5 Mauritius

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I. Introduction

Mauritius is a small island in the Indian Ocean with a population of 1.2 million people and an income per capita of US $5,250. It has achieved important economic success since independence outperforming most other countries in the region and middle-income and small island states as well. Since independence in 1968, Mauritius has achieved remarkable economic and social success, based on good governance, exceptional use of preferential trade agreements for its sugar and textile exports, and the development of strong tourism and financial services industries.

During the 1980s and the 1990s, Mauritius registered high real growth rates averaging about 6%. The vibrant growth in the Mauritian economy was driven first by sugar, then textiles and tourism and more recently, by financial services and the information and communication technology (ICT) sector. However, sustaining past economic growth pace has been a major challenge and the economy has slowed in recent times due, mainly to the loss of trade preferences by two of the main engines of growth, sugar and textiles. In response to these challenges, the Government has embarked on an ambitious development strategy to find new drivers for economic growth aiming at consolidating fiscal performance, improving public sector efficiency, improving trade competitiveness, improving the investment climate, democratizing the economy through participation and social inclusion.

Geography and Climate

Mauritius lies in the Southern Indian Ocean to the east of Madagascar in the neighborhood of Rodrigues, Saint-Brandon and Agalega. With the exception of its coral reefs and beaches, the land area of 710 square miles (1,865 square kilometers) is of volcanic origin. The other islands comprise another 67 square miles (175 square kilometers) of land area. About 90% of the cultivated land area is devoted to sugar cane.

The climate is defined as sub-tropical; winter temperatures average between 17c and 24c and summer temperatures between 24c and 30c. Rainfall in summer (November to May) averages 51” (140 mm per month). Therefore humidity levels rarely dips below 60%, peaking at 70% plus from February to April when the rainfall is highest. Winter rainfall averages 2” (50 mm) per month with humidity levels around 60%.

The time zone is 4 hours ahead of GMT, 9 hours ahead of EST. Mauritius is served SSR International Airport at Plaisance, which is 45 kilometers South East from Port-Louis, which is the capital city of Mauritius and ten international airlines operate from here. Port-Louis, the only capital and port of Mauritius is served by 25 international shipping lines.

Natural Resources

Mauritius is blessed with very few natural resources like arable land and beautiful beaches which actually is promoting the tourist industry on a large scale. This can be demonstrated by the following indicators:

Table 1: Mauritius Tourism Industry Indicators

Travel and Tourism industry in FY 2006		Percent of total	2007-2016 annual growth % forecast)
GDP (US $ millions)	844	11.8	4.4
Employment (1000 jobs)	71	13.7	1.9
Travel and Tourism economy in FY 2006			
GDP (US $ millions)	1,888	26.3	4.5
Employment (1000 jobs)	147	28.1	1.9

Source: World Travel and Tourism Council, TSA Research 2006

The Ministry of Agriculture and Natural Resources is responsible for promoting agricultural sustainability. Action has been taken in two fields:

1. Recycling of organic wastes and development of organic farming.
2. Development of integrated plant nutrient systems to cut down on chemical inputs.

Furthermore, attempts are underway towards Integrated Pest Management (IPM) for a few pests (Liriomyza leaf miners and Plutells spp.on crucifiers) so as to minimize the use of pesticides in line with the FAO's definition of IPM for its field work programs. The private sector and small farming communities participate in sustainable agriculture.

Moreover, an island wide resource appraisal is ongoing on marginal soils with a view to improving land management. Remote sensing and geographic information system techniques will be resorted for developing management practices that help to maintain the quality of land resources. Remote sensing activities are supported from the Government of India. The Government of Mauritius is fully committed in strengthening its institutional research and extension capability to develop and disseminate technologies linked with sustainable agriculture and resources. It is also supporting the conservation and enhancement of sinks and reservoirs of greenhouse gases, including biomass, forests and oceans as well as other territorial, coastal and marine ecosystems, through forest preservation, ongoing program of reforestation and establishment of nature marine parks. With the assistance of U.S country studies program, Mauritius is preparing its National Inventory of GHG emissions and has also undertaken various studies, including the vulnerability assessment and adaptation measures for water resources, agriculture (sugar cane) and coastal protection.

Mauritius is not affected by desertification but is sometimes affected by drought. In such case the authorities usually initiate appropriate measures against droughts. For example for domestic consumption of water, there is a constant monitoring of the levels of all reservoirs and when levels are low, all the populations are advised through media to make economic use of water, also water supply is restricted. While, for agriculture, irrigation methods have been chosen which use less water that is replacing surface irrigation by drip irrigation. Recently, the Midland Dam has been constructed in order to increase water storage capacity.

History and Political Structure

The Republic of Mauritius is a democratic and prosperous country whose entire population has ancestral origins from Europe, Africa, India and China. Until recently, the country's economy was dominated by the production and export of sugar, a legacy of its French and British colonial past. After independence in 1968, government re-directed diversification efforts resulted in the rapid growth of tourism, foreign direct investment, information and communication technology, and manufacturing sector producing mainly textiles for exports.

During French colonial rule, from 1767 to 1810, the capital and main port of Mauritius which was Port-Louis became an important centre for trade and naval operations against the British. In addition, French Planters established sugarcane estates and built up their fortunes at the expense of the labor of slaves brought from Africa. The French patois or colloquial language which evolved among these slaves and their descendants, referred to as "Creole" has become the everyday language shared actually by most of the island's inhabitants. French is used in the media and literature and the Franco-Mauritian descendants of the French settlers continue to dominate the sugar industry and economic life of modern Mauritius.

The British captured the island in 1810 and gave up sovereignty when Mauritius became independent in 1968. During this period, the French plantation aristocracy maintained its economic and to a certain degree, its political prominence. The British abolished slavery but provided for cheap labor on the sugar estates by bringing nearly 500,000 indentured workers from the Indian Sub-Continent .The political history of Mauritius in the twentieth century revolves the gradual economic and political empowerment of the island's Indian majority.

Mauritian independence was not gained without opposition and violence. Tensions were particularly marked between the Creole and the Indian communities, which clashed often at election time, when the rising fortunes of the latter at the expense of the former were most apparent. Nonetheless, successive governments have with varying success, attempted to work out a peaceful modus vivendi that considers the concerns of the island's myriad communities. These varied interests have contributed to a political culture that is occasionally volatile and highly fluid, characterized by shifting alliances. A notable lapse from demographic practices, however, occurred in 1971. The Mauritius Labor Party- led coalition government faced with the radical and popular challenge of the Mauritian Militant Movement (MMM) and its allies in the unions promulgated the Public Order Act, which banned many forms of political activity. The resilience and stability of Mauritian society, however was demonstrated by the fact that an MMM-led government eventually gained power through the ballot box in 1982.

Despite many differences, the major political parties have worked successfully toward the country's economic welfare. For this reason, Mauritius has evolved from a primarily agricultural mono-crop marked by high unemployment, low salaries and boom-or-bust cycles to one dominated by manufacturing, tourism, information communication technology and expanding financial services. As Mauritius faces the future, it can look back on its dazzling economic performance in the 1980s and attempt to build on that success by continuing its tradition of political stability, foresight and prudent development planning.

The 1968 Constitution proclaims that Mauritius is a "democratic state" and that the Constitution is the supreme law of the land. It guarantees the fundamental rights and freedom of the people, including the right to hold private property and to be free from racial or other discrimination. Fundamental rights can only be suspended during wars or states of emergency, which must be duly declared by the parliament and reviewed every six months. The political structure is patterned to a large extent on the British system. As in Britain, the political party that can gain support from a majority in parliament chooses the Prime Minister who along with the cabinet wields political power.

The National Assembly, the country's prime law-making body, consists of representatives elected from 23 member constituencies and 2 member district on Rodrigues island. In addition unlike the British system, 8 assembly seats are apportioned to the "best losers" among the non-elected candidates, according to their ethno-religious affiliation, 2 each for Hindus, Muslims, Chinese and the general population. An attempt is made to distribute these seats proportionally to the major political parties, which are expressly referred to in the Constitution. The 60 seats from the constituencies, together with the 8 best-loser seats and the 2 seats representing Rodrigues, constitutes the 70 member parliament of the National Assembly. Parliament may remain in Office for a maximum of 5 years, unless it is dissolved by a vote of no-confidence or an act of the Prime Minister. A Constitutional amendment, however, provided that the first assembly reckon its term from 1971, a de-facto term of 8 years. The Assembly is responsible for all legislation and appropriations and may amend the Constitution by either a two-tiers or three-quarters majority, depending on the part of the Constitution in general.

A largely titular Governor-General presided over parliament in the name of the British monarch from independence in 1968 until 12th of March 1992, when Mauritius declared itself a Republic. Since then, a President appointed by the Prime Minister and ratified by the Parliament has assumed the role of the Governor-General. The Constitution also provides for 3 important Commissions- the Judicial and Legal Service Commission, The Public Service Commission as well as the Ombudsman Office. The Commissions oversee the appointment of government officials and the Ombudsman investigates official misconduct.

The country's legal system is based on the Napoleonic Code and English common law. The Supreme Court heads the judicial system and has the power to interpret the Constitution and to judge the constitutionality of legislation brought to its attention. Appointed by the Prime Minister and the President, the Chief Justice helps select 5 other judges on the Court. The Supreme Court also serves as the Court of Criminal Appeal and Court of Civil Appeal. Mauritius continues to refer legal and constitutional matters of undeterminable jurisdictions to Britain's Privy Council. Lower courts having original jurisdiction over various kinds of cases include the intermediate Court, the industrial Court and ten districts Courts.

The Constitution does not specify the form of local government. Port-Louis has a city Council, whereas the 4 townships – Beau Bassin/ Rose Hill, Curepipe, Quatre Bornes and Vacoas/ Phoenix, each a municipal Council. There are district Councils for Pamplemousses/ Riviere du Rempart, Moka/ Flacq and Grandport/ Savanne; 124 village Councils and 5 parish Councils in Rodrigues island. All Councils are elected bodies, but the Cabinet occasionally, over much opposition, has suspended municipal elections, because of political unrest. On 30th August 1992 village election , villages each selected 12 village Councilors, who then are grouped into 4 district Councilors. In 7 of the 124 villages, the candidates were unopposed. In the remaining villages, 3,577 persons ran for 1,404 seats. The election turnout represented 68 percent of eligible voters. Local governments depend on the Central government for more than 70 percent of their revenues and only the municipal Councils have the power to levy their own taxes.

Demographics

Mauritius has a population of 1,250,882 (July 2007 estimated). The capital in Mauritius which is Port-Louis inhabits almost 100,000 people. The main ethnics groups include Hindu- 68%, Christian 27%, Chinese-3% and French- 2%. The languages being spoken in the country is English and French as official languages, Hindi, Urdu, Hakka, Bhojpuri and Creole.

Table 2: Population Age

Population Age	Percentage	Male	Female
Age 0 to 14	23.5%	147,808	146,270
Age 15 to 64	69.8%	436,043	437,441
Age 65+	6.7%	32,475	50,845

Source: Mauritius Central Statistical Office, July 2007 estimates

On average, the life expectancy of the overall population in Mauritius is 72.88 years, where for male, it is 68.92 years (July 2007 estimated) and for female, it is 76.9 years (July 2007 estimated).

Table 3: Gender ratio

At Birth	Male/ Female	1.020
Age 0 to 14	Male/ Female	1.011
Age 15 to 64	Male/ Female	0.997
Age 65+	Male/ Female	0.971
Total population	Male/ Female	0.971

Source: Mauritius Central Statistical Office

Table 4: Changing Population Trend (2007 estimate)

	In the World	In Mauritius
Fertility: Children born / woman	1.94	2.59
Birth : Birth / 1000 population	15.26	20.05
Death : Death / 1000 population	6.88	8.67
Infant : Death / 1000 population	14.14	48.87

Source: Mauritius Central Statistical Office

Table 5: Transport and Communications

Number of main telephone lines (2005)	359,000
Mobile (cellular) phones	510,000
Radio Stations	AM 4, FM 9, Short Wave 0
Television Stations	2 (plus several repeaters)
Internet users (2005)	180,000
Country internet code	.mu
Railways	None
Highways (2005)	Total 2,020 km paved (75 km of expressways)
Waterways	None
Pipelines and Heliports	None
Airports	One (SSR international airport)
Port and Harbor	One (Port- Louis)

Source: Mauritius Economic Review 2006

II. Overview of Macroeconomic activity and Fiscal Position.

Macroeconomic performance in 2005/06 has shown some signs of recovery with the revamp of real GDP growth which is estimated at 3.7 percent against 3.0 percent in 2004/05.While the contribution of sugar and Export Processing Zone (EPZ) sectors to this growth has declined, that of the service sector has increased thus enhancing the trend observed in the recent years. However, owing to the high oil prices and the elimination of some subsidies, headline inflation has increased. In response to the inflationary pressures, the Bank of Mauritius has gradually raised its repo rate set as a key policy rate. The weak export performance following the loss of trade preferences as well as the higher import price of petroleum products have resulted in a widening of the current account deficit.

The fiscal deficit reached an estimated 5.3 percent of GDP, reflecting mainly higher interest payments. The public debt is still high at 71.3 percent of GDP. As for the unemployment rate, it remains elevated mainly because of lack of new employment opportunities. While the government is working with social partners to further improve wage flexibility and implement labor market reforms training focused on training and empowerment programs .It will take time for new jobs to be created and absorb the excess labor force. Timely aid-for-trade support from the international community could enable Mauritius to gain quick rebound from this situation.

Going forward, the authorities are committed to pursue the implementation of the economic program, same started with 2006/07 budget while further increasing the public awareness and adjusting the sequencing of measures with a view to achieving the objectives set, while maintaining the political support needed to implement the reforms.

A. International Environment

Mauritius's economy has suffered setbacks after two decades of remarkable growth. The loss of trade preferences in textiles in 2005, reform to the European Union's protocol for 2006-10, and higher international oil prices have worsened Mauritius's terms of trade. Low growth and high fiscal deficits have fueled growth in public debt and with slow adjustment in consumption behavior the current account deficit and external vulnerability have increased. The export performance of the textiles and clothing sector has declined by a third as a result of the ending of the Multi Fiber Agreement (MFA) quotas in 2005. A similar experience likely awaits sugar, as the EU implements a 36% price cut in 2006-09. Meanwhile, the run-up in oil prices from $24/bbl in 2002 to above $70/bbl in the first half of 2006 has added nearly 4% of GDP to the oil import bill. From 2003-05, the terms of trade deteriorated by nearly 15% equivalent to a massive 10% of GDP. Mauritius has also been affected by sluggish import demand from Europe which is the destination for 80% of its exports. While tourism and financial services have fared better, they have not been able to compensate the output growth decline in the more traditional sectors like sugar and textiles.

Trade Balance

After a drop in the FOB value of total exports in 2003, the situation has been improving, with 3.6% increase in 2004, followed by a rise of 15.1% in 2005 and 17.3% in 2006. Thus total exports moved up from RS 63.2 billion in 2005 to RS 74.2 billion in 2006. in dollar terms, exports increased by about 10% in 2006.

Domestic exports which made up 64.3% of total exports rose by 13.4% from RS 42.1 billion in 2005 to RS 47.7 billion in 2006. Re-exports, including Freeport activities grew by 25.7% from RS 17 billion in 2005 to RS 21.4 billion in 2006. Ship's stores and Bunkers rose by 23% from RS 4.1 billion in 2005 to RS 5.1 billion in 2006.

Imports have been growing at a faster rate than exports. In 2004, the CIF value of imports rose by 16% followed by 22.1% in 2005 and 23.9% in 2006. In dollar terms, imports rose by about 16%. Imports in the Freeport Zone grew by 17.7% from RS 12 billion in 2005 to RS 14.1 billion in 2006.

Table 6: Trade Balance Indicators (in Million of Rupees)

	2003	2004	2005	2006
Domestic Exports	42.1	43.7	42.1	47.7
Re-exports	8.8	9.0	17.0	21.4
Ships and Bunkers	2.0	2.2	4.1	5.1
Total Exports	**5.3**	**54.9**	**63.2**	**74.2**
Total Exports in US $	1.9	2.0	2.1	2.3
Total Imports (C.I.F)	**65.9**	**76.4**	**93.3**	**115.6***
Total Imports (C.I.F) in US $	2.3	2.7	3.1	3.6
Total Imports (F.O.B)	**61.4**	**70.9**	**86.7**	**108.6**
Balance of Trade in Merchandise	-12.9	-21.5	-30.1	-41.4*
Balance of Trade in Merchandise (including freight)	-8.4	-16	-23.6	-35.3*
Export in Services	**35.7**	**40.0**	**47.7**	**53.6**
Import in Services	25.3	28.1	35.3	41.0
Balance of Trade in Services	10.4	11.9	12.4	12.6
Overall Trade Balance (Goods &Services)	2.0	-4.2	-11.1	-22.7

*including Imports of aircraft with RS 6.7 billion.

Sources: 1 Mauritius Central Statistical Office 2.Mauritius Economic Review 2006

The increase in domestic exports between 2005 and 2006 was attributed mainly to growth in exports of the following items: "Articles of Apparel and Clothing accessories" (+RS 2.5 billion); Fish and fish preparations (+RS 1.9 billion), and "Cane sugar" (RS 629 m). Re-exports of "machinery and transport equipment" (+RS 2.7 billion) contributed mostly to the substantial growth in re-exports in 2006.

The rise in total imports comprised essentially the following items: "Aircraft (+RS 6.7 billion); "Mineral fuels" (+RS 3.5 billion); and "Fish and fish preparations" (+RS 2.5 billion). Moderate increases were noted in numerous sectors, the main ones being "Telecommunication and sound recording equipment" (+RS 941 m); "Textiles yarn" (RS 929 m); "Office machines" (+RS 823 m); "Other food items" (+RS 593 m) and "textiles fibres" (+RS 547 m).

The current account of the Balance of Payments deteriorated significantly to record a deficit of 7.4% of GDP in 2006, up from 5.2% of GDP in 2005. The deterioration was largely due to a worsening trade balance which was to some extent offset by the combined surpluses in services and current transfers. The worsening trade balance was caused by high imports driven by a higher import bill for oil products and a sharp increase in the imports of telecommunication equipments. In 2007, Air Mauritius company Limited plans to purchase two new aircrafts. This will lead to an increase in the import bill and will have an adverse impact on the trade balance which is projected to reach 16.2% of GDP. In contrast, the surpluses on the services account of the Balance of Payments is projected to increase at a sustained pace of 8.4% of GDP due mainly to higher surpluses on travel account.

The worsening trade deficit in 2006, which was partly blamed on high imports were also due to weak growth in export earnings. Export revenue could therefore improve significantly if Mauritius could take advantage of many opportunities it could derive from its membership in its regional bodies such as the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern

Africa (COMESA). COMESA has already established a Free Trade Area and is working towards the creation of a Customs Union which Mauritius is actively supporting.

Mauritius is negotiating the establishment of an Economic Partnership Agreement (EPA) with the EU, as a member of the Eastern and Southern Africa (ESA) group. Mauritius is also pursuing a policy of tariff liberalization in order to foster the "duty-free island" concept. Even though, Mauritius does not need to harmonize external tariffs within a future COMESA Common External Tariff (CET), the country could still become a member of both the SADC and COMESA Free Trade Areas giving support to the COMESA CET, while keeping a network of free-trade agreements with countries bordering the Indian Ocean (example India and Malaysia) as well as the EU. Mauritius can also increase its export earnings through continued benefit from the US African Growth and Opportunity Act (AGOA) which ensures the country's preferential access to the US market for certain product. Mauritius is therefore actively campaigning for further extension of AGOA. A Trade and Investment Framework was signed with the US in 2006.

Current Account Balance

With total CIF value of imports increasing by 23.9% (from RS 93.3 billion to RS 115.6 billion) and total FOB value of exports going up by only 17.3% from RS 63.2 billion to RS 74.2 billion, the deficit of "trade in merchandise" widened from RS 30.1 billion to RS 41.4 billion. Exclusive of aircraft, deficit of trade in merchandise worked out at RS 35.1 billion in 2006.

The ratio of export to import has been falling at a rapid pace from 93% in 2001 to only 64% in 2006. Exports of services grew by 12.3% from RS 47.7 billion in 2005 to RS 53.6 in 2007, while imports of services rose by 16% from RS 35.3 billion in 2005 to RS 41 billion in 2006. Thus the "Services Account" registered a surplus of RS 12.6 billion in 2006 compared to RS 12.4 billion in 2005. Consequently, the Overall Balance of Trade in goods and services deteriorated substantially from RS 11.1 billion in 2005 to RS 22.7 billion in 2006. However the year 2003 recorded a surplus of RS 2 billion in goods and services. On the "Income Account", a surplus of RS 1.5 billion is recorded for 2006 and another surplus of about RS 2 billion on "Current Transfers". The Current Account (goods and services, income and current transfers) would thus show a deficit of about RS 19.2 billion compared to a deficit of RS 9.6 m in 2005. A current account deficit was first recorded in 2004 when it represented 2.1% of GDP. It increased to 5.9% of GDP in 2005 and now it is 10.6%.

With such a deficit of the Current Account, the pressure on the external account would become unsustainable. In the short term, the capacity to increase exports in order to reduce that deficit is limited. It seems that for the coming years, a reduction in consumption and government spending will be inevitable. The deficit in fact indicates that the country is living well beyond its means and that some tough adjustments are needed. This would imply probably a lowering of the living standards of the population. If nothing is done to reverse the trend, it might be heading towards a Balance of Payment crisis. As it has already been noted by observers, this situation results from the abolition of the preferential conditions in international trade which the country has profitably utilized for a long time and the considerable delay and relative inability up to now to adapt and readjust effectively to a new economic order.

The overall Balance of Payments (BOP) in 2006 registered a deficit of RS 4.6 billion, compared to a deficit of RS 4.9 billion in 2005. The net international reserves made up of the foreign assets of the banking system, the foreign assets of the government and the country's reserve position in the IMF, increased by 30.5% from RS 56.5 billion in December 2005 to RS 74.2 billion in December 2006. The major component of the net international reserves, namely net foreign assets of the Bank of Mauritius grew by 7.3% from RS 41.1 billion in December 2005 to RS 44.1 billion in December 2006. In dollar terms, net foreign assets of the Bank of Mauritius grew by 0.7%. Net foreign assets of banks grew substantially by 101.3% from RS 14.7 billion in December 2005 to RS 29.5 billion in December 2006

Table 7: Mauritius: Selected Economic and Financial Indicators, 2004/05- 2007/08
(Annual % change, unless otherwise stated.)

	2004/05	2005/06	2006/07	2007/08 projection
External Sector				
Exports of goods, f.o.b (US dollars)	3.7	12.8	4.5	2.0
Imports of goods, f.o.b (US dollars)	17.3	14.9	10.7	0.9
Current account balance	-3.5	-5.3	-7.4	-4.9
Overall Balance of Payments	-1.7	-1.5	-1.9	-1.3
Net International Reserves, BOM (millions of US dollars)	1,442	1,377	1,243	1,143
Net International Reserves, BOM (months of imports of goods, c.i.f)	5.9	5.0	4.0	3.7

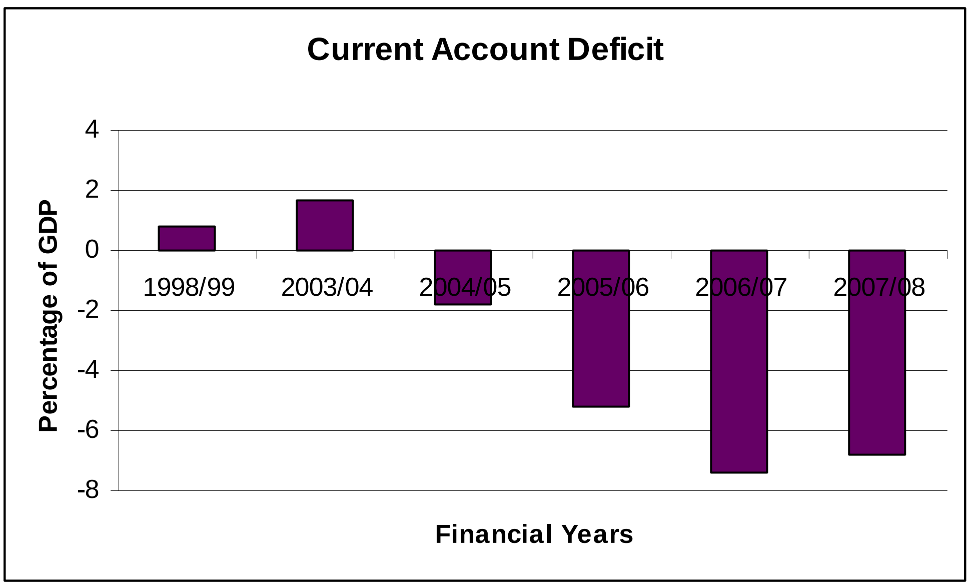
Source: Bank of Mauritius, Ministry of Finance, Central Statistical Office and IMF staff's estimate and projection.

Table 8: Current Account (Percentage of GDP)

	1998/99	2003/04	2004/05	2005/06	2006/07	2007/08 projection
Trade Balance	-5.6	-5.3	-9.1	-12.7	-16.3	-16.2
Export of goods, f.o.b	43.7	33.7	31.3	34.1	32.8	32.0
Import of goods, f.o.b	49.3	39.0	40.4	46.8	49.1	48.3
Services	4.8	6.6	6.7	6.7	7.9	8.4
Factor income	-0.6	-0.5	-0.2	-0.1	-0.1	-0.1
Current Transfers	2.3	0.9	0.8	1.0	1.1	1.1
Current Account Balance	0.8	1.7	-1.8	-5.2	-7.4	-6.8

Source: Central Statistical Office

Figure 1: Trend of Current Account Deficit in Mauritius



Source: Mauritius Central Statistical Office

Exchange rate and exchange system

The flexible exchange rate regime has served Mauritius well, with rupee depreciation softening the negative effect of the terms of trade decline .The authorities always try to limit foreign exchange intervention to smoothing excess volatility.

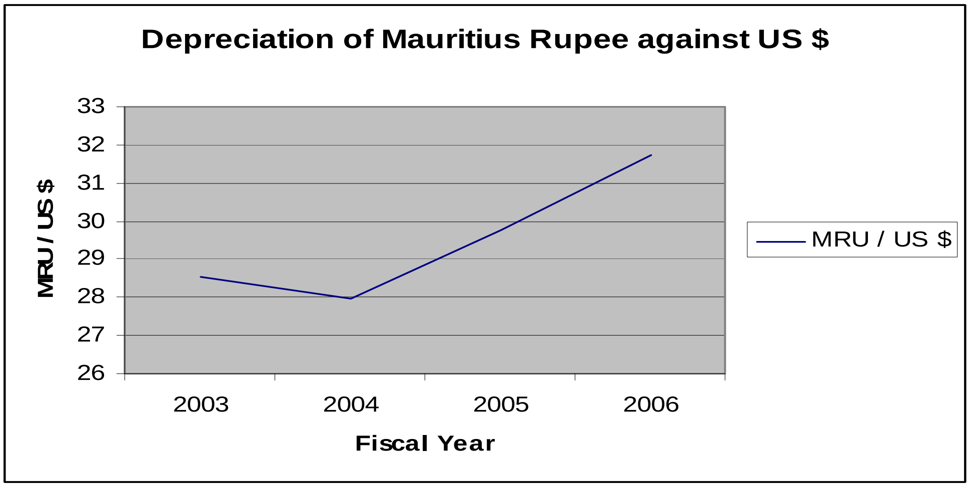
The decline in the terms of trade has lowered the equilibrium real effective exchange rate. The latter may be somewhat above its estimated long-run equilibrium value and further adjustment may be required if the additional expected terms of trade decline materializes. The Mauritian authorities are raising concerns about the pass-through of exchange rate depreciations on inflation and are suggesting that economic reforms can in time promote stronger capital inflows, causing the exchange rate to appreciate.

The Bank of Mauritius has continued to intervene in the inter-bank foreign exchange market and has gradually raised its signaling rate to control inflation. Foreign reserve has continued to decline but have stayed at a comfortable level. The real effective exchange rate has depreciated by over 10% since 2004. Inflation after peaking in December 2006, largely because of onetime budgetary measures fell to 9.2% in February 2007 (year-on-year). From 2004 to 2006, on the average, Mauritian rupee has depreciated by 11.9% against the dollar.

Table 9: Trends of Exchange Rate

Fiscal year	Currency	2003	2004	2005	2006
Exchange Rate (average for 12 months)	US $ to RS	28.55	27.96	29.75	31.72

Figure 2: Depreciation of Rupee against Dollar



Source: Bank of Mauritius

The exchange rate is market-determined, but the market is dominated by a small number of institutions. The Central Bank occasionally intervenes to stabilize the market. There is convertibility on both capital and current accounts. Settlement can be done in foreign currency and the foreign currency accounts can be opened in Mauritius. There is no parallel market in Mauritius for investment opportunities. The Government of Mauritius abolished foreign exchange controls in 1994. Consequently no approval is required for the repatriation of profits, dividends and capital earned by a foreign investor in Mauritius. In general, businesses have no difficulty in obtaining foreign exchange. However, the domestic foreign exchange market has remained tight during 2006 mainly due to expanding current account and government deficit as well as the shortfall in sugar export proceeds as a result of the announced sugar export price reduction by the European Union. Exporters have been holding on to their export proceeds, thereby causing a gap between supply and demand for foreign exchange.

Foreign Direct Investment (FDI)

The year 2006 was an exceptional year for Mauritius in terms of FDI, which rose substantially by 128.4% from RS 2.8 billion in 2005 to RS 6.4 billion in 2006. FDI as a % of total investment grew from 7.1% in 2005 to 13.1% in 2006. Out of the RS 6.4 billion, RS 2.7 billion were directed towards the banking sector (mostly global businesses) and RS 2.6 billion towards the tourism sector (mostly Integrated Resort Schemes Projects). These two items together made up 83% of total FDI .Country wise United Kingdom and Switzerland contributed for most of FDI inflows which were essentially meant for investment in the banking sector and to the Integrated Resort Scheme.

Direct Investment abroad fell by 41.6% from RS 1.9 billion in 2005 to RS 1.1 billion in 2006.

Table 10: Foreign Direct Investment by sector (in USD million)

	2003	2004	2005	2006
Export Processing Zone (EPZ)	2.7	8.7	3.6	2.4
Tourism	3.4	4.2	18.2	72.0
Banking	46	10.9	15.4	12.8
Telecommunication	0	1.3	5.9	0.3
Other	16.8	37.8	52.0	21.0
Total	68.9	62.9	95.1	108.5

Source: Board of Investment, 2007 investment climate statement; Bank of Mauritius.

There are other sources of FDI, especially from France, India, China and South Africa in Mauritius. FDI from the United States is negligible with the exception of 2004, when it was the single most important source of FDI as a result of the purchase of equity by U.S firm, Covance Laboratories Limited in a local monkey-breeding company.

There is one U.S investor in the Mauritius Export Processing Zone. Mauriden Limited, owned by a U.S investor, was one of the first companies to operate in the EPZ more than 30 years ago. It is involved in diamond cutting and polishing as well jewelry. Now there are 3 U.S companies (Expeditors international; Boxmore and Casamar) operating in the Freeport zone.

MIC-USA Inc., a subsidiary of Millicom International Cellular, is a joint venture partner (50% shareholding) with local company Emtel Limited in the provision of cellular phone service in Mauritius. Ceridian (Mauritius) Limited, a subsidiary of Ceridian Inc, started operations in Mauritius in 2000 and specializes in software development and payroll and human resource solution for European, U.S and Canadian market. Other U.S businesses operating in the domestic Mauritian market include Caltex which is a wholly-owned subsidiary of U.S Texaco Corporation. Microsoft, IBM and Oracle have regional distributional offices in Mauritius, serving the Indian Ocean region. KFC, Pizza Hut, McDonald's and Toys-R-Us have been operating in Mauritius for a number of years, all through local franchisees. UPS and FedEX also have offices in the island.

More recent U.S investments in Mauritius include Teleforma Inc, which is engaged in Business Process Outsourcing activities, focusing on customer relations management for the U.S clients. Covance Laboratories limited, a subsidiary of Covance Inc holds 43% of the share capital of Noveprim Limited, a local company involved in the breeding of monkeys for exports to U.S and European medical research laboratories. In 2006, Covanta Energy established a joint venture with local company Gamma civic Limited to build and operate a USD 160 million waste-to-energy project in Mauritius. The 20 MW power plant is expected to utilize 300,000 metric tons of solid waste annually. Plans for the project are still underway.

Several French and British companies in joint ventures with Mauritian partners have invested in the Information and Communication Technology (ICT) sector in Mauritius as a result of the government's determination at the beginning of this decade to develop Mauritius into a cyber-island. Other leading international companies, including Accenture, Infosys (India), Hinduja (India) and Huawei (China) have started BPO activities, call centers, disaster recovery and business continuity centers and software development.

Significant investment has been made by Indian companies in the past couple of years. Indian Oil Limited invested USD 18 million in fuel storage terminals and retail distribution outlets. Universal Breweries Limited opened a beer factory with a total investment of USD 9 million. Mahanagar Telephone Mauritius Limited (MTML) started international long distance telephone services as well as fixed phone services in competition with the local utility (Mauritius Telecom) in early 2006. The State Bank of India acquired 51% equity in a local domestic bank for the sum of USD 8 million. In mid 2006, Sagar Hotels and Resorts started the construction of 250-rooms hotel, estimated at USD 47 million.

More recently, Indian companies have expressed interest in investing in ethanol production, wind energy production and healthcare. Apollo, an Indian firm focused on high-tech hospitals, has already signed a joint venture agreement with a local partner to build a USD 30 million 200-bed hospital in Mauritius.

The Shanxi Tianli Enterprise Group, a Chinese firm is already operating a spinning plant in Mauritius, is planning to invest USD 100 million in infrastructure works for the establishment of a Trade and Economic Zone near the Mauritius Port. The total cost of the Trade and Economic Zone project, supported by the Chinese government is estimated at about USD 320 million and is expected to attract Chinese investors in a wide range of sectors, including textile and apparel, light engineering, manufacturing, fish processing and high-tech operations. The Chinese government is encouraging businessman to invest and operate in the zone to tap the regional markets of COMESA and SADC.

Following the late 2006 investment promotion missions in Europe, Asia and South Africa, the Minister of Finance announced potential investment by British, Malaysian, South African and Danish companies in property development (through the Integrated Resort scheme), sea-food, information and technology and banking.

Investment opportunities in Mauritius are available in sectors like ethanol production, spinning, ICT, tourism, seafood and aqua-culture, land-based oceanic industry (exploiting deep-sea cold water for various applications), hospitality and real-estate development (including hotels and integrated resort and luxury villas), energy, education and training and healthcare.

Borrowing from Abroad

The country's external public debt fell from RS 9.23321 billion at the end of June 2005 to RS 8.648.4 billion at the end of June 2006. This was due to a decline in both foreign loans and foreign investment in treasury bills.

Table 11: Selected Indicators for Borrowings from abroad

(in Million Rupees)	FY 2004	FY 2005	FY 2006
Foreign Loans	8320.4	8882.0	8641.5
Foreign investment in Bills	124.5	350.1	6.9
Outstanding External Public debt balance.	8444.9	9232.1	8648.4

Source: CSO, Ministry of Finance (Accountant General's Division)

Table 12: Selected Indicators of Foreign Borrowing

(in % of GDP at Market Prices)	FY 2004	FY 2005	FY 2006
External debt of Central government	5.1	4.4	5.0
Total external debt	14.5	14.5	14.4
Change in external debt	-3.8	-0.9	0.0
External debt-to-export ratio (%)	27.3	24.8	23.7

Source: IMF, CSO and Ministry of Finance

Table 13: Foreign Debt Charges during the Fiscal years

(in Million Rupees)	FY 2004	FY 2005	FY 2006
Amortization :External	882	930	1320
Interest :External	218	228	281
External Debt Servicing	1100	1158	281

Source: IMF, Ministry of Finance and Bank of Mauritius.

Table 14 : External Loan Repayment

(in Million Rupees)	FY 2004	FY 2005	FY 2006
Interest	216	269	298
Capital repayment	929.9	1319.9	948

Source: Ministry of Finance and Economic Development.

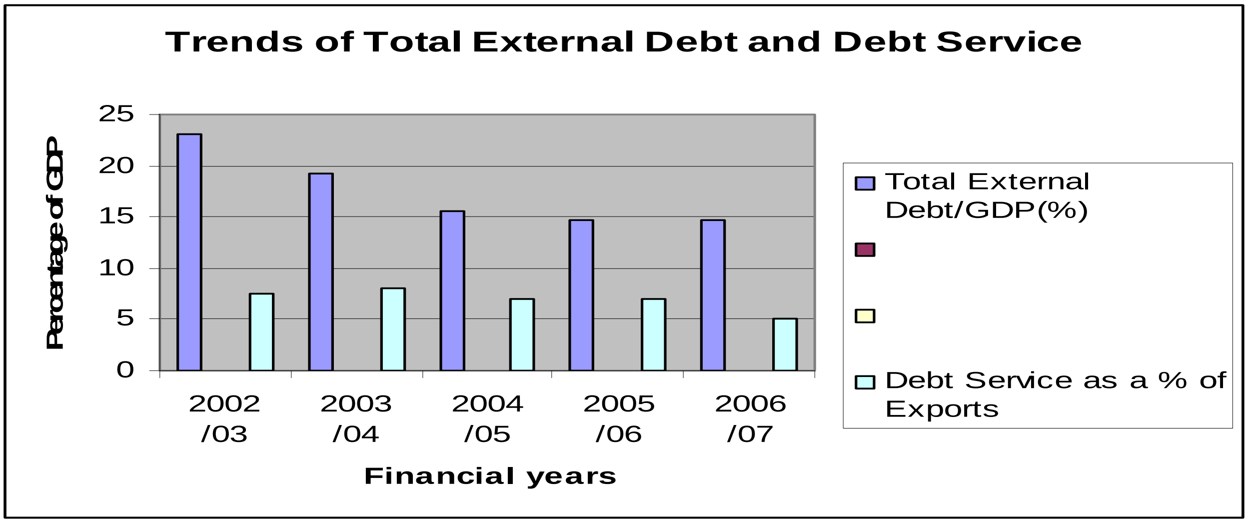
Interest payment rose by RS 82 million on external loans from RS 216 million in FY 2004 to RS 298 million in FY 2006.

Table 15: Stock of Total External Debt and Debt Service

	2002/03	2003/04	2004/05	2005/06	2006/07
Stock of External Debt as a % of GDP	23.1	19.2	15.5	14.6	14.7
Debt Service as a % of exports of goods and services	7.6	8.01	7.00	6.98	5.03

Source: Mauritius Central Statistical Office

Figure 3: Trend of External Debt and Debt Service



Source: Mauritius Central Statistical Office.

Due to the decline of the total external debt, the debt-service ratio (defined as principal repayments and interest payments on external debt as a % of exports of goods and non-factor services) decreased from 6.5% in FY 2005 to 5.03% in FY 2006.

B. Domestic Environment

Economic Growth rate

After a low growth rate of 2.3% in FY 2005, GDP at constant basic prices grew by 4.7% in FY 2006, nearly reaching the FY 2004 growth rate of 4.8%. While some sectors which performed well in FY 2005 did better, others recovered from adverse events and the results for the rest were quite modest. GDP at current basic prices rose by 11.4% from RS 162.2 billion in FY 2005 to RS 180.6 billion in FY 2006. With a positive net primary income from the rest of the world of RS 3.4 billion , Gross National Income (GNI) at basic prices reached RS 184 billion in FY 2006 compared to RS 161.9 billion in FY 2005. (As from FY 2006, interest incomes of Commercial Banks are accounted for in the calculation of net primary income)

GDP Per Capita at current market prices grew by around 10% from RS 149,000 in FY 2005 to RS 163,900 in FY 2006. In dollar terms, after a decline to US $ 5,010 in FY 2005, GDP Per Capita rose by 3.1% to US $ 5,167 in FY 2006. It is to be noted that from FY 2004 to FY 2006, on average, the Mauritian rupee has depreciated by 11.9% against the dollar.

Table 16: GDP at Current Market Price and GDP Per Capita

		FY 2003	FY 2004	FY 2005	FY 2006
GDP Growth rate	%	+4.4	+4.8	+2.3	+4.7
GDP at current market price	RS billion	137.6	152.4	162.2	180.6
GDP Per Capita	RS 000	128.7	142.3	149.1	163.9
GDP Per Capita	US $	4,507	5,089	5,010	5,167
Exchange Rate (average for 12 months)	US $ to Rupees	28.55	27.96	29.75	31.72

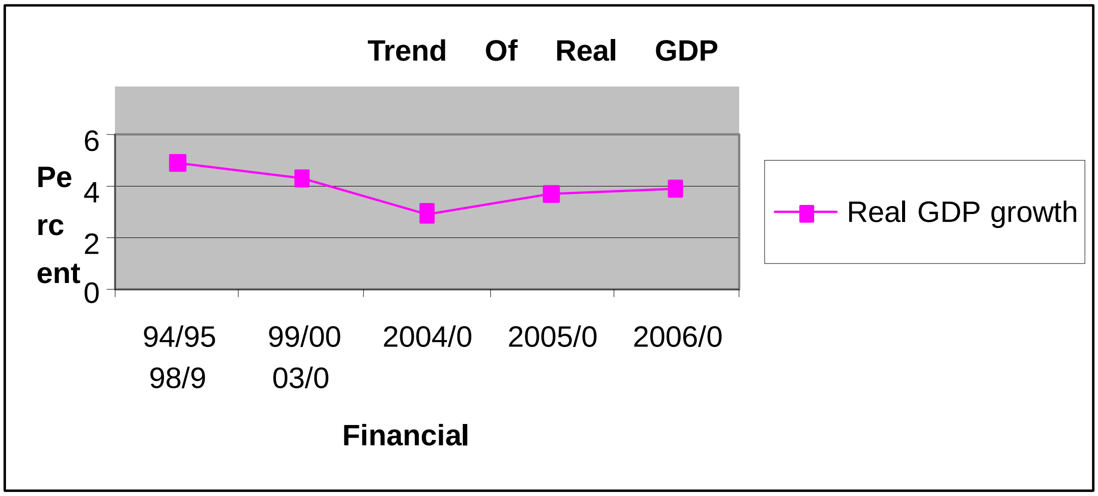
Sources: 1. Mauritius Central Statistical Office (CSO), 2. Bank of Mauritius (BOM)

Table 17: Mauritius Selected Economic Indicators, 1994/95-2005/06

FY	94/95-98/99	99/00-03/04	2004/05	2005/06
Real GDP growth (%) of which:	5.0	4.3	3.0	3.7
* Contribution by Export Processing Zone (EPZ)	1.4	0.1	-1.2	-0.3
*Contribution by sugar	0.4	0.0	0.1	-0.2
*Contribution by services	3.7	2.6	3.6	4.2

Sources: CSO, BOM and IMF staff estimates (June 2007)

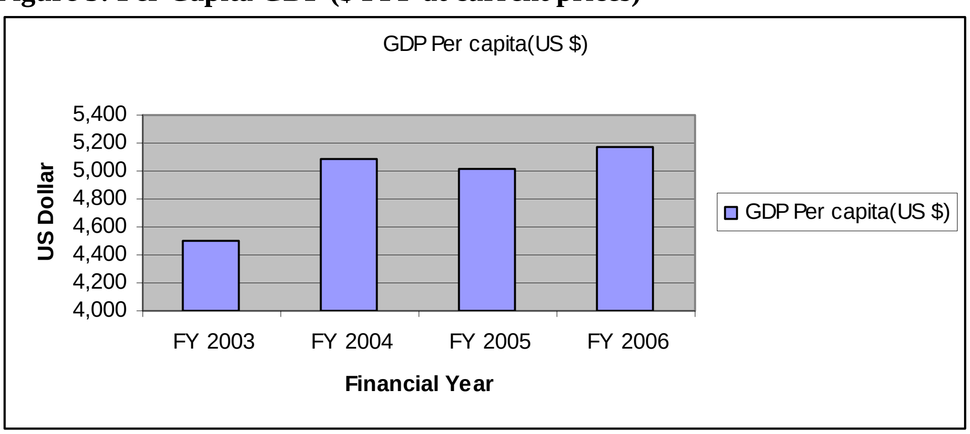
Figure4: Trend of Real GDP Growth



Source: CSO, BOM and IMF staff estimates (June 2007)

In FY 2006/07, the Mauritian economy exhibited real GDP growth of 3.9% considerably better than 0.2% registered in FY 2005/06 (example 2005/06, see table… above). The main contributors to growth were the industry groups involved in transport, storage and communications, financial intermediation, wholesale and retail trade and real estate, renting and business services. Furthermore, the EPZ sector witnessed positive growth led primarily by recovery in textile sub-sector. After a contraction of 5.2% in FY 2005/06, the construction industry recovered in FY 2006/07, growing by 5% by virtue of the construction of new hotels and the implementation of projects under the Integrated Resort Schemes (IRS). The real GDP growth of more than 4 percent in FY 2006/07 is supported by strong growth in the service sector. In the medium term, high public debt would crowd-out private investment, pulling average real GDP growth back to 3.5-4 percent.

Figure 5: Per Capita GDP ($ PPP at current prices)



Source: Central Statistical Office

Table 18: The GDP Growth rate by Industry group in FY 2006 compared to FY 2005

	FY 2005	FY 2006
Financial Intermediation Sector	+5.3%	+7.4%
Health and Social work	+6.1%	+7.9%
Electricity, gas and water supply	+3.8%	+4.6%
Manufacturing sector	-5.5%	+2.7%
Construction	-5.2%	+5.2%
Wholesale and Retail trade	+5.6%	+5.1%
Transport, storage and Communication	+7.6%	+7.1%
Real Estate, renting and business activities	+6.5%	+6.2%
Public Administration	+5.3%	+4.0%
Hotels and Restaurants	+5.6%	+3.7%
Education	+6.1%	+2.7%
Agricultural Sector	-5.4%	-0.1%

Sources: Mauritius Central Statistical office and Mauritius Economic Review 2006.

The Mauritius "Financial intermediation sector" experienced substantial growth in FY 2006. There were recovery of two key sectors that is "manufacturing and construction" in the same financial year. The other sectors experienced moderate growth whilst a small contraction in the "agricultural sector" of -0.1% in FY 2006 compared to -5.4% in FY 2005

Inflation

Inflation, which is measured by the percentage of increase in the yearly average Consumer Price Index (CPI) rose substantially from 4.9% in 2005 to 8.9% in 2006. Such hike in inflation was last noted in 1993 when inflation moved up to 10.5%.

Table 19: Inflation Indicators

Calendar Year	Inflation Rate	CPI ,yearly average	CPI, (December)
2003	3.9	107	108.9
2004	4.7	112.1	115
2005	4.9	117.6	119.5
2006	8.9	128.1	133.7

Source: Mauritius Central Statistical Office

The high level of inflation in 2006 was mainly attributed to the rise in energy prices through the "Automatic Pricing Mechanism" (APM), and the hikes in the prices of products having a high wastage in the consumption basket, as a result of the 2006/07 budgetary pressures.

Overall the percentage increase in CPI between December 2005 and December 2006 was +11.9% from 119.5 to 133.7. The most significant rises in the CPI basket of goods and services were "Restaurants and Hotels" (+20.2%) as a result of higher charges for food and drink; "Alcoholic beverages and Tobacco" (+18%) reflecting increases in excise duties on these commodities; "Transport" (+15.4%) due to price increases of gasoline, diesel oil and taxi fare"; "Food and Non-alcoholic beverages" (13.7%) following hikes in the price of milk, rice, flour and bread ,pastry and snacks, vegetables affected by cyclone 'Diwa'; "Housing and water, electricity, gas and other fuels" (+10.4%) due to increases in price of cooking gas and kerosene. Other commodities such as "Fish, jewelry products and ready-made garments and postal services" were also subject to price increases

Finally, though the inflation rate (as measured by the CPI) remains within the monetary authority's target, a combination of domestic and external factors have been exerting pressure on price levels. Having fallen from a level of 6.4% in 2002 to 3.9% in 2003, the inflation rate increased to 4.7% and 4.9% in 2004 and 2005 respectively. The rise in inflation levels in 2004 was due mainly to domestic factors particularly the significant increase in the price of subsidized flour with its consequence on the price of bread while the rise in inflation levels in 2005 was due mainly to external factors, in particular, the rise in international oil prices which had "spill-over effects" on the domestic economy. However, having reached an estimated 8.9% in 2006, average inflation is expected to decline to about 6% in 2007 and is projected to remain at a low level (4%) in the medium term, partly due to prudent monetary policy and as the steep rises in food and fuel prices seen in 2006 drop out of the calculation.

Consumption

The general perception that the purchasing power had fallen significantly in 2006 supported the idea that consumption was abating, which would have been in fact a good thing from a macro-economic perspective. However consumption maintained its strong momentum of the past as Mauritian continued to satisfy their needs at the expense of savings. The reduction in direct taxes and import duties had certainly contributed to fuel this consumption growth. In nominal terms, final consumption expenditure rose by 14.5% which is significantly higher than the 11.4% increase of GDP, indicating that the disequilibrium which we have been facing will be further exacerbated with its inevitable adverse impact on savings, inflation and trade deficit.

This development has certainly had a positive impact on the local production of goods and services, as witnessed by higher growth rates. It may be noted that in real terms, the growth of final consumption expenditure in 2006 was lower than that of 2005. This can perhaps signal further adjustment for 2007 as the purchasing power of the Mauritian rupee tends to decline. Consumption as a % of GDP at market prices continued its upward trend from 84.4% in 2005 to 87.2% in 2006. In 2003, the ratio was only 75.3%. Figures confirmed that private consumption was the main factor for growth as household expenditure went up by 16.2%, while the increase in general government was only 6.4%

Table 20: Selected Indicators for Consumption

		FY 2003	FY 2004	FY 2005	FY 2006
Aggregate Final Consumption.	RS billion	118.5	136.9	156.4	179.0
- Households	RS billion	96.2	111.8	129.0	149.9
- Central Government	RS billion	22.3	25.0	27.4	29.1
Consumption as a % of GDP at market prices	%	75.3	78.0	84.4	87.2
Real Final Consumption Growth	%	+4.7	+7.2	+7.1	+5.4
- Households	%	+5.1	+7.8	+7.3	+5.9
- Central Government	%	+3.0	+4.6	+6.1	+3.0

Sources: Mauritius Economic Review 2006 and Ministry of Finance.

It is interesting to see how the household consumption (HC) has evolved in relation to “Gross National disposable income”, (GNDI). From 2001 to 2003, the ratio of HC/ GNDI was about 61%. In 2004, it increased to 63.3%. Then there was a big jump to 69% in 2005 and to 72.1% in 2006.

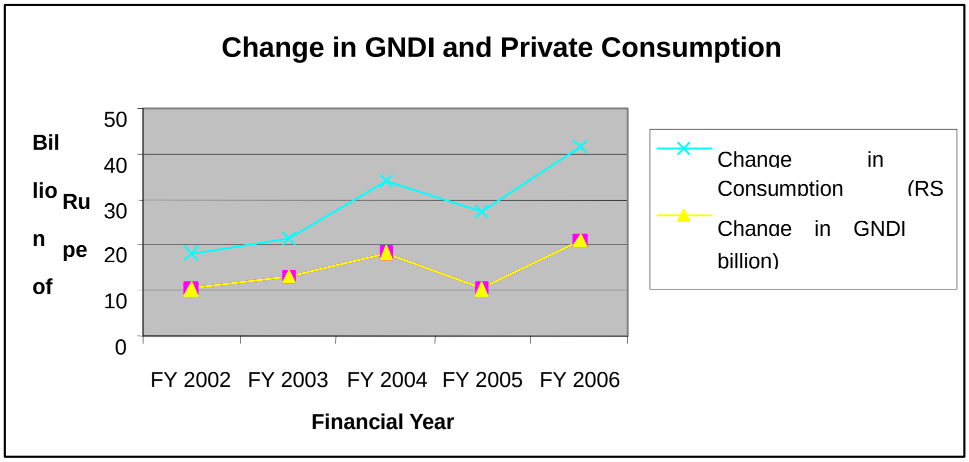
What is more striking is the increase in current rupees of GNDI compared to the increase of HC. Up to 2004, the increase of GNDI was higher than that of HC. There was a sudden reversal in 2005, the increase of HC exceeding that of GNDI by RS 6.8 billion and in 2006, they were at par. The critical drift in the utilization of the national income is not an exaggeration, especially in regards to its impact on our external account and inflation. There is clearly a need for adjustment.

Table 21: Selected Indicators for Private Consumption and GNDI

		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Change in GNDI	RS billion	10.4	13.2	18.5	10.4	20.9
Change in Private Consumption	RS billion	7.9	8.2	15.6	17.2	20.9
Private Consumption / GNDI	%	60.1	60.9	63.3	69	72.1

Sources: Mauritius Economic Review 2006 and Ministry of Finance.

Figure 6: Change in GNDI and Private Consumption



Source: Mauritius Central Statistical Office

Investment (GDFCF) and savings

Investment at current prices rose by 24% from RS 39.5 billion in 2005 to RS 49 billion in 2006. In real terms, investment level grew by +17.7% (+4.1% if aircraft is excluded) in 2006 compared to -2.4% in 2005. Investment rate (GDFCF as a % of GDP at market prices) which declined from 22.6% in 2003 to 21.3% in 2005, rose to 23.9% in 2006, the highest rate since 1999. Investment in building and construction work which made up more than 50% of total investment rose by 11.2% in nominal terms from RS 23.3 billion in 2005 to RS 25.9 billion in 2006. Investment in machinery and equipment was increased substantially by 42.4% from RS 16.3 billion in 2005 to RS 23.1 billion in 2006. In real terms, investment in building and construction work grew by 4.4% in 2006 compared to -6.2% in 2005 and machinery and equipment by +36.8% in 2006 compared to +3.4% in 2005.

Industry-wise, a substantial increase in the real growth rate of investment was noted in “transport, storage and communication” from +5.6% in 2006 to +130.8% in 2006, due to the purchase of an aircraft. Investment in the following sectors recovered from declines in 2005; “restaurants and hotels” from -24.6% in 2005 to +47.0% in 2006; “construction” from -10.6% in 2005 to +30.6% in 2006 and “real-estate, renting and business activities” from -11.5% in 2005 to +2.8% in 2006.

Investment growth rates in the following sectors were lower in 2006 compared to 2005: “financial intermediation” from +32.6% in 2005 to +10.3% in 2006 and “agriculture” from +42.9% to +7.1%. Important contractions were noted in the “manufacturing sector” from -1.7% to -13.4%; “wholesale and retail trade” from +3.6% to -0.2%; “education” from +6.1% to -37.0%.

Finally it is also noted in 2006, investment in the private sector grew by +10.8%, while public sector investment contracted by -11.7% (excluding the purchase of the aircraft).

Savings

Saving reflect the surplus of income over consumption. The Mauritius Central Statistical Office indicated that after a severe reduction of 23% from RS 39.6 billion in 2004 to RS 30.5 billion in 2005, the Gross National savings (GNS) picked up by 5.3% to attain RS 32.1 billion in 2006. However, it is noted that ‘interest income of commercial banks’ has been included in the computation of Gross National Income (GNI) sine 2006. Otherwise GNS would have been about RS 28.8 billion, indicating further deterioration. Savings rate (GNS to GDP at market prices) continued to fall from 22.6% in 2004 to 16.5% in 2005 and further down to 15.7% in 2006 (14% if interest income of banks is excluded).

Table 22: Selected Economic Indicators for GNS, GDP, GDFCF and Resource Gap.

		FY 2003	FY 2004	FY 2005	FY 2006
Gross National Savings (GNS)	RS billion	39.6	39.6	30.5	32.1
GNS / GDP	%	25.1	22.6	16.5	15.7
Investment (including aircraft And marine vessels)	RS billion	35.6	38	39.5	49
Private Sector	RS billion	21.7	26.3	27.8	32.5
Public Sector	RS billion	13.9	11.7	11.8	16.5
GDFCF/ GDP	%	22.6	21.6	21.3	23.9
Resource Gap	RS billion	4	6	-9	16.9

Sources: Mauritius Economic Review 2006 and Ministry of Finance.

Owing to the depletion of savings, the "resource gap (savings minus investment)" further deteriorated from –RS 9 billion in 2005 to –RS 16.9 billion in 2006. This contributed to deepen the deficit of the balance of goods and services from -RS 11.1 billion to -22.7 billion

Stock Market

In 1989, Mauritius set up its own stock exchange under the Stock Exchange Act 1988. The Exchange is regulated by the Financial Services Commission. There is an Official list with about 40 listings and an "Over the Counter Market" with about 80 traded companies. As of April 2005, there were 40 companies listed on the "Official Market" representing a "Market Capitalization" of more than US $ 2.5 billions. According to the Stock Exchange's Annual Report for 2005-06, it was a year of solid performance by the stock market which saw all three-market indices SEMDEX, SEMTRI and SEM-7 broke all- time highs more than once during the year in a market environment, characterized, however by distinct evolutionary phases.

Table 23: Market Indices indicators

	01-July-2005	30-June-2006	Change (%)
SEMDEX	723.53	841.39	16.29%
SEM-7	153.69	184.63	20.13%
SEMTRI (in Rupees)	1706.12	2081.23	21.99%
SEMTRI (in US $ terms)	905.05	1054.84	16.55%
Market Capitalization	68,236,854,548	83,856,444,292	22.89%

Source: Annual Report 2005/06 of Mauritius Stock Exchange.

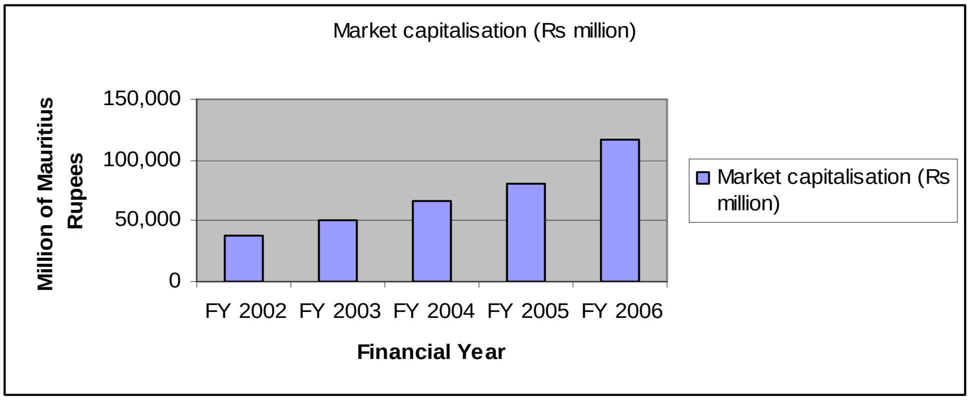
Market Capitalization grew by 22.89% during the year and reached RS 83.9 billion at the end of June 2006, representing 41% of GDP. Total Value traded increased by 42.4% on its previous year's level and attained RS 4.57 billion.

Table 24: Investment Trends at the Stock Exchange of Mauritius.

		2002	2003	2004	2005	2006
Listed Issues	No. of Listed Companies (equities, end of period)	40	39	40	41	41
	No. of Listed Companies (equities + debentures)	43	41	41	42	41
	No. of Listed Securities (equities+ B.O.M bills + Deb.+ mutual funds)	53	50	52	52	51
Market Capitalization	In Rupees (billion)	38.6	51.2	67.0	80.0	116.9
	In US $ (billion)	1.3	1.9	2.4	2.6	3.5
	Change in Market Capitalization (%)	20.20	32.58	30.85	19.40	46.16
Annual Turnover (US $, in million)		59.0	113.9	100.7	150.3	181.4
	Change in Turnover (%)	47.69	73.53	-5.69	51.33	31.76
	Annual Traded Volume (in Million)	145.4	169.0	146.3	271.5	221.4
	% Change in Traded Volume	4.61	15.54	-12.93	85.55	-18.49
	Average T. over (session, $)	238,029	452,309	396,659	603,801	722,564

Source: Stock Exchange of Mauritius (SEM), Years is Calendar Year.

Figure 7: Evolution of Market capitalization



Source: The Stock Exchange of Mauritius

Table 25: Activity Indicators

Activity Analysis		2002	2003	2004	2005	2006
Volume	Domestic Activity (%)	49.36	90.86	85.64	85.35	86.40
	Foreign Activity (%)	50.64	91.40	14.36	14.65	13.60
Turnover	Domestic Activity (%)	62.07	87.93	82.31	79.74	80.90
	Foreign Activity (%)	37.93	12.07	17.69	20.26	19.10

Source: The Stock Exchange of Mauritius.

The Stock Exchange of Mauritius (SEM) was recently promoted from the status of 'corresponding exchange" to that of "Affiliated Securities Market" with the "Federation International des Bourses de Valeurs (FIBV). Mauritius is also a member of the African Stock Exchanges Association (ASEA).

The SEM joined the World Federation of Exchanges (WFE) in November 2005. Membership of the WFE will very much assist the Exchange in attracting foreign investors and indeed the SEMTRI index gained 32 points in January 2006, to close at a record high of 1,984 at the end of January. Capitalization of the exchange reached RS 81 billion representing 43.3% of GNP, with RS 22 million arriving in the first 2 weeks of January alone.

Money Supply

In FY 2006, the Bank of Mauritius (central bank) continued with dynamic growth, followed by imperative monetary stance. There has been important growth in private sector credits, targeted growth of GDP and imports growth duly supported by expansionary monetary policy. However cautious and firmed restrained monetary policy has been pursued from FY 2004, through enforcement of 'Mauritius Banking Act 2004' to combat inflation and maintain price stability in most of the components of money supply. Various instruments like the repo, reverse-repo, higher rate of treasury bills are used to keep credit supply within a reasonable limit.

Table 26: Mauritius Monetary Survey 2004-2007 (money supply)

Particulars (in Million of Rupees)	June 2004	June 2005	June 2006	June 2007 Projection
Broad Money (M2)	141,094	159,625	177,527	196,147
Money (M1)	21,317	22,240	25,069	27,463
Quasi-Money	119,777	137,385	152,458	168,684
Money market instruments	3,837	0	0	0
Other items (net)	33,334	39,299	48,870	58,203
Net foreign assets	50,013	52,952	61,435	65,578
Domestic credit	128,253	145,973	164,961	188,772

Source: Bank of Mauritius and IMF staff estimates June 2007.

Table 27: Annual Percent Change

	June 2004	June 2005	June 2006	June 2007 Projection
Broad Money (M2)	12.7	13.1	11.2	10.5
Money (M1)	22.3	4.3	12.7	9.5
Quasi Money	11.2	14.7	11.0	10.6
Net foreign assets	1.4	2.1	5.3	2.3
Domestic credit	16.8	12.6	11.9	13.4

Source: Bank of Mauritius and IMF staff estimates June 2007.

Broad money supply M2 went up by RS 17,902 million from RS 159,625 million at the end of June 2005 to RS 177,527 million at the end of June 2006 or 11.2%, compared to an increase of 8.5% in 2004-05. Both components of M2, namely narrow money supply M1 and quasi-money contributed positively to its increase. Narrow money supply M1 grew by RS 2,829 million from RS 22,240 million of June 2005 to RS 25,069 million at the end of June 2006 or 12.7% compared to an increase of 6.2% registered in 2004-05 . Quasi-money, the other component of money supply M2 expanded by RS 15,073 from RS 137,385 million at the end of June 2005 to RS 152,458 million at the end of June 2006 or 11% higher than the increase of 8.9% registered in 2004-05.

Table 28: Medium Term Macro-economic Projections (money supply as % of GDP)

Fiscal Year ending June	2007	2008	2009	2010
Money supply-M2	88.6	86.9	86.8	87.2

Sources: Central Statistical Office and Ministry of Finance.

The Bank of Mauritius uses the Lombard Rate to signal its monetary policy stance. The Lombard Rate is the rate payable for the use of the Lombard facility, through which banks can avail of overnight collateral advances. Changes in the Lombard Rate are reflected in other interest rates in the economy.

During the course of fiscal year 2005-06, the Lombard Rate was hiked twice by a total of 150 basis points. On 05th August 2005, the Lombard Rate was increased by 50 basis points from 10% to 10.5% per annum and on 07th December 2005, it was again raised by 100 basis points t0 11.5% per annum. Moreover, in 2004-05, the Lombard Rate was increased by 70 basis points. On all the occasions, the increase was aimed at taking emptive measures to dampen inflationary pressures in the economy and enhance the attractiveness of rupee-denominated financial assets. The hikes were also expected to help improve savings and to avoid unnecessary pressures on the rupee on account of a deterioration in the current account and overall balance of payment.

By the end of December 2006, the Bank of Mauritius introduced a new framework for the conduct of monetary policy. The Central Bank introduced the Repo Rate in replacement of the Lombard Rate as the key policy rate to signal changes in its monetary policy stance. The Repo Rate was set at 8.5% per annum. A new standing facility was also introduced carrying at 400 basis points above the Repo Rate.

Table 29: Employment

		FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Labor Force	‘000’	512.5	514.5	522.7	532.1	542.5	549.2
Employment (Mauritian)	‘000’	477.1	476.8	482.2	487	490.4	499.1
Unemployment	‘000’	35.4	37.4	40.5	45.1	52.1	50.1
Unemployment Rate	%	6.9	7.3	7.7	8.5	9.6	9.1

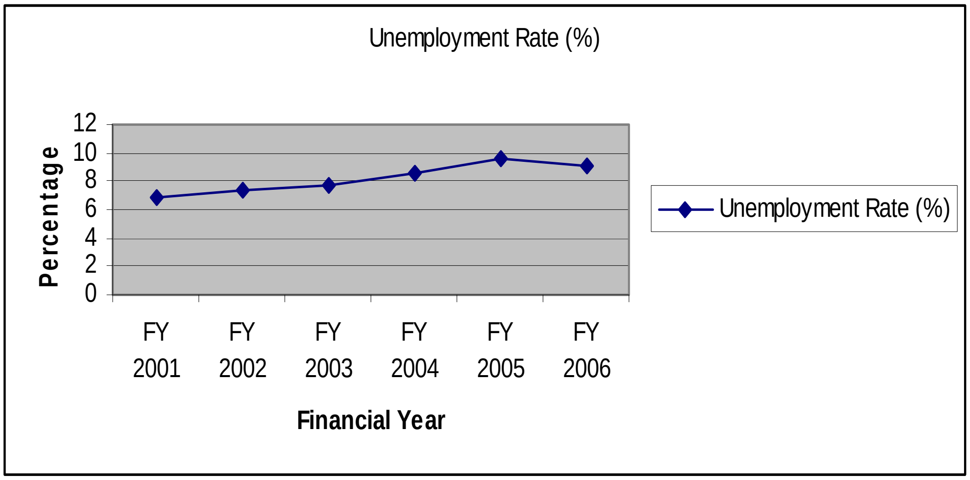
Sources: Mauritius Statistical Office and Economic Review 2006.

Based on the continuous Multi-Purpose Household Survey (CMPHS)’, the Mauritian labor force rose by 6700 (+1.2%) from 542,000 in FY 2005 to 549,200 in FY 2006.This appears to be a billion normally low compared to the increases of about 10,000 in FY 2004 and FY 2005. Total employment (excluding foreign workers) apparently rose by 8,800 (+1.7%) from 490,000 in FY 2005 to 499,100 in FY 2006, mostly due to the rise in female employment of 5,300 (+3.3%) from 161,300 to 166,600. Consequently,

the CMPHS indicated a fall in the unemployment rate from 9.6% in FY 2005 to 9.1% in FY 2006. However, if the increase in labor force in 2006 was according to past trends, then using the same employment data of the
CMPHS, unemployment would be higher than 9.1%.

During the 4th quarter of FY 2006, the tertiary sector which covers trade, hotels and restaurants, transport and all other service industries catered for 57.9% of the working population, 0.8% higher than in the 4th quarter of FY 2005. It was found by the secondary sector which comprises the manufacturing, electricity, water and construction sectors and which employed 32.6% of the working population compared to 32.4% in the quarter of FY 2005. The primary sector on the other hand provided jobs to around 9.5% of the working population in the 4th quarter of FY 2006, 1% lower than in 4th quarter of FY 2005.

Figure 8: Unemployment Rate



Source: Mauritius Central Statistical Office.

The main characteristics of the unemployed at the first quarter of 2007 were; the 51,500 unemployed comprised 21,200 males (41%) and 30.300 females (59%).Around 23,400 or about 45% of the unemployed were below 25 years. Some 11,200 or 53% of the unemployed males and 40% or 12,200 of the unemployed females were below 25 years. 27,500 (53%) unemployed were single. Among males, the majority (15,100 or 71%) was single, while among females, the majority (17,900 or 59%) was ever married (including widowed, divorced or separated).

C. Fiscal Position

Government Expenditure

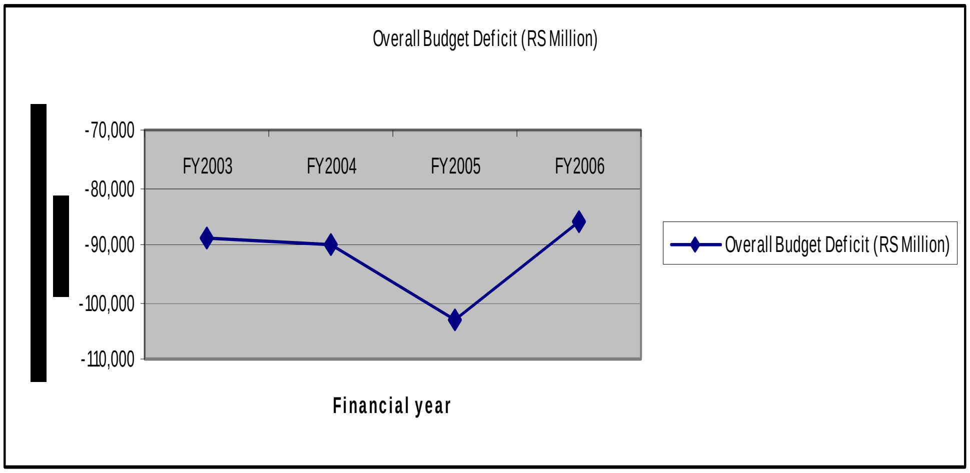
In the early 1990s, the budget deficit was kept below 3% of GDP. However, since the late 1990s, the budget deficit has been persistently above the target and was regularly over 3% of GDP, due to growing state expenditure on development projects and falling tax revenues. Lately, the fiscal outlook has deteriorated further, owing to lower than projected revenue collections associated with lackluster activity and the widening deficit of a state-owned enterprise related to the suspension of adjustments in retail petroleum prices to reflect import costs. The budget deficit have been qualified by the World Bank as “high and unsustainable” and without corrective measures, the International Monetary Fund (IMF) predicts that the overall public sector deficit could widen to about 7% of GDP, compared with a sustainable level of about 3%.In addition, in order to restructure the public expenditure, strengthen expenditure controls and to improve budgetary processes, the Government began implementing a Medium Term Expenditure Framework (MTEF) in 2002 with the assistance of the World Bank.

Table 30: Composition of Financing Budget Deficits

		FY 2003	FY 2004	FY 2005	FY 2006
Overall Budget Deficit (excluding foreign grants)	RS billion	-8.9	-9	-10.3	-8.6
Overall Deficit/GDP	%	-5.4	-5	-5.3	-4.0
Foreign Financing/GDP	%	-0.3	0.3	0.6	-0.10
Domestic Financing/GDP	%	5.7	4.7	4.7	4.1

Sources: Ministry of Finance and CSO

Figure 9: Trends of Overall Budget Deficit



Source: Mauritius Central Statistical Office

The primary deficit for FY 2003 was RS 2.3 billion; FY 2004 RS 1.8 billion; FY 2005 RS 3 billion and FY 2006 RS 0.9 billion respectively. The overall budget deficit is expected to drop from RS 10.3 billion in FY 2005 to RS 8.6 billion in FY 2006. As a % of GDP, it will drop from 5.3% to 4.0%. The deficit will be financed mostly from domestic sources. It is to be noted that the primary balance (overall balance less interest payment) would show a surplus of RS 0.9 billion compared to a deficit of RS 3 billion in FY 2005.

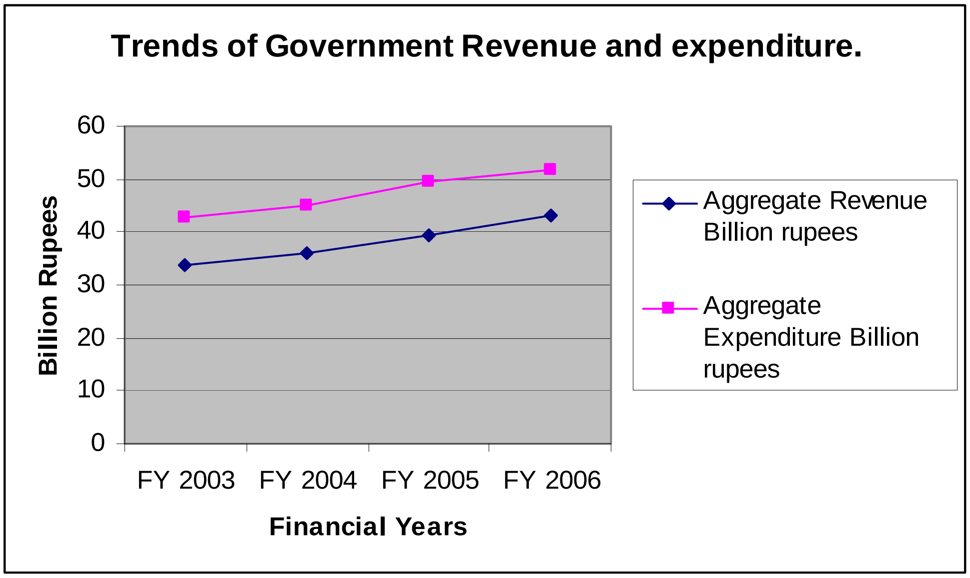
Widening gaps in government revenue and public expenditure are triggering increasing budget deficits.

Table 31: Government Revenue and Expenditure

		FY 2003	FY 2004	FY 2005	FY 2006
Aggregate Revenue	RS billion	33.7	36.1	39.2	43.1
Aggregate Revenue/GDP	%	20.3	19.8	20.0	20.0
Aggregate Expenditure	RS billion	42.6	45.1	49.6	51.6
Aggregate Exp/ GDP	%	25.6	24.8	25.3	24

Sources: Mauritius Central Statistical Office and Economic Review 2006.

Figure 10: Trends of Government Revenue and Expenditure



Source: Mauritius Economic Review 2006.

In Mauritius, government expenditure budget is allocated in two broad categories namely the "current expenditure" and the "capital expenditure".

Current expenditure which makes up around 85% of the total expenditure is expected to grow by 5.2% from RS 41.9 billion in FY 2005 to RS 44.1 billion in FY 2006. Factors affecting current expenditure are "interest payments" which are expected to rise by RS 2.1 billion from RS 7.4 billion in FY 2005 to RS 9.4 billion in FY 2006 and "current transfers and subsidies" which are estimated to grow by RS 608 million from RS 17.8 billion in FY 2005 to RS 18.4 billion in FY 2006. On the other hand, "expenditure on goods and services" is expected to decline by RS 489 million from RS 16.7 billion in FY 2005 to RS 16.2 billion in FY 2006.

The Capital expenditure component of total government expenditure represented around 15% of the total. It is grew by 10.1%from around RS 7 billion in FY 2005 to RS 7.7 billion in FY 2006.

Table 32: Composition of Government Expenditure (in Million of Rupees)

	FY 2003	FY 2004	FY 2005	FY 2006
Current Expenditure	34,885.4	38,042.3	41,915.3	44,089.7
Capital Expenditure	7,078.0	6,344.8	6959.9	7663.1
Total Derived Expenditure	41,963.4	44,387.1	48,875.2	51,752.8
Lending minus Repayment	603.9	687.8	688.9	-107.0
Total Derived Expenditure and Lending minus Repayment	42,567.3	45,074.9	49,564.1	51,645.8

Sources: Ministry of Finance and Central Statistical Office.

The "current expenditure" which makes up around 85% of total expenditure is expected to grow by 5.2% from RS 41.9 billion in FY 2005 to RS 44.1 billion in FY 2006. Factors affecting current expenditure are interest payments and current transfers and subsidies respectively for expenditure on goods and services has declined in FY 2006.

Table 33: Government Current Expenditure by Sector and Region

(in Million of Rupees)	FY 2003	FY 2004	FY 2005	FY 2006
General Public Services	3,315.9	3,495.9	3,925.2	4,111.4
Public Order	3,562.6	3,608.6	3,985.6	4,311.3
Education	6,132.8	6,742.8	6,846.6	7,225.1
Health	3,764.9	3,948.1	4,220.6	4,155.0
Social Security and Welfare	7,886.6	8,724.7	10,361.4	10,449.4
Housing and Community Amenities	2,982.0	3,208.9	3,400.9	3,120.3
Agriculture, Forestry and Fishing	1,571.4	1,550.0	1,440.9	1,470.0
Transportation and Communication	1,092.0	725.5	1,379.2	1,368.1
Other Economic Services	1,418.0	1,624.0	2,254.3	2,509.1
Other Expenditure (made up as follows:	8,968.4	9,714.3	9,964.3	11,844.7
Public Debt Interest	6,585.8	7,184.4	7,354.7	9,409.9
Transfer to Local Government	1,199.6	1,306.6	1,400.4	1,332.0
Transfer to Rodrigues (**Region)**	1,183.0	1,223.3	1,209.2	1,102.8
Total Current Expenditure	41,963.4	44,387.1	48,875.2	51,752.8

Sources: Ministry of Finance and Central statistical Office.

For the FY 2006, sector-wise, "social security and welfare", "education" and "other expenditure" influenced the Central Government current expenditure to the greatest extent.

Table 34: Government Capital Expenditure by sector and Region

(in Million of Rupees)	FY 2003	FY 2004	FY 2005	FY 2006
General Public Services	442.4	390.4	515.6	578.6
Public Order and Safety	479.2	250.9	342.6	621.3
Education	783.3	908.5	724.4	934.0
Health	437.6	351.1	164.3	338.0
Social Security and Welfare	163.0	156.0	726.4	156.2
Housing and Community amenities	2,325.6	2,437.9	2,558.2	2,244.8
Recreational, Cultural and Religious services	301.7	86.6	83.7	79.0
Fuel and energy	-	28.9	8.1	24.0
Agriculture, Forestry, fishing	419.6	337.6	251.2	232.0
Mining, manufacturing and Construction	28.5	21.2	12.5	-
Transport and communication	754.2	368.2	556.4	414.0
Other economic Services	433.1	525.6	550.1	1,697.2
Other Expenditure (made up as follows)	509.7	481.1	463.5	342.0
Public Debt Interest	82.2	70.2	102.7	68.0
Transfer to Local government Transfer to Rodrigues (**Region)**	427.5	410.9	360.8	274.0
Total Capital expenditure	7,078.0	6,344.8	6,959.9	7,663.1

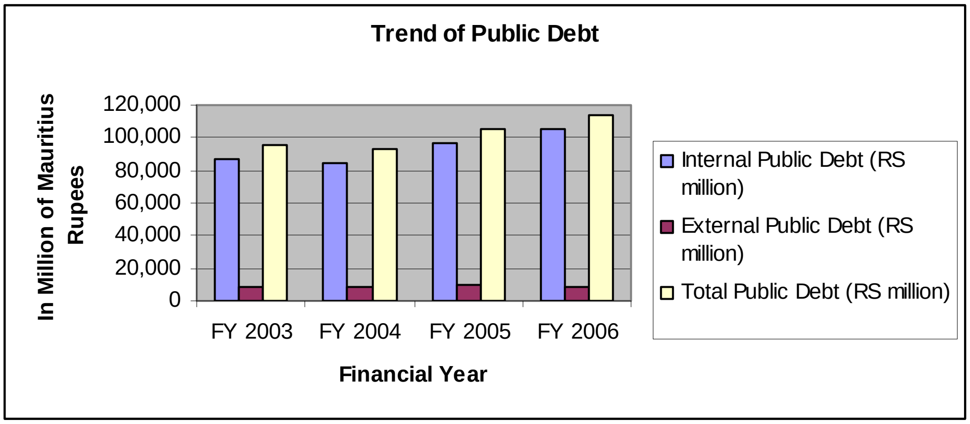
Sources: Ministry of Finance and Central statistical Office.

Table 35: Public Borrowing

		FY 2003	FY 2004	FY 2005	FY 2006
Internal Public Debt	RS Billion	86.4	85	96.6	104.8
External Public Debt	RS Billion	9.1	8.4	9.2	8.5
Total Public Debt	RS Billion	95.5	93.4	105.8	113.4
As a % of GDP	%	63.8	56.6	58.3	57.9
External Debt of Public Corporation	RS Billion	17.6	15.2	14.7	15.1
Total Public Sector Debt	RS Billion	113.1	108.0	120.5	128.5
As a % of GDP	%	68.5	65.4	66.3	65.6

Sources: Central Statistical Office and Mauritius Economic Review 2006

Figure 11: Trend of Internal, External and Total Public debt



Source: Central Statistical Office and Mauritius Economic Review 2006

Total Public Debt grew by 7.2% from RS 105.8 billion for FY 2005 to RS 113.4 billion for FY 2006. As a % of GDP, it dropped slightly from 58.3% to 57.9%. Total internal public debt making up 92% of total public debt, increased by 8.5% from RS 96.6 billion in FY 2005 to RS 104.8 billion in FY 2006 and total external debt dropped by 7.5% from RS 9.2 billion in FY 2005 to RS 8.5 billion in FY 2006.Including the external debt of public corporation of RS 15.1 billion, total public sector debt reached RS 128.5 billion for FY 2006 against RS 120.5 billion for FY 2005.

Most para-statal organizations in Mauritius have borrowed in foreign currency, largely unhedged. These contingent liabilities could be reduced with improved monitoring and clear policy guidance from the Debt Unit of the Ministry of Finance. Actually the plan to strengthen debt management will reduce fiscal vulnerability stemming from high interest payments and re-financing risks.

Tax Revenue

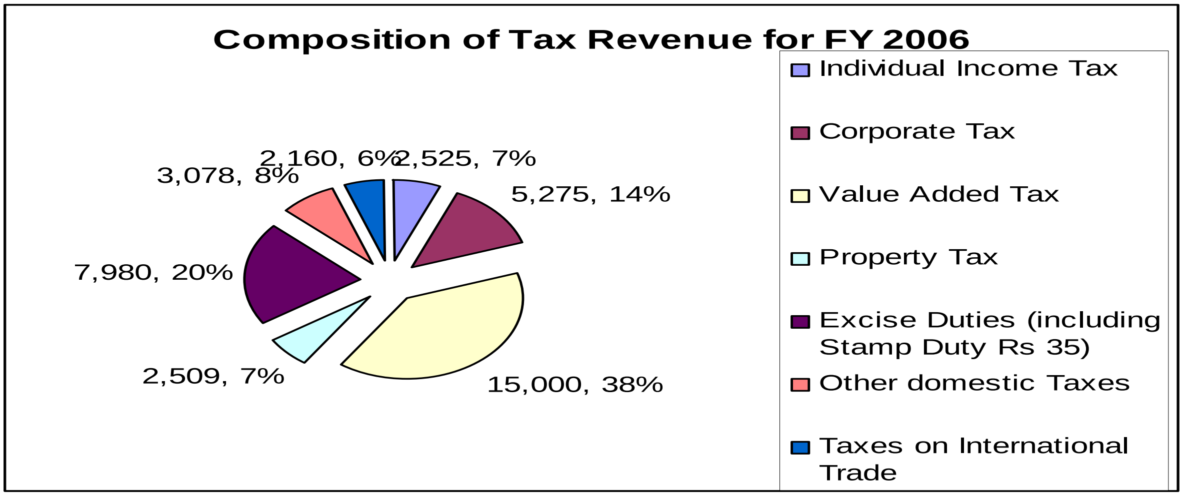
The Mauritius Revenue Authority (MRA) has been established as agency of the Government of Mauritius for revenue collection and management of Revenue laws. MRA is a body corporate with its own board under the supervision of Ministry of Finance and Economic Development. MRA is responsible for the administration of tax policy and the collection and accounting of all revenues arising under the Revenue laws. For FY 2006, the Revenue Authority collected aggregate tax revenue of 18.2% of GDP compared to 18.5% of GDP for FY 2005, 17.5% of GDP for FY 2004 and 17.3% of GDP for FY 2003. The increase in aggregate tax revenue was essentially due to increases in corporate taxes and value added taxes even though the rise in tax revenue was partly offset by declines in customs duty and excise taxes. Taxes on income (including profits and capital gains, taxes on goods and services and taxes on property increased by 28.1%; 3% and 15.5% respectively

Table 36: Composition of Tax Revenue by major tax type for FY 2006

	Rs Million
Individual Income Tax	2,525
Corporate Tax	5,275
Value Added Tax	15,000
Excise Duties (including Stamp Duty Rs 35 million)	7,980
Taxes on Property	2,509
Other Domestic Taxes	3,078
Taxes on International Trade	2,160

Source: Mauritius Central statistical Office

Figure 12: Composition of Tax Revenue in Mauritius



Source: Mauritius Central Statistical Office

From the above figure, it can be perceived that the main tax revenue source for the government of Mauritius is the Value Added tax, which represents a share of 38 % of the total tax revenue for FY 2006 .The Mauritian Authorities have advanced several reforms initiated with the FY 2006 budget. They have improved the business environment by moving towards fiscal consolidation, simplified tax system, eliminated some subsidies, liberalized trade, opened air access and advanced the restructuring of the economy and the development of new sectors.

III. Tax structure: Institutions and the Reality

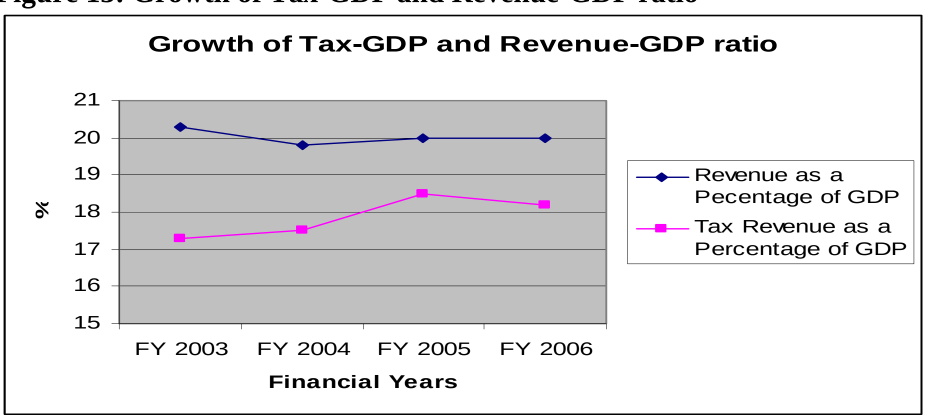
Tax revenue increased from 17.5% of GDP in FY 2004 to 18.5% in FY 2005 and 18.2% in FY 2006. The increase in tax revenue was essentially due to increases in Corporate Taxes and Value Added Taxes, even though the rise in tax revenue was partly offset by declines in customs duty and excise duties.

Table 37: Revenue-GDP ratio

	FY 2003	FY 2004	FY 2005	FY 2006
Revenue as a Percentage of GDP	20.3	19.8	20.0	20.0
Tax Revenue as a Percentage of GDP	17.3	17.5	18.5	18.2

Sources: Ministry of Finance and Economic Review 2006

Figure 13: Growth of Tax-GDP and Revenue-GDP ratio



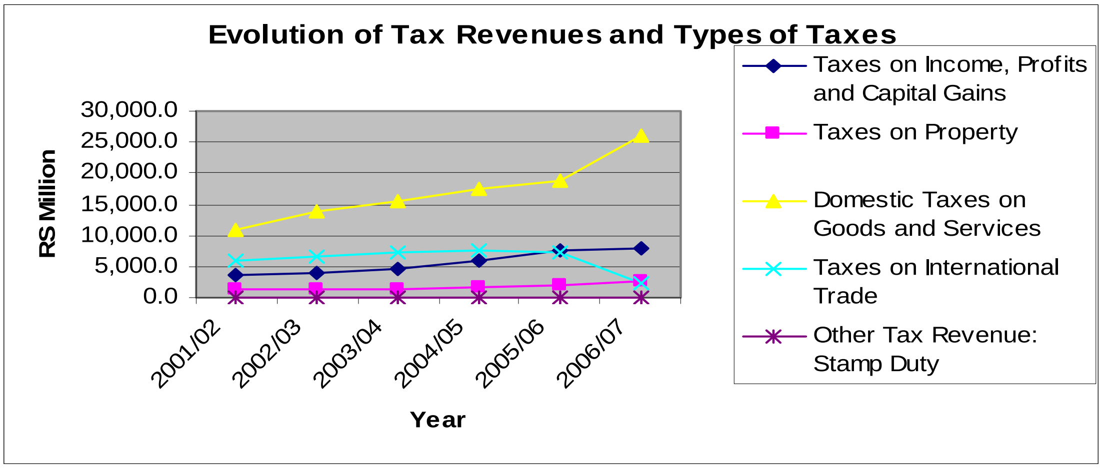
Sources: Central Statistical Office and Economic Review 2006

Table 38: Aggregate Tax revenue and Non-Tax revenue

(in Millions of Rupees)	FY 2003	FY 2004	FY 2005	FY2006
Aggregate Tax Revenue	29,067.90	32,718.60	35,381.50	38,562.00
Non-Tax Revenue	3,919.90	2,473.80	3,127.20	3,631.00

Source: Central Statistical Office.

Figure 14: Evolution of Tax Revenues and Types of Taxes



Source: Mauritius Central Statistical Office

Taxes on income (including profits and capital gains), taxes on goods and services and taxes on property increased by 28.1%; 3% and 15.5% respectively for FY 2006.The increase in tax revenue from corporate taxes accounted for 86.9% of the increase in revenue from taxes on income, profits and capital gains. Net revenue from VAT was increased by 9.4% in FY 2005

Mauritius Revenue Authority (MRA): Tax central Collection Authority

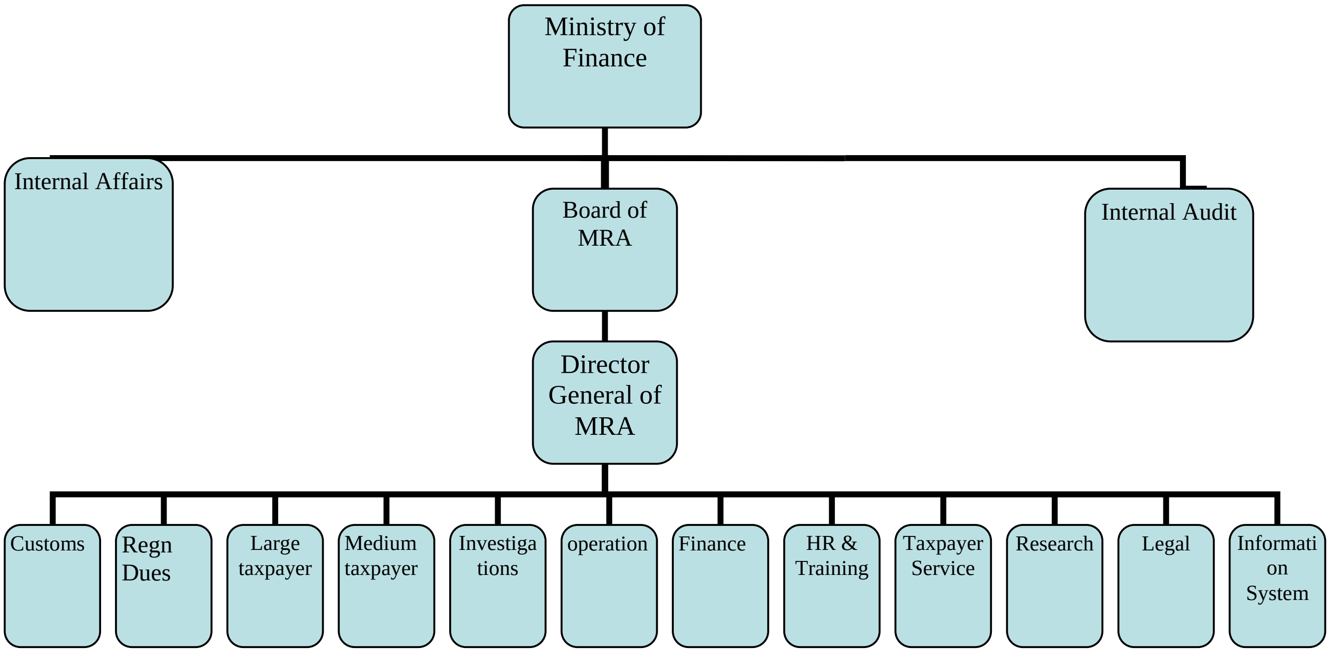
The Government of Mauritius has gone in for a thorough review of its tax system which is aimed at the rationalization of the fiscal incentives. Technical assistance from international institutions like World Bank and International Monetary Fund (IMF) has been provided to Mauritian Authorities in making a complete and thorough analysis of its tax system and the rationalization of the fiscal incentive regimes.

The MRA became operational since 4th July 2006 to modernize tax administration. The MRA as an agency of the State for revenue collection and administration of revenue laws enjoys the full support and commitment of the Government in its objective to execute revenue administration in Mauritius so as to meet international standards. The core objectives of MRA are improving compliance with tax laws and revenue flows; providing improved services to taxpayers and reducing their compliance burden; improving staff skills and productivity and finally reducing overall costs of revenue administration.

Prior to the launch of MRA, the tax system of Mauritius was considered complex, non-transparent and offered opportunities for tax evasion and avoidance, leading to inequity and inefficiency. That is why reform in the tax system was brought to simplify the tax system, restore fairness, increase transparency and facilitate taxpayers' compliance.

The major tax in Mauritius is the income tax, which is a tax imposed on individuals as well as corporate entities; VAT, Registration tax, Custom and Excise duty, Land Transfer tax are also applicable in the country.

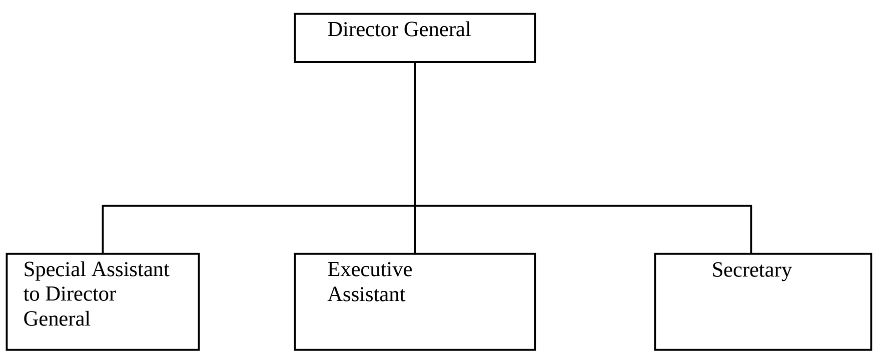
Figure 15: Organization Chart of Ministry of Finance and MRA (1,595 employees)



Source: Mauritius Revenue Authority

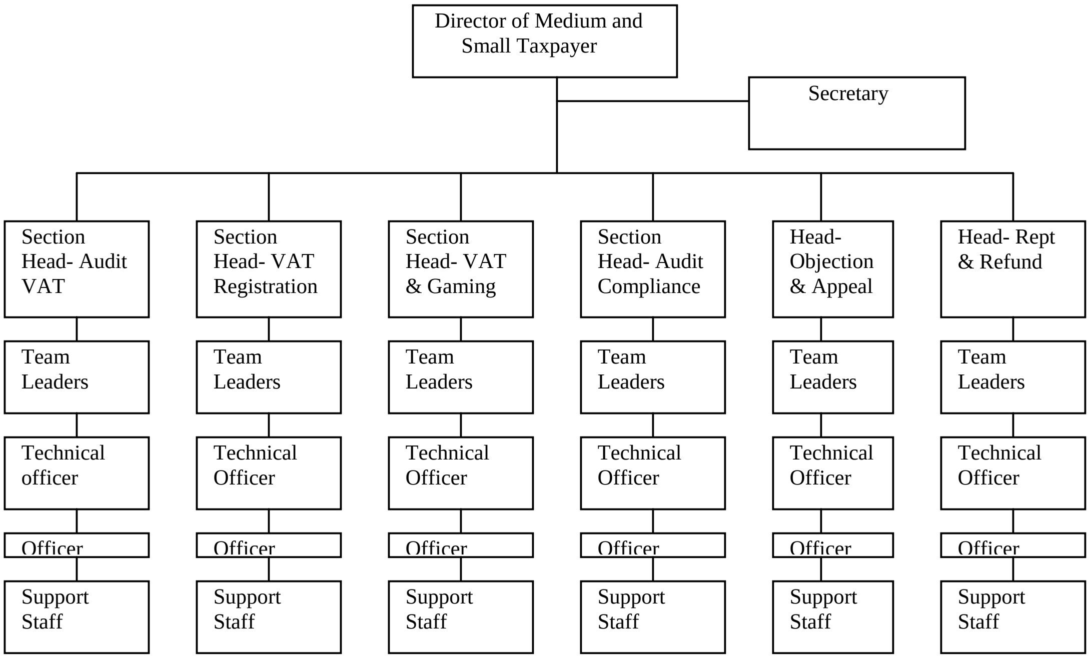
DEPARTMENTAL STRUCTURES AND STAFF REQUIREMENTS

Figure 16: Director General's Office (5 Employees)



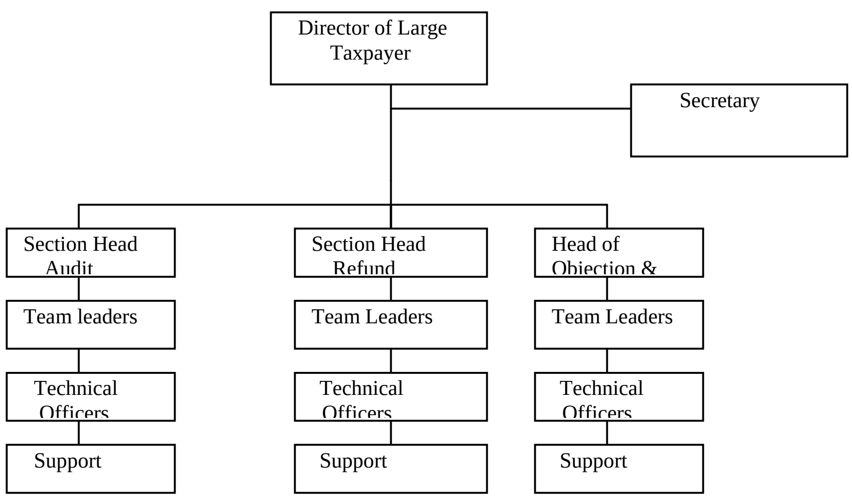
Source: Mauritius Revenue Authority

Figure 17: Medium and Small Taxpayer Department (200 Employees)



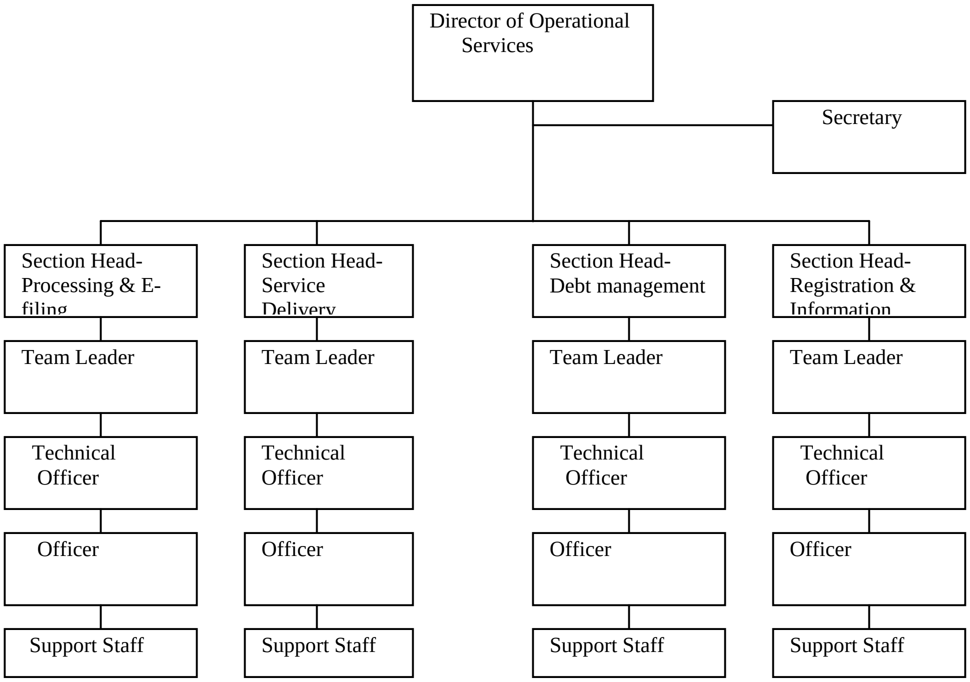
Source: Mauritius Revenue Authority

Figure 18: Large Taxpayers Department (53 Employees)



Source: Mauritius Revenue Authority

Figure 19: Operational Services Department (132 Employees)



Source: Mauritius Revenue Authority

Table 39: Human Resource Position at Mauritius Revenue Authority FY 2006.

Director General Office	5
Internal Audit	22
Internal Affairs	14
Customs	834
Registration Dues and Mortgages	116
Large Taxpayer	53
Medium and Small Tax Payer	200
Fiscal Investigations	26
Operational services	132
Finance and Administration	112
Human Resource and Training	12
Research and Policy	13
Legal Services	13
Information Technology	12
Total Number of Employees	1564

Source: Mauritius Revenue Authority, FY 2006

III.1 Mauritius Summary of Tax System

Both companies and individuals are taxed on income earned in the preceding income year according to the rules set below:

III.1.1 Companies

<u>Entity Characteristics</u>

A company is a body corporate incorporated in Mauritius or elsewhere. Corporate tax is applicable to companies, trusts, unit trusts schemes and non-resident sociétés. Non-resident sociétés are liable to income tax as if they were companies. Resident sociétés are not liable to tax but associates are taxable on their share of income from sociétés, whether the income is distributed or not.

A resident company is a company incorporated in Mauritius or having its central management and control in Mauritius. A non-resident company is liable to income tax only on its income arising or deemed to arise in Mauritius that is source income. A partnership or société having its seat or siege in Mauritius with at least one partner or associate being resident in Mauritius is considered resident in Mauritius. A trust of which a settlor is non-resident or whose beneficiaries are resident corporations engaged in global business can elect to be non-resident by filing a declaration to that effect, otherwise it is resident for tax purposes.

Taxation Rules

Resident companies are liable to tax on income received from Mauritius or abroad whether remitted or not. Income included in gross income for resident company includes income derived from any business, rents, royalties, premium, income derived from property, foreign dividends and interests. Income is taxed before distribution of dividends. Income does not include capital gains.

Corporate tax is levied on income derived in the preceding income year. Withholding tax applies to interest, royalties, rent, payments to contractors and providers of services operating in specific sectors of activity. The withholding tax is not an one-off tax .There is no group taxation in Mauritius. An income year runs from 1st July of any year to 30th June of the next year. Any person may with the approval of the Director General of the Mauritius Revenue Authority adopt an accounting year ending on a date other than 30th June as its income year and submit a return on the basis of income derived in its accounting year.

Main deductions and exemptions

In general, expenses are deductible if they are incurred exclusively in the production of taxable income and they are not of a capital or private nature. 200% of expenditure incurred on marketing and promotional expenses is deductible for companies engaged in tourism or export of goods and services activities. Carry forward of losses is not allowed for more than 5 years unless they arise through the granting of capital allowances. Exempt income of companies include gains on sale of securities exempt for companies engaged in global business, income derived from the operation of a registered foreign vessel, income derived from deep sea international trade by a local registered vessel, royalties payable to non-residents by companies engaged in global business and dividends payable by resident companies.

Corporate Income Tax Rates

The general tax rate is 22.5%. Companies enjoying special incentive rates are taxed at 15% .As from income year starting 1st July 2009, there will be one single flat corporate tax rate of 15%. Where the normal tax payable for an income year is less than 7.5% of book profit, then the “Alternative Minimum Tax (AMT)” rate is 7.5% of book profit is applied or 10% of dividends declared in respect of that year, which ever is the lesser.

Tax Credits

Companies are allowed to claim tax credits on account of foreign tax paid on income chargeable to tax in Mauritius. The credits allowed are limited to the amount of Mauritian tax payable on the foreign source income. This is a unilateral relief which also applies to foreign source income from non-treaty countries. For foreign sourced dividends, tax credit takes into account underlying tax that is tax on profits from which the foreign sourced dividends are paid.

Tax sparing credit is also allowed on foreign source income to companies enjoying a preferential tax regime in a foreign country for the purposes of promoting any industrial , commercial, scientific, educational or other development in that country.

III.1.2 Individuals

Entity Characteristics

An individual who is resident in Mauritius is liable to Mauritian Tax on his world-wide income. However, employment and business income derived from outside Mauritius is taxable on a remittance basis. On the other hand, a non-resident individual is taxable only on his income derived in Mauritius.

An individual is considered resident in Mauritius where he has his domicile in Mauritius unless his permanent place of abode is outside Mauritius; has been present in Mauritius in an income year for a period of or an aggregate period of 183 days or more; has been present in Mauritius in an income year and the two preceding income years, for an aggregate period of 270 days or more. Moreover, a married person is treated as a separate individual under the Mauritius Income Tax Act.

Taxation Rules

An individual is taxable on income from all sources derived during the financial year (period starting 1st July and ending 30th June of the following year). Income does not include capital gains. A self-assessment system ensures that all taxable individuals file a return of all income derived during a preceding income year by the 30th September of each year.

A Cumulative PAYE System is in place and aims at deducting the exact amount of tax due from individuals deriving employment income only. This may ultimately result in relieving those persons from the obligation to file annual returns. A Current Payment System (CPS) is also in place and ensures that self-employed deriving business income also pay tax in the income year on their current business income. Necessary adjustments are made when annual returns are filed to take account of payments already effected either under CPS or PAYE. Withholding tax applies to interest, rent, royalties and payments for certain specified services. This withholding tax is not a one-off tax. There is no withholding tax on dividends from resident companies.

Main deductions and exemptions

Every person is entitled to deduct from his net income the appropriate amount of tax free income depending on the number of dependents under his charge. Exempt income includes dividends from resident companies, bank interest payable to a non-resident, interest and royalty paid by a corporation engaged in global business to a non-resident not carrying on any business in Mauritius. Business losses cannot be set off against employment income. They can be carried forward for set off against future business profits. Losses cannot be carried forward beyond 5 years.

Income Tax Rates

Tax is calculated on an individual's chargeable income (taxable income less tax free income). The rate is 15% on chargeable income comprising interest income. For other income- 15% on first RS 500,000, 22.5% on excess .The top marginal rate will gradually decrease resulting in a flat rate of 15% as from 1st July 2009.

Tax Credits

Any amount of foreign tax is allowed as a credit against income tax payable in Mauritius in respect of that income. The amount is limited to the Mauritian tax payable on the foreign income. This is a unilateral relief which also applies to foreign source income from non-treaty countries. As in the case for companies and corporate bodies, tax sparing credit may also apply to individuals under certain conditions.

Pay As You Earn (PAYE)

It is a system whereby employers are required to withhold tax from the emoluments of employees chargeable to tax at the time the emoluments are received by or made available to the employees. The tax withheld is then remitted to the Mauritius Revenue Authority (MRA) every month. A new cumulative PAYE system has been introduced as from 1st July 2006 to replace the non-cumulative system. This new system aims at ensuring that the amount of tax withheld under PAYE corresponds exactly to the amount of tax payable in accordance with the annual return of income at the end of the income year.

The Finance Act 2006 has brought significant amendments to the Income Tax Act, which affects payment of tax under the PAYE system. All personal relief and deductions have now been consolidated into a single deduction termed as Income Exemption Threshold. The number of tax brackets has been reduced and the tax rates have also been lowered.

Main Characteristics of the Cumulative PAYE system

Employees drawing monthly emoluments not exceeding RS 16,500 are not affected by PAYE. Workers receiving their pay daily after each day's work are excluded from the operation of the PAYE system. The PAYE system operates on the pay for the current period at the time the emoluments are received by or made available to the employee. The amount of tax to be withheld from the emoluments of each day period is calculated on a cumulative basis by cumulating both the emoluments and the Income Exemption Threshold pertaining to the current and the previous pay periods in the income year concerned.

Employees have to furnish every year to their employer a PAYE Employee Declaration Form (EDF) claiming the Income Exemption Threshold to which they are entitled in an income year. An individual is entitled to the Income Exemption Threshold which corresponds to the category like Category A (employee with no dependent), Category B (employee with 1 dependent), Category C (employee with 2 dependents) and Category D (employee with 3 dependents).

Failure to register as an Employer

The PAYE system requires an employer to register with the Director-General of the Mauritius Revenue Authority. Every person who becomes an employer should within 14 days register with the DG of MRA by submitting a PAYE Employer Registration Form (ERF) duly filled in by him.

On receipt of the registration form, the Director-General will inform the employer that he has been duly registered as an employer under the Act and will at the same time provide him with his PAYE Employer Registration Number (ERN), PAYE Employee Declaration Forms (EDF) to be duly completed and submitted to him by his employees and PAYE Remittance Vouchers to be filled in and to be forwarded with his remittance every month.

An employer who fails to register as an employer with the Director-General by the due date commits an offence and shall on convictions be liable to a fine not exceeding RS 5,000 and to imprisonment for a term not exceeding 6 months. Furthermore, it is an offence for a person who ceases to be an employer and fail to notify the Director-General of the MRA about the cessation. Failure to notify changes in the particulars concerning registration is also an offence under the Act.

Remittance of tax withheld and penalty for late payment

The tax required to be withheld under the PAYE should be remitted either directly to the MRA or electronically through a computer system approved by the Director-General. Employers having 50 employees or more are required to remit tax electronically. Tax withheld by an employer under the PAYE should be paid to the Director-General within 20 days from the end of the month in which the tax was withheld. In case tax withheld is remitted electronically, it should be paid on or before the end of the month immediately following the month in which the tax was withheld. Since the tax withheld from the emoluments is held on behalf of the Government and is not subject to attachment in respect of a debt or liability of the employer, remittance of tax to the MRA should not be delayed for any reason whatsoever and should always be remitted by the due date.

Failure to pay the amount of tax required to be withheld on or before the last payable date renders the employer liable to a penalty of 5% thereof. In addition, interest at the rate of 1% for each month or part of the month will be added on any amount of tax (excluding any penalty for late payment) not remitted by the due date. The amount of tax not remitted together with the penalty and interest is payable without demand.

Requirements to join the Electronic System

Employers having 50 employees or more are required by law to remit tax withheld under the PAYE electronically. On having 50 employees, an employer should forthwith notify the Director-General of the number of employees in his employment and after proper arrangements are made, remit tax withheld electronically through a computer system approved by the DG as from such date as may be specified in a notification issued to him.

Offences in relation to PAYE

An employer is liable to prosecution if he fails to register as an employer, fails to pay the amount of tax required to be withheld, fails to pay the amount of tax in arrears required to be deducted and fails to give the Statement of Emoluments and Tax Deduction to his employee. On conviction, he is liable to a fine not exceeding RS 5000, and to imprisonment for a term not exceeding 6 months.

The law makes it an offence for an employer to give a Statement of Emoluments and Tax Deduction which is false or misleading in any material particular and to disclose without lawful authority any information concerning his employee. On conviction, he is liable to a fine not exceeding RS 50,000 and to imprisonment for a term not exceeding 2 years.

III.1.3 Value Added Tax

VAT was introduced in Mauritius on 7th September 1998, in replacement of the Sales Tax on goods. A broadly ad valorem tax is chargeable on the supply of goods and services in Mauritius, including the island of Rodrigues and on the importation of goods and services into Mauritius. Exports are zero-rated

Main Deductions and Exemptions

VAT borne on inputs is generally allowed to be set off against VAT on outputs, but there are some exceptions, like tax on motor cars, gas oil and fuel oil, and entertainment expenses. No input tax is allowed as credit in respect of goods or services used to make an exempt supply. Goods and services exempted from VAT include basic food stuffs, unprocessed agricultural products, milks, journals and periodicals, medicines, medical and dental services, fishing vessels and aircrafts, fertilizers, animal feed, transport of passengers and goods by sea or air, educational and training services, the sale of land and the sale or the transfer of buildings for residential purposes, financial services except (i) services provided to merchants accepting a credit card or debit card as payment for the supply of goods or services (merchant discount), (ii) services in respect of safe deposit lockers, issue and renewal of credit cards and debit cards and (iii) services for keeping and maintaining customers' accounts other than transactions involving the primary dealer system. These banking services are subject to VAT as 1st January 2003.

As from 1st October 2006, the yearly threshold of Mauritian Rupees (MUR) 3 million for compulsory registration has been introduced to MUR 2 million. A person or business whose turnover does not exceed MUR 2 million a year but is engaged in the following professions has to register for the VAT: accountant and / or auditor, advertising agent, adviser, architect, attorney and /or solicitor, barrister, clearing and forwarding agent, consultant, customs house broker, engineer, estate agent, land surveyor, marine surveyor, notary, optician, project manager, property valuer, sworn auctioneer and jewelers.

Tax Rate

Single rate of 15 percent.

III.1.4 Taxes on International Trace, Taxes on Imports and Customs Tariff

The tariff schedule is based on the Harmonized System (HS) Nomenclature. Since July 1994, import customs duties, which account for the bulk of custom duty revenue, vary by HS classification. Import customs duties are in general ad valorem on c.i.f (cost, insurance, freight) values. Goods covered by a proper certificate of origin and originating from the following COMESA member states are allowed duty free: Djibouti, Egypt, Kenya, Madagascar, Malawi, Sudan, Zambia and Zimbabwe. However goods originating from the other Common Market for Eastern and Southern Africa (COMESA) member states attract duty at the rate 10 % of the national tariff schedule, wherever applicable. Goods originating in Madagascar are allowed 100% remissions of import duties under the "Protocoles sur les regles d'Origine des Produits Echanges Entres les Etats Membres de la Commission de l' Ocean Indien"

Main Deductions and Exemptions

Exemptions includes most food items; agricultural capital goods and specialized spare parts, fertilizers; sporting goods; machinery for the textile, leather; furniture; jewelry and printing industries; most primary and crude products used as raw materials (such as sheets, sections and profiles of plastics, rubber or metal), essential oils, plywood and particle boards, medical and laboratory equipment, energy-saving equipment, protective masks, burglar alarm and surveillance systems, fire fighting equipment, lifts and escalators, vending machines, generators, electric drills, automatic data processing machines and their peripheral units. Imports by factories operating under the Export Processing Zone (EPZ) or Industrial Expansion Acts are exempt. For non-EPZ firms, duty drawbacks are permitted on raw materials and intermediate goods used to produce goods for exports.

Tax Rate

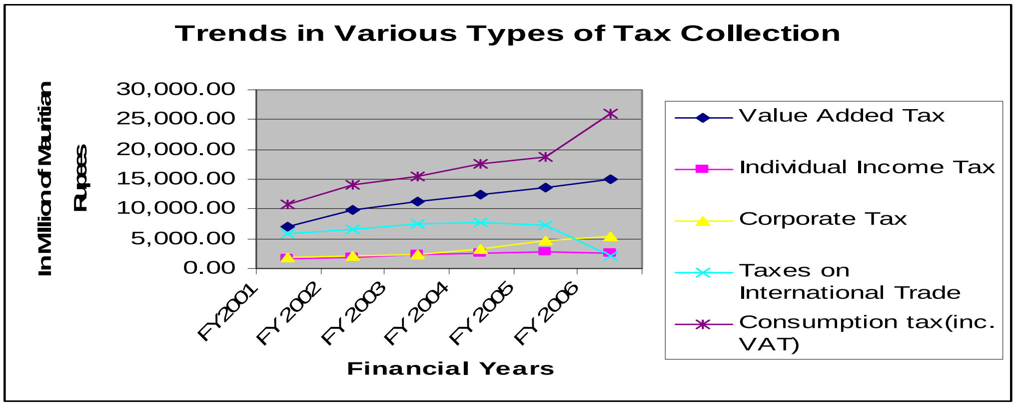
Import customs duties consist of tax rates 0%, 10%, 15% and 30% on C.I.F value

Table 40: Tax Revenue by Composition (income tax, consumption tax, trade duty, others)

(in Million of Rupees)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY2006
Individual Income Tax	1,619.0	1,859.0	2,264.6	2,553.2	2,767.9	2,525.0
Corporate Tax	1,874.9	2,154.5	2,404.7	3,275.8	4,701.0	5,275.0
Taxes on Property	1,298.9	1,374.6	1,469.0	1,680.2	1,939.5	2,509.0
Taxes on International trade	5,893.5	6,522.6	7,385.3	7,730.5	7,195.4	2,160.00
*Import Duties of which:	5,893.5	6,522.6	7,385.3	7,730.5	7,195.4	2,160.00
-Customs Duty	3,287.9	3,497.4	4,037.2	3,898.9	3,045.7	2,160.00
-Excise Duty on Imports	2,605.6	3,025.2	3,348.1	3,831.6	4,149.7	-
Consumption Tax on Goods and Services of which :	10,820.4	13,957.0	15,531.3	17,464.7	18,762.0	26,058.0
*Excise Duties of which:	2,298.6	2,332.2	2,409.9	2,838.4	2,467.8	7,945.0
-Alcoholic Beverages	996.1	1,007.7	1,054.1	1,220.1	1,315.4	-
-Tobacco	1,301.5	1,323.4	1,352.1	1,617.1	1,151.3	-
-Other	1.0	1.1	1.7	1.2	1.1	-
Taxes on Services	978.5	1,069.0	1,097.2	1,235.1	1,673.6	2,060.5
Tax on Gambling	891.1	966.9	979.6	1,075.3	1,185.4	1,345.0
Tax on Hotel Bills	86.8	101.4	116.1	158.6	488.2	715.0
Sugar Brokerage	0.6	0.7	1.5	1.2	-	0.5
Taxes on Use of Goods (Business licenses and Motor Vehicles)	489.9	743.6	835.5	861.9	911.1	1,052.5
Sales Tax on goods	3.6	0.7	1.6	0.8	0.9	-
Value Added Tax	7,049.8	9,811.5	11,189.1	12,528.5	13,708.6	15,000.0

Sources: Ministry of Finance, CSO

Figure 20: Trends in Various Types of Tax Collection



Sources: Ministry of Finance, Central Statistical Office (CSO)

III.1.5 Mauritius Double Tax Treaties

Mauritius has entered into a considerable number of double tax treaties. Generally speaking, the treaty benefits are available to all Mauritian companies other than international companies. All treaties in Mauritius are based on the OECD model treaty and contain exchange of information clauses. However, the exchange is limited to matters concerning the working of the treaties themselves. The following countries are among those which have double tax treaties with Mauritius (an * indicates that the treaty is awaiting ratification):-

Table 41: List of Countries having Double Taxation Agreement with Mauritius

	Countries		**Countries**
1	Barbados	19	Mozambique *
2	Belgium *	20	Namibia
3	Botswana	21	Oman *
4	China	22	Pakistan
5	Croatia	23	Singapore
6	Cyprus	24	Romania
7	France	25	Russia *
8	Germany	26	Rwanda
9	Hungary	27	Senegal
10	India	28	Seychelles
11	Indonesia (suspended)	29	South Africa
12	Italy	30	Sri Lanka
13	Kuwait	31	Swaziland
14	Lesotho *	32	Sweden
15	Libya	33	Thailand
16	Luxemburg	34	United Kingdom
17	Madagascar	35	Uganda
18	Malaysia	36	Zimbabwe

Source: Mauritius Revenue Authority

The treaty covers income tax, capital gains tax, business profits tax as well as other various levies. Under the treaty, the maximum rate for dividends, interest and royalties are each set at 10% and capital gains other than on immovable property is taxed in the country of residence.

Mauritius Table of Treaty Rates

This table lists the percentage rates of withholding tax on certain types of payment made between Mauritius and some of its key Treaty Partners correct at the time of writing. The rules governing the deduction of tax from outgoing payments of interest from Mauritius are complicated depending on the type of interest, the type of company paying it and the terms of the treaty in question. The rates given are correct, but individual treaties and circumstances need to be taken into account as well.

Table 42: Treaty Rates

Country	Dividends received in Mauritius	Royalties received in Mauritius	Interest received in Mauritius	Interest paid from Mauritius
China	15	10	nil	10
France	15	15	nil	35
Germany	15	15	nil	35
India	15	15	nil	35
Malaysia	15	15	nil	15
Pakistan	10	12.5	nil	10
South Africa	15	15	nil	Nil
Swaziland	15	7.5	nil	5
Sweden	15	15	nil	15
United Kingdom	15	15	nil	35
Zimbabwe	20	15	nil	10

Source: Mauritius Revenue Authority

IV. Country Specific Fiscal Issues

Persistent Budget Deficit

In the early 1990s, the budget deficit was kept below 3% of GDP. However since the late 1990s, the budget deficit has been persistently above the target and was regularly over 3% of GDP, due to growing state expenditure on development projects and falling tax revenues. Lately the fiscal outlook has deteriorated further, owing to lower than projected revenue collections associated with lackluster activity and the widening deficit of a state-owned enterprise related to the suspension of adjustments in retail petroleum prices to reflect import costs. The budget deficit has been qualified by the World Bank as “high and unsustainable” and without corrective measures. A close attention therefore needs to be paid to the persistent budget deficits in order to preserve medium-term fiscal sustainability and macroeconomic stability.

Fiscal Consolidation

Fiscal consolidation is based on explicit rules intended to put deficits and debt on a downward path by limiting government borrowing to the financing of the capital budget and reducing the ratio of net public debt to GDP. Projections from the Ministry of Finance in Mauritius anticipate revenue stabilizing at around 19% of GDP, accompanied by a decline in the share of expenditure from 25.4% and a narrowing of overall central government budget deficit.

Government’s Medium-Term Expenditure Framework

The Government’s Medium-Term Expenditure Framework (MTEF) is underpinning framework anchoring annual budgets with an aggregate multi-year framework and enabling the Government to set priorities and resolve budgetary trade-offs. Operation of the “Mauritius Revenue Authority since 4th July 2006 and a reduction in tax expenditures and discretionary ministerial powers to remit taxes and duties have improved revenue collections. At the same time, modifications to the structure of direct income tax for the 2006/2007 has streamlined incentives and increased equity among taxpayers. The new tax structure is virtually rewarding effort, innovation and entrepreneurship, increasing transparency and encouraging investment and job creation, especially by Small and Medium Enterprises (SMEs). On the expenditure side, policy measures focus on eliminating waste and increasing efficiency. More careful monitoring of capital projects has improved the quality of public investments and has discouraged unjustified cost overruns. Closer scrutiny of recurrent expenditures is also reducing waste and inefficiency.

The fiscal deficit (on a cash basis) has been closed to the budgeted target for 2006/2007, but the adjustment mix is adverse. Sweeping to tax changes, together with reduced import tariffs has a slightly negative effect on revenues (0.5% 0f GDP less than in 2005/06). Compared to the budget, delays in filling vacancies have curbed expenditure on wages and salaries, but higher than expected inflation has increased spending on other goods and services. Subsidies and transfers have been above the target (0.2% of GDP). The budget arithmetic was only squared by a cut in capital expenditure (0.4 % of GDP).

The Government made additional effort to reduce the budget deficit in the medium term and to improve the expenditure mix. Around 4-5 % of GDP are needed to achieve the medium-term budget deficit target of 3% of GDP, whilst increasing capital expenditure by 1% of GDP and compensating for revenue loss from further trade reform. Despite the Authorities in Mauritius brought tax reform in July 2006, they have not committed to specific options as some measures, including eliminating VAT exemptions and pension targeting and which are indeed politically sensitive. Political trade-off between reorienting productive expenditure to improve the quality of the budget and further deficit reductions do exist well. Plans to strengthen debt management will reduce fiscal sustainability, stemming from high interest payments and refinancing risks.

Improving Efficiency of the Private Sector

The Authorities are encouraged from IMF to reduce the financial risks of Mauritius’s largest public enterprises to improve efficiency and review opportunities to involve the private sector. Most parastatals have borrowed in foreign currency, largely unhedged. These contingent liabilities could be reduced with improved monitoring and clearly policy guidance from the Debt Unit of the Ministry of Finance.

Prioritizing Government Expenditure

Finally the Government of Mauritius by further prioritizing spending (including reorientation to social functions) and enhancing expenditure management has improved the quality of expenditure. Moreover the Authorities have extended the three-year rolling Medium Term Expenditure Framework (MTEF) to all Ministries in the 2007/2008 budget to improve budget monitoring and macro-modeling capacity within the MTEF. Much emphasis has been laid on the importance of reallocating fiscal resource to education, well-targeted social programs and infrastructure) within the context of the overall reform agenda. The Authorities highlighted the need to advance the training and re-skilling initiatives.

V. Conclusion: Where We Stand and Where We Go?

For a quarter century, Mauritius has been a consistently good performer and has exhibited important resilience through trade shocks. The country enjoys strong leadership, a high degree of social consensus, robust institutions and a tradition of pragmatic economic management. All these augur well for a continuation of superior performance.

It seems likely that Mauritius can achieve a high growth outcome. But that will require a significant reform effort. Sustained high growth rates in emerging sectors will require maintaining a stable macroeconomic environment with adequate availability of credit, removing impediments to starting and growing a business, allowing resources to move efficiently out of declining sectors into growing ones providing high quality reasonably priced infrastructure and public services and ensuring the availability of adequate human capital. The trade and competitiveness oriented reforms which the Government has put forward in its program are well attuned to achieving these objectives, bringing down logistics costs, increasing the quality of factor inputs through training and easy access to foreign labor skills, reducing impediments to labor mobility, stimulating investment through lowering corporate taxation, reducing pressure on domestic credit markets by cubing the government deficit, improving the enabling environment for SMEs and reducing the anti-export bias of tariffs. At the same time, explicitly pro-poor components have been added to the program to shield vulnerable groups from some of the impacts.

The Government's reform has gathered momentum over the recent past and progress has been achieved in restoring macroeconomic stability but the reforms initiated need to be sustained and broadened if progress towards adjusting to the competitiveness and globalization is to be accelerated. The Government has demonstrated a strong commitment to the reform and there is now a greater sense of ownership of the reform process. Strong ownership of the reform program will greatly enhance the likelihood of success of the support being provided by the development partners.

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