“If economics takes a back seat and lets politics reign supreme, the country will sink into depression”

With Pravind Jugnauth taking over the Ministry of Finance just before the upcoming budget, Weekly speaks to Eric Ng Ping Cheun, economist, about the mood in the private sector and expectations. He also talks about the repercussions of the revision to the Double Taxation Avoidance Agreement with India and the worrying public debt.

By Touria PRAYAG

A new budget, a new minister of finance, should that give new hope?
We can only hope for the best. Last year’s budget was below expectations. I was one of the rare commentators to say that it did not contain measures that would boost the economy in the short term. Many pundits had applauded Vishnu Lutchmeenaraidoo’s budget but were disappointed barely a few months later. Now some reckon that it was a non-event budget.

In that case, the new budget is unlikely to be worse than the previous one, is it?
Indeed not. But it should go beyond that and give a big fillip to private investment, which has registered four consecutive years of negative growth. Otherwise, the Mauritian economy will remain stuck.

How is the mood in the private sector?
Many people in the private sector feel relieved that Pravind Jugnauth has been appointed as this brings some political stability within the government. If Roshi Bhadain were given the job, the mood would have been different.

The new minister of finance starts with a great gift from India in the form of a Rs12.7 billion grant. How far will that help to create growth?
The money is perceived to be a sort of financial compensation to Mauritius for the signing of the protocol amending the Double Taxation Avoidance Agree-

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ment (DTAA) with India. The minister of financial services has announced that some Rs9 billion would be injected in the Heritage City project. Since the work will be contracted out to Indian firms, the money will go back to India. So our national income will not increase by Rs9 billion. I don't see any significant impact on economic growth. The local economy may derive some benefits in terms of job creation during the construction period but once the buildings are established, they will no longer sustain growth if they are occupied by government offices.

Will the grant counteract the effect of the termination of the DTAA?
No and I find it most inappropriate that the government has taken the risk of putting into jeopardy a productive sector like the global business, which generates foreign exchange income and high value added jobs for the country in exchange for money obtained in return and which will be used for the construction of new buildings. The government is doing exactly the contrary of what it preached to the private sector a few weeks ago. During a pre-budget consultation meeting with Business Mauritius, the prime minister stated that "our development should not rely on just real estate development" but also on "productive activities that will generate higher added value and create national wealth". By these remarks, operators were made to understand that they should invest more in the traditional economic pillars than in real estate.

Look, the treaty is gone and the global business sector must reinvent itself just as the sugar industry did following the end of the Sugar Protocol, mustn't it?
But you forget to mention that the European Union funds that were given to Mauritius after the end of the sugar protocol were utilised to help the sugar industry transform itself into a cane cluster and diversify into new productive activities like ethanol and energy production. I am of the view that the same strategy should be applied to the global business too.

Why can't the global business pull its socks up, stand on its own feet and look towards Africa instead?
The African market is more difficult to penetrate than the Indian market, and selling debt products does not generate as much income for the service providers as private equity investments.

But so far so good, would you say?
No, the impact of the amendment of the Mauritius-India DTAA will be felt in the medium term. We might see one or two international banks leaving the country, and some offshore management companies closing their office. Direct employment is threatened, and service providers involved in the global business have stopped all recruitment. In addition, many indirect jobs (created in accounting and law firms) and induced jobs (taxis, hotels) are put at risk. The real estate market, which is already struggling, will be further depressed as businesses that shut down will vacate their spaces. Moreover, as the flows of foreign capital brought by global business companies ebb away, it will become difficult to finance our current account deficit, which is structural. With mounting pressures on the balance of payments, our foreign exchange reserves will gradually decrease. The Mauritian rupee is likely to depreciate sharply against the US dollar, with the result that our imports will become more expensive. Inflation will rise again, causing a reduction in purchasing power of the middle class.

That sounds like an awful lot of bad news. Will I make it worse by asking you if the dismantling of the British American Investment (BAI) companies has had any repercussions on the economy?
The dismantling of the BAI Group has had a negative impact on the economy and on public finance. First, a significant number of employees of the BAI companies have lost their jobs. According to the figures revealed by the minister of labour in the national assembly, the total number of job losses officially registered in 2015 was 10,038 compared to 7,400 in 2013. Secondly, those who are still employed have reduced their spending as they feel unsure about their future. This has had "a dampening effect on consumption", as rightly pointed out by the governor of the Bank of Mauritius during the last year's annual dinner of the Central Bank. In an economy led by consumption, the multiplying effect of a reduction in expenses on the contraction of aggregate demand is not negligible.
Thirdly, the International Monetary Fund has pointed out that the bailing-out of the BAI (creation of MauBank and reimbursement to policyholders of Super Cash Back Gold) incurred fiscal costs equivalent to 0.9 per cent of the gross domestic product (GDP) in 2015. This has increased public debt.

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There is a lot of disagreement about public debt depending on how you count it. Can you explain how that works and give us a picture of the trend?
In the past, public debt was determined on a gross basis as it included government cash that was not yet spent. Under the new definition of public debt, we consider the net debt of the general government, i.e. gross debt minus government cash. The problem is that government must continue to pay interest on that government cash, which is borrowed money. If you add the debt of public enterprises to public debt, you obtain the public sector debt. The latter jumped to 65.2 per cent of GDP as at March 2016 from 57.7 per cent in December 2012.
Under the Public Debt Management Act 2008, which sets a statutory debt target of 50.0 per cent of GDP to be attained by 2018, the public sector debt is discounted whenever the fiscal risk is small. The discounted public sector debt therefore adjusts the public sector debt for the fiscal risks associated with debt of parastatals and state-owned enterprises. The public sector debt for the purpose of debt ceiling increased to 56.9 per cent of GDP in March 2016. It

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is quite impossible for government to bring it down to 50.0 per cent in 2018.

Where does this debt come from? The current government is blaming the former one and the former one is blaming the current one. Who is responsible?
All the successive governments since independence are responsible, for they did not balance the national budget. As long as the latter shows a deficit, it has to be financed through borrowing on the debt market. Mauritius has never had a budget surplus, even during the economic boom (the budget deficit was 1.5 per cent of GDP in 1986-87 and 1.2 per cent in 1987-88). Public debt is the sum of the budget deficits accumulated throughout the years.

How worrying is it?
As an international norm, the ratio debt-GDP should remain below the 60 per cent mark. If it goes beyond, it can spiral out of control. We should avoid at all costs getting into the debt trap where government cannot meet capital repayment obligations but can service only the interest charges.

What are the risks?
We are not yet there, but the steady increase in public sector debt as a percentage of GDP means that debt is growing faster than the economy. We should keep a close watch on the evolution of this indicator, which is not reassuring for present and future taxpayers (our children and grandchildren). There is no doubt that they will pay more taxes and enjoy less social benefits. The combination of low-tax policy and big welfare state will not be sustainable in the long run.

Some people draw a comparison with Greece. We are not anywhere near there, are we?
Indeed, Mauritius is not in the same situation as Greece. The public debt of Greece is a more serious problem, standing way above 100 per cent of GDP. But the country has a lot of assets that it can sell to reimburse its external debt. Mauritius, on the contrary, has very few resources. It is noteworthy that our public sector external debt more than doubled from 7.7 per cent of GDP in December 2008 to 16.7 per cent in December 2015. In November 2000, the state sold 40 per cent of its shareholding in Mauritius Telecom to France Telecom in order to reduce the budget deficit. I don't think that the population will accept that government sells its shares in Air Mauritius, the State Bank of Mauritius and other crown jewels to foreigners. That is why we need to keep our public debt at bay.

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How much growth should we expect?
In its March 2016 update, Statistics Mauritius forecasted an economic growth of 3.9 per cent for the country. In its latest edition dated 26 May 2016, Moody's Annual Credit Analysis gave a lower estimate of 3.6 per cent. The fact remains that it is for the sixth consecutive year that annual real growth rate will be below 4.0 per cent. In view of the downward trend in economic growth, I fear that it will hover around 3.0 per cent for many years if structural reforms are not rapidly implemented to beef up our economic competitiveness.

There has been renewed interest in the Light Rail Transit System. Is that good or bad news?
In the last interview that I gave Weekly, I said that I would prefer a Light Rail Transit System rather than a new city (Heritage City) if government had to spend Rs30 billion. Economic efficiency implies that scarce resources are allocated to their best economic use. Now it seems that government would like to do both. The mode of financing is important. It matters that the burden of public debt does not increase considerably. Also, when several mega-projects are implemented at the same time, they compete for resources, and consequently input prices go up. Inflation eats up the competitiveness of businesses, which forces them to transfer the increase in prices to consumers.

You are not totally against Heritage City, are you?
There are rumours that the project will change hands. Maybe the new minister of finance would like to revisit the project. We still do not know how the whole project will be financed. We have got some financing from India, but for the rest, where will the money come from?

What is the outlook as far as our national debt, growth and job creation are concerned?
Not good. I don't want to say it is bleak to sound pessimistic. We can still reverse the trend if we focus on the fundamental economic issues. But if economics takes a back seat and lets politics reign supreme, the country will sink into depression. ■