MACROECONOMIC FRAMEWORK

The Macroeconomic Framework has been formulated taking into account the objective of Government to usher in a new phase of high economic growth with shared prosperity and enhanced quality of life, with the ultimate aim of transforming Mauritius into an inclusive, high-income country by 2030. It also considers recent developments, global and domestic economic prospects, threats and challenges, and relevant policy responses for the period 2017-2020. It incorporates likely impact of policy measures announced in the Budget Speech.

Recent Developments

2. In 2016, world economic growth declined to 3.1% against 3.4% in 2015 - the weakest performance since the global financial crisis. This subdued growth was characterised by stagnant global trade, weak investment and increased policy uncertainty.

3. In FY 2016/17, the Mauritian economy is estimated to grow at 3.9% (in terms of GDP at market prices) compared to 3.2% in FY 2015/16. Growth was driven by the tertiary sector, namely financial services, tourism and retail trade. The secondary sector contributed positively to growth as the construction sector recovered from a cumulative contraction of around 25% since FY 2012/13.

4. In addition to the higher growth rate, there was a general improvement in trends of main macroeconomic indicators in 2016. These include:

(a) Private investment grew by 7.4% in nominal terms after 3 consecutive years of contraction;

(b) FDI inflows increased to Rs 13.6 billion from Rs 9.7 billion in 2015 - growth of 40%;

(c) Domestic savings increased to 11.1% of GDP - reversal of declining trend since 2012;

(d) Headline inflation declined from 1.3% in 2015 to a 30-year low of 1%;

(e) Unemployment rate dropped to 7.3% after stagnating at around 8% during the past five years. There was a decline in both male and female unemployment. After rising in 2014 and 2015 to reach 26.3%, unemployment among the youth dropped to 23.9%;

(f) Current account of the Balance of Payments continued to improve with a deficit of 4.3% of GDP compared to 4.8% in 2015;

(g) Overall BOP surplus amounted to Rs 26.2 billion in 2016, up from Rs 20 billion in 2015. As a percentage of GDP, it stood at 6% compared to 4.9% in 2015; and

(h) International reserves of the country increased to Rs 180 billion at end-April 2017. This covers 9.4 months of imports as against 7.7 months in December 2015.

5. Regarding merchandise trade, total export value dropped by 10% in 2016. This was due to a significant fall in re-exports, particularly of cellular phones to the UAE, and also lower export value of textile & clothing, precious & semi-precious stones as well as bunkering.

Prospects and Forecasts

6. The IMF is projecting a pick-up in global economic growth to 3.5% in 2017 and 3.6% in 2018. However, the world economy is still faced with headwinds resulting from threat of protectionist policies, deepening geopolitical tensions and persisting structural problems. Uncertainties stemming from Brexit also represent downside risks to the outlook, although its full impact has yet to be assessed.

7. The Macroeconomic Framework takes into account the global economic situation as well as Government's objective to boost the export sector. It also assumes further improvement in the macroeconomic fundamentals of the Mauritian economy. Measures taken recently to facilitate Doing of Business are expected to enhance private investment and employment creation.

8. The economy is thus expected to grow at 4.1% in FY 2017/18, 4.3% in 2018/19 and 4.5% in FY 2019/20, boosted by rising investment rate, both public and private. The main sectors of growth will be in the tertiary sector, particularly financial services, tourism, ICT and retail trade. The secondary sector will also contribute positively to growth with an expected upsurge in construction and a recovery in the manufacturing sector.

Fiscal Performance in FY 2016/17

9. The budget deficit at end-June 2017 is now estimated at 3.5% of GDP, i.e., same as in last financial year, slightly higher than the original estimates of 3.3%. Recurrent revenue will be around 20.5% of GDP. Recurrent expenditure will increase to 22.5% as against 21.9% in last financial year, but below the estimates of 22.8%. The recurrent budget balance, at -2%, will thus be as targeted.

10. Public sector capital expenditure, which includes capital projects implemented by Central Government (both under Consolidated Fund and Special Funds), parastatal bodies and public enterprises, will increase to Rs 24.2 billion compared to Rs 15.9 billion in FY 2015/16. As a percentage of GDP, it will amount to 5.4% as against 3.8% last year.

11. Gross public sector debt will amount to 66.1% of GDP at end-June 2017 compared to 65.1% at end-June 2016, including securities issued by Government for mopping up excess liquidity of 3.2% of GDP. Public sector net debt will amount to 57.5% of GDP.

FISCAL STRATEGY

12. Government's priorities are to improve transparency in public finance management, enforce greater fiscal discipline and prudence, and put public debt on a sustainable downward path, while providing the necessary support for infrastructure development, and for higher and inclusive growth.

13. With regard to **fiscal transparency**, major reforms are being undertaken in public finance management. These include:

(a) First, all the revenues and expenditures of the Build Mauritius Fund and the National Resilience Fund will, as from 1st July 2017, be accounted for in the Consolidated Fund and those two Special Funds will be closed.

(b) Second, accrual International Public Sector Accounting Standards (IPSAS) will be introduced in a phased manner with the objective of giving a more comprehensive and better picture of the financial position of Government. It will also allow the working out of a Government Fixed Assets Register for better asset management.

(c) And third, the Public Debt Management Act will be amended so that public sector gross debt rather than net debt is established as the measure of debt ceiling. The current methodology for computing the debt ceiling has become complex, not well understood and the real debt situation confusing. Taking into account the ambitious investment programme of Government over the medium term, gross debt to GDP ratio will be gradually reduced to 60%.

14. In order to enforce **greater fiscal discipline and prudence**, measures will be taken on both the revenue and expenditure fronts. On the revenue side, buoyancy of the tax system will be enhanced by improving tax compliance and enforcement. New mechanisms and additional wealth and income reporting system will be put in place by MRA for more efficient and higher tax collection, including tax arrears. The Alternative Dispute Resolution Panel has already been set up to expedite determination of tax appeal cases. Implementation of turnaround plans by loss-making SOEs will ensure better returns in the medium term. In addition, Government will divest its excess assets while ensuring that maximum value for money is achieved.

15. On the recurrent expenditure side, measures will be taken to increase efficiency of spending and contain expenditure growth. A team of officers at the level of MOFED is reviewing issues raised in the last report of the Director of Audit. Implementation of the recommendations of the team will curb wastage of public funds. Expenditure will be reprioritised to essential and high value schemes and projects with highest impact on growth and employment creation.

16. As regards capital expenditure, there is need to accelerate the implementation of growth-enhancing infrastructure projects while at the same time lowering the burden on public finances. In this context, the Capital Project Process Manual will be reviewed to simplify the framework of planning, preparation, financing and implementation of capital projects. There will be systematic appraisal of project proposals and also monitoring of implementation of major projects from planning to completion stage to reduce cost overruns and address bottlenecks.

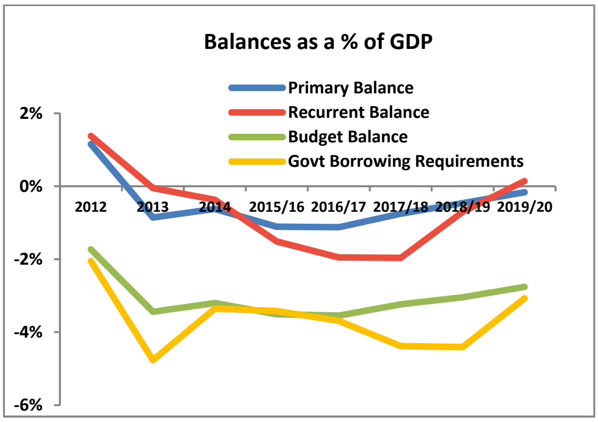
17. In addition, alternative ways of financing major capital projects are being implemented to relieve pressure on the national budget and also reap more efficiency gains in their implementation.

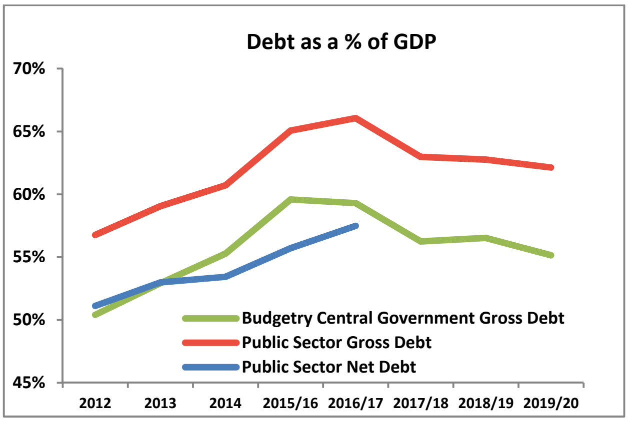
Fiscal Balances and Debt Targets

18. The implementation of measures outlined in the Fiscal Strategy will set the medium term fiscal and debt profile on an improving trajectory. Public sector gross debt will thus be put back on a downward path to reach 62.2% of GDP by end-June 2020.

19. The different budget balances (namely recurrent balance, primary balance as well as the overall budget balance) are key operational instruments that guide policy orientations for attaining the objective of public sector debt reduction. Thus, the recurrent balance will improve over the medium term to a surplus of 0.1% of GDP in FY 2019/20.

20. The overall budget deficit (before Net Acquisition of Financial Assets) will be reduced to 2.8% of GDP by FY 2019/20. Government borrowing requirements will also be lowered to 3.1%.





DEBT MANAGEMENT STRATEGY

21. The focus of debt management is to meet the financing needs of Government at the least possible cost consistent with prudent risk levels. Thus, the debt management strategy of Government has been, and will continue, to aim at minimising debt servicing cost while taking into account associated risks and the need to develop the market for Government securities. In this context, the various risk and cost parameters, such as **affordability, solvency and liquidity**, which have been improving steadily over the years are planned to be further enhanced over the medium term.

22. In order to **contain foreign exchange risks**, the **share of external debt in Government debt portfolio will be reduced to about 18.4%** by end June this year compared to 22.4% at end June last. To maintain such risks at prudent levels, the share of Government external debt is targeted not to exceed 25% and that of public sector 30% by end June 2020.

23. A further element of the strategy to reduce foreign exchange risks is to generally align currency composition of public sector external debt to that of proceeds from export of goods and services. Accordingly, the share of USD in public sector debt, which has been brought down from 50.4% at end June last to about 44.3% at present, will be maintained at around this level. On the other hand, the share of Euro currently at about 34% will be raised to 37% while the share of other currencies will be reduced from the present level of 21% to 18%.

24. With a view to **reducing interest rate risks**, the strategy is to have a broadly balanced interest rate mix of external public sector debt. The share of fixed interest rate loans in public sector external debt which has been increased from 39.5% last year to 42% is planned to be further raised to close to 50% by end June 2020. Simultaneously, the share of variable interest rate loans is targeted to be reduced from 56% to 48%.

25. As regards Government domestic debt, the aim is to have a primarily fixed interest rate portfolio. The share of fixed interest rate loans presently at about 96% is planned not to drop below 95% and variable interest rate loans not to exceed 5% over the medium term.

26. The average time for re-fixing (ATR) of total Government debt, which is another indicator of interest rate risk, has also been improved. From 3.8 years at end June last, it is expected to go up to 4 years by June 2017. The target up to June 2020 is to maintain the ATR for total Government debt at 4 years. The share of re-fixing of interest which has been brought down from 38% at end June 2016 to about 34% would be further reduced to 32%.

27. **Rollover risks** of a debt portfolio are assessed by its average time to maturity (ATM). Notwithstanding the decline in the ATM of Government external debt from 7 years to 6.3 years, resulting from prepayment of some Rs 4.2 billion of external debt, the ATM for Government total debt has remained at about 5 years. It is targeted to be maintained at close to this level over the medium term.

28. A further indicator of rollover risk is the percentage of debt falling due for payment within one year. In spite of the increase in the share of external debt repayment due within 1 year from 5.7% to about 7.1%, the share of total Government debt due for repayment within 1 year has been maintained at around 22%, which will be the target for end June 2020. This will be achieved by further reducing the share of short term and medium term debt to 11% and 22%, respectively and increasing that of long term debt to 67% by end June 2020.

29. Simultaneously, **debt affordability has been improved** over the recent years by bringing down the ratio of interest payments to GDP and to Government recurrent revenue to 2.4% and 11.9%, respectively. Taking into account interest rate prospects for the medium term, the target is to maintain them at within 2.6% and 12.4%, respectively.

30. In regard to the country`s external debt, as a ratio to GDP, it has declined from 24.1% at end 2014 to 20.6% at present while as a ratio to export proceeds it has been reduced from 49.6% to 46.7%. Debt cover in terms of foreign exchange reserves has improved significantly, rising from 131% to over 200% during the same period. These parameters will be maintained at close to their present levels over the medium term. The key guiding principle will be to **maintain the debt service ratio, excluding prepayments, presently at 4.4%, to within 6%**.

31. A notable feature of the debt management strategy being pursued by Government is the simultaneous reduction of risks and improvement in affordability of Government debt and sustainability of the national external debt. These are necessary for providing cushions against domestic or external shocks that may occur.

Debt Management Strategy Benchmarks

	End Dec14	End Jun 15	End Jun 16	End Jun 17	Benchmarks/ Limits end June 2020	Tolerance Level %
Government Debt Composition						
Foreign (%)	24.3	24.5	22.4	18.4	< or = 25.0	+/-5
Domestic (%)	75.7	75.5	77.6	81.6	> or = 75.0	+/-5
Public Sector Debt Composition						
Foreign (%)	27.0	27.2	25.2	21.0	<or = 30.0	+/-5
Domestic (%)	73.0	72.8	74.8	79.0	> or= 70.0	+/-5
Currency Composition of Government External Debt (%)						
USD	39.5	41.2	41.8	33.1	38.0	+/-5
EURO	34.7	32.5	32.1	39.7	35.0	+/-5
Others	25.8	26.2	26.1	27.2	27.0	+/-5
Currency Composition of Public Sector External Debt (%)						
USD	47.4	49.7	50.4	44.3	45.0	+/-5
EURO	31.5	29.0	28.5	34.4	37.0	+/-5
Others	21.1	21.3	21.1	21.3	18.0	+/-5
Interest Rate Mix of Government Debt (%)						
External Debt %						
Fixed Interest Loans	24.5	25.1	31.9	34.2	40.0	+/-10
Variable Interest Rate Loans	72.8	72.2	65.3	63.8	58.0	+/-10
Interest Free Loans	2.7	2.8	2.8	2.0	2.0	+/-10
Domestic Debt Securities (%)						
Fixed Interest Rate	97.2	96.6	96.2	96.2	95.0	+/-10
Variable Interest Rate	2.8	3.4	3.8	3.8	5.0	+/-10
Interest Rate Mix of Public Sector External Debt (%)						
Fixed Interest Loans	34.3	35.0	39.5	42.1	50.0	+/-10
Variable Interest Rate Loans	63.5	62.8	58.3	56.4	48.5	+/-10
Interest Free Loans	2.2	2.2	2.2	1.5	1.5	+/-10
Interest Rate Risk: Government Debt						
ATR: Total Debt (Years)	3.2	3.6	3.8	4.0	4.0	+/-10
External Public Debt (Years)	1.7	2.3	2.3	2.5	2.5	+/-10
Domestic Debt (Years)	3.7	4.0	4.2	4.3	4.3	+/-10
Share with Re-fixing in 1 Year:						
Total Debt (%)	41.8	38.6	38.1	34.2	32.0	+/-10
External Debt (%)	76.7	68.8	66.9	61.7	65.0	+/-10
Domestic Debt (%)	31.6	29.7	30.6	28.6	28.0	+/-10
Roll over Risks: Government Debt						
ATM: Total Debt (Years)	4.7	5.0	5.1	5.0	4.8	+/-10
External Debt (Years)	6.8	7.2	7.0	6.3	5.5	+/-10
Domestic Debt (Years)	4.0	4.4	4.7	4.7	4.7	+/-10
Due Within 1 year:						
Total Debt (%)	23.9	22.2	22.4	21.8	22.0	+/-10
External Debt (%)	7.2	8.0	5.7	7.1	12.0	+/-10
Domestic Debt (%)	28.8	26.4	26.7	24.8	24.0	+/-10
Structure of Government Domestic Debt						
Short Term (%)	14.1	14.2	12.4	12.9	11.0	+/-10
Medium Term (%)	30.0	29.5	26.6	25.1	22.0	+/-5
Long Term (%)	55.9	56.3	61.0	62.0	67.0	+/-5
Cost Indicators: Government Debt (FY)						
Interest Payments as % of GDP	2.6	2.4	2.4	2.4	2.6	+/-10
Interest Payments as % of Recurrent Revenue	12.8	12.5	11.8	11.9	12.4	+/-10
External Debt						
As % of GDP	24.1	24.8	23.0	20.6	22.0	+/-10
As % of Export of Goods and Services	49.6	47.5	49.6	46.7	50.0	+/-10
FX Reserves as % of External Debt	131.3	140.9	174.1	205.5	200.0	+/-10
Debt Service Ratio (%)* (FY)	4.7	4.7	3.6	6.6	< or = 6	+/-10

** Debt Service for 2016/17 includes prepayment of an amount of MUR 4.2 billion of Government Debt*

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

FY denotes Financial Year, which for 2015 was from January to June

MEDIUM TERM MACROECONOMIC FRAMEWORK, FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2016/17	2017/18	2018/19	2019/20
WORLD ECONOMY[1]				
World Output Growth Rate (%)	3.1	3.5	3.6	3.7
Euro Area Output Growth Rate (%)	1.7	1.7	1.6	1.6
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	447.3	478.7	515.5	557.8
Real GDP Growth Rate - current market prices (%)	3.9	4.1	4.3	4.5
Investment Rate (%)	17.6	18.8	19.3	21.7
Inflation Rate (%)	2.2	3.0	3.0	3.0
Public Finance (as % of GDP)				
Recurrent Revenue	20.5	20.8	21.3	21.1
o/w Taxes	*18.7*	*19.3*	*19.4*	*19.7*
Non-Tax Revenue	*1.8*	*1.5*	*1.9*	*1.4*
Recurrent Expenditure	22.5	22.7	22.0	21.0
o/w Interest	*2.4*	*2.5*	*2.6*	*2.6*
Recurrent Balance	**-2.0**	**-2.0**	**-0.7**	**0.1**
Capital Revenue	0.6	2.7	1.2	0.2
o/w External Grants	*0.6*	*1.5*	*1.2*	*0.2*
Capital Expenditure	2.2	3.9	3.6	3.1
o/w Acquisition of Non-Financial Assets	*1.5*	*2.7*	*2.4*	*2.3*
Capital Balance	**-1.6**	**-1.3**	**-2.3**	**-2.9**
Total Expenditure	**24.7**	**26.7**	**25.5**	**24.1**
Budget Balance (Before Net Acquisition of Financial Assets) - Surplus (+)/Deficit (-)	**-3.5**	**-3.2**	**-3.0**	**-2.8**
Primary Balance - Surplus (+)/Deficit (-)	**-1.1**	**-0.7**	**-0.5**	**-0.2**
Government Borrowing Requirements	**3.7**	**4.4**	**4.4**	**3.1**
Public Debt (as % of GDP)				
Budgetary Central Government Gross Debt	**59.3**	**56.3**	**56.6**	**55.2**
Public Sector Gross Debt	**66.1**	**63.0**	**62.8**	**62.2**
Public Sector Net Debt	**57.5**			
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-4.6	-4.9	-5.1	-7.8
Exports of Goods and Services[2]	44.0	43.4	42.9	42.9
Imports of Goods and Services[2]	-54.1	-53.9	-53.5	-55.6
Gross Official International Reserves (Rs bn)	188.9	201.6	212.6	221.6
Gross Official International Reserves (USD mn)[3]	5,280	5,630	5,940	6,190

[1] *World Economic Outlook, IMF - April 2017. Figures for 2016/17 refer to calendar year 2016.*

[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 35.8/US$ average for the month of May 2017*