estimated gross direct investment inflows of around Rs17.5 billion in 2017. The country's level of gross international reserves increased by US$1.4 billion to US$6.7 billion over the year to June 2018, which provide for a cover of about 11.2 months of goods and services, compared to 8.8 months at the end of June 2017, and offer the country with an adequate buffer against any adverse external shocks.

There are still challenges, both external and domestic, that can potentially weigh on domestic growth performance and warrant monitoring. On the external front, Brexit and trade tensions could seriously derail the growth trajectory of our main trading partners. Following the normalisation of interest rates in two major advanced economies, financial vulnerabilities have heightened and warrant caution. There is also lack of visibility regarding the evolution of global oil prices, which could translate into higher pass-through to domestic prices. Sub-par private investment, lacklustre productivity and weak export performance have continued to drag domestic output.

The financial sector blueprint and the use of blockchain technology offer huge potential for the country to position itself as an international financial centre of repute. Alive to the potential benefits of Fintech and other innovation-driven financial services, the Bank is supportive of Government's initiatives to have an enabling and conducive framework to foster the use of such innovative technologies in the financial services sector. Whilst revisiting our business models, we need to re-skill and re-tool our workforce to adapt to the needs of an increasingly sophisticated economy and leverage on pioneering technologies to improve our international competitiveness. In this respect, we favour a coordinated approach to public policy, and engage in regular consultations with respective authorities.

The Bank is benchmarking its regulatory and supervisory practices with best international standards and practices, taking into consideration emerging trends and our requirements. We have migrated to the Basel III capital standards since July 2014 and our banks are well-capitalised, with an average banking sector's capital adequacy ratio and Common Equity Tier 1 ratio consistently hovering around 17 per cent and 15 per cent, respectively. Banks' asset quality has improved and is generally considered to be sound, with the ratio of gross non-performing advances to total advances declining from 7.0 per cent to 6.5 per cent between end-June 2017 and end-June 2018 and the coverage ratio improving from 49.3 per cent to 56.4 per cent over the same period. The Bank's in-house macro-based stress testing model shows that the banking system as a whole remains resilient to a range of plausible macroeconomic shocks. The introduction of the Liquidity Coverage Ratio (LCR) is another step to improving the liquidity profile of our banks as well as their ability to withstand potential liquidity disruptions. As at 30 June 2018, the LCR for the banking sector stood at 168 per cent on a consolidated basis.

We are further improving our supervisory structures and processes to make them more efficient, effective, risk-focused and forward looking, which will facilitate the easy transition to a risk-based supervision framework in the coming years. This will entail the creation of risk profiles for banks in advance, and enable the optimum allocation of supervisory resources and attention. We are encouraging banks to implement a more risk-focused internal audit function.

Our dedication in the fight against money laundering (ML) and terrorist financing (FT) dates as far back as 23 December 1997, when Mauritius committed itself to the Recommendations of the Financial Action Task Force (FATF). Mauritius has been a founder member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body for the Eastern and Southern African region. Mauritius has recently been evaluated on its level of compliance with the 40 Recommendations of the FATF. The strengths and weaknesses of Mauritius have been identified in the mutual evaluation report of the ESAAMLG. In the national fight against ML/FT, the Bank will leave no stone unturned to continue to meet international standards. Already, a host of laws have been amended and regulations passed to comply with recommendations of the ESAAMLG.

The risk-based AML/CFT framework is well underway with the assistance of the World Bank. A dedicated desk in the Supervision Department has been created to continuously supervise the AML/FT risks across financial institutions regulated by the Bank. We have made it a requirement for licensees of the Bank to implement programmes against AML/CFT commensurate with the AML/CFT risks to which they are exposed. Financial institutions are also required to assess AML/CFT risks with respect to new products and new business practices or developing technologies. The Bank has made it a requirement for new banks to have a full-fledged AML/CFT software before they start operations. Shell financial institutions have been prohibited altogether. Collaboration has been enhanced both at the national and international levels with respect to AML/CFT issues. It is our earnest wish that we continue to meet international standards and our country remains a jurisdiction of good repute.

With an objective of reducing the burden of producing Know-Your-Customer (KYC) documents which is the cornerstone for on-boarding of bank customers, the Bank has, together with the Financial Services Commission (FSC), engaged in the establishment of a Central KYC Registry for the financial services sector. The registry will maintain all KYC information under a single platform, which can be accessed by institutions requiring to perform customer due diligence. This will save financial institutions from repeatedly verifying the same customer and, thus, cut down on costs and time for the opening of accounts.

To support the economic and financial development of the country, we are accelerating the implementation of the National Payment Switch (NPS), which will make digital payments through different channels such as ATMs, mobile devices, points of sales and e-payment gateways interoperable. The NPS is expected to be completed by November 2018. We will also implement an Instant Payment System through Application Programming Interfaces (API) which will open access to the payment accounts held by banks to other payment service providers. The system will be available on a 24x7 basis and payments will be settled on a real/near-real time basis. This will support the e-government initiative by promoting electronic payments through all channels in Government agencies through instant or near real-time payments.

The financial services sector is undoubtedly the sector where the highest number of fintech service providers, ranging from mobile and digital wallets, peer-to-peer transfers, blockchain technologies, will be deployed. I thank the Prime Minister for having given me the opportunity to be a member of the Fintech and Innovative-driven Financial Services Regulatory Committee to position Mauritius as a regional Fintech hub for the African continent. We welcome the setting up of the National Regulatory Sandbox Committee under the chairmanship of Lord Meghnad Desai, Emeritus Professor of Economics at the London School of Economics and Member, House of Lords, to consider all issues related to Sandbox licensing for Fintech activities.

Statement From The Governor

Financial inclusion is key to economic development and in this spirit, as early as in January 2018, I revived the *Banking Your Future Report*, which was published by the Bank in June 2014 and which proposed measures for a fairer and more inclusive banking sector. A Working Group, comprising officers of the Bank, banks and the MBA, has been set up to work on the implementation of recommendations of the Report. I am pleased to note that several recommendations of the Report have already been implemented and that others will be rolled out in the near future.

Located in our newly-refurbished building, the Bank of Mauritius Museum was officially opened to the public as from 5 March 2018. The Museum was inaugurated on 3 November 2017 by the Prime Minister and reflects a synergy between the Bank, MCB Group Ltd, HSBC (Mauritius) Ltd, The Royal Mint and Thomas De La Rue. It displays more than 500 artefacts related to the history of our monetary system.

The Bank reached out to the public through a series of activities. Bank staff welcomed members of the public on 3-4 March 2018 for a guided tour of the Bank's premises and the Museum. I also had the pleasure to release the book "*From Piastres to Polymer*", which provides a comprehensively researched work on the history of banknotes of Mauritius. Public lectures on key economic topics were delivered by Bank staff and key professionals from various economic sectors.

We encourage people to be vigilant when receiving banknotes. The Bank issued on 3 March 2018, a "*Know Our Banknotes*" leaflet incorporating the security features of all paper and polymer banknotes currently in circulation. To address counterfeiting issues, an intensive media campaign on banknote security features was launched to maximise public awareness on how to detect fake banknotes. We also benefitted from the expertise of the UK-based De La Rue for the conduct of a two-day seminar on '*Counterfeit Detection*', targeted to our stakeholders in the Bank's premises on 17 and 18 July 2018.

The Bank revisited its participation in regional and international fora. In May 2018, I spearheaded the Bank's re-admission, together with the FSC, as a full member of the Group of International Financial Centre Supervisors (GIFCS), formerly known as the Offshore Group of Banking Supervisors. The aim of the GIFCS is to promote members' compliance with the Basel Core Principles and the FATF recommendations. In June 2018, I arranged for the Bank to be admitted as a joint member of Official Monetary and Financial Institutions Forum, an independent think-tank for central banking, economic policy and public investment, along with the FSC. We also welcomed study missions from several central banks as part of peer learning programmes.

During the year under review, the Bank chaired the Eastern Africa sub-region Committee of Central Bank Governors of the Association of African Central Banks (AACB) and the Governing Board of the International Islamic Liquidity Management Corporation (IILM). In this context, the Bank hosted the 20th Governing Board and 9th General Assembly meetings of the IILM. I also presided the 18th Ordinary Meeting of Governors of the Eastern Africa Sub-Region of the AACB.

In compliance with our legal obligations, I have the privilege, as the Bank's seventh Governor, to present my first annual report which provides highlights of the activities and operations of the Bank during FY2017/18. I thank the Honourable Prime Minister and Minister of Finance and Economic Development for his trust for appointing me to this important position of public service after having served the Bank as First Deputy Governor for nearly eleven years. Since assuming duty as Governor, I have benefitted from the continuous support of the Board of Directors, my two Deputy Governors and dedication of the staff. I salute them for their unflinching collaboration and cooperation. I also wish to put on record the excellent working relations with MPC Members, CEOs of banks, nonbank deposit-taking institutions, foreign exchange dealers and various stakeholders.

Yandraduth Googoolye

22 October 2018

1 About Bank of Mauritius

OBJECTIVES AND BASIC FUNCTIONS

The Bank of Mauritius (Bank) is established by statute as the central bank for the Republic of Mauritius. It was first set up under the Bank of Mauritius Ordinance 1966, with the main responsibility to "*safeguard the internal and external value of the currency of Mauritius and its internal convertibility*". The role and functions of the Bank are currently pursuant to the Bank of Mauritius Act 2004 (Act), according to which, it pursues its objects and functions independently.

From the primary objective of issuing currency notes, the role of the Bank has evolved over time. Section 4 of the Act specifies the primary object of the Bank as maintaining price stability and promoting orderly and balanced economic development. The Act also lists the various functions of the Bank as well as its conferred powers. Through the pursuit of its objectives, the Bank aims to achieve sustainable economic growth and keep prices low and stable.

BOARD OF DIRECTORS

The contract of the former Governor Mr Rameswurlall Basant Roi, GCSK, expired on 07 January 2018.

The President of the Republic of Mauritius, acting on the recommendation of the Acting Prime Minister and in exercise of the powers vested in him by sections 13 and 14 of the Bank of Mauritius Act 2004, appointed on 12 December 2017:

(i) Mr Yandraduth Googoolye as Governor-designate for handing over purposes as from 13 December 2017 and Governor of the Bank of Mauritius as from 15 January 2018.

(ii) Dr Renganaden Padayachy as First Deputy Governor-designate as from 13 December 2017 and First Deputy Governor of the Bank of Mauritius as from 15 January 2018.

Mr Mahendra Vikramdass Punchoo was re-appointed as Second Deputy Governor.

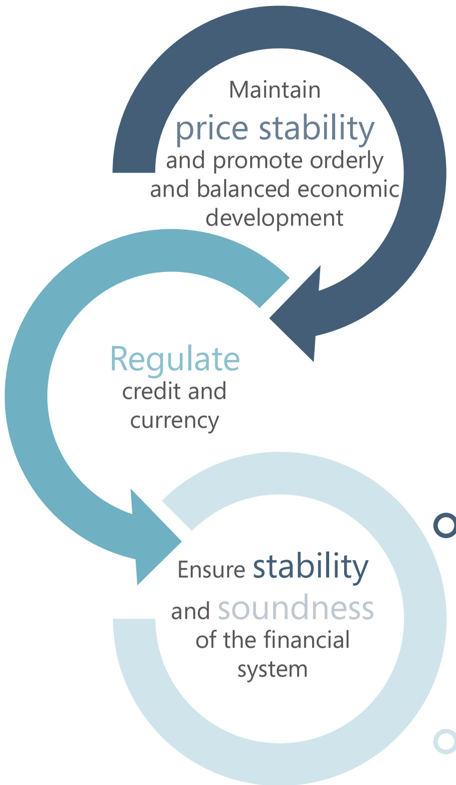
The Board of Directors of the Bank was reconstituted in March 2018 and three new Directors other than the Governor and Deputy Governors, were appointed by the Minister of Finance and Economic Development in accordance with section 16 of the Bank of Mauritius Act 2004.

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. In the exercise of its functions, the Board is not subject to the direction or control of any other person or authority. The composition of the Board of Directors as at 30 June 2018 was as follows:

Chairperson	Mr Yandraduth Googoolye, Governor
Director	Dr Renganaden Padayachy, First Deputy Governor
Director	Mr Mahendra Vikramdass Punchoo, Second Deputy Governor
Director	Mr Ranapartab Tacouri
Director	Mr Antoine Seeyave
Director	Mr Sanjay Gopaul
Director	Mr Axel Pellegrin
Director	Mr Said Toorbuth

About Bank of Mauritius

The Bank of Mauritius was established under the Bank of Mauritius Ordinance 1966 and is, by statute, the central bank of Mauritius. 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.



Statutory Objectives of the Bank

- Conduct monetary policy and manage the exchange rate of the rupee, taking into account the orderly and balanced economic development of Mauritius.
- Manage, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius.
- Manage the foreign exchange reserves of Mauritius.
- Collect, compile, disseminate, on a timely basis, monetary and related financial statistics.

Regulate and supervise financial institutions falling under its purview.

Bank sets in place the prevalent regulatory regime applicable to banks, non-bank deposit taking financial institutions and cash dealers.

Safeguard the rights and interests of depositors and creditors.

The Bank of Mauritius is responsible for the formulation and execution of monetary policy consistent with stable price conditions.

The Monetary Policy Committee (MPC) established under Section 54 of the Bank of Mauritius Act 2004 formulates and determines the monetary policy to be conducted by the Bank. In order to achieve its monetary policy objectives, the Bank uses several means and instruments that include open market operations and cash reserve ratio.

In pursuit of its mandate, the Bank performs a set of core functions including:

- act as banker to Government and banks
- manage the clearing, payment and settlement systems
- manage the foreign exchange reserves
- advise the Government on financial matters
- promote public understanding of financial system
- maintain Mauritius Credit Information Bureau
- promote fair and competitive practices in the banking industry

The Bank is the sole issuer of currency

The Bank is independent and transparent

The Bank is the custodian of bank customers

BOARD OF DIRECTORS

Standing from left to right: Mr Said Toorbuth, Mr Axel Pellegrin, Mr Mahendra Vikramdass Punchoo, Mr Antoine Seeyave, Mr Yandraduth Googoolye (Governor and Chairperson), Mr Ranapartab Tacouri, Dr Renganaden Padayachy and Mr Sanjay Gopaul.

The Board of Directors held eleven meetings during FY2017-18 (Table 1.1). At any meeting of the Board, six members constitute a quorum. Decisions are taken by simple majority, but in the event of an equality of votes, the chairperson has the casting vote.

Table 1.1: Meetings of the Board of Directors

Board Directors	Date of first appointment	2017								2018		
		11.07	27.07	03.08	21.09	05.10	16.10	03.11	01.12	26.03	15.05	13.06
Governor - Mr R. Basant Roi (Chairperson)	08.01.15	√	√	√	√	A	A	√	√			
Governor - Mr Y. Googoolye (Chairperson)	15.01.18									√	√	√
First Deputy Governor - Mr Y. Googoolye	13.07.06	√	√	√	A	√	√	√	√			
First Deputy Governor - Dr R. Padayachy	15.01.18									√	√	A
Second Deputy Governor - Mr M. V. Punchoo	31.12.14	√	√	√	√	√	√	√	√	√	√	√
Mr R. Tacouri	04.03.15	√	√	√	√	√	√	√	√	√	√	√
Mr A. Seeyave	04.03.15	√	√	A	√	√	√	A	√	√	√	√
Mr J. E. C. Cartier	04.03.15	√	√	√	√	√	√	√	√			
Dr R. Padayachy	13.03.15	√	√	√	√	√	√	√	√			
Mr S. Gopaul	04.03.18									√	√	√
Mr M. S. C. A. Pellegrin	19.03.18									A	√	√
Mr S. Toorbuth	20.03.18									√	√	√

√: Indicates attendance at the Board Meeting.

A: Absent with apologies.

About Bank of Mauritius

AUDIT COMMITTEE

The Audit Committee of the Bank was reconstituted by the Board of Directors at its meeting of March 2018. Presently, the Audit Committee consists of three non-executive Board Directors:

Chairperson	Mr Ranapartab Tacouri
Member	Mr Axel Pellegrin
Member	Mr Said Toorbuth

The Audit Committee held four meetings during FY2017-18. The Committee usually meets once a month. 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 was renamed as the Audit and Risk Committee. This was resolved by the Board of Directors at its meeting of 15 May 2018. The Bank is currently working on the terms of reference for the Audit and Risk Committee. The Committee is mandated to establish and maintain appropriate systems of internal control for the Bank and of risk oversight and management.

MONETARY POLICY COMMITTEE

The Bank is legally mandated to conduct monetary policy and to manage the exchange rate of the rupee, taking into account the orderly and balanced economic development of Mauritius. To this effect, Section 54 of the Act provides for a Monetary Policy Committee (MPC), whose function is to formulate and determine monetary policy to achieve price stability while taking into account orderly and balanced economic development. The MPC determines the appropriate monetary policy stance through changes in the Key Repo Rate, the Bank's policy rate.

The MPC comprises the Governor, who acts as the Chairperson, the two Deputy Governors, two members appointed by the Prime Minister and three members appointed by the Minister of Finance and Economic Development. MPC members are bound by a Code of Conduct to ensure observance with the highest possible standards of ethical conduct.

The MPC usually meets four times during a year, but stands ready to meet in between its regular meetings, should the need arise. Five members, including at least four from members appointed by the Prime Minister and Minister of Finance and Economic Development, constitute the quorum. The composition of the MPC at the September and November 2017 meetings were:

Mr Rameshwurlall Basant Roi, GCSK	Governor and Chairperson of the MPC
Mr Yandraduth Googoolye	First Deputy Governor
Mr Mahendra Vikramdass Punchoo	Second Deputy Governor
Dr Renganaden Padayachy	appointed by the Prime Minister
Mr Guy Wong So	appointed by the Prime Minister
Mr Pierre Dinan, CSK, GOSK	appointed by the Finance Minister
Dr Streevarsen Narrainen	appointed by the Finance Minister
Mr Mohammad Mushtaq Namdarkhan	appointed by the Finance Minister

At the meeting held in February 2018, the MPC was composed as follows:

Mr Yandraduth Googoolye	Governor
Dr Renganaden Padayachy	First Deputy Governor
Mr Mahendra Vikramdass Punchoo	Second Deputy Governor
Mr Guy Wong So	appointed by the Prime Minister
Mr Pierre Dinan, CSK, GOSK	appointed by the Finance Minister
Dr Streevarsen Narrainen	appointed by the Finance Minister
Mr Mohammad Mushtaq Namdarkhan	appointed by the Finance Minister

On 15 May 2018, the MPC was reconstituted and as at 30 June 2018, members of the MPC were:

Mr Yandraduth Googoolye	Governor and Chairperson of the MPC
Dr Renganaden Padayachy	First Deputy Governor
Mr Mahendra Vikramdass Punchoo	Second Deputy Governor
Professor Sanjeev Kumar Sobhee	appointed by the Prime Minister
Mr Lim Chan Kwong Lam Thuon Mine	appointed by the Prime Minister
Dr Streevarsen Narrainen	appointed by the Finance Minister
Mr Mohammad Mushtaq Namdarkhan	appointed by the Finance Minister
Ms Marie Rosy Priscilla Pattoo	appointed by the Finance Minister

Meetings of the MPC

The MPC sets monetary policy that is consistent with domestic economic conditions to ensure price stability and sustainable economic growth. In their 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 and financial data and information. Given the time lags before monetary policy takes effect, it is pre-emptive and forward-looking, and relies on a number of instruments, namely forecasts of relevant economic variables and assumptions regarding external factors.

The Governor, as Chairperson of the MPC, holds a press conference to explain the decision of the MPC after the meeting. The MPC announces its decision through a Communiqué that also outlines the assessment of prevailing conditions, forecasts for inflation and real GDP growth, and which is posted on the Bank's website simultaneously to the holding of the press conference. The minutes of the meeting are posted on the Bank's website exactly two weeks after the meeting. Table 1.2 provides details on the MPC meetings held during FY2017-18, including attendance, remuneration of members and other associated costs incurred.

Sitting from left to right: Dr Renganaden Padayachy, Ms Marie Rosy Priscilla Pattoo, Mr Yandraduth Googoolye (Governor and Chairperson), Mr Lim Chan Kwong Lam Thuon Mine and Mr Mahendra Vikramdass Punchoo. Standing from left to right: Mr Mohammad Mushtaq Namdarkhan, Dr Streevarsen Narrainen and Professor Sanjeev Kumar Sobhee.

Table 1.2: Monetary Policy Committee Meetings

		Meetings Attended	06.09.17	29.11.17	28.02.18	30.05.18	**Total fees Rs**
Mr R Basant Roi[1]	Former Governor,Chairperson	2	√	√			350,000
Mr Y Googoolye[1,2]	First Deputy Governor/ Governor	4	√	√	√	√	500,000
Dr R Padayachy[2]	External Member/First Deputy Governor	4	√	√	√	√	300,000
Mr V Punchoo[2]	Second Deputy Governor	4	√	√	√	√	360,000
Prof. S K Sobhee[3]	External Member	1				√	60,000
Mr Lim Chan Kwon Lam Thuon Mine[3]	External Member	1				√	60,000
Dr S P Narrainen[4]	External Member	4	√	√	√	√	360,000
Mr M M Namdarkhan[5]	External Member	4	√	√	√	√	360,000
Ms Marie Rosy Priscilla Pattoo[4]	External Member	1				√	60,000
Mr Guy Wong So[3]	External Member	3	√	√	√		240,000
Mr P Dinan[4]	External Member	3	√	√	√		240,000
Decision on the Key Repo Rate			Cut	Unchanged	Unchanged	Unchanged	
Key Repo Rate (per cent per annum)			3.50	3.50	3.50	3.50	

Note:
1. The Governor receives a monthly fee of Rs50,000 for contribution to the Monetary Policy Committee, payable with effect from 1 January 2016.
2. The Deputy Governors receive a monthly fee of Rs30,000 for contribution to the Monetary Policy Committee, payable with effect from 1 January 2016.
3. Appointed by the Prime Minister.
4. Appointed by the Minister of Finance and Economic Development.
5. Appointed by the Prime Minister but was reppointed by the Minister of Finance and Economic Development upon the reconstitution of the Monetary Policy Committee on 15 March 2018.
√: Attended.

Highlights for the Year 2017-18

The Honourable Prime Minister Pravind Kumar Jugnauth discovering some of the unique artefacts on display in the Bank of Mauritius Museum.

Inauguration of the Bank of Mauritius Museum

The opening of the Bank of Mauritius Museum by the Honourable Pravind Kumar Jugnauth, Prime Minister, Minister of Home Affairs, External Communications and National Development Unit, Minister of Finance and Economic Development was a fitting event to commemorate the Golden Jubilee anniversary of the Bank of Mauritius.

The Museum exhibits an impressive array of some 500 artefacts. This collection stems from the joining of hands of the Bank with the MCB Group Ltd and the HSBC (Mauritius) Ltd. The Royal Mint and the banknote producing firm Thomas De La Rue have also contributed to the start of the Museum. Whilst the Museum boasts state-of-the-art interactive systems and touch-enabled screens for an immersive user experience, all the content and technology have been developed in-house. Visitors to the Museum, thus, learn about the history of the Bank and the evolution of the domestic currency.

A tour of the Bank was memorable experience for the 3,000 visitors.

Bank staff welcomed members of the public on Saturday 3 March 2018 from 10hrs to 16hrs and Sunday 4 March 2018 from 10hrs to 14hrs for a guided tour of the Bank of Mauritius premises and The Bank of Mauritius Museum. Various information kiosks were available to help visitors understand the role and functions of the Bank. A short video on the history of the Bank was projected to visitors. Illustrations on the Bank's operations and its focus on innovation and technology were also displayed.

Proud visitors to the Museum in front of rare exhibits

As from 5 March 2018, the Bank of Mauritius Museum became fully operational. The Museum is open during week days from 9hrs30 to 16hrs, except on public and bank holidays.

About Bank of Mauritius

Public Lectures have met with a resounding success and attendees were from academic and professional spheres.

On Tuesday 6 and Friday 9 March 2018, the Bank hosted a series of lectures targeting university and college students. These lectures on banking, finance and economics were facilitated by experts from the Bank as well as leading professionals from key business sectors.

The Bank organized a flag hoisting ceremony on the 9th of March 2018 in the presence of the staff of the Bank. The national anthem was rendered on this occasion.

Celebrating the 50th Anniversary of the Independence of Mauritius

The Bank planned a series of activities from 3 to 12 March 2018 in the context of the celebrations of the fiftieth anniversary of the independence of Mauritius.

A vivid and colourful illustration of the Bank's focus on innovation was the animated decoration that adorned the Bank's building for the celebrations of the country's fiftieth independence.

Across the week-end leading to the independence day, the Bank of Mauritius premises sported the Mauritian colours such that the commemorative decoration on the Bank's building was visible during the day and in its full splendour after nightfall.

Governor Yandraduth Googoolye receiving an award from Professor Donald Ah-Chuen, Chairman of the Stock Exchange of Mauritius for the listing of the Golden Jubilee Bond launched by the Bank.

The Three-Year Bank of Mauritius Golden Jubilee Bond was officially listed on the Stock Exchange of Mauritius on 18 July 2018, following a soft listing on 26 June 2018.

BANK OF MAURITIUS KNOWLEDGE CENTRE

During FY2017-18, the Bank embarked on the project of revamping its previous documentation unit with a view to offering a range of innovative services under a new Unit known as '***Bank of Mauritius Knowledge Centre***'. The Knowledge Centre aims to act as a conduit for existing knowledge but also as a catalyst for creating new knowledge. The benefits of such a shift are clear as the Knowledge Centre may assert itself as the hub of information pertaining to banking for the institution, the banking community and beyond, offering greater value to its users. Targeting the banking community at large as well as academics and students, the aim of Knowledge Centre is to cater for the provision of the latest information related to the financial and business sectors. The Knowledge Centre also acts as a repository of materials created by or pertaining to the Bank. To ensure the long-term sustainability and buy-in to the project, the Bank has engaged in a cooperative funding mechanism of annual contributions from banks for membership of their respective staff.

About Bank of Mauritius

The Communications team delivering a lecture to college students on the importance of savings, proper budgeting and safe investments.

Financial Literacy

In line with the Bank's mandate to educate and protect consumers of financial and banking products, the Bank revisited its financial literacy programme. The new strategy takes into account the imperatives of equipping the public with the necessary knowledge on how to avert scams and to understand the importance of budgeting, saving and investing.

The first leg of the Bank's financial literacy programme was rolled out in the context of the country's 50th independence celebrations. The financial literacy programme has enabled the Bank to reach out to some 25,000 families. The Communications team has conducted informative sessions with all visitors to the Museum as well as with college and university students, bringing to their attention the basics of central banking, monetary policy and the importance of savings and safe investments.

Following consultations with banks, the Bank has also launched an awareness campaign on investment opportunities for individuals on the secondary market. To ensure that the programme garners the broadest possible support and that its benefits are felt by the public, the Bank has sought the collaboration of the Mauritius Bankers Association.

20 July 2017
Governor R Basant Roi delivered a speech at the Forum of Accountants organised by the Mauritius Institute of Professional Accountants on 'Role of Accountants in the Process of Economic Development'.

20 July 2017
The Bank won the Capital Finance International Award for Best Central Bank Governance - Indian Ocean 2017.

21 July 2017
Governor R Basant Roi delivered a speech at a conference for Le Club des Dirigeants de Banques et Etablissements de Credit d'Afrique on 'Regulatory Challenges in a Fast-evolving Banking System'.

21 July 2017
The Bank issued the Revised Guidelines for banks licensed to carry on private banking business.

21 August 2017
Governor R Basant Roi delivered a speech at the Seminar on "Enhancements to the Basel Process: Recent developments relating to Basel II and Basel III" hosted by AFRITAC South, IMF.

01 September 2017
The Bank has been collecting remittance statistics to meet the requirements at national level, of the National Migration and Development Policy and the United Nation's Sustainable Development Goals.

06 September 2017
Dr R Padayachy was appointed Member of the Monetary Policy Committee of the Bank.

06 September 2017
The Monetary Policy Committee unanimously decided to cut the Key Repo Rate by 50 basis points to 3.50 per cent per annum.

07 September 2017
The Bank published a draft Guideline on the issue of Commercial Papers for public consultation.

03 November 2017
The Bank issued three commemorative coins to mark its 50th Anniversary.

03 November 2017
Governor R Basant Roi delivered a speech at the Inaugural Ceremony for the Opening of The Bank of Mauritius Museum.

03 November 2017
The Bank issued the revised Guideline on Liquidity Risk Management, and banks were henceforth required to maintain the Liquidity Coverage Ratio (LCR).

17 November 2017
Address by the First Deputy Governor Y Googoolye during a Course on 'Core Elements of Banking Supervision' held at the IMF Africa Training Institure, Ebene.

17 November 2017
Governor R Basant Roi delivered a speech at the Annual Dinner for Major Economic Stakeholders held at the Sugar Beach Hotel, Flic-en-Flac.

27 November 2017
The First Deputy Governor Y Googoolye delivered a speech at the Workshop on The Legal Aspects on the 'National Payments System: Compliance with Principle 1 of the CPSS-IOSCO Principles' at the AFRITAC South, Ebene, Mauritius.

29 November 2017
The Monetary Policy Committee unanimously decided to maintain the Key Repo Rate at 3.50 per cent per annum.

06 December 2017
The First Deputy Governor Y Googoolye delivered a speech at the Training Workshop for Senior Management of Law Enforcement Agencies in collaboration with the Commonwealth Secretariat.

07 December 2017
The Bank published its Annual Report for the year ended 30 June 2017.

13 December 2017
Mr M V Punchoo was re-appointed Second Deputy Governor of the Bank.

13 December 2017
Dr R Padayachy was appointed First Deputy Governor of the Bank as from 15 January 2018.

13 December 2017
Mr Y Googoolye was appointed Governor of the Bank as from 15 January 2018.

28 February 2018
The Monetary Policy Committee decided to leave the Key Repo Rate unchanged at 3.50 per cent per annum.

02 March 2018
Several activities were organised by the Bank in the context of 50 years of Independence of Mauritius.

05 March 2018
The Bank issued a Public Notice providing broad guidance on Complaint Procedures that a customer may adopt against a financial institution licensed by the Bank.

15 March 2018
The Bank issued the 4.25% Three-Year Bank of Mauritius Golden Jubilee Bond.

29 March 2018
The Bloomberg e-bond trading and market surveillance system, a new electronic trading system for Mauritian Government Bonds, was launched.

05 April 2018
The Bank issued the E-Bond Trading Platform.

30 April 2018
The Bank issued the Revised Guideline on the Operational Framework for Primary Dealers.

15 May 2018
In compliance with Section 55 of the Bank of Mauritius Act 2004, the Monetary Policy Committee of the Bank was reconstituted.

18 May 2018
The Bank participated in the worldwide celebration of International Day for Museum.

30 May 2018
The Monetary Policy Committee unanimously decided to leave the Key Repo Rate unchanged at 3.50 per cent per annum.

06 June 2018
The Bank published the Revised E-Bond Trading Rules.

19 June 2018
The Bank issued the Banking (Processing and Licence Fees) (Amendment) Regulations 2018.

19 June 2018
The Bank issued the Guideline on the issue of Commercial Papers.

20 June 2018
The Bank published the Information Note on the Balance of Payments Statistics as per BPM6 Statistical Framework.

22 June 2018
The Bank of Mauritius 4.25% Golden Jubilee Bonds were listed on the Official Market of the Stock Exchange of Mauritius.

About Bank of Mauritius

THE YEAR AT A GLANCE

While accomplishing various duties and holding a strategic role in the Mauritian economy, the Bank employs highly-qualified staff members of different professions. As at 30 June 2018, the workforce of the Bank stood at **295** members, of which **251** staff members were on permanent and pensionable establishment and **8** were on contractual basis.

The number of Regulatory Guidelines issued by the Bank presently stands at **39** and under Section 100 of the Banking Act 2004, shall apply to financial institutions falling under the purview of the Bank.

Coinciding with the 50th Anniversary of the Independence of our country, the Museum of the Bank was inaugurated and was also a landmark event to commemorate the Golden Jubilee of the Bank of Mauritius.

The Open Day was organised by the Bank on 3 and 4 March 2018 for the public to better understand the role of the Bank as a key player in the economic life of our country met with resounding success, welcoming around 3,000 visitors.

Lectures and Financial Outreach

During March 2018, the Bank hosted a series of lectures that targeted University students. These lectures on banking, finance and economics were facilitated by Senior Officers from the Bank and leading professionals from key business sectors.

The Bank organised a Family Open Day in May 2018 whereby staff members and their families had access to the Museum, the Auditorium and the Roof-top garden.

11TH EDITION OF THE ANNUAL INTER-CLUB ATHLETICS NATIONAL YOUTH CHAMPIONSHIP

Camp du Roi, Rodrigues
28 October 2017

Réduit, Mauritius
25 and 26 November 2017

SEASON'S DECORATION & CHRISTMAS 2017 AT THE BANK

OPEN DAY

Open Day
03 - 04 March 2018

FAMILY DAY

13 May 2018

HUMAN RESOURCES

The Bank employed a workforce of 295 members as at 30 June 2018, of which 251 staff members were on permanent and pensionable establishment and eight were on contractual basis. The staff turnover rate stood at around 5.5 per cent during FY2017-18

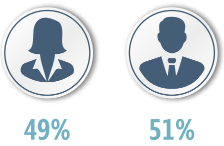
NUMBER OF EMPLOYEES

FY2016-17: 251

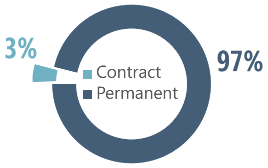
STAFF TURNOVER

FY2016-17: 5.6%

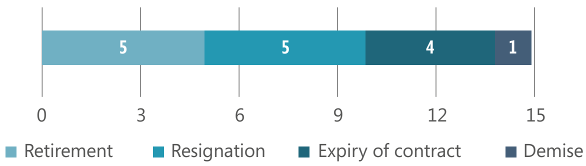
OUR STAFF ARE



EMPLOYMENT TYPE



14 employees left the Bank either on ground of retirement, resignation or upon expiry of contract or demise. One employee passed away during the year.

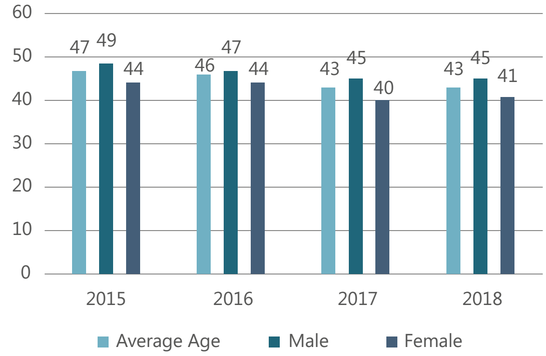


Evolution of Workforce

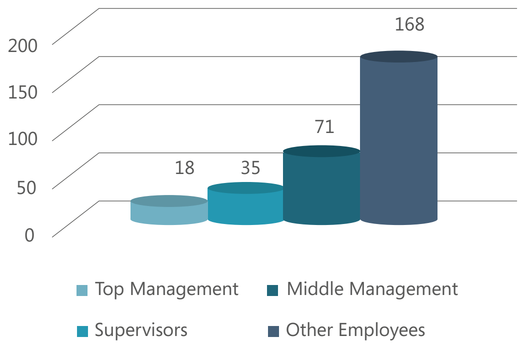
During FY2017-18, the Bank stepped into its rejuvenation stage with a shift in the average age to 43 years, from 47 years in FY2014-15.

A significant milestone was the appointment of 58 new recruits in leadership, professional and operational roles including the promotion of two staff members.

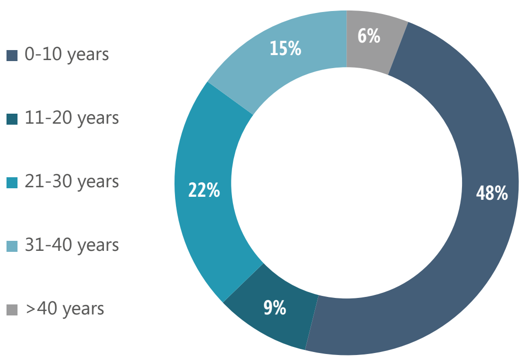
AVERAGE AGE TRENDS



WORKFORCE COMPOSITION BY ROLE



YEARS OF SERVICE



About Bank of Mauritius

Organisational Structure

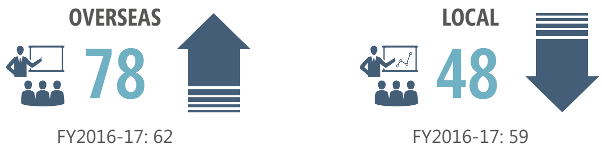
Following the change in the Bank's leadership in January 2018, the organisational structure is being reviewed for a more efficient allocation of responsibilities, and in response to new demands made on the Bank by the operating and regulatory environment.

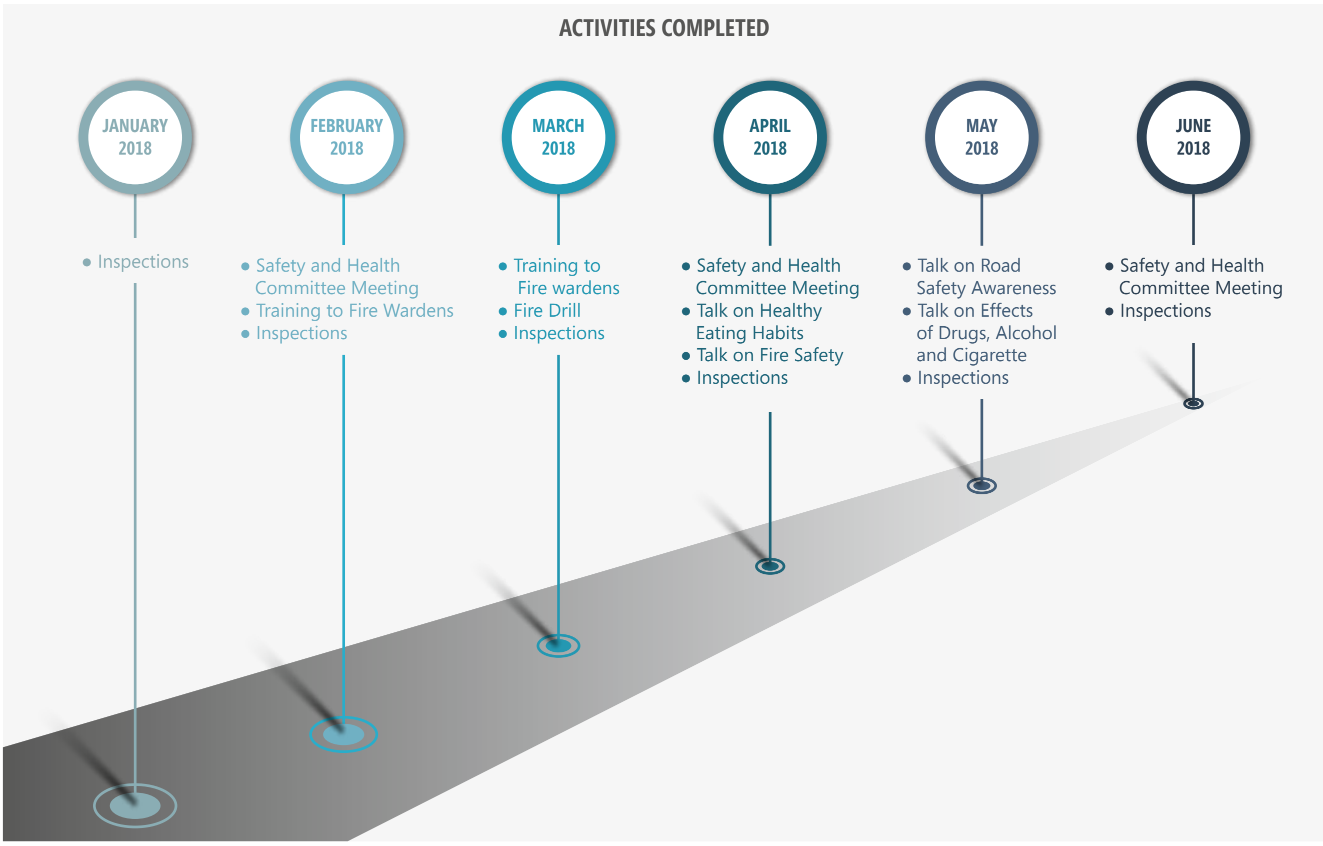
Salary Review

Considerable effort is made to provide employees with an optimum work environment, distinctive development opportunities and a competitive compensation. In a bid to ensure that the remuneration package of all employees remains attractive, the Bank implemented in July 2017, a new salary structure effective from 01 January 2017.

Training and Development

As an enabler of top performance, the Bank actively encourages its employees to refine their skills and contribute to the success of the Bank`s operations. In this perspective, the Bank continues to invest significantly in training and development, reaching 43 per cent of the workforce.





Safety and Health

The Bank is committed to providing a safe and healthy working environment for its staff. In January 2018, the Bank appointed a full-time Safety and Health Officer.

Review of Policies

The Bank's approach to governance is underpinned by its adherence to advocated norms, inherent values, culture, rules and regulations.

In this respect, HR Section has initiated a collation and review of the Bank`s Policies to ensure that staff members are conversant with all the policies and procedures at the Bank.

Code of Ethics and Code of Conduct

The Bank requires that all employees observe the highest standards of professional conduct. To this end, the Code of Conduct Committee under the chairmanship of the Governor, is currently finalising the drafting of the Bank`s Code of Conduct. The proposed Code of Conduct will go through an extensive review process before submission to the Board for approval.

The Code will serve as a guide for all employees on the standards of conduct expected of them by the Bank.

IT SUPPPORT AND FACILITIES

SWIFT System

The Bank has upgraded its SWIFT system to 7.2.50 and is working towards compliance to the SWIFT Customer Security Programme (CSP) which will be achieved by November 2018. The new SWIFT version is also compliant with SWIFT Messaging Standard 2018 and a sector-wise test involving banks will be carried out prior to rol-over in November 2018. The Bank is also closely monitoring the status of compliance of regulated banks to the SWIFT CSP.

SADC Business Continuity Management (BCM)

SADC Central Banks have adopted the ISO 22301 standard for Business Continuity Management. As member of the SADC Committee of Central Bank Governors (CCBG), the Bank has initiated the implementation of the BCM standard so as to be in line with its SADC peers. The project will span over two years. In that connection, a team comprising of staff members from various departments of the Bank, has been constituted. They have been trained and certified as Lead Implementers and Auditors of the ISO 22301 standard.

Rodrigues Office

Since December 2017 the Bank is linked to its Rodrigues office via an enhanced communication line of greater bandwidth.

Miscellaneous Projects

The Bank has completed several key projects during the year. Some of the projects are:

1. Revamping of the Bank's Intranet which has been renamed as "We-Net" [July 2017 to September 2017]

2. Upgrading of firewalls at the Bank's Disaster Recovery Site [December 2017].

3. Installation of Data network (inclusive of WIFI) in Refurbished Old Bank of Mauritius Building [September 2017 to December 2017].

4. Installation of Board Room Conferencing Technologies on Level 20 and the Refurbished Old Bank of Mauritius Building [works were completed in December 2017].

2 Review of the Economy

In FY2017-18, the domestic economy remained on a steady growth trajectory, demonstrating resilience in the face of uncertainties amidst both domestic and external challenges. Output growth firmed and became broader based. On the demand side, growth impetus derived support from stable performance of both public and private consumption expenditure and public investment. The unemployment rate dropped to its lowest level in over 10 years. Inflationary pressures, while subject to the vagaries of food prices on account of supply disturbances emanating from adverse climatic conditions, have remained broadly contained. The Bank's monetary policy measures continued to support money and credit dynamics and played a key role in supporting both household consumption and corporate investment by ensuring low interest rates and a continuation of favourable financing conditions. The exchange rate of the rupee was broadly stable. Point-to-point, between end-June 2017 and end-June 2018, the rupee depreciated against the US dollar, euro and Pound sterling by 0.2 per cent, 1.5 per cent and 0.6 per cent, respectively, on a weighted average dealt basis. In nominal effective terms, as gauged by MERI1 and MERI2, the rupee depreciated marginally by 0.1 per cent and 0.2 per cent, respectively. In real effective terms, based on trade weights, the rupee was equally stable.

Economic expansion gathered pace as a positive contribution from consumption and investment expenditure added to the strength of domestic demand. Private consumption was underpinned by increasing household income, rising employment, and the implementation of two landmark measures of negative income tax and minimum wage. At the same time, government consumption expenditure rose further, thus contributing positively to economic growth. Business investment was rather subdued despite the improvement in business confidence and improvements in corporate profitability. Construction investment, after having clearly bottomed out in 2014, kept strengthening. In addition, government investment accelerated with the implementation of major infrastructural projects targeting the improvement of road network and the Metro Express project.

Household consumption spending strengthened further in 2017, with an annual growth rate of around 3.2 per cent, backed by the rise in nominal income growth, which reflected both the increase in the number of employed people and higher wages. At the same time, growth of real disposable income was somewhat higher than in the previous year. The ratio of household sector debt to GDP was rather flat and housing investment remained buoyant, with the pick-up in bank credit for housing purposes. Construction investment also continued to improve, reaching double-digit levels, which augurs favourably for economic development. The growing demand for household credit was backed by real income growth and improving consumer confidence, as well as favourable mortgage rates.

Exports of goods remained an area of concern, as the value of exports fell further. This adverse performance coupled with rising value of imports subject to higher global commodity prices and imports destined for the implementation of major infrastructural projects worsened the goods account deficit to 20.0 per cent of GDP in FY2017-18, from 18.4 per cent in FY2016-17. However, better performances of the services and income accounts provided some cushion, thereby limiting the impact on the current account deficit, which has been estimated at around 5.1 per cent of GDP in FY2017-18, same as for FY2016-17. Financial flows have been more than adequate to finance the current account deficit, with gross direct investment inflows estimated at around Rs13.4 billion. Gross official international reserves rose to Rs230.5 billion or US$6,668 million at the end of June 2018, sufficient to finance about 11 months of imports of goods and services.

Labour market dynamics improved further in the year ended June 2018. The unemployment rate dropped to 7.0 per cent in 2018Q2, from 7.1 per cent in 2018Q1. Employment growth has been quite broad-based, across sectors. The rising unit labour costs, however, provide some concerns as they would dent competitiveness of the economy unless accompanied by improvements in productivity. Annual productivity growth was 2.4 per cent in 2017 compared to 3.4 per cent in 2016. The unemployment rate continued to decline and would stand at 6.9 per cent in 2018, which was the lowest rate recorded since 2001.

Average headline inflation in FY2017-18 was mainly influenced by domestic supply shocks. The rise in CPI during the year under review resulted mainly from adverse local climatic conditions which affected food prices. Higher oil prices and base effects associated with developments one year earlier pushed up headline inflation to a six-year high of 5.0 per cent in March 2018. Thereafter, benefitting from favourable base effects and the normalisation of food products' prices, headline inflation dropped to 4.3 per cent in June 2018. Conditional on the absence of supply shocks, headline inflation is expected to average around 3.0 per cent at the end of June 2019. Looking through the impacts of the typically more volatile components, CORE2 inflation, which also exclude energy and administered goods continued to hover around the subdued rates observed since January 2016. Domestic cost pressures as measured by the GDP deflator picked up somewhat, but overall remained subdued in 2017.

The budget deficit for FY2017-18 stood at 3.2 per cent of GDP, an improvement from 3.5 per cent in FY2016-17 and was financed exclusively from domestic sources. Several key measures were announced by the Government in its 2018-19 Budget to support domestic economic activity. Public sector debt as a ratio to GDP fell from 64.8 per cent of GDP as at end-June 2017 to 63.0 per cent of GDP as at end-June 2018. The improving primary budget balance, favourable economic growth and low interest rates led to a further reduction of budgetary central government debt-to-GDP ratio, from 59.3 per cent at the end of June 2017 to 56.8 per cent in FY2017-18.

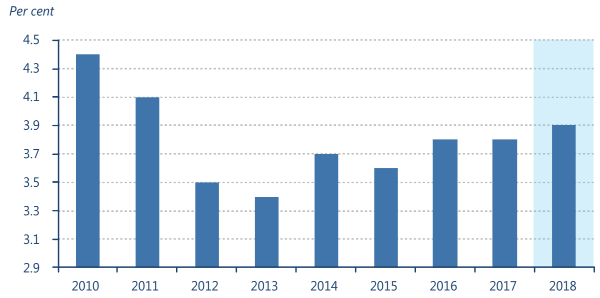
In FY2017-18, broad money growth remained robust, benefitting from increases in all of its components, albeit the most liquid ones. Year-on-year, BML growth stood at 9.4 per cent, compared to 8.0 per cent in FY2016-17. The annual growth rate of total credit to the private sector also strengthened during FY2017-18 and was driven in particular by loans and investment in shares and debentures. Loans for housing purposes remained by far the most significant contributor to overall household loan growth. Though household debt from banks rose during FY2017-18, it was matched with higher household disposable income. Debt service cost of households fell amid lower interest rates on housing and consumption credit following the cut in the Key Repo Rate in September 2017.

Though the global economy grew at a steady pace in FY2017-18, there are signs that the momentum could slow on account of a variety of factors that weigh on confidence and growth. Rising risks and uncertainties would pertain to increasing protectionism, vulnerabilities in emerging markets and financial market volatility. Market uncertainty could also intensify amid ongoing Brexit negotiations and geopolitical risks with tensions in several parts of the world. Already, there are various calls that global growth has plateaued in 2018. In its July 2018 World Economic Outlook (WEO) Update, the IMF has already indicated that world growth was turning less even and asynchronous and that the balance of risks has tilted to the downside. Global trade growth has slowed and fears over future trading relations have gone up. Oil prices have been volatile in recent weeks and their future trajectory quite unpredictable. All these would point towards an uncertain global economic and financial environment.

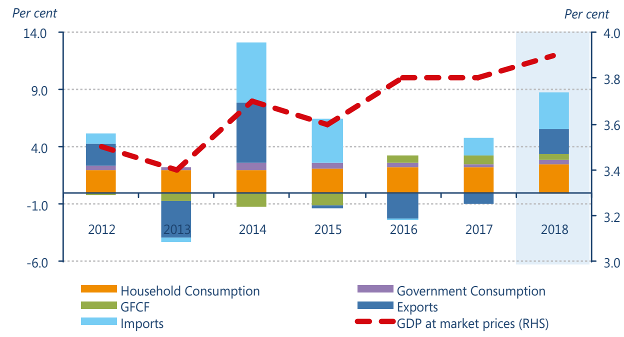
Ongoing and steady macroeconomic and financial system stability arising from policy coordination by the Bank and Government has backed the growth momentum in Mauritius. Looking ahead, the economy is expected to remain poised for continued economic gains.

Domestic Economic Performance

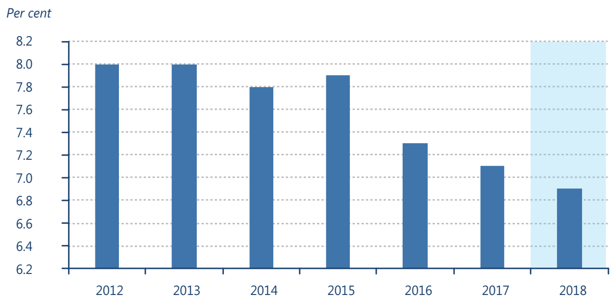
Real GDP Growth at Market Prices



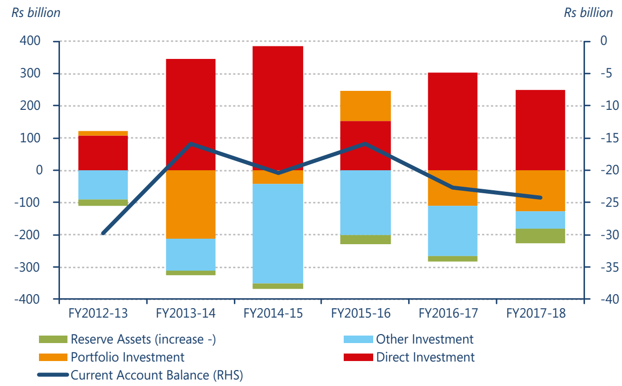
Expenditure on GDP



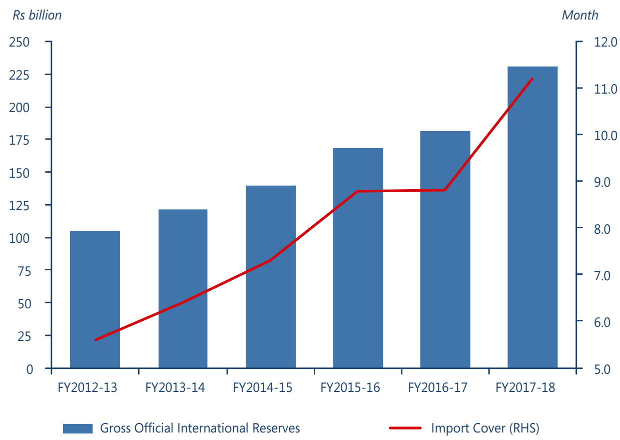
Unemployment Rate



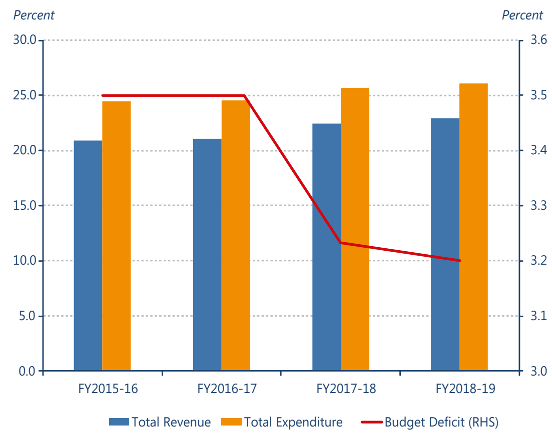
Financing of the Current Account Deficit



Foreign Exchange Reserves



Budget Deficit as Ratio to GDP

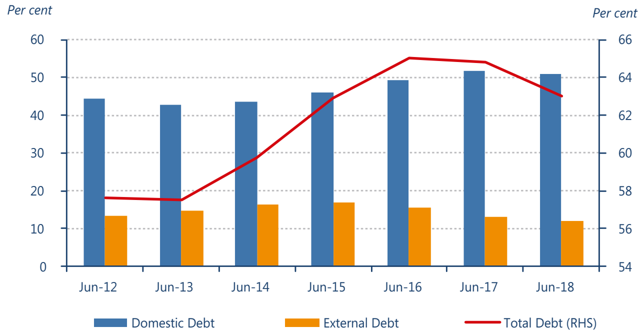


Sources: Statistics Mauritius, MoFED and Bank of Mauritius.

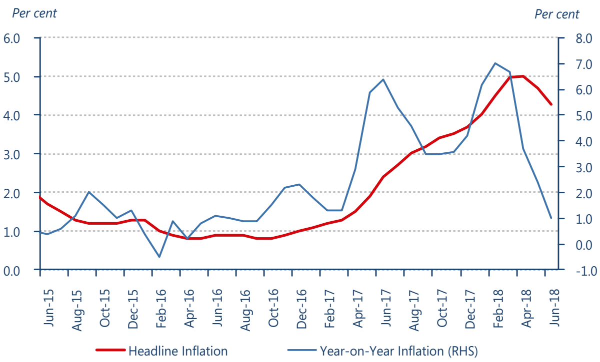
Review of the Economy

Domestic Economic Performance

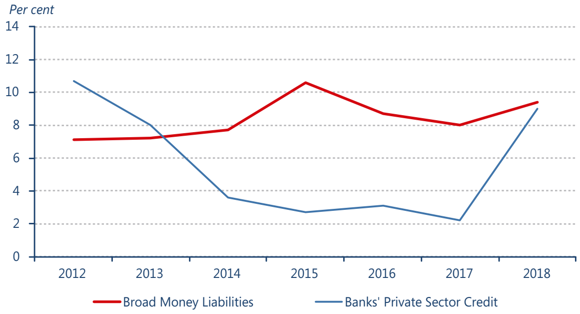
Public Sector Debt as a Percentage of GDP



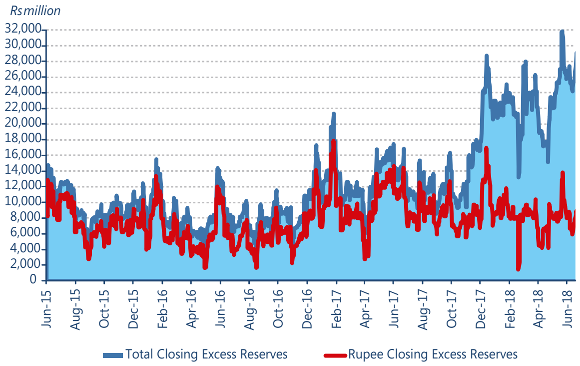
Headline and Year-on-year Inflation



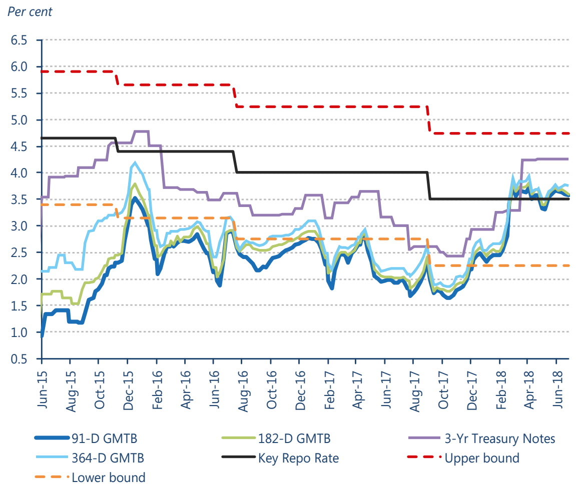
Annual Growth Rates of BML and Banks' Private Sector Credit (Year ended June)



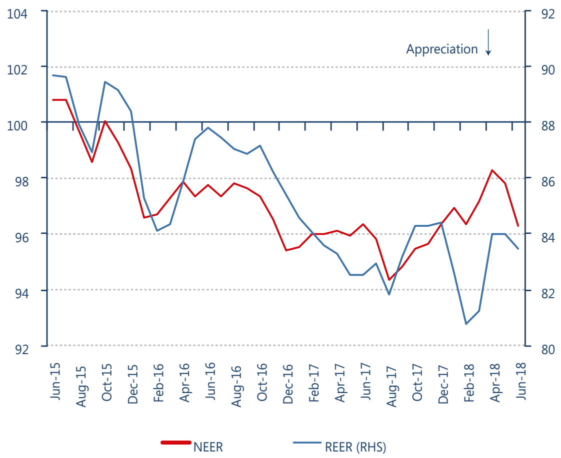
Excess Reserves



Key Repo Rate and Weighted Average Yields on Treasury Bills and 3-year Treasury Notes



Nominal and Real Effective Exchange Rate of the Rupee



Sources: Statistics Mauritius, MoFED and Bank of Mauritius.

Table 2.1: Mauritius - Selected Economic Indicators

	2013	2014	2015	2016	2017*	2018**
Real GDP at basic prices (Y-o-y, per cent)	3.4	3.6	3.1	3.6	3.6	3.7
Real GDP at market prices (Y-o-y, per cent)	3.4	3.7	3.6	3.8	3.8	3.9
Nominal GDP (Y-o-y, per cent)	6.2	5.3	4.5	6.1	5.2	6.1
Per capita GDP (Rs)	295,591	310,862	324,570	344,029	361,649	383,631
Consumer price index (end of period)	92.9	93.1	94.3	96.5	100.6	102.8 [1]
Consumer price index (average)	91.4	94.3	95.5	96.5	100.0	104.1 [2]
Average annual inflation (per cent)	3.5	3.2	1.3	1.0	3.7	3.5
Exchange rate (end of period, Rs/US$)	30.6	32.1	36.5	36.8	34.3	35.2 [1]
Exchange rate (average, Rs/US$)	31.1	31.1	35.7	36.3	35.3	34.3 [2]
Nominal depreciation (-) (average, per cent)	1.6	0.0	-12.9	-1.7	2.9	2.5 [2]
REER (end of period)	117.7	117.8	126.7	124.4	120.3	120.2 [1]
REER (depreciation (-), end of period, per cent)	3.8	-0.1	-7.0	1.8	3.4	-1.3
91-Day Treasury Bill yield (end of period, per cent)	3.3	2.2	3.3	2.7	2.4	3.6 [1]
91-Day Treasury Bill yield (average, per cent)	2.6	2.2	1.9	2.5	2.1	3.3 [2]
Unemployment rate (per cent)	8.0	7.8	7.9	7.3	7.1	6.9
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18***
Budgetary revenue	21.2	21.0	20.5	20.9	21.1	22.4
of which: Tax revenue	18.2	18.8	18.4	18.5	18.8	19.3
Budgetary expenditure	23.2	24.5	24.2	24.4	24.6	25.7
of which: Wages and salaries	5.6	6.2	6.1	6.2	6.3	6.2
Interest payments	2.7	2.6	2.5	2.4	2.4	2.4
Budget balance	-2.0	-3.5	-3.7	-3.5	-3.5	-3.2
of which: Central Government primary balance	0.7	-0.9	-1.2	-1.1	-1.1	-0.8
	Jun-13	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18***
Total Budgetary Central Government debt	51.6	54.4	56.6	59.5	59.3	56.8
of which: Domestic	39.8	41.0	42.9	46.9	49.0	47.4
External	11.8	13.4	13.7	12.7	10.3	9.4
Total public sector debt	57.5	59.8	62.9	65.0	64.8	63.0
of which: Domestic	42.7	43.5	46.0	49.4	51.6	51.0
External	14.9	16.3	16.8	15.6	13.2	12.0
	2013	**2014**	**2015**	**2016**	**2017***	**2018****
Trade balance	-18.7	-17.7	-16.0	-16.6	-19.8	-20.0
Current account balance	-6.2	-5.4	-3.6	-4.0	-5.7	-5.5
of which: Exports of goods, f.o.b	23.6	24.2	22.8	19.4	17.8	17.3
Exports of services	22.9	22.7	23.4	23.1	23.0	22.2
Imports of goods, f.o.b	-42.3	-41.9	-38.7	-36.0	-37.6	-37.3
Imports of services	-18.2	-16.6	-17.5	-16.8	-16.6	-15.4
Overall balance of payments (Rs million)	16,580	23,019	19,960	26,227	28,316	26,325
Gross Official International Reserves (Rs million)	105,009	124,344	152,902	178,858	200,368	226,693
	2013	**2014**	**2015**	**2016**	**2017**	**2018****
Net foreign assets	-1.3	15.5	15.6	3.8	3.2	6.7
Net domestic assets	14.6	-0.3	6.7	3.5	16.5	-6.1
*of which: Claims on other sectors^*	13.5	-2.8	8.1	1.0	15.0	-9.7
Net Claims on Central Government	29.9	28.8	-6.2	29.1	28.5	19.6
Broad money	5.8	8.7	10.2	9.1	9.3	8.7
Private sector credit	5.9	1.3	4.2	-0.2	8.0	8.8
Income velocity of money	1.0	1.0	0.9	0.9	0.9	0.9
Money multiplier	5.9	5.9	6.0	5.8	5.1	4.9

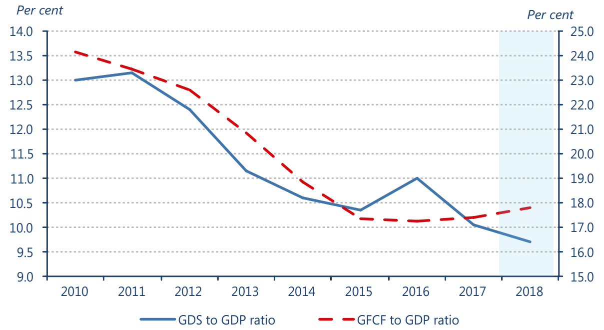
*Note: *: Estimate. **: Forecast. Y-o-y: Year-on-year. [1] Data for June 2018. [2] Average for January to June 2018.*
^Effective May 2018, Financial Derivatives are recorded at market or fair values and are not strictly comparable with prior months' data.
Sources: Statistics Mauritius, MoFED and Bank of Mauritius.

Review of the Economy

National Income and Production[1]

The domestic economy maintained its growth momentum in 2017 as Gross Value Added (GVA) grew by 3.6 per cent, same as in 2016. Quarterly data showed that the economy expanded by 3.4 per cent year-on-year in 2017Q3 and 3.3 per cent in 2017Q4, before picking up to 3.7 per cent in 2018Q1. In 2018Q2, however, the economy grew at 3.4 per cent. Domestic demand was the major driver for output growth in 2017, while the contribution by net external demand was negative on account of subdued performance of exports of goods. On the supply side, growth was supported by continued buoyancy of the services sector and a rebound in the construction sector. In nominal terms, GDP at market prices increased by 5.2 per cent to Rs457,445 million in 2017 while per capita Gross National Income (GNI) at market prices rose by 7.1 per cent to Rs366,344.

Chart 2.1 Ratios of GDS and GFCF to GDP at Market Prices

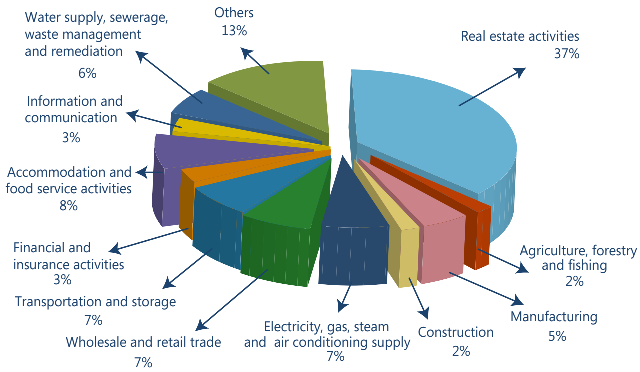


Source: Statistics Mauritius.

Expenditure

Both consumption and investment expenditure supported growth performance in 2017 while net external trade was a drag. Aggregate final consumption expenditure, comprising both household and government spending, accounted for nearly 90 per cent of GDP at market prices. Improving employment and income conditions continued to back household consumption. The full-year growth in household consumption inched up to 3.2 per cent in 2017, from 3.0 per cent in 2016. Government consumption, however, registered a lower growth of 1.6 per cent in 2017 compared to 2.9 per cent in 2016. Growth of final consumption expenditure is projected at 3.4 per cent in 2018, a marked improvement over the 2.9 per cent rise noted in 2017 and well-supported by the general government sub-sector. Household consumption expenditure would be higher at 3.3 per cent.

Chart 2.2 GFCF at Current Prices by Industrial Use, Share, Per cent, 2017

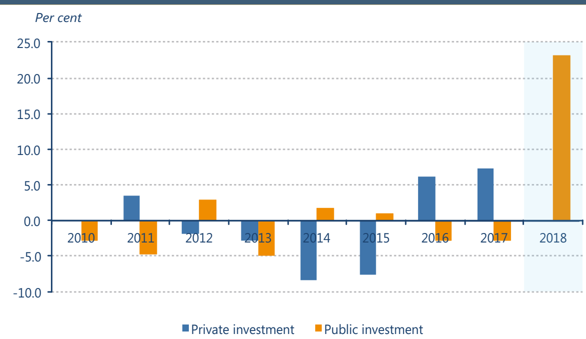


Source: Statistics Mauritius.

Gross National Savings (GNS), which is that part of Gross National Disposable Income that is not spent on consumption, increased by 9.0 per cent, from Rs48,764 million in 2016 to Rs53,146 million in 2017, compared to a growth of 15.6 per cent in 2016. The ratio of GDS to GDP at market prices decreased from 11.0 per cent in 2016 to 10.0 per cent in 2017 (Chart 2.1).

Overall investment spending increased in 2017, supported by higher private investment (Chart 2.3). Gross fixed capital formation (GFCF) expanded at a commendable pace of 4.7 per cent in 2017, up from 3.7 per cent in 2016. Exclusive of the purchase of aircraft and marine vessel, growth in GFCF accelerated from 1.6 per cent in 2016 to 5.6 per cent in 2017. In

Chart 2.3 Growth Rates of Public and Private Investment: 2010 – 2018



Source: Statistics Mauritius.

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

Table 2.2: Aggregate Demand and Savings-Investment Gap at Current Market Prices									
	Value (Rs million)			Growth Rate (Per cent)			As a Percentage of GDP		
	2016	2017[1]	2018[2]	2016	2017[1]	2018[2]	2016	2017[1]	2018[2]
1. Domestic Demand	461,946	490,975	524,822	5.3	6.3	6.9	106.3	107.3	108.1
1.1 Final Consumption Expenditure	386,956	411,476	438,400	5.3	6.3	6.5	89.0	90.0	90.3
Households	319,809	342,146	365,354	4.4	7.0	6.8	73.6	74.8	75.3
General Government	67,147	69,329	73,046	9.7	3.2	5.4	15.4	15.2	15.0
1.2 Investment (Gross Fixed Capital Formation)	74,990	79,499	86,422	5.4	6.0	8.7	17.2	17.4	17.8
Private Sector	55,797	60,624	62,458	7.9	8.7	3.0	12.8	13.3	12.9
Public Sector	19,193	18,875	23,964	-1.2	-1.7	27.0	4.4	4.1	4.9
2. Net External Demand	(40,269)	(59,455)	(60,734)	-2.2	47.6	2.2	-9.3	-13.0	-12.5
Exports of Goods and Services	193,835	193,500	200,521	-3.1	-0.2	3.6	44.6	42.3	41.3
Imports of Goods and Services	234,104	252,955	261,255	-2.9	8.1	3.3	53.8	55.3	53.8
3. Total Demand (Gross Domestic Product)	434,765	457,445	485,515	6.1	5.2	6.1	100.0	100.0	100.0
4. Domestic Savings (3-1.1)	47,809	45,969	47,115	12.6	-3.8	2.5	11.0	10.0	9.7
Private	58,137	46,971	52,322	23.2	-19.2	11.4	13.4	10.3	10.8
Public	(10,328)	(1,002)	(5,207)	118.7	-90.3	419.6	-2.4	-0.2	-1.1
5. Net Primary Income from Rest of the World	30,219	38,351	45,568	5.6	26.9	18.8	7.0	8.4	9.4
6. Net Current Transfers from Rest of the World	(8,243)	(8,891)	(12,497)	4.1	7.9	40.6	-1.9	-1.9	-2.6
7. National Savings (4+5+6)	69,785	75,429	80,185	10.4	8.1	6.3	16.1	16.5	16.5
8. Savings-Investment Gap									
Domestic Savings-Investment (4-1.2)	(27,181)	(33,530)	(39,307)	-5.2	23.4	17.2	-6.3	-7.3	-8.1
National Savings-Investment (7-1.2)	(5,205)	(4,070)	(6,237)	-34.7	-21.8	53.2	-1.2	-0.9	-1.3

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

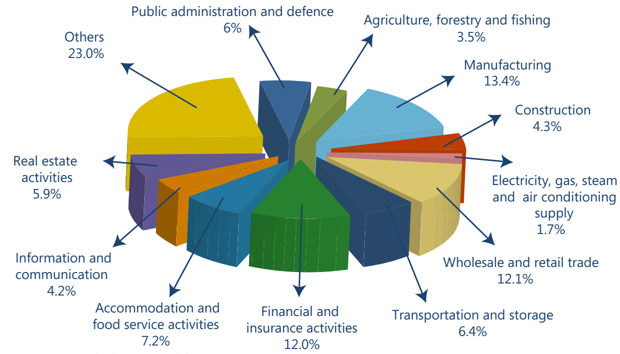
contrast, public sector investment contracted by 2.9 per cent in 2017, reflecting delays in the implementation of large-scale infrastructure projects. By type of investment, spending on 'building and construction work' grew by 6.8 per cent in 2017, led mostly by a 28 per cent growth in 'non-residential building'. Investment in 'machinery and equipment' rose by 1.3 per cent largely reflecting higher demand for passenger cars. GFCF is projected to record a higher growth of 5.5 per cent in 2018 mainly on account of higher public sector investment.

Net external demand remained weak in 2017, with net exports remaining a drag to real GDP growth (Table 2.2). In particular, exports of goods and services continued to decline, contracting by 2.0 per cent in 2017. Exports of goods fell for the third consecutive year and contracted by 4.4 per cent, while exports of services turned negative following a growth of 0.6 per cent in 2016. Amid a perceptible improvement in domestic demand, imports of goods and services increased by 2.8 per cent in 2017, recovering from a contraction of 0.1 per cent in 2016.

Production

The economic transformation of Mauritius continued further as the country matures into a sevices-oriented economy and sectoral contribution becomes more broad-based (Chart 2.4). The tertiary sector accounted for nearly 76 per cent of gross value added (GVA) in 2017, up from about 71 per cent in 2010, while the secondary sector dropped from 24.8 per cent of GVA to 20.4 per cent in 2017 over the same period. The share of the primary sector receded from 4.5 per cent to 3.7 per cent. Services currently dominate our economy, and are likely to become even more important in the future. The shift to knowledge-based activities warrants greater flexibility, both in terms of the ability of workers to adapt to new tasks, and the capacity to acquire new and/or updated skills. In this context, the first pathway of Government's transformative journey to a high income economy as elaborated in its 2018/19 Budget focuses on the youth and their future by targeting a comprehensive approach to equip them with the right set of skills and values to integrate the labour market.

Chart 2.4 Sectoral Distribution of GDP at Basic Prices, Per Cent, 2017



Source: Statistics Mauritius.

Table 2.3: Selected Indicators by Industry Group

Sectors	Gross Value Added (Rs million)			Real Growth Rate (Per cent)			As a Percentage of GDP		
	2016	2017[1]	2018[2]	2016	2017[1]	2018[2]	2016	2017[1]	2018[2]
Agriculture, forestry and fishing	13,860	14,154	13,440	3.7	-0.2	-0.8	3.6	3.5	3.2
Mining and quarrying	908	960	1,013	1.0	1.6	1.5	0.2	0.2	0.2
Manufacturing	53,906	54,201	55,926	0.3	1.5	0.9	14.0	13.4	13.1
Electricity, gas, steam and air conditioning supply	8,427	6,778	8,490	4.2	3.3	3.4	2.2	1.7	2.0
Water supply; sewerage, waste management and remediation activities	1,490	1,550	1,653	2.0	2.7	3.7	0.4	0.4	0.4
Construction	16,027	17,377	19,625	0.0	7.5	9.5	4.2	4.3	4.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	45,914	48,990	52,386	3.0	3.1	3.8	11.9	12.1	12.3
Transportation and storage	24,332	25,879	27,354	3.9	3.7	3.5	6.3	6.4	6.4
Accommodation and food service activities	26,727	28,864	30,700	9.2	4.6	3.6	6.9	7.2	7.2
Information and communication	16,387	16,989	17,857	5.9	5.5	5.6	4.2	4.2	4.2
Financial and insurance activities	46,614	48,260	49,243	5.7	5.5	5.5	12.1	12.0	11.6
Real estate activities	22,813	23,896	25,001	4.1	3.4	3.6	5.9	5.9	5.9
Professional, scientific and technical activities	17,917	19,570	21,279	5.7	5.3	5.1	4.6	4.9	5.0
Administrative and support service activities	11,118	12,205	13,342	5.9	5.8	5.7	2.9	3.0	3.1
Public administration and defence; compulsory social security	24,878	25,373	26,271	2.7	0.6	1.7	6.4	6.3	6.2
Education	18,944	19,703	20,708	0.8	1.8	2.6	4.9	4.9	4.9
Human health and social work activities	16,501	17,782	19,013	2.2	4.5	4.5	4.3	4.4	4.5
Arts, entertainment and recreation	13,161	14,301	15,536	4.7	4.7	5.1	3.4	3.5	3.6
Other service activities	5,979	6,409	6,881	3.1	3.1	3.5	1.5	1.6	1.6

[1] *Revised.*
[2] *Forecast.*

Source: Statistics Mauritius.

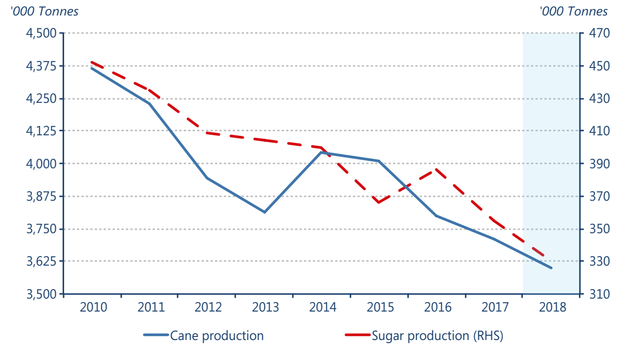
In 2017, reflecting adverse climatic conditions affecting sugar production, the share of *'agriculture'* and *'manufacturing'* declined in GVA. In contrast, *'construction'*, *'wholesale and retail trade'*, and *'accommodation and food service activities'* recorded a higher share in GDP relative to a year ago.

In real terms, the agricultural sector contracted by 0.2 per cent in 2017, after growing by 3.7 per cent in 2016, reflecting the withering of the *'sugarcane'* sub-sector (Chart 2.5). The contribution of *'agriculture'* to GDP growth was flat in 2017, after contributing 0.1 percentage point to GVA growth in 2016. Sugarcane production fell from 386,277 tonnes in 2016 to 355,213 tonnes in 2017 and the area under sugarcane cultivation dropped below 50,000 hectares in 2017, reflecting a combination of factors including higher cost of production amidst falling sugar prices on the world market. According to the World Bank, the average world sugar price is projected to drop below US$0.30/kg in 2018, from US$0.36/kg in 2017. The sugar sector would remain under duress as sugar production is expected to moderate further to 330,000 tonnes in 2018. Higher production from countries like India, Pakistan, Thailand, China and Russia would weigh on world prices.

The performance of the fishing industry remained strong, with fish production hitting a historic-high of 22,732 tonnes in 2017. The share of *'fish and fish preparations'* exports in total domestic exports also increased from 18.0 per cent in 2016 to 20.0 per cent in 2017 (Chart 2.6). The sector is expected to expand further following budgetary measures destined to maximise opportunities from the ocean economy and the recognition of the ocean economy as a new pillar for growth. The ocean economy, besides fisheries and aquaculture, presents numerous avenues to supplement the growth momentum, such as the development of the port, marine energy and marine information and communications technology.

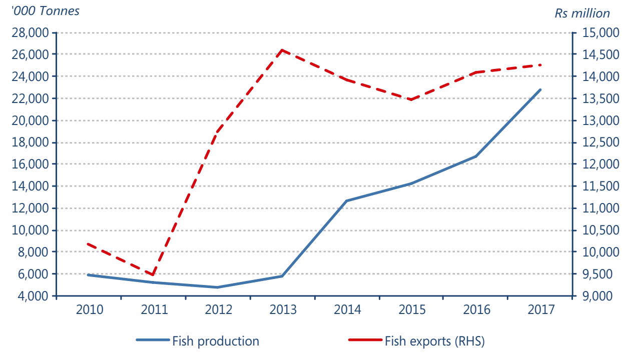
The *'manufacturing'* sector performed better in 2017, growing at 1.5 per cent compared to 0.3 per cent in 2016 and added 0.2 percentage point to the overall economic growth rate in 2017 (Chart 2.7). The performance of the manufacturing sector in 2017 was supported by positive growth in the *'sugar milling'*, *'food processing'* and *'other manufacturing'* sub-sectors. However, the *'textile'* sub-sector contracted for the third consecutive year, partly reflecting delocalisation of production units abroad amid loss of competitiveness. Apparel exports fell by 10.8 per cent in 2017 compared to 2016. Textile firms continue to rely on foreign labour, following an easing of recruitment procedures for foreigners. To

Chart 2.5 Cane and Sugar Production



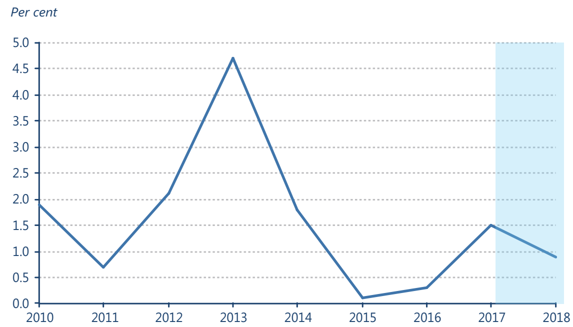
Source: Statistics Mauritius.

Chart 2.6 Fish Production and Exports



Source: Statistics Mauritius.

Chart 2.7 Real Growth Rate of the Manufacturing Sector



Source: Statistics Mauritius.

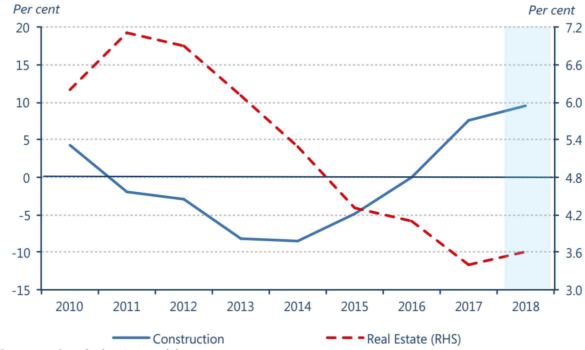
support the sub-sector, Government implemented a number of measures, including the Speed-to-Market Scheme which reimburses 40 per cent of air freight costs incurred for exports towards Europe and the Exchange Rate Support Scheme which covers the shortfall in revenue up to a certain limit. These measures are rather short-term in nature. However, the issues faced by the sector are quite structural and would require a revisit in terms of investment in Research and Development or new products to enhance competitiveness.

The construction sector recovered during the second half of 2016 and surged further in 2017, growing at 7.5 per cent, mainly on the back of renovation projects undertaken by large hotel groups (Chart 2.8). The construction sector added 0.3 percentage point to growth in 2017 following zero contribution in 2016. *'Construction'* is expected to be one of the key drivers of domestic economic activity in 2018, benfitting from major infrastructural projects such as the Metro Express and the Cote D'Or sports complex being built to host the 2019 Indian Ocean Games. The *'real estate'* sector slowed somewhat to 3.4 per cent in 2017, from 4.1 per cent in 2016. However, with the unfolding of Smart City Projects, such as the JinFei Economic Trade and Cooperation Zone as well as the Moka, Cap Tamarin, Beau Plan and Medine Smart Cities, real estate sector growth would regain momentum and thrive forward.

According to the World Tourism Barometer, travel sentiment in 2017 was generally upbeat, with strong tourism demand from both advanced and emerging economies. In 2017, 1,341,860 tourists visited Mauritius compared to 1,275,227 in 2016, increasing by 5.2 per cent, mainly as a result of enhanced connectivity and a global economic upswing. Arrivals from key markets such as France, UK, Germany and South Africa supported the growth momentum in 2017 and dampened the contraction from markets such as Reunion Island and China. Growth in the *'accommodation and food service activities'* sector moderated to 4.6 per cent in 2017, from 9.2 per cent in 2016 mostly due to base effects (Chart 2.9). The sector had a contribution of 0.3 percentage point to overall GDP growth in 2017. Gross tourism receipts for the year were Rs60.2 billion, increasing by 7.9 per cent from Rs55.9 billion in 2016 (Chart 2.10).

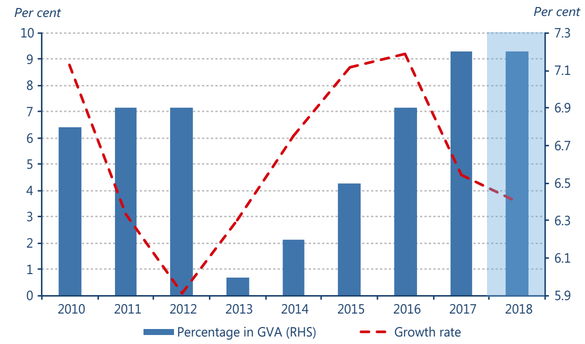
In the first semester of 2018, 646,865 tourists visited Mauritius, higher by 3.4 per cent compared to the corresponding period of 2016 while gross tourism receipts increased by 14.1 per cent to Rs33.4 billion. The traditional markets continued to support growth in arrivals in the first semester of 2018. For 2018, the sector is projected to grow by 3.6 per cent, amidst

Chart 2.8 Real Growth Rate of Construction and Real Estate Activities



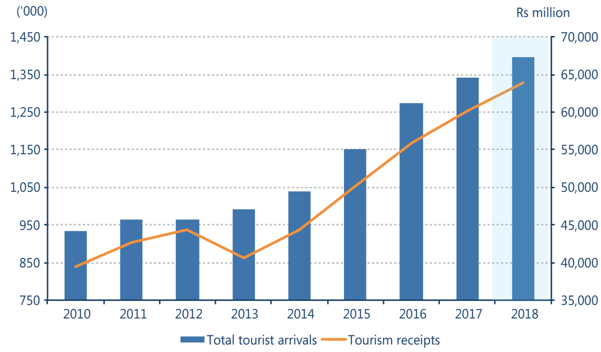
Source: Statistics Mauritius.

Chart 2.9 Accommodation and Food Services



Source: Statistics Mauritius.

Chart 2.10 Tourist Arrivals and Tourism Receipts



Sources: Statistics Mauritius and Bank of Mauritius.

the introduction of new flight detsinations and the planned acquisition of airplanes aimed towards enhancing seat capacity from strategic destinations.

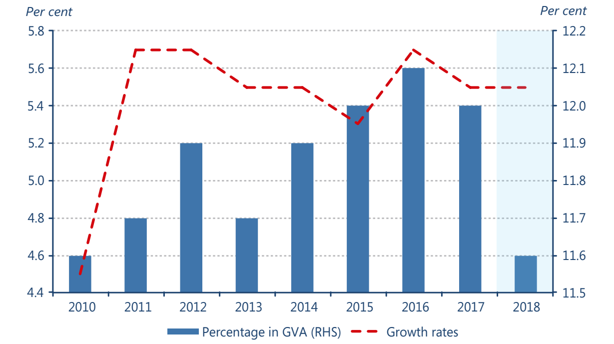
The pace of real activity of the *'financial and insurance activities'* sector decreased to 5.5 per cent in 2017, from 5.7 per cent in 2016 (Chart 2.11). Higher lending activity to both households and corporates continued to support the sector. The *'monetary intermediation'* sub-sector remained resilient and grew at 6.0 per cent in 2017, unchanged from 2016. Real activity in the *'financial leasing and other credit granting'* sub-sector also recorded the same growth rate of 6.5 per cent in both 2016 and 2017. The *'insurance, reinsurance and pension'* sub-sector grew by 4.9 per cent, lower than the 5.2 per cent growth of 2016. Other financial intermediaries saw growth slowing down to 3.8 per cent in 2017, from 5.0 per cent in the previous year. The *'financial and insurance activities'* sector added 0.7 percentage point to real GDP growth in 2017. For 2018, the growth rate of the sector is expected to remain unchanged at 5.5 per cent.

In 2017, the *'information and communication'* sector grew by 5.5 per cent, lower compared to 5.9 per cent in 2016 but remained underpinned by high demand for data communication and computer services. The sector added 0.2 percentage point to GDP growth in 2017 (Chart 2.12). Industry-operators' concerns on the scarcity of qualified staff are being addressed, to some extent through targeted programmes aiming for an adjustment at the educational level, such as the introduction of training in coding and industry placement for university students. Medium-term dynamics in the sector are expected to be driven by public sector initiatives such as the Safe City Project or the Indian Ocean Exchange Cable System. For 2018, real activity in the sector is forecast to expand by 5.6 per cent.

LABOUR MARKET DEVELOPMENTS

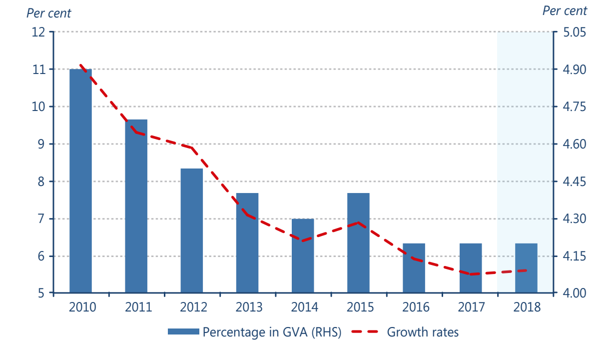
Labour market conditions continued to improve, with the unemployment rate projected to fall below 7.0 per cent in 2018 for the first time since 2001. Productivity growth remained below compensation growth, driving unit labour costs in rupee terms higher, while US dollar weakness in 2017 depressed competitiveness of exports. The labour market is expected to further strengthen in the near term, with sustained investment expenditure growth and solid consumption expenditure growth, which would generate an increased demand for the labour input. In the medium term, supply side policies addressing the quality and employability of the human capital will also improve labour market outcomes, provided the effective rollout of the respective measures. On the

Chart 2.11 Financial Sector



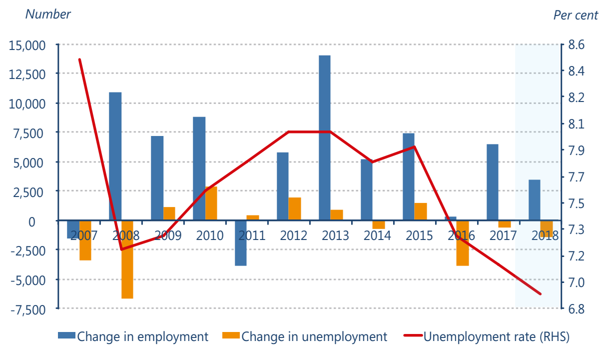
Source: Statistics Mauritius.

Chart 2.12 ICT Sector



Source: Statistics Mauritius.

Chart 2.13 Unemployment Rate, Change in Employment and Unemployment



Source: Statistics Mauritius.

other hand, labour market underutilisation indicators would indicate the potential for a more effective use of labour resources through greater flexibility, especially in a context of low labour force growth.

Wage Rate Index

The Wage Rate Index (WRI) provides an indication of changes in the cost of labour in the economy. Drawing support from its two constituents, the WRI rose by 4.6 per cent, from 103.2 in 2017Q2 to 107.9 in 2018Q2, mainly due to wage increases in *'manufacturing'* (12.9 per cent), *'financial and insurance activities'* (9.1 per cent), and *'information and communication'* (8.2 per cent) sectors. Across all industry groups, with the exception of *'agriculture, forestry and fishing'*, wages increased y-o-y in 2018Q2. The index for the private sector rose by 5.6 per cent, from 103.1 in 2017Q2 to 108.9 in 2018Q2, mainly on account of increases in *'manufacturing'* (12.9 per cent), *'financial and insurance activities'* (7.8 per cent) and *'transportation and storage'* (6.6 per cent) sectors. The index for the public sector increased by 3.3 per cent, from 103.3 to 106.7 over the corresponding period, mainly due to an increase in wages in *'information and communication'* (15.5 per cent) and *'financial and insurance activities'* (11.8 per cent). The index for General Government increased by 1.9 per cent in 2018Q2, y-o-y.

Government implemented a minimum wage policy since January 2018, specifically aimed at raising income of low-pay workers, thereby improving their purchasing power and addressing income inequality (Box 1).

Labour Force, Employment and Unemployment

In 2017, based on the Continuous Multipurpose Household Survey, the total labour force of the country stood at 615,300, inclusive of foreign workers, comprising 376,600 men and 238,700 women. The number of foreign workers decreased slightly from 28,600 in 2016 to 28,400 in 2017, on account of a fall in employment in the *'accommodation and food service activities'* sector. After contracting in 2016, the Mauritian labour force rose sharply in 2017 to 586,900, from 581,000 in 2016. The participation rate, measured as the labour force divided by the population aged 16 years and over, was unchanged at 59.6 per cent in 2017, on account of the somewhat proportionate increase in the population of those aged 16 years and above. The potential labour force[2], one of the measures of labour underutilisation, decreased from 7,600 in 2016 to 5,800 in 2017. The labour force is projected to reach 593,200 in 2018.

Total employment, including foreign workers, rose from 567,200 in 2016 to 573,500 in 2017, resulting from higher employment of women in the age group 25 to 29 years and of men aged 55 years and over, partially offsetting the fall of male employment in the age groups 20 to 24, 30 to 34 and 45 to 49 years. Employment is projected to rise to 577,900 in 2018.

In terms of sector, the increase in employment in 2017 reflected job creation in services sectors such as *'wholesale and retail trade'* (+2,100), *'transportation and storage'*, *'public administration and defence'* (+900). and *'other service activities'* (+900). These gains were partly offset by shrinking employment in the *'manufacturing'* sector (-1,100), where employment has fallen consistently since 2015. The number of Mauritians employed in 2017 stood at 545,100, of whom around 117,700 were available for extra work and could be qualified as being underemployed. The sum of the underemployed, the unemployed and the potential labour force provided another measure of labour underutilisation, which worked out to 165,300 in 2017.

The unemployment rate maintained its downtrend in 2017, decreasing from 7.3 per cent in 2016 to 7.1 per cent. This fall was due to higher Mauritian employment of 6,500 which exceeded the rise in the labour force of 5,900, hence reducing the number of unemployed by 600. The unemployment rate is projected to fall further to 6.9 per cent in 2018 (Chart 2.13).

[2] *The potential labour force refers to those who are available for work but not looking for work and those who are looking for work but not available for work in a reference week. These individuals are considered to be unemployed as per the ILO definition.*

Women still make up for about 60 per cent of the unemployed, although the female unemployment rate declined from 11.2 per cent in 2016 to 10.7 per cent in 2017. In terms of educational attainment, the majority of the unemployed were also somewhat low skilled, as almost half of them did not hold the School Certificate in 2017. Budgetary measures, such as the continuation of the National Skills Development Programme, a National Apprenticeship Programme and the Work@Home Scheme, along with high quality vocational training, are expected to address these main structural rigidities of the labour market. Budget 2018-19 earmarked Rs1 billion to target some 14,000 youth and women unemployed, setting up new schemes to complement the existing ones. The continuation of the National Skills Development Programme, with the implementation of a Youth Service Programme, and the YEP will continue to provide training and placement for some 7,000 new recruits. A National Apprenticeship Programme is expected to enroll another 3,000 youths. The budgetary measures form part of a series of active labour market policies, which aim at developing the skills and employability of the youths. Ultimately, these measures are expected to address the structural inefficiencies of the labour market, which have engendered a situation of skills mismatch and redress the unemployment rate.

Productivity and Unit Labour Cost

As demographic dynamics put pressure on population and employment growth in the longer term, productivity growth is expected to be a key determinant of growth performance. Labour productivity growth for the economy, measured as the change in real output over labour input, slowed in 2017, dropping to 2.4 per cent, from 3.4 per cent in 2016. In parallel, average compensation of employees increased by 4.1 per cent in 2017, lower than 5.9 per cent growth in 2016. Hence, unit labour cost, calculated by dividing average compensation by labour productivity, rose by 1.7 per cent compared to 2.4 per cent in 2016. However, due to the depreciation of the US dollar by 3.0 per cent in 2017, unit labour cost in US dollar terms rose by 4.9 per cent.

Rising unit labour costs dampened competitiveness, especially in the manufacturing sector, where unit labour costs declined marginally by 0.3 per cent in rupee terms but rose by 2.4 per cent in US dollar terms, and the exports sector where unit labour costs remained constant in rupee terms but increased by 3.1 per cent in US dollar terms.

Box I: Negative Income Tax and National Minimum Wage

According to the World Bank (2017)[1], Mauritius recorded substantial economic progress over the past decade but also witnessed limited shared prospects and growing income inequality although the increase in income inequality was partly capped by measures implemented under the Government's social protection system. In this respect, during FY2017/18 two historic measures to redistribute income and tackle poverty and inequality, namely the Negative Income Tax (NIT) system and the National Minimum Wage (NMW) were implemented.

1. Negative Income Tax

The NIT, generally known as Earned Income Tax Credit (EITC), is a tool used to foster labour participation and provide social assistance. EITC is a refundable personal income tax credit which provides a subsidy to earnings up to an income threshold. IMF (2014)[2] considered the introduction of such a system in Mauritius to address two persistent problems, namely the poorly targeted social safety net system, and low youth and female labour participation, viewing it as a long-term option given the underlying costs.
The NIT, announced under the Budget 2017/18, initially aimed to provide financial assistance to some 150,000 employees with total earnings not exceeding Rs9,900. Low-income earners would be paid a monthly allowance on a semi-annual basis, provided they adhere to the following criteria:

i. Mauritians with monthly earnings[3] of less than Rs9,900;
ii. If married, the total taxable income of the couple plus any dividend and interest income does not exceed Rs30,000 in a month;

[1] Addressing Inequality through More Equitable Labor *Markets in Mauritius: World Bank Report (2017).*
[2] *IMF 2014 Article IV Consultation- Staff Report.*
[3] *For the computation of the NIT, the Mauritius Revenue Authority (MRA) includes overtime, leave pay, any basic retirement pension and other allowances from employment but excludes travelling and end-of-year bonus from the individual's monthly earnings.*

iii. In full time employment, working a minimum of 30 hours during a five-day week;
iv. Prior employment of 6 months at least, before the first monthly payment becoming payable; and
v. Both the employer and employee are fully compliant with their contributions to the National Pensions Fund (NPF) and National Savings Fund (NSF).

Under these criteria, the policy measure was projected to cost Rs1.3 billion to the Government. Subsequently, the NIT system underwent several amendments to allow a wider reach of employees to benefit from the measure. Firstly, the NIT was made effective on a retroactive basis, covering the quarter July to September 2017, with the first payment made on 30th November 2017, in lieu of 30th August 2018 for the semester ending June 2018. The eligibility criteria was also relaxed as follows:

i. The basic salary of the employee should now not exceed Rs9,900 per month, provided total earnings (excluding travelling) in that month are less than Rs20,000;
ii. For couples, the annual net income of the applicant's spouse should not exceed Rs390,000;
iii. The individual should work for a minimum of 24 hours in a week, over 3 days;
iv. The applicant's employer has paid contributions on his behalf to NPF and NSF in respect of the month for which NIT is being claimed.

Hence, beneficiaries were entitled to a monthly allowance, varying with their basic salary, instead of total earnings (Table 1). In addition, the clause requiring prior employment of 6 months was removed. The payment system was amended whereby the eligible employees no longer have to opt-in but are registered by their employees and are credited their allowances together with their monthly salary.

Table 1: Allowance payable per month

Monthly Basic Salary	Monthly Allowance
Less than or equal to Rs5,000	Rs1,000
Between Rs5001 and Rs7,000	Rs800
Between Rs7,001 and Rs9,000	Rs500
Between Rs9,001 and Rs9,750	Rs250
Between Rs9,751 and Rs9,900	Rs100

Source: Mauritius Revenue Authority

2. National Minimum Wage

The NMW fixes the lowest level of income that can be earned by a working individual. By setting the NMW as a percentage of the mean or median income in the country, the Government attempts to raise the income for lowest-paid individuals and lift them out of the poverty range, without any adverse impact on employment.

The National Minimum Wage (NMW) was made effective on 1st January 2018, following the conclusions of the Report by the National Wage Consultative Council in November 2017. The Report initially recommended the staged implementation of a NMW with Rs8,000 payable from 1st January 2018 and Rs8500 from 1st January 2019. The recommendations also included harmonising the NMW with the NIT, whereby the Government tops up the NMW so that an individual earns a basic salary of Rs9,000 per month.

Nonetheless, the Ministry of Labour, Industrial Relations, Employment and Training introduced the NMW together with a Special Allowance payable by the Mauritius Revenue Authority. The motivation is to reduce the burden of the NMW on employers in order to preserve employment. Further, the Ministry employed differing rates of the NMW in support of the Export-Oriented Enterprises (EOE) that face competitiveness concerns (Table2).

As such, the NMW for a worker of an export enterprise includes the additional remuneration for cost of living allowance, housing and food allowance, thereby limiting labour costs for EOEs. In contrast, the NMW applicable for an employee of the non-EOE sector is exclusive of the additional remuneration for cost of living, which will be incurred separately by the employer. The NMW also applies to part-time employees, with the rate calculated on the basis of total hours worked per month.

Table 2: National Minimum Wage

	EOE sector	Non-EOE sector
National Minimum Wage	Rs8,140	Rs8,140
Additional Remuneration	-	Rs360
Special Allowance	Rs860	Rs500

Source: Ministry of Labour, Industrial Relations, Employment and Training

As per the initial report, the NMW would benefit 111,300 full-time employees and 9,300 part-time employees, representing 28.7 per cent of the total labour force. The NMW was projected to cost around Rs25 million to the public sector and around Rs3,800 million to the private sector. Within the private sector, small enterprises would bear 70 per cent of the annual costs, amounting to Rs2,500 million. In a bid to reinforce the implementation of the NMW, the Ministry of Labour, Industrial Relations, Employment and Training has imposed fines and charges on enterprises for non-compliance to the NMW legislations.

Implications

Both the NIT and the NMW complements each other in their contribution towards improving income and raising living standards of low-paid workers. They may also support economic growth as households inject the gains in income back into the circular flow of money through higher consumption spending, generating multiplier effects on the economy.

PRICE DEVELOPMENTS

Effective from April 2018, the Consumer Price Index (CPI) is calculated on the basis of an updated basket of goods and services derived from the 2017 Household Budget Survey conducted by Statistics Mauritius. The base period for this new CPI series is the twelve-month period January 2017 to December 2017. The weights of the various components of the CPI have also been revised in the new basket.

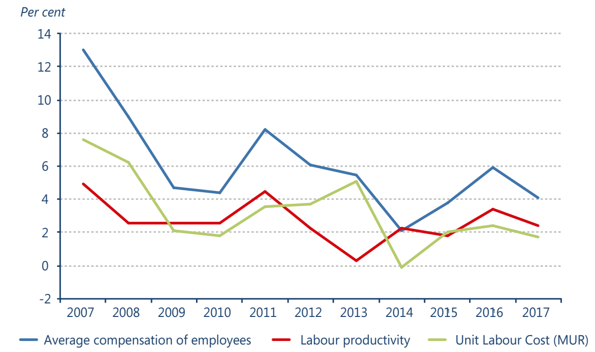
Domestic inflation in FY2017-18 was been mostly influenced by the course of international commodity prices, transient supply-side shocks and changes in excise duties on alcoholic beverages and tobacco. Headline inflation, as measured by the percentage change in the yearly average CPI, rose to a peak of a six-year high of 5.0 per cent in March 2018, before subsiding to 4.3 per cent in June 2018. Year-on-year (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, showed a similar path, albeit volatile. Y-o-y inflation subsided from 6.4 per cent in June 2017 to 4.2 per cent in December 2017, before accelerating to 6.7 per cent in March 2018 on account of the seasonal spike in prices of vegetables that typically manifest during the cyclonic/rainy season and the hikes in the prices of petroleum products. Y-o-y inflation, thereafter, dipped to 1.0 per cent at the close of FY 2017-18, largely due to the seasonal correction in vegetables prices.

For sake of comparison, CPI data from the previous base period have been recast to the new base by using a conversion factor of 1.133. Overall, the CPI increased by 1.0 point, or 1.0 per cent, from 101.8 in June 2017 to 102.8 in June 2018. The main contributors to the CPI increase were ‘Transport’ (0.7 per cent), followed by ‘Alcoholic beverages and tobacco’ (0.4 per cent). Most of the divisions recorded increases of 0.1 per cent. These increases were partially offset by declines of 0.4 per cent in the ‘Food and non-alcoholic beverages’ division and 0.3 per cent in the ‘Housing, water, electricity, gas and other fuels’ division. The remaining divisions recorded negligible contributions.

Core Inflation

The underlying inflationary pressures, as reflected in the Bank's core measures, remained contained during FY2017-18. CORE1 and CORE2 inflation fluctuated within tight ranges, both on a 12-month average and y-o-y basis. On a 12-month average basis, CORE1 inflation rose from 0.8 per cent in June 2017 to 2.6 per cent in June 2018 while CORE2 inflation hovered within a narrow range of 1.9 per cent and 2.2 per cent. On a y-o-y basis, CORE1 inflation remained volatile, albeit moderate and closed FY2017-18 at 2.6 per cent, higher compared to 2.0 per cent in June 2017 while CORE2 inflation remained stable at below 3 per cent throughout the FY2017-18. The relative stability of CORE2 inflation indicated the absence of demand-side pressures.

Chart 2.14 Labour Productivity, Average Compensation and Unit Labour Cost Growth

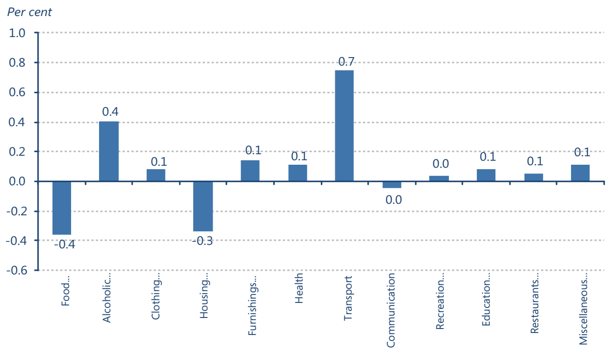


Source: Statistics Mauritius.

Costs

Cost pressures, reflected by measures of Producer Price Inflation-Manufacturing (PPI-M) and Producer Price Inflation-Agriculture (PPI-A) were somewhat subdued during FY2017-18. Y-o-y, PPI-M edged up from 2.8 per cent in June 2017 to 2.9 per cent in June 2018, reflecting mostly higher prices in the manufacturing of food products and beverages. On the other hand, y-o-y PPI-A plummeted from 20.8 per cent in June 2017 to -19.2 per cent in June 2018, due to the combined effects of decreases in the prices of crop products and animals and animal products. Over the 12-month period, PPI-M rose from 1.4. per cent in June 2017 to 2.5 per cent in June 2018, whereas PPI-A subsided from 10.8 per cent to -5.5 per cent over the same period.

Chart 2.15 Contribution by Divisions to the Change in CPI between June 2017 and June 2018



Sources: Statistics Mauritius and Bank of Mauritius Staff calculations.

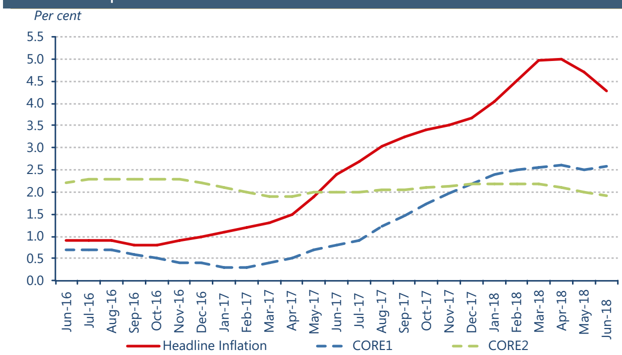
MONETARY AGGREGATES

Broad money supply growth remained expansionary during FY2017-18 compared to FY2016-17, thus confirming the accommodative monetary policy stance. Growth of bank credit to the private sector accelerated during FY2017-18, backed by corporate credit. Bank credit to the private sector as a percentage of GDP increased from 63.4 per cent as at end-June 2017 to 65.1 per cent as at end-June 2018.

Depository Corporations Survey

The net foreign assets (NFA) of DCs went up by 5.3 per cent, from Rs577.1 billion as at end-June 2017 to Rs607.6 billion as at end-June 2018, compared to a rise of 8.9 per cent in FY2016-17. NFA of other depository corporations (ODCs) contracted by 4.9 per cent, as against a rise of 9.3 per cent in FY2016-17, while NFA

Chart 2.16 Headline and Core Inflation



Sources: Statistics Mauritius and Bank of Mauritius Staff calculations.

of Bank of Mauritius rose by 27.6 per cent compared to an increase of 8.2 per cent in FY2016-17. The higher increase noted for the Bank of Mauritius resulted from the higher foreign exchange intervention by the Bank and foreign currency deposits placed at the Bank qualifying as high-quality liquid assets to meet the Liquidity Coverage Ratio.

Claims on other sectors (excluding financial derivatives) rose by 6.7 per cent, from Rs419.5 billion as at end-June 2017 to Rs447.7 billion as at end-June 2018, higher compared to growth of 1.6 per cent in FY2016-17. The increase reflects higher demand for credit from ODCs. Net claims on Central Government grew by 21.8 per cent, from Rs58.2 billion as at end-June 2017 to Rs70.9 billion as at end-June 2018 compared to an increase of 19.8 per cent registered in FY2016-17. The rise in net claims on Central Government in FY2017-18 reflected, to a large extent, the drop in Government of Mauritius deposits held with the Bank of Mauritius and ODCs.

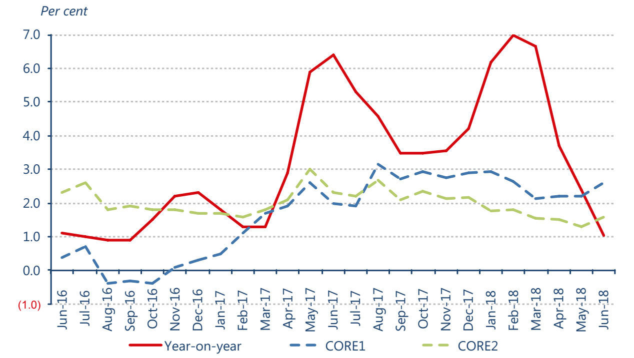
Broad Money Liabilities (BML), increased by 9.4 per cent, from Rs491.5 billion as at end-June 2017 to Rs537.6 billion as at end-June 2018, higher than the increase of 8.0 per cent registered during FY2016-17. All the components of BML supported its expansion during FY2017-18. Currency with public increased by 2.2 per cent in FY2017-18, much lower than the expansion of 8.4 per cent registered in FY2016-17, reflecting somewhat an increased use of electronic money. Transferable deposits went up by 14.8 per cent compared to the rise of 9.2 per cent in FY2016-17, while savings deposits grew at slower pace of 5.2 per cent, compared to the increase of 11.9 per cent in FY2016-17. Time deposits grew at higher rate of 2.1 per cent during FY2017-18, compared to an increase of 0.5 per cent in FY2016-17. Securities other than shares included in broad money went up by 201.1 per cent compared to 22.2 per cent, reflecting investment of households in the Bank of Mauritius Golden Jubilee Bonds. Y-o-y growth of the rupee component of deposits included in BML slowed from 6.8 per cent in FY2016-17 to 6.4 per cent in FY2017-18. Likewise, the foreign currency component of deposits included in BML went up at slower rate of 10.1 per cent in FY2017-18 compared to a rise of 13.3 per cent over the previous corresponding period. Table 2.4 shows the Depository Corporations Survey as at end-June 2016, 2017 and 2018.

Central Bank Survey

The monetary base[3] increased by 35.1 per cent, from Rs80.7 billion as at end-June 2017 to Rs109.0 billion as at end-June 2018, compared to the rise of 14.6 per cent in FY2016-17. The increase in banks' deposits with the Bank of Mauritius contributed significantly to the expansion in monetary base. It accelerated by 59.7 per cent in FY2017-18 compared to the rise of 18.5 per cent in FY2016-17, reflecting to a large extent, compliance of banks with the Liquidity Coverage Ratio provisions. Most of the increase reflected higher foreign currency deposits.

On the sources side of the monetary base, net foreign assets of the Bank grew by 27.6 per cent, from Rs180.4 billion in June 2017 to Rs230.2 billion in June 2018, compared to the increase of 8.2 per cent in the corresponding period a year earlier. Domestic claims of the Bank expanded by 41.5 per cent in FY2017-18 compared to the increase of 2.9 per cent in FY2016-17, resulting mostly from the increase in net claims on Central Governments caused by a significant decline in Government deposits. Net claims on Central Government grew by 36.3 per cent in FY2017-18, compared to a rise of 2.8 per cent recorded in FY2016-17. Claims on ODCs decreased by 20.0 per cent, from Rs0.7 billion as at end-June 2017 to Rs0.5 billion as at end-June 2018. Table 2.5 shows the Central Bank Survey as at end-June 2016, 2017 and 2018. The average broad money multiplier declined from 6.1 as at end-June 2017 to 5.5 as at end-June 2018 as a result of a higher growth in reserve money compared to BML. The average narrow money multiplier fell marginally from 1.3 in June 2017 to 1.2 in June 2018. Table 2.6 gives details on monetary ratios for the years ended June 2014 through June 2018.

Chart 2.17 Year-on-year Inflation and Core Inflation



Note(i) CORE1 excludes "Food, beverages and tobacco" components and mortgage interest on housing loan from the CPI basket;
(ii) CORE2 excludes food, beverages, tobacco, mortgage interest, energy prices and administered prices from the CPI basket.
Sources: Statistics Mauritius and Bank of Mauritius Staff calculations.

[3] *The monetary base comprises central bank liabilities that support the expansion of broad money and thus, credit.*

Table 2.4: Depository Corporations Survey [1]							
	Jun-16	Jun-17	Jun-18	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	**529,765**	**577,137**	**607,621**	**47,372**	**8.9**	**30,485**	**5.3**
Claims on Nonresidents	897,376	943,854	890,785	46,478	5.2	-53,069	-5.6
Liabilities to Nonresidents	-367,611	-366,717	-283,164	893	-0.2	83,554	-22.8
2. Domestic Claims	**485,682**	**527,659**	**520,770**	**41,977**	**8.6**	**-6,889**	**-1.3**
A. Net Claims on Central Government	***48,559***	***58,184***	***70,860***	***9,625***	***19.8***	***12,676***	***21.8***
Claims on Central Government	94,350	107,072	102,751	12,722	13.5	-4,321	-4.0
Liabilities to Central Government	-45,790	-48,888	-31,891	-3,097	6.8	16,996	-34.8
B. Claims on Other Sectors [1]	***437,123***	***469,475***	***449,911***	***32,352***	***7.4***	***-19,564***	***-4.2***
B.1 Claims on Other Sectors, excluding Financial Derivatives	412,858	419,501	447,696	6,643	1.6	28,195	6.7
3. ASSETS = LIABILITIES	**1,015,447**	**1,104,796**	**1,128,392**	**89,349**	**8.8**	**23,596**	**2.1**
4. Broad Money Liabilities	**454,966**	**491,497**	**537,638**	**36,531**	**8.0**	**46,141**	**9.4**
A. Currency outside Depository Corporations	*26,254*	*28,460*	*29,088*	*2,207*	*8.4*	*627*	*2.2*
B. Transferable Deposits	*116,496*	*127,259*	*146,132*	*10,763*	*9.2*	*18,873*	*14.8*
C. Savings Deposits	*182,446*	*204,147*	*214,815*	*21,701*	*11.9*	*10,668*	*5.2*
D. Time Deposits	*124,362*	*125,021*	*127,700*	*659*	*0.5*	*2,678*	*2.1*
E. Securities other than Shares	*5,409*	*6,609*	*19,904*	*1,201*	*22.2*	*13,294*	*201.1*
5. Other	**560,481**	**613,299**	**590,754**	**52,818**	**9.4**	**-22,545**	**-3.7**

Figures may not add up to totals due to rounding.

[1] Effective May 2018, Financial Derivatives are recorded at market or fair values and are not strictly comparable with prior months' data.

Source: Research and Economic Analysis Department.

Table 2.5: Central Bank Survey

	Jun-16	Jun-17	Jun-18	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	**166,726**	**180,438**	**230,239**	**13,712**	**8.2**	**49,801**	**27.6**
Claims on Nonresidents	167,033	180,753	230,433	13,720	8.2	49,680	27.5
less: Liabilities to Nonresidents	307	315	194	9	2.8	-121	-38.5
2. Domestic Claims	**-31,286**	**-30,390**	**-17,774**	**896**	**2.9**	**12,615**	**41.5**
A. Net Claims on Central Government	-35,913	-34,907	-22,246	1,006	2.8	12,661	36.3
B. Claims on Other Sectors	3,761	3,852	3,939	91	2.4	88	2.3
C. Claims on Other Depository Corporations	867	666	533	-201	-23.2	-133	-20.0
3. ASSETS = LIABILITIES	**135,440**	**150,048**	**212,465**	**14,608**	**10.8**	**62,417**	**41.6**
4. Monetary Base	**70,420**	**80,702**	**109,049**	**10,283**	**14.6**	**28,346**	**35.1**
A. Currency in Circulation	30,581	33,564	33,841	2,983	9.8	277	0.8
B. Liabilities to Other Depository Corporations	39,659	46,984	75,026	7,325	18.5	28,042	59.7
C. Liabilities to Other Sectors	180	155	182	-25	-14.1	27	17.7
5 Other Liabilities to Other Depository Corporations	**35,388**	**43,635**	**65,469**	**8,247**	**23.3**	**21,834**	**50.0**
6. Other	**25,711**	**20,697**	**19,630**	**-5,014**	**-19.5**	**-1,067**	**-5.2**

Figures may not add up to totals due to rounding.

Source: Research and Economic Analysis Department.

Table 2.6: Monetary Ratios					
1. Monthly Average for year ended (Rs million)	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**
A. Monetary Base	**57,993**	**68,506**	**70,691**	**77,763**	**93,861**
	17.3	*18.1*	*3.2*	*10.0*	*20.7*
B. Broad Money Liabilities (BML)	**363,032**	**397,079**	**437,190**	**476,601**	**518,398**
	6.7	*9.4*	*10.1*	*9.0*	*8.8*
(a) Narrow Money Liabilities (NML)	**74,671**	**81,622**	**89,897**	**99,681**	**110,470**
	9.0	*9.3*	*10.1*	*10.9*	*10.8*
(i) Currency with Public	**21,580**	**23,350**	**25,760**	**27,804**	**29,563**
	6.4	*8.2*	*10.3*	*7.9*	*6.3*
(ii) Transferable Deposits	**53,092**	**58,273**	**64,137**	**71,877**	**80,907**
	10.1	*9.8*	*10.1*	*12.1*	*12.6*
(b) Quasi Money Liabilities	**284,990**	**311,837**	**342,630**	**371,207**	**397,144**
	5.8	*9.4*	*9.9*	*8.3*	*7.0*
(c) Securities other than Shares	**3,371**	**3,620**	**4,663**	**5,713**	**10,784**
	31.0	*7.4*	*28.8*	*22.5*	*88.8*
2. Average Money Multiplier					
A. Narrow Money Liabilities	**1.3**	**1.2**	**1.3**	**1.3**	**1.2**
B. Broad Money Liabilities	**6.3**	**5.8**	**6.2**	**6.1**	**5.5**
3. Other Monetary Ratios (Per cent)					
A. Currency with Public to NML	**28.9**	**28.6**	**28.7**	**27.9**	**26.8**
B. Transferable Deposits to NML	**71.1**	**71.4**	**71.3**	**72.1**	**73.2**
C. Currency with Public to BML	**5.9**	**5.9**	**5.9**	**5.8**	**5.7**
D. Transferable Deposits to BML	**14.6**	**14.7**	**14.7**	**15.1**	**15.6**
E. Narrow Money Liabilities to BML	**20.6**	**20.6**	**20.6**	**20.9**	**21.3**
F. Quasi Money Liabilities to BML	**78.5**	**78.5**	**78.4**	**77.9**	**76.6**
G. Securities other than Shares to BML	**0.9**	**0.9**	**1.1**	**1.2**	**2.1**

(i) Figures in brackets 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.

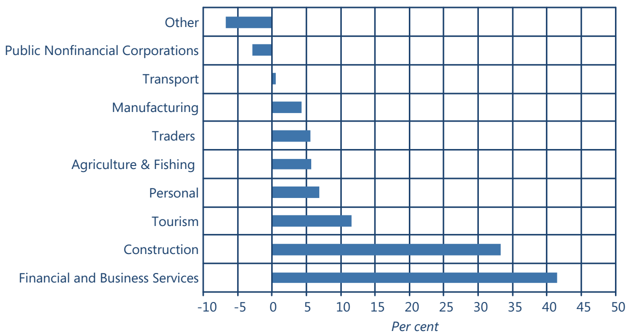
Source: Research and Economic Analysis Department.

Sectorwise Distribution of Bank Credit to the Private Sector

Bank credit to the private sector (excluding GBCs) went up by 9.0 per cent or Rs26 billion, from Rs290 billion as at end-June 2017 to Rs316 billion as at end-June 2018, compared to an increase of 2.2 per cent or Rs6.3 billion registered in the corresponding period of FY2016-17 (Table 2.7). The 'Financial and Business Services' sector was the dominant source of credit expansion, accounting for about 41 per cent of the increase in credit. The 'Construction' and 'Tourism' sectors were the two other sectors contributing to the rise in credit over the year, with a combined share of nearly 45 per cent of total private sector credit.

Credit allocated in the form of loans and banks' investment in shares and debentures, represented more than 90.0 per cent of the increase in credit between June 2017 and June 2018. While the prevailing low interest rate environment contributed to the growth in loans over the year, the rise in banks' investment in shares and debentures was mostly the result of the issuance of bonds by corporates in FY2017-18. Banks' investment in shares and debentures more than doubled, from Rs6.4 billion as at end-June 2017 to Rs16.3 billion as at end-June 2018.

Chart 2.18 **Contribution to Increase in Bank Credit to the Private Sector – end-June 2017 to end-June 2018**



Source: Research and Economic Analysis Department.

Credit to the 'Financial and Business Services' sector went up by 31.2 per cent or Rs10.8 billion, from Rs34.7 billion as at end-June 2017 to Rs45.6 billion as at end-June 2018. The additional credit over the year was mainly directed to the 'Public Financial Corporations', 'Investment Companies' and 'Non-Bank Deposit-Taking Institutions' sub-sectors. Through the increased provision of credit, the share of 'Financial and Business Services' sector to total credit rose from 12.0 per cent to 14.4 per cent.

The 'Construction' sector was the other major recipient of the increase in credit over the year, with an increase of 9.7 per cent or Rs8.7 billion, from Rs89.9 billion as at end-June 2017 to Rs98.6 billion as at end-June 2018. Housing credit, which represented 20.7 per cent of total bank credit as at end-June 2018, increased by 9.0 per cent or Rs5.4 billion over the financial year. Credit granted to the 'Construction' sector accounted for 31.2 per cent of total bank credit as at end-June 2018, slightly up from its share of 31.0 per cent as at end-June 2017.

The 'Tourism' sector saw a turnaround in credit allocation as credit to the sector picked up by 7.4 per cent or Rs3.0 billion, from Rs40.8 billion as at end-June 2017 to Rs43.8 billion as at end-June 2018. The positive turnaround resulted mostly from a rise in foreign currency advances to 'hotels' over the year. Credit to the 'Tourism' sector constituted 13.8 per cent of total bank credit to private sector as at end-June 2018, marginally down from its share of 14.0 per cent as at end-June 2017.

The 'Traders' sector also supplemented the credit growth over the year, with an increase of 4.6 per cent or Rs1.5 billion, from Rs31.7 billion as at end-June 2017 to Rs33.2 billion as at end-June 2018, largely due to a rise in credit to 'Retailers'. Credit granted to the 'Traders' sector accounted for a share of 10.5 per cent of total bank credit as at end-June 2018, lower compared to its share of 10.9 per cent as at end-June 2017.

Credit to the 'Agriculture and Fishing' sector ticked up by 7.5 per cent or Rs1.5 billion in FY2017-18. The credit uptick in this sector mainly reflected additional credit granted to 'Sugar Estates'. The share of the 'Agriculture and Fishing' sector in total private sector credit fell slightly, from 6.9 per cent as at end-June 2017 to 6.8 per cent as at end-June 2018.

Credit to the 'Manufacturing' sector stood at Rs23.7 billion as at end-June 2018, up from Rs22.6 billion as at end-June 2017. The credit expansion in this sector was mainly driven by an increase in credit to 'Export Enterprise Certificate Holders'. Credit granted to the 'Manufacturing' sector represented a share of 7.5 per cent in total private sector credit, down from its share of 7.8 per cent in the previous year.

Credit extended to the 'Personal' sector rose by 6.4 per cent or Rs1.8 billion, from Rs28.5 billion as at end-June 2017 to Rs30.3 billion as at end-June 2018. Its share of total private sector credit, however, edged down marginally, from 9.8 per cent as at end-June 2017 to 9.6 per cent as at end-June 2018.

Table 2.7: Sectorwise Distribution of Credit to the Private Sector								
SECTORS	Jun-15	Jun-16	Jun-17	Jun-18	Increase/Decrease		Share of total credit as at end-June 17	Share of total credit as at end-June 18
	(Rs million)	*(Rs million)*	*(Rs million)*	*(Rs million)*	*(Rs million)*	*(Per cent)*	*(Per cent)*	*(Per cent)*
Agriculture & Fishing	**17,667.4**	**19,555.1**	**20,063.7**	**21,573.9**	**1,510.2**	**7.5**	**6.9**	**6.8**
- of which								
Sugar Industry - Estates	7,112.7	9,998.3	9,332.0	11,934.6	2,602.6	27.9	3.2	3.8
Sugar Industry - Others	3,431.2	2,935.3	2,849.7	2,868.7	19.0	0.7	1.0	0.9
Sugarcane Planters	2,773.6	3,095.9	3,092.4	1,931.3	-1,161.1	-37.5	1.1	0.6
Other	4,349.9	3,525.6	4,789.7	4,839.4	49.7	1.0	1.7	1.5
Manufacturing	**19,952.5**	**21,496.4**	**22,565.0**	**23,699.8**	**1,134.8**	**5.0**	**7.8**	**7.5**
- of which								
Export Enterprise Certificate Holders	5,559.9	5,647.9	5,965.1	7,451.1	1,486.1	24.9	2.1	2.4
Steel/Metal Products	1,577.6	1,975.4	1,450.8	1,541.4	90.7	6.2	0.5	0.5
Food & Beverages	4,805.7	4,885.4	5,353.3	4,788.5	-564.8	-10.6	1.8	1.5
Other	8,009.3	8,987.6	9,795.9	9,918.7	122.9	1.3	3.4	3.1
Tourism	**47,536.4**	**47,461.3**	**40,745.5**	**43,780.2**	**3,034.7**	**7.4**	**14.0**	**13.8**
- of which								
Hotels	27,877.1	27,714.8	26,942.4	30,514.2	3,571.8	13.3	9.3	9.6
Hotel Management Service Certificate Holders	15,284.3	15,810.3	10,265.5	9,845.6	-419.9	-4.1	3.5	3.1
Other	4,375.0	3,936.2	3,537.6	3,420.4	-117.2	-3.3	1.2	1.1
Transport	**4,924.9**	**4,390.1**	**3,930.2**	**4,077.8**	**147.6**	**3.8**	**1.4**	**1.3**
Construction	**83,190.5**	**86,410.7**	**89,927.6**	**98,633.5**	**8,705.9**	**9.7**	**31.0**	**31.2**
- of which								
Property Development	23,785.3	23,315.8	22,914.1	25,865.5	2,951.5	12.9	7.9	8.2
Housing	51,777.8	55,689.4	59,900.5	65,309.6	5,409.1	9.0	20.6	20.7
Other	7,627.4	7,405.5	7,113.1	7,458.37	345.3	4.9	2.5	2.4
Traders	**30,034.3**	**31,066.6**	**31,694.9**	**33,160.8**	**1,465.9**	**4.6**	**10.9**	**10.5**
Information Communication and Technology	**1,492.0**	**1,853.3**	**1,780.8**	**1,899.1**	**118.4**	**6.6**	**0.6**	**0.6**
Financial and Business Services	**25,012.2**	**26,592.8**	**34,738.9**	**45,581.2**	**10,842.3**	**31.2**	**12.0**	**14.4**
Infrastructure	**4,251.7**	**4,582.6**	**4,542.5**	**4,629.2**	**86.7**	**1.9**	**1.6**	**1.5**
Public Nonfinancial Corporations	**3,120.8**	**2,022.7**	**2,332.5**	**1,600.4**	**-732.1**	**-31.4**	**0.8**	**0.5**
Personal	**29,304.1**	**28,711.2**	**28,479.1**	**30,291.2**	**1,812.1**	**6.4**	**9.8**	**9.6**
Professional	**1,260.6**	**1,284.1**	**1,465.5**	**1,362.0**	**-103.5**	**-7.1**	**0.5**	**0.4**
Education	**1,422.0**	**1,379.1**	**1,332.6**	**1,577.9**	**245.3**	**18.4**	**0.5**	**0.5**
Others	**6,096.7**	**6,945.1**	**6,481.6**	**4,383.0**	**-2,098.7**	**-32.4**	**2.2**	**1.4**
TOTAL	**275,266.1**	**283,751.1**	**290,080.4**	**316,250.0**	**26,169.6**	**9.0**	**100.0**	**100.0**

Source: Research and Economic Analysis Department.

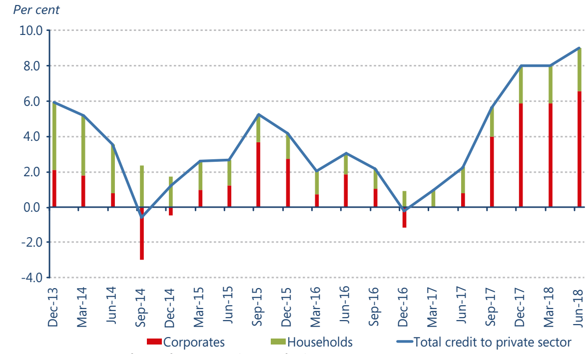
HOUSEHOLDS AND CORPORATES

Growth of credit extended by banks to the private sector accelerated during 2018H1, following a rather subdued expansion in 2017H2. Both households and corporates increased their borrowings. Rising business and consumer confidence and strengthening economic activity contributed to a stronger demand for credit, while on the supply side banks had adequate liquidity. The Loan-to-Value (LTV) ratio, which was introduced as part of a set of macroprudential measures in 2014, was relaxed from 90 per cent to 100 per cent for first-time home buyers in July 2017[4]. The LTV limit was eventually suspended in July 2018 and banks can, henceforth, apply their own LTV limits. Nevertheless, the Bank has maintained the debt service to disposable income (DTI) threshold at 40 per cent. On a point-to-point basis, between end-June 2017 and end-June 2018, growth of bank credit to the private sector increased to 9.0 per cent, from 2.2 per cent in the corresponding period a year earlier. The annual growth of bank credit to households increased to 7.9 per cent as at end-June 2018, from 4.9 per cent a year earlier while credit extended to corporates improved to 9.5 per cent from a low of 1.1 per cent, (Chart 2.19).

The higher expansion in credit extended by banks was reflected in the private sector credit-to-GDP ratio, which increased from 64.8 per cent as at end-June 2017 to 67.1 per cent as at end-June 2018. Household credit-to-GDP ratio rose to 20.6 per cent as at end-June 2018, from 20.1 per cent a year earlier as the increase in credit was relatively higher compared to the increase in GDP. The corporate credit-to-GDP ratio, on its part, rose from 44.1 per cent to 44.8 per cent over the same period. Banks' exposure to households has increased over the past years with a higher share of household credit in total private sector credit. As at end-June 2018, household credit to total private sector credit was higher by about 8 percentage points to around 31 per cent compared to around 23 per cent some 10 years back.

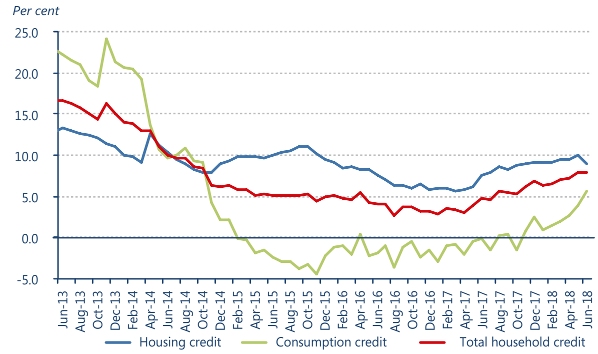
[4] *Pursuant to announcements made in the Budget Speech 2017-2018 in connection with residential property loans, the LTV limit for credit facilities up to Rs5.0 million was set at a maximum of 100 per cent for first time home buyers.*

Chart 2.19 Contribution to Growth of Private Sector Credit



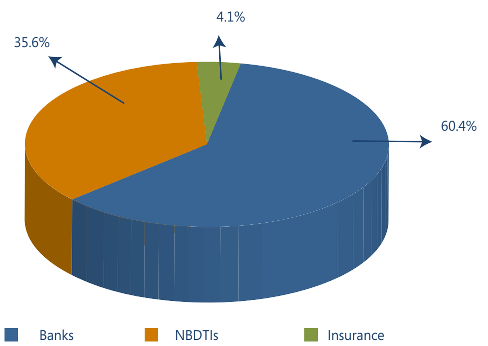
Source: Research and Economic Analysis Department.

Chart 2.20 Y-o-y Growth of Credit to Households



Source: Research and Economic Analysis Department.

Chart 2.21 Providers of Household Credit – December 2017



Sources: Bank of Mauritius and Financial Services Commission.

Households

Bank credit to households increased by about 7.9 per cent to Rs96,963 million as at end-June 2018, largely due to higher credit for housing purposes while growth of consumption credit turned positive as from September 2017. Growth of Bank credit extended for housing purposes improved to 9.0 per cent, y-o-y, in June 2018, from 7.6 per cent in June 2017. The higher housing credit corroborated with an increase in the number of residential building permits approved. Y-o-y, credit for consumption purposes recovered from a contraction of 0.2 per cent in June 2017 to an expansion of 5.7 per cent in June 2018.

In terms of the composition, credit extended for housing purposes accounted for the major share of total household credit, making up over two-third of total household credit while the remaining was granted for consumption purposes. Over the past 10 years, the share of housing credit has increased by 14.6 percentage points. The increasing and high share of housing credit in total household credit would tend to indicate that households in Mauritius borrow mainly for housing purposes, reflecting the asset-building culture of Mauritian households. Households in Mauritius borrow mainly in the domestic currency and as such, foreign exchange risks arising from banks' foreign currency exposure to households are mitigated. As at end-June 2018, the share of rupee credit in total household credit remained unchanged at around 96 per cent.

Banks account for the bulk of credit to housholds, followed by non-bank deposit-taking institutions (NBDTIs) and insurance companies. As at end-December 2017, outstanding household credit from banks as a share to total household credit was around 60 per cent while credit extended by NBDTIs represented around 36 per cent. Insurance companies equally extend credit to households and these represented around 4 per cent of total household credit. Around 80 per cent of these credit pertain to housing purposes. The share of household credit held by banks, NBDTIs and insurance companies has remained broadly unchanged over the past years.

Indebtedness of households, as measured by the ratio of bank credit to GDP, increased marginally between end-June 2017 and end-June 2018 and reflected a higher expansion in household credit relative to GDP. Bank credit to households as a ratio to GDP rose from 20.1 per cent as at end-June 2017 to 20.6 per cent as at end-June 2018. The broader definition of household indebtedness, which includes household debt from banks, non-bank deposit-taking institutions as well as insurance companies, fell slightly to 33.5 per cent as at end-June 2018, from 33.8 per cent a year earlier.

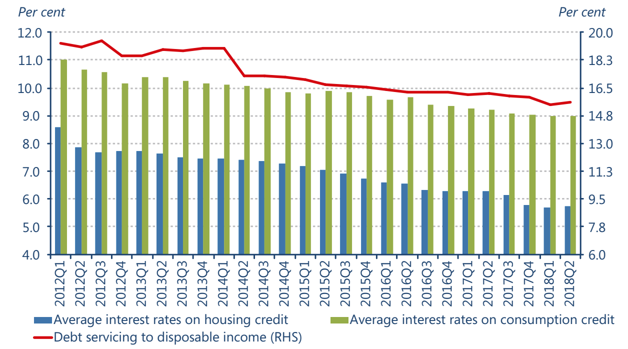
Household Debt Service Cost

The debt service ratio - measured as the ratio of household debt service to GDP - declined further due to lower interest rates on both housing and consumption credit The reduction in the KRR in September 2017 led to lower interest rates on housing and consumption credit, thereby contributing to lower debt service cost of household debt. The household debt service ratio fell from 6.6 per cent as at end-June 2017 to 6.3 per cent as at end-June 2018 (Chart 2.22).

Household Credit-to-GDP Gap

Over a five-year period between 2013 and 2018, household credit-to-GDP gap[5] moved back into positive territory in 2018Q2, the first time since 2016Q1. The Bank appropriately monitors developments in the credit-to-GDP gap to discern any potential build-up of vulnerabilities. The increase in the credit-to-gap resulted from the relatively higher expansion of household credit compared to nominal GDP. Household credit-to-GDP ratio increased from 20.1 per cent in 2017Q2 to 20.6 per cent in 2018Q2 and the resulting credit-to-GDP gap estimated at about 0.1 in 2018Q2 compared to -0.3 in 2017Q2.

Chart 2.22 Household Debt Service Cost and Interest Rates

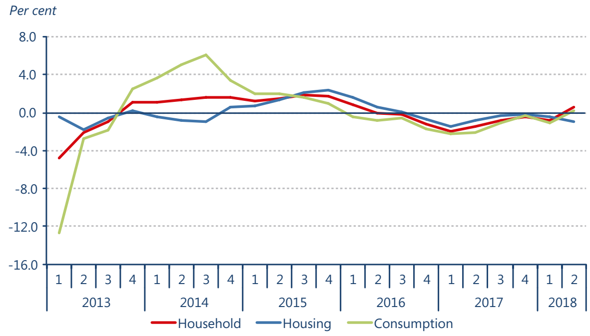


Source: Research and Economic Analysis Department.

[5] *The credit-to-GDP gap is estimated as the percentage deviation between the credit-to-GDP ratio and an estimate of its trend using the Hodrick-Prescott filter.*

Household debt-to-GDP ratio has remained relatively contained at around 20 per cent while household debt service cost-to-disposable has declined with lower interest rates, indicating that indebtedness of households does not pose a risk to financial stability for the time being. The high share of housing credit in total household credit also provides some comfort as banks' exposures to households are mostly collateralised. The Bank has already in place macroprudential tools to prevent the build-up of vulnerabilities in household leverage while cash flow and repayment abilities of households would need close monitoring for early detection of vulnerabilities and threats.

Chart 2.23 **Household Credit-to-GDP Gap**



Source: Research and Economic Analysis Department.

Corporates

The performance of corporates in Mauritius has an important bearing on financial stability and on the domestic economy. Exposure of banks to domestic corporations accounts for around 67 per cent of total private sector credit and 16 per cent of their total assets. Gross Operating Surplus (GOS), which may be used as a proxy for the value added provided by incorporated enterprises' operating activities after deducting for labour input costs, grew by 4.0 per cent in 2017 and is projected to record higher growth of 6.4 per cent in 2018. The expected improvement in the growth of GOS reflects stronger economic activity over the medium term, amid rising business confidence, economic optimism and buoyant economic activity. During 2017, profitability of selected listed corporates on the SEM, as measured by their return on equity, has increased to around 3.3 per cent in 2017, from 2.7 per cent a year earlier. The improvement in the return on equity was mainly led by operators in the tourism sector. Cost of debt, as measured by interest expense to total debt ratio, was almost unchanged at around 6 per cent in 2017. Coverage of interest payments has declined to 2.2 per cent in 2017, from 3.5 per cent a year earlier.

With the increase in credit extended by banks to corporates in Mauritius together with higher private bond issuance, corporates have accumulated more debt and were slightly more leveraged compared to a year earlier. On an aggregated basis, the debt-to-equity ratio was estimated at about 39 per cent in 2017 compared to 37 per cent in 2016. The debt-to-equity ratio is still relatively low compared to the highs of previous years. The higher leverage was the result of an increase in the debt-to-equity ratios of operators in the tourism, distributive trade and manufacturing sectors that were weighed down by lower ratios of operators in the construction and sugar-linked sectors. The leverage ratio of the tourism sector has increased for two consecutive years and tourism is still the most leveraged sector with a debt-to-equity ratio estimated at 137.7 per cent in 2017 compared to 115.0 per cent in 2016.

Total debt of corporates from banks has increased as at end-June 2018 as a result of higher domestic and corporate external debt. Between end-June 2017 and end-June 2018, total corporate debt was higher by 6.8 per cent, driven by 6.8 per cent increase in domestic debt of corporates while external debt was higher by 7.9 per cent. The expansion in external debt of corporates resulted from higher long-term external borrowings while short-term borrowings were rather unchanged. The corporate debt-to-GDP ratio was higher at 48.2 per cent as at end-June 2018 compared to 47.6 per cent as at end-June 2017. During the year under review, a number of corporates have issued bonds via both public offerings and private placements that have been estimated at around Rs14 billion, compared to around to Rs9 billion in FY2016-17.

Corporates in Mauritius borrow mostly from the domestic market as domestic debt accounted for around 93 per cent of their total debt as at end-June 2018. As a ratio to GDP, domestic debt of corporates increased to 44.8 per cent as at end-June 2018 compared to 44.2 per cent as at end-June 2017. External debt of corporates, which accounted for around 7.0 per cent of total corporate debt, has increased, from 3.4 per cent of GDP as at end-June 2017 to 3.5 per cent as at end-June 2018. Notwithstanding the increase, corporates' external debt to Gross Official International Reserves ratio fell from 8.3 per cent as at end-June 2017 to 7.1 per cent as at end-June 2018. External debt of corporates as a ratio to total export proceeds increased from 7.8 per cent to 8.3 per cent, reflecting higher expansion in external debt relative to export proceeds.

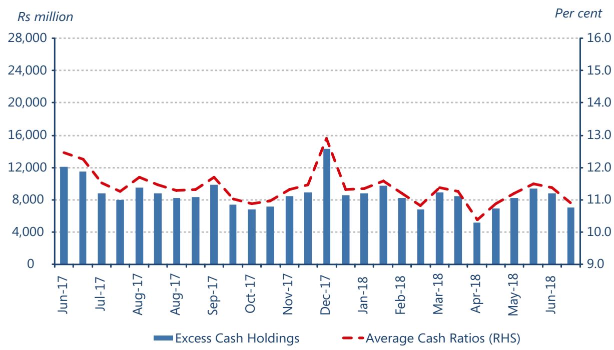
The annual growth of domestic debt of corporates increased to 6.6 per cent as at end-June 2018, from 0.8 per cent at the end of June 2017. The improvement in credit growth was the result of higher credit extended to operators in almost all key sectors of the economy including construction, tourism, distributive trade, manufacturing as well as financial and business services. Corporate credit-to-GDP ratio has increased from 44.1 per cent as at end-June 2017 to 44.0 per cent as at end-June 2018, resulting in the corporate credit-to-GDP gap[6] to move into positive territory in 2017Q4, the first time since 2016Q1. The positive credit-to-GDP gap would warrant close monitoring to assess potential build-up of vulnerabilities. In 2018Q2, the corporate credit-to-GDP gap was estimated at 1.0 per cent compared to -0.9 per cent in 2017Q2.

Maintenance of Cash Ratio

During FY2017-18, the required fortnightly minimum cash reserve ratio that banks had to maintain remained unchanged at 9.0 per cent and 6.0 per cent on rupee deposits and foreign currency deposits, respectively. The average rupee excess reserves held by banks varied in a range of Rs5.1-14.3 billion in FY2017-18, compared to Rs3.2-14.4 billion in FY2016-17. Banks' average rupee excess reserves were contained as a result of the Bank's open market operations. However, the excess was skewed towards a few banks and reflected banks' preferences to hold free reserves. The average rupee cash ratio fluctuated between 10.4 per cent and 12.9 per cent in FY2017-18 compared to 10.0 per cent and 13.2 per cent in the previous fiscal year. The average foreign currency excess reserves held by banks varied in a range of Rs2.6-18.7 billion in FY2017-18, compared to Rs2.1-3.5 billion in FY2016-17. The average foreign currency cash ratio fluctuated between 9.0 per cent and 26.4 per cent in FY2017-18 compared to 8.8 and 10.5 per cent in the previous fiscal year. It is to be noted that banks' foreign currency excess reserves increased as from November 2017 in line with the implementation of the Liquidity Coverage Ratio (LCR), which represents a standard that is designed to ensure that a bank has an adequate inventory of unencumbered high quality liquid assets (HQLA). The HQLA consists of cash or assets convertible into cash at little or no loss of value in market, to meet its liquidity requirement for a 30 days' liquidity stress period. Banks kept a portion of their HQLA with the Bank, which contributed to their foreign currency balances that were in excess of the prescribed minimum cash ratio requirements.

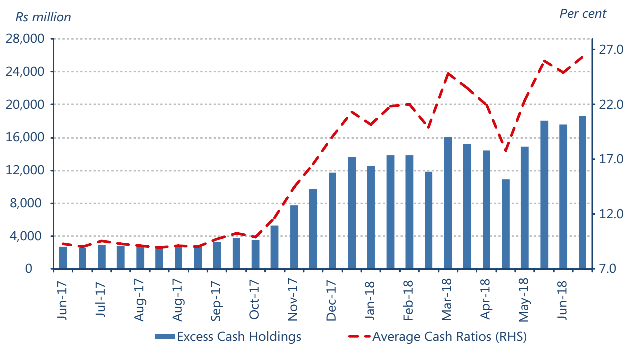
[6] *The credit-to-GDP gap has been estimated over a five-year period, between 2013 and 2018.*

Chart 2.24 Rupee Excess Cash Holdings and Average Rupee Cash Ratio



Source: Research and Economic Analysis Department.

Chart 2.25 Foreign Currency Excess Cash Holdings and Average Foreign Currency Cash Ratio



Source: Research and Economic Analysis Department.

Interest Rates

The KRR was reduced by 50 basis points to 3.50 per cent per annum on 06 September 2017 and was subsequently maintained at that level at Monetary Policy Committee meetings held on 29 November 2017, 28 February 2018 and 30 May 2018. Banks broadly adjusted their deposit and lending rates in line with the change in the Key Repo Rate (KRR). The drop in the KRR was reflected in both the weighted average rupee lending rate and weighted average rupee deposit rate of banks. The weighted average rupee lending rate of banks dropped from a peak of 6.78 per cent in July 2017 to a trough of 6.13 per cent in February 2018, before picking up to 6.24 per cent in June 2018. Banks' weighted average rupee deposits rate dropped gradually from 2.14 per cent as at end-July 2017 to 1.64 as at end-June 2018. The spread between the weighted average rupee lending and weighted average rupee deposit rates varied between 4.45 per cent and 4.64 per cent during FY2017-18 compared to a higher range of 4.58-4.72 per cent in FY2016-17.

Banks' Savings Deposit Rate (SDR), which varied between 1.75-2.75 per cent in June 2017, fell to a range of 1.75-2.60 per cent in July 2017, before dropping further to 1.20-2.00 per cent by the end of October 2017. It subsequently remained contained within that range up to end-June 2018. On the other hand, banks' Prime Lending Rates (PLR) varied in the range of 5.65-8.50 per cent almost throughout FY2017-18, except in July and August 2017, where banks' PLR fluctuated between 6.00-8.50 per cent.

FINANCIAL ACCESS AND INCLUSION

Mauritius aspires to attain the status of an inclusive high income country and its financial sector has undergone significant developments in terms of financial inclusion. The objective of financial inclusion is to raise access and use of financial services to an increased proportion of the population, notwithstanding gender, size, income level and disabilities. The Bank has focused on improving the quality of financial services by enforcing greater transparency, such as through the disclosure of interest rates and fees applicable on financial products, and by implementing financial projects directed towards efficiency and cost-cutting. Lately, in support of the government strategy, the Bank has conducted financial literacy programmes with a view to enhancing knowledge on the Mauritian financial market functioning, geared towards increasing the participation of both the financially excluded and those less financially included.

Traditional financial services such as loans play a vital role in enabling individuals and businesses to pay for education and training, and to invest and build assets. Likewise, access to deposit and insurance accounts help people to save money and safeguard themselves against risks. According to the financial access and usage data gathered by the Bank for the IMF Financial Access Survey (FAS), from 2007 to 2017, the number of bank loan accounts held per Mauritian aged 15 years and above rose from 0.38 to 0.42; and the proportion of bank deposit accounts held by this segment of the population segment rose from 2.01 to 2.37 per person.

Technological facilities were reflected in the rise of registered mobile money accounts to almost one account per person aged 15 years and above in 2017, from 0.5 in 2013. The number of debit cards also increased from around 130,000 to around 181,000 per 100,000 Mauritians aged 15 years and above, leading to an elevated consolidated ATM (Automated Teller Machine) and POS (Point of Sale) transactions. The amount of internet banking transactions in 2017 increased to Rs402 billion, from Rs312 billion in 2016.

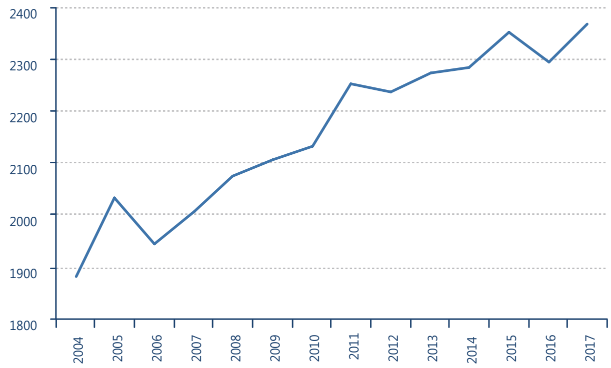
Mauritius forms part of the countries which have participated in the recently introduced gender FAS indicators. An increasing proportion of women have had access to bank loans as depicted by a rise in the percentage of female borrowers to the female Mauritian population from 10.3 per cent in 2016 to 14.1 per cent in 2017, as well as a growth in the percentage of female approved-loan accounts from 11.6 per cent to 18.0 per cent. Gender gap in terms of the number of male to female depositors condensed from 1.14 to 1.13.

Financial access to Micro, Small and Medium enterprises (SME) has progressed further in 2017. As per FAS indicators, the number of SME depositors and deposit accounts at banks, to the nearest thousands, rose respectively from 47 in 2016 to 50 in 2017 and from 62 to 68. Outstanding bank credit facilities under the Small and Medium Enterprises Financing Scheme (inclusive of Small and Micro Enterprises with a turnover under Rs10 million) rose from Rs2.0 billion to Rs2.1 billion over the period under review. The increase in the number of Credit Union institutions from 155 to 178 also played a crucial role in enhancing financial access to SMEs. The outstanding deposits relating to Credit Unions and Financial cooperatives went up from Rs1.7 billion in 2016 to Rs2.0 billion in 2017.

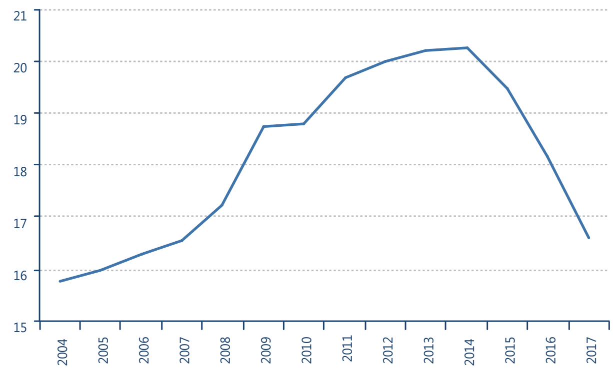
In the execution of its regulatory mandate, the Bank ensures that affordable and more accessible financial services and products are offered by its deposit-taking regulatee institutions. While recognizing the significance of innovative and digital financial products, fast changing payment landscape and disruptive financial market players in raising the level of financial inclusion to improve standard of living, the Bank remains vigilant on their impact on financial stability.

Chart 2.26 | **Indicators of Financial Access**

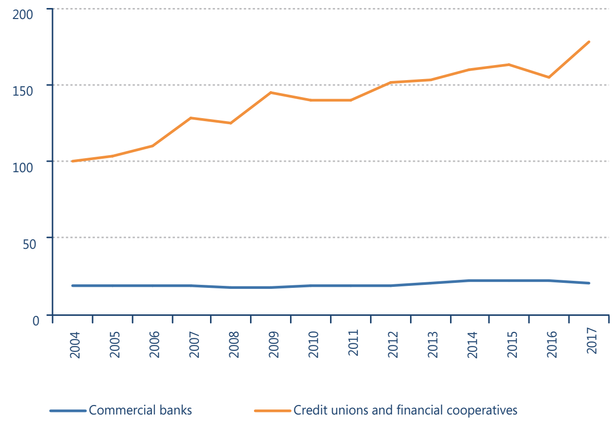
Number of bank accounts per 1,000 population aged 15 and above



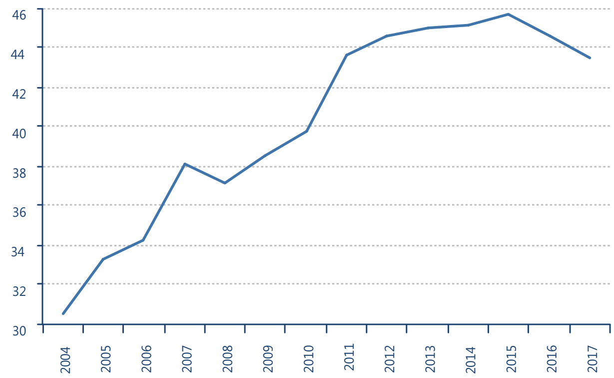
Number of branches per 100,000 population aged 15 and above



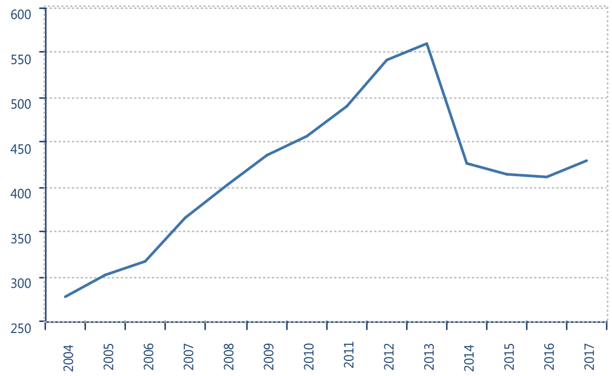
Number of Other Depository Corporations



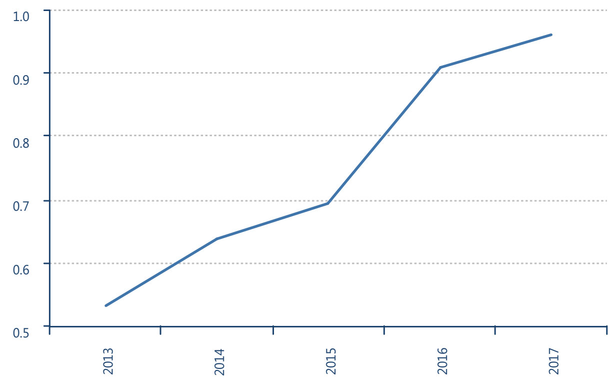
Number of ATMs per 100,000 population aged 15 and above



Number of Loan accounts at Other Deposit Takers (thousand)



Number of registered Mobile money accounts per population aged 15 and above



Source: Bank of Mauritius.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

The deterioration of the goods account deficit, triggered by a higher value of imports and a lower value of exports, somewhat worsened the current account deficit in absolute terms in FY2017-18. But as a ratio of GDP at market prices, the current account deficit was unchanged at 5.1 per cent. Higher surpluses on both the services and income accounts contributed to containing the current account deficit. The capital and financial account recorded higher net inflows in FY2017-18 together with a higher overall balance of payments surplus. Table 2.8 provides a summary of the main components of the balance of payments for FY2013-14 through FY2017-18.

Table 2.8: Balance of Payments Summary

Rs million

	2013-14 [1]	2014-15 [1]	2015-16 [1]	2016-17 [1]	2017-18 [2]
Current Account	**-15,935**	**-20,362**	**-15,942**	**-22,636**	**-24,241**
Goods	**-68,097**	**-70,267**	**-66,525**	**-82,273**	**-94,249**
Exports (f.o.b.)	90,997	97,088	88,296	82,250	79,620
Imports (f.o.b.)	-159,094	-167,355	-154,821	-164,523	-173,869
Services	**15,092**	**26,546**	**25,352**	**27,738**	**32,790**
Income	**43,241**	**34,188**	**37,440**	**43,775**	**49,715**
o/w global business	36,964	32,466	34,097	36,671	41,617
Current Transfers	**-6,170**	**-10,829**	**-12,209**	**-11,876**	**-12,497**
o/w global business	-10,169	-14,065	-14,274	-14,583	-12,792
Capital and Financial Account	**20,011**	**17,746**	**17,278**	**20,579**	**27,805**
Capital Account	**-84**	**-103**	**-69**	**-85**	**-32**
Financial Account	**20,095**	**17,849**	**17,347**	**20,663**	**27,837**
Direct Investment	346,500	384,249	153,672	304,337	249,895
o/w global business	338,741	378,849	143,808	288,144	240,883
Portfolio Investment	-211,841	-41,521	91,471	-109,968	-126,472
o/w global business	-210,700	-30,544	99,472	-98,291	-111,754
Other Investment	-98,625	-309,774	-200,875	-155,061	-48,039
o/w global business	-141,054	-233,267	-227,796	-109,598	-69,313
Reserve Assets	**-15,939**	**-15,105**	**-26,921**	**-18,645**	**-47,548**
Net Errors and Omissions	**-4,077**	**2,615**	**-1,336**	**2,057**	**-3,563**

[1] Revised.
[2] Provisional.
Note: As from the first quarter of 2018, the Bank started disseminating quarterly balance of payments statistics in conformity with the requirements of the IMF's sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) instead of the fifth edition of the IMF's Balance of Payments Manual (BPM5). As a result, certain capital account transactions previously recorded under BPM5 are no longer recorded under BPM6.
Source: Research and Economic Analysis Department.

Current Account

The current account deficit widened from Rs22.6 billion in FY2016-17 to Rs24.2 billion in FY2017-18. The goods account deficit worsened by Rs12.0 billion, from Rs82.3 billion (or 18.4 per cent of GDP) in FY2016-17 to Rs94.2 billion (or 20.0 per cent of GDP) in FY2017-18. Total imports (f.o.b.) increased by Rs9.3 billion, from Rs164.5 billion (or 36.8 per cent of GDP) in FY2016-17 to Rs173.9 billion (or 36.9 per cent of GDP) in FY2017-18, driven mostly by the higher import bill for petroleum products combined with higher imports of 'manufactured goods classified chiefly by material'. Total exports (f.o.b.) declined by Rs2.6 billion, or 3.2 per cent, from Rs82.3 billion (or 18.4 per cent of GDP) in FY2016-17 to Rs79.6 billion (or 16.9 per cent of GDP) in FY2017-18, reflecting mainly the declines in exports of 'food and live animals', 'machinery and transport equipment' and 'articles of apparel & clothing accessories'.

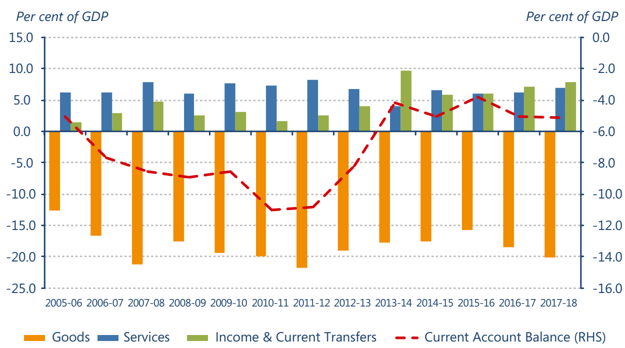
The services account surplus improved from Rs27.7 billion (or 6.2 per cent of GDP) in FY2016-17 to Rs32.8 billion (or 7.0 per cent of GDP) in FY2017-18, mainly on account of the buoyant performance of the tourism industry. Gross tourism earnings rose from Rs58.0 billion in FY2016-17 to Rs64.4 billion in FY2017-18. The 'other services' account recorded a net deficit of Rs2.2 billion as against to a net surplus of Rs0.5 billion in FY2016-17. The surplus on the income account increased from Rs43.8 billion in FY2016-17 to Rs49.7 billion in FY2017-18, partly reflecting a higher surplus from the non-GBC sector. The current transfers account deficit increased from Rs11.9 billion in FY2016-17 to Rs12.5 billion in FY2017-18. Foreign grants received increased from Rs2.0 billion in FY2016-17 to Rs3.1 billion in FY2017-18. Chart 2.27 shows the main components of the current account for FY2005-06 through FY2017-18.

Capital and Financial Account

The capital and financial account, inclusive of reserve assets, posted higher net inflows estimated at Rs27.8 billion in FY2017-18 compared to Rs20.6 billion in FY2016-17. The balance of payments surplus notched a record high of Rs47.5 billion compared to that of Rs18.6 billion recorded in FY2016-17. Excluding GBC1 transactions, direct investment in Mauritius, net of repatriation, amounted to Rs10.8 billion, which was principally directed to the *'real estate'* sector while direct investment abroad, net of repatriation, amounted to Rs1.8 billion in FY2017-18. Chart 2.28 shows the financing of the current account from FY2012-13 through FY2017-18. Exclusive of GBC transactions, the portfolio investment account registered net outflows of Rs14.7 billion, mainly explained by higher net portfolio investment abroad by residents. Non-residents' net disinvestment from the domestic stock market amounted to Rs2.0 billion in FY2017-18.

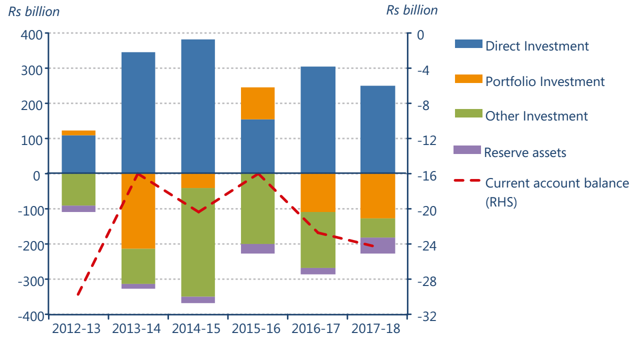
The 'Other investment' account, inclusive of GBC1 transactions, is estimated to have recorded net outflows of Rs48.0 billion in FY2017-18. The general government sector registered net outflows of Rs2.2 billion compared to net outflows of Rs5.6 billion in FY2016-17. Exclusive of GBC transactions, net outflows due to private long-term loans are estimated to have decreased to Rs1.3 billion, from Rs1.7 billion in FY2016-17. Excluding valuation change, banks' net foreign assets decreased by Rs20.0 billion in FY2017-18, reflecting to a large extent the rise in liabilities to non-residents.

Chart 2.27 Components of the Current Account



Source: Research and Economic Analysis Department.

Chart 2.28 Financing of the Current Account

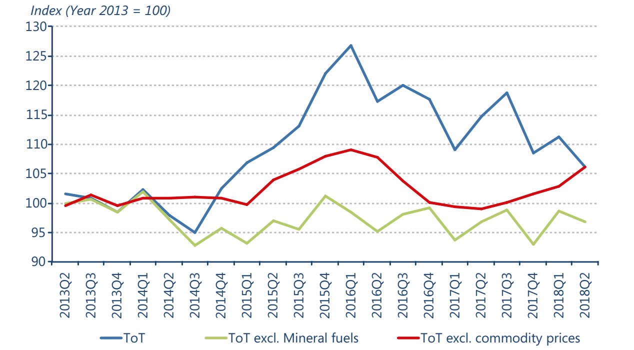


Source: Research and Economic Analysis Department.

Terms of Trade Developments

In FY2017-18, the terms of trade (ToT) deteriorated as import prices picked up at a faster pace than export prices. The ToT worsened by 3.7 per cent in FY2017-18 compared to FY2016-17. However, excluding '*Mineral Fuels*', the ToT is estimated to have lost about 0.2 per cent, and excluding commodity prices, the ToT gained 2.1 per cent. The export price index increased by 2.2 per cent, while adjusted for exchange rate changes, it rose by 4.5 per cent. The import price index (IPI) rose by 6.1 per cent, but adjusted for exchange rate changes, it increased by 8.4 per cent. Excluding *'Mineral Fuels'*, the IPI increased by a lower magnitude of 2.4 per cent while, excluding commodity prices, the IPI went up by even a lower 0.7 per cent over the same period. Chart 2.29 shows the terms of trade from 2013Q1 to 2018Q2.

Chart 2.29 **Terms of Trade**

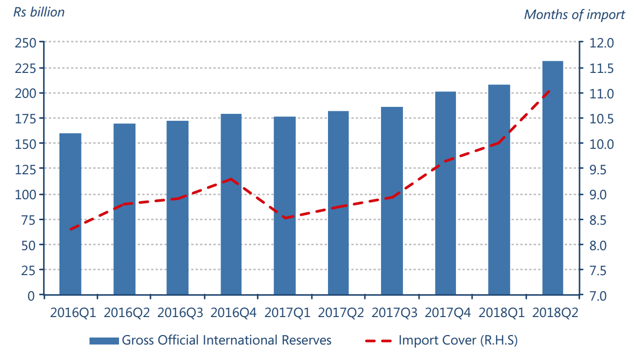


Source: Statistics Mauritius.

Gross Official International Reserves

The Gross Official International Reserves (GOIR) of the country, which principally comprise the gross foreign assets of the Bank of Mauritius and the country's reserve position in the IMF, increased by Rs49.2 billion, from Rs181.3 billion as at end-June 2017 to Rs230.5 billion as at end-June 2018. In US dollar terms, the GOIR increased from USD5,261.4 million as at end-June 2017 to USD6,668.5 million as at end-June 2018. Based on the value of imports of goods (f.o.b.) and services for calendar year 2017, GOIR of the country represented 11.2 months of imports as at end-June 2018 compared to 8.8 months as at end-June 2017. This relatively high level of GOIR provides adequate buffer against any potential external headwinds. Chart 2.30 shows the gross official international reserves from 2016Q1 to 2018Q2.

Chart 2.30 **Gross Official International Reserves and Import Cover**



Source: Research and Economic Analysis Department.

EXTERNAL VULNERABILITIES INDICATORS

Higher gross international reserves and a lower gross external debt contributed to an improvement of macro economic indicators used to gauge the external vulnerabilities of the country as at end-June 2018. The gross external debt of the country declined from Rs79.3 billion as at end-June 2017, representing 17.8 per cent of GDP, to Rs76.6 billion as at end-June 2018, equivalent to 16.3 per cent of GDP. The ratio of gross external debt to exports of goods and services edged down to 40.9 per cent while the level of gross official intenational reserves as at end-June 2018 were more than three times the level of gross external debt. The ratio of external debt servicing to exports of goods and services declined from 7.4 per cent in FY2016-17 to 4.6 per cent in FY2017-18.

Table 2.9: External Vulnerabilities Indicators									
									Rs million
		Dec-14	**Jun-15**	**Dec-15**	**Jun-16**	**Dec-16**	**Jun-17**	**Dec-17**	**Jun-18**
Gross External Debt [1]	as at end	79,463	86,919	89,112	87,935	85,274	79,338	77,678	76,623
External Debt Service [1]	year ended	7,642	8,690	7,898	7,794	9,624	13,755	12,629	8,616
Exports of Goods	year ended	94,776	97,088	93,290	88,926	84,456	82,250	81,317	79,620
Exports of Goods and Services	year ended	183,806	190,138	189,102	187,231	184,915	184,967	186,406	187,240
Imports of Goods and Services	year ended	229,221	233,859	230,282	228,404	229,581	239,502	248,037	248,700
Gross Official International Reserves	as at end	124,344	139,894	152,902	168,679	178,858	181,339	200,368	230,496
GDP at market prices	year ended	392,062	400,565	409,893	422,083	434,765	446,568	457,445	471,003
Broad Money Liabilities	as at end	397,557	418,402	437,999	454,966	477,789	491,497	522,083	537,638
I. Solvency *(Per cent)*		**Dec-14**	**Jun-15**	**Dec-15**	**Jun-16**	**Dec-16**	**Jun-17**	**Dec-17**	**Jun-18**
Gross External Debt/GDP		20.3	21.7	21.7	20.8	19.6	17.8	17.0	16.3
Gross External Debt/ Exports of Goods		83.8	89.5	95.5	98.9	101.0	96.5	95.5	96.2
Gross External Debt/ Exports of Goods and Services		43.2	45.7	47.1	47.0	46.1	42.9	41.7	40.9
External Debt Service/ Exports of Goods		8.1	9.0	8.5	8.8	11.4	16.7	15.5	10.8
External Debt Service/ Exports of Goods and Services		4.2	4.6	4.2	4.2	5.2	7.4	6.8	4.6
II. Reserve Adequacy *(Per cent)*		**Dec-14**	**Jun-15**	**Dec-15**	**Jun-16**	**Dec-16**	**Jun-17**	**Dec-17**	**Jun-18**
Reserves/Imports of Goods and Services		54.2	59.8	66.4	73.9	77.9	75.7	80.8	92.7
Reserves/Broad Money Liabilities		31.3	33.4	34.9	37.1	37.4	36.9	38.4	42.9
Reserves/Gross External Debt		156.5	160.9	171.6	191.8	209.7	228.6	257.9	300.8

[1] Gross external debt outstanding as at end of period excludes global business companies' and other deposit taking institutions' debts.
Source: Research and Economic Analysis Department.

International Investment Position

The net creditor position of Mauritius vis-à-vis non-residents consolidated further as at end-December 2017, benefitting from both the GBC and non-GBC sectors. The International Investment Position (IIP) statistics showed that the country's net foreign asset position stood at Rs909 billion as at end-December 2017, up from Rs626 billion as at end-December 2016 (Table 2.10). Claims on non-residents increased from Rs15,642 billion as at end-December 2016 to Rs16,467 billion as at end-December 2017. Liabilities to non-residents also went up from Rs15,016 billion to Rs15,557 billion over the same period. The net foreign asset position of the non-GBC sector increased from Rs369 billion as at end-December 2016 to Rs391 billion as at end-December 2017. The net foreign asset position of the GBC sector more than doubled from Rs257 billion to Rs519 billion.

Portfolio investment assets

The stock of residents' portfolio investment assets increased by US$28.7 billion, from US$110.7 billion as at end-December 2016 to US$139.4 billion as at end-December 2017. This pick-up reflected a rise of US$25.4 billion in the stock of equity assets to US$127.0 billion as at end-December 2017; and of US$3.4 billion in debt instruments to US$12.4 billion. Category 1 Global Business Companies (GBC1s) held the bulk of portfolio investment assets abroad, which amounted to USD134.2 billion and represented 96.2 per cent of the total as at end-December 2017. India remained the preferred destination of resident investors with 76.1 per cent (or USD106.1 billion) of the total stock of foreign portfolio investment assets as at end-December 2017 (Table 2.11).

Table 2.10: International Investment Position

Rs million

	2014 [1]	2015 [1]	2016 [1]	2017 [2]		2014 [1]	2015 [1]	2016 [1]	2017 [2]
Net Foreign Asset Position	**443**	**743**	**626**	**909**					
o/w: Non-GBC1	*293*	*347*	*369*	*391*					
GBC1	*151*	*396*	*257*	*519*					
Claims on Non-residents	**14,074**	**15,390**	**15,642**	**16,467**	**Liabilities to Non-residents**	**13,631**	**14,646**	**15,016**	**15,557**
Direct Investment	*7,296*	*7,997*	*8,441*	*8,989*	Direct Investment	9,475	10,017	10,203	11,159
o/w: Non-GBC1	*31*	*26*	*27*	*26*	*o/w: Non-GBC1*	*133*	*157*	*166*	*166*
GBC1	*7,265*	*7,970*	*8,414*	*8,963*	GBC1	9,342	9,860	10,036	10,993
Portfolio Investment	*3,919*	*4,387*	*3,985*	*4,881*	Portfolio Investment	1,122	1,243	1,137	1,266
o/w: Non-GBC1	*126*	*126*	*149*	*177*	*o/w: Non-GBC1*	*39*	*31*	*30*	*35*
GBC1	*3,793*	*4,260*	*3,836*	*4,704*	GBC1	1,083	1,212	1,106	1,231
Other Investment	*1,504*	*1,714*	*1,987*	*2,187*	Other Investment	1,978	2,437	2,794	2,902
o/w: Non-GBC1	*571*	*578*	*565*	*520*	*o/w: Non-GBC1*	*388*	*348*	*354*	*330*
GBC1	*934*	*1,136*	*1,422*	*1,667*	GBC1	1,591	2,089	2,440	2,572
Financial Derivatives	*1,230*	*1,139*	*1,050*	*209*	Financial Derivatives	1,055	950	883	230
o/w: Non-GBC1	*121*	*119*	*63*	*131*	*o/w: Non-GBC1*	*121*	*119*	*63*	*132*
GBC1	*1,109*	*1,020*	*987*	*78*	GBC1	*934*	*830*	*820*	*97*
Reserve Assets	124	153	179	200					

[1] Revised.
[2] Preliminary estimates.
Note: Figures may not add up to totals due to rounding.
Source: Research and Economic Analysis Department.

Table 2.11: Mauritius: Outstanding Portfolio Investment Assets by Geographical Location				
	Dec-16		Dec-17	
	Portfolio Assets *(USD million)*	Share in Total *(Per cent)*	Portfolio Assets *(USD million)*	Share in Total *(Per cent)*
Total	110,674		139,432	
of which:				
India	83,525	75.5	106,122	76.1
Hong Kong	6,208	5.6	7,051	5.1
Singapore	3,615	3.3	4,414	3.2
United States	2,762	2.5	3,902	2.8
China	2,197	2.0	2,583	1.9
Cayman Islands	1,163	1.1	1,969	1.4
United Kingdom	1,616	1.5	1,839	1.3
South Africa	837	0.8	1,083	0.8
Luxembourg	592	0.5	937	0.7
Switzerland	878	0.8	230	0.2

Source: Research and Economic Analysis Department.

Workers Remittances

Inward workers' remittances for the FY2017-18 have been estimated at Rs2,123 million, which emanated mostly from Europe. Inflows from France and the United Kingdom, the top two source countries, amounted to Rs583 million (or 27.5 per cent of the total) and Rs332 million (or 15.6 per cent of the total), respectively. Outward workers' remittances totalled Rs5,330 million in FY2017-18 with about 73 per cent of the total having been directed to the Asian continent, notably to Bangladesh (Rs1,880 million) and India (Rs1,571 million). The largest outward transfers in FY2017-18 were effected by remitters employed in the manufacturing sector (Rs3,187 million or 59.8 per cent of the total), of which about 55 per cent was directed to Bangladesh and India. The overall average charge for inward and outward remittances in FY2017-18 stood at 0.05 per cent and 1.0 per cent, respectively.

The average charge for inward remittances in FY2017-18 by banks and foreign exchange dealers combined, as a percentage of the amount remitted, ranged between nil and 0.7 per cent. Similarly, the average commission charged for outward remittances by individual remitting entities varied between nil and 3.1 per cent. Mauritius is therefore already compliant with the United Nations Sustainable Development Goals (SDGs), target 10.c, that is, to reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent by 2030.

GOVERNMENT FINANCE

Developments in FY2017-18

Fiscal performance for the FY2017-18 was underpinned by an improvement in the budget deficit, from 3.2 per cent of GDP compared to 3.5 per cent in FY2016-17. The deficit was wholly financed from domestic sources.

Revenue

Total revenue increased by 13.6 per cent, from Rs94.0 billion in FY2016-17 to Rs106.8 billion in FY2017-18. During the FY2017-18, all revenues and expenses of the Build Mauritius Fund and the National Resilience Fund were consolidated within the National Budget, which culminated in a hike in capital revenue through a transfer from Special Funds, amounting to Rs4.8 billion. External grants rose by 14.1 per cent, from Rs2.9 billion in FY2016-17 to Rs3.3 billion in FY2017-18. Capital revenue improved from Rs2.9 billion to Rs8.1 billion.

Tax revenue, which accounted for nearly 93 per cent of recurrent revenue, increased by 9.3 per cent, from Rs84.2 billion in FY2016-17 to Rs92.1 billion in FY2017-18. The higher tax revenue relative to nominal GDP growth raised tax revenue buoyancy from 1.3 in FY2016-17 to 1.4 in FY2017-18. Taxes on income, profits and capital gains rose by 8.8 per cent, from Rs21.8 billion to Rs23.8 billion. Revenue from taxes on goods and services, which represents VAT receipts, surged by 10.8 per cent to Rs59.4 billion. Social contribution amounted to Rs1.3 million in FY2017-18, same as the previous year. However, other revenue which come from fines, penalties, property income and others declined by 4.8 per cent from Rs5.5 billion in FY2016-17 to Rs5.3 billion in FY2017-18.

Expenditure

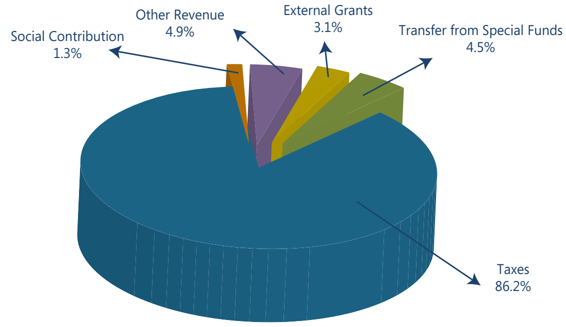
Total expenditure rose by 11.3 per cent from Rs110.0 billion in FY2016-17 to Rs122.3 billion in FY2017-18. Recurrent expenditure rose by 7.1 per cent from Rs99.5 billion in FY2016-17 to Rs106.6 billion in FY2017-18, lower than growth of 7.7 per cent attained in 2016-17. Recurrent expenditure stood at 22.4 per cent of GDP in FY2017-18, up from 22.2 per cent in FY2016-17. The largest components of recurrent expenditure were compensation of employees, social benefits and grants, which together accounted for about 80 per cent of total recurrent expenditure. Compensation of employees and social benefits each amounted to Rs29.5 billion, or about 6.2 per cent of GDP while grants stood at Rs21.1 billion, or 4.4 per cent of GDP in FY2017-18.

Capital expenditure increased from Rs10.4 billion in FY2016-17 to Rs15.7 billion in FY2017-18. Acquisition of non-financial assets was the main component of capital expenditure which increased by 16.6 per cent, from Rs6.9 billion in FY2016-17 to Rs8.1 billion in FY2017-18. However, a lower implementation of capital projects was noted as 63.7 per cent of the estimated amount was executed in FY2017-18, compared to around 70 per cent in FY2016-17. As a percentage of GDP, it stood at 1.7 per cent in FY2017-18 (Table 2.12).

Budget Balance and Financing

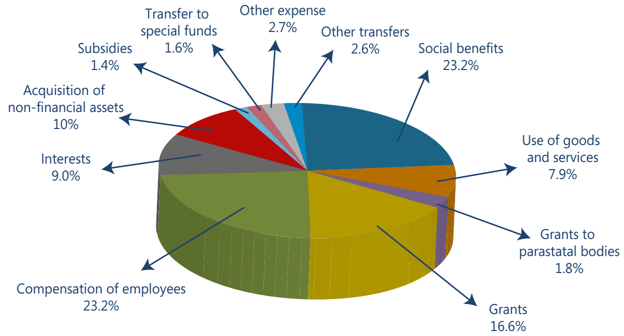
The budget deficit improved from Rs15.8 billion in FY2016-17 to Rs15.4 billion in FY2017-18. The recurrent budget balance for the FY2017-18 was lower at Rs7.9 billion, compared to the estimated amount of Rs9.4 billion, reflecting less recurrent revenue of Rs0.8 billion and shortfall of Rs2.3 billion in recurrent expenditure. The capital deficit was higher at Rs7.5 billion, compared to the estimate of Rs6.1 billion in FY2017-18. The Government received only 47.4 per cent of the projected grants, amounting to Rs3.3 billion. Moreover, the lower implementation of capital projects led to a shortfall in capital expenditure, which was offset by an increase in transfer from Special Funds. The budget deficit amounted to Rs15.4 billion and represented 3.2 per cent of GDP. The budget deficit was mainly financed by domestic sources in FY2017-18. The deficit was financed exclusively from domestic sources. Foreign loans to the tune of Rs2.0 billion were repaid by Government during the FY2017-18. The primary deficit, which is computed by deducting interest payments from the budget deficit, stood at 0.8 per cent of GDP, lower compared to 1.1 per cent during the previous fiscal year.

Chart 2.31 Sources of Government's Total Revenue in FY2017-18



Source: Ministry of Finance and Economic Development.

Chart 2.32 Sources of Government's Total Expenditure in FY2017-18



Source: Ministry of Finance and Economic Development.

Table 2.12: Statement of Government Operations				
	2016-17	2017-18[1]	2017-18[2]	2018-19
1. Recurrent Revenue	**91,196**	**99,525**	**98,682**	**106,940**
	(20.3)	***(20.7)***	***(20.7)***	***(20.9)***
(a) Taxes	84,147	92,259	92,070	99,723
(i) Taxes on income, profits, and capital gains	21,779	23,282	23,750	26,085
(ii) Taxes on property	5,995	6,293	5,889	6,550
(iii) Taxes on goods and services	53,575	59,564	59,356	63,758
(iv) Taxes on international trade and transactions	1,177	1,305	1,335	1,440
(v) Other taxes	1,623	1,815	1,740	1,890
(b) Social Contribution	1,377	1,545	1,337	1,297
(c) Other Revenue	5,672	5,721	5,275	5,920
2. Recurrent Expenditure	**99,542**	**108,885**	**106,582**	**115,893**
	(22.2)	*(22.7)*	*(22.4)*	*(22.6)*
(a) Compensation of Employees	28,364	30,552	29,485	31,396
(b) Use of Goods and Services	8,908	10,937	9,976	11,593
(c) Interest	10,958	11,900	11,500	13,375
(d) Subsidies	1,517	1,955	1,733	1,648
(e) Grants	20,185	20,925	21,053	22,064
(f) Social Benefits	27,401	29,550	29,456	31,916
(g) Other Expense	2,206	2,566	3,379	3,401
(h) Contingencies	-	500	-	500
3. Recurrent Balance	**-8,346**	**-9,360**	**-7,900**	**-8,953**
	(1.9)	***(2.0)***	***(1.7)***	***(1.7)***
4. Capital Revenue	**2,904**	**12,717**	**8,149**	**10,497**
	(0.6)	***(2.7)***	***(1.7)***	***(2.0)***
(a) External Grants	2,904	6,978	3,309	8,897
(b) Transfer from Special Funds	0	5,739	4,840	1,600
5. Capital Expenditure	**9,993**	**18,831**	**15,698**	**17,889**
	(2.3)	***(3.9)***	***(3.3)***	***(3.5)***
(a) Acquisition of non-financial assets	6,330	12,713	8,098	11,446
(b) Transfer to Special Funds	64	0	2,000	0
(c) Other transfers	1,902	3,166	3,279	3,137
(d) Grants to Parastatal Bodies/Local authorities/RRA	1,697	2,752	2,321	3,106
(e) Contingencies	0	200	0	200
6. Capital Balance	**-7,089**	**-6,114**	**-7,549**	**-7,392**
	(1.7)	***(1.3)***	***(1.6)***	***(1.4)***
7. Budget Balance	**-15,435**	**-15,474**	**-15,449**	**-16,345**
	(3.5)	***(3.2)***	***(3.2)***	***(3.2)***
8. Borrowing Requirements	**15,396**	**20,988**	**19,254**	**24,776**
	(3.5)	(4.4)	(4.0)	(4.8)
Domestic	20,984	21,740	21,294	27,433
Foreign	-5,588	-752	-2,040	-2,657
9. Primary Balance	**-4,477**	**-3,573**	**-3,949**	**-2,970**
	(1.1)	***(0.7)***	***(0.8)***	***(0.6)***

Note: [1]: Estimates.
[2]: Revised Estimates.
** Figures may not add up to totals due to rounding.*
Figures in brackets are percentages to GDP.
Source: Ministry of Finance and Economic Development.

Budgetary Estimates for FY2018-19

The budget deficit has been estimated at Rs16.3 billion in FY2018-19 or 3.2 per cent of GDP, unchanged from FY2017-18. The recurrent budget deficit is estimated at 1.7 per cent of GDP. Capital budget deficit as a ratio to GDP is projected to narrow from 1.6 per cent in FY2017-18 to 1.4 per cent in FY2018-19, with capital expenditure increasing from 3.3 per of GDP to 3.5 per cent of GDP, mainly due to higher expenditure on acquisition of non-financial assets, which would fully offset external grants and transfer from Special Funds amounting to 1.7 per cent and 0.3 per cent of GDP, respectively. For the fourth consecutive fiscal year, the financing of the budget deficit would come solely from domestic sources. The primary deficit is estimated to decline to 0.6 per cent of GDP, as interest payments are projected to increase from Rs11.5 billion in FY2017-18 to Rs13.4 billion in FY2018-19.

Public Sector Debt

Public sector debt increased by 3.5 per cent from Rs290.1 billion as at end June 2017 to Rs300.2 billion as at end June 2018, reflecting a build-up in Public Enterprises' total debt. However,as a share to GDP, public sector debt declined from 64.8 per cent as at end-June 2017 to 63.0 per cent as at end-June 2018 (Table 2.13).

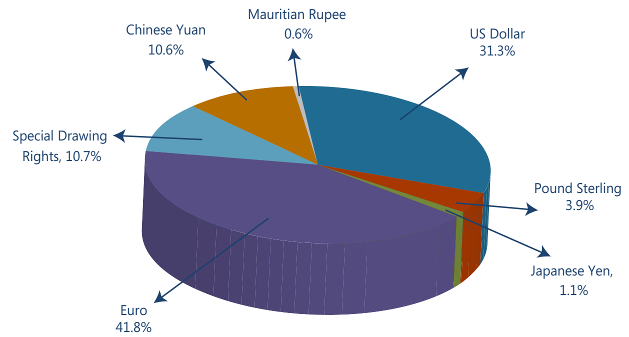
Public sector domestic debt rose by 5.0 per cent, from Rs231.2 billion as at end June 2017 to Rs242.8 billion as at end June 2018; but as a share of GDP, it fell by 0.6 percentage point, from 51.6 per cent as at end June 2017 to 51.0 per cent as at end June 2018. Public sector external debt declined by 2.7 per cent, from Rs58.9 billion as at June 2017 to Rs57.3 billion as at end June 2018. Public sector external debt as a ratio to GDP dropped to 12.0 per cent, from 13.2 per cent over the period under review.

Debt obligations of public enterprises rose by 21.2 per cent to Rs29.8 billion as at June 2018, as domestic guaranteed debt rose by 88.5 per cent, from Rs7.4 billion as at end-June 2017 to Rs14.0 billion as at end-June 2018. On the other hand, domestic non-guaranteed debt declined by 33.2 per cent over the same period.

Government continued to lengthen its debt maturity profile. Long-term debt represented about 64 per cent of total budgetary central Government domestic debt at the end of June 2018, while 24 per cent of the debt was of medium-term nature.

Budgetary central Government external debt remained concentrated in the two most liquid and largest reserve currencies: euro (41.8 per cent) and the US dollar (31.3 per cent) as at end-June 2018. The relative share of debt denominated in US dollar fell by 2.3 percentage points compared to a year ago. Debt denominated in Pound sterling also declined by 0.1 percentage point to 3.9 per cent and Chinese Yuan-denominated debt was marginally down to 0.6 per cent (Chart 2.33). The share of debt carrying a floating exchange rate tag was 60.3 per cent while that with fixed interest rates increased by 1.9 percentage points to 37.7 per cent. The debt service ratio, a key indicator of a country's external debt burden, fell to 3.8 per cent as at end June 2018, from 6.2 per cent during at the end of June 2017.

Chart 2.33 Currency Composition of Budgetary Central Government External Debt



Source: Ministry of Finance and Economic Development.

Table 2.13: Public Sector Debt					
	Jun-15	**Jun-16**	**Jun-17**	**Mar-18**	**Jun-18**
1. Short-term Domestic Obligations [1]	**25,916**	**34,280**	**38,723**	**25,187**	**25,856**
2. Medium and Long-term Domestic Obligations [1]	**145,992**	**163,518**	**180,479**	**194,111**	**199,927**
3. Domestic Central Government Debt (1+2)	**171,908**	**197,798**	**219,202**	**219,298**	**225,783**
	(42.9)	*(46.9)*	*(49.0)*	*(47.2)*	*(47.4)*
4. External Government Debt	**54,711**	**53,464**	**46,231**	**44,544**	**44,538**
	(13.7)	*(12.7)*	*(10.3)*	*(9.6)*	*(9.4)*
(a) Foreign Loans	49,920	48,532	41,552	39,838	39,823
(b) Foreign Investment in Government Securities	16	128	39	29	14
(c) IMF SDR Allocations	4,775	4,804	4,640	4,677	4,701
5. Extra Budgetary Unit Domestic Debt	**24**	**24**	**24**	**24**	**24**
6. Extra Budgetary Unit External Debt	**136**	**115**	**90**	**79**	**68**
7. Local Government Domestic Debt	**0**	**0**	**0**	**0**	**0**
8. Public Enterprise Domestic Debt	**12,507**	**10,679**	**11,935**	**17,764**	**17,015**
9. Public Enterprise External Debt	**12,618**	**12,317**	**12,621**	**11,694**	**12,736**
10. Domestic Public Sector Debt	**184,439**	**208,501**	**231,161**	**237,086**	**242,822**
	(46.0)	*(49.4)*	*(51.6)*	*(51.0)*	*(51.0)*
11. External Public Sector Debt	**67,465**	**65,896**	**58,942**	**56,317**	**57,342**
	(16.8)	*(15.6)*	*(13.2)*	*(12.1)*	*(12.0)*
12. Total Public Sector Debt (10+11)	**251,904**	**274,397**	**290,103**	**293,403**	**300,164**
	(62.9)	*(65.0)*	*(64.8)*	*(63.1)*	*(63.0)*

[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.

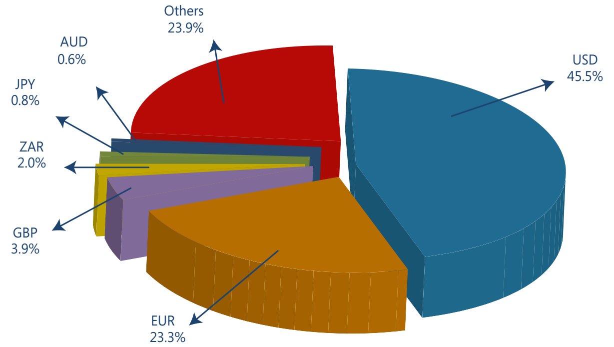
EXCHANGE RATE DEVELOPMENTS

In FY2017-18, movements in the exchange rate of the rupee remained largely influenced by developments on international markets. The Bank continued to intervene on the domestic foreign exchange market to smooth out undue volatility in the rupee exchange rate and ensure that the rupee broadly reflects domestic economic fundamentals.

Total turnover (including spot and forward dealt transactions, but excluding interbank transactions and interventions by the Bank) on the domestic foreign exchange market increased from an equivalent of USD9.8 billion in FY2016-17 to an equivalent of USD11.4 billion in FY2017-18. Two third of these transactions were denominated in US dollar and euro. However, US dollar transactions declined from 54.6 per cent in FY2016-17 to 45.5 per cent in FY2017-18 while transactions in euro increased from 20.7 per cent to 23.3 per cent (Chart 2.34).

Between end-June 2017 and end-June 2018, on a point to point basis, the weighted average daily dealt ask rates of the rupee depreciated against the US dollar, euro and Pound sterling by 0.2 per cent, 1.5 per cent and 0.6 per cent, respectively (Chart 2.35). Fiscal stimulus measures and continued monetary policy normalisation by the US Federal Reserve supported the US dollar. However, geopolitical

Chart 2.34 Foreign Exchange Transactions by Banks: Turnover by Currency



Source: Bank of Mauritius.

tensions with North Korea and trade tensions with main trading partners limited the gains on the US currency. The appreciation of the Pound sterling was mainly driven by Bank of England's hawkish stance in response to inflationary pressures while an improvement in economic activity in the euro area, especially in Germany and France, was mainly behind the strength of the euro. Chart 2.36 provides a summary of the performance of the Mauritian rupee against major trading partners as per the currency distribution of trade.

In nominal effective terms, as gauged by MERI1 and MERI2, the rupee depreciated marginally by 0.1 per cent and 0.2 per cent, respectively, undermined by the strength of the currencies of major trading partners. In real effective terms, based on trade weights, the rupee appreciated by 0.5 per cent as the nominal depreciation against major trading partner countries was partly offset by a higher inflation differential. Chart 2.37 shows the evolution of the Mauritian rupee and an index of selected currencies and the US dollar while Chart 2.38 depicts the movements of MERI1, MERI2 and REER.

STOCK MARKET DEVELOPMENTS

Though the SEMDEX stayed on a positive momentum in 2017H2, it was subject to bouts of volatility during 2018H1. The increase in the SEMDEX was supported by rising business confidence and economic optimism amid the launch of key infrastructure projects. However, gains in 2018H1 were capped following the global equity sell-off in February 2018 and mounting trade frictions between two of the world's powerhouses, the US and China. The SEMDEX, which stood at 2,245 as at end-June 2018, was higher by 5.7 per cent compared to end-June 2017. During 2017H2, gains in the SEMDEX was relatively higher at 6.1 per cent compared to gains of 1.9 per cent during 2018H1. The SEM-10, which comprises the 10 most capitalised stocks listed on the SEM, gained 4.4 per cent during the FY2017-18.

Total market capitalisation on the Official Market surged to Rs331.5 billion as at end-June 2018 compared to Rs303.3 billion a year earlier, an increase of 9.3 per cent. Total turnover of transactions on the Official Market during FY2017-18 amounted to Rs4.2 billion for a volume of 115 million shares traded, down from an aggregate value of Rs13.6 billion for 1.1 billion shares traded in FY2016-17. These transactions represented a decline of 69.1 per cent in terms of value traded while volume traded was lower by 89 per cent.

Foreign disinvestment declined during the year under review. Net sales by foreigners decreased to Rs1,986 million during FY2017-18 compared to Rs2,059 million in FY2016-17. Purchases by foreign investors amounted to Rs4,921 million during FY2017-18 and was higher by 26.9 per cent compared to Rs3,878 million during FY2016-17. Sales by non-residents amounted to Rs6,908 million and was higher by 16.4 per cent compared to Rs5,937 million a year earlier. Notwithstanding the disinvestment, holdings by foreign investors increased by 62.8 per cent to Rs54.7 billion as at end-June 2018, from Rs33.6 billion as at end-June 2017, presumably reflecting valuation changes. Measured as a percentage to total market capitalisation, foreign investors' holdings rose to 19.2 per cent as at end-June 2018, from 12.3 per cent, a year earlier.

Chart 2.35 Nominal Exchange Rate

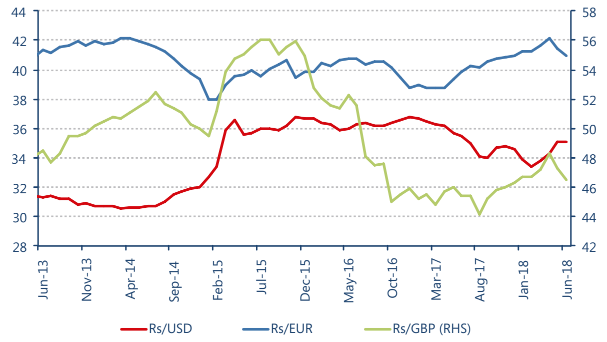
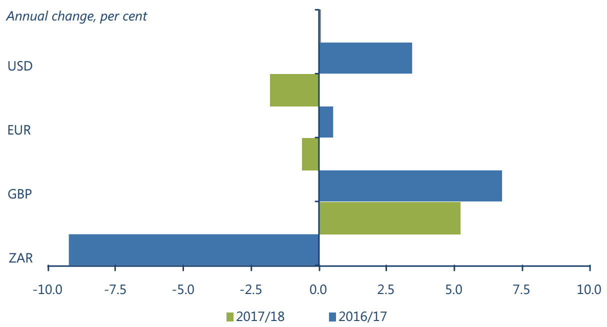


Chart 2.36 Summary of the Performance of the Mauritian Rupee vis-à-vis Major Trading Partners' Currencies



Source: Bank of Mauritius.

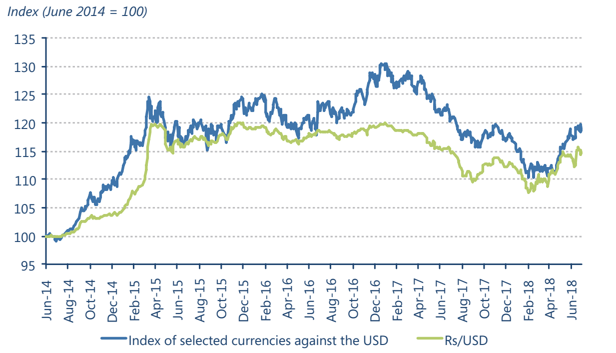
GLOBAL ECONOMIC DEVELOPMENTS

During FY2017-18, global growth projections have been revised upward by a number of institutions highlighting an improvement in short-term prospects for the world economy. The IMF has upgraded the 2018 global growth forecast twice, from 3.6 per cent to 3.7 per cent in October 2017 and further to 3.9 per cent in January 2018. Thereafter, in April 2018, global growth was maintained at 3.9 per cent for both 2018 and 2019. The OECD, on its part, also revised upward the 2018 global growth projection from 3.6 per cent to 3.7 per cent and 3.9 per cent in November 2017 and May 2018, respectively. Both institutions pointed to more robust global economic activity and more balanced economic recovery across regions and countries.

The global expansion was deemed to be supported by accommodative global financial conditions, subdued inflation and persistent declines in unemployment rates, especially in some major advanced economies, namely the US. For most of the FY2017-18, the US dollar was relatively weak, thus bolstering global financial conditions, particularly in Emerging Market and Developing Economies (EMDEs), prompting robust inflows of capital. Major commodity exporters renewed with growth after prolonged periods of recession, notably Brazil and Russia, buoyed by an increase in commodity prices. Global trade also supported global economic activity. Many economies drew near to their potential output, as evidenced by shrinking of output gap.

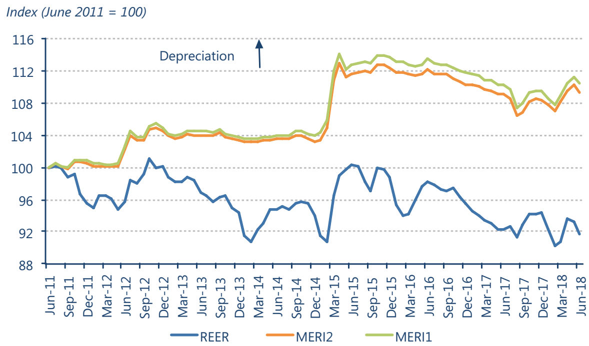
However, more recently, the financial markets of a number of emerging economies started to be adversely affected by the interest rate normalisation cycle, of the US in particular, among advanced countries and appreciation of the US dollar. A tightening of global financial conditions led to a reversal of capital flows, causing sharp depreciation of emerging economies' currencies, especially those with prevailing macroeconomic and financial weaknesses and faced with significant structural and political challenges. Another major event was the announcement in March 2018 by the US President of the imposition of tariffs on a number of countries and several products, with China being the most impacted. Trade concerns pose a challenge mainly for emerging market economies which tend to rely more on trade as compared to their advanced economy counterparts. These protectionist measures augur poorly for the global growth outlook, in so far as trade supports overall economic activity.

Chart 2.37 Evolution of the Mauritian Rupee and an Index of Selected Currencies and the US Dollar



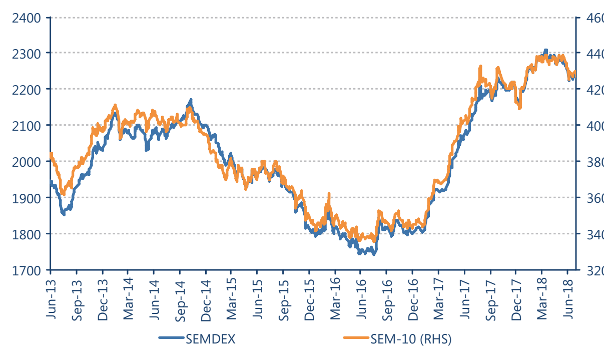
Note: The selected currencies include the Euro, GBP, Rand, Yen, Swiss franc, Singapore dollar and Australian dollar.
Source: Bank of Mauritius.

Chart 2.38 Evolution of MERI1, MERI2 and REER



Source: Bank of Mauritius.

Chart 2.39 Evolution of the SEMDEX and SEM-10



Source: Stock Exchange of Mauritius.

Taking into account these considerations, the IMF and the OECD have reviewed their outlook for global growth. While the IMF had highlighted in January 2018 that economic recovery was becoming more synchronised and that risks to the global growth outlook were broadly balanced in the near term but tilted to the downside in the medium term, in July 2018, it had pointed to less even world growth and stated that the balance of risks had tilted further to the downside, even in the short term. The pace of expansion in a number of advanced economies had reached its highest level and had become less coordinated. Growth was diverging between the US on the one hand, and Europe and Japan on the other. Such divergences were also being observed among EMDEs. Downside risks to global growth included intensifying and persistent trade tensions, geopolitical conflict, increasing political uncertainty, disorderly corrections to portfolio flows causing sharp movements in exchange rates, especially in countries with more vulnerable fundamentals or higher political risks.

The OECD, in its September 2018 Interim Economic Outlook, has downgraded the global growth projections for both 2018 and 2019. Global growth for these two years was forecast at 3.7 per cent, lower by 0.1 percentage point and 0.2 percentage point, respectively, from the May 2018 forecasts. The OECD corroborated the IMF's standpoint that growth was becoming increasingly asynchronous across countries as opposed to even growth witnessed in 2017 and downside risks to global growth were mounting. The OECD also pointed to the possibility that global economic growth may have attained its highest level. Looking forward, domestic demand would remain sustained by accommodative monetary and fiscal policy and favourable labour market conditions in advanced economies. The outlook was, however, marred with an escalation of trade tensions, easing of confidence and a highly uncertain economic environment, which would dent investment and trade and cloud over growth prospects. The outlook for emerging economies was more fragile, especially those which have been hit hard by turbulence in financial markets and which had their own set of specific challenges.

Box II: Global Economic Uncertainty

Global economic activity continues to be robust, although it appears that global growth has reached its peak. The world economy is increasingly being subject to heightened uncertainty in the wake of a number of factors, including rising oil prices, escalating trade tensions, turmoil in emerging markets triggered by interest rate normalisation in major advanced economies and geopolitical stress. The economic expansion could be threatened should these risks materialise and induce higher volatility in financial markets.

Global oil prices have recently hit their highest level since November 2014, exceeding US$80 a barrel on 24 September 2018. A number of factors, including disruption in global oil supply, exerting upward pressure on oil prices, have contributed to the escalation in oil prices, notably, geopolitical conflict between the US and Iran, crisis in Venezuela, reduction in oil production by Saudi Arabia and Russia and sustained global oil demand.

The US President's decision to exit the nuclear deal with Iran triggered concerns that oil supply would be squeezed, thus raising prices. The sanctions on Iran are expected to take full effect in November 2018, hampering the country's ability to export oil. Iran is the fifth largest producer in the Organisation of the Petroleum Exporting Countries (OPEC), exporting about 2.1 million barrels a day, which is equivalent to roughly 3 per cent of global demand. In the event that the fall in Iranian crude oil production and exports turns out to be greater than anticipated, the interruption in the crude oil market would put further upward pressure on oil prices.

Forecasts for global oil prices depend on a number of factors, some of which are sometimes beyond the control of the OPEC and difficult to predict. For instance, geopolitical pressures and adverse climatic conditions, notably hurricanes in the US or extreme temperatures in Europe, can disrupt global oil prices. Such a situation of uncertainty has implications for global growth. While the rise in global oil prices would provide a breather for many oil-exporting economies, it would also contribute to a more rapid build-up of global inflationary impulses, which would warrant a faster-than-expected pace of monetary policy tightening and the ensuing effects on growth.

Trade concerns constitute a major challenge for emerging market economies which tend to rely more on trade. Increasing strains on the global trade front and uncertainty related to future trade policy would further undermine confidence, forcing investors to delay investment plans for fear of imposition of additional tariffs. The US President announced, in March 2018, the imposition of tariffs on a number of countries and several products, with China being the most impacted. Tariffs were initially imposed on China in July and August 2018 on goods worth US$50 billion and in September 2018, imports of US$200 billion were targeted, at a rate of 10 per cent which could possibly increase to 25 per cent in January 2019. China has retaliated with higher tariffs on US$110 billion of imports from the US.

While the impact from trade frictions has so far been contained and the depreciation of the Chinese renminbi has provided a cushion against higher tariffs, the potential easing of global trade would eventually take a toll on global growth in the event that more protectionist measures are implemented in the near term given the strong interlinkages in the global trade network via global production chains.

Jittery financial markets have played a prominent role in the emerging markets turmoil, rendering investors more risk averse. The resulting exit of capital flows from emerging markets led to sharp depreciation of their currencies, providing an impulse to inflation. The reversal in international risk appetite for non-US assets was driven by intensifying trade frictions, interest rate normalisation in the US and the concomitant strengthening of the US dollar, tightening liquidity conditions in developed markets, intensification of geopolitical strains and firming of oil prices. Emerging economies' stock markets also tumbled. A number of major emerging economies, including Argentina and Turkey, especially those with sizeable current account deficits, vulnerable fiscal positions or substantial foreign-currency denominated debt, have been severely hit.

Global growth could be derailed should these risks intensify, the more so given that many emerging economies are among the fastest growing in the world. Volatility in financial markets of emerging economies could be exacerbated if central banks in advanced economies normalise interest rates at a faster-than-expected pace or if trade tensions among major economies intensify. In the event that the US Fed tightens monetary policy on more occasions than are expected in a bid to address a build-up of inflationary pressures, this could further trigger large capital outflows from emerging markets and repricing of assets. The emerging economies could also encounter difficulties in servicing the higher cost of debt. Their currencies would depreciate further, creating upward inflationary pressures, prompting central banks to tighten monetary policy. Lower growth in emerging economies would hurt global growth performance.

Policy Uncertainty

The global economic policy environment improved significantly during FY2017-18, aided by a reduction in policy uncertainty in Europe and the UK. The Global Economic Policy Uncertainty Index[7] receded, on average, by 31 per cent, from 219.6 in FY2016-17 to 152.3 in FY2017-18, reducing partly the 41 per cent increase recorded in the corresponding period of the previous financial year. Uncertainty subsided markedly in Europe on the back of improving economic conditions amidst favourable general elections outturn. Lower uncertainty in the UK emanated partly from monetary policy tightening by the Bank of England in August 2017 and amid optimism for a favourable Brexit deal with the European Union. During FY2017-18, the index dropped to a low of 113.3 in January 2018, but subsequently increased to 199.4 in June 2018, reflecting escalating trade tensions.

Inflation

Global inflationary pressures gained some traction in both advanced economies and EMDEs during FY2017-18 on the back of a pick-up in global energy prices, reflecting to a large extent shortage of supply, reduction in spare capacity and slack in the labour market. A number of factors have also contributed to a firming up of core inflation in both advanced and emerging economies, notably further tightening of the labour market, influence of weakening currencies and second-round effects of mounting energy prices. Notwithstanding these increases, global inflation remains lower compared to pre-crisis levels. Going forward, the July 2018 WEO Update projected consumer prices to rise from 1.7 per cent in 2017 to 2.2 per cent in 2018 in advanced economies, due to further increases in energy prices. Inflation in EMDEs is forecast to accelerate from 4.0 per cent in 2017 to 4.4 per cent in 2018, owing to inflationary impulses arising from both demand and supply sides.

Commodity Prices

Global commodity prices were on an uptrend during FY2017-18. Oil prices for ICE Brent and NYMEX WTI stood at US$63.9 and US$58.6 per barrel, on average, in FY2017-18, up from US$50.8 and US$48.6 per barrel, respectively, in FY2016-17, representing increases of 26 per cent and 21 per cent. Higher oil prices were attributed to prospects of tighter supply conditions due to Saudi Arabia's commitment to help to rebalance the global crude market, unexpected outages on the US Gulf Coast and in Libya, the North Sea, and Venezuela leading to a drop in crude oil inventories and disruptions caused by geopolitical tensions in the Middle East. An agreement by the Organisation of Petroleum Exporting Countries to extend production cut until the end of 2018 also supported oil prices. Prospects for a rebalanced oil market, propped up by brighter growth outlook and decline in inventory arising from higher global demand, have also raised oil prices to a level seen in 2014. The September 2018 Short-Term Energy Outlook published by the US Energy Information Administration projects Brent crude oil spot prices to average US$73 and U$74 per barrel in 2018 and 2019, respectively.

Global food prices, as indicated by the Food and Agriculture Organisation (FAO) Food Price Index, increased for the second consecutive year in FY2017-18, aided by higher prices of almost all sub-components, barring oil and sugar. The FAO Food Price Index rose by 2 per cent from 171.1 in FY2016-17 to 174.5 in FY2017-18. The upward trend in food prices was mostly the result of unfavourable supply conditions amid strong global demand. However, the Sugar Price Index slumped by 27 per cent in FY2017-18 compared to the preceding year, reflecting record supplies from major sugar producers like India and Thailand, amidst expectations of further increases in output, thus resulting in a glut in the sugar market. Looking ahead, while agricultural markets have been broadly stable, they remain subject to intensifying global trade conflicts and climatic shocks.

Grains prices mirrored the trend in the FAO Food Price Index, rising for the second year in a row, again reflecting adverse supply conditions. The International Grains Council's (IGC) Grains and Oilseed Index increased from 189.3 in FY2015-16 to 191.7 in FY2016-17 and further to 199.3 in FY2017-18. Grains prices were mostly stable in 2017H2 as market conditions were broadly unchanged. However, poor prospects in agricultural production in some northern hemisphere producers put upward pressure on prices in 2018H1, driven by all sub-components. The highest increase was registered in barley (29 per cent), followed by wheat and rice (12 per cent each). Going forward, unfavourable weather conditions in key growing regions could dampen grains production in the short term, thereby weighing on prices.

Gold prices were relatively volatile during FY2017-18, although, on average, they reached a new high, partly reflecting safe haven demand. The average

[7] *The Global Economic Policy Uncertainty Index is a measure of policy-related economic uncertainty and is based on media coverage and divergences in economic forecast derived from difference sources.*
Source: http://www.policyuncertainty.com

price of gold stood at US$1,296.8 an ounce in FY2017-18, up from US$1,256.7 an ounce in FY2016-17 and the same level as in FY2013-14. A number of factors buoyed gold prices, namely a weaker US dollar, a drop in equities which pushed investors into the safe-haven asset, intensifying trade tensions between the US and China and geopolitical concerns including the ballistic missile test in North Korea and potential US sanctions against Iran. However, other factors kept a lid on these gains, notably a stronger US dollar, signals from the US Fed of further monetary policy tightening, rebound in equity markets, higher risk appetite and approval of the tax overhaul in the US. Gold prices will continue to be impacted by investor sentiment, trade tensions among major economies and build-up of inflationary pressures.

World Trade

World trade volume of goods and services recovered significantly in 2017. Global trade accelerated from 2.2 per cent in 2016 to 5.1 per cent in 2017, the highest pace since 2011, backed by a pick-up in trade flows of both advanced economies and EMDEs. Improved economic performance of advanced economies and EMDEs, coupled with higher investment growth rates supported the recovery in global trade. However, world trade growth performance in 2018 is expected to recede to 4.8 per cent, as it would remain under the grip of vulnerability in global investment, inward-looking trade policies and geopolitical tensions. EMDEs are projected to outperform advanced economies, with higher trade volumes of 5.7 per cent compared to 4.3 per cent for their counterparts.

The Baltic Dry Index[8] increased by about 38 per cent, from 921.2 index points in FY2016-17 to 1,270.1 index points in FY2017-18. The main contributory factors to the ascent in the index were an increase in hire rates for the larger component ships, namely capesize and panamax ships, reflecting surging demand for commodities such as iron ore and coal from China and shrinking of the glut of new building vessels. So far, the Baltic Dry Index's trend pointed to resilience of global trade to recent trade tensions. Going forward, trade frictions following anti-trade measures by major economies are likely to weigh on the index.

Financial Markets

Equity markets maintained momentum during FY2017-18, with the MSCI World and MSCI Emerging Markets indices gaining 16 per cent and 23 per cent, to 2,063 and 1,134, respectively, compared to FY2016-17. In the US, upbeat economic data releases and robust corporate earnings underpinned equity markets although gains were capped by the US administration's inability to pass the healthcare bill and geopolitical tensions. European equities were supported by the continued economic recovery and improving growth prospects, although political turmoil in Italy and Spain created some volatility. Emerging markets were mainly driven by the strong global growth momentum, higher corporate earnings and buoyant economic activity in China. Equity prices underwent a technical correction in the first week of February 2018, whereby fears of rising inflation and higher interest rates brought about a rebalancing of portfolio by investors. The Volatility index (VIX) increased by around 20 index points to 37.3 on a single day on 05 February 2018, its highest level since August 2015.

Announcement by the US on proposed tariffs on imports from China, Europe, Canada and Mexico and potential retaliation by these economies triggered fears of a global trade war, leading to increased volatility and uncertainty in markets. The potential for greater regulation of technology companies following breaches at Facebook also raised volatility in markets. On average, volatility, as measured by VIX, increased by 7 per cent to 13.5 during FY2017-18. VSTOXX and VIX-Emerging Markets, however, shed 18 per cent and 4 per cent, to 14.8 and 18.6, respectively.

The US dollar has lost considerable ground, on average, during FY2017-18, on political and fiscal concerns, expectations that other major central banks would tighten monetary policy in 2018, global economic recovery gaining traction outside the US, firming commodity prices, conflict with trading partners in relation to tariff imposition and geopolitical stress. However, factors that helped restrain the losses included robust positive economic data, easing tensions with North Korea, approval of tax reforms, rising yields on US securities, strengthening of the labour market and further interest rate normalisation by the US Federal Reserve. On average, the DXY and Dow Jones Dollar Index declined from 98.7 and 12,218 during FY2016-17 to 92.5 and 11,872 during FY2017-18, representing a depreciation of 6 per cent and 3 per cent, respectively.

The euro firmed during 2017H2 on the back of upbeat economic growth expectations and as the European Central Bank (ECB) grew increasingly hawkish, suggesting a potential tightening of the monetary policy stance. However, during 2018H1, the euro

[8] *The Baltic Dry Index is an aggregate measure of the cost of moving dry bulk commodities such as iron ore, cement, grain, coal and fertilizer, by sea. It can constitute a gauge of global economic activity as it acts as an indicator of movements in global demand conditions, through derived demand for this kind of shipping service.*

shed some gains as the ECB signalled a slower pace of exit from its accommodative monetary policy stance and over political woes in Spain and Italy. The euro traded at an average of US$1.1936 during FY2017-18, from US$1.0902 during FY2016-17, representing appreciation of 9 per cent.

The Pound sterling echoed the trend of the euro, strengthening vis-à-vis the US dollar during FY2017-18, underpinned by an interest rate hike by the Bank of England (BoE) in November 2017, expectations of a 'soft Brexit' and encouraging economic data. However, a number of factors weighed on the British currency, notably uncertainties relative to the outcome of the Brexit negotiations, uncertainty over the growth outlook and dovish statement by the BoE scaling down further monetary policy tightening in May 2018. The Pound sterling traded at an average of US$1.3474 during FY2017-18, from US$1.2687 during FY2016-17, appreciating by 6 per cent.

Monetary Policy

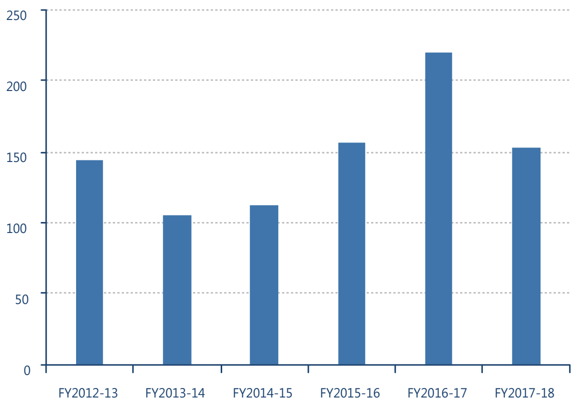
Major central banks have started to trim their monetary stimulus packages in line with the global economic recovery. While US monetary policy ensued on a steady and well planned interest rate normalisation trajectory, with the US Fed hiking rates on three occasions during FY2017-18, the Bank of England became the second major central bank to tighten monetary policy. The US Fed increased its benchmark rate in December 2017, March 2018 and June 2018 by a total of 75 basis points to a range of 1.75-2.00 per cent. The US Fed had begun, since October 2017, to reduce its holdings of around US$4.2 trillion in US Treasury bonds and mortgage-backed securities that it acquired following the 2008 financial crisis. The US Fed continued to unwind its huge economic stimulus, premised on the fact that economic activity and the labour market have continued to strengthen. The improved economic climate accompanied by fiscal measures are expected to exert upward pressure on inflation, which would warrant further tightening of the monetary policy stance.

The ECB kept its benchmark refinancing rate unchanged during FY2017-18 and signaled that it would remain unchanged well into 2019. In October 2017, the ECB decided to cut its monthly asset purchases from €60 billion to €30 billion as from January 2018, but extended its buying programme until the end of September 2018. The ECB is now expected to end its massive bond purchase scheme by end 2018 after halving its monthly bond purchases to €15 billion as from October 2018. At its November 2017 meeting, the BoE raised interest rates for the first time in a decade by 25 basis points to 0.5 per cent in a bid to curtail high inflation which is taking a toll on UK households. The asset purchase target was maintained at £435 billion.

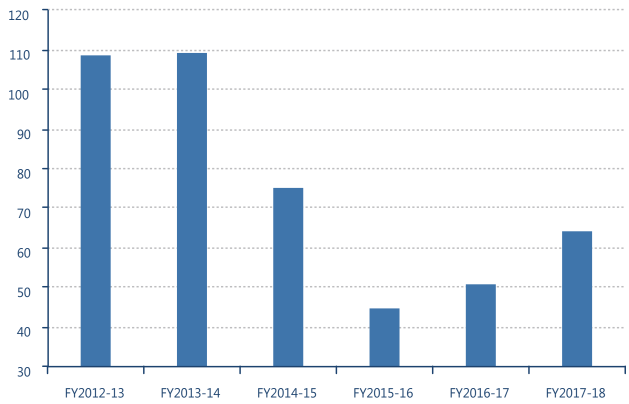
Central banks outside the major advanced economies faced a diverse set of challenges. Monetary policy in EMDEs diverged on different economic conditions. The Reserve Bank of India cut its benchmark interest rate to a 6 ½ year low of 6 per cent in August 2017 to give a fillip to growth but raised the rate in June 2018 for first time since 2014 to address a build-up in inflationary pressures. The central bank of Brazil lowered the policy rate in February and March 2018 by a total of 50 basis points in a bid to support the economy. The Reserve Bank of South Africa loosened monetary policy in March 2018, bringing the main interest rate to its lowest in two years, motivated by lower inflation expectations. The central bank of Indonesia lowered its policy rate by a cumulative 50 basis points in August and September 2017 in an attempt to bolster economic growth but raised rates on three occasions by a total of 100 basis points in May and June 2018 to support its weakening currency. The Bank of Canada hiked its main interest rate three times by an aggregate of 75 basis points, citing unexpectedly robust economic data. Malaysia's central bank raised interest rates in January 2018, for the first time since July 2014, amid an environment characterised by robust growth and rising inflation. Turkey's central bank tightened monetary policy on four occasions by a cumulative 550 basis points in an attempt to tame accelerating inflation and avert a currency crisis.

Chart 2.40 **Selected Global Economic Indicators**

Global Economic Policy Uncertainty Index

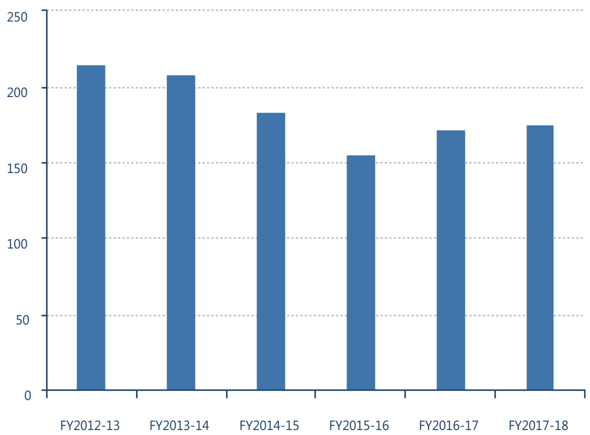


ICE Brent, US$ per barrel

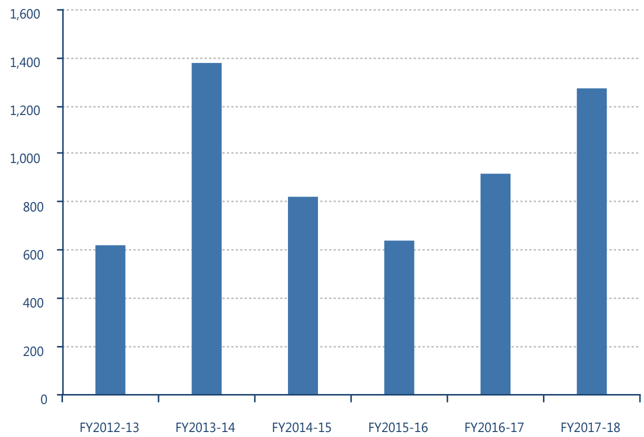


FAO Food Price Index

Index (2002-2004=100)

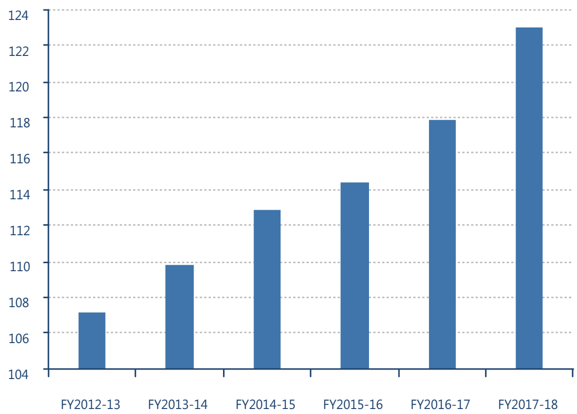


Baltic Dry Index

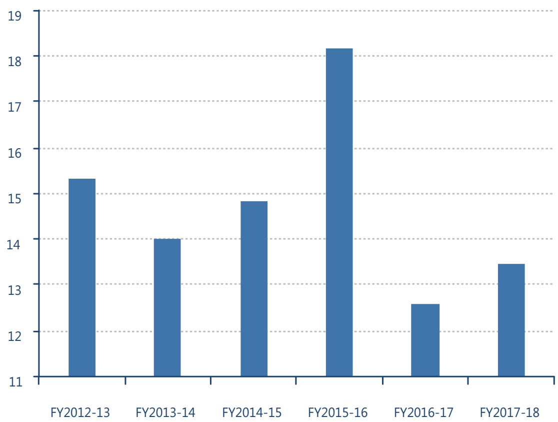


World Trade

Index (2010=100)



VIX



Sources: Reuters; FAO; CPB; Netherlands Bureau for Economic Policy Analysis.

STATEMENT ON PRICE STABILITY

Four MPC meetings were held during FY2017-18. At its September 2017 meeting, the MPC unanimously decided to cut the KRR by 50 basis points to 3.50 per cent per annum. The MPC's decision was based on the need to give a fillip to domestic growth and encourage investment into the productive sectors of the economy. At the November 2017, February 2018 and May 2018 meetings, the MPC voted to maintain the KRR unchanged at 3.50 per cent per annum.

The MPC's policy decisions were based on the assessment that the outlook for the inflation environment remained manageable over the policy horizon. The forecasts showed inflation would stay within tolerable limits even as inflation trended higher mainly due to supply-side factors. At the same time, agents' expectations on future inflation remained aligned with the Bank's projections over the policy horizon. The MPC's stance on the KRR was based on supporting domestic economic expansion. The MPC continues to be watchful over developments that could pose a risk to the inflation outlook.

Inflationary impulses remained broadly tame during FY2017-18, barring exceptional periods where transient factors led to upward pressures in domestic price formation. FY2017-18 was marked with a series of shocks impacting domestic CPI, notably, a surge in food prices associated with adverse weather conditions, a hike in the prices of demerit goods such as alcoholic beverages and tobacco and an increase in prices of domestic petroleum products. However, as production of food products normalized, their prices dropped, thereby bringing down the inflation rate. Headline inflation increased from 2.4 per cent in June 2017 to 4.3 per cent in June 2018, whereas year-on-year inflation, reflecting inherent dynamics declined from 6.4 per cent to 1.0 per cent over the same period. The underlying measures of inflation remained rather subdued during FY2017-18.

Domestic inflationary pressures have remained generally contained amid subdued global inflation developments and domestic demand pressures. The downward adjustment in the prices of administered goods has also enabled to lower the inflation rate. MPC members took note of the evolution of domestic CPI inflation and viewed that inflation would remain contained over the projection horizon. Barring additional supply shocks, Bank staff project headline inflation at about 3.5 per cent in 2018 and 3.0 per cent in 2019.

Domestic growth momentum maintained its pace during FY2017-18, albeit operating with spare capacity. The performance of the domestic economy was sustained due to the contribution of the services and construction sectors. Pro-growth budgetary measures, household consumption and capital spending on infrastructural projects have been supporting growth. Business and consumer confidence have been rising and most sectors are likely to record positive growth in 2018. Major macroeconomic indicators are showing signs of improvement. Headwinds to real GDP growth still persist, notably decline in exports, delays in the completion of infrastructural projects, weak productivity, trade frictions, Brexit and geopolitical tensions. Conditional on a series of domestic and external assumptions, Bank staff project real GDP growth at about 4.0 per cent in 2018 and 2019.

Aligning short-term money market rates with the KRR has remained a priority for the Bank in its efforts to promote a robust monetary policy framework. The Bank conducted more active monetary operations which have helped strengthen the monetary transmission mechanism in terms of the alignment between short-term money market interest rates and the KRR. The money market rates have steadily moved within the corridor of the KRR. The Bank's monetary policy operations have effectively stabilised the short-term interest rates around the KRR. The Bank also strived to address potential rupee exchange rate misalignments through foreign exchange market interventions, thus supporting economic growth and price stability.

3 Regulation and Supervision

THE MAURITIAN BANKING SECTOR

The financial sector in Mauritius is dominated by banks which hold around 83 per cent of total assets of the financial sector[9]. Banks, non-bank deposit-taking institutions (NBDTIs) and cash dealers are regulated by the Bank of Mauritius whereas other financial corporations fall under the regulatory aegis of the Financial Services Commission (FSC). The banking sector plays a significant role in the economy and as at end-June 2018, total assets of banks accounted for about 333 per cent of GDP.

As at end-June 2018, twenty-one banks were operating in Mauritius, of which nine were domestic-owned, another nine were foreign-owned subsidiaries and the remaining three were branches of foreign banks. The banking sector comprised a network of 191 branches in the Republic of Mauritius, including five in Rodrigues, nine counters, and one mobile van and operated a total of 445 Automated Teller Machines (ATMs). As at 30 June 2018, 8,184 persons were employed in the sector, of which 140 were expatriates.

The banking landscape is relatively concentrated, with the two largest banks accounting for over 40 per cent of market shares for total deposits, advances and assets. In addition to traditional banking facilities, 15 banks offered card-based payment services such as credit cards and debit cards and 16 banks offered internet banking facilities. Six banks provided mobile banking services[10], including payment facilities to their customers. One bank opened an In-Touch Digital Banking Outlet at Trianon Shopping mall in August 2017.

Ensuring the stability and soundness of the financial system of Mauritius is one of the mandates of the Bank of Mauritius and this is enshrined in section 4(2)(b) of the Bank of Mauritius Act 2004. Banks, NBDTIs, foreign exchange dealers and money-changers fall under the regulatory purview of the Bank. The Bank has also been granted with the power to regulate and supervise ultimate and intermediate financial holding companies having at least one subsidiary as bank or non-bank deposit taking institution within the group.

As an international financial center of repute, Mauritius subscribes to the adoption of international standards and best practices. The existing guidelines are constantly reviewed to reflect the latest developments on the international front and new guidelines are issued, as and when required, on the basis of the changes in the operating and regulatory environment.

The Bank is currently upgrading its supervisory framework through the introduction of a risk-based supervisory approach. In the first phase, the CAMEL rating framework has been refined with the inclusion of more forward-looking indicators. The project is ongoing with the customisation and development of the different modules and it is expected that the supervisory process will migrate to a full-fledged risk-based approach by 2020.

The Bank is closely monitoring the implementation of IFRS 9 in banks, in consultation with banks and external auditors and tracking the implementation of the quarterly progress reports and different reports. Banks are required to be complying with the deadline set by the International Accounting Standards Board.

IT risk management, including cyber risk, is assuming increasing significance particularly in the wake of a spate of high profile incidents. The Bank has already issued a first draft guideline on IT risk management to the industry. The document is in process of being finalised.

Two banks surrendered their banking licence in 2018 and one bank has ceased business and is in the process to surrender its licence. One money-changer was licensed as a foreign exchange dealer.

Box III highlights the main supervisory Guidelines which were issued and/or amended during FY2017-18[11]. Box V underscores the amendments to the Bank of Mauritius Act 2004 and Banking Act 2004 under the Finance (Miscellaneous Provisions) Act 2017.

[9] *Excluding the Global Business Sector.*

[10] *As at end-June 2018, one non-bank entity also offered mobile based facilities to customers.*

[11] *From 1st July to 30th June.*

Box III: Policy Guidelines Issued In FY2017-18

- The *Guideline for banks licensed to carry on private banking business* was amended in July 2017 by extending its scope to other banks offering private banking services as part of their banking services.

- The *Guideline on Corporate Governance* was revised in October 2017. A new section on requirement for substantial activities was added. It has been explicitly mentioned that it is prohibited to open and operate a shell financial institution in Mauritius. Further, a bank and a non-bank deposit-taking institution shall have at least ten suitably qualified full-time officers, including the CEO, Deputy CEO and key functional heads, and its annual operating costs should not be less than Rs25 million.

- *The updated Guideline on Liquidity Risk Management* came into effect in October 2017 and the Liquidity Coverage Ratio was introduced in line with the implementation of Basel III.

- *The Guideline on Credit Concentration Risk* was amended in December 2017. The basis for computation of large exposure was changed from capital base to Tier 1 capital.

- *The Guidelines on Outsourcing by Financial Institutions were revised in March 2018*. In view of the growing importance of cloud computing, the Bank deemed it necessary to incorporate a specific section on cloud-based services.

- *The Guideline on Maintenance of Accounting and Other Records and Internal Control Systems* was amended in March 2018 and a standard format released for the external auditors report. The external auditors are also required to cover all areas of internal control in a financial institution within a period of three years.

- The requirement for a banking licence was amended to make it mandatory for banks to have a full-fledged AML/CFT software prior to starting operations. The new requirements contained in the October 2017 Guideline on Corporate Governance were also replicated in the application form for banking licence.

- *The Guideline on the Computation of Loan to Value (LTV) Ratio for Residential and Commercial Property Loans* was repealed in July 2018. Banks can now apply their own LTV policy based on their risk appetite, as per their own Board's approved policy. However, the risk weights applicable to these loans are as per the Basel Committee criteria.

Box IV: Liquidity Coverage Ratio

Liquidity reflects the capacity of a bank to deploy cash, convert assets into cash, or secure funds in a timely manner to meet obligations as they fall due without incurring undue losses. Effective liquidity risk management is of paramount importance as vulnerabilities to liquidity risk in a bank can extend to the banking sector.

The Bank's Guideline on Liquidity Risk Management was revised in October 2017. As from November 2017, banks were required to meet the Liquidity Coverage Ratio (LCR) requirements in Mauritian Rupees (MUR), in significant foreign currencies and on a consolidated basis. A currency is considered significant if liabilities in that currency amount to 10 per cent or more of a bank's total liabilities. The LCR is being implemented in a phased manner, as detailed in Table 1.

Table 1: Transitional Arrangements for LCR

	As from 30 Nov 2017	As from 31 Jan 2018	As from 31 Jan 2019	As from 31 Jan 2020
	(Per cent)			
LCR in MUR	100	100	100	100
LCR in significant foreign currencies	60	70	80	100
Consolidated LCR	60	70	80	100

Source: Supervision Department

The LCR represents a standard that is designed to ensure that a bank has an adequate inventory of unencumbered high quality liquid assets (HQLA) that consist of cash or assets convertible into cash at little or no loss of value in market, to meet its liquidity requirement for a 30 days' liquidity stress period. The aim of the LCR is to promote a bank's short-term resilience to potential liquidity disruptions. It is calculated as the ratio of the bank's stock of HQLA to its total net cash outflows over the next 30 calendar days.

As at 30 June 2018, the LCR for the banking sector stood at 168 per cent on a consolidated basis. The stock of HQLA held by banks on a consolidated basis amounted to Rs252 billion as at end-June 2018. The HQLA were mainly composed of securities with a zero per cent risk weight such as securities issued by sovereigns and/or central banks.

Box V: The Finance (Miscellaneous Provisions) Act 2018

The Finance (Miscellaneous Provisions) Act 2018 which has been gazetted on 9 August 2018 as Act No. 11 of 2018, has brought the amendments, set out hereunder, to the Bank of Mauritius Act 2004 and Banking Act 2004. These amendments, with the exception of the amendments brought to Section 14E of the Banking Act which are deemed to have come into operation on 14 June 2018, have, pursuant to Proclamation No. 22 of 2018, become effective with effect from 1 September 2018.

I. Bank of Mauritius Act

(i) Section 2 – Interpretation

The definitions of two new terms, namely "Financial Intelligence Unit" and "public sector agency" which are used in the Bank of Mauritius Act, have been added in section 2 of the Act.

(ii) Section 26 – Confidentiality

Section 26(4)(a) of the Bank of Mauritius Act has been amended to widen the range of institutions with which the Bank of Mauritius ('Bank') may exchange information, by, inter alia, enabling the Bank to share information with foreign supervisory institutions or authority and international organization also.

Any information shared by the Bank under Section 26(4)(a), (aa) and (d) may, pursuant to subsection (5) which has been added to Section 26, be given subject to conditions specified by the Bank, including conditions restricting the use and disclosure of the information imparted.

(iii) Section 50 – Powers to issue instructions

Section 50(5) has been amended to increase the fine which may be imposed on any person who fails to comply with any instruction or guideline issued by or requirement imposed by the Bank, from Rs500,000 to one million rupees. If the offence continues, the person may be liable to a further fine of Rs100,000 rupees for every day or part of a day during which the offence continues.

(iv) Section 52A – Establishment of Central KYC Registry

A new Section 52A has been added in the Bank of Mauritius Act to provide for the establishment of a Central KYC Registry.

In terms of this new section, the Bank may, for the purpose of collecting KYC records submitted to KYC institutions by their customers, establish a Central KYC Registry and require any KYC institution to furnish to the Registry, on such terms and conditions as it may determine, such information as it may require for the purpose of maintaining the Registry. A KYC institution has been defined as any institution or person, duly licensed by the Bank or the Financial Services Commission which or who is required to verify the identity of its or his customers under the Financial Intelligence and Anti-Money Laundering Act.

II. Banking Act 2004

(i) Section 2 – Interpretation

The definition of "banking laws" has been amended to encompass the Financial Intelligence and Anti-Money Laundering Act and the Prevention of Terrorism Act.

The definition of "credit union" has been deleted from Section 2 as the previous section 14E which provided for the Bank to license credit unions above a prescribed threshold has been repealed from the Banking Act 2004.

(ii) Section 5 – Application for banking licence

Section 5(4)(g) has been amended to make it mandatory for an applicant for a banking licence to provide the Bank with the identification and certificate of good conduct of the beneficial owner(s) of the applicant as well.

The term "beneficial owner" has been defined in a new subsection 10 which has been added to Section 5.

(iii) Section 7 – Grant or refusal to grant banking licence

(a) Prohibition to establish or operate a shell financial institution

A new subsection (4A) has been added to section 7 to provide that the Bank shall not grant a banking licence to a financial institution which has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision.

The term "physical presence" has also been defined in paragraph (b) of subsection (4A).

(b) Private banking business

Section 7(7D) has been repealed and replaced by a new subsection (7D) which, inter alia, provides that a bank which has been granted a banking licence to carry on exclusively private banking business may be exempted from such provisions of the Banking Act and be subject to such terms and conditions and guidelines as the Bank may determine.

Those banks may also be authorised by the Bank to hold, store or sell gold, silver, platinum, and other precious metals, as part of the management of their client's investment portfolio, and/or provide safety vault services to its clients for gold, silver, platinum, precious and semi-precious stones, precious metals, pearls, works of art and collectors' pieces or antiques and such other high value goods as the Bank may determine.

(iv) Section 11 – Revocation and surrender of banking licence

Section 11(1) has been amended to enable the Bank to revoke the banking licence of a bank which no longer has a physical presence in the country in which it is incorporated and licensed or is unaffiliated with a regulated financial group which is subject to effective consolidated supervision.

(v) Section 12 – Licensing of deposit taking business

A new subsection (5A) has been added in section 12 to provide for a non-bank deposit taking institution to maintain and continue to maintain in Mauritius an amount paid as stated capital of not less than 200 million rupees or such higher amount as may be prescribed, after deduction of the accumulated losses of the non-bank deposit taking institution.

(vi) Section 14E – Granting of licences to issuer of commercial papers

Section 14E has been amended to allow the Bank to grant licences to issuers of money market instruments in lieu of commercial papers. The following amendments were accordingly brought to section 14E of the Banking Act :

(i) In the heading by deleting the words "issuer of commercial papers" and replacing them by the words "issuer of money market instruments". The heading of Section 14E now reads as "Granting of licences to issuer of money market instruments;

(ii) The words "commercial papers" and "company" in subsections (1), (2) and (7) and the words "commercial paper licence" in subsections (1) and (2) have been deleted and replaced by the words "a money market instrument", "institution" and "money market instrument licence" respectively;

(iii) Subsection (8) has been repealed and replaced by a new subsection which provides for the definition of the terms "eligible institution" and "money market instrument";

(vii) Section 30 – Limitation on investments and non-banking operations

A new subsection (1A) has been added to section 30 which provides that the Bank may, on application by a financial institution, waive the requirements under subsection (1)(b), which imposes certain limitation on investment and non-banking operations.

(viii) Section 39 – Appointment, powers and duties of auditors

The Bank is, in terms of Section 39(2) of the Banking Act, required to approve the appointment of any firm of auditors of a financial institution. A new subsection (2A) has been added to section 39 which provides that the Bank may, where the circumstances so warrant, revoke the approval granted under subsection (2).

(ix) Section 42 – Regular examination

Section 42(1) has been amended to provide that the Bank may conduct an examination of the operations and affairs of every financial institution at least once every 2 years or within such other period as the Bank may determine.

(x) Section 53A – New products, business practices, delivery mechanisms and technologies

A new section 53A entitled "New products, business practices, delivery mechanisms and technologies" has been added to the Banking Act. Financial institutions and every holders of a licence are now required, in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products –

(a) undertake a risk assessment prior to the launch or use of such products, business practices and technologies;

(b) identify and assess the money laundering and terrorism financing risks that may arise in relation to the launch or use of such products, business practices and technologies; and

(c) take appropriate measures to manage and mitigate the risks identified.

(xi) Section 64 – Confidentiality

Section 64 has been amended as follows:

(a) Subsection (1A)

A new subsection (1A) has been added to Section 64 to provide that any person (i) to whom any information pertaining to a customer or financial institution is disclosed and who knows or has reasonable grounds for believing, at the time of the disclosure, that the information was disclosed to him in contravention of Section 64, (ii) is in possession of information pertaining to the affairs of a customer or a financial institution without just or reasonable grounds, or (iii) publishes any such information without the express written consent of the customer or financial institution or in contravention of Section 64, shall commit an offence and shall on conviction be liable to a fine not exceeding 500,000 rupees and to imprisonment for a term not exceeding 3 years in the case of an individual or in any other case, to a fine not exceeding one million rupees.

The defence which may be raised by the person where he/she is charged with such an offence has also been set out in the new subsection (1B).

(b) Subsection (3)

Three new paragraphs (fa), (fb) and (fc) have been added to section 64(3) to provide that the duty of confidentiality imposed on financial institutions shall not apply where –

(i) The information is required to be disclosed by the financial institution for the purpose of discharging its responsibilities under the new Part VIIIA entitled "Prevention of money laundering and terrorism financing";

(ii) with respect to payable-through accounts, the customer due diligence information is required to be disclosed, to another institution with which it maintains a correspondent banking relationship, provided that the institution has given a written undertaking regarding the confidentiality of the information provided;

(iii) the customer due diligence information is required to be disclosed by the financial institution for the purpose of meeting the requirement set out by the Bank with respect to domestic or cross-border wire transfers or reliance on a third party.

In the light of the new section 52A "Establishment of Central KYC Registry" which has been added to the Bank of Mauritius Act, consequential amendment has been brought to section 64(3)(i), to provide that the duly of confidentiality imposed on financial institutions shall not apply where the information is required for transmission to the Central KYC Registry established under the Bank of Mauritius Act.

(c) Subsection (8)

Section 64(8) has been amended to enable a foreign supervisory authority having the responsibility of carrying out supervisory functions in respect of money laundering or terrorism financing to obtain the prior written authorization of the Bank to conduct an inquiry, audit or inspection of a branch or a subsidiary of a financing institution in Mauritius.

(d) Subsection (14)

Section 64(14) has been amended to provide that the Bank may disclose information, under conditions of confidentiality and subject to the satisfaction of such conditions as the Bank may determine to a domestic or foreign supervisory authority where the information is required by the supervisory authority for the sole purpose of carrying out its supervisory functions in respect of money laundering or terrorism financing.

(xii) Part VIIIA – Prevention of money laundering and terrorism financing

A new Part VIIIA entitled "Prevention of money laundering and terrorism financing", comprising sections 64A to 64D, has been added to the Banking Act.

Section 64A requires every financial institution and every holder of a licence, including its branches and subsidiaries, to implement programmes against money laundering and terrorism financing, which are commensurate with the money laundering and terrorism financing risks to which it or he is exposed and the size of its or his business.

Pursuant to Section 64B, the Bank may, from time to time, issue such guidelines, directives or instructions to any financial institution, class of financial institutions or holder of a licence, as it considers necessary for the prevention of money laundering or terrorism financing. Non compliance with any guideline, directive or instruction issued by the Bank tantamount to an offence punishable, on conviction, to a fine not exceeding one million rupees and, in the case of a continuing offence, to, after conviction, a further fine of 100,000 rupees for every day or part of a day during which the offence continues

The Bank may in terms of section 64C, from time to time, conduct an examination of the operations and affairs of every financial institution or holder of a licence to assess whether the latter is complying with the guidelines, directives or instructions issued under section 64B.

Section 64D provides that any written report following an examination conducted pursuant to section 64C shall not be disclosed to any person by the financial institution or holder of a licence or any officer or auditor of the financial institution or holder of a licence except under the circumstances set out in section 64D(2). Failure to comply with section 64D shall amount to an offence punishable on conviction to a fine not exceeding 500,000 rupees and to imprisonment for a term not exceeding 3 years for an individual, and for any other case, to a fine not exceeding one million rupees.

(xiii) Section 96C – Decision of United Nations Security Council

A new section 96C entitled "Decision of United Nations Security Council" has been added to the Banking Act, to enable the Bank to, inter alia, make such regulations and issue such guidelines, directives or instructions to a financial institution, class of financial institutions or holder of a licence, as the Bank considers necessary in order to discharge, or facilitate the discharge of, any obligation binding on Mauritius by virtue of a decision of the United Nations Security Council.

(xiv) Section 100 – Guidelines or instructions

Section 100(4) has been amended to increase the fine which may be imposed on any person who fails to comply with the guidelines or instructions made by the Bank under section 100, from Rs100,000 to one million rupees. And if the offence continues, the person may be liable to a further fine of Rs100,000 rupees for every day or part of a day during which the offence continues.

(xv) Section 101 – Regulations

Section 101(3) has been amended to provide that the Bank may, with the approval of the Minister, also make regulations for the purposes of discharging or facilitating the discharge of any obligation binding on Mauritius by virtue of a decision of the United Nations Security Council.

PERFORMANCE OF THE BANKING SECTOR

Total assets of banks increased by 5.1 per cent, from Rs1,276 billion as at end-June 2017 to Rs 1,340 billion as at end-June 2018 compared to a rise of 5.6 per cent recorded during FY2016-17. Acceptances, guarantees and documentary credits, which are part of off-balance sheet assets, went up by 43.1 per cent from Rs70 billion as at end-June 2017 to Rs101 billion as at end-June 2018, significantly higher compared to the growth of 15.6 per cent recorded in FY2016-17.

Total deposits of the banking sector increased by 5.6 per cent, from Rs952 billion as at end-June 2017 to Rs1,005 billion as at end-June 2018, led by the increase in both Segment A and Segment B deposits. Advances extended by the banking sector increased by 6.6 per cent, from Rs666 billion to Rs710 billion as at end-June 2018.

Banks' total profits decreased from Rs16.9 billion in FY2016-17 to Rs16.8 billion for FY2017-18, reflecting a decline in non-interest income. Non-performing loans as a ratio to total outstanding credit fell from 7.1 per cent as at end-June 2017 to 6.4 per cent as at end-June 2018.

Capital Adequacy

The Bank has implemented the Basel III capital standards in Mauritius in a phased approach since July 2014. Accordingly, as from January 2018, banks are required to maintain, at all times, a minimum risk weighted capital adequacy ratio (including capital conservation buffer) of 11.25 per cent. During the period June 2017 to June 2018, banks' aggregate capital base (net of adjustment and capital deductions) increased by 2.7 per cent to Rs133.1 billion. Tier 1 capital rose by 3.5 per cent to Rs123.1 billion, which represented 92.5 per cent of gross capital. The rise in Tier 1 capital is largely explained by undistributed balance in profit and loss account. However, Tier 2 capital contracted by 6.0 per cent from Rs10.6 billion as at end-June 2017 to Rs10.0 billion as at end- June 2018 with its share representing 7.5 per cent of gross capital.

Table 3.1 shows the risk-weighted capital adequacy ratio maintained by banks from end-June 2017 through end-June 2018, together with components of the capital base and risk-weighted assets. The fall in the risk-weighted capital adequacy ratio from 18.0 per cent to 17.0 per cent over the period is primarily due to the capital base increasing at a lower rate of 2.7 per cent relative to a growth of 8.6 per cent observed in the risk-weighted assets.

Table 3.1: Risk-Weighted Capital Adequacy Ratio

					Rs million
As at end of period	**Jun-17****	**Sep-17**	**Dec-17**	**Mar-18**	**Jun-18**
CET1 capital*	113,216	112,594	115,967	116,829	117,373
Tier 1 capital	118,901	118,239	121,560	122,433	123,088
Tier 2 capital	10,640	10,022	9,619	9,949	9,983
Capital Base (A)	**129,541**	**128,261**	**131,179**	**132,382**	**133,071**
Total Risk-Weighted Assets (B)	**719,386**	**742,541**	**731,006**	**736,649**	**781,019**
Total Risk-Weighted Assets for credit risk (C)	**661,641**	**676,232**	**662,955**	**666,845**	**715,071**
Total on-balance sheet risk-weighted credit exposures	616,774	629,962	607,736	611,434	645,252
Total non-market-related off-balance sheet risk-weighted credit exposures	41,820	42,320	51,045	50,872	66,511
Total market-related off-balance sheet risk-weighted credit exposures	3,047	3,950	4,175	4,539	3,308
Total risk-weighted assets for operational risk (D)	**50,905**	**52,317**	**53,569**	**53,776**	**54,279**
Total Risk-Weighted Assets for market risk (E)	**6,840**	**13,992**	**14,482**	**16,027**	**11,669**
Total foreign currency exposures	4,915	4,316	4,413	6,477	4,190
Capital charge for trading book position exceeding 5% or more of its total assets	1,925	9,676	10,069	9,550	7,479
Capital Adequacy Ratio (A/B)	**18.0%**	**17.3%**	**17.9%**	**18.0%**	**17.0%**
CET 1 RATIO	**15.7%**	**15.2%**	**15.9%**	**15.9%**	**15.0%**

**CET1 - Common Equity Tier1*
***Restated figures*
Source: Supervision Department.

Risk Profile of On - and Off-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, 35 per cent, 100 per cent risk-weight buckets while the proportion for the 20 per cent, 50 per cent and 75 per cent risk-weight buckets have declined between end-June 2017 and end-June 2018.

Table 3.2 compares the total on-balance sheet assets of banks with corresponding risk-weights as at end-June 2017 and end-June 2018. Following the implementation of the Basel III capital disclosure requirements, additional risk weight buckets of 125 per cent, 250 per cent and 1250 per cent have been incorporated in the risk-weights.

Total on-balance sheet assets of banks increased by 5.0 per cent, from Rs1,217 billion as at end-June 2017 to Rs1,278 billion as at end-June 2018. The corresponding total risk-weighted on-balance sheet assets expanded by 4.6 per cent to Rs645 billion over the same period.

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 2017 and end-June 2018. The average on-balance sheet risk-weighted ratio increased from 45.2 per cent as at end-June 2017 to 48.7 per cent as at end-June 2018 on account of an expansion of 8.6 per cent in total risk weight assets relative to the marginal growth of 0.8 per cent in total on and off-balance sheet assets.

Table 3.2: Comparative Change in the Riskiness of Banks' Portfolios of On-Balance Sheet Assets

	On-balance sheet assets *(Rs million)*	Percentage to total on-balance sheet assets *(Per cent)*	On-balance sheet assets *(Rs million)*	Percentage to total on-balance sheet assets *(Per cent)*
Risk Weights (%)	**Jun-17***		**Jun-18**	
0	275,165	22.6	351,049	27.5
20	219,442	18.0	192,021	15.0
35	49,664	4.1	56,584	4.4
50	177,636	14.6	125,430	9.8
75	31,635	2.6	30,618	2.4
100	424,281	34.9	481,963	37.7
125	21,467	1.8	23,335	1.8
150	17,151	1.4	15,983	1.3
250	774	0.1	1,083	0.1
1250	0	0.0	0	0.0
	1,217,214	**100**	**1,278,066**	**100.0**

**Restated figures*
Source: Supervision Department.

Table 3.3: Total On and Off-Balance Sheet Assets, Equivalent Risk-Weighted Assets and Average Combined Risk Weighting

		End-June 2017*	End-June 2018
A	Total On-Balance Sheet Assets (Rs million)	1,217,214	1,278,066
B	Total Off-Balance Sheet Assets (Rs million)	374,761	326,450
C	Total On and Off-Balance Sheet Assets (A + B) (Rs million)	1,591,975	1,604,516
D	Total Risk-Weighted Assets (Rs million)	719,386	781,019
E	Average Combined Risk Weighting (D/C) (Per cent)	45.2	48.7

**Restated figures*
Source: Supervision Department.

Advances

Total advances, including debentures and fixed-dated securities, increased by 6.6 per cent during FY2017-18 to Rs710 billion, compared to an increase of 1.7 per cent in FY2016-17. As at end-June 2018, total advances represented 70.6 per cent and 53.0 per cent of total deposits and total assets, respectively, compared to 69.9 per cent and 52.2 per cent as at end-June 2017.

Loans and overdrafts in Mauritian rupees amounted to Rs251 billion, or 35.3 per cent of total advances, while loans and other financing in foreign currencies in Mauritius amounted to Rs113 billion, or 15.9 per cent of total advances at end-June 2018. Loans and other financing in foreign currencies outside Mauritius stood at Rs265 billion as at end-June 2018, representing 37.3 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 remained the principal source of funding of banks during FY2017-18. The share of deposits in total liabilities increased marginally from 74.6 per cent as at end-June 2017 to 75.0 per cent as at end-June 2018. Total deposits increased by 5.6 per cent from Rs952 billion as at end-June 2017 to Rs1,005 billion as at end-June 2018. The rise in the deposit base of the banking sector was supported by an expansion of 6.9 per cent (or Rs30 billion) in Segment A deposits and 4.5 per cent (or Rs23 billion) in Segment B deposits.

The share of foreign currency deposits to total deposits remained almost unchanged from end-June 2017 to end-June 2018 at 61.1 per cent. Demand, savings and time deposits, respectively, accounted for 46.5 per cent, 24.8 per cent and 28.7 per cent of total deposits as at end-June 2018, compared to 47.7 per cent, 24.7 per cent and 27.6 per cent as at end-June 2017.

The advances-to-deposits ratio, which indicates the extent to which funds mobilised by way of deposits have been utilised to finance lending activities, increased from 69.9 per cent as at end-June 2017 to 70.6 per cent as at end-June 2018. This ratio stood at 66.1 per cent for Segment A activities and 74.5 per cent for Segment B activities as at end-June 2018 compared to 66.5 per cent and 72.8 per cent, respectively, as at end-June 2017.

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 groups/entities. Non-exempt large exposures in the banking sector, that is, exposures above 10 per cent of the banks' Tier 1 capital, aggregated Rs346 billion, representing 43 per cent of total fund and non-fund based facilities extended as at end-June 2018. The aggregated large exposures to borrowers represented 281.9 per cent of the Tier 1 capital of banks as at end-June 2018[12]. The adjusted Credit Concentration Ratio, according to previous guideline, stood at 182.8 per cent as at end-June 2018 compared to 150.8 per cent of the capital base as at end-June 2017.

Sectorwise Distribution of Credit to the Private Sector in Mauritius

During FY2017-18, bank credit to the private sector (including to Global Business Companies) increased by 8.7 per cent, compared to growth of 4.7 per cent recorded in FY2016-17. As at end-June 2018, the share of credit to '*construction*[13]', and '*Financial and Business Services*' rose to 26.4 per cent and 12.0 per cent, respectively, from 26.1 per cent and 10.1 per cent as at end-June 2017. The share of credit to '*Global Business Companies*', '*Tourism*', '*Traders*', '*Personal*', '*Manufacturing*', '*Agriculture & Fishing*' and '*Insfrastructure*' declined from 15.7 per cent, 11.8 per cent, 9.2 per cent, 8.3 per cent, 6.6 per cent and 1.3 per cent as at end-June 2017 to 15.5 per cent, 11.7 per cent, 8.9 per cent, 8.1 per cent, 6.3 per cent, 5.8 per cent and 1.2 per cent, respectively, as at end-June 2018. Chart 3.1 shows outstanding sector-wise distribution of credit to the private sector from June 2017 through June 2018.

Asset Quality

The financial soundness of banks is intrinsically linked to their asset quality and is generally reflected in liquidity and profitability of a bank. Poor asset quality can jeopardize the soundness of a bank. The gross non-performing advances of banks decreased by 5.0 per cent, from Rs47 billion as at end-June 2017

[12] *The Guideline on Credit Concentration Risk was amended in September 2017 wherein 'large credit exposure" was redefined as being the sum of all exposures to a customer or a group of connected counterparties in Mauritian Rupees or foreign currencies or both which is **over 10 per cent of the financial institution's Tier 1 capital.***

[13] *Including mortgage.*

to Rs45 billion as at end-June 2018, resulting from an improvement in the ratio of gross non-performing advances to total advances from 7.0 per cent to 6.5 per cent. The gross non-performing advances on facilities extended in Mauritius fell by 3.1 per cent to Rs26 billion. However, gross non-performing advances extended outside Mauritius increased by 5.2 per cent to Rs18 billion.

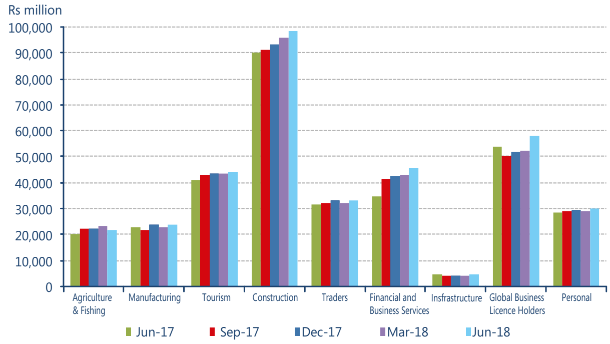
Banks' specific provisions for loan losses increased by 8.6 per cent, from Rs23 billion as at end-June 2017 to Rs25 billion as at end-June 2018. Specific provisions held on non-performing advances in Mauritius increased by Rs1.2 billion or 12.2 per cent while specific provisions on non-performing advances outside Mauritius rose by Rs0.8 billion or 5.8 per cent. The ratio of specific provisions to non-performing advances rose from 49.3 per cent as at end-June 2017 to 56.4 per cent as at end-June 2018.

Profitability

Banks operating in Mauritius realised profit after tax in FY2017-18, with the exception of three banks which incurred losses mainly due to high operating costs. Aggregate pre-tax profit of banks increased from Rs19.6 billion in FY2016-17 to Rs20.3 billion in FY2017-18, mainly on account of a rise of 8 per cent in interest income.

Table 3.4 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.

Chart 3.1 Sectorwise Distribution of Credit to Private Sector



Source: Supervision Department.

Table 3.4: Consolidated Income Statements of Banks

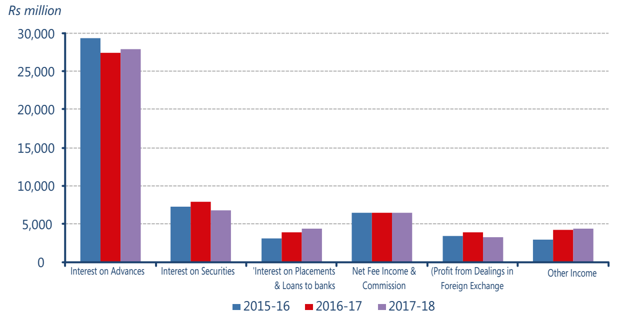
			(Rs million)
Financial Year*	**2015-16**	**2016-17**	**2017-18**
Interest Income	**40,359**	**39,841**	**43,013**
Interest on Advances	*29,273*	*27,500*	*28,481*
Interest on Securities	*7,249*	*7,947*	*8,676*
Interest on Placements and Loans to banks	*3,184*	*3,921*	*4,698*
Other Interest Income	*653*	*473*	*1,158*
Interest Expense	**15,880**	**12,534**	**13,371**
Interest on Deposits	*11,277*	*9,136*	*9,730*
Interest on Borrowings from banks	*3,633*	*1,325*	*1,556*
Other Interest Expenses	*970*	*2,074*	*2,085*
Net Interest Income	**24,479**	**27,307**	**29,642**
Non-Interest Income	**12,218**	**14,135**	**13,314**
Net Fee Income and Commission	*6,539*	*6,463*	*6,571*
Profit from Dealings in Foreign Currencies	*3,414*	*3,895*	*4,000*
Other Non-Interest Income	*2,265*	*3,777*	*2,743*
Operating Income	**36,697**	**41,442**	**42,956**
Non-Interest Expense	**16,591**	**16,895**	**18,456**
Staff Costs	*7,836*	*8,581*	*9,280*
Operating Expenses	*8,755*	*8,314*	*9,176*
Operating Profit before Provisions	**20,106**	**24,547**	**24,500**
Provision and Adjustments to Income from Credit Losses	*6,738*	*4,908*	*4,242*
Profit before Tax	**13,368**	**19,639**	**20,258**
Provision for Income Taxes	*2,036*	*2,751*	*2,976*
Profit after Tax	**11,332**	**16,888**	**17,282**

**12 months period for which the accounts were audited and are different for different banks.*
Source: Supervision Department.

Components of Income

Total income of banks increased by Rs2.3 billion, or by 4.3 per cent, from Rs54.0 billion in FY2016-17 to Rs56.3 billion in FY2017-18, mainly on account of improvement in the interest income component. Chart 3.2 shows the movements in components of total income of banks from FY2015-16 through FY2017-18.

Chart 3.2 **Components of Income of Banks**



Source: Supervision Department.

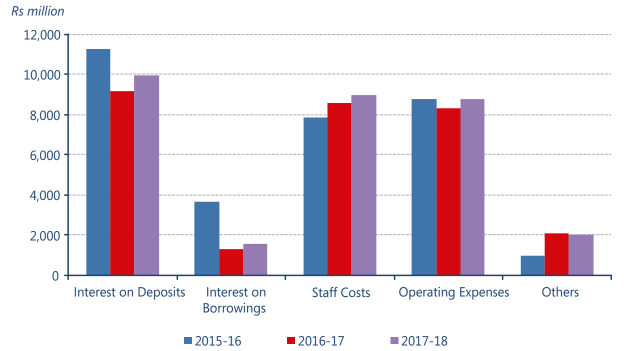
Interest Income

Interest income increased by 8.0 per cent to Rs43,013 million in FY2017-18, from Rs39,841 million in FY2016-17. Interest earned from advances, representing 66.2 per cent of total interest income, rose by 3.6 per cent to reach Rs28,481 million in FY2017-18. Interest earned on securities went up by 9.2 per cent to Rs8,676 million in FY2017-18, while interest received from placements and loans to banks and other interest income increased from Rs4,394 million in FY2016-17 to Rs5,856 million in FY2017-18.

Non-Interest Income

Non-interest income, which represents an important source of revenue for banks, went down by 5.8 per cent, from Rs14,135 million in FY2016-17 to Rs13,314 million in FY2017-18. During the year under review, fee-related income improved by 1.7 per cent, while profit arising from dealings in foreign currencies increased by 2.7 per cent. Together, they accounted for 79.4 per cent of total non-interest income in FY2017-18 compared to 73.3 per cent in FY2016-17.

Chart 3.3 **Components of Expense of Banks**



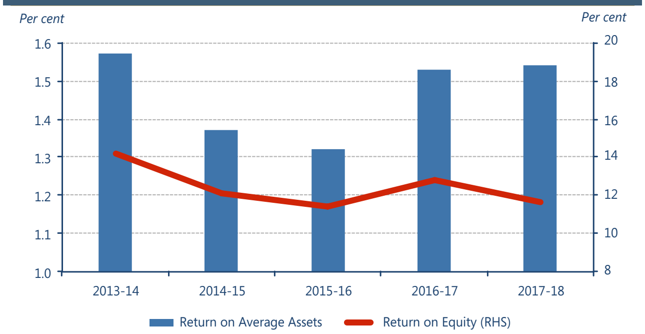
Source: Supervision Department.

Components of Expense

Total expenses of banks increased by 8.1 per cent, from Rs29,430 million in FY2016-17 to Rs31,827 million in FY2017-18, mainly driven by a rise in operating expenses.

Chart 3.3 shows the evolution of the components of expense of banks from FY2015-16 through FY2017-18.

Chart 3.4 **Return on Average Assets and Equity of Banks**



Source: Supervision Department.

Interest Expense

Total interest expense rose from Rs12,534 million in FY2016-17 to Rs13,371 million in FY2017-18, mainly on account of a 6.5 per cent rise in interest paid on deposits and a 17.4 per cent increase in interest paid on borrowings from banks.

Non-Interest Expense

Non-interest expense, which comprise staff costs and other operating expenses, increased by 9.2 per cent to Rs18,456 million in FY2017-18 compared to Rs16,895 million a year earlier, mainly due to an increase of 10.4 per cent in operating expenses and a 8.1 per cent rise in staff costs.

Overall, the cost-to-income ratio for the banking sector stood at 43.0 per cent in FY2017-18 compared to 40.8 per cent in FY2016-17.

Operating Profit

Banks' operating profit before provision for credit losses went down from Rs24,547 million in FY2016-17 to Rs24,500 million in FY2017-18. However, post-tax profits increased from Rs16,888 million in FY 2016-17 to Rs17,282 million in FY2017-18.

Return on Average Assets and Equity

The pre-tax return on average assets for the banking sector stood at 1.5 per cent and remained unchanged compared to the previous year. It ranged between negative 4.5 per cent and positive 2.8 per cent for individual banks. Two banks achieved a return on average assets of above 2.0 per cent.

On the other hand, post-tax return on equity for the banking sector fell from 12.8 per cent in FY2016-17 and to 11.6 per cent in FY2017-18. It ranged from negative 17.0 per cent to positive 42.6 per cent in FY2017-18 for individual banks.

Chart 3.4 depicts the return on average assets and equity of banks from FY2013-14 through FY2017-18.

Interest Rate Spread

Banks' interest earned on Rs100 of advances increased by 25 cents to Rs4.41 in FY2017-18. Likewise, the cost per Rs100 of deposits went up by 3 cents to Rs1.05. Consequently, the spread increased to Rs3.36 in FY2017-18, from Rs3.14 in the previous year. Table 3.5 shows the interest rate spread for FY2015-16 through FY2017-18.

PERFORMANCE OF NON-BANK DEPOSIT-TAKING INSTITUTIONS

Of the eight Non-Bank Deposit-Taking Institutions (NBDTIs) which were in operation in Mauritius as at end-June 2018, four were exclusively involved in leasing activities, two carried out lending business only and the remaining two were involved with both leasing and lending operations. Four of the NBDTIs were subsidiaries/related companies of banking institutions or insurance companies. As at end-June 2018, all NBDTIs were holding the minimum required capital of Rs200 million, and their total assets represented around 4.4 per cent of the total assets of the financial sector.

NBDTIs are required to maintain a minimum capital adequacy ratio of 10 per cent under the Guideline on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions and to comply with the applicable Guidelines issued by the Bank of Mauritius. The capital adequacy ratio of NBDTIs increased from 30.3 per cent as at end-June 2017 to 31.6 per cent as at end-June 2018 due to a decrease of 2.6 per cent in the total risk-weighted assets and an increase of 1.5 per cent in aggregate capital base. On an individual basis, the capital adequacy ratio maintained by NBDTIs ranged from 12.7 per cent to 61.1 per cent as at end June 2018.

Over the period 30 June 2017 to 30 June 2018, total outstanding credit facilities extended by NBDTIs fell by 3.6 per cent or Rs2,229 million, while their total amount of gross non-performing advances experienced a more than proportionate decrease of 11.0 per cent or Rs391 million. As a result, an improvement of 0.4 percentage point was observed in the gross non-performing advances ratio which fell from 5.8 per cent as at end-June 2017 to 5.4 per cent as at end-June 2018. The outstanding credit facilities extended by NBDTIs to households, which comprised 87 per cent of the total figure, represented 86.5 per cent or Rs2,738 million of non-performing advances.

Table 3.5: Interest Rate Spread of Banks

			Rupees
	2015-16	2016-17	2017-18
Interest Earned on Rs100 of Advances	4.23	4.16	4.41
Cost per Rs100 of Deposits	1.20	1.02	1.05
Interest Rate Spread	3.03	3.14	3.36

Source: Supervision Department.

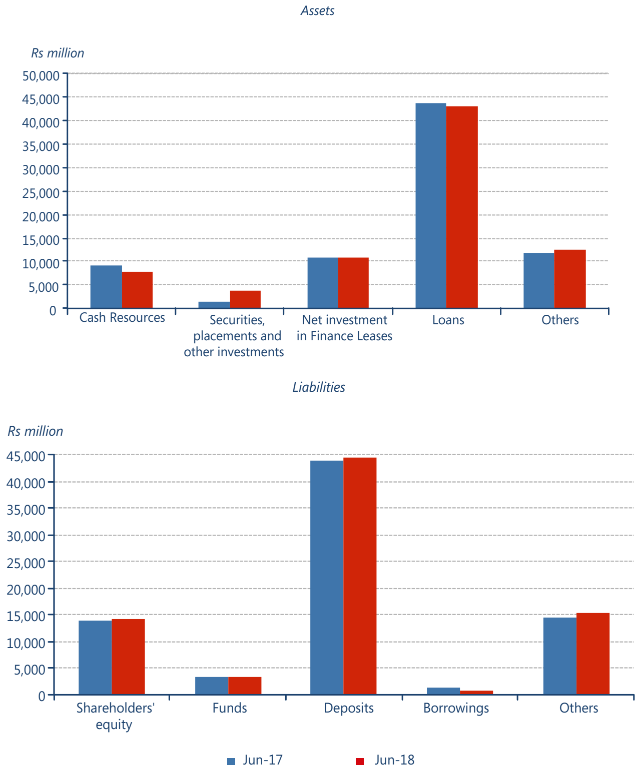
Balance Sheet Structure

Total assets of NBDTIs increased by 1.5 per cent from end-June 2017 to reach Rs78 billion as at end-June 2018. The share of loans to total assets declined from 56.7 per cent as at end-June 2017 to 55.0 per cent at the end of June 2018, while investment in finance leases to total assets stayed constant at 14.0 per cent over the same period.

Deposits remained the main source of funding, though as a ratio of total liabilities, they dropped from 57.3 per cent as at end-June 2017 to 56.9 per cent as at end-June 2018. Deposits went up by 0.8 per cent to Rs44 billion as at end-June 2018. Chart 3.5 illustrates the composition of assets and liabilities of NBDTIs as at end-June 2017 and as at end-June 2018.

The advances-to-deposits ratio decreased from 123.6 per cent at end-June 2017 to 121.3 per cent at end-June 2018. Leases-to-deposits ratio (based on deposits held by leasing companies only) went down from 76.3 per cent at end-June 2017 to 78.3 per cent at end-June 2018.

Chart 3.5 **Balance Sheet Structure of NBDTIs**

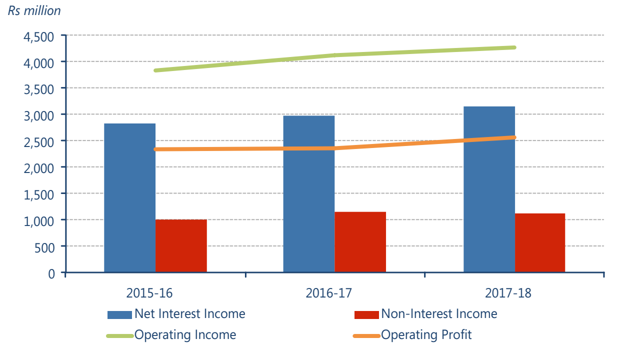


Source: Supervision Department.

Profitability

The consolidated profitability figures for NBDTIs are based on the audited results for the financial years ended June, September and December. For the FY2017-18, NBDTIs' aggregate profit after tax fell by 82.0 per cent from Rs2,228 million to Rs400 million. This decline was driven mainly by a reassessment of the amount of tax to be paid for one NBDTI for the years 2007 to 2017. Further, another NBDTI incurred losses in the period under review. Table 3.6 summarises the performance of the NBDTIs over the last three financial years. Chart 3.6 shows the evolution of net interest income, non-interest income, operating income and operating profit over the financial years 2015-16 to 2017-18.

Chart 3.6 **Profitability of NBDTIs**



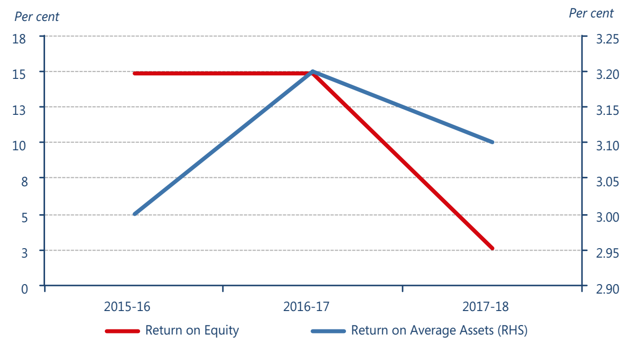
Source: Supervision Department.

Return on Average Assets and Return on Equity

The pre-tax return on average assets worsened slightly from 3.2 per cent for the FY2016-17 to 3.1 per cent for the FY2017-18. On an individual basis, NBDTI's pre-tax return on average assets was quite diverse, ranging from negative 1.8 per cent to 3.9 per cent for the FY2017-18.

The post-tax return on equity declined from 14.8 per cent for the FY2016-17 to 2.6 per cent for the FY2017-18. Chart 3.7 shows the return on average assets and equity over the last three financial years.

Chart 3.7 **Return on Average Assets and Equity of NBDTIs**



Source: Supervision Department.

Table 3.6: Consolidated Profit and Loss Account of NBDTIs			
			(Rs million)
Accounting Year*	**2015-16**	**2016-17**	**2017-18**
Interest Income	5,656	5,670	5,698
Interest Expense	2,830	2,686	2,545
Net Interest Income	2,826	2,984	3,154
Non-Interest Income	1,004	1,142	1,122
Operating Income	3,831	4,126	4,275
Non-Interest Expense	1,494	1,600	1,695
Operating Profit	2,336	2,526	2,580
Other Non-Operating Profit			
Profit before Provision & Adjustment for credit losses	**2,336**	**2,526**	**2,580**
Provision & Adjustment for credit losses	*308*	*214*	*252*
Profit before tax	**2,028**	**2,312**	**2,329**
Income Tax Expense	*93*	*84*	*1,928*
Profit after tax	**1,935**	**2,228**	**400**

**12 months period for which the accounts were audited and are different for different NBDTIs.*
Source: Supervision Department.

Liquidity

NBDTIs are required to maintain liquid assets representing a minimum of 10 per cent of their deposit liabilities. As at end-June 2018, liquid assets held by NBDTIs amounted to Rs11,031 million or 24.9 per cent of their deposits compared to Rs9,838 million or 22.4 per cent of deposits recorded as at end-June 2017.

FINANCIAL SOUNDNESS INDICATORS OF BANKS AND NON-BANK DEPOSIT-TAKING INSTITUTIONS

Capital Adequacy Indicators

The regulatory capital to risk-weighted assets ratio and the ratio of core capital to risk-weighted assets of deposit-taking institutions remained at comfortable levels over the last five quarters, at 18.0 per cent and 16.7 per cent, respectively, as at end-June 2018. The ratio of non-performing loans net of provisions to capital improved from 17.9 per cent in June 2017 to 14.3 per cent in June 2018 indicating that the Other Depository Corporations (ODCs) would have more capital to withstand losses that may arise from non-performing loans.

Asset Quality Indicators

ODCs' gross non-performing loans to total gross loans ratio fell from 7.9 per cent in June 2017 to 6.8 per cent in June 2018. The sectoral distribution of loans to total loans provides information on the distribution of loans to resident sectors and to non-residents. As at end-June 2018, loans contracted by non-residents, non-financial corporations and other domestic sectors stood at 38.6 per cent, 33.3 per cent and 21.8 per cent, respectively, of the total. The share of loans to other financial corporations rose from 2.7 per cent in June 2017 to 3.9 per cent in June 2018. The increase in the ratio of interbank loans to total loans from 0.8 per cent in June 2017 to 2.4 per cent in June 2018 indicates that banks have been more active in the interbank money market during the year under review.

Earnings and Profitability Indicators

In June 2018, the ROA[14] of deposit takers remained unchanged at 1.5 per cent during June 2017 to June 2018, while the ROE[15] of deposit takers decreased marginally to 14.6 per cent in June 2018 from 14.9 per cent registered in June 2017. The ratio of interest margin to gross income measures the portion of deposit-takers' profits created from interest earnings. In the case of institutions with low leverage, this FSI will tend to be higher. The ratio, which stood at 68.8 per cent in June 2017, increased to 71.5 per cent in

[14] *Annualised Return on Asset (pre-tax).*
[15] *Annualised Return on Equity (pre-tax).*

Table 3.7: Financial Stability Indicators[1] of Other Depository Corporations (Banks and NBDTIs[2])

						Per cent
Core Set of Financial Soundness Indicators	**Mar-17**	**Jun-17**	**Sep-17**	**Dec-17**	**Mar-18**	**Jun-18**
Capital-based						
Regulatory capital to risk-weighted assets	18.5	18.6	18.2	18.8	18.6	18.0
Regulatory Tier 1 capital to risk-weighted assets	16.9	17.2	16.8	17.4	17.2	16.7
Non-performing loans net of provisions to capital	19.3	18.0	18.3	16.3	15.6	11.6
Asset Quality						
Gross non-performing loans to total gross loans[3]	7.9	7.8	7.8	7.0	7.2	6.9
Sectoral distribution of loans to total loans[3]						
Interbank loans	*0.4*	*0.3*	*1.3*	*1.6*	*1.8*	*2.4*
Other financial corporations	*2.9*	*3.2*	*3.8*	*3.8*	*3.9*	*3.9*
Non-financial corporations	*35.7*	*35.6*	*33.7*	*33.1*	*33.0*	*33.3*
Other domestic sectors	*21.6*	*22.5*	*22.1*	*21.8*	*21.9*	*21.8*
Non-residents	*39.4*	*38.5*	*39.0*	*39.7*	*39.3*	*38.6*
Earnings and Profitability						
Return on assets	1.4	1.5	1.5	1.6	1.5	1.5
Return on equity	13.2	14.9	14.7	15.2	14.9	13.9
Interest margin to gross income	69.2	68.8	70.2	69.6	66.9	71.5
Non-interest expenses to gross income	42.3	40.2	44.3	42.9	41.1	40.5
Liquidity						
Liquid assets to total assets	26.8	28.1	25.0	22.2	23.2	25.4
Liquid assets to short-term liabilities	33.3	35.2	32.2	28.9	30.0	28.8
Sensitivity to Market Risk						
Net open position in foreign exchange to capital	4.7	3.8	3.3	3.2	4.8	3.0
Encouraged Set of Financial Soundness Indicators	**Mar-17**	**Jun-17**	**Sep-17**	**Dec-17**	**Mar-18**	**Jun-18**
Capital to assets	10.2	10.4	10.0	10.1	10.0	11.6
Value of large exposures to capital[4]	150.0	137.8	157.4	224.4	228.3	233.5
Customer deposits to total (non-interbank) loans	151.5	155.8	157.1	153.4	159.3	155.2
Residential real estate loans to total loans[3]	9.2	9.7	9.7	10.2	10.3	10.3
Commercial real estate loans to total loans[3]	4.3	4.3	4.2	3.9	4.1	4.4
Trading income to total income	10.3	8.7	12.3	10.2	12.5	8.2
Personnel expenses to non-interest expenses	49.4	49.5	49.1	49.5	49.3	49.4

[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 Institution.

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

[4] As from December 2017, the measurement of Credit concentration ratio has been revised to aggregate large credit exposure (above 10 % of Tier 1 capital) as a percentage of aggregate Tier 1 capital. Based on previous guideline (15 % of Tier 1 capital), the corresponding ratio for large exposures would have been 171.8% in December 2017, 178.3 % in March 2018 and 182.8% in June 2018.

Source: Supervision Department.

June 2018, indicating relatively lower borrowings by the ODCs to finance the given level of assets. The non-interest expenses to gross income ratio which measures how much of gross income is taken up by administrative and overhead costs, went up marginally to 40.5 per cent in June 2018, from 40.2 per cent in June 2017.

Liquidity Indicators

On average, ODCs kept 25.4 per cent of their total assets in liquid instruments as at end- June 2018 compared to 28.1 per cent as at end-June 2017. More so, the ratio of liquid assets to short term liabilities stood at 28.8 per cent in June 2018 showing that the ODCs were sufficiently prepared to meet short-term withdrawal of deposits without facing undue liquidity problems.

Sensitivity to Market Risk Indicators

The net open position in foreign exchange to capital is an indicator of exposure to market risk, which is intended to show deposit-takers' exposure to exchange rate risk compared with capital. It measures the mismatch of foreign currency asset and liability positions to assess the vulnerability to exchange rate movements. The ratio decelerated to 3.0 per cent in June 2018 from 3.7 per cent in June 2017.

CASH DEALERS

Six money changers and six foreign exchange dealers, collectively known as cash dealers, were in operation as at 30 June 2018. Unlike money changers which deal principally in the exchange of foreign currency notes, foreign exchange dealers are authorised to carry out other activities which comprise the provision of remittance facilities and the conduct of spot and forward exchange transactions, in addition to the money-changing business.

Total assets of cash dealers amounted to Rs697 million as at end-June 2018, with assets of foreign exchange dealers totaling Rs634 million. The bulk of cash dealers` assets consisted of cash in hand and balances with banks and receivables, which represented 36 per cent and 21 per cent, respectively, of total assets compared to 44 per cent and 11 per cent as at end-June 2017. The other main asset components were foreign banknotes and investment in Treasury Bills/Government Securities that accounted for the respective share of 15 per cent and 16 per cent of total assets held by cash dealers as at end-June 2018.

RISK ANALYSIS OF THE DOMESTIC BANKING SYSTEM

Mauritius being an open small island economy, developments on the international front – particularly through the economic and financial linkages with our major trading partner countries - have a bearing on domestic financial stability. While risks to domestic financial stability emanating from the global economy have declined with firming global growth, the economic outlook has become somewhat clouded in the wake of mounting uncertainty. In its July 2018 World Economic Outlook Update, the IMF has forecast world GDP growth at 3.9 per cent for both 2018 and 2019. Growth in Emerging Market and Developing Economies (EMDEs) is projected at 4.9 per cent in 2018 and 5.1 per cent in 2019. However, the pace of expansion in a number of advanced economies has reached its highest level and has become less coordinated. Alongside, risks to the global growth outlook remain tilted to the downside amid rising oil prices, interest rate normalisation in the US, geopolitical tensions and heightened volatility affecting currency markets with weak fundamentals.

The global growth path may be derailed with further intensification of the trade war between the US and China. Developments related to tariffs imposition may keep investors on edge and markets would be subject to bouts of volatility. Alongside, the revolution of the cryptocurrencies in several regions of the world and the use of blockchain technology, especially in payment systems, would warrant close monitoring in the global financial system. Accordingly, vigilance is being maintained with regards to the domestic banking sector exposures and dealings in cross-border activities.

On the domestic front, economic activity has continued to improve amid buoyant construction activity and the implementation of mega infrastructure projects and contributions from key services sectors. On the demand side, consumption expenditure remains supported, while investment has increased mostly due to the public sector projects. However, net exports continue to remain a drag on growth while private investment remains lackluster. Notwithstanding the disinvestment by foreigners on the domestic stock market, the deficit in the current account was amply financed from financial flows. On a brighter outlook, it is expected that the deficit in the current account would be contained as the improvement in the services and accounts provide for a higher contribution. Nevertheless, the economy continues to operate with some spare capacity. Inflationary pressures have receded with normalization of the production of fresh vegetables and Budgetary measures to reduce the prices of gasoline products. Labour market conditions have continued to improve with unemployment projected to fall below 7 per cent, the first time since 2001. Going forward, growth is expected to remain supported by the majority of key sectors of the economy. Construction activities, which are expected to remain buoyant after rebounding in 2017, would have positive spillover effects to other sectors of the economy.

Though growth of credit extended by banks to households improved, it was matched with higher GDP that coalesced into a rather flat household debt-to-GDP ratio. Debt service cost of households declined with lower interest rates on housing and consumption credit following the cut in the Key Repo Rate in September 2017. In addition, non-performing advances to total outstanding credit card facilities, inclusive of both personal and professional credit dropped.

It is nevertheless important to highlight that the household credit-to-GDP gap has increased and moved into positive territory in the wake of higher expansion of credit extended by banks to households. In line with budgetary measures, the (Loan-to-Value) LTV ratio limit was relaxed in July 2017 and eventually repealed in July 2018. Subject to general terms and conditions as applicable by banks together with the low-interest rate environment, households have been encouraged to borrow from banks for housing purposes and these incentives should provide support to demand for housing credit. The Bank has maintained the Debt-to-Income (DTI) ratio respecting debt service to disposable income which imposes a cap on the amount of borrowings that the individual household may avail of. Nonetheless, close monitoring of the evolution of banks' exposure to households and resulting NPL is warranted for early detection of pockets of vulnerabilities and remedial actions.

Corporates were slightly more leverage with the increase in corporate debt-to-GDP ratio. Corporate debt-to-GDP gap, that has long stayed into negative territory, improved amid the surge in bank credit facilities availed by corporates. The corporate credit-to-GDP gap increased and has been into positive territory since 2017Q4.

Banks remained sound and sufficiently capitalised during FY2017-18. As at end-June 2018, the average capital adequacy ratio maintained by banks fell to 17.0 per cent at end-June 2018, from 18.0 per cent at end-June 2017. The banking sector, on an aggregated basis, remained profitable and liquid although post tax return on equity somewhat declined from 12.8 per cent in FY2016-17 to 11.6 per cent in FY2017-18. Banks held ample high quality liquid assets as evidenced by the recently implemented Liquidity Coverage Ratio (LCR). Asset quality of banks improved with the decline in ratio of NPL to total loans to 6.5 per cent in June 2018, from 7.0 per cent in June 2017. The improvement in asset quality resulted principally from higher domestic asset quality while cross-border exposures recorded higher NPLs ratio.

Table 3.8: Risks to Financial Stability for the Upcoming Six Months

	Risk to domestic financial stability		Expected Change*	
	Jun-17	Jun-18		
Global Economy				
Global economic activity			Up	↑
Oil price			Up	↑
Food prices			Unchanged	→
Volatitlity (ViX)			Down	↓
Domestic Economy				
Economic growth			Unchanged	→
Inflation			Down	↓
Terms of trade			Down	↓
Domestic savings			Unchanged	→
Investment/GDP			Unchanged	→
Exchange rate			Unchanged	→
Household Debt Risks				
Household debt-to-disposable income			Up	↑
Household debt service-to-disposable income			Up	↑
Corporate Debt Risks				
Corporate debt-to-GDP			Up	↑
Return on equity			Unchanged	→
Leverage			Unchanged	→
Banking				
Large exposures			Down	↓
Return on equity			Up	↑
Asset quality (domestic market)			Up	↑
Asset quality (outside Mauritius)			Unchanged	→

** Expected change between June 2018 and December 2018.*
Source: Bank of Mauritius staff estimates.

Risk analysis key					
High		Medium		Low	
6	5	4	3	2	1

STATEMENT ON FINANCIAL STABILITY

The financial system in Mauritius has remained resilient during FY2017-18. The banking system, as a whole, continues to be profitable, liquid and well-capitalised. Risks to the banking system stemming from the domestic economy and from abroad appear contained at this point in time, although vigilance must be exercised with regards to potential spillover effects that can be unleashed following developments in the geo-political landscape.

Growth prospects in Mauritius have showed signs of improvement. Consumption continues to support the growth momentum and has been topped up by enhanced public and private investment programmes. Initiatives announced in budget exercises over recent years to address structural supply-side productivity and competitiveness constraints that stymie the country's march towards high-income country status, will start bearing fruit gradually.

Growth prospects abroad have also recovered, although expansion seems to become less even and less synchronized as of late, according to the IMF's July 2018 WEO Update. Growth in some of the main trading partners of Mauritius, namely Europe and the US, has undertaken different trajectories, with the former edging down mildly while the latter seems to have reached the near-end of its upward momentum. Among emerging market and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, escalating trade tensions higher yields in the US, and market pressures on the currencies of some economies with weaker fundamentals. Continued rising yields in the US may unwind many of the existing carry trade strategies that have erstwhile been developed and may present occasional volatility spikes to currency and to money or fixed-income markets. To the extent that many banks in Mauritius derive their activities in foreign currencies and are partially dependent on wholesale funding, these external developments must be diligently monitored.

The banking sector remains buttressed by strong capital positions. As at end-June 2018, the capital adequacy ratio of the banking system stood at 17.2 per cent, which is above the minimum regulatory requirement of 10 percent. The results of the in-house stress testing models show that the banking system as a whole continues to remain resilient to severe but plausible shocks. The ongoing implementation of Capital Conservation Buffer in a phased manner in line with the Basel III framework will contribute towards strengthening banks' capital against shocks. D-SIB charges imposed on banks in a phased manner until 2019 will help consolidate capital buffers of the systemically important banks.

Further, as at end-June 2018, the banking system was assessed to be well-funded and liquid. The Bank continues its efforts to diligently monitor the liquidity situation of banks by performing liquidity gap analyses, including GBC deposit funding gap analysis.

Household debt-to-GDP ratio has remained almost flat and pointed to rather contained risks to domestic financial stability. Though household debt from banks rose during 2018H1, it was matched with higher household disposable income. Debt service cost of households fell amid lower interest rates on housing and consumption credit following the cut in the Key Repo Rate in September 2017. In line with budgetary measures, the Loan-to-Value ratio limit was relaxed in July 2017 and has been removed in July 2018. Close monitoring of the evolution of banks' exposure to households is warranted for early detection of pockets of vulnerabilities and remedial actions.

Regulation and Supervision

Corporates have posted a slightly higher leverage ratio in 2018Q2 compared to 2017Q2 as the increase in debt of corporates dwarfed the increase in nominal GDP. The ratio of non-performing loans to total loans in key sectors of the economy such as manufacturing, tourism, construction and distributive trade declined between 2017Q2 and 2018Q2. Profitability, as measured by the return on equity increased, driven by the most key sectors of the economy, except for those involved in sugar-linked activities.

The payment system infrastructures owned and operated by the Bank functioned efficiently during the year ended June 2018 and transactions were settled without inordinate delay or loss. A robust infrastructure for payments is a critical requisite for maintaining the integrity of financial transactions and for safeguarding financial stability. Given that financial market infrastructures are subject to inroads of rapid technological breakthroughs such as Distributed Ledger Technology, the Bank is monitoring those Fintech developments which are germane to the banking system.

The minimum capital requirement of banks, which was Rs200 million since 2004, was increased to Rs400 million to improve the resilience of banks. In addition, guidelines have been updated in line with international best practices and implemented after due consultation with the banking industry. The Guideline on Outsourcing by Financial Institutions was reviewed and a new section on cloud-based services included. The Guideline on liquidity risk which embraces the Liquidity Coverage Ratio (LCR) framework – an artefact of Basel III – has become effective in October 2017. The Guidelines on Corporate Governance and on Credit Concentration Risk were amended.

The Bank of Mauritius continues to take steps to beef up its AML/CFT regulatory framework. A risk-based AML/CFT approach is being adopted, along with restructuring of supervisory framework, processes to make it more efficient and effective. This will call for enhanced monitoring during onsite and offsite supervision. To onboard this new framework, amendments are currently being made to the legislative framework. It is now mandatory for all banks to have a full-fledged AML/CFT software. Any new applicant for a licence covering operations falling within the purview of the Bank is required to provide evidence of same to the Bank before the grant of the licence.

The supervisory process at the Bank is currently being revamped to make it both forward- and backward-looking, and to ensure effective consolidated supervision and conglomerate supervision. Efforts are, in parallel, being deployed to facilitate better coordination between the Bank and the FSC. Banks were required to migrate to the IFRS9 Expected Credit Loss framework as from January 2018. Proposed legislation for deposit insurance scheme is currently in the process of being introduced and, if implemented, will ensure an orderly resolution of bank failures with minimal recourse to public funds.

Overall, the domestic financial system is assessed to be sound and resilient.

4 Financial Markets Developments

FINANCIAL MARKETS OPERATIONS

During the second half of FY2017-18, the Bank intensified its open market operations to tackle persisting excess liquidity in the banking sector and address the disconnect between the Key Repo Rate (KRR) and short-term money market rates. These operations, thus, prevented excessive build-up of excess reserves in the banking system and allowed the Bank to positively influence the short-term interest rate structure to eventually restore the monetary policy transmission mechanism.

It may be noted that the Bank manages liquidity in the system so that the overnight interbank interest rate moves close to the KRR, within the interest rate corridor. At inception, the choice of the Bank's operating target was motivated on the premise that changes in the overnight interbank interest rate would consequently get transmitted to other interest rates, and would eventually have an impact on inflation and growth. However, evidence over time has shown that trading on the overnight interbank money market has remained generally thin and liquidity distribution skewed among banks. Accordingly, the Bank has been focusing on the 91-day Bill yield, which is market-determined and reflective of liquidity conditions on the market, as the short-term operating target.

Following Government's decision to issue securities solely for the purpose of meeting its borrowing requirements, the Bank has been issuing its own instruments for liquidity management purposes. Bank of Mauritius Bills for a nominal amount of Rs69.5 billion were issued concurrently with Treasury Bills during FY2017-18 in the three tenors, 91-Day, 182- Day and 364-Day. Over FY2017-18, the Bank also issued Bank of Mauritius Notes of Two, Three and Four-Year tenors for a total nominal amount of Rs8.0 billion. Total proceeds from foreign exchange interventions amounted to Rs21.6 billion, out of which Rs18.8 billion were sterilised through Special Deposits held at the Bank for a period of one year.

In the context of its 50th anniversary, the Bank introduced a Three-Year Golden Jubilee Bond to retail customers and Non-Governmental Organisations (NGOs). A total amount of Rs8.9 billion was issued during the period 15 March to 15 June 2018. The Bond provided an alternative savings avenue for individuals and NGOs, given the prevailing low interest rate environment. The bond was listed on the Stock Exchange of Mauritius with a view to enhancing its marketability. The bond issue has also assisted in addressing the excess liquidity situation.

The commitment towards sustaining monetary operations was visible through outstanding Bank of Mauritius instruments, which rose to nearly Rs92 billion as at end-June 2018, from Rs69 billion as at end-June 2017 (Table 4.1).

Table 4.1: Outstanding Instruments Issued by the Bank

	Amount outstanding as at end-June 2016	Amount outstanding as at end-June 2017	Amount outstanding as at end-June 2018 (Rs million)
Bank of Mauritius Bills	1,500	12,200	35,780
GMTBs issued for Liquidity Management	11,408	12,931	-
Special Deposits	9,540	10,028	19,775
Bank of Mauritius Notes	31,805	31,120	27,050
3-Year Bank of Mauritius Golden Jubilee Bonds	-	-	8,974
5-Year Bank of Mauritius Bonds	2,193	2,193	-
15-Year Bank of Mauritius Bonds	500	500	500
Total	**56,946**	**68,972**	**92,079**

Note: Figures may not add up to totals due to rounding.
Source: Financial Markets Operations Division.

Financial Markets Developments

Bank of Mauritius Securities

Throughout FY2017-18, the Bank continued to issue its own instruments to mop up the excessive liquidity prevailing in the banking system. Bank of Mauritius Bills in the 91-Day, 182-Day and 364-Day tenors were issued concurrently with Government of Mauritius Treasury Bills through separate auctions. Bank of Mauritius (BoM) Bills for a total nominal amount of Rs69.7 billion were put on tender against maturing BoM Bills of Rs45.9 billion. Bids for a total nominal amount of Rs132.5 billion were received and the value of bids accepted amounted to Rs69.5 billion. The total amount of bids accepted represented 99.7 per cent of the total tender amount and 52.4 per cent of total bids received. The weighted average yields increased from 1.96 per cent, 2.02 per cent and 2.19 per cent in the 91-Day, 182-Day and 364-Day Bills, respectively, in June 2017 to an average of 3.48 per cent, 3.51 per cent and 3.58 per cent in June 2018.

Over the same period, the Bank had recourse to longer term maturities to absorb the structural excess liquidity prevailing in the banking system. Bank of Mauritius Notes of Two-Year, Three-Year and Four-Year maturities amounting to Rs6.5 billion were put on tender. All auctions were oversubscribed, with total bids received amounting to Rs14.1 billion and an amount of Rs8.0 billion was accepted. Bank of Mauritius securities for a total nominal amount of Rs105.2 billion were issued against maturing securities to the tune of Rs82.1 billion. Following foreign exchange interventions, the bank sterilised a major chunk of the rupee counterpart to the tune of Rs18.8 billion, through special deposits placed for a period of one year at an interest rate ranging between 2.10-3.82 per cent. In addition, the Bank launched a 3-Year Bond bearing interest of 4.25 per cent per annum, payable on a quarterly basis. The 3-Year Golden Jubilee Bonds were opened to retail customers and NGOs for a period of three months starting 15 March 2018. A total nominal amount of Rs8.9 billion was issued Over the Counter (OTC).

The Bank has continued to conduct open market operations on the domestic money market with a view to maintaining reserves at an appropriate level, as close as possible to the demand for reserves by banks. The level of excess rupee liquidity, defined as any liquidity in excess of the cash reserve ratio requirements, may not necessarily reflect excess rupee liquidity for banks insofar as they have to keep a certain proportion as precautionary balances to meet their own commitments. The rupee excess in the banking system hovered around a daily average of Rs8.4 billion during FY2017-18 compared to a daily average of Rs8.0 billion in FY2016-17.

The Bank demonstrated its commitment to the market that it would undertake open market operations as required to achieve the monetary policy stance determined by the MPC. The outcome in terms of yields on the 91-day Bill points to the efficiency of implementation of monetary policy by the Bank. Yields on the 91-day Bill have moved back within the interest rate corridor since early this year. They have gradually increased and they have been hovering close to the KRR since March 2018. The stability of the 91-day yield could indicate that it would better reflect the appropriateness of the level of excess liquidity in the system (Chart 4.1).

Issue of Government Securities

Government securities are debt instruments issued by the Government to raise funds to finance investment projects and other commitments. These generally include Treasury Bills, Treasury Notes and Government of Mauritius Bonds issued in book entry form. Government securities are issued in accordance with the Government Issuance Plan for the financial year.

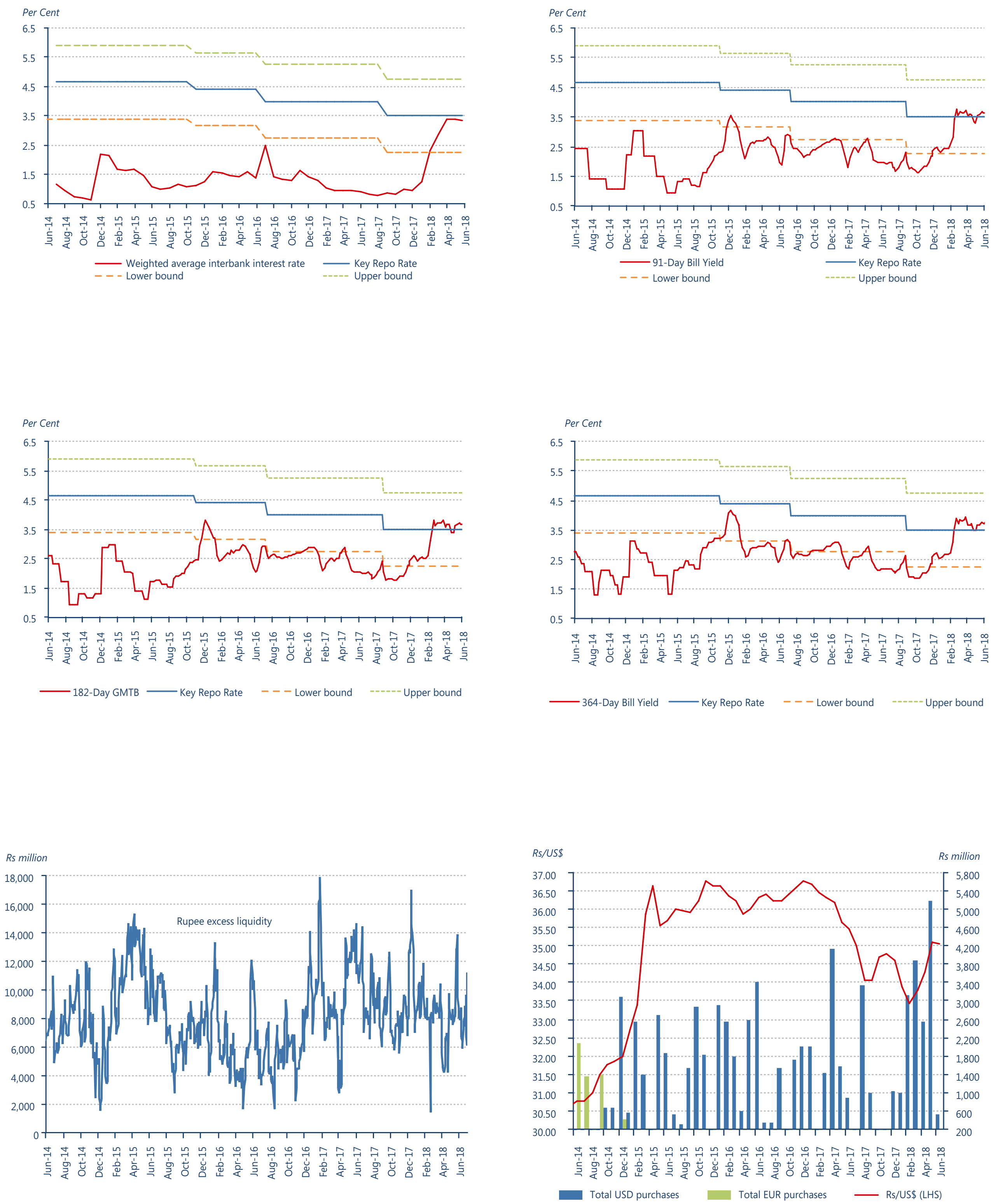
Treasury Bills

The Bank continued its smoothing exercise to mitigate any volatility in the weekly amount of Government of Mauritius Treasury Bills put on tender. The market is informed of the range of weekly issues of Treasury Bills for the next two months in advance. The actual amount and tenor of Treasury Bills for the next two weeks are also communicated to the market ahead of the auction.

During FY2017-18, Government of Mauritius Treasury Bills for a total nominal amount of Rs38.6 billion were put on tender in the 91-Day, 182-Day and 364-Day maturities. Bids for a total nominal amount of Rs74.8 billion were received and the value of bids accepted amounted to Rs37.9 billion against maturing Treasury Bills of Rs50.8 billion for the period (Chart 4.2). The total amount of bids accepted represented 98.1 per cent of the total tender amount compared to 93.6 per cent in the preceding financial year.

Between June 2017 and June 2018, the weighted average yields on Treasury Bills increased primarily as a result of open market operations carried out by the Bank to continuously absorb liquidity from the system. The weighted average yields on the 91-Day, 182-Day and the 364-Day Tenors, went up from 1.92 per cent, 2.03 per cent and 2.18 per cent in June 2017 to 3.64 per cent, 3.64 per cent and 3.78 per cent, respectively, in June 2018. The overall weighted average yield increased by 159 basis points, from 2.10 per cent in June 2017 to 3.69 per cent in June 2018 (Chart 4.3).

Chart 4.1 Money Market Rates, Rupee Excess Liquidity and FOREX Intervention



Source: Financial Markets Operations Division.

Financial Markets Developments

Treasury Notes

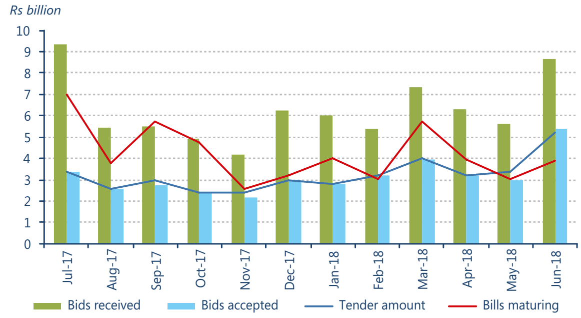
During FY2017-18, the Bank continued the monthly issuance of Three-Year Treasury Notes. Each of the four new benchmark issues were re-opened twice, with a view to creating ample liquidity in the instruments to foster the development of the secondary market. A total amount of Rs20.0 billion was put on tender while the amount accepted totalled Rs20.2 billion (Table 4.2).

Long Term Government of Mauritius Bonds

During FY2017-18, the Government raised a total amount of Rs25.2 billion through the net issue of long-term Government of Mauritius Bonds. Seven auctions of Five-Year Government of Mauritius Bonds were carried out during the financial year and a total nominal amount of Rs14.0 billion was accepted (Table 4.3). These included the issue of the three New Benchmark Bonds which was subsequently re-opened.

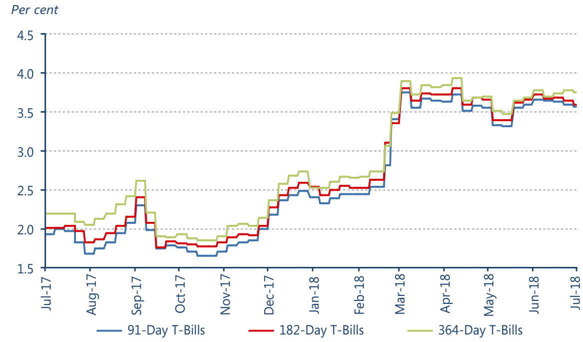
The Bank also held three issues of Ten-Year Government of Mauritius Bonds, namely on 25 August 2017, 10 November 2017 and 9 March 2018, respectively. The total nominal amount put on tender was Rs5.5 billion and total bids received amounted to Rs13.6 billion. The full tender amount of Rs5.5 billion was accepted (Table 4.4).

Chart 4.2 Auctioning of Treasury Bills



Source: Financial Markets Operations Division.

Chart 4.3 Yields on Government of Mauritius Treasury Bills at Primary Auctions



Source: Financial Markets Operations Division.

Table 4.2: Auctions of Three-Year 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)	
2017					
25-Jul	1,800	4,160	1,800	2.55	2.56
4-Aug	1,600	3,350	1,600	2.55	2.61
29-Sep	1,600	1,930	1,600	2.55	2.51
13-Oct	1,600	3,900	1,600	2.37	2.43
24-Nov	1,600	2,530	1,600	2.37	2.75
5-Dec	1,800	3,925	1,800	2.37	2.94
2018					
26-Jan	1,600	4,300	1,600	3.18	3.26
19-Feb	1,800	4,500	1,800	3.18	3.29
23-Mar	1,600	4,950	1,600	3.18	4.24
24-Apr	1,800	4,500	1,800	4.15	4.26
25-May	1,600	3,900	1,600	4.15	4.25
22-Jun	1,600	3,550	1,800	4.15	4.25
FY2017-18	**20,000**	**45,495**	**20,200**	**2.37-4.15**	**2.43-4.26**
FY2016-17	**19,200**	**40,622**	**19,190**	**2.90-3.40**	**3.00-3.65**

Source: Financial Markets Operations Division.

The Bank conducted an issue of the Fifteen-Year Government of Mauritius Bonds for a nominal amount of Rs1.5 billion during FY2017-18 (Table 4.5). The auction was oversubscribed, with a bid-cover ratio of 3.3.

The Bank held an issue of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds on 20 April 2018. 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 Rs3.5 billion were received and a total amount of Rs1.2 billion was issued at the weighted bid margin of 235 basis points (Table 4.6).

During FY2017-18, the Bank conducted two auctions of Twenty-Year Government of Mauritius Bonds on 15 September 2017 and 11 May 2018, for a total nominal amount of Rs3.0 billion. Both auctions were oversubscribed, with a bid-cover ratio of 3.4 and 3.1, respectively (Table 4.7).

Interbank Money Market

Total turnover on the interbank money market during FY2017-18 increased by 120.7 per cent to Rs307.7 billion, from Rs139.4 billion in FY2016-17. On a daily average basis, interbank transactions more than doubled from Rs415 million in FY2016-17 to Rs986 million in FY2017-18. Nearly 56 per cent of total transactions, or Rs172 billion, were carried out on the call money market segment as against 76 per cent in FY2016-17. Daily transactions on the call money market averaged Rs593 million in FY2017-18 compared to Rs355 million in FY2016-17. The increase in total interbank turnover was mainly the result of higher transactions under the short notice segment, which increased to Rs123.9 billion in FY2017-18, from Rs20.7 billion in FY2016-17, with a daily average of Rs642 million compared to Rs225 million. Term money transactions increased from Rs11.7 billion in FY2016-17 to Rs11.9 billion in FY2017-18, representing an increase in daily average transactions, from Rs103 million to Rs212 million over the same period.

Interbank interest rates which are determined primarily by the prevailing liquidity conditions, fluctuated between 0.70-3.75 per cent during FY2017-18, compared to 0.85-4.00 per cent in the preceding financial year. However, rates were higher in the second half of the year. Rates on the call money market hovered in the range of 0.70-3.75 per cent compared to 0.85-3.00 per cent in FY2016-17. Interest rates on short notice transactions varied between 0.85 per cent and 3.75 per cent in FY2017-18, compared to 1.10-4.00 per cent in FY2016-17. Interest rates on term money transactions ranged from 1.50 per cent to 3.75 per cent in FY2017-18 compared to a range of 1.10-2.90 per cent in FY2016-17. The overall weighted average interbank interest rate increased by 77 basis points, from 1.62 per cent to 2.39 per cent over the period under review.

Table 4.3: Auctions of Five-Year Government of Mauritius Bonds

		Issue Date						
		21-Jul-17	18-Aug-17	26-Oct-17	15-Dec-17	22-Feb-18	13-Apr-18	8-Jun-18
1.	Amount of Bonds put on Tender *(Rs million)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000
2.	Value of Bids Received *(Rs million)*	5,550	4,400	3,700	5,900	4,200	4,350	4,500
3.	Value of Bids Accepted *(Rs million)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000
4.	Interest Rate *(% p.a.)*	3.21	3.21	3.21	3.94	3.94	3.94	4.82
5.	Highest Yield Accepted *(% p.a.)*	3.30	3.58	3.48	4.15	4.73	4.97	4.92
6.	Weighted Yield on Bids Accepted *(% p.a.)*	3.28	3.52	3.41	4.07	4.65	4.87	4.87
7.	Weighted Price of Bids Accepted *(%)*	99.680	98.608	99.129	99.417	96.965	96.149	99.780

Source: Financial Markets Operations Division.

Table 4.4: Auctions of Ten-Year Government of Mauritius Bonds

		Issue Date		
		25-Aug-17	10-Nov-17	9-Mar-18
1.	Amount of Bonds put on Tender *(Rs million)*	1,800	1,800	1,900
2.	Value of Bids Received *(Rs million)*	4,900	4,140	4,600
3.	Value of Bids Accepted *(Rs million)*	1,800	1,800	1,900
4.	Interest Rate *(% p.a.)*	4.70	4.25	5.42
5.	Highest Yield Accepted *(% p.a.)*	5.00	4.65	5.73
6.	Weighted Average Yield on Bids Accepted *(% p.a.)*	4.89	4.47	5.58
7.	Weighted Price of Bids Accepted *(%)*	98.511	98.241	98.786

Source: Financial Markets Operations Division.

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

		Issue Date
		22 January 2018
1.	Amount of Bonds put on Tender *(Rs million)*	1,500
2.	Value of Bids Received *(Rs million)*	4,900
3.	Value of Bids Accepted *(Rs million)*	1,500
4.	*Interest Rate (% p.a.)*	5.05
5.	*Highest Yield Accepted (% p.a.)*	5.44
6.	Weighted Average Yield on Bids Accepted *(% p.a.)*	5.21
7.	Weighted Price of Bids Accepted *(%)*	98.349

Source: Financial Markets Operations Division.

Table 4.6: Auction of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds

		Issue Date
		20 April 2018
1.	Amount of Bonds put on Tender *(Rs million)*	1,200
2.	Value of Bids Received *(Rs million)*	3,460
3.	Value of Bids Accepted *(Rs million)*	1,200
4.	Highest Accepted Bid Margin *(Basis Points)*	254
5.	Weighted Accepted Bid Margin *(Basis Points)*	235

Source: Financial Markets Operations Division.

Table 4.7: Auctions of Twenty-Year Government of Mauritius Bonds

		Issue Date	
		15-Sep-17	11-May-18
1.	Amount of Bonds put on Tender *(Rs million)*	1,500	1,500
2.	Value of Bids Received *(Rs million)*	5,085	4,650
3.	Value of Bids Accepted *(Rs million)*	1,500	1,500
4.	Interest Rate *(% p.a.)*	5.48	6.18
5.	Highest Yield Accepted *(% p.a.)*	5.60	6.24
6.	Weighted Average Yield on Bids Accepted *(% p.a.)*	5.55	6.22
7.	Weighted Price of Bids Accepted *(%)*	99.161	99.546

Source: Financial Markets Operations Division.

Primary Dealer System

Effective 1st March 2017, four banks were appointed to act as Primary Dealers and Foreign Exchange Market Makers: AfrAsia Bank Limited, Barclays Bank Mauritius Limited, SBM Bank (Mauritius) Ltd and the Mauritius Commercial Bank Limited. In March 2018, following an annual review of their activities, the Primary Dealer's license of the existing Primary Dealers was renewed for a one-year period. The Guideline on the Operational Framework for Primary Dealers was reviewed in May 2018 but the Forex Market Maker System was suspended.

Secondary Market Trading

During FY2017-18, the Bank implemented the E-Bond trading platform, which provides electronic trading and market surveillance tools for participants in Mauritius for fixed income market. The implementation of the E-Bond system is expected to bring more efficiency and greater depth to the secondary market in Mauritius. It will allow for the development of a benchmark yield curve that will enhance price discovery for a range of money market instruments.

The total volume of transactions carried out on the secondary market by Primary Dealers and non-Primary Dealers recorded a more than two-fold increase from Rs67.7 billion in FY2016-17 to Rs140.8 billion in FY2017-18. Nearly 40 per cent of total transactions were carried out in the category of Non-Primary Dealer Banks for a total amount of Rs56.1 billion (Table 4.8).

Table 4.8: Secondary Market Transactions by Counterparty: July 2017 to June 2018

	Jul-17	Sep-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Total (FY 2017-18) *Rs million*
Banks										
of which:										
Primary Dealers	2,646.5	2,550.0	2,444.3	1,574.6	2,382.0	2,569.2	1,350.7	1,446.7	547.3	23,007.5
Non-Primary Dealer Banks	4,968.8	6,437.6	5,205.9	4,578.6	3,250.3	3,805.4	3,187.2	4,542.8	2,000.0	56,048.7
Non-Bank Financial Institutions										
of which:										
Pensions Funds	2,010.0	806.0	903.5	2,430.3	5,055.4	1,449.2	1,189.7	2,377.2	1,288.1	22,619.6
Insurance Companies	270.0	312.6	842.0	1,127.5	497.6	1,068.0	642.3	1,568.6	3,218.1	11,125.5
Other	744.2	788.3	1,816.1	1,579.3	1,147.9	1,391.0	1,657.5	1,358.0	1,300.6	13,065.2
Non-Financial Institutions	275.0	647.4	1,156.2	1,328.6	1,644.0	1,849.1	1,116.7	1,507.0	1,062.2	12,796.8
Individuals	8.0	107.7	46.4	271.9	275.3	263.7	239.5	403.1	333.8	2,087.3
Total	**10,922.5**	**11,649.6**	**12,414.4**	**12,890.8**	**14,252.5**	**12,395.6**	**9,383.6**	**13,203.4**	**9,750.1**	**140,750.6**

Note: The Bank issued a revised guideline for Primary Dealers in April 2018.
Source: Financial Markets Operations Division.

Interbank Foreign Exchange Market

Total turnover on the domestic interbank foreign exchange market increased by US$168 million, from US$1.2 billion in FY2016-17 to US$1.4 billion in FY2017-18, of which US$1.2 billion represented purchases of US dollar against the rupee and US$67 million for purchases of US dollar against other foreign currencies. Foreign exchange transactions were carried out at exchange rates ranging from Rs32.3700 to Rs35.3075 per US dollar in FY2017-18.

Purchases and Sales of Foreign Currencies by Bank of Mauritius

During FY2017-18, the Bank's purchases of foreign currencies increased by US$298 million, from US$429.1 million FY2016-17 to US$727.1 million, out of which a total amount of US$642.9 million were bought from banks through intervention. Sales of foreign currencies increased by US$37.3 million, from US$48 million to US$85.3 million over the same period. The Bank continued to intervene on the domestic foreign exchange market with a view to removing excess volatility in the rupee exchange rate. Purchases of US dollars increased markedly by 43 per cent, from US$450 million in FY2016-17 to US$643 million in FY2017-18 (Table 4.9).

CREDIT FACILITIES

Special Line of Credit in Foreign Currency

In 2012, the Bank introduced a Special Foreign Currency Line of Credit for the export and tourism operators. As at end-June 2018, the outstanding balance to be repaid by the banks amounted to EUR11.9 million.

Table 4.9: Intervention by the Bank of Mauritius on the Domestic Foreign Exchange Market

Period	Purchases of US dollars *(US$ million)*	Purchases of US dollars *(Rupee equivalent)*	Amount Sterilised *(Rs million)*
FY2015-16	640	20,902	n.a
FY2016-17	450	15,957	9,028
FY2017-18	643	21,637	18,775

Source: Financial Markets Operations Division.

5 Payment and Settlement Systems and Currency Management

Payment systems are an essential segment of a country's financial market infrastructure. Safe and efficient payment systems are necessary for promoting financial stability, facilitating the conduct of monetary policy through greater use of market-based instruments to achieve its objectives, while enhancing the efficiency of the financial system and the economy as a whole. An efficient functioning of the system enables transactions to be carried out safely and in a timely manner, thereby contributing to overall economic performance. The Bank has undertaken several initiatives to reinforce the payment systems in Mauritius, particularly, in the wake of the emergence of persistent cyber-threats and the emergence of payments through non-banks, notably Fintech and Distributed Ledger Technologies.

Legal Framework

The regulation and oversight of payment systems infrastructure are critical in ensuring the efficiency of payment systems and are directly linked to the Bank's core functions of maintaining monetary stability and ensuring the safety and soundness of the financial system. The Bank draws its powers for regulation and oversight of payment systems under Sections 48 and 48A of the Bank of Mauritius Act. However, the legal provisions governing the payment systems are currently scattered in several pieces of legislation. The Bank has, therefore, proposed a new legislation, the National Payment System Bill, which will bring all payment systems within the ambit of a single legal framework.

The enactment of the National Payment System Bill will provide for a comprehensive legislation on payment systems and provide greater clarity and legal certainty in this field as advocated in the Principles for Financial Market Infrastructures (PFMIs) published by the BIS Committee on Payments and Market Infrastructures (CPMI) and the Technical Committee of the International Organisation of Securities Commissions (IOSCO).

National Payment Switch

The Bank is in the process of setting up a National Payment Switch (NPS), which will provide the impetus for digital banking to take place. The payment switch will make banking, e-commerce and mobile payments inter-operable, and, at the same time, provide opportunities for other players to compete in the retail payment area. The NPS is expected to be launched in November 2018.

Instant Payments

The Bank is also encouraging banks to open up their core banking systems through Application Programming Interfaces (APIs), which is in alignment with the European Central Bank's (ECB) revised Payment Services Directive (PSD2)[16]. APIs, which provide for instant access to bank accounts, whether for transactions or information, have become the base for digitalisation of the economy. Innovation in payments is driven by Fintech, which leverage on direct access to bank accounts to offer value-added services, provides an opportunity for banks to collaborate with providers of emerging technologies. The APIs central infrastructure will also be launched concurrently with the NPS, initially with a pilot phase involving three banks and one non-bank.

Fintech and Distributed Ledger Technologies

The Government has the vision to position Mauritius as a leading hub in the region for the use of emerging technologies in financial markets by providing the appropriate regulatory framework for Fintech and other start-ups. In its 2016-17 Budget, Government announced the setting up of a Mauritian Regulatory Sandbox License (RSL) based on the model adopted by the UK, Singapore and Australia, where companies are allowed to invest in innovative projects within an agreed set of terms and conditions, even in the absence of a formal licensing framework.

Following this initiative, the Bank has setup an internal committee on Fintech or blockchain with the objectives to:

i. explore and understand financial applications that make use of blockchain or distributed ledger technologies;

ii. explore the feasibility and readiness of applications in terms of:

[16] *The objective of the PSD2 is to give customers the right to use what are termed Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs) where the payment account is accessible online and where they have given their explicit consent. These changes reflect the market growth in e-commerce activities and use of internet and mobile payments as well as the rise of new technological developments and a trend towards customers having relationships with multiple account providers. This will make internet and mobile payments easier and help customers to manage their accounts and make better comparisons of deals.*

a. impact on the current process and whether they add value;

b. impact on the security and operations effectiveness; and

c. impact on the consumers and reputation of the financial system;

iii. recommend on the optimal regulatory framework and technological infrastructure to promote an enabling environment for emerging technologies; and

iv. conduct pilot tests on selected applications with local banks and regional blocks (COI, SADC or COMESA).

The Bank and the Financial Services Commission are part of a technical committee to review applications received under the RSL that pertain to the financial sector.

Cybersecurity

In view of the growing cyber risks, the Bank has initiated several actions to enhance the cyber resilience of the payment systems in Mauritius. The Bank and all participants of the country's Real-Time-Gross-Settlement system have already carried out self-assessment of their SWIFT set-up against the requirements of the SWIFT Customer Security Programme (SWIFT CSP). The Bank has targeted to complete the implementation of all mandatory controls as well as some advisory controls advocated by the SWIFT CSP by September 2018 and is closely following the progress of other concerned institutions.

Mauritius Automated Clearing and Settlement System

The Mauritius Automated Clearing and Settlement System (MACSS), the only large value payment system in Mauritius, allows transfer of funds on a real time gross settlement basis and is considered of systemic importance. MACSS is a fully automated system that complies with recommendations outlined in the Principles of Financial Markets Infrastructure issued by the BIS Committee on Payment and Settlement Systems and the Technical Committee of the International Organisation of Securities Commissions (IOSCO). It has a multi-currency feature, which allows settlement in six currencies, namely, Mauritian rupee, US dollar, Pound sterling, Euro, South African rand and Swiss franc. It is also used for the settlement of low value electronic transfers and cheque clearing positions of the Port Louis Automated Clearing House (PLACH), daily settlement of Central Depository System (CDS) transactions operated by the Stock Exchange of Mauritius and for the final settlements of the Contribution Network Project (CNP) to the accounts of the Mauritius Revenue Authority (MRA).

Throughput on MACSS

Throughput on MACSS, measured in volume and value terms, went up by 22.6 per cent and 13.8 per cent, respectively, during FY2017-18. Over a 5-year period, throughput has increased by about 75 per cent and 28 per cent in volume and value figures, respectively.The rising trend in volume of transactions compared to the value of transactions, possibly reflects the use of MACSS for low value payments.

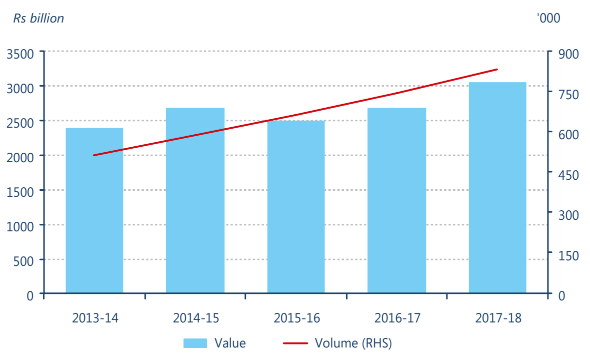
During FY2017-18, an all-time high volume of 1,024,129 transactions was settled on MACSS for an amount of Rs3.05 trillion (equivalent to about 6.6 times the annual GDP) compared to Rs2.68 trillion in FY2016-17. All payments were settled without any major disruption, confirming the resilience of MACSS and its capacity to handle large volume of transactions. In FY2017-18, the daily average volume and value of transactions amounted to 4,170 transactions and Rs12.4 billion, representing an increase of 24.8 per cent and 16.1 per cent, respectively, compared to FY2016-17.

Bulk Clearing System

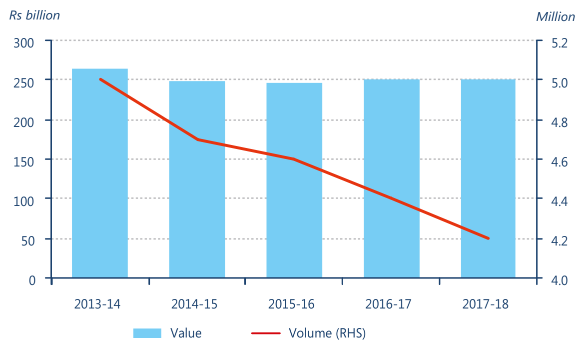
The PLACH operates a Bulk Clearing System (BCS) for the clearing of cheques and low value electronic transactions, which is settled on MACSS on a net deferred basis. Cheques, EFTs and Direct Debits are cleared in bulk indiscriminately during the four daily cycles. The direct debit feature of the BCS, which was rolled out on 15 June 2017, became fully operational as from September 2017 when the MRA was joined as the first originator in the Direct Debit Scheme. The Scheme comprises both Recurrent Direct Debit and One-off or Ad-hoc Direct Debit. A Recurrent Direct Debit refers to the case when authorisation by the payer is used for regular direct debits initiated by the originator. One-off or Ad-hoc Direct Debit is when authorisation is given once by the payer to collect only one single direct debit and cannot be used for any subsequent transaction.

Chart 5.1 | **Selected Indicators for Payment System and MCIB**

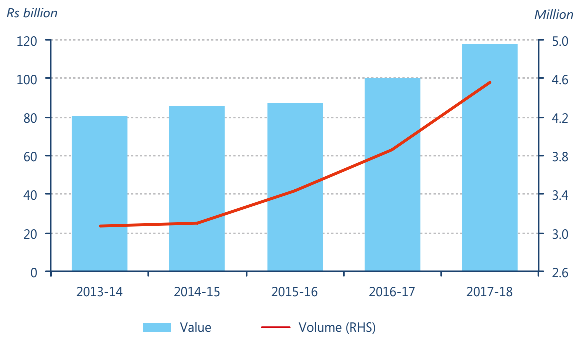
Transaction on MACSS



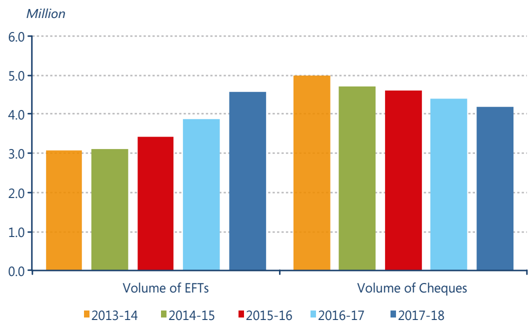
Cheques Cleared



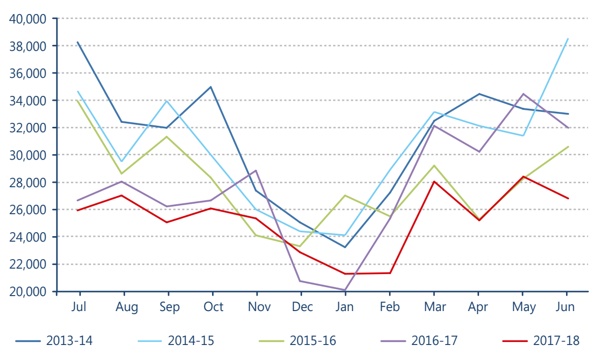
Electronic Clearing Transactions



Volume of Cheques and EFTs on BCS



Number of Reports drawn from the MCIB



Source: Payment Systems and MCIB Division.

Payment and Settlement Systems and Currency Management

Throughput on the BCS

During FY2017-18, 4,161,901 cheques for a total value of Rs250 billion were cleared through the BCS. The volume of cheques cleared fell by 4.6 per cent while the value declined by 0.1 per cent (Chart 5.1). The daily average volume and value of cheques cleared during the period under review were 16,879 cheques and Rs1.0 billion, respectively.

Cheque usage, both in terms of volume and value, has been on a general downtrend over the past five years, with the volume and value decreasing by 16.4 per cent and 5.6 per cent, respectively. The rates of decline have varied as there has been a drop in the use of low value cheques which were replaced by other electronic payment modes.

The total value of Electronic Funds Transfers (EFTs) amounted to nearly Rs118 billion for a total number of 4,561,530 items cleared during FY2017-18. In volume and value terms, EFTs have increased by 18.2 per cent and 17.0 per cent, respectively. Over the past five years, EFTs have superseded cheques both in volume and value terms.

However, in spite of a rising trend observed in the value of EFTs, the value of cheques cleared has remained stable at around Rs250 billion over the past three years, possibly reflecting the prevalence of large value cheques at the expense of EFTs, which have substituted cheque for low value payments only.

The MRA uses the Direct Debit for collection of taxes as well as contributions for the National Pension Fund and other social contributions. Over the period September 2017 to June 2018, 26,746 transactions were effected for a value of Rs333 million.

Cross Border Initiatives

Mauritius ambitions to become the financial hub of the region and is a member of several regional blocks, including SADC and COMESA. One initiative, namely the Regional Payment and Settlement System (REPSS) led by the COMSEA Clearing House, has resulted in the setting up of a cross-border payment system connecting member countries of the COMESA to effect payments within the region on the same day and at a lower cost. REPSS is operational since October 2012 and has currently nine live participants, namely, the Democratic Republic of the Congo, Egypt, Kenya, Malawi, Mauritius, Rwanda, Swaziland, Uganda and Zambia. The Bank of Mauritius is the settlement bank in the REPSS and hosts the accounts of the participating central banks. A summary of REPSS transactions from 2014 to June 2018 is given in Table 5.1

REPSS represents a great opportunity for Mauritius in its quest to affirm itself as a financial centre. With annual cross border payments of about US$400 million, the REPSS platform allows reduction in costs with the resulting savings channelled to other economically beneficial projects within COMESA. Such cost savings would induce all users to make REPSS the preferred payment option going forward.

Table 5.1: Summary of REPSS Transactions

Year	Amount in US dollar	No of US dollar transactions	Amount in Euro	No of EUR transactions
2014	352,385	11	4,580	2
2015	10,338,521	291	837,171	26
2016	5,970,447	153	15,334	11
2017	14,294,832	271	11,681	7
2018*	18,185,009	304	458	1
TOTAL	**49,141,193**	**1,030**	**869,223**	**47**

*****January to June 2018.*
Source: Payment Systems and MCIB Division.

The SADC Integrated Regional Electronic Settlement System (SIRESS), a cross border payment system in the SADC Region, was initially designed on a single currency model for the SADC region. Payments are settled on either real-time or delayed basis. Currently, 14 member countries are participating in SIRESS through 7 central banks and 75 commercial banks. Four banks from Mauritius participate in SIRESS, namely, Barclays Bank (Mauritius) Limited, Standard Bank (Mauritius) Limited, Standard Chartered Bank (Mauritius) Limited and the Mauritius Commercial Bank Ltd.

In view of the fact that more than 50 per cent of cross-border transactions are carried out in US dollars in May 2018, the Committee of Central Bank Governors (CCBG) agreed to the inclusion of the US dollar in the current SIRESS system as an additional settlement currency, besides the South African rand, as from August 2018.

Mauritius Credit Information Bureau

Information sharing is critical for a well-balanced and managed credit reporting system. Credit information systems are valuable for financial stability. Credit Information Bureaus (CIBs), critical components in the credit sharing chain, play a pivotal role in credit risk management by bridging the information gap between lenders and borrowers and provide a platform for formal sharing of credit information. CIBs have the capacity to reduce the risk of adverse selection by lenders as well as borrower's moral hazard. As a result, lenders have better quality loan portfolios and can better price their lending.

In recognition of the fact that the absence of an efficient and effective information sharing system with a wide coverage is conducive for the flourishing of a multi-borrowing culture in the population, the Mauritius Credit Information Bureau (MCIB), which started operating with 11 banks in December 2005, has been steadily expanding its coverage in terms of number and operating sector of participants as well the number of reported entities. In FY2017-18, Mauritius Telecom, the largest telecommunication service provider in Mauritius, became a participant in the MCIB and increased the number of participants in the MCIB to 46. Accordingly, the number of entities in the MCIB database increased from 829,743 as at end-June 2017 to 884,571, as at end-June 2018 of which 827,329 were individuals. Concurrently, the number of records grew by 20.7 per cent from 3,191,159 as at end-June 2017 to 3,853,065 as at end-June 2018.

According to the World Bank's 2018 Doing Business Survey, published in October 2017, the coverage of the MCIB represented 86 per cent of the Mauritian adult population, which compares more than favourably to Sub-Saharan Africa's average of 14.5 per cent. Mauritius also stood higher compared to the coverage of 82.0 per cent for OECD's high-income countries. The coverage, based on the World Bank Doing Business Survey methodology, improved to above 90 per cent as at end-December 2017.

As per the section 5.0 of MCIB's Terms and Conditions, all participants have to consult the MCIB database prior to approving, increasing or renewing credit facilities. The number of reports drawn from the MCIB went up from 302,306 in FY2016-17 to 329,904 in FY2017-18, that is 9.1 per cent higher compared to a fall of 9.5 per cent in the preceding fiscal year. However, the number of reports for FY2017-18 was still far below the peak of 386,068 recorded in FY2013-14.

Table 5.2: Number of Current Participants in the MCIB

Category	Number
Commercial Banks	17
Leasing Companies	9
Insurance Companies	9
Other non-bank financial institutions	6
Utility companies	4
Mircofinance companies	1
Total	**46**

Source: Payment Systems and MCIB Division.

In spite of the increase in the number of reports drawn, the number of new credit facilities reported in respect of loans, overdrafts, credit cards and finance leases declined from 138,876 in FY2016-17 to 135,646 in FY2017-18 as against an increase of 11.9 per cent in the preceding fiscal year. The overall decrease was mainly due to a fall in credit card facilities and loans contracted by individuals. The number of new credit card facilities availed of by individuals maintained a downtrend over the past three years from 33,051 to 21,744, while the number of new loans contracted by firms went up by 12.6 per cent to 11,211.

Table 5.3: New Credit Facilities

Credit Type	Borrower Type	FY 2015-16	FY 2016-17	FY 2017-18
Credit Card	Firms	1,231	1,367	2,447
	Individuals	33,051	23,283	21,744
Loans	Firms	9,958	10,280	11,211
	Individuals	67,413	89,749	82,606
Overdraft	Firms	2,966	2,640	4,421
	Individuals	3,086	3,398	5,095
Finance Lease	Firms	2,793	3,455	3,366
	Individuals	3,564	4,706	4,756
Total Number of new facilities		**124,061**	**138,876**	**135,646**

Source: Payment Systems and MCIB Division.

ELECTRONIC BANKING TRANSACTIONS

Over time, a number of developments in retail payments, which range from paper-based settling of transactions through the use of cash and cheques to payment cards have emerged to meet customer needs. More recently, digital currencies and mobile money have further expanded the alternatives available to consumers. Overall, there are two major means of payment, either cash or bank deposits. Payment instruments, such as cards and cheques, provide access to these means of payments. The use of cards either directly at a merchant point of sale (POS) terminal or at an ATM represents an electronic transaction.

Electronic banking transactions refer to those transactions in the form of card, internet banking and mobile banking transactions. Notwithstanding its widespread use, the total value of electronic banking transactions fell to Rs388 billion as at end-June 2018, from Rs393 billion as at end-June 2017.

As at end-June 2018, 15 banks offered card services, but only 11 of them operated ATMs. The number of credit, debit and other cards in circulation rose by 2.9 per cent from 1,818,134 as at end-June 2017 to 1,870,031 as at end-June 2018, with a concomitant increase in the monthly average number of card transactions from 6,069,681 for the quarter ended June 2017 to 6,673,902 for the quarter ended June 2018.

The number of ATMs in operation declined from 454 as at end-June 2017 to 445 as at end-June 2018, following the closure of 13 ATMs while 4 new ATMs were opened during the same period. The higher monthly average number of card transactions translated in an increase in the monthly average value of cards transactions at ATMs and merchant Point of Sales from Rs12,984 million as at end-June 2017 to Rs14,294 million as at end-June 2018.

While outstanding advances per credit card in circulation increased by 16.5 per cent, from Rs9,388 as at end-June 2017 to Rs10,933 as at end-June 2018, the number of credit cards in circulation over the same period increased slightly by 0.1 per cent. Payment by debit cards rose by 10.2 per cent from Rs113 billion in FY2016-17 to Rs125 billion in FY2017-18. The number of transactions effected with a debit card also rose by 9.2 per cent, from 56.5 million in FY2016-17 to 61.7 million in FY2017-18. Growth in debit card use continues to outpace credit card use, with an increase in the number of credit card transactions of 1.6 per cent from 13.3 million in FY2016-17 to 13.6 million in FY2017-18. The value of credit card transactions rose by 2.8 per cent from Rs44.8 billion to Rs46.0 billion over the same period.

At a POS, a credit card was swiped 3.9 times on average per month in FY2017-18 , for an average value of Rs2,849 per month, while a debit card was swiped 1.4 times on average per month for an average value of Rs1,247. Table 5.4 summarises card based transactions during the period under review.

Internet and Mobile Banking

Internet Banking

As at end-June 2018, 16 banks were offering internet banking services compared to 17 as at end-June 2017. The number of customers availing of internet banking services rose by 12.0 per cent, from 378,131 as at end-June 2017 to 423,453 as at end-June 2018. The average value of internet banking transactions stood at Rs1.1 million as at end-June 2018, down from Rs1.2 million as at end-June 2017, despite an increase of 14.2 per cent in the number of internet banking transactions from 303,887 to 346,906.

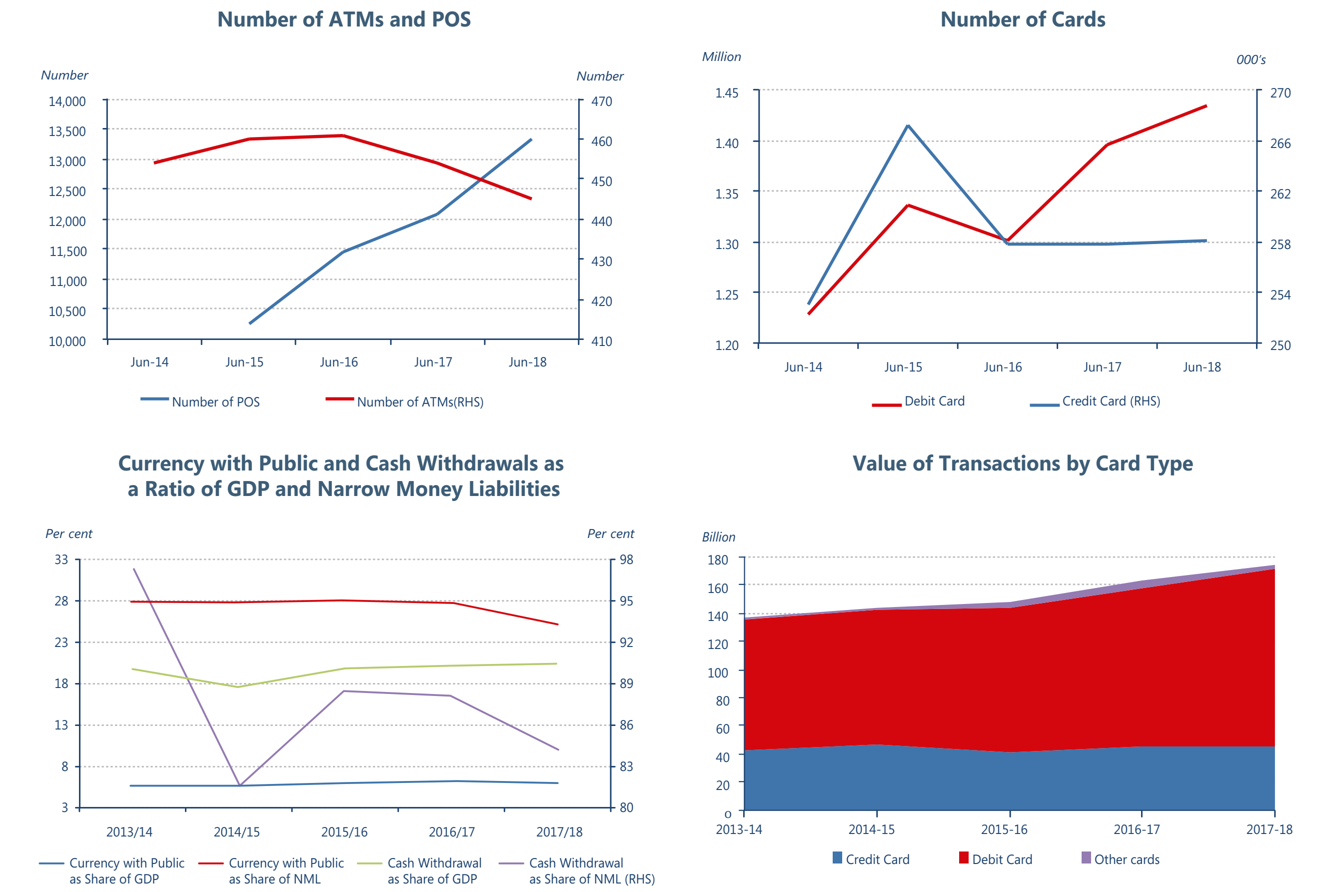
Mobile Banking

As at end-June 2018, six banks and one non-bank entity offered mobile banking facilities to customers, an improvement of one additional bank compared to end-June 2017. The number of subscribers availing of mobile payments and mobile banking services stood at 955,733 and they conducted an aggregate number of 874,714 transactions as at end-June 2018, up from 665,428 conducted as at end-June 2017. The value of mobile payment and mobile banking transactions increased by 83 per cent from Rs360 million in FY2016-17 to Rs658 million in FY2017-18.

Other Electronic Banking Transactions

As at end-June 2018, transactions carried out through systems other than ATM, shared ATM, Merchant Point of Sale, Internet Banking and Mobile Banking transactions amounted to Rs14,567 million.

Chart 5.2 Currency with Public and Cash Withdrawals as a Ratio of GDP and Narrow Money Liabilities



Source: Research and Economic Analysis Department.

Payment and Settlement Systems and Currency Management

On average, about 7,600 transactions took place at an ATM per month in FY2017-18, for an average value of average value of around Rs2,450. This was higher than in FY2016-17, when about 7,200 transactions took place for an average amount of about Rs 2,400. Similarly, transactions on the POS network rose from an average of 2.7 million transactions per month in FY2016-17 to 3.0 million in FY2017-18, equivalent to 234 transactions per POS per month compared to 226 the previous year. The network of POS machines has risen from 12,092 as at end-June 2017 to 13,338 as at end-June 2018, and may reflect, to a certain extent, the higher market penetration of electronic transactions in the payment landscape.

Cash

As a share of GDP and narrow money liabilities, both currency with public and cash withdrawals at ATMs have remained more or less rangebound. Currency with public as a ratio of GDP and narrow money liabilities (NML) stood at around 6 per cent and 27 per cent, on average, respectively, from FY2013-14 to FY2017-18, while cash withdrawals at ATMs accounted for 20 per cent of GDP and 88 per cent of NML, highlighting the important role of cash as a means of payment (Chart 5.2).

Average currency with public rose from Rs21.6 billion in FY2013-14 to 29.6 billion in FY2017-18, that is at an annual average pace of 8.2 per cent, although growth slowed in FY2017-18 to 6.3 per cent. This slowdown mainly reflected a decline in growth in the number of Rs1,000 denominations, which accounts for the major share of currency in circulation, and a sharp contraction in the number of Rs2,000 denominations.

The value of cash withdrawals at ATMs increased by 7.2 per cent in FY2017-18, compared to an increase of 8.4 per cent in FY2016-17. ATM cash withdrawal transactions still account for over half total electronic transactions, indicating that the use of cash remained widespread.

Table 5.4: Card Based Transactions[1]

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Number of ATMs in operation at end of quarter	454	451	449	445	445
Monthly average number of card transactions for the quarter	6,069,681	6,203,145	7,037,042	6,431,524	6,673,902
Monthly average value of card transactions[2] for the quarter (Rs million)	12,984	13,432	16,162	14,194	14,294
Number of Credit Cards in circulation at end of quarter	257,833	256,544	255,778	255,892	258,056
Number of Debit & other Cards in circulation at end of quarter	1,560,301	1,617,180	1,614,138	1,613,876	1,611,975
Total number of cards in circulation at end of quarter	1,818,134	1,873,724	1,869,916	1,869,768	1,870,031
Outstanding advances on credit cards at end of quarter (Rs million)	2,420	2,774	2,901	2,495	2,821

[1] *Previously known as Electronic Banking transactions.*
[2] *Involving the use of Credit Cards at ATMs and Merchant Points of Sale.*
Source: Research and Economic Analysis Department.

Table 5.5: Payments Indicators

	2013-14	2014-15	2015-16	2016-17	2017-18
Clearing and Settlement Systems:					
Number of Transactions					
Mauritius Automated Clearing and Settlement System	586,207	664,349	742,478	835,055	1,024,129
Bulk Clearing System[1]	4,980,275	4,654,730	4,579,928	4,363,801	4,161,901
Value of Transactions					
Mauritius Automated Clearing and Settlement System (Rs million)	2,379,547	2,680,400	2,501,902	2,679,576	3,048,254
Bulk Clearing System (Rs million)	265,026	248,242	246,121	250,412	250,203
Paper Based Transactions:					
Currency with Public (Rs million)	21,580	23,350	25,760	27,804	29,563
Currency with Public as a share of GDP (Per cent)	5.6	5.8	6.1	6.2	6.2
Currency in Circulation (Rs million)	26,620	28,437	30,443	33,048	35,116
Currency in Circulation as a share of GDP (Per cent)	7.0	7.1	7.2	7.4	7.4
Cash Withdrawal at ATMs[2]	75,749	70,678	83,327	90,341	96,883
Cash withdrawal at ATMs as a share of Electronic Transactions	55.2	48.4	56.4	55.5	55.6
Electronic Transactions:					
Number of transactions	64,174,922	68,737,044	67,901,495	73,637,545	79,036,837
Value of Transactions (Rs million)	137,421	144,019	147,809	162,888	174,236
Value of Transactions as a share of GDP (Per cent)	35.9	36.0	35.0	36.4	36.8
Number of ATMs	454	460	461	454	445
Number of ATMs per 100,000 inhabitants	36	36	36	36	35
Number of POS	N.A.	N.A.	11,455	12,092	13,338
Number of POS per 100,000 inhabitants	N.A.	N.A.	906	956	1,054

[1] The clearing of cheques is undertaken by the Bulk Clearing System (BCS)
[2] Cash withdrawals at ATMs provides an indication of the prevalence of cash usage in the settlement process
Source: Research and Economic Analysis Department.

Per 100,000 inhabitants, POS machines have risen from 956 in FY2016-17 to 1,054 in FY2017-18, while ATMs have declined marginally to 35, from 36.

The value of debit card transactions accounted for the majority of electronic transactions, representing 71.7 per cent of total electronic transaction value, compared to 26.4 per cent for credit card transactions (Chart 5.2). This reflected primarily the major use of debit cards at ATMs, specifically for cash withdrawal purposes. It is noteworthy, however, that credit cards accounted for over half of the value of payments at a POS, despite representing just under a third of the total number of transactions at these terminals. This could be associated with the availability of credit facilities on credit cards. Similarly, credit cards accounted for over 80 per cent of the value of transactions at shared ATMs.

CURRENCY MANAGEMENT

The Bank of Mauritius is legally required to ensure an adequate supply of banknotes and coins to meet the demand of members of the public in Mauritius. Specifically, the Bank is required to:

- ensure both the availability and supply of good quality banknotes and coins to banks;
- accept deposits of banknotes and coins from banks;
- attend to the destruction of soiled banknotes; and
- exchange soiled and mutilated banknotes.

ISSUE OF NOTES AND COINS

Notwithstanding the use of technology driven non-cash modes of payment, the demand for banknotes and coins increased in FY2017-18. The value of banknotes and coins deposited at and issued by the Bank, during the year under review, amounted to Rs40.4 billion and Rs40.7 billion, respectively. The Bank examined 55.3 million banknotes, equivalent to an amount of Rs27.2 billion, of which 11.2 per cent totaling Rs2.4 billion, were found unfit for circulation. As at 30 June 2018, 98.4 per cent of the soiled banknotes, amounting to Rs2.4 billion, were destroyed. In FY2017-18, the value of banknotes in circulation rose by 0.6 per cent compared to 9.8 per cent in FY2016-17, while the volume of banknotes rose by 2.1 per cent, compared to an increase of 9.9 per cent in FY2017-18. Banknotes of Rs1,000 denomination accounted for nearly 65 per cent of the total value of banknotes in circulation, followed by banknotes of Rs500 denomination, which represented almost 13 per cent of the total. In volume terms, banknotes of Rs1,000 denomination represented 28.5 per cent of all banknotes in circulation, followed by banknotes of Rs100 denomination, with a share of 21.6 per cent. Chart 5.3 depicts the total value and volume of banknotes in circulation by denomination. During FY2017-18, the total value and volume of coins in circulation increased by 7.3 per cent and 5.2 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 price 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. The daily selling price of the coins, based on their gold content and on international gold market price, are posted in the Bank's Banking Hall and website.

Sale of Commemorative Coins

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

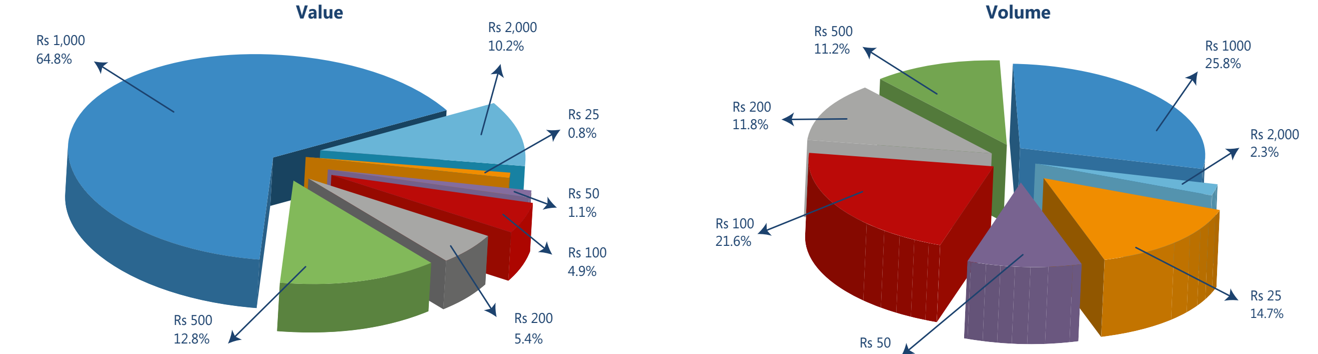
1. Tenth Anniversary of the Independence of Mauritius

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.

Chart 5.3 Bank Notes in Circulation



Source: Banking and Currency Division.

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.

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, at 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.

4. Bank of Mauritius 50th Anniversary Commemorative coins

In November 2017 the Bank issued three commemorative coins, in proof condition, to mark its 50th Anniversary:

i. Rs1,500 denomination Gold coin;
ii. Rs1,000 denomination Gold coin; and
iii. Rs200 denomination Silver coin.

The design on the obverse of the commemorative Rs1,000 denomination Gold coin depicts the front façade of the New Headquarters Building of the Bank of Mauritius with the inscriptions "50TH ANNIVERSARY" in the middle and with the surrounding inscription "BANK OF MAURITIUS-ONE THOUSAND RUPEES".

The design on the obverse of the commemorative Rs200 denomination Silver coin depicts the front façade of the Old Building of the Bank of Mauritius with the inscriptions "50TH ANNIVERSARY" in the middle and with the surrounding inscription "BANK OF MAURITIUS-TWO HUNDRED RUPEES."

The design on the obverse of the special edition commemorative Rs1,500 denomination Gold coin depicts the front façade of the New Headquarters Building of the Bank of Mauritius with the inscriptions "50TH ANNIVERSARY" in the middle and with the surrounding inscription "BANK OF MAURITIUS-ONE THOUSAND FIVE HUNDRED RUPEES."

The design on the reverse of the three commemorative coins depicts a Dodo bird surrounded by "BANK OF MAURITIUS 1967-2017."

The selling price of the commemorative coins is computed daily based on the London Metal Exchange price.

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. The value and volume of Polymer banknotes in circulation as at end-June 2018 were as shown in Table 5.6.

Table 5.6: Value and Volume of Polymer Banknotes in Circulation as at end-June 2018

Denomination	Value (Rs million)	Volume (million banknotes)
Rs25	204.3	8.2
Rs50	266.3	5.3
Rs500	2,689.7	5.4

Source: Banking and Currency Division.

Payment and Settlement Systems and Currency Management

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.

Public Sensitisation Campaign on Security Features of Banknotes

As part of its financial literacy program, the Bank issued as from 03 March 2018, a leaflet *"Know Our Banknotes"*, which provides all security features of banknotes, both paper and polymer, currently in circulation. As at end of June 2018, about 9,000 informative leaflets have been distributed across the island.

In addition, visitors to the Bank of Mauritius Museum are briefed on banknote security features. So far, around 10,000 visitors have benefitted from this presentation. The Bank also launched an intensive media campaign, through the press on 05 May 2018, and the national television broadcaster, the MBC, on 17 May 2018, to draw the public's attention about the security features of banknotes currently in circulation in order to help the public to detect fake banknotes. The Bank intervened live during the 19.30 news bulletin on Thursday 17 May 2018, whereby the various security features of banknotes were highlighted. At the request of the Bank of Mauritius, two daily newspapers reproduced the security features of the banknotes in full on 20 May 2018. The Bank conducted another awareness exercise on a private radio on Wednesday 23 May 2018. The public sensitisation campaign is ongoing.

6 Regional Cooperation and International Affiliation

The Bank of Mauritius (Bank) participated in several regional meetings during the year under review - in particular, those of the Association of African Central Banks (AACB), the Committee of Central Bank Governors of the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC), as well as the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa. It also participated in meetings of the International Islamic Liquidity Management Corporation (IILM) and the Islamic Financial Services Board (IFSB). The Bank continued to be closely involved with the work of the International Financial Consumer Protection Organisation (FinCoNet) and African Export and Import Bank (Afreximbank). The Bank also became a member of the Official Monetary and Financial Institutions Forum (OMFIF) and the Group of International Financial Centre Supervisors (GIFCS).

The Bank, together with the Government and other stakeholders, contributed in several reports on Mauritius published in widely-read publications such as *Financial Times*, *Euromoney Yearbook - The Global Banking and Financial Policy Review 2017/2018* and *cfi.co Autumn 2017* magazine. These articles provided reliable and pertinent information on the state of the Mauritian economy and the financial sector to readers.

A gist of key policy issues discussed at the various regional and international fora during the year under review is provided in the following sections. Member States in the region continue to face challenges in achieving macroeconomic stability, which impacted negatively on macroeconomic convergence among the regional economic communities. There is broad consensus among policy makers for countries to continue formulating and implementing policies aimed at addressing the vulnerabilities of their economies against shocks, including scaling up efforts aimed at diversifying their economies.

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

40th Ordinary Meeting of the Assembly of Governors, 16 August 2017, Pretoria, South Africa

The Assembly of Governors was preceded by a Symposium held on 15 August 2017 on the theme *"Monetary Integration Prospects in Africa: Lessons from the Experience of the European Monetary and Financial Integration"*. It adopted the report of the 39th Ordinary Meeting of the AACB Assembly of Governors held on 19 August 2016 in Abuja, Nigeria. The Assembly of Governors took note of information provided by the African Union Commission (AUC) on the resources to be allocated in the 2018 African Union (AU) budget for the creation of the African Monetary Institute (AMI). The AMI would be established to undertake all the technical, statistical, institutional and legal preparations for the creation of the African Central Bank (ACB).

The Assembly of Governors considered the progress report on the implementation of the African Monetary Cooperation Programme (AMCP) in 2016 and expressed concerns on the worsening performance of countries in meeting the convergence criteria, in particular months of import cover and budget deficit. The poor performance was mainly due to the negative impact of global developments and increased capital expenditure needed to address infrastructure gaps. The Assembly of Governors emphasized that national authorities should commit themselves to keeping the budget deficit at sustainable levels since the budget deficit has a bearing on the other convergence criteria. No country met all the primary convergence criteria in 2016, compared to one, out of 48, in 2015.

The Assembly of Governors adopted the revised report submitted by the Experts Group on the refinement of the AMCP convergence criteria, including justifications for the selected criteria and thresholds, as well as timelines for the creation of the ACB. The Assembly of Governors directed the Experts Group to develop a comprehensive monitoring framework as well as a peer review mechanism to hold countries to account for their economic performance.

The Assembly of Governors took note of a presentation made by the European Central Bank (ECB) which underlined its intention to enhance cooperation between the two organisations. The Assembly of Governors noted the presentations made by the Federal Reserve Bank of New York (FRBNY). The FRBNY indicated that it was ready to develop stronger relationships with African central banks, which represent approximately one quarter of its foreign official account holders, hence the need for collaboration given the evolving risk environment in cross-border payments.

Regional Cooperation and International Affiliation

Bureau Meeting, 23 February 2018, Dakar, Senegal

The Bureau[17] approved the report of the 40th Ordinary Meeting of the Assembly of Governors of the AACB which was held on 16 August 2017. It noted that a draft host-country agreement for the creation of the AMI would be discussed with the Nigerian authorities. The Bureau noted that the AU approved the Status of the African Institute for Remittances (AIR). The latter is a Specialized Technical Office of the AU, with the mission to enhance market competition and thus maximise the impact of remittance transfers to and within Africa on the economic and social development of African countries. The Bureau decided that a revised report on the implementation of the AMCP in 2017 would be examined at the Assembly of Governors meeting to be held in August 2018 in Egypt.

The Bureau considered the report of the Experts Group on the monitoring framework and a peer review mechanism for macroeconomic convergence and agreed to submit the report to central banks for comments. It also considered a proposal on the integration of payment systems in Africa. The Bureau noted the proposal of the FRBNY outlining potential areas of collaboration between the AACB and the FRBNY. A revised version of the proposal specifying the scope and timeline of the initiatives would be circulated to all members for their comments.

Bank Al-Maghrib became a member of the AACB. The Bureau considered the request of Banque de la République d`Haïti for AACB membership and granted it an observer status at the AACB. The Bank of Mauritius was the Chair of the Eastern Africa sub-region of the AACB over the FY2017-18.

Continental Seminar, 14-16 May 2018, N`Djamena, Chad

The theme of the Seminar was *"Financial Technology Innovations, Cybercrime: Challenges for Central Banks"*. The objective was to reflect on strategies for harnessing the benefits of Fintech while avoiding inherent risks - fraud, money laundering and the financing of terrorism - that could jeopardize the stability of financial systems in Africa. Recommendations included the need for central banks to develop and update regulatory frameworks to embrace current Fintech innovations, to design and implement a cybersecurity programme, and to establish a cybersecurity cross-departmental working group. The Continental Seminar also urged central banks to drive digital and cybersecurity literacy and share information and skills among central banks.

[17] The Bureau members for the year 2017-18 were the Central Bank of Gambia (Western Africa sub-region), Central Bank of Sudan (Northern Africa sub-region), Banco de Sao Tome e Principe (Central Africa sub-region), Bank of Mauritius (Eastern Africa sub-region), Central Bank of Swaziland (Southern Africa sub-region) and the South African Reserve Bank (Chair).

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

8th Meeting of the COMESA Committee on Statistical Matters, 25-27 September 2017, Lusaka, Zambia

The Committee took note of the findings of the *2014-2017 COMESA Statistical Strategy Evaluation Report* which would be used to draft the *2017-2020 Statistical Strategy*. The meeting went through the presentation made by the African Development Bank (AfDB) on strategic issues relating to coordination with regional economic communities, the role of the AfDB in building statistical capacity in African countries as well as the AfDB's response to meeting statistical capacity issues and challenges at the continental level. The United Nations Economic Commission for Africa presented the *"Comprehensive Programme of Support to Statistics in Africa for 2018-2021"* that would focus on the two core mandates of the African Centre for Statistics, which are to provide leadership and technical assistance to the Pan-African Statistical System and to support the work of the Commission. The COMESA Monetary Institute presented outstanding issues for improvement of macroeconomic statistics in the COMESA region, including national accounts, inflation, money and banking statistics, external sector data and government finance operations.

23rd Meeting of the COMESA Committee of Governors of Central Banks, 29 March 2018, Djibouti City, Djibouti

The Committee of Finance and Monetary Affairs met from 25 to 26 March 2018 to prepare for the Governors' meeting. The main issue that was escalated to the Committee of Governors of Central Banks was the status of the implementation of the decisions following the 22nd Meeting of the COMESA Committee of Governors held in March 2017 in Burundi. On 28 March 2018, representatives of COMESA central banks participated in a Symposium on the *"Review of Experiences on the Role of Central Banks in promoting Sustainable Economic Growth"*.

Selected speakers from central banks from Asia and Latin America also shared their experiences. The two main areas covered were the assessment of the impact of macroeconomic stabilization policies on sustained economic growth and the effectiveness of promoting sustainable economic growth through other innovative central bank interventions. Governors noted that central banks in the region should facilitate economic growth but remain firmly focused on price stability and financial stability.

At the 23rd Meeting of the COMESA Committee of Governors of Central Banks, Governors noted that the average growth in the COMESA region was 5 per cent in 2016, down from 6 per cent in 2015, due to weak global economic conditions, still low but rising commodity prices and adverse weather conditions. A review of key macroeconomic indicators in the COMESA region in 2016 pointed to low savings rate in most COMESA Member States, decrease in investment rate and the widening of both the fiscal and current account deficits. Inflation in the region increased from 6.8 per cent in 2015 to 8.8 per cent in 2016 mainly due to droughts, hike in energy prices and currency depreciation. Macroeconomic convergence in the COMESA region could be enhanced by pursuing appropriate macroeconomic policies, improving political and economic governance, undertaking structural transformation and accelerating regional integration. Governors also noted the progress report on the Regional Payment and Settlement System as well as the activities carried out by the COMESA Clearing House.

The Bureau of the COMESA Committee of Governors elected the Governor of the Central Bank of Djibouti as Chairperson, the Governor of the Central Bank of Burundi as First Vice-Chair and the Governor of the Central Bank of Sudan as Second Vice-Chair.

Meetings of the Experts Group to refine COMESA Macroeconomic Convergence Criteria and for revising the Roadmap to COMESA Monetary Union, Nairobi, Kenya

The setting up of the Experts Group follows from the 38th meeting of the Bureau of COMESA Committee of Governors of Central Banks held in November 2017, where Governors agreed to the review of the COMESA Monetary Cooperation Programme. An Experts Group, drawn from member central banks, was established to work on the refinement of the COMESA macroeconomic convergence criteria and for revising the Roadmap to COMESA Monetary Union. The 1st Meeting of the Experts Group was held from 23 to 25 April 2018. The Group reviewed the existing convergence criteria, the measurement methods and identified the weaknesses which caused several member countries to face difficulties in meeting the set targets in previous years. The Group also assessed the convergence criteria used by other regional economic blocs in Africa. A proposal was made for new stages for the implementation of the COMESA Monetary Integration Programme, to primarily align the COMESA Macroeconomic Convergence Framework to the new AMCP adopted by the Assembly of Governors in August 2017.

The 2nd Meeting of the Experts Group was held from 28 to 30 June 2018. The experts made an assessment of the proposals made at the 1st Meeting and considered justifications of the final proposals for new COMESA primary and secondary criteria. Five out of the nine secondary COMESA criteria were proposed to be dropped, namely real interest rate, real GDP growth rate, real effective exchange rate, domestic investment to GDP ratio and current account deficit (excluding grants) to GDP ratio. The Group also discussed the revision of the roadmap to achieve the COMESA Monetary Union.

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

SADC Macroeconomic Convergence Peer Review Panel, 31 July 2017, Ezulwini, Swaziland

The purpose of the peer review process is to review progress made by individual Member States towards the achievement of agreed SADC Macroeconomic Convergence targets as well as to identify risks to economic outlook and policy options to mitigate them. The Peer Review Panel (Panel) met in Swaziland to assess, amongst others, macroeconomic monitoring and surveillance in SADC. The Panel noted that progress on regional integration has been slow and mixed on account of lack of implementation of regional programmes. It recommended the development of a SADC Compliance Assurance Mechanism to improve the monitoring of implementation of regional programmes. The Panel also noted that Botswana, Mauritius, Mozambique, South Africa and Zambia would be peer reviewed in FY2017-18 while Angola, Lesotho, Namibia, Swaziland and Zimbabwe would undertake the reviews.

Regional Cooperation and International Affiliation

The Panel noted the proposal of Senior Treasury Officials to revise the five-year schedule to a three-year one to ensure a closer monitoring of the implementation of the macroeconomic convergence programme.

The Panel considered annual progress reports for Angola, Swaziland and Tanzania, including progress on implementation of peer review recommendations. It also considered and approved the Mission Review Reports for the Democratic Republic of Congo, Namibia and Zimbabwe. The Panel noted that, to address challenges facing the region, especially the muted growth, Member States should consolidate and diversify their economic structures, through a robust and effective industrialisation strategy. There is also a need to build up fiscal buffers and ensure public debt sustainability. This should be achieved in part through domestic resources mobilisation by strengthening tax collection and administration systems. Finally, the Panel urged Member States to develop and operationalise regional disaster preparedness and response mechanisms to address and respond to climatic challenges at regional level.

As part of the approved schedule of Member States to be peer reviewed, Namibia conducted a Macroeconomic Convergence Surveillance mission to Mauritius in February 2018. Consultations were held with the Bank, Ministry of Finance and Economic Development, Statistics Mauritius, among other stakeholders. The report of the Namibian team was presented to the SADC Macroeconomic Subcommittee that was held from 5 to 6 April 2018 in Pretoria, South Africa.

SADC Summit of Heads of State and Government, 19-20 August 2017, Pretoria, South Africa

The 37th Ordinary Summit of the Heads of State and Government endorsed the theme *"Partnering with the private sector in developing industry and regional value-chains"* as the 2017 Summit Theme. In this connection, the Summit urged Member States to implement projects which are in line with focus areas of Agro-processing, Mineral Beneficiation, Energy, Pharmaceuticals, boosting skills to enhance regional integration and create a mechanism for the involvement of the private sector. It also urged Member States to speed up the development of the SADC Regional Development Fund to support the industrialisation agenda. The Summit noted progress in the implementation of the Industrialisation Strategy and Roadmap 2020-2063 in specifically profiling value chains in priority sectors. The SADC Summit urged Member States to explore risk insurance options in cases of climate change-related disasters including facilities that are available at the AfDB. The Summit admitted the Union of Comoros as the 16th Member State and noted that the assessment of the Republic of Burundi is in progress.

45th meeting of the Committee of Central Bank Governors (CCBG), 12-14 September 2017, Mahé, Seychelles

At the Governors' meeting held in September 2017, the Bank made a presentation on the recent economic developments in SADC in 2016. It was noted that the inflation performance of the SADC region worsened in 2016, mainly as a result of weakening of currencies of some Member States, weather-related shocks and supply-side bottlenecks for essential goods. The average budget deficit in the region worsened from 3.3 per cent in 2015 to 5.2 per cent in 2016. Average growth in SADC declined from 3.5 per cent in 2015 to 2.9 per cent in 2016, while the SADC average import cover remained unchanged at 5.1 months in 2016.

The Bank also presented a paper titled "*Diversification of trade and investment in the SADC Region*" to the CCBG. The authors observed that in maintaining low and stable inflation rates, stable exchange rates, adequate foreign reserves and a sound and well-capitalised banking system, central banks help create a strong foundation for sustained economic growth and development. The extension of SADC Integrated Regional Electronic Settlement System, harmonisation of banking regulations and development of a regional crisis management mechanism could foster greater financial integration in the region. Governors approved the draft SADC Payment Systems Model Law as a guiding document for the process of reforming payment systems legislation in SADC countries.

Meeting of the SADC Macroeconomic Subcommittee, 5-6 April 2018, Pretoria, South Africa

The SADC Macroeconomic Subcommittee reviewed macroeconomic performance of member countries for 2017 against the SADC macroeconomic convergence targets. Most of the SADC countries were not able to meet the targets for growth, savings and investment rates and external reserves. The peer review reports of Botswana, Mauritius, Mozambique, South Africa and Zambia were also discussed. The implementation of recommendations made by the review teams for Angola, Democratic Republic of Congo, Lesotho, Malawi, Namibia, Swaziland, Tanzania and Zimbabwe were equally considered. The meeting examined ways for improving capacity in the peer review process and the general implementation of the macroeconomic convergence programme by, amongst others, looking at the status of macroeconomic statistics in the SADC region, and how to leverage on capacity-building initiatives with the International Monetary Fund (IMF) Africa Regional Technical Assistance Center South training institute.

46th Meeting of the Committee of Central Bank Governors, 11 May 2018, Pretoria, South Africa

Governors noted the progress in the implementation of the Strategic Focus Areas to promote macroeconomic convergence. They took note of the presentation on the "*Snapshot on Recent Economic Developments in SADC*", which assessed the progress made on the SADC macroeconomic convergence programme. Preliminary data indicated that average real GDP growth in the SADC region was 2.5 per cent in 2017. Rising wage and salary bills contributed to higher deficits in some Member States. Most SADC countries did not meet the reserves criterion. The Governors considered the findings of the paper on "*Review of Liquidity Management Techniques and Enhancing Liquidity Forecasting Techniques in the SADC Region*" which could be used as a guide by SADC Member States for liquidity forecasting and management.

Governors reviewed the progress reports on activities of the CCBG Subcommittees and other structures reporting to the CCBG. They directed the Payment Systems Subcommittee to clarify the cost-recovery mechanism in the wake of the implementation plan for the centralised SIRESS multi-currency settlement system, which provided for functionality to settle multiple currencies on a single shared platform. Governors approved the establishment of a Fintech Working Group under the CCBG Payment Systems Subcommittee to focus on SADC central banks' policy positions on crypto currencies and Fintech developments.

Following approval by Governors of the SADC Payment Systems Model Law as a guiding document for the process of reforming payment systems legislation in SADC countries, the Subcommittee finalised the "*Explanatory Guide to the SADC Payment System Model Law*", outlining policy arguments and the basis for the provisions of the Model Law. The Information and Communication Technology Subcommittee was tasked to focus on achievable projects and to be more involved in Fintech issues.

Prior to the Governors' meeting, the IMF organised, in collaboration with the South African Reserve Bank (SARB), a "*High-Level Workshop on the Withdrawal of Correspondent Banking Relationships in Sub-Saharan Africa*". Participants considered the IMF's five-pillar approach to tackling the withdrawal of correspondent banking relationships namely, monitoring trends, monitoring risks and drivers, facilitating dialogue, tailoring capacity development and risk scenarios. Representatives of the Financial Stability Board, the Eastern and Southern Africa Anti-Money Laundering Group and the International Financial Corporation also shared their experiences. Participants highlighted the need to have continued technical assistance and training by relevant public and private sector stakeholders to enhance Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) frameworks and to strengthen respondent banks' capacity to manage risk. They were equally interested in exploring technological solutions including KYC utilities, Legal Entity Identifiers and Fintech solutions. There was consensus on the importance of developing regional responses, including better coordination among supervisors, and the possible expansion of the use of regional clearing and payment systems.

Financial Stability Board (FSB) Regional Consultative Group (RCG) for Sub-Saharan Africa

The Governor of the Bank of Botswana was appointed as the new co-chair for a term of two years in replacement of the Governor of the Central Bank of Nigeria, as from 1 July 2017. During FY2017-18, the Group met on two occasions. At the first meeting held in Pretoria, South Africa from 14 to 15 November 2017, members of the FSB RCG for Sub-Saharan Africa received an update on the progress made by the *G20 Compact with Africa,* which was launched during the German G20 Presidency to support private investment, sustainable infrastructure financing and employment in African countries. RCG members discussed global and regional macroeconomic and financial market developments as well as their potential impact on economies in Sub-Saharan Africa. The RCG was updated on the FSB's stock-take on cybersecurity regulations and supervisory practices and discussed possible risks to financial institutions and to financial stability in the region from possible cyber-attacks. Cross-border crisis management and effective recovery and resolution planning were also discussed. Members of the RCG considered the potential for changes in the member jurisdictions of the RCG for Sub-Saharan Africa as part of the broader review by the FSB of membership of its six RCGs.

At the second meeting held in Kasane, Botswana from 03 to 04 May 2018, members discussed macroeconomic and financial market developments and their potential impact on countries in the region, including challenges from rising government debt levels. The RCG received an update on the FSB's 2018 work plan and its activities. The RCG also discussed developments and regulatory issues in crypto-asset markets, including the potential for future financial stability implications, given the rapid growth of these markets. Members then discussed de-risking in correspondent banking and remittance services, which does not only concern Sub-Saharan Africa.

The "*Working Group on Home-Host Cooperation and Information-Sharing"* concluded its work during the year under review and the report issued in January 2018. The report includes steps that could be taken to enhance and strengthen the oversight of financial groups operating in multiple jurisdictions.

INTERNATIONAL ISLAMIC LIQUIDITY MANAGEMENT CORPORATION (IILM)

The Bank participated in the 18th Governing Board (GB) and the 8th General Assembly Meetings of the IILM on 6 July 2017, in Abuja, Nigeria. The GB took note of the Quarterly Activity Report 2017Q2, work being undertaken regarding the 3-year business plan as well as the strategies being put in place by management to enhance and strengthen the governance of the IILM. The GB also took note of the updates from the Chairmen of the Board Executive Committee, Board Audit Committee, Board Risk Management Committee, and the Compensation and Remuneration Committee. The GB approved the Corporate Key Performance Indicators for 2017. The Chairman of the GB agreed to start the process of appointing a new Chief Executive Officer of the IILM, as per the IILM By-Laws.

At the 19th GB Meeting of the IILM held on 11 January 2018, in Kuala Lumpur, Malaysia, the GB noted the updates on the Supranational Rating Migration Project; the Primary Dealers' Strategy Parameters; the Regulatory Treatment to the IILM Sukūk and the Stress-Testing Report. Given that the IILM has been in operation for 7 years and issuing Sukūk since 2013, members proposed to conduct an independent review of the economic impact of the IILM, based on its mandate, activities and vision. This would help inform what could be done to improve the impact.

The Bank was also represented at the 21st Board Audit Committee Meeting hosted by Bank Negara Malaysia from 19 to 20 March 2018. In May 2018, the commitments of the liquidity backstop of USD1 billion under the Liquidity Investment Agreement were reduced to zero, hence the Ṣukūk Programme is now compatible with Standard & Poor's "A-1" rating criteria.

The Governor of the Bank of Mauritius is the current Chairman of the Governing Board of the IILM for the year 2018.

ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB Council met twice during the year under review. At its 31st Meeting held on 11 December 2017 in Malaysia, the Council approved the appointments of the Governors of Central Bank of Kuwait and Bangladesh Bank as the Chairman and Deputy Chairman respectively for the term 1 January to 31 December 2018. The Assistant Secretary-General informed the Council of the 30 resolutions adopted at the 30th Meeting and on the actions taken by the IFSB Secretariat on the important resolutions. The Council had provided its approval to activate the Special Reserves Account and noted that the Islamic Development Bank had agreed to increase its financial support to the IFSB *Waqf Fund* for a period of 5 years starting 2017. The Council was apprised of the Secretariat's launching of action plans with regard to the extension of the "*Prudential and Structural Islamic Finance Indicators Project"* to Takaful and Islamic Capital Market (ICM), finalisation of the indicators and preparation of the Compilation Guide. The Secretariat also informed the Council that it had launched the "*Islamic Financial Services Industry Stability Report 2017*". The Council resolved to approve the nomination of the newly-established Technical Committee.

At its 32nd Meeting held on 03 May 2018 in Kuwait City, Kuwait, the Council reviewed the status report of resolutions adopted at the last meeting. The Council resolved for the Secretariat to proceed with its plan for the development of new standards and other initiatives which were part of the strategic objectives of the IFSB. The Council approved the appointment of Bank Negara Malaysia (BNM) as the IFSB's fund manager. The Secretariat would work closely with BNM in developing a revised investment guideline.

In FY2017-18, the Bank provided its feedback on various survey questionnaires. The Bank also provided comments on the IFSB Exposure Draft on "*Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services*".

AFRICAN EXPORT AND IMPORT BANK (AFREXIMBANK)

The Bank participated in the 24th Annual General Meeting of the shareholders' of the Afreximbank, which was held on 1 July 2017 in Kigali, Rwanda. The main items on the agenda were the election of the Chairman and Vice-Chairman of the General Meeting, matters arising from the previous meeting, the review of its accounts and the status of the "*Report on Equity Mobilisation Exercise*", amongst others. In August 2017, the Bank facilitated the presentation entitled *"Transforming Trade Across Africa Through Intra African Trade"*, made by Afreximbank on its trade finance and intra-African trade offerings, including guarantee products and money market placement. In addition, a representative from the COMESA Clearing House provided an overview of the services offered by the COMESA Regional Payment and Settlement System, which is hosted by the Bank.

On 4 October 2017, the Stock Exchange of Mauritius (SEM) listed Afreximbank's Depositary Receipts on its multi-currency platform. The issuance of the Depositary Receipts confirms the need for Afreximbank to enhance its capitalization in order to meet its strategic objective of growing intra-African trade in all regions of the continent, including island economies. These Depositary Receipts constitute a new product addition to the Stock Exchange of Mauritius' multi-asset class product offering.

INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION (FINCONET)

During FY2017-18, the Bank contributed to two survey questionnaires, namely the '*Survey on Practices and tools required to support risk-based supervision in the digital age*' and the '*Joint questionnaire on relevant aspects of Consumer Short-Term Credit*' undertaken by the G20/OECD Task Force on Financial Consumer Protection, FinCoNet and the OECD/International Network on Financial Education.

IRVING FISHER COMMITTEE

In 2017, the Irving Fisher Committee (IFC) extended its membership to the Central Reserve Bank of El Salvador and the Monetary Authority of Macao. The Bank participated in the "*IFC Satellite Seminar on Financial Inclusion*" held in Marrakech, Morocco on 14 July 2017. The seminar provided a platform for participants to share recent empirical evidence on financial inclusion and best practices of country-level policies. Emphasis was also laid on assessing the efficiency and impact of financial inclusion policies and on ways to enhance international collaboration for moving forward.

OFFICIAL MONETARY AND FINANCIAL INSTITUTIONS FORUM (OMFIF)

In June 2018, the Bank was admitted as a joint member of OMFIF, an independent think-tank for central banking, economic policy and public investment, along with the Financial Services Commission (FSC). Regular engagements with OMFIF and its wider network are expected to allow the Bank and the FSC to benefit from a full range of regional, economic and financial perspectives on central banking and regulatory issues, amongst others.

Regional Cooperation and International Affiliation

THE GROUP OF INTERNATIONAL FINANCIAL CENTRE SUPERVISORS (GIFCS)

The GIFCS, formerly known as the Offshore Group of Banking Supervisors (OGBS)[15], promotes compliance among its membership with the Basel Core Principles and the Financial Action Task Force recommendations. It is also recognised as a leading authority on the regulation of trust and company service providers, and the interface of these intermediaries with AML/CFT standards. The GIFCS usually holds two Plenary meetings each year. At the Plenary session held in May 2018, the Bank became a full member of GIFCS. Given that the financial services industry in Mauritius is regulated by two regulators, namely the Bank and the FSC, Mauritius would be represented by both regulators at Plenary meetings of the GIFCS.

7 Financial Statements

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Overview

According to section 11(1) of the Bank of Mauritius Act 2004, (the Act) the Board of Directors shall determine the net profits of the Bank of Mauritius (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 Bank realised a profit (excluding the cost of open market operations) of Rs1,780.0 million for the financial year (FY) 2017/18 compared to a profit of Rs2,340.6 million for FY 2016/17. It must be noted that the profit for FY 2016/17 included an exceptional gain of Rs 896.2 million arising out of the disposal of securities.

The costs of conducting open market operations during the year under review amounted to Rs2,367 million compared to Rs1,918 million for FY 2016/17. Taking into consideration these costs, the Bank incurred a net loss of Rs587.2 million in FY 2017/18 as determined under section 11(1) of the Act.

The Bank's total assets (liabilities) increased by Rs49.5 billion, from Rs187.9 billion at the end of June 2017 to Rs237.4 billion at the end of June 2018, or by 26.3 per cent compared to an increase of 7.4 per cent in the corresponding period of 2016-17. The amount of Bank of Mauritius securities and Special Deposits outstanding at end of June 2018 was Rs91.6 billion, up from Rs55.8 billion at end June 2017, that is, an increase of Rs35.8 billion.

In conformity with its statutory objects and policy objectives, the Bank continued to carry out open market operations, and to implement the decisions of the Monetary Policy Committee (MPC). Accordingly, it sought to address the disconnect that existed between the Key Repo Rate (KRR) set by the MPC and the short-term money market rates, and to reduce excess liquidity on the market. To that effect, the Bank intensified open market operations as from the second half of FY2017-18 which explains the increase in the cost thereof. The open market operations consisted in issuing Bank of Mauritius Bills with maturities of up to one year as well as Bank of Mauritius Notes with maturities of up to four years. The Bank is also called upon to intervene on the domestic foreign exchange market to smooth out undue volatility of the rupee exchange rate. It sterilized most of its foreign exchange interventions through special deposits of one-year maturity.

The Bank is also responsible for the management of the country's foreign exchange reserves and has to comply with the objectives of security, liquidity and return as stated in the Act. Accordingly, the Bank has adopted a conservative risk budget for the management of the overall portfolio. Given the challenging global market conditions, the Bank externalized a portion of the foreign exchange reserves to top-tier external fund managers.

International Accounting Standards (IAS) 39 requires that the amortised cost of a financial asset or liability be calculated using the effective interest rate method as it allocates interest/expense over the relevant period by applying it to the carrying amount of the asset or liability. The effective interest rate method is also applied in determining the interest recognized on an interest-bearing Available for Sale assets (AFS). Following significant disposals in financial year 2015/16, the Held to Maturity (HTM) assets were reclassified as AFS. Further, in FY 2016/17, the Bank purchased some fixed income securities with high coupons at a premium and coupons received were recorded as interest income.

The Bank is reflecting the impact of the effective interest rate method from the financial year since the portfolio was reclassified from HTM to AFS. The adjustment is reflected in the "Profit and Loss" and the matching entry in "Other Comprehensive Income" – hence there is no impact on the Total Comprehensive Income/Loss and the total assets amount is also unchanged. However, the profit and loss and the profit distribution as per the Bank of Mauritius Act would change and the relevant adjustments have been made.

Assets

Foreign assets of the Bank continued to increase mainly on account of an increase in foreign currency balances held by commercial banks with the Bank in the aftermath of the introduction of the Liquidity Coverage Ratio and purchases of foreign currency denominated assets while domestic assets decreased mainly on account of repayments made under the Special Line of Credit.

Liabilities

Liabilities recorded an increase mainly due to the continued issue of Bank of Mauritius Securities for open market operations and an increase in foreign currency deposits from banks following the implementation of the Guideline on Liquidity Coverage Ratio.

Capital and Reserves

Total reserves decreased due to loss on fair valuation of investments partly offset by gain on revaluation of Foreign Currencies, Special Drawing Rights (''SDR") and Gold as well as meeting part of the cost of Open Market Operations, the net amount of which was transferred from the Special Reserve Fund in accordance with the provisions of section 47 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 five 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.

The Board met on 28 September 2018 to consider the financial statements of the Bank for the financial year ended 30 June 2018.

REPORT ON AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of **Bank of Mauritius** (the "Bank") set out on pages 144 to 188, which comprise the statement of financial position as at 30 June 2018, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the provisions of the Bank of Mauritius Act 2004.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those Standards are further described in the Auditor's responsibilities for Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements of the IESBA Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the "Overview" and the statement of distribution, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Bank's responsibility for the financial statements

The Bank is responsible for the preparation and fair presentation of the financial statements in conformity with the 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. The Bank is also responsible for such internal control as the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the Bank to cease operations as per the provisions of the Bank of Mauritius Act 2004.

The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

  Unforeseen events or conditions may cause the Bank to cease to continue as a going concern in the future.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

This report is made solely to the Board of Directors of Bank of Mauritius, 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 auditor's 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 opinions we have formed.

Deloitte
Chartered Accountants

28 September 2018

Twaleb Butonkee
Licensed by FRC

Statement of Financial Position

At 30 June 2018

	Note	2018 Rs	2017 Rs	2016 Rs
ASSETS				
Foreign Assets:				
Cash and Cash Equivalents	6	50,262,596,843	59,385,046,342	70,308,276,156
Other Balances and Placements	7	178,790,618,598	120,349,438,417	96,044,264,662
Interest Receivable		93,364,497	395,061,998	421,446,293
Other Investments	8	912,192,124	476,991,146	450,794,378
		230,058,772,062	180,606,537,903	167,224,781,489
Domestic Assets:				
Loans and Advances	9	4,288,454,235	4,376,470,284	4,515,845,652
Investment in Government Securities	10	639,276,572	658,337,428	1,252,146,212
Computer Software	11	10,942,265	40,168,541	58,108,513
Property, Plant and Equipment	12	1,850,704,908	1,758,288,034	1,590,542,150
Other Assets	13	515,048,177	487,613,403	377,946,253
		7,304,426,157	7,320,877,690	7,794,588,780
TOTAL ASSETS		**237,363,198,219**	187,927,415,593	175,019,370,269
LIABILITIES				
Currency in Circulation	14	**34,077,888,842**	33,801,034,077	30,818,441,617
Demand Deposits:				
Government		**11,500,243,674**	24,751,257,710	27,303,819,898
Banks		**75,026,109,038**	46,984,148,916	39,659,050,253
Other Financial Institutions		**198,321,453**	278,991,000	320,648,775
Others		**262,294,115**	303,460,837	389,585,786
		86,986,968,280	72,317,858,463	67,673,104,712
Monetary Policy Instruments	15	**91,616,329,322**	55,826,683,331	45,374,610,564
Provisions	16	**100,000,000**	100,000,000	100,000,000
Employee Benefits	17	**777,255,026**	1,098,465,588	836,927,596
Other Liabilities	18	**5,641,304,428**	5,886,266,209	5,278,328,576
TOTAL LIABILITIES		**219,199,745,898**	169,030,307,668	150,081,413,065
CAPITAL AND RESERVES				
Stated and Paid up Capital	5	**2,000,000,000**	2,000,000,000	2,000,000,000
Reserves	5	**16,163,452,321**	16,897,107,925	22,937,957,204
TOTAL CAPITAL AND RESERVES		**18,163,452,321**	18,897,107,925	24,937,957,204
TOTAL LIABILITIES, CAPITAL AND RESERVES		**237,363,198,219**	187,927,415,593	175,019,370,269

J. Pandoo
Assistant Director
Accounting and Budgeting

M.V. Punchoo
Second Deputy Governor

Y. Googoolye
Governor

28 September 2018

Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 30 June 2018

	Note	2018 Rs	2017 Rs Restated
REVENUE			
Income from Financial Assets			
Interest and Similar Income on Foreign Assets	19 (a)	**2,847,755,494**	3,152,979,873
Interest and Similar Income on Domestic Assets	19 (b)	**120,780,690**	191,443,031
Others	19 (c)	**8,706,586**	(3,640,973)
	19	**2,977,242,770**	3,340,781,931
Gain/(Loss) on Foreign Exchange Transactions, Revaluation of Foreign Currencies and SDR		**1,002,649,539**	(3,974,983,497)
Miscellaneous Income	20 (a)	**198,031,789**	194,318,197
Loss on Financial Instruments at Fair Value Through Profit or Loss	20 (b)	**(544,867,375)**	(1,618,209,277)
TOTAL REVENUE		**3,633,056,723**	(2,058,092,646)
EXPENDITURE			
Staff Salaries and Other Benefits	21	**424,042,168**	370,009,058
General Expenditure		**196,948,477**	214,233,123
Fees Payable	22	**189,804,440**	31,870,219
Coin Issue Expenses		**58,174,437**	63,289,186
Note Issue Expenses		**67,330,936**	47,506,130
Depreciation and Amortisation		**136,055,847**	146,990,920
Directors Remuneration	23	**27,198,678**	28,126,169
IMF Charges	32	**28,673,878**	10,445,171
Other Expenditure	24	**57,424,341**	60,274,385
TOTAL EXPENDITURE		**1,185,653,202**	972,744,361
OPEN MARKET OPERATIONS			
Cost of Conducting Monetary Policy	25	**2,367,236,159**	1,917,948,410
NET PROFIT/(LOSS) FOR THE YEAR		**80,167,362**	(4,948,785,417)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit liability	17 (a)	**(169,018,362)**	(213,642,980)
Items that will be reclassified subsequently to profit or loss:			
Net fair value loss on available-for-sale financial assets during the year		**(952,279,689)**	(383,895,541)
Reclassification adjustments in relation to available-for-sale financial assets disposed of in the year		**307,475,085**	(17,549,528)
		(813,822,966)	**(615,088,049)**
TOTAL COMPREHENSIVE LOSS		**(733,655,604)**	**(5,563,873,466)**

Statement of Distribution

for the Year Ended 30 June 2018

	Note	2018 Rs	2017 Rs Restated
TOTAL COMPREHENSIVE LOSS FOR THE YEAR – AS PER IFRS		**(733,655,604)**	(5,563,873,466)
Transfer from Special Reserve Fund in terms of sections 47(1) and 47(1A) of the Bank of Mauritius Act 2004	5	**146,418,243**	5,986,551,905
NET (LOSS)/PROFIT FOR THE YEAR IN TERMS OF SECTION 11 (1) OF THE BANK OF MAURITIUS ACT 2004		**(587,237,361)**	422,678,439
Transfer from Special Reserve Fund in terms of section 47(5)(b) of the Bank of Mauritius Act 2004		**587,237,361**	-
Transfer to General Reserve Fund in terms of section 11(2) of the Bank of Mauritius Act 2004		**-**	(63,401,766)
BALANCE OF NET PROFITS PAYABLE INTO THE CONSOLIDATED FUND IN TERMS OF SECTION 11(3) OF THE BANK OF MAURITIUS ACT 2004		**-**	359,276,673

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. For the financial year ended 30 June 2017, the profit as per BOM Act was adjusted following a reclassification of Income from Financial Assets to Other Comprehensive Income.

Statement of Changes in Equity

for the Year Ended 30 June 2018

	Stated and Paid Up Capital	General Reserve Fund	Special Reserve Fund	Accumulated Profit	Total
	Rs	Rs	Rs	Rs	Rs
Balance of 01 July 2016	2,000,000,000	2,605,656,626	20,332,300,578	-	24,937,957,204
Net Loss for the year (Restated)	-	-	-	(4,948,785,417)	(4,948,785,417)
Other Comprehensive loss for the year (Restated)	-	-	-	(615,088,049)	(615,088,049)
Total comprehensive income	-	-	-	(5,563,873,466)	(5,563,873,466)
Transfer from Special Reserve Fund	-	-	(6,125,021,481)	6,125,021,481	-
Transfer to General Reserve Fund	-	84,172,202	-	(84,172,202)	-
Transfer to Consolidated Fund				(359,276,673)	(359,276,673)
Transfer to Consolidated Fund *	-		-	(117,699,140)	(117,699,140)
Balance at 30 June 2017	**2,000,000,000**	**2,689,828,828**	**14,207,279,097**	**-**	**18,897,107,925**
Balance at 01 July 2017	2,000,000,000	2,689,828,828	14,207,279,097	-	18,897,107,925
Net Profit for the year	-	-	-	80,167,362	80,167,362
Other Comprehensive loss for the year	-	-	-	(813,822,966)	(813,822,966)
Total comprehensive income	-	-		(733,655,604)	(733,655,604)
Transfer from Special Reserve Fund	-	-	(733,655,604)	733,655,604	-
Transfer to Consolidated Fund	-	-	-	-	-
Balance at 30 June 2018	**2,000,000,000**	**2,689,828,828**	**13,473,623,493**	**-**	**18,163,452,321**

* The amount of Rs117,699,140 represents the difference between the distributable profit of Rs476,975,813 as approved by the Board on 16 October 2017 and Rs359,276,673 following the reclassification of Income from Financial Assets to Other Comprehensive Income.

Statement of Cash Flows

for the Year Ended 30 June 2018

	Note	2018 Rs	2017 Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Cash Generated From Operating Activities	26	**50,637,416,150**	19,091,715,996
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Other Balances and Placements		**(58,441,180,181)**	(24,305,173,755)
Decrease in Investment in Government Securities		**-**	593,950,000
Additions to Computer Software	11	**(9,320,060)**	(10,240,342)
Acquisition of Property, Plant and Equipment	12	**(189,930,385)**	(287,395,015)
Proceeds from Sale of Property, Plant and Equipment		**1,718,810**	1,882,000
Increase in Other Investments		**(435,200,978)**	(26,196,768)
Dividend Received		**7,564,887**	4,779,976
Net Cash Used In Investing Activities		**(59,066,347,907)**	(24,028,393,904)
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfer to Consolidated Fund		**(476,975,813)**	-
Net decrease in Cash and Cash Equivalents		**(8,905,907,570)**	(4,936,677,908)
Cash and Cash Equivalents at start of the year		**59,385,046,342**	70,308,276,156
Effect of exchange rate fluctuations on Cash and Cash Equivalents		**(216,541,929)**	(5,986,551,906)
Cash and Cash Equivalents at end of the year	6	**50,262,596,843**	59,385,046,342

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, to whom the subject of Finance is assigned, 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. The capital was increased to Rs2 billion in November 2011.

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.

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.

1. LEGAL FRAMEWORK (CONT'D)

Under section 11 (3A) of the Act, the Bank may, with the approval of the Board, create, out of its net profits, reserves for monetary policy purposes or such other specific purposes as the Bank may determine in conformity with accounting principles applicable to central banks and best international practices.

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 and financial instruments available for sale 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 2016.

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

New and revised IFRSs applied with no material effect on the financial statements

The following relevant revised Standards have been applied in these financial statements. Their application has not had any significant impact on the amounts reported for current and prior periods but may affect the accounting for future transactions or arrangements.

2. BASIS OF PREPARATION (CONT'D)

IAS 7 Statement of Cash Flows - Amendments as a result of the Disclosure initiative

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

At the date of authorisation of these financial statements, the following relevant Standards were in issue but effective on annual periods beginning on or after the respective dates as indicated:

IAS 19	Employee Benefits - Amendments regarding plan amendments, curtailments or settlements (effective 1 January 2019)
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 - Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (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)
IFRS 9	Financial Instruments - Finalized version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective 1 January 2018)
IFRS 9	Financial Instruments – Amendments regarding the interaction of IFRS 4 and IFRS 9 (effective 1 January 2018)
IFRS 9	Financial Instruments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities (effective 1 January 2018)
IFRS 16	Leases - Original issue (effective 1 January 2019)
IFRIC 22	Foreign Currency Transactions and Advance Consideration (Effective 1 January 2018)

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.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

2. BASIS OF PREPARATION (CONT'D)

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value.
- Debt instruments held within a business model whose objective is to collect contractual cashflows and that have contractual cashflows that are solely payments of principal and interest are measured at amortised cost at end of subsequent accounting periods unless the asset is designated at fair value through Profit or Loss (FVTPL) under the fair value option.
- Debt instruments held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets and that have contractual cashflows that are solely payments of principal and interest are measured at FVTOCI at end of subsequent accounting periods unless the asset is designated at fair value through Profit or Loss (FVTPL) under the fair value option. All other debt instruments and equity instruments are measured at their fair value at subsequent accounting periods
- The impairment model under IFRS 9 requires an expected credit loss model as opposed to incurred loss model under IAS 39. It is no longer necessary for a credit event to have occurred before credit losses are recognised. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

Based on an analysis of the Bank's financial assets and financial liabilities as at 30 June 2018 on the facts and circumstances that existed at that date, the Directors have assessed the impact of IFRS 9 and transition requirements for the Bank's financial statements as follows:

Transition Requirements under IFRS 9 – Classification and Measurement

The bank does not expect the business model to differ significantly under IFRS 9. The expected changes in the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for financial assets and financial liabilities as at 1 July 2018 are summarised below:

1. Foreign Investments currently classified as Available for Sale instruments: these instruments are held within a business model whose objective is both collecting contractual cash flows and selling instruments and have contractual cashflows that are solely payments of principal and interest. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI.
2. Loans and Advances currently under Loans and Receivables under IAS 39 will continue to be measured on amortised cost basis since 'basic' loans continue to meet the objective of collecting contractual cashflows.
3. Other Investments will continue to be measured at FVTPL.

Impairment

Financial assets measured at amortised cost and FVTOCI under IFRS 9 will be subject to impairment provisions.

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.

3. ACCOUNTING POLICIES (CONT'D)

(a) Financial Instruments (cont'd)

(ii) *Classification and measurement*

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), '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 settlement date basis. Regular way purchases or sales of financial assets 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.

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 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.

3. ACCOUNTING POLICIES (CONT'D)

(a) Financial Instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

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.

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.

3. ACCOUNTING POLICIES (CONT'D)

(a) Financial Instruments (cont'd)

(v) *Fair Value Measurement Principles (cont'd)*

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.

(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 as appropriate.

3. ACCOUNTING POLICIES (CONT'D)

(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 miscellaneous 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 as 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.

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.

3. ACCOUNTING POLICIES (CONT'D)

(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.

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 Salaries 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.

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.

3. ACCOUNTING POLICIES (CONT'D)

(g) Income and Expenditure Recognition (cont'd)

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 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.

3. ACCOUNTING POLICIES (CONT'D)

(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 market price requires the use of valuation techniques as described in accounting policy 3 (a)(v). 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.

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.

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.

	2018 **Rs**	2017 Rs Restated
(Gain)/Loss on Foreign Exchange Transactions, Revaluation of Foreign Currencies and SDR	**(1,002,649,539)**	3,974,983,497
Add: Loss on Foreign Exchange Transactions	**(40,604,197)**	(8,085,938)
(Profit)/Loss on revaluation of Foreign Currencies and SDR	**(1,043,253,736)**	3,966,897,559
Loss on Financial Instruments at Fair Value Through Profit or Loss	**544,867,375**	1,618,209,277
	(498,386,361)	5,585,106,836
Net fair value loss on AFS financial assets	**952,279,689**	383,895,541
Reclassification adjustments in relation to AFS financial assets during the year	**(307,475,085)**	17,549,528
Transfer from Special Reserve Fund in terms of sections 47(1) and 47(1A) of the Bank of Mauritius Act 2004	**146,418,243**	5,986,551,905

6. CASH AND CASH EQUIVALENTS

	2018 Rs	2017 Rs
Short Term Deposit Accounts	**4,121,190,593**	4,571,204,862
Foreign Investments	**15,135,309,943**	6,539,754,293
Special Drawing Rights (SDR) (note 32)	**4,369,481,253**	4,309,452,924
Repurchase Agreement	**14,420,434,560**	25,422,269,120
Current Accounts	**5,332,598,296**	5,705,201,210
Foreign Currency Notes and Coins	**20,428,885**	13,200,055
Gold Deposits	**6,863,153,313**	12,823,963,878
	50,262,596,843	59,385,046,342

Gold deposits under cash and cash equivalents represent gold bars held by the Bank as reserves and are readily convertible into cash.

7. OTHER BALANCES AND PLACEMENTS

	2018 Rs	2017 Rs
Foreign Investments	**168,373,863,151**	115,979,361,791
Long Term Deposit Accounts	-	68,932,400
Gold Deposits	**10,416,755,447**	4,301,144,226
	178,790,618,598	120,349,438,417

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

8. OTHER INVESTMENTS

	2018 Rs	2017 Rs
Unquoted Investments	**912,192,124**	476,991,146

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

9. LOANS AND ADVANCES

	2018 Rs	2017 Rs
Special Line of Credit in Foreign Currency	**478,025,981**	659,129,458
Special Line of Credit in Local Currency	**3,792,570,315**	3,700,068,600
Others	**17,857,939**	17,272,226
	4,288,454,235	4,376,470,284

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

	2018 Rs	2017 Rs
Government of Mauritius Bonds	**639,276,572**	658,337,428

11. COMPUTER SOFTWARE

	Rs
COST	
At 1 July 2016	218,850,023
Additions	10,240,342
Transfer from Capital Work in Progress (Note 12)	6,894,107
At 30 June 2017	235,984,472
Additions	1,473,112
Additions to Capital Work in Progress	7,846,948
At 30 June 2018	**245,304,532**
ACCUMULATED AMORTISATION	
At 1 July 2016	160,741,510
Charge for the year	35,074,421
At 30 June 2017	195,815,931
Charge for the year	38,546,336
At 30 June 2018	**234,362,267**
NET BOOK VALUE	
At 30 June 2018	**10,942,265**
At 30 June 2017	40,168,541

The Directors have reviewed the carrying values of intangible assets and are of the opinion that at 30 June 2018, the carrying values have not suffered any impairment.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Capital Work in Progress	Furniture, Equipment, Fixtures and Fittings	Computer Equipment	Motor Vehicles	Total
	Rs	Rs	Rs	Rs	Rs	Rs
COST						
At 1 July 2016	1,625,673,679	112,907,468	683,614,859	130,769,701	35,915,428	2,588,881,135
Additions	27,939	278,263,677	2,107,311	6,996,088	-	287,395,015
Transfer	-	(11,360,238)	850,051	10,510,187	-	-
Transfer to Computer Software	-	(6,894,107)	-	-	-	(6,894,107)
Transfer to General Expenditure	-	(652,347)	-	-	-	(652,347)
Scrapped	-	-	(1,841,802)	-	-	(1,841,802)
Disposals	-	-	-	-	(6,826,425)	(6,826,425)
At 30 June 2017	1,625,701,618	372,264,453	684,730,419	148,275,976	29,089,003	2,860,061,469
Additions	358,051	160,819,580	5,045,974	18,346,233	5,360,547	189,930,385
Transfer	294,431,805	(494,327,745)	170,191,357	29,704,583	-	-
Scrapped	-	-	(59,382)	(197,100)	-	(256,482)
Disposals	-	-	-	(1,196,310)	(5,325,950)	(6,522,260)
At 30 June 2018	**1,920,491,474**	**38,756,288**	**859,908,368**	**194,933,382**	**29,123,600**	**3,043,213,112**
ACCUMULATED DEPRECIATION						
At 1 July 2017	261,695,000		599,131,648	110,912,479	26,599,857	998,338,984
Charge for the year	29,579,732		62,722,035	16,263,521	3,351,211	111,916,499
Scrapped	-		(1,657,623)	-	-	(1,657,623)
Disposals	-		-	-	(6,824,425)	(6,824,425)
At 30 June 2017	291,274,732		660,196,060	127,176,000	23,126,643	1,101,773,435
Charge for the year	35,475,530		26,616,278	30,076,804	5,340,899	97,509,511
Scrapped	-		(59,380)	(196,600)	-	(255,980)
Disposals	-		-	(1,195,812)	(5,322,950)	(6,518,762)
At 30 June 2018	**326,750,262**	-	**686,752,958**	**155,860,392**	**23,144,592**	**1,192,508,204**
CARRYING AMOUNT						
At 30 June 2018	**1,593,741,212**	**38,756,288**	**173,155,410**	**39,072,990**	**5,979,008**	**1,850,704,908**
At 30 June 2017	**1,334,426,886**	**372,264,453**	**24,534,359**	**21,099,976**	**5,962,360**	**1,758,288,034**

The Directors have reviewed the carrying values of tangible assets and are of the opinion that at 30 June 2018, the carrying values have not suffered any impairment.

13. OTHER ASSETS

	2018 Rs	2017 Rs
Net balances due in clearing	**53,870,202**	6,029,920
Staff Loans	**87,731,990**	89,908,870
Prepayments	**103,526,363**	154,203,153
Industrial Gold and Dodo Gold Coins	**95,567,174**	96,932,171
Gold Bars	**132,076,385**	113,626,160
Interest Receivable on domestic assets	**23,222,129**	22,424,800
Others	**19,053,934**	4,488,329
	515,048,177	487,613,403

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

14. CURRENCY IN CIRCULATION

	2018 Rs	2017 Rs
Notes issued		
Face value		
2,000	**3,354,724,000**	4,480,972,000
1,000	**21,257,033,000**	20,439,510,000
500	**4,185,475,000**	3,759,396,000
200	**1,764,102,200**	1,627,659,800
100	**1,607,918,300**	1,661,715,600
50	**369,096,950**	372,585,900
25	**274,694,175**	265,732,250
Demonetised Notes	**214,247,160**	214,551,880
Total	**33,027,290,785**	32,822,123,430
Coins issued		
Face value		
20 rupees	**220,044,220**	211,514,000
10 rupees	**350,320,450**	319,779,240
5 rupees	**159,084,525**	144,656,670
1 rupee	**186,555,947**	173,343,167
50 cents	**40,237,254**	38,141,091
25 cents **	**6,327,843**	6,328,199
20 cents	**50,516,723**	48,458,658
10 cents **	**2,417,348**	2,417,449
5 cents	**11,954,921**	11,371,461
2 cents **	**330,248**	330,303
1 cent	**222,995**	222,878
Others***	**22,585,583**	22,347,531
Total	**1,050,598,057**	978,910,647
Total face value of Notes and Coins in Circulation	**34,077,888,842**	33,801,034,077

**These denominations have ceased to be issued by the Bank.

***Others include Gold Coins and Commemorative Coins.

15. MONETARY POLICY INSTRUMENTS

	2018 Rs	2017 Rs
Bank of Mauritius Savings Bonds	**907,400**	907,400
Bank of Mauritius Bonds	**479,504,977**	2,670,787,802
Bank of Mauritius Notes	**26,970,932,828**	31,017,357,776
Bank of Mauritius Bills	**35,415,959,117**	12,110,048,853
Bank of Mauritius Golden Jubilee Bonds	**8,974,425,000**	-
Special Deposits from banks	**19,774,600,000**	10,027,581,500
	91,616,329,322	55,826,683,331

16. PROVISIONS

	2018 Rs	2017 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:

	2018 Rs	2017 Rs
Defined Benefit Plan (Note (a))	**653,689,895**	985,995,490
Short Term Employee Benefits (Note (b))	**123,565,131**	112,470,098
	777,255,026	1,098,465,588

(a) Defined Benefit Plan

The Bank operates a defined benefit plan for its employees who joined the Bank prior to January 2013 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 29 June 2018 submitted by The State Insurance Company of Mauritius Ltd, who also acts as independent actuaries, is produced hereunder.

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined Benefit Plan (Cont'd)

Amounts recognised in profit or loss:

	2018	2017
	Rs	Rs
Current Service Cost	**25,976,467**	23,719,879
Employee Contributions	**(12,033,360)**	(10,944,253)
Fund Expenses	**844,816**	799,921
Net interest expense	**61,520,531**	48,903,219
Net Periodic Pension Cost included in Staff Salaries and other benefits	**76,308,454**	62,478,766
Remeasurement of defined benefit liability recognised in Other Comprehensive Income (OCI):		
Actuarial Loss	**169,018,362**	213,642,980

Movements in liability recognised in the Statement of Financial Position:

	2018	2017
	Rs	Rs
At start of the year	**985,995,490**	737,585,354
Total Expenses as per above	**76,308,454**	62,478,766
Past Service Liability Contribution	**(547,100,000)**	-
Actuarial Losses recognised in OCI	**183,029,373**	213,642,980
Bank of Mauritius share of pension (topping-up)	**(324,981)**	(275,357)
Employer Contributions	**(30,207,430)**	(27,436,253)
Fair Value Gain	**(14,011,011)**	-
At end of the year	**653,689,895**	985,995,490

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

	2018	2017
	Rs	Rs
At start of the year	**1,283,182,894**	1,045,860,964
Current Service Cost	**25,976,467**	23,719,879
Interest Cost	**83,406,889**	67,980,962
Actuarial loss	**170,663,999**	213,020,779
Benefits Paid	**(81,874,719)**	(67,399,690)
At end of the year	**1,481,355,530**	1,283,182,894

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined Benefit Plan (Cont'd)

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

	2018 Rs	2017 Rs
At start of the year	**297,187,404**	308,275,610
Expected Return on Plan Assets	**21,886,358**	19,077,743
Actuarial Gain/(Loss)	**(12,365,374)**	(622,201)
Contributions from the Employer	**30,207,430**	27,436,253
Employee Contributions	**12,033,360**	10,944,253
Past Service Liability Contribution	**547,100,000**	-
Bank of Mauritius Share of Pension	**324,981**	275,357
Benefits Paid (Excluding BOM share of pension)	**(81,874,719)**	(67,399,690)
Fund Expenses	**(844,816)**	(799,921)
Fair Value Gain	**14,011,011**	-
At end of the year	**827,665,635**	297,187,404

The amount included in the Statement of Financial Position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	2018 Rs	2017 Rs
Present Value of Defined Benefit Obligation	**1,481,355,530**	1,283,182,894
Fair Value of Plan Assets	**(827,665,635)**	(297,187,404)
Net Liability arising from Defined Benefit Obligation	**653,689,895**	985,995,490

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

	30 June 2018 %	30 June 2017 %
Major categories of Plan Assets		
Local Equities	**15.7**	15.8
Overseas Equities and Bonds	**22.2**	22.6
Fixed Interest Securities and Cash	**57.7**	56.6
Others	**4.4**	5.0

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 Rs9.5 million (2017: Rs22.3 million).

The history of experience adjustments is as follows: -

	2018 Rs	2017 Rs
Experience losses on plan liabilities	**(170,663,999)**	(213,020,779)
Experience losses on plan assets	**(12,365,374)**	(622,201)
	(183,029,373)	(213,642,980)

The Bank expects to make a contribution of Rs29.4 million (2017: Rs26.2 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.

17. EMPLOYEE BENEFITS (CONT'D)

(a) Defined Benefit Plan (Cont'd)

Additional disclosure on assets issued or used by the reporting entity

	2018	2017
	%	%
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)	**12 years**

The principal assumptions used for actuarial valuation were:

	2018	2017
Discount Rate	**6.5%**	6.5%
Future Long-term Salary Increases	**4.0%**	4.0%
Future Pension Increases	**3.5%**	2.5%
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 Rs162.3 million (increase by Rs197.6 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 Rs63 million (decrease by Rs56.2 million) if all other assumptions were held unchanged.

If the expected pension growth would increase (decrease) by 1%, the defined benefit obligation would increase by Rs121.3 million (decrease by Rs104.3 million) if all other assumptions were held unchanged.

If life expectancy would increase (decrease) by one year, the defined benefit obligation would increase by Rs43.8million (decrease by Rs43.8million) if all other 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.

17. EMPLOYEE BENEFITS (CONT'D)

(b) Short Term Employee Benefits

	2018 Rs	2017 Rs
Provision for Annual and Sick Leaves	**73,074,065**	67,461,367
Provision for Passage Benefits	**50,491,066**	45,008,731
	123,565,131	112,470,098

(c) Employer Contribution Towards Pension Cost

	2018 Rs	2017 Rs
Contributions Expensed (Note 21)	**36,112,274**	31,805,431

(d) State Pension Plan

	2018 Rs	2017 Rs
National Pension Scheme Contributions (Note 21)	**1,548,540**	1,356,874

18. OTHER LIABILITIES

	2018 Rs	2017 Rs
Amount transferable to Consolidated Fund	-	476,975,813
Creditors	**153,310,497**	122,520,847
Abandoned Funds from Financial Institutions	**1,433,234,699**	1,290,281,602
Interests and Charges Payable	**593,608,619**	524,604,226
Foreign Bills sent for Collection	**11,284**	12,985
Interest accrued on Bank of Mauritius Savings Bonds	**97,200**	97,200
Special Drawing Rights (SDR) (Note 32)	**3,443,980,039**	3,399,403,116
Other Deposits	**17,043,967**	17,043,967
Others	**18,123**	55,326,453
	5,641,304,428	5,886,266,209

19. INCOME FROM FINANCIAL ASSETS

(a) Income on Foreign Assets

	2018 Rs	2017 Rs Restated
Deposit Accounts	**29,326,475**	28,563,183
Fixed Securities	**2,739,785,733**	2,116,158,097
Realised Gains/(Loss) on Fixed Securities	**(142,083,605)**	896,186,167
Special Drawing Rights	**31,998,826**	11,648,108
Repurchase Agreements	**179,847,193**	98,984,140
Current Accounts	**8,880,872**	1,440,178
	2,847,755,494	3,152,979,873

(b) Income on Domestic Assets

	2018 Rs	2017 Rs
Loans and Advances		
Special Foreign Currency Line of Credit	**4,382,139**	6,514,906
Special Line of Credit in local currency	**92,248,286**	136,079,126
Loans and Advances to banks	**24,825**	198,356
	96,655,250	142,792,388
Government Securities	**21,499,144**	46,231,310
Other Loans	**2,626,296**	2,419,333
	120,780,690	191,443,031

(c) Others

	2018 Rs	2017 Rs
Dividend and other income	**7,564,886**	4,779,976
(Loss)/Gain on Sale/Revaluation of Industrial Gold and Dodo Gold Coins	**192,128**	(4,973,521)
Loss on Sale/Revaluation of Gold Bars	**-**	(3,489,907)
Profit on Issue of Mauritius Commemorative Coins	**949,572**	42,479
	8,706,586	(3,640,973)
Total Income from Financial Assets	**2,977,242,770**	3,340,781,931

20. (a) MISCELLANEOUS INCOME

	2018 Rs	2017 Rs
Processing and Licence Fees	**120,167,616**	124,773,739
MACSS & MCIB Fees	**69,324,586**	61,649,319
Fees and Charges	**678,231**	621,223
Profit on Sale of Property, Plant and Equipment	**1,715,312**	1,579,819
Sponsorship income	**675,000**	700,000
Penalty	**5,000,000**	583,943
Sundry income	**471,044**	4,410,154
	198,031,789	194,318,197

20. (b) LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 Rs	2017 Rs
Foreign Investments	**(750,490,876)**	(112,794,765)
Unquoted Investments	**61,978,981**	35,369,377
Gold Deposits	**143,644,520**	(1,540,783,889)
	(544,867,375)	(1,618,209,277)

21. STAFF SALARIES AND OTHER BENEFITS

	2018 Rs	2017 Rs
Staff Salaries and Allowances	**375,079,616**	329,351,267
Employer Contribution Towards Pension Cost (Note 17(c))	**36,112,274**	31,805,431
Staff Family Protection Scheme	**11,104,003**	7,284,581
National Pension Fund (Note 17(d))	**1,548,540**	1,356,874
HRDC Levy	**197,735**	210,905
	424,042,168	370,009,058

The amount of Rs375,079,616 includes an increase in the liability for short term employee benefits amounting to Rs11,095,033 (see Note 17(b)).

22. FEES PAYABLE

Fees payable increased from Rs31,870,219 in 2017 to Rs189,804,440 in 2018 as a result of onboarding of new external fund managers with effect from August 2017.

23. DIRECTORS' REMUNERATION

	2018 Rs	2017 Rs
Governor	**14,132,355**	12,972,531
Deputy Governors (2)	**11,626,323**	13,713,638
Other Directors (5)	**1,440,000**	1,440,000
	27,198,678	28,126,169

Directors are paid a monthly fee of Rs30,000 (2017: Rs30,000)

24. OTHER EXPENDITURE

	2018 Rs	2017 Rs
Stationery and Library	**8,809,758**	5,159,756
Communication Charges	**47,580,801**	52,714,789
Others	**1,033,782**	2,399,840
	57,424,341	60,274,385

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.

Interest	2018 Rs	2017 Rs
Bank of Mauritius Securities	**1,938,062,473**	1,329,493,991
Government of Mauritius Treasury Bills	**93,127,852**	306,855,624
Special Deposits	**336,045,834**	281,598,795
	2,367,236,159	1,917,948,410

26. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	Note	2018 Rs	2017 Rs Restated
Net profit/(loss) for the year		80,167,362	(4,948,785,417)
Adjustments for:			
Non-Cash Increase in Employee Benefits		56,871,076	47,895,012
Amortisation of Intangible Assets		38,546,336	35,074,421
Depreciation of Property, Plant and Equipment	12	97,509,511	111,916,499
Profit on Sale of Property, Plant and Equipment		(1,715,312)	(1,043,477)
Dividend Received	19(c)	(7,564,886)	(4,779,976)
Loss on Financial Instruments at Fair Value Through Profit or Loss		544,867,375	1,618,209,277
(Gain)/Loss on revaluation of foreign currencies and SDR		(1,043,253,736)	3,966,897,559
Loss/(Gain) on revaluation of Government Securities		19,060,856	(141,216)
Operating (Loss)/Profit Before Working Capital Changes		**(215,511,418)**	825,242,682
Decrease in Interest Receivable		301,697,501	26,384,295
Decrease in Loans and Advances		88,016,049	139,375,368
Increase in Other Assets		(27,434,774)	(109,667,147)
Increase in Notes and Coins in Circulation		276,854,765	2,982,592,460
Decrease in Government Demand Deposits		(13,251,014,036)	(2,552,562,188)
Increase in Banks' Demand Deposits		28,041,960,122	7,325,098,663
Decrease in Other Financial Institutions' Demand Deposits		(80,669,547)	(41,657,775)
Decrease in Other Demand Deposits		(41,166,722)	(86,124,949)
Increase in Bank of Mauritius Securities		26,042,627,491	9,964,812,267
Increase in Other Financial Liabilities		9,502,056,719	618,222,320
Net Cash Generated From Operating Activities		**50,637,416,150**	19,091,715,996

27. COMMITMENTS AND OTHER CONTINGENCIES

Commitment not otherwise provided for in the financial statements and which existed at 30 June 2018 is as follows:

The Bank has a commitment to pay on call 60% of 1175 shares (2017: USD3,342,000) 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 Rs65.3 million (2017: Rs193 million).

There was no other contingent liability that existed at 30 June 2018.

28. OPERATING LEASE COMMITMENTS

Operating leases relate to the lease of the Bank's fallback site and other properties with lease terms between 1 to 5 years. The Bank does not have an option to purchase the leased properties at the end of the lease periods.

	1 year Rs	>1 - 5yrs Rs	> 5 yrs Rs	Total Rs
Archiving – Plaine Lauzun DBM	184,084	-	-	184,084
Fallback Site – Cyber Tower	3,283,914	11,940,148	-	15,224,062
Lease of Residential Property	680,000	466,667	-	1,146,667
	4,147,998	12,406,815	-	**16,554,813**

An amount of Rs2,335,331 (2017: Rs2,556,836) 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.

29. FINANCIAL INSTRUMENTS (CONT'D)

(b) (i) Categories of financial instruments

	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	2018	**2018**	2017	2017
	Rs	**Rs**	Rs	Rs
Financial Assets				
Fair value through profit or loss (FVTPL)				
Investment in Government Securities	639,276,572	639,276,572	658,337,428	658,337,428
Foreign Investments	89,892,944,174	89,892,944,174	22,175,111,768	22,175,111,768
Gold deposits	17,279,908,760	17,279,908,761	17,125,108,104	17,125,108,104
Other Investment	912,192,124	912,192,124	476,991,147	476,991,147
Available-For-Sale	**108,724,321,630**	**108,724,321,631**	**40,435,548,447**	**40,435,548,447**
Foreign Investments	**93,616,228,920**	**93,616,228,920**	100,344,004,317	100,344,004,317
Loans and receivables				
Cash & Cash Equivalents (Excl. Gold deposits and Foreign Investments)	28,264,133,588	28,264,133,588	40,021,328,171	40,021,328,171
Long Term Deposits Accounts	-	-	68,932,400	68,932,400
Loans and Advances	4,288,454,235	4,288,454,235	4,376,470,284	4,376,470,284
Staff Loans	87,731,990	87,731,990	89,908,870	89,908,870
Interest Receivable on foreign assets	93,364,497	93,364,497	395,061,998	395,061,998
Interest Receivable on domestic assets	23,222,129	23,222,129	22,424,800	22,424,800
	32,756,906,439	**32,756,906,439**	**44,974,126,523**	**44,974,126,523**
Total Financial Assets	**235,097,456,989**	**235,097,456,989**	**185,753,679,287**	**185,753,679,287**

	2018	**2018**	2017	2017
	Rs	**Rs**	Rs	Rs
Financial Liabilities				
Amortised cost	**218,322,479,588**	**218,322,479,588**	167,354,853,285	167,354,853,285

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:

(b) (ii) Fair Value of Financial Instruments

2018	Level 1	Level 2	Level 3	Total carrying amount	Total fair value
Financial Assets	Rs	Rs	Rs	Rs	Rs
Gold Deposits	17,279,908,760	-	-	17,279,908,760	17,279,908,760
Foreign Investments	93,616,228,920	89,892,944,174	-	183,509,173,094	183,509,173,094
Other Investments	-	-	912,192,124	912,192,124	912,192,124
Investment in Government Securities	-	639,276,572	-	639,276,572	639,276,572
	110,896,137,680	90,532,220,746	912,192,124	202,340,550,550	202,340,550,550
2017					
Financial Assets					
Gold Deposits	17,125,108,104	-	-	17,125,108,104	17,125,108,104
Foreign Investments	100,344,004,317	22,175,111,768	-	122,519,116,085	122,519,116,085
Other Investments	-	-	476,991,146	476,991,146	476,991,146
Investment in Government Securities	-	658,337,428	-	658,337,428	658,337,428
	117,469,112,421	22,833,449,196	476,991,146	140,779,552,763	140,779,552,763

29. FINANCIAL INSTRUMENTS (CONT'D)

(b) (ii) Fair value of financial instruments (cont'd)

During the year securities valued at Rs478,761,870 have been transferred from Level 1 to Level 2. A fair value loss of Rs10,256,406 was recorded in Other Comprehensive Income as at 30 June 2018. A reconciliation of fair value measurements in level 3 is set out below:

Equity Securities	2018 Rs	2017 Rs
Opening balance	**476,991,146**	450,794,378
Additions during the year	**358,210,768**	4,548,477
Change in fair value	**76,990,210**	21,648,291
Closing balance	**912,192,124**	476,991,146

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 2018 Rs	Sensitivity analysis 2017 Rs
Other investments	Net asset value of the investee company	10% Increase/ Decrease	**91,219,212**	47,699,115

(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).

29. FINANCIAL INSTRUMENTS (CONT'D)

(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 entities enjoying a good credit rating. Credit risk also arises as a result of investment of foreign exchange reserves with foreign counterparties. Investment in Government securities is considered as risk free. Credit risk also arises when the Bank provides liquidity to financial institutions through open market operations as part of monetary policy implementation.

(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:

	2018	2017
	Rs	Rs
Mauritius	**5,041,595,674**	5,148,047,118
USA	**68,229,084,177**	100,705,847,838
United Kingdom	**87,445,532,524**	17,163,865,635
Europe	**58,041,114,648**	41,266,071,237
Others	**16,340,129,966**	21,469,847,458
	235,097,456,989	185,753,679,286

(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:

	2018	2017
	Rs	Rs
Government	**8,346,717,533**	56,169,124,787
Supranational Financial Institutions	**149,273,943,723**	7,918,520,432
Foreign Banks and Financial Institutions	**49,568,707,788**	107,000,683,680
Other	**27,908,087,945**	14,665,350,387
	235,097,456,989	185,753,679,286

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (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	2018 Rs	%	2017 Rs	%
Cash & Cash Equivalents	Central Banks	28,264,133,588	12.28	38,579,990,773	21.36
	Aaa	13,615,454,933	5.92	2,721,883,891	1.51
	Aa	-	-	2,636,785,815	1.46
	A	-	-	1,743,469,145	0.97
	Baa	-	-	865,752,785	0.48
	Others	8,383,008,322	3.64	12,837,163,932	7.11
Other Balances and Placements	Central Banks	14,522,719,246	6.31	22,244,044,167	12.32
	Aaa	5,743,319,837	2.50	43,307,349,599	23.98
	Aa	12,116,846,949	5.27	5,175,123,483	2.87
	A	24,432,772,602	10.62	23,651,602,974	13.10
	Baa	27,646,005,627	12.01	16,977,813,770	9.40
	Ba	-	-	107,844,740	0.06
	Others	94,328,954,338	40.99	8,885,659,685	4.92
Interest Receivable	Central Banks	9,415,776	0.00	-	-
	Aaa	-	-	174,394,978	0.10
	Aa	-	-	20,839,778	0.01
	A	-	-	95,242,975	0.05
	Baa	-	-	68,368,198	0.04
	Ba	-	-	434,282	0.00
	Others	83,948,721	0.04	35,781,788	0.02
Other Investments	Others	912,192,124	0.40	476,991,147	0.26
Total External Assets		230,058,772,063	100.00	180,606,537,905	100.00

29.FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (Cont'd)

(iii) *Credit Exposure by Credit Rating (Cont'd)*

	Credit Rating	2018 Rs	%	2017 Rs	%
Loans and Advances	Baa	**478,025,981**	**9.49**	127,803,650	2.48
	Others	**3,810,428,254**	**75.62**	4,248,666,633	82.54
Investment in Government Securities	Others	**639,276,572**	**12.69**	658,337,428	12.79
Other Assets	Others	**110,954,119**	**2.20**	112,333,670	2.18
Total Domestic Financial Assets		**5,038,684,926**	**100.00**	5,147,141,381	100.00

	Credit Rating	2018 Rs	%	2017 Rs	%
Summary by Major Credit Category					
External Assets	Central Banks	**42,796,268,609**	**18.60**	60,824,034,939	33.68
	Aaa	**19,358,774,770**	**8.41**	46,203,628,468	25.58
	Aa	**12,116,846,949**	**5.27**	7,832,749,076	4.34
	A	**24,432,772,602**	**10.62**	25,490,315,094	14.11
	Baa	**27,646,005,627**	**12.02**	17,911,934,753	9.92
	Ba	-	-	108,279,021	0.06
	Others	**103,708,103,507**	**45.08**	22,235,596,552	12.31
Total External Assets		**230,058,772,064**	**100.00**	180,606,537,903	100.00
Domestic Financial Assets	Baa	**478,025,980**	**9.49**	127,803,649	2.48
	Others	**4,560,658,945**	**90.51**	5,019,337,731	97.52
Total Domestic Financial Assets		**5,038,684,925**	**100.00**	5,147,141,380	100.00
Total Financial Assets		**235,097,456,989**		185,753,679,283	

(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.

29.FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

The tables below show 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 tables are the contractual undiscounted cash flows, net of interest receivable or payable on interest bearing non-derivative financial instruments.

Maturity Analysis

	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
At 30 June 2018	Rs	Rs	Rs	Rs	Rs	Rs
Non Derivative Financial Assets						
Foreign Assets	65,893,630,936	10,765,511,622	8,158,717,317	109,048,597,055	36,098,950,637	229,965,407,567
Loans and Advances	17,857,939	72,701,398	152,364,911	4,039,563,487	5,966,500	4,288,454,235
Investment in Government Securities	-	309,463,700	-	329,812,872	-	639,276,572
Other Assets	-	-	-	30,434,554	57,297,436	87,731,990
Total Financial Assets	65,911,488,875	11,147,676,720	8,311,082,228	113,448,407,968	36,162,214,573	234,980,870,364
Non Derivative Financial Liabilities						
Currency in circulation	34,077,888,842	-	-	-	-	34,077,888,842
Demand Deposits	86,986,968,280	-	-	-	-	86,986,968,280
Monetary Policy Instruments	19,875,887,944	9,518,910,938	30,813,052,109	30,928,973,353	479,504,977	91,616,329,321
Other Liabilities	5,047,587,325	-	-	-	-	5,047,587,325
Total Financial Liabilities	145,988,332,391	9,518,910,938	30,813,052,109	30,928,973,353	479,504,977	217,728,773,768
Net Liquidity Gap	(80,076,843,516)	1,628,765,782	(22,501,969,881)	82,519,434,615	35,682,709,596	17,252,096,596

Note: (i) Demand deposits include deposits in respect of regulatory requirements.
(ii) Currency in circulation is classified under liabilities up to 3 months as the exact date on which the liabilities will be relinquished is not known.

29.FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity Analysis (Cont'd)

	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
At 30 June 2017	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**
Non Derivative Financial Assets						
Foreign Assets	78,098,483,728	27,442,471,116	39,108,217,869	23,362,969,224	12,199,333,970	180,211,475,907
Loans and Advances	2,361,246	77,634,419	112,378,561	4,184,096,057	-	4,376,470,283
Investment in Government Securities	-	-	-	658,337,428	-	658,337,428
Other Assets	-	-	-	37,768,735	52,140,136	89,908,871
Total Financial Assets	**78,100,844,974**	**27,520,105,535**	**39,220,596,430**	**28,243,171,444**	**12,251,474,106**	**185,336,192,489**
Non Derivative Financial Liabilities						
Currency in circulation	33,801,034,077	-	-	-	-	33,801,034,077
Demand Deposits	72,317,858,463	-	-	-	-	72,317,858,463
Monetary Policy Instruments	10,516,276,126	6,717,360,389	23,155,806,926	14,959,654,579	477,585,311	55,826,683,331
Other Liabilities	194,970,346	18,123	3,399,403,116	1,290,281,602	-	4,884,673,187
Total Financial Liabilities	**116,830,139,012**	**6,717,378,512**	**26,555,210,042**	**16,249,936,181**	**477,585,311**	**166,830,249,058**
Net Liquidity Gap	**(38,729,294,038)**	**20,802,727,023**	**12,665,386,388**	**11,993,235,263**	**11,773,888,795**	**18,505,943,431**

The Bank did not have any derivative financial assets and liabilities at 30 June 2018 (2017: Nil).

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 2018**	Effect on Profit and equity 2017
		Rs	Rs
Foreign Currency Portfolio	**+50**	**995,177,281**	881,222,927
	-50	**(995,177,281)**	(881,222,927)
Government Securities	**+50**	**3,106,000**	3,106,000
	-50	**(3,106,000)**	(3,106,000)

Government securities are marked to market in the Statement of Financial Position of the Bank.

The tables below summarise the Bank's exposure to interest rate risk. The amounts disclosed in the tables are the contractual undiscounted cash flows, net of interest receivable or payable on interest bearing non-derivative financial instruments.

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 2018							
Financial Assets							
Foreign Assets	62,389,177,185	10,765,511,622	3,842,595,250	4,316,122,068	144,235,355,567	4,416,645,875	229,965,407,567
Loans and Advances	-	72,701,398	-	152,364,911	4,045,529,987	17,857,939	4,288,454,235
Investment in Government Securities	-	309,463,700	-	-	329,812,872	-	639,276,572
Other Assets	-	-	-	-	87,731,990	-	87,731,990
Total Financial Assets	62,389,177,185	11,147,676,720	3,842,595,250	4,468,486,979	148,698,430,416	4,434,503,814	234,980,870,364
Financial Liabilities							
Currency in circulation	-	-	-	-	-	34,077,888,842	34,077,888,842
Demand Deposits	27,606,813,045	-	-	-	-	59,380,155,234	86,986,968,279
Monetary Policy Instruments	19,874,980,545	9,518,910,938	13,268,138,602	17,544,913,507	31,408,478,330	907,400	91,616,329,322
Other Liabilities	3,443,980,039	-	-	-	-	1,603,607,286	5,047,587,325
Total Financial Liabilities	50,925,773,629	9,518,910,938	13,268,138,602	17,544,913,507	31,408,478,330	95,062,558,762	217,728,773,768
Interest Sensitivity Gap	11,463,403,556	1,628,765,782	(9,425,543,352)	(13,076,426,528)	117,289,952,086	(90,628,054,948)	17,252,096,596

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 2017							
Financial Assets							
Foreign Assets	74,798,521,241	27,442,471,116	10,814,488,801	28,293,729,067	35,085,312,047	3,776,953,633	180,211,475,905
Loans and Advances	2,154,138	77,634,419	-	112,378,561	4,167,030,940	17,272,225	4,376,470,283
Investment in Government Securities	-	-	-	-	658,337,428	-	658,337,428
Other Assets	-	-	-	-	89,908,871	-	89,908,871
Total Financial Assets	74,800,675,379	27,520,105,535	10,814,488,801	28,406,107,628	40,000,589,286	3,794,225,858	185,336,192,487
Financial Liabilities							
Currency in circulation	-	-	-	-	-	33,801,034,077	33,801,034,077
Demand Deposits	7,481,601,976	-	-	-	-	64,836,256,487	72,317,858,463
Monetary Policy Instruments	10,515,368,726	6,717,360,389	11,972,734,787	11,183,072,140	15,437,239,889	907,400	55,826,683,331
Other Liabilities	-	-	-	-	-	4,884,673,187	4,884,673,187
Total Financial Liabilities	17,996,970,702	6,717,360,389	11,972,734,787	11,183,072,140	15,437,239,889	103,522,871,151	166,830,249,058
Interest Sensitivity Gap	56,803,704,677	20,802,745,146	(1,158,245,986)	17,223,035,488	24,563,349,397	(99,728,645,293)	18,505,943,429

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 2.50 % p.a. to 8.75% p.a. (2017: 2.50% p.a. to 8.75% p.a.) and from -0.55% p.a. to 8.27% p.a. (2017: -0.55% p.a. to 9.125% p.a.) for foreign currency denominated assets.

For liabilities:
The interest-bearing Mauritian rupee denominated liabilities bear interest at rates ranging from 1.65% p.a. to 6.95% p.a. (2017: 1.98% p.a. to 6.95% p.a.) and from -0.40% p.a. to 2.12% p.a. (2017: -0.40% p.a. to 1.16% 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:

	2018	2017
	Rs	Rs
SDR Basket	**201,442,053,725**	151,180,977,090
Non SDR Basket	**28,616,718,339**	29,425,560,813
	230,058,772,064	180,606,537,903

The SDR Basket comprises the following currencies: JPY, EUR, GBP, RMB and USD. As from 1 October 2016, the Chinese Renminbi forms part of the SDR Basket.

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 2018**	Effect on Profit and Equity 2017
		Rs	Rs
Foreign Currency Portfolio	**+50 cents**	**5,702,972,886**	7,685,280,780
	-50 cents	**(5,702,972,886)**	(7,685,280,780)

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 Governor and the Second Deputy Governor. The contribution for the Governor was Rs1,279,747 (2017: Rs1,057,058) and Second Deputy Governor was Rs933,231 (2017: Rs1,058,022)

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 (Rs3,885,980,297) 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 Rs28,673,878. (2017: Rs10,445,171).

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.

35.PRIOR YEAR ADJUSTMENTS

The prior year adjustment relates to the reclassification of Income from Financial Assets to Other Comprehensive Income on Available for Sale Financial Assets to reflect the effect of the effective interest rate method.

The effects of these adjustments on the comparative financial statements of the Bank are as follows:

<u>Impact of Reclassification on statement of profit or loss and other comprehensive income</u>

Interest and Similar Income on Foreign Assets

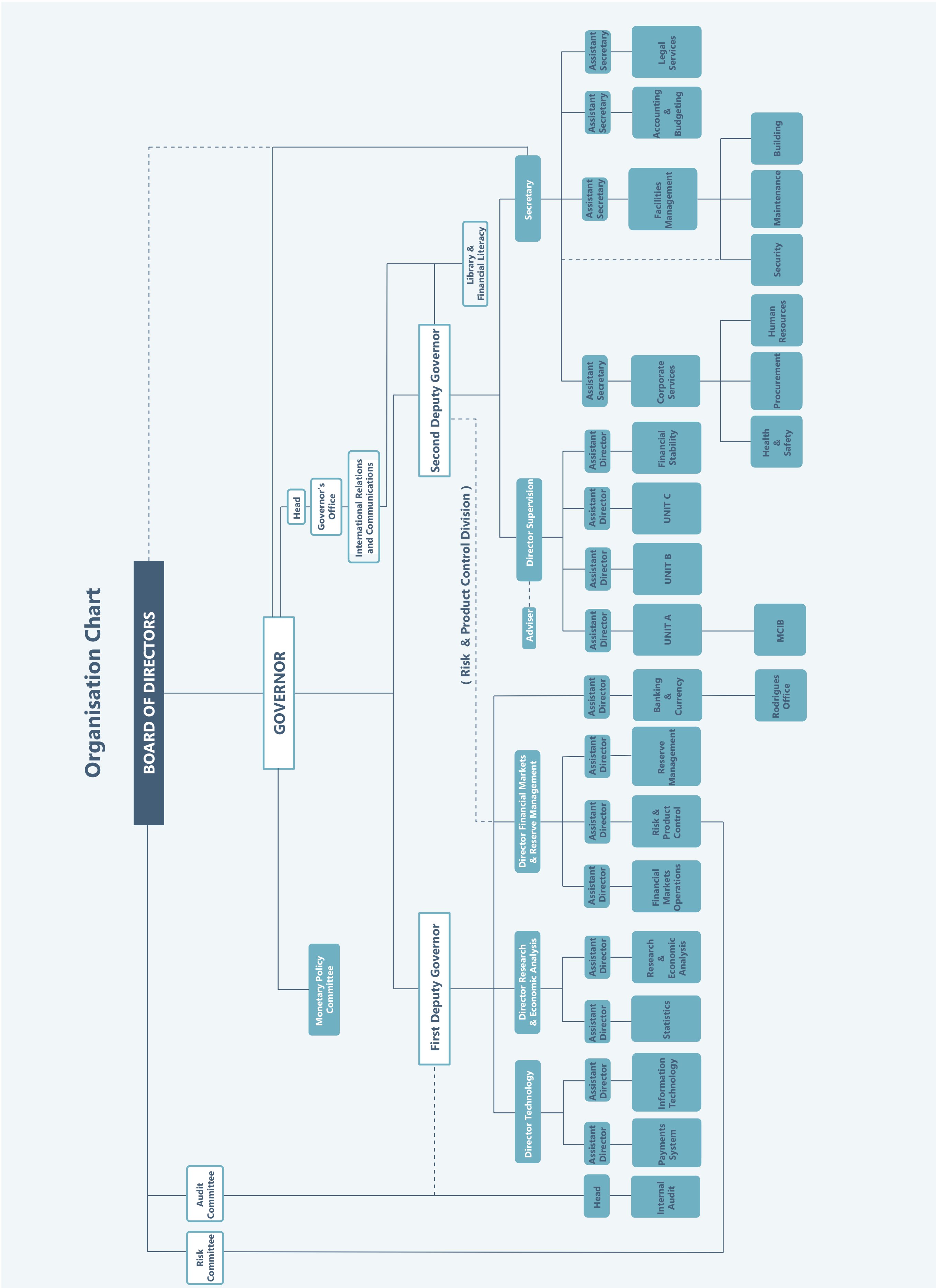
	2017 Rs
As previously reported	R3,291,449,449
Prior Year Adjustment	(138,469,576)
As restated	3,152,979,873

Net fair Value (loss)/gain on available-for-sale financial assets during the year

	2017 Rs
As previously reported	(522,365,117)
Prior Year Adjustment	138,469,576
As restated	(383,895,541)

8 Appendices

Appendices


Organisation Chart
BOARD OF DIRECTORS
GOVERNOR
Head
Governor's Office
International Relations and Communications
Monetary Policy Committee
Audit Committee
Risk Committee
Second Deputy Governor
First Deputy Governor
Library & Financial Literacy
(Risk & Product Control Division)
Secretary
Assistant Secretary
Legal Services
Assistant Secretary
Accounting & Budgeting
Assistant Secretary
Facilities Management
Building
Maintenance
Security
Assistant Secretary
Corporate Services
Human Resources
Procurement
Health & Safety
Adviser
Director Supervision
Assistant Director
Financial Stability
Assistant Director
UNIT C
Assistant Director
UNIT B
Assistant Director
UNIT A
MCIB
Director Financial Markets & Reserve Management
Assistant Director
Banking & Currency
Rodrigues Office
Assistant Director
Reserve Management
Assistant Director
Risk & Product Control
Assistant Director
Financial Markets Operations
Director Research & Economic Analysis
Assistant Director
Research & Economic Analysis
Assistant Director
Statistics
Director Technology
Assistant Director
Information Technology
Assistant Director
Payments System
Head
Internal Audit

Appendix II

SENIOR MANAGEMENT OFFICIALS

Mr Yandraduth Googoolye

Governor

FCCA, FAIA

Dr Renganaden Padayachy

First Deputy Governor

Doctor of Philosophy in Economics,
MA Public Economics,
MA Industrial Economics

Mr Mahendra Vikramdass Punchoo

Second Deputy Governor

Maîtrise en Sciences Economiques,
MSc Economics

Mrs Hemlata Sadhna Sewraj-Gopal

Secretary

BA (Hons) Economics,
ACA (Chartered Accountant)

Mr Ajay Kumar Choudhary

Director - Supervision

MSc Physics, Certified Associate of Indian Institute of Bankers

Dr Chiragra Tapas Kumar Chakrabarty

Director - Financial Markets & Reserve Management

Doctor of Philosophy in Economics,
MA (Econometrics
& Mathematical Economics)

Mr Jaywant Pandoo

Assistant Secretary - Accounting & Budgeting

FCCA, MSc Finance

Mrs Marjorie M. A. Heerah Pampusa

Assistant Director - Financial Markets & Reserve Management

MA Economics, BSc (Hons) Economics

Mr Jitendra Nathsingh Bissessur

Assistant Director - Research & Economic Analysis

MSc Applied Economics,
BA (Hons) Mathematical Statistics

Mr Anil Kumar Tohooloo

Assistant Director - Banking & Currency

MSc in Finance, BSc Accounting

Mr Ramsamy Chinniah

Assistant Director - Supervision

FCCA, MSc Financial Economics

Mrs Sudha Hurrymun

Assistant Director - Supervision

FCCA, MSc Finance, Associateship of Chartered Institute of Bankers

Mrs Urvashi Chuttarsing-Soobarah

Assistant Director - Supervision

MSc Financial Mathematics, BSc Mathematics

Mr Yuntat Chu Fung Leung

Head - Internal Audit

MBA Finance, BA (Hons) Economics and Social Studies

Mr Dhanesswurnath Thakoor

Assistant Director - Payments System & MCIB

MBA Finance, Ingénieur en Informatique - Mesures - Automatique

Mr Ng Cheong Jose Li Yun Fong

Assistant Director - IT

BSc in Computer Science

Mr Youssouf Waesh Khodabocus

Head - Governor`s Office

BA (Hons) Economics

Mr Mardayah Kona Yerukunondu

Assistant Secretary- Legal Services

LLB (Hons)

Appendix III

Meetings attended by Governor, First Deputy Governor and Second Deputy Governor

The former Governor, Mr Rameswurlall Basant Roi, GCSK, who was in office up to 07 January 2018, attended the:

i. 40th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks on 16 August 2017 in Pretoria, South Africa. He also attended the Memorial Lectures on "Current Challenges in Central Banking" held on the occasion of the 60th Anniversary of the Bank of Ghana on 18 August 2017 in Accra, Ghana.

   He was accompanied by Ms Kaveeta Nowbutsing-Hurynag, Senior Analyst-International Relations.

ii. 9th Islamic Finance News Europe Forum and the 2017 Global Islamic Finance and Investment Group Conference on 11 and 12 September in London, UK and the 2nd Global Ethical Finance Forum hosted by the Royal Bank of Scotland, from 13 to 14 September 2017 in Edinburgh, Scotland.

   He was accompanied by Ms Sudha Hurrymun, Assistant Director-Supervision.

iii. 2017 IMF/World Bank Annual Meetings from 13 to 15 October in Washington DC, USA and a meeting with the Federal Reserve Bank of New York on 17 October 2017 in New York, USA.

   He was accompanied by Mr Jaywant Pandoo, Assistant Secretary-Accounting and Budgeting.

iv. "Symposium on Financial Stability" hosted by the Bank Al-Maghrib on 12 December 2017 in Rabat, Morocco.

   He was accompanied by Ms Sudha Hurrymun, Assistant Director-Supervision.

Mr Yandraduth Googoolye, who assumed office as Governor as from 15 January 2018:

i. was on a mission to the Reserve Bank of India from 29 January to 01 February 2018. He also had a meeting with the National Payments Corporation of India on 29 January 2018 in Mumbai, India.

   He was accompanied by Mr Dhanesswurnath Thakoor, Assistant Director-Payments System and MCIB.

ii. attended as Chairman of the Eastern Africa sub-region the Ordinary Meeting of the Bureau of the Association of African Central Banks on 23 February 2018 in Dakar, Senegal.

   He was accompanied by Mr Neetyanand Kowlessur, Chief-Governor's Office.

iii. had a meeting with the Prudential Regulation Authority on 22 March 2018 in London, UK. He also attended the 2nd Meeting of the Regulatory Committee on Fintech and Innovation-driven Financial Services from 23 to 24 March 2018 in London, UK.

iv. attended the 2018 IMF/World Bank Spring Meetings from 20 to 22 April in Washington DC, USA. He also attended the RAMP Executive Forum from 23 to 24 April in Washington DC, USA, and the 3rd Meeting of the Regulatory Committee on Fintech and Innovation-driven Financial Services from 27 to 28 April 2018 in London, UK.

   He was accompanied by Mr Jitendra Nathsingh Bissessur, Assistant Director-Research and Economic Analysis.

v. attended the 46th Meeting of the SADC Committee of Central Bank Governors on 11 May 2018 in Pretoria, South Africa, which was preceded by an IMF High-Level Workshop on the "Withdrawal of Correspondent Banking Relationships in Sub-Saharan Africa".

   He was accompanied by Ms Kaveeta Nowbutsing-Hurynag, Senior Analyst-International Relations and Mr Stephan Soon Chan Ah Kine, Bank Officer Grade I-Supervision.

vi. attended the 88th Annual General Meeting of the Bank for International Settlements from 23 to 24 June 2018 in Basel, Switzerland and the 11th Andrew Crockett Governors' Roundtable for African Central Bankers from 25 to 27 June 2018 in Oxford, UK.

   He was accompanied by Ms Hemlata Sadhna Sewraj-Gopal, Secretary.

Mr Yandraduth Googoolye who was First Deputy Governor up to 12 December 2017:

i. represented the Governor at the 18th International Islamic Liquidity Management Corporation Governing Board Meeting and the 8th General Assembly Meeting on 05 and 06 July 2017 in Abuja, Nigeria.

ii. represented the Governor at the 45th Meeting of the SADC Committee of Central Bank Governors on 14 September 2017 in Mahé, Seychelles.

He was accompanied by Mr Neetyanand Kowlessur, Chief-Research and Economic Analysis.

iii. attended the Executive Education Programme for Sub-Saharan African Senior Policy Makers on "The Changing World of Payments: Implications for Policy Making and Regulation" by VISA and Duke Corporate Education from 19 to 21 September 2017 in Johannesburg, South Africa.

He was accompanied by Mr Dhanesswurnath Thakoor, Assistant Director-Payments System and MCIB.

iv. attended the Knowledge Exchange Programme with Central Bank of Seychelles from 23 to 25 October 2017 in Mahé, Seychelles.

He was accompanied by Mr Jitendra Nathsingh Bissessur, Assistant Director-Research and Economic Analysis and Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director-Financial Markets and Reserve Management.

The First Deputy Governor, Dr Renganaden Padayachy, attended the:

i. 32nd Meeting of the IFSB Council and the 16th General Assembly Meeting from 01 to 03 May 2018 in Kuwait.

The Second Deputy Governor, Mr Mahendra Vikramdass Punchoo:

i. attended the ASIC-OECD Asian/Pacific Financial Consumer Protection Seminar and Roundtable from 28 to 29 September 2017 in Melbourne, Australia.

He was accompanied by Ms Rajshri Jutton-Gopy, Chief-Legal Services.

ii. attended the Conference on Resolution and Deposit Insurance hosted by the South African Reserve Bank and the World Bank from 30 to 31 October 2017 in Cape Town, South Africa.

He was accompanied by Ms Medgee Marie Lauricourt, Senior Analyst-Supervision.

iii. represented the Governor at the 12th Meeting of the FSB Regional Consultative Group for Sub-Saharan Africa from 14 to 15 November 2017 in Pretoria, South Africa.

He was accompanied by Mr Ramsamy Chinniah, Assistant Director-Supervision.

iv. represented the Governor at the 19th Governing Board Meeting of the International Islamic Liquidity Management Corporation held on 11 January 2018 in Kuala Lumpur, Malaysia.

v. represented the Governor at the Symposium and the 23rd Meeting of the COMESA Committee of Governors of Central Banks hosted by the Central Bank of Djibouti from 28 to 29 March 2018 in Djibouti.

He was accompanied by Mr Feisal B K Sooklall, Senior Analyst-Research and Economic Analysis.

vi. attended the 3rd Annual SSGA-OMFIF Roundtable from 10 to 11 April 2018 in London, UK.

vii. represented the Governor at the 13th Meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa hosted by Bank of Botswana from 03 to 04 May 2018 in Kasane, Botswana.

He was accompanied by Mr Dhirajsingh Rughoobur, Senior Analyst-Supervision.

viii. attended the 18th Annual International Conference on Policy Challenges for the Financial Sector hosted by World Bank, FRB and IMF from 06 to 08 June 2018 in Washington D.C, USA.

Appendix IV

OVERSEAS TRAINING COURSES/ SEMINARS/WORKSHOPS

a) Overseas Trainings/ Courses/ Seminars/ Workshops attended by Secretary

Mrs Hemlata Sadhna Sewraj-Gopal, Secretary,

i. accompanied Governor Googoolye to the 88th Annual General Meeting of the Bank for International Settlements, from 23 to 24 June 2018, Basel, Switzerland and the 11th Andrew Crockett Governors' Roundtable for African Central Bankers, from 25 to 27 June 2018, Oxford, UK.

b) Overseas Trainings/ Courses/ Seminars/ Workshops attended by Assistant Directors/Assistant Secretaries

Mr Jitendra Nathsingh Bissessur, Assistant Director-Research and Economic Analysis,

i. attended the Irving Fisher Committee (IFC) Satellite Seminar on Financial Inclusion hosted by Bank Al-Maghrib, the Annual IFC Committee Meeting, the 61st World Statistics Congress and the International Statistical Institute General Assembly, from 14 to 20 July 2017, Marrakech, Morocco;

ii. accompanied the former First Deputy Governor to the Knowledge Exchange Programme with Central Bank of Seychelles, from 23 to 25 October 2017, Mahé, Seychelles;

iii. attended the Workshop on the Coordinated Direct Investment Survey Bilateral Asymmetries hosted by IMF and Deutsche Bundesbank, from 07 to 09 November 2017, Hamburg, Germany;

iv. accompanied Governor Googoolye to the 2018 IMF/World Bank Spring Meetings and the RAMP Executive Forum, from 20 to 24 April 2018, Washington DC, USA.

Mr Ramsamy Chinniah, Assistant Director-Supervision,

i. attended the 34th International Banking Supervision Seminar: Core Supervisory Issues hosted by Financial Stability Institute of BIS, from 03 to 07 July 2017, Beatenberg, Switzerland;

ii. attended the Conference on Supervisory Policy Implementation in the Current Macro Financial Environment - "a cross-sectoral journey" hosted by the BIS, from 18 to 19 September 2017, Basel, Switzerland;

iii. accompanied the Second Deputy Governor to the 12th Meeting of the FSB Regional Consultative Group for Sub-Saharan Africa, from 14 to 15 November 2017, Pretoria, South Africa;

iv. attended the Group of International Finance Centre Supervisors (GIFCS) Plenary Meeting hosted by GIFCS, from 01 to 02 May 2018, London, UK.

Mrs Urvashi Chuttarsing-Soobarah, Assistant Director-Supervision, attended

i. the Financial Stability Board Remittance Task Force Meeting hosted by BIS on 15 September 2017, Basel, Switzerland;

ii. a Seminar for Senior Bank Supervisors from Emerging Economies hosted by Federal Reserve's Training Centre, from 30 October to 03 November 2017, Washington DC, USA;

iii. the Remittance Task Force Meeting hosted by the World Bank on 14 December 2017, Brussels, Belgium;

iv. the Supervisory College for the Supervisors of the African Banking Operations of Barclays Africa Group Ltd hosted by South African Reserve Bank on 13 March 2018, Pretoria, South Africa.

Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director-Financial Markets and Reserve Management,

i. attended the Workshop on Risk Budgeting for Active Management in the Context of Institutional Investors hosted by World Bank Treasury and RAMP, from 02 to 05 October 2017, Bogota, Colombia;

ii. accompanied the former First Deputy Governor to the Knowledge Exchange Programme with Central Bank of Seychelles, from 23 to 25 October 2017, Mahé, Seychelles;

iii. attended the Asset and Risk Management Joint Forum hosted by SARB, OMFIF and World Bank Treasury, from 14 to 15 June 2018, Pretoria, South Africa.

Mrs Sudha Hurrymun, Assistant Director-Supervision,

i. accompanied the former Governor to the 9th Islamic Finance News Europe Forum and the 2017 Global Islamic Finance and Investment Group Conference on 11 and 12 September in London, UK and the 2nd Global Ethical Finance Forum hosted by the Royal Bank of Scotland, from 13 to 14 September 2017, Edinburgh, Scotland;

ii. attended the Programme on Risk Management and Financial Supervision hosted by Bank of England, from 02 to 04 October 2017, London, UK;

iii. accompanied the former Governor to the "Symposium on Financial Stability" hosted by the Bank Al-Maghrib on 12 December 2017, Rabat, Morocco;

iv. attended the 35th ESAAMLG Task Force of Senior Officials Meeting and 5th ESAAMLG Assessors' Training hosted by ESAAMLG, from 07 to 19 April 2018, Arusha, Tanzania.

Mr Mardayah Kona Yerukunondu, Assistant Secretary-Legal Services, attended

i. 35th ESAAMLG Task Force of Senior Officials Meeting hosted by ESAAMLG, from 07 to 13 April 2018, Arusha, Tanzania.

Mr Ng Cheong Jose Li Yun Fong, Assistant Director-Information Technology, attended

i. 23rd CCBG ICT Sub-Committee Annual Conference hosted by CCBG, from 19 to 23 February 2018, Antananarivo, Madagascar.

Mr Jaywant Pandoo, Assistant Secretary-Accounting and Budgeting,

i. attended the 24th Annual General Meeting of the Afrexim Bank hosted by Government of Rwanda on 01 July 2017, Kigali, Rwanda;

ii. attended the 20th Board Audit Committee Meeting hosted by the International Islamic Liquidity Management Corporation, from 27 to 28 September 2017, Kuala Lumpur, Malaysia;

iii. accompanied the former Governor to the 2017 IMF/World Bank Annual Meetings from 13 to 15 October in Washington DC, USA and a meeting with the Federal Reserve Bank of New York on 17 October 2017 in New York, USA;

iv. attended the 21st Board Audit Committee Meeting hosted by IILM, from 22 to 23 March 2018, Kuala Lumpur, Malaysia.

Mr Dhanesswurnath Thakoor, Assistant Director-Payment Systems and MCIB,

i. attended the SADC Payment System Sub-Committee Roadmap Meeting, Payment System Annual Regional Conference 2017 and the Payment System Oversight Committee (PSOC) Meeting hosted by SADC Payment System Project, from 17 to 20 July 2017, Kinshasa, Democratic Republic of the Congo;

ii. accompanied the former First Deputy Governor to the Executive Education Programme for Sub-Saharan African Senior Policy Makers on "The Changing World of Payments: Implications for Policy Making and Regulation" by VISA and Duke Corporate Education, from 19 to 21 September 2017, Johannesburg, South Africa;

iii. attended the SADC Payment System Sessions hosted by SADC, from 05 to 08 December 2017, Pretoria, South Africa;

iv. accompanied Governor Googoolye to the Reserve Bank of India from 29 January to 01 February 2018 and to a meeting with the National Payments Corporation of India on 29 January 2018, Mumbai, India.

c) Overseas Trainings/ Courses/ Seminars/ Workshops attended by Chiefs

Mr Dooneshsingh Audit, Chief-Statistics, attended

i. 1st Meeting of the Expert Group to refine COMESA Macroeconomic Convergence Criteria and Road Map to COMESA Monetary Union hosted by COMESA Monetary Institute, from 23 to 25 April 2018, Nairobi, Kenya;

ii. 2nd Meeting of the Experts Group to refine COMESA Macroeconomic Convergence Criteria and Road Map to COMESA Monetary Union hosted by COMESA Monetary Institute, from 28 to 30 June 2018, Nairobi, Kenya.

Appendix IV

Mr Mohammud Feyçal Caunhye, Chief-Communications, attended

i. 1st FLiP Financial Education Summit on the occasion of the 5th International Federation of Finance Museums Annual Meeting hosted by the Erste Financial Life Park and ERSTE Foundation, from 05 and 06 October 2017, Vienna;

ii. CCBS Workshop on Central Bank Communication in a Changing World hosted by Bank of England, from 16 to 18 October 2017 followed by a session on 19 October 2017 at the Bank of England Museum, London, UK.

Mr Jayvind Kumar Choolhun, Chief-Payment Systems and MCIB, attended

i. Programme on Financial Market Infrastructure-Role, Regulation and Risk Assessment hosted by Reserve Bank Staff College, from 23 to 25 October 2017, Chennai, India;

ii. SADC Payment System Sub-Committee Sessions hosted by SADC, from 06 to 08 March 2018, Pretoria, South Africa.

Mr Grooduth Daboo, Chief-Currency, attended

i. De La Rue Analytics and Cash Cycle Seminar hosted by De La Rue International Limited, from 05 to 13 February 2018, Basingstoke, UK.

Mr Chitananda Ellapah, Chief-Statistics, attended

i. Committee of Central Bank Governors in SADC Macroeconomic Sub-Committee and Research Review Panel Meetings hosted by the Secretariat of CCBG in SADC, from 18 to 20 July 2017, Maseru, Lesotho.

Mr Qayyum Ali Ismael Ghanty, Chief-IT, attended

ii. SADC Payment System Sub-Committee Roadmap Meeting, Payment System Annual Regional Conference 2017 and the PSOC Meeting hosted by SADC Payment System Project, from 17 to 20 July 2017, Kinshasa, Democratic Republic of the Congo.

Mrs Tilotma Gobin Jhurry, Chief-Payment Systems and MCIB, attended

i. Programme on Managing World of Virtual Finance-FinTech Regulation hosted by Reserve Bank Staff College, from 28 to 30 August 2017, Chennai, India.

Mr Shardhanand Gopaul, Chief-Accounting and Budgeting, attended

i. Workshop on International Financial Reporting Standard (IFRS) 9-Implementation and Practical Considerations hosted by RAMP, from 12 to 16 February 2018, Washington DC, USA.

Miss Bibi Koraisha Jeewoot, Chief-Risk and Product Control, attended

i. Asset Allocation Seminar hosted by BIS, from 21 to 25 August 2017, Beatenberg, Switzerland;

ii. Seminar on Reserve and Asset Management and BIS Asset Management Associate Programme 2018 hosted by BIS, from 30 April to 11 May 2018, Lucerne, Switzerland.

Mr Atmanand Jhary, Chief-Accounting and Budgeting, attended

i. Workshop on Securities Accounting hosted by World Bank Treasury, from 11 to 15 September 2017, Washington DC, USA.

Mrs Rajshri Jutton-Gopy, Chief-Legal Services,

i. attended the Meeting of the Committee of Central Bank Governors Legal Sub-Committee hosted by SADC from 24 to 25 July 2017, Seychelles;

ii. attended the Workshop on Governance Framework for Reserve Management hosted by World Bank Treasury and co-hosted by BIS, from 04 to 06 September 2017, Basel, Switzerland;

iii. accompanied the Second Deputy Governor to the ASIC-OECD Asian/Pacific Financial Consumer Protection Seminar and Roundtable, from 28 to 29 September 2017, Melbourne, Australia.

iv. attended the Conference on Anti-Money Laundering and Combating the Financing of Terrorism hosted by South African Reserve Bank, from 04 to 06 December 2017, Pretoria, South Africa;

v. attended the Course on Selected Issues in Fiscal Law and Governance hosted by IMF, from 12 to 16 March 2018, Washington DC, USA;

vi. attended the 35th ESAAMLG Task Force of Senior Officials Meeting hosted by ESAAMLG, from 07 to 13 April 2018, Arusha, Tanzania.

Mr Gawtam Raiy Kallychurn, Chief-Information Security-Risk and Product Control, attended

i. 8th MAS Information Technology Supervision Workshop 2017 hosted by Monetary Authority of Singapore, from 13 to 15 November 2017, Singapore;

ii. AACB Continental Seminar hosted by AACB, from 14 to 16 May 2018, N'Djamena, Republic of Chad.

Mr Neetyanand Kowlessur, Chief-Governor's Office,

i. accompanied the former First Deputy Governor to the 45th Meeting of the SADC Committee of Central Bank Governors on 14 September 2017, Mahé, Seychelles;

ii. attended a Meeting of the Experts Group on the Refinement of the Convergence Criteria hosted by AACB, from 06 to 07 December 2017, Pretoria, South Africa;

iii. accompanied Governor Googoolye to the Ordinary Meeting of the Bureau of the Association of African Central Banks on 23 February 2018, Dakar, Senegal.

Mrs Powkeem Lo Tiap Kwong, Chief-Statistics, attended

i. Macroeconomic Sub-Committee Meeting hosted by SADC Secretariat, from 05 to 06 April 2018, Pretoria, South Africa.

Dr Ashwin Kumar Madhou, Chief-Research and Economic Analysis, attended

i. Validation Workshop for the studies conducted by member Central Banks and the 15th Meeting of the Monetary and Exchange Rates Policies Sub-Committee hosted by COMESA Monetary Institute, from 16 to 21 October 2017, Nairobi, Kenya;

ii. Meeting of the Experts Group on the Refinement of the Convergence Criteria hosted by AACB, from 06 to 07 December 2017, Pretoria, South Africa.

Dr Ashwin Moheeput, Chief-Financial Stability, attended

i. Meeting of Macroeconomic Convergence Peer Review Panel and related meetings hosted by SADC, from 27 to 31 July 2017, Ezulwini, Swaziland;

ii. Validation Workshop for the studies conducted by member Central Banks and the 15th Meeting of the Monetary and Exchange Rates Policies Sub-Committee hosted by COMESA Monetary Institute, from 16 to 21 October 2017, Nairobi, Kenya.

Mrs Hemlata Nundoochan, Chief-Supervision, attended

i. Follow-up Supervisory College for Supervisors of Barclays Africa Group Limited's African subsidiaries, hosted by South African Reserve Bank, on 02 August 2017, Pretoria, South Africa.

Mrs Malini Ramdhan, Chief-Supervision, attended

i. Micro-prudential Supervisory Frameworks hosted by Bank of England, from 20 to 22 November 2017, London, UK.

Mr Arvind Sharma Ramful, Chief-IT, attended

i. 17th ECB Seminar on Payment, Clearing and Settlement for Central Banks hosted by ECB, from 28 August to 01 September 2017, Frankfurt, Germany.

Mr Sanjay Ramnarainsing, Chief-Financial Markets Operations, attended

i. 6th African Financial Markets Initiative Workshop hosted by African Development Bank, from 22 to 24 November 2017, Dakar, Senegal;

ii. CCBG Financial Markets Sub-Committee Meeting hosted by CCBG, from 06 to 07 February 2018, Victoria Falls, Republic of Zimbabwe.

Mr Keshwarajsingh Ramnauth, Chief-Financial Markets Operations, attended

i. Sovereign Credit Rating and Economic Outlook Training Programme hosted by J P Morgan School of Finance from, 20 to 21 July 2017, Johannesburg, South Africa;

ii. Workshop on Advanced FX Market Dealing Simulation for Central Banks hosted by IMF and Afritac, from 25 to 29 June 2018, Johannesburg, South Africa.

Mr Chandradeo Sharma Rutah, Chief-Supervision, attended

i. CCBG Banking Supervision Sub-Committee Meeting hosted by CCBG Secretariat and South African Reserve Bank, from 27 to 28 February 2018, Ezulwini, Swaziland.

Mr Prithviraj Seeballuck, Chief-Banking, attended

i. 7th ECB Central Bank Seminar on Bank Notes hosted by ECB, from 26 to 29 June 2018, Frankfurt, Germany.

Mr Sameer Kumar Sharma, Chief-Reserve Management, attended

i. Franklin Templeton Annual Global Investor Forum hosted by Franklin Templeton Investment, from 07 to 09 May 2018, New York, USA.

d) Overseas Trainings/ Courses/ Seminars/ Workshops attended by Senior Analysts

Mr Ghanish Beegoo, Senior Analyst-Statistics, attended

i. Meeting of the CCBG Macroeconomic Sub-Committee hosted by SADC, from 14 to 15 March 2018, Lilongwe, Malawi.

Mr Satishingh Jugoo, Senior Analyst-Statistics, attended

i. 8th COMESA Committee Meeting on Statistical Matters hosted by COMESA, from 25 to 27 September 2017, Lusaka, Zambia.

Miss Marie Medgee Lauricourt, Senior Analyst-Supervision,

i. accompanied the Second Deputy Governor to the Conference on Resolution and Deposit Insurance hosted by the South African Reserve Bank and the World Bank, supported by Switzerland's State Secretariat for Economic Affairs, from 30 to 31 October 2017, Cape Town, South Africa;

ii. attended the Meeting of the Working Group on Cross-Border Banking Supervision of the Community of African Banking Supervisors hosted by AACB, from 21 to 22 May 2018, Pretoria, South Africa.

Ms Kaveeta Nowbutsing-Hurynag, Senior Analyst-International Relations,

i. accompanied the former Governor to the 40th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks on 16 August 2017 in Pretoria, South Africa and to the Memorial Lectures on "Current Challenges in Central Banking" held on the occasion of the 60th Anniversary of the Bank of Ghana on 18 August 2017, Accra, Ghana;

ii. attended the SADC Committee of Central Bank Officials meeting on 08 and 10 May 2018 and accompanied Governor Googoolye to the 46th Meeting of the SADC Committee of Central Bank Governors on 11 May 2018 in Pretoria, South Africa, which was preceded by an IMF High-Level Workshop on the "Withdrawal of Correspondent Banking Relationships in Sub-Saharan Africa" on 09 May 2018.

Mr Karankumar Pitteea, Senior Analyst-Research and Economic Analysis, attended

i. Training on Macroeconomic Surveillance hosted by SADC, from 30 November to 01 December 2017, Pretoria, South Africa.

Mr Dhirajsingh Rughoobur, Senior Analyst-Supervision

i. accompanied the Second Deputy Governor to the 13th Meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa hosted by Bank of Botswana, from 03 to 04 May 2018, Kasane, Botswana.

Mrs Nivedita Sajadah-Aujayeb, Senior Analyst-Legal Services, attended

i. Workshop on Legal Aspects of Governance and Asset Management hosted by World Bank Treasury, from 02 to 06 October 2017, Paris, France;

ii. Meeting of the Committee of Central Bank Governors Legal Steering Committee hosted by SADC, from 08 to 09 February 2018, Pretoria, South Africa;

iii. Training Seminar for IMF Members on Legal Issues hosted by Banque des Etats de l'Afrique Centrale, from 13 to 14 February 2018, Yaounde, Cameroon.

Mr Feisal Bin Khalid Sooklall, Senior Analyst-Research and Economic Analysis,

i. attended the Programme on Central Banking Policies-Navigating Troubled Waters hosted by Reserve Bank Staff College, from 13 to 17 November 2017, Chennai, India;

ii. attended the 23rd meeting of the Committee of Experts on Finance and Monetary Affairs from 25 to 27 March 2018 and accompanied the Second Deputy Governor to the Symposium for COMESA Governors of Central Banks at the Central Bank of Djibouti, from 28 to 29 March 2018, Djibouti.

Mr Sandiren Vadeevaloo, Senior Analyst-Supervision, attended

i. Programme on Macro-Prudential Regulation and Policies hosted by Reserve Bank Staff College, from 22 to 25 January 2018, Chennai, India.

e) Overseas Trainings/ Courses/ Seminars/ Workshops attended by Analysts

Mrs Falzana Atchia, Analyst-Statistics, attended

i. Thematic Course on Trade in Services Statistics with emphasis on Africa hosted by World Trade Organisation, from 06 to 10 November 2017, Geneva, Switzerland.

Mr Minesh Bhundoo, Analyst-Supervision, attended

i. 25th MAS Banking Supervisors Training Programme hosted by Monetary Authority of Singapore, from 26 November to 01 December 2017, Singapore.

Mrs Mahima Bhurtha, Analyst-Research and Economic Analysis, attended

i. Meeting of Macroeconomic Convergence Peer Review Panel and related meetings organised by SADC, from 27 to 31 July 2017, Ezulwini, Swaziland;

ii. Training on Macroeconomic Surveillance hosted by SADC, from 30 to 01 December 2017, Pretoria, South Africa.

Mr Veekash Singh Busgeeth, Analyst-Supervision, attended

i. 26th MAS Banking Supervisors Training Programme hosted by Monetary Authority of Singapore, from 24 to 29 June 2018, Singapore.

Ms Elisa Chan Yiet Po, Communications Officer-International Relations and Communications, attended

i. Seminar on Monetary Policy Communication hosted by Afritac South, from 25 to 29 September 2017, Accra, Ghana.

Mr Nandkumar Daworaz, Analyst-Financial Markets Operations, attended

i. Workshop on Advanced FX Market Dealing Simulation for Central Banks hosted by IMF and Afritac, from 25 to 29 June 2018, Johannesburg, South Africa.

Mrs Tameshwaree Gokool, Analyst-Supervision, attended

i. Follow-up Supervisory College for Supervisors of Barclays Africa Group Limited's African Subsidiaries hosted by South African Reserve Bank on 02 August 2017, Pretoria, South Africa.

Mr Sahadeosing Gungabissoon, Analyst-Supervision, attended

i. Programme on Banking Regulation-Changing Contours hosted by Reserve Bank Staff College from, 11 to 15 December 2017, Chennai, India.

Mrs Bindoomatee Gungaram, Analyst-Financial Markets Operations, attended

i. Workshop on FX Market Dealing Simulation for Central Bank officials hosted by Afritac South from 04 to 08 September 2017, Johannesburg, South Africa.

Mr Nadeem Azad Jeetun, Analyst-Research and Economic Analysis, attended

i. Validation Workshop of a Manual on Application of VAR, SVAR and VECM for Analysis of Transmission Mechanism of Monetary Policy hosted by COMESA Monetary Institute, from 07 to 11 May 2018, Nairobi, Kenya.

Mr Ranjeet Kallychurn, Analyst-IT, attended

i. IT Governance and BCM Champions Meeting hosted by CCBG ICT Sub-Committee, from 11 to 14 June 2018, Luanda, Angola.

Mrs Pratima Keerodhur, Analyst-Accounting and Budgeting, attended

i. Global Investor Seminar 2018 hosted by DWS, from 18 to 22 June 2018, Frankfurt, Germany.

Mr Ved Prakash Anand Koonjul, Analyst-Financial Markets Operations, attended

i. Workshop on FX Market Dealing Simulation for Central Bank officials hosted by Afritac South, from 04 to 08 September 2017, Johannesburg, South Africa.

Appendix IV

Mr Brian Kwok Chung Yee, Analyst-Supervision, attended

i. Conference on Bank Resolution, Crisis Management and Deposit Insurance hosted by Financial Stability Institute and the International Association of Deposit Insurers, from 31 January to 02 February 2018, Basel, Switzerland.

Mr Abdool Anwar Massafeer, Analyst-Statistics, attended

i. Programme on Monetary Theory and Policy hosted by Reserve Bank Staff College, from 18 to 21 June 2018, Chennai, India.

Mrs Nitisha Mihdidin, Analyst-Supervision, attended

i. 25th MAS Banking Supervisors Training Programme hosted by Monetary Authority of Singapore, from 26 November to 01 December 2017, Singapore.

Mr Kumaravel Mootoosamy, Analyst-Legal Services, attended

i. 34th ESAAMLG Task Force of Senior Officials Meetings hosted by the ESAAMLG, from 03 to 07 September 2017, Zanzibar, Tanzania.

Mr Yahseen Mohammad Peerbocus, Analyst-Reserve Management, attended

i. BIS Asian Reserve Management Workshop hosted by BIS, from 23 to 27 October 2017, Singapore.

Mrs Shakuntala Devi Ramanah, Analyst-Supervision, attended

i. Conference on Anti-Money Laundering and Combating the Financing of Terrorism hosted by South African Reserve Bank, from 04 to 06 December 2017, Pretoria, South Africa.

Miss Meenakshi Ramchurn, Analyst-Reserve Management, attended

i. Workshop on Advanced Techniques in Portfolio Management hosted by World Bank Treasury, from 06 to 10 November 2017, Paris, France;

ii. Training Programme on Beta, Smart Beta and Scientific Investing hosted by BlackRock Educational Academy, from 30 April to 04 May 2018, San Francisco, USA.

Mrs Vijayantimala Ramful, Analyst-Financial Markets Operations, attended

i. Workshop on Money Market Investments hosted by RAMP, from 12 to 16 March 2018, Washington DC, USA.

Miss Yogeeta Devi Ramphul Analyst-Supervision, attended

i. Seminar on Macro-Prudential Approach to Supervision and Managing Systemic Risk hosted by Afritac South in collaboration with SARB Academy, from 30 October to 03 November 2017, Pretoria, South Africa;

ii. Community of African Banking Supervisors Conference and Meeting hosted by the AACB, from 25 to 26 June 2018, Cape Town, South Africa.

Mr Vasan Kumar Ranlaul, Analyst-IT, attended

i. 8th MAS Information Technology Supervision Workshop 2017 hosted by Monetary Authority of Singapore, from 13 to 15 November 2017, Singapore.

Mr Uttam Deepak Seetul, Analyst-Supervision, attended

i. Seminar on Macro-Prudential Approach to Supervision and Managing Systemic Risk hosted by Afritac South in collaboration with SARB Academy, from 30 October to 03 November 2017, Pretoria, South Africa.

f) Overseas Trainings/ Courses/ Seminars/ Workshops attended by Bank Officers Grade 1

Mr Stephan Soon Chan Ah Kine, Bank Officer Grade I-Supervision,

i. attended the SADC Committee of Central Bank Officials meeting on 08 and 10 May 2018 and accompanied Governor Googoolye to the 46th Meeting of the SADC Committee of Central Bank Governors on 11 May 2018 in Pretoria, South Africa, which was preceded by an IMF High-Level Workshop on the "Withdrawal of Correspondent Banking Relationships in Sub-Saharan Africa" on 09 May 2018.

Mr Atish Babboo, Bank Officer Grade I-Research and Economic Analysis, attended

i. Workshop on Macroeconomic Modelling of African Economies hosted by African Development Bank, from 23 April to 03 May 2018, Nairobi, Kenya.

Miss Divya Lakshmi Bhuruth, Bank Officer Grade I-Accounting and Budgeting, attended

i. Seminar on Risk Management, Operational and Human Talent Excellence hosted by BlackRock Educational Academy, from 25 to 29 June 2018, Hong Kong.

Mr Yashilall Gopaul, Bank Officer Grade I-Supervision, attended

i. 24th MAS Banking Supervisors' Training Programme hosted by Monetary Authority of Singapore, from 16 to 21 July 2017, Singapore.

Mrs Jaiwantee Koosha Burumdoyal, Bank Officer Grade 1-Payment Systems and MCIB, attended

i. Global Investor Seminar 2018 hosted by DWS, from 18 to 22 June 2018, Frankfurt, Germany.

Miss Bihisht Mautadin, Bank Officer Grade I-Research and Economic Analysis, attended

i. Workshop on Improving Remittances, Data Compilation and Estimation Methods, hosted by African Union, from 15 to 17 November 2017, Mahé, Seychelles.

Miss Pooja Yashni Mohesh, Bank Officer Grade I-Supervision, attended

i. 24th MAS Banking Supervisors' Training Programme hosted by Monetary Authority of Singapore, from 16 to 21 July 2017, Singapore.

Mr Avisen Mootealloo, Bank Officer Grade I-Payment Systems and MCIB, attended

i. Programme on Payment and Settlement System-Operation, Risk and Oversight hosted by Reserve Bank Staff College, from 05 to 09 February 2018, Chennai, India.

Miss Koveena Mootoosamy, Bank Officer Grade I-Supervision, attended

i. 26th MAS Banking Supervisors Training Programme hosted by Monetary Authority of Singapore, from 24 to 29 June 2018, Singapore.

Miss Rajlukshmee Tengur, Bank Officer Grade I-Research and Economic Analysis, attended

i. Course on Financial Inclusion hosted by SADC, from 05 to 07 June 2018, Pretoria, South Africa.

Appendix V

LOCAL COURSES/SEMINARS/ WORKSHOPS

a) Local Courses/Seminars/Workshops attended by Heads of Division

Mr Yuntat Chu Fung Leung, Head-Internal Audit attended

i. Seminar on Safeguards Assessments of Central Banks hosted by ATI, from 17 to 21 July 2017, Ebene.

Mr Mardayah Kona Yerukunondu, Assistant Secretary-Legal Services attended

i. Leadership and Supervision Training Workshop for Law Enforcement Agencies hosted by ICAC, from 06 to 08 December 2017, Clos St Louis, Pailles;

ii. Regional Conference on Effectiveness of Anti-Corruption Bodies and Financial Intelligence Units in fighting Corruption and Money Laundering in Africa hosted by ICAC, from 07 to 08 May 2018, Holiday Inn, Plaine Magnien.

Mr Jaywant Pandoo, Assistant Secretary-Accounting and Budgeting attended

i. Seminar on Safeguards Assessments of Central Banks hosted by ATI, from 17 to 21 July 2017, Ebene.

b) Local Courses/Seminars/Workshops attended by Chiefs

Mr Arvind Kumar Dowlut, Chief-IT attended

i. Work Session on SWIFT's Customer Security Programme hosted by SWIFT on 17 August 2017, Medine Education Village, Pierrefonds.

Mr Shardanand Gopaul, Chief-Accounting and Budgeting attended

i. African Client Conference hosted by Calypso Technology on 31 May 2018, Intercontinental Resort, Balaclava.

Miss Bibi Koraisha Jeewoot, Chief-Risk, Product and Control attended

i. African Client Conference hosted by Calypso Technology on 31 May 2018, Intercontinental Resort, Balaclava.

Mrs Rajshri Jutton-Gopy, Chief-Legal Services attended

i. Workshop on Legal Aspects of the National Payment Systems hosted by Afritac South, from 27 November to 01 December 2017, Ebene.

Mr Neetyanand Kowlessur, Chief-Research and Economic Analysis Division attended

i. Seminar on Macroeconomic Diagnostics hosted by ATI, from 03 to 14 July 2017, Ebene.

Dr Ashwin Kumar Madhou, Chief-Research and Economic Analysis Division attended

i. Course on Fiscal Institutions and Fiscal Discipline hosted by ATI, from 11 to 15 December 2017, Ebene.

Dr Ashwin Moheeput, Chief-Financial Stability attended

i. Course on Financial Sector Policies hosted by ATI, from 11 to 22 September 2017, Ebene.

Mrs Najma Nabee, Chief-Research and Economic Analysis Division attended

i. Workshop on Collaborating Across Boundaries in Financial Services hosted by Virtuose Ltd on 17 August 2017, Sugar Beach Hotel, Wolmar;

ii. Course on Inclusive Growth hosted by ATI, from 16 to 27 October 2017, Ebene.

Mrs Hemlata Nundoochan, Chief-Supervision attended

i. Workshop on Collaborating Across Boundaries in Financial Services hosted by Virtuose Ltd on 17 August 2017, Sugar Beach Hotel, Wolmar.

Mrs Malini Ramdhan, Chief-Supervision attended

i. Seminar on Enhancements to Basel Process hosted by Afritac South, from 21 to 25 August 2017, Ebene.

Mr Sanjay Ramnarainsing, Chief-Financial Markets Operations attended

i. African Client Conference hosted by Calypso Technology on 31 May 2018, Intercontinental Resort, Balaclava.

Mr Sameer Kumar Sharma, Chief-Reserve Management attended

i. Workshop on Mauritius Exporting to Africa and the Region hosted by Entreprise Mauritius, from 18 to 19 July 2017, Ebene;

ii. African Client Conference hosted by Calypso Technology on 31 May 2018, Intercontinental Resort, Balaclava.

c) Local Courses/Seminars/Workshops attended by Senior Analysts

Mrs Kaveeta Nowbutsing-Hurynag, Senior Analyst-International Relations and Communications attended

i. Seminar on Enhancements to Basel Process hosted by Afritac South, from 21 to 25 August 2017, Ebene.

Mr Karankumar Pitteea, Senior Analyst-Research and Economic Analysis Division attended

i. Course on Financial Sector Policies hosted by ATI, from 11 to 22 September 2017, Ebene.

Mr Dhirajsingh Rughoobur, Senior Analyst-Supervision attended

i. Seminar on Enhancements to Basel Process hosted by Afritac South, from 21 to 25 August 2017, Ebene.

Mrs Nivedita Sajadah-Aujayeb, Senior Analyst-Legal Services attended

i. Course on Public Financial Management Legal Frameworks hosted by ATI, from 29 January to 02 February 2018, Ebene.

d) Local Courses/Seminars/Workshops attended by Analysts and Facilities Officers

Mrs Mahima Bhurtha, Analyst-Research and Economic Analysis Division attended

i. Course on Fiscal Sustainability hosted by ATI, from 05 to 16 February 2018, Ebene.

Mr Veekash Singh Busgeeth, Analyst-Supervision attended

i. Course on Financial Sector Surveillance hosted by ATI, from 26 March to 06 April 2018, Ebene.

Mr Doorgesh Choonucksing, Facilities Officer-Maintenance Division attended

i. 1st User Conference of Digital Radio Communication hosted by Atlas Communication on 10 April 2018, Voila Hotel, Bagatelle.

Mr Chetanand Christna, Analyst-Accounting and Budgeting attended

i. African Client Conference hosted by Calypso Technology on 31 May 2018, Intercontinental Resort, Balaclava;

ii. Workshop on IFRS updates hosted by BSP School of Accountancy on 11, 13 and 15 December 2017, Voila Hotel, Bagatelle.

Mr Suyash Dhurmea, Analyst-Research and Economic Analysis Division attended

i. Course on "*Statistiques Monétaires et Financières*" hosted by ATI, from 25 September to 06 October 2017, Ebene;

ii. International Conference on Digitalisation and Sustainable Tourism hosted by Ministry of Tourism, from 23 to 24 May 2018, Le Meridien Hotel, Pointe aux Piments.

Mr Sahadeosing Gungabissoon, Analyst-Supervision attended

i. Seminar on IFRS hosted by Afritac South, from 19 to 23 March 2018, Ebene.

Appendix V

Miss Yuvna Hemoo, Analyst-Financial Markets Operations attended

i. Green Bonds Capacity Building Programme hosted by SEM on 09 May 2018, Hennessy Park Hotel, Ebene.

Mr Nadeem Azad Jeetun, Analyst-Research and Economic Analysis Division attended

i. Workshop on Labour Statistics hosted by Statistics Mauritius on 30 August 2017, Labourdonnais Waterfront Hotel, Port Louis;

ii. Course on Fiscal Sustainability hosted by ATI, from 05 to 16 February 2018, Ebene.

Miss Archana Puttyah, Analyst-Supervision attended

i. Course on Core Elements of Banking Supervision hosted by ATI, from 07 to 17 November 2017, Ebene.

Miss Yogeeta Devi Ramphul, Analyst-Supervision attended

i. Seminar on IFRS hosted by Afritac South, from 19 to 23 March 2018, Ebene.

Mr Vasan Kumar Ranlaul, Analyst-IT attended

i. Work Session on SWIFT's Customer Security Programme hosted by SWIFT on 17 August 2017, Medine Education Village, Pierrefonds.

Mr Roopeswarchanda Rashpassing, BI Analyst-IT attended

i. Technical Open Data Training hosted by National Computer Board, from 30 April to 09 May 2018 and from 28 May to 31 May 2018, Holiday Inn, Plaine Magnien.

e) Local Courses/Seminars/Workshops attended by Bank Officers Grade I

Miss Divya Lakshmi Bhuruth, Bank Officer Grade I-Accounting and Budgeting attended

i. Workshop on IFRS hosted by Open Mind Consulting, from 13 to 14 September 2017, Voila Hotel, Bagatelle.

Miss Urvashee Dussooa, Bank Officer Grade I-Statistics attended

i. Workshop on Open Data hosted by National Computer Board, from 25 to 26 April 2018, Holiday Inn, Plaine Magnien.

Mrs Jazbeen Banu Edoo, Bank Officer Grade I-Research and Economic Analysis Division attended

i. Workshop on Open Data hosted by National Computer Board, from 25 to 26 April 2018, Holiday Inn, Plaine Magnien.

Miss Heeranee Jugessur, Bank Officer Grade I-Statistics attended

i. Seminar on Assessment Factors influencing the use of E-Government Facilities hosted by Mauritius Research Council on 17 May 2018, Ebene.

Miss Bihisht Mautadin, Bank Officer Grade I-Research and Economic Analysis Division attended

i. Workshop on Economic Issues in Regional Integration hosted by ATI, from 04 to 15 June 2018, Ebene.

Miss Koveena Mootoosamy, Bank Officer Grade I-Supervision attended

i. Course on Core Elements of Banking Supervision hosted by ATI, from 07 to 17 November 2017, Ebene.

Mr Arjun Munbodh, Bank Officer Grade I-Supervision attended

i. Seminar on IFRS hosted by Afritac South, from 19 to 23 March 2018, Ebene.

Miss Neezla Polin, Bank Officer Grade I-Supervision attended

i. Open Source Intelligence Techniques (osint) Training hosted by MBA, from 27 to 29 March 2018, Port Louis.

Mr Kheelesh Poonye, Bank Officer Grade I-Supervision attended

i. Course on Core Elements of Banking Supervision hosted by ATI, from 07 to 17 November 2017, Ebene.

Mrs Sarita Devi Ramkooleea, Bank Officer Grade I-Payment Systems and MCIB attended

i. Workshop on Legal Aspects of the National Payment Systems hosted by Afritac South, from 27 November to 01 December 2017, Ebene.

Miss Paroshitimah Santokee, Bank Officer Grade I-Accounting and Budgeting attended

i. Workshop on IFRS updates hosted by BSP School of Accountancy on 11, 13 and 15 December 2017, Voila Hotel, Bagatelle.

Mr Damien Christophe Seblin, Bank Officer Grade I-Reserve Management attended

i. Green Bonds Capacity Building Programme hosted by SEM on 09 May 2018, Hennessy Park Hotel, Ebene.

Mrs Divya Seewon, Bank Officer Grade I-Supervision attended

i. Course on Financial Sector Surveillance hosted by ATI, from 26 March to 06 April 2018, Ebene.

Miss Tayushma Sewak, Bank Officer Grade I-Research and Economic Analysis Division attended

i. Course on Fiscal Policy Analysis hosted by Afritac South, from 26 February to 09 March 2018, Ebene.

Miss Rajlukshmee Tengur, Bank Officer Grade I-Research and Economic Analysis Division attended

i. Course on Inclusive Growth hosted by ATI from 16 to 27 October 2017, Ebene;

ii. Course on Fiscal Policy Analysis hosted by Afritac South, from 26 February to 09 March 2018, Ebene.

Mr Sheik Muhammad Hafeez Toofail, Bank Officer Grade I-Legal Services attended

i. Forum on the theme Evolution of the fight against corruption and money laundering, hosted by ICAC on 14 March 2018, Reduit.

f) Local Courses/Seminars/Workshops attended by Bank Officer Grade II

Miss Chitra Deepun, Bank Officer Grade II - International Relations and Communications attended

i. Workshop on Economic Issues in Regional Integration hosted by ATI, from 04 to 15 June 2018, Ebene.

Appendix VI

STAFF TURNOVER

RECRUITMENT

Mr Roopeswarchanda Rashpassing was appointed BI Analyst on 01 August 2017.

Mr Ashwin Ramduny was appointed Chief-Payment Systems on 11 September 2017.

Mr Marc Daniel Didier Lenette was appointed Bank Officer Grade I on 11 September 2017.

Mr Abhimanyou Rao Appadu and Miss Yuvna Hemoo were appointed Analyst on 15 September 2017.

Miss Marie Martine Acham, Miss Marie Aurore Natacha Anseline, Miss Zoya Bibi Aungraheeta, Miss Preeyamvada Banarsee, Miss Anne Cecile Baptiste, Mr Larveen Bhujun, Mr Muhammad Yaasir Bhurtun, Miss Geeleena Bissessur, Mr Suyash Kumar Budloo, Miss Oojala Burhoo, Miss Rideema Cunniah, Miss Nisha Dharkhan, Miss Urvashee Dussooa, Miss Kevina Dwarka, Miss Bibi Sharmeen Gariban, Miss Yeshni Goburdhun, Miss Bibi Shaheen Banoo Hawseea, Mr Vachaspati Sharma Hurreeram, Miss Madhvi Jhumun, Mr Oodaye Joggesser, Miss Heeranee Jugessur, Miss Humairaa Juman, Miss Sidhi Devi Kawal, Miss Preksha Kurrumchand, Mr Muhammad Maahi Lall Beeharry, Mr Francois Yohann Lanfray, Miss Navisha Lobin, Miss Mehisha Luchmadu, Mr Balaganapathi Mootoo, Miss Divya Luxmi Devi Mungar, Miss Smita Munnee, Mr Faizal Mahomed Mussa, Miss Nirmala Nunkoo, Miss Neezla Polin, Miss Poonita Rajkumarsingh, Miss Nishta Ramsurn, Miss Paroshitimah Santokee, Mr Damien Christophe Seblin, Miss Nainam Priyadarshinee Seedoyal, Mr Prashant Sowdagur, Miss Deeksha Yashtee Susty, Mr Sheik Muhammad Hafeez Toofail, Mr Cedric Wong Tai Yun were appointed Bank Officer Grade I on 15 September 2017.

Mrs Manita Pandoo was appointed Bank Officer Grade I on 22 September 2017.

Mr Chidanand Rughoobar and Mrs Divya Seewon were appointed Bank Officer Grade I on 02 October 2017.

Mr Dany Allan Nicholas Ng Cheong Vee and Mrs Preethee Ramudit Bakhoree were appointed Analyst on 16 October 2017.

Mr Ghirish Bissoon was appointed Museum Officer on 03 January 2018.

Miss Danishta Bachoo was appointed Safety and Health Officer on 15 January 2018.

Mr Doorgesh Choonucksing was appointed Facilities Officer on 01 March 2018.

Mr Ajay Kumar Choudhary was appointed Director-Supervision on 04 June 2018.

Mrs Parveen Peerye was appointed Analyst on 11 June 2018.

RETIREMENT

Mrs Safia Chitamun, Bank Officer Grade II (Personal) retired from the service of the Bank with effect from 14 September 2017.

Mrs Liladevi Geesawor, Bank Officer Grade I retired from the service of the Bank with effect from 18 October 2017.

Miss Vijaylaxmi Ramdonee, Bank Officer Grade I, retired from the service of the Bank with effect from 01 January 2018.

Mrs Indranee Ramburn, Confidential Secretary, retired from the service of the Bank with effect from 11 January 2018.

Mrs Saroje Reekoye, Bank Officer Grade II, retired from the service of the Bank with effect from 13 March 2018.

RESIGNATION

Miss Vishista Adwaita Seeboo, Bank Officer Grade II, resigned from the service of the Bank with effect from 04 July 2017.

Mrs Padma Sandhya Hurree-Gobin, Chief, resigned from the service of the Bank with effect from 29 July 2017.

Miss Kovila Soobrayen, Bank Officer Grade II, resigned from the service of the Bank with effect from 10 November 2017.

Mr Oodaye Joggesser, Bank Officer Grade I, resigned from the service of the Bank with effect from 20 January 2018.

Mr Kheelesh Poonye, Bank Officer Grade I, resigned from the service of the Bank with effect from 23 June 2018.

EXPIRY OF CONTRACT OF EMPLOYMENT

The contract of Mr Narayan Gangalaramsamy, Chief-IT Division, expired with effect from 01 September 2017.

The contract of employment of Mr Amar Kumar Bera, Director-Supervision expired with effect from 17 November 2017.

The contract of employment of Mr Louis Mario Hennequin, Executive Officer expired with effect from 01 March 2018.

DEMISE

Mr Surendra Nath Auchoybur, Bank Attendant Grade III passed away on 17 September 2017.

PROMOTION

Mr Percy Fabrice Dabeesing was appointed Bank Officer Grade I with effect from 01 September 2017.

Mrs Doushy Jeeana Dawoodharry was appointed Bank Officer Grade I with effect from 01 June 2018.

Appendix VI

LIST OF BANKS, NON-BANK DEPOSIT TAKING INSTITUTIONS, MONEY-CHANGERS AND FOREIGN EXCHANGE DEALERS LICENSED BY THE BANK OF MAURITIUS AS AT 30 JUNE 2018

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 2018.

Banks

1. ABC Banking Corporation Ltd
2. AfrAsia Bank Limited
3. Bank One Limited
4. Bank of Baroda
5. Bank of China (Mauritius) Limited
6. Banque des Mascareignes Ltée
7. BanyanTree Bank Limited
8. Barclays Bank Mauritius Limited
9. Century Banking Corporation Ltd [1]
10. Deutsche Bank (Mauritius) Limited [2]
11. Habib Bank Limited
12. HSBC Bank (Mauritius) Limited
13. Investec Bank (Mauritius) Limited
14. MauBank Ltd
15. SBI (Mauritius) Ltd
16. SBM Bank (Mauritius) Ltd
17. Standard Bank (Mauritius) Limited
18. Standard Chartered Bank (Mauritius) Limited
19. The Hongkong and Shanghai Banking Corporation Limited
20. The Mauritius Commercial Bank Limited
21. Warwyck Private Bank Ltd [3]

Non-Bank Deposit-Taking Institutions

1. Cim Finance Ltd
2. Finlease Company Limited
3. La Prudence Leasing Finance Co. Ltd
4. Mauritian Eagle Leasing Company Limited
5. Mauritius Housing Company Ltd
6. SICOM Financial Services Ltd
7. SPICE Finance Ltd
8. The Mauritius Civil Service Mutual Aid Association Ltd

Money-Changers (Bureaux de Change)

1. Abbey Royal Finance Ltd
2. EFK Ltd
3. Iron Eagle Ltd
4. Moneytime Co. Ltd
5. Unit E Co Ltd
6. Vish Exchange Ltd

Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Change Express Ltd
3. Cim Forex Ltd
4. Island Premier Foreign Exchange Ltd
5. Shibani Finance Co. Ltd
6. Thomas Cook (Mauritius) Operations Company Limited

[1] *The bank carries on exclusively Islamic banking business.*
[2] *Deutsche Bank (Mauritius) Limited is in the process of surrendering its banking licence and ceased business of banking with effect from 29 June 2018.*
[3] *The bank carries on exclusively private banking business.*

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List of Acronyms

AACB	Association of African Central Banks
Afrexim	African Export and Import Bank
AMCP	African Monetary Cooperation Programme
AML / CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Automated Teller Machine
BOI	Board of Investment
BCEAO	Central Bank of West African States
BCM	Business Continuity Management
BCT	Blockchain Technology
BCS	Bulk Clearing System
BEAC	Banque des Etats de l'Afrique Centrale
BIS	Bank for International Settlements
BML	Broad Money Liabilities
BoE	Bank of England
BoJ	Bank of Japan
BPO	Business Process Outsourcing
CABS	Community of African Banking Supervisors
CAMEL	Capital adequacy, Asset quality, Management, Earnings, and Liquidity
CBS	Central Bank Survey
CCBG	Committee of Central Bank Governors
CCBS	Centre for Central Banking Studies
CCBO	Committee of Central Bank Officials
CDS	Central Depository System
c.i.f	Cost, insurance, freight
CMI	COMESA Monetary Institute
CNP	Contribution Network Project
COMESA	Common Market for Eastern and Southern Africa
CoPI	Construction Price Inflation
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CTS	Cheque Truncation System
DCS	Depository Corporations Survey
DLT	Distributed Ledger Technology
DR	Disaster Recovery
D-SIB	Domestic Systemically Important Banks
DTAA	Double Taxation Avoidance Agreement
DTI	Debt service to disposable income
ECB	European Central Bank
EDB	Economic Development Board
EFTs	Electronic Funds Transfers
EIA	Energy Information Administration
EITC	Earned Income Tax Credit
EMDEs	Emerging Market and Developing Economies
EoE	Export-oriented Enterprise
EPI	Export Price Index
FAO	Food and Agricultural Organisation
FAS	Financial Access Survey
FDI	Foreign Direct Investment

List of Acronyms

FinCoNet	International Financial Consumer Protection Organisation
FinTech	Financial Technology
f.o.b	Free on board
FSB	Financial Stability Board
FSC	Financial Services Commission
FSI	Financial Soundness Indicators
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
GOIR	Gross Official International Reserve
GOS	Gross Operating Surplus
GVA	Gross Value Added
HQLA	High Quality Liquid Assets
ICT	Information and Communication Technology
IFC	Irving Fisher Committee
IFSB	Islamic Financial Services Board
IGC	International Grains Council
IHS	Invest Hotel Scheme
IPI	Import Price Index
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
IIP	International Investment Position
IOSCO	International Organisation of Securities Commissions
IRS	Integrated Resort Scheme
ISIN	International Securities Identification Number
IT	Information Technology
JCC	Joint Coordination Committee
KRR	Key Repo Rate
LCR	Liquidity Coverage Ratio
LTV	Loan to Value
MACSS	Mauritius Automated Clearing and Settlement System
MCA	Mauritius Chamber of Agriculture
MCIB	Mauritius Credit Information Bureau
MEFMI	Financial Management Institute of Eastern and Southern Africa
MERI	Mauritius Exchange Rate Index
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
MPFSR	Monetary Policy and Financial Stability Report
MRA	Mauritius Revenue Authority
MSCI	Morgan Stanley Capital International
MSS	Mauritius Sugar Syndicate
NBDTI	Non-Bank Deposit-Taking Institutions
NIT	Negative Income tax

List of Acronyms

NFA	Net Foreign Assets
NMW	National Minimum Wage
NPL	Non-Performing Loans
NPF	National Pension Fund
NPS	National Payment Switch
NSF	National Savings Fund
NYMEX	New York Mercantile Exchange
ODCs	Other Depository Corporations
ODCS	Other Depository Corporations Survey
OE	Ocean economy
OECD	Organisation for Economic Co-operation and Development
ONFCs	Other Non-Financial Corporations
OPEC	Organization of the Petroleum Exporting Countries
O/W	Of Which
PDS	Property Development Scheme
PLACH	Port-Louis Automated Clearing House
PLR	Prime Lending Rate
POS	Point of Sale
PPI-A	Producer Price Inflation-Agriculture
PPI-M	Producer Price Inflation-Manufacturing
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
RTGS	Real Time Gross Settlement
RSL	Regulatory Sandbox License
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SEM	Stock Exchange of Mauritius
SEMDEX	Stock Exchange of Mauritius Index
SIRESS	SADC Integrated Regional Settlement System
SLF	Survey on Leasing Facilities
SM	Statistics Mauritius
SME	Small and Medium Enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TLS/SSL	Transport Layer Security / Secure Sockets Layer
ToT	Terms of Trade
US Fed	US Federal Reserve
VIX	Volatility Index
WEO	World Economic Outlook
WRI	Wage Rate Index
WTI	West Texas Intermediate
XBRL	eXtensible Business Reporting Language
YEP	Youth Employment Programme
y-o-y	year-on-year

BANK OF MAURITIUS

Add: Sir William Newton Street, Port Louis, Mauritius
Website: https://www.bom.mu
Email: communications@bom.mu
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