Budget 2013: The Need for Clarifications

The summing up of Budget 2013 by the Minister of Finance (MOF) in the National Assembly left many of our queries unanswered, namely on the size of the budget deficit, the Special Funds, the lack of overall coherence and the stop-gap measures. It could have been an opportunity to discuss the economy in greater depth, re-assessing some of its strengths and weaknesses and be more precise on the measures planned to stem the downslide in growth.

We had expected strong signals that the policy paralysis that has gripped the Ministry of Finance (MOF) would be over, that important changes were going to be announced to counter some of the criticisms and which would have resulted in swifter policy execution. Instead we just got illusions wrapped in rhetorics. The MOF 'persiste et signe' that its budget figures are not manipulated and that it is line with IMF and UN standards (sic) - *"Nous (MOF) respectons les normes du FMI, les Nations Unies, Statistics Division, the International Labour Office..." (quoted from the Summing up speech by the Minister of Finance)*

We maintain our stand. It is only now that some supposedly knowledgeable budget commentators and economists are noting the curious arithmetic in the budget numbers. We had been highlighting the tortuous accounting in the budget figures for quite some time now and, more recently, we have been supporting our arguments with the observations drawn from the two latest reports of the IMF -- the Public Expenditure and Financial Accountability (PEFA) Assessment and the 2011 Article IV Consultation Staff Report.

We had written some time back that "such tortuous accounting to hide their incompetence at boosting capital expenditures stretches all the logic of Government Finance Statistics (GFSM 2001) and the principles of sound public finances and raises serious questions about the credibility and understanding of high government officials; this is clearly unacceptable…."

Table I: Budget Deficit with and without Special Funds

As a % of GDP	2007/08	2008/09	2010	2011	2012	2013
Deficit without Special Funds	**-2.7**	**-3.0**	**-3.2**	**3.2**	**2.5**	**2.2**
Consolidated Deficit with Special Funds	**-1.5**	**-1.3**	**-3.6**	**-2.3**	**-2.9**	**-3.5**

The MOF waxes lyrical on the fact that Budget 2013 *"n'est pas un budget d'austerité",* despite the limited *"marge de manoeuvre".* This has been possible because of an estimated 9.9% boost in tax revenue mainly as a result of the increase of 10.4% in VAT receipts. What we are not being told is that the tax collected on income and profits as a fraction of GDP (a rough measure of part of the tax burden to the population) is increasing (Table II) at a time when household and corporate debts are rising, when the real growth of the compensation of employees is expected to register a mere 1.3%, one of the lowest since 2003 (Table III) and when the expectations of a higher inflation rate of 6% in 2013 are likely to lead to further erosion in our purchasing power.

Table II. Direct Tax burden

As a % of GDP		**2011**	**2012**	**2013**
Taxes on income and Profits		4.22	4.34	4.33
-Individuals		1.52	1.56	1.57
-Corporates		2.43	2.51	2.50

Table III. Compensation of employees

Real growth	**2008**	**2009**	**2010**	**2011**	**2012**
Compensation of employees	3.2	2.1	3.1	1.5	1.3

But without being des "*faux experts*", we were not among those knowledgeable economists who believed that the budget straitjacket left little room for manoeuvre. On the contrary we were aware that the Ministry of Finance had a cash hoard of over Rs 10 billion that was looking for productive investment opportunities and ways to alleviate the problems of the household and corporate sectors. Government is in a hurry to improve the economy, to eradicate poverty and to build skills and reduce unemployment. But it needs more than stop-gap approaches to attain these goals .The MOF has the means but it opted for a limited short-term Budget that is out of touch with present-day reality and teetering on the policy plank of the future.

Prospects for 2013

It is customary at the end of the year to make a forecast for the year ahead. I would personally argue that the conditions are not yet in place for a full recovery: US investment and employment recovery continue to be modest in spite of healthy corporate profitability and U.S. strong monetary easing -- QE and low interest rates -- seems to be reaching its limits.
Moreover Europe's problems are far from over and the policy responses from the region's policy makers are falling increasingly short of expectations -- the idea of a centralized deposit insurance facility, for instance, has been taken off the agenda for a banking union. German elections are due in 2013, and it is likely that there will be insufficient policy action to resolve the Euro crisis.

Growth is slowing down in Brazil, India, China and there is a less favorable external environment and reduced demand owing to policy tightening, especially to curb excessive credit creation and inflation. The growth of world trade volume should drop to 4.5% in 2013, down from 5.4% average for the last 20 years. Moreover the renewed geopolitical tensions in the Middle East add to the risks.

Domestically, we have not fared so badly in 2012 but the shock absorbers of the economy are already showing signs of wear. Many key sectors of the economy, rather than showing some kind of momentum, are in progressive decline.

Table IV: Sectoral growth rates - 2009 - 2012

	2010	2011	2012
Agriculture, hunting, forestry and fishing	-1.3	+3.4	-0.1
Mining and quarrying	+0.5	- 4.6	+1.0
Manufacturing	+2.1	+2.2	+1.0
Textile	0.0	+8.0	-2.7
Construction	+4.2	-2.0	-1.2
Hotels and restaurants	+6.0	+3.5	-0.5
Transport, storage and communications	+5.4	+4.9	+4.4
Financial intermediation	+4.3	+5.5	+4.8
Real estate, renting and business activities	+6.3	+6.3	+5.8
Export oriented enterprises	+6.5	+8.4	+0.6
Sea food	+10.4	-1.3	+13.4
Freeport	+3.3	+3.1	+2.0
Tourism	+5.2	+3.8	-0.9
ICT	+13.3	+10.5	+9.2

After a sluggish growth of 0.7% in 2011, investment would be contracting by 0.7% in 2012. Both the exports of goods and of services are registering lower real growths in 2012 (an export growth of 6.1% for Export Oriented Enterprises for the 10 first months of 2012 is meaningless as it is in nominal terms and thus does not ensure an equivalent or positive growth rate for the sector).

The economic slowdown is sharper and more broad-based than anticipated and is now deeply entrenched across all the sectors of the economy. There has been very few bold policy decisions to infuse new dynamism in the tourism and ICT sectors and, with the uncertainty dragging on, we see nothing to lift the economy from its lethargy. The patient does not want to be treated. He is convinced that he is not unwell. It clearly shows that the Mauritius is living in a denial mode about the real state of the Mauritian economy. I do not believe that a 3.5% annual depreciation of the rupee on its own will have that much of an impact to boost tourist arrivals by 5-8% and the real growth of exports of goods and services from its present level of 4.4% to double-digit figures. Economic growth for 2013 is not likely to exceed this year's 3.2%.

Monetary Policy: What next?

Worried about inflation, the Monetary Policy Committee has maintained the status quo on the repo rate leaving it unchanged at 4.9%. The Bank of Mauritius (BOM) has estimated GDP growth to be around 3.3% for 2012 and around 3.6-3.9% for 2013 and projected headline inflation to reach 6% in 2013. The BOM forecast does emphasize that the year-on-year inflation of 5.7% by December 2013 assumes a no-policy change scenario. Does this mean that it does not include the inflationary impact of the 3.5% depreciation of the rupee?

The Ministry of Finance has avoided a confrontation this time round. But for how long? The BOM seems to have won the first round or is it being stage-managed (municipal elections oblige…)? The real test will come at the beginning of 2013. The medium-term macroeconomic projections of the Budget are banking on a 3.5% annual depreciation in the nominal exchange rate to generate real GDP growth rates of 4.0%, 4.4% and 5.5% in 2013, 2014 and 2015 respectively, and to raise the investment rates to around 24% of GDP and reduce the current account deficit from its present level of -13.3 % to -9.5% of GDP in 2015.

The current level of growth is certainly far lower than the potential output, and the MOF is seeking lower interest rates to lift sluggish growth. The budget deficit has supposedly been reduced to 2.2% of GDP, one of the many preconditions set by the BOM for cutting interest rates. But now the Governor is having second thoughts. The structural weaknesses in the economy are not amenable to monetary policy. He is convinced that we are more in need of medium- to long-term structural reforms to enhance productivity and competitiveness than the short-term, easy-way-out solutions of depreciating the rupee to add the additional one per cent to our growth rate. What next?

NESC's Report: Indiscipline and violence in schools

This latest report released by the NESC on indiscipline and violence in schools, based on its own research as well as on extensive consultations with stakeholders, is a very good start. It raises very relevant issues such as school management, the role of well-trained educators who have a sense of belonging to schools, the role of students as full-fledged partners in the running of schools, the need for greater engagement of parents and the recourse to the services of NGOs and educational social workers. More importantly, it raises a wake-up call for a drastic reform of the CPE system, an outdated and unsuitable system for our 21st century Knowledge Society. It calls for a new dynamic curriculum, which will lay greater emphasis on social and emotional learning, on basic human values, on life skills and on teaching children to think critically and how to solve problems. Educating a child should be holistic, not just a process of stuffing their head with information. "***We have to see the needs for complete development because body and mind are linked."***

To be truly holistic in its approach, the report needs to be followed up by further research like those carried out in the US which examined the new generation's food habits, their activities before going to sleep, the impact of loud music and video games and the causes of their greater stress and lower concentration levels and their propensity to boredom. The NESC should involve those NGOs that have a proven experience in child empowerment and in training the child to reinforce his values, strengthen the sense of self and the sense of sharing, enhance his creativity, improve his focus and concentration in studies, help him to be independent and responsible, communicate better and respond to stress in an emotional healthy way. These local NGOs do help parents to handle the stressful transition of their child to teenager, getting them involved in their teens' life – physically and emotionally --, understand their urge to appear trendy and be accepted among peers, and be a friend and guide in choosing their careers – what they want to be in life! They help enhance the development of every child in all the three aspects of body, mind and spirit. They lay great emphasis on sports, performing and visual arts. The varied interests of the child are nurtured through activities like creative writing, quizzing, debating, computer programming, out-of-the box arts, martial arts. The focus is always on encouraging children to excel without compromising on human values. Children will excel when they operate in a stress-free environment. Their curriculum includes daily yoga, asanas and breathing exercises, which foster a calm and focused mind. This helps discover the inner potential of every child.

It is time that we open up our schools and colleges to these NGOs and provide to those who wish to enjoy the benefits of music, arts , yoga and meditation to do so without fearing any recriminations from those who are against and who will use the pretense of preserving the secular nature of our education system to deny our kids an opportunity to blossom to their full potential.

R. CHAND