MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Mauritius's Baa1 rating, maintains stable outlook

Global Credit Research - 27 Mar 2018

New York, March 27, 2018 -- Moody's Investors Service, ("Moody's") has today affirmed the Government of Mauritius's Baa1 long-term issuer and senior unsecured ratings and maintained the stable outlook.

The affirmation of the Baa1 ratings is supported by the following factors:

(1) Strong growth and macroeconomic resiliency to shocks, despite its small size;

(2) Expectations for government debt to stabilize, albeit at an elevated level.

The stable outlook reflects Moody's expectation that economic policies will gradually address ongoing challenges to Mauritius's economic model, including global efforts against tax avoidance, and that government debt will stabilize at around 55% of GDP.

Mauritius's local currency bond and deposit ceilings remain unchanged at A1. The A2/P-2 country ceiling for foreign currency debt and Baa1/P-2 ceiling for foreign currency bank deposits also remain unchanged. These ceilings act as a cap on the ratings that can be assigned to the obligations of other entities domiciled in the country.

RATINGS RATIONALE

FIRST DRIVER -- STRONG GROWTH AND MACROECONOMIC RESILIENCY TO SHOCKS, DESPITE ITS SMALL SIZE

The Mauritian economy has demonstrated very steady real GDP growth, averaging 3.9% over the last decade, and has not experienced a recession since in 1980. The country's robust and stable growth performance highlights the economy's resiliency to shocks despite its relatively small size.

Growth will continue to be supported by strong performance in the tourism sector, continued growth in financial services, and further expansion of Information and Communication Technology (ICT). Moody's expects real GDP growth of 3.9% in both 2018 and 2019. Growth will receive additional support from public investment projects and a recovery in private investment. The government's Public Investment Program (PIP) envisions public investment supporting urban development and the improvement of transportation networks. This includes the expansion of the Port Louis Harbor that will help position Mauritius as a regional trade hub, and the Road Decongestion Program, which will alleviate traffic and improve connectivity within the country.

Moody's expects the authorities' proactive economic policies, a key element of the Mauritian economy's success, to continue to address challenges to important sectors of the economy. The Global Business Companies (GBC) sector is in the process of adjusting to international efforts against tax avoidance. Heightened global and bilateral scrutiny on tax evasion and financial transparency has forced the Mauritius authorities to adjust the regulatory framework, including amending the country's existing Double Taxation Avoidance Agreement with India, which accounts for almost half of total outbound investment from Mauritius. The capital inflows derived from GBC activities are important for the balance of payments and an important source of liquidity for the banking system. Thus far, treaty changes have not brought about negative pressures on the balance of payments or the GBC sector.

The Mauritian authorities have been proactive in supporting the industry's ability to adapt to heightened global and bilateral scrutiny on tax evasion and financial transparency, by adjusting the regulatory framework accordingly. The government is working on a Financial Services Sector Blueprint to develop a strategy to maintain a competitive advantage in the sector while adopting international best practices with respect to taxation. The government expects the blueprint to outline the shift to higher-value added activities in the financial sector to offset any potential future decline in GBC activity based solely on preferential tax treatment. The Financial Services Sector Blueprint will also provide more details regarding changes to the tax system. This is part of the Mauritian government's policy to place the financial sector as an economic priority and thus continue providing the support it needs to position itself as a major financial hub.

SECOND DRIVER -- EXPECTATIONS FOR GOVERNMENT DEBT TO STABILIZE AT AN ELEVATED LEVEL

At 59.4% of GDP as of June 2017, Mauritius's government debt is elevated and above the Baa-rated median. However, going forward, Moody's expects government debt to decline to around 55% of GDP in 2018, where it is expected to stabilize. Under the rating agency's baseline scenario, the fiscal deficit will remain around 3% of GDP, while net borrowing requirements will be slightly higher due to the acquisition of financial assets. This will be sufficient for government debt to remain broadly stable over the next few years.

Although slightly above the Baa-rated median, the risks associated with this level of government debt are mitigated by several factors: first, exchange rate risk is limited by the relatively small share of foreign currency-denominated debt, accounting for less than 20% of total debt and composed entirely of official sector debt; second, 95% of domestic debt has a fixed interest rate; third, the average time to maturity of domestic debt has increased to 5.0 years as of June 2017, from 3.3 years as of June 2012; and lastly, the average time for re-fixing of total government debt, a measure of interest rate risk, has steadily increased and reached 4.0 years as of June 2017.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that economic policies will gradually address ongoing challenges, including those related to global efforts against tax avoidance, and that government debt will remain broadly stable. Although Mauritius's debt burden and debt affordability compare unfavorably to the Baa-rated median, the strength of the country's institutional framework supports the government's capacity to carry an elevated debt burden.

WHAT COULD CHANGE THE RATING UP/DOWN

A sustained decline in the government debt trajectory supported by reductions in fiscal deficits would be credit positive.

Conversely, downward pressure on the rating would emerge if Moody's determines the government's fiscal consolidation efforts would be insufficient to stabilize government debt metrics. Particularly adverse effects from changes in the Double Tax Avoidance Agreement with India, though not Moody's baseline scenario, could also exert downward rating pressures, as well as a pronounced deterioration in the financial sector's soundness.

GDP per capita (PPP basis, US$): 20,542 (2016 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 3.8% (2016 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2.3% (2016 Actual)

Gen. Gov. Financial Balance/GDP: -3.5% (2016 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -4.4% (2016 Actual) (also known as External Balance)

External debt/GDP: 18.3% (2016 Actual)

Level of economic development: Moderate level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 23 March 2018, a rating committee was called to discuss the rating of the Government of Mauritius. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has not materially changed.

The principal methodology used in these ratings was Sovereign Bond Ratings published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

David Rogovic
Asst Vice President - Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Marie Diron
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS