MEDIUM TERM MACROECONOMIC FRAMEWORK, FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2017/18	2018/19	2019/20	2020/21
WORLD ECONOMY[1]				
World Output Growth Rate (%)	3.8	3.9	3.9	3.8
Euro Area Output Growth Rate (%)	2.3	2.4	2.0	1.7
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	476.3	512.2	552.6	597.5
Real GDP Growth Rate - current market prices (%)	3.9	4.1	4.3	4.5
Investment Rate (%)	17.6	18.4	18.9	19.1
Inflation Rate (%)	4.3	3.5	3.5	3.5
Public Finance (as % of GDP)				
Recurrent Revenue	20.7	20.9	20.9	21.0
o/w Taxes	*19.3*	*19.5*	*19.5*	*19.5*
Non-Tax Revenue	*1.4*	*1.4*	*1.4*	*1.5*
Recurrent Expenditure	22.4	22.6	21.7	20.9
o/w Interest	*2.4*	*2.6*	*2.7*	*2.8*
Recurrent Balance	**-1.7**	**-1.7**	**-0.8**	**0.1**
Capital Revenue	1.7	2.0	0.8	0.4
o/w External Grants	*0.7*	*1.7*	*0.8*	*0.4*
Capital Expenditure	3.3	3.5	3.1	2.5
o/w Acquisition of Non-Financial Assets	*1.7*	*2.2*	*2.2*	*2.0*
Capital Balance	**-1.6**	**-1.4**	**-2.2**	**-2.0**
Total Expenditure	**25.7**	**26.1**	**24.7**	**23.4**
Budget Deficit	**-3.2**	**-3.2**	**-3.0**	**-2.0**
Primary Balance - Surplus (+)/Deficit (-)	**-0.8**	**-0.6**	**-0.3**	**0.8**
Government Borrowing Requirements	**4.0**	**4.8**	**3.3**	**2.1**
Public Debt (as % of GDP)				
Budgetary Central Government Gross Debt	**57.0**	**57.0**	**56.0**	**53.9**
Public Sector Gross Debt	**63.4**	**63.1**	**62.8**	**60.0**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-5.5	-4.8	-8.5[4]	-7.3
Exports of Goods and Services[2]	42.3	41.3	40.8	40.4
Imports of Goods and Services[2]	-54.9	-54.2	-56.0	-53.4
Gross Official International Reserves (Rs bn)	222.0	240.0	254.0	265.8
Gross Official International Reserves (USD mn)[3]	6,420	6,940	7,340	7,680

[1] *World Economic Outlook, IMF - April 2018. Figures for 2017/18 refer to calendar year 2017.*

[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 34.6/US$ average for the month of May 2018*

[4] *Higher Current Account deficit is mainly due to projected acquisition of aircrafts by Air Mauritius and lower external grants.*

MACROECONOMIC FRAMEWORK

The Framework has been developed taking into account Government's objective to put the Mauritian economy on a higher growth path with a view to lifting the standard of living of the population and ultimately transforming Mauritius into an inclusive, high-income country as envisaged in the Vision 2030 document. It builds on the positive impact and outcomes of the last two budgets and is framed against the backdrop of recent developments, economic prospects and challenges - both global and domestic, and policy responses for the period 2018-2021.

Recent Developments

2. On the international front, the global economy is experiencing a cyclical upswing driven by investment recovery in Advanced Economies, continued strong growth in Emerging Market and Developing Countries, and signs of recovery in several commodity exporting countries. Output growth in 2017 is estimated at 3.8% - the fastest since 2011. World trade volume also increased at a higher rate of 4.9% compared to 2.3% in 2016.

3. As regards the Mauritian economy, major macroeconomic indicators are showing clear signs of improvement. GDP growth is estimated at 3.9% in FY 2017/18. All sectors of the economy, except sugarcane, will record positive growth. The main sectors driving growth are financial services, construction, tourism and retail trade.

4. As for investment in the economy, it continued on its rising trend. Private investment, as a percentage of GDP, increased from 12.8% in 2016 to 13.2% in 2017. FDI inflows were also higher at Rs 17.5 billion compared to Rs 13.6 billion in 2016. Employment of Mauritians increased by 6,500 on a net basis in 2017 compared to 300 in 2016. The unemployment rate declined from 7.3% in 2016 to 7.1% in 2017. Over the same period, female unemployment rate dropped from 11.2% to 10.7%, while male unemployment rate stabilised at 4.8%. Youth unemployment rate went up from 23.9% in 2016 to 24.9% in 2017.

5. The surplus in the balance of payments increased to Rs 28.3 billion in 2017 compared to Rs 26.2 billion in 2016. As a percentage of GDP, it continued to rise to 6.2% against 6% in 2016. Gross international reserves have reached a record level of Rs 222 billion at end-May 2018, providing for an import cover of some 10.7 months.

6. The rise in international oil prices in the second semester of 2017 has partly led to an increase in the inflation rate to 3.7% in 2017 and in the current account deficit to 6.6% of GDP.

Prospects and Forecasts

7. The growth momentum in global economic activities is expected to continue in 2018 and 2019. According to the IMF, global output will expand by 3.9% in both years. Our main trading partners in the Euro Area, particularly France, Germany and Italy, are expected to sustain or record a higher growth rate than in 2017. In the region, growth prospects for South Africa are improving.

8. The Framework takes into account the positive outlook for the global economy, in particular our main trading partners, as well as the recent rising trend in both business and consumer confidence in growth prospects locally. The Mauritian economy is thus forecast to expand by 4.1% in FY 2018/19, 4.3% in FY 2019/20 and 4.5% in FY 2020/21.

9. The economy will continue to be supported by the main sectors. The construction sector is expected to register buoyant growth over the medium term with the implementation of major public and private sector projects. Some of the major public sector projects are: the Metro Express, Phoenix-Jumbo Round-About, A1M1 Bridge, pipe replacement programme, Multi-Sport Complex, Airport Passenger Terminal Expansion Project, New Flacq Hospital, social housing units and the New Administrative City.

10. As regards the private sector, there will be major investments in projects such as real estate development under the Smart City Scheme and the Property Development Scheme, construction and renovation of hotels, development projects for renewable energy, modern studio for filmmaking, residential care home projects and university campuses.

11. The tourism sector is also expected to perform better. The market diversification strategy will be intensified for greater penetration in ASEAN markets as well as Gulf and Nordic countries. Promotion of Mauritius as a year-round tourist destination will be strengthened.

12. Regarding the ICT sector, the coming into operation of two additional submarine cables in 2019 will increase international bandwidth and boost activities in the sector. In addition, the development of Fintech and Blockchain technology will create new opportunities for exports of financial services and ICT/digital capabilities.

13. The economy will also benefit from steady growth in activities in emerging sectors such as the film industry, knowledge hub, renewable energy, medical hub and the ocean economy. The re-industrialisation strategy will broaden the manufacturing base and boost exports. Moreover, the transformation of the port from a destination port into a hub for the region will increase economic activities and trade. The introduction of the national minimum wage and the negative income tax is likely to give a boost to consumption expenditure and the retail trade sector.

14. Downside risks to the growth outlook include slowdown in global economic growth, heightened inflationary pressures arising from increase in oil prices, and unfavourable climatic conditions.

Fiscal Performance in FY 2017/18

15. Recurrent revenue is estimated at 20.7% of GDP in FY 2017/18 while recurrent expenditure will be around 22.4%. The recurrent budget deficit works out to 1.7% of GDP, lower than the Estimates of 2%. Capital revenue is estimated at 1.7% of GDP, of which grants will account for 0.7% of GDP. Capital expenditure is estimated at 3.3% of GDP. The overall budget deficit for FY 2017/18 will be 3.2% of GDP, as targeted in the Estimates.

16. After taking into account transactions in financial assets, Government borrowing requirements will amount to 4% of GDP, lower than the Estimates of 4.4%. Budgetary Central Government gross debt will decline from 59.3% of GDP at end-June 2017 to 57% at end-June 2018. Debt of public enterprises will increase from 5.5% to 6.5% during the period. Total public sector gross debt is estimated at 63.4% of GDP, down from 64.8% at end-June 2017.

17. Total capital expenditure by the public sector, that is, including spending by the Central Government, parastatal bodies and public enterprises, is estimated to increase to Rs 25.9 billion in FY 2017/18 compared to Rs 18 billion in FY 2016/17. As a percentage of GDP, it will be 5.4% as against 4% last year.

FISCAL STRATEGY

18. The Fiscal Strategy for this year and over the medium term is geared towards maintaining macroeconomic stability to support inclusive growth, employment creation and uplifting the quality of life of the population. It builds on progress made during the past two years in improving transparency in public finance management, enforcing greater fiscal discipline and prudence, and putting public sector gross debt on a downward path.

19. The Strategy is underpinned by measures to be taken both on the revenue side and the expenditure side. As regards tax revenue, actions will be taken to improve the buoyancy of the tax system. The MRA will intensify its efforts to combat non-declaration and under-declaration of tax liabilities. Electronic fiscal devices will be introduced at business level to enable electronic recording and transmission of fiscal data to the MRA. A dedicated IT system will be put in place to monitor and ensure speedy recovery of tax arrears. In addition, the use of big data will enable enhanced data analysis for more efficient tax administration and detection of fraud.

20. As regards capital revenue, Government will identify and mobilise maximum potential sources of grant financing from international organisations and friendly countries for implementation of capital projects. Moreover, there will be better cash management at the level of public bodies to ensure efficient and effective use of cash resources and minimise drawdown from Government financing and raising of debt.

21. On the expenditure side, measures will be taken to do more with less. Greater weight will be given in containing recurrent expenditure. In this respect, to reduce wastages and improve service delivery, Ministries/Departments will have to report in their Annual Report on Performance on measures taken to address weaknesses identified by the Director of Audit.

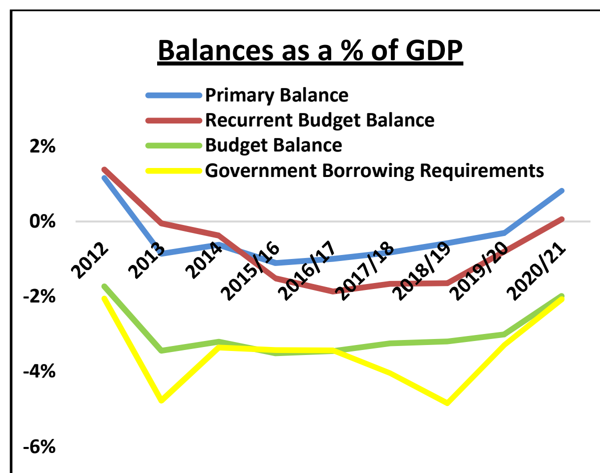
22. As for capital expenditure, Government funds will be directed towards quality investment to boost economic growth and employment creation. Implementation of capital projects will be on a priority basis and allocation of funds will be made based on a realistic implementation plan.

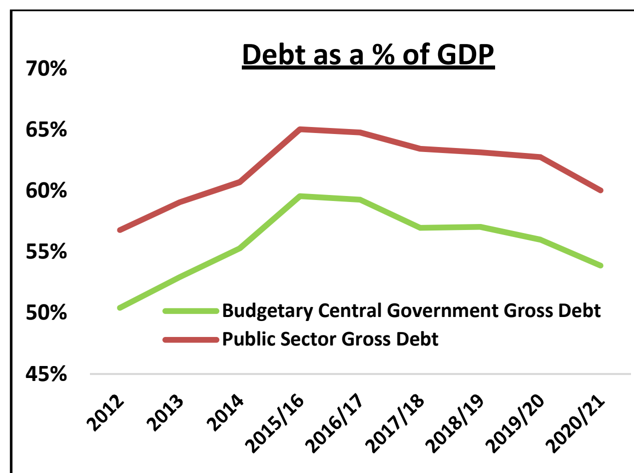
23. Going forward, measures will be taken to achieve total adherence to the golden rule in public finance, that is, borrowing only to finance investment expenditure. This will ensure the sustainability of public finance and maintain public sector gross debt below the statutory debt ceiling.

Fiscal Balances and Debt Targets

24. On the basis of the macroeconomic assumptions and the fiscal strategy outlined above, the recurrent budget position will gradually improve and will be balanced in FY 2020/21. The overall budget deficit (before Net Acquisition of Financial Assets) will decline to 2% of GDP. Government borrowing requirements will be brought down to 2.1%.

25. Budgetary Central Government gross debt will decline to 53.9% of GDP while public enterprise debt will reach 6.2%. The public sector gross debt to GDP ratio is projected to continue on its downward trend to reach 60% by end-June 2021.





MEDIUM TERM DEBT MANAGEMENT STRATEGY

26. The principal aim of the Debt Management Strategy, in line with the provisions of the Public Debt Management Act, is to ensure that Government's borrowing needs and payment obligations are met at the lowest possible cost while maintaining risk at a prudent level. A secondary objective is to support the development of the market for Government securities in view of reducing the cost of debt servicing in the long run.

27. The main risks to which a debt portfolio can be exposed are foreign exchange risks, refinancing risks and interest rate risks. The strategy to address these risks set out in the financing plan of the 2018/19 Budget is as follows:

(a) Foreign exchange risks - to have greater recourse to domestic financing for meeting Government`s borrowing requirements:

- The share of external debt in Government debt portfolio will be reduced from 17% at present to 12% by end-June 2021.
- The debt service ratio will be maintained within 6% in the medium term.
- The share of USD in Government external debt will be maintained at its current level of close to 30% while that of Euro will be at around 35% over the medium term.
- The portfolio of foreign debt will be further diversified in terms of currencies.

(b) Refinancing risks - the totality of new foreign loans will be of long maturities varying between 18 and 20 years from bilateral and multilateral sources:

- The average time to maturity (ATM) of external debt is expected to decline from its present level of 5.8 years to 5.1 years by end-June 2021.
- The ATM of domestic debt will be maintained at close to its current level.
- The ATM of Government total debt is expected to decline from 4.9 years to 4.7 years.

(c) Interest rate risks – Government external debt portfolio will be of a nearly balanced mix of fixed and variable interest rate, while Government domestic debt will be predominantly at fixed interest rates:

- The share of fixed interest rate loans in Government external debt will be further raised to 44% over the medium term.
- The bulk of the financing will be on concessional and semi-concessional terms.
- The interest rate mix of public sector external debt will be brought close to balance by end-June 2021.
- The share of variable interest rate loans in Government domestic debt portfolio is targeted to remain within 5% in the medium term.
- The average time for re-fixing (ATR) of Government total debt will be maintained at its present level of 4 years, with the ATR of external debt at 2.6 years and that of domestic debt at 4.2 years.
- The share of Government total debt subject to interest rate re-fixing of within 1 year will be reduced to 31.7% from the current level of 34%.

28. In terms of cost, taking into account the recent rise in yields on Government securities and the macroeconomic framework in the Budget, interest payments (cash basis) as a ratio to GDP is expected to rise from 2.3% in FY 2017/18 to 2.6% in FY 2020/21. As a ratio to recurrent revenue, it would go up from 11.2% to 12.5%, while the average cost of debt is likely to increase from 4.3% to 5.1% during the same period.

29. At the national level, external debt as a ratio to GDP is expected to increase from 15.6% to 17.2%, but would be well below the benchmark of 25%. As a ratio to export of goods and services, it is likely to rise from 37% to 42%, but would be below the target of 50%. External debt cover in terms of foreign exchange reserves would be at around 260%, which is quite comfortable. The debt service ratio, which is expected to increase to 5.0%, would remain at a prudent level.

30. To encourage development of the secondary market for Government securities, the issuance amount of benchmark instruments will be increased from a range of Rs 5 billion to Rs 6 billion to a range of Rs 6 billion to Rs 8 billion, subject to favourable response at the auction for buyback of Government securities.

31. In order to operationalise the strategy, an issuance plan will be issued, while debt management and cash management will be closely coordinated.

Cost and Risk Indicators

	End Jun-18 Rev. Estimates	End Jun-21 Estimates	Benchmarks/ Limits	Tolerance Level %
<u>**Government Debt**</u>				
As % of GDP	57.0	53.8	≤ 54	≤ 4
Cost Indicators (Cash Basis) (Financial Year)				
Interest Payments as % of GDP	2.3	2.6	3.0	+/-10
Interest Payments as % of Recurrent Revenue	11.2	12.5	13.0	+/-10
Average Cost of Debt (%)	4.3	5.1	5.5	+/-10
Composition (%)				
Foreign	16.9	12.2	≤ 25.0	+/-10
Domestic	83.1	87.8	≥ 75.0	+/-10
Currency Composition of External Debt (%)				
USD	30.5	31.0	30.0	+/-10
EURO	42.1	34.3	35.0	+/-10
Others	27.4	34.7	35.0	+/-10
Refinancing Risks				
Average Time to Maturity (Years)				
Total Debt	4.9	4.7	5.0	+/-10
External Debt	5.8	5.1	6.0	+/-10
Domestic Debt	4.7	4.6	5.0	+/-10
Due Within 1 year (%)				
Total Debt	22.9	22.9	22.0	+/-10
External Debt	10.1	12.8	12.0	+/-10
Domestic Debt	25.2	24.2	24.0	+/-10
Interest Rate Risks				
Average Time to Re-Fixing (Years)				
Total Debt	4.0	4.0	4.0	+/-10
External Debt	2.4	2.6	3.0	+/-10
Domestic Debt	4.3	4.2	4.3	+/-10
Share with Re-fixing in 1 Year (%)				
Total Debt	34.0	31.7	32.0	+/-10
External Debt	60.6	55.5	56.0	+/-10
Domestic Debt	29.2	28.8	29.0	+/-10
Interest Rate Mix of External Debt (%)				
Fixed Interest Loans	37.9	43.5	45.0	+/-10
Variable Interest Rate Loans	59.7	52.9	51.5	+/-10
Interest Free Loans	2.4	3.6	3.5	+/-10
<u>**Public Sector Debt**</u>				
As % of GDP	63.4	60.0	≤ 60.0	≤ 4
Composition (%)				
Foreign	19.5	18.5	≤ 30.0	+/-10
Domestic	80.5	81.5	≥ 70.0	+/-10
Currency Composition of External Debt (%)				
USD	44.0	58.3	38.0	+/-10
EURO	34.7	21.3	42.0	+/-10
Others	21.3	20.4	20.0	+/-10
Interest Rate Mix of External Debt (%)				
Fixed Interest Loans	42.7	55.1	55.0	+/-10
Variable Interest Rate Loans	55.4	42.8	43.0	+/-10
Interest Free Loans	1.9	2.1	2.0	+/-10
<u>**National External Debt [1]**</u>				
As % of GDP	15.6	17.2	25.0	+/-10
As % of Export of Goods and Services	36.9	42.5	50.0	+/-10
FX Reserves as % of External Debt	298.9	259.0	200.0	+/-10
Debt Service Ratio (%) (Financial Year)	4.0	5.0	≤ 6	+/-10

1 - Excludes Deposit Taking Institutions and Global Business
For computation of indicators, Government Securities issued for mopping up excess liquidity have been excluded.