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MCB Focus

Economic Update

February 2019

MCB GROUP

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RECENT DEVELOPMENTS AFFECTING OUR FORECASTS

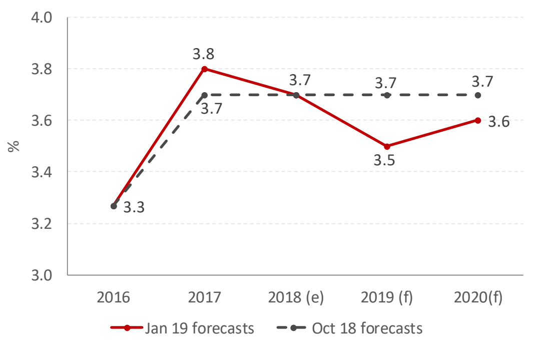
In the aftermath of the MCB Focus edition released in October last, the international landscape confronting the Mauritian economy has been characterised by rising vulnerabilities and uncertainties. In effect, latest evidence portrays a world economy that is growing at a slower pace than previously envisaged, reined in by dampened investor sentiment and weaker trade patterns. Conspicuously, following the World Bank's downgrade of its short term growth prognoses in its Global Economic Prospects published earlier this year, the IMF has, in the latest update to its World Economic Outlook, further downgraded economic growth projections worldwide. As such, the IMF now expects the global economy to grow by 3.5% this year and 3.6% in 2020, i.e. 0.2 and 0.1 percentage point respectively below its October projections. Key undertones of the revised headline figures relate to the Fund's expectation that weaker activity observed in the second half of 2018 would carry over to coming quarters, triggering a persistent deceleration in the growth pace of advanced economies and a temporary decline in the growth rate of emerging market and developing economies in 2019, reflecting contractions mainly in Argentina and Turkey, as well as the impact of trade actions on China and other Asian economies. Moreover, the balance of risks remains tilted to the downside, with threats including *inter alia* the following: (i) an escalation of trade disputes denting activity in economies involved and having negative worldwide spillovers; (ii) a faster-than-expected tightening of global financing conditions or disorderly exchange rate movements hampering prospects in emerging markets; (iii) a broader deterioration in financial sentiment especially in a context of elevated debt levels; (iv) mounting uncertainty about policy decisions in advanced economies; and (v) geopolitical tensions in the Middle East and East Asia as well as climate-related events. From another angle, whilst the recent drop in and softer outlook for oil prices have added up to the shakiness of the global context and led to lower growth projections for oil-exporting economies including those in sub-Saharan Africa, it should, *ceteris paribus,* deliver a welcome lift to the Mauritian economy by notably reducing the import bill for petroleum products and the input costs of businesses, as well as further containing the evolution of the consumer price index.

Generally, the international background does not, for the short term at least, appear to be conducive enough for supporting a material uplifting of the growth trajectory of Mauritius. Particularly, with the exception of the US where growth should remain above potential in the near term, our key trading partners would be beset by notable instabilities, with ramifications on our exports of goods and services. Indeed, growth in the euro area fell to its lowest pace in four years during the fourth quarter of last year and is, as per the IMF, anticipated to moderate during this year and next, on the back notably of slower expansions in Germany, Italy and France. As for the UK, substantial uncertainty prevails about the outcome of ongoing Brexit negotiations. In a different light, the evolution of our global business sector warrants scrutiny in view of market access challenges, with pressures also emanating from more stringent compliance, fiscal and operating requirements. As a key development, a sharp decline was registered in FDI equity flows routed through Mauritius to India during the six months ending September 2018, as per the Reserve Bank of India. That said, the country still remained the 2nd top source country, accounting for over 15% of FDI equity flows routed into India during this period.

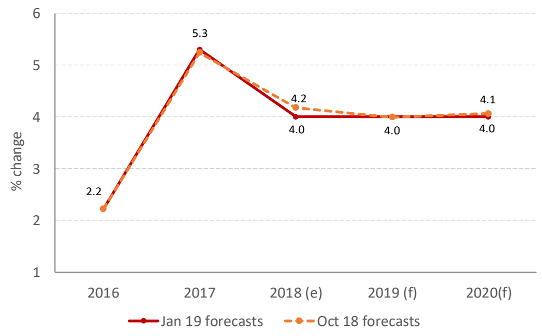
Box I: Highlights of international developments

Global activity levels

World GDP growth

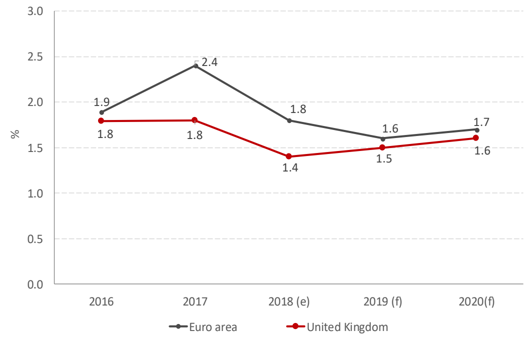


World Trade Volume (goods and services)

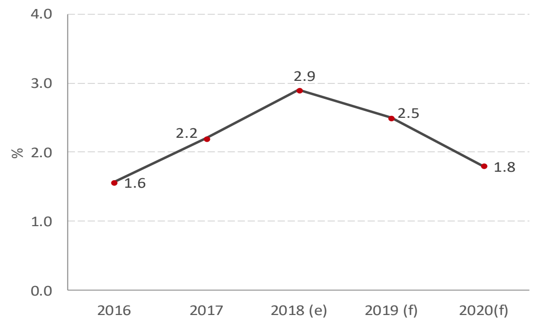


Growth forecasts across key economic partners

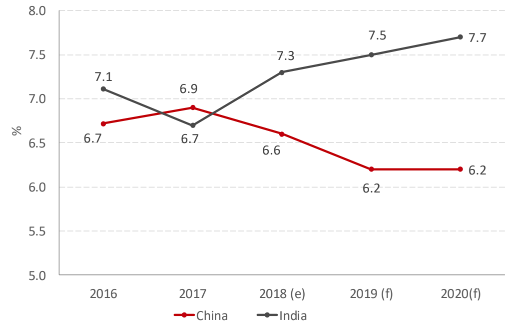
Europe



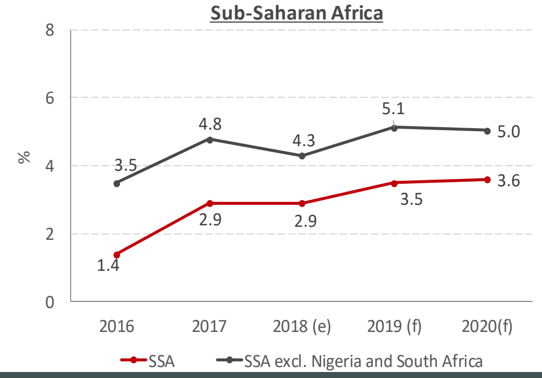
United States



China and India



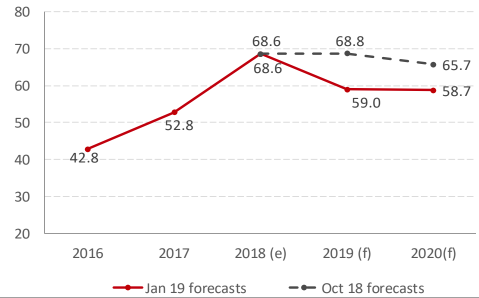
Sub-Saharan Africa



Evolution and forecast of oil prices

Evolution of Brent crude oil (USD/bbl)

Forecast of average oil prices (USD/bbl)



(e) estimates (f) forecast

Sources: IMF World Economic Outlook and MCB Staff estimates

UPDATED FORECASTS

Figure 1 **Main economic indicators**

	Unit	2015	2016	2017	2018[(1)]	2019[(2)]
Real sector						
GVA at basic prices	Rs bn	364	386	403	426	453
GDP at market prices	Rs bn	410	435	457	485	517
GVA growth (at basic prices)	%	3.1	3.6	3.6	3.6	3.8
GDP growth (at market prices)	%	3.6	3.8	3.8	3.7	3.9
Gross Domestic Saving	% GDP	10.4	11.0	10.1	9.7	9.9
Gross Fixed Capital Formation	% GDP	17.4	17.2	17.4	18.1	18.9
Private sector investment	% GDP	12.6	12.8	13.3	13.3	13.2
Public sector investment	% GDP	4.7	4.4	4.1	4.9	5.7
Headline inflation	Dec, %	1.3	1.0	3.7	3.2	2.1
Unemployment rate	average, %	7.9	7.3	7.1	6.9	6.7
Fiscal sector						
Budget balance	FY, % GDP	-3.9*	-3.5	-3.5	-3.2	-3.3
Public sector debt	Dec, % GDP	63.4	64.2	63.4	64.5	64.6
External sector						
Balance of visible trade	Rs bn	-74.7	-81.0	-100.2	-111.9	-118.1
Current account balance	% GDP	-3.6	-4.0	-5.6	-5.6	-5.8
Overall balance of payments	% GDP	4.9	6.0	6.2	3.6	3.5
Memorandum item:						
Per capita GDP	*USD*	*9,228*	*9,598*	*10,407*	*11,115*	*11,719*

(1) MCB 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 2015H1*

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

Economic growth

Updated estimates for 2018

For 2018, we have maintained our growth estimate for gross value added at basic prices at 3.6%. This is on par with the revised forecast by Statistics Mauritius in the December issue of National Accounts, which represents a 10 basis points downgrade from the official figure released in September 2018. As for GDP at market prices – measured as the sum of gross value added at basic prices and taxes on products net of subsidies, with the latter indicator estimated to have grown by 5.1% in real terms as per Statistics Mauritius figures – the official growth estimate has been cut to 3.8% in the latest National Accounts compared to a previous forecast of 3.9% as per the September issue. As for our estimate of growth at market prices, we have kept it unchanged from our October figures at 3.7%, with the 10 basis points difference from the latest Statistics Mauritius figure, being explained by a slightly lower real growth rate for taxes on products net of subsidies.

From an expenditure perspective, growth has been underpinned by the strong contribution from national investment, partly offset by the poor showing in net exports of goods. At the sectorial level, our growth estimate reflects mixed outcomes, spanning the appreciable upturn in construction, resilient expansions in the financial and business services, ICT and tourism industries, as well as the modest progress of the domestic and export-oriented manufacturing industries amidst the contractions in the sugar and textile sectors.

Revised forecasts for 2019

Our growth prognosis for this year has been marginally revised downwards on the heels of (i) the worsening global economic conditions, especially within our key export markets; and (ii) some delays in respect of the realisation of specific energy ventures by the private sector. Thus, economic growth, measured at basic prices, is now anticipated to stand at 3.8%, which is 10 basis points lower than our October forecasts, and is on par with the corresponding projection by Statistics Mauritius as per the latest National Accounts issued in December last. Accordingly, we have also trimmed down our forecasted growth in GDP at market prices by 10 basis points to 3.9%. This prediction is similar to the revised IMF prognosis released in the context of the Article IV Mission, while slightly undershooting the forecasts by Statistics Mauritius and the Bank of Mauritius. That said, it is worth noting that our baseline scenario still evokes a relative improvement in the country's economic growth rate for this year when compared to 2018, underpinned predominantly by a strong expansion in national investment.

Figure 2 **Evolution of real GDP growth forecast for 2019**

Forecast as at	Statistics Mauritius (Official figures)		Bank of Mauritius	MCB		IMF
	GVA at basic prices	GDP at market prices	GDP at market prices	GVA at basic prices	GDP at market prices	GDP at market prices
Jan 18	-	-	-	-	-	4.1
Feb 18	-	-	4.2	-	-	-
Mar 18	-	-	-	-	-	-
Apr 18	-	-	-	-	-	4.0
May 18	-	-	4.0	-	-	-
June 18	-	-	-	3.9	4.0	-
Jul-18	-	-	-	-	-	4.0
Aug 18	-	-	4.0	-	-	-
Sept 18	-	-	-	-	-	-
Oct 18	-	-	-	3.9	4.0	4.0
Nov 18	-	-	4.0	-	-	-
Dec 18	3.8	4.0	-	-	-	-
Jan 19	-	-	-	-	-	3.9
Feb 19	-	-	-	3.8	3.9	-

Sources: Statistics Mauritius, Bank of Mauritius (Minutes of Monetary Policy Committee meeting), IMF World Economic Outlook, IMF Article IV Consultation Report for Mauritius (December 2017), IMF Press Release of the Article IV Mission for Mauritius (January 2019), and MCB staff estimates

From a sectorial perspective, the construction sector is set to remain a key driver of nationwide growth in output this year when factoring in the large-scale infrastructure projects being executed. At another level, the ICT and business and financial services industries should continue to capitalise on their sound fundamentals to maintain a resilient performance. Within the latter segment, the evolution of the global business industry should require close monitoring as operators would face up to challenges in adapting to the evolving operating environment. Elsewhere, while an appreciable expansion of the seafood industry in line with favourable market dynamics is anticipated, dampened conditions in our main trading partners and beyond on the worldwide scene would exert adverse pressures on export oriented manufacturing sectors such as textile, which is set to post a tepid expansion this year. In that respect, it is interesting to take note of the signing by Mauritius of the ESA-UK Economic Partnership Agreement that would, upon the UK's exit from EU, preserve market access and provide predictability and legal certainty to Mauritian operators exporting to the United Kingdom, independent of any UK-EU Brexit outcomes. However, the country's exports are still likely to feel the brunt of lower demand from the UK in the short to medium term. Regarding the domestic oriented sector, it should continue to record a soft expansion on account of competitive pressures and lingering local structural inefficiencies. As for the trade sector, the pace of growth is set to remain in line with recent trends. In the same vein, the non-sugar agriculture sector remains at the whims of climatic conditions, while value added for sugar is likely to be relatively flat, after two consecutive years of contraction, notably reflecting restrained production levels and high competitive pressures. From another angle, though we have downgraded our forecasted growth in value added for the tourism sector, the sector is still anticipated to cast a positive influence on the country's growth rate this year. Alongside making allowance for the cumulative effect attributable to the good outcomes of previous years, the lower outlook for the sector reflects the increasingly competitive market environment and the ramifications of the deteriorating global context. Notably, the industry should remain under scrutiny given potential pressures on gross receipts. Basically, while total tourism earnings expanded by close to 7% during the January – November 2018 period relative to the corresponding period of the preceding year, it is worth noting that receipts have, on a year-on-year basis, dropped during the months of September, October and November 2018. The latter trend can, to some extent, be linked to the slower expansion in arrivals by air observed lately, while the overall growth in visitors during these periods was mainly linked to a notable hike in arrivals by sea - principally in respect of cruise ships - which, *per se,* generate relatively less income than arrivals by air. Further, revenue concerns might prevail due to the following: (i) the purchasing power of traditional European tourists could remain dampened amidst economic difficulties; (ii) mounting competitive strains could stem from regional destinations; and (iii) the euro could be subject to weaknesses in the event of any recurrence of economic and financial shocks.

Coming back to investment trends, as mentioned before, the country's expansion would, to a non-negligible extent, be underpinned by the anticipated major increase in public sector investment, with the indicator's share of GDP to increase by 80 basis points to stand at 5.7% this year. Specifically, underpinned by a high implementation rate, economic growth would be supported by the full-year impact of some major ongoing ventures, with a case in point being the Phase 1 of the Metro Express project for which 55% of works have reportedly been completed. For its part, although the forecasted expansion has been scaled down in our baseline scenario, relative to our October forecasts, to make allowance for the slight delay in the execution of specific energy-related ventures, private capital spending would still sustain a positive real growth rate owing to the scheduled realisation of specific undertakings related to tourism, Smart Cities, education and some emerging segments. All in all, the gross fixed capital formation ratio would rise by 80 basis points to attain 18.9% of GDP in 2019. In turn, national investment would contribute over one percentage point to the forecasted real GDP growth rate for this year, with a notable chunk linked to public investment.

On another note, whereas net exports of services would remain in positive territories, key apprehensions subsist in respect of net exports of goods. Particularly, exports of goods have evolved at a tempered pace lately, and in spite of a low base effect triggered by the cumulative effect of four consecutive years of contraction, the indicator is forecast to post only a modest expansion this year. Overall, the ratio of exports of goods to GDP is expected to fall for a fifth consecutive year to stand at 16.2% of GDP in 2019, while the ratio stood at around 24% of GDP just over a decade ago. Consequently, in spite of the relief to the import bill of petroleum products stemming from the softer outlook for international oil prices which have contributed to a lower expected trade deficit relative to our October forecasts, net exports of goods are, as per our estimations, likely to rub off about 0.5 percentage point from the real GDP growth rate being envisioned for 2019. All in all, the contribution of net exports of goods and services to the real GDP growth rate for this year is anticipated to remain negligible. Tellingly, in addition to being fueled by the challenges facing our export markets, such outcomes shed light on the prevalence of hindrances to the Mauritian economy's productivity and competitiveness levels. In this respect, the recent findings of the 2019 Index of Economic Freedom of the Heritage Foundation call for attention, with the overall Economic Freedom score of Mauritius falling to 73.0 in 2019 compared to 75.1 in 2018. As such, the country dropped to the 25th position worldwide in 2019 compared to 21st in 2018. Of note, while Mauritius remains among the sub-Saharan African region's most business-friendly countries, the country has lost 17 spots in the rankings worldwide since 2012.

Risks to the growth forecasts

While our baseline prognosis already takes account of the complex operating environment, it is essential to exercise caution in our assessment of the country's prospects for this year when considering that the balance of risks to the growth outlook remains tilted to the downside. In fact, our macroeconomic projections will, as deemed apposite, be revisited, in light of enhanced visibility apropos international and domestic developments. Meanwhile, after making allowance for recent developments and with a view to catering for the highly unsteady nature of the operating context, alternative scenarii for the country's economic growth performance in 2019 have, as depicted in Figure 3, been sketched. These scenarii which have varying probabilities of materialising, are based on simulations that consider notably investment patterns, sectorial performances, total factor productivity and the evolution of the global economic landscape, relative to the IMF baseline projections.

Figure 3 **Alternative growth scenarii for 2019**

Scenario	Description and expected impact	Probability of occurrence	Indicative impact on baseline real GDP growth forecast
Upside	A higher-than-envisioned growth is achieved in respect of nationwide investment, spurred by the enhancement of project implementation capabilities at both public and private sector levels	Low	Up to + 10 bp
	International oil prices fall by a higher-than-expected margin, thus curtailing the country's import bill for petroleum to a larger extent than currently being envisaged	Low	
Baseline	The external environment, notably in respect of our key export markets, deteriorates in line with the IMF baseline scenario while uncertainties linked to Brexit negotiations lead to lower demand from UK, thereby contributing to a restrained evolution in net exports of goods and services	High	-
	Real growth in public sector investment is underpinned by the unfolding of large-scale ventures, with a relatively high project implementation rates	High	
	An expansion in private sector investment is observed, notably supported by undertakings in respect of real estate and property development, tourism and education segments	Moderate to High	
Downside	Relative to IMF's baseline scenario, the external context becomes much more challenging, especially in our export markets – principally UK and EU – reflecting notably Brexit-related instabilities	Low to Moderate	Up to - 20 bp
	A lower-than-envisaged growth in the global business sector mainly explained by tougher-than-anticipated market dynamics	Low to Moderate	
	A lower-than-expected growth is achieved in nationwide investment, reflecting delays in the materialisation of earmarked ventures, such as those forming part of the Road Decongestion Programme, in view of the high level of complexity	Low	

Key priorities to steer growth into higher gears

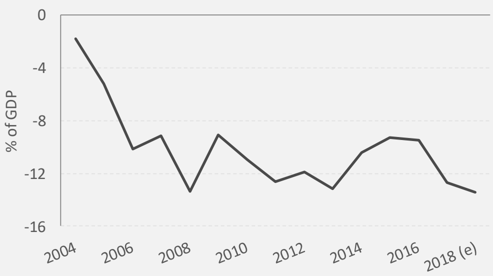
The current environment raises new challenges to fostering high, sound and sustainable socio-economic progress, the more so when factoring in the inherent supply-side bottlenecks. In fact, real GDP growth could potentially end up being subject to noticeable strains over the medium term. Basically, while the ongoing nationwide infrastructure push-up would provide relative support by upgrading capacity and boosting productivity and efficiency levels, the direct ramifications of many of those projects are likely to be mainly short-lived. As such, apart from the endorsement of circumstantial responses to immediate economic concerns, the entrenchment of deep-rooted structural reforms, examples of which are highlighted in Box II, is deemed as *a sine qua non* condition to tackling endogenous constraints and propelling Mauritius onto a higher-growth path.

Box II: Priorities for structural reforms

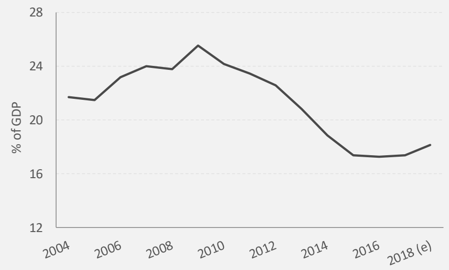
Evolution of key indicators

In recent times, the Mauritian economy has found it difficult to sustain the momentum of its socio-economic progress. Indeed, the country faced a sub-par real GDP growth trajectory, with its average annual expansion rate undershooting the historical level on the back of global uncertainties and domestic imbalances. Against this backdrop, the following section sheds light on key priority areas for introducing structural reforms in order to uplift growth.

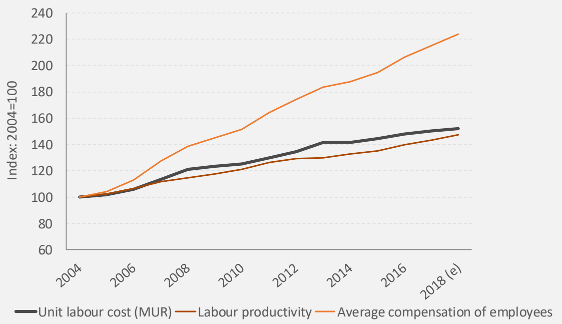
Net exports of goods & services



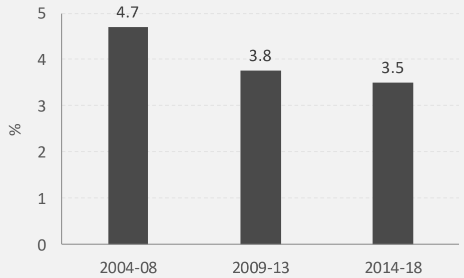
National investment ratio



Labour productivity metrics



Average real GDP growth at basic prices



(e) MCB estimates

Key reforms to boost growth

Step up productivity levels

- The World Bank stressed, in a recent book, entitled 'Productivity Revisited' that "*the route to generating good jobs transits directly and inexorably through a sustained agenda to raise productivity. In addition, productivity-driven cost reductions reduce the prices of key products consumed by the poor and thereby increase household purchasing power, helping poorer households get more for less.*" Accordingly, alongside rendering labour market mechanisms more efficient, it is important to create incentives to further (i) boost the employability of the current employee base by broadening their skills set via specially designed training programmes spanning a targeted array of priority competency fields; (ii) craft and execute adequate up- and re-skilling programmes; and (iii) eliminate disincentives hindering optimal labour participation and properly address underemployment levels, alongside ensuring the carefully-planned recourse to high-skilled foreign human capital and rising labour participation rates, notably for women.
- Additionally, productivity growth can be obtained principally from investments in non-physical assets - knowledge-based capital, such as R&D, design and innovative business ideas. The aggregate benefits from the diffusion of global frontier technologies and knowledge can be expanded through the implementation of policies which ease the mobilisation and reallocation of scarce resources to the most productive uses.

Sources: Productivity Revisited - World Bank, The Atlas of Economic Complexity: Mapping Paths to Prosperity - Hausmann, R., et al, Lokal is beautiful - Utopies, Statistics Mauritius, MCB Focus, and MCB staff estimates

Box II: Priorities for structural reforms (Cont'd)

Further enhance the quality of physical infrastructure and improve connectivity

- The upgrade of the quality of public infrastructure to areas beyond road networks is crucial to effectively support higher output generation. A case in point relates to the electricity sector where it is important to stimulate the use of innovative technological solutions regarding electricity production and use with the view to enhancing cost efficiency, while, at the same time, ensuring that our electricity generation capabilities keep pace with mounting demand pressures.
- Additionally, in order to boost national productive capacity, it is highly desirable that we continue to enhance the speed and reliability of Internet connectivity, while further reducing the cost of access and encouraging innovation, to promote the adequate unfolding of knowledge and learning spill-overs, as well as technology absorption, catch-up and transfer.

Boost exports of goods and service alongside enhancing their multiplier effect

- It is important, in light of the small size of the domestic market, to help Mauritius further expand and diversify its economic base and its regional and international market space with a view to purposefully boosting its exports of goods and services amidst the current economic context. At the same time, efforts should be put to enhance the multiplier effect within the economy, while factoring in competitiveness imperatives. Accordingly, this two-pronged approach (external income and multiplier effect) as highlighted in a recently-published report commissioned by the MCB and produced by Utopies, an international consulting firm, would assist in boosting efficiency levels and uplifting prosperity of the population.
- Specifically, a key success factor relates to broadening the domestic production of goods and services to promote the exports of more complex items. In fact, the economic complexity concept, which is based on the work of the Harvard Center for International Development is measured in terms of the diversity of exports a country produces and their ubiquity, or the number of countries able to produce them.
- Beyond, the trajectories that could be contemplated in order to boost our exports are summarised as per the themes:
    - Gear up the capacity and incentive of businesses and entrepreneurs to invest;
    - Widen our market space and diversify the geographical reach of our exports;
    - Foster the country's openness to foreign talents and expertise;
    - Adopt trade policies and reforms as well as uplift supply chain capabilities;
    - Improve the reach, depth and comprehensiveness of market connectivity and access; and
    - Enhance the competitiveness of our value proposition on international markets
- Furthermore, increased attention should be devoted to the exports of services in specific niche areas where the country has nurtured competencies, notably tourism, banking and non-banking financial services, and information and communication technologies. In the end, the aim is to establish an open, vibrant, innovative and investor-friendly economy, alongside moving up the value chain in terms of our trade patterns.

Improve the quality and breadth of the national institutional framework

- Empirical studies have widely shown that a strong and trustworthy institutional framework is vital to foster the effective materialisation of economic policies and ensure that they come to fruition within assigned timeframes. As mentioned in earlier MCB Focus editions, the efficiency of public services and Government support to private sector activities can be furthered by:
    - Undertaking broad-based efficiency re-engineering of the organisation and operation of parastatal bodies, while equipping them with adequate financial resources and the right technical know-how and organisational set-up; and
    - Extending the range of e-services to businesses and the public at large

Sources: Productivity Revisited - World Bank, The Atlas of Economic Complexity: Mapping Paths to Prosperity - Hausmann, R., et al, Lokal is beautiful - Utopies, Statistics Mauritius, MCB Focus, and MCB staff estimates

Other indicators

Inflation

As a noticeable source of satisfaction for the Mauritian economy, headline inflation has upheld its downward trajectory embarked since May to reach 3.2% for the twelve months ending December 2018. This has essentially been triggered by the successive declines in vegetable prices, as well as general rupee stability, with some relief also provided by the downward evolution of international oil prices in recent months. The latter development has in fact paved the way for a cut in the retail prices of gasoline and diesel lately. Looking ahead, barring exceptional events, inflation is anticipated to pursue its downtrend to stand at 2.1% as at December 2019 on the back, principally, of support from relatively lower international oil prices being anticipated as well as a broadly stable evolution in the rupee. Overall, the prospects for inflation should, in the wake of the current economic environment, provide a suitable backdrop for the maintenance of a generally accommodative monetary policy stance. That said, upside risks to our inflation outlook, stemming notably from the expansionary fiscal policy stance and/or potential adverse shocks on the international front, cannot be disregarded.

Unemployment

In line with the pickup in economic activities across some sectors and the implementation of employment-creation initiatives by the authorities, the unemployment rate is forecast to edge down further to reach 6.7% in 2019. Yet, beyond this headline figure, apprehensions subsist as regard the country's job creation capability, especially after considering latest data released by Statistics Mauritius for the third quarter of 2018. Specifically, total employment fell by a notable 5,600 when compared with the corresponding period of the preceding year, driven by a sharp drop in the active population. Consequently, nationwide activity rate – measured as the ratio of the labour force to population aged 16 years or more - fell to 58.2%. More worryingly, an even lower rate of 44.6% was posted for women, which is abnormally low when compared with the proportion observed in peer countries. On the other side, the economically inactive section of the population stood at 414,100 during the period under review, representing an increase of 11,900 when compared to the third quarter of 2017. Moreover, 66% of the unemployed had working experience while nearly half of the unemployed were aged below 25 years, corresponding to a youth unemployment rate of above 25%. Referring to the importance of young people in the workplace, Christine Lagarde, Managing Director of the IMF, recently said: "*young people are essential to economic development and growth…What is most remarkable—and rare in economics—is that the policy proposals that can help young people do not require a trade-off between younger and older workers. They benefit everyone and help grow a country's economy in a strong, sustainable way. If we make the right choices now, the potential benefits truly are limitless*". On another note, the set of official data tend to not fully capture the extent of labour market inadequacies given the non-negligible underemployment levels prevailing in the country, which underline the perceptible under-utilisation of a segment of the labour force, when gauged against their expertise, levels of experience and educational attainment, as well as the number of hours worked. In the latter respect, it is worthwhile noting that some 11.1% of the employed worked on average between 1 and 23 hours per week, as per Statistics Mauritius figures.

Public finance

With regard to the current fiscal year, the budget deficit is anticipated to stand at 3.3% of GDP, i.e. marginally above the 3.2% figure projected by the authorities. This reflects principally: (i) a lower-than-anticipated revenue collection, to some extent attributable to a lower economic growth outcome than forecasted by the authorities in June 2018 in the context of the National Budget 2018-19; and (ii) a higher-than-budgeted expansion in recurrent expenditure on the back essentially of higher social benefits, amidst higher pension payments, and the disbursement by the authorities for the period January to June 2019 to implement the recently-announced measure regarding tuition fees exemption for undergraduate students in public universities and vocational institutions. Moving forward, the fiscal position of Mauritius would continue to call for our vigilance, the more so when considering the increasingly unsteady operating context, which could render the achievement of targeted declines in fiscal and debt indicators challenging, by restraining the growth in economic activity levels. Already, gross public sector debt rose to attain 64.5% of GDP as at December 2018 as compared to 63.4% recorded a year earlier, with the outcome thus moving further away from the statutory ceiling of 60% to be attained by end of the fiscal year ending June 2021 as per the Public Debt Management Act. Moreover, the line of credit obtained from the Government of India for the financing of the Metro Express project would be included in the computation of debt upon its drawdown, and thereby lead to upward pressures on the debt levels. Overall, as stressed by the official IMF press release in the wake of consultations in respect of the 2019 Article IV Mission, it is crucial to adopt prudent fiscal policies that would set public sector debt firmly on a declining path into the medium term. In that respect, further efforts are needed to avoid unproductive expenses and create adequate fiscal space, the more so when considering the higher pension spending pressures likely to crop up over the medium to long term amidst the ageing of the country's population. Indeed, as per projections by Statistics Mauritius, the dependency ratio – defined as the child population under 15 years of age and the elderly population aged 65 years and above per 1,000 population aged 15 to 64 years – would rise from its level of 408 in 2017 to reach 456.5 in 2027 and further to 531.1 in 2037. On the revenue side, it is important to maintain a conducive business environment for successfully shifting the country's economic growth into higher strata, with a case in point relating to the need to preserve the simple, predictable and low fiscal regime that has played a meaningful role in boosting activity levels over time. Subsequently, such stances should help in preserving the investment-grade status of the country's 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.

External Front

At another level, the slow-moving demand in our key markets, the relative weakness of the euro on international markets and inherent structural bottlenecks on the domestic front should contribute to maintaining external imbalances at elevated levels. Thus, in spite of some relief conveyed to imports of petroleum by lower international oil prices, albeit partly offset by higher capital imports associated with large-scale public infrastructure projects, the balance of trade deficit is forecast to deteriorate from about Rs 112 billion in 2018 to attain around Rs 118 billon this year, i.e. about 23% of GDP. In turn, notwithstanding the resilient performance at the level of the services account, as well as a surplus on the primary income, the current account deficit is anticipated to widen slightly to stand at 5.8% of GDP in 2019. This is in line with the IMF's view that the country's current account deficit is expected to widen this year, as stressed in its press release in respect of its Article IV Mission to Mauritius. Overall, regarding the overall Balance of Payments (BOP), whereas the forecasted surplus has been revised downwards, relative to our October forecasts, on the basis of an expected narrowing in cross-border transactions of global business companies amidst the increasingly stringent operating landscape, a positive outcome is expected to be maintained this year, backed by the disbursement of tranches relating to the grant and the line of credit received from the Government of India as well as sustained gross direct investment within the domestic economy. However, the evolution of the BOP should be subject to close scrutiny given the risk of a sharper-than-foreseen shift in investor sentiment given the current international context. Also, the BOP surplus should not mask the significance of the country's deteriorating external imbalance, thereby calling for efforts to be geared up to upgrade competitiveness at all levels.

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