ORAL ANSWERS TO QUESTIONS

NATIONAL ECONOMY- GDP, BUDGET DEFICIT, PUBLIC SECTOR DEBT & BALANCE OF PAYMENTS

The Leader of the Opposition (Mr P. Bérenger) (By Private Notice) asked the vice-Prime Minister, Minister of Finance and Economic Development whether, in regard to the national economy, he will give updated estimates, for 2009 and 2010, of the Gross Domestic Product growth, the budget deficit, the public sector debt and the balance of payments, and say how they compare with the 2010 Budget Speech figures, indicating –

(a) the revenue and expenditure variations likely to occur in 2010;
(b) when the National Residential Property Tax and tax on interest will be abolished;
(c) how the Stimulus Package is to be withdrawn, and
(d) how the foreign/domestic public debt mix has evolved.

The vice-Prime Minister, Minister of Finance and Economic Development (Mr P. Jugnauth): Mr Speaker, Sir, with your permission, I will answer PQ 1B/91 on the National Residential Property Tax, PQ1B/92 on the Tax on Interest and part (c) of PQ 1B/93 on the Additional Stimulus Package in my reply to this PNQ as the answers to these PQ’s are related.

Mr Speaker, Sir, the 2010 Budget Speech presented an optimistic view of the global economic outlook for 2010 with positive impact on GDP growth in Mauritius. In fact, it is clear that underlying the Budget preparation was: I quote from paragraphs 40 and 41 of the Budget Speech –

“We need to shape the recovery to seize the opportunities from a world economy that is on the mend. There are encouraging projections of a recovery in 2010, notwithstanding rising unemployment in the US and some other countries. The IMF is now estimating a smaller contraction in world output of 1.1% in 2009 and a 3.3% growth in 2010. The United States, Japan, and most of the Euro area countries will have positive output growth in the second half of this year. GDP in China and India are forecast to expand by
9% and 6.4% in 2010, respectively. The economies of Africa are expected to grow by 1.7% in 2009 and 4% in 2010.

World trade volume which is estimated to contract by 12% this year is forecast to expand by 2.5% next year. And clearly, 2010 will be the year of the global economic recovery.

For Mauritius, there is manifestly a return to the trend growth path. The Central Statistical Office (CSO) is predicting a growth rate of around 2.8% for 2009 and 4.3% for 2010. By 2011, it is expected that the economy will return to its growth path of 5% and higher. There is renewed dynamism and we will harness it to shape the recovery”.

For the year 2009, the latest estimate of GDP growth from the CSO stands at around 3.1%. For 2010, the initial estimate was 4.3%. However, in view of the euro crisis buffeting our economy, this growth rate for 2010 is likely to be reviewed downwards.

However, in view of the euro crisis buffeting our economy, this growth rate for 2010 is likely to be reviewed downwards. There are indications that it will be in the range of 3.5% to 4%, depending, of course, on the depth and duration of the currency crisis in Europe, and how far the euro will slide against the US dollar and the rupee, and the impact on growth in the euro zone countries, which are our main markets.

As regards the budget deficit, the Budget projected a deficit of 4.5% for the six months period ending December 2009 and 4.5% for 2010. However, the revised budget deficit for the second half of 2009 is 4.1% and the latest revised estimate for 2010 is 4.1%.

Concerning the public sector debt, it was estimated at Rs167.1 billion, that is 59.6% of GDP in the Budget Speech for 2009. The actual figures show a public sector debt of Rs169.4 billion, representing 61.6% of GDP and I am informed that the increase is due to contingency borrowings, over and above the planned Public Sector Borrowing Requirements to cushion unexpected shocks from the global economic recession. For 2010, the projected public sector debt in the Budget was Rs179.1 billion, representing 58.7% of GDP. The latest estimates indicate that the public sector debt for 2010 will be around Rs178 billion, representing 61.1% of GDP.
Concerning the Balance of Payments, it was estimated in the Budget that the current account deficit for the six months ending December 2009 would be at around 9.9% of GDP. For 2010, the Budget did not provide an estimate for the Balance of Payments. However, the Bank of Mauritius is estimating that the current account deficit would be around 8.8% of GDP. Overall Balance of Payments would show a deficit of 0.5% of GDP.

With regard to part (a) of the question, the 4.5% of GDP budget deficit target for fiscal year 2010 was based on total revenue of Rs66.8 billion and total expenditure of Rs80.4 billion. During the first five months of 2010, total revenue collected was Rs25.3 billion while total expenditure has reached Rs25.5 billion.

Taking into account seasonality factors affecting cash collection for the remaining seven months as well as the adverse international developments I have just mentioned and their likely impact on domestic economic activities and the tax base, it is estimated that total government receipts would be some Rs1.5 billion below the original estimates.

However, on the expenditure side, it is estimated that total payments would be some Rs3.2 billion lower than the Estimates. Such under-spending would arise mainly because of delays in filling of posts and in implementation of capital projects.

The net result would be that the budget deficit is expected to be lower by some Rs1.7 billion than the figure presented in the 2010 Budget Speech. Allowing for the lower nominal GDP figure, the budget deficit as a percentage of GDP is likely to be 4.1% instead of 4.5%.

As regards part (b) of the question, I am informed by the Mauritius Revenue Authority that the amount of revenues collected in respect of the National Residential Property Tax are -

Rs119 m. for Income year 2006-2007
Rs121 m. for Income year 2007-2008
Rs136 m. for Income year 2008-2009
Rs75 m. for the period July - December 2009

As regards tax collections on interest, they are –
2006 - 2007: Rs347 m.

2007-2008: Rs480 m.

2008-2009: Rs463 m.

July-Dec 2009: Rs211 m.

This Government has taken a commitment to abolish the National Residential Property Tax and tax on interest as announced recently in the Government Programme 2010-2015. The NRPT and tax on interest will be abolished as from income year 2010 itself. Other changes as regards tax policy will be announced in the forthcoming budget.

As regards part (c), the issue of withdrawing the Stimulus Package does not arise at this stage.

Regarding part (d), Public sector external debt is now estimated at Rs33.6 billion as at end December 2010 compared to an initial estimate of Rs38 billion. Domestic debt would be Rs144.4 billion in 2010 instead of Rs141 billion.

**Mr Bérenger:** Mr Speaker, Sir, I will start with the budget deficit and the public debt. As the budget deficit is concerned, when he spoke on the 07 December, the present hon. Minister of Finance accused the then hon. Minister of Finance of manipulating figures and he said that, according to him, the budget deficit would be 6.6% and not the 4.5% mentioned by the then Minister of Finance. We are informed now that the budget deficit is likely to be less than 4.5% - around 4.1%. Will the present hon. Minister of Finance agree that he was completely off target?

**Mr Jugnauth:** Mr Speaker, Sir, I have been informed by my technicians of the following figures which I have just given to the House and they are the figures.

**Mr Bérenger:** As far as the public debt is concerned, we have just heard that this year we are going to move above the 60% safety ceiling, going by the IMF, World Bank International Practice, that is, the total public sector debt likely to be 61%. Can I know whether the present hon. Minister of Finance is worried that we are climbing and that it will be over the 60% benchmark.
Mr Jugnauth: Mr Speaker, Sir, debt is a matter of concern to everybody, especially, when it is on the increase in absolute terms and also as a matter of percentage of GDP. What we should do is that we are going to monitor and see to it that the percentage of debt to GDP is on the decrease. It has been on decrease for some time, but has increased recently. Of course, we are concerned with the recommendations made by the IMF. In fact, the Government has legislated in the sense that we should not exceed the 60% ceiling and we will be taking measures in the future to see to it that it goes back on the declining side again.

Mr Bérenger: The former Minister of Finance on 07 December told us that the balance of payments was in surplus in 2009 - Rs13.5 billion surplus – and, therefore, that trend was expected to deliver another surplus in 2010. Is the hon. Minister not very worried that we are going to move from a surplus of Rs13.5 billion balance of payments surplus to a deficit, if I heard him correctly of 0.5%? The former Minister of Finance expected Rs9 billion of FDI in 2010, will that target be reached? I repeat: is not the hon. Minister deeply disturbed by the fact we are going to move into deficit as far as the balance of payments is concerned?

Mr Jugnauth: Again, I must say that we are all concerned with deficit in terms of the balance of payments and there have been circumstances which have made the previous forecast, in fact, worsened, as I have just mentioned, the figures. With regard to measures that we are going to take, it will be in the light of what is prevailing also on the international economic front. Therefore, we will have to see to it how we can make sure that the situation improves. As I said, we are looking at a number of measures that will be taken very soon.

Mr Bérenger: I heard the hon. Minister say that this measure and that other measure will be coming into application in the forthcoming Budget. I think I heard him say that the National Residential Property Tax and the tax on savings will be abolished – the term used in the Government Programme is ‘phased out’; I don’t know why this was used. But, now, we are told that it will be abolished in 2010. Do I take it, therefore, that these two taxes are going to stay in operation until November, at the end of the year’s budget, that is, the 2011 Budget, and that there will be no Budget before that?

Mr Jugnauth: I have just replied that these two taxes will be abolished for the financial year 2010. Of course, Government has its own agenda; Government has taken commitment with
the people of this country that we are going to abolish those two taxes and we will do so. It is a question of time and the timing will be at the discretion of Government.

Mr Bérenger: If I can move on to the stimulus package - I am very surprised to hear the present Minister of Finance say: the question does not arise. He was dead against the stimulus package, in particular the mechanism for transitional support to private firms. He was dead against; he wanted that to stop immediately whilst in the Opposition. Can I know why he has shifted stand completely and now he says that the stimulus package, in particular, the mechanism for transitional support, to that terrible private sector that he was denouncing on every occasion? Why this complete change in attitude?

Mr Jugnauth: The hon. Leader of the Opposition is totally wrong because….

(Interruptions)

Mr Speaker: Order!

Mr Jugnauth: Mr Speaker, Sir, I know what I have said in the past. I will request the hon. Leader of the Opposition to show to me where I have stated that I am totally against the additional stimulus package.

(Interruptions)

What I have said in the past – maybe, to refresh the memory of the hon. Leader of the Opposition – is that the philosophy underlying the coming up with this additional stimulus package should be viewed also in the light of what is happening in the country as a whole, that is, we should be looking at the different sectors which are being caused prejudice by the international economic situation, to which I fully agreed. If you look at my intervention, both outside and inside Parliament, I have all the time agreed that there was a difficult economic situation that was affecting the country, especially in the light of what happened in the United States and in Europe. What I have said is that we should look also at the workers, the consumers of this country and that there should be equilibrium between measures that are taken for those sectors and the workers, the consumers, the population at large. I must say, again, this is the philosophy of this Government. This is the philosophy of the hon. Prime Minister and myself, and Members of this Government, with regard to the situation that is prevailing actually.
Mr Bérenger: Since the present hon. Minister of Finance has asked me to show anywhere he has come out with the stimulus package, I will quote his speech, delivered on 07 December 2009 where, at one point, he goes against the stimulus package in numerous paragraphs, but I will quote just one where he says –

“Donc, il n’y a pas eu de partage de richesse contrairement à ce qu’a dit le ministre.”

We had the same Prime Minister!

“La compensation salariale de 3.5% bien qu’insuffisante est un dû et non pas une faveur, et encore moins un quelconque partage.”

And he carried on –

« Le stimulus package de 14 milliards a été maintenu en faveur du secteur privé.”

(Interruptions)

If somebody will not clap on the other side, and the tone is all along…

(Interruptions)

I am replying to a question which you allow him to put!

(Interruptions)

If I can move on, Mr Speaker, Sir! Can I know until now, under that mechanism for transitional support, how much money has been handed over to private firms and the number of firms that have benefited from this mechanism for transitional support that the present Minister of Finance lost no occasion of denouncing when in Opposition until December last?

Mr Jugnauth: Mr Speaker, Sir, I must say that I am surprised…

(Interruptions)

Mr Speaker: Let the hon. Minister answer now!

Mr Jugnauth: …because when I listened to the quote of the hon. Leader of the Opposition, it supports exactly what I have just said.
Let me explain again. Probably, he has not understood. I was then talking about *partage*, I was talking about an equilibrium, that is, when we give consideration to the private sector, we have to give consideration also to the people of this country. So, I will not go further on this.

Mr Speaker, Sir, with regard to how much money....

**Mr Speaker:** Order!

**Mr Jugnauth:** ... has been given to the private sector, of course, I will not have the figures right now because the question relates to how the stimulus package is to be withdrawn. If the hon. Leader of the Opposition will come with a specific question on how much money has been given - we are a transparent Government - we are going to give all the figures to the Opposition.

**Mr Bérenger:** I can move on to the foreign and the domestic mix of the public debt. We saw earlier that the total public debt has moved over the 60% benchmark. He, again, was criticising when in Opposition, the shift from domestic debt to foreign currency debt. Will the hon. Minister confirm that, in fact, there has been a complete shift from 2005 to 2010, whereas in 2005 public debt was made up of 5% foreign debt, and now 25% of our public debt is foreign currency debt?

**Mr Jugnauth:** Mr Speaker, Sir, with regard to the debt issue, let me say once again that when we see what is happening in Europe, for example, the situation is that some countries have been borrowing and, unfortunately, they have ended up in a situation where they are not able to service their own debt. Of course, we have to be very careful about the debt situation. I must say that the debt, with regard to foreign borrowings, has been on the increase. I gave an answer with regard to a Parliamentary Question that was put last Tuesday. I understand that the policy of the Ministry of Finance was to see to it that we can cater for future shocks. I understand that the Ministry of Finance did not know how the situation was going to evolve and that, to be on the safe side, we managed to discuss with international financial institutions so that we are prepared. But, that does not mean that those borrowings have to be disbursed. But yet, since we have a
number of capital projects that will be enforced in the near future, therefore, that amount of money will be utilised for those projects.

**Mr Li Kwong Wing:** Mr Speaker, Sir, the hon. Minister estimated a downward trend in the economic growth rate from 4.3%, which was estimated for the year 2010, to 3.5%, so there is definitely a contractionary effect due to a soft external demand and also with all the problems arising from euro crisis, there is downside risk to our growth rate. Would, therefore, the hon. Minister consider extending the stimulus package to the year 2011?

**Mr Jugnauth:** We will consider everything, Mr Speaker, Sir, because now we have a different situation. Now, we have a situation where the European countries themselves are in difficulty and the euro is declining with regard to both the US dollar and the rupee. Therefore, it is clear that we are facing a totally different economic situation with regard to euro. We have been working. Since I assumed office, this is the first thing that I did: my priority was to set up a technical committee comprising of the JEC, the Bank of Mauritius, technicians of my Ministry and, of course, other Ministries concerned, to analyse the situation, to assess the impact of the declining euro to the local sectors and to come up with measures. I have just said that we will soon be coming with a number of measures to address this problem. We are going to study this proposal that has been made by the hon. Member also.

**Mr Li Kwong Wing:** From what I understood, the Minister is not against extending tel quel the Stimulus Package that he has denounced in the past to year 2011.

**Mr Speaker:** Let the hon. Minister answer!

**Mr Li Kwong Wing:** I have taken note of that.

The second question which I would like to ask the Minister is that the NRPT was specifically raised in order to fund a Local Infrastructural Fund. Now that the NRPT is going to be abolished, can we know from the Minister what will be the fate of all the projects under the Local Infrastructural Fund, especially in view of the fact that budget deficit is going to be reduced as he estimated?

**Mr Jugnauth:** Mr Speaker, Sir, the hon. Member should not rephrase my answer to his liking because I have given an answer, now he comes and says that I am not *per se* against. I
have not said that I am against or I am for. What I am saying is that it will be looked at and new measures will be taken with regard to the different context.

With regard to the funding of projects under the Local Infrastructural Fund, of course, all the commitments that have been taken will be respected and a new Budget will be presented in November. Then, the hon. Member will see what are the projects that will be financed with regard to local authorities.

Mr Ganoo: Mr Speaker, Sir, since the NRPT and the tax on interest have been abolished because of the unjust and unfair nature of these two taxes, will the hon. Minister consider the possibility therefore - since he has himself denounced these two taxes – of refunding to the poor citizens of this country who have been robbed of millions of rupees as he has just said himself? Can he devise a scheme to refund to the citizens of this country the money that they have been made to pay to the State?

Mr Jugnauth: Mr Speaker, Sir, we have just finished a campaign. I have not heard any Member of the Opposition during that campaign saying when we come to power we are going to refund all these proceeds of these taxes to the people. So, we should not be demagogic. What has happened has happened and this is the commitment of Government.

(Interruptions)

Mr Speaker: Last question, hon. Li Kwong Wing! Then, I’ll give the floor to the hon. Leader of the Opposition.

Mr Li Kwong Wing: In view of the fact that there are a couple of projects which are close to the heart of the Minister of Finance regarding the duty-free paradise concept and regarding all the tax incentives that will have to be reintroduced for the planting community, this will create a manque à gagner for Government revenues and on the other hand...

Mr Speaker: Sorry! The hon. Minister has said that when the budget will be presented, he will take all this into account. The hon. Member will have to wait for the budget to come and make his comments. Hon. Leader of the Opposition!
Mr Bérenger: The problem is that he has said that, on the one hand, we will have to wait for the November Budget and then, in the same breath, he has said that he will be coming with measures very soon. Which is which?

(Interruptions)
Can I put a last question? In Opposition, until very recently, the present Minister of Finance accused the previous Minister of Finance of manipulation of statistics, of figures. Will he agree, on the basis of the figures which he has given today, that he was completely wrong and secondly, on every occasion, he stood against the policy of the then Alliance sociale, describing it as being pro-secteur privé? Can I know when and what measures are going to be introduced to correct what the present Minister of Finance denounced repeatedly as a pro-private sector budget?

Mr Jugnauth: Mr Speaker, Sir, the people of this country have already judged who is wrong and who is right. We are right because we are part of this Government here. Of course, the hon. Leader of the Opposition would like to know what measures will be forthcoming. I will ask him to wait and then we will see. There are measures that will be taken.

Mr Speaker: Questions addressed to Dr. the hon. Prime Minister, Minister of Defence, Home Affairs and External Communications! Hon. Fakeemeeah!