MEDIUM TERM MACROECONOMIC FRAMEWORK, FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2019/20	2020/21	2021/22	2022/23
WORLD ECONOMY[1]				
World Output Growth Rate (%)	-3.0	5.8	*NA*	*NA*
Euro Area Output Growth Rate (%)	-7.5	4.7	*NA*	*NA*
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	467.6	452.3	486.8	526.5
Real GDP Growth Rate - constant market prices (%)	-5.8	-7.0	4.5	5.0
Investment Rate (%)	18.6	18.9	19.7	21.2
Inflation Rate (%)	2.2	4.0	2.5	2.5
Public Finance (as % of GDP)				
Recurrent Revenue	20.8	29.4	26.3	24.6
o/w Taxes	*19.0*	*20.0*	*22.3*	*22.2*
Non-Tax Revenue	*1.8*	*9.3*	*4.0*	*2.4*
Recurrent Expenditure	30.3	29.4	26.3	24.6
o/w Interest	*2.9*	*2.8*	*2.6*	*2.5*
Recurrent Balance - Surplus (+)/Deficit (-)	**-9.5**	**-**	**-**	**-**
Capital Revenue	1.0	6.6	0.6	0.1
o/w External Grants	*1.0*	*0.7*	*0.6*	*0.1*
Capital Expenditure	5.1	6.6	3.6	3.1
o/w Acquisition of Non-Financial Assets	*1.7*	*2.1*	*2.3*	*2.1*
Capital Balance - Surplus (+)/Deficit (-)	**-4.1**	**-**	**-3.0**	**-3.0**
Total Expenditure	**35.3**	**36.0**	**29.9**	**27.7**
Budget Balance - Surplus (+)/Deficit (-)	**-13.6**	**-**	**-3.0**	**-3.0**
Primary Balance - Surplus (+)/Deficit (-)	**-10.7**	**2.8**	**-0.4**	**-0.5**
Government Borrowing Requirements	**14.9**	**-0.2**	**3.4**	**3.0**
Public Debt (as % of GDP)				
Budgetary Central Government Debt	**75.0**	**76.0**	**72.7**	**70.1**
Public Sector Net Debt	**72.7**	**78.2**	**77.7**	**75.3**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-10.1	-12.7	-7.7	-6.9
Exports of Goods and Services[2]	33.1	28.6	32.5	33.8
Imports of Goods and Services[2]	51.8	47.4	45.8	45.7
Gross Official International Reserves (Rs bn)	270.0	231.0	239.6	248.5
Gross Official International Reserves (USD mn)[3]	6,650	5,690	5,900	6,120

[1] *World Economic Outlook, IMF - April 2020. Figures for 2019/20 refer to calendar year 2020.* *NA - Not Available*

[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 40.6/US$ average for the month of May 2020*

MACROECONOMIC FRAMEWORK

The Framework has been worked out against the backdrop of the unprecedented impact of the COVID-19 pandemic on the world economy, which was already in a weak and fragile situation. It also considers the severe impact of the pandemic on the Mauritian economy in view of its openness to international trade and investment. Moreover, the Framework takes into account the policies to get the country out of the COVID-19 crisis and put the economy back on track while preserving employment, relaunching investment and economic activities, and assisting the most vulnerable of the society.

Recent Developments

2. **Global economic growth decelerated markedly in 2019** to 2.9% from 3.6% in 2018, with continued weakness in global trade and investment. The slowdown was widespread in advanced economies as well as emerging market and developing economies. World trade volume grew by only 0.9% in 2019, the lowest rate since the 10% contraction during the Great Depression in 2009.

3. Against the global economic slowdown, **the Mauritian economy fared relatively well in 2019** with an expansion in real GDP of 3%. Most economic sectors registered positive growth, except textile and tourism that were affected by the general slowdown worldwide. Financial services, construction, retail trade, professional activities and ICT were the main contributors to growth.

4. **Total investment in the economy increased by 9% in nominal terms in 2019**, after a significant 13.5% growth in 2018, due to the implementation of major infrastructure projects such as the Metro Express and the Jumbo-Phoenix Round-About. The construction sector has expanded by a cumulative 28% during the period 2017-2019. The investment rate in 2019 went up to 19.7% compared to 18.8% in 2018. Total consumption expenditure grew by 3.7% in nominal terms in 2019 to reach 91.2% of GDP.

5. **The unemployment rate has dropped consistently since 2016** to reach a low of 6.7% in 2019. Male unemployment went down from 4.7% in 2018 to 4.4% in 2019, while female unemployment stabilised at 10.2%. Total Mauritian employment went up by 7,600 in 2019 compared to a drop of 1,400 in 2018. Youth unemployment rate declined from 25.1% in 2018 to 22.8% in 2019. Labour productivity rose by 1.5% in 2019 while the wage rate went up by 4.1%.

6. **The headline inflation rate fell** from 3.2% in 2018 to 0.5% in 2019, the lowest rate in almost five decades. It increased to 1.5% in April 2020 mainly due to higher prices of vegetables and products of personal care. Producer prices of agricultural products went up by 0.7% in 2019 against a drop of 1% in 2018, while producer prices of manufactured products rose by 1.5% against 3.1% during the same period.

7. **The monetary policy stance remained accommodative** during 2019 with a cut in the Key Repo Rate from 3.5% to 3.35% in August 2019. The KRR was further reduced to 2.85% on 10 March 2020 and 1.85% on 16 April 2020 to support domestic economic activity in view of the negative impact of the COVID-19 pandemic. In addition, as from 13 March 2020, the average cash reserve ratio on rupee deposits was reduced from 9% to 8% while that on foreign currency deposits remained unchanged at 6%.

8. As for the external sector, **the surplus in the overall balance of payments reached a high** of Rs 32.8 billion in 2019, representing 6.6% of GDP. The current account of the balance of payments was in deficit by 5.7% of GDP, almost same as in 2018. Gross official international reserves of the country surged from Rs 217.6 billion in December 2018 to Rs 269.5 billion in December 2019 and further to Rs 280.6 billion in April 2020. In terms of import cover, it increased from 10.2 months to 12.3 months and further to 12.8 months in April 2020.

Prospects and Forecasts

9. The COVID-19 pandemic is causing disruption of unprecedented dimension in economic activities around the world and altering the economic outlook for 2020 and beyond. Assuming that the pandemic fades in the second half of 2020 and containment efforts gradually unwound, the IMF has projected that in 2020 global GDP would contract by 3%. A partial recovery is expected in 2021. World trade volume would contract by 11% in 2020 and recover by 8.4% in 2021.

10. As for the Mauritian economy, the impact of COVID-19 is already being felt in a number of sectors and the hardest hit are tourism and exports industries. Government has already implemented a number of policies by increasing resources for the vulnerable groups and supporting businesses' access to finance. This budget provides for necessary support for the recovery and to put the economy back on the positive growth path.

11. Given the heightened uncertainty that exists particularly with respect to the severity and duration of the pandemic, it is difficult to forecast its likely impact on GDP growth. For the purpose of the Framework, it is expected that the economy will contract by 7% in FY 2020-2021 but will return to the positive territory with an expected growth rate of 4.5% in FY 2021-2022 and 5% in FY 2022-2023.

12. The tourism sector will be the most affected due to the lockdowns and restricted mobility of people between countries as well as reluctance to travel after the end of lockdowns. Activities in the textile sector will be constricted as external demand will significantly drop. Other sectors that will be significantly affected are trade and commerce, ICT/BPO and financial services. The construction sector registered a slowdown in activities during the confinement period but is expected to recover rapidly.

13. Extreme uncertainty around the duration and intensity of the health crisis, and the possibility of a second outbreak represent significant downside risks to the outlook. In addition, resurgence of trade tensions and prolonged drop in external demand can further dampen the medium term growth prospects.

Fiscal Performance in FY 2019-2020

14. The COVID-19 pandemic has impacted negatively on public finances. The contraction in economic activities has resulted in a drastic fall in revenue while expenditure was higher due to measures taken to protect lives, the industries and livelihood of the population.

15. Total revenue is estimated to be lower by some Rs 20 billion, that is, from the budgeted figure of Rs 121.7 billion to Rs 101.7 billion. Total expenditure would be higher by Rs 26.7 billion from Rs 138.6 billion to Rs 165.3 billion. As a result, the budget deficit would be Rs 63.6 billion or 13.6% of GDP.

16. Government borrowing requirements, which include financing the budget deficit as well as loans extended and equity injected by Government in parastatal bodies, are estimated at Rs 69.8 billion. Budgetary Central Government debt would amount to Rs 350.5 billion or 75% of GDP at end June 2020. Public enterprise debt is estimated at Rs 39.6 billion or 8.5% of GDP. Public sector debt, after netting out cash and cash equivalent and equity investment held by Government and public sector bodies in private entities as provided for in the amended Public Debt Management Act, would amount to Rs 339.7 billion or 72.7% of GDP.

FISCAL STRATEGY

17. The fiscal policy response to the pandemic has been unprecedented and has resulted in an increase in debt relative to GDP. The fiscal strategy for the coming years is, therefore, focussed on bringing down the debt ratio while at the same time ensuring that sufficient resources are provided to support the vulnerable groups, and boost investment and economic growth. In addition, the strategy aims at

ensuring fiscal sustainability over the medium term by adhering to a general fiscal rule of limiting the interest payment to GDP ratio to below 3.5%.

18. The fiscal strategy includes a number of important strategic actions as follows:

(i) strengthening revenue collection and implementing a whole-of-government cash management approach;

(ii) reducing the operating budget of Ministries and Departments through greater efficiency while enhancing effectiveness in service delivery;

(iii) prioritising capital projects and programmes that will unlock growth and ensure the wellbeing of the citizens;

(iv) reviewing the operations of statutory bodies and local authorities to limit their dependence on the national budget; and

(v) disposing of non-strategic assets and ensuring better returns on investments.

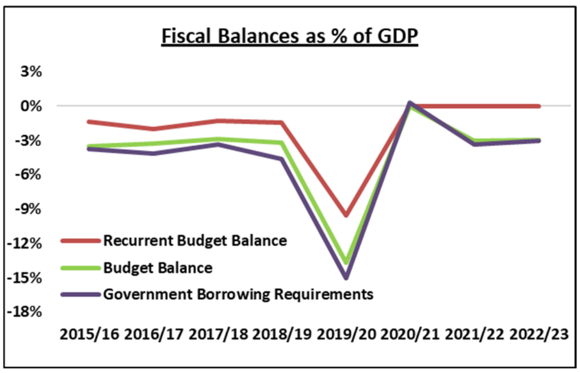
19. It is to be reckoned that the extent of the impact of the COVID-19 on public finances is difficult to ascertain at this stage. In such circumstances, sound management of the public finances is key to managing any fiscal risks. In this respect, the fiscal strategy will be reviewed to take into account any further adverse impact of the health crisis on public finances.

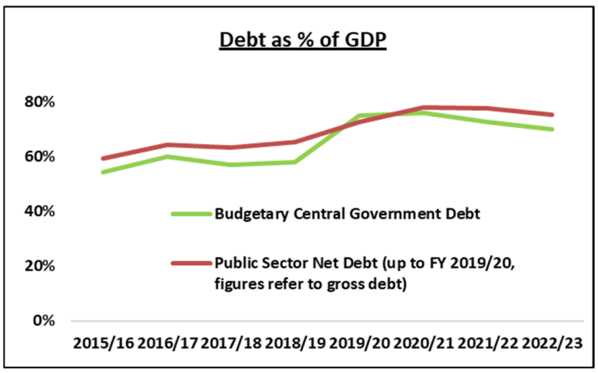
<u>Fiscal Balances and Debt Targets</u>

20. The expected decline in tax revenue, resulting from the impact of COVID-19 on the economy, represents a significant challenge for the fiscal outlook. In this respect and taking into account the above strategic actions, the recurrent budget will be balanced in FY 2020-2021 and is expected to remain in balance in the next two financial years. The overall budget will also be balanced in FY 2020-2021 and a deficit of 3% of GDP is expected in FY 2021-2022 and FY 2022-2023.

21. Budgetary Central Government (BCG) debt is projected to decline from Rs 350.5 billion at end June 2020 to Rs 343.8 billion at end June 2021. Due to the contraction in GDP, the BCG debt ratio will edge up to 76% against 75% at end June 2020. It is expected to decline over the next two years to reach 70% at end June 2023.

22. Public enterprise debt will increase from Rs 39.6 billion at end June 2020 to Rs 47 billion at end June 2021 mainly due to drawdown of loans for the implementation of the Metro Express project and the social housing project. As a percentage of GDP, it will increase to 10.4% against 8.5% at end June 2020. Public sector debt, after the netting out adjustment, will increase from Rs 339.7 billion at end June 2020 to Rs 353.6 billion at end June 2021. As a percentage of GDP, the debt ratio works out to 78.2%. It is expected to decline over the medium term to reach 75.3% at end June 2023.





DEBT MANAGEMENT STRATEGY

23. In spite of the negative impact of COVID 19 on the level of public sector debt, the debt management strategy of Government will continue to be guided by the need to make the optimal trade-off between costs and risks while taking into account the objective to develop the market for Government securities. The strategy will thus outline the borrowing mix, currency mix, maturity mix, interest rate mix and their associated costs and risks, and initiatives for development of the Government debt market.

24. **Borrowing Mix - Medium term financing mainly from domestic sources:** In view of foreign exchange rate risks, the financing of Government medium term borrowing requirements will be met mainly from domestic sources. However, taking into account cost aspects, consideration will also be given for raising long term concessional external loans. The share of external debt in Government debt portfolio, currently at 14.7% will rise to16.3% while that for public sector debt will pick up from 18.6% to 20.9% by end June 2023. The benchmark for the share of Government external debt is thus being raised to 20%, and that for public sector debt to 25%.

25. As regards the debt service ratio, it would pick up from 4% in FY2018/19 to 5.8% in FY 2019/20, excluding the prepayment of foreign loans of Rs 6.4 billion. This is attributable mainly to lower proceeds from exports of goods and services, in the wake of the pandemic. Despite the higher external debt level, the debt service ratio is planned to be brought down to around 4.6% by FY 2022/23. This will be below the ceiling of 6% set by Government.

26. **Currency Mix - tilting in favour of Euro:** The long-term objective to align the currency composition of public sector debt to that of export earnings of the country will also be maintained. However, in view of current market conditions, the mix will be slightly tilted in favour of EURO, with the share of USD, EURO and other currencies targeted at 46%, 42% and 12% respectively. To achieve this target, the share of USD in Government external debt portfolio will be reduced to 22% and that of other currencies to 18% while the share of EURO will be increased to 60%.

27. **Maturity Mix - further lengthening the maturity profile of Government debt:** In order to further improve the maturity profile of Government overall debt, the bulk of Government external borrowings will continue to be from bilateral and multilateral sources, with original maturities of around twenty years. This will raise the average time to maturity (ATM) of external debt from 6 years at present to 7 years by end June 2023, compared to the benchmark of 6.5 years.

28. As regards domestic debt, a mix of short term, medium term and long term instruments will continue to be issued. However, with a view to maintaining the ATM of domestic debt at its present level, greater weight will be accorded to the issuance of long term instruments. Accordingly, the share of short term securities will be reduced from around 14.9% at present to 9.2% and that of medium term securities from 20.6% to 20.1%. The share of five-year and long term instruments will be increased to 28.4% and 42.3% respectively. This will preserve the ATM of Government domestic debt at 4.7 years, while that of total Government debt will rise from 4.9 years to 5.1 years.

29. **Interest Rate Mix - preference for fixed interest rate loans:** The long term strategy as regards the interest rate mix of external debt is to have a close balance between fixed and variable interest rate loans. However, in order to further reduce interest rate risks and in view of present market conditions, preference will be given to fixed interest rate loans. Thus, the share of fixed interest rate loans is targeted to be increased to 62%, and that of variable interest rate loans to be reduced to 35%, with the share of interest free loans remaining at 3%. This will lengthen the average time for re-fixing (ATR) of Government external debt from 4 years to 5.8 years by end June 2023.

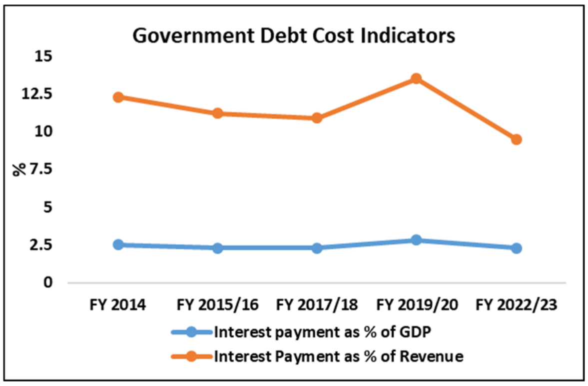
30. Regarding domestic debt, the issuance of fixed interest rate securities will be pursued over the medium term. By end FY 2022/23 such instruments will constitute about 97% of Government domestic debt stock. This will improve the ATR of domestic debt from 4.4 years to 4.6 years and that of Government total debt from 4.4 years to 4.7 years over the medium term.

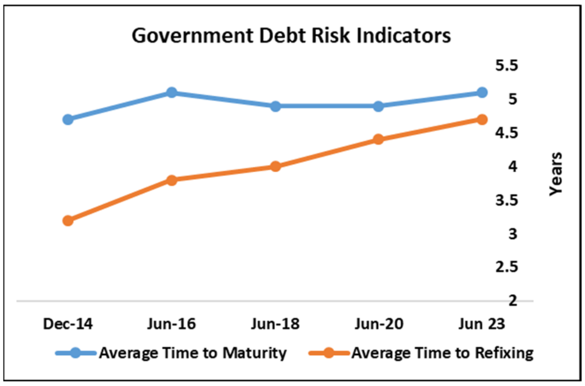
31. **Costs - improving affordability and sustainability of debt:** While the interest payments to revenue ratio measures debt affordability, the interest payments to GDP ratio indicates debt sustainability. Both ratios are, among others, determined by the cost of debt. During FY 2019/20 the average cost of Government debt would decline to 4.1% from 4.3% in 2018/19. It is expected to further go down to 3.4% during FY 2022/23. However, following the impact of COVID 19, interest payments as a ratio to recurrent revenue is likely to pick up from 11.1% in FY 2018/19 to around 13.5% in FY 2019/ 20. The plan, over the medium term, is to bring it to 9.5%, lower than the benchmark of 10.5%.

32. For similar reasons and during the same period, interest payments as a ratio to GDP is expected to rise from 2.4% to 2.8%. It is planned to reduce this ratio to 2.3% by FY2022/23. The target is to maintain the interest payment to GDP ratio at within 3.5%. This, together with the requirement for obtaining prior approval of the finance Ministry for all borrowings of public enterprises for investment projects, aims at maintaining public sector debt at a sustainable level.

33. Market Development - resumption of regular issuances of Government Securities: Following a short break in the issuance of Government Securities to the market in the wake of COVID 19, such issuances have been resumed. These will be pursued on a regular basis, with instruments of a wider range to meet market demand and also to facilitate the cash management of Government. Furthermore, the issuance calendar, interrupted in view of uncertainties in the midst of the pandemic, will be released in due course to inform the market of the plan for the issue of Government securities.

34. **Overall objective – simultaneously reducing risks and cost of debt:** The overall objective of the strategy is to simultaneously reduce risks and improve the affordability of Government debt in order to provide for some cushion in a context of market uncertainty over the medium term. It represents the preferred option after internal analysis of various alternative strategies. The implementation of the strategy will be closely monitored to enable timely action to be taken in the light of developments.





Medium Term Cost and Risk Indicators

	End Jun-19 Actual	End Jun-20 Rev. Estimates	End Jun-23 Estimates	Benchmarks/ Limits	Tolerance Level %
Government Debt					
As % of GDP (End of Period)	57.9	75.0	70.1	70.0	+/-5
Cost Indicators (Cash Basis) (Financial Year)					
Interest Payments as % of GDP	2.4	2.8	2.3	< or = 3.5	-
Interest Payments as % of Recurrent Revenue	11.1	13.5	9.5	10.5	+/-10
Average Cost of Debt (%)	4.3	4.1	3.4	4.0	+/-10
Composition (%) (End of Period)					
Foreign	14.2	14.7	16.3	20.0	+/-5
Domestic	85.8	85.3	83.7	80.0	+/-5
Currency Composition of External Debt (%)					
USD	31.8	31.2	21.6	22.0	+/-5
EURO	42.0	53.4	61.1	60.0	+/-5
Others	26.2	15.4	17.3	18.0	+/-5
Refinancing Risks					
Average Time to Maturity (Years)					
Total Debt	4.8	4.9	5.1	5.0	+/-10
External Debt	5.4	6.0	7.0	6.5	+/-10
Domestic Debt	4.7	4.7	4.7	5.0	+/-10
Due Within 1 year (%)					
Total Debt	22.3	24.4	19.3	20.0	+/-10
External Debt	11.7	9.3	10.3	11.0	+/-10
Domestic Debt	23.8	26.7	20.9	22.0	+/-10
Interest Rate Risk					
Average Time to Re-Fixing (Years)					
Total Debt	4.0	4.4	4.7	4.5	+/-10
External Debt	2.1	4.0	5.8	5.5	+/-10
Domestic Debt	4.3	4.4	4.6	4.5	+/-10
Share with Re-fixing in 1 Year (%)					
Total Debt	32.1	32.6	26.0	27.0	+/-10
External Debt	64.1	51.5	37.9	38.0	+/-10
Domestic Debt	27.6	29.8	23.9	24.0	+/-10
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	36.5	51.3	63.0	62.0	+/-10
Variable Interest Rate Loans	62.6	46.1	35.2	35.0	+/-10
Interest Free Loans	0.9	2.6	1.8	3.0	+/-10
Public Sector Debt					
As % of GDP (Gross)	65.2	83.4	78.8	80.0	+/-5
As % of GDP (Net)	-	72.7	75.3	75.0	+/-5
Composition (%)					
Foreign	16.6	18.6	20.9	25.0	+/-5
Domestic	83.4	81.4	79.1	75.0	+/-5
Currency Composition of External Debt (%)					
USD	46.7	52.3	47.2	46.0	+/-5
EURO	33.3	37.2	41.3	42.0	+/-5
Others	20.0	10.5	11.5	12.0	+/-5
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	42.3	53.4	72.3	70.0	+/-5
Variable Interest Rate Loans	57.0	44.8	26.4	28.0	+/-5
Interest Free Loans	0.7	1.8	1.3	2.0	+/-5
National External Debt [1]					
As % of GDP	16.0	21.0	21.0	25.0	+/-10
As % of Export of Goods and Services	40.1	63.4	62.6	65.0	+/-10
FX Reserves as % of External Debt	323.6	275.2	224.7	225.0	+/-10
Debt Service Ratio[2] (%) (Financial Year)	4.0	9.9	4.6	< or = 6	-

1 - Excludes Deposit Taking Institutions and Global Business.

2 - Includes prepayment of Rs 6,437 million of external loans in FY 2019/20. Excluding these prepayments the debt service ratio would be 5.8%

3 - The indicators are based on gross debt and excludes Government Securities issued for mopping up excess liquidity.