

the best. However, political parties' economic agenda will only change if the mass of voters shows genuine interest for the wellbeing of the economy at regular intervals throughout the year. Engaging in debates through the media, writing articles or having drinks with friends over an exchange of thoughts about fiscal policy are all constructive activities to participate in.

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Mauritius needs fiscal consolidation

By Amit Bakhirta

"Do not save what is left after spending, but spend what is left after saving..."

Warren Buffet

Mauritius faces more severe long-term economic scarring than Moody's anticipated a year ago, which will reduce both economic and fiscal strength. Indeed. We today highly appreciate a first indication that our borders shall be reopening as soon as our nation achieves 'herd immunity' – whatever that means is not that important. When is that reached? Once 60% of the population is vaccinated. Or 60% of those willing to get vaccinated are vaccinated? What if only 50% of the population is vaccinated? Do we not reopen?



In any case, the Mauritian stock market and foreign investors have been piling on the local banks, hotels and conglomerates upon this first ever indication of the much-awaited reopening of our borders, finally. We need to normalise our way of socio-economic life and with that, hopefully the announced fiscal consolidation by the Ministry of Finance would be more palpable and responsible; notwithstanding which, government spending cuts in the middle of a recession may also plausibly be the worst move when its objective should be spurring economic growth.

The path to hell is paved with noble intentions

As the world, in a sense, normalized with the pandemic and having understood the co-existence needs of humanity and this novel coronavirus (and many more to come over the next centuries), much of the world shall be recovering in 2021. The International Monetary Fund has revised its global GDP growth forecasts upwards to 5.5%, amid 'exceptional uncertainty'. With the second lockdown, let us hope that Mauritius avoids another economic recession, which in our humble view, is seemingly and increasingly unlikely (now that almost 2 months of minimum confinement has been confirmed).

Depending on the number of months we remain locked down, we estimate that the economic contraction is likely to range between - 1.4% (1 month lockdown) to -2.8% (2 months lockdown) – indeed very far from previously anticipated numbers and plausibly worse than a number of technicians are expecting. These estimates are likely to be adjusted, by mid-year (especially should Mauritius borders reopen on the 1st of July 2021 – highly advisable and the vaccination campaign is swift and effective – and so the numbers for the second half of the year indeed have the plausibility of dropping higher than estimated at this point of time).

We note with mild concern the restatement of the contraction in the second quarter of 2020 from a previously estimated -32.9% to -33.1 %. This plausibly points out to an economic contraction likely to be less in excess of -15% in 2020. Using the latter as a base, Gross Value Added (GVA) is likely to have ended 2020 at thereabouts of Rs 438 billion. Following the second lockdown, we run three base case scenarios with the core macroeconomic assumptions, amongst others being lockdown periods of 1, 2 and 3 months (while we pray that we do not get there!).

**We have been
spending more than
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The first quarter of 2021 was likely to see a contraction of roughly -11% to -14% from the higher GVA base of 2020 (we entered lockdown during the last week of March in 2020 and so the higher first quarter 2020 GDP base of roughly Rs 100.5 billion).

Given the current lockdown, we conservatively estimate economic contraction of -13.1% for the first quarter of 2021, followed by a -11% contraction in the second quarter with hopefully a 8% to 9% rebound in the second half of 2021. This base case results in a -1.4% contraction in 2021. Assuming 2 months' lockdown, the second quarter GDP shall likely shed -22% year-on-year while another unwarranted 3 months lockdown shall likely cause the economy to again contract in excess of -30% in the second quarter.

The sour pill of fiscal consolidation

It is of no surprise that we have been spending more than we earn as a nation.

Since the fiscal year 2015-16, we have on average grown our government spending by 12% while our revenues have increased by an average of 8.5%. Adjusted for inflation, the resultant Net GDP growth has averaged hardly 2.8% (including the 2020 pandemic led recession, we averaged 0%!). The graphic herein shows clearly that while Net Budgetary growth increased cumulatively by 42%, Net GDP decreased by 1% (as at 2019 and so excluding the pandemic, Government spending had grown 12.1% and net GDP 8.5%). Hence the quality of the spending needs to be questioned. Indeed so, government capital spending takes time (GDP being a lagging macro-economic indicator) to manifest itself in the economy (multiplier effect over the medium to long term), bar the rupee spending itself.

What one needs to understand is that roughly 91% of Government revenues consist of taxes. On the other hand, more than 73% of our government spending last year was 'socialist' in nature. Compensation of employees (our public sector wage bill) sat at 21%, grants 24% and social benefits represented 28% of total government spending.

Should we be benchmarking against OECD countries, their public wage bill averages roughly 23% of government expenditure and roughly 11% of GDP (ours 21% of total expenditure versus roughly 6% of GDP). Our grants and social benefits are where most of the improvements need to come, and so let us wait and see.

Already last year's fiscal revenues of Circa Rs 121 billion consisted of exceptional non-recurring grants and other revenues. We estimate these numbers to retract towards approximately Rs 100 billion this year (-17%) while our expenses (should the fiscal consolidation year 1 be truly -25% realistic) may end the fiscal year at Rs 112 billion and hence still at best, a fiscal deficit of Rs 12 billion. Yes, another worsening of the Central Government's public debt level but at least we are engaging into fiscal consolidation path. The real fiscal consolidation however (which results into a fiscal surplus – the Chinese way is enlightening!) would be a -25% cut in 2018-19 expenses (excluding the recessionary stimuli spending of 2019-20) and hence ideally, budgetary cuts leading to expenses of roughly Rs 87 billion. This shakes a surprising budgetary surplus of Circa Rs 8 billion.

Mauritius' investment grade notation is at risk

Is the next move towards Baa3? Not necessarily, if Mauritius disciplines itself and engages in fiscal consolidation. To quote Moody's: "Given the negative outlook, an upgrade is unlikely in the near future. The implementation and execution on a fiscal consolidation that arrests the upward debt trajectory would likely result in a return to a stable outlook (i.e., Baa2 stable from Baa2 negative). A return to the stable outlook would also likely entail increasing confidence that the central bank's monetary policy effectiveness is not negatively affected and in particular, that medium-term inflationary risks remain contained".

On a cautionary note, Moody's extrapolates: "A continued deterioration in debt metrics, beyond Moody's current expectations, would likely lead to a downgrade. This may be consistent with weaker fiscal policy effectiveness. Furthermore, weakening monetary policy effectiveness as demonstrated by rising inflationary risks would also likely result in a downgrade. An increase in domestic or external imbalances, as reflected in an increase in price and exchange rate volatility, accompanied by a deterioration in the country's balance of payments position, could also lead to a downgrade."

We note with concern that certain instances have released communiqués following the downgrade which despite painting a comforting picture of the reality do not spell out concerns, cures and recommendations of fiscal consolidation and prudence (yes, our banking industry's capital levels are sound and beyond minimum regulatory prescribed limits – but this can quickly turn, mind you! And we maintain our Investment Grade status). We are hardly 3 notches from Junk (let history serve its purpose and illuminate us as to how quickly certain nations, like South Africa, Greece, Portugal and Argentina, slid down the debt spiral following lack of fiscal discipline, amongst others, especially governance and leadership).

The talk of the town should be fiscal discipline and not how strong we still stand. Imagine a run on our Global Business Companies deposits should we slid to Baa3 with the Junk notch down next door! The fact that the budget deficit shall widen hereon is a major cause for concern which needs action. In the very short term, it is extremely difficult for fiscal reforms to have immediate short-term positive impacts. Fiscal reforms take time and discipline, unfortunately, none of which we seem to have the luxury of.

Mauritius is faced with problems that can be solved, if necessary, and even exploited, rather than being weakened. Existing means to increase our income via an increased efficiency of the house (fiscal tightening), new policies generating tax revenues guaranteed on a plausible economic reinvention. Otherwise, we invite even more complexity to an increasingly complex game. As global growth accelerates in 2021 and beyond, we plan to position ourselves to ride the wave of insane monetary and infrastructure stimulus, while being aware of inflationary threats and impending bubble ballooning.

Now is the time to be daring, to try to innovate, to move forward. We need a thoughtful economic reinvention, a team mentality and a united people. In difficult times, a nation serves to unite, in the face of adversity, towards mutual and societal prosperity.

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Covid-19 driving the digital transformation

By Vidur Ramdin

When Covid-19 struck last year, it forced societal changes around the globe. Nearly overnight, governments issued orders that limited large gatherings of people, restricted in-person business operations, and encouraged people to work from home as much as possible. In response,