MEDIUM TERM MACROECONOMIC FRAMEWORK,
FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2018/19	2019/20	2020/21	2021/22
WORLD ECONOMY[1]				
World Output Growth Rate (%)	3.6	3.3	3.6	3.6
Euro Area Output Growth Rate (%)	1.8	1.3	1.5	1.5
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	496.3	526.9	562.4	600.7
Real GDP Growth Rate - current market prices (%)	3.9	4.0	4.1	4.2
Investment Rate (%)	18.8	19.4	19.0	19.0
Inflation Rate (%)	1.0	2.0	2.5	2.5
Public Finance (as % of GDP)				
Recurrent Revenue	21.3	21.8	21.7	21.4
o/w Taxes	*19.9*	*19.9*	*20.2*	*20.2*
Non-Tax Revenue	*1.3*	*1.9*	*1.5*	*1.3*
Recurrent Expenditure	22.8	23.1	22.5	21.7
o/w Interest	*2.6*	*2.6*	*2.6*	*2.6*
Recurrent Balance	**-1.5**	**-1.3**	**-0.8**	**-0.3**
Capital Revenue	1.0	1.3	0.6	0.2
o/w External Grants	*0.8*	*1.2*	*0.6*	*0.2*
Capital Expenditure	2.7	3.2	3.0	2.7
o/w Acquisition of Non-Financial Assets	*1.7*	*2.2*	*2.0*	*1.9*
Capital Balance	**-1.7**	**-1.9**	**-2.4**	**-2.5**
Total Expenditure	**25.5**	**26.3**	**25.5**	**24.4**
Budget Deficit	**-3.2**	**-3.2**	**-3.1**	**-2.8**
Primary Balance - Surplus (+)/Deficit (-)	**-0.6**	**-0.6**	**-0.6**	**-0.2**
Government Borrowing Requirements	**4.7**	**3.6**	**2.3**	**2.8**
Public Debt (as % of GDP)				
Budgetary Central Government Debt	**57.8**	**53.5**	**51.8**	**51.7**
Public Sector Debt	**65.0**	**61.6**	**59.8**	**59.3**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-6.1	-5.5	-5.4	-5.3
Exports of Goods and Services[2]	39.6	38.8	37.6	36.7
Imports of Goods and Services[2]	-53.5	-52.2	-50.4	-48.4
Gross Official International Reserves (Rs bn)	245.0	246.0	258.0	268.0
Gross Official International Reserves (USD mn)[3]	6,950	6,980	7,320	7,600

[1] *World Economic Outlook, IMF - April 2019. Figures for 2018/19 refer to calendar year 2018.*

[2] *Exports and imports of services are as per National Accounts, i.e. Bank of Mauritius figures adjusted for Financial Intermediation Services Indirectly Measured (FISIM).*

[3] *Projections are based on exchange rate of Rs 35.24/US$ average for the month of May 2019*

MACROECONOMIC FRAMEWORK

The last four budgets have enabled Mauritius to make major strides towards realising its vision of a Modern and Inclusive High-Income Country. In the process, the macroeconomic fundamentals of the country have improved and there have also been significant advances in human development. The Framework takes into account the need to maintain the momentum of progress while addressing new challenges both internationally and locally.

Recent Developments

2. The global economy expanded by 3.6% in 2018, down from 3.8% in 2017. A marked slowdown was registered in the second semester of the year mainly as a result of an increase in trade tensions between the US and China and a weakening of consumer and business confidence in Euro Area. Our main trading partners, namely the Euro Area, UK and South Africa, recorded lower growth rates than in 2017. Growth in world trade volume decelerated to 3.8% in 2018.

3. Notwithstanding the global economic slowdown, the **Mauritian economic growth momentum remained strong** on the back of buoyant growth in some sectors and higher domestic demand. Real GDP growth is estimated at 3.9% in FY 2018/19. All sectors, except textile, contributed positively to growth. The main growth drivers were financial services, construction, retail trade, tourism and ICT.

4. On the demand side, **total investment in the economy continued to increase**. In 2018, total investment was up by 13.6% in nominal terms compared to 6% in 2017. There was a rise in both public and private investment. The investment rate went up to 18.7% from 17.4% in 2017. FDI inflows, after reaching a record Rs 21.2 billion in 2017, remained at an elevated level of Rs 17.4 billion in 2018. Consumption expenditure increased by 6.6% in nominal terms in 2018 compared to 6.3% in 2017.

5. **Unemployment continued on its declining trend**. The unemployment rate went down from 7.1% in 2017 to 6.9% in 2018, the lowest rate in 17 years. Both male and female unemployment rates declined in 2018. In fact, female unemployment rate has decreased more rapidly than male unemployment to reach 10.1% in 2018, which is the lowest since 2001. Youth unemployment rate increased slightly to 25.1% in 2018. Labour productivity grew at a higher pace of 3.7% in 2018 compared to 2.4% in 2017.

6. **Inflationary pressures receded in 2018** as the headline inflation rate declined from 3.7% in 2017 to 3.2%. The inflation rate declined further to 1% in May 2019.

7. **Overall balance of payments registered a surplus** of Rs 16.6 billion in 2018, equivalent to 3.4% of GDP. Net inflows of investment and loans in the capital and financial account were more than adequate to finance the current account deficit. As a result, the gross foreign exchange reserves of the country increased from Rs 200.4 billion at end-December 2017 to Rs 217.6 billion at end-December 2018 and further to Rs 241 billion at end-May 2019. The import cover has improved to a record 11.2 months in May 2019.

Prospects and Forecasts

8. According to the IMF, a pick-up in global economic growth is projected as from the second half of 2019 and will continue into 2020 on the basis of the impact of policy stimulus in China, improvements in global financial market sentiments and waning of temporary drags on growth in the Euro Area. The global economy is expected to grow at 3.3% in 2019 and 3.6% in 2020 and will plateau at about that rate over the medium term. The Euro Area will grow at 1.3% in 2019 and 1.5% in 2020, while the UK at 1.2% and 1.4%, and South Africa at 1.2% and 1.5%, respectively.

9. The Framework has been worked out on the basis of the growth projections for the global economy and our main trading partners, as well as the expected steady pace of expansion in economic activities locally. Real GDP growth is projected to be in the range of 4%-4.2% during the period 2019-2022.

10. At the sectoral level, the **construction sector will grow at a sustained high pace** in view of the implementation of a number of major public sector infrastructure projects such as the Metro Express, Jumbo-Phoenix Round-About, A1M1 Bridge, Pailles-Guibies and Grand Baie Sewerage Projects, New Flacq Teaching and New Cancer Hospitals and social housing. Private sector investment is expected to increase with real estate development and smart city projects, and construction of new and upgrading of existing hotels.

11. **The financial services and ICT sectors will expand further** with the development of Fintech activities, the adoption of Blockchain technologies and the implementation of AI and digital technologies in various sectors of the economy. Growth in the textile and tourism sectors is expected to gain momentum in the medium term in view of a projected pick-up in external demand. In addition, the trade agreements being finalised with India and China in particular are likely to give a boost to export sectors.

12. On the demand side, **growth in consumption expenditure will be buoyant** supported by improving employment and income conditions particularly following the introduction of the minimum wage and the negative income tax/special allowance.

13. The outlook is subject to downside risks which can emerge from the outcome of Brexit, escalation of trade tensions, mild pick-up or slowdown in growth in trading partner countries and the adverse impact of climate change.

Fiscal Performance in FY 2018/19

14. **The budget deficit for FY 2018/19 will be on target**, i.e. 3.2% of GDP as in the Estimate. Total revenue is estimated at 22.3% of GDP while total expenditure will be 25.5%. The recurrent budget will record a deficit of 1.5% as against the budget estimate of 1.7%. In fact, recurrent revenue will be higher by 0.4% of GDP while recurrent expenditure will be higher by only 0.2% of GDP. The deficit in the capital budget will amount to 1.7% as against 1.4% estimated.

15. Taking into account Government transactions in financial assets, particularly equity injection and provision of loans to public entities, Government borrowing requirements will be 4.7% of GDP, i.e. almost same as budgeted. As planned, most of the borrowing requirements will be financed by raising funds from the local market and there will be a net repayment of foreign loans.

16. **Budgetary Central Government debt is expected to reach 57.8% of GDP** at end-June 2019. Debt stock of public enterprises will be around 7.2%. Total public sector debt is estimated at 65%. Public sector domestic debt will account for 83.4% of total debt and the share of external debt is likely to decline from 23.8% at end-June 2018 to 16.6% at end-June 2019.

FISCAL STRATEGY

17. The priority objectives of the Fiscal Strategy for FY 2019/20 and throughout the medium term are to sustain the current growth momentum in the economy, facilitate the creation of employment opportunities and increase social inclusion while ensuring strong fiscal discipline and prudent fiscal management. The fundamental principles underpinning the Strategy are:

(a) ensuring buoyancy in revenue collection;
(b) elimination of wastage and unproductive expenditure;
(c) use of limited resources judiciously by right prioritising of investment projects; and
(d) adherence to the golden rule of borrowing only to finance quality investment.

18. With regard to Government revenue, the tax system will be kept simple, equitable and efficient to support economic growth. The amnesty scheme for collection of tax arrears is being reconducted for another year and the coverage enlarged. On the administration side, the MRA is exploiting the advancement in technology to facilitate and enhance compliance behaviour amongst the taxpayers' community. Use of artificial intelligence will enhance the quality of analysis of big data and assist in the detection of under-valuation, tax under-declaration and tax evasion. Efforts will be pursued to

mobilise financial assistance from friendly countries and international organisations. A programme to disinvest some public assets will be implemented as from FY 2019/20.

19. On the expenditure side, a special team is being put in place to review spending plans of Ministries and Departments in the light of the comments made by the Director of Audit in her reports and to make appropriate recommendations to ensure judicious use of public funds. This will contribute towards a reduction in misuse and wastage of public funds.

20. The strategy to direct resources to most productive and growth-enhancing projects will be continued. In addition, private investment will be leveraged to supplement public capital expenditure through the PPP/BOT framework. A number of projects such as the Urban Bus Terminals are already being implemented under the PPP framework. This arrangement will be extended to other projects in areas such as social housing and port development.

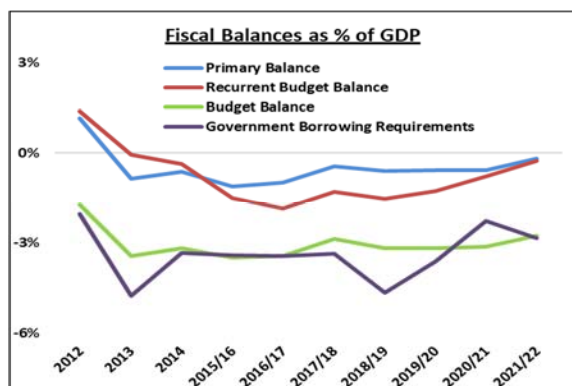
21. Public entities are now investing their temporary surplus cash balances in a new instrument, the Treasury Certificates. This will allow the entities to obtain a higher return on their investment and contribute to improving public sector cash management. At the same time, it will help to reduce excess liquidity in the banking system. An Asset-Liability Management Framework is being put in place that will allow a balance sheet approach to evaluating and prudently managing financial risks. The objective is to improve net financial worth of Government over time. In addition, public entities will be encouraged to move toward a cost-recovery operating model and reduce their fiscal impact.

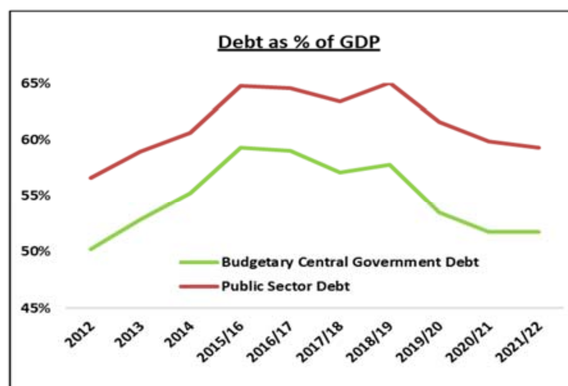
22. A programme for early repayment of debt will be implemented in FY 2019/20. Loans, particularly from external sources bearing high interest rates and with no/minimal prepayment penalty, will be repaid in priority. This will have the benefit of lowering the debt level as well as saving on the interest payable on these loans.

Fiscal Balances and Debt Targets

23. In view of the macroeconomic projections and fiscal strategy, it is expected that public sector debt will be reduced to 61.6%% of GDP by end-June 2020 and further to 59.8% by end-June 2021 and thereafter kept below that level. Budgetary Central Government debt will also decline to 53.5% at end-June 2020 and will continue to decrease throughout the medium term. Public enterprise debt will increase to 8.1% by end-June 2020 owing to implementation of major projects such as the Metro Express and decline to 7.6% by end-June 2022.

24. The budget deficit in FY 2019/20 will be at the same level as in the last financial year, i.e. at 3.2% of GDP and will gradually decline. The deficit in the recurrent budget will also be reduced to 0.3% of GDP in FY 2021/22. Similarly, the primary balance position will improve over the medium term.





DEBT MANAGEMENT STRATEGY

25. During the past four years, the profile of Government debt has improved significantly both in terms of the cost of borrowings and the refinancing and interest rate risks. This has been achieved through a pro-active and effective Debt Management Strategy.

Cost of borrowings:
- (i) Ratio of interest payments to recurrent revenue reduced from 12.3% in FY 2014 to 10.9% in FY 2017/18.
- (ii) Ratio of interest payments to GDP brought down from 2.5% to about 2.3%

Refinancing risks:
- (i) Average time to maturity of Government debt increased from 4.7 years at end-December 2014 to 4.9 years at end-June 2018
- (ii) Average time to re-fixing Government debt improved from 3.2 years to 4 years

26. The Debt Management Strategy will continue to aim at making the optimal trade-off between costs and risks in the financing of Government borrowing requirements. This involves determining the appropriate mix of foreign and domestic borrowings, the currency, maturity and interest mix as well as their related costs.

27. **Mix of Foreign and Domestic Borrowings.** The main factors determining the mix of foreign and domestic borrowings are their relative costs and associated risks. Government external debt portfolio will be downsized during FY 2019/20. This will be achieved through early repayment of relatively expensive foreign loans equivalent to some Rs 15.6 billion and by having greater recourse to domestic financing. As a result of this downsizing, the share of external debt in Government debt portfolio is expected to drop to around 9% by end-June 2020. The target over the medium term will be to contain the share of external debt to within 15% and that of domestic debt at around 85%.

28. **Currency Mix:** The long term objective of the Strategy is to align the currency composition of public sector external debt to that of export earnings of the country. In this respect, the share of Government external debt in USD will be reduced to about 25% over the medium term. The share of debt in Euros will be maintained at around 35% and the portfolio further diversified in terms of other currencies.

29. **Maturity Mix**: The quasi totality of Government external loans is long term, with original maturities of between 15 to 20 years. With the planned early repayment of a number of external loans, the time to maturity (ATM) of Government external debt is expected to drop during FY 2019/20. However, with disbursements of long term concessionary loans, the ATM of Government external debt is expected to pick up to 5.3 years over the medium term, that is, close to the target of 5.5 years.

30. Regarding domestic debt, the average time to maturity currently stands at about 4.8 years. Around 13% of Government domestic debt is of short term maturity, while the share of medium term and long term debt is 22% and 65%, respectively. The target over the medium term is to further reduce the share of short term debt to about 10% and increase that of medium and long term debt to about 23% and 67%, respectively. This will maintain the ATM of Government domestic and total debt at close to 5 years.

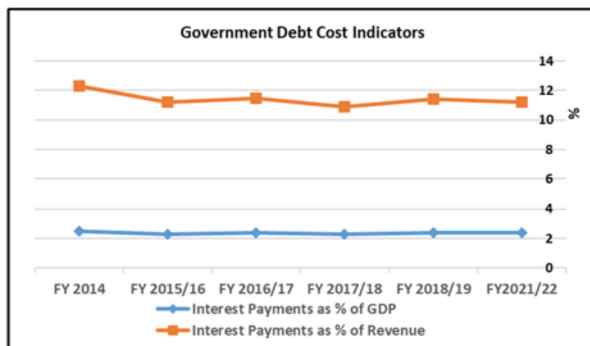
31. **Interest Rate Mix**: In terms of interest rate mix of Government external debt, the long term strategy is to have a near balance between fixed and variable interest rate loans. However, in view of the rise in interest rates, particularly in the international USD market, the interest rate mix will be tilted towards fixed interest rate loans over the medium term to around 60%. The share of floating interest rate loans will be brought down to 35% and that of interest free loans increased to 5%. This will improve the average time to re-fixing (ATR) of Government external debt from about 2.3 years at present to about 4.2 years over the medium term.

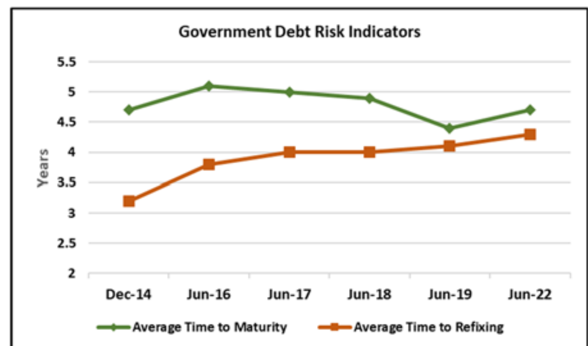
32. As regards Government domestic debt, it comprises about 96% of fixed interest rate instruments and about 4% of variable rate instruments. This mix will be maintained at around 95% and 5%, respectively over the medium term. The ATR of domestic debt will thus remain at around 4.3 years while that of total Government debt will improve from 4.1 years to 4.3 years over the medium term.

33. **Costs**: The cost of Government debt, as measured by the ratio of interest payments to GDP and to recurrent revenue, picked up slightly in FY 2018/19 to around 2.4% and 11.4% respectively compared to the preceding year. This was mainly due to the increase in interest rates both on the international and domestic markets. However, these cost measures are expected to remain at their current level over the medium term.

34. The average interest rate on Government debt is expected to pick up from 4.3% at present to about 4.8% over the medium term due to the higher share of domestic debt following the planned early repayment of foreign loans. However, this will be largely offset by reduction in foreign exchange risks of Government debt portfolio.

35. **Market Development**: The issuance of Treasury Certificates, specifically designed to facilitate investment by Non-Financial Public Sector Bodies, will be actively pursued. In addition, public sector bodies will be encouraged to invest in Government securities through the secondary market.





Cost and Risk Indicators

	End Jun-18	End Jun-19	End Jun-22	Benchmarks/	Tolerance
	Actual	Rev. Estimates	Estimates	Limits	Level %
Government Debt					
As % of GDP	56.9	57.6	51.7	52.0	
Cost Indicators (Cash Basis) (Financial Year)					
Interest Payments as % of GDP	2.3	2.4	2.4	2.4	+/-10
Interest Payments as % of Recurrent Revenue	10.9	11.4	11.4	11.5	+/-10
Average Cost of Debt (%)	4.1	4.3	4.8	5.0	+/-10
Composition (%)					
Foreign	16.7	14.3	7.6	< or = 15.0	+/-5
Domestic	83.3	85.7	92.4	> or = 85.0	+/-5
Currency Composition of External Debt (%)					
USD	31.3	32.1	15.3	25.0	+/-5
EURO	41.8	41.0	28.3	35.0	+/-5
Others	26.9	26.9	56.4	40.0	+/-5
Refinancing Risks					
Average Time to Maturity (Years)					
Total Debt	4.9	4.4	4.7	5.0	+/-10
External Debt	5.8	2.8	5.3	5.5	+/-10
Domestic Debt	4.7	4.7	4.7	5.0	+/-10
Due Within 1 year (%)					
Total Debt	23.1	27.3	22.6	22.0	+/-10
External Debt	10.2	54.0	13.0	12.0	+/-10
Domestic Debt	25.3	23.5	23.3	24.0	+/-10
Interest Rate Risk					
Average Time to Re-Fixing (Years)					
Total Debt	4.0	4.1	4.3	4.5	+/-10
External Debt	2.4	2.3	4.2	4.0	+/-10
Domestic Debt	4.3	4.3	4.3	4.5	+/-10
Share with Re-fixing in 1 Year (%)					
Total Debt	34.1	31.9	28.2	27.0	+/-10
External Debt	61.3	63.9	34.5	35.0	+/-10
Domestic Debt	29.3	27.3	27.7	27.0	+/-10
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	37.7	35.9	57.8	60.0	+/-10
Variable Interest Rate Loans	60.3	61.1	37.0	35.0	+/-10
Interest Free Loans	2.0	3.0	5.2	5.0	+/-10
Public Sector Debt					
As % of GDP	63.2	64.8	59.3	60.0	
Composition (%)					
Foreign	19.3	16.6	14.6	<or = 20.0	+/-5
Domestic	80.7	83.4	85.4	> or= 80.0	+/-5
Currency Composition of External Debt (%)					
USD	44.8	46.1	57.3	40.0	+/-5
EURO	34.3	31.8	16.4	35.0	+/-5
Others	20.9	22.1	26.3	25.0	+/-5
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	42.6	41.9	68.2	60.0	+/-10
Variable Interest Rate Loans	55.8	55.8	29.5	37.0	+/-10
Interest Free Loans	1.6	2.3	2.3	3.0	+/-10
National External Debt [1]					
As % of GDP	17.3	15.7	13.1	20.0	+/-10
As % of Export of Goods and Services	41.7	39.7	35.7	40.0	+/-10
FX Reserves as % of External Debt	284.0	314.5	341.1	300.0	+/-10
Debt Service Ratio[2] (%) (Financial Year)	5.5	4.9	4.1	< or = 6	+/-10

1 - Excludes Deposit Taking Institutions and Global Business.

2- Includes prepayment of external loans in FY 2019/20

For computation of indicators, Government Securities issued for mopping up excess liquidity have been excluded.