MEDIUM TERM MACROECONOMIC FRAMEWORK, FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2022/23	2023/24	2024/25	2025/26
WORLD ECONOMY[1]				
World Output Growth Rate (%)	2.8	3.0	3.2	3.2
Euro Area Output Growth Rate (%)	0.8	1.4	1.9	1.7
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	614.0	722.9	804.5	887.0
Real GDP Growth Rate - constant market prices (%)	8.0	8.0	5.0	5.0
GDP Deflator (% change)	9.0	9.0	6.0	5.0
Investment Rate (%)	20.9	21.3	21.5	21.7
Public Finance (as % of GDP)				
Recurrent Revenue	24.6	24.5	24.4	24.3
o/w Taxes	*21.6*	*21.6*	*21.7*	*21.6*
Non-Tax Revenue	*3.0*	*2.8*	*2.7*	*2.6*
Recurrent Expenditure	25.6	24.7	24.0	23.3
o/w Interest	*2.4*	*2.5*	*2.5*	*2.4*
Recurrent Balance - Surplus (+)/Deficit (-)	**-0.9**	**-0.2**	**0.4**	**0.9**
Capital Revenue	0.3	0.3	0.1	0.1
o/w Capital Grants	*0.3*	*0.3*	*0.1*	*0.1*
Capital Expenditure	3.4	3.0	3.5	3.9
o/w Acquisition of Non-Financial Assets	*1.5*	*1.6*	*2.0*	*2.0*
Capital Balance - Surplus (+)/Deficit (-)	**-3.0**	**-2.7**	**-3.4**	**-3.8**
Total Expenditure	**28.9**	**27.7**	**27.5**	**27.2**
Budget Balance - Surplus (+)/Deficit (-)	**-3.9**	**-2.9**	**-2.9**	**-2.9**
Primary Balance - Surplus (+)/Deficit (-)	**-1.5**	**-0.4**	**-0.4**	**-0.4**
Government Borrowing Requirements	**3.9**	**3.4**	**3.1**	**2.8**
Public Debt (as % of GDP)				
Budgetary Central Government Debt	**68.7**	**62.0**	**59.4**	**56.7**
Public Sector Gross Debt	**79.0**	**71.5**	**68.2**	**64.2**
Public Sector Net Debt	**70.3**	**65.8**	**63.8**	**60.2**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-7.6	-6.1	-5.6	-4.2
Exports of Goods and Services[2]	48.4	42.8	40.1	38.0
Imports of Goods and Services[2]	60.3	52.8	49.7	45.8
Gross Official International Reserves (Rs bn)	310.0	325.2	340.9	354.1
Gross Official International Reserves (USD m)[3]	6,840	7,170	7,520	7,810

1 World Economic Outlook, IMF - April 2023. Figures for 2022/23 refer to calendar year 2023.

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 45.35/US$ - average buying and selling for the month of May 2023.

MACROECONOMIC FRAMEWORK

The Macroeconomic Framework has been formulated in line with Government's vision of an Inclusive, High Income and Green Mauritius. It reflects policies and strategies geared towards sustaining the momentum of a strong economic recovery and the protection of the purchasing power and living conditions of the population, particularly the middle-income and vulnerable groups. It also supports efforts to building greater resilience in the economy and society to future shocks.

2. Moreover, the Framework takes into account uncertainties that weigh on the global economy from the legacy effects of the COVID-19 pandemic, the war in Ukraine and the impact of climate change.

Recent Developments

3. After a significant rebound of 6.3% in 2021, global economic growth slowed to 3.4% in 2022, particularly due to the war in Ukraine, stringent anti-virus measures in China and a rapid tightening of financial conditions. On the other hand, global inflation continued to rise from 3.2% in 2020 to 4.7% in 2021 and further to 8.7% in 2022. This was due to the disruptions in global production and supply chains, the surge in oil prices and the substantial increase in freight costs.

4. As regards the Mauritian economy, the positive effects of measures taken by Government in response to the global crisis caused by the pandemic and the war in Ukraine are reflected in a general improvement in the main macroeconomic indicators.

5. The economy is firmly embarked on a strong recovery path. Real GDP grew by 8.7% in 2022, up from 3.4% in 2021. Real GVA growth in 2022 was 9.7%, more than double the growth in 2021. This growth was driven mainly by the tourism, manufacturing, financial services, and wholesale and retail trade sectors.

6. The target of around 1 million tourist arrivals in 2022 was achieved. In addition, average expenditure per tourist increased to Rs 65,021 from Rs 45,614 in 2019, i.e., higher by 42.5%. In terms of US dollars, average expenditure per tourist amounted to USD 1,490 in 2022 as compared to USD 1,300 in 2019, i.e., up by 14.6%.

7. The level of investment has recovered fully and exceeded the pre-pandemic levels. Total investment is estimated at Rs 112.8 billion in 2022, representing an increase of 20% over 2021. The investment rate went up from 17.1% in 2020 to 19.6% in 2021 and further to 19.8% in 2022. FDI inflows reached a record level of Rs 27.7 billion in 2022 compared to Rs 18.5 billion in 2021.

8. Consumption spending has gained momentum. Total consumption expenditure increased by 13.7% in 2022 to reach Rs 491.5 billion. There was a surge in both private and public consumption expenditure.

9. Labour market conditions have improved with the recovery in economic activities. Total Mauritian employment increased by 35,200 to reach 519,600 in 2022. The unemployment rate dropped to 7.7% in 2022 from 9.1% in 2021, with a decline in both male and female unemployment rates. The youth unemployment rate dropped to 25.1% from 27.7% in 2021.

10. External balances are improving, supported by the increase in tourism earnings. Exports of goods and services surpassed pre-pandemic levels. Total exports exceeded Rs 320 billion in 2022, representing an increase of 51% over 2021. Exports of goods increased by 24% and services by 68%.

11. The deficit in the current account of the BOP declined from 13.1% of GDP in 2021 to 12.2% in 2022, mainly as a result of a surplus in the services account, driven by the recovery in the tourism sector, and a surplus in the primary income account.

12. Gross official international reserves remain at comfortable levels. As at end-April 2023, reserves amounted to USD 6.5 billion (Rs 291 billion), representing 9.8 months of imports.

13. The significant increase in global prices of commodities and energy, and freight costs has impacted on local prices. As a result, the inflation rate has gone up to 10.8% in 2022 compared to 4% in 2021.

14. In response, the Bank of Mauritius has raised the policy rate by 265 basis points from 1.85% in March 2022 to reach 4.5% in December 2022. As per the new Monetary Policy Framework effective as from 16 January 2023, the Bank has adopted an inflation target ranging between 2% and 5%, with the aim of achieving the mid-point of 3.5% over the medium-term. During the past few months, the inflation rate has been on a declining trend.

Prospects and Forecasts

15. According to the IMF, global economic growth will bottom out at 2.8% in 2023 to increase slightly to 3% in 2024 and further to 3.2% in 2025. The slowdown is mainly in advanced economies while emerging market and developing economies are projected to perform better. Global inflation will remain at an elevated level, though declining from 8.7% in 2022 to 7% in 2023 and 4.9% in 2024, as price increases are expected to be much stickier than anticipated.

16. As for the Mauritian economy, the strong recovery recorded in 2022 will be sustained in 2023 on the back of continued progress in the tourism sector and other related sectors, a significant boost in the construction sector, and sustained growth in the manufacturing and financial services sectors. In addition, the growth momentum in investment and consumption is expected to continue over the medium term. Moreover, the measures announced in the Budget Speech will give a further impetus to the economic prospects.

17. The tourism sector recorded a recovery rate of 72% in 2022 over 2019. The recovery accelerated during the third and fourth quarters of 2022 when it crossed the 80% mark. From January to mid-May 2023, the number of tourist arrivals by air amounted to 457,770, representing an increase of 65% over the same period in 2022.

18. On that basis, it is expected that the number of tourist arrivals in 2023 will be close to the pre-pandemic level and average expenditure per tourist and length of stay will remain high. Other sectors such as transportation, wholesale and retail trade, and recreation and entertainment that service the tourism sector are also projected to register sustained growth. The tourism sector is expected to continue to expand over the medium term.

19. The construction sector is expected to register sustained growth over the medium term with the implementation of a number of public sector projects such as the construction of social housing units, the Metro Express, the expansion of the road network, implementation of drain infrastructure projects, construction of hospitals and upgrading of schools. In addition, it is expected that private sector investment will continue to increase, particularly in projects such as the development of smart cities, property development scheme projects and renovation of hotels.

20. The manufacturing sector is projected to expand at a higher pace compared to the subdued growth registered in previous years. This expansion will be driven by food processing activities and particularly the other manufacturing activities in line with the import substitution strategy. The focus will also be on manufacturing higher value-added industrial products such as certain medical devices and pharmaceutical products.

21. The financial services sector will also grow in view of the growth momentum in other sectors of the economy. Growth in the renewable energy sector is likely to accelerate as more resources are invested into the sector to achieve the target of 60% of the electricity mix generated from renewable sources by 2030.

22. In view of the projected growth trends in the main sectors of the economy, it is expected that real GDP will grow by 8% in FY 2023-2024, and 5% in FY 2024-2025 and FY 2025-2026.

23. The medium term growth outlook remains resilient but dependent particularly on external developments. Downside risks stem from uncertainties due to the war in Ukraine, persistent core inflation and the required monetary policy tightening, increasing sovereign debt distress and financial constraints, and geopolitical fragmentation. On the other hand, easing of supply-chain bottlenecks and higher than expected household consumption growth can improve the outlook.

Fiscal Performance in FY 2022-2023

24. As regards the fiscal performance in FY 2022-2023, total revenue is estimated at Rs 153.2 billion while total expenditure would be around Rs 177.5 billion. As a result, the budget deficit would amount to Rs 24.2 billion. As a percentage of GDP, the budget deficit would be 3.9%, i.e., slightly below the budget projection.

25. After taking into account net transactions in financial assets, Government borrowing requirements would be around 3.9% of GDP. Budgetary Central Government debt as at end June 2023 is estimated at Rs 421.8 billion. As a ratio to GDP, it would drop from 75.9% as at end June 2022 to 68.7% as at end June 2023.

26. Public enterprise debt would amount to Rs 63.4 billion as at end June 2023. Public sector debt would consequently be around Rs 485.3 billion. The public sector debt to GDP ratio would continue on its declining trend from 92% as at end June 2021 to 86.1% as at end June 2022 and further to 79% as at end June 2023.

FISCAL STRATEGY

27. The fiscal strategy is underpinned by the progress made in FY 2022-2023 to increase revenue and contain expenditure. For example, some Rs 2.9 billion of arrears of revenue were recovered. The strategy maintains the prudent fiscal stance and directs resources towards supporting the middle-income and vulnerable groups, and the implementation of projects and programmes to consolidate the economic recovery. It aims at enhancing overall macroeconomic stability by maintaining the budget deficit at a sustainable level, minimising fiscal risks, while putting public sector debt as a ratio to GDP on a declining trend.

28. On the revenue side, the strategy is to improve tax collection, recover revenue arrears and strengthen enforcement and compliance. In addition, a reform of the tax system and new revenue raising measures will be implemented to further improve the buoyancy of the tax system as well as making it fairer.

29. On the expenditure side, the strategy is to prioritise the implementation of projects and schemes with high potential for further economic diversification and growth, and to ensure that projects and schemes are well prepared for timely implementation and to avoid cost overruns. The focus will also be on eliminating wastages and improving operational efficiency by addressing issues raised by the Director of Audit. In addition, measures will be taken to ensure that recruitment reflects the need for adequate capacity to deliver on government’s vision and provide effective services to the public.

Fiscal Balances and Debt Targets

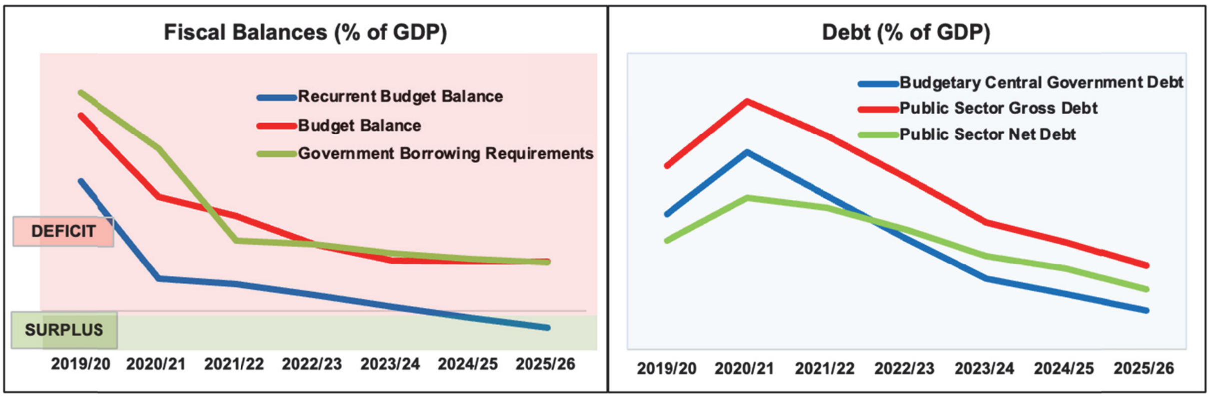
30. In line with the economic prospects and the fiscal strategy, the budget deficit in FY 2023-2024 will be brought down to 2.9% of GDP compared to 3.9% in FY 2022-2023. The budget deficit will be stabilised at 2.9% of GDP in FY 2024-2025 and FY 2025-2026 with a view to balancing the need to invest in infrastructure development and supporting the vulnerable groups, and the need to maintain prudent levels of public sector debt.

Government borrowing requirements would be 3.4% of GDP in FY 2023-2024 and further reduced to 3.1% in FY 2024-2025 and 2.8% in FY 2025-2026.

31. Budgetary Central Government debt would continue on its downward trend to 62% of GDP as at end-June 2024. It would drop to 59.4% as at end-June 2025 and 56.7% as at end-June 2026.

32. Public enterprise debt as a percentage to GDP would decline from 10.3% as at end-June 2023 to 9.4% as at end-June 2024, and further to reach 7.5% as at end-June 2026. Consequently, public sector debt would drop to 71.5% of GDP as at end-June 2024. It is projected to go down further to 68.2% as at end-June 2025 and 64.2% as at end-June 2026.

33. Public sector net debt, which is calculated by netting out cash and cash equivalent and equity investment held by Government and non-financial public sector bodies in private entities from the gross debt figure, would be 65.8% of GDP as at end June 2024. It is expected to drop to 60.2% by end June 2026.



DEBT MANAGEMENT STRATEGY

34. The overarching objective of the Debt Management Strategy is to minimise the cost of the public sector debt portfolio while maintaining risks linked to the debt at a reasonable level. In this regard, the Strategy outlines the targeted composition of public sector debt in terms of domestic and foreign, the currency composition, maturity structure and interest rate mix. The Strategy also sets out appropriate benchmarks, after an assessment of the alternative financing strategies, that would deliver the optimum mix of debt instruments in view of their costs and risks. The focus is on further improving the sustainability of public sector debt.

35. On the cost side, notwithstanding the recent rise in interest rates both on the international and domestic markets, the Strategy aims at maintaining the ratio of interest payments on Government debt to GDP at its present level of 2.4%, that is, well below the limit set at 3.5%. Similarly, the ratio of interest payments to Government recurrent revenue will be maintained at its present level of around 10% compared to the benchmark of 10.5%.

36. On the risk side, with a view to containing exposure to foreign exchange risks, the share of Government foreign debt will be kept below 22% over the medium term. In fact, the share of foreign debt is projected to be around 21% as at end June 2026. Some 72% of the aggregate medium-term borrowing requirements of Government will be met from domestic sources and 28% from foreign sources. This represents a moderate exposure to foreign exchange risks according to international standards.

37. Moreover, Government's foreign financing requirements will be met mainly from long-term concessionary or semi-concessionary bilateral and multilateral sources. Simultaneously, the

currency composition of Government debt will be reviewed to raise the share of USD from around 19% at present to 33% by end June 2026 while the share of the Euro will be brought down from about 43% to 39%. Foreign debt in other currencies will be reduced from 37% to 28%. As for public sector debt, the share of USD is planned to be maintained within 52%, with the Euro and other currencies constituting 28% and 20%, respectively.

38. To reduce rollover risks, the average time to maturity of Government debt will be increased from 5.8 years at present to 6 years over the medium term. The average time to maturity of Government domestic debt will be raised from 5.3 to 5.7 years as some Rs 15 billion of Government bonds, issued during the COVID-19 pandemic, will, at maturity, be replaced by longer term instruments. In addition, a higher amount of benchmark securities will be issued to deepen the domestic market for Government securities.

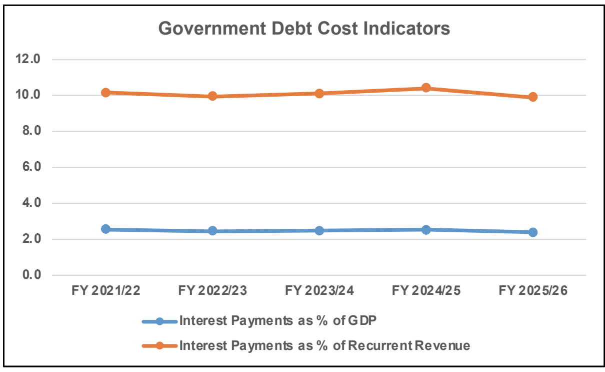
39. With a view to reducing interest rate risk of Government debt, the average time for re-fixing will be gradually raised from 5.1 years at present to 5.3 years by end June 2026. The objective is to reach the benchmark of 5.5 years. This is planned to be achieved by continuing to issue domestic securities at fixed interest rates.

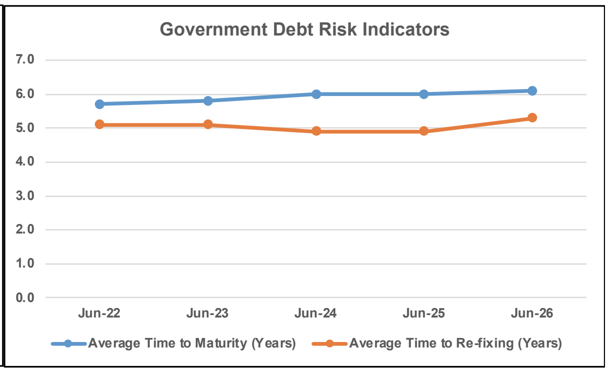
40. Moreover, in view of the high international interest rate environment, the interest rate mix of Government foreign debt will be slightly tilted towards variable interest rate. The share of variable interest rate loans will be increased from 54% at present to 60% as at end June 2026 and that of fixed interest rate loans reduced from 45% to 39%; the remaining being interest free loans. The situation will be closely monitored to adjust for changes in market conditions.

41. As regards the total external debt of the country, it is planned to be brought down to around 25% of GDP by end June 2026 from its present level of about 33%. This is envisaged to be achieved through a steady reduction of debt in each debt holder categories.

42. The debt service ratio, which picked up to 7% in FY 2022/23 due to repayment of an exceptional short-term bridging financing, is planned to be brought down to 3.6% in FY 2025/26, well below the benchmark of 6%. Furthermore, external debt servicing will be well shielded with a planned foreign exchange reserves to external debt cover of around 160%.

43. The overall objective of further enhancing public sector debt sustainability will be achieved through improvement in the indicators of liquidity and solvency. In particular, it will be attained through the lengthening of the average time to maturity and average time to re-fixing of Government debt while maintaining costs broadly at their current levels as shown in the charts below. The strategy will be operationalised by linking the annual issuance calendar with the financing plan in the Budget and through close monitoring of the cost and risk indicators.





Medium Term Cost and Risk Indicators

	End Jun-22 Actual	End Jun-23 Rev. Estimates	End Jun-26 Estimates	Benchmarks/ Limits	Tolerance Level %
Government Debt					
As % of GDP (End of Period)	75.9	68.7	56.7	57.0	+/-5
Cost Indicators (Financial Year)					
Interest Payments as % of GDP	2.5	2.4	2.4	< or = 3.5	-
Interest Payments as % of Recurrent Revenue	10.1	9.9	9.9	10.5	+/-10
Average Interest on Debt (%)	3.8	3.8	4.5	5.0	+/-10
Composition (%) (End of Period)					
Foreign	18.5	19.8	20.8	22.0	+/-5
Domestic	81.5	80.2	79.2	78.0	+/-5
Currency Composition of External Debt (%)					
USD	7.3	19.3	32.9	33.0	+/-5
EURO	50.0	43.4	39.1	39.0	+/-5
YEN	14.3	12.5	8.3	8.0	+/-5
Others	28.4	24.8	19.7	20.0	+/-5
Refinancing Risks					
Average Time to Maturity (Years)					
Total Debt	5.6	5.8	6.1	6.0	+/-10
External Debt	8.3	8.7	8.1	8.0	+/-10
Domestic Debt	5.1	5.3	5.7	5.5	+/-10
Due Within 1 year (%)					
Total Debt	19.1	18.5	18.3	20.0	+/-10
External Debt	7.0	4.7	4.9	5.0	+/-10
Domestic Debt	21.2	21.2	21.3	22.0	+/-10
Interest Rate Risk					
Average Time to Re-Fixing (Years)					
Total Debt	5.1	5.1	5.3	5.5	+/-10
External Debt	6.0	5.0	3.7	4.0	+/-10
Domestic Debt	5.0	5.1	5.6	5.5	+/-10
Share with Re-fixing in 1 Year (%)					
Total Debt	26.3	27.6	29.4	30.0	+/-10
External Debt	39.2	47.6	56.8	55.0	+/-10
Domestic Debt	24.1	23.7	23.3	24.0	+/-10
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	51.6	44.5	38.6	39.0	+/-10
Variable Interest Rate Loans	46.9	54.3	60.6	60.0	+/-10
Interest Free Loans	1.5	1.2	0.8	1.0	+/-10
Public Sector Debt					
As % of GDP (Gross)	86.1	79.0	64.2	65.0	+/-5
As % of GDP (Net)	73.9	70.3	60.2	60.0	+/-5
Composition (%)					
Foreign	22.7	23.7	25.7	27.0	+/-5
Domestic	77.3	76.3	74.3	73.0	+/-5
Currency Composition of External Debt (%)					
USD	33.4	41.4	51.9	52.0	+/-5
EURO	35.9	31.5	28.0	28.0	+/-5
YEN	10.3	9.1	6.0	6.0	+/-5
Others	20.4	18.0	14.1	14.0	+/-5
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	56.7	52.5	50.9	50.0	+/-5
Variable Interest Rate Loans	42.2	46.6	48.6	49.5	+/-5
Interest Free Loans	1.1	0.9	0.5	0.5	+/-5
National External Debt [1]					
As % of GDP	35.6	32.8	25.1	25.0	+/-10
FX Reserves as % of External Debt	188.0	153.8	158.8	160.0	+/-10
Debt Service Ratio (%) (Financial Year)[2]	3.6	7.0	3.6	< or = 6	-

1 - Excludes Deposit Taking Institutions and Global Business.

2 - Includes debt servicing of a short term loan of USD 250 million in FY 22/23. Excluding that servicing the debt service ratio would be 3.1% .