	2020/21	2021/22	2022/23	2023/24
WORLD ECONOMY[1]				
World Output Growth Rate (%)	6.0	4.4	3.5	3.4
Euro Area Output Growth Rate (%)	4.4	3.8	1.9	1.6
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	441.1	499.8	550.5	606.3
Real GDP Growth Rate - constant market prices (%)	-5.4	9.0	6.0	6.0
GDP Deflator (% change)	1.9	4.0	4.0	4.0
Investment Rate (%)	18.9	20.7	20.9	21.4
Public Finance (as % of GDP)				
Recurrent Revenue	28.8	26.8	25.1	25.1
o/w Taxes	*18.8*	*22.0*	*22.2*	*22.3*
Non-Tax Revenue	*10.0*	*4.7*	*2.9*	*2.8*
Recurrent Expenditure	30.9	27.1	25.4	25.3
o/w Interest	*2.8*	*2.7*	*2.5*	*2.4*
Recurrent Balance - Surplus (+)/Deficit (-)	**-2.1**	**-0.3**	**-0.3**	**-0.2**
Capital Revenue	6.4	0.8	0.2	0.1
o/w Capital Grants	*0.3*	*0.8*	*0.2*	*0.1*
Capital Expenditure	9.9	5.5	3.8	3.3
o/w Acquisition of Non-Financial Assets	*1.8*	*2.8*	*2.9*	*2.7*
Capital Balance - Surplus (+)/Deficit (-)	**-3.5**	**-4.7**	**-3.6**	**-3.3**
Total Expenditure	**40.8**	**32.5**	**29.2**	**28.6**
Budget Balance - Surplus (+)/Deficit (-)	**-5.6**	**-5.0**	**-4.0**	**-3.5**
Primary Balance - Surplus (+)/Deficit (-)	**-2.7**	**-2.3**	**-1.4**	**-1.0**
Government Borrowing Requirements	**9.1**	**6.1**	**4.3**	**3.8**
Public Debt (as % of GDP)				
Budgetary Central Government Debt	**85.9**	**81.3**	**77.8**	**74.3**
Public Sector Gross Debt	**95.0**	**91.4**	**87.1**	**82.4**
Public Sector Net Debt	**78.8**	**82.8**	**82.7**	**79.2**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-13.2	-9.0	-6.2	-5.2
Exports of Goods and Services[2]	25.2	28.2	30.8	31.7
Imports of Goods and Services[2]	-47.1	-44.9	-44.0	-43.2
Gross Official International Reserves (Rs bn)	310.0	318.0	330.5	347.5
Gross Official International Reserves (USD mn)[3]	7,654	7,852	8,160	8,580

[1] *World Economic Outlook, IMF - April 2021. Figures for 2020/21 refer to calendar year 2021.*

[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 40.5/US$ average buying and selling for the month of May 2021*

MACROECONOMIC FRAMEWORK

The Medium Term Macroeconomic Framework has been formulated against the backdrop of a global economy that is severely hit by the impact of the COVID-19 pandemic and fraught with uncertainty. It also considers Government's plan for a strong economic recovery and more employment opportunities driven by a boost to investment. It also integrates Government's commitment to protect lives and livelihood. The Framework is further based on the need to address issues, such as climate change, demographic trends, skills shortages and competitiveness, on the long-term growth path.

Recent Developments

2. The world economy contracted by 3.3% in 2020, with Advanced Economies most severely hit by a contraction of 4.7%. World trade volume fell significantly by 8.5%, global FDI flows dropped by around 42% and millions of jobs were lost. Women and the youth were most affected. Tourism and commodity-dependent economies suffered major setbacks and several low-income countries were either in sovereign debt distress or at a high risk of falling into it.

3. The Mauritian economy contracted by 14.9% in 2020. Output declined in all sectors of the economy, except ICT and financial services. The tourism sector was most affected with a contraction of around 80% in value added due to the closure of borders.

4. Investment declined by 20% in nominal terms in 2020 both in building and construction works as well as in acquisition of machinery and equipment. The investment rate is estimated at 18.1% against 19.6% in 2019. Consumption expenditure also dropped by some 12%, mainly due to a decline in household consumption explained partly by a change in buying habits and also lower disposable income.

5. The headline inflation rate went up to 2.5% in 2020. However, inflationary pressures remained broadly contained. Higher prices of food products, prepared foods and household appliances were partly offset by lower interest rate on housing loans and lower price of cooking gas. Unemployment has increased but to a lesser extent than was initially expected when the pandemic hit Mauritius thanks to the measures taken by Government such as the Wage Assistance Scheme and the Self-Employed Assistance Scheme. The unemployment rate for the year 2020 is estimated at 9.2%.

6. The deficit in the current account of the balance of payments widened from 5.5% of GDP in 2019 to 12.7% in 2020, mainly due to the sharp decline in tourism earnings. Net outflows in the balance of payments amounted to Rs 21 billion in 2020. The country's Gross Official International Reserves stood at Rs 288.2 billion or USD 7.3 billion at end December 2020 and increased to Rs 309.2 billion in May 2021, equivalent to USD 7.6 billion and 18.1 months of imports.

7. The monetary policy stance remained accommodative. The Bank of Mauritius has introduced a number of measures to mitigate the negative impact of the COVID-19 pandemic by supporting both businesses and vulnerable households.

Prospects and Forecasts

8. According to the IMF, the global economy will recover in 2021 with a growth rate of 6%, up from previous projections on the basis of additional fiscal support in some major economies, anticipated rapid rollout of vaccines and continued adaptation of economic activity to subdued mobility. The outlook is, however, fraught with downside risks related to divergences in the speed of recovery both across and within countries, inadequate availability of vaccines in many countries and the running out of fiscal space to stimulate demand in some economies.

9. As for the Mauritian economy, it is expected that the recovery will be strong on the basis of the effective rollout of the vaccination programme that will enable an early reopening of borders and an

increase in tourist arrivals and tourism earnings. This will give a significant boost to activities in the hotel industry as well as ancillary activities such as tour operators, aviation and local transport, restaurants and food supplies, entertainment and leisure.

10. More importantly, the recovery will be powered by a boost in investment. Public investment will increase significantly with the implementation of a number of projects to expand and modernise the physical infrastructure. Major projects include the new Administrative City, the Rivière des Anguilles Dam, expansion of the road network, the Grand Baie Sewerage Project, the construction of 12,000 social housing units, construction and extension of schools, the modern eye hospital and major drain projects. The high level of public investment is expected to give a fillip to private investment. Projects such as the Cote d'Or Technology Park and major smart city projects will drive the upswing in private investment. These projects are expected to further boost the construction sector.

11. In addition, domestic-oriented activities are expected to expand significantly in view of Government's strategy for import substitution and building the local production capacity in reaction to COVID-19. Moreover, sectors such as ICT and financial services, which performed well during the pandemic period, are expected to sustain their growth momentum going forward. Retail trade, which was affected by the lockdowns, is projected to recover as consumers' purchasing power increases and they gradually return to traditional in-store shopping and also enhanced e-commerce.

12. In view of the objectives of Government, it is expected that GDP growth in FY 2021-2022 would rebound to 9% and around 6% in FY 2022-2023 and FY 2023-2024, barring any further disruption that could be caused by the pandemic or other external shocks.

13. The outlook is subject to downside risks stemming from subdued external demand due to new outbreaks and delays in vaccine rollout in main markets.

Fiscal Performance in FY 2020-2021

14. The COVID-19 pandemic has led to unprecedented contraction in tax revenue. In addition, there has been an increase in Government spending to support businesses and individuals, particularly through the Wage Assistance Scheme and the Self-Employed Assistance Scheme. For these two schemes, it is estimated that total spending since March 2020 up to June 2021 would be around Rs 22 billion. Moreover, Government had to spend more on medical equipment and facilities.

15. Total revenue of Government is estimated at Rs 155.5 billion, i.e., Rs 7.4 billion below the budget projections. On the other hand, Government expenditure will be around Rs 180.1 billion, up from the estimated Rs 162.9 billion. The budget deficit would, therefore, amount to Rs 24.6 billion, equivalent to 5.6% of GDP.

16. Taking into account loans extended and equity injected by Government into public sector bodies, Government borrowing requirements are estimated at Rs 40 billion. Budgetary Central Government debt would amount to Rs 379.1 billion or 85.9% of GDP at end June 2021. Public sector gross debt, which also includes public enterprise debt of some Rs 39.9 billion, would be around Rs 419.1 billion – 95% of GDP. After netting out cash and cash equivalent and equity investment held by Government and public sector bodies in private entities, public sector net debt would amount to Rs 347.4 billion or 78.8% of GDP.

FISCAL STRATEGY

17. The debt to GDP ratio has gone up due to Government's unprecedented fiscal policy response to the pandemic. However, indicators of affordability, solvency and liquidity show that the current debt level is still at a manageable level.

18. Notwithstanding the above, the fiscal strategy is to continue, in the immediate term, to provide support to businesses and individuals that are in need, invest massively to stimulate growth and

employment creation, and, over the medium term, to bring public sector debt on a downward path to prudent levels. The broad policy strategies are as follows:

(a) leveraging on public sector assets, within an Asset-Liability Management Framework, to:
- make better use of the excess cash balances of non-financial public sector bodies;
- invest in new projects that will unlock economic growth and job creation while at the same time boost private investment; and
- provide liquidity to asset-rich but cash-poor public sector bodies in order for them to invest more without having to borrow and increase public sector debt;

(b) reviewing tax policies in order to improve tax buoyancy;

(c) rationalising recurrent expenditure by acting concretely on the recommendations of the Director of Audit's Report with regard to wastage and other unproductive expenditure;

(d) supporting viable enterprises to maintain and enhance their production capacity and individuals to alleviate hardships;

(e) reviewing processes and procedures to ensure effective and timely implementation of projects, and improvement in service delivery; and

(f) restructuring the operations of public sector bodies to enhance their revenue raising capacity and contain expenditure.

19. Similar to the economic outlook, public finances are subject to a number of fiscal risks on account of uncertainties regarding the duration and severity of the health and economic crisis triggered by COVID-19. Managing the fiscal risks will be challenging but key to mitigating their impact on public finances.

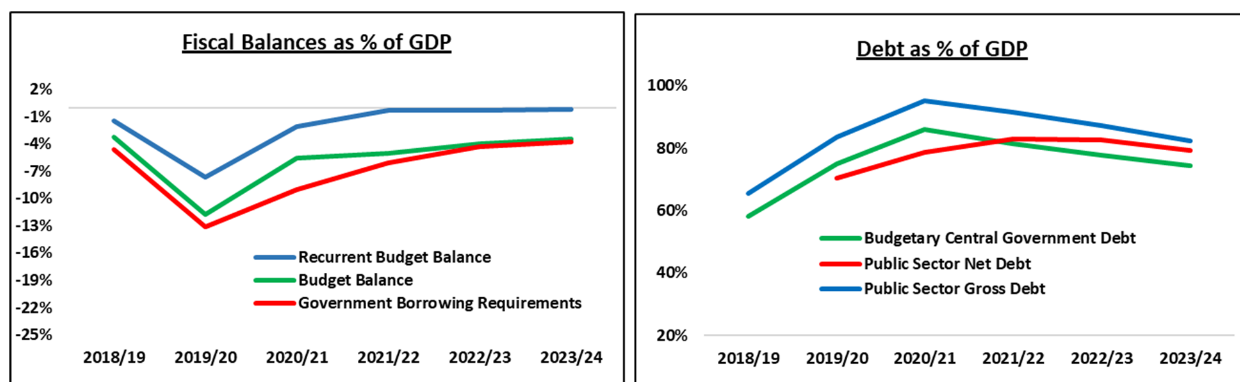
Fiscal Balances and Debt Targets

20. In view of the fiscal strategy and on the basis of the expected strong economic recovery, it is expected that deficit in the recurrent budget will be 0.3% of GDP in FY 2021-2022 and will decline to 0.2% in FY 2023-2024. The deficit in the capital budget is estimated at 4.7% of GDP and will also decline to 3.3% in FY 2023-2024. Thus, the overall budget deficit would be 5% in FY 2021-2022 and is projected to decline to 4% in FY 2022-2023 and 3.5% in FY 2023-2024.

21. Budgetary Central Government (BCG) debt is projected at Rs 406.6 billion at end June 2022. As a percentage of GDP, the BCG debt ratio will decline to 81.3% against 85.9% at end June 2021. It will continue to decline to 74.3% at end June 2024.

22. Public enterprise debt will increase from Rs 39.9 billion at end June 2021 to Rs 49.9 billion at end June 2022 but will decline in FY 2023-2024. Public sector gross debt is expected to reach Rs 456.6 billion at end June 2022. As a percentage of GDP, the debt ratio will decline from 95% at end June 2021 and to 91.4% at end June 2022 and further to 82.4% by end June 2024.

23. Public sector net debt will amount to Rs 413.9 billion at end June 2022. The debt to GDP ratio works out to 82.8% and is expected to decline over the medium term to reach 79.2% at end June 2024.



DEBT MANAGEMENT STRATEGY

24. Notwithstanding the rise in the public sector debt to GDP ratio in the wake of the pandemic, public sector debt remains sustainable due to its relatively low cost and risks. In fact, through active management, the cost of the debt portfolio in FY 2020-2021 is being maintained at the same level as in FY 2019-2020, while its profile and structure are being further improved, as evidenced by the following:

(a) the cost of debt is being reduced. Interest payments as a ratio to GDP is estimated at 2.8%, lower than the target of 3.5%;

(b) the affordability of public debt is being improved. The ratio of interest payments to recurrent revenue would drop to around 10% from 12.9% in FY 2019-2020, also below the benchmark of 10.5%.

(c) the average interest rate on Government debt would decline to 3.5% from 4.2% in FY 2019-2020;

(d) refinancing risk of Government debt is being reduced. The average maturity of Government debt is being increased from 4.9 years at end June 2020 to 5.8 years by end June 2021, above the set benchmark of 5 years;

(e) the amount due within one year is being reduced from 24.7% at end June 2020 to 21% by end June 2021; and

(f) interest rate risk is being brought down. The average time for fixing of interest is being increased from 4.2 years to 5.2 years and the percentage of debt falling due for re-fixing of interest lowered from 33.4% at end June 2020 to 29.3% by the end of June 2021.

25. In terms of composition, the share of external debt in total Government debt is expected to pick up to around 22.3% by end June 2021 compared to the benchmark of 20%. This would be mainly due to (i) concessional loans contracted from three development partners to mitigate the impact of the pandemic on the foreign exchange reserves situation of the country, and (ii) an increase in the holding of Government securities by non-residents amounting to around Rs 15 billion.

26. As regards the debt service ratio, it would pick up to around 8.1% during FY 2020-2021 mainly on account of a significant drop in exports as a result of the pandemic. However, it would still be below the international standard of 10%. In spite of increasing to 30.1% of GDP, foreign debt of the country has a cover in terms of international reserves of around 233% compared to the general rule of between 100-150%.

Medium Term Debt Management Targets/Benchmarks

27. Consistent with the Macroeconomic Framework, public sector debt is planned to be brought down to about 82% of GDP by end June 2024. The debt management strategy aims at setting out cost and risk control benchmarks/targets to further improve debt sustainability.

28. Interest payment on Government debt will be brought down to around 2.5% of GDP, below the set target of 3.5%. Furthermore, with the aim of increasing debt affordability, the benchmark for interest payment as a ratio of recurrent revenue will remain at 10.5%. However, it is planned to further bring down this ratio to around 10%. As regards the average interest rate on Government debt, it is expected to remain within 4%.

29. With a view to reducing foreign exchange rate risks, the share of foreign debt in the Government debt portfolio and public sector debt portfolio will be maintained at their present benchmarks of 20% and 25%, respectively.

30. The currency composition of Government foreign debt will be further diversified by increasing the share of other currencies. At the same time, to broadly reflect the currency composition of export proceeds of the country, the benchmark for the share of USD in public sector debt will be set at around 38% and that of EURO at 35% with other currencies constituting 27% of the portfolio.

31. In order to contain refinancing risks, the benchmark for the average time to maturity of Government debt will be raised to 5.5 years while the share of debt falling due for payment within one year will be contained at 22%. This is planned to be achieved by generally limiting new foreign borrowings to loans with long term maturities of 15 years and above and with concessional interest rates.

32. With regard to domestic debt, the share of short-, medium-, and long- term instruments will be maintained at 10%, 19%, and 42%, respectively while that of 5-year bonds will be raised to around 30%.

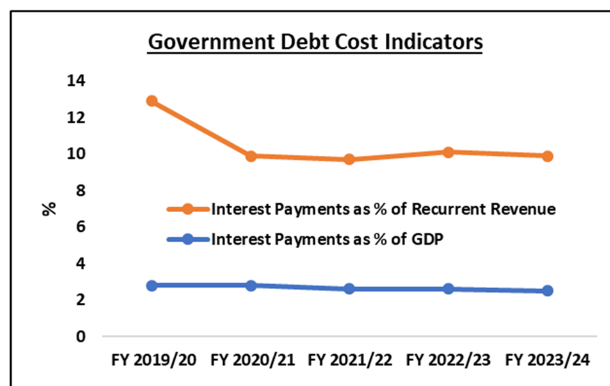
33. Interest rate risk will be mitigated by setting a benchmark of an average of 5 years and a share of 30% on the re-fixing of interest on Government debt portfolio. In this respect, the bulk of Government securities will be issued at fixed rates of interest.

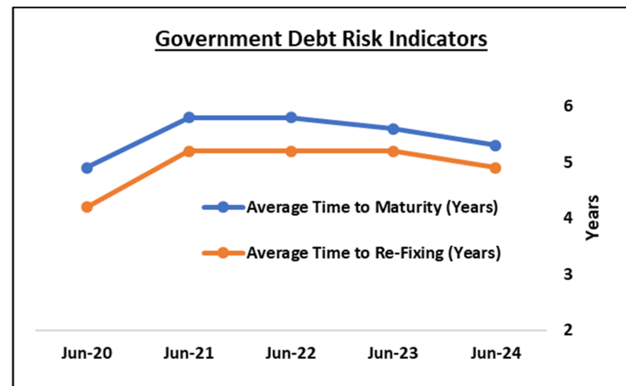
34. As regards foreign debt, the share of fixed interest rate loans will be set at 65% and that of variable rate loans at 33%, with the balance of 2% constituting interest-free loans. These benchmarks for public sector external debt will be 68%, 30% and 2%, respectively.

35. With the aim of further improving external debt sustainability, the benchmark for the ratio of national external debt to GDP will be reset at 25% while the target for debt service ratio will be maintained at 6% compared to the international standard of 10%. In the same vein, the benchmark for foreign exchange reserves cover for national debt will be raised to 250% from 225% at present.

36. In order to further encourage the development of the secondary market for Government securities, the bulk of financing of the Budget over the medium term will be from domestic sources. Thus, benchmark securities of higher amounts will be issued, thereby providing larger volumes for trading.

37. The overall aim of the strategy is to further enhance the sustainability of public sector debt by reducing cost over the medium term while maintaining risks at prudent levels as demonstrated in the charts below. It is set within the macroeconomic parameters of the Budget and represents the preferred option after internal analysis of alternative strategies.





Medium Term Cost and Risk Indicators

	End Jun-20 Actual	End Jun-21 Revised Estimates	End Jun-24 Estimates	Benchmarks/ Limits	Tolerance Level %
Government Debt					
As % of GDP (End of Period)	75.0	85.9	74.3	72.0	+/-5
Cost Indicators (Cash Basis) (Financial Year)					
Interest Payments as % of GDP	2.8	2.8	2.5	< or = 3.5	-
Interest Payments as % of Recurrent Revenue	12.9	9.9	9.9	10.5	+/-10
Average Interest on Debt (%)	4.2	3.5	3.4	4.0	+/-10
Composition (%) (End of Period)					
Foreign	12.7	22.3	17.3	20.0	+/-5
Domestic	87.3	77.7	82.7	80.0	+/-5
Currency Composition of External Debt (%)					
USD	12.8	5.9	11.0	12.0	+/-5
EURO	58.2	47.3	48.3	50.0	+/-5
YEN	1.5	13.8	15.9	15.0	+/-5
Others	27.5	33.0	24.8	23.0	+/-5
Refinancing Risks					
Average Time to Maturity (Years)					
Total Debt	4.9	5.8	5.3	5.5	+/-10
External Debt	6.5	8.8	7.6	7.5	+/-10
Domestic Debt	4.7	5.2	4.9	5.0	+/-10
Due Within 1 year (%)					
Total Debt	24.7	21.0	23.3	22.0	+/-10
External Debt	11.5	6.1	6.5	6.5	+/-10
Domestic Debt	26.3	24.2	26.3	25.0	+/-10
Interest Rate Risk					
Average Time to Re-Fixing (Years)					
Total Debt	4.2	5.2	4.9	5.0	+/-10
External Debt	2.1	6.3	5.8	5.6	+/-10
Domestic Debt	4.4	4.9	4.8	4.8	+/-10
Share with Re-fixing in 1 Year (%)					
Total Debt	33.4	29.3	29.9	30.0	+/-10
External Debt	65.4	38.3	35.8	38.0	+/-10
Domestic Debt	29.4	27.4	28.9	28.0	+/-10
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	33.9	65.8	64.3	65.0	+/-10
Variable Interest Rate Loans	63.3	32.7	34.4	33.0	+/-10
Interest Free Loans	2.8	1.5	1.3	2.0	+/-10
Public Sector Debt					
As % of GDP (Gross)	83.4	95.0	82.4	80.0	+/-5
As % of GDP (Net)	70.4	78.8	79.2	75.0	+/-5
Composition (%)					
Foreign	17.0	25.9	21.5	25.0	+/-5
Domestic	83.0	74.1	78.5	75.0	+/-5
Currency Composition of External Debt (%)					
USD	40.3	26.4	36.1	38.0	+/-5
EURO	40.1	37.3	35.2	35.0	+/-5
YEN	1.0	10.7	11.2	11.0	+/-5
Others	18.6	25.6	17.5	16.0	+/-5
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	41.5	66.0	67.6	68.0	+/-5
Variable Interest Rate Loans	56.7	32.8	31.4	30.0	+/-5
Interest Free Loans	1.8	1.2	1.0	2.0	+/-5
National External Debt [1]					
As % of GDP	19.7	30.1	22.0	25.0	+/-10
FX Reserves as % of External Debt	321.1	233.3	260.8	250.0	+/-10
Debt Service Ratio[2] (%) (Financial Year)	9.0	8.1	5.2	< 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 5.1%.