ANNUAL REPORT

Year ended 30 June 2017

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The Governor

Bank of Mauritius
Port Louis

30 October 2017

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 2016-17

In accordance with the provision of Section 32(3) of the Bank of Mauritius Act 2004, I transmit herewith the fiftieth Annual Report of the Bank, which also contains the audited Accounts of the Bank for the year ended 30 June 2017.

Yours sincerely

Rameswurlall Basant Roi, GCSK

Global economic recovery is underway. Economic growth picked up in 2016-17 but remains below pre-crisis levels. In advanced economies, prospects have improved with better business conditions and improved consumer sentiment. Growth in emerging markets and developing economies has been commendable, albeit more uneven.

The economic recovery process during 2016-17 was blurred by a string of geopolitical developments. Britain's decision to split up with the European Union in mid-2016 had given a cold shower to global financial markets, thus affecting global growth prospects. The US presidential elections in late 2016 sparked off fears of protectionism, which could undermine the global growth momentum. The UK elections in June 2017 saw the failure of the Conservative Party to retain majority and this event added to the layers of uncertainty to the way forward post-Brexit. On a positive note, the French presidential elections of May 2017 offered encouraging prospects for trade, especially between France and its major trading partners.

Global financial conditions have remained broadly favourable in 2016-17 although monetary policy has been following different pathways across various parts of the world. The US Federal Reserve raised its federal funds rate on three occasions by a cumulative 75 basis points in view of progressive signs of economic recovery. The hawkish stance of the US Federal Reserve was not emulated in other parts of the world. In Europe, the European Central Bank left interest rates unchanged during 2016-17 and continues on its asset purchase program. The Bank of England cut its benchmark rate by 25 basis points to a record low of 0.25 per cent in August 2016 and left it unchanged in subsequent meetings. The Bank of England has announced that it will continue its government bond purchase program of GBP435 billion and corporate bond purchase of GBP10 billion to allay fears over its growth rate prospects. Benign prospects on domestic inflationary pressures have led the central banks of Brazil, Chile and of Russia to lower their policy rates. In contrast, money market rates have increased in China in 2017. The divergent approaches to monetary policy worldwide have contributed to exchange rate volatilities among the major currencies and have, in parallel, impacted on international capital flows.

The IMF, the World Bank and the OECD have projected a better outlook for global economic growth in 2017 and 2018. The IMF forecast global growth to increase from 3.2 per cent in 2016 to 3.6 per cent in 2017 and further to 3.7 per cent in 2018. However, the IMF perceives several risks to the medium-term outlook, including rising protectionism, faster-than-expected interest rate normalisation by major central banks and equity market corrections. While global inflation was largely subdued in 2016, it is expected that global inflation may rise in 2017. The projected increase in global energy prices and narrowing output gaps in advanced economies as well as in emerging markets and developing economies, are likely to intensify inflationary pressures.

The domestic economic growth rate was 3.6 per cent in 2016, driven mainly by positive contributions from ICT and tourism. There were encouraging signs of investment gathering momentum during 2016, in particular, private investments which tended to post an improvement. Going forward, newly-announced public projects are expected to raise investment levels in the economy.

In last year's edition of the Annual Report, I had flagged three main risks to the domestic growth outlook for 2016-17: fallout of the *'Brexit'* syndrome, the uncertain outlook regarding the revised Double Taxation Avoidance Agreement (DTAA) with India, and structural supply-side bottlenecks. Let me bring a synoptic update on these issues. On the *Brexit*, the imbroglio continues to cloud our understanding regarding the nature of future trade agreements between the UK and Europe, and between the UK and the rest of the world. Uncertainties prevail about how the divorce between the UK and Europe will be concluded. Although the revision of the DTAA in May 2016 did not jeopardise the liquidity situation in the banking system, it is imperative to monitor developments in the Global Business Company (GBC) sector, given the importance of GBC deposits as a funding source for the banking system. As at end-June 2017 (post-DTAA announcement), the ratio of GBC deposits to total deposits stood at 38.3 per cent compared to 37.5 per cent as at end-March 2016 (pre-DTAA announcement), thereby indicating that the announcement did not crystallise into deposit outflows, as initially feared. With regards to the third constraint, a number of measures have been taken in the Budget 2017-18 to fast-track public sector project implementation and to facilitate ease of doing business.

However, the Mauritian economy is still not free from obstacles. Although downside risks to growth have somewhat eased, risks arising from economic policies pursued in partner economies and geopolitical uncertainties continue to make their weight felt. Nationalist sentiments could unleash trade protectionism, curtail international trade and nurture further risk aversion among global investors. If materialised, the Mauritian economy could be adversely affected, given its openness and its high degree of *euro-centricity*. As a highly-open economy, it is crucial to continuously improve the comparative advantage and productivity of the Mauritian economy. Measures to further diversify the production base and exports markets have to be envisioned and executed judiciously.

Between June 2016 and June 2017, domestic inflation showed signs of slowly accelerating due primarily to domestic factors – namely, domestic weather-related supply conditions and administrative hikes in prices of specific items such as tobacco, alcoholic beverages and retail petrol prices. Headline inflation rose to 2.4 per cent in June 2017, from 0.9 per cent in June 2016. Year-on-year inflation accelerated from 1.1 per cent in June 2016 to reach at 6.4 per cent in June 2017. Due to the temporary nature of price increases, there are reasons to believe that these drivers of inflation in Mauritius will taper off during year 2017.

The rupee appreciated against the US dollar in 2016-17 mainly due to the broad-based weakness of the US currency on international markets and sustained foreign exchange inflows. The Bank conducted a series of interventions in the domestic foreign exchange market during 2016-17 totalling US$450 million, compared to nearly US$583 million in 2015-16, in order to head-off volatilities in the exchange rate of the rupee and ensure it reflects economic fundamentals.

The monetary policy stance remained accommodative in 2016-17. The Key Repo Rate was reduced by 40 basis points to 4.0 per cent by the Monetary Policy Committee in July 2016 over concerns of stalled economic recovery and in the absence of inflationary pressures. During the year under review, the Bank closely monitored factors affecting the growth momentum, both domestic and foreign, as these may generate demand pressures and impinge on the inflation outlook. The Bank remains vigilant to potential upside risks to the inflation outlook.

Excess liquidity in the domestic money market has generally been maintained within acceptable limits, with the Bank of Mauritius actively conducting open market operations during 2016-17. Banks' excess reserves dropped to their lowest daily levels around mid-August 2016 and remained at manageable levels till November 2016, thereafter increasing to reach their peak by mid-January 2017 as a result of net maturing securities. Throughout 2016-17, the Bank spared no effort to effectively manage excess liquidity. Injections into the banking system through the Bank's foreign exchange interventions over the same period were partially sterilised by way of rupee deposits placed by banks with the central bank for periods ranging from one to three years. The conduct of regular open market operations by the Bank led to a significant increase of Rs12.1 billion in outstanding instruments which reached Rs69.0 billion at the end of June 2017. The cost of servicing these instruments has had a major impact on the Bank's balance sheet.

As I mentioned last year, there is a disconnect between the policy rate of the Bank, the KRR, and market interest rates, in part due to the liquidity situation in the banking system. This situation suffocates the smooth operation of the interbank market and stymies the effectiveness of the monetary policy transmission channels as monetary policy levers fail to transmit the right signals to financial markets. As the excess liquidity situation could not be completely normalised given regular foreign exchange interventions, this led to some volatility in the level of excess reserves in the system and the new monetary policy framework could not be introduced. The proposed new framework, upon its rollout, is expected to steer financial markets in the appropriate direction as a response to monetary policy impulses. The Bank intends to bring excess liquidity down to a more tolerable level before introducing the revamped monetary policy framework.

The current account situation improved in 2016 compared to 2015. The deficit fell to its lowest level in the past 10 years, barring year 2007. There were important shifts in underlying components of the current account. The trade deficit worsened during 2016. Key behind this trade deficit were the major setbacks to exports and the continued growth in import bill. The trade deficit was, however, partially offset by a growing surplus on the services account – on account of higher travel receipts and net exports of other services – and higher net income from abroad. Gross tourism earnings reached Rs55.9 billion in 2016, up by Rs5.7 billion compared to 2015. Net inflows into the capital and financial account, including reserve assets, increased during the year. Gross direct investment flows in Mauritius (excluding the GBC sector) amounted to Rs13.6 billion in 2016. As in previous years, real estate activities tend to take the lion's share of foreign direct investment inflows. Overall, the country recorded a balance of payments surplus of Rs26.2 billion in 2016 compared to a surplus of about Rs20 billion in 2015. The level of Gross Official International Reserves, measured in terms of US dollars, rose from US$4.7 billion at end-June 2016, with an import cover of 8.8 months, to US$5.3 billion as at end-June 2017, representing 9.5 months of imports.

During the year 2016-17, banks in general remained sound and well-capitalised. The capital adequacy ratio averaged 17.9 per cent as at end-June 2017, well above the minimum of 10 per cent. Results from the Bank's macro-based stress testing model developed by an external consultant during 2016 show that the banking system is resilient to extreme but plausible shocks to macroeconomic factors such as interest rate, exchange rate, and GDP growth differentials. The implementation of the Basel III capital requirements, which adds a macro-prudential overlay to capital adequacy by introducing loss absorption cushions, continued in a phased manner. Systemically-important banks are subject to an extra surcharge – being implemented in a phased manner – in view of the negative externalities or spillovers they would degenerate to the financial system should they fail. As such, the capital situation of the banking system is judged as healthy and acts as a safeguard against the materialisation of shocks in the system.

The ratio of non-performing loans (NPL) improved from 7.1 per cent as at end-June 2016 to 7.0 per cent as at end-June 2017. Impaired credit in the Manufacturing, Construction, Tourism, Personal and Traders sectors made up almost 73 per cent of total impaired credit in Mauritius as at end-June 2017. The pro-cyclicality of these sectors makes them vulnerable to variations in the economic cycle. The Bank has been closely monitoring the exposure of banks to these sectors and using an assortment of macro-prudential measures to contain the build-up of systemic risks in the economy in view of the difficulties some of these sectors had been experiencing in recent years.

The funding and liquidity profiles of banks in Mauritius are judged to be sound enough to deal with stressed situations. The Bank is implementing the Liquidity Coverage Ratio framework for banks in November 2017, after a detailed consultative process with the banking industry. In addition to holding high-quality unencumbered liquid assets, banks would be expected to inform the Bank about their liquidity back-up plans supporting liquidity strains. Where feasible and desirable, the Bank stands ready to backstop banks in their endeavours to meet potential liquidity contingencies in order to allay fears and maintain trust in the banking sector. For instance, in the aftermath of the announcement of the revisions to the DTAA treaty with India in April 2016, the Bank informed stakeholders about its readiness to support the Mauritian financial system, should any knock-on effects materialise.

While banks' balance sheets show signs of resilience, the Bank cannot be oblivious to underlying micro dynamics that characterise many of the banks' portfolios and that may transform into potential vulnerabilities. One such issue is concentration risk, including exposure to large groups. Credit concentration remains relatively high in the banking system. The Bank keeps a vigilant eye on the evolution of credit concentration risks, while being mindful that exposure limits alone may not suffice to deal with setbacks. The importance of monitoring credit quality outside the banking system cannot be underestimated. Several non-deposit-taking financial entities are engaged in the process of credit allocation. Indeed, risks posed by these so-called 'shadow banking' institutions, which fall outside the regulatory ambit and supervisory purview of the Bank, need to be evaluated. One of the initiatives taken by the Bank in this realm is to extend coverage of the Mauritius Credit Information Bureau to include leasing, insurance companies and public utilities.

The Bank of Mauritius Act 2004 was amended in September 2016 to empower the Bank to discharge effective conglomerate and consolidated supervision. The Bank can now regulate ultimate and intermediate financial holding companies incorporated in Mauritius, which have, within the group, at least one subsidiary, which is a bank, or non-bank deposit-taking institution licensed by the Bank. As such, the Bank is in a better position to monitor intra-group transactions as well as measure transactions between the group entities and related parties. The Bank will also be able to conduct survey-based or any analytical work pertaining to developments being engineered outside the ambit of banks but which have important pertinence for financial stability. One such instance is the case of escalating private placements undertaken by large corporates in recent years and which have substituted for traditional bank borrowing. These private placements may mask material risks for financial stability in that they often involve sister affiliates of banks.

Similarly, cross-border exposures of banks need to be monitored. I delivered an opening address at a conference on *'Cross-Border Banking and Regulatory Reforms: Implications for Africa from International Experience'* in February 2017 in the presence of the IMF Managing Director, Madame Christine Lagarde, on the eponymous topic. During the conference, a recurring theme was on containing risks stemming from the expansion of Pan-African banks in the African continent, given the heterogeneity characterising host countries. The Bank has signed 16 Memoranda of Understanding (MoUs) with foreign regulators, including those jurisdictions where banks incorporated in Mauritius have set up offices and whose banks conduct banking operations in Mauritius. The MoUs enhance the exchange of supervisory information and collaboration. Out of the 16 MoUs entered into, nine have been signed with regulatory authorities in the African continent. The sharing of findings of examinations undertaken by foreign regulators/home supervisors on some local banks' branches/subsidiaries abroad has also been implemented. Finally, the Bank participated in supervisory colleges domestically and abroad so as to retain traction on the cross-border implications of banks.

My unflinching commitment towards reinforcing the pillars of our financial system is demonstrated by the wide panoply of measures I have taken since January 2015. The Bank's capacity to identify, appraise and monitor risks that could potentially plague the financial system has been reinforced. Several of these initiatives are currently in the pipeline. The Bank has recruited additional staff to beef up the existing staff force in the core departments to ensure the Bank delivers effectively on its core mandates. Good progress has been made in the implementation of the risk-based supervisory framework which will carry more risk-sensitive elements and frontload financial stability considerations into decision-making processes. The calibration of the risk-based CAMELS framework for banks has been completed and the staff has been trained to operate this new methodology. The risk-based supervisory framework is set for completion in the next two years or so.

The Bank has made progress in on-boarding Basel III capital requirements in the banking industry. Several arrangements are being implemented in a phased-in manner, for instance, the Capital Conservation Buffer and the charge on Domestic-Systemically Important Banks (D-SIBs). D-SIBs are expected to comply fully with the capital surcharge by 1 January 2019. Overall, the banking sector is expected to meet the higher capital standards through reasonable earnings retention and capital raising exercise. The 2017-18 Budget Speech created room for extra cushion by raising the minimum capital required by banks from Rs200 million to Rs400 million.

The Bank has made major headway on its projects aimed at containing build-up of vulnerabilities and at enhancing resilience of the financial system. The review of the banking legislation and the inclusion of a crisis management and resolution framework within the revamped legislation have reached an advanced stage. The revamped legislation will be submitted to Government for enactment in the near future. Alongside, the deposit insurance scheme and the national payment system legislation have gone through a final review process and will be proposed to Government shortly. The national payment system legislation will regulate and oversee all payment practices, including those evolving from the exigencies of a digital economy. The major revision of prudential guidelines, which started in early 2015, was completed in early 2017 and the revised guidelines are now in force.

With the establishment of a dedicated Financial Stability Division at the Bank in 2016, the surveillance and assessment of risks to financial stability have been enhanced. The conduct of macro-surveillance of the Mauritian financial system, the monitoring of macro-prudential policies and the implementation of the stress testing exercises are some of the core functions of the division. It will also provide analytical inputs and put up recommendations to the Financial Stability Committee chaired by the Minister of Finance and Economic Development.

IFRS9 for financial instruments will become binding as from January 2018 onwards. Banks in Mauritius are cognisant of the potential impact that the new rules will have on their capital since superseding the backward-looking 'incurred loss framework' by a forward-looking 'expected loss framework' will impact on their capital planning and require banks to showcase modelling dexterity. Banks in Mauritius are currently in the process of implementing IFRS9 in a phased manner which is overseen by the Bank.

I am fully aware that, for a financial system to be credible, qualitative features such as trust, integrity, professionalism, transparency, disclosure standards and accountability are of essence. These are usually crowned up by a robust system of corporate governance and by measures designed to stimulate a culture of integrity in banks. The Bank has aligned its AML/CFT and corporate governance guidelines with international best practices. Since 2016, I have established a dedicated team to monitor AML/CFT issues and it has started conducting specialised on-site inspection of financial institutions. The Bank has signed numerous MoUs with other institutions, namely, Financial Services Commission, Financial Intelligence Unit and other compliance-based agencies such as the Mauritius Revenue Authority, with the aim of tackling money laundering. The review of the Bank of Mauritius Act 2004 and the Banking Act 2014 is almost completed.

Financial innovation is one of the major landmark developments revolutionising the financial topography worldwide. The Bank is fully cognizant of inexorable FinTech developments permeating the banking business. At the Banking Committee meeting in March 2017, I have established a Committee on Disruptive Technologies and FinTech with the participation of all banks to keep abreast of developments in FinTech and to see how to adapt the regulatory framework. This will also enable the Bank to assess the implications and challenges posed by the use of ground-breaking technology on various financial sector functions such as intermediation, clearing, and payments being taken up by non-financial entities.

The Bank has launched several initiatives to modernise the financial markets infrastructure, some of which have already been executed. Online auctioning of securities and Direct Debits have been introduced in 2017. The implementation of the National Payment Switch, which will open the way for inter-operable digital payments from multiple channels such as ATMs, point of sales, mobile devices and e-commerce gateways, started in July 2017 and is expected to be fully operational by May 2018.

The plethora of measures launched since 2015 will undoubtedly help Mauritius face future challenges and contribute to the transformation of the country into a modern, high income economy by 2030 in line with the Government's vision. The modernisation of the financial markets infrastructure will help foster digital innovation and digitalisation of the economy going forward.

The Bank's website which was launched in mid-2016 now offers better surfing experience to outside parties wishing to access the Bank's online catalogue of documents and other information pertaining to the Bank's activities. The Bank is reviving its Occasional Paper Series to publish research papers authored by its staff.

In 2016-17, I have pursued my consultative meetings with stakeholders - the Financial Services Commission, the Financial Intelligence Unit, the Mauritius Exporters Association, the Mauritius Revenue Authority, amongst others - for enhancing effective policy formulation and decision-making processes. These consultative meetings are useful for sharing of thoughts and discussing policy options.

Since December 2016, I have been serving as Deputy Chairman of the Governing Board of the International Islamic Liquidity Management Corporation and as from August 2017, I am the current Chairman of the Eastern Africa sub-region Committee of Central Bank Governors of the Association of African Central Banks.

The year 2017 marks numerous milestones in the Bank's history. The Bank celebrated its 50th Anniversary on 1 September 2017 and, on that occasion, launched with the Mauritius Post Ltd a First Day Cover featuring the first Governor, Mr Aunauth Beejadhur.

Further, a multitude of international accolades have been conferred upon the Bank under my stewardship. In January 2017, I was elected *2017 Central Bank Governor of the Year for Africa* by *The Banker* of the Financial Times Group. In February 2017, I was awarded the distinction the *Personality of the Year Award 2016 (Finance)* by the UK-based *African Leadership Magazine*. In May 2017, the *African Banker* magazine conferred upon me the *Central Bank Governor of the Year Award 2017*, endorsed by the African Development Bank Group. In July 2017, the London-based Capital Finance International conferred upon the Bank the *Best Central Bank Governance – Indian Ocean 2017* award. It recognised the initiatives launched by the Bank which have "*significantly strengthened the regulatory framework in order to keep up with evolving international standards and further improve the domestic financial markets infrastructure*". The judging panel commended the Bank "*on its forward-looking approach to both innovation and supervision*". For me, after having spent more than three decades at the Bank and having witnessed the Bank's stellar transmutation into one of the most credible and highly-respected institutions of our financial jurisdiction, these recognitions mark my contribution to the Bank. In August 2017, I accepted the invitation extended by the Chair and Co-Chairs of the International Council of the Bretton Woods Committee to join this international network of business, finance, academic leaders and thinkers.

Days after I had resumed office as Governor of the Bank in January 2015, I had to give the go-ahead for the refurbishment of the old Bank of Mauritius building for which the contract had already been awarded in 2014. I recast the interior design of the building to include a world-class museum of banknotes and coins in order to set the importance of our jurisdiction in its historical perspective, a knowledge centre and an auditorium that could be used for purposes of training by the banking industry. The refurbishment is expected to be over very soon.

I was not alone in these endeavours. I have had the chance to work in a milieu comprising dedicated staff, many of whom have strong commitment to hard work and professional integrity. I dedicate all awards and accolades to Bank's staff. They deserve ample credit for their unflinching support, dedication towards discharging their duties with panache and for their invaluable contributions to the Bank's mandates.

On behalf of the Board of Directors of the Bank, the members of the Monetary Policy Committee, and on my own behalf, I seize the occasion to amiably thank all external stakeholders of the Bank for their congenial working relations over the past year and for their support.

Rameswurlall Basant Roi, GCSK
30 October 2017

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About Bank of Mauritius

The Bank of Mauritius, the central bank of the Republic of Mauritius, was established under the Bank of Mauritius Ordinance 1966, with its main obligation being to "*safeguard the internal and external value of the currency of Mauritius and its internal convertibility*". Over time, the Bank of Mauritius legislation was reviewed. The role and functions of the Bank are currently pursuant to the Bank of Mauritius Act 2004, which was enacted in October 2004 and came into operation by proclamation on 10 November 2004. The Bank of Mauritius Act 2004 ('2004 Act') repealed the Bank of Mauritius Ordinance 1966 ('1966 Act'), and provided that the Bank of Mauritius established under the repealed 1966 Act be deemed to have been established under the 2004 Act. The 2004 Act enhanced the independence of the Bank of Mauritius and made the primary object of the Bank as being to maintain price stability and to promote orderly and balanced economic development. The other objectives of the Bank are to regulate credit and currency in the best interests of the economic development of Mauritius; to ensure the stability and soundness of the financial system of Mauritius; and to act as the central bank for Mauritius.

The 2004 Act also designates the Bank to:

- conduct monetary policy and manage the exchange rate of the rupee, taking into account the orderly and balanced economic development of Mauritius;
- regulate and supervise (i) financial institutions carrying on activities in, or from within, Mauritius; and (ii) ultimate and intermediate financial holding companies, incorporated in Mauritius, which have, within the group, at least one subsidiary or joint venture, or such other ownership structure as the Bank may determine, which is a bank or non-bank deposit-taking institution licensed by the Bank;
- 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.

The Bank is also called upon to:

- ascertain and promote the soundness of financial institutions and their compliance with governing laws, rules and regulations;
- ensure the adoption by financial institutions of policies and procedures designed to control and manage risks effectively;
- adopt policies to safeguard the rights and interests of depositors and creditors of financial institutions, having due regard to the need for financial institutions to compete effectively in the market and take reasonable risks;
- monitor system-wide factors that might have or potentially have a negative impact on the financial condition of financial institutions;
- promote public understanding of the financial system, including awareness of the benefits and risks associated with different financial products regulated by the Bank, which are offered by financial institutions;
- carry out investigations and take measures to suppress illegal, dishonourable and improper practices, market abuse and any potential breach of the banking laws.

The Bank of Mauritius started its operations on 14 August 1967. Prior to its setting up, a Board of Commissioners of Currency was managing the currency issue and currency was issued for Sterling at a fixed rate of exchange. With its establishment, a new phase in the monetary history of Mauritius was instituted and the Bank was vested with '*the sole right to issue legal tender currency in the country and was charged with the responsibility of maintaining the internal and external value of the currency and its international convertibility*'. The first family of banknotes which was issued in 1967, comprised four denominations: Rs5, Rs10, Rs25 and Rs50. As issued since 1951, coins in the denomination of 1 cent, 2 cents, 5 cents bronze coins and 10 cents, 25 cents, 50 cents and 1 Rupee Cupro-Nickel coins continued to remain in circulation. Today, banknotes of the following denomination are in circulation: Rs25, Rs50, Rs100, Rs200, Rs500, Rs1000 and Rs2000. Moreover, denominations of Rs25, Rs50 and Rs500 are being issued as Polymer banknotes since August 2013.

The mandate of the Bank broadened over the ensuing years. The administration of exchange control was assigned to the Bank in September 1967 and the management of Government Debt in May 1969. The enactment of the Banking Act 1971 laid down the basic legal framework governing the operations of banks in the domestic financial system, and subsequent promulgation of the Banking Act 1988 set the basis for the development of a reputable offshore banking sector in Mauritius. In this context, emphasis was laid on the supervisory responsibilities vested upon the Bank, providing for mandatory trilateral meetings to be held with banks and their external auditors.

Concurrent developments were a gradual liberalisation of the financial system, adoption by Mauritius of the obligations of Article VIII of the Articles of Agreement of the IMF in September 1993; the setting-up by the Bank of a Secondary Market Cell; the suspension of exchange control and the setting up of the interbank foreign exchange market; and the coming into effect of the Foreign Exchange Dealers Act 1995. Within the ambit of the governing legislative framework, the Bank fulfilled its core functions of conducting monetary policy and managing the exchange rate of the rupee; regulating and supervising financial institutions falling under its purview; administering and overseeing the clearing, payment and settlement systems of Mauritius; and managing the foreign exchange reserves of Mauritius.

The coming into effect of the Bank of Mauritius Act 2004 and the Banking Act 2004 provided for a comprehensive legislative framework catering for the domestic banking system to promote Mauritius as an international financial centre and to conduct monetary policy as per international norms. Section 54 of the 2004 Act established a Monetary Policy Committee (MPC) to formulate and determine the monetary policy to be conducted by the Bank, and accordingly sets the Key Repo Rate (that is, the policy rate), while taking into account the orderly and balanced economic development of Mauritius.

One core function of the Bank is to ensure the stability and soundness of the financial system of the country. In line with international best practices, the Bank has put in place a sound regulatory and supervisory framework for banks, non-bank deposit-taking financial institutions, and cash dealers. The Bank has set in place the prevalent regulatory regime. Financial institutions falling under its purview are required to fully comply with governing laws, rules and regulations. The Bank also monitors all system-wide factors that might potentially have an adverse impact on the financial conditions of its regulatees. From a regulatory and supervisory perspective, the Bank safeguards the rights and interests of depositors and creditors of financial institutions, and promotes fair and competitive practices in the banking industry.

Section 33 of the 2004 Act requires the Bank to promote open discussions and comments on its monetary and financial stability policies. Accordingly, the Bank is required to publish (a) at least once a year, statements on its monetary policy; and (b) at least twice a year, statements on price stability and on the stability and soundness of the financial system. These statements are published in the Bank's Annual Report and Monetary Policy and Financial Stability Report.

A FEW MILESTONES OVER FIFTY YEARS OF CENTRAL BANKING

The draft legislation for the setting up of the Bank of Mauritius was prepared with the benefit of advice from Mr. John de Loynes, C.M.G., a senior official of the Bank of England. A bill embodying its legislation was passed by the Legislative Assembly on 26 July 1966, receiving the assent of the Governor on 28 September 1966. The Bank was officially opened by His Excellency Sir John Shaw Rennie, K.C.M.G., O.B.E., Governor of Mauritius, at a ceremony held on 1 September 1967 in Anglo-Mauritius House, Port Louis. In his address, Sir Rennie stated that "*the Bank remains a separate organisation with a life of its own, capable of generating advice, views and proposals that are something more than a mere implementation of its superior's instructions. It is in this sense an independent institution we greet today… The Bank cannot, as we say in French, make the rain and the fine weather; economic development and prosperity cannot be bought even with the handsome notes of the Bank of Mauritius any more than they can be decreed by law. They depend, rather, on hard work in the office, the factory and the field; on concentration of effort on the essentials; on sound judgment and foresight, that is to say the ability to foresee the remoter as well as the immediate consequences of decisions; on directing our gaze not, with nostalgia or with rancour, to the past, but, steadily and hopefully, to the future; and on mutual confidence between Government and industry*."

The primary task of the Bank was to move away the monetary system from the stage of "*sterling exchange standard*" to that of "*managed currency*" in which the discretionary role of the monetary authority became important.

Over time, the Bank built to its credit numerous achievements, some of which were:

September 1967: The Bank started the exchange of notes issued by the Board of Currency Commissioners for the newly issued Bank of Mauritius notes.

August 1968: The Port Louis Clearing House was established to facilitate the clearing of cheques and other credit instruments.

September 1968: Mauritius became a member of the International Monetary Fund.

May 1969: The Bank took over the management of Government debt.

November 1969: The first IMF Article IV consultation discussions were conducted in Mauritius.

April 1970: The Bank issued Government stocks for the first time.

July 1971: The Banking Act 1971 came into effect and commercial banks, that were incorporated overseas and operating in Mauritius, were required to maintain assigned capital in Mauritius.

May 1972: All offices of the Bank moved to new premises located at Sir William Newton Street, Port Louis.

The Bank raised domestic resources of Rs100 million for the public sector. Only a decade before, Professor Meade, in his report on the Mauritian economy, had observed that resources of not more than Rs2.5 million could be raised annually, through Government loans.

July 1972: The expansionary monetary policy stance that was pursued since 1969 was ceased.

January 1974: The Bank introduced a credit ceiling and a penal rate of interest on borrowings by banks from the Bank above the specified 'normal' levels in view of containing inflationary pressures.

January 1976: The rupee was de-linked from the Pound sterling and pegged to the Special Drawing Right of the IMF.

June 1978: The Bank started the purchase and sale of US dollar to commercial banks on a spot basis, in addition to transactions in Pound sterling.

October 1979: The rupee was devalued by about 22.9 per cent and an economic and financial programme was adopted, supported by a two-year stand-by arrangement with the IMF, in a bid to correct the balance of payments disequilibrium.

September 1980: A new IMF stand-by arrangement was approved to provide balance of payments assistance over a period of one year as adverse weather conditions hit short-run growth prospects.

June 1981: A structural adjustment loan of US$15 million was contracted with the World Bank, conditional upon the agreement on a package of policy reforms to correct structural imbalances in the economy.

September 1981: The Non-Resident (External Accounts) Scheme was introduced under which persons of Mauritian origin, residing permanently or working temporarily abroad, and non-residents were authorised to place funds in Savings/Deposit Accounts with commercial banks in Mauritius.

The rupee was devalued, for the second time, by about 16.7 per cent to address the deficit on the balance of payments.

January 1983: The Bank started the purchase and sale of French francs to commercial banks on a spot basis, in addition to transactions in Pound sterling and US dollar.

February 1983: The rupee was de-linked from the Special Drawing Right and pegged to a trade-weighted basket of currencies.

February 1984: The Preferential Trade Area Clearing House, that was set up at the Reserve Bank of Zimbabwe in Harare, became operational.

December 1984: The Non-Resident (External Accounts) Scheme, introduced in September 1981, was terminated.

September 1985: The Bank issued the Rs200 banknote for the first time.

December 1985: The Bank issued the new Rs5 and Rs10 banknotes.

November 1986: The Bank issued the new Rs50 and Rs100 banknotes.

July 1987: The early buds of the move towards exchange control liberalisation were unfolded through the increase in cash gift allowance, and personal and business travel allowances.

November 1987: The Bank issued the Rs5 coin.

November 1988: The Bank issued the Rs500 banknote for the first time.

November 1988: The Bank issued Dodo Gold coins.

January 1989: The Banking Act 1971 was replaced by the Banking Act 1988, which provided for a comprehensive and modern legal framework for a sound domestic banking system and set the basis for the development of a reputable offshore banking sector in Mauritius.

September 1990: The Bank issued the Rs1,000 banknote for the first time.

July 1991: Bank of Mauritius Bills were issued on tap in replacement of Treasury Bills.

September 1991: The banking licence of Bank of Credit and Commerce International S.A. was revoked and its banking business was taken over by The Delphis Bank Limited.

April 1992: The Bank issued the Rs20 banknote.

July 1992: The Bank abolished ceilings on bank credit to priority sectors.

December 1992: The Mauritius Co-operative Central Bank Limited was taken over by the MCCB Limited.

July 1993: The Bank abolished ceilings on bank credit to non-priority sectors.

September 1993: The gradual liberalisation of the financial system and payments and transfers for current account transactions culminated into Mauritius adopting the obligations of Article VIII of the Articles of Agreement of the IMF.

November 1993: The risk-weighted capital adequacy ratio to be maintained by commercial banks along the lines of the Basel Capital Accord was introduced.

February 1994: The Bank set up a Secondary Market Cell.

July 1994: Exchange control was suspended and the interbank foreign exchange market was set up.

April 1996: The banking licence of the MCCB Limited was revoked due to liquidity and capital adequacy problems faced by the bank, despite the injection of capital amounting to Rs375 million in the bank in August and October 1995 by the Bank.

May 1996: The Bank ordered the closure of the Union International Bank Ltd due to serious management weaknesses, and non-compliance by the bank with certain provisions of the law and regulatory guidelines prescribed by the Bank of Mauritius.

July 1996: The Bank established a Reserve Money Programme and a liquidity forecasting framework.

July 1996: 25 per cent of all foreign currency receipts from the sugar proceeds were released by the Mauritius Sugar Syndicate directly to the interbank foreign exchange market.

August 1996: The Bank revoked the banking licence of the Union International Bank Ltd.

January 1997: The banking business of the Union International Bank Ltd (In Liquidation) was subsequently acquired by The Delphis Bank Limited.

January 1997: The minimum capital of all banks, domestic and offshore, was increased from Rs25 million to Rs50 million.

April 1997: Authorised dealers in foreign exchange were required to observe an overall foreign exchange exposure limit of 15.0 per cent of their Tier 1 capital, as at close of business each day.

July 1997: Total receipts in foreign currency from the sugar proceeds were released by the Mauritius Sugar Syndicate directly to the interbank foreign exchange market.

September 1997: The Bank issued the Rs10 coin.

January 1998: The minimum capital of all banks, domestic and offshore, was increased from Rs50 million to Rs75 million.

July 1998: The Mauritius Code of Banking Practice was issued by the Bank in collaboration with commercial banks.

March 1999: The Bank of Mauritius Rodrigues Office started operations.

December 1999: Repurchase operations and the Lombard facility, as a standing overnight facility for commercial banks, were introduced.

December 2000: A Financial Markets Committee, comprising Heads of Treasury of commercial banks and presided under the Chairmanship of the Bank, was set up.

December 2000: The Mauritius Automated Clearing and Settlement System was launched, allowing for settlement of large value payment in real time.

February 2001: A Banking Committee was established, presided by the Governor, and comprising the Chief Executives of ten domestic banks.

February 2002: A Primary Dealer System was established and the Barclays Bank PLC, The Hong Kong and Shanghai Banking Corporation Limited, the Mauritius Commercial Bank and the State Bank of Mauritius were appointed as primary dealers.

March 2002: The Bank revoked the banking licence of The Delphis Bank Limited and its assets and liabilities were taken over substantially by the First City Bank Limited in June 2002.

The Port Louis Clearing House was automated, with standardisation of cheques using Magnetic Ink Character Recognition technology.

The Bank issued Guidance Notes on Fit and Proper Person Criteria and Guideline on Credit Risk Management to banks and non-bank deposit-taking institutions.

October 2004: The Banking Act 2004 was enacted, providing for the integration of domestic and offshore banking business and eliminated the previous distinction between former Category 1 (domestic) and former Category 2 (offshore) banks.

December 2005: It became mandatory for banks to seek information from the MCIB prior to the grant of credit facilities and renewal of loans.

December 2006: The Bank introduced a new framework for the conduct of monetary policy. The Lombard Rate was replaced by the Key Repo Rate which was set at 8.5 per cent per annum.

April 2007: The Monetary Policy Committee was established.

May 2007: On the occasion of the hosting of the 6th Meeting of Governors of the Eastern Africa Sub-Regional Committee of the Association of African Central Banks, the chairmanship of the Committee was passed on to the Bank for one year.

June 2007: The Monetary Policy Committee held its first interest rate setting meeting.

July 2007: A Protocole D'Accord was signed with the Financial Services Commission for a structured collaboration and co-ordination between the two financial sector regulatory and supervisory bodies. A joint Bank of Mauritius / Financial Services Commission Co-ordination Committee was also set up to activate and expand on the existing Memorandum of Understanding between the two bodies.

August 2007: The Bank of Mauritius Act 2004 was amended to empower the Monetary Policy Committee to formulate and determine the monetary policy of the Bank.

From the World Bank's "Banking the Poor" Study, the Mauritian banking sector network was acclaimed as 3rd best in the world and best in Africa.

The Bank adopted the Standardised Approach to the Basel II Framework.

The Bank launched a special silver commemorative coin to mark its 40th Anniversary.

June 2008: The Bank published its first Financial Stability Report, a bi-annual publication.

September 2008: The Bank launched a commemorative gold coin to mark the 40th Anniversary of the independence of Mauritius.

November 2008: The Bank published its first Inflation Report, a bi-annual publication.

March 2009: The Bank moved to the full implementation of Basel II for credit risk under the Standardised Approach.

The Bank moved from being an Associate Member to full membership of the Islamic Financial Services Board, with a seat on the Governing Council of the IFSB. The Bank was also admitted as a full institutional member of the Irving Fisher Committee on Central Bank Statistics.

October 2009: The Bank hosted the 14th Meeting of the COMESA Committee of Governors of Central Banks and the chairmanship of the COMESA Committee of Governors of Central Banks was passed to the Bank.

The Bank was appointed as the Settlement Bank of the Regional Payment and Settlement System, to assist the cross-border payment and settlement needs of exporters and importers of COMESA member-states through their respective central banks.

October 2010: The Bank became a founding member of the International Islamic Liquidity Management Corporation.

November 2010: The Bank joined the International Association of Deposit Insurers as an Associate Member.

September 2011: The Bank launched the Cheque Truncation System.

February 2012: Mauritius became the second Sub-Saharan African country to join the select group of 69 other countries subscribing to the IMF's Special Data Dissemination Standards.

April 2012: The Bank hosted the 34th Committee of Central Bank Governors of SADC.

May 2012: The Bank hosted the 19ème Conférence des Gouverneurs des Banques Centrales des Pays Francophones.

October 2012: The Regional Payment and Settlement System of the COMESA went live.

May 2013: The Bank issued a draft Guideline on Basel III Framework.

August 2013: The Bank launched the country's first polymer banknotes in denominations of Rs25, Rs50 and Rs500.

For the first time in its history, the Bank hosted the 37th Assembly of Governors of the Association of African Central Banks.

December 2013: The Cheque Truncation project was fully implemented, thus promoting an effective electronic clearing system.

April 2014: The newly issued Rs25 polymer banknote was awarded 2nd prize for Best New Currency Feature or Product at the IACA 2014 Technical Excellence in Currency Awards held in Washington DC, United States.

May 2014: The Bank hosted the Islamic Financial Services Board 11th Annual Summit, for the first time in the African continent.

July 2014: The Bank launched the XBRL project, which is an automated data management system for the collection, storage and processing of data from reporting entities.

April 2015: The Bank revoked the banking licence of Bramer Banking Corporation Ltd (BBCL) in view of the fact that the capital of

BBCL was seriously impaired, and the bank had failed to demonstrate its ability to address capital and liquidity issues to the satisfaction of the Bank.

January 2016: The Bank initiated public consultation on the setting up of an Asset Management Company in Mauritius with a view to primarily addressing the adverse impact of non-performing loans on the stability of the financial system.

February 2016: The Bank issued a draft National Payment System Bill and a draft Deposit Insurance Scheme Bill for public consultation.

July 2016: The Bank published the Monetary Policy and Financial Stability report, which superseded the former Inflation Report and Financial Stability Report.

July 2016: The Bank launched its new website, enabling visitors to become better acquainted with how the Bank is committed to promoting and maintaining price and financial stability.

December 2016: The Banker, of the Financial Times Group, elected Governor Rameswurlall Basant Roi, G.C.S.K., the 2017 Central Bank Governor of the Year for Africa.

January 2017: The African Leadership Magazine, a publication of the African Leadership (UK) Limited, nominated Governor Rameswurlall Basant Roi, G.C.S.K., for Personality of the Year Award 2016.

May 2017: The African Banker Magazine awarded Governor Rameswurlall Basant Roi, G.C.S.K., the Central Bank Governor of the Year 2017.

COMMUNICATION AND OUTREACH

The Bank endeavours to further its communication and outreach channels with the public so as to enhance its transparency. The cycle of communication around monetary policy decisions is firmly established. Following the MPC meeting, a press release providing the monetary policy decision is disseminated on the Bank's website at the same time that the Governor holds his press briefings. The Governor interacts with journalists to provide clarifications on the rationale of the MPC's decision. The Governor makes a Powerpoint presentation to the journalists, covering global and domestic economic and financial developments, and assesses domestic monetary conditions before outlining real GDP growth and inflation forecasts at most two years ahead. The minutes of the MPC meeting are posted exactly two weeks after the meeting is held. The minutes indicate the voting pattern of members of the MPC.

The Governor is often called upon to address specific audiences and gatherings in Mauritius. The main gist of his addresses and speeches delivered in FY2016-17, also available on the Bank's website, are:

a) Speaking at the IMF's Africa Training Institute, Ebène on "Recent Developments in Regulation and Supervision" on 29 July 2016, Governor stated"...*effective banking supervision is an evolving discipline ... Regulators often have to act as bomb disposal experts when confronted with a potential risk of financial instability*."

b) Speaking at the Annual Congress of the Association of Human Resource Professionals of Mauritius at The Westin Hotel, Balaclava on "The growing role of Human Resource Managers in Modern Business Organisations "on 5 August 2016, Governor mentioned "...*There is an unprecedented gap between the quality of human resources we have at our disposal and the quality of* *human capital needed to escape the middle income trap we find ourselves in ... (Humans) are the only thing that has brought progress.*"

c) Speaking at the Launching Ceremony of the Bank of China (Mauritius) Limited on 27 September 2016, Governor said "*...The mass of trade between Africa and China needs a credible jurisdiction for the usage of the RMB ... Mauritius does have the potential to grow into a regional 'node' for the internationalization of the RMB.*"

d) At the Official Opening of the Afreximbank 2016 Annual Structured Trade Finance Seminar/Workshop at Labourdonnais Hotel, Port Louis on 21 November 2016, Governor stated that "*Banks must be at the forefront of risk management and wary of the risk of external frauds. It is imperative that banks implement appropriate policies and procedures to spot collusion between customers and their alleged buyers or suppliers.*"

e) Speaking at the Bank's Annual Dinner with Major Economic Stakeholders on 25 November 2016, Governor said that "*One of the initiatives that the Bank has taken relates to stress testing of banks. This is a highly technical forward-looking exercise whereby the financial position of a bank is projected under a baseline scenario and an adversely stressed scenario. The objective is to examine if the bank has the financial muscle and strength to withstand shocks.*"

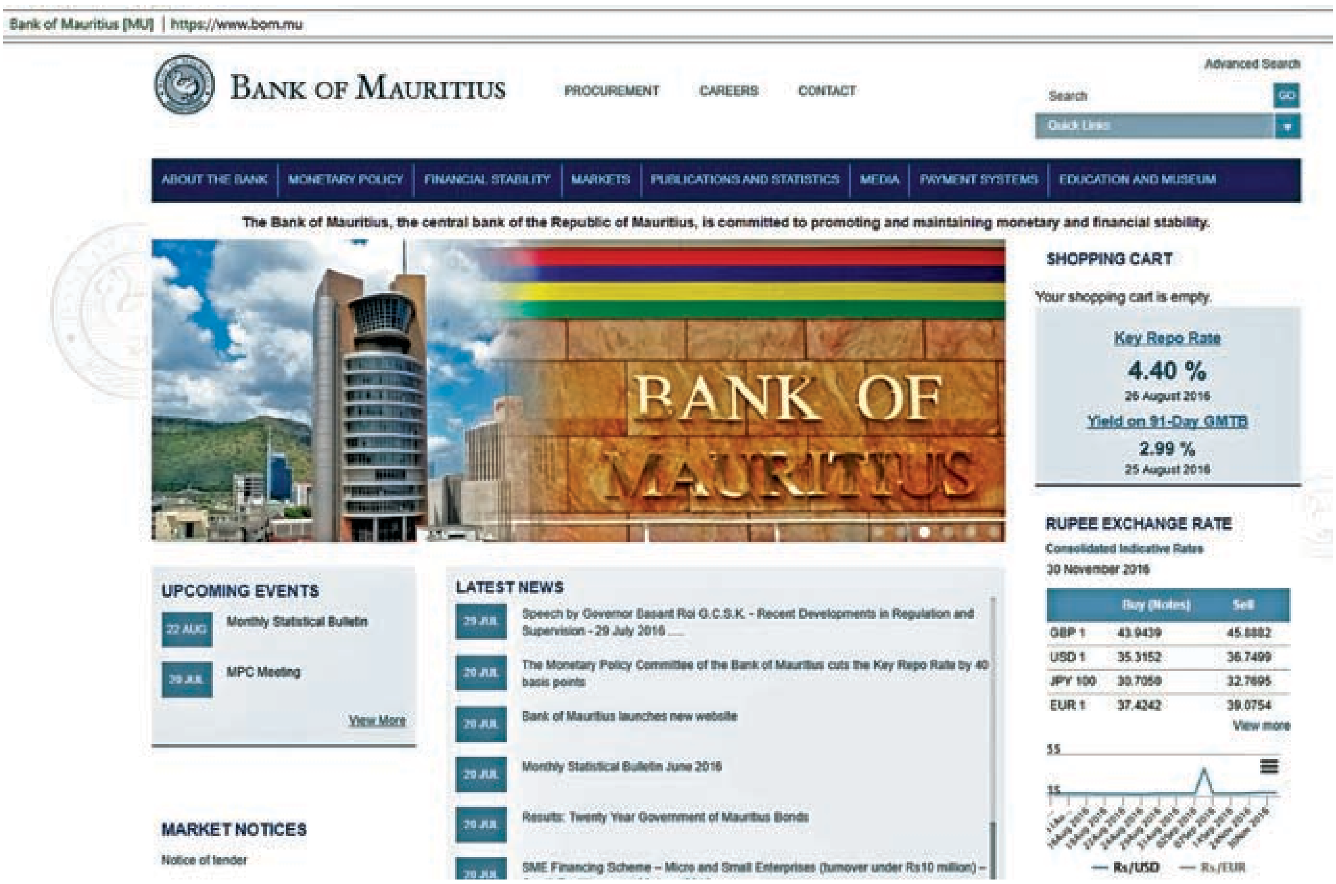
f) Addressing the Joint IMF/BCBS/ Making Finance Work for Africa Conference at IMF Africa Institute on 1 February 2017, Governor pointed out that "*Crisis avoidance, more so in an increasingly digitalized financial world, requires far bolder initiatives to strengthen regulatory and supervisory frameworks ... Our regulatory and supervisory experience clearly demonstrated that effective regulatory structures for cross border banking activities are indispensably needed.*"

g) Governor told participants to the Seminar on International Financial Reporting Standard 9, organised by the IMF Africa Training Institute, Ebène, Mauritius on 7 April 2017, on "Recent Reforms in Banking Regulation, Supervision and Prudential Accounting in Mauritius", that "*it is thus important that financial institutions build up resilience to be able to absorb both internal and external shocks. The key reform with IFRS9 is that provisions for loan losses will be based on an expected loss model for credit losses....It will address the 'too late and too little' provisioning problem.*"

Redesign of the Bank's Website

For greater openness and transparency, the Bank's internet portal has been completely overhauled. The redesign builds on a user-friendly navigation format, clear ergonomics and on quicker access to information. Besides an improved content, users will find the navigation design more intuitive, logical and responsive, which will adapt to any device (desktop, laptop, tablet or smartphone). Sections pertaining to interest rates, exchange rates and frequently requested data have been arranged for optimal user-friendliness and convenience. The requirements of the business community, researchers, students and the public at large have been a pre-eminent feature in the design process. A wide range of economic and financial data is available under the Publications and Statistics section, and users can also access the various reports published by the Bank.

A novel feature of the new website is access to the archives of the Bank which are being reconstructed in digital format. Access to annual reports dating as far back as June 1968 when the Bank released its first Annual Report is provided. Consumer education also features on the new website, as this will prominently enable customers of banking services to keep pace with the evolution of the banking industry, and better protect themselves against fraud attempts. In this regard, a 'Scam Alert' section has been included to inform the public of phishing and scam attempts reported to the Bank.



The Banker, of the Financial Times Group, elects Governor Rameswurlall Basant Roi, G.C.S.K., the 2017 Central Bank Governor of the Year for Africa

The Banker, a monthly international financial affairs publication of The Financial Times Group, elects a central bank Governor by region for awards every year. On 7 December 2016, The Banker had informed the Bank of Mauritius that "....... *His Excellency Rameswurlall Basant Roi has been named Central Bank Governor of the Year for Africa..... The decision was the outcome of our discussions here at the magazine and a survey of views of bankers and economists and therefore represents a vote of confidence by the markets in the Bank of Mauritius' conduct over the past year.*"

The official announcement was made in the January 2017 edition of The Banker. For the 2017 Central Bank Governor of the Year for Africa Award, the magazine had surveyed some 40 central banks across the African continent.

In his acceptance speech during the award ceremony, Governor Basant Roi thanked "The Banker" for giving recognition to the work of the Bank of Mauritius and stated that "*in financial markets, particularly in an evolving jurisdiction facing numerous challenges in uncertain times, the central banker is expected to embody credibility par excellence.... Independent central banks do not have to pay attention to opinion polls.*"

Joint IMF/BCBS/Making Finance Work for Africa Conference Cross-Border Banking and Regulatory Reforms: Implications for Africa from International Experience - IMF's Africa Training Institute, Ebène, Mauritius - February 1, 2017

The Conference was launched by the Managing Director of the International Monetary Fund, Ms Christine Lagarde. In his opening address, Governor Rameswurlall Basant Roi, G.C.S.K., stated that "*Regulatory challenges keep multiplying on the regulators' table. For instance, we observe in our jurisdiction here that the distinction between subsidiaries and branches are blurring. Instead of being incorporated locally as completely separate legal entities, subsidiaries of big banking groups are being organised along business lines. Different subsidiaries of the same banking groups are being set up in different jurisdictions with different facilities and advantages. Would a failure of one of the subsidiaries not bring down the entire group?*".

Mr Rameswurlall Basant Roi, G.C.S.K., Governor Bank of Mauritius with Ms Christine Lagarde, Managing Director of the International Monetary Fund.

BOARD OF DIRECTORS

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

As at 30 June 2017, the Board of Directors was composed of:

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

Board Directors	Date of first appointment	2016							2017			
		14.07	11.08	25.08	05.09	29.09	22.11	22.12	30.01	21.02	14.04	09.06
Governor - Mr R. Basant Roi, G.C.S.K., - Chairperson	08.01.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
First Deputy Governor - Mr Y. Googoolye	13.07.06	✓	✓	✓	✓	✓	✓	A	✓	✓	✓	✓
Second Deputy Governor - Mr M. V. Punchoo	31.12.14	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr R. Tacouri	04.03.15	✓	✓	✓	✓	A	✓	✓	✓	✓	✓	✓
Mr A. Seeyave	04.03.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr J. E. C. Cartier	04.03.15	✓	✓	✓	✓	✓	✓	✓	✓	A	✓	✓
Dr R. Padayachy	13.03.15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	A

Table 1.1: Meetings of the Board of Directors

✓: Attended A: Absent with apologies.

The Board of Directors held eleven meetings during FY2016-17, as summarised in Table 1.1. At any meeting of the Board, six members constitute a quorum. Decisions are taken by simple majority. In the event of an equality of votes, the Chairperson has a casting vote.

AUDIT COMMITTEE

The Audit Committee of the Bank was reconstituted by the Board of Directors at its meeting of 20 March 2015. Presently, the Audit Committee comprises three Non-Executive Board Directors:

Chairman	Mr Ranapartab Tacouri
Member	Dr Renganaden Padayachy
Member	Mr Joseph E Charles Cartier

The Audit Committee held eight meetings during FY2016-17. 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.

MONETARY POLICY COMMITTEE

The Monetary Policy Committee (MPC)[1] formulates and determines monetary policy to achieve price stability, while taking into account orderly and balanced economic development. The Committee determines the Bank's monetary policy stance through changes in the Key Repo Rate. In the decision-making process, MPC members assess the balance of

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

risks between economic growth and inflation by considering a wide range of domestic and international economic and financial data and information.

Composition of the MPC

The MPC comprises the Governor (Chairperson), the two Deputy Governors, two members appointed by the Prime Minister and three members appointed by the Minister of Finance and Economic Development. As at 30 June 2017, members of the MPC were:

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

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

Meetings of the MPC

The MPC announces its decision through a Communiqué that also outlines the assessment of prevailing economic conditions, forecasts for inflation and real GDP growth. The Communiqué is posted on the Bank's website at latest by 18.00 hours on the day of the MPC meeting. The Governor, as Chairperson of the MPC, holds a press conference to explain the decision of the MPC after the meeting. The minutes of the meeting are released two weeks after the meeting is held. Table 1.2 provides details on the MPC meetings held during FY2016-17 that include attendance, remuneration of members and other associated costs incurred, as well as decisions taken on the Key Repo Rate.

ORGANISATIONAL REVIEW

As at 30 June 2017, the Bank counted a total of 251 staff members, of which 242 were on permanent and pensionable establishment and nine (9) on contractual basis. In the course of FY2016-17, 14 employees left the Bank either at retirement age, resignation or upon expiry of their contract of employment.

Human Resources

Restructuring Exercise

The restructuring exercise, initiated in April 2015, was pursued with the addition of the Library & Financial Literacy Unit. A fully-qualified Librarian was accordingly recruited in March 2017.

Evolution of the Workforce

The Bank's success is woven around the workforce' total commitment to ethical practices in the conduct of its business. As such, the recruitment of people with the right

Table 1.2: Monetary Policy Committee Meetings

		Meetings attended	20.07.16 Quarterly meeting	10.11.16 Quarterly meeting	20.02.17 Quarterly meeting	05.05.17 Quarterly meeting	Total fees Rs	Other associated costs[6] Rs
Mr Rameswurlall Basant Roi[1]	Governor, Chairperson	4	✓	✓	✓	✓	900,000	0
Mr Yandraduth Googoolye[2]	First Deputy Governor	4	✓	✓	✓	✓	540,000	0
Mr Mahendra Vikramdass Punchoo[2]	Second Deputy Governor	4	✓	✓	✓	✓	540,000	0
Mr Nishan Degnarain[4]	External Member	1	A	✓			600,000[5]	77,458
Mr Pierre Dinan[4]	External Member	4	✓	✓	✓	✓	360,000	0
Mr Mohammad Mushtaq Namdarkhan[3]	External Member	4	✓	✓	✓	✓	360,000	0
Mr Guy Wong So[3]	External Member	4	✓	✓	✓	✓	360,000	0
Dr Streevarsen P. Narrainen[4]	External Member	4	✓	✓	✓	✓	360,000	0
Decision on the Key Repo Rate			Cut	Unchanged	Unchanged	Unchanged		
Key Repo Rate *(per cent per annum)*			4.00	4.00	4.00	4.00		

[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] The contract of Mr N Degnarain was terminated on 30 December 2016. He was paid an amount of Rs420,000 - including tax, representing the amount payable till the end of his contract.
[6] Other associated costs comprise travel and accommodation expenses.
✓: Attended.
A: Absent with apologies

talents and attitude to maintain the required staff strength and competence is a prerequisite for the Bank.

In its quest to take on board staff of the highest calibre and relevant experience, the Bank has upgraded its qualification requirement criteria to better target the appropriate candidates. Applicants can also apply online on the Bank's website. Staff were recruited in the grade of Assistant Director (1), Chiefs (3), Analyst (1), Communication Officer (1), Librarian (1), Bank Officer Grade I (1), Security Officers (5) and Receptionists (2). During the year, thirteen (13) Analysts were promoted to the grade of Senior Analyst.

During FY2016-17, focus will be on succession planning at all levels of the hierarchy. A massive recruitment exercise is currently in process and will result in taking on board around 50 staff members in the grades of Bank Officer Grade I and Analyst. As such, the Bank is heading towards the rejuvenation of its workforce. The average age of the workforce currently stands at 46 years.

A Culture of Learning

The Bank recognises the importance of a well-managed process of ongoing professional development and training to sustain an effective, well-informed and growing number of professionals. In this context, the Bank has invested colossally in human capacity building in various fields of expertise, namely supervision, financial markets, reserve management and econometric modelling, to act as a catalyst in augmenting competencies and equipping staff members with the right skills.

Internship Programme

The Bank firmly believes in the need to contribute toward the development of a young talent pool for the advancement of the banking and financial sector at large. Accordingly, the Bank participated in the implementation of internship programs throughout the year with a view to ensuring that young students gain exposure to the financial sector, while building on the right skills.

Under the internship program, 24 students with the best results were selected in specific fields of studies such as Finance, Accounting and Economics, and were posted in sections/divisions where they gained relevant work experience.

A group of HSC holders were also recruited for short assignments to pursue work related to the setting up of the archives of the Bank. This project, under the aegis of the Communications Unit, is currently in the process of being finalised.

Code of Ethics and Code of Conduct

In recognition of the Bank's commitment to set and uphold the highest standards of personal conduct, and professionalism and to promote sound ethical behaviour, attitudes and decisions at the Bank, the services of two consultants, one from the Mauritius Institute of Directors and one from Transparency Mauritius, were enlisted to advise and assist the Bank in producing up a Code of Conduct for the Bank. In this respect, a Code of Conduct Committee under the chairmanship of the First Deputy Governor was set up. The definition of the Bank's core values went through an extensive consultation process across the hierarchy of the Bank. A 'Code of Conduct and Code of Ethics for the Bank' based on the core values of the Bank is currently being drafted.

CORPORATE SOCIAL RESPONSIBILITY

Sponsorship of Sports Activities

The Bank remained committed to championing its engagement as a socially responsible corporate body by co-sponsoring with commercial banks the 10th Edition of the Annual Inter-Club Athletics National Youth Championship organised by the Mauritius Athletics Association. As in previous years, the event included the participation of the fifteen (15) best athletes from Rodrigues. The finals were held on 26 and 27 November 2016 at Maryse Justin Stadium at Réduit.

Safety and Health

The Bank endeavours to provide a safe and healthy working environment which is fully compliant with the requirements of the Occupational Safety and Health Act 2005. In April 2017, the Bank conducted training in First Aid for sixteen staff members to ensure that it is well-equipped with qualified first aiders. In addition, on the Health and Safety Day which was globally celebrated on 28 April 2017, the Bank invited an instructor in alternative therapies to deliver talks on the benefits of good eating habits and exercise for staff members. On November 2016, a fire drill was conducted. The Bank remains alert to the need of keeping employees informed and well-equipped in case of emergency events.

Employee Welfare Committee

The depth of the Bank's commitment to its employees is matched by the passionate belief in catering for the well-being of staff members. The Employee Welfare Committee marked in a special way the Chinese New Year, Divali, Thaipoosam Cavadee, Ougadi, Eid-ul-Fitr, Christmas and the 49th Independence Day to bring the staff together, while celebrating the richness of our Mauritian cultures. The Environment Day was celebrated with a view to creating awareness among staff members of the need to "Save Our Planet". The end-of-year celebrations were enlivened by the organisation of the office decoration competition in which staff members participated heartily. Staff members with 40 years of service or more were awarded a shield in due recognition of their long and loyal service at the Bank.

IT SUPPORT AND FACILITIES

Blockchain and Disruptive Technologies

The Bank has set up a committee to look into the possible adoption of technologies such as Blockchain in some areas of central banking. The committee is also tasked to analyse the effect of the so-called disruptive technologies on the banking system in Mauritius. The committee, which consists of participant banks and representatives of the Bank of Mauritius, meets regularly at the Bank.

TLS Encryption with Banks

The Bank has embarked on a project to secure email communication with participant banks through the use of TLS/SSL encryption. The idea took shape following discussions at the level of the IT Sub-Committee meetings. After discussions and testing feasibility with participant banks, the project implementation kicked off in March 2017. As of date, 17 banks have implemented TLS/SSL at their end to secure email communication with the Bank.

Regular Fallback Tests

The Bank conducts regular fallback tests of its IT systems to assess its preparedness to disaster. In FY2016-17, three fallback tests were successfully conducted. They covered the critical systems used by local banks and financial institutions like the SWIFT system, the Real-Time Gross Settlement System (RTGS), the Cheque Truncation System (CTS), Mauritius Credited Information Bureau (MCIB), XBRL Returns Submission System (XBRL), among others. COMESA central banks using the Regional Payment and Settlement Systems (REPSS) also participated in the exercise.

Intranet

The Bank is currently revamping its intranet which was last reviewed in 2007. The aim of this exercise is to make the intranet more user-friendly and more visually attractive. The portal will be the starting point towards a journey in making the Bank a paperless organisation, by automating existing paper-based processes like leave application, among others.

SADC CCBG Meetings

The Bank hosted the SADC CCBG ICT Sub-Committee – IT Governance and Business Continuity Management (BCM) Champions Annual Meeting 2017 from 6 to 9 June 2017 at Voila Hotel. 33 participants from 14 SADC central banks attended the meeting to discuss the progress and challenges met in the implementation of COBIT5 as IT Governance framework and to discuss the BCM readiness of central banks.

Rodrigues Office

In December 2016, the Rodrigues Office network and security system was enhanced with the deployment of a new firewall system. The Bank's IP Telephony network was also extended to the Rodrigue's Office. This contributed in the substantial reduction of telephone communication costs between the Bank and its Rodrigues Office.

SWIFT Scope

The SWIFT Scope System was initially set up in March 2016 to compile data pertaining to all international payments made via the SWIFT system by banks supervised by the Bank of Mauritius. The data is used for various purposes such as analysis of currency flows in near real-time and statistical analysis such as Balance of Payments, among others. In March 2017, the system was extended to collect payments made locally using the RTGS system.

FINANCIAL ACCESS AND INCLUSION

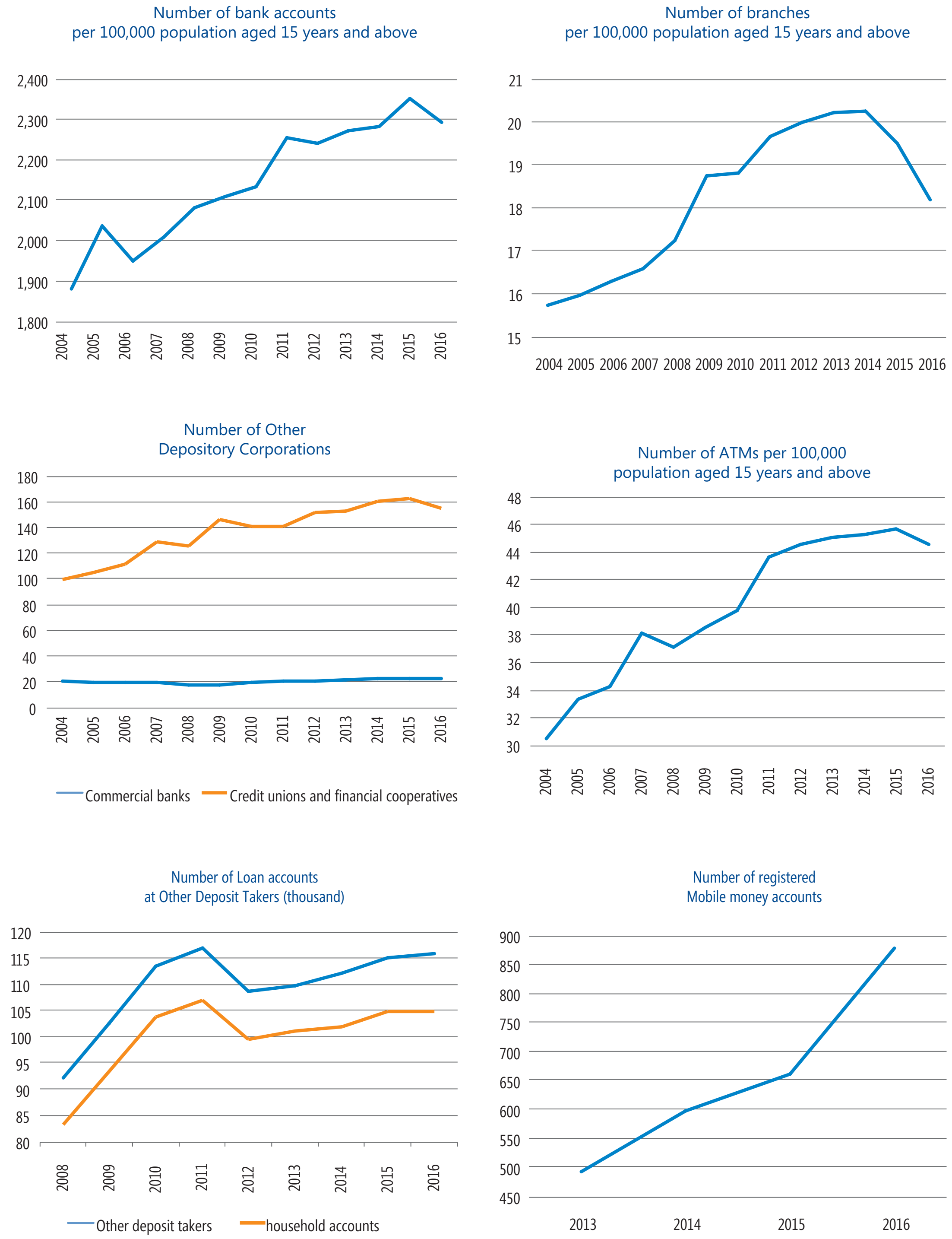
Mauritius has made substantial headway in promoting financial inclusion, which is advocated by the World Bank as being a key enabler to reducing poverty and boosting economic prosperity. Financial inclusion involves the access to a bank account or, more generally, the process of ensuring access to financial services and adequate credit when needed by vulnerable groups, at an affordable cost.

The Bank participates in the IMF's Financial Access Survey (FAS), which monitors some defined financial access indicators. The FAS project primarily aims at disseminating time series data on the geographical and demographic outreach of financial services within a country, thereby providing insights on the availability and use of financial products such as deposit accounts, loans and insurance policies by individuals and firms across the globe.

According to FAS 2016, Mauritius has made significant progress in enhancing financial access, with an increasing number of bank deposit accounts, improved accessibility to branches and ATMs, and utilisation of Fintech facilities including mobile banking over the recent years (Chart 1.1). During the period 2004 to 2016, the number of bank branches per 100,000 Mauritians aged 15 years and above improved from 15.7 in 2004 to 18.2 in 2016; the proportion of bank deposit accounts held by the Mauritian population aged 15 and above rose from 1.88 to 2.29 in 2016 per person. Ease of access to credit was reflected in a rise in the number of bank loan accounts held per Mauritian aged 15 years and above from 0.30 to 0.40; and the number of ATMs per 100,000 population aged 15 years and above scaled up from 30.5 in 2004 to 44.6 in 2016. Chart 1.1 shows selected indicators of financial access for Mauritius.

The Bank acknowledges the importance of Financial Technology (Fintech) in enhancing financial inclusion by enabling financial services to be provided with greater speed, accountability, and efficiency. Rapid progress has been recorded in the number of registered mobile money accounts given an almost two-fold increase to around 880,000 in 2016, from 2013.

Chart 1.1: Mauritius - Indicators of Financial Access



Source: Supervision Department.

2

Review of the Economy

The Mauritian economy performed relatively better in FY2016-17, despite a global economic and financial environment characterised by policy and geopolitical uncertainties. Supported by domestic demand and adequate policy responses, the growth performance was backed by a sound level of economic stability marked by somewhat moderate headline inflation, contained fiscal deficit-to-GDP ratio, rather stable exchange rate, and well-maintained financial system stability. Exchange rate policy was broadly aimed towards keeping stability in the rupee in line with its fundamental value.

After an exceptionally strong performance in the last quarter of 2016, the domestic economy weakened in the first quarter of 2017 through a sizeable drag from the external sector, although the domestic economic environment was largely favourable. However, in the second quarter of 2017, the economy improved, posting a commendable performance. Household consumption continued to hold up well, while overall investment spending increased noticeably. On a sectoral basis, all major economic sectors kept momentum, with the tertiary sector remaining the major driver of growth. Looking ahead, uncertainties over near-term growth prospects remain and the recovery in external demand would depend on the pace of recovery in major trading partners.

Labour market conditions remained broadly stable during the year under review even though the structural skills mismatch persisted. The unemployment rate dropped to 7.2 per cent in 2017Q2, from 7.6 per cent in 2017Q1. On a seasonally-adjusted basis, the unemployment rate fell to 6.9 per cent in 2017Q2, from 7.1 per cent in the previous quarter. Statistics Mauritius forecasts that the unemployment rate for 2017 will be 7.2 per cent – down from 7.3 per cent in 2016. However, sustained increases in unit labour costs mainly due to higher wages continue to weigh on the country's competitiveness.

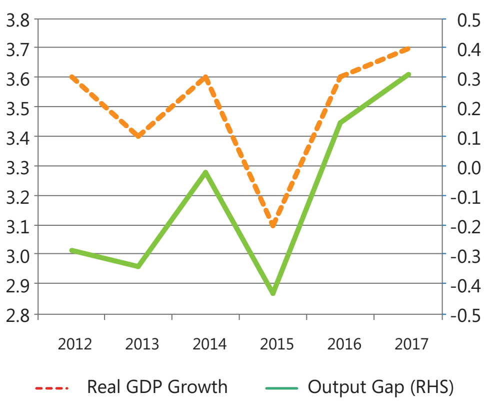
Headline inflation gathered some momentum during FY2016-17, reflecting primarily transient factors. The rise in the CPI during the year under review resulted from the increase in the prices of alcoholic beverages and tobacco, petroleum products and gyrations in the prices of vegetables. Core inflation remained somewhat subdued in FY2016-17 as demand-driven inflationary pressures in the economy were fairly contained. Headline inflation, in the near-term, is unlikely to pick up significantly, as the base effects are expected to taper off subsequently.

The external current account deficit increased during FY2016-17, reflecting a higher goods deficit. The current account deficit continued to be largely financed by net foreign direct investment inflows. Goods exports contracted during the period under review, while imports of goods increased, underpinned by higher imports of capital goods and a higher bill for petroleum products. Gross official international reserves stood at Rs181.3 billion at the end of June 2017, sufficient to finance 9.5 months of imports of goods and services.

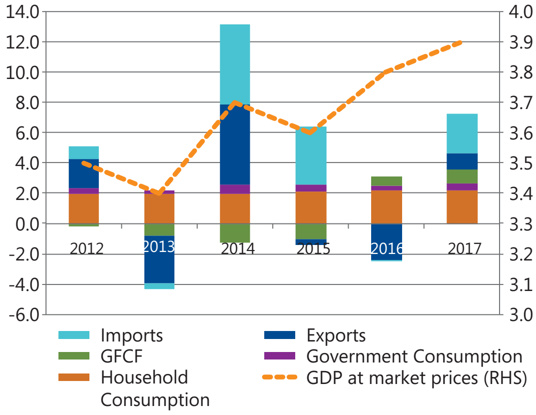
The budget deficit was contained at about 3.5 per cent of GDP in FY2016-17, and was financed exclusively from domestic sources. A key measure announced by the Government in its 2017/18 Budget pertaining to the Negative Income Tax system is being implemented with effect from 1st July 2017. Public sector debt as a ratio to GDP edged down from 65.0 per cent of GDP as at end-June 2016 to 64.9 per cent of GDP as at end-June 2017. However, excluding Government securities issued for the mopping up of excess liquidity, public sector debt was lower by 0.4 percentage point to 61.6 per cent of GDP as at end-June 2017.

Domestic Economic Performance

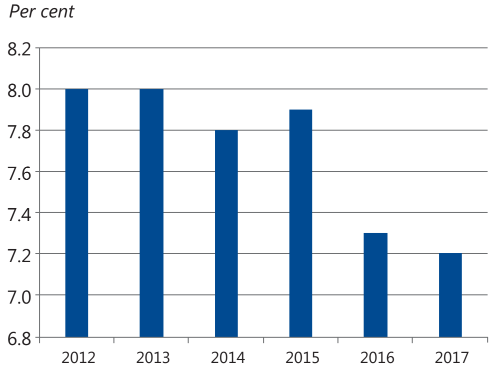
Real GDP Growth and Ouput Gap



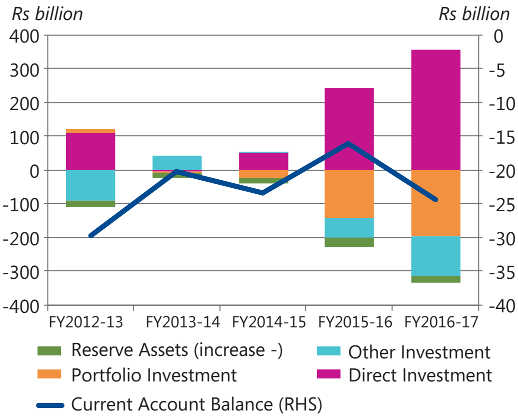
Expenditure on GDP



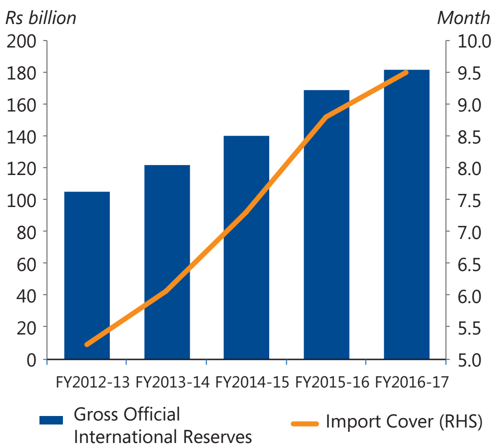
Unemployment Rate



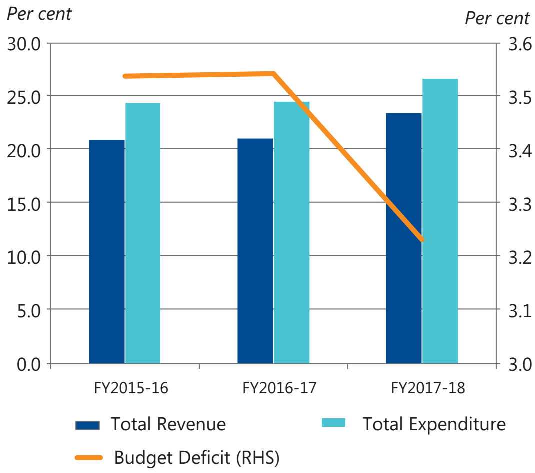
Financing of the Current Account Balance



Foreign Exchange Reserves



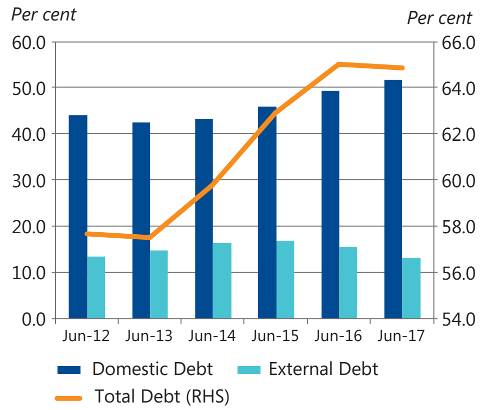
Budget Deficit as Ratio to GDP



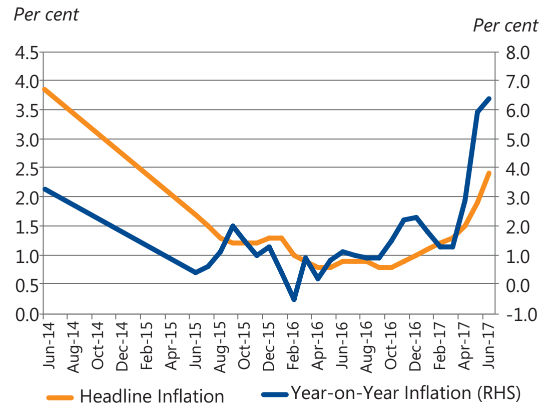
Sources: Statistics Mauritius, MoFED and Bank of Mauritius.

Domestic Economic Performance

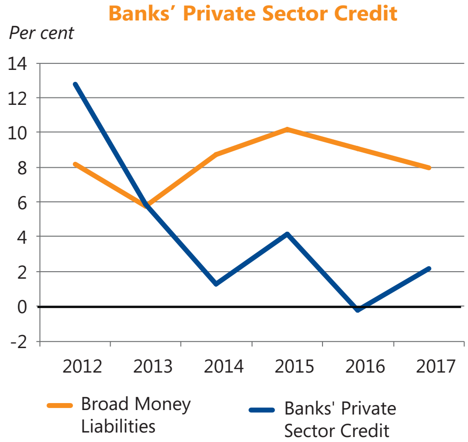
Public Sector Debt as a Percentage of GDP



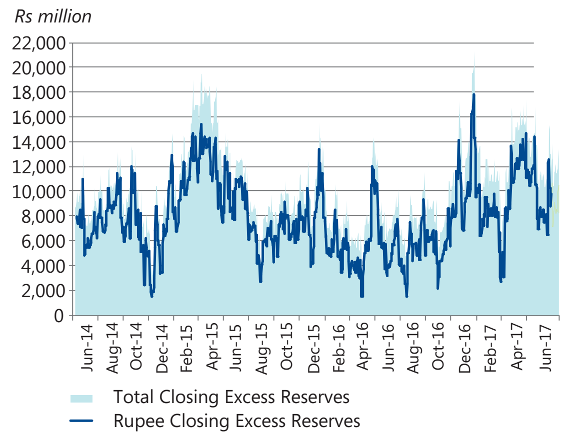
Headline and Year-on-year Inflation



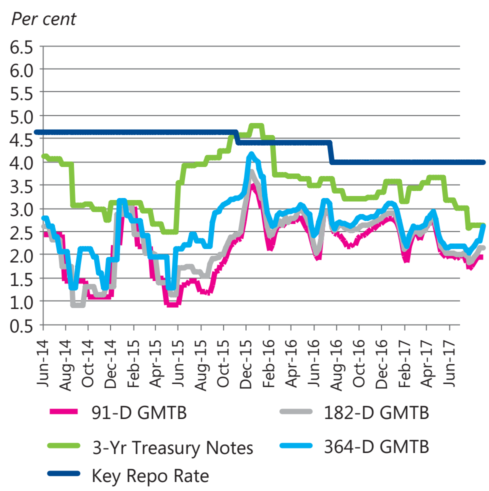
Annual Growth Rates of BML and Banks' Private Sector Credit



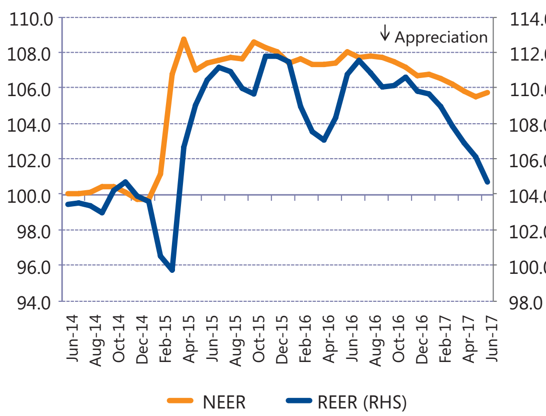
Excess Reserves



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.

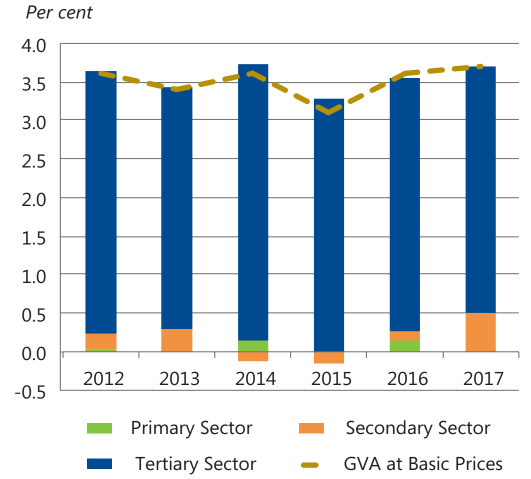
NATIONAL INCOME AND PRODUCTION[1]

The economy recovered markedly from the trough of 3.1 per cent in 2015, the lowest since a decade, to 3.6 per cent in 2016, higher than the three-year average from 2013 to 2015. Domestic demand continued to anchor growth, also supported this time by a rebound in private sector investment. Household consumption growth, in particular, was sustained while government consumption moderated in 2016. Externally, however, the contribution of net exports to real GDP growth remained negative as exports of goods and services continued to shrink, while imports stagnated somewhat. On a sectoral basis, all economic sectors continued to expand in 2016, with the exception of the construction sector, which registered zero growth. The manufacturing sector recorded a slight growth of 0.3 per cent. The services sector kept momentum and remained the major driver of growth, thus highlighting Mauritius as a services-oriented economy. Growth in the '*Accommodation and food service activities*' sector remained robust at 9.2 per cent, while other key services sectors such as '*Financial and insurance activities*', '*Information and communication*' and '*Professional, scientific and technical activities*' registered strong growth rates close to 6.0 per cent. Chart 2.1 shows the contribution to GDP growth rate by economic activity.

In nominal terms, GDP at basic prices grew by 5.8 per cent, from Rs364 billion in 2015 to Rs385 billion in 2016. GDP at market prices also increased by 5.9 per cent, from Rs410 billion in 2015 to Rs434 billion in 2016. Gross National Income (GNI) at market prices went up by 6.1 per cent, from Rs407 billion in 2015 to Rs432 billion in 2016 and with the marginal increase in population growth, per capita GNI at market

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

Chart 2.1: Contribution to GDP Growth Rate by Economic Activity



Source: Statistics Mauritius.

prices grew by 6.1 per cent, from Rs322,197 in 2015 to Rs341,875 in 2016. In US dollar terms, it rose from US$9,174 to US$9,538 over the same period.

Domestic demand remained resilient during 2016. Aggregate final consumption expenditure of households and general government grew, in nominal terms, by 5.4 per cent, from Rs367 billion in 2015 to Rs387 billion in 2016. In real terms, it expanded by 2.9 per cent in 2016, unchanged from the previous year. Household real consumption expenditure rose by 3.0 per cent in 2016, compared to 2.9 per cent in 2015. Government real consumption expenditure growth slowed from 3.1 per cent in 2015 to 2.4 per cent in 2016, reflecting to some extent, the delay in implementing certain projects. Table 2.1 provides the main national accounts aggregates and ratios for the years 2014 through 2016.

After four years of contraction, Gross Fixed Capital Formation (GFCF) recorded a positive growth in 2016, lifted by a turnaround in construction activity and a strong rebound in capital spending on machinery and equipment. In nominal terms, GFCF increased by 5.6 per

Table 2.1: Main National Accounts Aggregates and Ratios, 2014-2016			
	2014	**2015**	**2016 [1]**
A. Aggregates (Rs million)			
1. GDP at basic prices	348,011	363,547	385,460
Annual Real Growth Rate (Per cent)	*3.6*	*3.1*	*3.6*
2. GDP at current market prices	392,062	409,893	434,339
3. GNI at current market prices*	382,132	406,896	432,043
4. Per capita GNI at current market prices*	302,989	322,197	341,875
5. Final Consumption Expenditure	350,457	367,417	386,684
6. Compensation of Employees	141,394	148,769	158,449
7. Gross Fixed Capital Formation	73,989	71,155	74,990
8. Gross Domestic Savings	41,605	42,476	47,656
9. Resource Balance (8-7)	-32,384	-28,679	-27,334
10. Gross National Disposible Income*	385,321	409,596	435,294
B. Ratios: As a Percentage of GDP at market prices			
1. Gross Domestic Saving	10.6	10.4	11.0
2. Final Consumption Expenditure	89.4	89.6	89.0
3. Gross Fixed Capital Formation	18.9	17.4	17.3
4. Resource Balance	-8.3	-7.0	-6.3
C. Ratio: As a Percentage of GDP at basic prices			
1. Compensation of Employees	40.6	40.9	41.1

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

Table 2.2: Real Growth Rates of GFCF by Type of Capital Goods, 2014-2016			
			(Per cent)
	2014	**2015**	**2016 [1]**
A. Building and Construction Work	**-7.5**	**-4.0**	**+1.5**
Residential Building	-8.8	+0.5	+13.4
Non-residential Building	-20.3	-17.8	-8.1
Other Construction Work	+14.1	+2.3	-10.6
B. Machinery and Equipment	**-3.2**	**-7.8**	**+7.7**
Machinery and Equipment (excluding aircraft & marine vessel)	-0.9	-0.3	+1.9
Passenger Car	-4.2	+1.1	+11.1
Other Transport Equipment	-13.0	-53.8	+98.5
Other Transport Equipment (excluding aircraft & marine vessel)	-0.9	-18.7	+32.9
Other Machinery and Equipment	-0.2	+2.0	-3.4
Gross Fixed Capital Formation	**-6.0**	**-5.4**	**+3.7**

[1] Revised.
Source: Statistics Mauritius.

cent, from Rs71 billion in 2015 to Rs75 billion in 2016. In real terms, it increased by 3.7 per cent in 2016 compared to a contraction of 5.4 per cent in 2015. Exclusive of the purchase of aircraft and marine vessel, real GFCF rose by 1.6 per cent in 2016, as against a contraction of 2.7 per cent in 2015. By type of capital goods, an expansion of 1.5 per cent was registered for investment in '*Building and construction work*', while investment in '*Machinery and equipment*' grew solidly by 7.7 per cent. A breakdown by industrial use shows that real estate activities accounted for the bulk of the increase in investment. The Investment Rate, defined as the ratio of GFCF to GDP at market prices, dropped slightly from 17.4 per cent in 2015 to 17.3 per cent in 2016 and remained lower than the five-year average of 2010 to 2015. Table 2.2 shows the real growth rates of GFCF by type of capital goods.

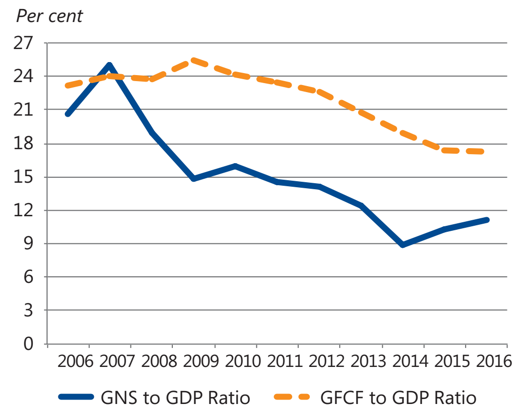
The performance of domestic exports remained a matter of concern, casting apprehensions over competitiveness issues, notwithstanding somewhat subdued external demand conditions. The importance of export receipts for financing the current account deficit and as an engine of growth cannot be stressed enough. With dwindling export receipts, Government has set up a Ministerial committee to look into the challenges pertaining to the export sector. In addition, the National Export Strategy (NES) for Mauritius was launched on 31 March 2017, so as to identify trade opportunities and address challenges of the export sector, considering the erosion of commercial preferences such as the abolition of the EU sugar quota in 2017. The NES document aims to boost the export capacities of the country's private sector and step up its trade with regional and global markets. NES will also serve as a blueprint for the Government, the private sector and Mauritius' development partners to help the country's SMEs improve their competitiveness and generate higher-value jobs. These will guide Mauritius' effort to reinvigorate inclusive and sustainable growth through trade. The Strategy also aims to tackle economy-wide constraints for trade growth and in response sets out five key cross-sector focus areas that will support export development and competitiveness: the internationalisation of SMEs; skills development; innovation; branding and institutional alignment. The NES identifies seven sectors with high potential for export growth, employment generation and innovation: agro-processed foods; fisheries and aquaculture; medical devices; jewellery; financial services; software development and; cultural tourism.

Goods exports continued to struggle and contracted by 11.2 per cent in 2016, while exports of services grew by a meagre 0.6 per cent. Imports of goods still fared relatively well, growing by 4.0 per cent as domestic demand remained firm while import of services contracted sharply by 8.2 per cent. Taken together, net exports dragged down growth. In nominal terms, exports of goods and services fell by 3.6 per cent, from Rs200 billion in 2015 to Rs193 billion in 2016. Nominal imports of goods and services fell by 3.0 per cent, from Rs241 billion in 2015 to Rs234 billion in 2016.

Compensation of employees, which measures the total income – both wages and salaries and their supplements – earned by employees in return for contributing to production, went up by 6.0 per cent, from Rs149 billion in 2015 to Rs158 billion in 2016, reflecting partly the implementation of the Pay Research Bureau (PRB) Report, a salary review for government employees. As a percentage of GDP at basic prices, it rose slightly from 40.9 per cent in 2015 to 41.1 per cent in 2016. Gross National Disposable Income (GNDI), that is, income that is available for consumption and savings, remained firm and increased by 6.3 per cent in 2016, unchanged from the previous year. Gross

National Savings increased by 15.2 per cent in 2016 compared to 21.0 per cent in 2015. The Saving Rate, defined as the ratio of Gross National Savings (GNS) to GNDI, excluding net primary income and transfer of GBC from abroad, rose from 10.3 per cent in 2015 to 11.2 per cent in 2016. As a percentage of GDP at market prices, the Resource Balance (defined as Savings minus Investment) improved from -7.0 per cent in 2015 to -6.3 per cent in 2016, reflecting principally a higher level of savings in 2016 compared to 2015 and mirroring an improvement in the current account deficit. Chart 2.2 depicts the movements in the ratios of GFCF and GNS to GDP at market prices for the years 2006 through 2016.

Chart 2.2: Ratios of GFCF and GNS to GDP at Market Prices



Source: Statistics Mauritius.

Agriculture

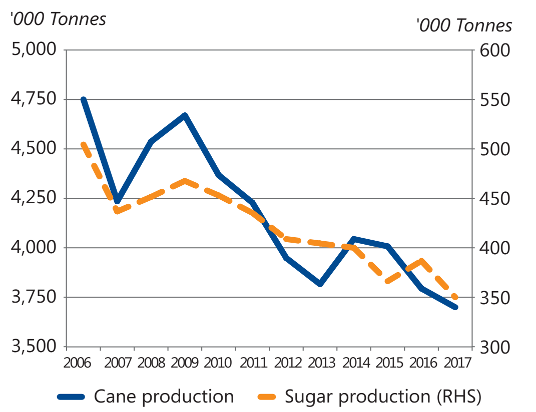
The agricultural sector in Mauritius encompasses the cultivation of sugarcane, tea, food crops, flowers and fruits as well as fishing, aquaculture and farming activities. As the economy diversified over time, agricultural activities diminished, falling from about 9.3 per cent as a share in GDP some two decades ago to about 3.6 per cent of GDP. The sector's share in total employment was 7.3 per cent in 2016, employing 41,300 people, with 12,400 people employed in sugarcane production.

The area under sugarcane cultivation as a ratio to land utilisation has declined by about 28 per cent, from 38.6 per cent in 2006 to about 27.6 per cent in 2016, or to 51,477 hectares. As a result, cane production dropped to 3.8 million tonnes in 2016, its lowest level since 1975. Fortunately, favourable climatic conditions impacted positively on the extraction rate and the sugar yield, leading to sugar production of 386,277 tonnes in 2016, up from 366,100 tonnes in 2015. Chart 2.3 depicts cane and sugar production from 2006 to 2017.

However, sugar remains an important source of export earnings, with sugar exports, totalling Rs8,164 million in 2016, or about 10.5 per cent of the total export value. The Mauritius Chamber of Agriculture has estimated a lower cane and sugar production for 2017, with cane production projected at 3.7 million tonnes in 2017 compared to 3.8 million tonnes in 2016 and sugar production hitting a record-low of 350,000 tonnes in 2017. This adverse performance of the sugarcane sector would result in a contraction of its gross value-added by 9.7 per cent in 2017, compared to 5.5 per cent growth in 2016. In turn, sugar manufacturing would grow by 1.9 per cent in 2017, lower than the 7.0 per cent growth recorded in 2016. The performance of this sector is set to face some daunting challenges, on account of both demand and price effects, resulting from the abolition of quotas on European markets in September 2017, and an expected fall in sugar related revenues subject to lower sugar prices on the international market.

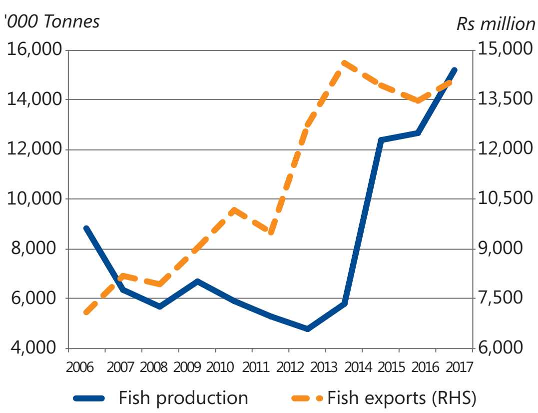
Fishing and aquaculture activities have, however, been backing the performance of the agricultural sector, as evidenced by the more than tripling of fish production, which went up sharply from 4,780 tonnes in 2012 to 15,195 tonnes in 2016. Consequently, fish exports shot up, with 137,474 tonnes of fish and fish products exported in 2016 compared to 134,412 in 2015. The export value of these

Chart 2.3: Cane and Sugar Production



Source: Statistics Mauritius.

Chart 2.4: Fish Production and Exports



Source: Statistics Mauritius.

products rose from Rs13.5 billion to Rs14.1 billion, representing about 18 per cent of total exports (Chart 2.4). The robust increase in fish exports propelled it to the second rank, in terms of source of exports revenue. The ocean economy is being emphasised as a harbinger of growth. The fish sector is also likely to benefit from the set-up of a private oyster farm in the south-eastern part of the island, at Mahebourg. The company's short term strategy involves annual production of 1.5 million oysters, 1 million of which is destined for the exports market.

The 2017-18 Budget has provided for new incentives for the development of aqua-culture and the provision of an eight-year tax holiday to attract industrial fishing companies operating from Mauritius.

Manufacturing

The manufacturing sector comprises four major subdivisions including sugar milling and refining, food processing and beverages, textile and other activities such as the manufacturing of paper products, furniture, chemicals, plastics, jewelry and metals.

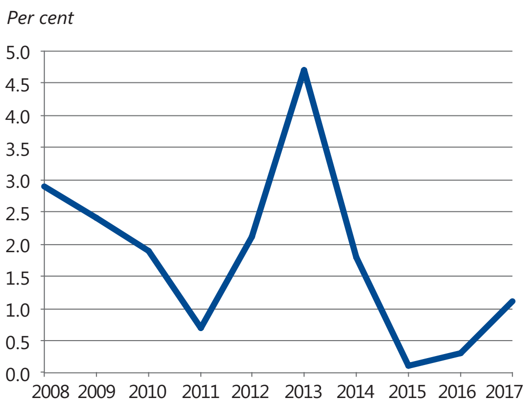
It can also be classified into two broad categories: Export Oriented Enterprises (EOE) which primarily focus on wearing apparel, textiles and food products; and Non-Export Oriented Enterprises (Non-EOE) that center mainly on food processing and beverages.

The manufacturing sector remained the highest contributor to GDP in 2016, albeit its contribution to the economy has been declining over the years, from 15.9 per cent in 2010 to 13.9 per cent in 2016. The sector has primarily been impacted by an erosion of preferential trade agreements, a strong trade liberalisation policy, weak external demand as well-as increased international competition.

In 2016, the manufacturing sector grew by 0.3 per cent, up from 0.1 per cent in 2015. Growth in the sector was mainly driven by positive contributions from food processing and other manufacturing, which grew by 1.4 per cent and 4.8 per cent, respectively (Chart 2.5). Though the sugar sub-sector posted a commendable growth rate of 7.0 per cent in 2016, it contributed mildly to the sector's value-added on account of its rather low weight. In contrast, textiles sub-sector contracted by 5.8 per cent, due to subdued demand conditions from our main export market.

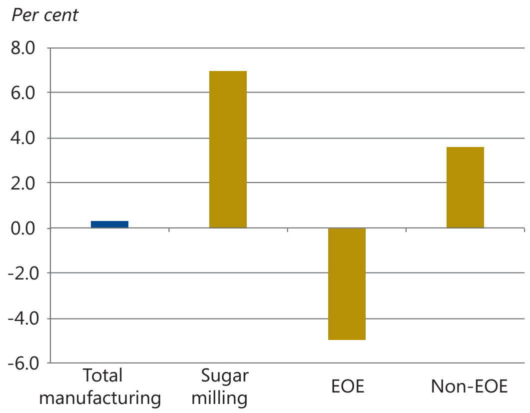
Growth in the manufacturing sector was primarily supported by Non-EOEs as EOEs' contribution was negative (Chart 2.6). Output

Chart 2.5: Real Growth Rate of the Manufacturing Sector



Source: Statistics Mauritius.

Chart 2.6: Growth in Manufacturing Output in 2016



Source: Statistics Mauritius.

of Non-EOEs, which accounts broadly for about 59.0 per cent of total manufacturing output, expanded by 3.6 per cent in 2016. Though food excluding sugar fell by 0.9 per cent in 2016, growth momentum was maintained by beverages which expanded by 2.6 per cent. On the other hand, EOEs which generate about 39.0 per cent of total manufacturing output contracted by 5.0 per cent in 2016. The main drivers of EOEs, textile and wearing apparels, declined by 5.9 per cent and 7.6 per cent, respectively, in 2016. Moreover, jewellery retreated by 21.2 per cent in 2016 but had a limited impact given its low weight while food products grew by 3.9 per cent. The manufacturing sector is the largest contributor to total employment and employed 98,700 people in 2016, accounting for 17.4 per cent of total employment. The sector employed 23,100 foreigners, which represented 80.6 per cent of foreign workers engaged in the economy in 2016.

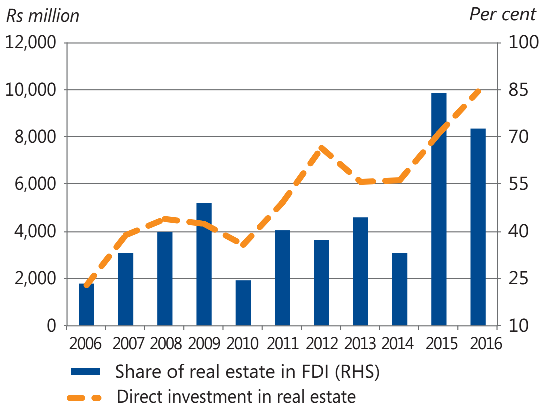
The manufacturing sector is projected to grow by 1.1 per cent in 2017, mainly driven by food processing and other manufacturing. The '*Food processing sub-sector*' is expected to grow by 0.7 per cent, with the transformation of fish products, especially tuna processing, being the engine of growth. The '*other manufacturing*' sub-sector is also estimated to grow at 1.2 per cent.

Textiles is expected to register a growth of 1.4 per cent after two years of contraction. The sub-sector remains under the clouds of the aftermath of Brexit, especially given a weaker Pound sterling. Measures such as the Air Freight Rebate Scheme introduced in the 2016-17 Budget which entails a 40 per cent discount over air freight cost to Europe, is expected to provide some breathing space to the sub-sector. The Freight Rebate Scheme amid reducing the costs of exporters and improving competiveness, also enhances the transit lead time and allows access to new markets. Other measures like the investment tax credit of 15 per cent on new plants and machinery are also expected to support productivity in the sub-sector through additional capital expenditure.

Construction

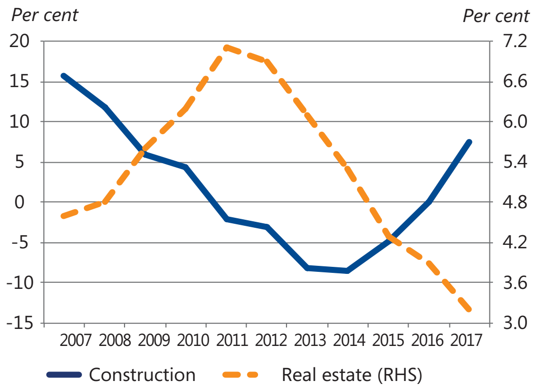
The sector comprises the construction of buildings such as dwellings and offices, public utility buildings and civil engineering projects relating to the road network, sewage systems or the port. It also encompasses the real estate sector which includes the acquisition and disposal of real estate properties, property rentals and other real estate services (Chart

Chart 2.7: Foreign Direct Investment in Real Estate



Source: Research and Economic Analysis Department.

Chart 2.8: GVA Growth in Construction and Real Estate Sectors



Source: Statistics Mauritius.

2.7). The construction sector employed 39,600 people in 2016, out of which 1,800 were foreigners. Employment in the real estate sector were almost unchanged at 1,400. Together, the two sectors account for 7.2 per cent of total employment. Real estate sector growth decelerated from 5.3 per cent in 2014 to 4.3 per cent in 2015 and further to 4.1 per cent in 2016 (Chart 2.8).

Current dynamics point to ongoing positive developments in the construction and real estate sectors. The Board of Investment processed 230 permits relating to IRS, RES and PDS in 2016. It further facilitated six Smart City Projects during the year. Expected implementation of Smart City Projects adds to optimism regarding the sectoral outlook. In particular, Rs2.6 billion has been earmarked in the 2017-18 Budget towards the development of Smart Cities, namely the Mon Tresor Smart City, Mauritius Jinfei Economic Trade and Cooperation Zone, Moka Smart City and Medine Smart City.

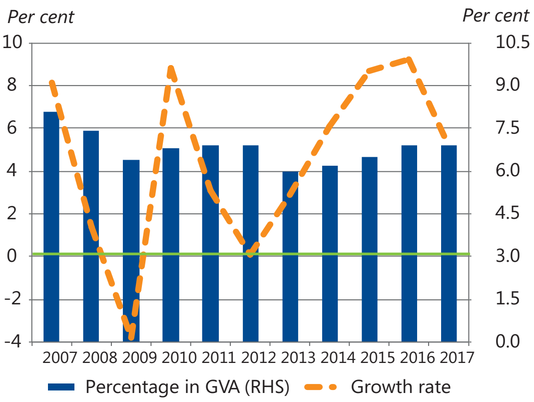
The past lackluster trends in the construction sector are expected to be arrested in 2017, with a rebound of growth to 7.5 per cent. Real estate sector growth is projected to fall to 3.2 per cent in 2017, from 4.1 per cent in 2016. The sustained recovery of the construction sector, is conditional on the timely implementation of announced public infrastructure projects. Major projects that are expected to boost the sector's outlook include, inter alia, the Metro Express project, construction of new roads and flyovers as part of the Decongestion Programme, the erection of a sports complex at Cote d'Or to house the Indian Ocean games and the implementation of the Island Terminal Project, that aims the extension of the Mauritius Container Terminal Berth.

Trends in leading indicators broadly suggest the recovery of construction sector growth. Investment in 'Buildings and construction' picked up by 1.5 per cent from a nine-year low of Rs32.5 billion in 2015 to Rs33 billion in 2016. The number of non-residential building permits issued also increased from 375 in 2015 to 427 in 2016. The recovery in investment is projected to continue, with investment growing by 7.0 per cent to Rs35 billion in 2017, auguring positively for growth.

Accommodation and Food Service Activities

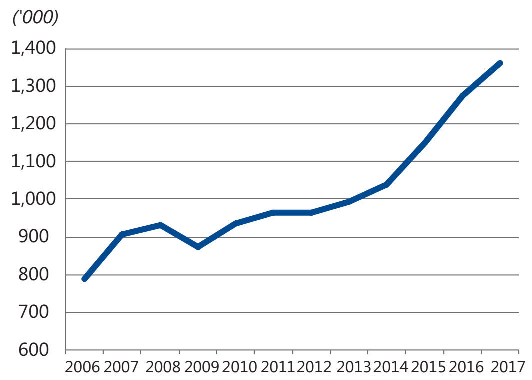
Accommodation and food service activities remain the fourth economic pillar of the

Chart 2.9: Accommodation and Food Services



Source: Statistics Mauritius.

Chart 2.10: Tourist Arrivals



Source: Statistics Mauritius.

economy, propelled by tourism-related activities. Accommodation comprises short-period stays in hotels, apartments amongst others. Food service activities relate to restaurants and bars. Accommodation and food service activities contributed nearly 7.0 per cent to GVA in 2016. Growth of the sector has been on an uptrend since 2012, with a growth rate of 9.2 per cent in 2016. There were 111 hotels in operation in Mauritius in 2016, out of which 56 were classified as large hotels having more than 80 rooms. Accommodation and food service activities sector employed more than 40,000 people in 2016, contributing to 7.2 per cent of total employment. Specifically, employment in the tourism industry stood at 30,454 in 2016, with about 77 per cent of the total working in hotels.

Except for a dip in 2009, growth in tourist arrivals has remained in positive zone since 1983. Total tourist arrivals exceeded the 1 million threshold in 2014. Growth of over 10.0 per cent was noted in tourist arrivals in the last two years. Nearly 1.3 million tourists visited the island in 2016. The tourism sector still remains euro-centric, with Europe accounting for 57.6 of total tourist arrivals in 2016. The top 3 tourism markets in terms of total tourist arrival were France (21.3 per cent), followed by Reunion island (11.5 per cent) and UK (11.1 per cent). Mauritius is attracting an increasing number of tourists from China and India. The diversification of tourism markets has been helped by intensive promotional campaigns strategies and increased connectivity, thereby improving air traffic with the development of an air corridor at Changi Airport in Singapore. Strategies to reach out to the Chinese market including the facilitation of payments, through the online Wechat application, appear to have been effective, as Mauritius was elected China's favourite tourist destination in 2016.

As a result of higher tourist arrivals, hotel room occupancy rate increased to 73 per cent in 2016, from 70 per cent in 2015. Upcoming hotel projects in the pipeline include the Mariott International's project of a hotel in Port Louis, Le Chaland hotel at la Cambuse and the St Felix Resort project by Sheraton Mauritius. These projects, in addition to generating investment, will also boost room capacity. An increase in room capacity is a requisite as part of the Mauritius-365 project.

Tourism trends have remained upbeat so far, such that arrivals forecast for 2017 has been revised upwards from 1,350,000 to 1,360,000 million. Accordingly, tourism earnings are expected to grow by 5.2 per cent to about Rs58.8 billion for 2017 (Charts 2.9 and 2.10).

Financial and Insurance Activities

The financial services sector broadly includes the activities of banking intermediaries, leasing and insurance companies and pension funds, and its contribution to the Mauritian economy stood at 12.1 per cent in 2016. Total assets of the financial sector (excluding the GBC sector) hovered around 400 per cent of GDP, with the banking sector accounting for about 340 per cent in 2016 and the insurance sector, around 40 per cent. The share of the financial services sector to total employment in the economy is around 2.4 per cent.

The performance of the '*financial and insurance activities*' sector improved to 5.7 per cent, higher than the 5.3 per cent growth recorded in 2015, with '*financial leasing and other credit granting*' and '*money intermediaries*' sub-sectors expanding by 6.5 per cent and 6.0 per cent, respectively, in 2016 - both higher than the five-year average of 2010 to 2015. Based on a GDP growth forecast of 3.7 per cent for 2017, the sector is expected to grow by 5.5 per cent and is contributing about 0.7 per cent to GDP growth.

Information and Communication

The ICT sector encompasses a broad array of activities such as telecommunications, data processing and information services, call centres, IT consulting, software development, multimedia activities, website development as well as TV broadcasting. Business Process Outsourcing (BPO) activities include call centres as well as the outsourcing of accounting, legal and IT processes. Infrastructural development leading to the Ebene cybercity in the early 2000's has been instrumental to the emergence of the ICT-BPO sector. Growth has slowed from rates of over 10.0 per cent prior to 2010, to 5.9 per cent in 2016. The share of the ICT sector in the economy has accordingly dropped from 4.9 per cent in 2010 to 4.2 per cent in 2016 (Chart 2.11).

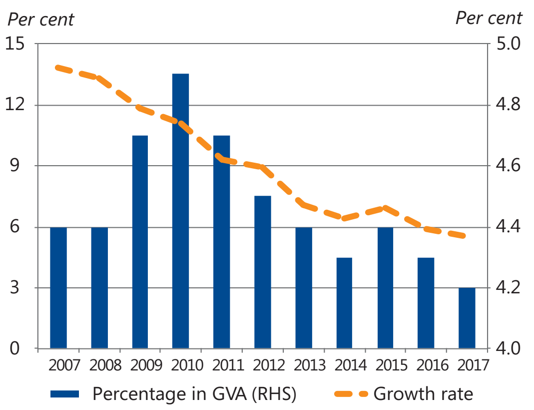
The ICT-BPO sector counted 750 firms and employed 23,000 people in 2016. The number of ICT-BPO firms has increased robustly by 7.0 per cent last year, and comprised 35.0 per cent start-ups. The share of the ICT sector to total employment has almost doubled, from 2.5 per cent in 2005 to 4.9 per cent in 2016. The mobidensity statistics, the number of mobile cellular telephone subscriptions per 100 inhabitants has increased steadily from 100.0 in 2011 to 143.6 in 2016, suggesting multiple subscriptions by individuals. Internet access has also improved substantially, from an average of 13.4 subscriptions per 100 inhabitants in 2007 to 86.3 in 2016. In terms of coverage, 90.0 per cent of persons aged above 11 years use a mobile phone, and over 60.0 per cent households are connected to the internet (Chart 2.12).

The ICT sector is projected to grow at a lower rate of 5.5 per cent in 2017, compared to 5.9 per cent in 2016. However, the sector's share in GVA is expected to remain unchanged at 4.2 per cent in 2017. Going forward, the development of the economy through Smart Cities will necessitate greater connectivity and high-speed internet, leading to higher demand for ancillary ICT as well as BPO services.

Growth Outlook

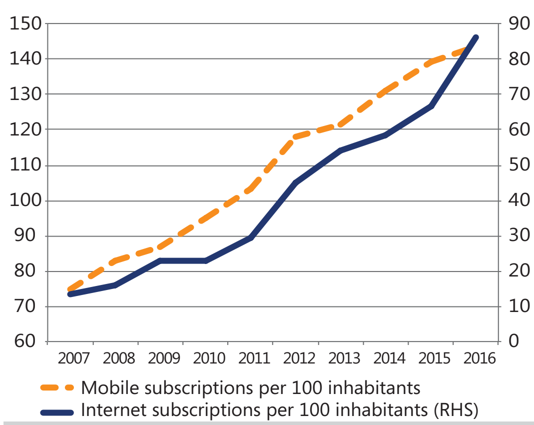
Drags from external demand are expected to subside gradually in the years ahead as the external growth environment, including that of our trading partners, brightens. The 'National Export Strategy' should support domestic exports through the identification of niche markets. But, the outlook is not without any uncertainty. A lingering weakness of the European economies, together with a sluggish performance of the UK due to Brexit,

Chart 2.11: Share and Growth of ICT Sector



Source: Statistics Mauritius.

Chart 2.12: Mobile and Internet Penetration



Source: Statistics Mauritius.

could pose some downside risks to the export sector. Domestically, household consumption should continue to lend support to growth in real activity, and large-scale infrastructure works and construction activities are expected to hold up quite well given the substantial increase in public investment. Inbound tourism and key services sectors are also expected to be supportive.

The domestic economy is projected to grow faster at a close-to-trend rate in 2017. Statistics Mauritius expects real GDP growth at basic prices to pick up slightly to 3.7 per cent in 2017, from 3.6 per cent in 2016. The economy would benefit from the timely implementation of announced infrastructure projects while also addressing supply-side issues to render the economy more competitive. On this count, a new Business Facilitation (Miscellaneous Provisions) Act 2017, which came into force on 20 May 2017 is expected to give the necessary fillip to investment by eliminating regulatory and administrative bottlenecks. Thus, besides improving the business environment, the Business Facilitation Act would be geared towards seven key areas: Starting a Business, Registering Property, Paying Taxes, Resolving Insolvency, Construction Permits, Exit Procedures and Cross Border Trade.

LABOUR MARKET DEVELOPMENTS

Labour market conditions eased somewhat as the unemployment rate dropped from 7.9 per cent in 2015 to 7.3 per cent in 2016. Labour productivity growth, which recovered in 2016, remained behind average compensation growth, thereby pushing unit labour cost higher.

Wage Developments

Average Monthly Earnings

For the year 2017, employees with a basic wage or salary up to Rs15,000 received an additional remuneration of Rs200 while those earning above Rs15,000 and up to Rs50,000 received a monthly increase of Rs125. According to the Survey on Employment and Earnings in 'Large' Establishments carried out by Statistics Mauritius, the average monthly earnings for all industrial groups increased from Rs26,594 in March 2016 to Rs27,574 in March 2017, or by 3.7 per cent, lower than the 4.8 per cent growth recorded in the corresponding period of 2016. Adjusted for the twelve-month running inflation rate, the average monthly earnings for all industrial groups rose by 2.4 per cent, compared to the increase of 3.9 per cent in the preceding year.

By industrial group, average monthly earnings rose across all sectors of the economy except for '*Electricity, gas, steam and air conditioning supply*' where earnings declined by 4.3 per cent and '*Arts, entertainment and recreation*', where earnings remained broadly unchanged. There was a significant rise in earnings in sectors such as '*Real estate activities*' (10.5 per cent), '*Transportation and storage*' (6.9 per cent), '*Water supply, sewerage, waste management and remediation activities*' (6.4 per cent), '*Education*' (6.0 per cent), '*Mining and quarrying*' (5.8 per cent) and '*Accommodation and food service activities*' (5.7 per cent).

Wage Rate Index

The Wage Rate Index (WRI), which measures changes in the average rates paid by employers for normal time work, provides an indication of changes in the cost of labour in the economy. Statistics Mauritius rebased the wage rate index in its last issue of September 2017 and also updated weights of different sectors in order to reflect changes in the industrial and occupational structure of the economy. As such, data prior to 2016Q4 are not strictly comparable.

The WRI rose from 100.0 in 2016Q4 to 103.0 in 2017Q2, driven mainly by '*Public administration and defence; compulsory social security*' and '*Education*' (0.5 points each), '*Administrative and support service activities*' and '*Information and communication*' (0.4 points each) and '*Manufacturing*' (0.3 points). These sectors accounted for more than two-thirds of the increase in the wage rate index. The index for the private sector rose from 100.0 in 2016Q4 to 102.9 in 2017Q2, while the index for the public sector rose from 100.0 to 103.2 over the same period.

All industry groups registered increases in wages between 2016Q4 and 2017Q2, with the exception of '*Agriculture, forestry and fishing*' where a decline of 4.0 per cent was noted. The highest increase was recorded in '*Administrative and support service activities*' (11.6 per cent), followed by '*Water supply; sewerage, waste management and remediation activities*' (9.1 per cent) and '*Information and communication*' (8.0 per cent).

Labour Force

The population of the Republic of Mauritius, including Rodrigues, Agalega and St Brandon, was estimated at 1,264,887 as at 1 July 2017, of which 625,901 were males and 638,986 were females, giving a gender ratio tilted slightly towards females, at 98 males to 100 females. Over the year, the population growth rate remained low at 0.1 per cent, while the dependency ratio dropped to 409 in 2016, reflecting the declining child population. Mauritius is facing an ageing population over time due to a falling fertility rate and higher life expectancy.

Based on the Continuous Multipurpose Household Survey (CMPHS) for the year 2016, the total labour force, inclusive of foreign workers stood at 609,600 of which 372,900 were males and 236,700 were females. The number of foreign workers in 2016 rose from 28,300 in 2015 to 28,600 in 2016 and they were primarily employed in three sectors – '*Manufacturing*' (80.8 per cent), '*Construction*' (6.3 per cent) and '*Accommodation and food service activities*' (3.8 per cent).

The Mauritian labour force contracted from 584,600 in 2015 to 581,000 in 2016, giving a participation rate of 59.6 per cent in 2016 compared to 60.4 per cent in 2015. Statistics Mauritius has estimated the domestic labour force to increase to 589,200 in 2017.

Employment

Total employment, including foreign workers, rose from 566,600 in 2015 to 567,200 in 2016, with male employment rising from 352,400 to 356,000 and female employment falling from 214,200 to 211,200. The decline in female employment was felt in the 55-64 age group. Total employment in 2017 is projected to increase by 8,300 to 575,500 (Chart 2.13).

The '*Manufacturing*' and '*Wholesale & retail trade; repair of motor vehicles and motorcycles*' sectors were the predominant employment sectors, accounting for 17.4 and 16.6 per cent, respectively, of total employment in 2016. Other important employment generating sectors included '*Agriculture, forestry and fishing*' and '*Public administration and defence; compulsory social security*', '*Transportation and storage*', '*Accommodation and food service activities*' and '*Construction*', each representing around 7 per cent of total employment.

The mean hours of work per week rose slightly from 38.8 in 2015 to 39.0 in 2016. Around 40.0 per cent of the workforce in 2016 worked between 24 and 40 hours per week, while 26.5 per cent worked from 41 to 50 hours. In general, men worked for longer hours than women.

Unemployment

The unemployment rate fell to 7.3 per cent in 2016, from 7.9 per cent in 2015. The number of unemployed shrunk by 3,900 to 42,400, attributed to a decline of 3,600 in the labour force and an increase in employment of 300. The unemployment rate for 2017 is projected to fall slightly to 7.2 per cent, below the 5-year average of 7.8 per cent spanning from 2012 to 2016 (Chart 2.14).

Women accounted for roughly 60 per cent of the unemployed, albeit a decrease in the female unemployment rate from 11.6 per cent in 2015 to 11.2 per cent in 2016. The youth unemployment rate declined to 23.9 per cent in 2016, from 26.3 per cent in 2015, reflecting to some extent the impact of the Youth Employment Programme and the National Skills Development Programme. By educational attainment, the number of unemployed with a tertiary level of education rose from 9,000 in 2015 to 10,000 in 2016. Almost half of the unemployed did not pass the Cambridge School Certificate (SC) and around 16 per cent had only a primary level of education. These labour market characteristics underline the persisting mismatch between qualifications of the unemployed and the skills required in an increasingly services-oriented economy, necessitating specific policies to improve the quality of the workforce.

Productivity and Unit Labour Costs

Labour productivity is calculated by dividing real output by labour input. Labour productivity growth recovered from 1.7 per cent in 2015 to 3.4 per cent in 2016, reflecting higher output growth and a sharp deceleration of labour input growth (Chart 2.15). Unit labour cost measures the labour cost of one unit of output and is derived by dividing average compensation by labour productivity. It grew by 3.2 per cent in 2016, compared to 1.0 per cent growth in 2015, partly due to the salary revision in the public sector in 2016, which could have exerted upward pressures on wages in the private sector.

Over the past decade, unit labour costs for the economy have risen consistently given higher increases in compensation of employees relative to labour productivity growth. For the period 2007 to 2016, the annual average compensation growth is estimated at 5.5 per cent, which was more than two times the 2.5 per cent annual average growth in labour productivity. As a result, unit labour cost increased, on average, by 2.9 per cent each year.

Unit labour costs in the '*Manufacturing*' and '*EOE*' sectors rose, on average, by 2.3 per cent and 3.5 per cent each year over the period 2007 through 2016.

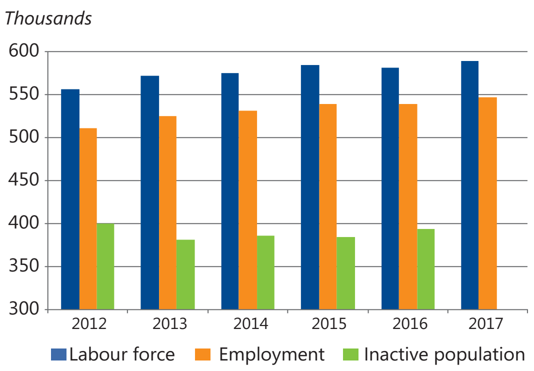
Labour Market Outlook

The labour market is projected to improve somewhat in the near-term, as real GDP growth firms up, buoyed by improving external demand and sustained domestic investment growth. However, the labour market remains under the grip of structural rigidities with rising unemployed graduates and low-skilled workers as well as a high number of female unemployed. Labour market programmes aimed at building human capital have been extended, with policies to develop skills of the unemployed focussing on apprenticeships and placements. The 2017-18 Budget maintained the National Skills Development Programme for another year, broadened and relaxed foreign labour regulation and upgraded educational hardware and infrastructure in polytechnics.

PRICE DEVELOPMENTS

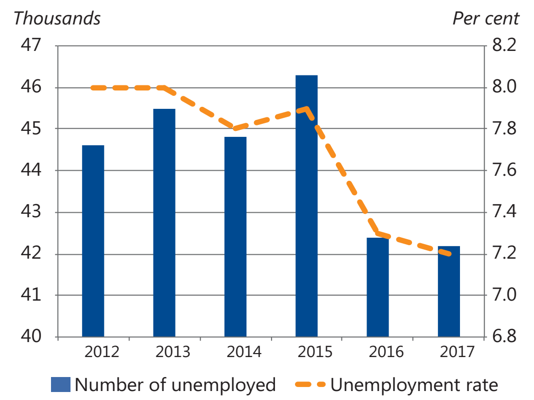
Headline inflation gathered momentum during FY2016-17, largely on account of vegetable price shocks, which were felt during 2017Q2, the impact of the increase in excise duties on alcoholic beverages and tobacco in August 2016; and the increase in petroleum prices in February 2017. The overall impact on the CPI was an increase of 6.9 index points, or 6.4 per cent, from 108.4 in June 2016 to 115.3 in June 2017. Accordingly, headline inflation, which is calculated as the percentage change in the yearly average Consumer Price Index (CPI) in Mauritius, rose from just below 1 per cent in

Chart 2.13: Labour Force, Employment and Inactive Population



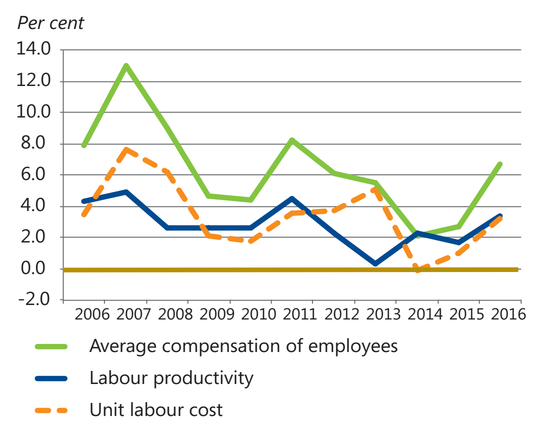
Source: Statistics Mauritius.

Chart 2.14: Unemployment Rate and Number of Unemployed



Source: Statistics Mauritius.

Chart 2.15: Labour Productivity, Compensation and Unit Labour Cost Growth



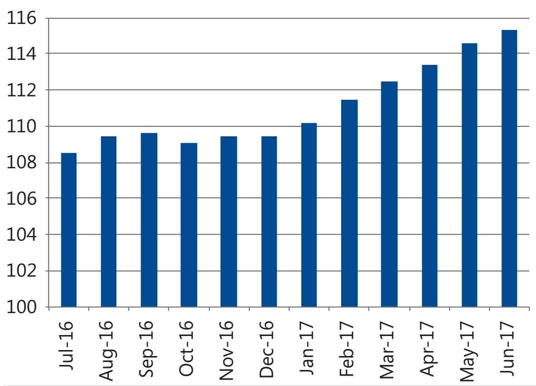
Source: Statistics Mauritius.

the first few months of FY2016-17 to 2.4 per cent in June 2017. Y-o-y inflation, which is defined as the percentage change in the CPI of a given month compared to the same month of the preceding year, remained volatile, directly reflecting the impact of the gyrations in the price of vegetables and base effects. While previous years were dominated by vegetable price shocks, occurring predominantly in the first quarter of the calendar year, these gyrations were felt midway through 2017Q2. Y-o-y inflation surged from 1.1 per cent in June 2016 to 6.4 per cent in June 2017.

Of the 6.9 points increase in the CPI during FY2016-17, vegetables contributed 2.3 index points followed by cigarettes (1.4 index points), other food products (0.9 index point), other goods and services (0.7 index point), alcoholic drinks (0.6 index point), clinic fees and doctors' fees (0.4 index point), gasoline (0.4 index point) and other items (0.6 index point). These increases have been partially offset by the negative contributions of cooking gas (0.3 index point) and mortgage interest on housing (0.1 index point). Chart 2.16 shows the monthly evolution of CPI; Chart 2.17 depicts the contribution of selected CPI items in the consumer basket to the change in CPI while Chart 2.18 indicates the main contributors by divisions to the year-on-year inflation between June 2016 and June 2017. Charts 2.19 and 2.20 depict the monthly evolution of the twelve divisions of the CPI basket in FY2016-17.

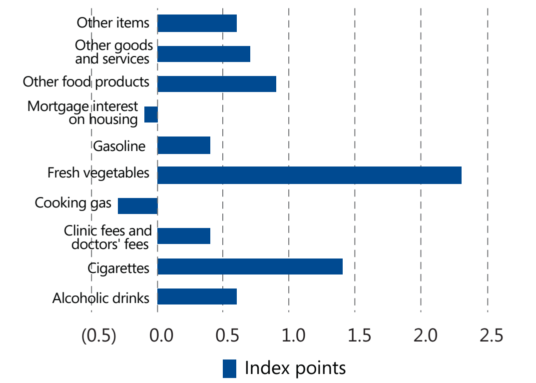
Notwithstanding developments in the CPI, the underlying inflation measures, as reflected by the Bank's core inflation measures, remained somewhat subdued and within tight range. Based on the twelve-month average methodology, CORE1 inflation edged up from 0.7 per cent in June 2016 to 0.8 per cent in June 2017, while CORE2 inflation dropped from 2.2 per cent to 2.0 per cent over the same period. On a y-o-y basis, CORE1 inflation dropped to a

Chart 2.16: Monthly Consumer Price Index (Base year January - December 2012=100)



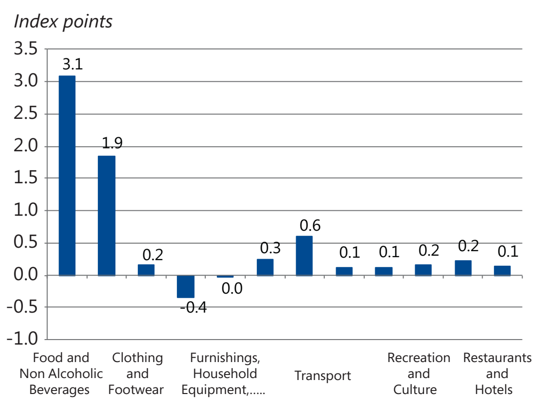
Source: Statistics Mauritius.

Chart 2.17: Contribution of Selected CPI Items in the Consumer Basket to Change in CPI



Source: Statistics Mauritius.

Chart 2.18: Contribution by Divisions to Year-on-year Inflation



Source: Statistics Mauritius.

trough of -0.4 per cent in October 2016 before rising to 2.0 per cent in June 2017. CORE2 inflation rose from 2.3 per cent in June 2016 to 3.0 per cent in May 2017 before subsiding to 2.3 per cent in June 2017, thereby showing that inflationary pressures were broadly contained. Chart 2.21 shows the movements of headline and core inflation between June 2015 and June 2017. Chart 2.22 shows the y-o-y movements of CPI and core inflation over the same period.

Inflation Expectations

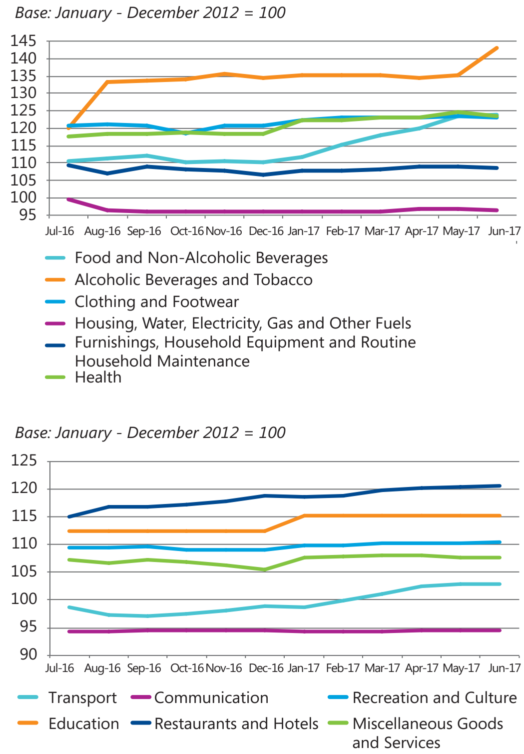
Inflation expectations (headline) are typically assessed by the Bank's quarterly Inflation Expectations surveys. During FY2016-17, these surveys showed that the majority of respondents expected headline inflation to be below 3.0 per cent in the horizons' periods of June 2017 and December 2017. Inflation expectations were broadly anchored during the year under review.

Chart 2.23 shows the percentage of the sample respondents that expect inflation to be less than 3 per cent in the horizon period of June 2017 and December 2017 during the survey months of FY2016-17.

MONETARY AGGREGATES

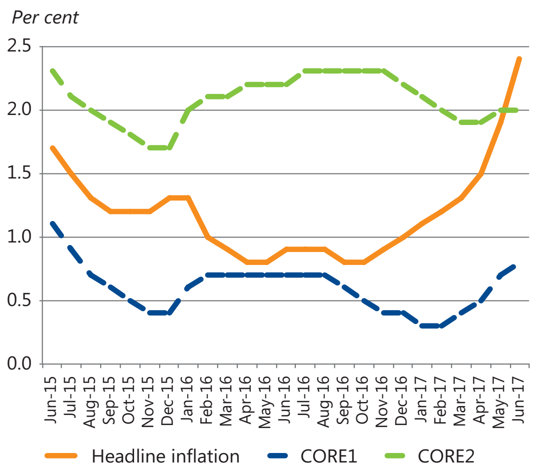
Broad money supply growth remained expansionary during FY2016-17, albeit losing some steam compared to FY2015-16, thus confirming the accommodative monetary policy stance pursued by the Bank. Growth in bank credit to the private sector, however, decelerated during FY2016-17, reflecting to some extent the repayment of bank loans by some large corporates out of proceeds of issue of bonds through targeted private placements. Bank credit to the private sector as a percentage of GDP decreased from 65.3 per cent as at end-June 2016 to 62.9 per cent as at end-June 2017.

Charts 2.19 and 2.20: Monthly Evolution of the Twelve Divisions of the CPI Basket of Goods and Services during FY2016-17



Source: Statistics Mauritius.

Chart 2.21: Headline and Core Inflation



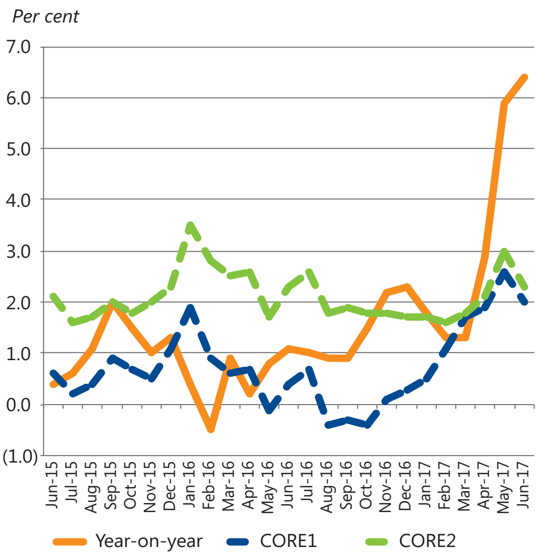
Sources: Statistics Mauritius and Bank of Mauritius.

Depository Corporations Survey

The net foreign assets (NFA) of depository corporations expanded by 8.9 per cent, from Rs529.8 billion as at end-June 2016 to Rs577.1 billion as at end-June 2017 compared to a rise of 1.9 per cent recorded in FY2015-16. Net foreign assets of other depository corporations rose by 9.3 per cent, in contrast to a fall of 4.8 per cent in FY2015-16 while the net foreign assets of Bank of Mauritius increased by 8.2 per cent as compared to an expansion of 20.3 per cent in FY2015-16. Domestic claims of depository corporations went up by 8.6 per cent, from Rs485.7 billion as at end-June 2016 to Rs527.7 billion as at end-June 2017, compared to a rise of 5.4 per cent in FY2015-16, mirroring higher growth in both net claims on Central Government and claims on other sectors. Net claims on Central Government grew by 19.8 per cent, from Rs48.6 billion as at end-June 2016 to Rs58.2 billion as at end-June 2017 compared to an increase of 4.5 per cent registered in FY2015-16. The rise in net claims on Central Government in FY2016-17 reflects to some extent the increase in holdings of government securities from the ODCs. Claims on other sectors registered a higher increase of 7.4 per cent as at end-June 2017, compared to the growth of 5.5 per cent recorded as at end-June 2016, reflecting a two-fold increase in financial derivatives to the private sector from the ODCs in FY 2016-17.

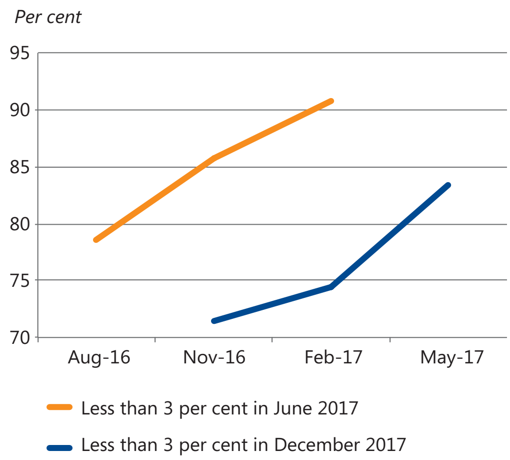
Broad Money Liabilities (BML), expanded by 8.0 per cent, from Rs455.0 billion as at end-June 2016 to Rs491.5 billion as at end-June 2017, slightly lower than the increase of 8.7 per cent recorded during FY2015-16. All the components of BML registered positive growth rates in FY2016-17. Currency with public expanded by 8.4 per cent in FY2016-17, lower than the increase of 9.3 per cent registered in FY2015-16, possibly reflecting higher use of electronic money and rather subdued domestic economic activity. Transferable deposits went

Chart 2.22: Year-on-year Inflation and Year-on-year Core Inflation



Sources: Statistics Mauritius and Bank of Mauritius.

Chart 2.23: Inflation Expectations



Source: Research and Economic Analysis Department.

up by 9.2 per cent, lower compared to the rise of 13.9 per cent in FY2015-16; while savings deposits grew by 11.9 per cent, lower than the increase of 12.4 per cent registered in FY2015-16. Time deposits' growth rate returned to positive territory during FY2016-17, increasing by 0.5 per cent compared to a contraction of 1.5 per cent in FY2015-16. Securities other than shares included in broad money went up by 22.2 per cent compared to 57.5 per cent, reflecting lower investments of the other financial corporations' in BoM securities. The rupee component of deposits included in BML went up by 6.8 per cent in FY2016-17, slightly lower compared to the increase of 6.9 per cent in FY2015-16. The foreign currency component of deposits included in BML rose by 13.3 per cent compared to a rise of 16.2 per cent over the previous corresponding period. Table 2.3 shows the Depository Corporations Survey as at end-June 2015, 2016 and 2017.

Central Bank Survey

The monetary base broadened by 14.6 per cent, from Rs70.4 billion as at end-June 2016 to Rs80.7 billion as at end-June 2017, as against a contraction of 1.6 per cent in FY2015-16. Within the components of the monetary base, currency in circulation accelerated by 9.8 per cent, higher than the 7.7 per cent increase noted in FY2015-16, whereby currency with public backing heavily the increase. Banks' deposits with the Bank of Mauritius also went up by 18.5 per cent as against a contraction of 7.7 per cent registered in FY2015-16, pointing to the accumulation of excess liquidity in the

Table 2.3: Depository Corporations Survey

	Jun-15 (1) (Rs million)	Jun-16 (2) (Rs million)	Jun-17 (3) (Rs million)	Change Between (1) and (2) (Rs million)	Change Between (1) and (2) (Per cent)	Change Between (2) and (3) (Rs million)	Change Between (2) and (3) (Per cent)
1. Net Foreign Assets	**519,851**	**529,765**	**577,137**	**9,914**	**1.9**	**47,372**	**8.9**
Claims on Non-residents	927,862	897,376	943,854	*-30,487*	*-3.3*	*46,478*	*5.2*
Liabilities to Non-residents	-408,011	-367,611	-366,717	*40,400*	*-9.9*	*893*	*-0.2*
2. Domestic Claims	**460,965**	**485,682**	**527,659**	**24,718**	**5.4**	**41,977**	**8.6**
A. Net Claims on Central Government	***46,468***	***48,559***	***58,184***	**2,091**	**4.5**	***9,625***	***19.8***
Claims on Central Government	79,660	94,350	107,072	*14,689*	*18.4*	*12,722*	*13.5*
Liabilities to Central Government	-33,192	-45,790	-48,888	*-12,598*	*38.0*	*-3,097*	*6.8*
B. Claims on Other Sectors	***414,497***	***437,123***	***469,475***	***22,626***	***5.5***	***32,352***	***7.4***
3. ASSETS = LIABILITIES	**980,816**	**1,015,447**	**1,104,796**	**34,631**	**3.5**	**89,349**	**8.8**
4. Broad Money Liabilities	***418,402***	***454,966***	***491,497***	***36,564***	***8.7***	***36,531***	***8.0***
A. Currency outside Depository Corporations	*24,018*	*26,254*	*28,460*	*2,236*	*9.3*	*2,207*	*8.4*
B. Transferable Deposits	*102,270*	*116,496*	*127,259*	*14,226*	*13.9*	*10,763*	*9.2*
C. Savings Deposits	*162,368*	*182,446*	*204,147*	*20,078*	*12.4*	*21,701*	*11.9*
D. Time Deposits	*126,313*	*124,362*	*125,021*	*-1,951*	*-1.5*	*659*	*0.5*
E. Securities other than Shares	*3,434*	*5,409*	*6,609*	*1,975*	*57.5*	*1,201*	*22.2*
5. Other	**562,414**	**560,481**	**613,299**	**-1,933**	**-0.3**	**52,818**	**9.4**

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

banking sector. On the sources side of the monetary base, net foreign assets of the Bank increased by 8.2 per cent, from Rs166.7 billion in June 2016 to Rs180.4 billion in June 2017, compared to a rise of 20.3 per cent in the previous fiscal year. Domestic claims of the Bank, which plummeted by 95.7 per cent in FY2015-16, went up by 2.9 per cent in FY2016-17. Net claims on Central Government grew by 2.8 per cent in FY 2016-17, as against a contraction of 65.4 per cent recorded in FY 2015-16. Claims on other depository corporations shrunk by 23.2 per cent, from Rs0.9 billion as at end-June 2016 to Rs0.7 billion as at end-June 2017. Table 2.4 shows the Central Bank Survey as at end-June 2015, 2016 and 2017. The average broad money multiplier dropped marginally from 6.2 as at end-June 2016 to 6.1 as at end-June 2017. The average narrow money multiplier has been broadly unchanged at 1.3 since June 2014. On average, currency with public has remained at just below 6 per cent of BML since 2013. Table 2.5 gives details on monetary ratios for the years ended June 2013 through June 2017.

Sector-wise Distribution of Bank Credit to the Private Sector

Bank credit to the private sector rose by 2.2 per cent, from Rs283.8 billion as at end-June 2016 to Rs290.1 billion as at end-June 2017, compared to an increase of 3.1 per cent recorded in FY2015-16 (Table 2.6). The '*Financial and Business Services*' sector was the major contributor to the rise in credit over the year, followed by the '*Construction*', '*Manufacturing*' and '*Traders*' sectors. These sectors, together, added Rs13.4 billion to the overall increase in credit, which more than offset the decrease of Rs6.7 billion in credit to the '*Tourism*' sector over the year. The drop in credit to the '*Tourism*' sector reflected the repayment of loans by a few hotel groups out of proceeds received through the issue of bonds. Chart 2.24 shows the sector-wise contribution to the increase in credit to the private sector by banks in FY2016-17.

Credit granted to the '*Construction*' sector accounted for 31.0 per cent of total outstanding bank credit as at end-June 2017, slightly up from 30.5 per cent as at end-June 2016. Credit allocated to this sector grew by 4.1 per cent, from Rs86.4 billion as at end-June 2016 to Rs89.9 billion as at end-June 2017, mostly due to additional credit granted for housing purposes. Housing credit, which represented 20.6 per cent of total bank credit as at end-June 2017, increased by 7.6 per cent or Rs4.2 billion over the year.

Credit growth was further supported by additional credit provided to the '*Financial and Business Services*' sector. Credit to this sector grew by 30.6 per cent, from Rs26.6 billion as at end-June 2016 to Rs34.7 billion as at end-June 2017, mainly reflecting a rise in credit to '*Investment Companies*'. As at end-June 2017, credit to the '*Financial and Business Services*' sector accounted for 12.0 per cent of total private sector credit, compared to 9.4 per cent as at end-June 2016.

Credit to the '*Manufacturing*' sector increased by 5.0 per cent and stood at Rs22.6 billion as at end-June 2017, up from Rs21.5 billion as at end-June 2016. The credit uptick in this sector was supported by an increase in credit to the '*Food and Beverages*', '*Export Enterprise Certificate Holders*' and '*Pharmaceuticals & Healthcare*' sub-sectors. Credit granted to the '*Manufacturing*' sector as a share of total private sector credit picked up marginally, from 7.6 per cent as at end-June 2016 to 7.8 per cent as at end-June 2017.

The share of bank credit to the '*Traders*' sector stood at 10.9 per cent of total outstanding

Table 2.4: Central Bank Survey							
	Jun-15	Jun-16	Jun-17	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	**138,628.5**	**166,725.9**	**180,437.6**	**28,097.4**	**20.3**	**13,711.6**	**8.2**
Claims on Non-residents	138,736.4	167,032.8	180,753.0	28,296.4	20.4	13,720.2	8.2
less: Liabilities to Non-residents	107.9	306.9	315.4	199.0	184.4	8.5	2.8
2. Domestic Claims	**-15,983.2**	**-31,285.8**	**-30,389.5**	**-15,302.6**	**-95.7**	**896.3**	**2.9**
A. Net Claims on Central Government	-21,714.8	-35,913.5	-34,907.2	-14,198.6	-65.4	1,006.3	2.8
B. Claims on Other Sectors	3,704.0	3,760.7	3,851.6	56.6	1.5	90.9	2.4
C. Claims on Other Depository Corporations	2,027.6	867.0	666.1	-1,160.6	-57.2	-200.9	-23.2
3. ASSETS = LIABILITIES	**122,645.3**	**135,440.1**	**150,048.0**	**12,794.9**	**10.4**	**14,607.9**	**10.8**
4. Monetary Base	**71,594.1**	**70,419.8**	**80,702.5**	**-1,174.3**	**-1.6**	**10,282.6**	**14.6**
A. Currency in Circulation	28,401.2	30,580.8	33,563.8	2,179.7	7.7	2,983.0	9.8
B. Liabilities to Other Depository Corporations	42,987.3	39,659.1	46,984.1	-3,328.2	-7.7	7,325.1	18.5
C. Liabilities to Other Sectors	205.7	179.9	154.5	-25.8	-12.5	-25.4	-14.1
5 Other Liabilities to Other Depository Corporations	**24,624.0**	**35,387.9**	**43,635.2**	**10,763.9**	**43.7**	**8,247.3**	**23.3**
6. Other	**24,373.3**	**25,711.0**	**20,697.0**	**1,337.6**	**5.5**	**-5,014.0**	**-19.5**

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

bank credit as at end-June 2017. Credit to this sector rose by 2.0 per cent, from Rs31.1 billion as at end June 2016 to Rs31.7 billion as at end-June 2017, mostly by 'Wholesalers'.

Credit to the '*Tourism*' sector remained subdued during the year and decreased by 14.2 per cent to Rs40.7 billion as at end-June 2017. The drop in credit to this sector mostly reflected the deleveraging process undertaken by some major hotels over the year. Credit to the '*Tourism*' sector constituted 14.0 per cent of total bank credit, compared to 16.7 per cent as at end-June 2016.

Credit extended to the '*Personal*' sector contracted by 0.8 per cent, from Rs28.7 billion as at end-June 2016 to Rs28.5 billion as at end-June 2017. Its share of total private sector credit also declined, from 10.1 per cent at the end of June 2016 to 9.8 per cent at the end of June 2017.

Maintenance of Cash Reserve Ratio

During the year under review, the required fortnightly minimum cash reserve ratio that banks had to maintain remained unchanged at

9 and 6 per cent on rupee deposits and foreign currency deposits, respectively. The average cash balances held by banks at the Bank of Mauritius ranged between Rs39.8 billion and Rs53.7 billion in FY2016-17, compared to a range of Rs37.1 billion and Rs45.8 billion in FY2015-16. The average excess reserves held by banks varied in a range of Rs5.5-17.9 billion in FY2016-17, compared to Rs5.6-12.6 billion in FY2015-16.The average cash ratio fluctuated between 9.8 per cent and 12.6 per cent in FY2016-17 compared to 9.9 and 11.7 per cent in the previous fiscal year. The lowest and highest average cash ratios were recorded in August 2016 and February 2017, respectively. Chart 2.25 shows the evolution of excess cash holdings and average cash ratio.

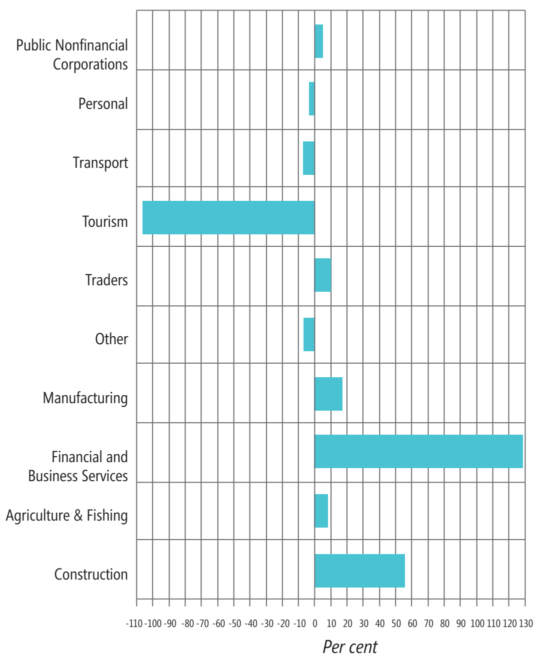
Interest Rates

Banks broadly adjusted their deposit and lending rates in line with the change in the Key Repo Rate (KRR) in FY2016-17 (Chart 2.26). The KRR was reduced by 40 basis points to 4.00 per cent per annum on 20 July 2016 and was subsequently maintained at that level at Monetary Policy Committee meetings held on 10 November 2016, 20 February 2017 and 05 May 2017.

The drop in the KRR was mirrored in both the weighted average rupee lending rate and weighted average rupee deposit rate of banks. The weighted average lending rate of banks dropped from a peak of 7.12 per cent in July 2016 to a trough of 6.74 per cent in March 2017, before closing at 6.81 per cent in June 2017. Likewise, banks' weighted average rupee deposits rate dropped gradually from 2.51 per cent as at end-July 2016 to 2.15 per cent as at end-June 2017.

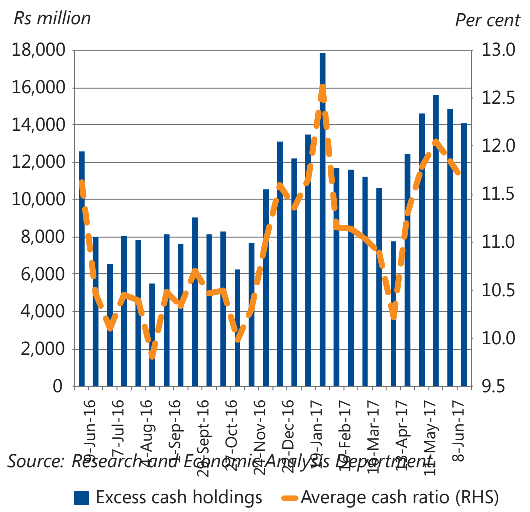
The spread between the weighted average rupee lending and weighted average rupee deposit rates varied between 4.58 per cent and 4.72 per cent during FY2016-17 compared to a range of 4.57- 4.84 per cent in FY2015-16.

Chart 2.24: Distribution of the Increase in Bank Credit to the Private Sector – end-June 2016 to end-June 2017



Source: Research and Economic Analysis Department.

Chart 2.25: Excess Cash Holdings and Average Cash Ratio



Source: Research and Economic Analysis Department.

Banks' Savings Deposit Rate (SDR) dropped from a range of 2.00-4.00 per cent as at end-June 2016 to 1.75-4.00 per cent as at end-August 2016, before falling further to 1.75-2.75 per cent by the end of October 2016. It subsequently remained contained within that range up to end-June 2017. On the other hand, banks' Prime Lending Rates varied in the range of 6.00-8.50 per cent almost throughout FY2016-17, except in July 2016, where banks' PLR fluctuated between 6.25-8.50 per cent. Table 2.7 shows the movements of interest rates during 2016-17.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

The current account deficit worsened in FY2016-17, reflecting mostly a higher goods account deficit, caused by a rising value of imports combined with lower exports. Net inflows on the capital and financial account were more than adequate to finance the current account deficit, thereby resulting in a balance of payments surplus in FY2016-17. Table 2.8 provides a summary of the main components of the balance of payments for FY2012-13 through FY2016-17.

Table 2.5: Monetary Ratios

	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
1. Monthly Average for year ended (Rs million)					
A. Monetary Base	**49,428**	**57,993**	**68,506**	**70,691**	**77,763**
	12.0	*17.3*	*18.1*	*3.2*	*10.0*
B. Broad Money Liabilities (BML)	**340,377**	**363,032**	**397,079**	**437,190**	**476,601**
	7.6	*6.7*	*9.4*	*10.1*	*9.0*
(a) Narrow Money Liabilities (NML)	68,500	74,671	81,622	89,897	99,681
	8.0	*9.0*	*9.3*	*10.1*	*10.9*
(i) Currency with Public	20,273	21,580	23,350	25,760	27,804
	8.3	*6.4*	*8.2*	*10.3*	*7.9*
(ii) Transferable Deposits	48,227	53,092	58,273	64,137	71,877
	7.8	*10.1*	*9.8*	*10.1*	*12.1*
(b) Quasi Money Liabilities	269,304	284,990	311,837	342,630	371,207
	7.4	*5.8*	*9.4*	*9.9*	*8.3*
(c) Securities other than Shares	2,573	3,371	3,620	4,663	5,713
	25.7	*31.0*	*7.4*	*28.8*	*22.5*
2. Average Money Multiplier					
A. Narrow Money Liabilities	1.4	1.3	1.2	1.3	1.3
B. Broad Money Liabilities	6.9	6.3	5.8	6.2	6.1
3. Other Monetary Ratios (Per cent)					
A. Currency with Public to NML	29.6	28.9	28.6	28.7	27.9
B. Transferable Deposits to NML	70.4	71.1	71.4	71.3	72.1
C. Currency with Public to BML	6.0	5.9	5.9	5.9	5.8
D. Transferable Deposits to B ML	14.2	14.6	14.7	14.7	15.1
E. Narrow Money Liabilities to BML	20.1	20.6	20.6	20.6	20.9
F. Quasi Money Liabilities to BML	79.1	78.5	78.5	78.4	77.9
G. Securities other than Shares to BML	0.8	0.9	0.9	1.1	1.2

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

Table 2.6: Sector-wise Distribution of Credit to the Private Sector						
SECTORS	June 16	June 17	Change between end-June 16 and end-June 17		Share of total credit as at end-June 16	Share of total credit as at end-June 17
	(Rs million)	(Rs million)	(Rs million)	(Per cent)	(Per cent)	(Per cent)
Agriculture and Fishing	**19,555.1**	**20,063.7**	**508.6**	**2.6**	**6.9**	**6.9**
- of which						
Sugar Industry - Estates	9,998.3	9,332.0	-666.3	-6.7	3.5	3.2
Sugar Industry - Others	2,935.3	2,849.7	-85.7	-2.9	1.0	1.0
Sugarcane Planters	3,095.9	3,092.4	-3.5	-0.1	1.1	1.1
Other	3,525.6	4,789.7	1,264.1	35.9	1.2	1.7
Manufacturing	**21,496.4**	**22,565.0**	**1,068.7**	**5.0**	**7.6**	**7.8**
- of which						
Export Enterprise Certificate Holders	5,647.9	5,965.1	317.2	5.6	2.0	2.1
Steel/Metal Products	1,975.4	1,450.8	-524.6	-26.6	0.7	0.5
Food and Beverages	4,885.4	5,353.3	467.9	9.6	1.7	1.8
Other	8,987.6	9,795.9	808.2	9.0	3.2	3.4
Tourism	**47,461.3**	**40,745.5**	**-6,715.8**	**-14.2**	**16.7**	**14.0**
- of which						
Hotels	27,714.8	26,942.4	-772.4	-2.8	9.8	9.3
Hotel Management Service Certificate Holders	15,810.3	10,265.5	-5,544.8	-35.1	5.6	3.5
Other	3,936.2	3,537.6	-398.6	-10.1	1.4	1.2
Transport	**4,390.1**	**3,930.2**	**-459.9**	**-10.5**	**1.5**	**1.4**
Construction	**86,410.7**	**89,927.6**	**3,517.0**	**4.1**	**30.5**	**31.0**
- of which						
Property Development	23,315.8	22,914.1	-401.8	-1.7	8.2	7.9
Housing	55,689.4	59,900.5	4,211.1	7.6	19.6	20.6
Other	7405.5	7,113.08	-292.4	-3.9	2.6	2.5
Traders	**31,066.6**	**31,694.9**	**628.3**	**2.0**	**10.9**	**10.9**
Information Communication and Technology	**1,853.3**	**1,780.8**	**-72.6**	**-3.9**	**0.7**	**0.6**
Financial and Business Services	**26,592.8**	**34,738.9**	**8,146.1**	**30.6**	**9.4**	**12.0**
Infrastructure	**4,582.6**	**4,542.5**	**-40.1**	**-0.9**	**1.6**	**1.6**
Public Non-financial Corporations	**2,022.7**	**2,332.5**	**309.8**	**15.3**	**0.7**	**0.8**
Personal	**28,711.2**	**28,479.1**	**-232.1**	**-0.8**	**10.1**	**9.8**
Professional	**1,284.1**	**1,465.5**	**181.4**	**14.1**	**0.5**	**0.5**
Education	**1,379.1**	**1,332.6**	**-46.4**	**-3.4**	**0.5**	**0.5**
Others	**6,945.1**	**6,481.6**	**-463.5**	**-6.7**	**2.4**	**2.2**
TOTAL	**283,751.1**	**290,080.4**	**6,329.3**	**2.2**	**100.0**	**100.0**

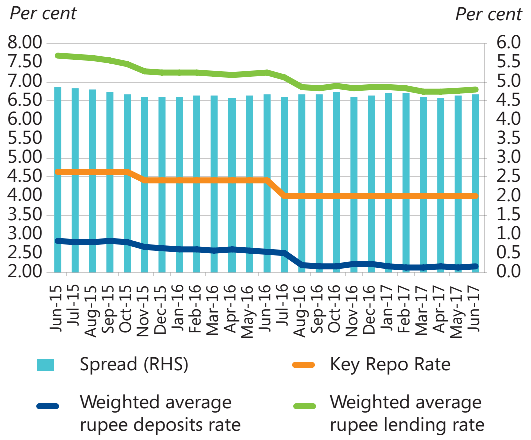
Source: Research and Economic Analysis Department.

Current Account

The current account deficit widened from Rs17.7 billion in FY2015-16 to Rs25.6 billion in FY2016-17, and as a ratio to GDP, it increased from 4.2 per cent to 5.7 per cent over that period. The goods account deficit picked up by Rs16.1 billion, from Rs66.6 billion (or 15.8 per cent of GDP) in FY2015-16 to Rs82.8 billion (or 18.5 per cent of GDP) in FY2016-17. Total imports (f.o.b.) went up by Rs9.6 billion, or 6.2 per cent, from Rs154.8 billion (or 36.7 per cent of GDP) in FY2015-16 to Rs164.5 billion (or 36.8 per cent of GDP) in FY2016-17, driven mostly by the higher import bill for petroleum products combined with higher imports of '*food and live animals*'. By contrast, total exports (f.o.b.) declined by Rs6.5 billion, or 7.3 per cent, from Rs88.2 billion (or 20.9 per cent of GDP) in FY2015-16 to Rs81.7 billion (or 18.3 per cent of GDP) in FY2016-17, reflecting mainly the declines in exports of '*articles of apparel & clothing accessories*' and '*machinery and transport equipment*'.

The services account surplus rose from Rs24.1 billion (or 5.7 per cent of GDP) in FY2015-16 to Rs26.7 billion (or 6.0 per cent of GDP) during the year under review, mainly on account of a buoyant tourism industry. Gross tourism earnings rose from Rs53.1 billion in FY2015-16 to Rs58.0 billion in FY2016-17 while the '*other services*' account swung from a net surplus of Rs0.2 billion to a net deficit of Rs0.4 billion. The surplus on the income account increased from Rs36.2 billion in FY2015-16 to Rs39.0 billion in FY2016-17. The current transfers account deficit declined from Rs11.4 billion in FY2015-16 to Rs8.5 billion in FY2016-17. Foreign grants received increased from Rs0.3 billion in FY2015-16 to Rs2.0 billion in FY2016-17. Chart 2.27 shows the main components of the current account for FY2005-06 through FY2016-17.

Chart 2.26: KRR, Weighted Lending and Deposits Rate and Spread



Source: Research and Economic Analysis Department.

Capital and Financial Account

Financial inflows during FY2016-17 were more than adequate to finance the current account deficit, hence the balance of payments surplus of Rs18.6 billion, which was, however, lower than that of Rs26.9 billion recorded in FY2015-16. Exclusive of reserve assets, the capital and financial account recorded estimated net inflows of Rs42.4 billion in FY2016-17. Inclusive of GBC1 transactions, inward direct investment flows were estimated at Rs781.5 billion. Excluding GBC transactions, direct investment in Mauritius, net of repatriation, amounted to Rs13.4 billion, which was principally directed to the 'real estate' sector. Direct investment abroad, inclusive of GBC1 transactions, was estimated at Rs423.1 billion in FY2016-17. Excluding GBC transactions, direct investment abroad, net of repatriation, amounted to Rs1.5 billion in FY2016-17. Chart 2.28 shows the financing of the current account from FY2012-13 through FY2016-17.

The portfolio investment account, inclusive of GBC1 transactions, recorded net outflows of Rs197.7 billion in FY2016-17. Exclusive of GBC transactions, the portfolio investment account

Table 2.7: Other Interest Rates							
							(Per cent per annum)
		Prime Lending Rate	Interest Rate on Rupee Savings Deposits with Banks	Interest Rate on Rupee Term Deposits with Banks*	Interest Rate on Rupee Loans and Advances by Banks	Weighted Average Rupee Deposits Rate of Banks	Weighted Average Rupee Lending Rate of Banks
2016							
	Jul	6.25-8.50	2.00-4.00	0.05-10.30	1.94-19.25	2.51	7.12
	Aug	6.00-8.50	1.75-4.00	0.05-10.30	1.93-19.25	2.20	6.87
	Sep	6.00-8.50	1.75-4.00	0.05-10.30	1.92-19.25	2.16	6.84
	Oct	6.00-8.50	1.75-2.75	0.05-10.30	1.93-19.25	2.16	6.88
	Nov	6.00-8.50	1.75-2.75	0.05-10.30	1.92-19.25	2.21	6.83
	Dec	6.00-8.50	1.75-2.75	0.05-10.30	1.91-19.25	2.21	6.86
2017							
	Jan	6.00-8.50	1.75-2.75	0.00-5.00	1.00-19.25	2.16	6.87
	Feb	6.00-8.50	1.75-2.75	0.00-6.25	1.00-19.25	2.14	6.83
	Mar	6.00-8.50	1.75-2.75	0.00-5.00	2.00-19.25	2.14	6.74
	Apr	6.00-8.50	1.75-2.75	0.00-5.00	1.00-19.25	2.16	6.74
	May	6.00-8.50	1.75-2.75	0.00-4.90	2.00-19.25	2.13	6.76
	Jun	6.00-8.50	1.75-2.75	0.00-4.75	2.00-19.25	2.15	6.81

** Effective January 2017, data refers to interest rates on new Rupee deposits during the month. Consequently data is not strickly comparable prior to January 2017.*
Source: Research and Economic Analysis Department.

Table 2.8: Balance of Payments Summary					
	2012-13	2013-14 [1]	2014-15 [1]	2015-16 [1]	2016-17 [2]
					(Rs million)
Current Account	**-29,698**	**-15,393**	**-20,164**	**-17,732**	**-25,582**
Goods	**-68,586**	**-68,097**	**-70,267**	**-66,631**	**-82,755**
Exports (f.o.b.)	83,359	90,997	97,088	88,208	81,733
Imports (f.o.b.)	151,945	159,094	167,355	154,839	164,488
Services	**24,113**	**15,236**	**26,481**	**24,125**	**26,672**
Income	**14,788**	**43,638**	**34,451**	**36,179**	**38,961**
o/w global business	*12,094*	*36,964*	*32,466*	*32,731*	*31,899*
Current Transfers	**-12**	**-6,170**	**-10,829**	**-11,404**	**-8,460**
o/w global business	*-3,958*	*-10,169*	*-14,065*	*-13,469*	*-11,521*
Capital and Financial Account	**12,610**	**16,047**	**21,614**	**19,250**	**23,769**
Capital Account	**-183**	**-111**	**-139**	**-69**	**-85**
Financial Account	**12,793**	**16,158**	**21,753**	**19,319**	**23,854**
Direct Investment	108,797	346,500	385,170	317,303	358,453
o/w global business	98,411	*338,741*	*378,849*	*305,511*	*346,507*
Portfolio Investment	14,363	-211,778	-41,524	-26,745	-197,656
o/w global business	9,706	*-210,637*	*-30,547*	*-18,745*	*-185,979*
Other Investment	-90,033	-102,625	-306,788	-244,318	-118,299
o/w global business	-82,390	*1,758*	*81,951*	*-81,876*	*-76,802*
Reserve Assets	**-20,335**	**-15,939**	**-15,105**	**-26,921**	**-18,645**
Net Errors and Omissions	**17,089**	**-654**	**-1,450**	**-1,518**	**1,813**

[1] Revised. [2] Provisional.
Source: Research and Economic Analysis Department.

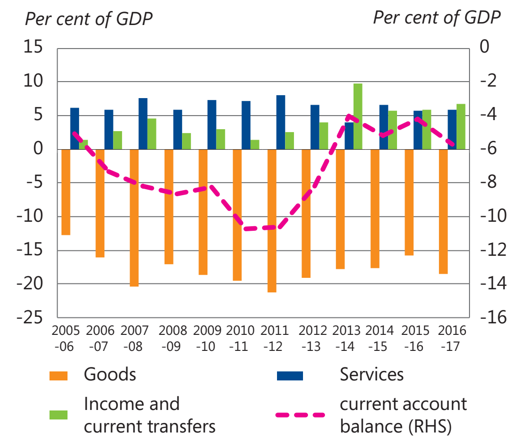
registered net outflows of Rs11.7 billion, mainly explained by higher portfolio investment abroad by residents. Non-residents' net disinvestment from the domestic stock market amounted to Rs2.1 billion, from Rs1.4 billion in FY2015-16.

The '*Other investment*' account, inclusive of GBC1 transactions, is estimated to have recorded net outflows of Rs118.3 billion in FY2016-17. The general government sector registered net outflows of Rs5.6 billion compared to net outflows of Rs1.3 billion in FY2015-16 mainly on account of an earlier repayment of an external loan obligation in January 2017. Exclusive of GBC transactions, net outflows due to private long-term capital investment are estimated to have nearly doubled to Rs1.0 billion, from Rs0.6 billion in FY2015-16. Excluding valuation change, banks' net foreign assets increased by Rs43.5 billion in FY2016-17, reflecting to a large extent the pick-up in GBC deposits.

Terms of Trade Developments

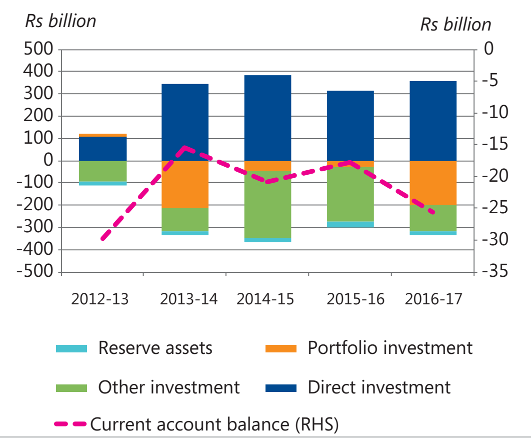
In FY2016-17, the terms of trade (ToT) deteriorated as import prices picked up while export prices dropped. The ToT worsened by 3.6 per cent in FY2016-17 compared to FY2015-16. Excluding 'Mineral Fuels', the ToT lost about 0.6 per cent, but excluding commodity prices, the ToT lost 6.6 per cent. The export price index decreased by 0.7 per cent, though it was higher by 0.7 per cent adjusted for exchange rate effects. The import price index (IPI) gained 3.0 per cent, but adjusted for exchange rate effects, was higher by 4.4 per cent. Excluding 'Mineral Fuels', the IPI fell by 0.2 per cent while, excluding commodity prices, the IPI went up by 1.6 per cent over the same period. Chart 2.29 shows the terms of trade from 2013Q1 to 2017Q2.

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.

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 reserve position in the IMF increased by Rs12.7 billion, from Rs168.7 billion as at end-June 2016 to Rs181.3 billion as at end-June 2017. Based on the value of imports of goods (f.o.b.) and non-factor services for calendar year 2016, the GOIR was equivalent to 9.5 months of imports at end-June 2017 compared to 8.8

months at end-June 2016. The relatively high level of GOIR provides adequate buffer against potential external headwinds. Chart 2.30 shows the gross official international reserves from 2015Q1 to 2017Q2.

External Vulnerability Indicators

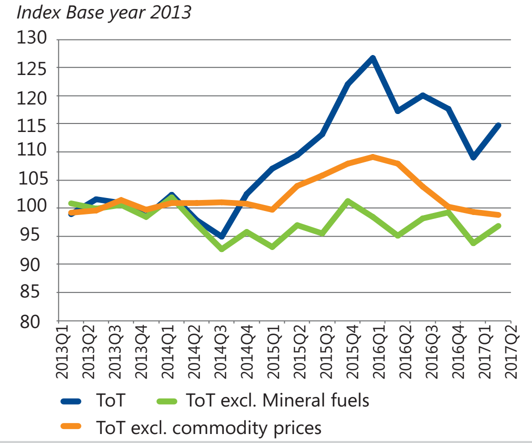
Higher gross international reserves and a lower gross external debt somewhat improved most metrics used to gauge the potential external vulnerabilities of the Mauritian economy. The gross external debt of the country declined from Rs96.9 billion as at end-June 2016, representing about 23.0 per cent of GDP, to Rs87.9 billion as at end-June 2017, equivalent to about 19.7 per cent of GDP. The ratio of gross external debt to GDP dropped to its lowest since end-December 2011 and the fall in gross external debt was driven by net repayment of both private and public external debts (Table 2.9).

The Government effected an earlier repayment of an external loan obligation to the tune of Rs4.4 billion (or USD120 million) in January 2017. Consequently, external debt servicing rose from Rs7.0 billion in FY2015-16 to Rs12.1 billion in FY2016-17. The ratio of external debt servicing to exports of goods and services increased from 3.8 per cent in FY2015-16 to 6.6 per cent in FY2016-17. It is, however, worth noting that the ratio of gross external debt to exports of goods and services declined to 47.7 per cent while the ratio of reserves to gross external debt reached a peak of 206.4 per cent as at end-June 2017 compared to 174.1 per cent a year ago.

International Investment Position

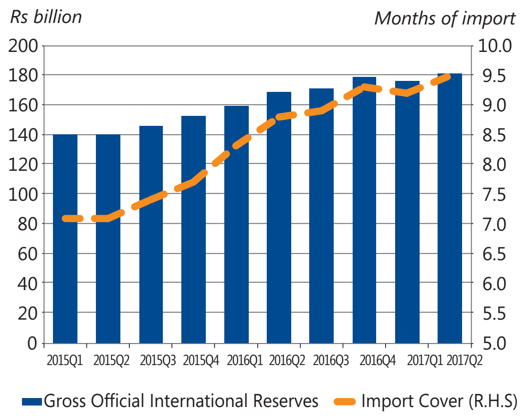
The net creditor position of Mauritius vis-à-vis non-residents declined as at end-December 2016, reflecting lower GBC net claims on non-residents. The International Investment Position (IIP) statistics showed that the country's net foreign asset position stood at Rs800 billion as at end-December 2016, compared to Rs1,158 billion as at end-December 2015, albeit other residents' net claims on non-residents increased (Table 2.10). Claims on non-residents increased from Rs15,388 billion as at end-December 2015 to Rs15,808 billion as at end-December 2016. Liabilities to non-residents also went up from Rs14,230 billion to Rs15,008 billion over the same period.

Chart 2.29: Terms of Trade



Source: Statistics Mauritius.

Chart 2.30: Gross Official International Reserves and Import Cover



Source: Research and Economic Analysis Department.

The net foreign asset position of the non-GBC sector increased from Rs338 billion as at end-December 2015 to Rs356 billion as at end-December 2016. Non-GBC residents' claims on non-residents went down from Rs1,001 billion as at end-December 2015 to Rs980 billion as at end-December 2016, while their liabilities to non-residents declined from Rs663 billion to Rs625 billion. The net foreign asset position of the GBC sector declined from Rs820 billion to Rs444 billion notwithstanding the rise in their claims on non-residents from Rs14,387 billion to Rs14,828 billion, coupled with an increase in their liabilities to non-residents from Rs13,567 billion to Rs14,384 billion.

Portfolio Investment Assets

The stock of residents' portfolio investment assets abroad went down by USD11.7 billion, from USD122.2 billion as at end-December 2015 to USD110.5 billion as at end-December 2016. This fall emanated from a decrease of USD9.5 billion in the stock of equity assets, from USD111.3 billion as at end-December 2015 to USD101.8 billion as at end-December 2016; and of debt assets by USD2.3 billion, from USD10.9 billion to USD8.7 billion. Global business corporations (GBC1s) held the bulk of portfolio investment assets abroad, which amounted to USD106.3 billion and represented

Table 2.9: External Vulnerabilities Indicators: December 2013 to June 2017

		Dec-13	Dec-14	Dec-15	Jun-16	Dec-16	Mar-17	Jun-17
								(Rs million)
Gross External Debt [1]	as at end	88,974	94,678	99,424	96,886	94,211	87,211	87,867
External Debt Service [1]	year ended	9,847	9,331	7,820	7,042	7,782	12,194	12,131
Exports of Goods	year ended	88,049	94,776	93,290	88,208	83,851	82,590	81,733
Exports of Goods and Services	year ended	173,232	190,075	190,271	187,330	184,311	182,808	184,034
Imports of Goods and Services	year ended	225,493	234,610	233,324	229,836	229,894	234,893	240,117
Gross Official International Reserves [2]	as at end	105,009	124,344	152,902	168,679	178,858	176,570	181,339
GDP at market prices	year ended	372,397	392,062	409,892	421,917	434,339	440,039	447,154
Broad Money Liabilities	as at end	365,609	397,557	437,999	454,966	477,789	485,071	491,497
								(Per cent)
I. Solvency		**Dec-13**	**Dec-14**	**Dec-15**	**Jun-16**	**Dec-16**	**Mar-17**	**Jun-17**
Gross External Debt/GDP		23.9	24.1	24.3	23.0	21.7	19.8	19.7
Gross External Debt/Exports of Goods		101.1	99.9	106.6	109.8	112.4	105.6	107.5
Gross External Debt/Exports of Goods and Services		51.4	49.8	52.3	51.7	51.1	47.7	47.7
External Debt Service/Exports of Goods		11.2	9.8	8.4	8.0	9.3	14.8	14.8
External Debt Service/Exports of Goods and Services		5.7	4.9	4.1	3.8	4.2	6.7	6.6
II. Reserve Adequacy								
Reserves/Imports of Goods and Services		46.6	53.0	65.5	73.4	77.8	75.2	75.5
Reserves/Broad Money Liabilities		28.7	31.3	34.9	37.1	37.4	36.4	36.9
Reserves/Gross External Debt		118.0	131.3	153.8	174.1	189.8	202.5	206.4

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

Sources: Statistics Mauritius, MoFED and Bank of Mauritius.

a share of 96.3 per cent of the total as at end-December 2016. India remained the preferred destination for Mauritian investors with a share of 72.1 per cent (or USD79.6 billion) of the total stock of foreign portfolio investment assets as at end-December 2016 (Table 2.11), of which 95.5 per cent (or USD76.0 billion) of investment was in equity. Hong Kong and Singapore ranked second and third, respectively, in terms of outstanding stock of portfolio investment assets with respective shares of 5.9 per cent (or USD6.5 billion) and 4.0 per cent (or USD4.4 billion).

Stock of Direct Investment Assets and Liabilities

The stock of direct investment liabilities of Mauritius is estimated to have declined by USD29 billion, from USD299 billion as at end-December 2014 to USD270 billion as at end-December 2015. The United States ranked first in terms of source country for direct investment inflows with outstanding claims totalling USD55 billion as at end-December 2015 and accounting for 20.4 per cent of total direct investment liabilities, followed by Cayman Islands (USD35 billion). The stock of direct investment assets of Mauritius amounted to USD223 billion as at end-December 2015 compared to USD230 billion as at end-December 2014. India remained the number one destination of direct investment with the stock of direct investment assets amounting to USD100 billion as at end-December 2015, representing a share of 45.0 per cent of total direct investment compared to USD108 billion as at end-December 2014 (Chart 2.31).

Statistics on Workers' Remittances

The Bank has started the collection and compilation of remittance statistics to meet the requirements of two different initiatives at the national level, namely, the National Migration and Development Policy and the United Nation's Sustainable Development Goals. The Bank called for the statistics on a quarterly basis from banks and foreign exchange dealers, which pertain to the volume of inward and outward remittances of workers by source country/country of destination and related charges incurred by the recipient/sender of funds in Mauritius. In addition, the sector of activity of the domestic remitter is also reported.

Inward remittances totalled Rs425 million in 2017Q1 with the top source country being France (Rs134 million), representing 31.6 per cent of the total followed by the United Kingdom (Rs72 million or 17.0 per cent). The results indicate that the Mauritian diaspora in France sent about a third of total remittances received by Mauritius in 2017Q1. The relatively low amount of total inward remittances indicate that remittances are just a small contributor to the economy (0.4 per cent of GDP). Table 2.12 depicts the top ten source countries for workers' remittances that made up for about 81 per cent of total inward remittances in 2017Q1.

Outward remittances amounted to Rs1,226 million in 2017Q1 with about 70 per cent of the total transferred to the Asian continent, specifically to Bangladesh (Rs503 million) and India (Rs348 million). Remitters, who effected the largest outward transfers, were employed in the '*Manufacturing*' sector (Rs821 million), of which over 90 per cent were sent to Bangladesh and India.

Table 2.13 shows the top five countries of destination of outward remittances. These countries made up for about 82 per cent of total outward remittances in 2017Q1.

The average charge for inward workers' remittances for banks and foreign exchange

Table 2.10: International Investment Position: End-2015 to end-2016

(Rs billion)

	2015[1]	2016[2]		2015[1]	2016[2]
Net Foreign Asset Position	**1,158**	**800**			
o/w: Non-GBC	*338*	*356*			
GBC1	*820*	*444*			
Claims on Non-residents	**15,388**	**15,808**	**Liabilities to Non-residents**	**14,230**	**15,008**
Direct Investment	7,996	8,437	Direct Investment	9,694	10,190
o/w: Non-GBC	*26*	*26*	*o/w: Non-GBC*	*155*	*162*
GBC1	*7,970*	*8,411*	*GBC1*	*9,539*	*10,028*
Portfolio Investment	4,387	3,978	Direct Investment	1,216	1,134
o/w: Non-GBC	*126*	*149*	*o/w: Non-GBC*	*42*	*38*
GBC1	*4,260*	*3,830*	*GBC1*	*1,174*	*1,096*
Other Investment	1,713	2,164	Other Investment	2,371	2,802
o/w: Non-GBC	*577*	*564*	*o/w: Non-GBC*	*347*	*362*
GBC1	*1,136*	*1,600*	*GBC1*	*2,024*	*2,440*
Financial Derivatives	1,139	1,050	Financial Derivatives	950	883
o/w: Non-GBC	*119*	*63*	*o/w: Non-GBC*	*119*	*63*
GBC1	*1,020*	*987*	*GBC1*	*830*	*820*
Reserve Assets	153	179			

[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: Outstanding Portfolio Investment Assets of Mauritius by Geographical Location

	Dec-15		Dec-16	
	Portfolio Assets (USD million)	Share in Total (%)	Portfolio Assets (USD million)	Share in Total (%)
Total	**122,229**		**110,480**	
of which:				
India	84,581	69.2	79,610	72.1
Hong Kong	8,576	7.0	6,499	5.9
Singapore	3,651	3.0	4,436	4.0
United States	3,769	3.1	4,135	3.7
China	2,890	2.4	2,550	2.3
United Kingdom	1,900	1.6	2,155	2.0
South Africa	1,656	1.4	1,167	1.1
Cayman Islands	1,192	1.0	1,121	1.0
Nigeria	951	0.8	624	0.6
Luxembourg	588	0.5	581	0.5

Source: Research and Economic Analysis Department.

dealers combined, based on the amount transferred, was at a maximum of 1.1 per cent of the transaction amount in 2017Q1. Likewise, the average charge for outward workers' remittances was at a maximum of 3.8 per cent. The average overall charge for inward and outward remittances, thus, amounted to 0.04 per cent and 1.1 per cent, respectively. Based on the results for 2017Q1, Mauritius meets the United Nation's Sustainable Development Goal (Target 10c) of less than 3 per cent of transaction amount for remittances.

GOVERNMENT FINANCE

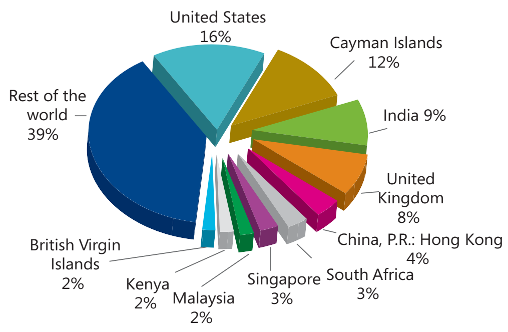
Government remained committed towards building more resilient macro-economic fundamentals. In this respect, its budget deficit remained unchanged at 3.5 per cent of GDP in FY2016-17. Budgetary outturn was more or less in line with initial projections. The budget deficit was fully financed from domestic sources.

Developments in FY2016-17

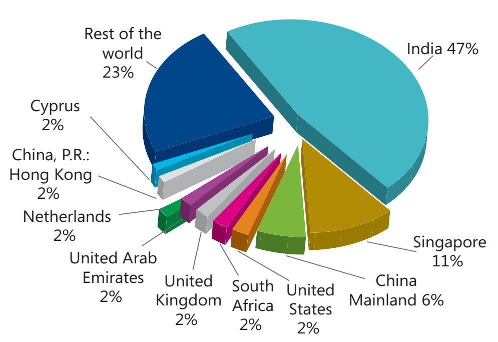
During FY2016-17, the deficit on the recurrent budget stood lower at Rs8.4 billion, compared to the budgeted estimate of Rs8.9 billion,

Chart 2.31: Direct Investment Assets and Liabilities, 2014 and 2015

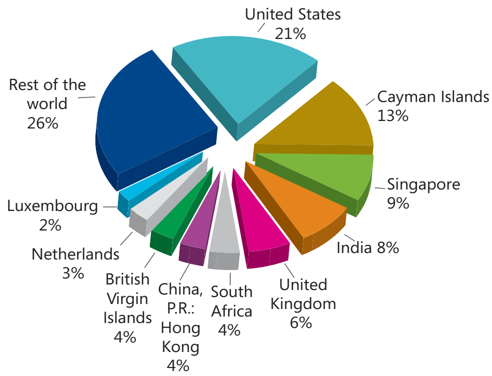
Direct Investment Liabilities in 2014



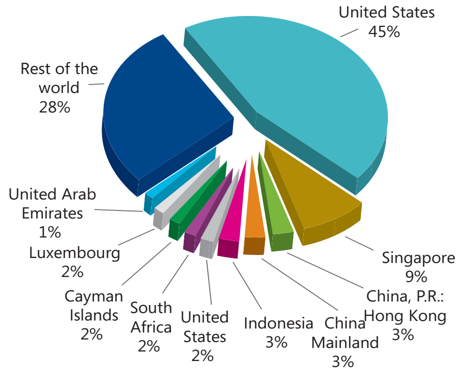
Direct Investment Assets in 2014



Direct Investment Liabilities in 2015



Direct Investment Assets in 2015



Source: Research and Economic Analysis Department.

reflecting a shortfall of Rs2.9 billion in recurrent revenue and underspending of Rs3.4 billion on recurrent expenditure. The deficit on the capital budget turned out to be higher at Rs7.5 billion, compared to the estimate of Rs6.1 billion. The shortfall in the capital revenue amounted to Rs5.5 billion, as Government received only 45 per cent of the budgeted external grant of Rs6.4 billion. Actual capital expenditure was lower than the projected amount by Rs4.1 billion. Implementation of capital projects remains an issue as only 69 per cent of the funds budgeted were spent. The budget deficit for FY2016-17 amounted to Rs15.8 billion, slightly higher than the Rs15.0 billion initially estimated and the Rs14.9 billion recorded for FY2015-16. As a percentage of GDP at market prices, the budget deficit stood at 3.5 per cent, higher than the budget estimate of 3.3 per cent, but same as for FY2015-16.

Recurrent revenue stood at 20.4 per cent of GDP in FY2016-17, unchanged from the previous fiscal year, resulting from both nominal GDP and recurrent revenue growing by 6.0 per cent in FY2016-17. Tax revenue remained by far the most important component of recurrent revenue, accounting for about 92 per cent of the total. Within tax revenue, taxes on goods and services accounted for 12.0 per cent of GDP, while taxes on income, profits and capital gains represented nearly 5.0 per cent of GDP. Tax revenue increased by 7.7 per cent, from Rs78.2 billion in FY2015-16 to Rs84.2 billion in FY2016-17. The higher increase in tax revenue relative to nominal GDP growth raised tax revenue buoyancy from 1.2 in FY2015-16 to 1.3 in FY2016-17. Taxes on income, profits and capital gains rose by 13.8 per cent, from Rs19.2 billion to Rs21.8 billion. Revenue from taxes on goods and services, which represents VAT receipts, went up by 6.9 per cent to Rs53.6 billion over the same period, higher than the increase in nominal GDP and giving a buoyancy of about 1.2. Social contributions remained unchanged at Rs1.4 billion, while

Table 2.12: Inward Workers' Remittances: Top 10 Source Countries

	Amount (Rs million)	Share (%)
Total	**425**	
o/w:		
France	134	31.6
United Kingdom	72	17.0
USA	40	9.4
Ireland	22	5.1
Italy	16	3.8
Australia	14	3.3
Switzerland	13	3.0
Canada	12	2.8
Belgium	10	2.3
Botswana	10	2.3

Source: Research and Economic Analysis Department.

Table 2.13: Outward Workers' Remittances: Top 5 Countries of Destination

	Amount (Rs million)	Share (%)
Total	**1,226**	
o/w:		
Bangladesh	503	41.0
India	348	28.4
France	71	5.8
South Africa	49	4.0
Madagascar	29	2.4

Source: Research and Economic Analysis Department.

other revenue dropped by 13 per cent to Rs5.5 billion. Chart 2.32 provides details on the sources of total revenue during FY2016-17.

Recurrent expenditure stood at 22.3 per cent of GDP in FY2016-17, up from 21.9 per cent in FY2015-16. The largest components of recurrent expenditure were compensation of employees, social benefits and grants, which together accounted for about 76 per cent of total recurrent expenditure. Except for subsidies, all the components of recurrent expenditure increased during FY2016-17. Compensation of employees amounted to Rs28.3 billion, or about 6.3 per cent of GDP while social benefits and grants stood at Rs27.4 billion and Rs20.1 billion, or 6.1 and 4.5 per cent of GDP, respectively, in FY2016-17. The recurrent deficit surged by nearly 31 per cent to Rs8.4 billion as expenditure increased higher compared to revenue (Table 2.14).

Capital revenue which comprised solely external grants during FY2016-17 amounted to Rs2.9 billion or 0.6 per cent of GDP. Capital expenditure declined by 3.6 per cent to Rs10.4 billion in FY2016-17. As a percentage of GDP, it stood at 2.3 per cent, lower compared to 2.5 per cent in the previous fiscal year. As a result, the deficit on the capital budget declined to Rs7.5 billion, representing 1.7 per cent of GDP (Table 2.15). Chart 2.33 provides the composition of Goverment's total expenditure in FY2016-17.

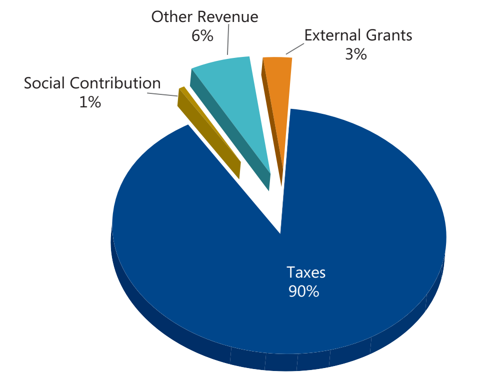
Budget Deficit and Financing

The overall budget deficit, as a percentage of GDP at market prices, remained unchanged at 3.5 per cent in FY2016-17. The deficit was financed exclusively from domestic sources. Foreign loans to the tune of Rs5.5 billion were repaid by Government during the FY2016-17. The primary deficit, which is computed by deducting interest payments from the budget deficit, stood at 1.1 per cent of GDP, unchanged from the previous fiscal year (Table 2.16).

2017-18 Budget and Budgetary Estimates

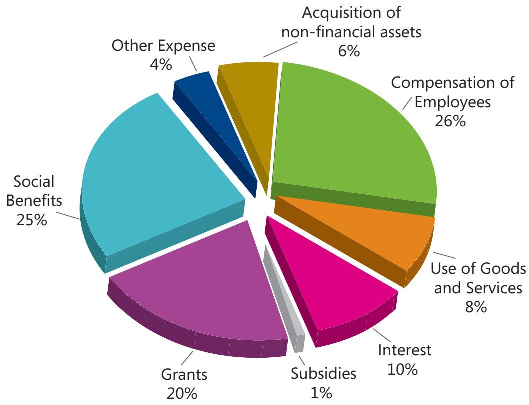
The 2017-18 Budget focused on five main challenges, notably, the need to foster higher growth for more and better jobs, massive investment on infrastructure for the future, further improvement of the quality of life of people, ushering a New Social Paradigm,

Chart 2.32: Sources of Government's Total Revenue in FY2016-17



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

Chart 2.33: Composition of Government's Total Expenditure in FY2016-17



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

and finally consolidating macro-economic fundamentals. In order to graduate the country to a high-income economy, policies and strategies have been announced to boost growth, investment and exports, through enhanced innovation and productivity. These included, among others, tax reduction from 15 per cent to 3 per cent on profits derived from exports of goods, accelerated capital allowances for qualifying research and development expenditure as well as income tax holiday for innovation-driven companies.

Table 2.14: Recurrent Budget

				(Rs million)
	2015-16	2016-17 Budget Estimates	2016-17 Actual	2017-18 Budget Estimates
1. Recurrent Revenue	**85,988**	**93,987**	**91,129**	**99,525**
	(20.4)	***(20.8)***	***(20.4)***	***(20.8)***
(a) Taxes	78,224	84,720	84,209	92,259
	(18.5)	*(18.8)*	*(18.8)*	*(19.3)*
(i) Taxes on income, profits, and capital gains	19,176	20,554	21,820	23,282
	(4.5)	*(4.6)*	*(4.9)*	*(4.9)*
(ii) Taxes on property	5,859	6,209	5,995	6,293
	(1.4)	*(1.4)*	*(1.3)*	*(1.3)*
(iii) Taxes on goods & services	50,130	55,082	53,580	59,564
	(11.9)	*(12.2)*	*(12.0)*	*(12.4)*
(iv) Taxes on international trade & transactions	1,347	1,150	1,174	1,305
	(0.3)	*(0.3)*	*(0.3)*	*(0.3)*
(v) Other taxes	1,712	1,725	1,641	1,815
	(0.4)	*(0.4)*	*(0.4)*	*(0.4)*
(b) Social Contributions	1,375	1,417	1,377	1,545
	(0.3)	*(0.3)*	*(0.3)*	*(0.3)*
(c) Other Revenue	6,390	7,850	5,542	5,721
	(1.5)	*(1.7)*	*(1.2)*	*(1.2)*
2. Recurrent Expenditure	**92,396**	**102,886**	**99,496**	**108,885**
	(21.9)	***(22.8)***	***(22.3)***	***(22.7)***
(a) Compensation of Employees	26,208	29,597	28,338	30,552
	(6.2)	*(6.6)*	*(6.3)*	*(6.4)*
(b) Purchase of Goods and Services	8,363	9,783	8,886	10,937
	(2.0)	*(2.2)*	*(2.0)*	*(2.3)*
(c) Interest	10,119	11,296	10,958	11,900
	(2.4)	*(2.5)*	*(2.5)*	*(2.5)*
(d) Subsidies	1,768	1,513	1,517	1,955
	(0.4)	*(0.3)*	*(0.3)*	*(0.4)*
(e) Grants	18,684	20,364	20,140	20,925
	(4.4)	*(4.5)*	*(4.5)*	*(4.4)*
(f) Social Benefits	25,023	27,080	27,392	29,550
	(5.9)	*(6.0)*	*(6.1)*	*(6.2)*
(g) Other Expense	2,231	2,753	2,264	2,566
	(0.5)	*(0.6)*	*(0.5)*	*(0.5)*
(h) Contingencies	-	500.0	-	500.0
	-	*(0.1)*	-	*(0.1)*
3. Recurrent Deficit	**6,408**	**8,899**	**8,367**	**9,360**
	(1.5)	**(2.0)**	**(1.9)**	**(2.0)**

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

Table 2.15: Capital Budget				
				(Rs million)
	2015-16	**2016-17 Budget Estimates**	**2016-17 Actual**	**2017-18 Budget Estimates**
1. Capital Revenue	**2,247**	**8,413**	**2,899**	**12,717**
	(0.5)	***(1.9)***	***(0.6)***	***(2.7)***
(a) External Grants	336	6,413	2,899	6,978
	(0.1)	*(1.4)*	*(0.6)*	*(1.5)*
(b) Transfer from Special Funds	1,911	2,000	0	5,739
	(0.5)	*(0.4)*	*0.0*	*(1.2)*
2. Capital Expenditure	**10,758**	**14,468**	**10,375**	**18,830**
	(2.5)	***(3.2)***	***(2.3)***	***(3.9)***
(a) Acquisition of Non-Financial Assets	5,987	10,020	6,945	12,713
	(1.4)	*(2.2)*	*(1.6)*	*(2.7)*
(b) Transfer to Special Funds	2,000	0	66	0
	(0.5)	*0.0*	*(0.0)*	*0.0*
(c) Other Transfers	1,354	2,004	1,751	3,166
	(0.3)	*(0.4)*	*(0.4)*	*(0.7)*
(d) Grants to Parastatal Bodies/Local Authorities/RRA	1,417	2,344	1,612	2,752
	(0.3)	*(0.5)*	*(0.4)*	*(0.6)*
(e) Contingencies	0	100	0	200
	0.0	*(0.0)*	*0.0*	*(0.0)*
3. Capital Deficit	**8,511**	**6,055**	**7,476**	**6,113**
	(2.0)	***(1.3)***	***(1.7)***	***(1.3)***

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

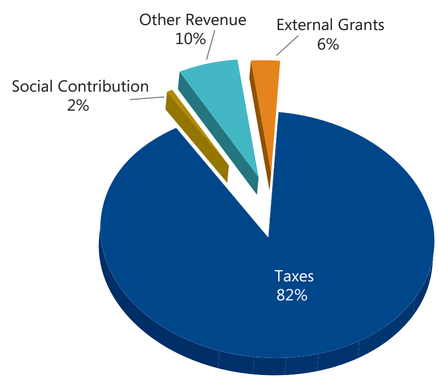
Table 2.16: Deficit and Financing				
				(Rs million)
	2015-16	**2016-17 Budget Estimates**	**2016-17 Actual**	**2017-18 Budget Estimates**
1. Budget Deficit	**14,919**	**14,954**	**15,843**	**15,473**
	(3.5)	***(3.3)***	***(3.5)***	***(3.2)***
2. Borrowing Requirements	**14,534**	**18,546**	**15,874**	**20,987**
	(3.4)	***(4.1)***	***(3.6)***	***(4.4)***
Domestic financing	15,833	23,555	21,385	21,739
	(3.8)	*(5.2)*	*(4.8)*	*(4.5)*
Foreign financing	-1,299	-5,009	-5,511	-752
	(-0.3)	*(-1.1)*	*(-1.2)*	*(-0.2)*
3. Primary Deficit	**4,800**	**3,658**	**4,884**	**3,573**
	(1.1)	***(0.8)***	***(1.1)***	***(0.7)***

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

Through significant financial support from the Government of India, investment on key infrastructural projects, including, the Metro Express Project, administrative blocks for government offices in Highlands and houses for low-income groups would be undertaken. Addressing poverty and inequality was another key objective and, to this end, the Budget has announced a negative income tax in support of those earning less than Rs10,000 a month and a solidarity levy on high income earners, such that individuals having chargeable income plus dividends in excess of Rs3.5 million would be required to pay 5 per cent of the excess. With a view to improving transparency in public finance management and consolidate macro-economic stability, all revenues and expenses of the Build Mauritius Fund and the National Resilience Fund would be consolidated in the National Budget. Moreover, the Public Debt Management Act has been amended to target gross debt and gradually reduce gross public sector debt to below 60 per cent of GDP. Total outstanding public sector debt should not exceed 65 per cent of GDP and would be gradually reduced such that by the end of FY2020-21 and thereafter, it would not exceed 60 per cent of GDP.

The budget deficit is projected at Rs15.5 billion in FY2017-18 or 3.2 per cent of GDP lower compared to 3.5 per cent in FY2016-17. The recurrent deficit is estimated to increase slightly from 1.9 per cent of GDP to 2.0 per cent of GDP in FY2017-18. The capital deficit as a ratio to GDP is projected to narrow from 1.7 per cent in FY2016-17 to 1.3 per cent in FY2017-18, with capital expenditure increasing from 2.3 per cent of GDP in FY2016-17 to 3.9 per cent of GDP in FY2017-18, driven mainly by higher expenditure on acquisition of non-financial assets, which would fully offset external grants and transfer from Special Funds amounting to 1.5 per cent and 1.2 per cent of GDP, respectively. For the third consecutive

Chart 2.34: Sources of Government's Total Revenue in FY2017-18



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

fiscal year, the financing of the budget deficit would come solely from domestic sources. The primary deficit is estimated to decline noticeably to 0.7 per cent of GDP, as interest payments are projected to increase slightly from Rs11.0 billion in FY2016-17 to Rs11.9 billion in FY2017-18 amid the low domestic interest rate environment. Chart 2.34 illustrates sources of Government's total revenue while Chart 2.35 shows the composition of Government's total expenditure for FY2017-18.

Public Sector Debt

Public sector debt rose by 5.7 per cent, from Rs274.4 billion as at end-June 2016 to Rs290.1 billion as at end-June 2017. As a ratio to GDP, total public sector debt is estimated at 64.9 per cent at the end of June 2017, marginally down from 65.0 per cent at the end of June 2016. The discounted public sector debt as a share of GDP is estimated at 56.2 per cent at the end of June 2017, up from 55.7 per cent a year earlier. Higher public sector debt was the result of mounting domestic debt, which soared from Rs208.5 billion to Rs231.2 billion between end-June 2016 and end-June 2017, or by 10.9 per cent. The need to curtail public sector debt is warranted for the build-up of fiscal space, which can be used as an automatic stabiliser in times of duress.

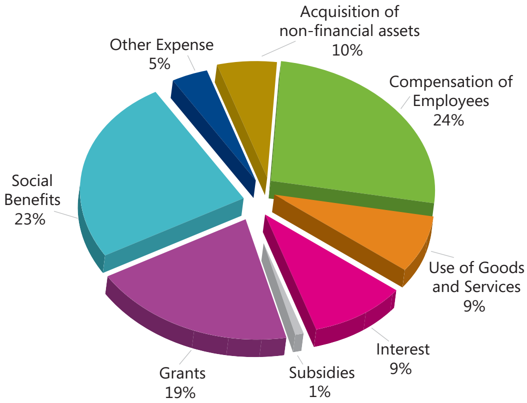
In line with the objective to mitigate rollover risks by increasing average time to maturity of debt, the proportion of long-term domestic debt obligations in Central Government debt issued for meeting borrowing requirements has increased by 1.0 percentage point to 62.0 per cent. External public sector debt fell substantially by 10.6 per cent, from Rs65.9 billion to Rs58.9 billion over the same period, reflecting mainly an earlier repayment of USD120 million of an external debt obligation in January 2017, in line with the announcement made in Budget Speech 2016-17. As a share to GDP, external public sector debt declined from 15.6 per cent to 13.2 per cent.

Budgetary Central Government external debt remained denominated in the two most liquid and largest reserve currencies. The US dollar and euro accounted for 33.5 per cent and 39.1 per cent of budgetary Central Government external debt, respectively, as at end-June 2017. With regard to the interest rate mix of public sector external debt, 57 per cent carried a floating interest rate tag as at end-June 2017, down by 1.3 percentage points compared to end-June 2016. With a view to reducing interest rate risks, the strategy of Government is to reduce the share of variable interest rate loans to 48 per cent by end-June 2020. Table 2.17 gives details on public sector debt from end-June 2013 to end-June 2017. Chart 2.36 provides the currency composition of budgetary Central Government external debt as at end-June 2017.

EXCHANGE RATE DEVELOPMENTS

Throughout FY2016-17, the Mauritian rupee moved broadly in consonance with

Chart 2.35: Composition of Government's Total Expenditure in FY2017-18



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

international trends resulting from a rise in global economic policy uncertainty as well as geopolitical risks and economic policy divergence among major advanced economies and local market conditions. The Bank's marked intervention in the domestic foreign exchange market smoothed out undue volatility of the rupee exchange rate. Total turnover on the domestic foreign exchange market was also higher.

Total turnover (including spot and forward dealt transactions, but excluding interbank transactions and interventions conducted by the Bank) rose from an equivalent of USD8.3 billion in FY2015-16 to an equivalent of USD9.8 billion in FY2016-17, or by 18.1 per cent as against a decline of 5.6 per cent in the previous financial year. Transactions were predominantly denominated in the two most liquid and largest reserve currencies, namely the US dollar (54.6 per cent) and euro (20.7 per cent). Chart 2.37 shows the currency composition for dealt spot transactions in FY2016-17.

On a consolidated indicative basis, between June 2016 and June 2017, the rupee appreciated vis-à-vis the US dollar, the Pound sterling and the euro by 1.8 per cent, 12.0 per cent and 3.6 per cent, respectively (Chart 2.38). On a

Table 2.17: Public Sector Debt

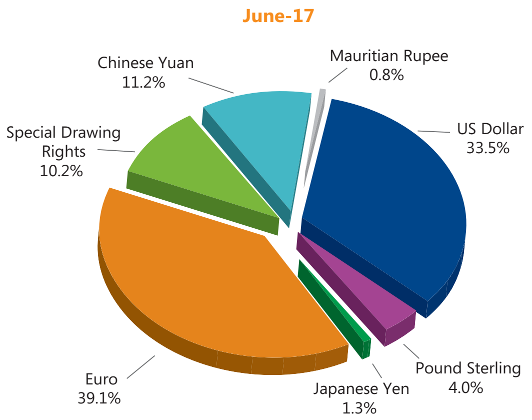
(Rs million)

	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
1. Short-term Domestic Obligations [1]	29,880	22,984	23,852	22,982	25,792
2. Medium-term Domestic Obligations [1]	40,697	50,692	49,610	49,124	51,920
3. Long-term Domestic Obligations [1]	73,309	83,301	94,869	112,886	127,054
4. Government securities issued for mopping up excess liquidity	0	0	3,577	12,806	14,436
5. Domestic Central Government Debt (1+2+3+4)	143,886	156,977	171,908	197,798	219,202
	(39.8)	*(41.0)*	*(42.9)*	*(46.9)*	*(49.0)*
6. External Government Debt	42,530	51,456	54,711	53,464	46,231
	(11.8)	*(13.4)*	*(13.7)*	*(12.7)*	*(10.3)*
7. Extra Budgetary Unit Domestic Debt	105	24	24	24	24
8. Extra Budgetary Unit External Debt	171	149	136	115	90
9. Local Government Domestic Debt	1	0	0	0	0
10. Public Enterprise Domestic Debt	10,175	9,437	12,507	10,679	11,935
11. Public Enterprise External Debt	10,994	10,838	12,618	12,317	12,621
12. Domestic Public Sector Debt	154,167	166,438	184,439	208,501	231,161
	(42.7)	*(43.5)*	*(46.0)*	*(49.4)*	*(51.7)*
13. External Public Sector Debt	53,695	62,443	67,465	65,896	58,942
	(14.9)	*(16.3)*	*(16.8)*	*(15.6)*	*(13.2)*
14. Total Public Sector Debt (12+13)	207,862	228,881	251,904	274,397	290,103
	(57.5)	*(59.8)*	*(62.9)*	*(65.0)*	*(64.9)*

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

point-to-point basis, between end-June 2016 and end-June 2017, the weighted average dealt rate of the rupee appreciated vis-à-vis the US dollar, the Pound sterling and the euro by 3.5 per cent, 8.1 per cent and 0.6 per cent, respectively (Chart 2.39). The anticipation of further monetary policy tightening in the US and growth-inducing policies by the US administration led to an appreciation of the US dollar in the concluding months of 2016. The Pound sterling and the euro were mostly influenced by uncertainties linked to Brexit and the run-up to the general elections in a number of European countries and expectations about the course of advanced economies' monetary

Chart 2.36: Currency Composition of Budgetary Central Government External Debt

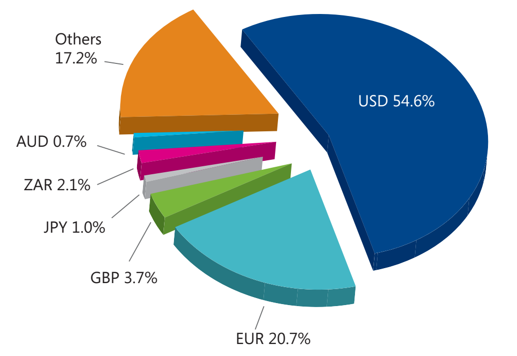


Source: Ministry of Finance and Economic Development, Government of Mauritius.

policy. In nominal effective terms, as gauged by MERI1 and MERI2, the rupee remained subject to appreciating pressures. Chart 2.40 provides a summary of the performance of the Mauritian rupee against major trading partners as per the currency distribution of trade.

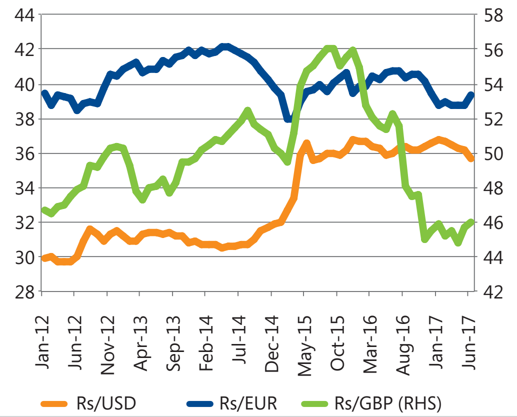
In real effective terms, based on the trade weights, the rupee firmed between mid-2016 and mid-2017, reflecting the combined influences of the strengthening of the rupee against the major trading partner currencies except the Indian rupee and South African rand. Chart 2.41 shows the evolution of the Mauritian rupee and an index of selected currencies and the US dollar. Chart 2.42 depicts the movements of MERI1, MERI2 and REER.

Chart 2.37: Foreign Exchange Transactions by Banks: Turnover by Currency



Source: Financial Markets Operations Division.

Chart 2.38: Consolidated Indicative Exchange Rates of the Rupee against Major Currencies



Source: Financial Markets Operations Division.

STOCK MARKET DEVELOPMENTS

The SEMDEX portrayed two distinct patterns during FY2016-17: a rather tepid performance in 2016H2 but a significant improvement in 2017H1. The increase in the SEMDEX during 2017H1 corroborated with the uptrend in global equities and reflected investors' portfolio rebalancing amid protracted low interest rates. Gains in the stocks of operators in banking, construction and sugar-linked sectors, among others, supported the surge in the SEMDEX. In April 2017, the SEMDEX crossed the 2,000 threshold and firmed further to 2,123 as at end-June 2017, thus rising by 21.1 per cent in FY2016-17 as against a contraction of 11.5 per cent in FY2015-16. Over the corresponding period, the SEM-10, which comprises the 10 most capitalised stocks listed on the SEM, gained 22.3 per cent as against a contraction of 10.9 per cent in FY2015-16 (Chart 2.43).

Total market capitalisation on the Official Market increased to nearly Rs254 billion as at end-June 2017, from Rs199.1 billion as at end-June 2016 or by 27.5 per cent as against a contraction of 9.6 per cent recorded a year earlier. Total turnover of transactions in the Official Market during FY2016-17 amounted to Rs13.6 billion for a volume of 1.3 billion shares traded, up from an aggregate value of Rs13.1 billion for a total volume of 2.2 billion shares traded in FY2015-16.

Foreign investors' holdings increased from Rs29.9 billion as at end-June 2016 to Rs31.9 billion as at end-June 2017. However, measured as a percentage to total market capitalisation, foreign investors' holdings fell to 12.6 per cent as at end-June 2017, from 15.0 per cent, a year earlier. Net sales by foreigners increased to Rs2.2 billion during FY2016-17, higher than the net sales of Rs1.4 billion in FY2015-16.

GLOBAL ECONOMIC DEVELOPMENTS

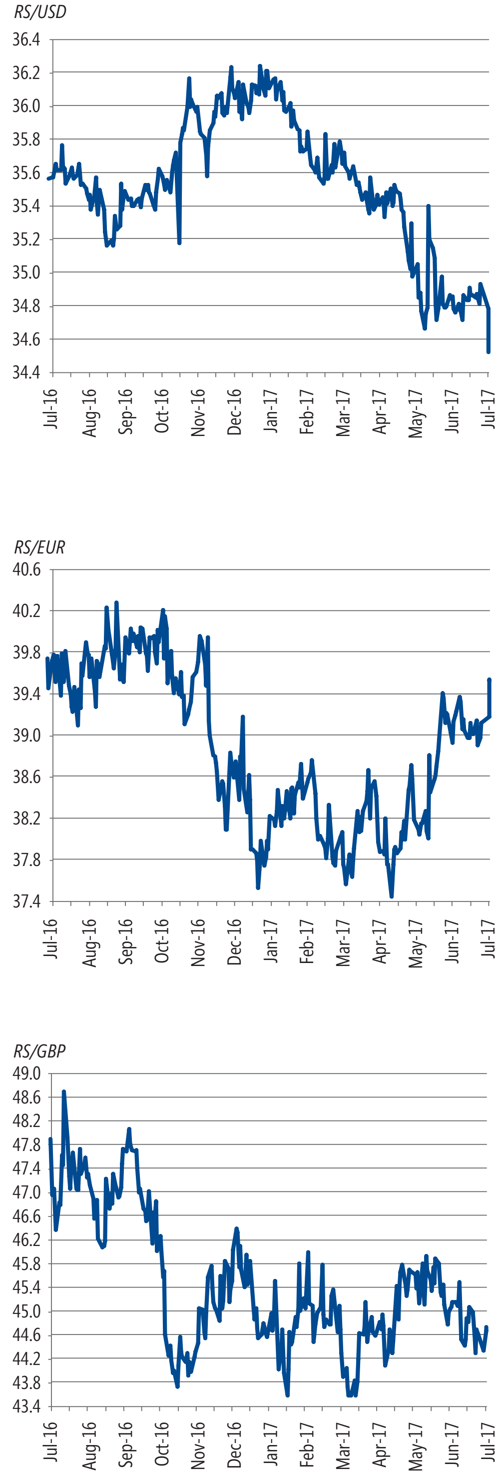
Growth

A number of factors have shaped the global economic and financial landscape during FY2016-17. These included, among others, heightened geopolitical strains, protectionist measures under the new US administration, sequencing of the UK-EU Brexit negotiations and divergence in monetary policy stances of advanced economies.

During FY2016-17, the IMF global growth forecasts have remained range-bound and were brighter than projections made during FY2015-16. The IMF's October 2017 World Economic Outlook (WEO) has revised upward global growth forecasts by 0.1 percentage point for both 2017 and 2018, at 3.6 per cent and 3.7 per cent, respectively, compared to projections made in April 2017. The more optimistic outlook is the result of growth upgrades in the Euro area, Japan, China, Emerging Europe and Russia which more than compensate for growth downgrades for the US, the UK and India.

Advanced economies are projected to grow at a higher rate of 2.2 per cent in 2017 compared to 1.7 per cent in 2016. Growth forecasts for the US were scaled down, mainly due to less-than-expected expansionary fiscal policy. UK growth projections were also downgraded as a result of more subdued economic activity in the first half of the year on the back of easing of growth in private consumption expenditure, reflecting the adverse impact of the depreciation of the

Chart 2.39: Consolidated Weighted Average Dealt Exchange Rates of the Rupee against Major Currencies



Source: Financial Markets Operations Division.

Pound sterling on household real income. On the other hand, the upward revision for Euro area growth emanates from a boost in exports and robust growth in domestic demand, aided by loose financial conditions. Japan is also forecast to expand at a higher rate than previously projected, supported by firming external demand and expansionary fiscal policy.

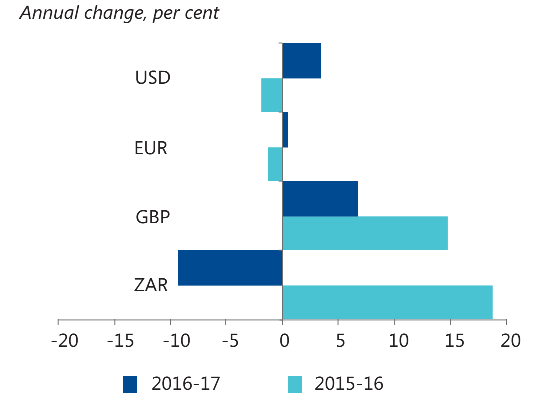
Emerging Market and Developing Economies (EMDEs) are poised for higher growth, from 4.3 per cent in 2016 to 4.6 per cent in 2017. The brighter economic outlook for EMDEs emanates mainly from increase in growth in China and Emerging Europe and improving conditions in major commodity-exporting countries that bore the brunt of the recessions in FY2015-16 amid slumping commodity prices. China's growth projections have been revised up on the back of strong growth momentum in the first half of 2017, supply-side reforms and expectations of continued fiscal support. Growth for India has been downgraded, partly undermined by the decision in November 2016 to scrap high-value old bank notes.

Medium-term risks remain tilted to the downside, including, amongst others, a faster-than-expected and significant tightening of global financial conditions and financial stress in EMDEs, reflecting monetary policy normalisation in some advanced economies, stubbornly low inflation in advanced economies, protectionist policies and geopolitical risks. Increasing headwinds to medium-term growth in China stemming from unwarranted credit growth could also weigh on global growth.

Policy Uncertainty

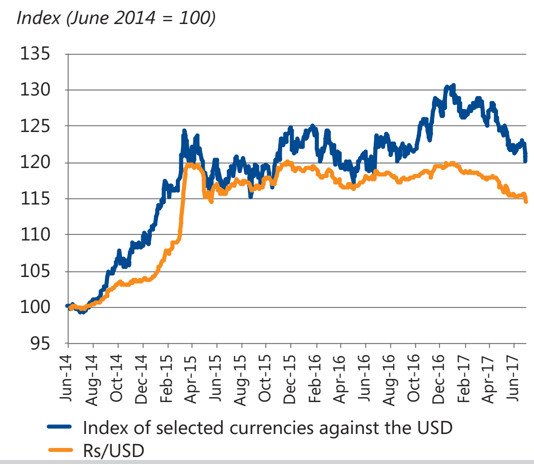
Global policy uncertainty climbed to its highest during FY2016-17, broadly underpinned by geopolitical happenings. On average, the

Chart 2.40: Summary of the Performance of the Mauritian Rupee vis-à-vis Major Trading Partners' Currencies



Source: Financial Markets Operations Division.

Chart 2.41: Evolution of the Mauritian Rupee and an Index of Selected Currencies and the US Dollar



Source: Financial Markets Operations Division.

Global Economic Policy Uncertainty Index[2] rose from 114.7 in FY2014-15 to 158.8 in FY2015-16 and further to 224.8 in FY2016-17. During FY2016-17, the index peaked at 312.2 in January 2017, but thereafter tumbled by almost 60 per cent to 131.7 in June 2017. Among the factors that pushed the index higher were the results of the US presidential elections

[2] *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

in November 2016 and the subsequent policy stance of the new US administration; issues surrounding Brexit; presidential elections in major European countries; the Greek debt issue, and geopolitical tensions in the Middle East (Chart 2.44).

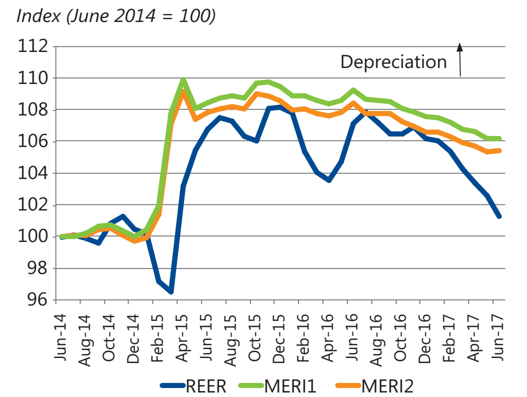
Inflation

During FY2016-17, global inflationary pressures sustained an uptrend, and inflation moved somewhat closer towards central bank targets and worries about deflation risks subsided. The increase in inflation was mainly driven by strengthening oil prices. In a number of advanced economies, while headline inflation rates broadly increased, core inflation rates - which exclude energy prices – were quite muted. On the other hand, inflation declined in some EMDEs. The October 2017 WEO projects inflation in advanced economies to pick up from 0.8 per cent in 2016 to 1.7 per cent in 2017, reflecting further increase in demand and pick-up in energy prices in the second half of 2016. Inflation in EMDEs is forecast to decline slightly from 4.3 per cent in 2016 to 4.2 per cent in 2017.

Commodity Prices

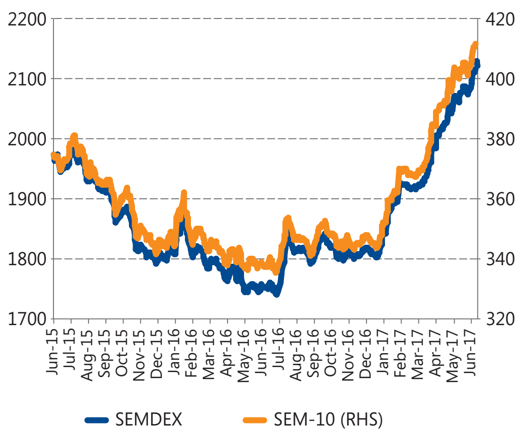
Global commodity prices pointed to mixed trends during FY2016-17. Oil prices increased in 2016 and 2017Q1 as a result of restrained oil supply, a decline in production by US shale companies, wildfires in Canada causing oil sand sites to close down, and military turmoil in Nigeria curbing oil production to 22-year lows, amongst others. An agreement in November 2016 by members of the Organisation of Petroleum Exporting Countries (OPEC) and a number of major oil-producer countries to limit oil production impacted favourably on oil prices. The average prices for ICE Brent and NYMEX WTI were higher at US$50.8 and US$48.6 in FY2016-17 compared to US$44.5

Chart 2.42: Evolution of MERI1, MERI2 and REER



Source: Financial Markets Operations Division.

Chart 2.43: Evolution of the SEMDEX and SEM-10



Source: Stock Exchange of Mauritius.

and US$42.0, respectively, in FY2015-16 (Chart 2.44).

International food prices, as reflected by the Food and Agriculture Organisation (FAO) Food Price Index, generally trended upward during FY2016-17, supported by almost all key food commodities, with the exception of sugar (Chart 2.44). The average FAO Food Price Index for FY2016-17 was higher at 171.1 compared to 155.4 in FY2015-16 but way lower from the peak of 214.6 reached in FY2012-13. A combination of supply constraints and currency movements was the main contributory factor to the sustained increase in the index by 10.2 per cent, from 162.5 in July 2016 to 179.1 in June 2017. The Sugar Price Index plummeted by 34.2 per cent between October 2016 and July 2017, driven by expectations of an oversupply on the market.

Grains' prices declined during 2016H2 but recouped some losses during 2017H1. The average IGC Grains and Oilseed Index stood at 191.7 in FY2016-17, up from 189.3 in FY2015-16 but lower compared to 296.6 in FY2012-13 (Chart 2.44). Grains prices generally increased as a result of bad weather conditions for a number of sub-components, notably wheat, maize and soyabeans in major exporter countries. Upbeat foreign demand and favourable currency movements supported the index.

On average, gold prices were higher during FY2016-17, bolstered by the US dollar's weakness on international markets. The average gold price for FY2016-17 was higher at US$1,257 an ounce compared to US$1,168 an ounce in FY2015-16, that is, up by 7.6 per cent (Chart 2.44). The drop in gold prices in 2016H2 resulted from upbeat US employment data, build-up of inflationary pressures and the hawkish tone of the US Fed members which strengthened the case for an interest rate hike. During 2017H1, prices recovered somewhat, supported by safe haven demand amid political risk in Europe and concerns over the new US President's policies.

Trade

World trade volume of goods and services expanded at 2.4 per cent in 2016, the slowest pace since 2009, down from 2.8 per cent in 2015, led by decelerating exports and imports of both advanced economies and EMDEs, subdued global investment, and fall in imports in major commodity exporters. Global trade growth is, however, projected to accelerate to 4.2 per cent in 2017, backed by a pick-up in trade flows of both advanced economies and EMDEs. A number of factors may, however, weigh on global trade, including persistent vulnerability in global investment and inward-looking trade policies.

The Baltic Dry Index rose by about 43 per cent, from 645 index points in FY2015-16 to 921 index points in FY2016-17 (Chart 2.44). Factors that exerted upward pressure on the index included China's increased appetite for iron ore and other raw materials during its peak construction season and the expectation that China may have to import a larger portion of raw materials as the Chinese Government cracks down on domestic production of materials to limit pollution.

Financial Markets

The performance of equities has been rather mixed during FY2016-17, paralleling uncertainties regarding elections in a number of countries. Financial markets have been mainly driven by political events as opposed to the monetary policy stances of major economies. During 2016H2, global equity indices were rather volatile but international stocks registered gains as equities rose following supportive investor sentiment emanating from the election of Donald Trump in the US, amongst others. Results of elections in a number of European countries during 2017H1 provided comfort to markets, igniting a rally in equity markets. Towards the end of FY2016-17, markets were again characterised by uncertainty amid the outcome of the UK snap elections.

On average, volatility indices, as measured by VIX, VSTOXX and VIX-Emerging Markets, were lower at 12.6, 18.0 and 19.4 during FY2016-17, compared to 18.1, 26.1 and 26.5, respectively, during FY2015-16. MSCI World, MSCI Emerging

Markets and MSCI Frontier indices were higher at 1,785, 921 and 750 during FY2016-17, compared to 1,648, 816 and 712, respectively, during FY2015-16 (Chart 2.44).

During 2016H2, a number of factors took a toll on the US dollar, including uncertainty over further monetary policy tightening by the US Fed and dovish comments by the US Fed Chair focusing on downside risks to the US economy. However, during 2017H1, an array of other factors supported the US currency, helping it to recoup previous losses, which included its safe haven appeal after the result of the Brexit referendum and expectations that the newly elected US President's administration would adopt expansionary fiscal policies. The average DXY and Dow Jones Dollar Index increased from 96.5 and 12,020 during FY2015-16 to 98.7 and 12,218, respectively, during FY2016-17, representing appreciation of 2.3 per cent and 1.7 per cent (Chart 2.44).

The euro broadly weakened during FY2016-17, dragged down by headwinds following Brexit referendum, the broad-based strength of the US dollar, downbeat economic data releases, anticipation of protracted accommodative monetary policy amid downside risks to Eurozone's growth, widening interest rate differentials and political uncertainty in the Eurozone. Thereafter, the single currency rallied as political risks receded after the victory of Emmanuel Macron in the French presidential elections. Rising expectations that the ECB might start policy tapering lent support to the euro. During early FY2016-17, the Pound sterling was hit by political woes in Britain and further accommodative monetary policy by the Bank of England (BoE) in August 2016. However, the British currency recovered somewhat on the back of upbeat investor sentiment, following the UK Prime Minister's call for snap general elections.

Monetary Policy

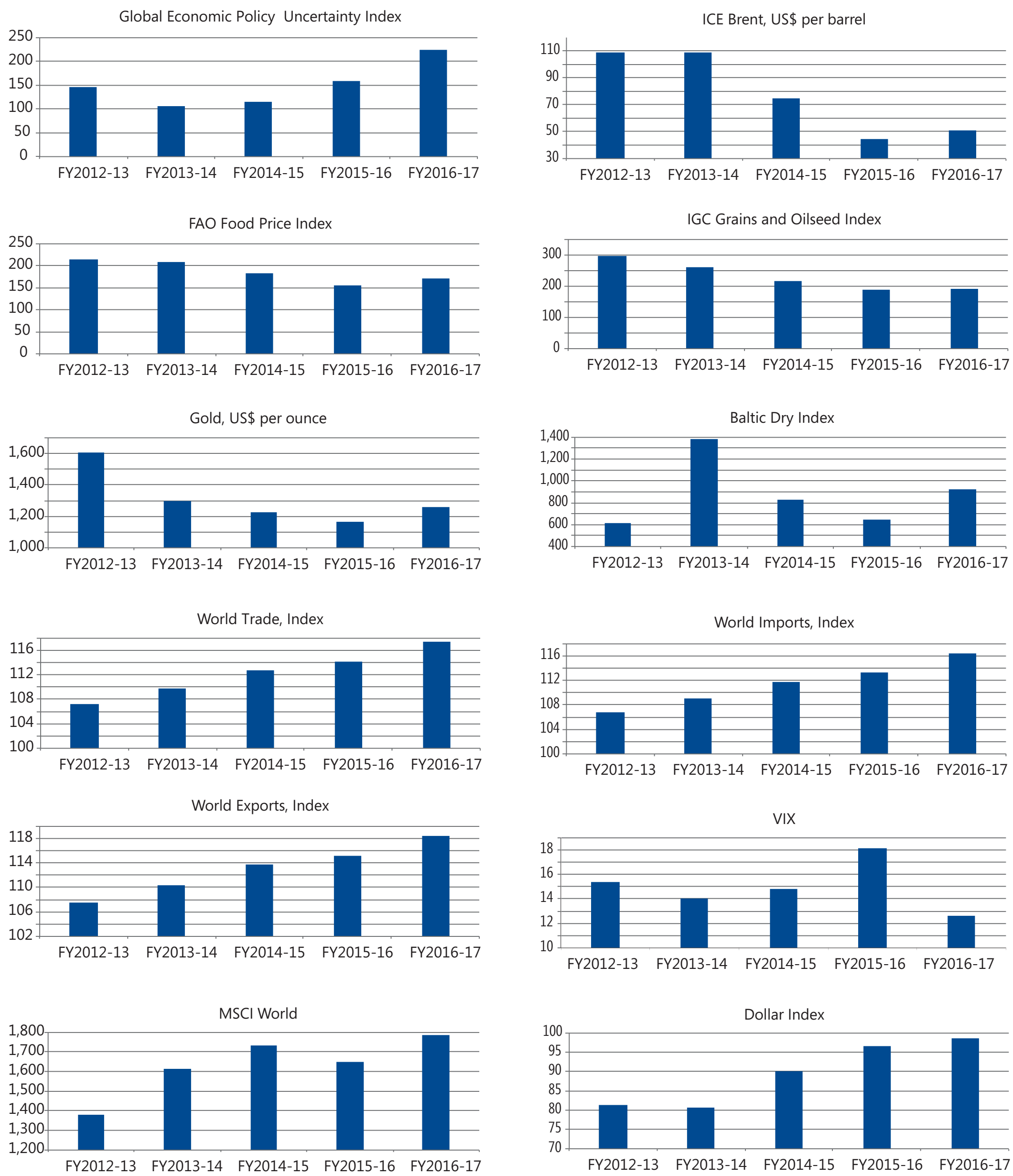
Major advanced economies followed quite divergent trajectories with regard to their monetary policy stances during FY2016-17. The US Fed accelerated its policy normalisation process and increased its target rate for the Federal funds rate on three occasions by a cumulative of 75 basis points from a range of 0.25-0.50 per cent to 1.00-1.25 per cent.

In Europe, though both the European Central Bank (ECB) and Bank of England maintained accommodative policies, they were increasingly hawkish, thereby raising prospects for tighter monetary conditions. The ECB kept its main policy rates unchanged, citing benign inflationary pressures. It also prolonged its asset purchase programme through at least December 2017. The ECB, however, lowered the asset purchase from EUR80 billion to EUR60 billion per month in April 2017, as risks of deflation retreated and the economic outlook brightened. The Bank of England cut its benchmark interest rate to a record low of 0.25 per cent in August 2016, for the first time over more than seven years, started buying UK corporate bonds of up to GBP10 billion, and expanded the UK Government bond purchase programme by an additional amount of GBP60 billion to GBP435 billion. These measures aim at cushioning the UK economy from possible negative economic and financial impact from Brexit, boosting the economy and meeting its inflation target of 2 per cent. Other major central banks kept their monetary conditions accommodative.

While many central banks maintained their policy rates unchanged, a number of others moved their rates, motivated by developments on the inflation front. The Reserve Bank of India lowered the repo rate twice in 2016 to provide a fillip to growth and to meet an inflation target of 5 per cent by end of FY2016-17. The central banks of Australia and New

Zealand reduced rates to historical lows so as to fight deflationary pressures or persistently low inflation, to support growth and to restrain the strengthening of their respective currencies. Brazil's central bank cut its policy rate by 400 basis points in a bid to overcome its deepest recession on record. Other central banks, including those of Mexico and Turkey, tightened monetary policy in order to limit unwarranted depreciation of their currencies.

Chart 2.44: Selected Global Economic Indicators



Source for world trade, world imports and world exports: CPB Netherlands Bureau of Economic Research.

STATEMENT ON PRICE STABILITY

Section 33(2)(b) of the Bank of Mauritius Act 2004 stipulates that the Bank of Mauritius is required to publish at least twice a year a 'Statement on Price Stability'. This statement provides an assessment of the elements supporting monetary policy decisions taken by the Bank during FY2016-17.

The Bank broadly adopted an accommodative monetary policy stance during FY2016-17. The Bank provided appropriate monetary conditions for a conducive environment required to favour domestic investment and growth, given that domestic inflationary pressures were broadly contained and inflation expectations were well anchored.

Between January and September 2017, three MPC meetings were held. At its 42nd meeting held on 20 February 2017 and 43rd meeting held on 5 May 2017, the MPC decided unanimously to keep the KRR unchanged at 4.00 per cent per annum. However, at its 44th meeting held on 6 September 2017, the MPC decided unanimously to cut the KRR by 50 basis points to 3.50 per cent, bringing it to a historically low level. The MPC's decision to further loosen monetary conditions was taken after a prudent review of domestic and external economic and financial developments. Muted global economic growth, subsiding global inflationary pressures, tame commodity prices and trading partners' economic performances were carefully reviewed by the MPC.

Weak inflationary pressures persisted domestically for most of FY2016-17, barring May and June 2017, where a surge in headline and y-o-y inflation was observed due to specific transient factors, including the impact of higher prices of alcoholic beverages, tobacco and Mogas and diesel oil. Headline inflation rose from 0.9 per cent in June 2016 to 1.0 per cent in December 2016 and further to 2.4 per cent in June 2017. Y-o-y inflation rose from 1.1 per cent in June 2016 to 2.3 per cent in December 2016 and to 6.4 per cent in June 2017. Seasonal factors, excise duties on demerit goods, hike in domestic petroleum prices and base effects contributed to inflationary impulses. However, underlying inflationary measures have remained at relatively low levels, even printing negative numbers at the start of FY2016-17.

A wide range of factors have contributed in containing domestic inflationary pressures. Tame external demand conditions, subdued domestic demand pressures and a weak US dollar have broadly stabilised CPI inflation. MPC members viewed that inflation was unlikely to pick up significantly over the projection horizon, with base effects dissipating gradually. Conditional on a set of domestic and external assumptions, Bank staff project headline inflation at around 4.0 per cent for the calendar year 2017 and at about 3.8 per cent in 2018.

The growth performance of the domestic economy was below its potential. MPC members took note of the rising investment spending, moderating consumption expenditure and chronic decline in exports of goods and services. Risks to real GDP growth still persist, arising from delays in the implementation of public and private investment projects, weak domestic exports, uncertain US economic policy, unforeseen outcomes of Brexit and geopolitical tensions. Considering the prevailing accommodative monetary and fiscal policy stances, Bank staff have revised their forecasts of real GDP growth rate at market prices to be between 3.6-3.8 per cent for 2017 and around 4.2 per cent in 2018.

Promoting a strong and robust monetary policy framework remains a priority for the Bank. Active open market operations have been conducted to maintain excess liquidity within acceptable limits. As part of its exchange rate policy, the Bank has also strived to align the rupee with its economic fundamentals, thus supporting domestic growth and financial stability.

3

Regulation and Supervision

THE MAURITIAN BANKING SECTOR

By virtue of section 4(2)(b) of the Bank of Mauritius Act 2004, the Bank is mandated to ensure the stability and soundness of the financial system of Mauritius. In this respect, the Bank is empowered to regulate and supervise all deposit-taking institutions as well as foreign exchange dealers and money changers carrying on activities in or from within Mauritius. Accordingly, the Bank ensures a close monitoring of its regulatees and remains watchful of any potential impact of global and domestic developments that could affect the safety and soundness of the banking system.

Mauritius broadly has a bank-centric financial system, with 23 banks operating in the jurisdiction as at end-June 2017, of which 13 were international banks. Total assets of the banking sector have notched another Rs0.1 trillion up during FY2016-17 to Rs1.3 trillion as at end-June 2017, representing about 285 per cent of GDP. The two largest domestic-owned banks, which make for about 60 per cent of total domestic market, have also extended their outreach abroad. As from June 2014, the Bank has put in place a Guideline for Dealing with Domestic Systemically Important Banks (D-SIBs) and five banks have been identified as being systemically important on the basis of a number of metrics, notably size, interconnectedness, exposure to large groups, complexity and substitutability. These banks have been required, as from 1 January 2016, to maintain a capital surcharge ranging from 1.0 to 2.5 per cent for their systemic importance. The surcharge is to be met over a four-year period, in addition to capital requirements pertaining to the maintenance of capital adequacy ratio and the capital conservation buffer.

During FY2016-17, the Bank reinforced its supervisory capacity by embracing a more risk-based approach such that its levers for conducting supervisory work would carry more risk-sensitive elements. The Bank has developed a stress testing framework for producing a suite of macro-prudential models for in-house use by the staff of the Bank. The findings of the last stress testing exercise indicated that the domestic banking sector is strong and resilient to shocks but with some grey areas that need close monitoring. Building up on the progress achieved in previous years, the Bank has also pursued the on-going review of its guidelines and instructions, in line with developments in international standards. In addition, the minimum capital requirement of banks has increased from Rs200 million to Rs400 million with effect from 24 July 2017. Existing banks have been given a transition period of up to 30 June 2019 to comply with the revised requirement.

In addition, the Bank has already embarked on the following projects aimed at containing the build-up of potential vulnerabilities and, thus, at enhancing the resilience of the domestic financial system:

I. The inclusion of a crisis management and resolution framework within the banking legislation. A Guideline on Recovery and Resolution Planning for banks will shortly be issued for consultation to the banking industry. This Guideline will require banks to prepare regular recovery plans based on proportionality, covering prescribed key elements. The establishment of a crisis management and bank resolution framework will, in the same vein, entail the setting up of a deposit insurance scheme for the protection of depositors' money.

II. The refinement of the stress testing model, with the help of an external consultant, to assess the ability of the banking industry to withstand extreme but plausible shocks.

III. The implementation, effective 1 January 2017, of a capital conservation buffer, in line with Basel III requirements for all banks. This is being carried out in a phased manner, starting at 0.625 per cent effective 1 January 2017 to become fully effective at 2.5 per cent as from 1 January 2020.

Furthermore, the Bank has achieved progress during FY2016-17 in the move towards a risk-based supervisory framework. In this stride, a World Bank consultancy mission on risk-based supervision took place in 2017H1 with the aim of refining the CAMEL rating framework.

Two banks namely PT Bank Maybank Indonesia and Banque Privée de Fleury Limited have ceased business since 1 July and 1 August 2017, respectively, and were in the process of surrendering their banking licences.

Box I highlights the main Guidelines which were issued and/or amended. Box II underscores the amendments to the Bank of Mauritius Act 2004 and Banking Act 2004 under the Finance (Miscellaneous Provisions) Act 2017.

BOX I: MAIN GUIDELINES ISSUED/AMENDED

- A new *Guideline for banks licensed to carry on private banking business* was issued in February 2017. This guideline establishes the regulatory and supervisory framework that would be applicable to banks that are licensed to carry out private banking business. Following an amendment in July 2017, clarity was brought, inter alia, to the scope of application of the guideline which also includes banks offering both conventional and private banking facilities.
- The *Fit and Proper Person Questionnaire, annexure to the Guideline on Fit and Proper Person Criteria,* was amended in September 2016. Accordingly, senior officers, directors, besides any person proposing to hold more than 10 per cent shares in a financial institution shall give their authorisation to the Bank to access their credit profiles in the Mauritius Credit Information Bureau.
- The *Guideline on Credit Risk Management* was revised in March 2017. The Guideline has been made more concise while keeping its essence. It is worth pointing out that the definition of credit has been aligned with that in the Banking Act 2004 and a definition for large credit has been added. In addition, specific clauses have been added to include consultation of the Mauritius Credit Information Bureau as part of the credit appraisal process.
- The *Guideline on Standardised Approach to Credit Risk* was revised in October 2016. One of the provisions under "claims secured by residential property" was amended to read as follows: "the value of the property must be monitored on an on-going basis, and the bank must revalue any property offered as security for such loans when there is sufficient indication of a material change in the market value of property; in the case of past due loans, the valuation of property should be carried out every two years or at such lesser intervals as may be warranted."
- The *Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism for Financial Institutions* was last revised in July 2017 to align with changes in international best practices.
- The *Guideline on reproduction of Mauritius currency notes and coins* was revised in April 2017 with the purpose of providing the criteria for any reproduction of Mauritius currency. The Guideline also sets out the procedures for the submission of an application under Section 43A of the Bank of Mauritius Act 2004 for the reproduction of Mauritius currency.
- The *Guideline on the Computation of Loan-to-Value Ratio for Residential and Commercial Property Loans* was revised in July 2017 pursuant to announcements made in the Budget Speech 2017-2018 in connection with residential property loans. For the purchase/construction of a first housing unit in respect of a single borrower or joint application by a husband and wife, the Loan-to-Value (LTV) limit for credit facilities up to Rs5.0 million has been set at a maximum of 100 per cent and for facilities in excess of Rs5.0 million, the first Rs5.0 million will be subject to a maximum LTV ratio of 100 per cent while a maximum ratio of 90 per cent will be applicable for the remaining balance.
- A new *Guideline on the Operational Framework for Primary Dealers* was issued in March 2017.
- A new *Guideline on the Operational Framework for Foreign Exchange Market-Makers* was issued in March 2017.

BOX II: THE FINANCE (MISCELLANEOUS PROVISIONS) ACT 2017

The Finance (Miscellaneous Provisions) Act 2017, Act No. 10 of 2017, was enacted on 24 July 2017 and brought the following amendments to the Bank of Mauritius Act 2004 and Banking Act 2004:

I. Bank of Mauritius Act

(a) Power to invest in Convertible Currencies

In order to allow the Bank of Mauritius to invest in such currencies as the Board may determine, the Bank of Mauritius Act has been amended as follows:

(i) Section 2 – Interpretation

The definition of "freely convertible currency" was deleted from Section 2 and a new definition of "convertible currency", namely such currency as the Board may determine, was inserted therein.

(ii) Section 6 – Powers of the Bank and Section 46 – Official foreign reserves

In the light of the amendments brought in Section 2, corresponding amendments were brought to paragraphs (h) and (l) of Section 6(1) and Section 46(1)(d), by deleting the word "freely" in the term "freely convertible currency" for it to read "convertible currency".

(b) Section 6 – Powers of the Bank

Section 6(1)(e) has been amended to allow the Bank to promote the development of the money market of Mauritius, including the Islamic money market, through the issue of, amongst others, such commercial papers as the Bank may, by rules, guidelines, instructions or directives, determine.

II. Banking Act 2004

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

A new Section 14E has been inserted in the Banking Act to allow the Bank of Mauritius to license and regulate the issue of commercial papers.

Pursuant to the new Section 14E, commercial papers, i.e. an unsecured money market instrument in the form of a promissory note having a maturity of not more than one year, may only be issued by an eligible company which holds an issuer of commercial paper licence issued by the Bank of Mauritius.

(b) Section 20 – Minimum capital requirements of banks

Section 20(1) has been amended to raise the minimum capital requirements of banks from Rs 200 million to Rs 400 million.

(c) Section 64 - Confidentiality

(i) Subsection 3(l) has been amended to provide that the duty of confidentiality imposed under that section shall, in addition to Sub-Part BA of Part VIII of the Income Tax Act, also not apply where a financial institution, other than a cash dealer, is required to provide information and particulars, and to do any other act, under Part IX of the Income Tax Act.

(ii) Subsection (16) has been amended to provide that, in the event of any conflict or inconsistency, section 11(5)(a) of the Commissions of Inquiry Act and Section 123D of the Income Tax Act shall prevail over Section 64 of the Banking Act.

(d) Section 102 – Transitional provision

In the light of the amendment brought to Section 20(1) for banks to increase their minimum capital to Rs 400 million, transitional provisions have been made in a new Section 102 for existing banks to raise their capital to not less than –

(a) 300 million rupees by 30 June 2018; and
(b) 400 million rupees by 30 June 2019.

PERFORMANCE OF THE BANKING SECTOR

As at end-June 2017, twenty-three banks were licensed by the Bank of Mauritius, of which ten were local banks, nine were subsidiaries of foreign banks and four were branches of international banks. Two banks provide private banking services exclusively, while one bank conducts Islamic banking exclusively.

The banking sector comprised a network of 204 branches in the Republic of Mauritius, including five in Rodrigues, ten counters, six mobile vans and 454 Automated Teller Machines (ATMs). As at 30 June 2017, 8,241 persons were employed in the sector, of which 132 were expatriates. In addition to traditional banking facilities, 15 banks offered card-based payment services such as credit and debit cards and 17 banks offered internet banking facilities. Five banks provided mobile banking services including payment facilities to their customers. As at end-June 2017, one non-bank entity offered mobile based facilities to customers.

The total assets of banks increased by 5.6 per cent from Rs1,208 billion as at end-June 2016 to Rs1,276 billion as at end-June 2017 compared to an increase of 2.1 per cent recorded during FY2015-16. Acceptances, guarantees and documentary credits, which form part of off-balance sheet assets, went up by 15.6 per cent from Rs60.8 billion as at end-June 2016 to Rs70.2 billion as at end-June 2017 as against a drop of 23.4 per cent recorded in FY2015-16.

Total deposits of the banking sector expanded by 7.6 per cent, from Rs885 billion as at end-June 2016 to Rs952 billion as at end-June 2017, led by an increase in Segment A deposits. Advances extended by the banking sector increased by 1.7 per cent to Rs666 billion as at end-June 2017.

Total profits posted by banks increased from Rs11.3 billion in FY2015-16 to Rs14.8 billion for FY2016-17 on account of increase in net interest income and fall in provisions and adjustments for credit losses. Non-performing loans as a ratio to total credit outstanding fell from 7.1 per cent as at end-June 2016 to 6.9 per cent as at end-June 2017.

Capital Adequacy

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

As from January 2017, banks are required to maintain, at all times, a minimum risk-weighted capital adequacy ratio of 10.625 per cent. During FY2016-17, banks' aggregate capital base (net of adjustment and capital deductions) increased by 6.2 per cent to Rs 128.9 billion. Tier 1 capital rose by 7.6 per cent to Rs118.4 billion, which represented 91.9 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 7.6 per cent from Rs11.3 billion as at end-June 2016 to Rs 10.4 billion as at end-June 2017 on account of the phasing out of capital instruments that no longer qualify as Tier 2 capital as per Basel III requirements. The rise in the risk-weighted capital adequacy ratio from 17.6 per cent to 17.9 per cent over the period is due to the capital base increasing at a higher rate of 6.2 per cent relative to a rise of 4.1 per cent observed in the risk-weighted assets.

Table 3.1 shows the risk-weighted capital adequacy ratio maintained by banks from end-June 2016 through end-June 2017, together with components of the capital base and risk-weighted assets.

Risk Profile of On - and Off-Balance Sheet Assets

Total on-balance sheet assets of banks increased by 6.0 per cent, from Rs1,157 billion as at end-June 2016 to Rs1,226 billion as at end-June 2017. The corresponding total risk-weighted on-balance sheet assets went up by 3.0 per cent to Rs617 billion over the same period.

The risk profile of on-balance sheet assets indicated that nearly 40 per cent of the total assets were allocated in the 100 per cent risk-weight basket, while about 24.5 per cent were in the zero per cent risk-weight basket. The 20 per cent and 50 per cent risk-weight buckets had respective shares of 14.5 and 12.0 per cent of the on-balance sheet assets. In terms of the risk profile of on-balance sheet assets, an increase was recorded in the respective shares of the 0 per cent, 20 per cent, 35 per cent, and 100 per cent risk-weight buckets. However, the proportion for the 50 per cent, 75 per cent and 125 per cent risk-weight buckets declined. Following the implementation of the Basel III capital disclosure requirements, additional risk weight buckets of 125 per cent, 250 per cent and 1,250 per cent have been incorporated in the risk-weights.

Table 3.2 compares the total on-balance sheet assets of banks with corresponding risk-weights as at end-June 2016 and end-June 2017.

The average combined risk-weighted ratio decreased from 47.2 per cent as at end-June 2016 to 44.9 per cent as at end-June 2017 on account of a lower expansion of 4.1 per cent in total risk-weighted assets relative to the increase of 9.4 per cent in the on- and off-balance sheet assets. Table 3.3 compares the total on- and off-balance sheet assets of banks as at end-June 2016 and end-June 2017.

Advances

Total advances, including debentures and fixed-dated securities, increased by 1.7 per cent during FY2016-17 to Rs666 billion, compared to a fall of 3.7 per cent recorded in FY2015-16. As at end-June 2017, total advances represented nearly 69.6 per cent and 52.2 per cent of total deposits and total assets, respectively, compared to 74.0 per cent and 54.2 per cent as at end-June 2016.

Loans and overdrafts in Mauritian rupees amounted to Rs231 billion, or 34.7 per cent of total advances, while loans and other financing in foreign currencies in Mauritius amounted to Rs102 billion, or 15.4 per cent of total advances at end-June 2017. Loans and other financing in foreign currencies outside Mauritius stood at Rs251 billion as at end-June 2017, representing 37.7 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 FY2016-17. The share of deposits in total liabilities went up from 73.2 per cent as at end-June 2016 to 74.6 per cent as at end-June 2017. Total deposits increased by 7.6 per cent from Rs885 billion as at end-June 2016 to Rs952 billion as at end-June 2017. The rise in the deposit base of the banking sector was supported by an expansion of 9.7 per cent in Segment A deposits and 5.9 per

Table 3.1: Risk-Weighted Capital Adequacy Ratio					
					(Rs million)
As at end of period	**Jun-16**	**Sep-16**	**Dec-16**	**Mar-17**	**Jun-17**
Tier 1 capital	110,066	108,153	114,243	118,581	118,447
Tier 2 capital	11,292	10,693	10,539	10,721	10,439
Capital Base (A)	**121,358**	**118,845**	**124,782**	**129,302**	**128,886**
Total Risk-Weighted Assets (B)	**690,596**	**699,412**	**713,264**	**722,155**	**718,734**
Total on-balance sheet risk-weighted credit exposures	598,884	608,629	617,836	618,403	617,000
Total non-market-related off-balance sheet risk-weighted credit exposures	37,862	35,860	38,079	40,808	41,927
Total market-related off-balance sheet risk-weighted credit exposures	2,017	1,625	2,085	2,552	2,364
Total risk-weighted assets for operational risk	48,334	49,196	50,367	50,407	50,602
Total foreign currency exposures	3,461	4,069	4,067	6,113	4,915
Capital charge for trading book position exceeding 5% or more of its total assets	38	33	30	3,100	1,927
Capital Adequacy Ratio (A/B)	**17.6%**	**17.0%**	**17.5%**	**17.9%**	**17.9%**

Source: Supervision Department.

Table 3.2: Risk-Weights of Banks' On-Balance Sheet Assets				
	On-balance sheet assets	**Percentage to total on-balance sheet assets**	**On-balance sheet assets**	**Percentage to total on-balance sheet assets**
	(Rs million)	*(Per cent)*	*(Rs million)*	*(Per cent)*
Risk Weights (%)	**Jun-16**		**Jun-17**	
0	260,872	22.6%	300,464	24.5%
20	175,221	15.2%	177,826	14.5%
35	46,302	4.0%	80,941	6.6%
50	176,336	15.2%	147,166	12.0%
75	32,527	2.8%	1,226	0.1%
100	416,347	36.0%	490,554	40.0%
125	22,456	1.9%	13,490	1.1%
150	25,233	2.2%	14,717	1.2%
250	1,163	0.1%	0	0.0%
1250	0	0.0%	0	0.0%
	1,156,596	**100.0**	**1,226,384**	**100.0**

Source: Supervision Department.

Table 3.3: Combined Risk-Weights of Banks' Assets			
		End-June 2016	**End-June 2017**
A	Total On-Balance Sheet Assets *(Rs million)*	1,156,596	1,226,384
B	Total Off-Balance Sheet Assets *(Rs million)*	306,734	374,761
C	Total On and Off-Balance Sheet Assets (A + B) *(Rs million)*	1,463,330	1,601,145
D	Total Risk-Weighted Assets *(Rs million)*	690,596	718,734
E	Average Combined Risk Weighting (D/C) *(Per cent)*	47.2%	44.9%

Source: Supervision Department.

cent in Segment B deposits.

The share of foreign currency deposits to total deposits was marginally lower at 61.1 per cent as at end-June 2017 as compared to 61.4 per cent as at end-June 2016. Demand, savings and time deposits respectively accounted for 47.7 per cent, 24.7 per cent and 27.6 per cent of total deposits as at end-June 2017, compared to 45.4 per cent, 24.1 per cent and 30.5 per cent as at end-June 2016.

The advances-to-deposits ratio, which indicates the extent to which funds mobilised by way of deposits have been utilised to finance lending activities, decreased from 74.3 per cent as at end-June 2016 to 69.9 per cent as at end-June 2017, reflecting somewhat a faster rise in deposits compared to lending. This ratio stood at 66.5 per cent for Segment A activities and 72.8 per cent for Segment B activities as at end-June 2017 compared to 71.7 per cent and 75.8 per cent, respectively, as at end-June 2016.

Concentration of Risks

Credit concentration risk, one of the major risks faced by banks in Mauritius, refers to the possibility 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 15 per cent of the bank's capital base - aggregated Rs194 billion, representing 26 per cent of total fund and non-fund based facilities extended as at end-June 2017. The aggregate large exposures to borrowers represented nearly 150 per cent of the capital base of banks as at end-June 2017 compared to 204 per cent as at end-June 2016, way lower than the limit of 800 per cent of the bank's capital base, or nearly four times lower than the mandatory ceiling set by the Bank.

Sectorwise Distribution of Credit to the Private Sector in Mauritius

During FY2016-17, bank credit to the private sector (including Global Business Companies) increased by 4.3 per cent, marginally higher than the growth of 4.2 per cent recorded in FY2015-16. As at end-June 2017, the share of credit to the '*construction*', '*tourism*', '*traders*' and '*personal*' sectors declined to 26.1 per cent, 11.8 per cent, 9.2 per cent and 8.3 per cent, respectively, compared to 26.2 per cent, 14.4 per cent, 9.4 per cent and 8.7 per cent reported as at end-June 2016. The share of credit to '*Global Business Companies*', '*Financial and Business Services*', and '*Manufacturing*' rose from 14.0 per cent, 8.1 per cent and 6.5 per cent as at end-June 2016 to 15.7 per cent, 10.1 per cent and 6.6 per cent, respectively, as at end-June 2017. Chart 3.1 shows the outstanding sector-wise distribution of credit to the private sector from June 2016 through June 2017.

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. Total non-performing advances of banks increased marginally by 0.2 per cent, from Rs46.7billion as at end-June 2016 to Rs46.8 billion as at end-June 2017. The increase resulted in the ratio of non-performing advances to total advances dropping from 7.1 per cent to 7.0 per cent. Impaired credit on facilities extended in Mauritius decreased by 8.2 per cent to Rs26.9 billion. On the other hand, impaired credit extended outside Mauritius increased by 14.4 per cent to Rs19.9 billion.

Specific provisions for loan losses made by banks decreased marginally by 0.9 per cent from Rs23.3billion as at end-June 2016 to

Rs23.1 billion as at end-June 2017. Specific provisions made on impaired credit in Mauritius decreased by Rs2.4 billion or 19.1 per cent while specific provisions on impaired credit outside Mauritius rose by Rs2.2 billion or 20.6 per cent. The ratio of specific provisions to non-performing advances or coverage ratio dropped from 49.9 per cent at end-June 2016 to 49.3 per cent as at end-June 2017.

Profitability

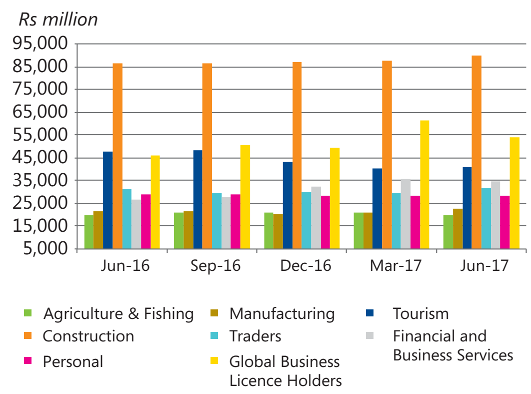
Aggregate pre-tax profit of banks increased from Rs13.4 billion in FY2015-16 to Rs18.7 billion in FY2016-17, indicating a major improvement in profitability of banks operating in the Mauritian jurisdiction. For the financial year ended 30 June 2017, an increase of 39.7 per cent in pre-tax profit was reported by banks that was mainly accounted for by a rise of 10.1 per cent in operating income. Lower borrowings costs - specifically a decline of 64.7 per cent in borrowing costs from other banks - also contributed to boost banks' profitability during FY2016-17.

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, September and December.

Components of Income

Total income of banks increased by Rs129 million, or nearly by 0.2 per cent, from Rs52.6 billion in FY2015-16 to 52.7 billion in FY2016-17, mainly on account of improvement in its non-interest income component. Chart 3.2 shows the movements in components of total income of banks from FY2014-15 through FY2016-17.

Chart 3.1: Sectorwise Distribution of Credit to Private Sector



Source: Supervision Department.

Interest Income

Interest income decreased by 2.7 per cent to Rs39,258 million in FY2016-17, from Rs40,359 million in FY2015-16. Interest earned on advances, representing 69.5 per cent of total interest income, decreased by 6.8 per cent to reach Rs27,280 million in FY2016-17. Interest received on placements and loans to banks and other interest income rose by 10.6 per cent to Rs4,243 million, while interest earned on securities increased by 6.7 per cent to Rs7,735 million in FY2016-17.

Non-Interest Income

Non-interest income, which constitutes an important source of revenue for banks, increased by Rs1,520 million, from Rs12,218 million in FY2015-16 to Rs13,738 million in FY2016-17. Fee-related income decreased by 3.5 per cent, while profit arising from dealings in foreign currencies grew by 12.4 per cent. Together, they accounted for 73.9 per cent of total non-interest income in FY2016-17 compared to 81.5 per cent in FY2015-16.

Components of Expense

Total expenses of banks decreased by 14.0 per cent from Rs32,471 million in 2015/16 to

Table 3.4: Consolidated Income Statements of Banks			
			(Rs million)
	2014-15	**2015-16**	**2016-17**
Interest Income	**38,178**	**40,359**	**39,258**
Interest on Advances	*28,094*	*29,273*	*27,280*
Interest on Securities	*7,113*	*7,249*	*7,735*
Interest on Placements and Loans to banks	*2,390*	*3,184*	*3,870*
Other Interest Income	*581*	*653*	*373*
Interest Expense	**15,723**	**15,880**	**12,612**
Interest on Deposits	*10,439*	*11,277*	*9,254*
Interest on Borrowings from banks	*4,066*	*3,633*	*1,281*
Other Interest Expenses	*1,218*	*970*	*2,077*
Net Interest Income	**22,455**	**24,479**	**26,646**
Non-Interest Income	**15,604**	**12,218**	**13,754**
Net Fee Income and Commission	*5,496*	*6,539*	*6,310*
Profit from Dealings in Foreign Currencies	*2,970*	*3,414*	*3,839*
Other Non-Interest Income	*7,138*	*2,265*	*3,605*
Operating Income	**38,059**	**36,697**	**40,400**
Non-Interest Expense	**14,537**	**16,591**	**16,665**
Staff Costs	*7,404*	*7,836*	*8,409*
Operating Expenses	*7,133*	*8,755*	*8,256*
Operating Profit before Provisions	**23,522**	**20,106**	**23,735**
Provision and Adjustments to Income from Credit Losses	*8,095*	*6,738*	*5,056*
Profit before Tax	**15,427**	**13,368**	**18,679**
Provision for Income Taxes	*2,157*	*2,036*	*2,262*
Profit after Tax	**13,270**	**11,332**	**16,417**

Source: Supervision Department.

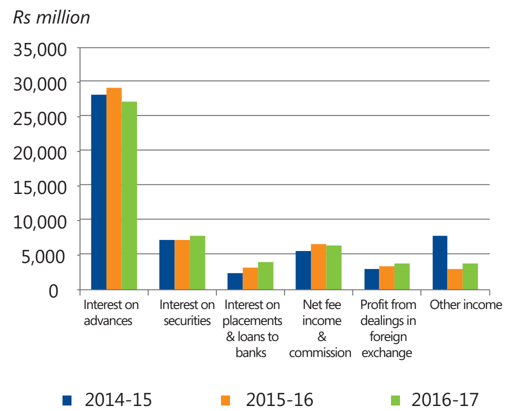
Rs27,974 million in 2016/17, mainly on account of a significant decrease in its interest expense on borrowings.

Chart 3.3 shows the evolution of the components of expense of banks from 2014/15 through 2016/17.

Interest Expense

Total interest expense declined from Rs15,880 million in 2015/2016 to Rs12,612 million in 2016/2017 mainly driven by a fall of 18 per cent in interest paid on deposits and a 65 percent decrease in interest paid on borrowings from banks.

Chart 3.2: Components of Income of Banks



Source: Supervision Department.

Non-Interest Expense

Non-interest expense which comprise staff costs and other operating expenses increased by 0.4 per cent to Rs16,665 million in 2016/17 compared to Rs16,591 million a year earlier. This was mainly due to an increase of 7 per cent in staff cost that offset the 6 per cent decrease in operating expenses.

Overall, the cost-to-income ratio for the banking sector stood at 41.2 per cent in 2016/17, compared to 44.3 per cent in 2015/16.

Provision for Credit Losses

Provision and adjustments to income from credit losses decreased from Rs6,738 million in 2015/2016 to Rs5,056 million in 2016/17 and was mainly due to a fall of 1.0 per cent in impaired advances.

Operating Profit

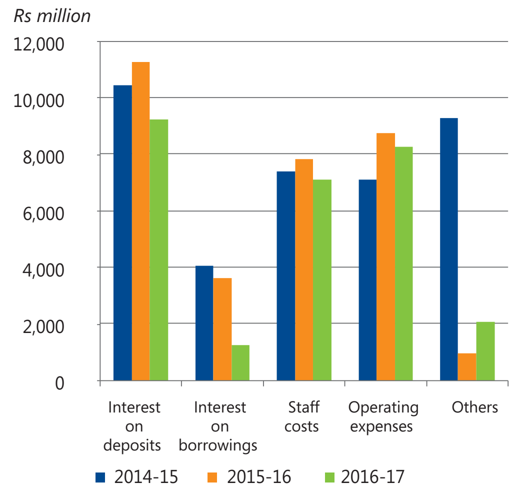
Banks' operating profit before provision for credit losses increased from Rs20,106 million in 2015/16 to Rs23,735 million in 2016/17. Likewise, post-tax profits increased significantly from Rs11,332 million in 2015/16 to Rs16,417 million.

Return on Average Assets and Equity

The pre-tax return on average assets for the banking sector increased from 1.2 per cent in 2015/16 to about 1.4 cent in 2016/17. It ranged between negative 6.7 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 increased from 9.3 per cent in 2015/16 and to 12.8 per cent in 2016/17. It ranged from negative 16.6 per cent to positive 23.8 per cent in 2016/17 for individual banks.

Chart 3.3: Components of Expense of Banks



Source: Supervision Department.

Chart 3.4 depicts the return on average assets and equity of banks from 2012/13 through 2016/17.

Interest Rate Spread

Banks' interest earned on Rs100 of advances remained somewhat range-bound and dropped by 22 cents to Rs4.25 in FY2016-17. On the other hand, the cost per Rs100 of deposits dropped further to Re0.93 reflecting the low interest rate applicable on deposits. Consequently, the spread contracted further to Rs3.32 in FY2016-17. Table 3.5 shows the interest rate spread for FY2014-15 through to FY2016-17.

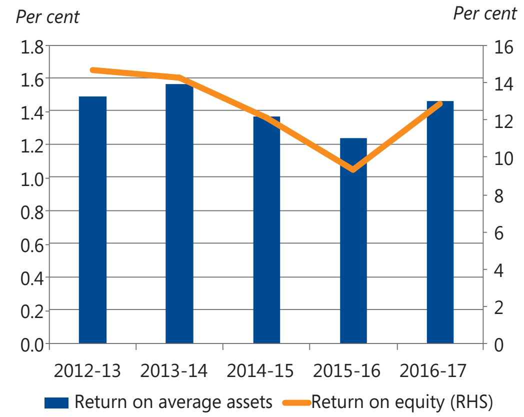
PERFORMANCE OF NON-BANK DEPOSIT-TAKING INSTITUTIONS

Eight non-bank deposit-taking institutions (NBDTIs) were in operation in Mauritius as at end-June 2017. Of these, four were involved exclusively in leasing activities, two in lending business only and the remaining two in both leasing and lending operations. Four of the NBDTIs were subsidiaries/related companies of banking institutions or insurance companies. Subsequent to a change of name, the non-bank deposit-taking licence of AXYS Leasing Ltd was cancelled and a new licence in the name of SPICE Finance Ltd was issued on 4 August 2017. As at end-June 2017, all NBDTIs met the minimum required capital of Rs200 million.

NBDTIs are required to maintain a capital adequacy ratio of 10 per cent as per the Guideline on Capital Adequacy Ratio for Non-Bank Deposit-Taking Institutions and to comply with the Guidelines issued by the Bank of Mauritius, as applicable. The capital adequacy ratio of NBDTIs increased from 28.4 per cent as at end-June 2016 to 30.3 per cent as at end-June 2017, due to a higher increase of 39.3 per cent in aggregate capital base of the sector compared to an increase of 17.5 per cent in the total risk-weighted assets. On an individual basis, the capital adequacy ratio maintained by NBDTIs ranged from 11.0 per cent to 62.8 per cent as at end-June 2017.

NBDTIs' total amount of impaired assets stood at Rs3.6 billion while specific provisions amounted to Rs1.7 billion, thereby providing a coverage ratio of 47.2 per cent. This ratio was higher than the coverage ratio of 37.4 per cent recorded as at end-June 2016, when the total amount impaired was Rs3.5 billion and specific

Chart 3.4: Return on Average Assets and Equity of Banks



Source: Supervision Department.

provisions were Rs1.3 billion. Accordingly, the NPL ratio improved from 6.0 per cent to 5.8 per cent over the period under review.

Balance Sheet Structure

Total assets of NBDTIs increased by 7.2 per cent from Rs71.7 billion as at-June 2016 to Rs76.8billion as at end-June 2017. The share of loans to total assets and of investment in finance leases to total assets declined from 58.8 per cent and 14.5 per cent, respectively, to 56.7 per cent and 14.0 per cent over the same period.

Deposits remained the main source of funding, though as a ratio of total liabilities, they

Table 3.5: Interest Rate Spread of Banks

(Rupees)

	2014-15	2015-16	2016-17
Interest Earned on Rs100 of Advances	4.33	4.40	4.00
Cost per Rs100 of Deposits	1.43	1.34	1.18
Interest Rate Spread	2.90	3.06	2.82

Source: Supervision Department.

dropped from 58.5 per cent as at end-June 2016 to 57.3 per cent as at end-June 2017. During the year under review, deposits went up by 4.9 per cent to Rs44.0 billion. Chart 3.5 illustrates the composition of assets and liabilities of NBDTIs at end-June 2016 and end-June 2017.

The advances-to-deposits ratio decreased from 125.3 per cent at end-June 2016 to 123.6 per cent at end-June 2017. Leases-to-deposits ratio (based on deposits held by leasing companies only) declined from 77.4 per cent at end-June 2016 to 76.3 per cent at end-June 2017.

Profitability

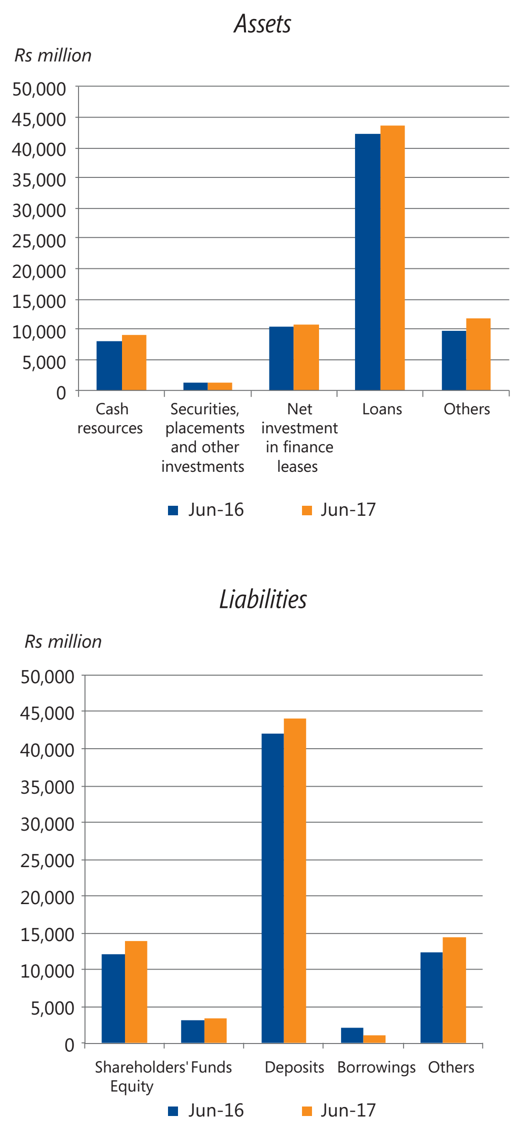
The consolidated profitability figures for NBDTIs are based on the audited results covering financial years ended 30 June, 30 September and 31 December 2016. In 2016, NBDTIs' aggregate profit before tax dropped marginally by 0.5 per cent, from Rs1,968 million to Rs1,957 million. Table 3.6 summarises 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 years 2013 to 2016.

Return on Average Assets and Return on Equity

The pre-tax return on average assets dropped from 3.2 per cent in 2015 to 2.9 per cent in 2016. On an individual basis, NBDTIs pre-tax return on average assets were quite diverse, ranging from negative 10.3 per cent to 4.2 per cent in 2016.

The post-tax return on equity declined from 16.7 per cent in 2015 to 14.6 per cent in 2016. Chart 3.7 shows the return on average assets and equity over the years 2013 to 2016.

Chart 3.5: Balance Sheet Structure of 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 30 June 2017, liquid assets held by NBDTIs amounted to Rs9,838 million or 22.4 per cent of their deposits compared to Rs8.4 billion or 20 per cent of deposits recorded as at end-June 2016.

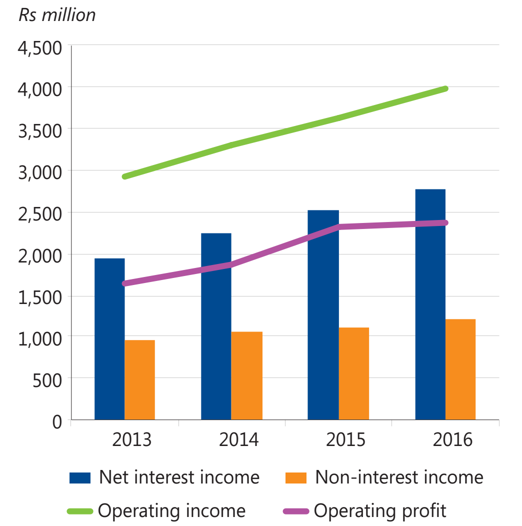
FINANCIAL SOUNDNESS INDICATORS

Financial soundness indicators (FSIs) are methodological tools that help quantify and qualify the soundness and vulnerabilities of financial systems based on five distinct areas: capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risk. The primary aim of the FSIs is to help make financial systems more transparent. Table 3.7 gives a list of selected FSIs of Other Depository Corporations (ODCs) for quarters ended March 2016 through March 2017.

Capital Adequacy Indicators

The regulatory capital to risk-weighted assets ratio and ratio of core capital to risk-weighted assets of the deposit-takers remained at comfortable levels over the last five quarters and stood at 18.5 per cent and 16.9 per cent at end-March 2017. The ratio of non-performing loans net of provisions to capital deteriorated from 18.7 per cent in March 2016 to 19.3 per cent in March 2017 indicating that the

Chart 3.6: Profitability of NBDTIs



Source: Supervision Department.

Table 3.6: Consolidated Profit and Loss Account of NBDTIs

			(Rs million)
	2014	**2015**	**2016**
Interest Income	4,906	5,358	5,641
Interest Expense	2,664	2,841	2,868
Net Interest Income	2,242	2,516	2,774
Non-Interest Income	1,051	1,118	1,204
Operating Income	3,293	3,634	3,978
Non-Interest Expense	1,423	1,307	1,617
Operating Profit	1,870	2,327	2,361
Other Non-Operating Profit			
Profit before Provision & Adjustment for credit losses	**1,870**	**2,327**	**2,361**
Provision & Adjustment for credit losses	*111*	*262*	*314*
Profit before tax	**1,759**	**2,065**	**2,047**
Income Tax Expense	*76*	*98*	*90*
Profit after tax	**1,683**	**1,968**	**1,957**

Source: Supervision Department.

ODCs would have to set aside more capital to withstand losses that may arise from non-performing loans.

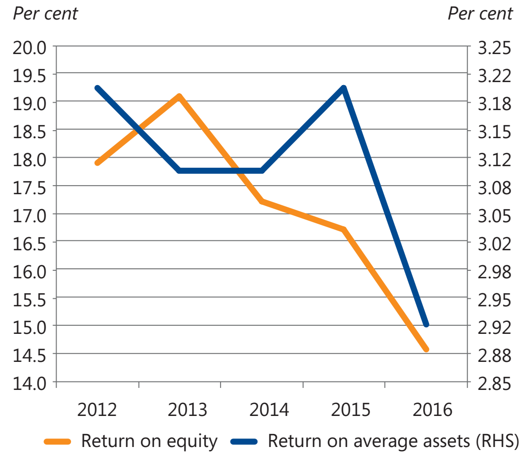
Asset Quality Indicators

Over the year ended March 2017, the ODCs' non-performing loans to total Gross Loans ratio ticked up from 7.8 per cent in March 2016 to 7.9 per cent in March 2017. The sectoral distribution of loans to total loans provides information on the distribution of loans to resident sectors and to non-residents. In March 2017, 39.4 per cent, 35.7 per cent and 21.6 per cent of total loans were contracted by non-residents, non-financial corporations and other domestic sectors, respectively. The share of loans to other financial corporations rose from 1.6 per cent in March 2016 to 2.9 per cent in March 2017. The increase in the ratio of interbank loans to total loans from 0.2 per cent to 0.4 per cent indicates that banks have been more active in the interbank money market during the year under review.

Earnings and Profitability Indicators

In March 2017, the ROA and ROE of deposit takers went up to 1.5 per cent and 13.9 per cent, respectively, from 1.4 per cent and 13.1 per cent registered in March 2016. 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 62.7 per cent in March 2016, went up to 69.2 per cent in March 2017, indicating relatively lesser 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, accelerated to 42.3 per cent in March 2017, from 36.2 per cent in March 2016.

Chart 3.7: Return on Average Assets and Equity of NBDTIs



Source: Supervision Department.

Liquidity Indicators

On average, the ODCs kept 26.8 per cent of their total assets in liquid instruments as at end- March 2017 compared to 27.4 per cent as at end-March 2016. More so, the ratio of liquid assets to short term liabilities stood at 33.3 per cent in March 2017 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 sensitivity 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 went up from 2.5 per cent as at end-March 2016 to 2.8 per cent as at end-March 2017.

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

(Per cent)

Core Set of Financial Soundness Indicators	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capital Base					
Regulatory Capital to risk-weighted assets	18.7	18.2	18.2	18.2	18.5
Regulatory Tier 1 capital to risk-weighted assets	17.2	16.5	16.6	16.7	16.9
Non-performing loans net of provisions to capital	18.7	18.5	18.7	18.7	19.3
Asset Quality					
Non-performing loans to total gross loans[3]	7.8	8.0	8.0	7.8	7.9
Sectoral distribution of loans to total loans[3]					
Interbank loans	0.2	0.2	0.3	0.5	0.4
Other financial corporations	1.6	1.6	2.3	2.3	2.9
Non-financial corporations	37.1	37.0	36.4	35.6	35.7
Other domestic sectors	21.6	21.8	21.8	22.0	21.6
Non-residents	39.5	39.5	39.2	39.5	39.4
Earnings and Profitability					
Return on assets	1.4	1.4	1.5	1.5	1.5
Return on equity	13.1	13.6	14.0	13.9	13.9
Interest margin to gross income	62.7	67.2	63.0	71.5	69.2
Non-interest expenses to gross income	36.2	41.8	38.9	45.9	42.3
Liquidity					
Liquid assets to total assets	27.4	27.9	28.3	27.9	26.8
Liquid assets to short-term liabilities	34.4	34.1	34.3	33.9	33.3
Sensitivity to Market Risk					
Net open position in foreign exchange to capital	2.5	2.9	3.0	0.1	2.8

Encouraged Set of Financial Soundness Indicators	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capital to assets	10.5	10.5	10.6	10.6	10.2
Value of large exposures to capital	190.2	188.4	176.5	159.7	150.0
Customer deposits to total (non-interbank) loans	144.4	148.2	150.9	149.8	151.5
Residential real estate loans to total loans[3]	9.4	9.5	9.3	9.4	9.1
Commercial real estate loans to total loans[3]	5.8	5.5	5.1	4.6	4.4
Trading income to total income	16.2	7.9	17.9	9.5	10.3
Personnel expenses to non-interest expenses	50.6	52.0	47.7	47.3	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 Institutions.
[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.

Source: Supervision Department.

CASH DEALERS

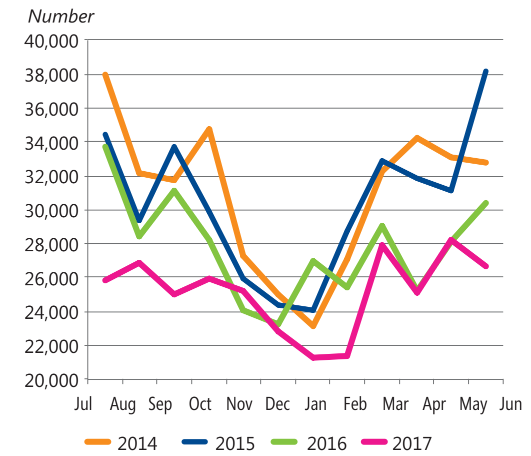
Seven money changers and five foreign exchange dealers, collectively known as cash dealers, were in operation as at 30 June 2017. During FY2016-17, one money changer, Viaggi Finance Ltd, surrendered its money-changer licence to the Bank. Change Express Ltd, which was operating as a money-changer, was granted a foreign exchange dealer licence effective from 1 July 2017. 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 forward and swap transactions, in addition to the money- changing business.

Total assets of cash dealers amounted to Rs646 million as at 30 June 2017, of which total assets of foreign exchange dealers totaled Rs501 million. The bulk of cash dealers' assets comprised cash in hand plus balances with banks and investment in Treasury Bills/ Government Securities which represented 44.0 per cent and 21.0 per cent, respectively, of total assets compared to 38.0 per cent and 10 per cent recorded as at 30 June 2016. The other main asset components were inventories of foreign currencies and receivables that accounted for the respective share of 14 per cent and 11 per cent of total assets held by cash dealers as at end-June 2017.

MAURITIUS CREDIT INFORMATION BUREAU

A well-managed credit reporting system brings benefits to borrowers, lenders and the overall economy. Credit information bureaus (CIBs), which are critical components in credit reporting chain, hold repositories of information that bridge the information asymmetry gap between borrowers and lenders. CIBs reduce the risk of adverse selection by lenders as well as borrowers' moral hazard. Availability of more comprehensive and reliable information enable lenders to make more informed creditworthiness assessment of prospective borrowers. Concurrently, borrowers are incentivized to be more disciplined. The sharing and access to information on borrowers' financial conditions benefit lenders in terms of operational efficiencies, reduction in loan losses and better risk management. Better performing credit systems contribute significantly to financial stability and economic growth.

Chart 3.8: Number of Reports Drawn over the Past Four Financial Years



Source: Payment Systems and MCIB Division.

In its endeavour to provide as complete a picture as possible of borrowers' liabilities, as from March 2017, the MCIB broadened the coverage of data collected to include data on credit finance activities, which comprise mainly financing of household expenses. As a result, the number of reported entities increased from 759,293 as at end-June 2016 to 829,743 as at end-June 2017, of which 776,554 were individuals. The number of records rose by 26.3 per cent to 3,191,159. The inclusion of data on credit financing will also contribute in monitoring household over-indebtedness, a major objective of the MCIB.

During the year under review, the number of participants to MCIB remained unchanged at 45. However, the coverage expansion is progressing and the Mauritius Telecom, the major telecommunication service provider in Mauritius, will be shortly joining the MCIB. Table 3.8 provides details of the number of current participants by category.

Section 5.0 of the MCIB Terms and Conditions requires all participants to consult the MCIB database prior to approving, increasing or renewing credit facilities. A year-on-year comparison shows that the number of reports drawn during FY2016-17 was the lowest during the past five years at 302,306 compared to the peak of 386,068 in FY2013-14. Chart 3.8 shows the monthly number of reports drawn during the past four financial years through end-June 2017.

The number of reports drawn reflects to a large extent the tendency in the demand for credit. The number of new credit facilities reported in respect of loans, overdrafts, credit cards and finance leases fell from 124,061 in FY2015-16 to 107,637 in FY2016-17, or by 13.2 per cent compared to a fall of 11.2 per cent in the preceding year. Significant drops were observed in credit card facilities and loans to individuals which declined by 30.3 per cent and 13.7 per cent, respectively. Table 3.9 gives a comparison of new credit facilities by credit type and borrower type.

Table 3.8: Participants in the MCIB

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

Source: Payment Systems and MCIB Division.

Table 3.9: New Credit Facilities by Credit and Borrower Type

Credit Type	Borrower Type	Year ended 30.06.2015	Year ended 30.06.2016	Year ended 30.06.2017
Credit Card	Firms	1,526	1,231	1,377
	Individuals	34,333	33,051	22,988
Loans	Firms	10,269	9,958	9,615
	Individuals	79,293	67,413	58,077
Overdraft	Firms	1,392	2,966	3,743
	Individuals	1,585	3,086	4,444
Finance Leases	Firms	3,105	2,793	3,203
	Individuals	8,244	3,564	4,190
Total number of new facilities		**139,747**	**124,061**	**107,637**

Source: Payment Systems and MCIB Division.

HOUSEHOLD AND CORPORATE SECTORS[1]

Growth of bank credit to the private sector (excluding GBC) recovered during 2017H1 after depicting a general downtrend in 2016H2. The annual growth rate in total private sector credit fell since July 2016 and dipped into negative territory between November 2016 and February 2017. The decline was driven to a large extent by corporate credit as credit extended by banks to households continued to expand, albeit at a slower rate. As from March 2017, credit extended by banks to the private sector improved as a result of expansion in corporate credit and higher growth of household credit. On point-to-point basis, between end-June 2016 and end-June 2017, private sector credit grew by 2.2 per cent compared to an increase of 3.1 per cent in the corresponding period a year earlier. The annual growth of bank credit to households increased to 4.9 per cent as at end-June 2017, from 4.1 per cent a year earlier while that of corporate credit declined to 0.8 per cent, from 3.4 per cent (Chart 3.9).

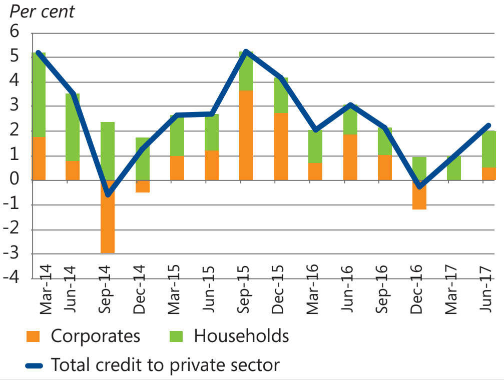
As nominal GDP grew higher y-o-y than private sector credit, the credit-to-GDP ratio fell to 64.9 per cent as at end-June 2017, from 67.3 per cent a year earlier. As at end-June 2017, household credit accounted for 31.0 per cent of total private sector credit compared to 30.2 per cent, a year earlier. The share of corporate credit in total credit extended by banks to the private sector stood unchanged at about 68 per cent (Chart 3.10).

Households

Households in Mauritius borrow mainly for housing purposes, which make up for about two-third of total household credit, while consumption credit accounts for the remaining one-third. The annual growth of bank credit to households increased to 4.9 per cent as at end-June 2017, from 4.1 per cent a year earlier. This improvement was the result of a sustained growth in housing credit while consumption credit has continued to decline. Credit extended by banks for housing purposes grew by 7.6 per cent y-o-y as at end-June 2017, unchanged compared to the annual growth rate as at end-June 2016. The number of building permits approved fell by 6.5 per cent over the year under review as against an expansion of 5.3 per cent, a year earlier. Credit granted for consumption purposes contracted by 0.2 per cent, lower than the contraction of 1.9 per cent recorded a year earlier (Chart 3.11).

Foreign exchange risk arising from banks' foreign currency exposure to households is mitigated as households in Mauritius borrow mainly in the domestic currency. The share of rupee credit in total household credit has hardly changed and stood at nearly 96 per cent as at end-June 2017 (Chart 3.13). The household sector relies little on short-term financing, as overdraft facilities availed declined to 5.0 per cent of total outstanding household credit as at end-June 2017, from 5.4 per cent a year earlier.

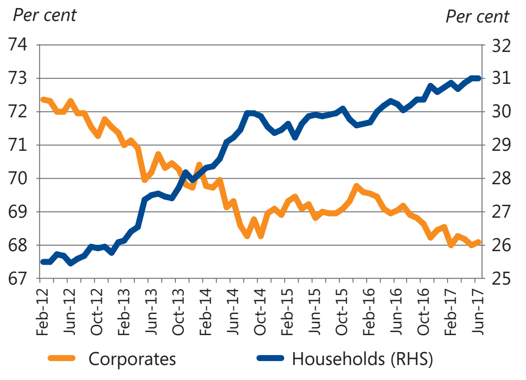
Chart 3.9: Contribution to Growth of Private Sector Credit



Source: Research and Economic Analysis Department.

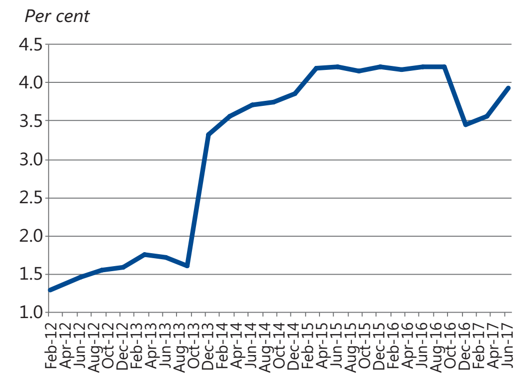
[1] *Analysis in the Section is based on data as reported by banks, unless stated otherwise.*

Chart 3.10: Share of Credit Extended by Banks to Households and Corporates



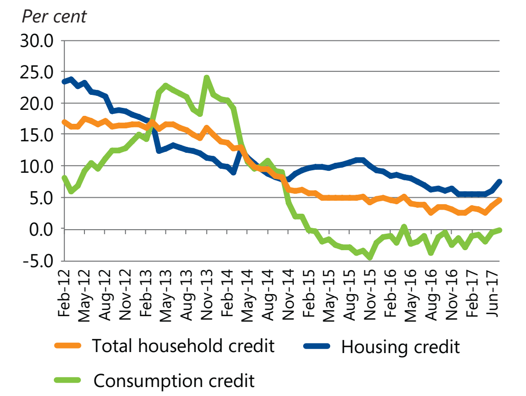
Source: Research and Economic Analysis Department.

Chart 3.13: Share of Foreign Currency Credit in Total Household Credit



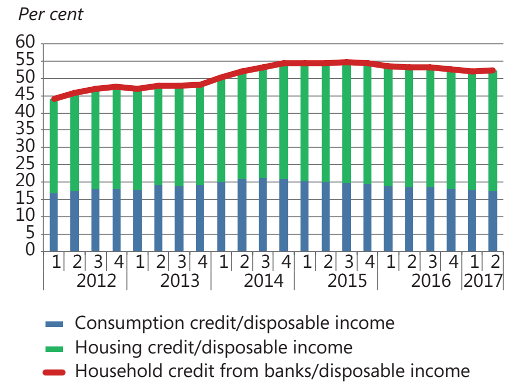
Source: Research and Economic Analysis Department.

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



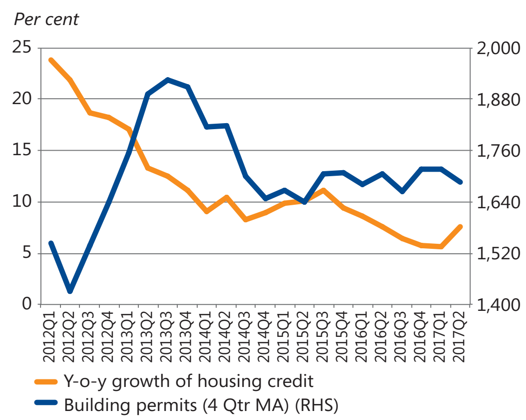
Source: Research and Economic Analysis Department.

Chart 3.14: Household Debt to Disposable Income



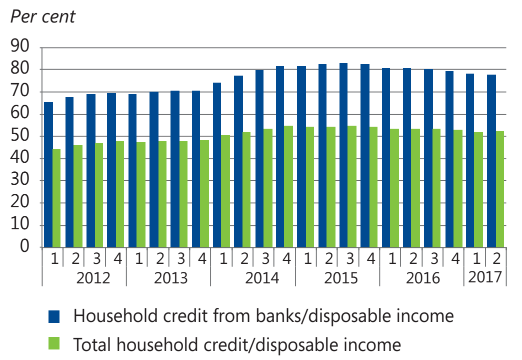
Source: Research and Economic Analysis Department.

Chart 3.12: Number of Building Permits and Y-o-y Growth of Housing Credit



Sources: Statistics Mauritius and Bank of Mauritius.

Chart 3.15: Estimates of Household Indebtedness Ratio



Note: Total household credit includes credit from banks, non-bank deposit-taking institutions and insurance companies.

Source: Research and Economic Analysis Department.

Indebtedness of households, as measured by the ratio of bank credit to households to disposable income, declined further during the year under review, as household disposable income expanded at a relatively higher rate compared to the growth in household credit. The increase in household disposable income reflected improving domestic economic conditions, while the growth in household credit was somehow capped by the contraction in consumption credit. Household debt from banks as a ratio to disposable income fell to 52.3 per cent as at end-June 2017, from 53.2 per cent as at end-June 2016 (Chart 3.14). However, on a quarter-to-quarter basis, the ratio ticked up from 52.0 per cent in 2017Q1. The increase in the ratio resulted from aggressive loan campaigns undertaken by some banks.

The broader definition of household indebtedness, which includes debt from non-bank deposit-taking institutions as well as insurance companies, pointed to a similar y-o-y decline during the period under review, from 80.5 per cent as at end-June 2016 to 77.9 per cent as at end-June 2017 (Chart 3.15). The ratio of domestic household indebtedness continues to compare favourably with countries in the region like Namibia and South Africa (Chart 3.16).

Household Debt Service Cost

The debt service ratio - measured as debt service to disposable income - fell from 16.9 per cent as at end-June 2016 to 16.0 per cent as at end-June 2017, reflecting the lower interest rates on housing and consumption credit associated with higher disposable income of households (Chart 3.17). Interest rates on both housing and consumption credit edged lower following the cut in the KRR in July 2016, thus contributing to lower debt service cost. At the regional level, the debt service cost of households was relatively higher than in comparator countries (Chart 3.18).

Household Credit-to-GDP Gap

Household credit-to-GDP gap[2] has dipped further into negative territory during FY2016-17. The decline in the gap was the result of the drop in growth of credit extended by banks to households and sustained increased in nominal GDP. This resulted in a lower household credit-to-GDP ratio of 20.1 per cent as at end-June 2017 compared to 20.3 per cent as at end-June 2016. The household credit-to-GDP gap has been estimated at -1.5 per cent as at end-June 2017, compared to -1.4 per cent as at end-March 2017 and -0.4 per cent as at end-June 2016 (Chart 3.19). The decline in the household credit-to-GDP gap was the consequence of both lower housing and consumption credit.

During the year under review, non-performing loans in the personal and professional sectors fell by 7.6 per cent and 17.9 per cent y-o-y, respectively, to Rs2,836 million and Rs203 million as at end-June 2017. Impaired credit card advances fell by 14.7 per cent to Rs175 million as at end-June 2017. The resulting NPL ratio was thus lower in the personal and professional sectors at 10.0 per cent and 13.8 per cent, respectively, as at end-June 2017 compared to 10.7 per cent and 19.2 per cent, a year earlier. The NPL ratio for credit card advances fell from 9.8 per cent to 8.1 per cent over the same period (Chart 3.20).

The general downtrend in the household debt-to-GDP ratio and household debt service costs points to somewhat reduced risk to financial stability arising from indebtedness of households as at end-June 2017. Nevertheless, debt service capacity of households remains vulnerable to unfolding macroeconomic events, the more so as households have, over the past years, accumulated debt in a low interest rate environment. While the Bank has already in place macroprudential tools to prevent build-

[2] *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.*

up of vulnerabilities in household leverage, close monitoring is nevertheless warranted for early detection of vulnerabilities and threats.

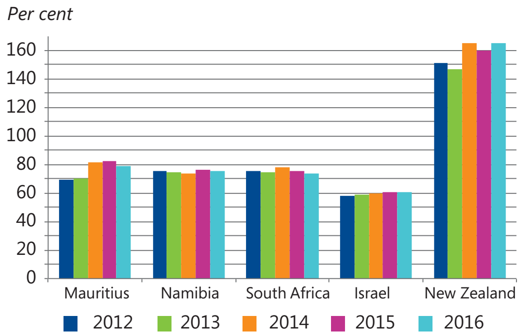
Corporates

Banks' exposure to corporates in Mauritius stood at about 68 per cent of their total private sector credit and 16 per cent of their total assets. During 2016, profitability of selected listed corporates on the SEM, as measured by their return on equity, has declined to around 5 per cent, from 7 per cent a year earlier. The decline was the result of lower profitability ratios in the manufacturing, tourism, sugar-linked and distributive trade sectors while the construction and real estate sectors recorded higher return on equity.

On an aggregated basis, corporates were slightly more leveraged as at end-2016 with a debt-to-equity ratio estimated at about 62 per cent compared to 57 per cent as at end-2015 (Chart 3.21). Nevertheless, the debt-to-equity ratio is still relatively low compared to the highs some years back. The higher leverage was the result of an increase in the debt-to-equity ratios in all key sectors except for the distributive trade as well as construction and real estate sectors. Tourism is still the most leveraged sector with a debt-to-equity ratio estimated at 131.8 per cent as at end-June 2016 compared to 112.7 per cent as at end-June 2015. The lower profitability was accompanied with a decline in interest coverage from 9.9 per cent in 2015 to 6.0 per cent in 2016. All key sectors experienced a decline in interest cover barring the distributive trade sector. Cost of debt, measured by interest expense-to-total debt, declined from 6.7 per cent to 6.3 per cent amid lower interest rates.

Total debt of corporates from banks has increased as a result of higher domestic debt which more than offsets the decline in corporate external debt. Between end-June

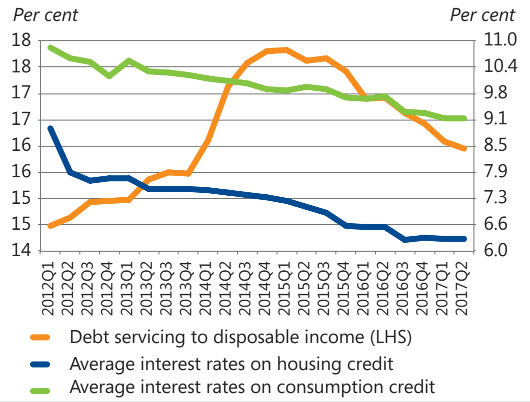
Chart 3.16: Household Debt in Selected Countries



Figures may not be strictly comparable
Note: Total household credit includes credit from banks, non-bank deposit-taking institutions and insurance companies.

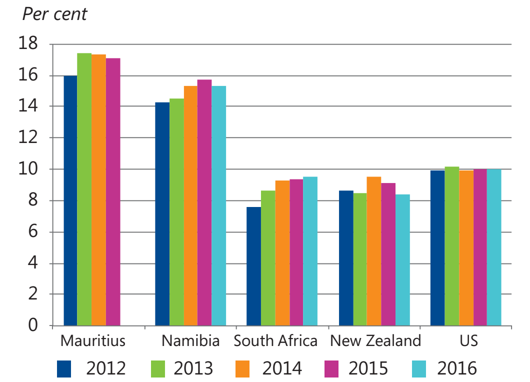
Sources: Various Central Banks' Websites and Bank of Mauritius.

Chart 3.17: Household Debt Service Cost and Interest Rates



Source: Research and Economic Analysis Department.

Chart 3.18: Household Debt Service Cost in Selected Countries



Figures may not be strictly comparable

Sources: Various Central Banks' Websites and Bank of Mauritius.

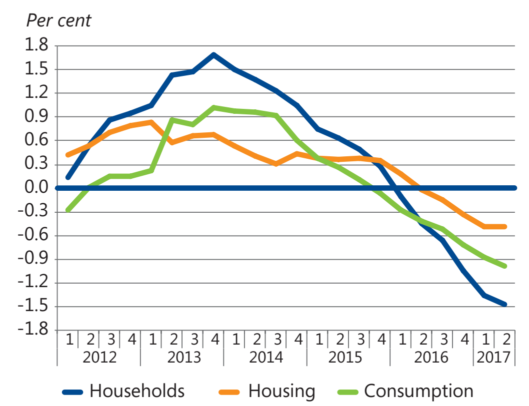
2016 and end-June 2017, total corporate debt was higher by 0.2 per cent, driven by 0.8 per cent increase in domestic debt of corporates while external debt contracted by 4.3 per cent. Nevertheless, measured as a percentage of GDP, corporate debt has declined from 53.1 per cent as at end-June 2016 to 50.1 per cent as at end-June 2017. The decline in corporate debt-to-GDP ratio resulted from higher increase in GDP relative to corporate debt and is indicative of further deleveraging by corporates from bank credit. However, it is noted that some large corporates have been issuing bonds to the public via both public offerings and private placements.

Though the corporate debt-to-GDP ratio has been increasing at the regional level, in Mauritius it stayed on a general downtrend in 2016. On a selective cross-country basis, the level of corporate debt in Mauritius compares relatively well (Chart 3.22).

Domestic debt of corporates accounted for around 88 per cent of total corporate debt as at end-June 2017 (Table 3.10). As a ratio to GDP, it dropped from 46.4 per cent as at end-June 2016 to 44.2 per cent as at end-June 2017. External debt of corporates, which accounted for around 12 per cent of total corporate debt, have also declined in nominal terms and as a ratio to GDP, from 6.6 per cent of GDP as at end-June 2016 to 6.0 per cent as at end-June 2017. The lower external debt stock was reflected in the decline of external debt to gross official international reserves ratio, from 16.6 per cent as at end-June 2016 to 14.8 per cent as at end-June 2017. External debt of corporates as a ratio to total export proceeds fell from 14.3 per cent to 13.9 per cent.

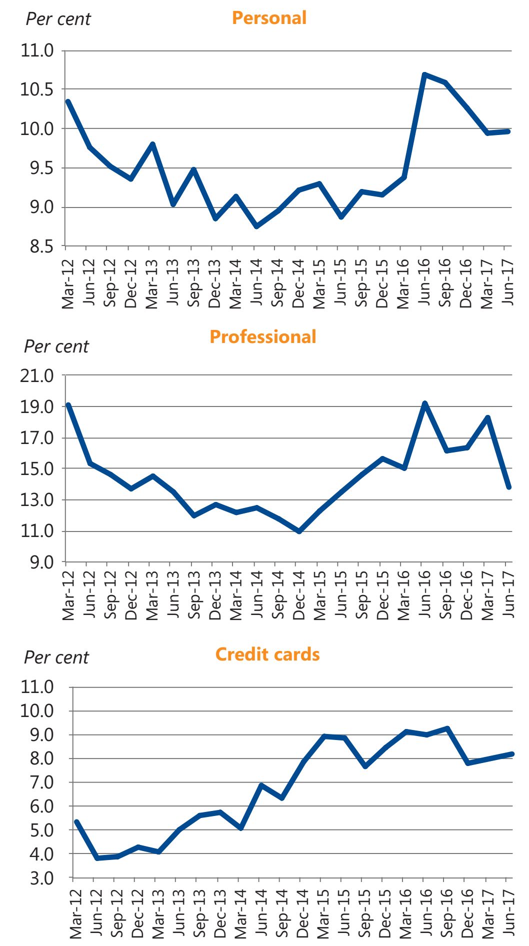
The annual growth of domestic debt of corporates dropped to 0.8 per cent as at end-June 2017, from 3.4 per cent a year earlier (Table 3.11). The lower growth was mainly the result of contractions in credit extended to

Chart 3.19: Household Credit-to-GDP Gap



Source: Bank of Mauritius staff estimates.

Chart 3.20: Non-performing Loans to Total Loans

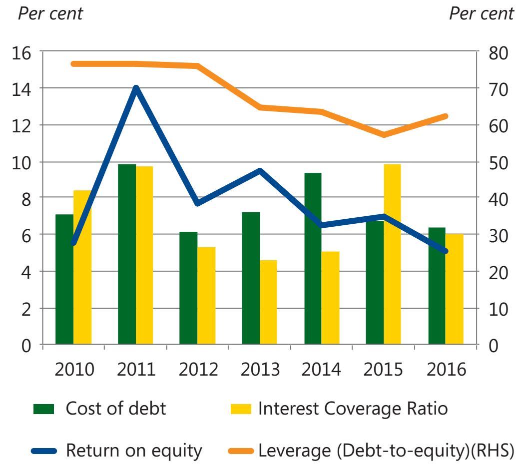


Source: Supervision Department.

operators in construction and tourism sectors of the economy and lower growth in other key sectors which together weighed on the higher growth of credit extended to the financial and business services sector. Notwithstanding higher activity in the tourism sector, credit extended by banks to tourism operators contracted by 14.2 per cent as at end-June 2017 compared to a contraction of 0.2 per cent as at end-June 2016, resulting mainly from the repayment of bank loans as some major hotel groups issued bonds on private placements, whose proceeds were used to settle some outstanding credit. In the construction sector, despite the rebound in activity forecast in 2017, credit for construction purposes (excluding housing) fell by 2.3 per cent compared to a contraction of 2.2 per cent a year earlier. Agriculture, manufacturing and distributive trade sectors recorded lower growth during FY2016-17 compared to FY2015-16. In contrast, the financial and business sector recorded higher growth of 30.6 per cent as at end-June 2017 compared to growth of 6.3 per cent, a year earlier. The higher growth was driven by 71.2 per cent increase in credit extended to investment companies that account for around 46 per cent of total credit extended to the financial and business services sector.

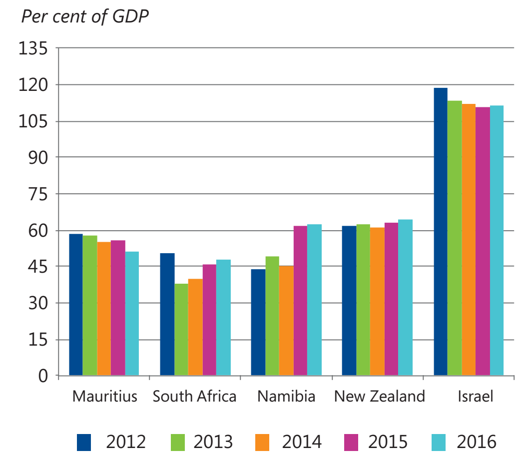
The share of the construction sector in GDP has declined for six consecutive years in 2016 to 4.2 per cent but is expected to increase marginally to 4.3 per cent in 2017. Notwithstanding this decline, the share of credit extended by banks to the construction sector in total corporate credit has increased continually and reached 45.5 per cent as at end-June 2017. As regard the manufacturing sector, its share in GDP has also been on a downtrend but its share in corporate credit was rather flat, slightly above 10 per cent. Higher financial services activity was accompanied with a higher share in total corporate credit. In the tourism sector, despite higher activity in 2016 and 2017, its share in

Chart 3.21: Fundamentals of Selected Listed Corporates on the SEM



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

Chart 3.22: Corporate Debt-to-GDP ratio in Selected Countries



Figures may not be strictly comparable.

Sources: Various Central Banks' Websites and Bank of Mauritius.

total corporate credit has declined (Chart 3.23).

With the slowdown in growth of credit extended by banks, credit-to-GDP gap for the corporate sector has dipped further into negative territory during the period under review. The negative corporate credit-to-GDP gap purport that risks to financial stability emanating from credit advanced to operators in the private sector is currently subdued. As at end-June 2017, the corporate credit-to-GDP gap was estimated at -4.3 per cent compared to -1.7 per cent in the corresponding period of 2016. The decline in the corporate credit-to-GDP gap was principally accounted by tourism, construction and distributive trade sectors. In the tourism sector, credit-to-GDP gap was estimated at –3.4 per cent as at end-June 2017 compared to -1.0 per cent as at end-June 2016.

As regard the construction and distributive trade sectors, their respective credit-to-GDP gaps fell to -2.2 per cent and -0.3 per cent as at end-June 2017 compared to -0.7 per cent and -0.1 per cent a year earlier. In the agricultural sector, the credit-to-GDP gap moved from zero to -0.2 per cent. The manufacturing sector was the only key sector of the economy to have posted positive credit-to-GDP, estimated at 0.9 per cent as at end-June 2017 compared to 0.6 per cent a year earlier (Chart 3.24).

Table 3.10: Domestic and External Corporate Debt

	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2*
										(Rs million)
Total Corporate Debt	**228,227**	**225,122**	**228,980**	**227,552**	**225,233**	**223,901**	**224,710**	**222,756**	**222,169**	**224,240**
Corporate External Debt	35,051	35,697	36,086	27,875	28,168	27,977	28,175	27,380	26,408	26,783
Short Term[1]	4,140	4,168	4,162	4,733	5,278	5,290	5,303	5,315	5,320	5,340
Long Term[2]	30,911	31,528	31,924	23,142	22,890	22,687	22,873	22,064	21,088	21,443
Corporate Domestic Debt[+]	193,175	189,425	192,894	199,677	197,065	195,923	196,535	195,376	195,762	197,457
										(Per cent of total corporate debt)
Total Corporate Debt	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Corporate External Debt	15.4	15.9	15.8	12.3	12.5	12.5	12.5	12.3	11.9	11.9
Short Term[1]	1.8	1.9	1.8	2.1	2.3	2.4	2.4	2.4	2.4	2.4
Long Term[2]	13.5	14.0	13.9	10.2	10.2	10.1	10.2	9.9	9.5	9.6
Corporate Domestic Debt[+]	84.6	84.1	84.2	87.7	87.5	87.5	87.5	87.7	88.1	88.1
										(Per cent of GDP)
Total Corporate Debt	**57.5**	**56.2**	**56.5**	**55.5**	**54.2**	**53.1**	**52.5**	**51.3**	**50.5**	**50.1**
Corporate External Debt	8.8	8.9	8.9	6.8	6.8	6.6	6.6	6.3	6.0	6.0
Short Term[1]	1.0	1.0	1.0	1.2	1.3	1.3	1.2	1.2	1.2	1.2
Long Term[2]	7.8	7.9	7.9	5.6	5.5	5.4	5.3	5.1	4.8	4.8
Corporate Domestic Debt[+]	48.6	47.3	47.6	48.7	47.4	46.4	46.0	45.0	44.5	44.2

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

Table 3.11. Distribution of Credit to the Private Sector										
	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2*
(Per cent of GDP)										
Total credit to private sector	**70.0**	**70.0**	**68.6**	**70.1**	**70.0**	**68.7**	**68.9**	**69.7**	**68.2**	**67.2**
Corporates	**48.6**	**48.5**	**47.2**	**48.4**	**48.6**	**47.3**	**47.5**	**48.7**	**47.3**	**46.4**
Agriculture & Fishing	4.5	4.8	4.5	4.9	4.5	4.4	4.6	5.2	5.2	4.6
Manufacturing	5.3	4.7	4.7	4.8	5.3	5.0	4.9	5.1	5.3	5.1
Tourism	11.7	12.6	12.2	12.1	11.7	11.9	11.9	11.8	11.3	11.2
Construction (ex housing)	7.9	8.0	7.7	7.8	7.9	7.8	7.8	7.8	7.3	7.3
Traders	7.8	8.2	7.8	8.0	7.8	7.5	7.6	7.7	7.4	7.4
Financial & Business Services	6.9	6.1	5.8	6.4	6.9	6.2	6.3	6.5	6.3	6.3
Households	**20.5**	**20.5**	**20.5**	**20.5**	**20.5**	**20.6**	**20.6**	**20.6**	**20.4**	**20.3**
Housing	12.8	12.3	12.4	12.6	12.8	12.9	13.1	13.2	13.2	13.2
Consumption Credit	7.7	8.2	8.2	7.9	7.7	7.6	7.5	7.4	7.2	7.1
(Average annual growth rates; in per cent)										
Total credit to private sector	**2.6**	**2.7**	**5.2**	**4.2**	**2.1**	**3.1**	**2.1**	**-0.2**	**1.0**	**2.2**
Corporates	**2.3**	**2.0**	**5.5**	**5.3**	**2.0**	**3.4**	**1.9**	**-2.2**	**-0.7**	**0.8**
Agriculture & Fishing	-8.7	-3.7	6.1	12.1	20.1	10.7	13.7	-0.7	-2.8	2.6
Manufacturing	11.6	10.2	10.2	12.0	3.5	7.7	7.1	-3.9	-3.8	5.0
Tourism	-3.5	-1.4	1.8	1.4	1.6	-0.2	0.2	-10.9	-14.6	-14.2
Construction (ex housing)	6.7	2.6	7.0	4.0	-2.9	-2.2	-6.4	-6.4	-3.5	-2.3
Traders	8.4	-4.3	1.6	1.0	-0.6	3.4	-4.0	-5.6	-3.9	2.0
Financial & Business Services	-0.5	7.1	13.4	6.8	-5.6	6.3	8.3	21.9	37.6	30.6
Households	**5.8**	**5.5**	**5.2**	**5.0**	**4.6**	**3.7**	**3.7**	**3.2**	**3.4**	**4.9**
Housing	9.9	10.1	11.1	9.4	8.6	7.6	6.4	5.7	5.6	7.6
Consumption Credit	-0.2	-2.4	-3.7	-2.1	-2.0	-1.9	-1.2	-1.4	-0.8	-0.2

Source: Research and Economic Analysis Department.

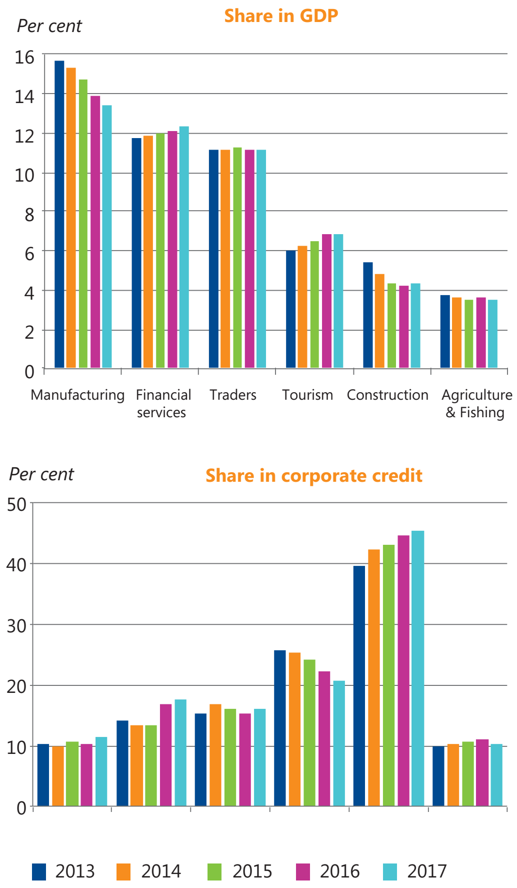
Cobweb Model for Financial Stability

Risks to domestic financial stability emanating from the international front were little changed in 2017Q2 compared to a year earlier. Activity indicators like GDP growth improved in major trading partner countries while price indicators, specifically oil and food prices were higher over the year. Volatility in global financial markets was assessed to be lower in 2017Q2 compared to the corresponding period of 2016. Accordingly, the opposing direction of these sub-indicators resulted in a marginal decline of 0.1 point in the overall score pertaining to the global economy.

On the domestic front, risks to financial stability were assessed to have stayed almost unchanged in 2017Q2 compared to 2016Q2. However, sub-indicators within the domestic economy cluster moved in opposing directions. Domestic savings declined as a result of a higher deficit in the current account which more than offsets the improvement recorded in the investment rate. Inflation rate increased due to transient factors but inflationary pressures are expected to taper off going forward. Deterioration of the terms of trade and appreciation of the rupee contributed to a higher score but these were nevertheless weighed by improved domestic economic activity as evidenced by higher GDP growth rate.

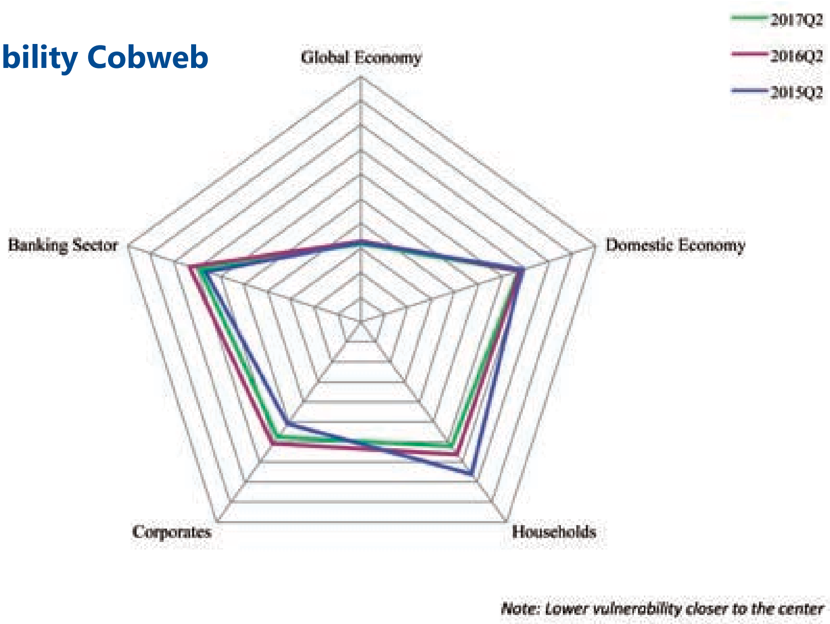
Risks to financial stability emanating from indebtedness of households have declined further in 2017Q2. The decline in risks resulted from lower debt-to-disposable income of households, a decline in debt service cost and credit impairment, among others. The lower household debt-to-disposable income was the result of a higher expansion in disposable income relative to debt accumulation of households. The cut in the Key Repo Rate in July 2016 led to lower interest rates and contributed to the lower debt service cost.

Chart 3.23: Share of Selected Sectors in GDP and in Total Corporate Credit



Sources: Statistics Mauritius and Bank of Mauritius.

Financial Stability Cobweb

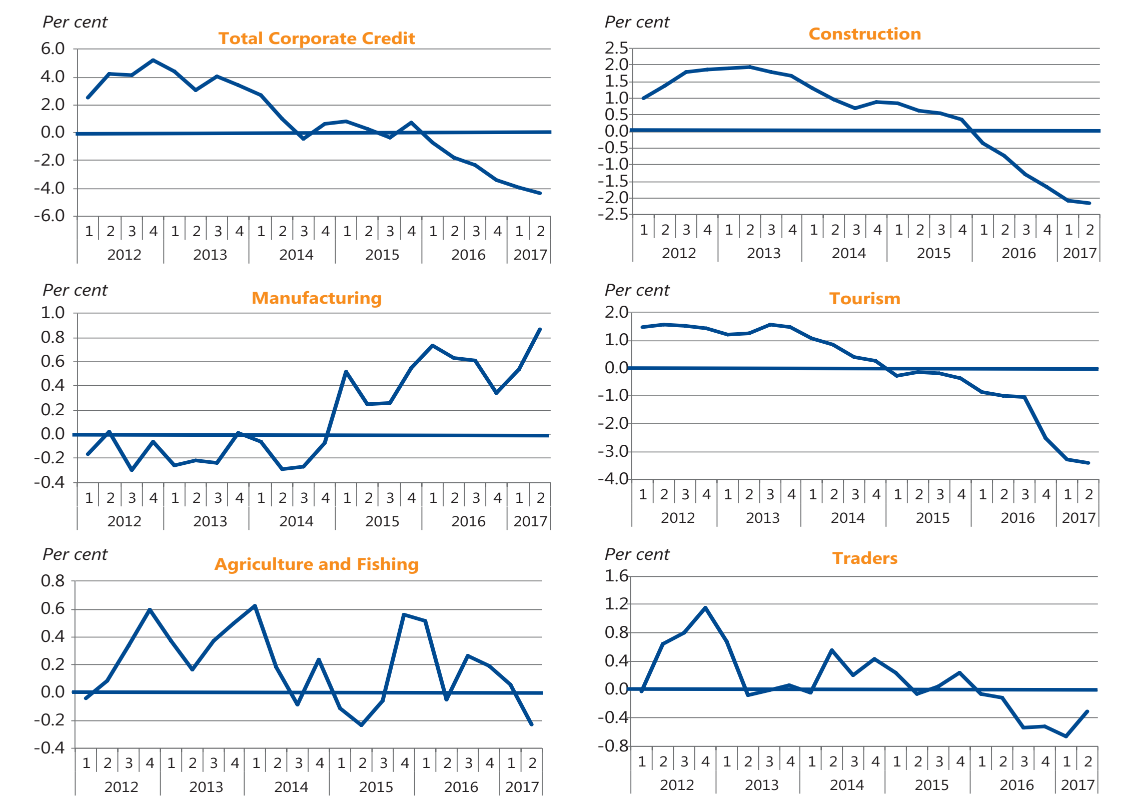


Impairment on consumption credit, inclusive of credit cards, was lower in 2017Q2 compared to 2016Q2. Credit extended by banks to households for consumption purposes have continued to contract while household credit-to-GDP gap remained in negative territory.

Corporate debt risk declined marginally compared to a year earlier. Bank credit to corporates as a percentage to GDP has declined amid faster expansion in GDP relative to corporate credit. This resulted in the corporate credit-to-GDP gap remaining negative, purporting that risk to financial stability emanating from credit advanced to private sector operators being currently subdued. Non-performing loans to total loans in key sectors, namely construction and distributive trade sectors declined in 2017Q2 compared to a year earlier but were higher in the manufacturing and tourism sectors. Profitability, as measured by the return on equity, was lower as well as the coverage of finance costs. However, cost of debt declined amid lower interest rates.

Banking sector risks have fallen in 2017Q2 compared to a year earlier. Banks in Mauritius were adequately capitalised and profitable. A decline in the value of large exposures to capital and improved domestic asset quality contributed to the improvement of the score for the banking sector. Nevertheless, the capital to assets ratio has dropped in spite of the higher capital adequacy ratio, while non-performing loans ratio of credit granted outside Mauritius was higher.

Chart 3.24: Credit-to-GDP Gap



Source: Research and Economic Analysis Department.

RISK ANALYSIS OF THE DOMESTIC BANKING SYSTEM

Financial stability risks emanating from developments in the global economy are quite significant for Mauritius given its trade and financial linkages with the rest of the world. Since the last assessment made in the May 2017 Monetary Policy and Financial Stability Report (MPFSR), the global economic recovery has continued to firm, with improved economic activity in some of our major trading partner countries. Inflationary pressures have subsided, especially in advanced economies where inflation remains below central bank targets. Energy and food prices are expected to remain contained, barring any major supply shock. The improvement in global growth and brightening outlook should support external demand and export oriented enterprises with a positive feedback to the rest of the economy and domestic financial stability. In the euro area, our major trading partner, the end of ultra-loose monetary conditions is becoming increasingly probable with improved economic condition and a solid momentum. In the US, there is increased likelihood of another interest rate hike before the end of the year.

Notwithstanding higher growth forecast for 2017 and 2018, the global economic outlook is subject to a number of downside risks. Firstly, policy uncertainty remains high amid the difficult to predict regulatory and fiscal policies in the US and lack of clarity on the modalities of Brexit, more than a year after the UK referendum. High uncertainty may potentially disrupt financial markets and affect consumer and investor confidence. Secondly, inward-looking policies may hinder progress made towards trade integration and disrupt the global supply chain. In addition, geopolitical risks are more than ever significant amid mounting tensions between the US and North Korea. This can weigh on economic activity going forward.

The marked depreciation of the US dollar in international markets was reflected in an appreciation of the rupee on the domestic front and has put in check the cash flow of some of the export-oriented enterprises. This can potentially affect debt service capacity of these operators, with ramifications for the asset quality of banks. While the Bank has been active in the domestic foreign exchange market with a view to smoothing out excess volatility in the rupee, it has also cut the Key Repo Rate to an all-time low of 3.50 per cent in September 2017. The cut in interest rate, while primarily providing a fillip to growth, should give a breather to leveraged corporates and at the same time contain appreciation of the rupee. The Exchange Rate Stabilisation Scheme introduced by Governement should provide further support to ailing operators in the export sector.

The domestic economy has fared relatively well though the output gap is still negative. Growth is expected to improve in 2017 compared to 2016 as a result of a rebound investment spending and construction activities amid implementation of major infrastructure projects. The cut in the Key Repo Rate should support investment as well as consumption spending with positive feedback on domestic economic activity. Inflationary pressures have increased as a result of transient factors but is expected to decline after peaking to around 4 per cent in 2017. The deficit in the current account increased due to higher merchandise deficit which superseded the higher surplus in the services account. Nevertheless, the deficit was financed with ample financial flows. The deficit in the current account is expected to increase further to around 5.0 per cent of GDP in 2017. Domestic savings were driven lower as the deficit in the current account overshadowed the higher investment spending.

Households have continued to accumulate debt in a low interest rate environment, led by mortgages while loans for consumption purposes have declined in absolute terms. The stock of household debt relative to their disposable income has fallen in 2017Q2 compared to a year earlier but closer quarter-to-quarter analysis showed a slight increase amid acceleration in mortgages during 2017Q2. Debt service cost of households has declined amid low interest rates. While the Bank already has in place macroprudential tools to prevent build up of vulnerabilities in the household sector, the relatively high share of mortgages in household debt provides some comfort, the more so as over 90 per cent of such debts are collateralised. Looking ahead, the cut in the Key Repo Rate is poised to alleviate further debt service cost of households, and encourage further household leveraging. Banks, nevertheless, need to maintain good screening processes and high credit standards with a view to mitigating credit risk.

Bank credit to corporates as a percentage to GDP has continued to decline. However, some large corporates have raised capital through the issue of bonds via private placements. Banks in Mauritius are highly exposed to corporates that account for around 68 per cent of total private sector credit. The performance of these corporates thus has an important bearing on banks and by ricochet on financial system stability. While the asset quality of banks improved for exposures in the construction and distributive trade sectors, it deteriorated for exposures to the manufacturing and tourism sectors. Corporates continue to operate in a challenging environment but should benefit from lower interest rates in terms of debt service cost on existing debt and lower finance costs on new credit facilities. In addition, the expected improvement in economic activity would help to supporting the financial position of domestic corporates.

Banks in Mauritius remained adequately capitalised with a capital adequacy ratio (CAR) above the regulatory minimum. The CAR maintained by banks stood at 17.9 per cent as at end-June 2017 compared to 17.6 per cent a year earlier, pointing to increased resilience of banks to amortize shocks. While the increase in the CAR resulted from a higher increase in the capital base relative to risk-weighted assets, it was also accompanied by an improvement in the quality of capital as evidenced by the higher share of Tier 1 capital in total capital base to 91.8 per cent as at end-June 2017. Profitability of banks, as measured by their return on assets and return on equity improved to 1.4 per cent and 12.1 per cent, respectively, in FY2016-17, compared to 1.2 per cent and 9.3 per cent a year earlier. Banks were also amply liquid with comfortable liquidity ratios. The ratio of aggregate large exposures of banks to their capital base has declined to nearly 150 per cent as at end-June 2017, from 204 per cent a year earlier. Asset quality of banks has improved with a decline in the amount of non-performing loans, led by a decline in impaired credit in Mauritius while impaired credit outside Mauritius has continued to increase. This was reflected in the non-performing loans to total loans ratio which fell from 7.1 per cent as at end-June 2016 to 7.0 per cent as at end-June 2017.

Table 3.12: Risks to Financial Stability for the Upcoming Six Months				
	Risk Probability		Change Probability*	
	Mar-17	Jun-17		
Global Economy				
Global economic slowdown			Up	
Oil price			Up	
Food prices			Up	
Volatitlity (ViX)			Up	
Domestic Economy				
Economic growth			Up	
Inflation			Up	
Terms of trade			Down	
Domestic savings			Down	
Investment/GDP			Up	
Exchange rate			Down	
Household Debt Risks				
Household debt-to-disposable income			Up	
Household debt service-to-disposable income			Down	
Corporate Debt Risks				
Corporate debt-to-GDP			Down	
Return on equity			Up	
Leverage			Up	
Banking				
Large exposures			Down	
Return on equity			Unchanged	
Asset quality (domestic market)			Unchanged	
Cross-border exposures			Unchanged	

[1] *Decline pertains to depreciation of the rupee.*
** Expected change between June 2017 and December 2017.*

Source: Research and Economic Analysis Department.

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

STATEMENT ON FINANCIAL STABILITY

The domestic financial system in Mauritius has remained resilient during FY2016-17. Banks continue to remain profitable, liquid and well-capitalised.

The global economic recovery has continued to firm since the last assessment made in the May 2017 MPFSR. Global growth, as forecast by the IMF in its October 2017 World Economic Outlook, is expected to increase to 3.6 per cent in 2017 and further to 3.7 per cent in 2018.

On the domestic front, economic activity has improved though the output gap is still negative. Statistics Mauritius forecast real GDP growth to increase marginally to 3.7 per cent in 2017, from 3.6 per cent in 2016. Though the economy continues to operate in a challenging environment, growth would be supported by a rebound in investment spending and construction activities amid implementation of major infrastructure projects.

With higher growth of household disposable income relative to their debt stock, the household debt-to-disposable income ratio fell in 2017Q2 compared to a year earlier. Debt service cost of households has also declined following lower interest rates. The decline in household indebtedness ratio and lower debt service cost points to lower financial stability risk. In an enduring low interest rate environment and excess liquidity situation, caution should be exercised amid the potential risk of credit off-take and building up of vulnerabilities. The Bank has put in place macroprudential tools to prevent build-up of vulnerabilities in the household sector. As regard corporates, with the slowdown in bank credit to the private sector, corporate credit as a percentage to GDP has fallen further. This has resulted in the difference between the corporate credit-to-GDP ratio and its underlying trend to dip further into negative territory. Corporates should benefit from lower interest rates following the cut in the Key Repo Rate as well as the expected improvement in economic activity.

The banking sector remains supported by strong capital positions. As at end-June 2017, the capital adequacy ratio of the banking system stood at approximately 17.9 per cent, which is above the minimum regulatory requirement of 10.0 per cent. Results from macro-based stress testing model developed internally at the Bank show that the banking system would remain resilient to extreme but plausible shocks being engineered to growth rate, interest rates, and the exchange rate. The ongoing implementation of capital conservation buffer in a phased manner, in line with the Basel III framework, should contribute to strengthen banks' capital safeguards against shocks.

As at end-June 2017, asset quality improved slightly compared to a year before. The NPL ratio fell from 7.1 per cent as at end-June 2016 to 7.0 per cent as at end-June 2017. The coverage ratio which measures the ratio of specific provisions to non-performing loans moved from 49.9 per cent as at end-June 2016 to around 49.3 per cent as at end-June 2017. Credit concentration has remained below prudential limits. As at end-June 2017, the banking system was assessed to be funded and liquid.

The payment system operated efficiently during the first two quarters of 2017 and transactions were settled without delay or loss. Given that financial market infrastructures are subject to rapid technological inroads, a careful assessment of the implications of FinTech revolution for market infrastructures becomes necessary. The Bank is monitoring developments in the area and has proposed legislation for the implementation of a National Payment Switch system which will serve as a cost-cutting platform routing all retail electronic payments for authorization and settlement.

Overall, the financial system is assessed to be sound. To better track systemic risks, the Bank conducts surveillance of the five Domestic Systemically Important Banks (D-SIBs) and subjects them to extra capital charges depending on the extent to which their failure may generate externalities to the financial system. Macro-prudential measures which were introduced in 2014 help stymie risk-taking behaviour among borrowers and among banks. One of the measures, namely Loan-to-Value limit for residential home buyers on the first Rs5 million borrowed, was relaxed, following announcement in the 2017/18 Budget. The announced revision of the DTAA agreement between Mauritius and India in May 2016 did not result in deposit outflows and, thus, did not impinge on banks' solvency and liquidity. However, given the importance of GBC deposits as a funding base of the Mauritian banking system, continuous monitoring of GBC sector is encouraged and back-up contingency plans by banks are welcome.

The Bank has taken a number of initiatives to enhance stability of the financial system. The supervisory process at the Bank is in the process of being enhanced with the onset of effective consolidated supervision, conglomerate supervision, and risk-based supervision, with the benefit of technical assistance from international institutions. The Bank is now empowered to conduct consolidated supervision on group entities comprising a deposit-taking institution by virtue of amendments brought to the Banking and the Bank of Mauritius Acts of 2004. The Bank has issued and updated guidelines in line with international best practices, after due consultation with the banking industry. A guideline on liquidity risk management which embraces the Liquidity Coverage Ratio (LCR) framework - another artefact of Basel III - will be effective shortly. Another on AML/CFT has been reviewed to safeguard the reputation of the Mauritian jurisdiction. The Bank is also monitoring the phased implementation of IFRS9 expected credit loss framework which will supersede the incurred loss framework and will become effective as from financial year commencing in 2018.

A key element of the risk-based supervision approach is a more comprehensive and risk-sensitive CAMELS methodology that would allow the Bank better undertake micro-surveillance of banks. The Bank is aware that regulatory cooperation must be fostered among the various regulatory bodies in the Mauritian jurisdiction for better traction on those levers that may trigger financial stability risks. To that end, a working group falling under the aegis of the Joint Coordination Committee (JCC) between the Bank and the Financial Services Commission (FSC) has been established to investigate those financial stability-related areas that require cooperation between the two entities.

Other measures in the pipeline designed to reinforce financial stability include the proposed legislation for deposit insurance scheme, a bedrock of crisis resolution and management framework which is currently being examined with the assistance of the IMF and which, if implemented, will ensure an orderly resolution of bank failures with minimal recourse to public funds.

4

Financial Markets Operations

The Bank implements monetary policy through open market operations to influence short term interest rates. The Bank also ensures that the rupee reflects the economic fundamentals by intervening in the domestic foreign exchange market to smooth out any volatility in the rupee exchange rate. During FY2016-17, the Bank actively pursued open market operations to maintain excess liquidity within tolerable limits to prevent the disproportionate build-up in banks' excess reserves. Effective January 2017, Government started buyback operations to effectively manage its cash flow. On 1 March 2017, the Bank issued two new Guidelines on the operational framework for primary dealers and for foreign-exchange market-makers. As from 1 May 2017, the Ministry of Finance and Economic Development (MoFED) advised that Government of Mauritius Treasury Bills would solely be issued to meet Government borrowing requirements. Consequently, the Bank started auctioning its own securities as part of open market operations. Effective 2 May 2017, the Bank has been issuing Bank of Mauritius Bills concurrently with Government of Mauritius Treasury Bills through separate auctions. Bank of Mauritius Bills aggregating to a nominal amount of Rs12.2 billion were issued during May and June 2017 in the three tenors, 91-Day, 182- Day, and 364-Day. Notwithstanding the Bank's efforts through mopping up, excess liquidity in the money market increased to a daily average of Rs8.0 billion in FY2016-17 up from a daily average of Rs6.7 billion in FY2015-16. The build-up in excess reserves reflected the net maturing securities as well as some unsterilised foreign exchange intervention.

The Bank maintained its foreign exchange sterilised intervention strategy, whereby the rupee proceeds arising from the purchase of foreign currencies on the domestic foreign exchange market are sterilised through Special Deposits held at the Bank for a period ranging from one to three years. The Bank issued Government of Mauritius Treasury Bills (GMTBs) for liquidity management to the tune of Rs30,500 million for maturities of 91-Day, 182-Day and 364-Day. Over the period, the Bank also issued Bank of Mauritius Notes of 4-Year tenor for a total nominal amount of Rs5,525.0 million. The outstanding Bank of Mauritius instruments at end-June 2017 stood at Rs69.0 billion million as compared to Rs56.8 billion for period end-June 2016.

Issue of Government Securities

Government securities are debt instruments issued by the Government to raise funds to finance investment projects and other long to medium term projects as well as to meet short-term cash-flow financing. 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. Effective 1 June 2014, each security has an ISIN (International Securities Identification Number), which uniquely identifies a security.

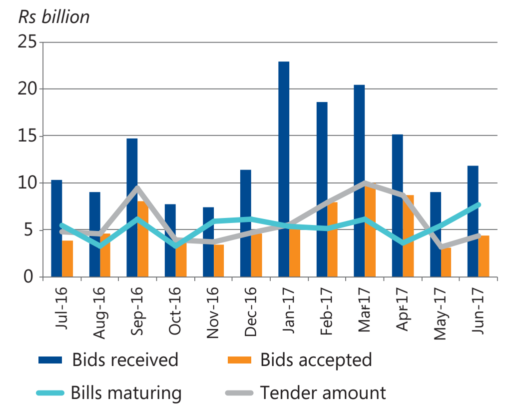
Treasury Bills

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 in advance of the range of weekly issues of Treasury Bills for the coming two months. The actual amount and tenor of Treasury Bills for the next two weeks are also communicated to the market ahead of the auction.

During FY2016-17, Government of Mauritius Treasury Bills for a total nominal amount of Rs71,300 million were put on tender in the 91-Day, 182-Day and 364-Day maturities of which an amount of Rs63,700 million were earmarked for liquidity management purposes. Bids for a total nominal amount of Rs159,358 million were received; the value of bids accepted amounted to Rs68,700 million and maturing Treasury Bills stood at Rs63,345 million for the period. The bid-cover ratio varied between 0.95 and 4.36 in FY2016-17 compared to a range of 1.06 to 4.18 in FY2015-16. The total amount of bids accepted represented 96.4 per cent of the total tender amount and 43.1 per cent of the total value of bids received compared to 97.5 per cent and 42.0 per cent, respectively, in the preceding financial year (Chart 4.1).

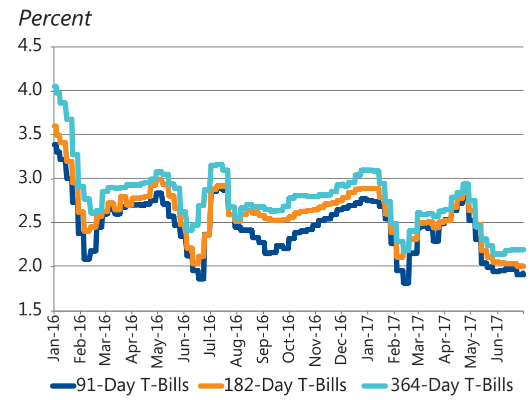
Between June 2016 and June 2017, the weighted average yields on Treasury Bills decreased due to an increase in excess reserves. On the 91-Day, 182-Day and the 364-Day Tenors, dropped from 2.13 per cent, 2.15 per cent and 2.68 per cent at their issues in June 2016 to 1.96 per cent, 2.03 per cent and 2.16 per cent, respectively, in June 2017. The overall weighted average yield dropped by 19 basis points, from 2.29 per cent in June 2016 to 2.10 per cent in June 2017 (Chart 4.2).

Chart 4.1: Auctioning of Treasury Bills



Source: Financial Markets Operations Division.

Chart 4.2: Yields on Government of Mauritius Treasury Bills at Primary Auctions



Source: Financial Markets Operations Division.

Treasury Notes

During FY2016-17, the Bank continued the monthly issuance of Three-Year Treasury Notes. Two new benchmark issues and ten re-openings of past issues were held with a view to providing ample liquidity in the instruments. A total amount of Rs19,200 million was put on tender and the amount accepted stood at Rs19,190 million, while a total of Rs15,470 million matured, of which an amount of Rs1,900 million was redeemed prior to maturity through buy-back. Table 4.1 provides information on the auctioning of Three-Year Government of Mauritius Treasury Notes during fiscal year 2016-17.

Long Term Government of Mauritius Bonds

Government raised a total amount of Rs25,100 million through the net issue of long-term Government of Mauritius Bonds during FY2016-17.

During FY2016-17, eight auctions of Five-Year Government of Mauritius Bonds were carried out and a total nominal amount of Rs14,800 million was accepted. These included the issue of two New Benchmark Bonds and six re-openings aimed at creating adequate liquidity to foster the development of the secondary market trading of these Government securities.

Table 4.1: Auctions of Three-Year Government of Mauritius Treasury Notes					
Issue Date	**Amount put on Tender**	**Value of Bids Received**	**Value of Bids Accepted**	**Interest Rate**	**Weighted Yield on Bids Accepted**
	(Rs million)	*(Rs million)*	*(Rs million)*	*(Per cent per annum)*	*(Per cent per annum)*
2016					
29-Jul	1,300.0	2,300.9	1,300.0	3.40	3.38
26-Aug	1,500.0	4,575.0	1,500.0	3.40	3.20
30-Sep	1,500.0	3,100.8	1,500.0	3.40	3.20
28-Oct	1,300.0	2,001.1	1,300.0	3.15	3.22
25-Nov	1,300.0	1,290.0	1,290.0	3.15	3.33
16-Dec	1,300.0	1,584.5	1,300.0	3.15	3.57
2017					
27-Jan	1,800.0	5,950.0	1,800	3.15	3.15
17-Feb	1,800.0	2,295.0	1,800	2.90	3.44
24-Mar	1,800.0	3,550.0	1,800	2.90	3.55
11-Apr	1,800.0	2,975.0	1,800	2.90	3.65
26-May	2,000.0	5,800.0	2,000	2.90	3.17
23-Jun	1,800.0	5,200.0	1,800	2.90	3.00
2016-17	**19,200.0**	**40,622.3**	**19,190**	**2.90-3.40**	**3.00-3.65**
2015-16	**18,000.0**	**31,344.1**	**16,441**	**2.46-4.25**	**3.48-4.78**

Source: Financial Markets Operations Division.

Table 4.2: Auctions of Five-Year Government of Mauritius Bonds									
		Issue Date							
		19-Aug-16	**20-Sep-16**	**21-Oct-16**	**9-Dec-16**	**13-Jan-17**	**10-Feb-17**	**20-Apr-17**	**16-Jun-17**
1.	Amount of Bonds put on Tender *(Rs million)*	1,800.0	1,800.0	1,600.0	1,600.0	2,000.0	1,800.0	2,200.0	2,000.0
2.	Value of Bids Received *(Rs million)*	4,240.9	3,655.9	3,404.4	2,005.0	4,596.5	3,832.0	4,100.0	6,200.0
3.	Value of Bids Accepted *(Rs million)*	1,800.0	1,800.0	1,600.0	1,600.0	2,000.0	1,800.0	2,200.0	2,000.0
4.	Interest Rate *(% p.a.)*	4.10	4.10	3.65	3.65	3.65	3.25	3.25	3.25
5.	Highest Yield Accepted *(% p.a.)*	3.80	3.82	3.88	4.10	3.99	4.05	4.09	3.54
6.	Weighted Yield on Bids Accepted *(% p.a.)*	3.89	3.76	3.76	3.93	3.93	3.40	3.99	3.49
7.	Weighted Price of Bids Accepted *(%)*	100.898	101.439	99.503	98.768	98.768	99.316	96.782	98.975

Source: Financial Markets Operations Division.

Table 4.2 provides details on the auctions of Five-Year Government of Mauritius Bonds held in 2016-17.

During FY2016-17, the Bank held three issues of Ten-Year Government of Mauritius Bonds namely on 12 August 2016, 18 November 2016 and 20 January 2017, respectively. The total amount put on tender was Rs4,800 million and total bids received amounted to Rs12,727 million. The total nominal amount accepted was Rs4,800 million.

Details of the auctions of Ten-Year Government of Mauritius Bonds are given in Table 4.3.

The Bank conducted an issue of the Fifteen-Year Government of Mauritius Bonds for a nominal amount of Rs1,500 million in FY2016-17. The auction was oversubscribed with a bid cover ratio of 2.8.

Details of the auctions of Fifteen-Year Government of Mauritius Bonds are given in Table 4.4.

The Bank held an issue of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds on 7 April 2017. The Bonds were issued at par, bearing interest payable annually at the weighted accepted bid margin plus the 12-month average inflation rate published by Statistics Mauritius as at end-January, every year. Bids for a total nominal amount of Rs1,965 million were received and a total amount of Rs600 million was issued at the weighted bid margin of 3.48 per cent.

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

		Issue Date		
		12-Aug-16	**18-Nov-16**	**20-Jan-17**
1.	Amount of Bonds put on Tender *(Rs million)*	1,400	1,400	2,000
2.	Value of Bids Received *(Rs million)*	3,529.9	2,604.2	6,593.0
3.	Value of Bids Accepted *(Rs million)*	1,400.0	1,400.0	2,000.0
4.	Interest Rate *(% p.a.)*	4.99	5.00	5.94
5.	Highest Yield Accepted *(% p.a.)*	5.30	5.15	4.97
6.	Weighted Yield on Bids Accepted *(% p.a.)*	5.16	5.04	4.95
7.	Weighted Price of Bids Accepted *(%)*	98.685	99.689	99.922

Source: Financial Markets Operations Division.

Table 4.4: Auction of Fifteen-Year Government of Mauritius Bonds

		Issue Date
		16-Sep-16
1.	Amount of Bonds put on Tender *(Rs million)*	1,500
2.	Value of Bids Received *(Rs million)*	4,189.5
3.	Value of Bids Accepted *(Rs million)*	1,500.0
4.	Interest Rate *(% p.a.)*	5.85
5.	Highest Yield Accepted *(% p.a.)*	6.03
6.	Weighted Average Yield on Bids Accepted *(% p.a.)*	5.98
7.	Weighted Price of Bids Accepted *(%)*	98.724

Source: Financial Markets Operations Division.

Details of the auction of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds are given in Table 4.5.

During FY2016-17, the Bank conducted two auctions of Twenty-Year Government of Mauritius Bonds on 22 July 2016 and 17 March 2017, for a total nominal amount of Rs3,400 million. Both auctions were oversubscribed with a bid-cover ratio of 2.1 and 2.9, respectively.

Details of the auctions of Twenty-Year Government of Mauritius Bonds are given in Table 4.6.

Bank of Mauritius Securities

During FY2016-17, the Bank continued to issue its own instruments to mop up the persistent excess liquidity prevailing in the banking sector. It conducted three issues of Four-Year Bank of Mauritius Notes on 31 January 2017, 10 February 2017 and 2 June 2017 for a total amount of Rs6,000 million. Total bids received amounted to Rs12,350 million, of which Rs5,525 million were allocated on a market preference basis. During FY2016-17, Bank of Mauritius instruments for a total nominal amount of Rs26.7 billion were issued against maturing securities to the tune of Rs16.3 billion. As from 1 May 2017, the Bank and the MoFED decided that Government of Mauritius Treasury Bills would be issued for government cash flow requirements and Bank of Mauritius Bills for liquidity management purposes. Over the period July 2016 to April 2017, Government of Mauritius Treasury Bills for a total nominal amount of Rs30.5 billion were issued by the Bank for liquidity management purposes. As at

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

		Issue Date
		07-April-17
1.	Amount of Bonds put on Tender *(Rs million)*	1,300
2.	Value of Bids Received *(Rs million)*	1,965.0
3.	Value of Bids Accepted *(Rs million)*	600.0
4.	Highest Yield Margin Accepted *(% p.a.)*	3.48
5.	Weighted Bid Margin Accepted *(% p.a.)*	3.48

Source: Financial Markets Operations Division.

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

		Issue Date	
		22-Jul-16	17-Mar-17
1.	Amount of Bonds put on Tender (Rs million)	1,500	1,900
2.	Value of Bids Received (Rs million)	3,217.3	5,500.0
3.	Value of Bids Accepted (Rs million)	1,500.0	1,900.0
4.	Interest Rate (% p.a.)	6.50	6.24
5.	Highest Yield Accepted (% p.a.)	7.04	6.59
6.	Weighted Average Yield on Bids Accepted (% p.a.)	6.89	6.54
7.	Weighted Price of Bids Accepted (%)	95.800	96.679

Source: Financial Markets Operations Division.

close of business 30 June 2017, total amount of Bank of Mauritius instruments outstanding stood at Rs69.0 billion while a total amount of Rs12.9 billion Treasury Bills issued for liquidity management was outstanding as at that date.

Buyback Auctions

With a view to reducing the burden of government debt, the Bank conducted, at the request of Government, nine reverse auctions in the Three-Year Government of Mauritius Treasury Notes and six reverse auctions in the Five-Year Government of Mauritius Bonds. A total nominal amount of Rs1,900 million was bought back in the Three-Year Government of Mauritius Treasury Notes and Rs1,500 million in the Five-Year Government of Mauritius Bonds.

Details of the auctions of reverse auctions are given in Tables 4.7 and 4.8

Interbank Transactions

Total turnover on the interbank money market during FY2016-17 increased by 21.2 per cent to reach Rs139,419 million from Rs115,006

Table 4.7: Reverse Auctions of Three-Year Government of Mauritius Treasury Notes

		13-Jan-17	20-Jan-17	10-Feb-17	17-Feb-17	17-Mar-17	24-Mar-17	26-May-17	16-Jun-17	23-Jun-17
		3Y-GMTNotes[1]						3Y-GMTNotes[2]		
1.	Amount of Bonds put on Tender *(Rs million)*	1,000.0	500.0	1,000.0	800.0	500.0	500.0	1,000.0	1,000.0	1,000.0
2.	Value of Bids Received *(Rs million)*	500.0	300.0	50.0	50.0	350.0	125.0	575.0	425.0	125.0
3.	Value of Bids Accepted *(Rs million)*	500.0	200.0	50.0	Nil	350.0	100.0	400.0	300.0	Nil
4.	Highest Price Accepted *(%)*	101.380	101.532	101.775	-	101.955	102.001	101.637	101.896	-
5.	Weighted Price of Bids Accepted *(%)*	101.368	101.487	101.487	-	101.921	101.998	101.633	101.795	-

[1] 4.10% 3-Year Government of Mauritius Treasury Notes due on 11 April 2017
[2] 3.88% 3-Year Government of Mauritius Treasury Notes due on 25 July 2017
Source: Financial Markets Operations Division.

Table 4.8: Reverse Auctions of Five-Year Government of Mauritius Bonds: January 2017 to March 2017

		13-Jan-17	20-Jan-17	10-Feb-17	17-Feb-17	17-Mar-17	24-Mar-17
		5Y-GM Bonds[1]					
1.	Amount put on Tender *(Rs million)*	1,000.0	500.0	1,000.0	800.0	500.0	500.0
2.	Value of Bids Received (Rs million)	700.0	350.0	200.0	400.0	300.0	500.0
3.	Value of Bids Accepted (Rs million)	500.0	200.0	Nil	400.0	Nil	400.0
4.	Highest Price Accepted (%)	101.380	101.532	Nil	102.722	Nil	102.880
5.	Weighted Price of Bids Accepted (%)	101.368	101.487	Nil	102.720	Nil	102.874

[1] 6.00% 5-Year Government of Mauritius Bonds due on 20 April 2017
Source: Financial Markets Operations Division.

million for FY2015-16, with a daily average of Rs415 million. A total amount of Rs106,955 million was carried out in the Call money market segment which accounted for about 76 per cent of total transactions, representing a slight decrease from previous financial year call money transactions which turned around Rs107,551 million. Daily average transactions under call money amounted to Rs355 million as compared to Rs394 million in FY2015-16. The increase in total turnover was mainly due to increased transactions under the Short Notice and Term Money segment. Short notice transactions increased to Rs20,740 million from Rs4,665 million in FY2015-16 with a daily average of Rs225.4 million compared to Rs86 million during the previous period. Transactions on the Term Money market also increased to Rs11,724 million from Rs2,790 million for FY2015-16 which represented a daily average of Rs103 million as compared to Rs70 million in FY2015-16.

Interbank interest rates which are determined primarily by the prevailing liquidity conditions, fluctuated between 0.85-4.00 per cent during FY2016-17 as compared to 0.85-2.00 per cent for the preceding financial year. Rates on the Call Money market hovered in the range of 0.85-3.00 per cent compared to 0.85-2.00 per cent in FY2015-16. Interest rates on Money at Short Notice moved within a range of 1.10-4.00 per cent compared to 1.25-2.00 per cent in FY2015-16, while interest rates on Term Money transactions ranged between 1.10-2.90 per cent for the period under review against 1.70-1.90 per cent in FY2015-16. The overall weighted average interbank interest rate increased by 24 basis points from 1.38 per cent to 1.62 per cent in FY2016-17.

PRIMARY DEALER SYSTEM AND SECONDARY MARKET TRADING

The principal objective of the Primary Dealer system is to develop the secondary market of Government/Bank of Mauritius securities; increase liquidity; improve liability management operations of Government; and establish the base for a domestic secondary market yield curve for Government/Bank of Mauritius Securities, which may be used as a reference for pricing of corporate bonds. In the initial stages of the Primary Dealer System, dealing activity was confined to Government of Mauritius Treasury Bills with a maturity not exceeding one year. With a view to deepen further the domestic securities market and to broaden the use of benchmark bonds, the Bank has reviewed the Primary Dealer System to include medium-term and long-term Government of Mauritius/ Bank of Mauritius Securities. Effective 1 March 2017, a new Primary Dealer System and Forex Market Maker System was introduced with four Banks appointed to act as a Primary Dealer and Market Makers. The number of Primary Dealer Banks were considerably reduced from eight to four. Based on some predefined conditions, the following four banks were appointed Primary Dealers: AfrAsia Bank Limited, Barclays Bank Mauritius Limited, SBM Bank (Mauritius) Ltd and the Mauritius Commercial Bank Limited. During FY2016-17, the Bank maintained its endeavour to boosting secondary market activity.

The total volume of transactions carried out by Primary Dealers increased significantly post-March 2017 after the introduction of the new Primary Dealer System. The total value of transactions in FY2016-17 amounted to Rs45,324 million compared to Rs21,695 million for the preceding financial year.

The Bank has invested in the domestic market infrastructure with the push for market-driven technology and increased transparency, all of which evolved in the launching of an electronic platform for the auctioning of Government/Bank of Mauritius securities, called the Bloomberg Auctioning System (BAS). Bids are accepted through the fully automated electronic bidding facility. This decision to automate and bring more efficiency in the primary auctions will not only reduce operational risk but also brings Mauritius at par with other countries that have already implemented such a system.

As a major step in the development of fixed income markets in Mauritius, the Bank is currently working on the setting up of an electronic fixed income trading platform. This platform is deemed to attract more investors to the market as the price discovery process eases, resulting into enhanced liquidity by facilitating the matching between buyers and sellers and lowering the liquidity premium.

With a view to widening the investor's base, the Bank also stressed on the need for Primary Dealers to enhance the knowledge of investors in Government Securities by conducting several training programs with retail/wholesale investors on a yearly basis.

In order to achieve a critical mass of liquidity, the Bank has been continuously pushing towards larger benchmark issues. Continuously tap or re-open a particular bond until it achieves a significant size, will only improve price discovery on the issue, provide participants with the ability to obtain stock should there be any demand and also increase participation from foreign investors reluctant to trade or invest in smaller, or illiquid issues. The development of the secondary market of Government/Bank of Mauritius securities, will not only increase liquidity, but also improve liability management operations of Government and establishing the base for a domestic secondary market yield curve for Government / Bank of Mauritius Securities which may be used as a reference for pricing of corporate bonds.

The Bank has also come up with new Guidelines on the Operational Framework of Foreign Exchange Market-Makers. They are required to provide two-way quotes to bring liquidity in the major currency pair in relation to the rupee. Following this new framework, several initiatives have been undertaken towards achieving greater transparency in foreign exchange dealings, notwithstanding the policy actions undertaken to reducing the spreads in dealt exchange rates.

Interbank Foreign Exchange Market

Total turnover on the domestic interbank foreign exchange market decreased by US$190 million, from US$1,385 million in FY2015-16 to US$1,195 million in FY2016-17, of which US$981 million represented purchases of US dollars against the rupee and US$128 million for purchases of US dollars against other foreign currencies. Foreign exchange transactions were carried out at exchange rates ranging from Rs34.6175 to Rs36.1975 per US dollar in FY2016-17.

Purchases and Sales of Foreign Currencies by Bank of Mauritius

The Bank intervenes on the domestic foreign exchange market to smooth out undue volatility in the rupee exchange rate. In FY2016-17, the Bank's purchases of foreign currencies decreased by US$287.6 million, from US$815.2 million to US$527.6 million, of which a total amount of US$449.6 million were bought through intervention from banks. Sales of foreign currencies fell from US$122.2 million to US$54.5 million, including a total amount of US$1.7 million sold to the State

Trading Corporation for part financing of its import of foodstuff and petroleum products. The remaining amount of US$471.4 million went to consolidate the Bank's foreign currency reserves. The rupee proceeds arising out of foreign exchange intervention were sterilised for a total amount of Rs9.0 billion, which was placed as special deposits for a period of one year.

Excess Reserves and Short-term Yields

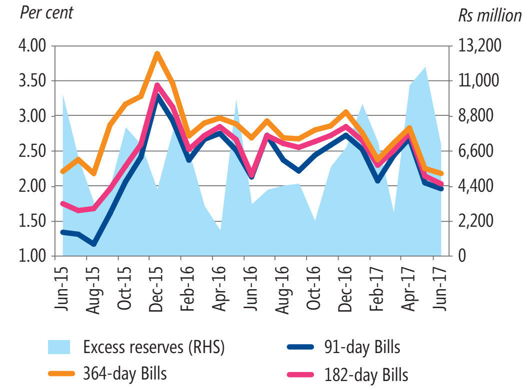
Notwithstanding the Bank's efforts to maintain the excess liquidity within acceptable limits, the total excess reserves fluctuated quite dramatically between during FY2016-17. Spikes in liquidity were noted between November 2016 and January 2017, mainly resulting from the payment of bonuses, the net maturing securities and the intervention by the Bank. This was followed by a considerable fall in excess reserves for the period of February to March 2017, reflecting the net securities issuance, sterilised intervention by the Bank and net Government revenue.

Changes in excess liquidity impacted on the movements of yields on Government securities (Chart 4.3). The correlation coefficients between the average excess reserves and the yields on the 91-Day, 182-Day and 364-Day Treasury Bills, were, -0.36,-0.52 and -0.51, respectively.

Throughout FY2016-17, auctions of medium- and long-term government securities were oversubscribed, resulting in a decrease in the weighted yields. Whenever there were a sizeable increase in excess liquidity, there was a lag of almost 2 months in yields to adjust to these changes; while when liquidity decreased significantly, yields took, on average, 1 month to readjust.

On the domestic foreign exchange market, on a point-to-point basis, between end-June 2016

Chart 4.3: Evolution of Average Excess Reserves and Yields of Treasury Bills



Source: Financial Markets Operations Division.

and end-June 2017, the rupee appreciated by 3.42 per cent, 0.53 per cent and 6.76 per cent against the US dollar, Euro and Pound sterling respectively. The US dollar oscillated around an average value of Rs36.273 throughout the year, trading as high as Rs36.890 and as low as Rs35.240. The GBPUSD lost 2.76 per cent while EURUSD gained 3.10 per cent of their respective values compared to end-June 2016. Over the period, the Euro has traded around a mean of Rs39.541. The Rs/Euro, much like the Rs/USD pair, has also experienced a period of low volatility. It traded at a high of Rs40.853 in August 2016 and at a low of Rs38.046 in December 2016. The most volatile currency pair and the one which lost most value has been the Rs/GBP, in the aftermath of Brexit.

CREDIT FACILITIES

Special Line of Credit in Foreign Currency

In 2012 the Bank introduced the Special Foreign Currency Line of Credit to the tune of EUR600 million for the export and tourism operators. As at 30 June 2017, the outstanding balance to be repaid by the banks amounted to EUR19.733 million and USD62,500.

Credit Facilities to National Property Fund Ltd

On 30 June 2017, at the request of the National Property Fund Limited (NPFL), the Bank extended the credit facility, originally granted on 30 June 2015, for the amount of Rs3.7 billion. The credit facility is guaranteed by Government.

5

Payment and Settlement Systems and Currency Management

Payment systems are core components of the financial system and a prerequisite for the implementation of monetary policy. Payment systems, being the most reliable channel through which funds and securities are transmitted, play a crucial role in the economic development and financial stability of a country. The Bank has undertaken several initiatives to bring more efficiency, safety and resilience in the payment environment. It has initiated the implementation of a payment system oversight framework which will further reinforce the Bank's mandate in protecting the financial system from systemic risk.

National Payment Switch

Payment system innovation is considered as one of the new drivers of growth and is redefining the payment landscape. During FY2016-17, the Bank achieved an important milestone by embarking with the National Payment Switch (NPS) project which will pave the way for an inter-operable payment platform and ensure that all payment players are operating on a level playing field.

The NPS will simplify the current card payment system and will make all forms of payments inter-operable, with a single gateway to international card schemes such as Visa, Master Card and Union Pay.

There is currently no central concentration point for card transactions. The card payment activity is undertaken privately by banks, one non-bank financial institution and one service provider for issuance and processing of cards. Due to the absence of a central point for card processing, all transactions, including those denominated in Mauritius Rupees (MUR), are routed through the credit card payment processors outside Mauritius.

With the NPS, all transactions made with cards issued by local banks will be routed locally to a central point (the Switch), for settlement within the Bulk Clearing System (BCS) of the Bank.

MAURITIUS AUTOMATED CLEARING AND SETTLEMENT SYSTEM

The Mauritius Automated Clearing and Settlement System (MACSS), the country's only large value payment system, allows transfer of funds on a Real Time Gross Settlement (RTGS) basis and is considered systemically important.

MACSS is a fully automated system that complies with recommendations outlined in the Principles of Financial Markets Infrastructure issued by the Bank for International Settlements (BIS) Committee on Payment and Settlement Systems and the Technical Committee of the International Organisation of Securities Commissions (IOSCO).

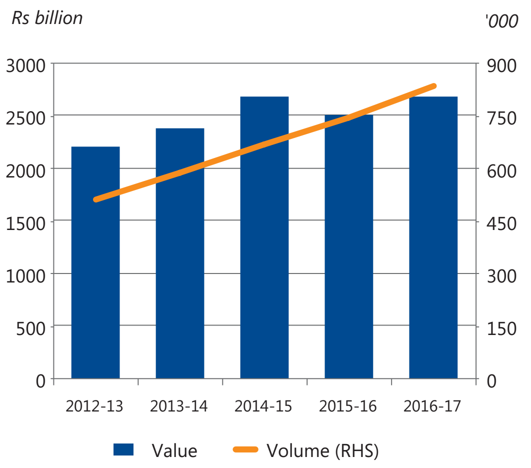
It has a multi-currency feature which, in addition to Mauritius Rupees, also allows settlement in US Dollar, Pound Sterling, Euro, South African Rand, Swiss Franc, Japanese Yen and South African Rand. It is also used for settlement of low value electronic transfers and cheque clearing positions of the 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.

Throughput on MACSS

Throughput on MACSS, measured in volume and value terms, went up by 12.5 per cent and 7.1 per cent, respectively, compared to the preceding period. During FY2016-17, a volume of 835,055 transactions for an amount of Rs2.7 trillion were settled on MACSS, compared to

Rs2.5 trillion during the corresponding period last year. The value of MACSS transactions processed during FY2016-17 represented about six times the annual GDP of Mauritius. The daily volume and value of transactions averaged to 3,340 transactions and Rs10.7 billion, respectively, representing increases of 13.8 per cent and 8.4 per cent. In spite of the increase in the volume of transactions, MACSS operated smoothly without any major disruption, confirming its robust capacity to process large volume of transactions. Chart 5.1 shows the volume and value of MACSS transactions from FY2012-13 through FY2016-17.

Chart 5.1: Transactions on MACSS



Source: Payment Systems and MCIB Division.

Bulk Clearing System

The Bulk Clearing System (BCS) is responsible for the clearing of low value and high volume payments at the Port Louis Clearing House (PLACH). It currently covers clearing of cheques through truncation, low value Electronic Funds Transfer (EFT) and most recently, the Direct Debit Scheme. Cheques and EFTs are cleared in bulk indiscriminately during four cycles daily.

The Direct Debit feature of the BCS, which was rolled out on 15 June 2017, will take a full industry proportion as it involves players beyond the banking sector. Trusted bodies such as utility bodies, the Registrar General's Department and the Mauritius Revenue Authority, would be admitted as originators of the scheme. The scheme will consist of both pre-authorised and non-pre-authorised direct debits. The rules governing the Direct Debit Scheme are being implemented as part of the PLACH rules through the issue of an annex procedure. The Scheme has two types of transactions, namely:

(a) Recurrent Direct Debit and (b) One-off or Ad-hoc Direct Debit.

A Recurrent Direct Debit is one where the authorization by the Payer is used for regular direct debits initiated by the Originator and a One-off or Ad-hoc Direct Debit is one where the authorization is given once by the Payer to collect only one single direct debit and which cannot be used for any subsequent transaction.

Throughput on the Bulk Clearing System

During FY2016-17, 4,363,801 cheques for a total value of Rs250.4 billion were cleared through the BCS. The volume of cleared cheques recorded a fall of 4.7 per cent while the value rose by 1.7 per cent. The daily average volume and value of cheques cleared during the period under review were 17,455 cheques and Rs1.0 billion, respectively. Chart 5.2 depicts volume and value of cheques cleared from FY2012-13 to FY2016-17.

Cheque usage, in terms of volume, has maintained a declining trend over the past years and the five-year rate of decline of the volume of cheques has reached 14.1 per cent. This downward trend may have been triggered by the entry of electronic methods of payments in the market.

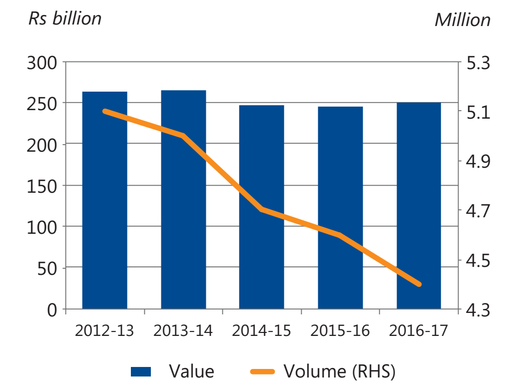
The total value of EFTs amounted to Rs100.5 billion for a total number of 3,859,186 items cleared during FY2016-17. This represented an increase of 12.3 per cent and 15.2 per cent in volume and value terms, respectively. Chart 5.3 shows the volume and value of EFTs transactions from FY2012-13 through FY2016-17. Chart 5.4 makes a comparison between volume of cheques and EFTs over the same period.

EFTs, with shorter clearing cycles than cheques, positively affect the velocity of money in circulation.

Cross Border Initiatives

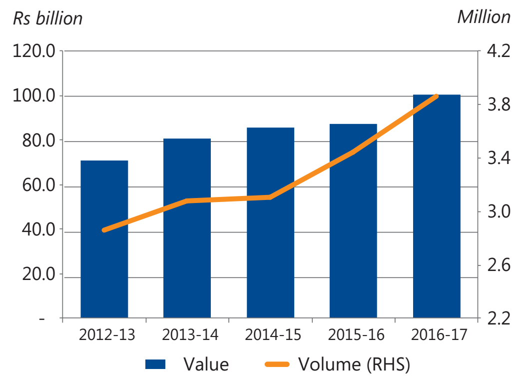
Mauritius ambitions to become the financial hub of the region and is a member of several regional blocks, amongst which SADC and COMESA. One initiative, namely the Regional Payment and Settlement System (REPSS) led by the COMESA Clearing House, resulted in the setting up of a cross-border payment system connecting member countries of the COMESA to effect payments within Africa on the same day and at a lower cost. REPSS is operational since October 2012 with currently nine live participants, notably, the Democratic Republic of 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 participant central banks. REPSS represents a great opportunity for Mauritius in its quest to affirm itself as a financial centre. Intra-COMESA trade currently hovers around USD21 billion and the cost of trade through correspondent banking arrangements and letters of credit are estimated at around 3 per cent of the value of the trade, amounting to USD627 million. As the settlement bank in the setup, there is opportunity for new revenue flows once the payment transactions are channeled through REPSS.

Chart 5.2: Cheques Cleared



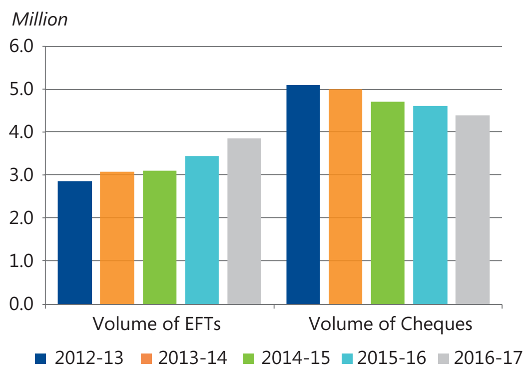
Source: Payment Systems and MCIB Division.

Chart 5.3: Electronic Clearing Transactions



Source: Payment Systems and MCIB Division.

Chart 5.4: Volume of Cheques and EFTs on BCS



Source: Payment Systems and MCIB Division.

Table 5.1: Summary of REPSS Transactions, 2014 - 2017				
Year	Amount in US dollar	No of US dollar transactions	Amount in Euro	No of Euro transactions
2014	352,384.59	11	4,580.00	2
2015	10,338,520.61	291	837,170.73	26
2016	5,970,446.87	153	15,334.02	11
2017*	3,339,790.53	79	2,319.31	3
TOTAL	**20,001,142.60**	**534**	**859,404.06**	**42**

** January to May 2017.*
Source: Payment Systems and MCIB Division.

The SADC Integrated Regional Electronic Settlement System (SIRESS) is a cross border payment system, initially modelled on a single currency for the region and single regional institutions like a Regional Central Bank and a Regional Clearing House.

Mauritius participates in SIRESS through four banks, namely, Barclays Bank (Mauritius) Limited, Standard Bank (Mauritius) Limited, Standard Chartered Bank (Mauritius) Limited and the Mauritius Commercial Bank Ltd.

The use of ZAR as a single settlement currency for SIRESS is proving to be a hindrance for further expansion. According to a SWIFT BI report on currency usage during 2015H2 by countries which have joined SIRESS, around 53 per cent of cross-border transactions were carried out in USD while around 40 per cent were in ZAR. EURO and MUR were the third and fourth usage currencies. The USD is therefore the most appropriate currency to adopt next to ZAR. SIRESS is being modified to enable settlement in USD and the Bank has proposed to become the settlement bank for USD as well, given its present status as settlement bank in REPSS.

ELECTRONIC BANKING TRANSACTIONS

Electronic banking technology is being widely used by the banking industry in Mauritius in the form of Automatic Teller Machine (ATM) facilities, Internet banking and Mobile banking.

As at end-June 2017, 15 banks offered card services, of which 11 operated ATMs. The number of credit, debit and other cards in circulation rose from 1,687,913 as at end-June 2016 to reach 1,818,134 as at end-June 2017, with a concomitant increase in the monthly average number of card transactions from 5,643,401 for the quarter ended June 2016 to 6,069,681 for the quarter ended June 2017.

The number of ATMs in operation declined from 461 as at end-June 2016 to 454 as at end-June 2017, following the closure of 13 ATMs while six new ATMs were opened during the same period. The higher monthly average number of card transactions translated itself in an increase in the monthly average value of transactions at ATMs and merchant Point of Sales from Rs12,128 million as at end-June 2016 to Rs12,984 million as at end-June 2017.

In the same vein, outstanding advances on credit cards followed an upward trend as the monthly average value of card transactions increased over the period. Outstanding advances on credit cards were Rs2,420 million as at end-June 2017, compared to Rs2,280 million as at end-June 2016, representing an increase of 6.1 per cent over the period. At the micro level, while the outstanding advances per credit card in circulation increased by 6.1 per cent from Rs8,845 as at end-June 2016 to Rs9,388 as at end-June 2017, the number of credit cards in circulation over the same period increased slightly by 0.03 per cent. Table 5.2 summarises electronic banking transactions during the period under review.

Internet Banking

As at end-June 2017, the number of banks offering internet banking services stood at 17. The number of bank registered customers availing of internet banking services rose by 6.2 per cent from 356,070 as at end-June 2016 to 378,131 as at end-June 2017, while the total value of internet banking transactions increased by 2.9 per cent from Rs369,827 million as at end-June 2016 to Rs380,673 million as at end-June 2017. The average value of internet banking transactions stood at Rs1.2 million as at end-June 2017, up from Rs0.6 million as at end-June 2016, despite a significant decline of 47.9 per cent in the number of internet banking transactions from 582,876 to 303,887.

Mobile Banking

As at end-June 2017, five banks and one non-bank entity offered mobile banking facilities to customers. The number of subscribers availing of mobile payment and mobile banking services stood at 925,194 and they conducted an aggregate number of 665,428 transactions as at end-June 2017, up from 464,036 conducted as at end-June 2016. The value of mobile payment and mobile banking transactions increased by 118.0 per cent from Rs165.1 million to Rs359.8 million over the same period.

Other Electronic Banking Transactions

As at end-June 2017, transactions carried out through systems other than ATM, shared ATM, Merchant Point of Sale, Internet Banking and Mobile Banking transactions amounted to Rs420,373 million as at end-June 2017, compared to Rs96,897 million as at end-June 2016.

Table 5.2: Electronic Banking Transactions

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Number of ATMs in operation at end of quarter	461	458	456	452	454
Monthly average number of card transactions for the quarter	5,643,401	5,790,462	6,737,015	5,948,690	6,069,681
Monthly average value of transactions[1] for the quarter (Rs million)	12,128	12,566	15,589	13,157	12,984
Number of Credit Cards in circulation at end of period	257,767	258,048	257,866	257,969	257,833
Number of Debit & other Cards in circulation at end of quarter	1,430,146	1,410,072	1,436,119	1,549,002	1,560,301
Total number of cards in circulation at end of quarter	1,687,913	1,668,120	1,693,985	1,806,971	1,818,134
Outstanding advances on credit cards at end of quarter (Rs million)	2,280	2,322	2,486	2,373	2,420

[1] Involving the use of Credit Cards at ATMs and Merchant Points of Sale.
Source: Supervision Department.

ISSUE OF NOTES AND COINS

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

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

Notwithstanding the use of technology driven non-cash modes of payment, the demand for banknotes and coins increased in FY2016-17. The value of banknotes and coins deposited at and issued by the Bank, during the year under review, amounted to Rs36.0 billion and Rs38.9 billion, respectively. The Bank examined 57.7 million banknotes, equivalent to an amount of Rs26.1 billion, of which 13.4 per cent, for an amount of Rs2.3 billion, were found to be unfit for circulation. As at 30 June 2017, 89.7 per cent of the soiled banknotes, amounting to Rs2.0 billion, were destroyed. In FY2016-17, the value of banknotes in circulation rose by 9.8 per cent, compared to 7.7 per cent in FY2015-16, while the volume of banknotes rose by 9.9 per cent, compared to an increase of 8.2 per cent in FY2015-16. Banknotes of Rs1,000 denomination accounted for 62.7 per cent of the total value of banknotes in circulation, followed by banknotes of Rs2,000 denomination, which represented 13.7 per cent of the total. In volume terms, banknotes of Rs1,000 denomination represented 28.0 per cent of all banknotes in circulation, followed by banknotes of Rs100 denomination, with a share of 22.8 per cent. Chart 5.5 depicts the total value and volume of banknotes in circulation by denomination. During FY2016-17, the total value and volume of coins in circulation increased by 5.2 per cent and 4.6 per cent, respectively.

Sale of Gold to Licensed Jewellers

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

Sale of Dodo Gold Coins

Dodo Gold coins of 22 carats are issued by the Bank in four different denominations, namely, one ounce with a face value of Rs1,000, half an ounce with a face value of Rs500, quarter of an ounce with a face value of Rs250 and one-tenth of an ounce with a face value of Rs100. The coins are legal tender in Mauritius for the value stated thereon. The Dodo Gold coins are on sale at the counter of the Bank of Mauritius and banks in Mauritius. The daily selling prices of the coins, based on their gold content and on international gold market prices, are posted in the Bank's Banking Hall and on its website.

Sale of Commemorative Coins

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

1. Tenth Anniversary of the Independence of Mauritius

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

2. 1997 Golden Wedding Collector Coin

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

3. 'Father of the Nation' Platinum Coin Series

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

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

Clean Banknote Programme

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

Polymer Banknotes

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

The value and volume of Polymer banknotes in circulation as at end-June 2017 were as shown in Table 5.3.

Table 5.3: Value and Volume of Polymer Banknotes in Circulation as at end-June 2017

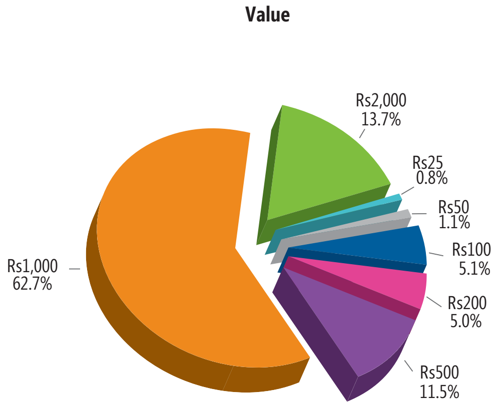
Denomination	Volume	Value
	(million Banknotes)	Rs million
Rs25	7.7	193.1
Rs50	5.1	255.9
Rs500	3.3	1,659.7

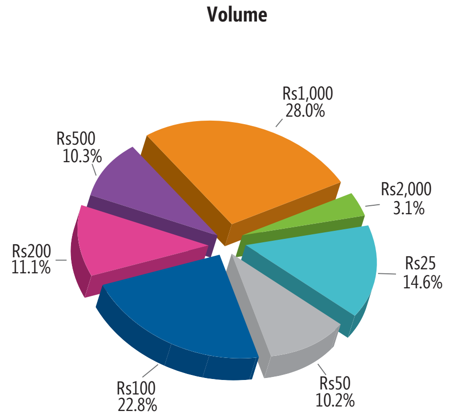
Source: Banking and Currency Division.

Coin Deposit Campaign

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

Chart 5.5: Banknotes in Circulation as at 30 June 2017





Source: Banking and Currency Division.

6

Regional and International Affiliation

During FY2016-17, the Bank of Mauritius (Bank) participated regularly in meetings and provided up-to-date information to regional fora – in particular, the Association of African Central Banks (AACB), the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa, the Committee of Central Bank Governors of the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). As part of its endeavours to enhance regional collaboration, the Bank hosted the 23rd Steering Committee of the CCBG ICT Subcommittee meeting from 13 to 15 July 2016. The Bank also hosted the Annual Meeting of the CCBG ICT Subcommittee on IT Governance and Business Continuity Management Champions from 6 to 9 June 2017.

The Bank pursued its involvement with international organisations. The Bank participated in the high-level conference organised by the Africa Training Institute of the IMF, based in Mauritius, and hosted the Joint IMF/Basel Committee on Banking Supervision/ Making Finance Work for Africa on 1 February 2017. The Bank continued to be closely involved with the work of the International Islamic Liquidity Management Corporation, the Islamic Financial Services Board, the African Export and Import Bank and the International Financial Consumer Protection Organisation. The Governor also participated as a speaker in various seminars, such as in the inaugural of the ADB-OMFIF Seminar held in March 2017 in Tokyo, Japan. The meeting included participants from several central banks, sovereign wealth funds and international organisations as well as experts from the OMFIF and the Asian Development Bank. The Governor joined the panel discussion entitled "*Complementary macroprudential policies to mitigate risk of the financial system*".

Besides its regular association with regional and international fora, the Bank along with the government and other stakeholders in the economy participated in several reports on Mauritius published in well-known, widely-read international magazines and newspapers such as *Foreign Affairs*, *The Banker*, *Financial Times*, *China Daily*, *Euromoney Yearbook – The Global Banking and Financial Policy Review 2017/ 2018*, *The Japan Times* and *FDI Spotlight*. These reports and articles focused mostly on providing detailed, reliable and objective information on the economy and the financial sector of Mauritius to readers and subscribers with a view to improving visibility of Mauritius to the rest of the world.

Policy issues on the economy as well as on monetary and financial stability mandates of central banks were discussed at the various regional and continental fora. A summary of the issues raised by central bankers or ministers of finance at meetings held during the year under review are provided in the following sections.

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

39th Ordinary Meeting of the Assembly of Governors, 19 August 2016, Abuja, Nigeria

On 19 August 2016, the Assembly of Governors of the AACB[3], which was preceded by a Symposium on the theme *"Unwinding Unconventional Monetary Policies: Implications for Monetary Policy and Financial Stability in Africa"*, adopted the report of the 38th Ordinary Meeting of the AACB Assembly of Governors held on 14 August 2015 in Malabo, Equatorial Guinea. Governors took note of the information provided by the African Union (AU) Commission on the submission to the AU decision-making bodies of the Study and the Joint AUC-AACB Strategy for the creation of the African Central Bank. The Assembly of Governors noted the status progress report on the implementation of the African Monetary

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

Cooperation Programme (AMCP)[4] in 2015 and deliberated on the difficulties of member countries in general to fulfil the AMCP's primary criteria. Most countries continued to miss the AMCP targets for Stage III in spite of an extension of two years. The Assembly of Governors encouraged the five sub-regions to intensify their efforts to implement structural reforms aimed at diversifying their economies, improving business environment, and promoting intra-regional trade in order to enhance the resilience of African countries to external shocks.

The Assembly of Governors mandated the Bureau[5] to approve the amended report of the Experts Group on the refinement of the AMCP convergence criteria after taking into account Governors' comments. Governors took note of the report presented by the AACB Secretariat on the survey of member states' monetary policy frameworks and requested that the survey be conducted periodically. Governors proposed that a Board of Directors responsible for monetary policy be put in place to design a harmonised monetary policy framework for African central banks.

Governors noted the activities of the Community of African Banking Supervisors (CABS)[6]. A workshop on "*Crisis Management and Banking Resolution*" was organised from 16 to 20 January 2017 in Abuja, Nigeria with the support of Making Finance Work for Africa and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). The workshop provided participants with the opportunity to examine issues arising in managing a crisis from a potentially systemic financial institution and presented different approaches to facilitate the effective resolution of banks without disrupting the broader financial system.

The successful implementation of Phase I of the CABS work plan spanning over 2014-2016 is an important milestone upon which future CABS activities would be built. The draft 2017-2019 work plan or Phase II would draw on the achievements and lessons learnt during 2014-2016 and would be presented at the Assembly of Governors scheduled in August 2017.

Bureau Meeting, 8 March 2017, Dakar, Senegal,

The Bureau adopted the report of the 39th Ordinary Meeting of the Assembly of Governors of the AACB which was held on 19 August 2016. It took note of the concensus by members to strengthen sub-regional blocs and set credible timelines to make progress towards the establishment of the African Central Bank. The Bureau took note of the amended Statutes of the African Institute for Remittances[7], on which central banks' comments had been sought. The Bureau approved the participation of the Chairman and Vice-Chairman of the AACB at the African Institute for Remittances' Governing Board and five representatives of the AACB at the Institute's Consultative Forum, with one representative per sub-region. The Bureau also examined the amended report of the Experts Group on the refinement of the convergence

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

[5] *The Bureau members for the year 2016-17: Central Bank of Nigeria (Chair), Bank of Ghana, Banque Centrale de Mauritanie, Banque des Etats de l'Afrique Centrale, Banque de la République du Burundi, Central Bank of Swaziland.*

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

[7] *The African Institute for Remittances is a Specialized Technical Office of the African Union, with the mission to work exclusively in areas of remittances, enhancing market competition to make remittance transfers to and within Africa, so as to maximise their impact on the economic and social development of African Countries. The Institute is currently working with central banks of member states to provide technical assistance in areas of regulatory and statistical framework on remittances.*

criteria of the AMCP. The Experts Group was requested to provide justifications on the selected criteria and thresholds and present timelines for the creation of the African Central Bank. Regional Economic Communities would also be requested to provide their comments on proposals made by the Experts Group. The report would be presented at the 40th session of the Assembly of Governors scheduled for 16 August 2017 in Pretoria, South Africa.

Continental Seminar, 3-5 May 2017, Accra, Ghana

The Continental Seminar held in May 2017 in Ghana focussed on the theme *"Credible Communication Strategies for Central Banks in the Framework of Monetary Policy and Financial Stability"*. The seminar reflected on the increased importance of central bank communication in achieving the objectives of monetary policy and financial stability, the implementation of central bank communication strategies, as well as the new challenges of adopting communication as an instrument of monetary policy and financial stability by central banks. Central banks shared their experiences on their communication strategy at the seminar.

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

14th Meeting of the Monetary and Exchange Rates Policies Subcommittee, 31 August to 1 September 2016, Nairobi, Kenya

The 14th Meeting of the Monetary and Exchange Rates Policies Subcommittee considered the Validation Workshop on the studies conducted by member central banks, the reports on training and the workshop on *"Strategy to enhance financial inclusion in the COMESA region through enabling regulatory and supervisory framework"*, the study on *"Lessons from Euro Debt crisis and implications for COMESA Monetary Integration Programme"*, and the work-plan of the Subcommittee for 2017. The meeting considered the report on progress made by member countries towards macroeconomic convergence and the Financial System Stability Assessment Framework.

22nd Meeting of the COMESA Finance and Monetary Affairs and Committee of Governors of Central Banks, 27-30 March 2017, Bujumbura, Burundi

The main issues raised by the Committee of Finance and Monetary Affairs, which were escalated to the Committee of Governors of Central Banks, were the status of implementation of the decisions made by Governors at the 21st Meeting of the COMESA Committee of Governors of Central Banks held in 2015. On 29 March 2017, representatives of COMESA central banks participated in a Symposium on *"The Experience of European Monetary Union and the lessons to be learnt from COMESA Monetary Integration "*. The COMESA Monetary Institute (CMI) was directed to prepare a technical paper on how to harmonise the macroeconomic convergence criteria for COMESA, SADC and Eastern Africa Community. The CMI was mandated to propose corrective policy measures whenever member countries would face challenges in meeting the convergence criteria.

Governors took note that the Central Bank of Egypt went live on the Regional Payment and Settlements System on 27 March 2017, resulting in a total of nine central banks which are currently live on the system, namely the Central Banks of Democratic Republic of Congo, Egypt, Kenya, Malawi, Mauritius, Rwanda, Swaziland, Uganda and Zambia.

The Bureau of the COMESA Committee of Governors currently comprises the Governor of Banque de la République du Burundi as the current Chairperson, with the Governor from the Banque Centrale du Congo as First Vice-Chair and the Governor of Banque Centrale de Djibouti as second Vice-Chair.

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

SADC Summit of Heads of State and Government, 30 – 31 September 2016, Mbabane, Swaziland

The 36th Ordinary Meeting of the Summit of the Heads of State and Government took place under the theme *"Resource Mobilisation for Investment in Sustainable Energy Infrastructure for an Inclusive SADC Industrialisation and for the Prosperity of the Region".* The SADC Summit approved the *"Agreement on the Operationalisation of the SADC Regional Development Fund"* and appealed to member states to urgently ratify the Agreement in order to facilitate mobilisation of resources to finance key regional infrastructure and industrialisation projects. Some legal instruments were approved at the Summit, namely the *Draft Agreement amending Annex 1*[8] *to the SADC Protocol on Finance and Investment*, the *Draft Annex on Cooperation in Financial Matters* and the *Draft Agreement on the Operationalisation of the SADC Regional Development Fund.* The SADC Summit took stock of the status of signature, ratification and accession to SADC Protocols and noted that twenty-six Protocols had entered into force. The SADC Council urged member states that were yet to accede to the seven SADC Protocols to do so.

CCBG Macroeconomic Subcommittee Meetings

Meeting of the Macroeconomic Subcommittee, 6-7 September 2016, Gaborone, Botswana

At the meeting held on 6 and 7 September 2016 in Botswana, the CCBG Macroeconomic Subcommittee mandated the Bank of Mauritius to coordinate the drafting of two papers, *"Snapshot on Recent Economic Developments in SADC"* and the *"Integrated Paper on Recent Economic Developments in SADC"* to be presented at the May 2017 and September 2017 CCBG meetings, respectively. The two papers essentially explore the key drivers and indicators of economic performance and assess the progress achieved on the SADC Macroeconomic Convergence programme, based on information obtained from each SADC central bank. The recommendations of the Research Review Panel meeting, which precede the Macroeconomic subcommittee meeting were also taken on board. Other issues discussed at the Macroeconomic sub-committee meetings were the revised Regional Indicative Strategic Development Plan 2015-2020, the proposal to work on "*reserve pooling to mitigate risk in SADC*", evaluation of progress towards attainment of macroeconomic convergence criteria and the convergence of policies, amongst others.

Meeting of the Macroeconomic Subcommittee, 15-16 March 2017, Democratic Republic of Congo

The Macroeconomic subcommittee met in March 2017 in the Democratic Republic of Congo and approved the recommendations of the Research Review Panel in respect of proposed research papers. The subcommittee reviewed the performance of member countries relating to macroeoeconomic convergence criteria. Some member countries registered lower than expected growth rates in 2016 as a result of falling commodity prices, higher inflation rates due to depreciation of their respective currencies and severe droughts.

[8] *Annex 1 pertains to the promotion and admission of investments, promotion of local and regional entrepreneurs as well as the use of public private partnerships to ensure development in SADC.*

SADC Macroeconomic Peer Review Panel Meetings, 2016- 2017, Gaborone, Botswana

At the SADC Macroeconomic Peer Review Panel meeting held in Gaborone, Botswana on 7 July 2016, the Panel approved the proposed schedule of member states, namely Malawi, Mauritius, Swaziland and Tanzania to nominate macroeconomic experts to constitute review teams to undertake economic reviews of Democratic Republic of Congo, Namibia, Zambia and Zimbabwe during 2016-2017. In September 2016, two officers from the Bank of Mauritius were nominated as macroeconomic experts to review the Democratic Republic of Congo. The review process began in November 2016 and was completed in March 2017. One of the key objectives of the mission was to review progress made by the Democratic Republic of Congo in meeting SADC macroeconomic convergence criteria and to propose policy solutions where required and feasible. The preliminary Review Report of the experts was presented to the SADC Macroeconomic Subcommittee meeting on 28 and 29 March 2017 in Gaborone, Botswana. The Report would be presented at the SADC Peer Review Panel meeting scheduled for August 2017 in Swaziland. As part of the rotation exercise, Botswana, Mauritius, Mozambique, South Africa and Zambia would be peer reviewed in 2017-2018 and the countries responsible for their peer review would be Angola, Lesotho, Namibia, Swaziland and Zimbabwe.

44th Meeting of the Committee of Central Bank Governors, 19 May 2017 in Kinshasa, Democratic Republic of Congo

The Committee of Central Bank Governors (CCBG) met on 19 May 2017 in Kinshasa, Democratic Republic of Congo. Governors took note of the report of the CCBG Strategy Planning Session held in January 2017 where key Strategic Focus Areas (SFAS) for the SADC region for the period 2017 to 2019 had been identified. The SFAs pertained to macroeconomic convergence, financial market integration, financial stability, financial integrity and financial inclusion. . Cross-cutting enablers were also identified to support the focus areas, namely leveraging SADC's interests in international fora, central bank governance, information and communications technology, and human resources.

Governors reviewed the progress reports on activities of the CCBG Subcommittees and other structures reporting to the CCBG. The CCBG subcommittees were mandated to assess and amend their work programmes consistent with the strategic focus areas agreed by Governors at the last CCBG Strategy Session. The deliverables of various subcommittees were discussed. The Bank also made a presentation on the *"Snapshot on recent economic developments in SADC"* at the CCBG meeting. Macroeconomic conditions in SADC generally deteriorated in 2016. Growth slowed down in several countries, weighed down by subdued commodity prices, domestic supply bottlenecks and adverse climatic conditions. Significant depreciation of currencies in 2015 and 2016 resulted in double-digit inflation in Angola, Malawi, Mozambique and Zambia. Several central banks in the region tightened monetary policy to support their currencies and restrain inflationary pressures. Fiscal deficits and public debt levels generally increased in SADC member states in 2016. Intra-SADC trade progressed marginally from 20.1% in 2015 to 20.8 % in 2016, compared to over 60% in Europe and Asia. In 2016, no country managed to achieve the complete set of the macroeconomic convergence criteria. Most countries had difficulties in achieving the secondary criteria compared to the primary criteria.

The Information and Communication Technology (ICT) subcommittee was tasked to progress beyond the protocols and investigate what SADC central banks should embark upon to address cybersecurity issues. On the currency of settlement matter, Governors approved the proposal of the CCBG Payment Systems and CCBG ICT subcommittees to set up a centralised SADC Integrated Regional Settlement System multi-currency settlement system, which would provide the functionality to settle multiple currencies on a single shared platform.

Workshop on the SADC Monitoring and Evaluation Framework held on 28-30 June 2017, Quatre Bornes, Mauritius

A SADC mission was in Mauritius[9] to impart training on the utilization of the online web-based system – SADC Monitoring and Evaluation Framework. The objective was to train member states on how to use the system to capture the required information on the implementation of the Regional Indicative Strategic Development Plan (RISDP) and other SADC Programmes/ Projects/ Protocols.

FINANCIAL STABILITY BOARD REGIONAL CONSULTATIVE GROUP FOR SUB-SAHARAN AFRICA

During the last financial year, two meetings of the Financial Stability Board Regional Consultative Group[10] for Sub-Saharan Africa were held in October 2016 and February 2017, respectively. The discussions revolved, *inter-alia*, around global and regional financial stability issues, challenges facing the region and the work in progress at the level of the FSB on the measures for strengthening the global financial system. The Working Group on *Home-Host Cooperation and Information-Sharing*, chaired by the Second Deputy Governor of the Bank, tabled a draft report on the practices and challenges in place for information-sharing among jurisdictions, together with recommendations for improving the effectiveness of the process of information-sharing. Responses were provided by 19 jurisdictions in sub-Saharan Africa. The team included members from the central banks of West African States (BCEAO), Kenya, Mauritius, Nigeria, Sierra Leone, South Africa and Tanzania.

The South African Reserve Bank remains the permanent co-Chair of the Regional Consultative Group and is represented by its Governor. The Governor of the Bank of Botswana was appointed as co-Chair with effect from 1 July 2017.

INTERNATIONAL ISLAMIC LIQUIDITY MANAGEMENT CORPORATION (IILM)

One of the ultimate objectives of the IILM is to regularly supply high quality liquid assets for the global Islamic financial services industry. In mid-2016, the IILM faced the risk of being downgraded by Standard and Poor's Ratings Services (S&P) as its Sukuk Programme was no longer compatible with S&P's A-1 rating criteria. To address this risk, the IILM requested members to collectively provide a liquidity backstop of US$1 billion. As at 16 November 2016, the IILM had issued short-term Sukuk amounting to USD2.45 billion and reissued 30 series of these Sukuk amounting to USD22 billion in tenors of three, four and six months through the primary dealers. This was the 26th series of short-term Sukuk, rated A-1 by S&P.

[9] *The workshop was attended by government officials from all the clusters, including the Ministry of Foreign Affairs and Regional Cooperation, the Ministry of Finance and Economic Development, the Ministry of Financial Services, Good Governance and Institutional Reforms and the Bank of Mauritius.*

[10] *Membership includes financial authorities from Angola, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa and Tanzania, as well as the Central Bank of West African States (BCEAO) based in Senegal and the Bank of Central African States (BEAC). Permanent observers include the Committee of Central Bank Governors of the Southern African Development Community and the East African Community.*
On 25-26 October, the South African Reserve Bank hosted the 10th meeting of the Financial Stability Board (FSB) Regional Consultative Group (RCG) for Sub-Saharan Africa in Cape Town, South Africa. On 16-17 February 2017, the Central Bank of Lesotho hosted the 11th meeting in Maseru, Lesotho.

The Bank participated in the IILM Joint Meeting held on 14 July 2016 in Kuala Lumpur, Malaysia and the 17th Board Audit Committee Meeting, from 29 September to 30 September 2016 in Kuala Lumpur, Malaysia.

The Governor of the Bank of Mauritius is the Vice-Chairman of the Governing Board since December 2016. The Bank is a member of the Board Audit Committee, which is responsible for assisting the Governing Board in its oversight of the financial reporting of the IILM since May 2016.

ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB Council met on two occasions during the year under review. At the 29th Meeting of the Council of the IFSB, held on 14 December 2016 in Cairo, Egypt, the Council approved the appointments of the Central Bank of Iran as Chair and Bangladesh Bank as Deputy Chair for the term 1 January to 31 December 2017. The Council was briefed on the actions taken by the IFSB Secretariat with respect to the resolutions adopted at the 28th Meeting of the Council. The Council considered the resolutions on '*Revised Guidelines and Procedures for the Preparation of Standards*', '*Approval and Adoption of the Technical Note on Stress Testing for Institutions offering Islamic Financial Services*', '*Prudential and Structural Islamic Finance Indicators Programme – Medium-Term Plan (2017-2019)*' and a status update of the IFSB Funding Strategy.

At its 30th Meeting held in Kuala Lumpur, Malaysia, from 4 to 6 April 2017, the Council reviewed the status report of resolutions adopted at the 29th Meeting of the Council. It also approved the *Guiding Principles on Disclosure Requirements for Islamic Capital Market Products*, Investment Review 2016, appointment of IFSB's Fund Manager, the Prudential and Structural Islamic Finance Indicators Programme Extension to Takaful and Islamic Capital Market, amongst others.

The Bank is currently a member of the Working Group on *Core Principles for Islamic Finance Regulation*. In 2016-2017, the Bank assisted the IFSB in distributing and gathering feedback on various survey questionnaires[11].

AFRICAN EXPORT AND IMPORT BANK (AFREXIMBANK)

The Bank participated in the 24th Annual General Meeting of AfreximBank Shareholders, from 28 June to 1 July 2017 in Kigali, Rwanda. The main theme of the activities was *Trade & Economic Transformation,* the objective being to provide an important platform for shareholders to discuss and propose solutions in support of growth and structural transformation of African economies.

INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION (FINCONET)

Since acceding to the status of full-fledged member in May 2016, the Bank has contributed to several questionnaires of FinCoNet[12], namely the '*Online Mortgage Switching Survey*', '*Survey on Online and Mobile Payments: Supervisory Challenges to Mitigate Security Risks*' and '*Digitalisation of Short-Term High-Cost Lending: Supervisory Challenges to Promote Responsible*

[11] *Implementation of IFSB standards, IFSB survey on Key Elements in the Supervisory Review Process in Takaful and Retakaful undertakings; IFSB survey questionnaire on Recovery and Resolution Frameworks for Institutions offering Islamic Financial Services; IFSB survey questionnaire on Issues Arising from Changes in Takaful Capital; IFSB Membership Satisfaction Survey 2016; Survey questionnaire on Core Principles for Islamic Finance Regulation (Islamic Capital Market Segment).*

[12] *The Bank of Mauritius officially joined the International Financial Consumer Protection Organisation (FinCoNet) in May 2016. The decision by the Bank of Mauritius to become a FinCoNet member is motivated by the central bank's endeavour to align protection of consumers of financial services in Mauritius with international best practices.*

Lending'. The Bank provided its views on the report on the '*Guidance on the Impact of Sales Incentives on the Sale of Consumer Credit Products'* which focused on a number of key topics identified in FinCoNet's Report on Sales Incentives and Responsible Lending.

The Bank is represented on two Standing Committees. The *Standing Committee on Online and Mobile Payments*, led by the Banco de Portugal, studies the supervisory approaches adopted in overseeing online and mobile payment services providers. This forum promotes reflection among supervisors and shares findings and examples of actions to be adopted by regulators and supervisors. The *Standing Committee on Practices and tools required to support risk based supervision in a digital age* is chaired by the Central Bank of Ireland and focuses on the main supervisory challenges presented in the credit market.

The Bank participated in the FinCoNet Annual General Meeting, from 15 to 17 November 2016 in Jakarta, Indonesia, and the FinCoNet Seminar and Open Meeting, hosted by the Central Bank of Ireland in Dublin, Ireland on 7 April 2017.

IRVING FISHER COMMITTEE

Over the years, the Irving Fisher Committee (IFC) has successfully carved its place as a platform for the central banking community to discuss statistical issues as well as monetary and financial stability issues. In 2016, the IFC extended its membership to the Central Bank of Montenegro.

The Bank participated at the Eighth Biennial Conference of central bank statisticians on *"Statistical implications of the new financial landscape"* from 7 to 9 September 2016 in Switzerland. The new statistical implications of evolving monetary policy needs were presented to participants. Specific discussions about statistical measures to assess exchange rate, macroeconomic and balance sheet vulnerabilities were held. Participants also discussed on micro data and about the usefulness of building repository datasets within central banks. The role of Information Technology in supporting an evolving need for new micro statistics, given the challenges posed by regulatory changes and technological developments was also stressed.

7

Financial Statements

BANK OF MAURITIUS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

CONTENTS	PAGE

OVERVIEW

Due to the persistent excess liquidity conditions prevailing in the domestic rupee market, the Bank of Mauritius (the "Bank") continued its open market operations to mop up the excess liquidity. The cost of conducting monetary policy amounted to Rs1,918 million for the financial year ended 30 June 2017 compared to Rs1,421 million for the financial year ended 30 June 2016. The Bank realized a net profit of Rs561.1 million as determined under section 11(1) of the Bank of Mauritius Act 2004 (the ''Act") compared to a net loss of Rs628.3 million for the year ended 30 June 2016. Persistent low yield environment in the international markets continued to exert pressure on interest income from foreign assets which, however, have been mitigated by positive returns yielded by realignment of strategic investment decisions.

According to section 11(1) of the Act, the Board of Directors shall determine the net profits of the Bank for each financial year, after meeting all current expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contributions to staff funds and superannuation funds and other contingencies. The Board met on 21 September and 16 October 2017 to consider the financial statements of the Bank for the financial year ended 30 June 2017. On 16 October 2017, the Board determined the financial performance for the year then ended.

Assets

Foreign assets of the Bank increased mainly on account of purchases of foreign currency denominated assets while domestic assets decreased due to repayments made under the Special Line of Credit and a lower amount invested in Government Securities.

Liabilities

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

Capital and Reserves

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

Statement of Responsibilities

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

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

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

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

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

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

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

Report on audit of the financial statements

Opinion

We have audited the financial statements of Bank of Mauritius (the "Bank") set out on pages 160 to 204, which comprise the statement of financial position as at 30 June 2017, 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 2017, 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 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

Deloitte
Chartered Accountants

Twaleb BUTONKEE
Licensed by FRC

Date: 16 October 2017

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

	Note	2017	2016
		Rs	Rs
ASSETS			
Foreign Assets:			
Cash and Cash Equivalents	6	**59,385,046,342**	70,308,276,156
Other Balances and Placements	7	**120,349,438,417**	96,044,264,662
Interest Receivable		**395,061,998**	421,446,293
Other Investments	8	**476,991,146**	450,794,378
		180,606,537,903	167,224,781,489
Domestic Assets:			
Loans and Advances	9	**4,376,470,284**	4,515,845,652
Investment in Government Securities	10	**658,337,428**	1,252,146,212
Computer Software	11	**40,168,541**	58,108,513
Property, Plant and Equipment	12	**1,758,288,034**	1,590,542,150
Other Assets	13	**487,613,403**	377,946,253
		7,320,877,690	7,794,588,780
TOTAL ASSETS		**187,927,415,593**	175,019,370,269
LIABILITIES			
Currency in Circulation	14(a)	**33,801,034,077**	30,818,441,617
Demand Deposits:			
Government	14(b)	**24,751,257,710**	27,303,819,898
Banks		**46,984,148,916**	39,659,050,253
Other Financial Institutions		**278,991,000**	320,648,775
Others		**303,460,837**	389,585,786
		72,317,858,463	67,673,104,712
Bank of Mauritius Securities	15	**45,799,101,831**	35,834,289,564
Provisions	16	**100,000,000**	100,000,000
Employee Benefits	17	**1,098,465,588**	836,927,596
Other Liabilities	18	**15,913,847,709**	14,818,649,576
TOTAL LIABILITIES		**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
Reserves	5	**16,897,107,925**	22,937,957,204
TOTAL CAPITAL AND RESERVES		**18,897,107,925**	24,937,957,204
TOTAL LIABILITIES, CAPITAL AND RESERVES		**187,927,415,593**	175,019,370,269

J. Pandoo
Assistant Secretary
Accounting and Budgeting

M.V. Punchoo
Second Deputy Governor

R. Basant Roi, G.C.S.K.
Governor

Date: 16 October 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 Rs	2016 Rs
REVENUE			
Income from Financial Assets			
Interest and Similar Income on Foreign Assets	19 (a)	**3,291,449,449**	1,594,205,403
Interest and Similar Income on Domestic Assets	19 (b)	**191,443,031**	264,775,015
Others	19 (c)	**(3,640,973)**	40,352,584
	19	**3,479,251,507**	1,899,333,002
Loss on Foreign Exchange Transactions, Revaluation of Foreign Currencies and SDR		**(3,974,983,497)**	(401,140,131)
Miscellaneous Income	20 (a)	**194,318,197**	144,345,388
(Loss)/Gain on Financial Instruments at Fair Value Through Profit or Loss	20 (b)	**(1,618,209,277)**	1,991,515,354
TOTAL REVENUE		**(1,919,623,070)**	3,634,053,613
EXPENDITURE			
Interest Expense and Similar Charges	21	**92,032**	71,101
Staff Salaries and Other Benefits	22	**370,009,058**	316,427,161
General Expenditure		**214,233,123**	347,887,563
Fees Payable		**31,870,219**	31,651,877
Coin Issue Expenses		**63,289,186**	24,674,380
Note Issue Expenses		**47,506,130**	17,252,662
Depreciation and Amortisation		**146,990,920**	150,636,551
Directors Remuneration	23	**28,126,169**	17,540,364
IMF Charges	32	**10,445,171**	1,799,306
Other Expenditure	24	**60,182,353**	48,410,803
TOTAL EXPENDITURE		**972,744,361**	956,351,768
OPEN MARKET OPERATIONS			
Cost of Conducting Monetary Policy	25	**1,917,948,410**	1,421,384,349
NET (LOSS)/PROFIT FOR THE YEAR		**(4,810,315,841)**	1,256,317,496
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit liability	17(a)	**(213,642,980)**	(192,282,208)
Items that will be reclassified subsequently to profit or loss:			
Net fair value (loss)/gain on available-for-sale financial assets during the year		**(522,365,117)**	120,481,326
Reclassification adjustments in relation to available-for-sale financial assets disposed of in the year		**(17,549,528)**	34,466,780
		(753,557,625)	(37,334,102)
TOTAL COMPREHENSIVE (LOSS)/INCOME		**(5,563,873,466)**	1,218,983,394

STATEMENT OF DISTRIBUTION FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
TOTAL COMPREHENSIVE LOSS/INCOME FOR THE YEAR - AS PER IFRS		**(5,563,873,466)**	1,218,983,394
Transfer from/(to) Special Reserve Fund in terms of sections 47(1) and 47(1A) of the Bank of Mauritius Act 2004	5	**6,125,021,481**	(1,847,325,763)
NET PROFIT/(LOSS) FOR THE YEAR IN TERMS OF SECTION 11 (1) OF THE BANK OF MAURITIUS ACT 2004		**561,148,015**	(628,342,369)
Transfer from Special Reserve Fund in terms of section 47(5)(b) of the Bank of Mauritius Act 2004		-	628,342,369
Transfer to General Reserve Fund in terms of section 11(2) of the Bank of Mauritius Act 2004		**(84,172,202)**	-
BALANCE OF NET PROFITS PAYABLE INTO THE CONSOLIDATED FUND IN TERMS OF SECTION 11(3) OF THE BANK OF MAURITIUS ACT 2004		**476,975,813**	-

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Stated and Paid Up Capital	General Reserve Fund	Special Reserve Fund	Accumulated Profit	Total
	Rs	Rs	Rs	Rs	Rs
Balance at 01 July 2015	2,000,000,000	2,605,656,626	19,113,317,184	-	**23,718,973,810**
Net profit for the year	-	-	-	**1,256,317,496**	**1,256,317,496**
Other Comprehensive loss for the year	-	-	-	**(37,334,102)**	**(37,334,102)**
Total comprehensive income	-	-	-	**1,218,983,394**	**1,218,983,394**
Transfer to Special Reserve Fund	-	-	**1,847,325,763**	**(1,847,325,763)**	-
Transfer from Special Reserve Fund	-	-	**(628,342,369)**	**628,342,369**	-
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-	-	-	-
Balance at 30 June 2016	**2,000,000,000**	**2,605,656,626**	**20,332,300,578**	**-**	**24,937,957,204**
Balance at 01 July 2016	2,000,000,000	2,605,656,626	20,332,300,578	-	**24,937,957,204**
Net loss for the year	-	-	-	**(4,810,315,841)**	**(4,810,315,841)**
Other Comprehensive loss for the year	-	-	-	**(753,557,625)**	**(753,557,625)**
Total comprehensive loss	-	-	-	**(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)**	-
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	-	-	-	**(476,975,813)**	**(476,975,813)**
Balance at 30 June 2017	**2,000,000,000**	**2,689,828,828**	**14,207,279,097**	**-**	**18,897,107,925**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Cash Generated From Operating Activities	26	**19,230,185,571**	24,479,427,282
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Other Balances and Placements		**(24,305,173,755)**	(12,268,620,941)
Decrease in Investment in Government Securities		**593,950,000**	2,202,971,304
Additions to Computer Software	11	**(10,240,342)**	(50,254,453)
Acquisition of Property, Plant and Equipment	12	**(287,395,015)**	(101,833,411)
Proceeds from Sale of Property, Plant and Equipment		**1,882,000**	1,553,849
Increase in Other Investments		**(26,196,768)**	(78,415,647)
Dividend Received		**4,779,976**	2,841,230
Net Cash Used In Investing Activities		**(24,028,393,904)**	(10,291,758,069)
Net increase/(decrease) in Cash and Cash Equivalents		**(4,798,208,333)**	14,187,669,213
Cash and Cash Equivalents at start of the year		**70,308,276,156**	54,485,340,629
Effect of exchange rate fluctuations on Cash and Cash Equivalents		**(6,125,021,481)**	1,635,266,314
Cash and Cash Equivalents at end of the year	6	**59,385,046,342**	70,308,276,156

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

(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.

IAS 1	Presentation of Financial Statements - Amendments resulting from the disclosure initiative
IAS 16	Property, Plant and Equipment - Amendments regarding the clarification of acceptable methods of depreciation and amortisation
IAS 19	Employee Benefits - Amendments resulting from September 2014 Annual Improvements to IFRSs
IAS 38	Intangible Assets - Amendments regarding the clarification of acceptable methods of depreciation and amortization
IFRS 7	Financial Instruments: Disclosures - Amendments resulting from September 2014 Annual Improvements to IFRSs

(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 7	Statement of Cash Flows - Amendments as a result of the Disclosure initiative (effective 1 January 2017)
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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	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 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.

3. ACCOUNTING POLICIES

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

(a) Financial Instruments

(i) *Initial Recognition*

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

(ii) *Classification and measurement*

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), '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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

(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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

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

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

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

(h) Foreign Currencies

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

(i) Impairment

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

(k) Operating Leases

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

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

4. USES OF ESTIMATES AND JUDGEMENT

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

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

Determining Fair Values

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	Rs	Rs
Loss on revaluation of Foreign Currencies and SDR	**3,966,897,559**	299,137,697
Loss/(Gain) on Financial Instruments at Fair Value Through Profit or Loss	**1,618,209,277**	(1,991,515,354)
	5,585,106,836	(1,692,377,657)
Net fair value loss/(gain) on AFS financial assets to be reclassified subsequently to profit or loss	**539,914,645**	(154,948,106)
Transfer from/(to) Special Reserve Fund in terms of sections 47(1) and 47(1A) of the Bank of Mauritius Act 2004	**6,125,021,481**	(1,847,325,763)

6. CASH AND CASH EQUIVALENTS

	2017	2016
	Rs	Rs
Short Term Deposit Accounts	**4,571,204,862**	877,261
Foreign Investments	**6,539,754,293**	3,499,108,426
Special Drawing Rights (SDR) (note 32)	**4,309,452,924**	4,459,923,672
Repurchase Agreement	**25,422,269,120**	48,278,961,090
Current Accounts	**5,705,201,210**	4,448,860,795
Foreign Currency Notes and Coins	**13,200,055**	5,595,666
Gold Deposits	**12,823,963,878**	9,614,949,246
	59,385,046,342	70,308,276,156

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

	2017	2016
	Rs	Rs
Foreign Investments	**115,979,361,791**	88,442,789,815
Long Term Deposit Accounts	**68,932,400**	-
Gold Deposits	**4,301,144,226**	7,601,474,847
	120,349,438,417	96,044,264,662

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Foreign Investments include funds outsourced 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

	2017	2016
	Rs	Rs
Unquoted Investments	**476,991,146**	450,794,378

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

9. LOANS AND ADVANCES

	2017	2016
	Rs	Rs
Special Line of Credit in Foreign Currency	**659,129,458**	866,108,585
Special Line of Credit in Local Currency	**3,700,068,600**	3,631,969,178
Others	**17,272,226**	17,767,889
	4,376,470,284	4,515,845,652

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

	2017	2016
	Rs	Rs
Government of Mauritius Bonds	**658,337,428**	1,252,146,212
	658,337,428	1,252,146,212

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

11. COMPUTER SOFTWARE

	Rs
COST	
At 1 July 2015	132,675,056
Additions	50,254,453
Transfer from Capital Work in Progress (Note 12)	35,920,514
At 30 June 2016	218,850,023
Additions	10,240,342
Transfer from Capital Work in Progress (Note 12)	6,894,107
At 30 June 2017	**235,984,472**
ACCUMULATED AMORTISATION	
At 1 July 2015	128,864,748
Charge for the year	31,876,762
At 30 June 2016	160,741,510
Charge for the year	35,074,421
At 30 June 2017	**195,815,931**
NET BOOK VALUE	
At 30 June 2017	**40,168,541**
At 30 June 2016	58,108,513

The Directors have reviewed the carrying values of intangible assets and are of the opinion that at 30 June 2017, the carrying values have not suffered any impairment.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings Rs	Capital Work in Progress Rs	Furniture, Equipment, Fixtures and Fittings Rs	Computer Equipment Rs	Motor Vehicles Rs	Total Rs
COST						
At 1 July 2015	1,621,777,068	104,890,139	667,103,158	114,324,734	30,226,010	2,538,321,109
Additions	3,896,611	60,162,834	15,576,862	8,398,703	13,798,400	101,833,410
Transfer	-	(16,193,492)	1,316,472	14,877,020	-	-
Transfer to Computer Software	-	(35,920,514)	-	-	-	(35,920,514)
Write-Off	-	(31,499)	-	-	-	(31,499)
Scrapped	-	-	(51,800)	-	-	(51,800)
Disposals	-	-	(329,833)	(6,830,756)	(8,108,982)	(15,269,571)
At 30 June 2016	1,625,673,679	112,907,468	683,614,859	130,769,701	35,915,428	2,588,881,135
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**
ACCUMULATED DEPRECIATION						
At 1 July 2015	232,115,827	-	530,737,387	104,836,743	27,193,549	894,883,506
Charge for the year	29,579,173	-	68,769,534	12,899,792	7,511,290	118,759,789
Scrapped	-	-	(51,799)	-	-	(51,799)
Disposals	-	-	(323,474)	(6,824,056)	(8,104,982)	(15,252,512)
At 30 June 2016	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**
CARRYING AMOUNT						
At 30 June 2017	**1,334,426,886**	**372,264,453**	**24,534,359**	**21,099,976**	**5,962,360**	**1,758,288,034**
At 30 June 2016	1,363,978,679	112,907,468	84,483,211	19,857,222	9,315,571	1,590,542,150

The Directors have reviewed the carrying values of tangible assets and are of the opinion that at 30 June 2017, the carrying values have not suffered any impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

13. OTHER ASSETS

	2017	2016
	Rs	Rs
Net balances due in clearing	**6,029,920**	-
Staff Loans	**89,908,870**	81,811,692
Prepayments	**154,203,153**	45,221,895
Industrial Gold and Dodo Gold Coins	**96,932,171**	104,283,871
Gold Bars	**113,626,160**	114,522,667
Interest Receivable on domestic assets	**22,424,800**	27,620,274
Others	**4,488,329**	4,485,854
	487,613,403	377,946,253

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

14(a). CURRENCY IN CIRCULATION

	2017	2016
	Rs	Rs
Notes issued		
Face value		
2,000	**4,480,972,000**	4,728,718,000
1,000	**20,439,510,000**	18,070,604,000
500	**3,759,396,000**	3,304,223,500
200	**1,627,659,800**	1,463,062,400
100	**1,661,715,600**	1,499,329,500
50	**372,585,900**	358,241,800
25	**265,732,250**	248,350,775
Demonetised Notes	**214,551,880**	215,007,745
Total	**32,822,123,430**	29,887,537,720
Coins issued		
Face value		
20 rupees	**211,514,000**	206,688,660
10 rupees	**319,779,240**	297,418,990
5 rupees	**144,656,670**	138,343,945
1 rupee	**173,343,167**	163,270,796
50 cents	**38,141,091**	36,324,848
25 cents **	**6,328,199**	6,329,323
20 cents	**48,458,658**	46,433,160
10 cents **	**2,417,449**	2,418,092
5 cents	**11,371,461**	10,818,297
2 cents **	**330,303**	330,333
1 cent	**222,878**	222,980
Others***	**22,347,531**	22,304,473
Total	**978,910,647**	930,903,897
Total face value of Notes and Coins in Circulation	**33,801,034,077**	30,818,441,617

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

14(b). GOVERNMENT DEMAND DEPOSITS

Government Demand deposits of Rs24,751,257,710 (2016:Rs27,303,819,898) includes an amount of Rs12,734,776,419 (2016:Rs11,169,608,056) representing proceeds of Government of Mauritius Treasury Bills issued for liquidity management.

15. BANK OF MAURITIUS SECURITIES

	2017	2016
	Rs	Rs
Bank of Mauritius Savings Bonds	907,400	907,400
Bank of Mauritius Bonds	2,670,787,802	2,669,182,643
Bank of Mauritius Notes	31,017,357,776	31,669,293,027
Bank of Mauritius Bills	12,110,048,853	1,494,906,494
	45,799,101,831	35,834,289,564

16. PROVISIONS

	2017	2016
	Rs	Rs
Balance at 30 June	100,000,000	100,000,000

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

17. EMPLOYEE BENEFITS

Amounts recognised in the Statement of Financial Position:

	2017	2016
	Rs	Rs
Defined Benefit Plan (Note (a))	985,995,490	737,585,354
Short Term Employee Benefits (Note (b))	112,470,098	99,342,242
	1,098,465,588	836,927,596

(a) Defined Benefit Plan

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

17. EMPLOYEE BENEFITS (CONT'D)

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

The report dated 29 June 2017 submitted by The State Insurance Company of Mauritius Ltd, who also acts as independent actuaries, is produced hereunder.

Amounts recognised in profit or loss:

	2017	2016
	Rs	Rs
Current Service Cost	**23,719,879**	19,353,252
Employee Contributions	**(10,944,253)**	(9,859,352)
Fund Expenses	**799,921**	691,499
Net interest expense	**48,903,219**	40,057,659
Net Periodic Pension Cost included in Staff Salaries and other benefits	**62,478,766**	50,243,058
Remeasurement of defined benefit liability recognised in Other Comprehensive Income (OCI):		
Actuarial Loss	**213,642,980**	192,282,208

Movements in liability recognised in the Statement of Financial Position:

	2017	2016
	Rs	Rs
At start of the year	**737,585,354**	520,051,024
Total Expenses as per above	**62,478,766**	50,243,058
Actuarial Losses recognised in OCI	**213,642,980**	192,282,208
Bank of Mauritius share of pension (topping-up)	**(275,357)**	(275,357)
Employer Contributions	**(27,436,253)**	(24,715,579)
At end of the year	**985,995,490**	737,585,354

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

	2017	2016
	Rs	Rs
At start of the year	**1,045,860,964**	858,900,658
Current Service Cost	**23,719,879**	19,353,252
Interest Cost	**67,980,962**	64,417,550
Actuarial loss	**213,020,779**	165,450,448
Benefits Paid	**(67,399,690)**	(62,260,944)
At end of the year	**1,283,182,894**	1,045,860,964

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

17. EMPLOYEE BENEFITS (CONT'D)

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

	2017	2016
	Rs	Rs
At start of the year	**308,275,610**	338,849,634
Expected Return on Plan Assets	**19,077,743**	24,359,891
Actuarial Losses	**(622,201)**	(26,831,760)
Contributions from the Employer	**27,436,253**	24,715,579
Employee Contributions	**10,944,253**	9,859,352
Benefits Paid (Excluding BOM share of pension)	**(67,124,333)**	(61,985,587)
Fund Expenses	**(799,921)**	(691,499)
At end of the year	**297,187,404**	308,275,610

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

	30 June 2017	30 June 2016
	%	%
Major categories of Plan Assets		
Local Equities	**15.8**	15.3
Overseas Equities and Bonds	**22.6**	21.6
Fixed Interest Securities and Cash	**56.6**	57.9
Others	**5.0**	5.2

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 Rs22.3 million (2016: Rs(1.0) million).

The history of experience adjustments is as follows:-

	2017	2016
	Rs	Rs
Experience losses on plan liabilities	**(213,020,779)**	(165,450,448)
Experience losses on plan assets	**(622,201)**	(26,831,760)
	(213,642,980)	(192,282,208)

The Bank expects to make a contribution of Rs26,160,758 (2016: Rs25.9 million) to the defined benefit plans during the next financial year. This estimate may be amended by the Bank of Mauritius on the basis of availability of more accurate information.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

17. EMPLOYEE BENEFITS (CONT'D)

Additional disclosure on assets issued or used by the reporting entity

	2017	2016
	%	%
Percentage of assets at end of year		
Assets held in the entity's own financial instruments	**0**	0
Property occupied by the entity	**0**	0
Other assets used by the entity	**0**	0
Weighted average duration of the defined benefit obligation (Calculated as a % change in PV of liabilities for a 1% change in discount rate)		13 years

The principal assumptions used for actuarial valuation were:

	2017	2016
Discount Rate	**6.5%**	7.5%
Future Long-term Salary Increases	**4.0%**	4.0%
Post Retirement Mortality Tables Increases	**2.5%**	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 Rs141.5 million (increase by Rs172.3 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 Rs63.1 million (decrease by Rs56.1 million) if all assumptions were held unchanged.

If the expected pension growth would increase (decrease) by 1%, the defined benefit obligation would increase by Rs97.3 million (decrease by Rs84.1 million) if all assumptions were held unchanged.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

17. EMPLOYEE BENEFITS (CONT'D)

If life expectancy would increase (decrease) by one year, the defined benefit obligation would increase by Rs34.5 million (decrease by Rs34.5 million) if all assumptions were held unchanged.

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected salary increases, given that both depends to a certain extent on expected inflation rates. The analysis above abstracts from these interdependence between the assumptions.

(b) Short Term Employee Benefits

	2017	2016
	Rs	Rs
Provision for Annual and Sick Leaves	**67,461,367**	57,527,322
Provision for Passage Benefits	**45,008,731**	41,814,920
	112,470,098	99,342,242

(c) Employer Contribution Towards Pension Cost

	2017	2016
	Rs	Rs
Contributions Expensed (Note 22)	**31,805,431**	27,007,801

(d) State Pension Plan

	2017	2016
	Rs	Rs
National Pension Scheme Contributions (Note 22)	**1,356,874**	1,862,265

18. OTHER LIABILITIES

	2017	2016
	Rs	Rs
Balance of net profits payable into the Consolidated Fund in terms of section 11(3) of the Bank of Mauritius Act 2004	**476,975,813**	-
Creditors	**122,520,847**	157,588,136
Abandoned Funds from Financial Institutions	**1,290,281,602**	1,174,727,200
Interests and Charges Payable	**524,604,226**	409,659,869
Foreign Bills sent for Collection	**12,985**	10,510
Interest accrued on Bank of Mauritius Savings Bonds	**97,200**	97,200
Special Drawing Rights (SDR) (Note 32)	**3,399,403,116**	3,519,183,573
Special Deposits from banks	**10,044,625,467**	9,557,364,967
Others	**55,326,453**	18,121
	15,913,847,709	14,818,649,576

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

19. INCOME FROM FINANCIAL ASSETS

(a) Income on Foreign Assets

	2017	2016
	Rs	Rs
Deposit Accounts	**28,563,183**	79,741,696
Fixed Securities	**2,254,627,673**	1,360,405,137
Realised Gains on Fixed Securities	**896,186,167**	62,266,245
Special Drawing Rights	**11,648,108**	2,430,427
Repurchase Agreements	**98,984,140**	86,526,208
Current Accounts	**1,440,178**	2,835,690
	3,291,449,449	1,594,205,403

(b) Income on Domestic Assets

	2017	2016
	Rs	Rs
Loans and Advances		
Special Foreign Currency Line of Credit	**6,514,906**	10,869,741
Special Line of Credit in local currency	**136,079,126**	131,623,148
Loans and Advances to banks	**198,356**	1,729,197
	142,792,388	144,222,086
Government Securities	**46,231,310**	118,229,711
Other Loans	**2,419,333**	2,323,218
	191,443,031	264,775,015

(c) Others

	2017	2016
	Rs	Rs
Dividend and other income	**4,779,976**	2,841,230
(Loss)/Gain on Sale/Revaluation of Industrial Gold and Dodo Gold Coins	**(4,973,521)**	16,409,774
(Loss)/Gain on Sale/Revaluation of Gold Bars	**(3,489,907)**	21,011,611
Profit on Issue of Mauritius Commemorative Coins	**42,479**	89,969
	(3,640,973)	40,352,584
Total Income from Financial Assets	**3,479,251,507**	1,899,333,002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

20.(a) MISCELLANEOUS INCOME

	2017	2016
	Rs	Rs
Processing and Licence Fees	**124,773,739**	82,002,923
MACSS & MCIB Fees	**61,649,319**	59,066,708
Fees and Charges	**621,223**	749,763
Profit on Sale of Property, Plant and Equipment	**1,579,819**	1,542,258
Sponsorship income	**700,000**	475,000
Penalty	**583,943**	87
Sundry income	**4,410,154**	508,649
	194,318,197	144,345,388

20. (b) (LOSS)/GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	Rs	Rs
Foreign Investments	**(112,794,765)**	305,037,031
Unquoted Investments	**35,369,377**	(54,249,725)
Gold Deposits	**(1,540,783,889)**	1,740,728,048
	(1,618,209,277)	1,991,515,354

21. INTEREST EXPENSE AND SIMILAR CHARGES

	2017	2016
	Rs	Rs
Government of Mauritius Accounts	**92,032**	71,101

22. STAFF SALARIES AND OTHER BENEFITS

	2017	2016
	Rs	Rs
Staff Salaries and Allowances	**329,351,267**	280,225,755
Employer Contribution Towards Pension Cost (Note 17(c))	**31,805,431**	27,007,801
Staff Family Protection Scheme	**7,284,581**	7,102,077
National Pension Fund (Note 17(d))	**1,356,874**	1,862,265
HRDC Levy	**210,905**	229,263
	370,009,058	316,427,161

The amount of Rs329,351,267 includes an increase in the liability for short term employee benefits amounting to Rs13,127,857 (see Note 17(b)).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

23. DIRECTORS' REMUNERATION

	2017	2016
	Rs	Rs
Governor	12,972,531	7,502,124
Deputy Governors (2)	13,713,638	8,358,240
Other Directors (4)	1,440,000	1,680,000
	28,126,169	17,540,364

Directors are paid a monthly fee of Rs30,000 (2016: Rs30,000)

24. OTHER EXPENDITURE

	2017	2016
	Rs	Rs
Stationery and Library	5,159,756	4,395,250
Communication Charges	52,714,789	41,161,432
Others	2,307,808	2,854,121
	60,182,353	48,410,803

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.

	2017	2016
Interest	Rs	Rs
Bank of Mauritius Securities	1,329,493,991	1,132,593,770
Government of Mauritius Treasury Bills	306,855,624	117,842,229
Special Deposits	281,598,795	170,948,350
	1,917,948,410	1,421,384,349

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

26. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	2017 Rs	2016 Rs
Net (loss)/profit for the year	**(4,810,315,841)**	1,256,317,496
Adjustments for:		
Non-Cash Increase in Employee Benefits	**47,895,012**	29,033,667
Amortisation of Intangible Assets	**35,074,421**	31,876,762
Depreciation of Property, Plant and Equipment	**111,916,499**	118,759,789
Profit on Sale of Property, Plant and Equipment	**(1,043,477)**	(1,542,258)
Dividend Received	**(4,779,976)**	(2,841,230)
Loss/(Gain) on Financial Instruments at Fair Value Through Profit or Loss	**1,618,209,277**	(1,991,515,354)
Loss on revaluation of foreign currencies and SDR	**3,966,897,558**	299,137,697
(Loss)/ Gain on revaluation of Government Securities	**(141,216)**	1,965,041
Operating Profit/(Loss) Before Working Capital Changes	**963,712,257**	(258,808,390)
Decrease/(Increase) in Interest Receivable	**26,384,295**	(117,318,113)
Decrease in Loans and Advances	**139,375,368**	904,180,506
(Increase)/Decrease in Other Assets	**(109,667,147)**	147,041,810
Increase in Notes and Coins in Circulation	**2,982,592,460**	2,179,243,773
(Decrease)/ Increase/in Government Demand Deposits	**(2,552,562,188)**	11,963,993,419
Increase/(Decrease) in Banks' Demand Deposits	**7,325,098,663**	(3,328,226,710)
(Decrease)/Increase in Other Financial Institutions' Demand Deposits	**(41,657,775)**	9,258,190
(Decrease)/ Increase in Other Demand Deposits	**(86,124,949)**	32,927,633
Increase in Bank of Mauritius Securities	**9,964,812,267**	9,078,140,158
Increase in Other Financial Liabilities	**618,222,320**	3,868,995,006
Net Cash Generated From Operating Activities	**19,230,185,571**	24,479,427,282

27. COMMITMENTS AND OTHER CONTINGENCIES

Commitment not otherwise provided for in the financial statements and which existed at 30 June 2017 is as follows:

The Bank has a commitment to pay on call USD3,342,000 (2016:USD3,294,000) 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 Rs193 million (2016:Rs342 million).

There was no other contingent liability that existed at 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

28. OPERATING LEASE COMMITMENTS

	1 year Rs	>1 - 5yrs Rs	> 5 yrs Rs	Total Rs
Archiving - Plaine-Lauzun DBM	175,316	-	-	175,316
Fallback Site – Cyber Tower	1,122,216	3,714,578	-	4,836,794
Lease of Residential Property	524,950	-	-	524,950
	1,822,482	**3,714,578**	**-**	**5,537,060**

An amount of Rs2,556,836 (2016: Rs2,293,251) has been expensed in profit or loss for the year.

29. FINANCIAL INSTRUMENTS

(a) Introduction

A financial instrument, as defined by IAS 32 (Financial Instruments: Presentation), is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

As the monetary authority for Mauritius, the Bank's activities are policy orientated. In the course of carrying out its functions, the Bank is faced with financial risks, operational risks and reputational risks. The main financial risks to which the Bank is exposed to are credit risk, interest rate risk, liquidity risk, price risk and foreign exchange risk. A significant proportion of these risks arise from the management of foreign exchange reserves of the Bank.

The foreign exchange risk or the capital loss as a consequence of fluctuations in the exchange rates is managed mainly through diversification of currency portfolios in which the Bank invests. In the management of foreign exchange reserves, minimising liquidity risk and maximising safety and preservation of capital are the prime considerations in order to achieve its prime objectives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(b) (i) Categories of financial instruments

	Carrying Amount 2017 Rs	**Fair Value 2017 Rs**	Carrying Amount 2016 Rs	Fair Value 2016 Rs
Financial Assets				
Fair value through profit or loss (FVTPL)				
Investment in Government Securities	**658,337,428**	**658,337,428**	1,252,146,212	1,252,146,212
Foreign Investments	**22,175,111,768**	**22,175,111,768**	22,750,933,999	22,750,933,999
Gold deposits	**17,125,108,104**	**17,125,108,104**	17,216,424,093	17,216,424,093
Other Investment	**476,991,147**	**476,991,147**	450,794,378	450,794,378
	40,435,548,447	**40,435,548,447**	41,670,298,682	41,670,298,682
Available-For-Sale				
Foreign Investments	**100,344,004,317**	**100,344,004,317**	69,190,964,242	69,190,964,242
Loans and receivables				
Cash & Cash Equivalents (Excl. Gold deposits and foreign investments)	**40,021,328,171**	**40,021,328,171**	57,194,218,484	57,194,218,484
Long Term Deposits Accounts	**68,932,400**	**68,932,400**	-	-
Loans and Advances	**4,376,470,284**	**4,376,470,284**	4,515,845,652	4,515,845,652
Staff Loans	**89,908,870**	**89,908,870**	81,811,692	81,811,692
Interest Receivable on foreign assets	**395,061,998**	**395,061,998**	421,446,293	421,446,293
Interest Receivable on domestic assets	**22,424,800**	**22,424,800**	27,620,274	27,620,274
	44,974,126,523	**44,974,126,523**	62,240,942,395	62,240,942,395
Total Financial Assets	**185,753,679,287**	**185,753,679,287**	173,102,205,319	173,102,205,319

	2017 Rs	**2017 Rs**	2016 Rs	2016 Rs
Financial Liabilities				
Amortised cost	**167,354,853,285**	**167,354,853,285**	149,144,474,961	149,144,474,961

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(b) (ii) Fair value of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. Reasonable possible changes to one of the significant unobservable inputs at reporting date would have no material effect on the fair value of the equity securities.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total carrying amount	Total fair value
	Rs	Rs	Rs	Rs	Rs
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**
2016					
Financial Assets					
Gold Deposits	17,216,424,093	-	-	17,216,424,093	17,216,424,093
Foreign Investments	69,190,964,242	22,750,933,999	-	91,941,898,241	91,941,898,241
Other Investments	-	-	450,794,378	450,794,378	450,794,378
Investment in Government Securities	-	1,252,146,212	-	1,252,146,212	1,252,146,212
	86,407,388,335	24,003,080,211	450,794,378	110,861,262,924	110,861,262,924

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

There have been no transfers during the year between levels 1 and 2. A reconciliation of fair value measurements in level 3 is set out below:

Equity Securities	2017 Rs	2016 Rs
Opening balance	**450,794,378**	421,885,514
Additions during the year	**4,548,477**	77,915,140
Change in fair value	**21,648,291**	(49,006,276)
Closing balance	**476,991,146**	450,794,378

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:

			Sensitivity analysis	
			2017	2016
Description	**Valuation technique**		**Rs**	Rs
Other investments	Net asset value of the investee company	10% Increase/Decrease	47,699,115	45,079,438

(b) (iii) Financial Asset and Financial Liability Classification

The Bank's accounting policies provide scope for financial assets and financial liabilities to be designated on inception into different accounting categories in certain circumstances as described in note 3 (a) (ii).

(c) Credit Risk

Disclosure of credit risk enables the users of financial statements to assess the extent to which failures by counterparties to discharge their obligations could adversely impact on the Bank's future cash inflows from financial assets held at the reporting date.

The Bank is exposed to credit risk which is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. Credit risk on the securities held by the Bank is managed by holding only high quality marketable securities issued chiefly by 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(i) Concentration of Credit Exposure by Geographical Area

The Bank's significant end-of-year concentration of credit exposure by geographical area was as follows:

	2017	2016
	Rs	Rs
Mauritius	**5,148,047,118**	5,877,423,829
USA	**100,705,847,838**	96,575,712,563
United Kingdom	**17,163,865,635**	11,433,546,208
Europe	**41,266,071,237**	34,697,546,246
Others	**21,469,847,458**	24,517,976,472
	185,753,679,286	173,102,205,318

(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:

	2017	2016
	Rs	Rs
Government	**56,169,124,787**	83,085,079,775
Supranational Financial Institutions	**7,918,520,432**	8,167,834,055
Foreign Banks and Financial Institutions	**107,000,683,680**	74,074,222,701
Other	**14,665,350,387**	7,775,068,787
	185,753,679,286	173,102,205,318

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(iii) Credit Exposure by Credit Rating

The following table presents the credit ratings of respective financial assets based on the ratings of Moody's. The Bank's investment in equity shares which typically do not obtain ratings and in Gold are denoted as Others. The Bank's investments with foreign central banks are presented separately.

	Credit Rating	**2017 Rs**	**%**	2016 Rs	%
Cash & Cash Equivalents	Central Banks	**38,579,990,773**	**21.36**	55,315,146,826	33.08
	Aaa	**2,721,883,891**	**1.51**	1,800,229,329	1.08
	Aa	**2,636,785,815**	**1.46**	50,813,337	0.03
	A	**1,743,469,145**	**0.97**	27,152,554	0.02
	Baa	**865,752,785**	**0.48**	876,440	0.00
	Others	**12,837,163,932**	**7.11**	13,114,057,670	7.84
Other Balances and Placements	Central Banks	**22,244,044,167**	**12.32**	22,750,933,999	13.61
	Aaa	**43,307,349,599**	**23.98**	21,509,213,720	12.86
	Aa	**5,175,123,483**	**2.87**	628,576,561	0.38
	A	**23,651,602,974**	**13.10**	1,158,776,878	0.69
	Baa	**16,977,813,770**	**9.40**	6,748,850,346	4.04
	Ba	**107,844,740**	**0.06**	774,506,649	0.46
	Others	**8,885,659,685**	**4.92**	42,473,406,509	25.40
Interest Receivable	Central Banks	**-**	**-**	-	-
	Aaa	**174,394,978**	**0.10**	124,251,328	0.07
	Aa	**20,839,778**	**0.01**	3,617,620	0.00
	A	**95,242,975**	**0.05**	6,828,425	0.00
	Baa	**68,368,198**	**0.04**	38,724,983	0.02
	Ba	**434,282**	**0.00**	4,434,886	0.00
	Others	**35,781,788**	**0.02**	243,589,051	0.15
Other Investments	Others	**476,991,147**	**0.26**	450,794,378	0.27
Total External Assets		**180,606,537,905**	**100.00**	167,224,781,489	100.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(c) Credit Risk (CONT'D)

	Credit Rating	2017 Rs	%	2016 Rs	%
Loans and Advances	Baa	**127,803,650**	**2.48**	179,855,130	3.06
	Others	**4,248,666,633**	**82.54**	4,335,990,521	73.77
Investment in Government Securities	Others	**658,337,428**	**12.790**	1,252,146,212	21.30
Other Assets	Others	**112,333,670**	**2.18**	109,431,966	1.86
Total Domestic Financial Assets		**5,147,141,381**	**100.00**	5,877,423,829	100.00

	Credit Rating	2017 Rs	%	2016 Rs	%
Summary by Major Credit Category					
External Assets	Central Banks	**60,824,034,939**	**33.68**	78,066,080,825	46.68
	Aaa	**46,203,628,468**	**25.58**	23,433,108,629	14.01
	Aa	**7,832,749,076**	**4.34**	683,003,851	0.41
	A	**25,490,315,094**	**14.11**	1,192,591,732	0.71
	Baa	**17,911,934,753**	**9.92**	6,788,528,785	4.06
	Ba	**108,279,021**	**0.06**	778,959,616	0.47
	Others	**22,235,596,552**	**12.31**	56,281,847,608	33.66
Total External Assets		**180,606,537,903**	**100.00**	167,224,121,046	100.00
Domestic Financial Assets	Baa	**127,803,649**	**2.48**	179,855,129	3.06
	Others	**5,019,337,731**	**97.52**	5,697,568,700	96.94
Total Domestic Financial Assets		**5,147,141,380**	**100.00**	5,877,423,829	100.00
Total Financial Assets		**185,753,679,283**		173,101,544,875	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk

Liquidity risk is the difficulty that an entity will encounter in raising funds at short notice to meet financial commitments as and when they arise. Liquidity risk is also the risk arising from the possibility of an entity not realising the fair value of a financial asset that it may have to dispose of to meet a financial obligation. In order to reduce the level of liquidity risk arising out of open market operations, the Bank requires highly liquid marketable securities such as Government of Mauritius Treasury Bills as collateral for loans after applying a haircut.

The Bank manages liquidity of its foreign currency assets in order to settle commitments of the Bank and Government as and when they arise, as well as to intervene on the domestic foreign exchange market. The Bank has set limits with regard to currency and counterparty exposures to contain the risk.

The tables below shows the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting to the contractual maturity date. The amounts disclosed in the 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)

(d) Liquidity Risk (CONT'D)

Maturity Analysis

At 30 June 2017	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
Non Derivative Financial Assets						
Foreign Assets	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
Bank of Mauritius Securities	8,631,540,126	5,812,360,389	16,917,961,426	13,959,654,579	477,585,311	45,799,101,831
Other Liabilities	2,079,706,346	905,018,123	9,637,248,616	2,290,281,602	-	14,912,254,687
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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity Risk (CONT'D)

Maturity Analysis (Cont'd)

At 30 June 2016	Up to 3 months Rs	Above 3 and up to 6 months Rs	Above 6 and up to 12 months Rs	Between 1 and 5 years Rs	Above 5 years Rs	Total Rs
Non Derivative Financial Assets						
Foreign Assets	82,778,577,864	4,860,455,077	36,033,935,069	26,275,417,257	16,854,949,929	166,803,335,196
Loans and Advances	3,889,496	96,139,281	3,753,805,544	662,011,331	-	4,515,845,652
Investment in Government Securities	594,092,548	-	-	310,452,600	347,601,064	1,252,146,212
Other Assets	-	-	-	29,965,328	51,846,364	81,811,692
Total Financial Assets	83,376,559,908	4,956,594,358	39,787,740,613	27,277,846,516	17,254,397,357	172,653,138,752
Non Derivative Financial Liabilities						
Currency in circulation	30,818,441,617	-	-	-	-	30,818,441,617
Demand Deposits	67,673,104,712	-	-	-	-	67,673,104,712
Bank of Mauritius Securities	1,495,813,894	-	6,191,251,626	27,671,559,262	475,664,782	35,834,289,564
Other Liabilities	1,270,785,303	800,018,123	10,163,448,573	2,174,727,199	-	14,408,979,198
Total Financial Liabilities	101,258,145,526	800,018,123	16,354,700,199	29,846,286,461	475,664,782	148,734,815,091
Net Liquidity Gap	(17,881,585,618)	4,156,576,235	23,433,040,414	(2,568,439,945)	16,778,732,575	23,918,323,661

The Bank did not have any derivative financial assets and liabilities at 30 June 2017 (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 2017 Rs**	Effect on Profit and equity 2016 Rs
Foreign Currency Portfolio	**+50**	**881,222,927**	624,604,970
	-50	**(881,222,927)**	(164,704,233)
Government Securities	**+50**	**3,106,000**	(9,867,774)
	-50	**(3,106,000)**	9,245,687

Government securities are marked to market in the Statement of Financial Position of the Bank as they are sold over the counter and traded on the Stock Exchange of Mauritius.

The tables below summarise the Bank's exposure to interest rate risk. 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

	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
Bank of Mauritius Instruments	8,630,632,726	5,812,360,389	8,012,374,287	8,905,587,140	14,437,239,889	907,400	45,799,101,831
Other Liabilities	1,884,736,000	905,000,000	3,960,360,500	2,277,485,000	1,000,000,000	4,884,673,187	14,912,254,687
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)

Repricing Analysis (Cont'd)

	Up to 3 months	Above 3 and up to 6 months	Above 6 and up to 9 months	Above 9 and up to 12 months	Over 12 months	Non-interest bearing	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
At 30 June 2016							
Financial Assets							
Foreign Assets	74,152,356,814	4,860,455,077	34,236,086,944	1,797,848,125	42,679,572,808	9,077,015,429	166,803,335,197
Loans and Advances	3,889,496	96,139,281	121,836,366	4,276,397,987	-	17,582,522	4,515,845,652
Investment in Government Securities	594,092,548	-	-	-	658,053,664	-	1,252,146,212
Other Assets	-	-	-	-	81,811,692	-	81,811,692
Total Financial Assets	74,750,338,858	4,956,594,358	34,357,923,310	6,074,246,112	43,419,438,164	9,094,597,951	172,653,138,753
Financial Liabilities							
Currency in circulation	-	-	-	-	-	30,818,441,617	30,818,441,617
Demand Deposits	6,444,485,188	-	-	-	-	61,228,619,525	67,673,104,713
Bank of Mauritius Instruments	1,494,906,494	-	910,468,301	5,280,783,325	28,147,224,044	907,400	35,834,289,564
Other Liabilities	1,113,099,967	800,000,000	3,219,750,000	3,424,515,000	1,000,000,000	4,851,614,232	14,408,979,199
Total Financial Liabilities	9,052,491,649	800,000,000	4,130,218,301	8,705,298,325	29,147,224,044	96,899,582,774	148,734,815,093
Interest Sensitivity Gap	65,697,847,209	4,156,594,358	30,227,705,009	(2,631,052,213)	14,272,214,120	(87,804,984,823)	23,918,323,660

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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. (2016: 3.0% p.a. to 8.75% p.a.) and from -0.55 % p.a. to 9.125% p.a. (2016: -0.40% p.a. to 10.50% p.a.) for foreign currency denominated assets.

For liabilities:

The interest-bearing Mauritian rupee denominated liabilities bear interest at rates ranging from 1.98% p.a. to 6.95% p.a. (2016: 2.22% p.a. to 6.95% p.a.) and from -0.40% p.a. to 1.16% p.a. (2016: -0.40% p.a. to 0.30% 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:

	2017	2016
	Rs	Rs
SDR Basket	**151,180,977,090**	131,119,928,684
Non SDR Basket	**29,425,560,813**	36,104,852,805
	180,606,537,903	167,22 4,781,489

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 2017**	Effect on Profit and Equity 2016
		Rs	Rs
Foreign Currency Portfolio	**+50 cents**	**7,685,280,780**	8,944,273,627
	-50 cents	**(7,685,280,780)**	(8,944,273,627)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

30. CAPITAL RISK MANAGEMENT

Under section 10 of the Bank of Mauritius Act 2004, the Stated and Paid Up Capital of the Bank shall be not less than one billion rupees and shall be subscribed and held solely by the Government. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve Fund or the Special Reserve Fund of such amounts as the Board may, with the approval of the Minister, resolve. The paid up capital presently stands at Rs2 billion after a transfer of Rs1 billion from the Special Reserve Fund on 7 November 2011.

31. RELATED PARTY TRANSACTIONS

The balances and transactions with Government of Mauritius are disclosed in Notes 10, 19, 21 and 25 to the financial statements.

Emoluments payable to Directors are disclosed in Note 23 as per their terms of appointment.

The Bank contributes for the post-retirement benefits of its employees as disclosed in Note 17(c), including for the Deputy Governors. The contribution for the First Deputy Governor was Rs1,057,058 (2016: Rs684,029) and Second Deputy Governor was Rs1,058,022 (2016: Rs682,101)

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 Rs10,445,171 (2016: Rs1,799,306).

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.

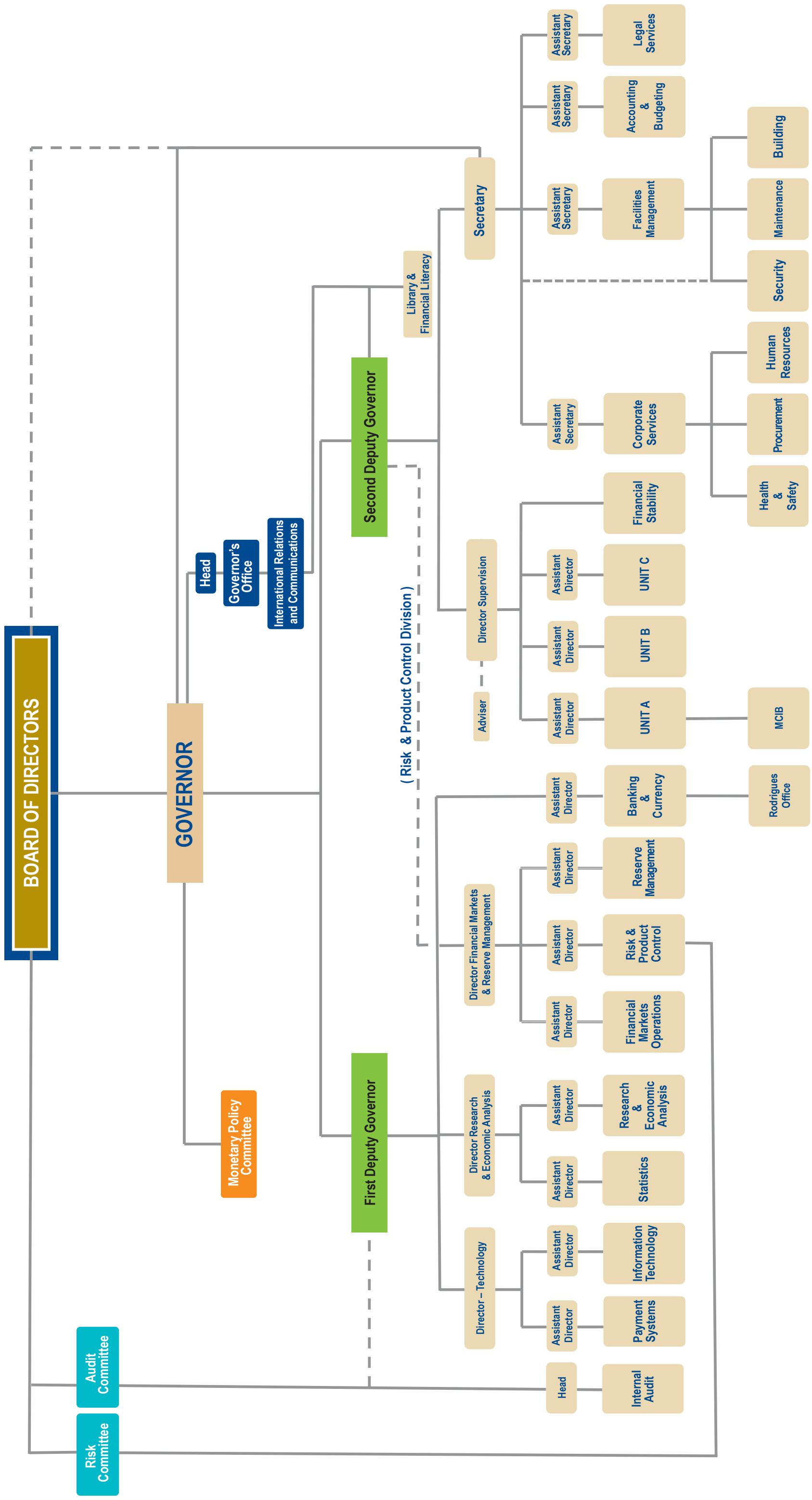
8

Appendices

Appendices

Appendix I	The Organisation Structure of the Bank
Appendix II	Senior Management Officials
Appendix III	Overseas Meetings attended by Governor, First Deputy Governor and Second Deputy Governor
Appendix IV	Overseas Meetings, Training Courses, Seminars and Workshops
Appendix V	Local Courses, Seminars and Workshops
Appendix VI	Staff Turnover
Appendix VII	List of Banks, Non-Bank Deposit-Taking Institutions, Money-Changers and Foreign Exchange Dealers licensed by the Bank of Mauritius as at 30 June 2017

The Organisation Structure of the Bank as at 30 June 2017



Senior Management Officials

Governor	Mr Rameswurlall Basant Roi, GCSK MA Economics with specialisation in Monetary and International Economics, BA (Hons) Economics
First Deputy Governor	Mr Yandraduth Googoolye FCCA, FAIA
Second Deputy Governor	Mr Mahendra Vikramdass Punchoo Maitrise en Sciences Economiques, MSc Economics
Secretary	Mrs Hemlata Sadhna Sewraj-Gopal BA (Hons) Economics, ACA (Chartered Accountant)
Director - Supervision	Mr Amar Kumar Bera MA (Economics), LLB, MBA (Banking & Finance), Certified Associate of Indian Institute of Banking & Finance
Director - Financial Markets & Reserve Management	Dr Chiragra Tapas Kumar Chakrabarty Doctor of Philosophy in Economics, MA (Econometrics & Mathematical Economics)
Director - Technology	*(Vacant)*
Director - Research & Economic Analysis	*(Vacant)*
Assistant Director - Supervision	Mr Ramsamy Chinniah FCCA, MSc Financial Economics
Assistant Secretary - Accounting & Budgeting	Mr Jaywant Pandoo FCCA , MSc Finance
Assistant Director – Financial Markets & Reserve Management	Mrs Marjorie Marie-Agnes Heerah Pampusa MA Economics, BSc (Hons) Economics
Assistant Director - Financial Markets	*(Vacant)*
Assistant Director - Research and Economic Analysis	Mr Jitendra Nathsingh Bissessur MSc Applied Economics, BA (Hons) Mathematical Statistics
Assistant Director - Banking & Currency	Mr Anil Kumar Tohooloo MSc in Finance, BSc Accounting
Assistant Director - Supervision	Mrs Sudha Hurrymun FCCA, MSc Finance, Associateship of Chartered Institute of Bankers

Head - Internal Audit	Mr Yuntat Chu Fung Leung MBA Finance, BA (Hons) Economics and Social Studies
Assistant Director - Payments System & MCIB	Mr Dhanesswurnath Thakoor MBA - Finance, Ingénieur en Informatique - Mesures - Automatique
Assistant Director - IT	Mr Ng Cheong Jose Li Yun Fong BSc in Computer Science
Head - Governor's Office	Mr Youssouf Waesh Khodabocus BA (Hons) Economics
Assistant Secretary - Legal	Mr Mardayah Kona Yerukunondu LLB (Hons)
Assistant Director - Statistics	*(Vacant)*
Assistant Secretary - Corporate Services	*(Vacant)*
Assistant Secretary - Facilities Management	*(Vacant)*
Assistant Director- Supervision	*Mrs Urvashi Chuttarsing- Soobarah* MSc Financial Mathematics, BSc Mathematics
Assistant Director- Supervision	*(Vacant-2 posts)*

Meetings attended by Governor, First Deputy Governor and Second Deputy Governor

The Governor, Mr Rameswurlall Basant Roi, GCSK, attended:

i. the 2016 IMF/World Bank Annual Meetings from 5 October to 9 October 2016, in Washington DC, USA, and meeting at Bank of England Centre for Central Banking Studies (CCBS) on 3 October 2016 in London, UK.

ii. the 10th Meeting of Financial Stability Board (FSB) Regional Consultative Group (RCG) for Sub-Saharan Africa, hosted by the South African Reserve Bank on 25 to 26 October 2016 in Cape Town, South Africa.

iii. the 17th Governing Board Meeting of the International Islamic Liquidity Management Corporation (IILM) on 16 December 2016 in Jakarta, Indonesia.

iv. the African Leadership Magazine Award ceremony during which he was conferred the *"African Leadership Magazine Personality of the Year Award 2016 (Finance)"* on 23 February 2017, in Pretoria, South Africa.

v. the inaugural Asian Development Bank (ADB)-Official Monetary and Financial Institutions Forum (OMFIF) seminar, held on 22 March 2017 in Tokyo, Japan.

vi. the 2017 IMF/ World Bank Spring meetings, scheduled from 19 April to 23 April 2017, in Washington DC, USA. He also attended the RAMP Executive Forum, from 24 to 25 April 2017 in Washington DC, USA.

vii. the African Banker Award ceremony during which he was conferred the *Central Bank Governor of the Year Award 2017*, endorsed by the African Development Bank Group, on 23 May 2017 in Ahmedabad, India. During his visit, Governor attended the 2017 African Development Bank (AfDB) Annual Meetings scheduled from 22 May to 25 May 2017 and had meetings at the Gujarat International Finance Tec-City.

viii. several meetings between 21 to 30 June 2017 as follows:

   a. the PICTET Asset Management on 21 June 2017 in Geneva, Switzerland;

   b. the Macroeconomic & Financial Management Institute of Eastern and Southern Africa (MEFMI) organised by the Regional Central Bank Governors Forum on 23 June 2017 in Basel, Switzerland;

   c. the 2017 Annual General Meeting of the Bank for International Settlements in Basel, Switzerland, from 24 to 25 June 2017;

   d. the 10th Andrew Crockett Governors' Roundtable for African Central Bankers, hosted by the Centre for the Study of African Economies, Oxford University, JP Morgan and the African Development Bank, from 26 to 28 June 2017 in Oxford, United Kingdom; and

   e. visit at the Bank of England Museum on 30 June 2017.

Accompanied the Governor to Meetings:

1. Mr Sanjay Ramnarainsing, Chief - Financial Markets Operations accompanied the Governor to the 2016 IMF/World Bank Annual Meetings in Washington DC, USA from 5 to 9 October 2016, and a meeting at Bank of England Centre for Central Banking Studies (CCBS) in London, UK, on 3 October 2016.

2. Ms Sudha Hurrymun, Assistant Director - Supervision accompanied the Governor to:

   i. the 10th Meeting of Financial Stability Board (FSB) Regional Consultative Group (RCG) for Sub-Saharan Africa, hosted by the South African Reserve Bank on 25 to 26 October 2016 in Cape Town, South Africa;

   ii. the inaugural Asian Development Bank-Official Monetary and Financial Institutions Forum seminar, held on 22 March 2017 in Tokyo, Japan;

   iii. several meetings between 21 to 30 June 2017 as follows:

      a. PICTET Asset Management on 21 June 2017 in Geneva, Switzerland;

      b. the Macroeconomic & Financial Management Institute of Eastern and Southern Africa (MEFMI) organised by the Regional Central Bank Governors Forum on 23 June in Basel;

      c. the 2017 Annual General Meeting of the Bank for International Settlements in Basel, Switzerland, from 24 to 25 June 2017;

      d. the 10th Andrew Crockett Governors' Roundtable for African Central Bankers, hosted by the Centre for the Study of African Economies, Oxford University, JP Morgan and the African Development Bank from 26 to 28 June 2017 in Oxford, United Kingdom; and

      e. a visit at the Bank of England Museum on 30 June 2017.

3. Ms Hemlata Sadhna Sewraj-Gopal, Secretary accompanied the Governor to the 17th Governing Board Meeting of the International Islamic Liquidity Management Corporation (IILM) on 16 December 2016 in Jakarta, Indonesia.

4. Ms Lily-Claude Bastien-Sylva, Chief-Human Resources accompanied the Governor to the African Leadership Magazine Award ceremony during which the Governor was conferred the "African Leadership Magazine Personality of the Year Award 2016 (Finance)" on 23 February 2017, in Pretoria, South Africa.

5. Mr Jaywant Pandoo - Assistant Secretary, Accounting and Budgeting accompanied the Governor to the 2017 IMF/ World Bank Spring meetings, from 19 to 23 April 2017, in Washington DC, USA. He also accompanied the Governor to the RAMP Executive Forum, from 24 to 25 April 2017 in Washington DC, USA.

6. Ms Kaveeta Nowbutsing-Hurynag, Senior Analyst, International Relations accompanied the Governor to the African Banker Award ceremony during which the Governor was conferred the Central Bank Governor of the Year Award 2017, endorsed by the African Development Bank Group, on 23 May 2017 in Ahmedabad, India. She also accompanied the Governor to the 2017 African Development Bank (AfDB) Annual Meetings scheduled from 22 to 25 May 2017 and a meeting at the Gujarat International Finance Tec-City.

The First Deputy Governor, Mr Yandraduth Googoolye, attended:

i. The FinCoNet Annual General Meeting and the FinCoNet International Seminar on Financial Consumer Protection from 15 to 17 November 2016 in Jakarta, Indonesia;

ii. The annual Basel Committee on Banking Supervision (BCBS) FSI High level meeting for African Heads of Banking Supervision from 26 to 27 January 2017 in Cape Town, South Africa, where he was invited to speak on 'Correspondent Banking - Current Issues and Recent Deveolpments';

iii. The 23rd Reserve Management Seminar organised by UBS from 11 to 16 June 2017 in Basel, Switzerland.

He represented the Governor at:

i. FT Africa Payments Innovation Summit, on 29 March 2017 in Nairobi, Kenya followed by 22nd Meeting of the COMESA Committee of Governors of Central Banks, on 30 March 2017 in Bujumbura, Burundi;

ii. The SADC Committee of Central Bank Governors (CCBG) Meeting, from 17 to 19 May 2017 in Democratic Republic of the Congo.

Accompanied the First Deputy Governor to Meetings:

i. Mr Feyçal Caunhye, Chief Communications accompanied the First Deputy Governor to the FinCoNet Annual General Meeting, and the FinCoNet International Seminar on Financial Consumer Protection from 15 to 17 November 2016 in Jakarta, Indonesia;

ii. Mr Karankumar Pitteea, Senior Analyst, Research and Economic Analysis Department accompanied the First Deputy Governor to the FT Africa Payments Innovation Summit on 29 March 2017 in Nairobi, Kenya followed by 22nd Meeting of the COMESA Committee of Governors of Central Banks on 30 March 2017 in Bujumbura, Burundi;

iii. Mr Neetyanand Kowlessur, Chief, Research and Economic Analysis Division accompanied the First Deputy Governor to the SADC CCBG Meeting, Democratic Republic of the Congo from 17 to 19 May 2017.

The Second Deputy Governor, Mr Mahendra Vikramdass Punchoo, attended:

i. Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa Working Group on Home Host Cooperation and Information Sharing, from 26 to 27 September 2016 in Basel, Switzerland;

ii. Seminar for Senior Bank Supervisors from emerging economies, Federal Reserve's Training Centre, from 17 to 21 October 2016 in Washington DC, USA;

iii. 11th Meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa hosted by the Central Bank of Lesotho, from 16 to 17 February 2017 in Maseru, Lesotho;

iv. IFC's International Capital Markets Conference, **"Capital Markets Africa 2017 - African Markets in a shifting global landscape"**, from 11 to 12 May 2017 in Nairobi, Kenya.

Accompanied the Second Deputy Governor to Meetings:

1. Mr Dhiraj Rughoobur, Analyst - Supervision Department accompanied the Second Deputy Governor to

    I. the FSB Regional Consultative Group for Sub-Saharan Africa Working Group on Home Host Cooperation and Information Sharing, from 26 to 27 September 2016 in Basel, Switzerland;

    II. 11th Meeting of the FSB Regional Consultative Group for Sub-Saharan Africa hosted by the Central Bank of Lesotho, from 16 to 17 February 2017 in Maseru, Lesotho.

2. Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director - Financial Markets and Reserve Management accompanied the Second Deputy Governor to IFC's International Capital Markets Conference, **"Capital Markets Africa 2017 - African Markets in a shifting global landscape"**, from 11 to 12 May 2017 in Nairobi, Kenya.

Overseas Training Courses/Seminars/Workshops

a) Overseas Trainings/ Courses/ Seminars/ Workshops Attended by The Secretary and Director

Dr Chiragra Tapas Kumar Chakrabarty, Director-Financial Markets and Reserve Management attended

i. A meeting at the Reserve Bank of India, from 16 to 18 November 2016, Mumbai, India.

Mrs Hemlata Sadhna Sewraj-Gopal, Secretary attended

i. Supervisory College for Supervisors of Barclays Africa Group Ltd hosted by South African Reserve Bank on 8 July 2016, Pretoria, South Africa.

b) Overseas Training Courses/ Seminars/Workshops attended by Assistant Directors/Heads of Divisions

Mr Jitendra Nathsingh Bissessur, Assistant Director- Research and Economic Analysis, attended

i. Secular Stagnation and Growth Measurement Conference hosted by Banque de France, on 16 January 2017, Paris, France.

Mr Ramsamy Chinniah, Assistant Director-Supervision, attended

i. Supervisory College for Bank of Baroda hosted by Reserve Bank of India, on 25 July 2016, Mumbai, India;

ii. Supervisory College Meeting for I&M Bank hosted by Kenya School of Monetary Studies, on 26 August 2016, Nairobi, Kenya;

iii. Supervisory College for the rest of Africa subsidiaries of Barclays Africa Group Limited hosted by South African Reserve Bank on 24 October 2016, Pretoria, South Africa;

iv. Barclays Africa Group- Supervisory College hosted by South African Reserve Bank on 27 February 2017, Pretoria, South Africa;

v. CCBG Banking Supervision Sub Committee Meeting hosted by SADC, from 28 February to 1 March 2017, Cape Town, South Africa.

Mr Yuntat Chu Fung Leung, Head- Internal Audit, attended

i. IILM Joint Meeting hosted by the Islamic Liquidity Management Corporation on 14 July 2016, Kuala Lumpur, Malaysia;

ii. 17th Board Audit Committee Meeting hosted by the Islamic Liquidity Management Corporation from 29 to 30 September 2016, Kuala Lumpur, Malaysia;

iii. 18th Board Audit Committee Meeting hosted by the Islamic Liquidity Management Corporation from 23 to 24 January 2017, Kuala Lumpur, Malaysia;

iv. 19th Board Audit Committee Meeting hosted by the Islamic Liquidity Management Corporation from 23 to 24 March 2017, Kuala Lumpur, Malaysia.

Mrs Urvashi Chuttarsing-Soobarah, Assistant Director-Supervision attended

i. Financial Supervision and Capital Adequacy Training Program hosted by Bank of England, from 1 to 3 March 2017, London, UK;

ii. Users' Workshop on Financial Soundness Indicators (FSI) and the meeting of the FSI Reference Group hosted by the IMF, from 26 to 28 April 2017, Washington DC, USA;

iii. Supervisory College of Standard Chartered Bank hosted by Prudential Regulatory Authority, from 26 to 27 June 2017, London, UK;

iv. HSBC Global College hosted by Prudential Regulatory Authority on 28 June 2017, London, UK.

Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director- Financial Markets & Reserve Management attended

i. Workshop on Gold as an Asset Class for Reserves Managers hosted by Banca d'Italia, World Bank and RAMP, from 28 to 30 November 2016, Rome, Italy.

Mrs Sudha Hurrymun, Assistant Director –Supervision attended

i. the Supervisory College Meeting for State Bank of India hosted by Reserve Bank of India from 22 to 24 February 2017, Mumbai, India.

Mr Youssouf Waesh Khodabocus, Head-Governor's Office attended

i. Conference on Fintech and Financial Inclusion entitled "Nascent financial technologies for enhancing access to finance" hosted by IMF and Singapore Management University supported by Monetary Authority of Singapore, from 18 to 19 August 2016, Singapore.

Mr Mardayah Kona Yerukunondu, Assistant Secretary-Legal Services attended

i. Workshop on Legal Aspects of Governance and Asset Management hosted by the World Bank Treasury and RAMP and co-hosted by Croatian National Bank, from 11 to 15 July 2016, Zagreb, Croatia.

Mr Ng Cheong Jose Li Yun Fong, Assistant Director-IT attended

i. Conference on Fintech and Financial Inclusion entitled "Nascent financial technologies for enhancing access to finance" hosted by IMF and Singapore Management University supported by Monetary Authority of Singapore, from 18 to 19 August 2016, Singapore;

ii. A meeting at the Reserve Bank of India, from 16 to 18 November 2016, Mumbai, India.

Mr Jaywant Pandoo, Assistant Secretary–Accounting & Budgeting attended

i. Workshop on Securities Accounting hosted by World Bank and RAMP and co-hosted by National Bank of Moldova, from 12 to 16 September 2016, Chisinau, Moldova.

Mr Dhanesswurnath Thakoor, Assistant Director–Payment Systems and MCIB attended

i. Annual SADC Payment System Regional Conference hosted by SADC

Payment System Project, from 20 to 21 July 2016, Luanda, Angola;

ii. Workshop on Settlement and Custodian Relations hosted by World Bank and RAMP from 12 to 16 December 2016, Washington DC, USA;

iii. Payment System Oversight Committee hosted by SADC Payment System Project from 17 to 19 January 2017, Pretoria, South Africa.

Mr Anil Kumar Tohooloo, Assistant Director-Banking and Currency attented

i. A meeting with Giesecke & Devrient, from 6 to 8 July 2016, Munich, Germany.

c) Overseas Training Courses/ Seminars/Workshops attended by Chiefs

Mr Dooneshsingh Audit, Chief-Statistics attended

i. Meetings of Research Review Panel and the CCBG Macroeconomic Subcommittee hosted by Secretariat of the Committee of Central Bank Governors in SADC, from 5 to 7 September 2016, Gaborone, Botswana;

ii. Meetings of Research Review Panel and the CCBG Macroeconomic Subcommittee hosted by SADC, from 14 to 16 March 2017, Kinshasa, Democratic Republic of the Congo.

Mr Jean Claude Benoit Chamary, Chief-Supervision attended

i. Supervisory College Meeting for I&M Bank hosted by Kenya School of Monetary Studies, on 26 August 2016, Nairobi, Kenya;

ii. Supervisory College for Supervisors of Standard Bank Group Limited's Banking Operations hosted by South African Reserve Bank, from 27 to 31 March 2017, Pretoria, South Africa;

iii. Programme on Basel Regulations hosted by Reserve Bank of India Staff College, from 27 to 30 June 2017, Chennai, India.

Mr Jayvind Kumar Choolhun, Chief–Payment Systems and MCIB attended

i. Attended the Payment and Settlement System Operation, Risks and Oversight Programme hosted by Reserve Bank of India Staff College, from 27 to 31 March 2017, Chennai, India.

Mr Grooduth Daboo, Chief-Currency Office attended

i. SADC Protection Services and Currency Management Workshop themed "Efficient Currency Management and Inherent Security Considerations" hosted by Bank of Botswana, from 19 to 20 September 2016, Gaborone, Botswana.

Mr Chitananda Ellapah, Chief–Statistics attended

i. ACP Seminar on Remittances in the framework of the ACP EU Dialogue on Migration and Development hosted by African, Caribbean and Pacific Group of States on 13 July 2016, Brussels, Belgium.

Mrs Tilotma Gobin Jhurry, Chief - Payment Systems and MCIB attended

i. Workshop on Market Risk, Indexation of Treasury Securities and Performance Measurement hosted by World Bank Treasury and RAMP, from 13 to 17 February 2017, Colombo, Sri Lanka.

Mrs Rajshri Jutton-Gopy, Chief– Legal Services attended

i. 1st International Association of Deposit Insurers Technical Assistance Workshop for the Deposit Insurance organizations from the Africa, Middle East and North Africa Regions hosted by IADI, from 27 to 30 March 2017, Casablanca, Morocco.

Mr Neetyanand Kowlessur, Chief–Research and Economic Analysis attended

i. SADC Economic Reviews for 2016/2017-Training on Macroeconomic Surveillance hosted by South African Reserve Bank from 21 to 22 November 2016, Pretoria, South Africa;

ii. Strategic Planning Session of the Committee of Central Bank Governors (CCBG) hosted by South African Reserve Bank from 30 to 31 January 2017, Pretoria, South Africa;

iii. Implementation of the SADC Macroeconomic Convergence Peer Review Mechanism hosted by SADC from 12 to 18 February 2017, Kinshasa, Democratic Republic of the Congo;

iv. Macroeconomic Subcommittee Meeting hosted by SADC, from 28 to 29 March 2017, Gaborone, Botswana;

v. SADC CCBG Meeting - Reports on recent Economic Developments in SADC hosted by SADC from 17 to 19 May 2017, Kinshasa, Democratic Republic of the Congo.

Dr Ashwin Kumar Madhou, Chief –Research and Economic Analysis attended

i. 14th Meeting of the Monetary and Exchange Rates Policies Sub Committee hosted by COMESA from 31 August to 1 September 2016, Nairobi, Kenya;

ii. Validation workshop for a manual on "Modelling and forecasting volatility in financial markets within a multivariate framework" hosted by COMESA Monetary Institute from 24 to 28 April 2017, Nairobi, Kenya.

Dr Ashwin Moheeput, Chief–Financial Stability attended

i. Annual Meeting of the Committee on IFC and 8th IFC Biennial Conference hosted by the BIS, from 7 to 9 September 2016, Basel, Switzerland;

ii. SADC Economic Reviews for 2016/2017-Training on Macroeconomic Surveillance hosted by South African Reserve Bank, from 21 to 22 November 2016, Pretoria, South Africa;

iii. Implementation of the SADC Macroeconomic Convergence Peer Review Mechanism hosted by SADC, from 12 to 18 February 2017, Kinshasa, Democratic Republic of the Congo;

iv. Seminar on Stress Testing- Design and Prudential Aspects hosted by BIS, from 14 to 16 March 2017, Basel, Switzerland;

v. Macroeconomic Subcommittee Meeting hosted by SADC, from 28 to 29 March 2017, Gaborone, Botswana.

Mrs Hemlata Nundoochan, Chief – Supervision attended

i. Outreach Meeting on "Supervisory Challenges and Forward Looking Supervision" hosted by the Financial Stability Institute and the Supervision and Implementation Group of the Basel Committee on Banking Supervision, from 9 to 10 November 2016, Hong Kong;

ii. Seminar on Basel III Standardised Approaches hosted by BIS, from 6 to 8 June 2017, Basel, Switzerland.

Mr Arvind Sharma Ramful, Chief–IT attended

i. CCBG ICT Subcommittee Annual Conference hosted by SADC, from 20 to 24 February 2017, Arusha, Tanzania.

Mr Sanjay Ramnarainsing, Chief–Financial Markets Operations attended

i. A meeting at the Reserve Bank of India, from 16 to 18 November 2016, Mumbai, India;

ii. Financial Markets and Instruments Course hosted by South African Reserve Bank, from 3 to 14 April 2017, Pretoria, South Africa.

Mr Keshwarajsingh Ramnauth, Chief – Financial Markets Operations attended

i. Workshop on Fundamentals of Fixed Income Risk Management hosted by World Bank and RAMP from 23 to 27 January 2017, Washington DC, USA

Mr Harryram Ramsurn, Chief-Supervision attended

i. Seminar on Basel III Standardised Approaches hosted by BIS from 6 to 8 June 2017, Basel, Switzerland.

Mr Chandradeo Sharma Rutah, Chief – Supervision attended

i. Supervisory College for Supervisors of Barclays Africa Group Ltd hosted by South African Reserve Bank on 8 July 2016, Pretoria, South Africa;

ii. Working Group Meeting on Core Principles for Islamic Finance Regulation hosted by Islamic Financial Services Board on 29 September 2016, Kuala Lumpur, Malaysia;

iii. 2nd Working Group Meeting on Core Principles for Islamic Finance Regulation hosted by Islamic Financial Services Board, from 25 to 26 January 2017, Kuala Lumpur, Malaysia;

iv. Barclays Africa Group- Supervisory College hosted by South African Reserve Bank on 27 February 2017, Pretoria, South Africa;

v. 3rd Working Group Meeting on Core Principles for Islamic Finance Regulation hosted by Islamic Financial Services Board on 3 May 2017, Dubai.

Overseas Trainings/ Courses/ Seminars/ Workshops attended by Senior Analysts

Mr Ravishin Bullyraz, Senior Analyst-Legal Services attended

i. 32nd ESAAMLG Task Force of Senior Officials Meetings hosted by Eastern and Southern Africa Anti Money

Laundering Group, from 28 August to 1 September 2016 followed by a Public/Private Sector Dialogue, from 2 to 3 September 2016, Victoria Falls, Republic of Zimbabwe;

ii. Legislative Drafting Course hosted by the CCBG Human Resources Development Subcommittee in collaboration with the South African Department of Justice and Constitutional Development, from 22 to 25 November 2016, Pretoria, South Africa;

iii. SADC Payment System Model Law Meeting hosted by South African Reserve Bank, from 18 to 19 January 2017, Pretoria, South Africa.

Miss Marie Medgee Lauricourt, Senior Analyst-Supervision attended

i. Conference on Deposit Protection and Mobile Money hosted by Deposit Insurance Board of Tanzania, from 1 to 3 September 2016, Zanzibar, Tanzania;

ii. 1st International Association of Deposit Insurers Technical Assistance Workshop for the Deposit Insurance organizations from the Africa, Middle East and North Africa Regions hosted by IADI, from 27 to 30 March 2017, Casablanca, Morocco.

Mrs Kaveeta Nowbutsing-Hurynag, Senior Analyst – Governor's Office attended

i. Meeting of the Working Group of CCBG in SADC hosted by Banque Centrale de Madagascar, from 12 to 13 December 2016, Antananarivo, Madagascar.

Mr Karankumar Pitteea, Senior Analyst – Research and Economic Analysis attended

i. Central Banking Policies-Cruising New Frontiers hosted by Reserve Bank of India Staff College from 30 January 2017 to 3 February 2017, Chennai, India;

ii. 22nd Meeting of the Committee of Experts on Finance and Monetary Affairs, hosted by COMESA, from 27 to 30 March 2017, Bujumbura, Burundi.

Mrs Nivedita Sajadah-Aujayeb, Senior Analyst-Legal Services attended

i. SADC Workshop on the impact of moving towards a Risk Based approach: A Pre-Implementation Study hosted by FinMark Trust, from 26 to 27 January 2017, Johannesburg, South Africa;

ii. Workshop for Mutual Evaluation Assessors hosted by South African Government and the Eastern and Southern Africa Anti-Money Laundering Group, from 27 February 2017 to 3 March 2017, Pretoria, South Africa;

iii. Seminar on Fintech and Financial Consumer Protection – Challenges for Supervisory Authorities, hosted by the International Financial Consumer Protection Organisation and Central Bank of Ireland, from 6 to 7 April 2017, Dublin, Ireland.

Mr Dhirajsingh Rughoobur, Senior Analyst – Supervision

i. The Supervision of Corporate Governance and Risk Management in Banks and Insurers hosted by Bank of England, from 5 to 7 April 2017, London, UK;

ii. 4th Biennial Research Conference - Designing an optimal deposit insurance system hosted by International Association of Deposit Insurers, from 1 to 2 June 2017, Basel, Switzerland.

Mr Sandiren Vadeevaloo, Senior Analyst-Supervision attended

i. Standard Chartered Bank Regional Supervisory College hosted by Bank of Uganda, from 9 to 10 November 2016, Kampala, Uganda;

ii. AACB Meeting on Cross Border Banking Supervision hosted by South African Reserve Bank, from 25 to 26 May 2017, Pretoria, South Africa.

Overseas Trainings/ Courses / Seminars / Workshops attended by Analysts / Technical Officer

Mr Chetanand Christna, Analyst- Accounting and Budgeting attended

i. Workshop on IFRS 9 Implementation and Practical Considerations hosted by World Bank Treasury and RAMP, from 20 to 24 March 2017, Washington DC, USA.

Mr Shezaad Chutoo, Analyst- Risk and Product Control attended

i. Workshop on Investing in Emerging Markets: Focus on China hosted by World Bank, RAMP and co-hosted by Bangko Sentral ng Pilipinas, from 19 to 23 September 2016, Manila, Philippines;

ii. BIS Asset Management Associate Programme 2017: Asset Allocation and Risk Budgeting hosted by BIS, from 22 May to 2 June 2017, Lucerne, Switzerland;

iii. Pictet Asset Management's training hosted by PICTET, from 5 to 7 June, Geneva, Switzerland.

Mr Josue Jules Michael Davasgaum, Technical Officer Grade A-Facilities attended

i. Training on Factory Acceptance Test-Upgrade of Electronic Security Systems Project, from 19 to 23 September 2016, Hangzhou, China.

Mr Nandkumar Daworaz, Analyst-Financial Markets Operations attended

i. Central Banking Policies-Cruising New Frontiers hosted by Reserve Bank of India Staff College, from 30 January 2017 to 3 February 2017, Chennai, India;

ii. Financial Markets and Instruments Course hosted by South African Reserve Bank, from 3 to 14 April 2017, Pretoria, South Africa.

Mr Sahadeosing Gungabissoon, Analyst-Supervision attended

i. Supervisory College for the rest of Africa subsidiaries of Barclays Africa Group Limited hosted by South African Reserve Bank on 24 October 2016, Pretoria, South Africa;

ii. HSBC Global College hosted by Prudential Regulatory Authority on 28 June 2017, London, UK.

Miss Monysha Lyna Jany Singh Jhamna, Analyst –Risk and Product Control attended

i. Workshop on Advanced Credit Risk Management hosted by World Bank and RAMP and co-hosted by Bank of Korea, from 24 to 28 October 2016, Seoul, Korea.

Mr Ranjeet Kallychurn, Analyst-IT attended

i. Control Objectives for Information and Related Technologies Training in support of the IT Governance initiatives hosted by CCBG Information and Communications Technology Subcommittee and Bank of Zambia, from 26 October to 2 November 2016, Lusaka, Zambia.

Mrs Lutchmee Devi Maistry, Analyst-Supervision attended

i. Supervisory College for Bank of Baroda hosted by Reserve Bank of India on 25 July 2016, Mumbai, India.

Mr Kumaravel Mootoosamy, Analyst-Legal Services attended

i. Anti-Money Laundering/ Counter Financing Terrorism Course hosted by CCBG Human Resources Development Subcommittee and FinMark Trust in collaboration with ESAAMLG, from 20 to 22 September 2016, Pretoria, South Africa;

ii. SADC Workshop on the impact of moving towards a Risk Based Approach: A Pre-Implementation Study hosted by FinMark Trust, from 26 to 27 January 2017, Johannesburg, South Africa;

iii. 33rd ESAAMLG Task Force of Senior Officials Meeting followed by Refresher Workshop for Mutual Evaluation Assessors hosted by ESAAMLG, from 2 to 7 April 2017, Arusha, Tanzania.

Mr Premchand Nundlall, Analyst- Supervision attended

i. Supervisory College of Standard Chartered Bank hosted by Prudential Regulatory Authority, from 26 to 27 June 2017, London, UK.

Mr Yahseen Mohammad Peerbocus, Analyst – Reserve Management attended

i. Workshop on Investment Policy and Asset Allocation for Long-Term Investors hosted by World Bank Treasury and RAMP, from 5 to 9 December 2016, Paris, France.

Miss Archana Puttyah, Analyst – Supervision attended

i. Programme on Macro-Prudential Regulation and Policies hosted by Reserve Bank of India Staff College, from 20 to 24 February 2017, Chennai, India;

ii. 4th Biennial Research Conference - Designing an optimal deposit insurance system hosted by International Association of Deposit Insurers, from 1 to 2 June 2017, Basel, Switzerland.

Miss Meenakshi Ramchurn, Analyst – Reserve Management attended

i. Annual BIS Asian Reserve Management Workshop hosted by BIS, from 28 November to 2 December 2016, Hong Kong;

ii. Workshop on Fundamentals of Active Management hosted by World Bank and RAMP, from15 to 19 May 2017, Washington DC, USA.

Mr Leckraz Ramful, Analyst – Supervision attended

i. Conference on Bank Resolution, Crisis Management and Deposit Insurance Issues hosted by BIS, from 6 to 8 December 2016, Basel, Switzerland.

Mrs Vijayantimala Ramful, Analyst – Financial Markets Operations attended

i. Bourse Programme hosted by Reserve Bank of India Staff College, from 19 to 23 June 2017, Chennai, India.

Miss Yogeeta Devi Ramphul, Analyst - Supervision attended

i. Seminar on Enhancements to the Basel Process-Revision to standardized approaches for credit, market and operational risks & Developments relating to Basel III hosted by Afritac South in collaboration with South African Reserve Bank, from 14 to 18 November 2016, Pretoria, South Africa.

Mrs Deepmala Ramrup, Analyst - IT attended

i. 7th MAS Information Technology Supervision Workshop hosted by Monetary Authority of Singapore, from 14 to 18 November 2016, Singapore.

Miss Komal Rughoo, Analyst - Supervision attended

i. Seminar on Enhancements to the Basel Process-Revision to standardised approaches for credit, market and operational risks and Developments relating to Basel III hosted by Afritac South in collaboration with South African Reserve Bank, from 14 to 18 November 2016, Pretoria, South Africa;

ii. AACB Meeting on Cross Border Banking Supervision hosted by South African Reserve Bank, from 25 to 26 May 2017, Pretoria, South Africa.

Mrs Kaajal Seebaluck-Beerbul, Analyst - IT attended

i. Annual SADC Payment System Regional Conference hosted by SADC Payment System Project, from 20 to 21 July 2016, Luanda, Angola.

Mr Itranjan Seetohul, Analyst- Supervision attended

i. 7th MAS Information Technology Supervision Workshop hosted by Monetary Authority of Singapore, from 14 to 18 November 2016, Singapore;

ii. Supervisory College Meeting for State Bank of India hosted by Reserve Bank of India, from 22 to 24 February 2017, Mumbai, India.

Overseas Trainings / Courses / Seminars / Workshops attended by Bank Officers Grade 1

Mr Stephan Soon Chan Ah Kine, Bank Officer Grade I – Supervision attended

i. 23rd MAS Banking Supervision hosted by Monetary Authority of Singapore, from 27 November to 2 December 2016, Singapore.

Mr Avisen Mootealloo, Bank Officer Grade I – Payment Systems and MCIB attended

i. SADC Payment System Model Law Meeting hosted by South African Reserve Bank, from 18 to 19 January 2017, Pretoria, South Africa.

Miss Koveena Mootoosamy, Bank Officer Grade I-Supervision attended

i. Supervisory College for Supervisors of Standard Bank Group Limited's

Banking Operations hosted by South African Reserve Bank, from 27 to 31 March 2017, Pretoria, South Africa.

Mr Arjun Munbodh, Bank Officer Grade I – Supervision attended

i. 23rd MAS Banking Supervision hosted by Monetary Authority of Singapore, from 27 November to 2 December 2016, Singapore.

Mr Kheelesh Poonye, Bank Officer Grade I – Supervision attended

i. Seminar on Management and Supervision of Liquidity Risk hosted by Financial Stability Board, BIS, from 24 to 26 January 2017, Basel, Switzerland.

Local Courses/Seminars/Workshops

Local Courses/Seminars/Workshops attended by Heads of Division

Mrs Hemlata Sadhna Sewraj-Gopal, Secretary to the Bank attended

i. Seminar on Diving into IAS 19 hosted by Mauritius Institute of Professional Accountants on 3 November 2016, Ebene.

Dr Chiragra Tapas Kumar Chakrabarty, Director-Financial Markets & Asset Management attended

i. Workshop on Debt Management and Debt Market Development hosted by World Bank, from 30 to 31 March 2017, Beau Plan.

Mr Jitendra Nathsingh Bissessur, Assistant Director- Research and Economic Analysis attended

i. Peer-Learning Seminar on Improving Monetary Policy Frameworks hosted by ATI from 3 to 4 November 2016, Ebene.

Mr Ramsamy Chinniah, Assistant Director-Supervision attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South from 3 to 7 April 2017, Ebene.

Mrs Urvashi Chuttarsing-Soobarah, Assistant Director- Supervision attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South from 3 to 7 April 2017, Ebene.

Mrs Marjorie Marie-Agnes Heerah Pampusa, Assistant Director-Reserve Management attended

i. Peer-Learning Seminar on Improving Monetary Policy Frameworks hosted by ATI from 3 to 4 November 2016, Ebene.

Mrs Sudha Hurrymun, Assistant Director-Supervision attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South, 3 to 7 April 2017, Ebene.

Mr Jaywant Pandoo, Assistant Secretary-Accounting and Budgeting attended

i. Seminar on Diving into IAS 19 hosted by Mauritius Institute of Professional Accountants on 3 November 2016, Ebene.

Local Courses/Seminars/Workshops attended by Chiefs

Mr Dooneshsingh Audit, Chief-Statistics attended

i. Workshop on Mutual Recognition Agreements hosted by University of Mauritius, from 9 to 10 May 2017, Ebene.

ii. Seminar on Economic issues in Regional Integration hosted by ATI, from 5 to 16 June 2017, Ebene.

Mr Jean Claude Benoit Chamary, Chief-Supervision attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by

Afritac South, from 3 to 7 April 2017, Ebene.

Mr Chitananda Ellapah, Chief- Statistics attended

i. National Training Workshop - Trade in services hosted by Statistics Mauritius from 27 February 2017 to 2 March 2017, Port-Louis.

ii. Seminar on Debt Sustainability Analysis hosted by Afritac South from 1 to 5 May 2017, Ebene.

Mr Shardhanand Gopaul, Chief- Accounting and Budgeting attended

i. Seminar on Diving into IAS 19 hosted by Mauritius Institute of Professional Accountants on 3 November 2016, Ebene.

Mr Atmanand Jhary, Chief- Accounting and Budgeting attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South, from 3 to 7 April 2017, Ebene.

Mrs Rajshri Jutton-Gopy, Chief- Legal Services attended

i. Workshop on Self-Assessment for Cycle II of the Implementation Review Mechanism on Chapter II (Prevention) of the United Nations Convention against Corruption hosted by ICAC, from 27 to 28 July 2016, Moka.

ii. Meeting on Eastern and Southern Africa Anti-Money Laundering Group hosted by Ministry of Financial Services, Good Governance & Institutional Reforms from 17 to 18 August 2016, Ebene.

iii. Conference on the Update on Directors duties & liabilities hosted by Ministry of Financial Services, Good Governance & Institutional Reforms, from 10 to 11 October 2016, Ebene.

Mr Neetyanand Kowlessur, Chief- Research & Economic Analysis attended

i. Preparatory Meeting on the resumption of talks between Mauritius and India. (Comprehensive Economic Cooperation Partnership Agreement) - CECPA/PTA hosted by Ministry of Foreign Affairs, Regional Integration and International Trade, from 12 to 13 September 2016, Port-Louis.

Mrs Powkeen Lo Tiap Kwong, Chief- Statistics attended

i. Course on Monetary Policy hosted by Afritac South, from 8 to 19 May 2017, Ebene.

Dr Ashwin Moheeput, Chief- Financial Stability attended

i. Cours sur les Indicateurs de solidité financière hosted by ATI from 16 to 26 May 2017, Ebene.

Mrs Najma Nabee, Chief- Research & Economic Analysis attended

i. Seminar on Improving Monetary Policy Frameworks hosted by Afritac South, from 7 to 11 November 2016, Ebene.

Mrs. Hemlata Nundoochan, Chief- Supervision attended

i. Course on Financial Sector Surveillance hosted by ATI, from 20 to 31 March 2017, Ebene.

Mr Keshwarajsingh Ramnauth, Chief- Financial Markets Operations attended

i. Workshop on "Debt Management and Debt Market Development" hosted by World Bank, from 30 to 31 March 2017, Beau Plan.

Local Courses/Seminars/Workshops attended by Senior Analysts

Mr. Ghanish Beegoo, Senior Analyst- Statistics attended

i. Course on Inclusive Growth hosted by ATI, from 19 to 30 September 2016, Ebene.

ii. Course on Financial Development and Financial Inclusion hosted by Afritac South, from 19 to 30 June 2017, Ebene.

Mr. Ravishin Bullyraz, Senior Analyst- Legal Services attended

i. Meeting on Eastern and Southern Africa Anti-Money Laundering Group hosted by Ministry of Financial Services, Good Governance & Institutional Reforms from 17 to 18 August 2016, Ebene.

ii. Conference on the Update on Directors duties & liabilities hosted by Ministry of Financial Services, Good Governance & Institutional Reforms, from 10 to 11 October 2016, Ebene.

Mr Satishsingh Jugoo, Senior Analyst- Statistics attended

i. Workshop on improving external sector statistics, hosted by ATI, from 29 to 30 August 2016, Ebene.

ii. National Training Workshop - Trade in services hosted by Statistics Mauritius, from 27 February to 2 March 2017, Port Louis.

iii. Course on Compilation of Balance of Payments Statistics hosted by ATI, from 5 to 16 June 2017, Ebene.

Mrs Kaveeta Nowbutsing-Hurynag, Senior Analyst- Legal Services attended

i. Workshop on SADC on-line monitoring & evaluation framework hosted by Ministry of Foreign Affairs, Regional Integration and International Trade, from 28 to 30 June 2017, Quatre-Bornes.

Mrs. Nivedita Sajadah-Aujayeb, Senior Analyst- Legal Services attended

i. Workshop on Self-Assessment for Cycle II of the Implementation Review Mechanism on Chapter II (Prevention) of the United Nations Convention against Corruption hosted by ICAC, from 27 to 28 July 2016, Moka.

ii. Meeting on Eastern and Southern Africa Anti-Money Laundering Group hosted by Ministry of Financial Services, Good Governance & Institutional Reforms from 17 to 18 August 2016, Ebene.

iii. Conference on the Update on Directors duties & liabilities hosted by Ministry of Financial Services, Good Governance & Institutional Reforms, from 10 to 11 October 2016, Ebene.

Mr Feisal Bin Khalid Sooklall, Senior Analyst- Research & Economics Analysis attended

i. Course on Monetary Policy hosted by ATI, from 17 to 28 October 2016, Ebene.

ii. National Risk Assessment Workshop hosted by The Ministry of Financial Services, Good Governance and Institutional Reforms, in collaboration with the Financial Intelligence Unit and the World Bank, from 18 to 20 January 2017, Pointe Aux Piments.

iii. Course on Macroeconomic Management in Resource rich countries hosted by ATI, from 19 June 2017 to 7 July 2017, Ebene.

Local Courses/Seminars/Workshops attended by Analysts

Mrs. Falzana Atchia, Analyst- Statistics attended

i. Workshop on improving external sector statistics, hosted by ATI, from 29 to 30 August 2016, Ebene.

ii. Seminar on Improving Monetary Policy Frameworks hosted by Afritac South, from 7 to 11 November 2016, Ebene.

iii. National Training Workshop - Trade in services hosted by Statistics Mauritius, from 27 February to 2 March 2017, Port Louis.

Mr Rajesh Beegun, BI Analyst- Information Technology attended

i. Workshop on open data portal hosted by Ministry of Finance and Economic Development, from 22 to 23 May 2017, Ebene.

Mrs Mahima Bhurtha, Analyst- Research and Economic Analysis attended

i. Workshop on the Impact of BREXIT on the ESA iEPA States hosted by Indian Ocean Commission, on 9 September 2016, Bagatelle.

ii. Course on Inclusive Growth hosted by ATI, from 19 to 30 September 2016, Ebene.

iii. Course on Financial Programming and Policies hosted by ATI, 10 to 21 April 2017, Ebene.

Ms Elisa Chan Yiet Po, Communications Officer - International Relations & Communications attended

i. Coaching skills for Trainers hosted by Open Mind Consulting Ltd on 17, 24 and 31 May 2017, Bagatelle.

Mr Suyash Dhurmea, Analyst- Research and Economic Analysis attended

i. Seminar on Improving Monetary Frameworks Policy hosted by Afritac South, from 7 to 11 November 2016, Ebene.

ii. Course on Monetary Policy hosted by Afritac South, from 8 to 19 May 2017, Ebene.

Mrs Bindoomatee Gungaram, Analyst- Financial Markets Operations attended

i. Course on Financial Markets Analysis hosted by Afritac South, from 1 to 12 August 2016, Ebene.

ii. Workshop on Debt Management and Debt Market Development hosted by World Bank, from 30 to 31 March 2017, Beau Plan.

Mr Nadeem Azad Jeetun, Analyst- Research and Economic Analysis attended

i. Course on Inclusive Growth hosted by ATI, from 19 to 30 September 2016, Ebene.

ii. Course on Monetary Policy hosted by Afritac South, from 8 to 19 May 2017, Ebene.

Mrs Pratima Keerodhur, Analyst- Accounting and Budgeting attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South from 3 to 7 April 2017, Ebene.

Mr Ved Prakash Anand Koonjul, Analyst- Financial Markets Operations attended

i. Workshop on Debt Management and Debt Market Development hosted by World Bank, from 30 to 31 March 2017, Beau Plan.

Mr Abdool Anwar Massafeer, Analyst- Statistics attended

i. Course on Macroeconomics Diagnostics hosted by Afritac South, from 27 February to 10 March 2017, Ebene.

Mr Kumaravel Mootoosamy, Analyst- Legal Services attended

i. Meeting on Eastern and Southern Africa Anti-Money Laundering Group hosted by Ministry of Financial Services, Good Governance & Institutional Reforms, from 17 to 18 August 2016, Ebene.

Miss Meenakshi Ramchurn, Analyst-Reserve Management attended

i. Course on Financial Markets Analysis hosted by Afritac South, from 1 to 12 August 2016, Ebene.

Mrs Vijayantimala Ramful, Analyst- Financial Markets Operations attended

i. Seminar on Improving Monetary Frameworks Policy hosted by Afritac South, from 7 to 11 November 2016, Ebene.

Miss Komal Rughoo, Analyst- Supervision attended

i. Course on Core Elements of Banking Supervision hosted by ATI, from 19 to 29 July 2017, Ebene.

ii. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South, 3 to 7 April 2017, Ebene.

Mr Uttam Deepak Seetul, Analyst- Supervision attended

i. Seminar on International Financial Reporting Standards (IFRS) hosted by Afritac South, 3 to 7 April 2017, Ebene.

Local Courses/Seminars/Workshops attended by Bank Officers Grade I

Mr Atish Babboo, Bank Officer Grade I- Research & Economic Analysis attended

i. Course on Monetary Policy hosted by ATI, from 17 to 28 October 2016, Ebene.

ii. Course Financial Programming and Policies hosted by ATI, from 10 to 21 April 2017, Ebene.

Mrs Jazbeen Banu Edoo, Bank Officer Grade I- Research & Economic Analysis attended

i. Course Financial Programming and Policies hosted by ATI, from 10 to 21 April 2017, Ebene.

Mrs Soobhadra Fowdur, Bank Officer Grade I- Statistics attended

i. Workshop on improving external sector statistics, hosted by ATI, from 29 to 30 August 2016, Ebene.

Mr Yashilall Gopaul, Bank Officer Grade I- Supervision attended

i. Cours sur les Indicateurs de solidité financière hosted by ATI from 16 to 26 May 2017, Ebene.

Miss Bihisht Mautadin, Bank Officer Grade I- Research & Economic Analysis attended

i. Workshop on improving external sector statistics, hosted by ATI, from 29 to 30 August 2016, Ebene.

ii. Course on Macroeconomics Diagnostics hosted by Afritac South, from 27 February to 10 March 2017, Ebene.

iii. Course on Compilation of Balance of Payments Statistics hosted by ATI, from 5 to 16 June 2017, Ebene.

Miss Pooja Yashni Mohesh, Bank Officer Grade I- Supervision attended

i. Course Core Elements of Banking Supervision hosted by ATI, from 19 to 29 July 2016, Ebene.

Mr Avisen Mootealloo, Bank Officer Grade I- Payment Systems & MCIB attended

i. Workshop on Principles for Financial Market Infrastructures hosted by Afritac South, from 24 to 28 October 2016, Ebene.

Mr Arjun Munbodh, Bank Officer Grade I- Supervision attended

ii. Course on Core Elements of Banking Supervision hosted by ATI, from 19 to 29 July 2016, Ebene.

Mrs Mridula Daibee Ramkissoon, Bank Officer Grade I- Payment Systems & MCIB attended

i. Workshop on Principles for Financial Market Infrastructures hosted by Afritac South, from 24 to 28 October 2016, Ebene.

Mrs Hema Ramnial-Tacouri, Bank Officer Grade I attended

i. Coaching skills for Trainers hosted by Open Mind Consulting Ltd on 17, 24 and 31 May 2017, Bagatelle.

Miss Rajlukshmee Tengur, Bank Officer Grade I- Research & Economic Analysis attended

i. Seminar on Compilation of National Accounts hosted by Afritac South, from 5 to 9 December 2016, Ebene.

Miss Tayushma Sewak, Bank Officer Grade I- Research & Economic Analysis attended

i. Course on Monetary Policy hosted by ATI, from 17 to 28 October 2016, Ebene.

Local Courses/Seminars/Workshops attended by Bank Officers Grade II

Miss Chitra Deepun, Bank Officer Grade II- Governor`s Office attended

i. Course on Financial Development and Financial Inclusion hosted by Afritac South, from 19 to 30 June 2017, Ebene.

Miss Florence Anasthasia L'Espérance, Bank Officer Grade II- Governor`s Office attended

i. Workshop on Positive Psychology for a professional Receptionist, hosted by Open Mind Consulting, on 4 May 2017, Bagatelle.

Local Courses/Seminars/Workshops attended by Telephonist/Receptionist

Miss Marie Christelle Pascaline Lubois, Receptionist attended

i. Workshop on Positive Psychology for a professional Receptionist, hosted by Open Mind Consulting, on 4 May 2017, Bagatelle.

Mr Soonil Madhoo, Telephonist attended

i. Workshop on Positive Psychology for a professional Receptionist, hosted by Open Mind Consulting, on 4 May 2017, Bagatelle.

Mrs Veediartee Rung Bahadoor, Receptionist attended

i. Workshop on Positive Psychology for a professional Receptionist, hosted by Open Mind Consulting, on 4 May 2017, Bagatelle.

Staff Turnover

RECRUITMENT

Mr Khemraj Aubeeluck, Mr Manohur Ubheeram, Mr Rajkumar Chummun, Mr Veeraj Ramhit and Mr Devraj Ramsawmy were appointed Security Officers with effect from 1 July 2016.

Mr Qayyum Ali Ismael Ghanty was appointed Chief-IT Infrastructure with effect from 1 August 2016.

Mr Arvind Sharma Ramful was appointed Chief-IT Infrastructure with effect from 1 September 2016.

Miss Divya Lakshmi Bhuruth was appointed Bank Officer Grade I with effect from 1 September 2016.

Mr Gawtam Raiy Kallychurn was appointed Chief Information Security Officer with effect from 1 November 2016.

Mrs Urvashi Chuttarsing-Soobarah was appointed Assistant Director- Supervision with effect from 3 November 2016.

Miss Elisa Chan Yiet Po was appointed Communications Officer with effect from 7 November 2016.

Mr Jean Francois Dominique Louise was appointed Librarian with effect from 15 March 2017.

Miss Marie Christelle Pascaline Lubois and Mrs Veediartee Rung Bahadoor were appointed Receptionists with effect from 15 March 2017.

Mr Rajesh Kumar Beegun was appointed BI Analyst with effect from 15 June 2017.

RETIREMENT

Miss Anuja Nababsing, Analyst, retired from the service of the Bank with effect from 12 September 2016.

Mr Bridgelall Koonjul, Bank Attendant Grade II, retired from the service of the Bank with effect from 18 November 2016.

Mr Pran Eswur Padaruth, Bank Officer Grade I, retired from the service of the Bank with effect from 13 January 2017.

RESIGNATION

Mr Beemalsing Jawaheer, Analyst, resigned from the service of the Bank with effect from 7 October 2016.

Mr Yashwantsingh Rughoobur, Senior Analyst, resigned from the service of the Bank with effect from 10 November 2016.

Mrs Pushpa Devi Gopee-Somra, BI Analyst, resigned from the service of the Bank with effect from 30 November 2016.

Miss Reena Kangloo, Bank Officer Grade I, resigned from the service of the Bank with effect from 28 April 2017

Mr Konalsingh Seewooraz, Bank Officer Grade II, resigned from the service of the Bank with effect from 27 May 2017

EXPIRY OF CONTRACT OF EMPLOYMENT

The contracts of employment of Mr Rajkumar Chummun, Mr Veeraj Ramhit, Mr Devraj Ramsawmy, Security Officers, expired with effect from 1 July 2016.

The contract of employment of Mr Qayyum Ali Ismael Ghanty, Chief-IT Infrastructure, expired with effect from 1 August 2016

The contract of employment of Mrs Sandhya Nundah, Safety and Health Officer, expired with effect from 5 June 2017.

The contract of employment of Mr Rajesh Kumar Beegun, BI Analyst, expired with effect from 15 June 2017.

PROMOTION

Mr Ghanish Beegoo, Mr Hurrychun Budhna, Mr Ravishin Bullyraz, Mr Satishingh Jugoo, Miss Marie Medgée Lauricourt, Mrs Kaveeta Nowbutsing-Hurynag, Mr Karankumar Pitteea, Mrs Marie Aline Pyne, Mr Dhirajsingh Rughoobur, Mr Yashwantsingh Rughoobur, Mrs Nivedita Sajadah-Aujayeb, Mr Feisal Bin Khalid Sooklall and Mr Sandiren Vadeevaloo were appointed Senior Analysts with effect from 10 October 2016.

List of Banks, Non-Bank Deposit-Taking Institutions, Money-Changers and Foreign Exchange Dealers licensed by the Bank of Mauritius as at 30 June 2017

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 2017.

Banks

1. ABC Banking Corporation Ltd
2. AfrAsia Bank Limited
3. Bank One Limited
4. Bank of Baroda
5. Bank of China (Mauritius) Limited[13]
6. Banque des Mascareignes Ltée
7. Banque Privée de Fleury Limited[14]
8. BanyanTree Bank Limited
9. Barclays Bank Mauritius Limited
10. Century Banking Corporation Ltd[15]
11. Deutsche Bank (Mauritius) Limited
12. Habib Bank Limited
13. HSBC Bank (Mauritius) Limited
14. Investec Bank (Mauritius) Limited
15. MauBank Ltd
16. PT Bank Maybank Indonesia[16]
17. SBI (Mauritius) Ltd
18. SBM Bank (Mauritius) Ltd
19. Standard Bank (Mauritius) Limited
20. Standard Chartered Bank (Mauritius) Limited
21. The Hongkong and Shanghai Banking Corporation Limited
22. The Mauritius Commercial Bank Limited
23. Warwyck Private Bank Ltd[17]

Non-Bank Deposit-Taking Institutions

1. AXYS Leasing Ltd
2. Cim Finance Ltd
3. Finlease Company Limited
4. La Prudence Leasing Finance Co. Ltd
5. Mauritius Housing Company Ltd
6. Mauritian Eagle Leasing Company Limited
7. SICOM Financial Services Ltd
8. The Mauritius Civil Service Mutual Aid Association Ltd

[13] *Bank of China (Mauritius) Limited was granted a banking licence on 18 March 2016 and started operations on 27 September 2016.*

[14] *The bank carries on exclusively private banking business.*

[15] *The bank carries on exclusively Islamic banking business.*

[16] *PT Bank Maybank Indonesia is in the process of surrendering its banking licence and ceased business with effect from 1 July 2017.*

[17] *The bank carries on exclusively private banking business.*

Money-Changers (Bureaux de Change)[18]

1. Abbey Royal Finance Ltd
2. Change Express Ltd
3. EFK Ltd
4. Iron Eagle Ltd
5. Moneytime Co. Ltd
6. Unit E Co Ltd
7. Vish Exchange Ltd

Foreign Exchange Dealers

1. British American Exchange Co. Ltd
2. Cim Forex Ltd
3. Island Premier Foreign Exchange Ltd
4. Shibani Finance Co. Ltd
5. Thomas Cook (Mauritius) Operations Company Limited

[18] *Viaggi Finance Ltd has surrendered its money-changer licence and ceased business with effect from 23 June 2017.*

List of Boxes

List of Acronyms

AACB	Association of African Central Banks
AfDB	African Development Bank
Afrexim	African Export and Import Bank
AMCP	African Monetary Cooperation Programme
ATM	Automated Teller Machine
BBCL	Bramer Banking Corporation Ltd
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BCM	Business Continuity Management
BCS	Bulk Clearing System
BEAC	Banque des Etats de l'Afrique Centrale
BIS	Bank for International Settlements
BML	Broad Money Liabilities
BoJ	Bank of Japan
BPO	Business Process Outsourcing
CABS	Community of African Banking Supervisors
CBS	Central Bank Survey
CCBG	Committee of Central Bank Governors
CCBO	Committee of Central Bank Officials
CDS	Central Depository System
c.i.f	Cost, insurance, freight
CMI	COMESA Monetary Institute
CNP	Contribution Network Project
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CTS	Cheque Truncation System

DR	Disaster Recovery
DTAA	Double Taxation Avoidance Agreement
ECB	European Central Bank
EFTs	Electronic Funds Transfers
EMDEs	Emerging Market and Developing Economies
FAO	Food and Agricultural Organisation
FDI	Foreign Direct Investment
FinCoNet	International Financial Consumer Protection Organisation
f.o.b	Free on board
FSB	Financial Stability Board
FSI	Financial Soundness Indicators
FSR	Financial Stability Report
FY	Financial Year
GBC	Global Business Company
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GMTB	Government of Mauritius Treasury Bill
GNDI	Gross National Disposable Income
GNS	Gross National Savings
GVA	Gross Value Added
IACA	International Association of Currency Affairs
ICE	Intercontinental Exchange
ICT	Information and Communication Technology
IFC	Irving Fisher Committee
IFSB	Islamic Financial Services Board
IGC	International Grains Council

IPI	Import Price Index
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
IIP	International Investment Position
IRS	Integrated Resort Scheme
IT	Information Technology
KRR	Key Repo Rate
MACSS	Mauritius Automated Clearing and Settlement System
MCIB	Mauritius Credit Information Bureau
MERI	Mauritius Exchange Rate Index
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
MPFSR	Monetary Policy and Financial Stability Report
MSCI	Morgan Stanley Capital International
NBDTI	Non-Bank Deposit-Taking Institutions
NFA	Net Foreign Assets
NPL	Non-Performing Loans
NPS	National Payment Switch
NYMEX	New York Mercantile Exchange
ODCs	Other Depository Corporations
OPEC	Organization of the Petroleum Exporting Countries
PDS	Property Development Scheme
PLACH	Port-Louis Automated Clearing House
POS	Point of Sale
PRB	Pay Research Bureau
RCG	Regional Consultative Group

REER	Real Effective Exchange Rate
REPSS	Regional Payment and Settlement System
RES	Real Estate Scheme
RISDP	Regional Indicative Strategic Development Plan
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SADC	Southern African Development Community
SDR	Special Drawing Rights
SEM	Stock Exchange of Mauritius
SEMDEX	Stock Exchange of Mauritius Index
SIRESS	SADC Integrated Regional Settlement System
SM	Statistics Mauritius
SME	Small and Medium Enterprises
ToT	Terms of Trade
US Fed	US Federal Reserve
VAT	Value-added Tax
WEO	World Economic Outlook
XBRL	eXtensible Business Reporting Language

BANK OF MAURITIUS

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Mauritius

Website https://www.bom.mu
Email communications@bom.mu

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