REPUBLIC OF MAURITIUS

DEBT MANAGEMENT STRATEGY

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT
GOVERNMENT HOUSE, PORT LOUIS
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1.0 Introduction

This debt management strategy is intended to serve as the primary policy tool for guiding the day-to-day operations for managing the public sector debt. The strategy sets objectives for the management of government and public sector debt portfolios. The strategy also establishes risk control benchmarks and medium term targets for the composition, currency mix, interest rate mix, maturity profile and relative size of the public sector debt as required under s(9)(2) of the Public Debt Management Act 2008.

Section 9(3) of the Act stipulates that the Ministry shall prepare the debt management strategy and from time to time review the debt management strategy. The Act also requires that the debt management strategy shall be made public.

The Act defines public sector debt so as to include the debt of government, public enterprises, agencies, local and regional Governments, and establishes a ceiling for public sector debt relative to GDP. The starting point for this ceiling in 2008 is 60 per cent of GDP and is targeted to be 50 per cent of GDP by the end of December 2013.

Section (9)(1) of the Act establishes the strategic objectives of debt management in Mauritius which are as follows:

(a) to meet the borrowing needs of Government in a manner that avoids market disruption;

(b) to minimize the cost of the debt portfolio within an acceptable level of risk; and

(c) to support the development of a well-functioning market for Government securities.

2.0 Domestic Debt Strategy

The objectives for domestic debt management are the following:

(a) to lengthen the maturity profile of the domestic debt portfolio so as to minimize rollover and refinancing risk,

(b) to ensure a smooth maturity profile,

(c) to consolidate the number of outstanding debt instruments to create benchmark issues,

(d) to improve the functioning of the primary and secondary markets for government securities by a reform of the primary dealer system, and

(e) to provide financial institutions and investors with a pre-announced schedule of tenders for the financial year.

2.1 Domestic Debt Composition

As at 30 June 2008, the domestic debt portfolio of the Government of Mauritius was about Rs 111 billion. The domestic debt of public enterprises as at June 30, 2008 is estimated to be over Rs 10.8 billion, taking total domestic public sector debt to Rs 121.8 billion. A selection of current and proposed portfolio benchmarks for the Government domestic debt stock are shown in Table 1 below.

Table 1: Government Domestic Debt Portfolio as at 30 June 2008

Benchmark	**Current Structure**	**Proposed Structure**
Treasury Bills	33.5%	20%
Notes & Bonds	66.5%	80%
% Maturing in 1 Year	45%	30%
Weighted Average Maturity	2.9 Years	5.0 Years

The proposed benchmarks, to be achieved by the end of December 2013, would limit treasury bills to 20 per cent of the portfolio, and ensure that no more than 10 per cent of the other instruments matured in any given year. This will result in a smoother maturity profile, and limit the amount of the portfolio maturing in a coming year to 30 per cent of the total.

The current outstanding debt is fragmented. Consolidation can be achieved by re-opening issues of securities to create "benchmark" issues, and also by initiating a program of buybacks and swaps to encourage holders to switch into new larger issues.

The functioning of the primary and secondary markets for Government securities will be reviewed so as to define a set of benefits and obligations for the primary dealers. The most important obligations will include meaningful participation in primary markets and support of secondary market development.

For a reformed primary dealer system to function properly, the government will remain committed to accepting market outcomes on auctions of securities, and must also provide institutions and investors with a reliable schedule of tenders of securities for the financial year.

3.0 External Debt Strategy

The objectives for external debt management are as follows:

(a) to lengthen the average maturity to reduce rollover/refinancing risk,
(b) to smooth the maturity profile,
(c) to ensure a prudent total for external debt by setting caps relative to debt service to exports,
(d) to adjust the currency mix of the external portfolio to reflect the composition of reserves and exports,

(e) to include the external debt of public enterprises with that of the Government when setting caps on total external debt and guidelines for the currency mix.

As at 30 June 2008 the external debt portfolio of the government was approximately Rs 11.4 billion, or approximately 10% of the total government debt portfolio (domestic and external) of Rs 122.4 billion. The external debt of the public enterprises takes the total external debt of the public sector to about Rs 20.7 billion.

3.1 External Debt Composition

External debt bears foreign currency risk that domestic debt does not have. The debt crises of emerging countries around the globe over the past decades make this a commonly recognized fact. For this reason, keeping the external debt portfolio within prudent limits, and managing the foreign exchange risk of the portfolio, is of paramount importance. The strategy recommends limiting the size of the public sector external debt stock to a level that will result in an annual debt service of the external debt portfolio not exceeding 10 per cent of export earnings which is considered reasonable. This ratio suggests that there is some space for Mauritius to prudently increase the size of its external debt portfolio.

Table 2: Public Sector External Debt Service Ratio as at 30 June 2008

Benchmark	Current Value	Proposed Limit
External Debt service/Export Income	4.2%	10%

The strategy recommends that the currency composition of the external public sector debt portfolio should be compared with both the currency composition of reserves and that of export earnings. Aligning the external debt with these sources of foreign exchange inflows will provide a rough hedge against currency risk. The current currency composition of the public sector external debt portfolio is shown below. The currency mix is not seriously out of line with exports, but it is recommended that the "other' category be reduced, and replaced with currencies that can be more easily swapped or hedged.

Table 3: Currency Composition of Public Sector External Debt as at 30 June 2008

Currency	Government	Public Enterprise & ors	Total Public Sector
USD	43%	25%	35%
JPY	11%	0%	6%
EUR	35%	62%	47%
Other	11%	13%	12%

The interest rate risk of the external portfolio depends upon the mix of fixed rate versus floating rate debt. A fixed rate has the benefit of bringing certainty into the calculation of servicing cost, while a variable rate increases a borrower's interest rate risk. A neutral position on the direction of interest rates would reflect an evenly matched fixed and floating portfolio. The current interest rate composition of the external debt portfolio reflects this neutral position.

Table 4: Interest Rate Composition of Public Sector External Debt as at 30 June 2008

Interest Rate	Government	Public Enterprise & ors	Total Public Sector
Fixed	65.7%	44.9%	56.3%
Variable	28.4%	55.1%	40.5%
Interest Free	5.9%	0%	3.2%

It should be mentioned that the Rs 9.4 billion public enterprise external debt portfolio has a shorter maturity and more exposure to variable rates than the Government portfolio. Short term variable rate external debt is the riskiest component in the public sector debt portfolio, and has been the cause of crises in countries around the world. Centrally managing the process whereby public enterprises contract external debt will help to control the risks of the public sector external debt and ensure that the overall portfolio is kept within prudent benchmark levels

4.0 Conclusion

This debt management strategy provides guidance and policy direction to the staff responsible for managing the government and public sector debt portfolios. It provides quantitative benchmarks which should enable better management of the risks of the portfolio. The strategy is a requirement of the Public Debt Management Act of 2008, which also makes clear that the MOFED is responsible for setting policy for debt management. By incorporating the debt of the broader public sector into debt ceilings for the next five years, the Act provides a source of fiscal discipline which will benefit the country's macro-economic stability. This strategy document derives from the Act, and so points out the need to centrally manage the risks of the entire public sector debt portfolio. The strategy will be reviewed annually.