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For a smarter tomorrow

Dear Reader

This 10th edition of SBM Insights will provide you with an overview of the global economic situation as well as perspectives in Mauritius, Kenya and India. Furthermore, this edition includes a country report covering Seychelles, where the SBM Group has recently started its operations.

Since our last publication in May, global economic conditions have been subject to increased headwinds. Certainty, business sentiment and consumer confidence – the three pre-conditions which are the bedrocks for long term and sustained growth – continued to be sluggish. The challenges which we flagged in our last edition are still present and have even, in some cases, worsened. The glimpse of hope, following the G-20 summit last June, that there would be a de-escalation of the trade war between the US and China has faded. The US, arguing that China is devaluing its currency to ensure export competitiveness, is moving ahead with its plan of imposing 10% tariff on USD 300 billion worth of Chinese goods, even if they have postponed the imposition of tariffs on some Chinese goods to December 2019. Tensions between the US and China have also generated fear of disruptions to the technology supply chain. In the UK, the ultimate form of Brexit is highly uncertain and the likelihood of a "no deal Brexit" has increased. Furthermore, in several parts of the world, geopolitical tensions are mounting e.g. tension between Iran and the West rose following attacks on oil tankers, street protests in Hong Kong against the proposed extradition law has led to violence and strike, political instability and social crisis in Venezuela.

Despite some sporadic uptick during the first quarter of 2019, namely in the US and the UK, the current global economic environment is characterized with a reduction in trade volume, anemic private sector investment and muted inflation. The inversions of the yield curves in the US and lately in the UK indicate a possible slowdown in future economic performance. Major central banks have also shifted to a more accommodative stance; for instance, the Federal Reserve has cut its benchmark rate for the first time since the 2008/09 financial crisis and the European Central Bank has also signaled that they may adopt a more growth supportive stance in the near future. In this context, the International Monetary Fund has revised down the global growth forecast by 10 basis point to 3.2% and 3.5% for 2019 and 2020 respectively, the third consecutive downward revision since October 2018.

On the domestic front, the National Budget 2019/20 captured the attention of the public at the end of the first semester. The budget laid emphasis on improving business facilitation, upgrading public infrastructure and diversifying economic activities with the aim of elevating Mauritius to a high-income country status. In the first quarter of 2019, the economy expanded by 3.3% in terms of GDP growth rate, 80 basis points lower than the corresponding period last year owing to weaker economic activity. Against this background and taking into consideration a weakening global context, our GDP growth prognosis for 2019 has been revised down by 10 basis points to 3.8%. Economic expansion will be mainly driven by the construction and services sectors whereas accommodation and food services sector should register a subpar growth due to the poor performance in respect of Asian markets in particular.

From an expenditure perspective, resilient consumption and sustained public sector investment will continue to drive growth for this year. Economic activity will also benefit from lower unemployment and subdued inflation. However, one cause of concern remains the deteriorating external position, notably the widening of the current account deficit owing to a higher import bill from the influx of capital goods. Of note, the use of the Special Reserve Fund for the early repayment of part of the external debt should help towards reducing the public sector debt if implemented as planned. For the year 2020, we expect GDP growth to be also around 3.8% with an anticipated appreciable performance in the services sector,

a rebound in private investment and higher credit expansion. Nevertheless, our growth forecast will be revised should any material developments take place on the domestic and international landscape.

Kenya and India both presented their national budget 2019/20 in June 2019. The Kenyan Budget, to the tune of USD 281 billion (excluding external and internal repayments of approximately USD 1.3 billion and USD 1.2 billion, respectively), has been prepared in line with the aim of fulfilling the Big Four Agenda namely: food security and nutrition, universal health coverage, affordable housing and enhancing manufacturing. After factoring in the planned measures and projects announced in the Budget 2019/20, Kenya is expected to perform better for the rest of the year. With the vision of becoming a USD 3 trillion economy by 2020 and a USD 5 trillion economy in the next five years, the Indian Union Budget 2019/20 – with expenditure of USD 418 billion – aims at revitalizing the economy with a focus on agriculture, optimal use of technology, reducing red tape and promoting infrastructure and rural development. Despite the sluggish performance during the first half of 2019/20, India is expected to grow in the range of 7.3 - 7.5% during the second half of its fiscal year, backed by consumption and investment growth.

We will be delighted to hear from you at: research@sbmgroup.mu for any queries, concerns, comments or debates.

Shailen SREEKEESSOON
13 September 2019

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| | |
|---|---|
| Bn | Billion |
| BoE | Bank of England |
| CPI | Consumer Price Index |
| ECB | European Central Bank |
| EUR | Euro |
| FATF | Financial Action Task Force |
| FDI | Foreign Direct Investments |
| FY | Financial Year |
| GBP | Great British Pound |
| GDP | Gross Domestic Product |
| GFCF | Gross Fixed Capital Formation |
| GVA | Gross Value Added |
| ICT | Information and Communications Technology |
| IMF | International Monetary Fund |
| LAF | Liquidity Adjustment Facility |
| Mn | Million |
| MPC | Monetary Policy Committee |
| MSCI | Morgan Stanley Capital International |
| MSME | Micro, Small and Medium Enterprises |
| MTMF | Medium Term Macroeconomic Framework |
| MUR | Mauritian Rupee |
| OECD | Organization for Economic Co-operation and Development |
| OPEC | Organization of the Petroleum Exporting Countries |
| PCE | Personal Consumption Expenditure |
| PMI | Purchasing Managers' Index |
| RBI | Reserve Bank of India |
| SGR | Standard Gauge Railway |
| US | United States |
| USD | United States Dollar |

# Global Economic Environment

## Highlights

- The growth forecast for the global economy has been revised down in July, by the International Monetary Fund from 3.3% to 3.2%, the third downward revision since October 2018.

- The US economy decelerated by 2.1% in the second quarter of 2019, following a robust growth of 3.1% in the previous quarter (quarter on quarter, annualized). The consumer confidence index remained at all-time highs, reaching 135.7 in July. At its recent monetary policy meeting in July, the Federal Reserve's Open Market Committee voted to lower the target range for the federal funds rate to 2.00% - 2.25%, down by 25 basis points, from the previous 2.25% - 2.50% range - a move widely anticipated by market participants.

- According to the Office of National Statistics, the UK economy contracted - for the first time since 2012 - by 0.2% in the second quarter of 2019. The contraction was worse than market expectations which expected a flat reading for the quarter under review. Uncertainties relating to Brexit developments remained one of the main drag factors, thereby pulling down growth in the manufacturing sector. The Bank of England stayed put with respect to its policy interest rate (Bank Rate) at 0.75% during its monetary policy meeting in late July.

- Eurozone GDP grew at a slower pace of 0.2% (quarter on quarter) in the second quarter when compared to 0.4% in the first quarter. In July, the European Central Bank maintained the main refinancing rate at 0.00%, and the marginal lending rate and deposit facility rate at 0.25% and -0.40%, respectively. Nonetheless, the Central Bank signaled its intention to re-introduce its asset purchase program, possibly later this year, with a view to supporting growth.

- The Chinese economy lost its momentum in the second quarter by expanding at 6.2% in annual terms, lower than the first quarter but within the government's 2019 GDP target growth of between 6.0% and 6.5%. The East Asian giant's economy remains afflicted by its structural weaknesses including its high level of dependency on debt as well as exogenous factors such as weak global demand due to the ongoing trade disputes.

- South Africa's economy contracted sharply by 3.2% (seasonally adjusted and annualized terms) in the first quarter of 2019 - the worst quarterly economic performance since the financial crisis - compared to an expansion of 1.4% in the previous quarter and a contraction of 2.7% in the corresponding quarter of 2018. The Monetary Policy Committee of the South African Reserve Bank decided unanimously to cut the repurchase rate by 0.25 percentage point at its meeting in July to 6.50% on account of a marked deterioration in the global and domestic macroeconomic situation since their last monetary policy meeting in May.

- Brent oil price averaged USD 68/barrel in the second quarter of 2019, higher than the first quarter average of USD 64/barrel but lower than in the corresponding quarter of 2018 (USD 75/barrel).

- The copper to gold ratio, considered as an indicator of the health of the global economy, stood at 4.2 as at 31 July (31 July 2018: 5.1). The relationship is that rising copper prices relative to gold prices indicate expectations of higher economic growth, while the converse signals expectations of a slowdown in industrial and economic activity.

- The US dollar maintained a strong footing in the second quarter of 2019, gaining 0.9% when compared to the previous quarter and rising by nearly 5% since the corresponding quarter of 2018.

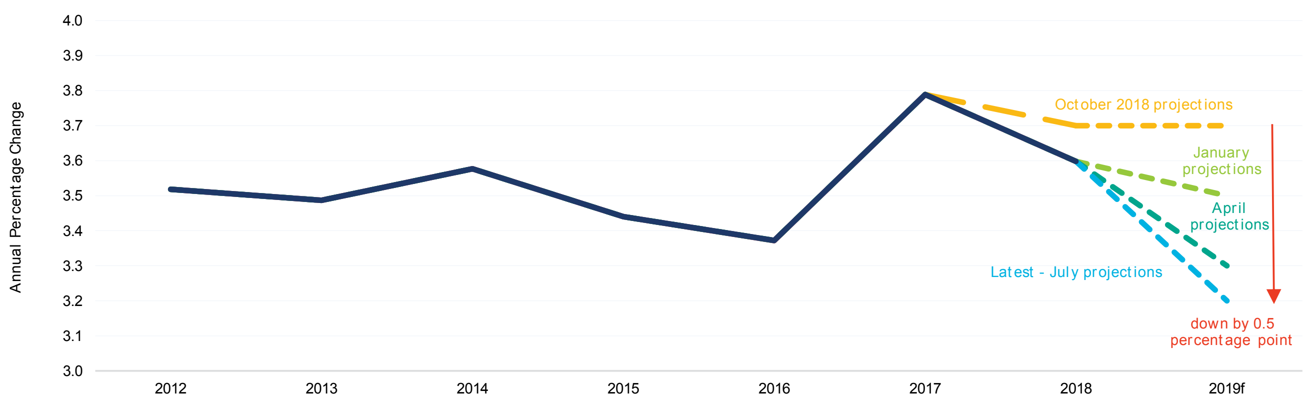
- The global macroeconomic environment remains tumultuous, with risks shifting further to the downside in the near and medium terms. The major risks that may disrupt global growth include the ongoing tensions between the US and China, geopolitical tensions and a no-deal Brexit.

# Macroeconomic Performance and Outlook in Selected Major Economies

**Global**

For the third time in a row since October 2018, the growth forecast for the global economy has been revised down by the International Monetary Fund (IMF). According to the IMF July's World Economic Outlook (WEO) Update, world real Gross Domestic Product (GDP) is projected to grow at 3.2% in 2019 on account of weaker-than-anticipated global activities. Geopolitical tensions, unresolved trade disputes between the US and China, Brexit-related uncertainties, rising global debt and adverse climatic conditions across the globe, among others, continue to afflict the world economic environment. The situation remains precarious unless there are significant positive changes which include a fruitful and sustained dialogue and resolution between the two economic powerhouses, the US and China, an orderly Brexit with very few immaterial reservations and easing geopolitical tensions. Figure 1.1 illustrates the latest IMF global growth rate forecast as well as the series of revisions that have been made since last October.

Figure 1.1: World Real GDP Growth




*Source: IMF World Economic Outlook*

Below is a list of selected major economies for which the IMF has revised its 2019 growth projections in its July WEO Update when compared to its April's edition:

| | |
|---|---|
| Advanced Economies | 0.1 percentage point **higher**, mostly reflecting an upward revision for the US |
| US | 0.3 percentage point **higher**, on the back of stronger-than-anticipated first quarter performance |
| UK | 0.1 percentage point **higher**, reflecting a stronger-than-anticipated first quarter performance boosted by pre-Brexit inventory accumulation and stockpiling |
| Euro Area | **Unchanged** |
| Emerging and Developing Economies | 0.3 percentage point **lower**, reflecting downward revisions in all major regions |
| Emerging and Developing Asia | 0.1 percentage point **lower**, largely reflecting the impact of tariffs on trade and investment |
| China | 0.1 percentage point **lower**, due to the impact of tariffs on trade and investment |
| India | 0.3 percentage point **lower**, due to a weaker-than-expected outlook for domestic demand |
| Sub Saharan Africa | 0.1 percentage point **lower**, due to the lackluster performance of the region's largest economies |

Table 1.1: Growth Projections - Selected Major Global Economies

| Real GDP (Annual percentage change) | 2016 | 2017 | 2018 | 2019f | 2020f |
|---|---|---|---|---|---|
| Advanced Economies | 1.7 | 2.4 | 2.2 | 1.9 | 1.7 |
| US | 1.6 | 2.2 | 2.9 | 2.6 | 1.9 |
| UK | 1.8 | 1.8 | 1.4 | 1.3 | 1.4 |
| Euro Area | 2.0 | 2.4 | 1.8 | 1.3 | 1.6 |
| Emerging and Developing Economies | 4.6 | 4.8 | 4.5 | 4.1 | 4.7 |
| Emerging & Developing Asia | 6.7 | 6.6 | 6.4 | 6.2 | 6.2 |
| China | 6.7 | 6.8 | 6.6 | 6.2 | 6.0 |
| India | 8.2 | 7.2 | 7.1 | 7.0 | 7.2 |
| Sub Saharan Africa | 1.4 | 2.9 | 3.0 | 3.4 | 3.6 |

*Source: IMF World Economic Outlook – July 2019*

**US**

According to the advance GDP estimate published by the Bureau of Economic Analysis, the US economy grew at a moderate pace of 2.1% in the second quarter on the back of positive contributions from personal consumption expenditures (PCE) and higher government spending partly offset by weak investment levels and a sharp contraction in the external sector. The uncertainty regarding trade policies between the US and China remained a major drag factor such that the manufacturing PMI stood at 50.4 in July (lowest since September 2009) compared to 50.6 in June even if the reading remained above the 50-point threshold. However, according to IHS Markit latest release, though the rate of expansion in new businesses accelerated it remained historically subdued. The survey observed a less optimistic view from the US manufacturers about manufacturing output for the remaining of 2019, largely attributable to rising geopolitical differences, escalating trade wars and expectations of a slowdown in the economy.

Since the beginning of the year, consumer confidence remained at all-time highs, with a reading of 135.7 in July after falling to 124.3 in June. This is because consumers assessed the labor market and its outlook in a positive light, with unemployment rate unchanged at 3.7% in July. According to economists, the high level of consumer confidence could boost household spending, thereby supporting growth in the near term though at a lower rate. On the other hand, business confidence among manufacturers and service providers is expected to remain downbeat amid ongoing uncertainty.

Table 1.2: US Selected Macroeconomic Indicators (Seasonally-Adjusted Annual Growth Rate)

| | 2016 | | | 2017 | | | | 2018 | | | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Percent** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** |
| GDP | 1.9 | 2.2 | 2.0 | 2.3 | 2.2 | 3.2 | 3.5 | 2.5 | 3.5 | 2.9 | 1.1 | 3.1 | 2.1 |
| PCE | 2.9 | 2.6 | 2.5 | 2.4 | 2.4 | 2.4 | 4.6 | 1.7 | 4.0 | 3.5 | 1.4 | 1.1 | 4.3 |
| Gross private domestic investment | (1.7) | 0.5 | 9.3 | 3.4 | 3.6 | 7.4 | 4.7 | 6.2 | (1.8) | 13.7 | 3.0 | 6.2 | (5.5) |
| Exports of goods and services | 4.0 | 6.1 | (2.5) | 6.1 | 1.6 | 4.4 | 10.1 | 0.8 | 5.8 | (6.2) | 1.5 | 4.1 | (5.2) |

*Source: US Bureau of Economic Analysis*

During its June monetary policy meeting, the Federal Reserve's Open Market Committee (FOMC) voted to maintain the target range for the federal funds rate unchanged at 2.25% - 2.50% - a move widely expected by market participants. Nonetheless, the Committee affirmed that uncertainties have increased since their last meeting in May. Several factors were cited that could downplay growth figures in the near term, including apprehensions over trade developments and global economic growth along with weak business fixed investment both domestically and globally. Hence, the Committee stated that it would remain sensitive to economic data and would act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective.

At its most recent meeting in July, considering the unfavorable global developments and muted domestic inflation pressures, the FOMC decided to cut the federal funds rate by 25 basis points (bps) for the first time since 2008 to 2.00% - 2.25% - viewed as a mid-cycle adjustment rather than a prolonged period of interest rate cut. The Committee observed a moderation in economic activity and softer business fixed investment. According to the latest Summary of Economic Projections of the FOMC, the median forecast for real GDP is expected at 2.1% in 2019 and 2.0% in 2020, and the PCE inflation is anticipated at 1.5% in 2019 and 1.9% in 2020, lower than the March projections of 1.8% and 2.0%, respectively.

**UK**

GDP grew by 0.3% in May following a contraction of 0.4% in the previous month, according to the monthly GDP statistics from the Office for National Statistics. This was driven by the manufacturing sector which recovered in May with a positive growth rate of 1.4% compared to the sharp contraction of 4.2% in April. The construction sector expanded by 0.6% (Apr: -0.5%) for the month while the agriculture sector had a 0% growth rate (Apr: -0.1%). The recovery in the manufacturing sector was largely attributable to a stronger production output regarding transport equipment, whereas the April's production output slumped due to the temporary closure of several manufacturing plants. However, the recovery was not sustained as the June's GDP figure was flat (0.0%) with negative growth rates across several main sectors. Against this backdrop, the UK economy contracted by 0.2% in the second quarter of 2019 compared to a growth of 0.5% in the previous quarter and an expansion of 1.2% in the corresponding quarter of 2018. This was the first contraction in nearly seven years.

The weak economic performance was also reflective in the manufacturing PMI data which remained in the contractionary territory since April. For the month of July, the manufacturing PMI stood at 48.0 (Jun: 48.0) – the lowest reading in over six years. Likewise, inflation remained unchanged at 2.0% in June - at the Bank of England's (BoE) target rate. The labor market continued to show resilience, defying all economic challenges. For the three-month period March to May, the unemployment rate was estimated at 3.8% - the lowest rate since the last quarter of 1974. The outlook for the second half of 2019 remains bleak on the back of suppressed global growth and trade prospects and rising costs of doing business in UK due to the ambiguity over Brexit.

The BoE kept its policy interest rate (Bank Rate) unchanged at 0.75% during its monetary policy meeting in late July (previous Monetary Policy Committee (MPC) meeting was in June). The Committee assessed the monetary policy stance as appropriate in view of the current global and local economic landscape. In its monetary policy statement, the Committee stated that interest rates would be raised at a gradual pace but to a specific level while maintaining the inflation target range at 2%, should Brexit proceed smoothly to some form of a deal by the 31st October deadline and should global growth recover.

**Eurozone**

Economic growth in the Eurozone decelerated in the second quarter of 2019, growing by only 0.2% according to preliminary flash estimates of the Eurostat compared to 0.4% in the first quarter. On an annual basis, GDP grew by 1.1% in the quarter under review, lower than 1.2% in the previous quarter. Since February, the Eurozone manufacturing PMI has been in the contractionary territory, declining further from 47.6 in June to 46.4 in July. Readings for most of the major economies that contribute largely to the bloc's economic growth were below the 50-point threshold. Germany registered an 84-month low manufacturing PMI reading of 43.2 in July. According to IHS Markit, weak internal and external demand as a result of political uncertainties, challenges in the automobile sector and trade disputes led to the sharpest contraction in the manufacturing sector since 2012.

Conversely, some economic indicators showed positive developments. Despite a downbeat manufacturing PMI reading, the Eurozone Composite PMI remained relatively stable at 51.5 in July (Jun: 52.2), driven by the services sector in Germany which almost entirely offset the deteriorating conditions of its manufacturing sector. Germany's services PMI reading for July was 55.4 (Jun: 55.8). The buoyancy of the services sector was driven by consumption expenditure backed by lower inflation and unemployment rates. The inflation rate stood at 1.3% in June, below the European Central Bank's (ECB) target rate of near but below 2%. The Eurozone recorded an unemployment rate of 7.5% in June (May: 7.6%) – the lowest rate since the financial crisis.

The ECB maintained the main refinancing rate at 0.00%, the marginal lending rate at 0.25% and the deposit facility rate at -0.40, at its latest meeting in July. It reiterated its intention to keep interest rates at their present levels at least through the first half of 2020 but signaled the possibility of future rate cuts unlike in its previous statement in June, where it only mentioned of maintaining the rates at their current levels. The ECB also added that it will act accordingly, should the medium term inflation outlook continue to fall short of its aim. Furthermore, it referred to the potential resumption of its quantitative easing program that ended in December 2018 in order to support the economy.

Table 1.3: Central Bank Interest Rates

| | | July Survey - Median Forecasts | |
|---|---|---|---|
| Percent | Current | Q3 2019 | Q4 2019 |
| Federal Funds Rate | 2.00–2.25 | 2.00–2.25 | 1.75–2.00 |
| BoE Bank Rate | 0.75 | 0.75 | 0.75 |
| ECB Main Refinancing Rate | 0.00 | 0.00 | 0.00 |

*Source: Bloomberg*

# Selected Emerging Economies

### China

While the economy showed some signs of recovery in the first quarter of 2019, the momentum was lost in the second quarter as the economy grew by only 6.2% in annual terms – the weakest rate since the publication of quarterly statistics by the National Bureau of Statistics. Though the growth rate was within the government's target range of 6.0% and 6.5% for the year, it was lower than the 6.4% recorded in the first quarter and lower than market expectations. The slowdown was largely attributable to the ongoing trade dispute with the US, as evidenced by the growth rate of the manufacturing sector and the Caixin China General Manufacturing PMI data. The manufacturing sector grew at lower rate of 5.5% in annual terms in the second quarter compared to 6.0% in the same corresponding period in 2018. This translated into a contraction in the PMI manufacturing data for the second consecutive month, in July. According to the latest IHS Markit China Business Outlook, business confidence together with growth forecasts were at their lowest points in the survey history.

Trade negotiations between the US President and the Chinese President, following their meeting at the G20 Summit in late June, brought some respite to the global market. But this was short-lived as, on 01 August, the US announced the imposition of an additional 10% tariff on USD 300 billion worth of Chinese products, with effect from September. As of this writing, the Chinese yuan declined to its lowest level against the US dollar for the first time since the financial crisis and requested state-owned enterprises to suspend imports of agricultural products from the US, in a retaliatory manner. In July, the IMF revised down its growth forecast for the Chinese economy from 6.3% (April forecast) to 6.2%, citing structural weaknesses including China's high dependence on debt and external factors such as weak global demand due to the ongoing trade disputes. Given that trade tensions have currently intensified, growth prospects might be undermined further, and the IMF might be prompted to downgrade its forecast in October, both for the global and the Chinese economies. Should there be a trade truce, we expect growth prospects to be maintained at the current level or even revised upwards.

Table 1.4: Manufacturing PMI

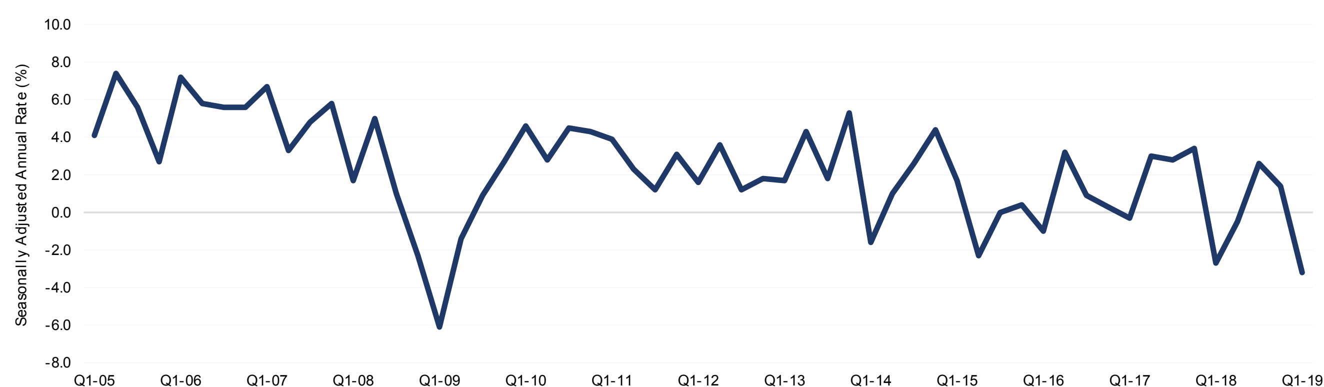
| | 2017 | 2018 | 2019 |
|---|---|---|---|
| Jan | 51.0 | 51.5 | 48.3 |
| Feb | 51.7 | 51.6 | 49.9 |
| Mar | 51.2 | 51.0 | 50.8 |
| Apr | 50.3 | 51.1 | 50.2 |
| May | 49.6 | 51.1 | 50.2 |
| Jun | 50.4 | 51.0 | 49.4 |
| Jul | 51.1 | 50.8 | 49.9 |
| Aug | 51.6 | 50.6 | |
| Sep | 51.0 | 50.0 | |
| Oct | 51.0 | 50.1 | |
| Nov | 50.8 | 50.2 | |
| Dec | 51.5 | 49.7 | |

*Source: Bloomberg*

### South Africa

The South African economy contracted sharply by 3.2% (seasonally adjusted and annualized) in the first quarter of 2019 - the worst quarterly economic performance since the financial crisis - compared to an expansion of 1.4% in the previous quarter and a contraction of 2.7% in the corresponding quarter of 2018. According to Statistics South Africa, most of the sectors registered negative growth rates notably the agricultural sector (-13.2%), mining and quarrying (-10.8%), manufacturing (-8.8%) and trade (-3.6%). Both endogenous and exogenous factors contributed to the poor economic performance. Recent power failures, high input prices (electricity and fuel), high unemployment rate and indebtedness of the public utility company Eskom – have disrupted economic activities and squeezed the margins of companies. Moreover, exports of goods and services deteriorated significantly in the first quarter, registering a decline of 26.4%. Coupled with weak global demand and a weak rand, the current account deficit widened to 2.9% of GDP in the first quarter compared to 2.2% in the fourth quarter of 2018. On account of these recent developments, Fitch Ratings downgraded the outlook of the country from stable to negative but maintained the credit rating at BB+ (sub investment grade) in July. Moody's, however, kept its rating and outlook unchanged at Baa3 (investment grade) and stable, respectively, in June.

Figure 1.2: Quarterly Real GDP Growth Rate




*Source: Statistics South Africa*

In June, the headline PMI improved to 49.7 from 49.3 in May but remained in the negative territory (below the 50-point threshold). Business conditions remained weak as firms continued to face challenges in terms of subdued demand both locally and globally, higher costs as a result of higher electricity bills and statutory increase of fuel prices and a weak rand. Moreover, according to the South African Chamber of Commerce and Industry, low business sentiment persisted for the 67th consecutive month in June with a reading of 93.3 (May: 93.0). Against this backdrop, the headline PMI deteriorated further to 48.4 in July. However, import cost pressures eased during the month following the stabilization of the rand. There is a risk that the situation would translate into a vicious cycle, whereby economic activities are further dampened, and the economy falls into a technical recession like last year, should the economic growth reading for the second quarter be negative.

Table 1.5: Composite PMI

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| Jan | 51.3 | 49.0 | 49.6 |
| Feb | 50.5 | 51.4 | 50.2 |
| Mar | 50.7 | 51.1 | 48.8 |
| Apr | 50.3 | 50.4 | 50.3 |
| May | 50.2 | 50.0 | 49.3 |
| Jun | 49.0 | 50.9 | 49.7 |
| Jul | 50.1 | 49.3 | 48.4 |
| Aug | 49.8 | 47.2 | |
| Sep | 48.5 | 48.0 | |
| Oct | 49.6 | 46.9 | |
| Nov | 48.8 | 48.2 | |
| Dec | 48.4 | 49.0 | |

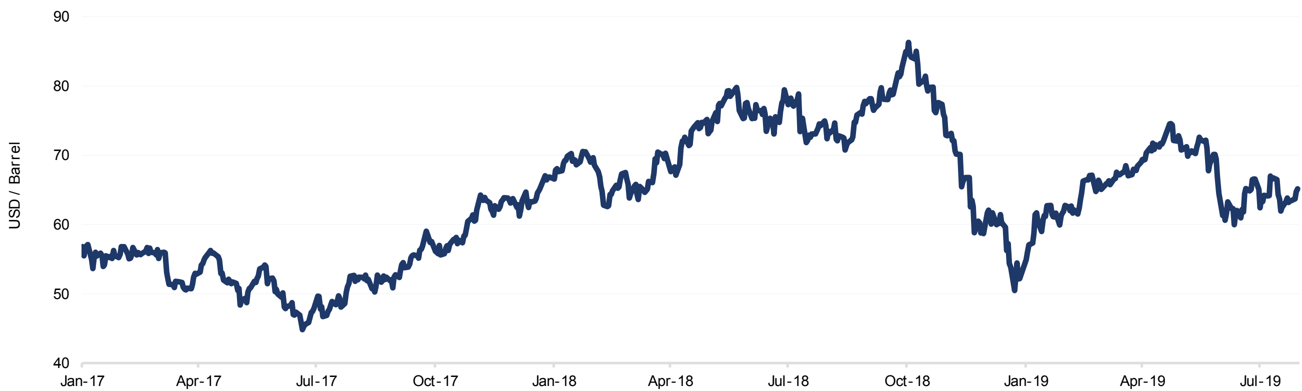
*Source: Bloomberg*

The MPC of the South African Reserve Bank decided unanimously to cut the repurchase rate by 0.25 percentage point at its meeting in July, such that the rate now stands at 6.50%. A marked deterioration in the global and domestic macroeconomic situation, since the last MPC meeting in May, led to this decision. Risks to the growth and inflation outlook have been assessed as broadly balanced in the short term. Nonetheless, the Committee downgraded its growth forecast from 1.0% (May forecast) to 0.6% for 2019 in the light of recent weak economic data but maintained its growth forecast for 2020 at 1.8%. The Committee reiterated that risks to the South African economy are structural in nature and necessitate reforms rather than monetary policy actions.

### Evolution and Outlook of Selected Commodity Prices

Brent oil price averaged USD 68/barrel in the second quarter of 2019, higher than the first quarter average of USD 64/barrel but lower than in the corresponding quarter of 2018 (USD 75/barrel). Brent oil price has reversed its previous upward trend since our last publication, reaching USD 60/barrel on 12 June - its lowest point since January. One of the major drag factor remains the prevailing trade tensions that continue to cast uncertainties regarding global growth prospects and hence global oil demand outlook. As mentioned earlier, several major developed and developing economies have registered poor economic performance, more specifically in industrial production, due to trade disruptions thereby pressurizing the price of the commodity. Though some unforeseen events – rising geopolitical tension with Iran - took place that could have pushed Brent oil price higher, the latter remained relatively steady at the current price level.

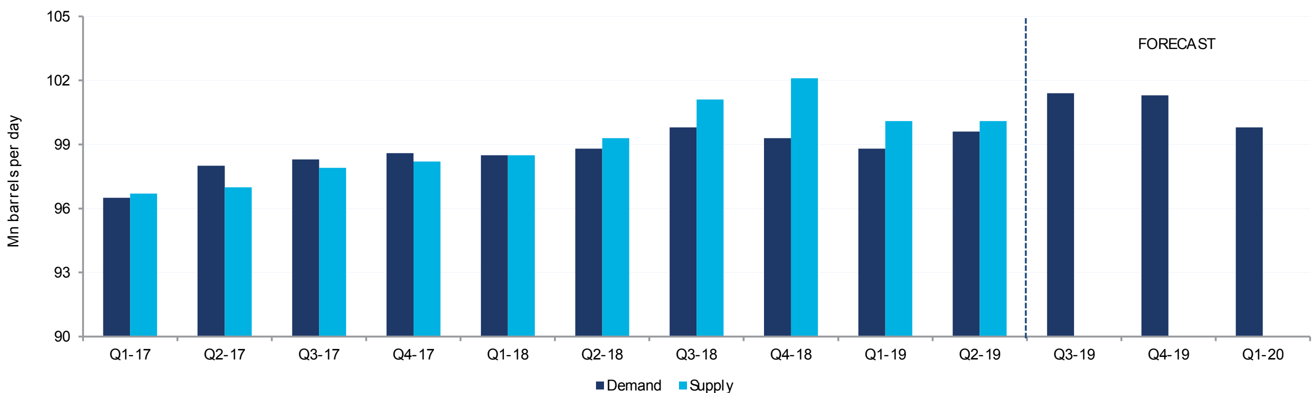
Figure 1.3: Brent Price Evolution




*Source: Bloomberg*

In July, the Organization of the Petroleum Exporting Countries (OPEC) met to review the oil market situation and to determine the outlook of the commodity in the coming months and in 2020. The organization took note of the sluggish global economic environment, the challenging trade outlook, the current monetary policy developments and geopolitical issues. In view of these events, the OPEC decided to extend the voluntary production adjustments, agreed in December 2018 (previous meeting), for an additional nine months from 01 July 2019 to 31 March 2020 in order to support the oil prices. On the demand side, the three most widely cited oil forecasters – the US Energy Information Administration, the International Energy Agency and the OPEC – have all downgraded their forecasts for oil demand for 2019.  All in all, demand for oil is likely to hover around 1.1 to 1.2 million barrels per day in 2019.

Figure 1.4: World Oil Supply and Demand




*Source: International Energy Agency (July)*

Table 1.6: Brent Price Forecasts

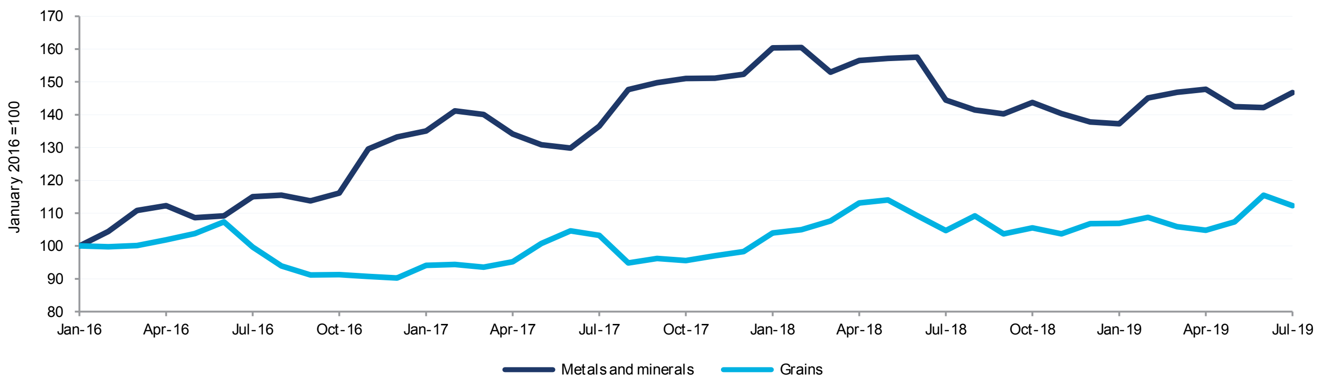
| USD/Barrel | Actual | | | Forecast | |
|---|---|---|---|---|---|
| | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 |
| Bloomberg July Median | 69 | 64 | 68 | 69 | 70 |
| US Energy Information Administration | 68 | 63 | 69 | 63 | 65 |

*Sources: Bloomberg, US Energy Information Administration (August)*

In our 9th edition, we noted that the trend of metal prices reversed in the first quarter of 2019, following sharp declines in the second half of 2018 because of a slowdown in the Chinese economy. In the second quarter of 2019, several metals including aluminum, copper, lead, nickel and tin registered a decline in their prices, on a quarter-on-quarter basis. The highest drop was observed in lead prices (-7.4%) followed by tin (-6.0%) and aluminum (-3.7%) whilst iron ore and zinc recorded a rise in their prices by nearly 20% and 2%, respectively, in the second quarter (quarter-on-quarter basis). Iron ore prices had been on the rise since the beginning of the year due to supply concerns while aluminum and copper prices had been declining partly attributable to lower global industrial production owing to trade tensions.

The price of gold - long referred to as a "safe haven" - has been soaring to all-time highs in the recent months, peaking at USD 1,446 on 18 July. Concerns about the global economic health have prompted investors to seek shelter in low-risk assets, hence the high prices of the precious metal. According to the World Bank, the price of the commodity is expected to increase by 3.2% in 2019. Also, the copper to gold ratio, which is considered as an indicator of the health of the global economy, stood at 4.2 as at 31 July (31 July 2018: 5.1). The relationship is that rising copper prices relative to gold prices indicate expectations of higher economic growth, while the converse signals expectations of a slowdown in industrial and economic activity.

Figure 1.5: World Bank Commodity Price Indices




*Source: World Bank*

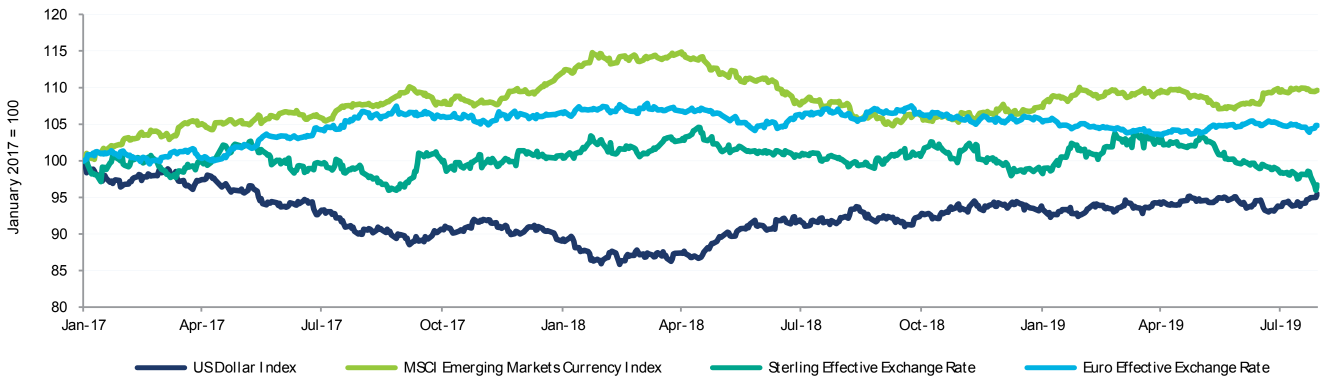
### Evolution and Outlook of Selected Currencies

The US Dollar Index - which measures the value of the dollar relative to six advanced-economy currencies – maintained a strong footing in the second quarter of 2019, gaining 0.9% when compared to the previous quarter and rising by nearly 5% since the corresponding quarter of 2018. The currency remained relatively unaffected by the trade tensions with China. One of the major driver of the currency's strength was resilient household spending which continued to support economic growth. Consumer confidence remained robust, depicting consumer optimism regarding the domestic economic outlook in the near term, hence the strength of the greenback.

As a result of the ongoing trade tensions and the interest rate differentials, many emerging market currencies took a plunge in the second quarter of 2019. The MSCI Emerging Markets Currency Index, which tracks the value of 25 emerging market currencies against the US dollar (Figure 1.6), witnessed a decline of 0.5% when compared to the previous quarter and a sharp drop of nearly 3% since the corresponding quarter in 2018. These currencies include the Indian rupee, Chinese renminbi and the South African rand.

In the second quarter of 2019, the effective exchange rate of the euro remained almost at the same level as in the first quarter of 2019, on an average basis, despite poor economic performance of the bloc's major economies and the relative strength of the US dollar which continued to be backed by robust economic data and the accommodative monetary policy stance of the Federal Reserve. As mentioned in our previous publication, the sterling remained sensitive to the ongoing Brexit developments. It can be observed that, since the beginning of the year, the currency has been on a downward trend (refer to Figure 1.6). We expect more volatility in the coming months (before the 31st October deadline) as a no-deal Brexit would plunge the currency further while some form of a Brexit deal might provide some respite.

Figure 1.6: Evolution of Indices of Major Global Currencies




*Sources: Bloomberg, SBM Staff Estimates*

Table 1.7: Exchange Rate Forecasts

| | Spot Price | July - Median Forecasts | | | |
|---|---|---|---|---|---|
| | 31/7/19 | Q3 2019 | | Q4 2019 | |
| | | Median | Range | Median | Range |
| EUR/USD | 1.11 | 1.14 | 1.09 - 1.18 | 1.15 | 1.08 - 1.19 |
| GBP/USD | 1.21 | 1.26 | 1.21 - 1.34 | 1.27 | 1.20 - 1.37 |

*Source: Bloomberg*

### Risks to the Outlook

For over a year now, the international context remains plagued by significant risks emanating from the world's major economies such that the global growth rate forecast has been revised down thrice since October 2018, from 3.7% to 3.2%. These risks have been tabled below based on their significance and probability of occurrence:

Table 1.8: Potential Risk Factors

| Risk | Potential Impact | Likelihood | Impact |
|---|---|---|---|
| Increased protectionist measures and retreat from multilateralism | Lower global growth rate; | High | High |
| | Stifled global trade disrupting the global supply chain; | | |
| | Policy slippages worsening the already low industrial production and investment globally; | | |
| | A cycle of retaliation leading to increased trade restrictions. | | |
| No-deal Brexit | Recession in UK; | High | High |
| | Border disruptions; | | |
| | Stricter immigration policies; | | |
| | Lower investment spending in the UK and the Euro area; | | |
| | Disruption in supply chains and rising trade costs significantly hampering growth in the UK and the Euro area and ultimately lowering the global growth prospects. | | |
| Climate change (water crisis, extreme weather events) | Higher economic costs; | High | High |
| | Rising commodity prices, more specifically agricultural products; | | |
| | Increased global inequality. | | |
| Rising geopolitical tensions | Deteriorating international relations; | Medium | High |
| | Rising oil prices; | | |
| | Disruption in global trade and investment flows, hindering growth in the countries in conflict and hence weighing on global growth prospects. | | |
| Rising global debt levels (more specifically corporate debt) | Costly debt servicing, further exacerbating the debt situation; | Medium | High |
| | Decreased corporate investment spending thus putting constrain on the already limited monetary policy space of Central Banks; | | |
| | Unsustainably high levels of global debt potentially leading to a "debt crisis" (similar to or worse than the 2008/09 financial crisis). | | |
| A higher-than-expected slowdown in China | Drag on the global growth and trade prospects; | Low | High |
| | Decline in global business investment; | | |
| | Volatility in various commodities prices (steel, copper, cement, coal, pork, rice amongst others) given the size of the Chinese economy. | | |

# Economic Review: Mauritius

### Highlights

- Real GDP growth in the first quarter was estimated at 3.3% with most sectors registering positive year-on-year growth. The economy was mainly driven by the information and communication, financial and insurance activities, construction, administrative and support service activities, and professional, scientific and technical activities sectors whereas a contraction was observed in the accommodation and food services activities sector.

- In line with a sharper than expected deterioration of the global economic environment, our growth prognosis for real GDP in 2019 has been revised down by 10 basis points to 3.8%. In 2020, we expect economic activity to remain resilient and maintain the GDP forecast at 3.8%.

- Headline inflation is anticipated to remain low in 2019 on account of lower prices of fuel, liquified petroleum gas and vegetables and no anticipated significant spike in global oil prices.

- The current account deficit is projected to worsen further due to a larger deficit on the goods and services account mainly due to a deterioration in the merchandise trade balance.

- On an annual average basis for 2019, we expect the Mauritian rupee to strengthen vis-à-vis the euro and pound sterling but to depreciate against the US dollar, assuming no significant deterioration in the global economic landscape.

- With respect to economic policies, the fiscal stance should remain expansionary with the budget deficit unchanged at 3.2% of GDP in the financial year 2019/20. The monetary policy stance is expected to remain accommodative throughout 2019 and 2020, with the possibility of another cut in the rate in the near term.

- Public debt is likely to drop below the statutory requirement of 60% in the financial year 2020/21 after factoring in the planned use of the Special Reserve Fund as mentioned in the Budget 2019/20.

- Risks to the outlook are fairly balanced:

  - Upside risks include higher than anticipated growth in certain domestic segments on the back of various incentives granted to local businesses, faster-than-expected adoption of digitalization and innovation, through Fintech, across different sectors to promote private investment, faster implementation of key infrastructure projects and a boost in credit to the economy following the cut in the Repo rate.

  - Downside risks include a decline in foreign direct investments in some key sectors, delays in key public infrastructure projects, a decline in private investment and a deterioration in the import bill due to a more than expected depreciation in the Mauritian rupee. Moreover, the domestic outlook remains vulnerable to a lower global macroeconomic growth and a weaker euro and pound sterling.

**Budget 2019/20**

The major event which captured the country's attention during the second quarter was the Budget 2019/20 in June 2019. The budget focused, inter alia, on improving business facilitation, upgrading public infrastructure across the island, diversifying and expanding economic activities to the African region, elevating Mauritius to the high-income country status, and securing sound public finances and sustainable debt. Assuming the aforementioned objectives are achieved within the set timeframe, the authorities expect an overall GDP growth of 4.0% in the financial year (FY) 2019/20, rising to 4.1% in FY 2020/21 and 4.2% in FY 2021/22, according to the Medium Term Macroeconomic Framework (MTMF).

**Economic activity in the first quarter of 2019**

Gross Value Added (GVA) growth rate for the first quarter of 2019 is estimated at 3.2%, with most sectors registering a positive year-on-year growth compared to 3.7% in the corresponding period in 2018. The economic performance was mainly driven by the information and communication (5.7%), financial and insurance activities (5.0%), construction (8.7%), administrative and support service activities (5.4%), and professional, scientific and technical activities (5.0%) sectors whereas a notable contraction was observed in the accommodation and food service activities sector (1.1%) owing to a decline of 8.4% in tourism earnings.

On the **expenditure side**, final consumption expenditure remained resilient and expanded by 3.2% to MUR 106 billion on a year-on-year basis in the first quarter of 2019, representing 90% of the quarterly GDP at market prices. Final consumption of households grew by 3.3% to MUR 88 billion (75% of quarterly GDP), while general government spending grew by 2.5% to MUR 18 billion (15% of the quarterly GDP). On the **investment side**, on a year-on-year comparison, Gross Fixed Capital Formation (GFCF) grew by 9.2% in the first quarter of 2019, progressing on the 18.6% expansion recorded in the last quarter of 2018. This was mainly driven by "residential building" (+12.6%) and "other construction works" (+7.3%) boosted by increased investment allotted for the construction of social housing units, road development and costs related to the Metro Express Project. Regarding the country's **external position**, the current account deficit worsened to MUR 5.0 billion in the first quarter of 2019 (4.2% of GDP) from MUR 1.9 billion (1.7% of GDP) in the corresponding period of 2018 mainly due to a higher deficit on the goods account and a relatively lower surplus on the services account.

Our growth prognosis for GVA in 2019 has been reduced by 10 bps to 3.6% when compared to our last edition mainly because of a weaker domestic activity in some key sectors. Likewise, we have revised down our GDP growth forecast by 10 bps to 3.8% based on the following grounds (i) a lower GDP expansion of approximately 3.3% recorded in the first quarter of 2019, less than the average growth of 4.0% registered in the first quarter of the three previous years and when the full year GDP growth averaged to 3.8%, (ii) a lower anticipated growth rate for "taxes on products (net of subsidies)", (iii) a further deterioration in net exports of goods and services and (iv) a sluggish global economic environment.

**Mauritius Sector Updates**

On the sectoral side, growth in the **construction sector** continued in the first quarter of 2019 with an expansion of 8.7%, following a growth of 9.9% in the previous quarter. The positive performance was attributed to the large public infrastructure projects – particularly the Phase 1 of the Metro Express reportedly completed at 90% at the time of this writing, the projects related to the Indian Ocean Island Games 2019 and the ongoing Road Decongestion Programme. A series of measures have been announced in the Budget 2019/20 with a total investment of MUR 52.0 billion for the FY 2019/20 assigned for the road decongestion programme and urban and rural development, amongst others. For the year 2019, the construction sector will remain one of the main contributors to economic growth even though the momentum is likely to slow down as major infrastructure projects are completed.

The **financial and insurance activities sector** grew by 5.0% in the first quarter of 2019, slightly lower than the 5.2% recorded in the fourth quarter of 2018. This can be attributed to the lower profit margin recorded by banks and leasing and credit granting companies owing to slow credit growth, amidst subdued private sector investment. According to the United Nations Conference on Trade and Development World Investment Report 2019, Mauritius contributed approximately USD 46 billion of FDI into Africa in 2018, representing an 11% increase compared to 2017. An active participant in the development of the continent through its international financial sector centre as well as the setting up of Special Economic Zones in African countries, Mauritius is affirming its position as a regional hub for inter-regional investment flow.

Mauritius has successfully obtained an upgrade of 11 Financial Action Task Force (FATF) Recommendations and the new ratings have been endorsed by the Global Network of the FATF with the confirmation that the country has significantly addressed the technical deficiencies earlier mentioned. Moreover, the country was rated as fully compliant with the Organization for Economic Co-operation and Development (OECD) standards on transparency and exchange of information for tax purposes. The Budget 2019/20 has enumerated several measures towards future development and business facilitation of the sector and the International Financial Centre. For instance, a new framework for fund administration and fund management will be set up in addition to the revamping of the existing Special Purpose Fund regime to ease access to new markets. Likewise, the FSC will enter into an agreement with the Gujarat International Finance Tec-City to recognize Mauritian licensed funds and management companies as qualified to operate in

the Gujarat jurisdiction as well for the longer horizon. The financial services sector is anticipated to maintain a positive growth rate on the back of product and market diversification, combined with the development of Fintech ecosystem.

The **sugar milling sector** contributed to a 0.4% growth within the manufacturing sector, with a promising performance of 7.5% in the first quarter of 2019 after four quarters of negative growth. Sugar production is forecast at 325,000 tonnes for the current year representing a rise of 0.5% over the 323,406 tonnes produced in 2018. This year's production will be boosted by the refining of 40,000 tonnes of imported raw sugar as mentioned in our last edition. In addition, the special price of MUR 25,000 per ton of sugar granted to all planters for the first 60 tons of sugar accrued to them for the crop 2019 will bring some relief to the sector.

Sugar harvest activities over the island have already started as of July 2019 with 4,191 hectares representing about 13.3% of miller-planters' land already harvested compared to 5,181 hectares (15.7%) at the same period last year. However, as per Table 2.1, the sugar metrics for this year are lower than in 2018, due to one factory starting its milling activities later as compared to the two others. Despite facing structural challenges in the medium to long term, the growth in the sugar milling sector is deemed to be better even though productivity remains dependent on weather conditions in the coming months.

Table 2.1: Sugar Sector Performance Metrics

| | Jul-18 | Jul-19 |
|---|---|---|
| Harvested area (hectares) | 5,181 | 4,191 |
| Sugarcane yield (tonnes) | 380,450 | 341,036 |
| Sugar production (tonnes) | 47,623 | 41,922 |
| Extraction rate (%) | 9.16 | 8.74 |

*Source: Mauritius Sugarcane Industry Research Institute*

Pessimism in the **textile sector** continues to subsist. The sector further contracted at a rate of 7.5% for the first quarter of 2019 after a negative growth rate of 0.9% in the last quarter of 2018. The sector continues to face certain challenges which comprise a dual impact of heightened competition at exports level and uncertainty in key export markets such as South Africa and UK. The setting up of the ISP Limited which will help enterprises in their strategies towards technology adoption and re-capitalization, as announced in Budget 2019/20, is expected to give a boost to the sector. Funding has been earmarked in order to extend the "Support for Trade Promotion & Marketing" Scheme, which is essential to maintaining the export competitiveness, namely in relation to the European market. Overall, the textile sector is expected to face some difficult times ahead amidst competitiveness concerns and exogenous factors.

Tourist arrivals for the first seven months of 2019 reached 765,530, expanding marginally by 0.4% on a year-on-year basis – mainly driven by France (+4.1%), Italy (+13.0%), Saudi Arabia (+49.1%) and United Arab Emirates (+26.0%). Visitors from Saudi Arabia nearly doubled this year boosted by the additional flights from Riyadh and Jeddah since 2017. Nevertheless, the influx of tourists remained dented by declines in some important markets, particularly China (-34.5%) and India (-15.4%) - due to a decrease in flights to the Asian region - and in other key countries such as South Africa (-2.3%), UK (-2.5%) and Reunion Island (-2.2%). Consequently, for the first semester of 2019, tourism earnings significantly declined by 7.2% to MUR 31 billion when compared to the corresponding period in 2018, mostly on account of stagnant growth in tourist arrivals amidst the prevailing economic slowdown in key markets.

On a positive note, the national carrier renewed its fleet with the addition of new airplanes in the first half of 2019 and the replacement of five of its older planes and developed a new business plan to increase the frequency on its existing flights and expand to new destinations. In addition, the Special Incentive Scheme granted to the Meetings Incentives Conferences and Exhibitions promoters and wedding planners could also bring some positive effects on the sector.

Strong and sustainable measures which include innovative products to improve tourist offerings and experience, preservation of the environment, promotion of ecotourism, tailored products and services for the millennials, and better staff training to enhance service quality in hotels and resorts could be necessary to revitalize the tourism sector and bridge the gap between Mauritius and its regional competitors. Improving the tourist journey on the island and building on the country's competitive advantage are both crucial to achieve the Government's aims set out in the Three-Year Strategic Plan 2019/20 - 2021/22, namely: (i) increasing tourist arrivals to 1.5 million by 2020 and 2.0 million by 2030 and (ii) increasing tourism earnings from MUR 64 billion to MUR 120 billion by 2030.

### Prospects 2020

Public sector investment should remain resilient in 2020, albeit at a lower activity rate than in 2019 due to a substantial base effect and the completion of some major public projects in 2019. On the other hand, private sector investment is expected to recover slightly given a timely execution of various residential projects under the Property Development Scheme; renovation, extension and construction of hotels; and the expansion of smart cities. On the external front, the current account deficit is projected to improve on the back of a lower import bill. In terms of economic policies, the fiscal stance will remain expansionary while the monetary policy is anticipated to remain accommodative throughout 2020.

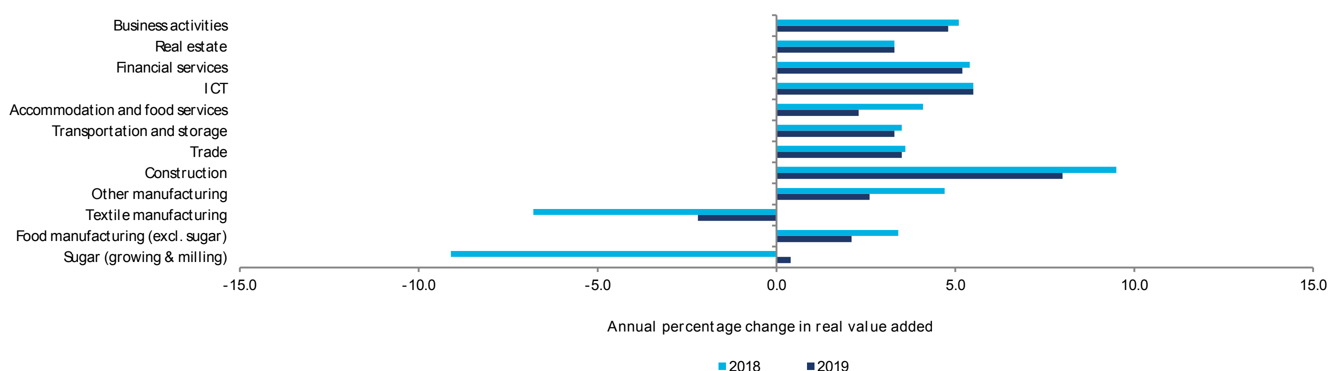
At the sectoral level, the construction sector is projected to grow at a slower pace owing to a high base effect after its anticipated stellar performance in 2019. The wholesale & retail trade sector is likely to register a healthy growth on the back of higher disposable income boosted by recent budgetary measures and changes in interest rate. The tourism sector should slightly recover with anticipated positive effects from the implementation of the new business plan by the national carrier whereas the sugar and textile sectors would continue to face difficult times ahead amidst severe global competition. Against this background, we expect GDP growth forecast to be around 3.8% - in line with the IMF Article IV Consultation Report conducted in April 2019 - but remains vulnerable to global economic developments.

Risks to the outlook include the following:

Upside
- A higher than anticipated growth in certain domestic segments due to various incentives granted to local businesses
- A faster than expected adoption of digitalization and innovation, through Fintech, across different sectors to promote private investment
- A faster implementation of key infrastructure projects
- A boost in credit to the economy following the cut in the Repo rate

Downside
- A lower than expected global macroeconomic growth
- A weaker euro and pound sterling
- Decline in FDI in some key sectors
- Delays in key public infrastructure projects and a decline in private investment
- A substantial deterioration in the import bill following a more than expected depreciation in the Mauritian rupee
- A lower than expected financial inflows into Mauritius due to the revised Double Taxation Avoidance Agreement with India and the implementation of the General Anti-Avoidance Rule

Figure 2.1: Selected Industry Growth Forecasts




*Source: Statistics Mauritius, SBM Staff Forecasts*

Table 2.2: Selected Economic and Financial Indicators

| | Unit | 2015 | 2016 | 2017 | 2018 | 2019f | 2020f |
|---|---|---|---|---|---|---|---|
| REAL SECTOR | | | | | | | |
| GDP at market prices | MUR Bn | 410 | 435 | 457 | 482 | 509 | 539 |
| GDP at market prices per capita | USD | 9,054 | 9,564 | 10,767 | 11,104 | 11,311 | 12,218 |
| GVA at basic prices - real growth | % | 3.0 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| GDP at market prices - real growth | % | 3.5 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Gross domestic savings | % GDP | 10.4 | 11.0 | 10.0 | 9.1 | 10.0 | 9.5 |
| Gross fixed capital formation | % GDP | 17.4 | 17.2 | 17.4 | 18.7 | 21.0 | 19.5 |
| Private sector | % GDP | 12.6 | 12.8 | 13.3 | 14.1 | 14.0 | 13.7 |
| Public sector | % GDP | 4.7 | 4.4 | 4.1 | 4.6 | 7.0 | 5.8 |
| Headline inflation | % | 1.3 | 1.0 | 3.7 | 3.1 | 1.0 | 1.9 |
| Unemployment | % | 7.9 | 7.3 | 7.1 | 6.9 | 6.8 | 6.7 |
| FINANCIAL SECTOR | | | | | | | |
| Key Repo Rate | % | 4.40 | 4.00 | 3.50 | 3.50 | 3.35 | 3.25 |
| Average MUR lending rate* | % | 7.60 | 7.06 | 6.59 | 6.22 | 6.18 | 6.15 |
| Average MUR deposit rate* | % | 2.90 | 2.42 | 1.99 | 1.68 | 1.67 | 1.65 |
| Average Treasury Bills rate* | % | 2.14 | 2.68 | 2.21 | 3.46 | 3.15 | 3.00 |
| GOVERNMENT SECTOR | | | | | | | |
| Budget balance ‡ | % GDP | (3.2) | (3.5) | (3.5) | (3.2) | (3.2) | (3.1) |
| Central government debt † | % GDP | 57.5 | 59.1 | 57.0 | 57.1 | 58.3 | 55.7 |
| Public sector gross debt † | % GDP | 63.4 | 64.2 | 63.5 | 64.9 | 65.0 π | 62.0 π |
| EXTERNAL SECTOR | | | | | | | |
| Balance of visible trade | % GDP | (18.2) | (18.6) | (21.9) | (23.2) | (24.9) | (22.4) |
| Foreign direct investment | % GDP | 3.3 | 4.2 | 4.9 | 3.6 | 3.0 | 3.0 |
| Current account balance | % GDP | (5.0) | (4.3) | (6.6) | (5.8) | (7.5) | (6.1) |
| Balance of payments | % GDP | 4.9 | 6.0 | 6.2 | 3.4 | 2.0 | 1.9 |
| USD/MUR annual average change | % | 14.0 | 1.2 | (0.9) | (1.4) | 3.5 | (2.0) |

*Sources: Statistics Mauritius, Bank of Mauritius, Ministry of Finance, SBM Staff Estimates*

† End of period * mean of monthly weighted averages (f) SBM staff forecasts

‡ due to the change in fiscal year from calendar year to a July-June cycle in 2015, the 2015 figure relates to the Jan-Jun 2015 period, and the 2016, 2017, 2018, 2019 and 2020 figures relate to the Jul15-Jun16, Jul16-Jun17, Jul17-Jun18, Jul18-Jun19 and Jul19-Jun20 fiscal years respectively.

π Assuming the early repayment of the public sector debt, has announced in the last National Budget, is conducted in phases.

### Headline Inflation

Given subdued global demand, generally muted global inflation and lower prices of oil, domestic headline inflation continued its downward trend and stood at 0.9% in July 2019 – its lowest point in nearly three years, declining sharply from 4.0% in July 2018. On a twelve months average period, CORE1 inflation eased to 1.5% in June 2019 from 2.6% in June 2018 while CORE2 inflation remained unchanged at 1.9%. Furthermore, on the back of lower excise duties on fuel and liquified petroleum gas, contained vegetables prices and no significant rise in global oil prices, we expect inflation to stay at a low level this year with a projection of 1.0% in December 2019.

### Unemployment

The unemployment rate decreased to 6.9% in the first quarter of 2019 from 7.1% in the same period in 2018, unsurprisingly driven by the construction sector, the lowest unemployment rate in the first quarter in over a decade. On a year-on-year basis, the labor force and the employment count rose by 5,400 and 6,000 respectively while unemployment count fell by 600 for the period under review. The male and female unemployment rates decreased by 20 bps to 4.9% and by 10 bps to 9.9%, respectively. Though slightly improving from the previous year, unemployment data for the youth and female categories in the first quarter of 2019 indicated some areas that still warrant close attention.

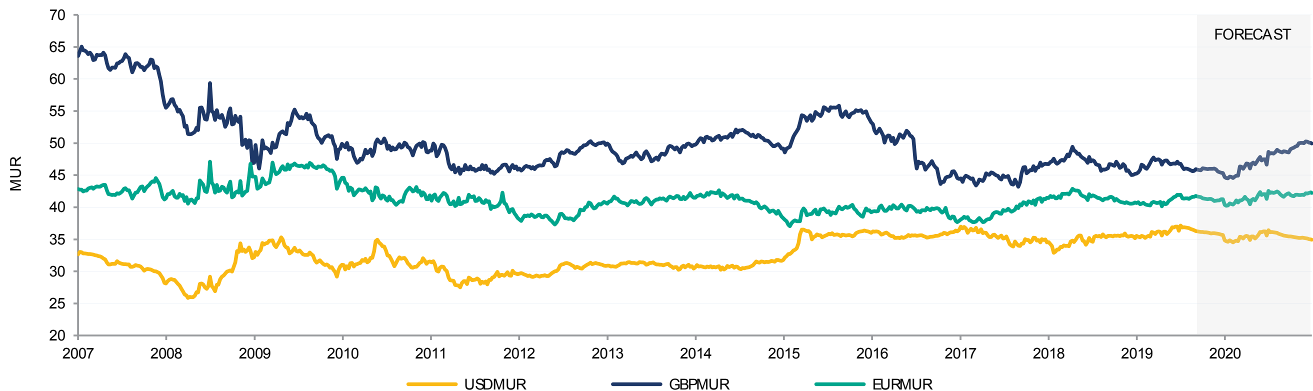
Youth
- 45% of unemployed people are aged 16 to 24 years
- 25% of young persons aged 16 to 24 years are not yet married and looking for a first job. Some 30% of the above category possessed a qualification below Cambridge School Certificate

Female
- Low female labor force participation rate at 45.7%
- Unemployment rate close to 10% and twice the jobless rate for men

### Currency

In the light of recent global economic developments, an appreciation of the US dollar had been observed in the second quarter of 2019 when compared to the previous quarter, refer to the "Global Economic Environment" section for more details. Against this backdrop, the local currency experienced a trend reversal whereby it depreciated vis-à-vis all the three major international currencies in the quarter under review. Besides, the trend reflected the dynamics of the EUR/USD and GBP/USD cross rates. Of note, the Central Bank purchased a total amount of USD 441 million during its intervention on the domestic foreign exchange market. Given the current global economic landscape, for the year 2019, we expect the Mauritian Rupee to depreciate against the US dollar but appreciate against the euro and pound sterling, assuming an annual average cross-rates of 1.15 for EUR/USD and 1.28 for GBP/USD (Bloomberg July median forecasts) and no significant deterioration in the global economic landscape. For the year 2020, we expect the rupee to strengthen against the US dollar but depreciate against the euro and pound sterling, assuming an annual average cross-rates of 1.18 for EUR/USD and 1.35 for GBP/USD (Bloomberg median forecasts – July).

Figure 2.2: Evolution of the MUR vis-à-vis major international currencies



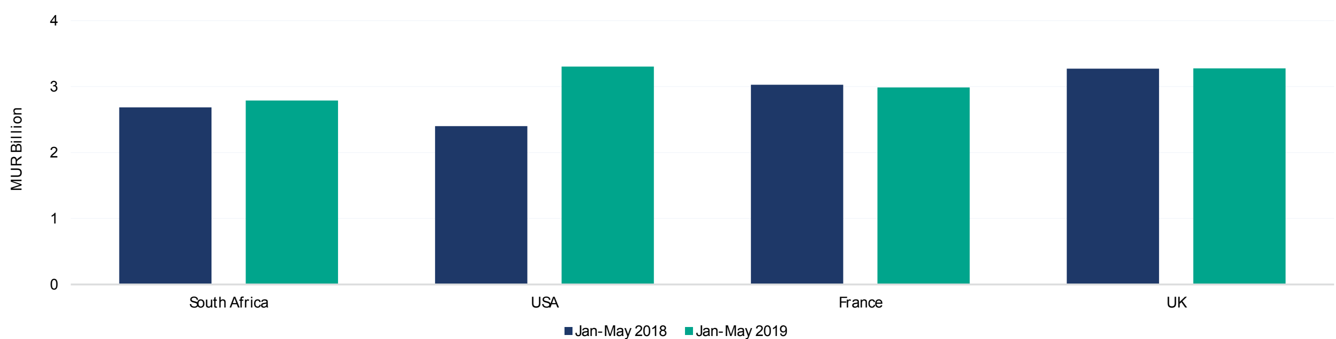

*Sources: Bloomberg, SBM Staff Estimates and Forecasts*

### External Balance

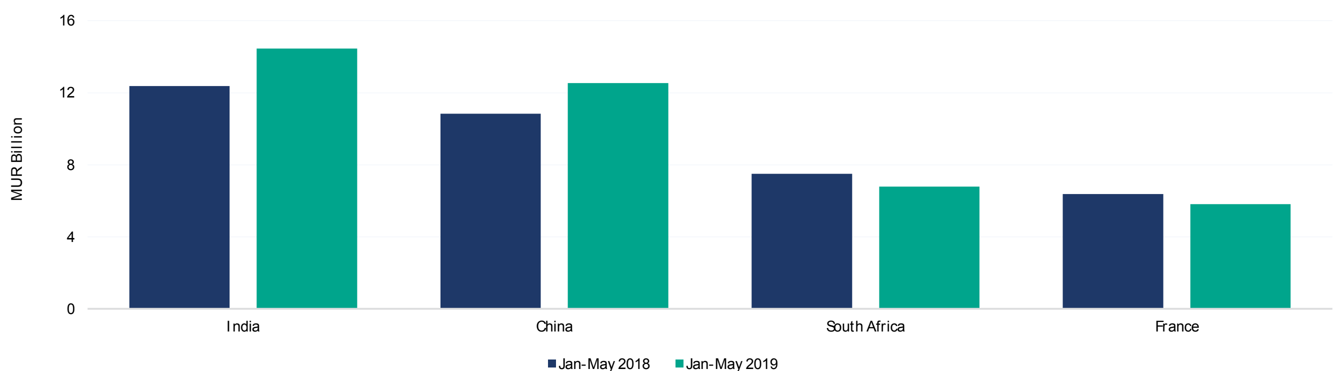
In the first quarter of 2019, net exports of goods and services worsened to -13.8% of GDP from -7.5% of GDP for the corresponding period in 2018, due to a higher increase in nominal imports relative to nominal exports explained by the influx of capital goods with respect to infrastructure projects. Moreover, the surplus on the services account was lower in the first quarter of 2019 at MUR 7.4 billion when compared to MUR 10.4 billion in the same period in 2018 – due to a decline of MUR 2.0 billion or 16% in the "personal travel" sub-category which relates to the sizeable drop in tourism receipts.

Figure 2.3: Balance of Visible Trade

Export




Import




*Source: Statistics Mauritius*

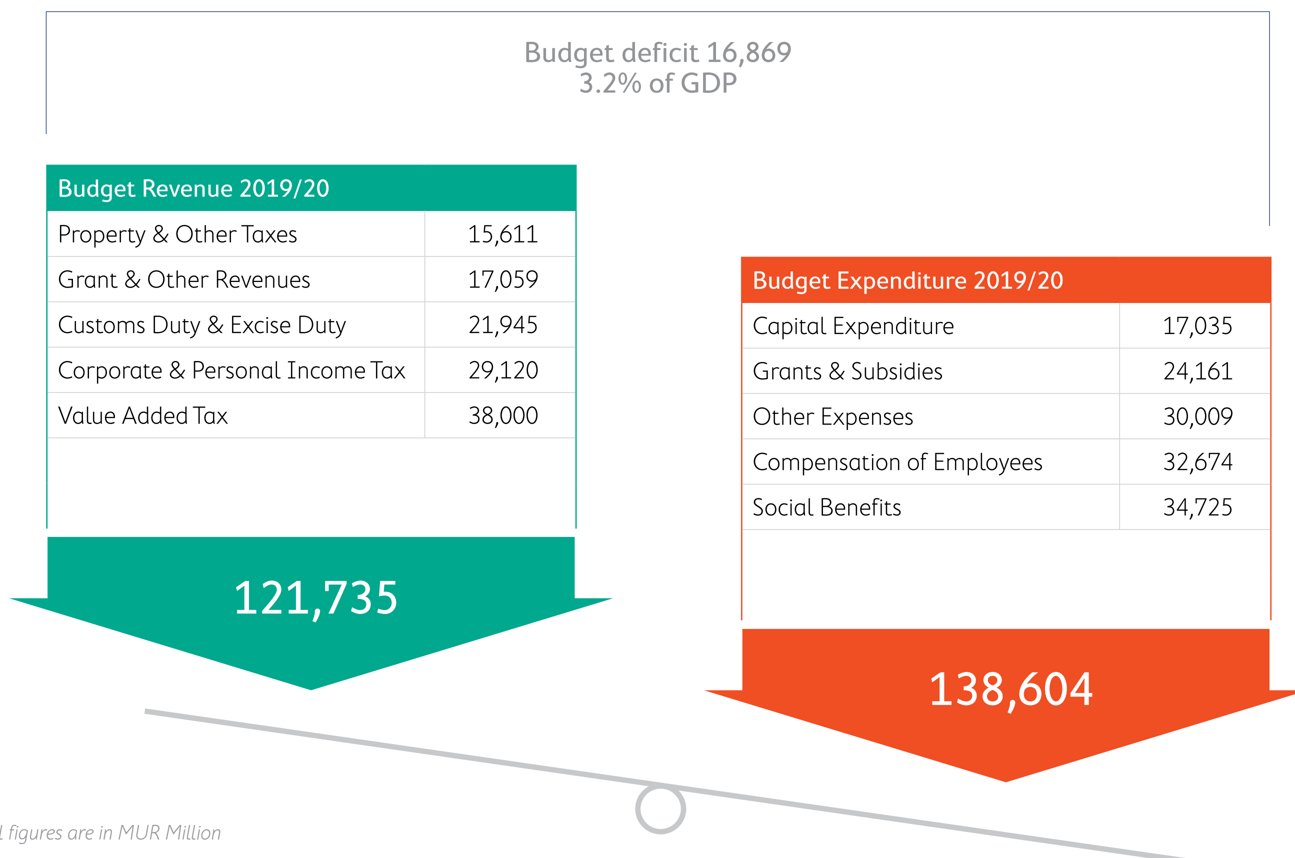
As regards to the balance of visible trade, for the first five months of 2019, UK (12.5%), France (11.6%), South Africa (10.2%) and US (9.2%) were the main export partners while imports were mainly from India (18.7%), China (16.2%), South Africa (8.8%) and France (7.5%). As depicted in Figure 2.4, exports to the USA rose by 38% (MUR 0.9 billion) – driven by precious and semi-precious stones and textile products while the import bill was higher due to an increase in petroleum products from India and machinery and transport equipment from China.

We have slightly downgraded our forecast for the current account deficit to 7.5% of GDP for 2019, particularly due to an increase in the import-export gap owing to increased import requirements following the execution of large scale infrastructure projects, increased economic challenges faced by key export markets, and the lower tourism receipts registered since the beginning of the year. Combined with the early repayment of part of the external debt in FY 2019/20, the balance of payments is projected to decrease to 2.0% of GDP in 2019.

### Monetary and Fiscal Policy

The MPC of the Bank of Mauritius has, by majority vote, cut the Key Repo Rate by 15 bps to 3.35% per annum at its meeting on 09 August 2019. The decision was made to further enhance the resilience of the domestic economy to be able to withstand the worsening external environment which include, inter alia, increasing trade tensions between the two largest economies, rising uncertainties associated with Brexit and geopolitical tensions. The monetary stance is anticipated to remain accommodative throughout 2019 and 2020 with further possible cuts in case low inflation persists, and bank credit continues to expand at a marginal rate.

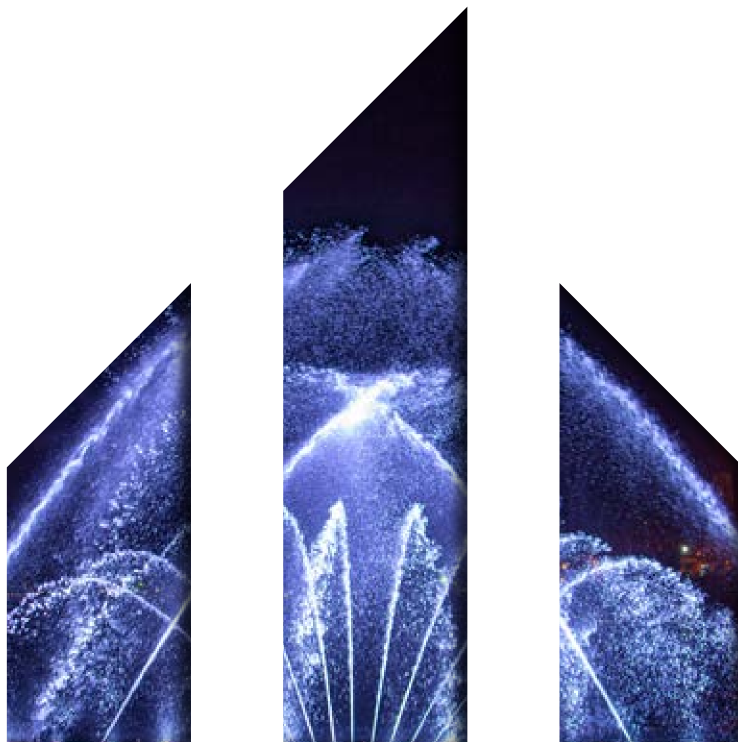
Figure 2.4: Government Expenditure and Revenue




*All figures are in MUR Million*

In the MTMF published in June 2019, the budget deficit is estimated at MUR 16.9 billion or 3.2% of GDP in FY 2018/19 (4.0% of GDP when excluding external grants). The negative recurrent balance is anticipated to improve by 20 bps to 1.5% of GDP due to a higher projected tax revenue. On the other hand, the capital balance deficit is forecast to worsen by 30 bps to 1.7% of GDP, largely due to a significantly lower than expected stream of external grants. In FY 2019/20, higher projected tax receipts are likely to outweigh the increase in recurrent expenditure which includes compensation of employees, social benefits and subsidies as announced in the National Budget 2019/20 while on the capital side, the surge in external grants will assist the financing of the acquisition of non-financial assets. Overall, the budget deficit is anticipated to remain unchanged at 3.2% (4.4% when excluding external grants) and decline to 3.1% of GDP in FY 2020/21 and 2.8% of GDP in FY 2021/22.

Public sector debt rose by 0.8% to MUR 320.1 billion (64.6% of GDP) as at end-June 2019 from MUR 318.0 billion (65.2% of GDP) as at end-March 2019 due to a slight increase of 1.0% to MUR 285.1 billion in the Central Government Debt (57.4% of GDP) whereas Public Enterprise Debt declined marginally by 0.8% to MUR 35.6 billion (7.2% of GDP). The Budget 2019/20 has been marked by a noteworthy objective of the government to reduce public sector debt well before June 2021, as per the statutory requirement. The main methods which were put forward include (i) the disposal of certain non-strategic assets to reduce the level of government debt, (ii) the transfer of surplus or accumulated revenue reserve from statutory bodies into the Consolidated Fund or invest in Treasury Certificates or other Government securities, (iii) offering private sector entrepreneurs the opportunity to invest in public sector projects so as to reduce Government's borrowing requirement and (iv) an early repayment of the debt using part of the "accumulated undistributed surplus" held at the Central Bank. Assuming a timely execution of these measures, we expect that the public sector debt will decline to around 62% by end-2020.



# Economic Review: Kenya

## Highlights

- Kenya's economy expanded by 5.6% in the first quarter of 2019, supported by the services sector, particularly the accommodation and food services; financial and insurance; information and communication; and transport and storage sub-sectors. On the other hand, the agricultural and manufacturing sectors registered moderate growth rates.

- Since the beginning of the year, overall inflation remained relatively stable and within the target range of 2.5% - 7.5%.

- The current account deficit stood at 4.5% of GDP during the financial year 2018/19, lower than 5.5% in the previous fiscal year. The narrowing of the deficit was supported by a decrease in merchandise trade deficit and an increase in net services inflows.

- According to the National Treasury Monthly Debt Bulletin (March 2019), public debt as at end of March stood at KES 5.43 trillion – 54.1% of GDP – representing a rise from 53.3% of GDP in January.

- The Monetary Policy Committee of the Central Bank of Kenya maintained the Central Bank Rate at 9.00% during its latest meeting in July.

- The Kenyan shilling remained broadly stable and competitive against major international currencies in 2018. In the first quarter of 2019, the Kenyan shilling strengthened significantly against the South African rand, euro and pound sterling.

- In June, the Cabinet Secretary of Kenya presented the Budget 2019/20 with a planned expenditure of KES 2.8 trillion – focusing on the Big 4 Agenda: universal health coverage; affordable housing; increasing manufacturing contribution to the economy and food and nutrition security.

- On the whole, Kenya is expected to perform better throughout the rest of 2019 at an annual growth rate of 5.8%.

## Macroeconomic Overview

Considered as one of the fastest growing economies in the Sub-Saharan Africa, the Kenyan economy expanded by 5.6% in the first quarter of 2019 compared to 6.5% in the corresponding period of 2018. This economic performance was mostly supported by the services sector particularly the accommodation and food services; financial and insurance; information and communication; and transport and storage sub-sectors. On the other hand, the agricultural and the manufacturing sectors registered moderate growth rates.

According to the IMF, the economy is expected to perform better throughout the rest of 2019 at an annual growth rate of 5.8%, driven by a stable performance in the agricultural sector on the back of favorable weather conditions; easing of political uncertainty and improved business sentiment. Additionally, the alignment of the Budget 2019/20 to the Big 4 Agenda is expected to boost economic activity in the manufacturing, agriculture, construction, and real estate sectors.

## Budget Highlights

In June, the Cabinet Secretary of Kenya presented the Budget 2019/20 with planned expenditure of KES 2.8 trillion (excluding external and internal repayments to the tune of KES 131.4 billion and KES 123.7 billion, respectively). The expenditure would be financed by revenue collection of KES 2.1 trillion and deficit of KES 608 billion to be financed by external and domestic borrowing. The focus of the budget is to fulfill the Big 4 Agenda: universal health coverage; affordable housing; increasing manufacturing contribution to the economy; and food and nutrition security. Some KES 451 billion has been allocated to the Big 4 Agenda – which include conducive business environment for investments; infrastructural development; sustained investments in social services; and better service delivery. Main details of the Budget 2019/20 have been provided at the end of this section.

## Sectoral Performance

During the first quarter of 2019, the accommodation and food service activities, the transport and storage and the information and communication sectors registered the highest growth rates. On the other hand, the agricultural and the manufacturing sectors registered a moderate growth rate.

The **accommodation and food service activities** sector grew by a notable rate of 10.1% in the first quarter of 2019 compared to 13.1% in the same quarter of 2018. Despite the terror attack at a hotel and office complex in Nairobi in January, the sector performed well, boosted by the country's increased air connectivity, less stringent visa-on-arrival policies and aggressive marketing. According to the Kenya National Bureau of Statistics (KNBS), the sector has remained stable over the past three years, expanding at an average growth rate of 14.7%.

The **transportation and storage** sector recorded a growth of 6.7% in the first quarter of 2019 compared to 8.5% in the same period of 2018. The growth was supported by an increase in the volume of port activities, which grew by 8.7% during the quarter under review. The sector was also backed by improved transport efficiency boosted by the Standard Gauge Railway (SGR).

With respect to the **information and communication** (ICT) sector, growth in the first quarter of 2019 stood at 10.5% compared to 12.5% in the same period of 2018. The double digit growth in the ICT sector was mainly on account of continued investments in mobile telephony, increased uptake of e-commerce platforms and internet penetration. The mobile telephony segment has been the main driver of the ICT sector growth.

The **agricultural** sector, which accounts for the largest sectoral contribution to GDP at 26.3%, recorded a growth rate of 5.3% in the first quarter of 2019 compared to 7.5% in the same quarter of 2018. The slower growth was attributed to the delay of long rains in most part of the country which resulted into reduced agricultural production. The sector was further affected by a contraction of 12.0% in the production of coffee. With a view to boosting and transforming the sector, the World Bank in its Economic Update April 2019 Report, titled "Kenya's Economic Outlook Remains Stable Amid Threats of Drought in 2019", recommended policy reforms such as enhancing access to agricultural financing; increasing the use of fertilizers; establishing structured commodities trading; investment in irrigation; and stronger support programmes for farmer organizations.

The **manufacturing** sector also witnessed a weaker growth of 3.2% in the first quarter of 2019 compared to 3.8% in the corresponding period of 2018. In the food manufacturing sub-sector, growth was meagre owing to a fall in agro-processing activities, the manufacture of sugar, prepared and preserved fish and processing of coffee. The non-food manufacturing sub-sector also witnessed a decline in production, particularly in the manufacture of leather products and cement. Nevertheless, during the second quarter of 2019, business activities improved, as indicated by the PMI which rose to 51.3 and further to 54.3 in May and June, respectively, from a low of 49.3 in April.

### Inflation

In the first quarter of 2019, the average inflation rate stood at 4.4% compared to 4.5% in the first quarter of 2018. Since the beginning of the year, overall inflation remained relatively stable and within the target range of 2.5% - 7.5%. Compared to 5.5% in May 2019, the inflation rate rose to 5.7% in June 2019. Food inflation rose to 6.6% in June 2019 from 6.0% in May 2019, reflecting an increase in the prices of non-vegetable food crops such as maize and beans, due to uncertain supply. On account of an increase in pump prices of petrol and diesel, the Transport Index increased by 0.26% from May to June 2019. Overall, inflation is expected to remain within the target range in the near term largely due to expectations of contained food prices following improved weather conditions and a reduction in electricity costs.

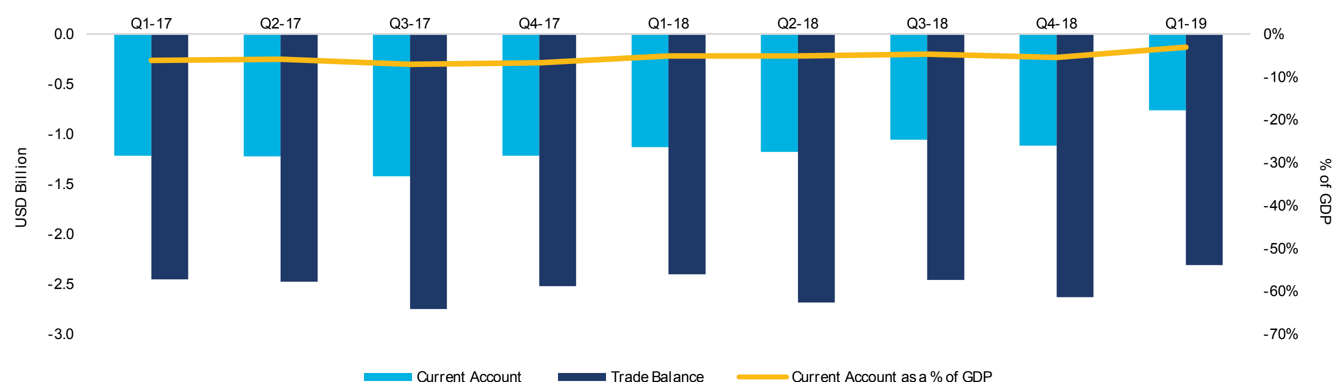
### Budget Deficit

As a share of GDP, the budget deficit is estimated at 5.6% in 2019/20, declining from 6.8% and 7.4% in 2018/19 and 2017/18, respectively. A large portion of the debt relates to infrastructure projects and with a view to establishing value, affordability and economic return, the government has committed to appraise all future projects prior to inclusion in the budget. In addition, to ensure effective and efficient use of funds, several reforms were proposed in the Budget 2019/20 such as the introduction of public investment management regulations to provide a framework for appraising and approving new government funded projects; improved pension management system; and streamlining of all procurement procedures; among other significant measures.

### External Trade

During the first quarter of 2019, the merchandise trade deficit fell by 3.4% as a result of a larger decline in imports compared to a fall of 2.9% in exports. The drop in the value of imports was mainly on account of declines in the value of maize, iron and steel imports by 82.4% and 15.8%, respectively. Additionally, imports of industrial machinery and petroleum products in the first quarter of 2019 went down by 6.1% and 4.6%, respectively. Remittances from the diaspora increased by 2.9%, from KES 65.9 billion in the first quarter of 2018 to KES 67.9 billion in the same period of 2019. As for exports, the fall was mainly as a consequence of decreased foreign earnings from tea and titanium ores and concentrates. The current account deficit stood at 4.5% of GDP in the twelve months to April 2019 from 5.5% a year earlier, supported by a decrease in the merchandise trade deficit and an increase in net services inflows. Overall, the balance of payments registered a surplus of KES 25.5 billion in the first quarter of 2019. According to the Central Bank of Kenya, the current account deficit is expected to narrow to 4.5% of GDP in 2019 from 5.0% of GDP in 2018 on the back of higher diaspora remittances and robust exports earnings.

Figure 3.1: Evolution of the Current Account Balance




*Source: Kenya National Bureau of Statistics*

### Public Debt

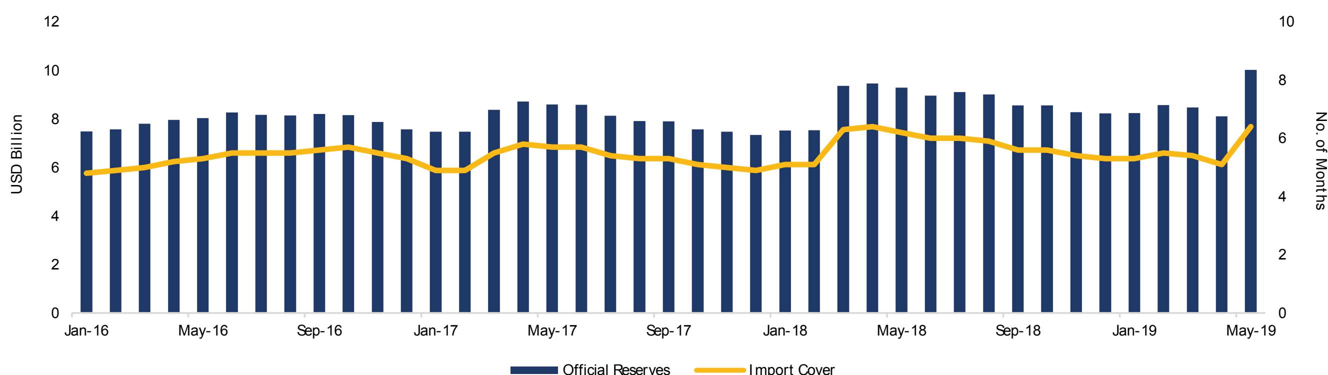
According to the National Treasury Monthly Debt Bulletin (March 2019), public debt as at the end of March stood at KES 5.43 trillion – 54.1% of GDP – rising from 53.3% of GDP in January. Public debt comprised KES 2.70 trillion of domestic debt and KES 2.72 trillion of external debt. Public debt as a share of GDP has been on an upward trend since 2013. The main driver of the rise in public debt has been an upswing in government expenditure, especially on infrastructure projects – where the SGR was one of the costliest projects for which the government borrowed USD 4 billion for the first phase in 2014, and USD 2 billion for the second phase. For external debt, commercial banks continue to be the dominant creditors with a share of 34.6% to the total stock of public external debt – with China being Kenya's largest lender – accounting for 70.6% of total external debt, followed by Japan (11.7%).

### Exchange Rate

The Kenyan shilling remained broadly stable and competitive against major international currencies in 2018. In the first quarter of 2019, the currency remained strong against the South African rand, euro and pound sterling. It also strengthened against the Japanese yen, Ugandan shilling and Tanzanian shilling, and marginally against the US dollar.

The foreign exchange reserves increased to USD 10.1 billion, equivalent to 6.4 months of import cover as at end of May 2019, from USD 8.0 billion, equivalent to 5.2 months of import cover a year earlier – in line with the Central Bank of Kenya's statutory requirement of at least 4 months of import cover and the East African Community (EAC) region's convergence criteria of 4.5 months of import cover, thus providing an adequate buffer for the Kenyan shilling from external shocks. The rise was as a result of government successful issuance of a USD 2.1 billion Eurobond in May. The exchange rate for the rest of 2019 is expected to remain stable against the US dollar in the range of KES 101.0 - 104.0, with continued support from the Central Bank in the short term through its sufficient reserves.

Figure 3.2: Official Reserves and Import Cover




*Source: Central Bank of Kenya*

### Interest Rates

The MPC of the Central Bank of Kenya kept the Central Bank Rate unchanged at 9.00% (the last rate cut was in July 2018) at its latest meeting in July, in line with market expectations where inflation prospects remained well within the target range of 2.5% - 7.5%; stability in the foreign exchange market well-maintained; and noted improvement in private sector credit growth. As such, the MPC concluded that the current policy stance is appropriate and is expected to remain relatively stable in 2019.

# Budget 2019/20 Highlights

**Snapshot**

- Theme of Budget: Creating jobs, transforming lives – Harnessing the "Big Four" Plan
- Total expenditure of KES 2.80 trillion – KES 451 billion dedicating to fulfilling the Big 4 Agenda of universal health coverage; affordable housing; increasing manufacturing contribution to the economy; and food and nutrition security

## Supporting the Manufacturing Sector – KES 96.6 billion

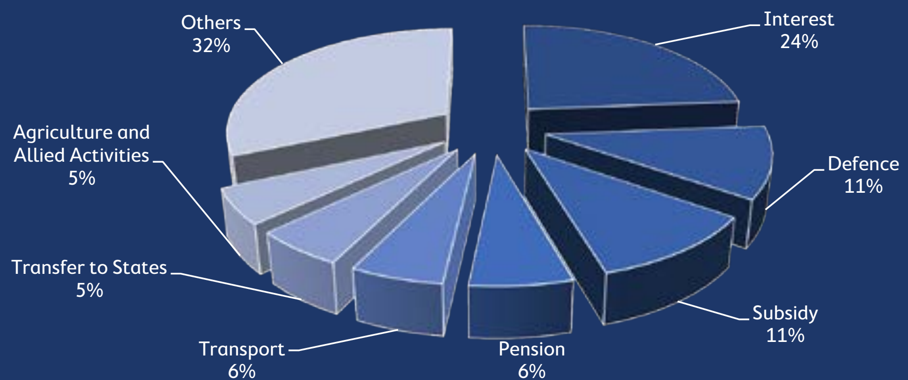
Aim is to raise the sector's share of GDP to 15% by 2022

- Development of Export Processing Zones, Special Economic Zones and Industrial Parks
- Scaling up reforms in textile industries and leather parks; agro-processing; blue economy; automotive sector and manufacture of pharmaceutical products

## Providing Universal Health Coverage

- Strengthening provision of secondary and tertiary healthcare services;
- Increasing the number of referral health facilities and use of e-health systems;
- Promoting the use of alternative sources of financing health care;
- Strengthening primary healthcare systems; empowerment of communities; equipping of primary healthcare facilities and recruitment of additional health workers

## Allocation of Planned Expenditure



## Enhancing Food and Nutrition Security

- Reduce over-reliance on rain-fed agriculture – development of 85,000 acres of irrigation area and expand smallholder irrigation by 1,617 acres
- Reduce cost of food – provide affordable energy; enhance market distribution infrastructures and avail incentives for post-harvest technologies
- Create 1,000 production SMEs and 600,000 direct and indirect jobs and increase the average daily income of farmers
- Allocation of money for ongoing crop diversification; coffee and cereal enhancement; worm mitigation; value chain support; digitalization of land registries; livestock and crop insurance scheme

## Provision of Affordable and Decent Housing

- Support provision of at least 500,000 affordable houses

## FOCUS AREAS – Enablers for the Big Four Agenda

- Improving National Security
- Macro Economic Stability
- Infrastructural Development
- Leveraging on ICT
- Energy
- Quality and Relevant Education
- Equity, Poverty Reduction and Social Protection for the Vulnerable
- Continued support to Counties for better Service Delivery

# Economic Review: India

## Highlights

- According to the Reserve Bank of India, on a year-on-year basis, real GDP growth for 2018/19 has been revised to a five-year low of 6.8% compared to 7.2% in 2017/18, mainly attributable to weaker private consumption, especially in rural areas, and a slowdown in investment activity.
- During the fiscal year 2018/19, the main economic drivers were the construction and the financial, real estate and professional services sectors, which expanded by over 7.0%. Growth rate for the year 2019/20 is estimated at 6.9%.
- On the international front, the slowdown in the pace of global economic activity - on account of escalating trade tensions, tighter financial conditions and uncertainty surrounding Brexit - reflected unfavourably on India's trade balance position where both export and import growth decelerated during the fiscal year 2018/19. According to the Reserve Bank of India, the current account deficit increased to 2.1% of GDP in 2018/19 from 1.8% in 2017/18 on the back of a widening trade deficit.
- The gross fiscal deficit of the central government for 2018/19 budgeted at 3.3% of GDP has been revised to 3.4% of GDP (2017/18: 3.5%). For 2019/20, the fiscal deficit has been estimated at 3.3%.
- Net foreign direct investment inflows during the fiscal year 2018/19 were marginally higher at USD 30.7 billion compared to USD 30.3 billion in 2017/18.
- At the August Monetary Policy Committee, the Reserve Bank of India decided to reduce the policy repo rate under the liquidity adjustment facility by 35 basis points from 5.75% to 5.40% - hence maintaining an accommodative monetary policy stance.
- Following slowdown on both the domestic and global front, the Indian rupee depreciated against the US dollar during July 2019 as foreign fund outflows and higher crude oil prices lowered business sentiment.
- In June 2019, the Union Budget 2019/20 was presented with total expenditure amounting to some USD 418 billion – with the vision of becoming a USD 3 trillion economy by the end of 2020 and USD 5 trillion in the next five years. Driven by investment, the focus of the budget lies on agriculture, the optimal use of technology, reducing red tape, building social infrastructure and job creation in Micro Small and Medium Enterprises, among others.

## Macroeconomic Overview

The Indian economy witnessed economic challenges in the second half of its fiscal year 2018/19[1], recording a growth of 6.3% and 5.7% in GVA during the third and fourth quarters, respectively, compared to 7.3% and 7.9% during the same period in 2017/18. The Reserve Bank of India (RBI) has revised real GDP growth for 2018/19 to a five-year low of 6.8%, mainly due to weaker private consumption, especially in rural areas, and slowdown in investment activity – reflected in the lower growth of GFCF and private final consumption expenditure during the fourth quarter of 2018/19. Moderation in exports resulting in a widening current account deficit also exerted pressure on the fiscal front.

Against this background, the latest MPC of the RBI, held in August 2019, revised down the real GDP growth rate for 2019/20 from 7.0% (June forecast) to 6.9% - in the range of 5.8% - 6.6% for the first half of the year 2019/20 and 7.3% - 7.5% for the second half of 2019/20. As per the IMF, India's economy is set to grow by 7.0% in 2019, picking up to 7.2% in 2020. Investment growth is also expected to increase, supported by increasing capacity utilization, a decline in interest rates, and with the anticipated waning off of geopolitical tensions.

## Budget 2019/20

In July 2019, the government presented its Union Budget 2019/20 aimed at boosting investment at a time when the economy is showing signs of slowdown. Emphasizing on infrastructure and rural development, the budget aims to put India's economy on a growth path of USD 3 trillion by the end of fiscal year 2020 and USD 5 trillion in the next five years. USD 418 billion has been allocated to the realization of the projects mentioned in the Budget 2019/20 with focus on agriculture, optimal use of technology, reducing red tape, building social infrastructure and job creation in Micro, Small and Medium Enterprises (MSMEs), among others. Key details of the budget are provided at the end of this section.

## Sectoral Performance

During the fiscal year 2018/19, the main economic drivers were the **construction** and the **financial, real estate and professional services** sectors, which expanded by over 7.0%. The manufacturing sector performed moderately. On the other hand, the **agricultural** sector and the **mining and quarrying** industry recorded meek performances.

The **construction sector** grew at a notable rate of 8.7% during the fiscal year 2018/19 (2017/18: 5.6%). Activities in the construction sector were propped up by strong growth in infrastructure related activities such as the national highway construction; freight traffic; electricity generation; and port development. India is expected to become the third largest global construction market by 2022, propelled by high investment in the fields of power transmission, roads and highways and renewable energy. Based on the performance of the eight core infrastructure industries index, growth was led by cement (13.3%), coal (7.3%) and electricity (5.1%). Growth prospects for the construction sector appear to be favorable for 2019/20, with the government allocating some USD 11 billion to the construction sector in the Budget 2019/20.

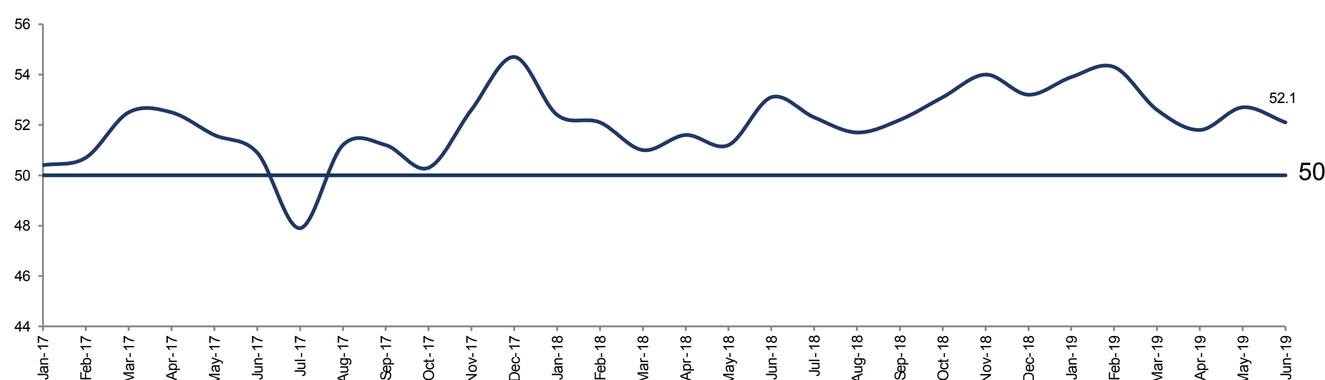
Compared to a 6.2% growth in 2017/18, the **financial, real estate and professional services sector** registered an impressive growth rate of 7.4% for the year 2018/19. On a quarter-on-quarter basis, the sector performed at its best during the fourth quarter, growing at an annualized rate of 9.5% compared to 5.5% during the corresponding period in 2017/18. The performance of the financial services sector was positive, as evidenced in the Financial Stability Report 2019, with a rise in aggregate credit growth; improvement in asset quality; rise in revenues of Non-Banking Financial Corporations(NBFCs); as well as improvements and developments in the financial sector. Accounting for 13% of the country's GDP, the real estate performed well during 2018/19, driven by rapid urbanization; a surge in demand for residential properties; growing inflows from tourists; increasing investments; growing demand for energy efficient and environment-friendly architecture; as well as policy support from the government.

Activities in the **manufacturing sector** weakened during the fiscal year. The slowdown was noted mainly during fourth quarter with a growth rate of 3.1% compared to 9.5% in the fourth quarter of 2017/18 – reflected in the Index of Industrial Production (IIP) where the cumulative growth for the period of Apr-March 2019 stood at 3.5% compared to 3.6% in 2017/18. For the manufacturing sector, the industry group 'manufacture of furniture', 'manufacture of other transport equipment' and 'manufacture of fabricated metal products, except machinery and equipment' showed negative growth rates of 24.6%, 18.5% and 15.3%, respectively.

During April-March 2019, the manufacturing sector showed improvement. However, the sector lost momentum in June 2019, indicated by a fall in the IHS Markit India Manufacturing PMI from 52.7 in May 2019 to 52.1 in June 2019.

*[1] The fiscal year 2018/19 refers to the period April 2018 to March 2019, unless otherwise stated.*

Figure 4.1: Nikkei India Manufacturing PMI




*Source: IHS Markit*

The following key developments were noted:

- Consumer goods was the key source of growth – robust increases in sales, output and employment;
- A softer increase in new work intakes translated into slower rises in output and employment;
- Modest expansion in production and new work noted in the intermediate goods category – jobs stagnated;
- Unchanged operating conditions in the capital goods sector;
- Growth in aggregate manufacturing production associated with securing new work and technological progress; and
- Subdued cost inflation enabling firms to lower charges.

With the aim of achieving 25% GDP share and 100 million new jobs by 2022, the manufacturing sector is already moving in the direction of industry 4.0, with indian companies at the forefront of research and development; improvement in port infrastructure; a huge semi-skilled labor force; and multiple government initiatives such as 'Make in India'.

As for the primary sector, the **agricultural sector** showed significant and continuous quarterly deceleration to 2.8% and -0.1% during the third quarter and the fourth quarter of fiscal year 2018/19, respectively where food grain production fell short of target by 2.4% during 2018/19 and declined by 0.6% compared to 2017/18 mainly due to lower production of rabi rice, pulses and coarse cereals. The main reason behind the poor performance of the sector was the severe drought conditions which the country faced during the year 2018/19 where crops were damaged, livestock were killed and city dwellers and some industries faced shortages in water supplies. Redynamising the agricultural sector is of utmost importance since it accounts for some 18% of India's GDP and is the primary source of livelihood for about 58% of the country's population. As such, in its Budget 2019/20, the government has allocated some USD 1.95 trillion for the sector with emphasis on addressing critical gaps in the value chain, including infrastructure, modernization, traceability, production, productivity, post-harvest management and quality control.

On a year-on-year basis, the **mining and quarrying sector** also witnessed a drop in its performance with an estimated 1.3% growth compared to 5.1% during the year 2017/18, owing to challenges specific to the Indian market such as low productivity levels, obsolete technology, administrative and legal barriers and poor working conditions – combined with lack of advanced technology in the sector. Nevertheless, the mining sector is expected to pick up in 2019/20, given India's competitive advantage in terms of rising demand for different metals and minerals; competitive cost of production; strategic location and government policy support.

### Inflation

From 3.0% in April-March 2019, the inflation rate rose to 3.2% in June 2019, driven by food inflation which rose from 1.4% in April to 2.0% in May and 2.4% in June – due to a sharp pick up in the prices of meat and fish, pulses and vegetables, cereals, milk, spices and prepared meals. Inflation in the fuel and light group was moderate for the month of June. According to the latest MPC meeting in August 2019, the baseline trajectory for the next four quarters will be shaped by several factors: uptick in food inflation sustained by price pressures in vegetables and pulses; upward pressure on food items following the uneven spatial and temporal distribution of monsoon; volatility in the crude oil prices due to geopolitical tensions in the Middle East. Taking all these factors into consideration, the RBI projects a 3.1% inflation rate for the second quarter of 2019/20 and within a range of 3.5% - 3.7% for the second half of 2019/20, with risks evenly balanced. On a year-on-year basis, the RBI estimates the CPI inflation to stand at 3.6% and 4.0% for the year 2019/20 and 2020/21, respectively.

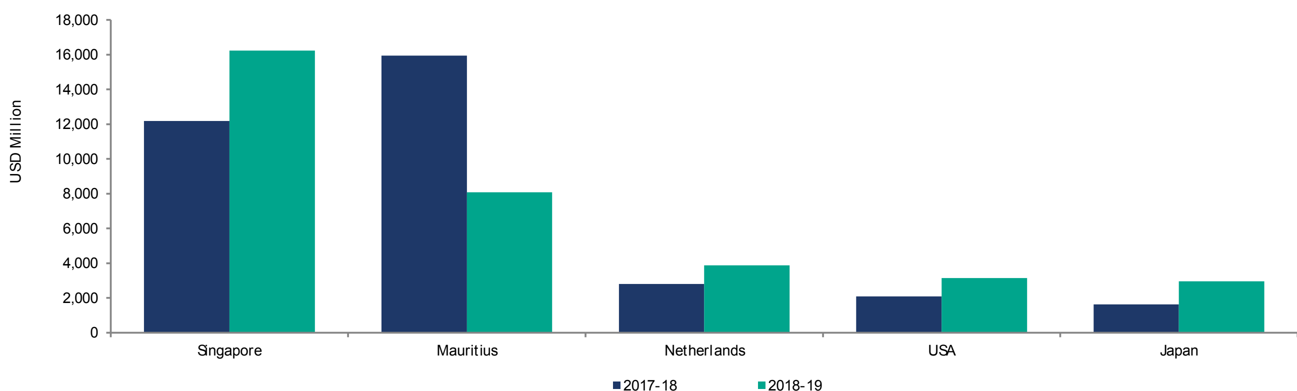
### Trade Balance

On the international front, the slowdown in the pace of global economic activity - on account of escalating trade tensions, tighter financial conditions and uncertainty surrounding Brexit - reflected unfavorably on the trade balance position where both export and import growth decelerated during the fiscal year 2018/19. According to the June 2019 RBI Financial Stability Report, export growth during the first half year of 2018/19 was robust but it slowed down during the second half of the year, bringing the annual export growth rate at 8.6% for 2018/19 compared to 10.0% in 2017/18. Exports during the last quarter of 2018/19 remained weak mainly due to exports of petroleum products decelerating in response to a fall in international crude oil prices. Among non-oil exports, engineering goods, chemicals, leather and marine products recorded either successively lower or negative growth. Non-oil non-gold imports also declined owing to the subdued demand for pearls and precious stones, transport equipment, project goods and vegetable oils. Overall, the current account deficit increased to 2.1% of GDP in 2018/19 from 1.8% in 2017/18 on the back of a widening trade deficit.

### Foreign Direct Investments

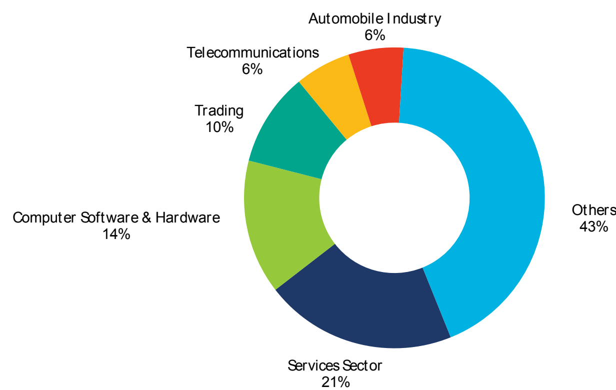
On the financing side, net foreign direct investment (FDI) inflows during the fiscal year 2018/19 were marginally higher at USD 30.7 billion compared to USD 30.3 billion in 2017/18. According to latest statistics, the services sector, followed by the computer software and hardware sector; and the trading sector attracted the highest FDI equity inflows of USD 9.2 billion, USD 6.4 billion, and USD 4.5 billion, respectively, during the year 2018/19. The main sources of FDI inflows were Singapore, Mauritius, Netherlands and the US, accounting for 32%, 20%, 7% and 6%, respectively, of total FDI equity inflows. With the aim of achieving its goal of USD 100 billion worth of FDI, the government, through its Union Budget 2019/20 has put in place several measures to make India a more attractive FDI destination such as liberalization of FDI in aviation, media, animation and insurance intermediaries; and an increase in the statutory limit for foreign investment in certain companies, among others.

Figure 4.2: Share of Top Five Investing Countries FDI Equity Inflows




*Source: Department of Industrial Policy and Promotion*

Figure 4.3: Main Sectors Attracting FDI Equity Inflows – 2018/19




*Source: Department of Industrial Policy and Promotion*

**Public Finance**

According to the Ministry of Finance, the gross fiscal deficit of the Central Government for 2018/19 budgeted at 3.3% of GDP has been revised to 3.4% of GDP (2017/18: 3.5%) , with major sources of finance being market loans, securities and state provident fund. For 2019/20, the fiscal deficit has been estimated at 3.3%. According to the IMF, the general government gross debt as a share of GDP is estimated at 69.0% in 2019 and 67.8% for 2020. According to the OECD, reducing the high public debt to GDP ratio would require improving the collection of the Goods and Services Tax and the broadening of the personal income tax base.

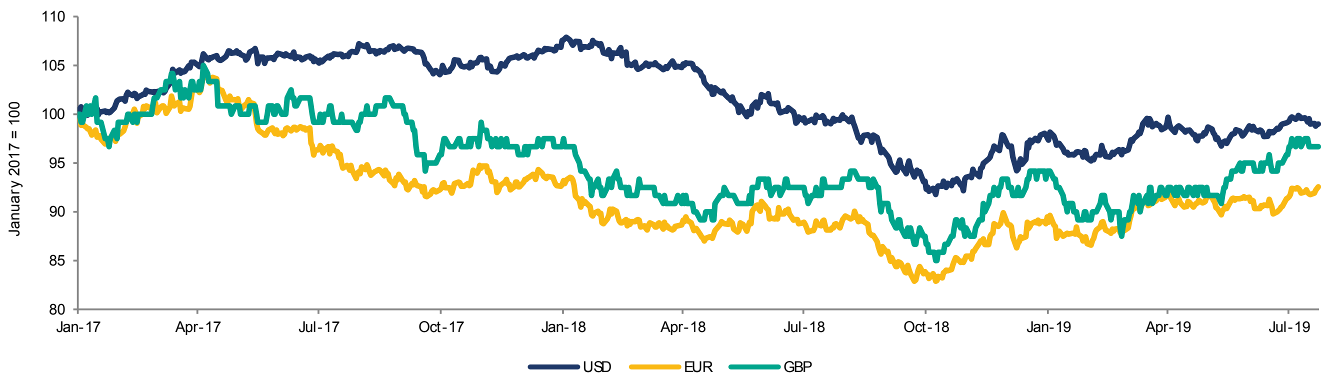
**Interest Rates**

Considering the sluggish conditions prevailing in the country – reflected by the widening of the output gap with a slowdown in investment activity along with a continuing moderation in private consumption growth – the MPC changed the stance of its monetary policy from neutral to accommodative at its June meeting. The objective was to accommodate growth concerns by supporting efforts to boost aggregate demand and strengthen investment activities while remaining consistent with achieving the medium-term target for inflation rate of 4% within a band of ± 2%. The MPC, unanimously, decided to reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 bps to 5.75% from 6.0%. The policy repo rate was further reduced in the August meeting to 5.40%, with the reverse repo rate under the LAF revised to 5.15% and the marginal standing facility rate and the bank rate reduced to 5.65%.

## Exchange Rates

Following slowdown on both the domestic and global fronts, the Indian rupee depreciated against the US dollar during July 2019 as foreign fund outflows tempered business sentiment.

Figure 4.4: Evolution of the Indian Rupee against the Major International Currencies




*Source: Bloomberg*

## Macroeconomic Outlook

With the prevailing economic situation, real growth for 2019/20 is expected at 6.9% according to the RBI's latest Survey of Professional Forecasters on Macroeconomic Indicators. However, the economy is expected to perform better in the next fiscal year, with growth projected at 7.2% for 2020-21. The results of the survey for key variables are summarized below.

Table 4.1: Survey of Professional Forecasters on Macroeconomic Indicators

| | 2019/20 | 2020/21 |
|---|---|---|
| Real GDP growth rate | 6.9 | 7.3 |
| Real PFCE growth rate | 7.6 | 8.0 |
| Real GFCF growth rate | 7.6 | 9.1 |
| Real GVA growth | 6.7 | 7.1 |
| Agriculture and Allied Activities | 3.0 | 3.4 |
| Industry | 6.5 | 7.1 |
| Services | 7.8 | 8.0 |
| Gross saving rate | 30.2 | 30.5 |
| Merchandise exports growth rate | 4.3 | 7.1 |
| Merchandise imports growth rate | 4.4 | 7.4 |
| Current account balance (as a % of GDP) | (2.0) | (2.1) |
| Inflation based on CPI Combined: Headline | 3.6 | 4.0 |

*Source: Reserve Bank of India*

# Union Budget 2019/20 Highlights

**Snapshot**
- Vision for USD 5 trillion economy – in the next 5 years – driven by investment
- Set to become USD 3 trillion economy by end of FY 2019/20
- Focus on reducing red tape, optimal use of technology, building social infrastructure, digital india, pollution free India, make in India, job creation in MSMEs and investment in infrastructure
- Total expenditure for 2019/20: USD 418 billion

## Tax Proposals

- Full tax rebate for individual taxpayers with annual income up to USD 7,500
- Tax Deducted at Source of 2% on cash withdrawal exceeding (USD 0.15 million) in a year from a bank account
- Effective tax rate for individuals with taxable income above USD 0.30 million raised
- Threshold for applicability of lower corporate tax rate of 25% increased from USD 37.5 million to USD 60 million
- Income tax surcharge increase for high Net Worth individuals earning above USD 0.30 million a year
- Enhanced interest deduction up to USD 5,250 for purchase of an affordable house
- Scheme of faceless electronic tax assessment

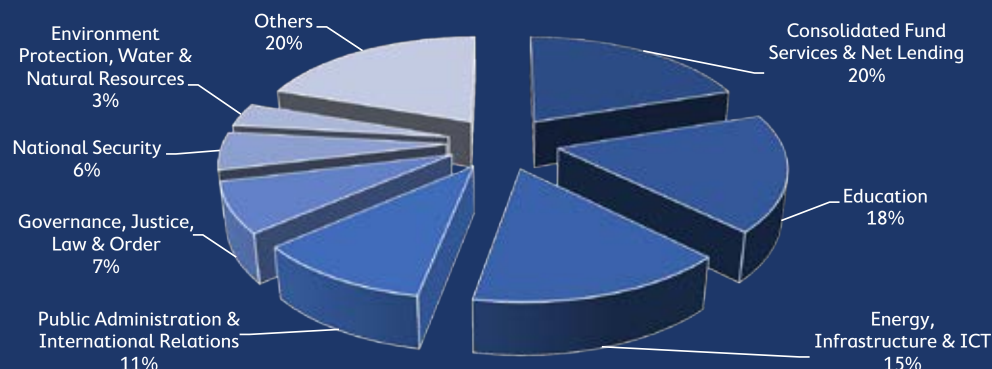
## Infrastructure

- Investment of USD 1.5 trillion in infrastructure over the next five years – USD 14.1 billion for railways in 2019/20
- Upgrade 125,000 kms of road length over next 5 years
- Ensure power availability to states at affordable rates
- Promotion of rental housing
- Encourage faster adoption of electric vehicles and offer an upfront incentive on purchase of electric vehicles
- New package of power sector tariff and structural reforms.

## Small Businesses/MSMEs

- Extend pension benefit to 30 million retail traders and small shopkeepers with turnover less than USD 0.22 million under the Pradhan Mantri Karam Yogi Man Dan Scheme
- Create a payment platform for MSMEs for payment of bills
- Setting up of 100 new clusters to enable 50,000 artisans come into the economic value chain

## Allocation of Planned Expenditure



## Support for Farmers

- Formation of 10,000 new Farmer Producer Organizations to ensure economies of scale for farmers
- Farmers to benefit from e-NAM (National Agricultural Market)
- Replicate "One count: Zero budget Farming" model – help to double farmers' income in time
- Address critical gaps in the value chain, infrastructure, modernization, traceability, production, productivity, post-harvest management; and quality control
- Boost to agro-rural industries through cluster-based development – focus on bamboo, honey and khadi clusters
- 100 business incubators to be set up to enable 75,000 entrepreneurs.

## Foreign Direct Investment

- Liberalize FDI in aviation, media, animation and insurance intermediaries
- Implement enabling measures to boost International Financial Services Centers
- Initiate steps for electronic fund-raising programs for listing of social enterprises, voluntary organizations
- Hike statutory limits for foreign investments in some companies
- Set up a Credit Guarantee Enhancement Corporation

## Labor and Youth Welfare

- Setting up of National Sports Education Board to prepare youths for new age skills, Artificial Intelligence, Big Data, 3D printing
- USD 60 million for World Class Institutions for FY 2019/20
- "Study in India" to bring foreign students to higher educational institutions

## Other Areas include:

- Education
- Woman Empowerment
- NBFCs
- Fisheries
- Transportation
- Power
- Retail
- Real Estate

# Country Focus: Seychelles

### Highlights

- The Republic of Seychelles is located in the Western Indian Ocean to the Northeast of Madagascar, comprising a group of around 115 islands over a total landmass of 459 $km^2$.
- Achieving independence in 1976, the country is politically stable since then.
- Seychelles economy relied on tourism and fishing at first; in recent years, development of the financial sector played a prominent role.
- Seychelles attained the status of the only high-income country in Sub-Saharan Africa in 2015.
- In 2018, real GDP growth was estimated at 3.6% partly explained by uncertainty over the Eurozone impacting on the Seychelles tourism industry; the moratorium on construction; and rising international oil prices.
- Fitch Ratings – one of the three main credit ratings agencies – has upgraded Seychelles sovereign credit rating from 'BB-' to 'BB' with a stable outlook.
- Seychelles has an open economic system actively seeking international capital to invest in its tourism, fisheries, offshore finance, and hydrocarbons sectors.

## Background

Located in the Western Indian Ocean to the Northeast of Madagascar, the Republic of Seychelles is a Small Island Developing State with a group of around 115 islands, an Exclusive Economic Zone of more than 1.3 million km$^2$ and a total landmass of 459 km$^2$. The Seychelles archipelago is divided into two distinct collections: the Mahé group of islands and another batch of coralline isles - of which most parts are only a little above sea-level. Home to around 95,000 people, Victoria, which is situated on Mahé, is the principal island where most business life is concentrated. The climate is favorable with the shade of temperature varying little throughout the year.

The international airport of Mahé has direct flights to many cities in Africa, Europe, the Middle East, Australia and the Far East while a thriving transshipment business has grown up around the capital, which has the deepest port in the Indian Ocean. Independence came in 1976 after a period of colonial rule from the British and the country is politically stable since then. The country is now a republic with the President elected by universal suffrage every five years. Economically, Seychelles is hugely dependent on tourism and fishing. However, in the last decades the government made continuous effort to attract financial services, originally in banking and insurance, and lately in investment fund management services.

Although economic growth averaged about 5% in the 1990s, the tsunami of 2004 dealt a very heavy blow to the Seychelles, severely damaging tourism, infrastructure and the fishing industry, then the commodity price spike caused inflation to shoot up, and in combination with a shortage of currency reserves, the country defaulted on much of its debt in 2008 and the economy faced crisis. In mid-2008, the government was forced to turn to the IMF for assistance, but this prompted a series of economic reforms, including unpegging the local currency, the Seychellois rupee, from the US dollar, the lifting of exchange controls, and tax reform. Through a successful economic reform programme undertaken since 2008, the diversification of the economy and the growth of investment in tourism, Seychelles attained the status of the only high-income country in Sub-Saharan Africa in 2015.

## Economic Review

In 2018, real GDP growth was estimated at 3.6%, down from 5.3% in 2017, partly explained by uncertainty over the Eurozone impacting on the Seychelles tourism industry, the moratorium on construction of hotels and rising international oil prices.

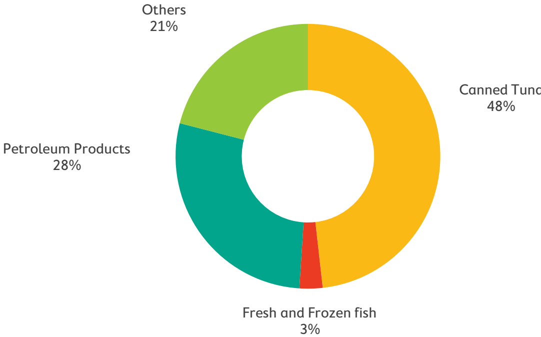
The service sector (mainly tourism, finance, transport, and communications) drove growth with an estimated expansion of 5.4% in 2018, up by 10 bps from 2017. Increasing government spending and declining revenue led to a primary fiscal deficit of 0.3% of the GDP in 2018. The country's debt-to-GDP ratio declined by almost two-thirds from 183% in 2011 to around 60% for 2018. The authorities plan to reduce the ratio below 50% by 2021 through fiscal discipline coupled with an improved debt management strategy.

Inflation rose from 2.9% in 2017 to an estimated 4.4% in 2018 due to higher global energy prices and 2017 fiscal measures, which included a higher minimum wage, increased social spending (mainly pensions), and higher civil service wages (raised through a new "13th month salary"). The exchange rate remained stable in 2018 at 13.9 Seychellois rupees per US dollar. Average gross international reserves were estimated at 4 months of imports in 2018.

Having limited available resources, Seychelles is hugely dependent on the rest of the world. As a net importer, Seychelles balance of payment statistics show a current account that is inherently in deficit although the country is a net exporter of services, driven primarily by the contribution of the tourism industry. The current account continued to register a large but declining deficit in 2018. The deficit was an estimated 17.6% of GDP in 2018, down from 20.5% of GDP in 2017. The country's main trading partners, Europe and the Middle East (mainly the United Arab Emirates), account for more than 60% of the country's imports and exports. Canned tuna is the main export, in terms of goods, and machinery and equipment represents the largest import.

Figure 5.1: Balance of Visible Trade, 2018

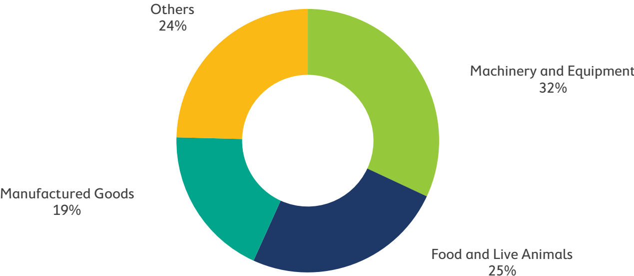
**Exports**




**Top Five**
**Export Trading Partners**

France – 38.6%
UK- 25.4%
Italy – 12.7%
Australia – 7.2%
Germany – 2.7%

**Imports**




**Top Five**
**Import Trading Partners**

UAE – 28.1%
France- 9.9%
Spain– 7.8%
South Africa – 7.2%
UK – 6.7%

*Source: Central Bank of Seychelles*

**Key Economic Sectors**

Tourism Sector - After the opening of an international airport on Mahé in 1971, the tourism industry grew rapidly, despite strict environmental norms amidst pronounced effort to conserve the islands natural resources and wildlife. The majority of tourists reach Seychelles by air and the country is served by several international airlines with Air Seychelles handling most of the traffic. At the beginning of the 21st century the tourism sector accounted for almost one-fourth of the total GDP. The tourism products available range from self-catering accommodation and guesthouses that are generally owned by locals and owner operated to boutique hotels and 4–5 star establishments operated by international chains. Tourism packages, including accommodations are developed such that hundreds of thousands of tourists visit the island every year, with most of them coming from Europe. Tourism earnings account for about 20% of GDP, bringing in more than USD 400 million over the last three years, and about 15% of the workforce is directly linked to the industry. Despite sluggish growth in visitor arrivals in the early months of 2018, the tourism industry ended the year on an overall positive note, an outcome supported by strong supply from the European market although there was a slowdown in supply from emerging markets. There were a total of 361,844 visitors to Seychelles during the year, which represented an annual growth of 3.4%.

Figure 5.2: Tourist arrivals and earnings, 2014-2018

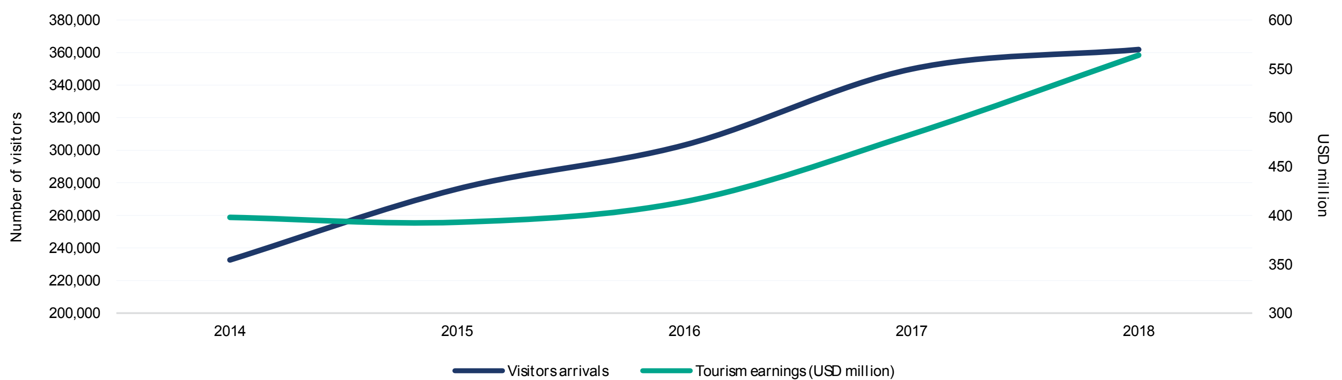



Table 5.1: Tourist arrivals by origin, 2018

| Origin | Number of visitors | % share |
|---|---|---|
| Europe | 240,380 | 66% |
| Germany | 61,339 | 17% |
| France | 43,549 | 12% |
| United Kingdom | 26,671 | 7% |
| Italy | 24,409 | 7% |
| Russia Federation | 11,362 | 3% |
| Africa | 35,045 | 10% |
| Asia | 69,984 | 19% |
| America | 14,251 | 4% |
| Oceania | 2,184 | 1% |
| **TOTAL** | **361,844** | **100%** |

*Source: National Bureau of Statistics, Seychelles*

Fishing industry – Over the years the fishing industry in Seychelles has evolved from subsistence level to industrial scale. The three main components in the fishing sector are artisanal fisheries using small motorized boats; semi-industrial fisheries that are locally-owned small-liners and industrial fisheries operated by huge long-liners owned by foreign companies with the main target being tuna. The economic contribution resulting from fishing activities is derived through its role as a source of job creation, contribution to production, food security, export contributor and foreign exchange generation, and government revenue. Fishing and fishing related manufacturing industries is a major contributor for the economic development of Seychelles contributing to around 8% of GDP and 50% of merchandise exports. Seychelles has also leveraged on fishing related activities to position itself as a regional hub. Port Victoria has emerged as the home base of vessels and support vessels engaged in tuna and tuna related fishing in West Indian Ocean and today more than 100 industrial and semi industrial vessels operate in Seychelles Exclusive Economic Zone. Also, Indian Ocean Tuna Commission has set up its headquarters in Seychelles. As a pioneer in the blue economy, Seychelles raised USD 15 million through the world first ever sovereign blue bond in 2018.

Financial sector - Seychelles' financial and insurance sector consists of banking activities, regulated by the Central Bank of Seychelles (CBS); and non-banking activities, regulated by the Financial Services Authority of Seychelles and partly by the CBS The country has a small, but growing, financial & insurance sector, contributing 4.6% to real GDP in 2018, compared to 4.5% in 2017. In 2018, employment in the financial & insurance sector stood at 1,774 compared to 1,724 in 2017.

Seychelles' banking sector remains adequately capitalized, as evidenced by the capital to risk-weighted assets ratio of 21.7% (2014), which is above the minimum adequacy ratio of 12%. Nevertheless, credit to the private sector is being constrained, mainly due to lack of collateral by MSMEs. The sector continues to show resilience with the support and acclamations of various positive international rankings as stated in Table 5.2. Moreover Fitch Ratings – one of the three main credit ratings agencies – has upgraded Seychelles sovereign credit rating from 'BB-' to 'BB' with a stable outlook. Seychelles had been scoring a grade 'BB-' every year since 2015 until the recent improved rating which would be an important boost for investment opportunities.

Table 5.2: International Rankings

| Economic/Social Rankings as at | 2017 | 2018 | 2019 |
|---|---|---|---|
| World Bank Ease of Doing Business (out of 190) | 95 | 95 | 96 |
| Ibrahim Index of African Governance (out of 54) | 2 | 2 | N/A |
| Human Development Index (out of 189) | 62 | 62 | N/A |
| Index of Economic Freedom (out of 186) | 85 | 88 | 87 |
| Global Competitiveness Index (out of 140) | 84 | 74 | N/A |
| Corruption Perceptions Index (out of 180) | 36 | 28 | N/A |

*Sources: World Bank, Transparency International, United Nations, Mo Ibrahim Foundation, The Heritage Foundation, World Economic Forum*

### Economic Outlook

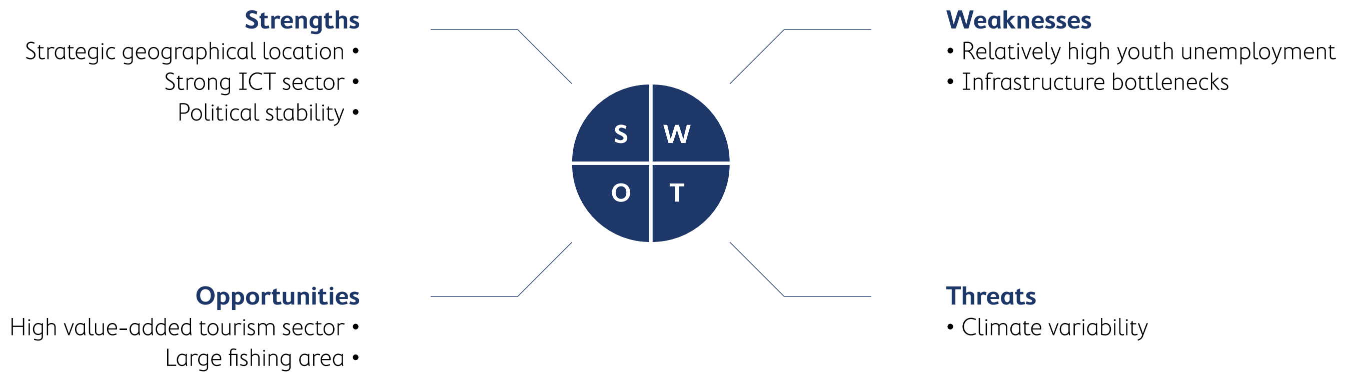
For 2019, real GDP growth is estimated at 3.4% – a slight slowdown - driven by steady tourism growth amidst an expected increase in flights, buoyant trade, sustained ICT growth and a more positive performance under the construction sector with new projects. Growth in the 'Manufacturing of food' sector is also estimated to remain resilient following a buoyant 2018. According to CBS, tourism earnings are also projected to be higher in 2019 compared to 2018, by around 6% in US dollar terms. This is largely due to the aforementioned positive growth in visitor arrivals, partly as a result of increased flight frequency and connectivity.

Table 5.3: Selected Macroeconomic Indicators

| Indicator | Unit | 2014 | 2015 | 2016 | 2017 | 2018 | 2019f | 2020f | 2021f |
|---|---|---|---|---|---|---|---|---|---|
| GDP, current prices | SCR (Bn) | 17.1 | 18.3 | 19.0 | 20.4 | 21.9 | 23.4 | 25.0 | 26.7 |
| GDP, constant prices | SCR (Bn) | 7.7 | 8.1 | 8.4 | 8.9 | 9.2 | 9.5 | 9.8 | 10.2 |
| GDP growth rate | % | 4.5 | 4.9 | 4.5 | 5.3 | 3.6 | 3.4 | 3.3 | 4.1 |
| GDP, current prices | USD (Bn) | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 | 1.7 | 1.8 |
| GDP per capita, current prices | USD | 14,701 | 14,786 | 15,219 | 15,859 | 16,472 | 17,155 | 17,892 | 18,765 |
| Total investment | % of GDP | 37.7 | 33.8 | 30.2 | 28.9 | 26.4 | 27.9 | 28.8 | 30.7 |
| Gross national savings | % of GDP | 14.6 | 15.2 | 10.2 | 8.5 | 10.2 | 11.9 | 13.1 | 13.9 |
| Inflation, average consumer prices | % | 1.4 | 4.0 | (1.0) | 2.9 | 3.7 | 3.4 | 3.0 | 3.0 |
| Unemployment rate | % of Total Labor Force | 3.0 | 2.7 | 2.7 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| General government gross debt | % of GDP | 72.7 | 67.3 | 69.0 | 63.6 | 58.2 | 54.5 | 49.5 | 44.8 |
| Current account balance | % of GDP | (23.1) | (18.6) | (20.1) | (20.5) | (16.3) | (16.0) | (15.7) | (16.8) |
| Exports | % of GDP | 102.0 | 94.0 | 95.0 | 102.0 | 100.0 | 99.0 | 102.0 | 103.0 |
| Imports | % of GDP | 118.0 | 103.0 | 105.0 | 114.0 | 112.0 | 110.0 | 112.0 | 115.0 |
| Foreign direct investment | % of GDP | 16.1 | 10.8 | 12.8 | 18.0 | 7.3 | 12.8 | 13.2 | 17.1 |
| Gross official reserves | Import Cover (Months) | 3.9 | 4.3 | 3.7 | 3.7 | 3.6 | 3.5 | 3.3 | 3.3 |

*Source: IMF World Economic Outlook, April 2019*

**Risk Assessment of Seychelles Economy**




**Prospects in Seychelles for Mauritius**

Seychelles has an open economic system actively seeking international capital to invest in its tourism, fisheries, offshore finance, and hydrocarbons sectors. Already major Mauritian corporations in the tourism sector own and manage hotels on the Seychelles islands. Increased frequency of flights by Air Seychelles to and from Mauritius opens up to more business opportunities while boosting tourist activities on both islands. Recent discovery of oil / hydrocarbons in the maritime region co-jointly managed by Seychelles and Mauritius could be beneficial if the exploration phase ends up on a positive note. Mauritius and Seychelles, being members in the Common Market for Eastern and Southern Africa and the South African Development Community, mutually guarantee privileged trade relationships. The synergy between Seychelles and Mauritius remains crucial for the successful Joint Management of the Extended Continental Shelf in the Mascarene Plateau Region.

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# Credits

**Contributors**
Diya BUNDHOO
Indradev PUROHOO
Urvashi GAONJUR
Voneetsingh JHOOMUCK

**Reviewers**
Gulshan RAMROOP
Shailen SREEKEESSOON

**Advisor**
Kee Chong LI KWONG WING

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