MEDIUM TERM MACROECONOMIC FRAMEWORK, FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2014	2015/16	2016/17	2017/18
WORLD ECONOMY[1]				
World Output Growth Rate (%)	3.3	3.5	3.7	4.1
Euro Area Output Growth Rate (%)	0.8	1.2	1.4	1.7
MAURITIAN ECONOMY				
Output and Prices				
Real GDP Growth Rate - Basic prices (%)	3.5	5.3	5.7	5.5
Investment Rate (%)	19.4	24.8	25.2	25.8
Inflation Rate (%)	3.2	3.0	3.8	3.8
Public Finance (as % of GDP)				
Recurrent Revenue	20.5	20.1	19.9	20.0
o/w Taxes	*18.6*	*17.9*	*17.9*	*17.9*
Non-Tax Revenue	*1.9*	*2.2*	*2.0*	*2.0*
Recurrent Expenditure	20.9	21.5	20.5	19.2
o/w Interest	*2.6*	*2.4*	*2.4*	*2.4*
Recurrent Balance	**-0.4**	**-1.4**	**-0.6**	**0.8**
Capital Revenue	0.1	0.7	0.2	0.1
o/w External Grants	*0.1*	*0.6*	*0.2*	*0.1*
Capital Expenditure	3.0	2.9	2.6	2.5
o/w Acquisition of Non-Financial Assets	*2.5*	*2.0*	*2.1*	*2.0*
Capital Balance	**-2.9**	**-2.2**	**-2.4**	**-2.4**
Total Expenditure	**23.9**	**24.4**	**23.1**	**21.7**
Budget Balance - Surplus (+)/Deficit (-)	**-3.2**	**-3.5**	**-3.0**	**-1.6**
Primary Balance - Surplus (+)/Deficit (-)	**-0.6**	**-1.2**	**-0.6**	**0.8**
Government Borrowing Requirements	**3.4**	**3.7**	**3.3**	**1.5**
Public Debt (as % of GDP)				
Government Net Debt	**52.1**	**52.0**	**50.8**	**47.8**
Public Sector Net Debt (Statutory Debt Ceiling)	**54.2**	**54.2**	**53.2**	**50.3**
Public Sector Debt (International Definition)	**61.5**	**58.6**	**57.5**	**54.1**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-10.3	-9.6	-8.1	-7.4
Exports of Goods and Services[2]	53.6	52.8	51.0	50.2
Imports of Goods and Services[2]	-65.1	-65.4	-61.9	-59.3
Gross Official International Reserves (Rs bn)	124.3	141.4	149.9	159.1
Gross Official International Reserves (USD mn)[3]	3,919	3,889	4,125	4,377

[1] *World Economic Outlook, IMF - October 2014 & January 2015 Update. Figures for 2015/16 refer to calendar year 2015.*

[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 prevailing on 20 March 2015*

Macroeconomic Framework

The Framework has been worked out in line with Government's objective to steer the economy to a higher plane of development. It takes into account economic performance in 2014 and assumptions for global and domestic economic prospects for the period 2015-2018. It also incorporates likely impact of measures announced in the Budget Speech.

Economic Performance in 2014

2. The global economic recovery in 2014 was weak and uneven across countries and regions. Whilst growth in the US and UK was relatively strong, the Euro Area grew by a lower rate of 0.8% compared to an initial projection of 1.2%.

3. The Mauritian economy grew by a slightly higher rate of 3.5% in 2014 compared to 3.2% in 2013. All sectors of the economy, except construction and sugarcane, registered positive growth. The investment rate declined from 21.2% to 19.4% in 2014, due to lower private investment in residential and non-residential buildings. The saving rate dropped from 11.8% to 11.6% in 2014.

4. The unemployment rate edged down to 7.8% in 2014 compared to 8% in the previous two years. Whilst male unemployment stabilised at 5.3%, female unemployment declined from 12.2% to 11.9%. Headline inflation continued its downward trend to reach 3.2% in 2014.

5. Export of goods increased by 8% in 2014, mainly due to high re-export of telecommunication equipment through the freeport zone. Imports grew by a lower rate of 3.8% as a result of lower import prices of fish and petroleum products, and lower import volume of cement, iron and steel. As a result, the trade deficit was lower at 19.8% of GDP against 21.2% in 2013. Due to a net outflow in factor income, the current account deficit increased from 9.9% to 10.3% in 2014. However, the balance of payments surplus increased to 6% of GDP compared to 4.5% in 2013. Reserves amounted to Rs 124.3 billion at end-December 2014, representing 6.2 months of import cover.

6. As regards Budgetary Central Government, the recurrent budget showed a deficit of 0.4% of GDP. Government transfers through subsidies, grants to parastatal bodies and social benefits increased from 9.4% to 9.7%. On the revenue side, the decline in VAT receipts by 0.4% of GDP was offset by higher receipts from direct taxes. Capital expenditure decreased to 3% of GDP against 4.2% in 2013 due to lower transfers to Special Funds.

7. The overall budget deficit is estimated at 3.2% of GDP. Government borrowing requirements amounted to 3.4%, down from 4.9% in 2013 as net lending to parastatal bodies was lower in 2014. Government net debt, after netting out cash balances, increased from 51.3% of GDP in 2013 to 52.1%. Taking into account the decline in debt of parastatal bodies and public enterprises (adjusted on basis of risk assessment for the purpose of the statutory debt ceiling), public sector net debt increased to 54.2% against 53.9% in 2013.

8. Unadjusted public sector debt, as per international definition, increased from 60.1% to 61.5% in 2014. Excluding Government securities issued for mopping up excess liquidity, public sector debt stood at 60.1%.

Economic Prospects for 2015-2018

9. The assumptions underlying the Macroeconomic Framework are based on the objectives of Government to boost investment, especially private investment, create more jobs particularly through SMEs, address the high current account deficit, and ensure sustainable and equitable growth.

<u>Global Economy</u>

10. The global economy is expected to recover gradually in the medium term, with growth reaching 3.7% in 2016 and slightly higher thereafter. However, growth remains well below the pre-crisis average. In addition, there are still downside risks as shown by the reduction of growth projections by the IMF in its WEO January 2015 Update. The recovery in the Euro Area will be slower than initially

forecast, though the recent quantitative easing programme and lower oil prices are expected to support economic activity. The recent movements in the value of the euro and the dollar also represent a risk to global growth.

Mauritian Economy

11. Notwithstanding the global economic situation, the Mauritian economy is expected to perform better in the medium term with growth rising to 5.7% in 2016/17 and sustained around 5.5% thereafter. The unlocking of major private sector projects will boost total investment which is expected to reach 24.8% of GDP in 2015/16 and remain above 25% in 2016/17 and 2017/18. In addition, the operationalisation of measures announced in the Budget Speech will further stimulate private investment and growth.

Fiscal Strategy

12. The strategy aims at ensuring sustainability of public finances by implementing fiscal consolidation measures and reducing public sector debt to the statutory target of 50% of GDP by end-2018. The main fiscal goals are to:

(i) move towards a positive balance in the recurrent budget such that any additional borrowing is meant only for investment purposes;

(ii) focus on quality spending and reduce wasteful expenditure with a view to allocating resources to high priority areas without placing undue burden on taxpayers;

(iii) reduce the budget deficit in a balanced way, combining expenditure adjustment and revenue raising measures, while providing the right incentives for economic growth and social development;

(iv) manage prudently fiscal risks that may emanate particularly from parastatal bodies and SOEs;

(v) build up sufficient fiscal buffers to respond effectively to any adverse economic shock; and

(vi) develop innovative financing mechanism to improve cost effectiveness and relieve pressures on public sector debt.

13. On the revenue side, measures will be taken to improve efficiency in revenue collection and reduce the level of arrears. The VAT tax base will be protected as VAT alone accounts for one third of total Government revenue and it allows maintaining free health services and providing for payment of basic pensions and social benefits. State-owned enterprises operating on commercial basis will be required to ensure a reasonable level of return on public investment.

14. On the expenditure side, appropriate adjustment measures will be implemented. The performance-based budgeting framework will be deepened with the introduction of annual reports on the performance of Ministries/Departments. The implementation of the e-budgeting system will further modernise budget preparation and strengthen reporting systems. Current projects and programmes of Ministries and Departments will be re-evaluated and rebalanced to achieve the desired outcomes.

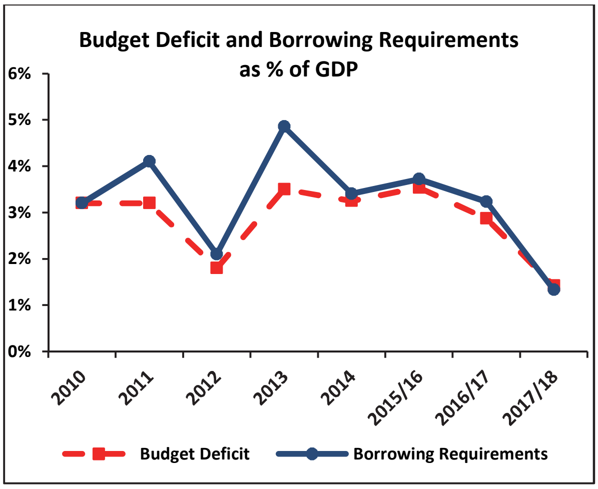
15. Public financial management will be modernised to enhance good governance and accountability in the public sector. Appropriate reforms will be implemented in parastatal bodies, state-owned enterprises and local authorities to improve their financial and service delivery performance, and reduce their dependence on public finance. The procurement process will be reviewed to enhance efficiency and transparency in procurement of goods and services, and ensure value for money.

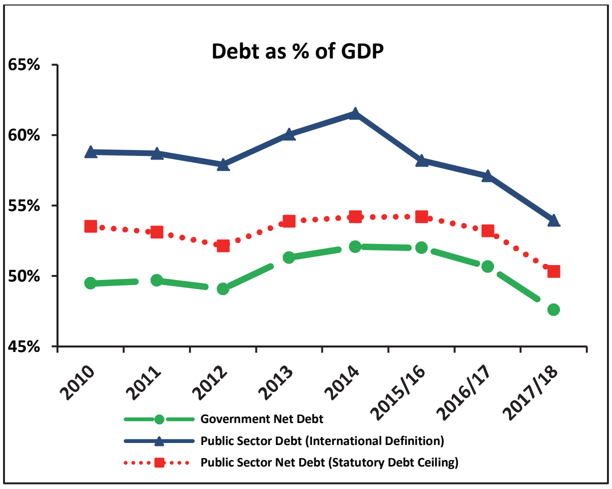
16. Implementation of investment projects will be managed in a proactive manner to reduce cost overruns. Greater use of public private partnership arrangements and other innovative financing mechanism will be facilitated for implementing major priority projects.

17. Based on these measures, recurrent revenue will average around 20% of GDP and recurrent expenditure at 20.4% during the medium term. The recurrent budget deficit will be gradually reduced

and move to a surplus of 0.8% of GDP in 2017/08. Capital expenditure of an average of 2.7% will be supplemented by investment through joint public private sector ventures.

18. The budget deficit will be reduced to 1.6% by 2017/18. Government borrowing requirements will also be reduced to 1.5% of GDP. This will enable public sector net debt to be in line with the statutory requirement.





Debt Management Strategy

19. The Debt Management Strategy is guided mainly by Government's objective to reduce debt servicing cost while keeping risks at a prudent level and encouraging the development of the domestic market for Government securities.

20. The decomposition of Government debt into foreign and domestic currencies will take into account foreign exchange risks, comparative costs of foreign and domestic loans as well as the impact of foreign loans on the liquidity situation in the banking system. Accordingly, the share of outstanding Government external debt will be limited to 30%. The debt service ratio will be limited to within 6%.

21. In regard to currency composition of public sector external debt, the strategy will generally be to match the mix of public sector external debt with currency composition of export earnings over the medium term. The share of Euro-denominated debt will be increased from 31.5% at end-2014 to 35% by mid-2018 by reducing the share of USD from 47.4% to 45%, and other currencies from 21% to 20%.

22. The benchmark interest rate mix for public sector external debt will generally be a balanced portfolio of fixed and variable interest loans. On strategic grounds, the share of external variable interest rate public sector debt, which at end-2014 stood at 70%, will be gradually reduced to 58% to broadly have a near balance over the medium term.

23. To further reduce refinancing risks, the average time-to-maturity of Government debt will be increased from 4.6 years at end-2014 to 5.0 years by mid-2018.

24. The share of public debt due for payment within one year will be reduced from 23.9% at end-2014 to 21% by end-June 2018. This will be achieved by bringing down the share of short and medium term debt to 10% and 28%, respectively and increasing that of long term to 62%.

25. With a view to containing interest rate risks, the average time for re-fixing Government debt will be increased from 3.2 years at end-2014 to 3.8 years by mid-2018. The share of public debt required to be re-fixed within one year will be reduced from 42.5% to 35% during the same period.

26. To reduce liquidity risks, development of the secondary market for Government securities will be pursued through regular issuance of benchmark instruments.

27. The benchmarks in the table below represent the preferred trade-off between costs and risks of the financing strategy set out in the Budget. In order to provide some degree of flexibility to cater for unforeseen developments, tolerance levels as indicated in the table will be allowed.

28. An assessment of costs and risks of alternative financing strategies under different scenarios will be carried out and incorporated in the Medium Term Debt Management Strategy document to be released subsequently.

Debt Management Strategy Benchmarks

	Existing Benchmarks/ Limits	Levels as at end-Dec 2014	New Benchmarks/ Limits end-June 2018	Tolerance % Level
External Debt				
Debt Service Ratio (%)	< or=10	4.2	< or =6	+/-10
Public Sector Debt Composition				
Foreign (%)	N.A	26.5	<or =30	+/-5
Domestic (%)	N.A	73.5	> or=70	+/-5
Currency Composition of Public Sector External Debt (%)				
USD	N.A	47.4	45.0	+/-5
EURO	N.A	31.5	35.0	+/-5
Other currencies	N.A	21.1	20.0	+/-5
Interest Rate Mix of Public Sector External Debt (%)				
Fixed Interest Rate Loans	48.5	27.3	40.0	+/-10
Variable Interest Rate Loans	48.5	70.2	58.0	+/-10
Interest Free Loans	3.0	2.5	2.0	+/-10
Roll over Risks: Government Debt				
ATM: Total Debt (Years)	N.A	4.6	5.0	+/-10
External Debt (Years)	N.A	6.5	6.8	+/-10
Domestic Debt (Years)	5.0	4.0	4.5	+/-10
Due Within 1 year: Total Debt (%)	N.A	23.9	21.0	+/-10
External Debt (%)	N.A	7.2	6.5	+/-10
Domestic Debt (%)	30	28.8	25.0	+/-10
Interest Rate Risk: Government Debt				
ATR: Total Debt (Years)	N.A	3.2	3.8	+/-10
External Debt (Years)	N.A	1.7	2.0	+/-10
Domestic Debt	N.A	3.7	3.8	+/-10
Share with Re-fixing in 1 Year (%)	NA	42.5	35.0	+/-10
Structure of Domestic Debt				
Short Term (%)	20.0	14.2	10.0	+/-10
Medium Term (%)	N.A	30.0	28.0	+/-5
Long Term (%)	N.A	55.8	62.0	+/-5

N.A denotes not applicable