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MCB Focus

Post-Budget Outlook

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RECENT DEVELOPMENTS

The international landscape

The recent firming up of global economic activity is a welcome diversion from the drumbeat of continuous negative expectations and downgrades that have beset growth projections for almost a decade. In fact, the general consensus view is that world growth would pick up from its lacklustre path this year and over the near term, on the back of a broad-based upswing across advanced as well as emerging markets and developing economies. Conspicuously, following the IMF's upward revision of its global growth prognosis for this year to 3.5% in its April World Economic Outlook, latest health checks issued in the context of the OECD's Interim Economic Outlook and the World Bank's Global Economic Prospects have also hinted at strengthening growth prospects amidst a cyclical uptick in investment, manufacturing and trade as well as stable financing conditions. At the same time, it is worth stressing that global growth projections are, in general, still below historical rates. Specifically, pressures on trade liberalisation and policy uncertainties are a drag on the international short to medium term outlook, whilst the growth-hampering strains of recent years (e.g. weak wage and credit growth as well as low productivity patterns) remain on the cards. Furthermore, whereas some factors, including the possibility of more expansionary fiscal policy in advanced economies could push global growth higher than currently being contemplated, notable downside risks to the outlook subsist, chiefly linked to the likelihood of (i) an intensification of protectionist measures; (ii) further policy indecisions triggering financial market stress; and (iii) a renewed drop in commodity prices. On another note and as highlighted recently by the World Bank, commodity prices are expected to recover at a moderate pace in the periods ahead, although oil price projections have been marginally revised down, reflecting the prospect of increased U.S. shale oil production.

As far as our key export markets are concerned, the outlook for the US economy remains positive, with the economy expected to regain momentum after the slowdown in GDP growth in the first quarter of this year, while the proposed expansionary fiscal policies are likely to meaningfully boost GDP growth over the medium term. Of note, in the wake of the generally favourable economic conditions and the strengthening of the labour market, the US Federal Reserve has, lately, decided to raise the target range for the federal fund rate by a quarter percentage point to 1% - 1.25%. As for the euro area, accommodative monetary policy and a fiscal easing should, as per the OECD, support a steady growth in 2017 and 2018, even though high unemployment, soft real wage growth and elevated non-performing loans would continue to hinder domestic demand growth in some constituent members of the single currency area. For its part, the UK economy is projected to decelerate in 2017 and 2018, owing to heightened uncertainties linked to Brexit negotiations, especially following the outcome of the recent general elections. At another level, emerging and developing economies are poised to contribute around three-quarters of global GDP growth in the short run, driven principally by generally appreciable growth rates in India and China, whilst Russia and Brazil are displaying signs of rebounding from their recession. As for the sub-Saharan African region, growth is projected to recover this year following the sharp deceleration in 2016 and improve further in 2018. The upturn, notably reflects stabilising commodity prices, which are especially anticipated to support a pick-up in major exporters such as Nigeria and Angola, while improvements in domestic conditions would also count.

The domestic scene

Main thrusts of the National Budget

Locally, the prime event capturing attention relates to the unveiling of the Budget Speech 2017-2018. The latter is, as per the authorities, cast within the context of the Strategic Plan 2017/18 - 2019/20, which attempts to provide short to medium term strategic directions and targets against which progress in achieving the set goals of the Government can be evaluated during the period under review. Generally speaking, while project design and implementation aspects would need to be monitored in due course, it is comforting to take note of the intended delineation of such strategic plans on the route to realising the Vision 2030 of the Government, insofar as, if effectively managed and monitored, they are likely to provide a sound and stable backdrop for achieving assigned economic targets and aspirations. Coming back to the Budget 2017-2018, it is, first and foremost, interesting to note that it attempts to rise up to some key challenges faced by the Mauritian economy by notably aiming to foster higher growth and job creation, undertake substantial investment in infrastructure, consolidate macroeconomic fundamentals, and improve living standards of the population. Specifically, the Budget seeks to enhance the quality of the business environment, alongside earmarking dedicated initiatives meant to boost the productive activities and export performances of key economic sectors as well as assigning measures destined to shore up the value added of the domestic oriented industries and foster the development of emerging sectors. Furthermore, along with trying to upgrade the quality of the institutional set-up, accelerating national skills development and fostering the digitalisation of the economy, the Budget has, in alignment with previous pronouncements, reaffirmed the intention of the authorities to enhance nationwide competitiveness levels, confront established and emerging capacity issues and unlock avenues for economic growth by way of a sizeable uplift of the infrastructure set-up, notably at the level of the road network, utilities as well as the sea and air ports. As per the authorities, total public investment over the period 2017-2020 is estimated at around Rs 117 billion. For FY 2017/18, total public investment is set to amount to Rs 42.3 billion, of which Rs 22.3 billion is said to relate to the implementation of new projects.

Key areas warranting attention

With the die having been cast, it is worth observing, after reminiscing experiences of the recent past, that the authorities face a formidable challenge of realising, in an efficient and effective way, the full scale of budgetary initiatives. Essentially, the ability of budgetary measures to reap optimal socio-economic gains in the short run and beyond is contingent on key success factors, namely: (i) paving the way for the effective operationalisation of announced budgetary measures; (ii) guarding against the potentially distortionary outcomes of some policy measures; and (iii) fostering sound, sustainable and credible fiscal and public debt management.

Paving the way for the effective operationalisation of announced budgetary measures

Undertaking the thoughtful and all-encompassing design of announced measures

A key success factor to ensure that budgetary announcements generate expected results is to fine-tune contemplated measures by taking on board all the relevant aspects and implications thereof, especially in the case of measures being endowed with higher levels of complexity. This approach is likely to help the authorities in taking the right decisions as regards (i) the choice, prioritisation, sequencing and alignment of intended moves; and (ii) the judicious and informed design and conceptualisation of the earmarked economic policies, notably in terms of their strategic positioning and mandates, inherent technical specifications, and intended ramifications across space and time. Furthermore, it might, in some instances, be judicious to complement some pronounced policies with more extensive policy and structural reform measures to ensure that optimal economic gains are reaped over time.

On the institutional front, pronouncements made can, *per se*, be positively viewed as they aim to improve service deliveries and underpin growth ambitions. However, the following envisioned moves *inter alia* deserve attention: (i) the targeted setting up of the Economic Development Board as well as the National Economic and Social Council with a view to more effectively identifying and addressing relevant economic issues; (ii) the restructuring of Small and Medium Enterprises Development Authority and the Mauritius Research Council for enhanced service deliveries; (iii) the regulation of Fintech and mobile wallet activities, amidst the current supervisory framework; and (iv) the establishment of the Mauritius National Investment Authority to invest the surplus funds of the National Pension Fund and National Savings Fund for greater portfolio diversification and higher returns. Basically, it is essential that necessary steps are taken with the aim of duly upholding the percussion and effectiveness of institutions. Thus, alongside avoiding any duplication of activities undertaken by entities at the national level, the direction and depth of the earmarked strategic involvement of relevant institutions require cautious contemplation. It would be important that these institutions be endowed with meaningful, clearly-defined and transparent mandates, with the ultimate objective being to ensure that the right framework is in place to cater for market realities and meet socio-economic ambitions.

Furthermore, the proper structuring and strategising of measures that provide an adequate response to idiosyncratic and external challenges and developments will be key in underpinning the sound and sustained development of economic sectors. Conspicuously, beyond properly-designed budgetary announcements, conscientious moves are required to underpin the underlying growth path and international strategic positioning of the financial services industry. This is, especially, required given increasingly competitive and stringent operating circumstances, notably associated with the ever more prominent nature of global compliance and fiscal standards, in particular considering the ongoing negotiations with the EU and the OECD, and the ambition of Mauritius to position itself as an International Financial Centre of repute and substance. With regard to human capital, whereas the earmarked review of the foreign labour policy – notably to support intake in the construction, furniture making and agro industries – is a welcomed move, it is, at the same time, essential that the country's openness to high-skilled foreign talents be shored up insofar as they possess the necessary aptitudes and experiences to influentially boost our higher value added activities. Whilst it is all the more justified in a context of ageing population, investment in skills development can only help to evocatively improve the productivity of human capital and buttress sustainable employment creation on the nationwide scale if it is accompanied by labour market reforms. In the same line of thought and towards supplementing statements made in the Budget, a key objective is to continuously enhance the efficiency of infrastructure investment in terms of the coverage and quality of assets. This would, prominently, help to uphold the commercial and financial viability of projects as well as ensure that they are value for money. Simultaneously, higher efficiency of investment would act as a stepping stone to accomplish more productive capital spending by means of higher economic growth, after notably positively impacting the business environment and stimulating investor confidence.

Catering for the carefully-planned, opportune and comprehensive implementation of measures

Further on, while medium term strategic directions and targets have, as afore-mentioned, already been formulated by the authorities, the challenge is now to formalise and entrench, with the assistance and collaboration of key stakeholders whenever necessary, a pragmatic, practical and results-driven national economic transformation roadmap that will guide the comprehensive and opportune implementation of initiatives. Beyond the planning phase and, especially, given the high level of complexity of some envisioned ventures, it can be underscored that the growth-enhancing potential of earmarked policy measures can be optimally harnessed by strengthening project implementation capabilities and mechanisms at public and private sector levels. This attempt can be supported by adopting bold actions in terms of institutional capacity building, resource mobilisation, statistical data collection, the prioritisation/alignment of projects, and the use of innovative techniques. Such arrangements are all the more called for given that, in recent years, a notable share of enunciated projects – with the Road Decongestion Programme being an example – has not materialised in a prompt and comprehensive fashion, owing partly to capacity inadequacies and administrative bottlenecks. Such concerns have been confirmed by latest official figures showing that the gap between initially projected and actual expenditure in the context of the Public Sector Investment Programme is estimated to have stayed high in FY 2016/17, with the under-spending of Rs 11 billion corresponding to an implementation rate of around 69%, which is broadly similar to the outcomes posted in recent years.

Guarding against the potentially distortionary outcomes of some policy measures

A prominent characteristic of the Budget is that the fiscal regime has been subject to further differential treatments on the income tax front, pursuant notably to (i) reduced corporate tax on profits derived from exports of goods; (ii) the extension of income tax holiday to a wider range of sectors; (iii) the allocation of tax incentives for research and development; (iv) the imposition of a range of exemptions and reliefs; and (v) the differential treatments of similar asset classes (e.g. handling of interest income v/s dividend income). Besides, the application of registration duty and land transfer tax has been further differentiated across activities. Overall, while the short run benefits of these fiscal developments can be highlighted, notably towards accelerating the development of selected niches and fostering social progress, their medium and long-term efficiency and competitiveness impact should be prudently scrutinised to: (i) safeguard the key tenets of the country's competitive advantages which have so far stood us in good stead for several years, mainly the low, simple and predictable fiscal system; (ii) curtail, in line with microeconomic theory, the potential mixed signalling effect on the investment community and avoid any sub-optimal rechannelling of business flows to minimise the possible distortionary effects on resource allocation from a Pareto efficiency perspective; (iii) guard against possible inequitable treatments for different categories of investment assets; and (iv) ascertain that the economic model remains attuned to the country's strategic intents and commitments to international tax rules. In the same breath, it is instructing to note that, in its Regional Economic Outlook released in April last, IMF has referred to Mauritius as a model for the success that it has achieved by simplifying and improving the predictability of its fiscal regime, which notably helped to create a conducive space for fuelling growth-enhancing expenditures in the wake of the gearing up of domestic revenue mobilisation. In light of recent developments therefore and given the generally delicate economic context, it is primordial that the administration of the fiscal regime, both in terms of its cost and complexity, be effectively coped with, while ensuring that our tax system remains, in its scope, predictability and transparency, supportive of the strategic development and international competitiveness endeavours of economic sectors.

Fostering sound, sustainable and credible fiscal and public debt management

Another key success factor towards ensuring that budgetary announcements achieve their goals and ambitions is the adoption of a credible, robust and transparent medium-term fiscal consolidation agenda. While assisting in reducing debt vulnerabilities, the latter would help the economy to be impregnated with greater flexibility to respond to shocks and create an adequate fiscal space for financing growth-inducing expenditures. In this respect, it is commendable to note that the Government aims to enforcing greater fiscal discipline and prudence in support of infrastructure development and higher growth. Thus, on the revenue side, the aim is to improve tax compliance and enforcement, while the enhancement of the relevant frameworks for the planning, financing and implementation of capital projects is also on the agenda. Moreover, moves in favour of increased transparency in public finance management are welcomed, notably (i) the inclusion of revenues and expenditures of the Build Mauritius Fund and the National Resilience Fund in the Consolidated Fund; (ii) the introduction of the accrual Public Sector Accounting Standards to provide a better picture of the Government's financial position; and (iii) the establishment of a single debt definition as per international standards, with gross debt, instead of its net position, to be used as the official measure of the debt ceiling. Generally speaking, the authorities aim to lay due focus on effective debt management, with the objective being to meet the financing needs of the Government consistent with prudent levels, alongside strengthening debt-related parameters on affordability, solvency and liquidity. It can, additionally, be noted that the authorities seek to contain foreign exchange risks by ensuring that the share of public sector external debt does not exceed 25% by June 2020, while the strategy to reduce interest rate risks is to have a broadly balanced interest rate mix of external public sector debt. All in all, while it catered for an early capital repayment of a US dollar-denominated loan equivalent to Rs 4.2 billion, it is worth highlighting that, as per assessments formulated by the authorities, gross public sector debt is estimated at 66.1% of GDP at end-June 2017, with the later estimate officially projected to be gradually brought down in coming years before reaching around 62% as at 2019/20.

Notwithstanding the above, the fiscal and debt metrics prevailing at various levels require due attention in view of the still challenging economic context and the major infrastructure projects earmarked for realisation. Thus, the strategy of engaging fiscal indicators onto an improving pathway will rest on the achievement of buoyant economic activity levels and a continuously judicious management of public finances. On a different note, considering that the endorsement of the Public Debt Management Act 2008 was, since then, critical in enhancing and upholding the credibility of the country vis-à-vis international investors and rating agencies, it would be useful if the proposed new debt target, whereby debt is scheduled to be brought down to 60% of GDP, be formalised in the upcoming revised legislation by means, fundamentally, of the setting out of a clear and realistic target date. Besides, the treatment and composition of the debt deserve appropriate appraisal. As per the authorities, the financial support envelope of USD 500 million that Mauritius will receive from India through a line of credit would, following its envisioned structuring and treatment, not be accounted for in the official definition of public sector debt. That being said, it would help if the Government undertakes the treatment and management of its external liabilities positioning from a holistic perspective, in sync with its debt management strategy, with due emphasis to be laid on the timely achievement of set targets, notably those relating to the origination of debt from local and external sources, the currency composition of debt, as well as its interest rate mix and maturity structure. In the same vein, depending on the timing, quantum and usage of the funds, the sizeable inflows of externally-sourced capital, which have become increasingly topical in the wake of the recent grant and loans obtained from India, call for scrutiny as they can potentially (i) exert upward pressures on the external value of the rupee, especially in a context whereby the rupee has, on a real effective basis, generally appreciated so far in 2017 amidst local and international dynamics; and (ii) extensively permeate throughout the domestic banking system, thus exacerbating pressures on the already high excess liquidity levels prevailing therein. Indeed, notwithstanding the instruments issued by the Central Bank for liquidity management purposes (which stood at Rs 64.5 billion as at 3 May 2017 as highlighted in the

Minutes of the latest Monetary Policy Committee Meeting), the excess cash holdings of commercial banks (i.e. the non-remunerated reserves held over and above the minimum cash balances required by the Central Bank) have remained elevated for a rather protracted period of time, with the figure attaining close to Rs 15 billion as of June 2017. Such a situation can be viewed with concern since, beyond imposing increased sterilisation costs on the Central Bank, it could yield adverse repercussions on the monetary, financial and economic systems. Also, latest official figures reveal that Government securities issued for mopping up excess liquidity increased from Rs 3.6 billion as at June 2015 to attain Rs 12.8 billion and Rs 14.4 billion as at June 2016 and June 2017 respectively. As at the latter period, it can be noted that such securities accounted for 6.6% of total domestic debt, while representing 3.2% of GDP.

Official Medium Term Macroeconomic Framework: Zoom on key parameters

The significance of budgetary announcements can be perceptibly assessed by means of an appraisal of interconnected forecasts provided in the authorities' Medium Term Macroeconomic Framework. In this context, it has been highlighted that economic growth would firm up in the coming years, backed notably by a rising investment rate. As per the authorities, in addition to the expected upsurge in the construction sector amidst the unleashing of major ventures, key sectorial contributions to the growth outlook relate to financial services, tourism, ICT and retail trade. However, a close look at the macroeconomic forecasts unveiled by the authorities indicates that, notwithstanding measures announced in the Budget and increasingly corroborating signs of an expected gradual and sustained improvement of the global economic climate, the Mauritian economy would improve only moderately in future periods. While being driven by investment, real GDP growth is officially projected to stand at 4.1% in 2017/18 before edging up to 4.3% in 2018/19 and 4.5% in 2019/20. Although this prognosis is encouraging *per se* in view of recent year outcomes, it can noted that the latter forecasts represent a marginal decline when compared to forecasts formulated by the authorities in the context of last year's Medium Term Macroeconomic Framework. Besides, the predicted growth path (i) can still be considered as somewhat below-par when judged in relation to the country's socio-economic ambitions; and (ii) is subject to downside risks – especially relating to a potentially slower pace of policy implementation at the domestic level – which implies that lower-than-expected performances cannot be discounted.

Another telling observation is that, as per the Medium Term Macroeconomic Framework of the authorities, growth would – notwithstanding the measures assigned to broaden and diversify the country's involvement on foreign markets – be hampered by a projected subdued path for exports of goods and services in the years to come. In fact, the latter's share of GDP would even fall in both 2017/18 and 2018/19 before staying at 42.9% in 2019/20, thus contributing – in conjunction to the impact of the high import content of infrastructure ventures – to a marked deterioration of the country's current account deficit to 7.8% of GDP as at the latter period. Overall, such forecasted trends highlight the importance of boosting the country's national exports performance to generate a dependable foothold for realising high and sustainable growth amidst the small domestic market size. As the situation stands therefore, the increasingly exigent global trade landscape calls for decisive policy actions on the part of the public sector and increased investment by private operators. More generally actually, it can, while venturing outside the budgetary announcements, be asserted that the endorsement of an extensive range of economic restructuring measures would help to meaningfully and consistently uplift the macroeconomic performance of the Mauritian economy. Actually, when appraising the country's expansion path, it appears that, while budgetary measures could, *per se*, lead to a gradual improvement in the economy's long-run potential growth rate, more ambitious structural reforms spanning several fields are required to enable the latter reach the 5% mark and foster sustained job creation.

ECONOMIC OUTLOOK

Main economic indicators

	Unit	2013(1)	2014(1)	2015(1)	2016(1)	2017(2)
GDPmp	*Rs bn*	372	392	410	434	461
Per capita GDP	*USD*	9,640	10,151	9,219	9,585	10,299
GDP growth (at market prices)	*%*	3.4	3.7	3.5	3.7	3.8
GDP growth (at basic prices)	*%*	3.4	3.6	3.0	3.5	3.8
GDS	*% GDP*	11.1	10.6	10.4	11.1	11.4
GFCF	*% GDP*	20.8	18.9	17.4	17.2	17.5
Headline inflation	*Dec, %*	3.5	3.2	1.3	1.0	2.8
Budget balance	*CY, % GDP*	-3.5	-3.2	-	-	-
Budget balance	*FY, % GDP*	-	-	-3.9*	-3.5	-3.5
Public sector debt (International definition)	*Dec, % GDP*	59.1	60.7	63.7	64.5	65.1
Balance of visible trade	*Rs bn*	-77.5	-77.3	-74.7	-81.6	-94.1
Current account balance	*% GDP*	-6.2	-5.6	-5.0	-4.3	-5.8
Overall balance of payments	*Rs bn*	+16.6	+23.0	+20.0	+26.2	+28.7
Unemployment rate	*average, %*	8.0	7.8	7.9	7.3	7.3

(1) Revised estimates (2) MCB revised forecasts

** The budget deficit for 2015 in the table relates to the January to June period as per official disclosures and based on computations from GDP for H1 2015*

Sources: Statistics Mauritius, Ministry of Finance & Economic Development, Bank of Mauritius & MCB staff estimates

Economic growth

Revised estimate for 2017

On the heels of the still challenging, albeit gradually recuperating, global context and while awaiting for earmarked policy measures to provide a notable contribution in confronting lingering domestic imbalances, the country's economic expansion is anticipated to remain relatively restrained this year. Indeed, while staying close to estimates by the Bank of Mauritius, Statistics Mauritius and the IMF, real GDP growth for 2017 is, as per our latest estimates, forecasted to stand at 3.8% when measured at both market and basic prices. When compared to our prognosis formulated back in March, these projections represent a downgrade of 20 basis points for the former and 10 basis points in the latter case, which can be mainly explained by incurrence of more pronounced delays that have been witnessed lately in relation to the initiation and deployment of infrastructure projects that have been assigned in the Public Sector Investment Programme. For instance, in addition to the further rescheduling being witnessed in respect of the execution of projects in several fields, works on the site of the Metro Express project are, as per latest indications, set to start in September next, with related expenditures likely to unfold only gradually in the ensuing months given the complexity of the venture and requirements linked to the proper allocation and management of resources to underpin the smooth unfolding of activities. As such, we have downgraded our forecasted growth for the construction sector by a notable margin, which more than offset a slightly more optimistic outlook being formulated for the tourism industry in line with the appreciable growth in arrivals for the first five months of the year.

Overall, whilst it is interesting to note that the authorities have set out to lay framework conditions with a view to confronting challenges lying ahead, our growth outlook for this year is founded on the expectation that earmarked budgetary announcements and infrastructure-upgrading measures will take time to be expansively put in train and cast a meaningful influence on activity levels. Conspicuously, several key infrastructure-upgrading ventures are only likely to be comprehensively put into train during the final quarter of the year and, especially, onto 2018. That said, the country's economic performance for 2017 would be supported by another upturn in national investment levels following the line-up of several undertakings, even if related expenditures are, as hinted above, on course to be marginally lower than initially planned. Thus, in spite of factoring in execution lead times, a notable growth is foreseen in public sector investment. For its part, after the pick-up registered in 2016, private sector investment is likely to post a resilient outcome this year, mainly underpinned by the execution of identified ventures by operators, notably related to the tourism and residential segments. From a sectorial perspective, it is worth discerning that real GDP growth should, in 2017, be underpropped by the notable performances of the financial and business services, ICT and tourism industries on the back of their harnessed market and competitive breakthroughs, in addition to benefiting from a noticeable upturn in construction, after its lacklustre trajectory of recent years. On the other hand, notwithstanding the array of measures earmarked by the authorities to boost activity and competitiveness levels, the expected moderate expansion of the domestic oriented sector and the inhibited performance of the export oriented manufacturing sector would play a non-negligible role in restraining the country's growth path this year, with textile expected to remain in a difficult zone, partly explained by lukewarm private demand from our main trading partners and market access challenges. Against this backdrop, net exports of goods and services would continue to exert a drag on growth, with the indicator's ratio to GDP anticipated to worsen this year. As underscored earlier, there is an imperative need for Mauritius to boost exports amidst intensifying international trade winds. In fact, prevailing trends warrant inspection given the importance of exports as a pivotal engine for achieving high real GDP growth over the long run. This posture is, all the more, called for when considering the small size of our economy, which tends to constrain the leeway in stimulating continuous growth in domestic demand, particularly given that the net impact of household consumption on output is generally limited by its relatively high import content.

Preliminary forecast for 2018

Looking ahead, economic growth is, in view of the improving context, foreseen to gain further steam, with real GDP growth at both basic and market prices projected to attain 4.0% in 2018 as suggested by our preliminary baseline scenario. Assuming a progressive mending of global economic conditions, especially within our main export markets, with the exception of the UK, our prognosis rests on a relatively prompt and comprehensive operationalisation of the range of articulated budgetary intentions and earmarked policy measures. Conspicuously, alongside benefiting from the expected continuing good showing of selected key economic sectors, our growth outlook is underpinned by a notable expansion in public investment, while private investment should pursue an appreciable expansion trajectory. As per the Public Sector Investment Programme, major capital projects identified for execution during the course of FY 2017/2018 and FY 2018/19 include the Metro Express project, the construction of the Jumbo Phoenix Roundabout and A1-M1 bridge, the upgrading of the water distribution network through the pipe replacement programme, the setting up of turbine power plant, sea/airport development initiatives, the instigation of a new Administrative City project, and the construction of infrastructures in the context of social and community development. Subsequently, the national investment ratio would improve by a notable margin, which however stills undershoot the level advocated to gratifyingly enhance the country's growth pattern. Of note also, the quality of investment warrants particular attention, especially in terms of the multiplier impact of higher capital expenditure on local activity levels and job creation as well as the productive efficiency and commercial viability of some specific undertakings.

While it is reassuring to note that it is closing up the gap vis-à-vis the country's long-term potential growth rate, our forecasted nationwide economic expansion rate for 2018 needs to be carefully inspected. Basically, in addition to considering that this performance would be partly helped by the statistical impact of several years of sub-par national output growth, the idiosyncratic capabilities of the Mauritian economy remain subject to scrutiny. Indeed, concerns prevail with respect to the country's ability to exhibit due resilience to external shocks, capitalise on regional and international-growth enhancing opportunities, and boost its human and capital productivity levels on a sustainable basis. Against such a backdrop, the balance of risks to next year's growth projection remains slated to the downside, with a key threat relating to lesser-than-anticipated progress with respect to the instigation and accomplishment of infrastructure projects. Besides, the growth momentum could be unsettled in the event that policy measures being contemplated by the authorities evolve at a sluggish pace, which could, as a result, adversely influence the business environment and private sector investment. Additionally, given the exigent and increasingly competitive global economic and trade environments, an inspection of the external environment is called for, to the extent that the evolution of private demand in key export markets would affect the country's exports of goods and services, while the competitiveness and market access attractiveness of the Mauritian economy beyond local shores, notably in respect of its fiscal regime and value proposition, would be a decisive factor in shaping up its international positioning. Further, the quality of the forecasted growth is open to appraisal to the extent that apprehensions exist in respect of the intrinsic ability of the country to generate and harness conditions that are robust and flexible enough to engender solid and wide-ranging employment creation avenues. In fact, notwithstanding policies put in place by the authorities, the nationwide unemployment rate is expected to stand at 7.3% in 2017 and improve only marginally in 2018 on the back of persisting labour market imperfections, with trends pertaining to net job creation and labour participation rates to remain in rather challenging territories.

Other indicators

In recent months, notwithstanding the general firming up of the external value of the rupee, the Consumer Price Index has been confronted by upward pressures, emanating especially from the successive notable increases in the price of vegetables in the wake of adverse climatic conditions as well as the rise in prices of gasolene and diesel. Indeed, as from the end of 2016, headline inflation staged an upward movement before attaining 1.5% as at April 2017. Looking ahead, whereas the recent reduction in the prices of flour and cooking oil would provide some relief to the consumer price index, headline inflation is expected to pursue its uptrend, partly attributable to the increasingly prominent statistical impact of recent past increases in the consumer price index and fuelled by the budgetary measure to increase excise duties on cigarettes and alcoholic drinks. All in all, barring exceptional events, notably relating to the evolution of global commodity prices and exchange rate dynamics, headline inflation should remain generally moderate at close to 2.8% as at December 2017, thus providing an adequate backdrop for the maintenance of a generally accommodative monetary policy stance by the authorities.

With respect to public finance, the budget deficit is officially estimated at 3.5% of GDP as at June 2017, which overshoots earlier estimates by 20 basis points. In spite of under-spending on the capital side, mostly linked to delays in the implementation of some large-scale projects, this deviation mainly reflects a marked shortfall on the revenue side, led, to a large extent, by lower receipt of external grants and lower-than-expected proceeds emanating from taxes on goods and services and on property income in line with the economy's expansion. For FY 2017/18, the authorities expect budget deficit to decline to 3.2% of GDP. Notwithstanding a near doubling in the acquisition of non-financial assets amidst the deployment of infrastructure projects and a marked rise in recurrent expenditure on the back essentially of higher compensation of employees and social benefits, this improved outturn would be mainly underpinned by an anticipated notable rise in taxes on goods and services, while capital revenue will be significantly boosted by the receipt of Rs 6.9 billion from external grants and Rs 5.7 billion from the closure of the two Special Funds. As the situation stands however, the fiscal position of Mauritius continues to deserve consideration. Especially, reflecting difficulties encountered in reining in the evolution of recurrent expenditures in a bid to provide a sound footing for fiscal consolidation, the indicator's share of GDP is likely to deteriorate to attain 22.7% as at FY 2017/18 as compared to 22.5% as at FY 2016/17. Besides, as another key operational instrument to guide economic policies aiming to support debt dynamics, the primary balance is, for FY 2017/18, anticipated by the authorities to register another deficit – which would amount to 0.7% of GDP, compared to a surplus position that was previously planned – with the shortfall position expected to remain on the cards in the next couple of years as per the statement of Government operations. From a policy perspective therefore, the exercise of sufficient fiscal prudence is deemed crucial. In addition to creating fiscal space for realising our growth ambitions, efforts to reduce and enhance the quality of fiscal imbalances should help to contain public debt within manageable levels. Subsequently, this will enable the country to preserve the investment-grade status of its credit profile in support of endeavours to tap into international financial markets, alongside supporting financial services sector operators in effectively pursuing their regional expansion strategies.

At another level, persistently elevated external imbalances continue to be a source of concern. In fact, after contracting by around 9% in nominal terms during the year 2016, total exports of goods dropped by a further 6% in the first quarter of 2017, thereby contributing to a 30% rise in the balance of trade deficit, compared to the corresponding quarter of the previous year. In line with such trends and in spite of measures announced towards promoting the diversification of export markets and enhancing the competitiveness of the value proposition of operators, exports of goods are foreseen to post a relatively subdued evolution in 2017, against the backdrop of mounting uncertainties on international markets. As a result, the country's balance of trade deficit is forecast to deteriorate further to reach around Rs 94 billion, i.e. over 20% of GDP, after factoring in the anticipated hike in the import bill in the wake of the pickup in international commodity prices as well as the import content associated with infrastructure projects that are likely to be put in place. In turn, notwithstanding support stemming from rising tourism receipts, the trade imbalance would engender a widening in the current account deficit to 5.8% of GDP this year. The balance of payments should, nonetheless remain in a surplus position of close to Rs 29 billion, amidst continued appreciable levels of capital and financial flows, backed *inter alia* by the project-based disbursement of the tranches relating to the grant and the lines of credit received from the Government of India.

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