Country Presentation on Debt Management
Mauritius

Debt Management Unit
Ministry of Finance, Economic Planning and Development
Mauritius
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Outline

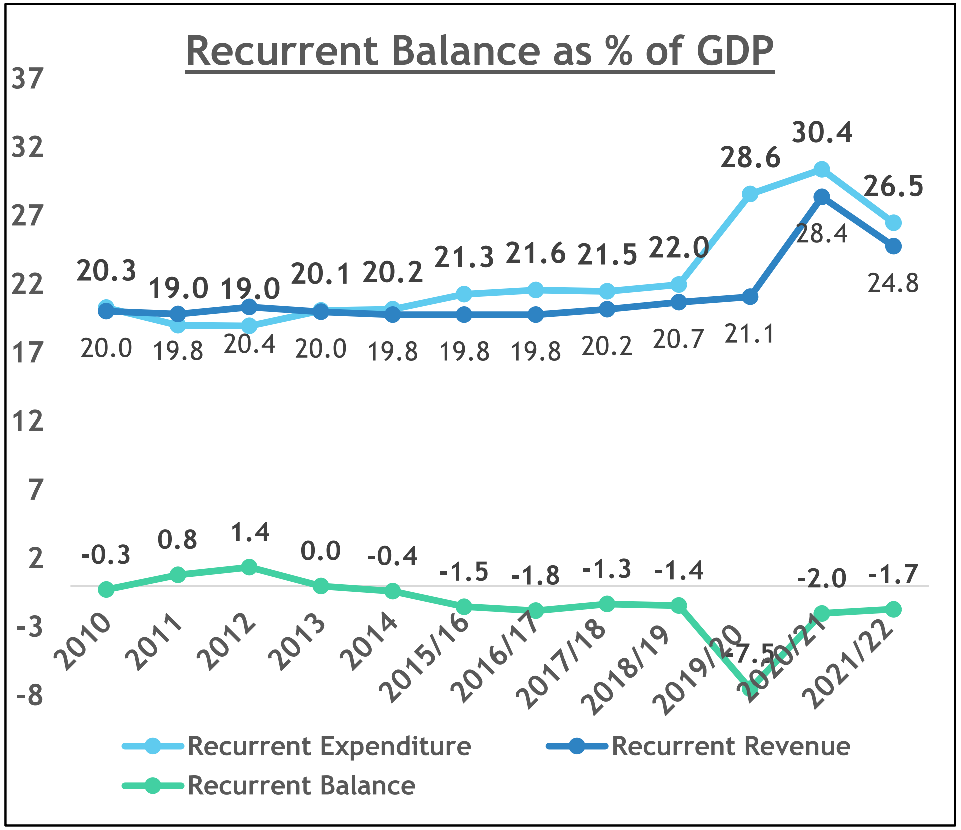
- Measures taken to deal with COVID-19
- Impact on fiscal performance
- Impact on debt
- Financing
- Debt Management Initiatives
- Issues/Challenges

Measures taken by Government in the context COVID-19 pandemic

- Various measures were taken by Government to:
  - minimise the spread of COVID-19
  - assist individuals and companies negatively impacted
  - relaunch economic growth

- These measures involved mobilisation of some Rs 107 billion (USD 2.4 b) over the last 2 years:
  - Government (expenditures) – Rs 40 b
  - Bank of Mauritius and other SOEs (loans, equity participation, other supports) – Rs 67 b

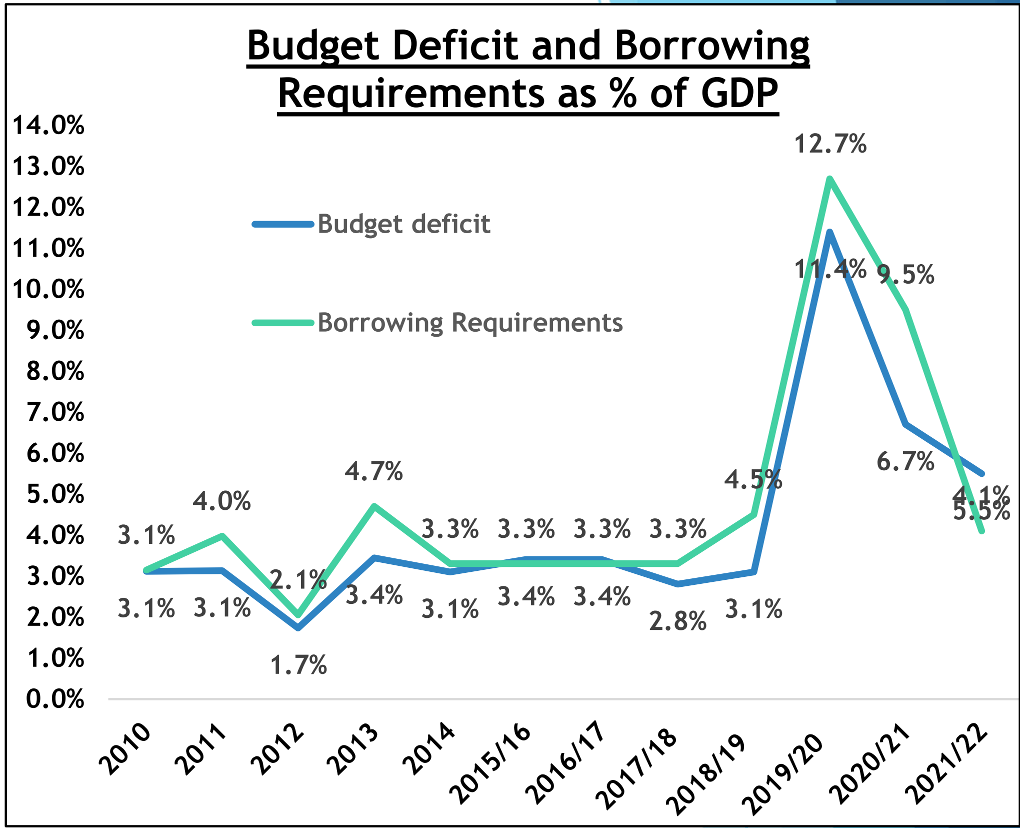
Recurrent Budget Balance as % of GDP - Surplus (+ve)/Deficit (-ve)



Government is borrowing to finance its recurrent expenditure. There is a debt accumulation, which **is not sustainable over time.**

Further to Covid, the recurrent deficit increased to 8% of GDP. It stabilised to around 2% of GDP.

Budget Deficit & Borrowing Requirements as % of GDP



Budget deficit has averaged 3% of GDP up to 2018/19 whilst borrowing requirements has averaged 3.5% due to loans extended to public bodies and equity injection. Thus, **Government debt is rising by more than the budget deficit.**

Due to the pandemic, the budget deficit reached a peak of 11.4% and borrowing requirement of 12.7%.

Mauritius credit rating

- In its last assessment (July 2022), Moody's downgraded Government of Mauritius's long-term foreign and local currency issuer ratings to Baa3 from Baa2, and changed the outlook to stable from negative.

- This downgrade did not have impact on Government cost of borrowings as more than 80% of its borrowings are financed from domestic sources, through the issuances of Government securities on local market. However, as it is envisaging to tap the international capital market, this downgrade could lead to an increase in risk premium.

IMF Article IV Mission - DSA

- **Mauritius' public debt remains subject to notable vulnerabilities and risks.**
- The public debt sustainability analysis (DSA) indicates that debt vulnerabilities remain elevated.
- The baseline is susceptible to a range of shocks, particularly the contingent liability shocks affecting the financial sector and the BOM's balance sheet.
- The debt-to-GDP ratio, which rose notably amid the pandemic, is set to stay at elevated levels in the medium term.

Public Sector Debt Ceiling

- Government had introduced a mandatory PSD ceiling in 2008
- That the PSD shall, at the end of each fiscal year, not exceed 60 per cent of GDP
- The percentage of PSD to GDP should, at end of each fiscal year, be reduced so that at the end of the fiscal year ending 31 December 2013, the percentage shall not exceed 50 per cent and that percentage shall remain the ceiling for every subsequent fiscal year.
- When the Act was enacted, the macroeconomic environment was favourable and it was perceived that the target would be reached much earlier than 2013.
- However, the situation started to deteriorate further to the financial crisis in 2009. Tourists arrival declined significantly and the growth prospects weakened.
- A number of stimulus packages and growth enhancing measures were implemented, which increased Government debt and ratio of debt to GDP.
- In 2013, the PDM Act was reviewed. The methodology to compute PSD was revised. The debt ceiling was maintained at 60%. The ratio of PSD to GDP had to be reduced so that by end 2018, the percentage shall not exceed 50 per cent and that percentage shall remain the ceiling for every subsequent fiscal year.

Public Sector Debt Ceiling (con'd)

- In 2017, the PDM Act was again amended. A new provision was added so that any cash and cash equivalents held by Government will be deducted for computation of PSD. The ceiling of 50% to be achieved in 2018 was maintained.
- In 2018, the PDM was reviewed. All the previous provisions relating to computation of PSD for the purpose of the ceiling were repealed. There was only one definition of PSD and same was used as debt ceiling. The ceiling was 60% to be achieved by end June 2021.
- **Further to the Covid-19 pandemic, public finance had been badly hit and the full provision on debt ceiling was repealed (May 2020).**
- In its Article IV Mission, IMF recommended to reinstate fiscal rule as the economy exits the pandemic to help reduce debt vulnerabilities while allowing for flexibility to address shocks.
- IMF proposed to consider a new medium-term debt anchor of 80 percent of GDP compared to the anchor of 60 percent of GDP repealed early in the pandemic.

Financing of the Budget

- **Domestic:**
  - Issuance of Government securities

    Treasury Bills (91-day, 182-day and 364-day)

    Treasury Notes (3-year)

    Bonds (5-,7-,10-,15- and 20-year)

  Note:

  Yields on the domestic market have been quite low (see chart) which allowed to reduce cost of borrowings and we also seized the opportunity to lengthen the maturity structure of domestic debt and lock the interest rate at a relatively low level.

- **External:**
  - Bilateral and multilateral borrowings at concessional/semi-concessional rates

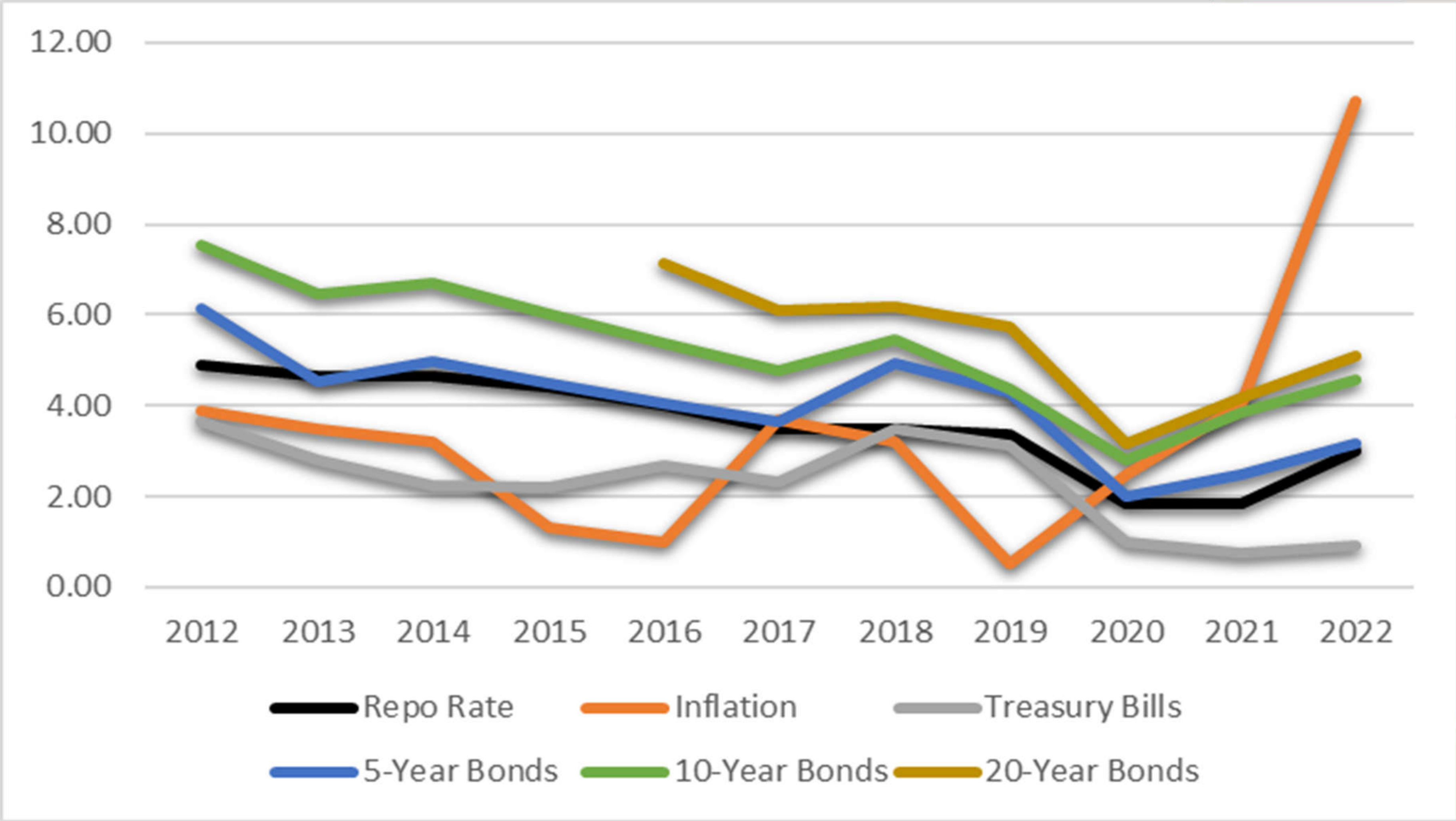
  Government contracted 3 loans from external sources within a relatively short timeframe to meet its borrowing requirements due to the negative impact of COVID-19 pandemic and support economic recovery (total Rs 31 b):

  AfDB – COVID-19 Crisis Budget Support Loan (Euro 188 M)

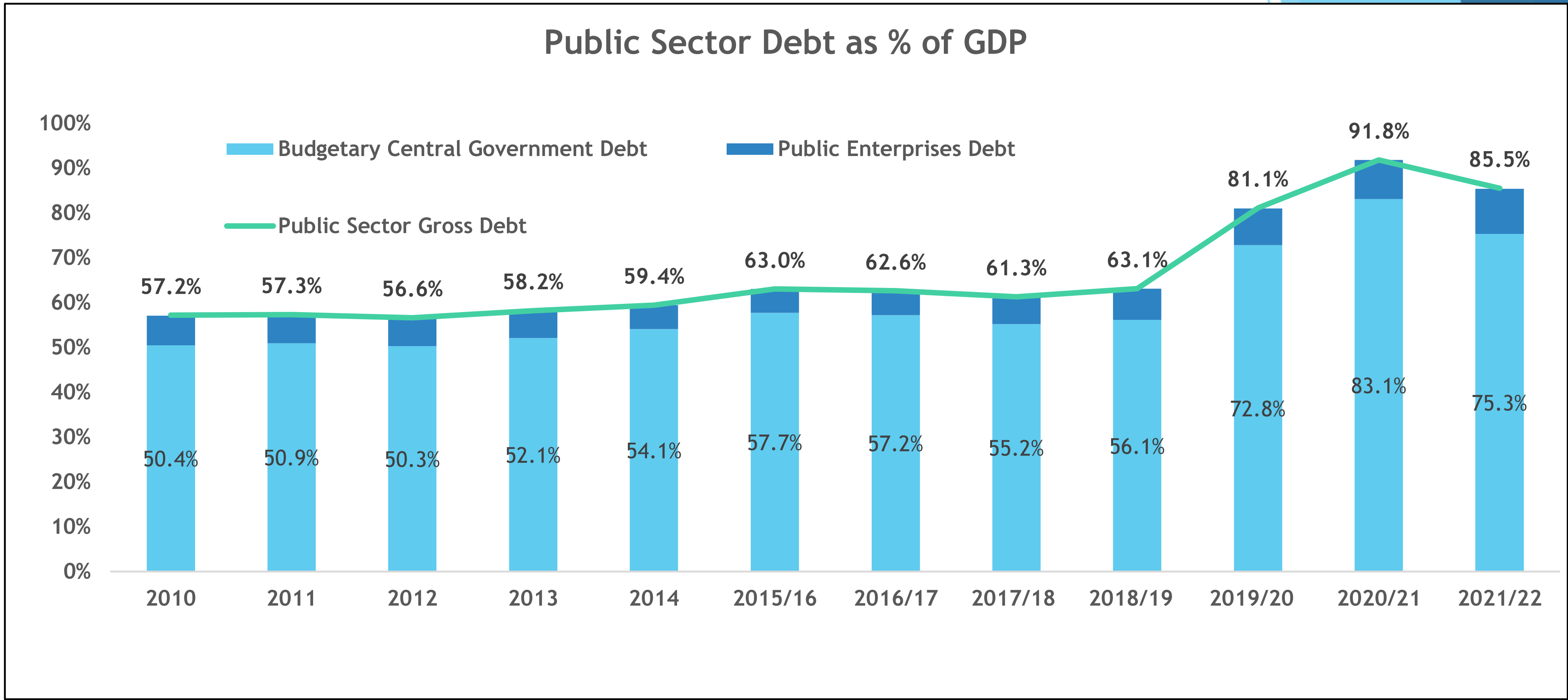
  AFD – Credit Facility (Euro 300 M)

  JICA - Crisis Response Emergency Support (JPY 30 Bn)

Evolution in Yields on Government Securities



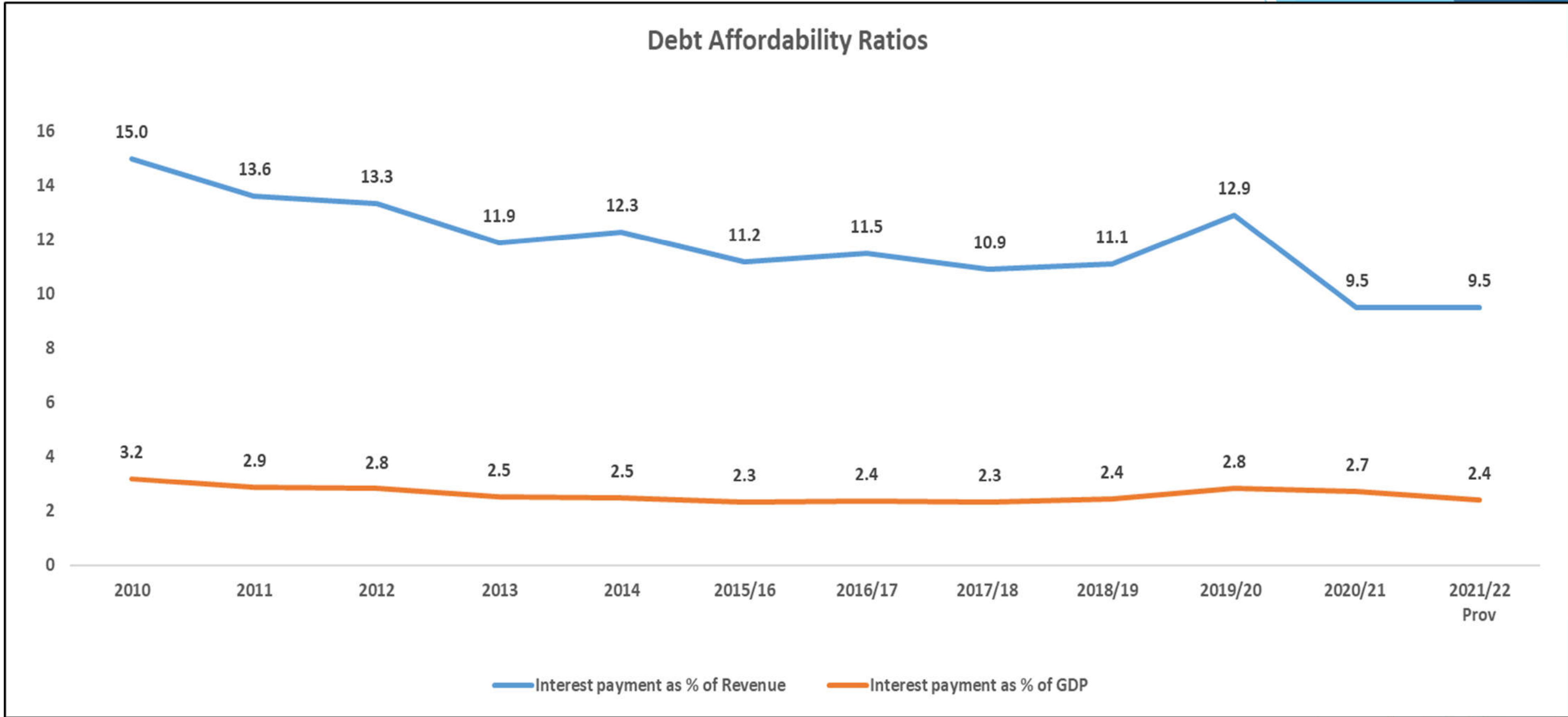
Public Debt Trends & Challenges: Public Sector Debt as % of GDP



Public sector debt is currently about 86% of GDP, down from 92% a year earlier. However, it is much higher compared to pre-COVID-19 period, when it was around 63%.

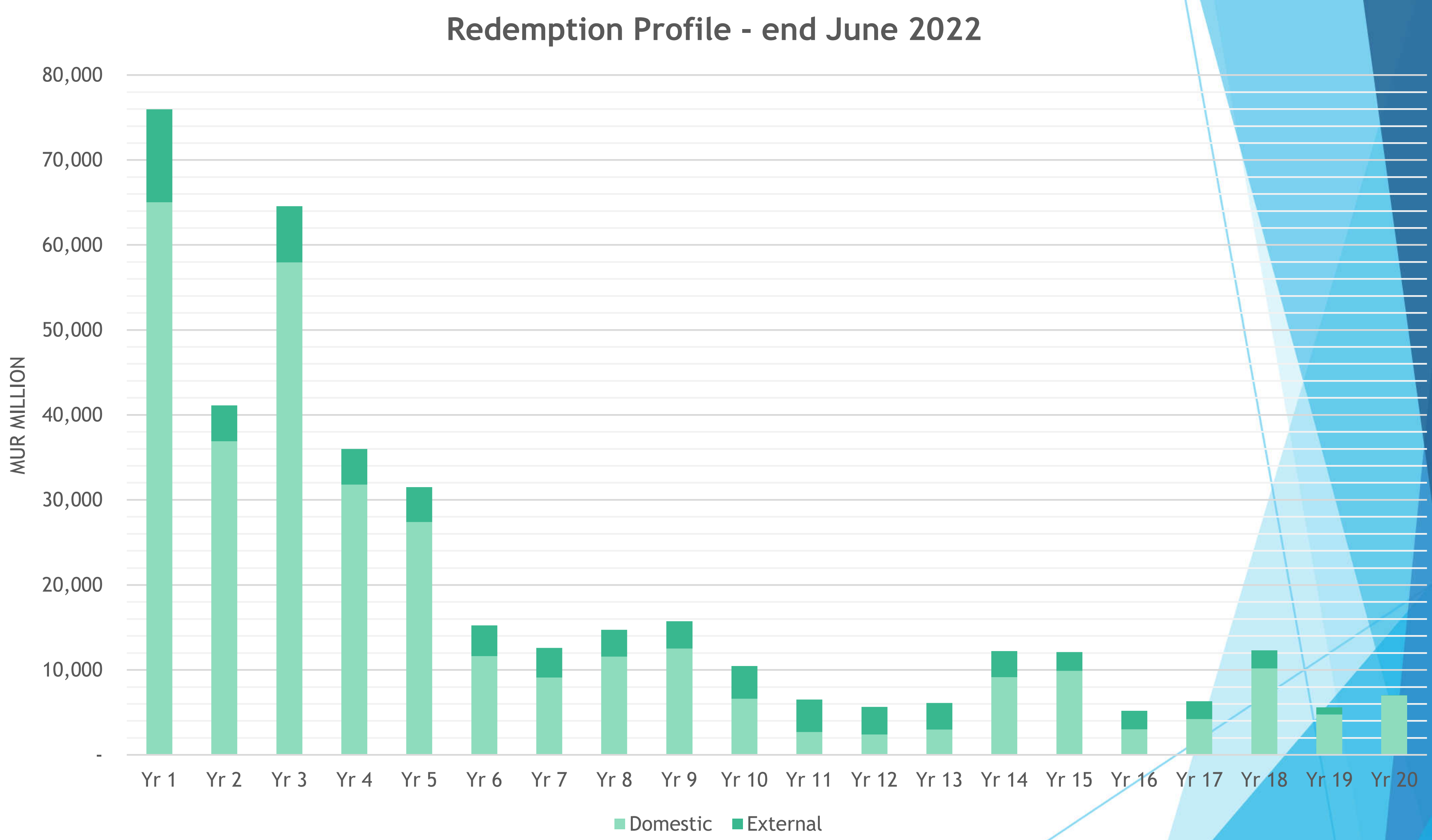
Challenges: Need an appropriate fiscal strategy to bring debt to more manageable level.

Public Debt Trends & Challenges: Government Debt Affordability & Sustainability



- Interest payments as a % of recurrent revenue and % of GDP, two main indicators of debt affordability and sustainability, have been on a declining trend up to FY 2018/19. These were up in 2019/20 and thereafter decreased to 9.5% and 2.4% respectively.

Public Debt – Redemption Profile



Challenge: Financing for Climate Change

Mauritius has taken the commitment to combat climate change through the implementation of comprehensive strategies and policies on climate change mitigation and adaptation, which would require massive investments over the medium to long term.

- *Consideration is being given to issue securities on the international capital market (given the large amount of financing required and to diversify our funding sources).*
- *Government of Mauritius has not issued securities on the international capital market since 2005.*
- *In the 2022-2023 Budget Speech, it was announced that an ESG Framework will be developed and an inaugural Sustainable Bond will be issued in order to finance the implementation of Mauritius sustainability roadmap.*
- *Accordingly, an ESG Framework is being developed, which would be ready in 2 to 3 months.*

Debt Management Objectives and Initiatives

- **Debt Management Objectives**

  (a) to meet the borrowing needs of Government in a manner that avoids market disruption;

  (b) to minimise the cost of the debt portfolio within an acceptable level of risk; and

  (c) to support the development of a well-functioning market for Government securities.

- **Debt management initiatives**
- <u>Foreign loans:</u>
- We exercised the option of currency conversion and interest rate fixing.
- Earlier, a larger proportion of foreign debt was in USD and at variable interest rate. Taking advantage of the favourable market conditions, 4 loans were converted from USD to Euro. Further to the conversions, the interest rates were revised to between zero and 0.4%.
- We also effected an early repayment of some expensive loans (where there were no prepayment penalty)

Debt Management Objectives and Initiatives

- Domestic Securities:
- Development of the domestic market for government securities: Primary dealer system and also secondary market
- Started issuance of benchmark instruments: 3-Year Treasury Notes and 5-Year Bonds
- Issuance of longer term bonds – restarted issuance of 20 year bonds in 2016 and also started issuance of a 7-year Bond as from 2022

Government Debt Profile

- Although the level of Government debt is relatively high, it remains sustainable on account of its profile and structure. The cost and risk indicators of Government debt have been improved as evidenced by the following:
- the majority of Government debt is from domestic sources (79%) with the share of external debt constituting only 21% at end June 2022;
- all Government external loans are from bilateral and multilateral sources and most of them are on concessional/semi-concessional terms.;
- the composition of USD denominated external debt has been brought down while that of Euro has been increased;
- interest rate risk on external debt has been lowered. Fixed rate-56%; variable rate-42%. As regards domestic debt, nearly 97% are at fixed interest rates.
- concerning the composition of domestic debt, the share of short term (up to one year) and medium term (3-Year) debt have been brought down to about 9% and 17% respectively, while 5-Year and long term (10-,15- and 20-year) debt raised to about 74%;
- to contain refinancing risk, the average time to maturity has been raised to 5.8 years and debt falling due for payment within one year to about 20%;

Issues/Challenges

- Public sector debt ceiling has been repealed, which had to some extent been serving as a fiscal discipline. There is need for fiscal consolidation to contain the increase in public sector debt.

With the pandemic, PSD has increased from 63% to 92% of GDP at end June 2021 and finally declining to some 86% in 2022 – representing an increase of 23 percentage points in 3 years.

We will need to reinstate a debt ceiling when the economic situation would improve.

- Another main issue is Contingent liabilities, which represents a major fiscal risk – recently Government had to support a SOE following outcome of a court case, whereby it was required to pay damages of some Rs 5 bn (1% of GDP).
- Loan guarantees (explicit) are monitored and so far there have been no issues. But implicit guarantees as well as some explicit guarantees (PPP) represent high fiscal risks and these are also very difficult to monitor and assess the likelihood of them materializing.
- Due to the high price of petroleum products and also depreciation of MUR against USD, the financial situation of a few SOEs has deteriorated, posing risks to public finance.
- Financing for climate change – issuance of bonds on international market (might raise cost of borrowing)
- No adequate availability of USD on local market to meet demand of importers of essential products

Thank You

- 21 debt tables are posted on website of the Ministry of Finance:
- https://mof.govmu.org/Pages/Debt-Data.aspx