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1. Economic Review and Prospects


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ECONOMIC REVIEW AND PROSPECTS

Introduction

The favourable trends in economic development experienced by Mauritius in recent years continued in 1986. The main features characterising the evolution of the Mauritian economy last year have been a sustained growth in the productive sectors, an inflation rate unseen in the past fifteen years, an unprecedented level of employment creation and a marked improvement on the external front with a current account surplus after twelve years.

This substantial growth which has revitalised and strengthened the economy was propelled mainly by the country's pursuance of the strategy based on export-led industrialisation, agricultural diversification and tourism. Moreover, a conjuncture of favourable factors, both endogenous and exogenous - the international economic recovery, good weather conditions, fall in world commodity prices, the continued downward movement of the US dollar, the drop in world oil prices and the fall in interest rates - no doubt had a positive impact on the overall performance of the economy.

Prospects for 1987 appear good. Preliminary indications suggest that the actual buoyancy may persist in the future and barring unforeseen circumstances, it is anticipated that the Mauritian economy may grow by over 5% this year.

Output

After a real increase of 6.8% in 1985, Gross Domestic Product at factor cost grew by 7.1% in 1986, from Rs 11,263 m to Rs 12,066m. This is the first time in the last 9 years that the economy managed to grow by over 7%. This also compares favourably with the estimated average growth rate of 1.2% in output of African countries.
The manufacturing sector, led by the EPZ, again constituted the driving force in the growth process with a 32% rise in value added. A bumper sugar harvest which resulted in the second highest sugar production level of all time - 706,839 tonnes, compared to 718,362 tonnes in 1973 - pulled up the agricultural sector by 8%. In addition, the tourism related sector 'Restaurants and Hotels', thrived by an impressive 12%, following the surge in the number of tourist arrivals and higher expenditure per tourist.

Expenditure

Gross Domestic Fixed Capital Formation (GDFCF) continued to expand rapidly as a result of the favourable investment climate prevailing in the country, the attractive package of incentives offered to investors, and the intensification of the investment promotion campaigns abroad. Investment in constant terms, which stood at Rs 2,530 m in 1985, attained Rs 2,976 m in 1986, representing an annual increase of 18%. Moreover, 65% of total fixed investment were made by the private sector hence confirming the shift in the pattern of investment in recent years in favour of the private sector. Public sector investment consisted mainly of a number of infrastructural works such as the construction of a new terminal building, access road and car park at Plaisance Airport, road repairs and construction of new roads (Phoenix - Nouvelle France Road, Port Louis Through Road).

Growth of domestic consumption was contained below that of output. As a result although aggregate consumption expenditure rose by 6.1%, it fell as a percentage of GDP from 78.5% in 1985 to 75.4% in 1986. Gross Domestic Savings rose further and represented 24.5% of GDP at market prices, compared to 21.5% in the previous year.
An interesting point to note here is the reversal that has taken place recently in the savings/investment function. Savings, which fall short of investment in the pre-1983 period, now far exceed the level of investment. This excessive saving has resulting in excess liquidity in the system. This is evidenced by the recent floating of the Bank of Mauritius stocks worth Rs 450 m which were oversubscribed in only one day by about Rs 1,000 m.

MAIN ECONOMIC SECTORS

1. Agriculture

Following a bumper sugar harvest, value added in agriculture expanded by 8% in 1986 compared to 11.3% in 1985. The good climatic conditions that prevailed last year, and an extraction rate averaging 11.57 brought sugar production to 706,839 tonnes, the second highest level after that of 1973. In spite of a depressed world sugar market, export proceeds from sugar went up from Rs 2,867 to Rs 3,545 m, principally due to a higher volume exported and the favourable evolution of the Monetary Compensatory Amounts (MCA) 1/

The agricultural diversification policies initiated during the past 4 years continued to turn in a satisfactory performance. Important strides were made in non-sugar agricultural production, especially with respect to livestock, maize, onions, milk and horticultural produce. While livestock production (cattle, goat, sheep, and pigs) increased by 26%, from 1254 tonnes to 1601 tonnes between 1985 and 1986, foodcrop output attained 65,700 tonnes. The fishing industry also experienced rapid growth with production rising from 7,058 tonnes to 7,977 tonnes as a result of higher catches of tuna.

1/ The Monetary Compensatory Amount (MCA) is established on a weekly basis either as a levy or a subsidy in line with the relative strength of the commercial & vis-a-vis other currencies. A week pound will generate a subsidy and Mauritius will be compensated accordingly. On the other hand Mauritius will have to pay a levy in case the pound becomes stronger.
2. Manufacturing

For the third year running, the manufacturing sector continued to be an important foreign exchange earner and absorber of the rising labour force. Value added in real terms in the sector increased substantially by 15.8%, as a result of the sustained buoyancy shown by the EPZ. In fact, it was the EPZ subsector that accounted for most of the progress achieved, with annual volume increase of 32% in 1986.

This noteworthy performance could be attributed to the existence in the country of an appropriate climate for business confidence and entrepreneurial spirit to flourish, the incentives provided to investors, and the aggressive promotion campaigns undertaken by Government. The number of export-oriented firms increased significantly from 290 in 1985 to 408. Despite efforts made to diversify the prevailing product mix, around 75% of these firms were engaged in the production of textiles and garments.

Moreover, most of the employment created stemmed from the EPZ. From December 1985, the number of employed in the EPZ farms increased by 20,064 and attained 74,015 by the end of 1986. The share of male employment in the EPZ which was only 18% in 1983 actually reached 33% in 1986. This positive phenomenon is the result of the liberalisation of wages for male workers and the readiness of male workers to perform night shifts.

In spite of protectionist pressures against certain textile products, overall EPZ exports surged remarkably by 52% in rupee terms from Rs 3172 m in 1985 to Rs 4,960, in 1986. Around 80% of total EPZ proceeds were made up of textiles and clothing. As a result of larger demand for raw materials and capital goods, EPZ imports rose to Rs 3,837 m from Rs 2,524 m in 1985. At the same time net EPZ earnings went up sharply from Rs 748 m to Rs 1123 m, but represented only 23% of total EPZ exports as in the past two years.

2/ Mauritius had to go in for quota negotiations with the US and Canada
3. Tourism

The increased dynamism shown by the tourism industry in the last two years continued in 1986. The promotional activities conducted by Government and the private sector in both traditional markets and potential markets of the Gulf countries, the USA, Switzerland and the Far East seem to be bearing fruit.

Tourist influx which stood at 148,860 in 1985, rose by a hefty 11% to attain a figure of 165,000 in 1986. There was a substantial increase in tourist arrivals from most of the country's traditional markets. Moreover, it seems interesting to underline the remarkable performance of the newly tapped markets of the US and Singapore, with arrival figures of 1970 and 1995 respectively. France continued to be the most important long-haul market for Mauritius, accounting for 18.8% of tourist arrivals. With 25% of total tourist inflow, Réunion remained the main short-haul market.

Receipts from tourism also rose markedly and for the first time surpassed the Rs 1 million bar. From Rs 845 m in 1985, Gross Earnings from tourism attained Rs 1,175 m, as a result of the surge in the number of tourist arrivals, the greater share of long-haul tourists in total tourist inflow and higher expenditure per tourist (Rs 7,121 m in 1986, compared to Rs 5,676 m in 1985).

In order to keep pace with rapid rise in the number of tourists visiting the country, accommodation facilities had to be increased. Between 1985 and 1986, one additional hotel came into operation which brought up the total number of hotels to 56; existing hotels also increased their room capacity. As a result, the number of rooms went up from 1,344 to 1,530 while the number of bed places rose from 2,682 to 3,086.
Inflation

The year 1986 witnessed a remarkable stability of prices not observed during the past 15 years. The inflation rate, as measured by the Consumer Price Index (CPI), fell down to 1.8% from 6.7% in 1985, mainly as a result of a drop in prices of many imported commodities such as edible oil and petroleum products, following the downward movement in the exchange rate of the US dollar. Moreover, the budgetary measure concerning the reduction of fiscal duties on certain commodities like medicinal products and cooking gas was another factor in compressing the general price rises.

It is worth noting that the inflation rate of 1.8% in 1986 is the lowest recorded since 1971 when prices rose by 0.3%.

Employment and Unemployment

Prompted by the rapid expansion of economic activity in the country the employment situation continued to improve perceptibly. Between September 1985 and September 1986, 22,507 new jobs were created which brought the total number of employed in large establishments to 237,895. 95% of the new workers were absorbed/manufacturing, more precisely by the expanding EPZ Sector.

Furthermore, the number of registered unemployed which stood at 58,453 in December 1985, fell by little over 15%, and reached 49,454 by the end of 1986. The unemployment rate followed a similar trend and dropped to 13%, from 15.7% in the previous year.
Balance of Payments

After almost a decade, the visible trade balance of the country has shown a surplus. Excluding the acquisition of the ATR 42 plane, the trade surplus recorded for 1986 is estimated to be of the order of Rs 311 m with total exports reaching Rs 9,401 m as against Rs 9,090 for total imports. This is indeed a remarkable performance specially if cognizance is taken of the fact that only last year the visible trade deficit was as high as Rs 1,100 m.

Total exports, which were Rs 7,018 million in 1985 recorded an increase of 34% in 1986 reaching Rs 9,401. Though proceeds from sugar contributed significantly to this upsurge in exports, the Export Processing Zone (EPZ) confirmed its role as a key sector in the economy. Total EPZ exports witnessed a 52% increase in value terms moving from Rs 3272 m in 1985 to Rs 4960 in 1986.

Total imports of goods increased from Rs 8,120 m in 1985 to Rs 9,090 m in 1986. The major import items continued to be raw materials and equipment for the EPZ, food and petroleum products. With the sustained buoyancy in the EPZ sector, the higher demand for capital goods and raw materials persisted in 1986 thereby being responsible to a large extent for the increase in imports.

As a result of this substantial improvement in the trade balance, the current account, which was once cause for concern, improved considerably. The current account which registered a deficit of Rs 469 m in 1985 is estimated to have recorded a surplus of Rs 1,385 m in 1986.

The capital account, however, recorded a small deficit of Rs 14 m in 1986 compared to a surplus of Rs 49 m for the previous year. This deficit for 1986 was mainly the result of a lower disbursement and higher amortisation for Government loans.
The overall balance of payments showed a surplus of Rs 1716 m in 1986 compared to a surplus of Rs 258 m in 1985. Side by side, the foreign reserves of the country improved considerably in 1986. While in 1985 the level of reserves was of the order of Rs 472 m, it more than tripled in 1986 reaching Rs 1630 m which represented about 10 weeks' imports.

Public Finance

The 1986/87 budget aimed at consolidating further the conditions for sustained growth on the macro economic front. While the basic objective of bringing down the overall budget deficit constituted the mainstay of the Government's fiscal policy, the focus on other measures such as employment creation, higher private investment in export oriented activities and the elimination of bottlenecks in the economy continued.

The budget performance of the Government for 1985/86 has been beyond expectation. The actual deficit was of the order of 3.7% of GDP as against a budgeted one of 5%. The policy of monitoring closely expenditure and boosting up recurrent revenue continued over financial year 1986/87. As a result, recurrent revenue which was estimated at Rs 4,350 m at the beginning of the financial year has been beyond target and is expected to be of the order of Rs 4,700 m.

The evolution of the fiscal performance over the past few years has been crucial in ushering in an era of confidence in the economic policies of the Government. While the rationalisation of the tax structure continued in a bid to provide a major thrust to exports, the overall budget performance is expected to be on target with the deficit expected to be around 4.5 - 5% of GDP for 1986/87.

It is important at this stage to put on record the push given to the economy by a favourable international environment.
The year 1986 presented some signs that world economy was slowly moving out of the prolonged recession of the early 1980's. The depreciation of the dollar continued and the fall in interest rates maintained itself. As a result, the economy scored substantial improvement on the debt front. The external debt service ratio, partly as a result of these factors and partly as a result of an extremely good export performance has been brought down from its peak of 26.1% in 1984 to an estimated one of 13% in 1986. Total external debt outstanding also witnessed a downward trend moving from Rs 10,400 m as at end December 1985 to only Rs 7,880 m as at end of June 1986 with the central government accounting for 59% of this total.

Monetary policy

The monetary policy of the Central Bank continued to be dictated by the need to provide necessary credit to the productive sectors by ensuring that the private sector is not crowded out by the public sector. The policy of ensuring that financial flows to the productive sectors of the economy was maintained. As a result, net credit to the Government, which was 57% of total credit at the end of December 1985 is estimated to have gone down to 49% at the end of December 1986 while the private sector found its share increasing from 43% to 51% over the same period.
Prospects

Outlook for 1987 is good. The sustained growth achieved over the past three years has created the appropriate climate for the present growth momentum to persist in the medium term. In fact after an annual average increase of 6.2% in output for the period 1983-1986, conditions are all set for the economy to grow by over 5% in 1987. Moreover GDP at market prices is for the first time expected to surpass the Rs 20,000 m mark.

With an increase of 25% in value added, the EPZ will continue to be characterised by the increased vitality shown so far. Moreover it is expected to generate about 15,000 new jobs while exports may well exceed Rs 6,200 m. During the first three months of this year, more than 45 Export Enterprise Certificates (EEC) have been issued and the number of new firms joining that sector continues to increase. Furthermore the 7 new industrial buildings actually erected by MEDIA - 7 buildings were completed in 1985 - have already been booked and will be operational in 1987 itself; the DEM's Industrial Estate at Vacoas-Phoenix was inaugurated in the beginning of the year.

However, judged by the rapid pace of industrialisation taking place, the actual factory space will come under increasing pressure. Yearly space requirement has actually been estimated at 500,000 sq.ft. Government is conscious of this and is negotiating an Industrial Building Programme with the World Bank for financing the construction of additional industrial parks. Moreover, the private sector which has so far played a limited role in this respect, will be encouraged, through various incentives to go into the construction of industrial buildings. The passing of the Industrial Building Incentives Act No. 24 of 1986 will no doubt motivate private
enterprises and individuals to invest in that field.

Exports of the EPZ which are expected to grow significantly and exceed Rs 6,200 m will still be critically dependent on textiles and garments. Such overconcentration in the textile sector is not a healthy sign for the EPZ and for the pace of industrialisation as a whole, especially in the wake of protectionist pressures by some countries against certain textile products. The MEDIA will be increasingly involved in export promotion campaigns to diversify the existing product mix and market outlets through its participation in different international fairs and by inviting potential industrialists interested in ventures other than textiles. However, one should not expect the present industrial structure to change overnight.

The agricultural sector is also poised to turn in a good performance in 1987. The fairly good climatic conditions prevailing so far has benefited the cane crop, and it is estimated that sugar output for the oncoming harvest may well attain 690,000 tonnes.

Furthermore there will occur an intensification of the Agricultural Diversification Programme - value added of 'other agriculture' will rise by 4% - with a view to increase production for export and at the same time reduce further the country's dependence on food imports.

The incentives and infrastructural facilities provided to planters - guaranteed prices, additional storage facilities etc. - will boost up foodcrop production and lead to the attainment of self-sufficiency in a number of items actually fully or partly imported. As a result of various measures taken to support livestock development, local meat production is expected to rise significantly; the construction of a new bergerie will make it
possible for the country to meet its need in mutton locally. Fish production will also increase both for local consumption and the export market.

Tourism which features prominently in the Government's development strategy will have an enhanced role this year with the holding of the 'Festival de la Mer' in September. Though the effect of such a manifestation cannot be fully gauged, it will no doubt give a serious boost to the tourism industry. Tourist inflow is reckoned to grow by over 10% and arrivals is expected to exceed 180,000; at the same time gross earnings are estimated to attain Rs 1,350 m by the end of the year.

Investment is estimated to increase by 8% in real terms and will stem from the priority sectors. While the public sector will continue to improve the infrastructural set-up, the private sector will spend most of their resources in machinery and equipment, the construction of new hotels and expansion of existing ones, and other related investments. Domestic demand is also expected to increase and this may lead to a 4% rise in aggregate consumption; however, as a percentage of GDP it will go on falling to 73.5%, hence increasing the mobilisation of resources for productive uses.

The level of employment is expected to rise significantly as in 1985 by another 20,000, thus reducing further the rate of unemployment. For the second year running, the trade balance is reckoned to show a surplus. Both imports and exports may go up, to about Rs 10,500 m and Rs 10,800 m respectively, principally due to rises in both output and inputs of the EPZ sector.

CONCLUSION

The year 1986 has seen an impressive upsurge in economic growth. Nearly all the economic parameters have pointed towards a revitalisation and strengthening of the economy. Moreover there are signs that the actual
momentum will be sustained in the future. However it is important to emphasize here that the country's heavy dependence on sugar and textiles, makes it vulnerable to the vagaries of the weather, and to the general drift towards increasing protectionism by some developed countries.
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<sup>a</sup> Preliminary estimates  
<sup>b</sup> Forecast  
<sup>c</sup> Including re-exports and ships' stores and bunkers  
<sup>d</sup> As at September  
<sup>e</sup> Fiscal year