MEDIUM TERM MACROECONOMIC FRAMEWORK,
FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

	2015/16	2016/17	2017/18	2018/19
WORLD ECONOMY[1]				
World Output Growth Rate (%)	3.1	3.1	3.4	3.6
Euro Area Output Growth Rate (%)	1.7	1.6	1.4	1.6
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	422.3	451.4	486.8	528.0
Real GDP Growth Rate - current basic prices (%)	3.4	4.1	4.6	5.0
Investment Rate (%)	18.0	18.9	21.0	23.1
Inflation Rate (%)	0.9	2.0	2.5	2.5
Public Finance (as % of GDP)				
Recurrent Revenue	20.4	20.8	20.9	20.9
o/w Taxes	*18.5*	*18.8*	*19.1*	*19.2*
Non-Tax Revenue	*1.9*	*2.0*	*1.8*	*1.7*
Recurrent Expenditure	21.9	22.8	21.8	20.5
o/w Interest	*2.4*	*2.5*	*2.6*	*2.6*
Recurrent Balance	**-1.5**	**-2.0**	**-0.9**	**0.4**
Capital Revenue	0.5	1.9	1.7	0.8
o/w External Grants	*0.1*	*1.4*	*1.7*	*0.8*
Capital Expenditure	2.5	3.2	3.3	2.8
o/w Acquisition of Non-Financial Assets	*1.4*	*2.2*	*2.4*	*2.2*
Capital Balance	**-2.0**	**-1.3**	**-1.5**	**-2.0**
Total Expenditure	**24.4**	**26.0**	**25.0**	**23.3**
Budget Balance (Before Net Acquisition of Financial Assets) - Surplus (+)/Deficit (-)	**-3.5**	**-3.3**	**-2.4**	**-1.6**
Primary Balance - Surplus (+)/Deficit (-)	**-1.1**	**-0.8**	**0.1**	**1.1**
Government Borrowing Requirements	**3.4**	**4.1**	**3.2**	**2.2**
Public Debt (as % of GDP)				
Budgetary Central Government Net Debt	**53.7**	**54.2**	**53.6**	**51.8**
Public Sector Net Debt (Statutory Debt Ceiling)	**55.6**	**55.6**	**54.9**	**53.0**
Public Sector Debt (International Definition)	**65.0**	**62.8**	**61.0**	**58.4**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-4.6	-4.5	-4.8	-5.0
Exports of Goods and Services[2]	48.4	48.2	48.7	49.1
Imports of Goods and Services[2]	-57.5	-56.8	-57.4	-57.6
Gross Official International Reserves (Rs bn)	168.6	178.3	193.3	205.6
Gross Official International Reserves (USD mn)[3]	4,742	4,982	5,399	5,743

[1] *World Economic Outlook, IMF - April 2016 & July 2016 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 of Rs 35.8/US$ as at 28 July 2016*

Macroeconomic Framework

The Framework has been prepared in line with the overarching macroeconomic goals of Government - the key elements of which have been enunciated in the Government Programme 2015-2019 and the Prime Minister's Statement on Achieving the Second Economic Miracle and Vision 2030. It takes into account recent developments as well as global and domestic economic prospects and challenges, and relevant policy responses for the period 2016-2019. It also incorporates likely impact of policy measures announced in the Budget Speech.

Recent Developments

2. The global economy remained in the low-growth territory in 2015 with output expanding by 3.1%. Compared to 2014, global growth rate was down by 0.3 percentage point mainly due to weakening of Emerging Market and Developing Economies, particularly BRICS countries, with the notable exception of India.

3. Against this backdrop, the Mauritian economy grew at a moderate rate of 3.4% in FY 2015/16. The main driver of growth was the services sector which grew by 4.4%. The financial services sector was the highest contributor to GDP growth, followed by tourism, retail trade and ICT.

4. The demand side was characterised by persistence in the declining trend in the investment rate that has now reached 18% against 24% five years ago. This is due mainly to continued contraction in private investment and in the construction industry. Consumption demand grew by 5.3% in nominal terms, almost same as in last year.

5. Regarding inflation, it remained subdued during the year with a decline in oil prices and interest on housing loans, and lower increase in prices of some consumer goods. As a result, the inflation rate for the year ending June 2016 was 0.9% - the lowest rate in more than 25 years. The unemployment rate in 2015 was 7.9%, slightly above the 7.8% recorded in 2014. However, during 1st Quarter 2016, the unemployment rate declined to 7.6% against 8.7% a year earlier.

6. On the external front, the current account deficit dropped to 4.6% of GDP in FY 2015/16 from 4.8% in the preceding year. This was mainly due to a sharper decline in imports of goods, supported by lower oil prices, than the fall in exports. Net exports of services recorded a surplus of 5.2% of GDP. The balance of payments surplus amounted to 4.8% of GDP compared to 3.8% in FY 2014/15. Gross international reserves continued on its rising trend to reach Rs 168.6 billion (US$ 4,742 million) at end-June 2016, equivalent to 8.5 months of imports as against 7.1 months at end-June 2015.

Prospects and Forecasts

7. For 2016 and the medium term, the IMF has projected that global economic growth would remain moderate. Moreover, the Brexit vote has compounded economic, political, and institutional uncertainty. Though it is very difficult at this stage to quantify its potential repercussions, it is evident that it will have negative macroeconomic consequences, especially in advanced European economies.

8. Besides the global economic environment, the macroeconomic assumptions underlying the Framework take into account Government's objectives to: (i) steer the country into a higher plane of economic growth and inclusive development; (ii) stimulate and facilitate private and foreign investment, including in public infrastructure; (iii) widen the economic space and promote innovation and entrepreneurship; and (iv) ensure public finances are sound and macroeconomic fundamentals are strong.

9. The economy is thus projected to grow by 4.1% in FY 2016/17, 4.6% in FY 2017/18 and 5.0% in FY 2018/19, driven by a recovery in the construction sector, sustained expansion in the financial services, tourism and ICT sectors and emergence of new sectors like aviation and shipping hubs, healthcare services and the energy industry. It is expected that operationalisation of the various measures announced in the Budget Speech will further open the economy, boost business confidence and reverse the declining trend in investment.

<u>Fiscal Performance in FY 2015/16</u>

10. The financial year 2015/16 ended with a budget deficit (before Net Acquisition of Financial Assets) of **3.5% of GDP**, i.e. same as targeted. Recurrent expenditure increased to 21.9% of GDP from 20.7% in 2014 due to significant increase in social entitlements and the wage bill. Recurrent revenue amounted to 20.4%, almost same as in 2014. As a result, the recurrent balance worsened to **-1.5% of GDP**.

11. Central Government capital expenditure declined to 2.5% of GDP compared to 2.9% in 2014. However, total public sector investment, which includes capital projects implemented by Central Government (both under Consolidated Fund and Special Funds), parastatal bodies and public enterprises amounted to 3.8% of GDP.

12. Total public sector debt, as per international definition, is estimated at **65% of GDP** as at end-June 2016 against 63.1% at end-June 2015. The increase in public sector debt is attributable to issuance of additional Government securities to the tune of Rs 7.4 billion to mop up excess liquidity in the banking system, higher borrowing requirements of Government, revaluation of the foreign debt stock, and lower nominal GDP growth than expected.

13. Public sector net debt, computed for the purpose of the statutory debt ceiling (whereby Government cash balances and IMF SDR allocations are netted out of the debt figure and debt of public enterprises is adjusted on the basis of risk assessment), is estimated at **55.6% of GDP** at end-June 2016, slightly down from 55.7% as at end-June 2015.

<u>The Fiscal Strategy</u>

14. The fiscal strategy of Government aims at enforcing **greater fiscal discipline and financial prudence**, particularly in view of the recent rising trend in public debt. Furthermore, the Strategy will strengthen debt-related parameters such as affordability, solvency and liquidity which are already at a reasonable level.

15. The key focus of the Strategy is, therefore, to:

(i) enhance buoyancy of the tax system and improve revenue collection;
(ii) contain rising trend in recurrent spending and rationalise subsidies and social transfer programmes;
(iii) modernise the Public Investment Management Framework for higher value for money; and
(iv) raise public sector efficiency, including in parastatal bodies and public enterprises.

16. <u>Revenue</u>: The tax base will be consolidated and adjusted to priorties. Where appropriate, specific rates will be adjusted in line with inflation and revenue-raising measures taken, especially on consumption taxes. Tax administration will be improved further, with focus on better collection of revenue arrears and more efficient tax dispute settlement mechanism. Government will enforce better returns on public enterprises, including dividends and disposal of excess and underemployed assets. Also, exceptional one-off revenues, like external grants, will be channelled into growth-enhancing investments and long-term returns.

17. <u>Recurrent Expenditure</u>: Measures will be taken to modernise the public financial management system, reinforce the performance monitoring and evaluation function, and conduct sector policy and expenditure reviews. These include:

(a) setting up of a high level Committee on the ageing population and the sustainability/equity issues of the pension system;

(b) carrying out financial management and system reviews in Ministries/Departments to reduce wasteful expenditure and ensure cost-efficient public service delivery;

(c) leveraging on the e-budget system to set up Performance Dashboard for an Accounting Officer to monitor the financial as well as the non-financial progress of his/her Ministry/Department at any particular point in time in relation to the set targets; and

(d) assessing and monitoring fiscal risks and contingent liabilities arising from implementation of infrastructure projects, legal claims, pension liabilities and Government guarantees. The Public Private Partnership Fiscal Risk Assessment Model (P-FRAM) will be used to assess the potential fiscal risks associated with projects and eventually develop the Fiscal Risk Assessment Matrix.

18. Public Investment Management Framework: Project Implementation Units (PIUs) will be set up/strengthened in 5 large Ministries/Departments to undertake project planning and preparation, project management including risk management, procurement and contract management. The Project Plan Committee will be reformed for more rigorous project formulation and design. Moreover, a number of major projects will be implemented with the participation of the private sector under the Build Operate Transfer (BOT) Act that was passed recently.

19. Parastatals and public enterprises: Their financial performance will be closely monitored and appropriate actions taken to improve their financial soundness:

(a) the Public Enterprise Information Management System (PIMS) will be upgraded into a dynamic database of financial and non-financial information on public enterprises;
(b) organisations with similar functions will be merged for greater synergies and more effective service delivery; and
(c) loss-making and high-indebted public bodies to submit turnaround plans to MOFED.

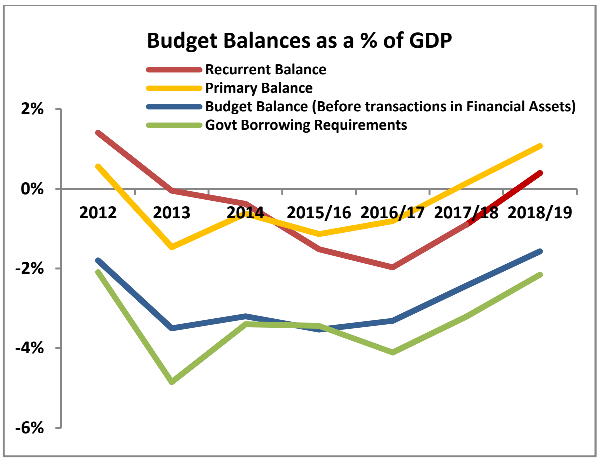
Fiscal Balances and Debt Targets

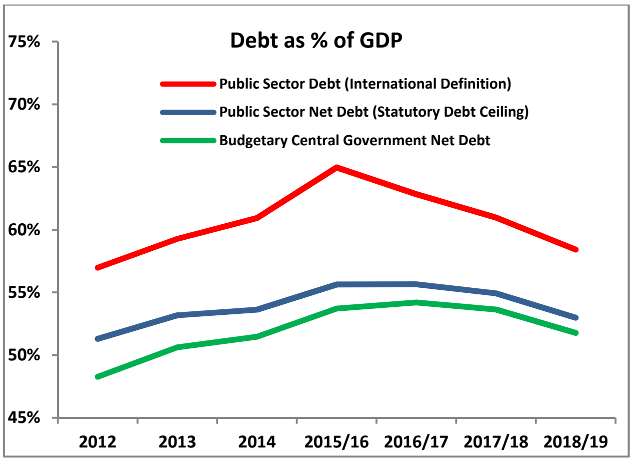
20. On the basis of the above Strategy, the recurrent budget will gradually move out of the negative zone to reach a surplus of 0.4% of GDP by FY 2018/19. With projects implemented by Government under the Consolidated Fund and Special Funds, and by parastatal bodies and public enterprises, and projects under BOT/PPP arrangements, total public sector investment in the economy will average 6.7% of GDP over the 3-year period.

21. The budget deficit, before Net Acquisition of Financial Assets, will be reduced to 1.6% by FY 2018/19. The primary balance will turn positive as from FY 2017/18. Government borrowing requirements will also be reduced to 2.2% of GDP. Public sector debt, as per international definition, will gradually decline to reach 58.4% of GDP by FY 2018/19. Public sector net debt, for the purpose of the debt ceiling, will reach 53% of GDP.

22. If the statutory debt target of 50% of GDP is to be achieved, then the following policy actions will have to be considered:

(a) sale of equity and disposal of other government assets;
(b) additional revenue-raising measures;
(c) cost-cutting measures in the Recurrent and/or Capital Budget; and
(d) reforms in the pension and social transfer systems.





Debt Management Strategy

23. The Debt Management Strategy of Government will continue to be guided by its objective to contain debt servicing costs while maintaining risks at a prudent level. In addition, the Strategy incorporates initiatives to accelerate the development of the secondary market for Government securities through the setting up of a new segment for the trading of Government securities at the Stock Exchange of Mauritius and issuance of guidelines for the operation of Primary Dealers.

24. The public debt portfolio is exposed to exchange rate, interest rate and rollover risks that need to be identified, analysed and managed. The Strategy takes into account these risk parameters and sets appropriate targets for the medium term on the basis of realistic strategic benchmarks.

25. With a view to reducing foreign currency exchange rate risks and in the context of excess liquidity in the domestic banking system, the share of Government external debt was reduced from 24.3% in December 2014 to 22.4% in June 2016, well below the benchmark of 30%. The aim is to limit the share to 25%, which will be the new benchmark, with a view to maintaining the debt service ratio to within 6%.

26. As regards the currency composition of Government external debt, the Strategy will continue to relate the mix of public sector external debt to the currency composition of export earnings. Thus, the share of Euro loans dropped from 34.7% to 32.1%, while those denominated in USD picked up from 39.5% to 41.9%, reflecting the increasing percentage of export proceeds in this currency. However, in view of recent exchange rate trends the increasing share of the USD loans poses significant risks. In this regard, the exposure of Government debt portfolio to USD will be reduced to 38% by prepaying some Rs 4.3 billion of USD denominated loans and converting some external loans. The share of Euro loans will be increased to 35%.

27. In terms of interest rate risks, the objective is to broadly have a balanced debt portfolio of fixed and variable interest rates. In view of recent developments on the international market, the share of fixed rate public sector external loans has been increased from 34.3% to 39.4%. Going forward, this share will be further increased to 42%, with interest free loans projected at around 3% by mid-2019.

28. Furthermore, the average time for re-fixing (ATR) of Government external debt was increased from 1.7 years to 2.3 years and of domestic debt from 3.7 years to 4.2 years. The ATR for total Government debt went up from 3.2 years to 3.8 years, thus already reaching the benchmark for mid-2018. It will be increased further to 4.0 years by mid-2019.

29. The share of Government debt subject to re-fixing of interest rate in 1 year dropped from 41.8% to 38.1% during the review period. It will be further brought down to 28%. This will be achieved through reducing the share of short term domestic debt, bringing down the percentage of variable interest rate external loans and holding the issuance of index-linked domestic bonds constant over time.

30. To further reduce rollover risks, the average time to maturity (ATM) of Government external debt was increased from 6.8 years to 7 years. With the focus on domestic financing, the ATM of external Government debt is expected to gradually decline to about 6years.This will be offset by lengthening the ATM for Government domestic debt which went up from 4 years to 4.7 years during the review period.

31. As regards the ATM of total Government debt, it was raised from 4.7 years to 5 years, thus already achieving the medium term benchmark set out for overall public debt. The objective is to maintain the ATM of overall Government debt at 5 years over the medium term

32. It may be noted that significant progress has been made to improve the debt profile while strengthening important parameters such as affordability, solvency and liquidity.

(a) Debt affordability has improved significantly with decline in the ratio of interest payments to Government revenue and also in the ratio of interest payments to GDP.
(b) Government faces no difficulty in accessing both the local and foreign capital markets for raising funds - credit worthiness is well established.
(c) Most of the debt is domestically sourced and there is ample liquidity available in the domestic capital market to support Government's borrowing requirements.
(d) Maturity structure of Government debt has improved with the share of long-term domestic debt increased from 39% to 56%.

Debt Management Strategy Benchmarks

	Dec-2014	Jun-2015	Dec-2015	Jun-2016	New Benchmarks/ Limits end June 2019	Tolerance Levels, %
External Debt						
Debt Service Ratio (%)	4.7	4.7	3.9	4.4	< or =6.0	+/-10
Government Debt Composition						
Foreign (%)	24.3	24.5	23.7	22.4	< or=25.0	+/-5
Domestic (%)	75.7	75.5	76.3	77.6	>or=75.0	+/-5
Public Sector Debt Composition						
Foreign (%)	27.0	27.2	26.5	25.1	<or =30.0	+/-5
Domestic (%)	73.0	72.8	73.5	74.9	> or=70.0	+/-5
Currency Composition of Government External Debt						
USD	39.5	41.2	41.8	41.9	38.0	+/-5
EURO	34.7	32.5	31.9	32.1	35.0	+/-5
Others	22.8	26.2	26.2	26.0	27.0	+/-5
Currency Composition of Public Sector External Debt (%)						
USD	47.4	49.7	50.4	50.4	45.0	+/-5
EURO	31.5	29.0	28.4	28.5	33.0	+/-5
Others	21.1	21.3	21.2	21.1	22.0	+/-5
Interest Rate Mix of Government External Debt (%)						
Fixed Interest Loans	24.5	25.1	29.5	31.8	37.0	+/-10
Variable Interest Rate Loans	72.8	72.2	67.6	65.5	60.0	+/-10
Interest Free Loans	2.7	2.8	3.0	2.8	4.0	+/-10
Interest Rate Mix of Public Sector External Debt (%)						
Fixed Interest Loans	34.3	35.0	38.2	39.4	42.0	+/-10
Variable Interest Rate Loans	63.5	62.8	59.4	58.3	55.0	+/-10
Interest Free Loans	2.2	2.2	2.4	2.3	3.0	+/-10
Roll over Risks: Government Debt						
ATM: Total Debt (Years)	4.7	5.0	5.0	5.1	5.0	+/-10
External Debt (Years)	6.8	7.2	7.3	7.0	6.0	+/-10
Domestic Debt (Years)	4.0	4.4	4.3	4.7	5.0	+/-10
Due Within 1 year:						
Total Debt (%)	23.9	22.2	22.6	22.4	22.0	+/-10
External Debt (%)	7.2	8.0	5.4	5.7	12.0	+/-10
Domestic Debt (%)	28.8	26.4	27.5	26.7	24.0	+/-10
Interest Rate Risk: Government Debt						
ATR: Total Debt (Years)	3.2	3.6	3.6	3.8	4.0	+/-10
External Debt (Years)	1.7	2.3	2.4	2.3	1.5	+/-10
Domestic Debt (Years)	3.7	4.0	4.0	4.2	4.5	+/-10
Share with Re-fixing in 1 Year:						
Total Public Debt (%)	41.8	38.6	38.7	38.1	28.0	+/-10
Structure of Government Domestic Debt						
Short Term (%)	14.1	14.2	12.7	12.5	10.0	+/-10
Medium Term (%)	30.0	29.5	29.1	26.5	25.0	+/-5
Long Term (%)	55.9	56.3	58.2	61.0	65.0	+/-5

The benchmarks in the above table represent the preferred trade-off between costs and risks of the financing strategy set out in the Budget following analysis of alternative financing strategies. In order to provide for some flexibility to cater for unforeseen developments, the existing tolerance levels have been maintained and new ones set out for additional benchmarks.