Economic Indicators

An Occasional Paper

ISSUE No. 124

April 12, 1991


MINISTRY OF ECONOMIC PLANNING & DEVELOPMENT
PORT LOUIS
MAURITIUS

CENTRAL STATISTICAL OFFICE, PORT-LOUIS
Read on 22 APR 1991
ECONOMIC REVIEW AND PROSPECTS, 1990-1991

INTRODUCTION

As the World entered the last decade of the 20th century, little did it know what was in the offing. 1990 was to be a year of major international events. The countries of Eastern Europe started to move towards a more market-oriented economy. As this change-over progressed, the initial ecstasy of its welcome gave way to mixed feelings. So-called third-world countries feared that financial flows from the OECD countries would be diverted eastwards rather than to the South. They also became aware of the increasing industrial competition that would result, compounded by the emergence of a unified Europe. Concurrently, the deadlock of the Uruguay Round of talks continued to fuel a sense of uncertainty and insecurity particularly amongst developing countries relying on an open trading environment. In the second half of the year, the Gulf crisis unfolded, with inevitable repercussions on international economic exchanges.

2. Domestically, 1990 was to be an improvement over the previous year and brought a feeling of relief to those who had feared that the spell of good years had come to an end. The sugar and EPZ sectors played prominent roles in this recovery. As sugar output increased by nearly 10% with a relatively good harvest, and the EPZ sector recovered with exports reaching Rs 11,400 m, the overall rate of real growth of the economy went up to 6.8%, compared to 4.4% in 1989.

3. Throughout the course of the year, the inflation rate remained a cause of concern as prices of a number of goods and services kept on increasing. Wage negotiations resulted in a full cost-of-living compensation for the lower-income groups and an average compensation of 7.5% for the entire working population. This wage pressure together with the unavailability of labour, particularly skilled labour, continued to act as major constraints to further economic development.

4. Encouraging signs of improvement were noted in the manufacturing sector in 1990 compared to the year before. Both the EPZ and non-EPZ sectors recorded satisfactory growth rates. However, the EPZ sector continues to face difficulties regarding productivity and competitiveness. The view is gaining ground that a combination of appropriate domestic policies, worker motivation and higher value-added industrial activities is needed to fuel the next stage of EPZ growth. Such a mix will enable the country to make the most of any given external environment.

Output

5. The 1990 sugar crop was less than expected. Actual output fell short of the initial forecast of 640,000 tonnes by some 16,000 tonnes. The other leading sector of the economy, namely the manufacturing sector performed above expectations. The EPZ sector recovered from its low performance of 1989 with a 9% rate of real growth, which generated Rs 4,070m worth of value-added in 1990. Similarly, the non-EPZ manufacturing sector benefited from the performance of the newly-operational flour-mill, as well as by the expansion of the furniture-making industries, the steel-rolling industry and the food-processing industries.

6. The tourism sector also generated a higher value-added than expected in spite of the uncertain climate prevailing as a result of the Gulf crisis. Both arrivals and earnings proved satisfactory. As for the business and financial services sector, it maintained its expansionary trend.
7. Consequently, overall GDP growth rate for the year 1990 was half a percentage point higher than the 6.3% forecast previously, standing at a satisfactory 6.8%. In current terms, Gross Domestic Product at factor cost reached Rs 31,070m.

8. The high levels of investment which have been witnessed each successive year since 1983 persisted in 1990. Even when such exceptionally large investments as the acquisition of 2 aircraft by the national airline, 1 patrol aircraft for the National Coast Guard and the inter-island passenger/cargo vessel are excluded, the real rate of growth of Gross Domestic Fixed Capital Formation (GDFCF) was of the order of 13.2% in 1990. With these investments included, the final investment rate stands at nearly 21%.

9. While investment from the private sector has been mainly directed to residential buildings, commercial and office buildings and hotels, the public sector's investment programme has been well diversified. Major public sector works in 1990 include the completion of the Jawaharlal Nehru Hospital, the Belle-Vue Mauricia Stadium, the highway upgrading project, the continuation of the Nouvelle-France-Plaisance Road and considerable road maintenance and repairs. Large investments were also undertaken by the Mauritius Marine Authority in the development of port infrastructure and in land reclamation. Similarly, the Mauritius Telecommunication Services and the Overseas Telecommunication Services invested significantly in construction works and network expansion. It is worth noting that, as a consequence of the modernisation of the economy, investment in machinery and other equipment has been quite substantial in recent years. In 1990, it accounted for approximately 33% of overall investment.

10. While extensive capital formation was taking place in the economy, domestic savings were not able to keep pace with the level of investment. The savings-investment gap recorded a staggering deficit of Rs 2,500m in 1990 (exclusive of investment in ship and aircraft) while the savings rate continued on its downward trend to reach 21.4% at the end of 1990. Further heavy investments in the public sector will
intensify external borrowing unless the investment programme is curtailed or additional local investible resources are generated.

SAVINGS-INVESTMENT BALANCE
(As a % of GDPMP)

Year

11. Private domestic consumption expenditure persists on a declining trend, recording a real growth rate of only 5% in 1990, which is below the rate of growth of the overall economy. However, in current terms, aggregate consumption expenditure remains high because of the prevailing inflationary situation. It thus accounts for 78.6% of Gross Domestic Product at market prices in 1990.

Selected Economic Indicators, 1987-1990

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<tr>
<td>1.GDP at market prices</td>
<td>Rs m</td>
<td>23,576</td>
<td>27,803</td>
<td>32,015</td>
<td>39,945</td>
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<tr>
<td>2.Overall consumption expenditure</td>
<td>Rs m</td>
<td>17,117</td>
<td>20,724</td>
<td>24,635</td>
<td>29,025</td>
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<tr>
<td>3.Gross domestic savings</td>
<td>Rs m</td>
<td>6,459</td>
<td>7,079</td>
<td>7,380</td>
<td>7,920</td>
</tr>
<tr>
<td>4.Gross domestic fixed capital formation</td>
<td>Rs m</td>
<td>5,090</td>
<td>7,990</td>
<td>8,565</td>
<td>11,600*</td>
</tr>
<tr>
<td>5.Savings-Investment Gap</td>
<td>Rs m</td>
<td>+1,369</td>
<td>-911</td>
<td>-1,185</td>
<td>-3,680</td>
</tr>
<tr>
<td>6.Domestic savings</td>
<td>%</td>
<td>27.4</td>
<td>25.5</td>
<td>23.1</td>
<td>21.4</td>
</tr>
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*Includes purchase of aircraft and ship
MAINECONOMICSECTORS

Agriculture

12. The agricultural sector was marked in 1990 by drought which was detrimental to the growth of sugar cane, particularly in the northern region. In spite of a better extraction rate and a higher yield of sugar per hectare, which increased by 7.7% and 10.7% respectively over 1989, sugar production in 1990 reached only 624,362 tonnes.

13. Sugar export proceeds amounted to Rs 5,104 m as compared to Rs 4,946 m in 1989, representing a nominal increase in earnings of 3% as compared to a 10% annual average during the 1980's. The price freeze witnessed on the EEC market since 1988, failing prices on the world market for sugar as well as a major drop in the volume of exports were the major factors explaining the below-average performance in sugar export earnings in 1990. However, this was partly compensated by an increase in the rupee price as a result of the appreciation of the pound sterling, a higher volume of exports to the US market owing to an increase in quota for 1990/91, and a larger share of special sugars fetching higher prices in total sugar exports.

14. The tea sector did not show any significant improvement. Production of green leaf and made tea which had taken a downward trend since 1986 made a timid turnaround in 1990. The sector yielded some 29,900 tonnes of green leaf and 5,750 tonnes of made tea last year, as compared to 29,200 and 5,500 respectively in 1989. The volume of tea exported, on the other hand, fell by 9% to 4,237 tonnes. Consequently, with prices on the world market sagging at a low level, the smaller volume exported earned the country only Rs 82 m, less than a third of what it was in 1984.

15. The performance of the rest of the agricultural sector was, however, quite satisfactory. Production of foodcrops increased by 5% to 65,600 tonnes. Meat production followed the upward trend in living standards with cattle, pig, goat, sheep, and poultry production all registering sharp increases of more than 20% on average over 1989. It is to be noted that the increase in cattle meat production resulted from imported live cattle while that from local sources actually fell by about 25% in 1990. As regards the fisheries sector, production of fresh fish remained constant at 2,500 tonnes while output of frozen fish and tuna from the banks decreased by about 7%, restricting total production to 13,985 tonnes in 1990 as compared to 14,881 tonnes a year earlier.

16. The agricultural sector faces a number of challenges. The scarcity of arable land and increased competition for labour from the EPZ and tourism sectors are putting intense pressure on the sector to make more efficient use of available resources. The International Meeting on the Agricultural Sector (IMAS) held in Mauritius last December aims at tackling these fundamental problems and set the stage for an ambitious programme for the modernisation of the sector. The programme which is phased over a 5-year period (1991-1995) focuses on such areas as de-rocking and mechanisation, research and farmers' training, sugar factories modernisation and equipment, energy production from bagasse and so on.

Manufacturing

17. The manufacturing sector recovered in 1990, growing at 8.2% in real terms. This sector now represents 24% of GDP at factor cost compared to 15% a decade ago.

18. After the disappointing performance registered in 1989, the EPZ picked up last year with a real growth rate of 9%. Although well below the performance recorded in the 5 years to 1987, this still compares favourably with the 6% increase of the preceding year.

19. At December 1990, the EPZ had some 508 enterprises, 5 units more than in 1989, and a workforce edging the 90,000 mark. Of the 62 new firms which started operation in the year, more than 50% were in
the non-textile sector, an indication that the policy aimed at steering investment into areas other than textiles and garments is achieving a reasonable measure of success.

20. Over 55 closures were registered in the EPZ in 1990, bringing the total number of firms which ceased operation over the last two years to 164. The gradual erosion of the country's comparative advantage in labour-intensive exports compels EPZ firms to adopt more sophisticated and capital-intensive methods of production while concurrently moving upmarket in order to stay in business. Heavy capital investment is required during this transitional phase. The small firms are particularly vulnerable as they are faced with additional problems of management and marketing. However, many of the small units that closed down were merged with bigger companies, thereby further consolidating the sector.

21. The pace of employment creation in the EPZ has slackened considerably since 1988. In 1990, some 1,300 jobs were created, representing a growth in employment of 1.4% over 1989. The EPZ workforce appears to have stabilised around 90,000.

22. The wollen garments sector which consists of firms manufacturing "pullover and gloves" continued on its declining trend with a further loss of around 800 workers in 1990, bringing the total net loss in employment in this sub-sector for the last 3 years to 6,600. The sector presently accounts for 33% of total EPZ employment compared with 52% for the "other garments" activities. In 1987 their shares were 41% and 47% respectively.

23. The significant decline in the knitwear sector is attributable to a fall in demand in the country's major markets. This underscores the need for greater diversification and rapid adaptability in the EPZ to demand conditions abroad in order to maintain growth.

24. EPZ exports amounted to Rs 11,440m in current terms while imports totalled Rs 7,400m, leading to a positive trade balance of the order of Rs 4,000m in 1990 as compared to Rs 1,500m in 1989. Higher export volumes combined with higher prices owing to a shift by EPZ producers to higher quality items were the main determinants of the 26% increase in EPZ export receipts. Other contributing factors were (i) a first-time fall in the level of EPZ imports in 1990, attributed to a rundown of stocks to normal level by EPZ firms, (ii) increased vertical integration and (iii) a fall in the prices of two main EPZ inputs, namely wool and cotton, of the order of 10%. Consequently, net export earnings of the sector, including the effect of the rundown of excess stocks accumulated in 1989, shot up from 17% to 35%.

25. In 1990, the EPZ continued to be faced with problems of skills scarcity, high labour turnover, absenteeism and low productivity. The associated upward pressure on wages has made it difficult for EPZ producers to maintain competitiveness. This could partly explain why a large chunk of the quota allocations on the US market for the period October 1989 - September 1990 was left unutilised.

26. The "other manufacturing" sector, excluding sugar milling and the EPZ, registered a lower growth rate of 6.5% in 1990 as compared to 9% in 1989. However, this sub-sector is still a major component of manufacturing, making up for more than a third of sectoral value-added in 1990 and providing employment to nearly 24,000 workers in large establishments.

Tourism

27. 1990 has been a good year for the tourism industry. Amidst the threats posed by the Gulf Crisis and mild recession in some source markets, the performance of the sector exceeded expectations. Some 29,000 additional tourists visited the country last year, bringing total arrivals to about 292,000 with gross earnings of Rs 3,500m. The number of visitors from the country's traditional markets, with the exception of France, was on the rise with the UK leading with a growth rate of 33% followed by Reunion Island (13.0%) and South Africa (9.6%). These 4 markets together accounted for about 65% of total arrivals in 1990.
28. A disquieting feature of the tourism sector in 1990 has been the rapid increase in room capacity as compared with the growth in tourist arrivals. Room capacity increased by 28% during the year with the addition of 1,000 new rooms to the existing stock while the sector recorded a growth in arrivals of 11%. The emerging imbalance between the demand for and the supply of hotel rooms is of major concern.

29. The sector is already facing a drop in average overall room occupancy rate, from 66% in 1988 to 62% in 1990. In parallel, the occupancy rate for large hotels fell from 83% to 77% over the same period. The immediate impact was also visible through a fall in average earnings per bed night as well as average earnings per room night from their 1989 level; this in spite of the fact that average expenditure per tourist was about Rs 12,000 as compared to Rs 10,040 for 1989.

30. In view of the prevailing situation, Government announced a freeze on new hotel projects in March last year. However, for the tourism industry to maintain the dynamism and profitability that it had been accustomed to in the past, it is essential that it achieves a tourist growth potential in line with reasonable hotel occupancy rates. This requires inter-alia an intensification of tourism promotion programmes abroad, greater market diversification as well as an expansion in airline seat availability. It is also necessary to maintain and, if possible, reinforce the country's upmarket image as a tourist destination.

Financial Sector Highlights

31. In recent years Mauritius has been pursuing policies aimed at broadening and diversifying its financial system. Commercial banks have traditionally been the prominent financial institutions in the country and the development of the financial network has tended to focus more on the banking system. The development of the securities market, offshore banking units, a leasing company, a national mutual fund, and unit trusts among others - are indications of the far-reaching changes that the financial market is undergoing. However, in spite of these innovations, the local financial sector continues to be dominated by the performance within the banking system, by the operations of the different pension funds (National Pension Fund, Sugar Industry Pension Fund, etc) as well as by the activities of the non-bank financial intermediaries such as the insurance companies, the Mauritius Housing Corporation, the Post Office Savings Bank and the Development Bank of Mauritius Ltd.

32. The Stock Exchange of Mauritius (SEM) which was set up in July 1989 with only 5 listed companies has over the last 20 months expanded its activities and presently has 17 public companies on the "official list". From Rs 337,830 during the first day of trading on 5 July 1989, the volume of transactions for companies on the official list has not stopped growing and has on the last trading day in 1990 attained Rs 508,993. The market capitalisation (1) which was Rs 958m at the launching of the SEM stood at Rs 3.79 billion at the end of December 1990 due to the introduction of new companies on the official list but also due to the rise in share prices.

33. The total number of shares traded on the official market has also been on the rise. 22,508 shares were traded at the end of December 1990, compared to 14,665 on 5 July 1989. For 1990 as a whole, a total of 3.4m shares valued at Rs 86m has been traded on the official market. An important indication of the SEM's efficiency was its ability to raise new capital for productive ventures. Indeed 3 rights issues (2) were organised successfully on the trading floor last year.

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(1) The Market capitalisation is the value at current prices of a company's ordinary and preferential shares that are issued and fully paid.

(2) A rights issue is one of the means for a company to raise additional share capital, whereby existing shareholders may buy new shares in the company usually at a discount on the current market rate.
34. The SEM has further extended its activities with the opening of the Over-The-Counter (OTC) market in April 1990. About 75 unlisted companies have so far been traded on the OTC market. Another market for bonds, The Debt Securities Market ("Marché obligataire") was launched in November last whereby debentures issued by the Mauritius Leasing Company were traded. This market, however, does not seem to have been too successful so far. Another innovation worth mentioning is the "open outcry" ("à la criée") system introduced in September 1990.

35. In order to further the concept of democratization of the economy, and to widen share ownership in the country, a National Mutual Fund (NMF) was set up. It is specifically aimed at mobilising the resources of small savers and investing on their behalf. As such the NMF General Fund was officially launched in June 1990 and within one month the unit trust was able to mobilise about Rs 77m from 6,834 subscribers, principally due to the fiscal relief that was associated with the scheme. The NMF has also launched the Property Trust in November 1990.

36. The setting up of an offshore banking sector in Mauritius was another crucial element in furthering the development of the local financial services sector. In the last 2 years, a number of offshore banking licences have been granted by the Bank of Mauritius and currently 7 banks are operational and are providing various specialised services.

Employment and Unemployment

37. The labour market has been characterised lately by a persistent shortfall of supply which has led, on the one hand, to a rate of unemployment estimated at only 2.5% for 1990 and, on the other hand, to an increasing disparity between the recommended basic wage-rate and the actual wages paid in the key sectors of the economy.

38. Labour is the major constraint as far as the continued accelerated development of the economy is concerned. Every year, some 10,000 new-comers enter the labour market and are rapidly absorbed by the expanding sectors such as trade, hotels, construction and services. In 1990, 6,300 new entrants were employed in "large establishments" (3) in these sectors, while the rest entered the informal sector and other small enterprises.

39. The worst hit sector is undoubtedly the EPZ sector which is compelled to perform below capacity for want of labour. Employment in the EPZ seems to have stabilised at around 90,000, representing some 20% of the labour force. The high mobility of workers among the various EPZ enterprises has created a situation whereby net employment creation each year is marginal in spite of large movements of workers within the EPZ sector. In 1990, the total EPZ employment reduction of 10,300 jobs was offset by the creation of 11,600 new jobs, leading to a net increase of only 1,300 additional jobs.

40. Employment in "large establishments" in 1990 was of the order of 279,410, with a predominance of males. The male to female ratio in total employment has remained constant at 65:35.

Inflation

41. Since mid-1988, the escalation in the level of prices has been of major concern and in spite of attempts to check the inflationary surge, 1990 closed with an inflation rate of 13.5%.

42. Amongst the many price changes that were noted during the course of 1990, the prominent one was that of bus fares following salary/wage increases and the upward revision in the prices of petroleum products. Similarly, electricity tariffs for domestic consumers also went up as fuel prices increased and the prevailing drought reduced hydro-power availability.

(3) "large establishments" defined as those employing 10 or more persons.
43. The severe drought situation also had a strong and sustained incidence on the prices of fresh vegetables over a number of months in the latter half of 1990. 15% of the price increase in 1990 was accounted for by this item only. Fresh fish which became scarcer also fetched very high prices.

44. The Consumer Price Index also felt the brunt of the upward revision of excise duties on alcoholic beverages and tobacco.

Balance of Payments

45. Despite the uncertainty that reigned on the external front with the imminence of war in the Gulf, the balance of payments position was further strengthened in 1990. This had a favourable impact on the country’s foreign exchange reserves which increased appreciably to represent more than five months of imports in December 1990. The net inflows mainly accounted for by new borrowings led to the overall surplus in the balance of payments. However, the current account recorded again a net outflow, due largely to the substantial deficit in the trade balance.

46. The balance of visible trade deteriorated further in 1990 with a record figure of Rs 6,057m resulting from higher imports compared to exports. Whereas exports increased by 3% in volume terms, imports went up by 8%. However, the good prices received on the exports of the country helped to mitigate to some extent the negative effect of the higher level of imports on the balance of trade. Export prices rose by 12% last year while the import price index registered an increase of only 7%. The terms of trade improved by 5 points in 1990 (105 in 1990 as against 100 in 1989).

47. Total exports increased by 16% in nominal terms to reach Rs 15,517m. The visible exports of the country are still largely dominated by sugar and EPZ products. Although the volume of sugar exported fell by 10%, from 636,000 tonnes in 1989 to 578,000 tonnes in 1990, the value of sugar exports rose by 3% and crossed the Rs 5 billion mark for the first time (attaining Rs 5,104m in 1990).

Structure of Exports
Re Million

![Pie chart for 1980 showing Sugar, EPZ, Other]

![Pie chart for 1990 showing Sugar, EPZ, Other]
48. EPZ exports grew by 26% in nominal terms to reach Rs 11,442m in 1990. While the volume growth was of the order of 10%, the price index of EPZ exports recorded an increase of 15%. Textile and clothing remained the major item representing nearly 80% of total EPZ exports, worth some Rs 9,100m. As for the non-textile sector, the jewellery sector, although very small in terms of export earnings, almost doubled its exports which rose from Rs 80m in 1989 to Rs 155m in 1990.

49. The remaining components of the country's export basket remained quite insignificant. Earnings from tea fell by 6%, from Rs 87m in 1989 to Rs 82m in 1990 despite a 6% increase in its price, basically because of a drop of no less than 9% in the volume of tea exported. Receipts from molasses nearly doubled despite a fall of 6% in the volume exported, indicating the favourable price obtained for this product. The item "Other Domestic Exports", which includes among others, vegetables, fruits and horticultural products, witnessed a slight fall from Rs 386m in 1989 to Rs 372m in 1990.

50. The level of imports continued its upward trend and stood at Rs 24,044m in 1990, representing a nominal increase of 19% over the previous year. This can be partly accounted for by the substantial rise in both the price and volume of petroleum products imported. The nominal value of imported petroleum products shot up by 37%, with a full 27% being due to the price effect. Imports of capital goods went up by 35% in 1990, due to the purchase of one ship and three aircraft valued at Rs 1,177m. With the growing needs of the EPZ sector, the share of intermediate goods in total imports remained high at 45%. EPZ imports represented 31% of total imports of the country. However, in nominal terms, EPZ imports fell slightly for the first time from a high of Rs 7,502m in 1989 to Rs 7,389m in 1990, owing partly to a drawdown of excess stocks accumulated in the previous year.

51. The country's main trading partners were the countries of the EEC, mainly France, UK and Germany which together absorbed 64% of total exports while the share of imports from these countries amounted to nearly 30%. USA remained an important export market. In 1990, some 13% of total exports, valued at Rs 2,262m, were directed towards the USA.

52. The substantial deficit in the trade balance had a negative impact on the current account, which is estimated to have further deteriorated from its level of Rs 1,608m in 1989. Had there been no improvement in the services account and current transfers, which are other important items in the current account, the net outflow would have been more pronounced. With increasing earnings derived from tourism, transportation and interest received on the net foreign assets accumulated over the past few years, the surplus in the services account is estimated to have more than doubled in 1990. Current transfers, which showed a net inflow of Rs 1,168m in 1989, are estimated to have undergone a slight improvement.

53. Higher capital inflows associated with direct investments, which had increased by 177% on average between 1986 and 1989, and other developments in the non-monetary sector such as long-term financing acquired for the purchase of the ship and aircraft, had a positive effect on the capital account. The overall balance of payments, which recorded a surplus of Rs 2,225m in 1989, is expected to have further improved. As a result, the foreign exchange reserves of Mauritius attained a comfortable level of over Rs 10 billion as at December 1990.

Public Finance

54. In line with the structural adjustment programme adopted by Government during the 1980's, developments in the field of public finance have been characterised by significant improvements in the budgetary position of the country. The budget deficit which was as high as 12.8% of GDP in FY 81 (4) declined to a low level of only 0.9% of GDP in FY 87. This was achieved as a result of prudent fiscal policy combined with strict budgetary control. However, due to large salary awards and higher public capital investment, the budget deficit rose slightly over the past two years. In the current financial year, the

(4) FY refers to financial year starting July 1st of the year indicated
budget deficit is expected to represent 2.8% of GDP, following the various measures taken to boost up revenue.

55. In nominal terms, the budget deficit went up from Rs 950m in FY 88 to Rs 1,125m in FY 89. For the current year, it is estimated to amount to Rs 959 m. As a percentage of GDP, the deficit stood at 3.2% in FY 88 and 3.3% in the last financial year. This can be explained by the higher total expenditure and net lending, which increased by an average of 19% between FY 87 and FY 89, compared with an average increase of only 14% in total revenue and grants over the same period.

56. In FY 89 total revenue and grants rose by 13% to attain Rs 8,233m. In FY 90 it is expected to increase further to Rs 9,342m due to higher receipts from excise duties, registration duties, land transfer tax and tax on gambling. As a result of the buoyancy of the economy and the improvement in tax administration and revenue collection, recurrent revenue for FY 89 was also higher than expected, increasing by 15% over FY 88.

57. Receipts from taxation, in particular indirect taxes, remain the main source of Government revenue. Import duties and stamp duties on imports brought in some Rs 3.5 billion. With flourishing business in the country, revenue from sales tax amounted to Rs 690m, compared to Rs 572m in FY 88. Following the reduction in sugar export tax as provided for under the Sugar Industry Efficiency Act, revenue from export duties fell to Rs 380m compared to Rs 610m in FY 88. Receipts from excise duties, which were Rs 630m in FY 89, are expected to increase further to Rs 790m in the current financial year as a result of an increase in the rate of tax on alcoholic beverages and tobacco.

58. The share of direct tax increased slightly in FY 89 as a result of higher revenue collected from taxes on income, profits and capital gains and also because of significant improvements in the tax system and in overall tax administration. Revenue from direct taxes amounted to Rs 1,740m, which is an increase of 23% over the previous year.

59. Total expenditure and net lending climbed by nearly 14% from Rs 8,231m in FY 88 to Rs 9,358m in FY 89 and made up about 27% of GDP. For FY 90 it is estimated to go up to Rs 10,300m. Recurrent expenditure increased by some 8% to reach a high level of Rs 8,290m. This can be attributed to the higher wage bill, following payment of arrears and passage benefits as recommended by the Salaries Commissioner for the Public Sector. The wages and salaries bill went up by 15% and took some 40% of recurrent expenditure. Expenses in terms of Public debt servicing, which is another major item of recurrent expenditure, were of the order of Rs 2,550m in FY 89 mainly because of increased borrowing which was contracted locally to mop up excess liquidity and to finance the budget deficit.

60. After registering surpluses in FY87 and FY88, the capital budget recorded a deficit of nearly Rs 500m in FY 89 as a result of a marked increase in capital expenditure which reached Rs 2,415m last year. The harbour development project, projects of the National Development Unit and the construction of Sports Complexes were among the major items of capital expenditure. Capital revenue fell by more than 30% as external financial flows contracted. In FY 90 the deficit in the capital budget is expected to widen further as a result of higher capital expenditure on such projects as water development, improvement of road network and Housing Rehabilitation and Construction Programme.

61. The overall budget deficit of Rs 1,125m in FY 89 was financed mainly by borrowing from the local non-bank sector. Domestic financing amounted to Rs 1,225m whereas external financing was negative due to higher repayments of loans. The overall estimated deficit of Rs 959m for FY 90 will also be financed from domestic sources.

62. The comparatively low fiscal deficits, coupled with improvements in the overall balance of payments and the foreign exchange reserves of the country, had a favourable impact on the structure of public debt. While the external debt of Central Government stood at 37% of GDP in FY 84, it dropped to a low level of 16% in FY 89. Total Internal debt, as a share of GDP, fell from 43% to 33% in the same
period. However, with the recent increasing use of domestic sources of finance to meet budgetary needs, Government internal debt has almost doubled in nominal terms between FY 84 and FY 89 to reach Rs 13,627m last year. As at June 1990, Government external debt was estimated at Rs 5,806m, compared to Rs 5,735m in the preceding year. Following the decreasing trend in the country's total external debt, the debt service ratio declined to 11.1% compared to 13.3% in June 1989.

Monetary Policy

63. The monetary stance of the Government continued to be guided by the excess liquidity in the market, the fall in the savings rate, and the inflationary pressures that threaten the long-term growth prospects of the economy. As during most of the 1980s, monetary policy remained mildly restrictive. It should, however, be pointed out that with the transformation that the financial network is undergoing there are signs that monetary policy will have to be more innovative in order not to compromise its effectiveness as an important tool of economic management.

64. In spite of measures taken since 1987, the phenomenon of excess liquidity, fuelled mainly by the successive surpluses on the BOP front, led to an intensification of demand as well as inflationary pressures in the economy. In addition to the tax-freeBearer Bonds and Treasury Certificates issued earlier, a new issue of the Mauritius Development Loan Stocks worth Rs 1.1 billion was made in April 1990, this was oversubscribed in one day by about Rs 500m.

65. The Bank rate, which was raised twice in 1989, remained at 12%, as against 10% prior to April 1989. To contain the creation of credit by commercial banks, the cash ratio of 10% and the liquid asset ratio of 23% were maintained over the period under review. In October 1989, interest rates on Treasury Bills were raised by 1%, from 10.5% to 11.5% for bills with maturities of 3 months, from 10.75% to 11.75% for those with maturities of 6 months, and from 11% to 12% for bills with one-year maturities. Treasury Bill Rates for bills having a maturity of 3 months were further raised to 11.625% during the course of last year. The interest rate on credit to the EPZ was brought down to 13% to provide some relief to the EPZ sector.

66. As in the past, credit policy remained a major instrument to check the growth of aggregate demand as well as inflation. The ceiling on bank credit expansion was aimed at containing monetary expansion, at ensuring that the development of the priority sectors goes unhindered while at the same time limiting the flow of bank credit into less productive activities. The ceiling on credit to the non-priority sectors has been reduced from 25% to 18% of the overall increase in private sector credit.

67. After growing by 45.2% in 1987, the pace of monetary expansion showed a marked slowdown, increasing by 32% in 1988, and by 15.4% in 1989. The slowdown in the increase of net foreign assets of the banking sector, as well as the monetary policy adopted, were partly responsible for such a deceleration. However, in 1990 monetary expansion picked up again, rising by 21% as net foreign assets of the banking system increased by as much as Rs3,600m, which represented a 44% rise over 1989.

68. Net domestic credit, which grew by 12.2% in 1989 as against 22.6% in 1988, is estimated to have gone up by 16% in 1990 due to the rise in credit to both the public and private sectors. After having actually fallen by about 6% in 1989, the claims on the public sector rose by about 3% last year, as Government increased its borrowings on the local market. Credit to the private sector increased by another 21% in 1990, which was more or less in line with the target. It is worth mentioning that the share of domestic credit to the private sector continued to rise and attained 75% of total domestic credit last year, compared to only 48% in 1986. The efforts made by Government to limit the flow of credit to the public sector so as not to crowd out the private sector have proved successful.

69. Money supply, which consists of currency with the public and demand deposits of the banking system, rose from Rs 3,821m in 1988, to Rs 4,514m in 1989. It was targeted to grow by only 14% in 1990. However, with the higher surplus registered on the BOP front and with the one month end-of-year bonus
paid to the public sector, the growth of money supply in 1990 is estimated to have gone up by about 24%. At the same time, quasi-money which is the sum of the savings- and time-deposits of the banking system, continued to grow at a slightly lower pace than money supply, - with a rise of 20% in 1990, as against 14.7% in the preceding year.

Prospects 1991

70. The current year started in a general climate of uncertainty. Major concerns included (i) the outcome of the GATT negotiations and its incidence on the prices of sugar and on the continuation of the Multi-Fibre Arrangement; (ii) the issue of the Gulf crisis and its bearing on the local tourism industry; (iii) the persistence of the drought and its effect on the sugar crop, on the prices of vegetables and on agriculture in general; (iv) the outlook for the EPZ sector after a bad year in 1989 and (v) the tight domestic labour market situation.

71. The Gulf War was of short duration and has had only a marginal effect on tourism in the first quarter of 1991. Prospects for the rest of the year are bright with an expected 315,000 arrivals generating gross earnings estimated at Rs 4,200 m. Renewed efforts are being made to increase the occupancy rate in hotels, which dropped as hotel-capacity increased.

72. The severe drought which has prevailed in Mauritius since the end of last year has so far been detrimental to the sugar crop and to the rest of the agricultural sector. Even with the advent of some rain in April/May, it is expected that the present crop will not exceed 600,000 tonnes of sugar. The sugar industry will be further affected this year as sugar prices are currently under heavy pressure as a result of the move for the global liberalisation of trade in agriculture. It is feared that sugar prices may fall.

73. Similarly, the Multi-Fibre Arrangement, which expires in July 1991, may not be renewed if the liberalisation of trade in textile and textiles products is approved at the resumed Multilateral Trade Negotiations of the Uruguay Round of GATT. This move will adversely affect the Mauritian textile and textile industry in some markets (e.g. the US) where, in spite of its current preferential treatment, it is finding it hard to cope with the severe competition from other non-preferential textile-exporting countries.

74. The EPZ sector, dominated as it is by the textile and garment sector, thus faces stiff international competition. To remain in the race, the EPZ sector must modernise and become more efficient. Problems of labour shortages, worker absenteeism, and higher operating costs must be tackled firmly. Efforts at industrial diversification have started, but remain rather timid. It is expected that, with proper motivation, enhanced training facilities and encouragement, the EPZ sector, which has recovered in 1990 from its disappointing performance of 1989, would continue growing at a satisfactory rate of 7% in 1991. EPZ exports for 1991 are forecast at around Rs 13,000 m. Overall GDP growth in 1991 is likely to be around 4.3%, compared to the average rate of growth of 6.9% for the preceding five years.

75. Investment expenditure, which has been high for the last few years, is expected to record a more moderate real growth rate of approximately 7% in 1991 over 1990 after allowance is made for the exceptional purchase of the ship and aircraft in 1990. Several major construction projects in the public and private sectors are nearing completion or have already been completed. In 1991, only 2 new hotels are expected to be constructed. A fall will also be recorded as far as non-residential buildings are concerned. However, residential buildings are expected to record a high growth of 20% due to the implementation of the low- and middle-cost housing programme. Other investment projects include another major Road Improvement Programme due to start later this year, the start of the Rose-Hill National Pension Fund building, the acquisition by the CEB of 2 generators and the installation of various transmission and other equipment by the Mauritius Telecommunication Services.

76. A further deceleration in the annual rate of growth of consumption is expected in 1991. With a 3% increase in private consumption and a 4% rise in public consumption expenditure, the share of overall consumption expenditure in GDP (itself expected to grow by 4.3%) shows a declining trend in constant
terms. Yet, at current prices, the consumption-output ratio stays at a high level because of greater inflationary pressure on the items falling in the consumption basket. The savings rate will thus not improve and will remain at 21.5%, almost the same level as in 1990.

77. In 1991, the deficit on the current account is expected to be lower than in the last two years. The balance of trade deficit will remain high at approximately Rs 5,000 m; a doubling of the net exports of non-factor services is expected as a result of increased earnings from tourism and transportation. Net Investment Income which turned positive last year, will also continue to benefit from the increased interest earned on higher foreign reserves, as a result of the surpluses on the balance of payments since 1985. The current year will also be another surplus year for the capital account, with even a better balance than in 1990.

78. On the whole, 1991 is expected to be a reasonably good year as far as the main productive sectors are concerned. Some scope exists for better performance in the manufacturing sector as well as in the services sector with some changes in the domestic policy environment, combined with favourable developments on the external front.

MEPD
12 April 1991