Economic Indicators

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   March 1994 Estimates
3. External Trade - 4th Quarter and Year 1993

MINISTRY OF ECONOMIC PLANNING & DEVELOPMENT
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INTRODUCTION

The year 1993 saw a number of developments on the international front which will have far-reaching implications for the future prospects of the world economy: the European Union's single market has been substantially completed; the NAFTA has been ratified; talks on the Asia-Pacific Economic Cooperation have proceeded well; and finally the Uruguay Round of talks to reform and enlarge GATT was concluded successfully, after seven years of haggling. In addition to the tariff-cutting that has been part of every past round of GATT talks, the present Round seeks to extend multilateral discipline to agriculture and textiles, two sectors to which the economic fortune of Mauritius is inextricably linked.

2. Coupled with the trend towards the formation of regional economic and trading blocs worldwide, the depressed state of the industrialised economies was to fuel a sense of uncertainty among outward-oriented developing countries like Mauritius which rely on a bustling and open trading external environment for their survival. The prolonged recession in Europe and the timid recovery underway in America, the country's main trading partners, presented major challenges to local economic operators as they strived to enhance their international competitiveness and retain their market shares amidst threats of stiffer competition from emerging low-cost competitors. Renewed efforts were thus noted at various levels during the year towards productivity and quality improvements, increased value-added, the modernisation of production apparatus, manpower training as well as more aggressive exports marketing.

3. The generalised feeling of pessimism prevailing among local economic operators at the beginning of 1993 regarding economic outlook, as a result, paved the way slowly to renewed optimism as the year wore out. Indeed, most of the performance indicators turned out much more positively than initial projections. Both the EPZ and tourism sectors succeeded in weathering the downturn in their markets, recording highly satisfactory growth rates while the financial services sector justified the hopes placed into it to becoming the fourth growth pillar of the economy, with major increases noted in the stock exchange, the freeport and offshore activities.

4. However, some unfavourable developments on the local front were to cast some clouds on the economic performance for 1993. The drought conditions which prevailed early in the year proved detrimental to sugar cane production. The ensuing reduction in sugar output was significant enough as to have dampening effect on the overall growth of the economy.

5. Inflation became another major source of preoccupation during the year, as the prices of a wide variety of consumption goods and services kept on rising. The inflationary tendency, already apparent at the beginning of 1993, showed signs of
intensifying in July with the implementation of the PRB report which awarded considerable wage and salary increases to the public sector. However, the unrelentless efforts of the authorities to come to grip with this problem proved decisive in slackening the pace of growth in the general level of prices during the second half of the year, bringing the inflation rate to much lower levels than expected, although it finally settled at double-digit figure.

**OUTPUT**

6. The overall GDP growth rate for 1993 worked out to 5.0% in real terms as compared to a robust 6.7% in 1992. The deceleration in the pace of growth is mainly accountable to the drought-related drop in sugar output. In fact, a shortfall of some 80,000 tonnes of sugar was registered in 1993 as compared to the previous year's production of 645,000 tonnes, resulting in a reduction of as much as 14.5% in the growth rate of the sugar sector. The Construction sector also failed to sustain its buoyancy and grew by only 6%, compared to a 10% annual average over the last five years. The remaining sectors of the economy were, in general, on target. The Transport, Storage and Communication sector and the Producers of Government Services repeated their performances of the previous year with growth rates of 8.0% and 4.0% respectively. A slightly expansionary trend was, on the other hand, registered for the EPZ (7.0%), non-EPZ manufacturing activities (8.0%), wholesale and retail trade (7.8%), restaurants and hotels (11.0%) as well as for the utilities sector (9.9%).

7. Thus, Gross Domestic Product at factor cost moved to Rs 46,500 m in 1993, up from Rs 40,300 m in the past year while per capita income rose from Rs 38,600 to Rs 43,800 over the same period, thereby pushing the country further up the ladder of the upper-middle income group of countries.

<table>
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<th>1992</th>
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<td></td>
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**EXPENDITURE**

8. Gross Domestic Fixed Capital Formation (GDFCF) amounted to Rs 15,400 m in 1993, representing 28.1% of GDP at market prices. In nominal terms, investment grew by a high 13% as compared to 10%, the year before. The prevailing regime of low interest
rate and other positive measures taken to boost investment has certainly helped to revive confidence in the productive sectors of the economy, in spite of the fact that the industrialised countries were still in recession.

9. After a year of relative stagnation, private investment soared by a hefty 23% in current terms to reach Rs 11,025 m, thereby raising its share in total GDFCF by some 5.7 percentage points to 71.6% in 1993. The concomitant drop in the share of public investment from 34.1% to 28.4% reflects Government's policy to limit its role to that of a facilitator, creating an enabling environment for the private sector to do business and ensuring that the latter is not being crowded out of much-needed investible resources.

10. An analysis of the sectoral composition of GDFCF shows a surge in EPZ investment to Rs 900 m last year, following three years of successive decline. The near-totality of that investment was in machinery, indicating an acceleration of the restructuration and modernisation process underway in the EPZ. Another sector which enjoyed a buoyancy in investment in 1993 was the Financing, Insurance, Real Estate and Business Services sector. Investment in dwellings, in particular, flourished, increasing by 17% in current terms, after hitting a more spectacular 39% growth in 1992, attributable largely to subsidised housing loans made available to the low-income groups by the MHC Co. Ltd. as well as the implementation of the national housing programme by the NHDC. Investment in the Transport, Storage and Communication sector also registered a marked increase of the order of 27%, in line with the modernisation of the economy.

11. Aggregate domestic consumption which has been maintaining a 4.0% real growth rate over the last two years, expanded by 5.6% to reach Rs 41,600 m in 1993. This upsurge in consumption expenditure is not comparable to that witnessed in the wake of the first PRB report in 1987, when growth swelled by nearly 18% in real terms. However, the magnitude of the increase was substantial enough as to impinge adversely on the level of domestic savings. The share of the Government in total consumption expenditure went up by half a percentage point to 16.2%, owing mainly to the substantial
increase in its wage bill; the households sector, the largest consumer of goods and services, accounted for the remaining 83.8%.

12. During the year, new instruments of savings were made available to the public in the form of the Bank of Mauritius bonds as well as greater accessibility to share ownership on the stock exchange. The Plan Epargne Logement (PEL), on the other hand, by increasing the hopes of the small income earners for owning a house, attracted to it an increasing share of the low-income groups in the country. In spite of this, the overall macro-economic environment was, in general, not conducive enough to encourage savings in the country. Rising inflation which resulted in negative real interest rate on savings and time deposits acted as a disincentive for households to save, unleashing a spending spree for consumer durables instead. Consequently, the savings rate fell from 25.0% to 24.2% during the year.

![Fig. II: Savings-Investment Balance](image)

13. The savings-investment gap recorded a deficit of Rs 2,150 m, equivalent to about 4.0% of GDP. With intensive capital formation taking place in the country as a result of increased sophistication and modernisation of the economy, the investment-savings balance will tend to widen over time. Unless greater efforts are undertaken now to mobilise additional resources locally, this may impinge on the country’s foreign exchange reserves or may lead to more borrowings from abroad.

| Table II- Mauritius: Selected Macro-economic Indicators, 1989-1993 |
|-------------------|-----------|------------|-------------|-------------|-------------|
| GDP at market prices | Rs m     | 32265      | 38035       | 42635       | 47647       | 54871       |
| - Real GDP Growth  | %         | 4.7        | 7.2         | 4.3         | 6.7         | 5.0         |
| Investment (GDFCF) | Rs m     | 8565       | 11865       | 12385       | 13630       | 15400       |
| - Share in GDP     | %         | 26.5       | 31.2        | 29.0        | 28.6        | 28.1        |
| Domestic Savings   | Rs m     | 7479       | 8739        | 10130       | 11932       | 13256       |
| - Share in GDP     | %         | 23.2       | 23.0        | 23.8        | 25.0        | 24.2        |
| Savings-Investment Gap | Rs m  | -1086      | -3126       | -2255       | -1698       | -2144       |
| Consumption        | "        | 24786      | 29296       | 32505       | 35715       | 41615       |
| - Real Growth Rate | %         | 6.6        | 5.2         | 3.5         | 4.4         | 5.6         |
MAIN ECONOMIC SECTORS

14. **Agriculture:** the agricultural sector was severely hit by the drought at the beginning of 1993. Agricultural output declined by 7.2% in real terms last year as opposed to a growth of 6.5% in 1992. In current terms, value-added stood at Rs 4,585 m, thereby reducing its share in GDP from 11.1% to 9.9%.

15. The climatic conditions prevailing during both the vegetative and maturing stages were detrimental to sugar cane growth and extraction rate. The yield of sugar cane per hectare for 1993 was 72.9 tonnes against 77.0 tonnes in 1992 while the extraction rate slid from 11.1% to 10.5%. In parallel, the land under sugar cane cultivation continued to dwindle. In 1993, a further decrease of 947 hectares was registered which brought total area harvested to 74,130 hectares. As a result, the 1993 sugar crop reached only 565,000 tonnes, far off the target of a normal sugar production of 650,000 tonnes. Sugar export proceeds registered its first decline in the last nine years, falling to Rs 5,770 m, or Rs 70 m less than in 1992. The price freeze witnessed on the EEC market since the last few years and the major drop in the volume of exports on the world market helped explain the slight fall in sugar export earnings in 1993.

16. The tea sector remained in a depressed state, with the production of black tea increasing by 1.5% only, to attain 5,931 tonnes in 1993. The average export price of tea grew by an impressive 34% to attain Rs 23.35 per kg. However, the volume exported plummeted by a disquieting 20%, so that export earnings went up by only some 8% to reach Rs 103 m.

17. The rest of the agricultural sector performed satisfactorily. Improved weather conditions in the second half of the year were quite favourable in propping up production of foodcrops which reached 79,050 tonnes in 1993, representing an increase of 9.7% over 1992. Apart from potato, maize, groundnut and ginger, major increases were noted in the production of chilies (37.4%), tomato (27.4%), cabbage (65.6%), cauliflower (20.4%), brinjal (50.0%), onion (12.3%), beans and peas (15.1%), creepers (14.9%), other vegetables (28.1%), banana (15.8%) and pineapple (76.0%).

18. Beef production increased by around 6% to 2,525 tonnes in 1993, resulting mainly from a higher level of imports as slaughter of local animals, in fact, decreased by a fifth to 428 tonnes. Production of goat meat and mutton declined by 4% to 138 tonnes while pork production edged up by 6% to 1,054 tonnes. Poultry production, on the other hand, maintained its upward rising trend expanding by nearly 10% to 17,000 tonnes, in line with increasing demand. As regards fish production, increases of the order of 17% was noted in the production of frozen fish from banks and of 6.1% in tuna catches. These contributed to offset the shortfall of some 3% in the production of fresh fish, raising total output from 17,580 tonnes to 19,050 tonnes.
19. **Manufacturing:** Reduced activities of the sugar sector owing to the poor harvest had also a non-negligible effect on manufacturing output. Thus, the 14.5% drop in value-added of the sugar milling manufacturing sub-sector contributed to pull down the overall manufacturing growth to 5.5% in 1993, from 6.5% a year ago. The other two components of the manufacturing sector, namely the EPZ and "other manufacturing" performed quite well.

20. Despite the intensifying heat of global competition and severe recession in its main markets, the EPZ knew a relatively good year, growing by a robust 7.0% in 1993, compared to 6.0% in 1992. At December 1993, the sector counted some 536 enterprises, employing around 85,600 workers, 70% of which were female as against a peak of 586 firms and 90,900 employees in 1991. The loss in the number of firms and employment witnessed in the sector over the last two years, far from reflecting an unhealthy situation, points to the EPZ undergoing a process of consolidation through restructuring and modernisation to move upmarket and maintain its competitive edge. Major progress was, as a result, noted on the productivity front as an increasing number of firms realised that considerable scope existed for increasing output or minimising input by making a more optimum use of available resources. Real value-added per worker, used as a proxy indicator of productivity, grew by an impressive 11% in 1993.

![Fig III: EPZ Exports by Countries of Destination](image)

21. Thus, in spite of the reduction in the EPZ workforce, output in the sector continued to rise in value terms. In 1993, EPZ exports increased by a hefty 21% to Rs 15,800 m. The US market became particularly attractive to local exporters as a result of the appreciation of the US dollar which rendered EPZ products more competitive. Exports to the US market, consequently shot up from Rs 2,300 m to Rs 4,000 m during the year thereby increasing its share in total EPZ exports from 17.6% to 25.3%. A concomitant decline from 75.3% to 67.3% was registered in the share of the EEC, the country's main trading partner. Other factors explaining the spectacular growth of exports to the US market may be put to the credit of more aggressive marketing efforts in the USA to counteract the effect of the recession in Europe, as well as a more effective monitoring and utilisation of quotas in this market.
22. EPZ imports registered an increase of around 30%, much higher than the growth in exports. Imports of machinery crossed the one billion mark for the first time, to reach a record Rs 1,105 m in 1993, pushing total EPZ imports to Rs 9,326 m, from Rs 7,133 m in 1992. Part of the inflated imports bill was due to a replenishment of stocks by firms. As a result, net EPZ exports fell from 45% to 41%. The resulting deterioration in this efficiency indicator of the EPZ deserves to be interpreted with caution. It does not mean that the EPZ is actually using more imports per unit of exports. But, as is evident, it is the results of efforts towards increasing production capacity and effectiveness, hence auguring well for the future of the EPZ.

23. EPZ investment rebounded strongly in 1993 to a high of Rs 900 m, from Rs 560 m in 1992. The biggest chunk of the investment was in machinery, confirming the shift that is taking place in the sector towards upgraded and more capital-intensive production technology.

24. The "other manufacturing" sub-sector that englobes firms catering mainly for the local market maintained a high growth pace in 1993, expanding by 8.0% as compared to 7.0% in 1992. This sub-sector remains a major component of manufacturing, constituting around 40.0% of manufacturing value-added and providing some 48,000 jobs in large establishments in 1993.

25. **Tourism:** The tourism sector, through its focus on quality, shielded itself quite well from the difficult economic conditions of its main source markets, growing by 11% in 1993. Tourist arrivals exceeded the initial estimate by some 15,000, as 373,000 tourists visited the country bringing in foreign exchange earnings of around Rs 5,500 m. The corresponding figures for 1992 were 335,400 and Rs 4,655 m respectively. The Restaurant and Hotels sector, generally used to gauge the contribution of tourism in the economy, generated some Rs 1,700 m in the form of value-added, some Rs 300 m more than in 1992, bringing its share in GDP to 3.7%. It also accounted for about 70% of the 11,600 jobs that the industry employed in 1993.

26. Tourism statistics for the first nine months show that the main growth markets were Germany (+36%), Belgium (+54%), India (+31%), United Kingdom (+20%) and France (+16%), while Reunion Island and the Republic of South Africa, our main short- and medium-haul markets, registered less robust increase of 9% and 5% respectively. The combined efforts of the MGTO, the National Carrier and the major hotel chains were crucial in achieving relatively good results in these markets which together accounted for 76% of tourist arrivals in that period. The intensified promotional campaigns undertaken in the last few years to tap less traditional markets, however, proved less rewarding. Indeed, Japan, Hong-Kong, USA and Australia each registered a decline of the order of 37%, 19%, 9% and 19% respectively.

27. One new hotel was added to the existing tourist accommodation park in 1993, bringing the number of licensed hotel in the country to 85, with a room capacity of 5,300.
The restriction imposed on the construction of new hotels has had a dent on the precarious financial situation of the hotel sector. Thus, overall room occupancy rate which dropped to around 50% over the previous two years registered a major improvement to 57% in 1993. It may be noted that for large hotels, the room occupancy rate was a much higher 66% compared to 59% the year before.

28. Competition has been quite fierce during the year as existing hotels, indulging in a price war, battled to get a fair share of what is potentially a shrinking market. This is reflected in the slow growth of per capita tourist expenditure which increased by 5% in current terms, much lower than the 15% average annual growth rate obtained in the nineteen-eighties.

29. **Financial Services:** The Financial, Insurance and Business Services sector staged a good performance with a growth rate of 6.6% in 1993 which caused value-added to edge Rs 2,400 m in current terms.

30. Although, the banking sector, the pension funds (National Pension Fund, Sugar Industry Pension Fund) and the non-banking financial intermediaries (insurance companies, MHC Ltd, the Post Office Savings Bank and the DBM Ltd) accounted for the chunk of the value-added generated in the sector, innovations like the stock exchange, offshore activities, the freeport, leasing companies, unit trusts etc are fast emerging as major contributors to growth, besides rendering the sector more diverse and competitive.

31. New fiscal incentives introduced in the last two budgets contributed to give renewed dynamism to stock market activities in 1993. Eight companies were admitted on the Official market during the year, bringing the total of listed companies to 29. This has improved the level of trading compared to the preceding year. The number of shares traded increased by more than two-folds, rising from 10.5 m to 37.3 m while the value of transactions was 3.8 times higher than in the previous year, or Rs 683.4 m. The market capitalization, that is the value of shares of listed companies, accordingly, shot up from Rs 6.7 billion to Rs 14.7 billion accountable in the main, besides additional listings, to new issues as well as increases in share prices. The share price index of the Official Market, namely the SEMDEX, which started with a base of 100 in July 1989 reached 302.6 in December 1993, up from 183.2 a year earlier.

32. On the Over the Counter (OTC) market, nearly 4.4 million shares were traded in 1993, involving some 72 companies, for a total value of Rs 128.2 m.

33. The offshore sector is slowly building itself a reputation in the region and some 600 companies have been registered to-date. In the past year, major efforts were undertaken to widen the appeal of Mauritius as a financial centre. Apart from fielding promotional campaigns to countries in Europe, the Carribean as well as Malaysia and the Republic of South Africa, new double taxation treaties have also been sought with existing trading partners. In this respect, much progress has been made with China and South Africa. Although direct employment in the sector is still small, offshore businesses are
creating significant activities for such professions as accountants, bankers, lawyers and information technologists.

34. The freeport, operational as from the third quarter of 1993, became another major source of attraction to economic operators. Some 100 licenses were issued during the year. The twenty-five or so companies that started operation generated a turnover of some Rs 125 m in the first three months. The activities were mainly geared towards entrepot trade and distribution.

EMPLOYMENT AND UNEMPLOYMENT

35. The labour market remained tight in 1993-a reflection of the quasi-full employment situation which has characterised the economy over the last four years. Total employment in the country reached some 479,500 of which 165,000 were accounted for by female and 282,200 by large establishments. In comparison to 1992, this represents some 11,000 additional jobs, more or less equivalent to the number of job seekers joining the labour market each year.

36. The agricultural sector registered a net loss of some 500 workers in 1993 bringing total employment in the sector to 71,000. This fall in employment which was mainly in large establishments and, more specifically, in the sugar industry caused the share of agricultural employment in the total to drop from 15.3% to 14.8%. With the growing mechanisation of the sector, the trend towards a smaller agricultural workforce is likely to persist in the future.

37. The manufacturing sector, with some 139,000 employees or 29% of total workforce, remained the biggest employer in the country. However, this sector has shed some of its dynamism in terms of employment creation over the last few years as a result of accelerated modernisation and more capital-intensive production activities, more specifically in the EPZ sub-sector. Indeed, the manufacturing sector counted some 2,000 jobs less in 1993 than the year before, most of the loss being in the EPZ. Consequently, the share of EPZ in total manufacturing employment shrank to 60%, down from 63% in 1992. EPZ employment continued to be predominantly female. However, in the overall manufacturing sector, employment is more balanced with a ratio of 1 female to 1.1 male.

38. Another major employer in the country is the Government, both central and local, with a workforce of some 60,000 in 1993. Employment in that sector has remained nearly constant since 1990.

39. It is worth mentioning, in passing, that over the last few years the rate of job creation in small establishments, including the self employed has outpaced that of large establishments. Thus, over the period 1990 to 1993, while large establishments were showing signs of stagnation, employment in the small units grew by an average of about 7% annually, increasing from 161,000 to 197,000. Within the small establishments, the
trade, transport and manufacturing concerns, with an annual growth rate averaging around 10% each stood out of the lot.

40. Some 9,000 people were believed to be unemployed in 1993, of which two-thirds were male giving an unemployment rate of 1.8% as compared to 2.1% a year earlier. Faced with labour shortage problems, the country had to resort to the importation of foreign labour in certain sectors, in particular the EPZ and Construction so as not to hamper growth.

INFLATION

41. Inflation which took a downward path from a peak of 13.5% in 1990, to reach 7.0% and 4.6% in 1991 and 1992 respectively, made a sharp turnaround to 10.5% in 1993.

42. The depreciation of the Mauritian rupee vis-a-vis the major currencies while increasing the price of imports in rupee terms contributed to unleash major cost-push pressures in the economy during the year. This was compounded by the substantial wage and salary increases awarded to the public sector in the second half of the year, fanning further inflationary flames as other sectors adjusted to increases in the cost of living. Major revisions were, thus, noted in the cost of telephone services (40%), taxi fare (12%), road tax (70%), private tuition (24%) and private medical services (30%).

![Graph: Main Interest Rates and Inflation Rate, 1989-93](image)

43. However, the biggest increases were registered in the prices of food items. The restructuring of subsidies on rice and flour in the course of the year sent the prices of these two commodities soaring by 70% and 90% respectively, with important spill-over effects on related items like bread (40%) and cakes and snacks (24%). Major increases were also noted in dairy products (15%), poultry (10%) and soft drinks (15%). The unfavourable
climatic conditions prevailing at the beginning of the year, for its part, had significant effect on the price of fresh vegetables which shot up by 20%. These food items, together, accounted for more than 55% of the increase in the Consumer Price Index during 1993.

**BALANCE OF PAYMENTS**

44. The external account showed signs of weakening during the previous two years as a result of substantial deficits in the balance of trade, the reimbursement ahead of schedule of some debts and growing investment by Mauritians in the region relative to capital inflows from abroad. From a peak of Rs 3,440 m in 1990, the Balance of Payments (BOP) surplus slid to Rs 2,950 m in 1991, before recording a sharp contraction to Rs 720 m in 1992. Latest indications tend to suggest that this trend persisted last year. The country's foreign exchange reserves, as a result, are estimated to hover around the Rs 15 billion mark in December 1993, more or less the same level of a year ago, signalling a slight deterioration in terms of weeks of imports.

45. The trade deficit grew bigger during the year mainly as a result of higher imports compared to exports. Whereas exports increased by 4% in volume terms, imports went up by almost 8%. The deteriorating terms of trade further widened the gap between exports and imports. Imports prices shot up by 11% last year while the export price index rose by a lower 9%. The terms of trade with a base of 100 in 1992 thus shed some two points to reach 98, resulting in a record deficit on the merchandise account of some Rs 6.800 m in 1993 compared with Rs 4.550 m a year earlier.

46. Total exports grew by 13% in value terms to edge Rs 23,500 m in 1993. Sugar exports receipts registered a marginal fall owing to an 8% drop in the volume exported. EPZ exports, on the other hand, expanded by 21% in nominal terms. These two sectors continued to dominate, accounting for 26% and 70% of visible exports respectively. Some 85% of exports from the EPZ is made up of textiles and garments. In spite of efforts at diversification, a high level of concentration also persisted at the level of the market, with the EEC and the US, together, absorbing over 90% of domestic exports last year.

47. Imports maintained a steep upward trend, soaring by 20% in nominal terms during the year to attain Rs 30,300 m. The substantial rise in imports emanated partly from the growing needs of the EPZ sector for intermediate goods, namely machinery and equipment (+27%) and raw materials (+63%). Apart, from petroleum products, all the other major components of imports recorded increases ranging from 17% to 30% in value terms. Food and other consumer goods imports, in particular, rose by a spectacular 24%, triggered by the major pay increases in the economy. It is important to note, in passing, that the structure of imports has experienced considerable changes over the last decade. Thus, the item "food and other consumer goods", which constituted 32% of the import bill in 1983, has reduced its share to around 23% in 1993, while intermediate products and capital goods have increased theirs from 37% to 47% and 12% to 22% respectively.
48. The huge trade deficit was partly compensated by surpluses on the services account and positive net current transfers. The tourism sector acted as a catalyst in contributing to reinforce the invisible account with a total receipts of around Rs 5,500 m. However, this was insufficient to prevent further deterioration in the Current Account. With increasing direct investment abroad, the Capital Account recorded a net outflow in 1993. However, taking account of the Net Errors and Omissions, the overall Balance of Payments remained positive.

PUBLIC FINANCE

49. The overall budget deficit has hovered around 2.0% of GDP for the past four years compared to the 12.0% in the early eighties. This improvement in the budgetary position was brought about by the gradual rationalisation of government expenditure and an increase in the buoyancy of the tax system. The strict fiscal discipline of earlier years is being maintained for the financial year 1993. The overall budget deficit initially projected at Rs 1158m, equivalent to 2.0% of GDP, may have to be revised upwards as a result of cyclone Holland. The marginal improvement in the pre-Hollanda budget situation will be largely due, as in the recent years, to the expected increase in the buoyancy of tax yields. The reform and modernisation of the tax system, with the introduction of "Pay As You Earn" (PAYE) and "Current Payment System" (CPS) was designed to contribute to the increase in total revenue by about 17%.

![Graph showing revenue and expenditure](image)

50. In FY 92, total revenue and grants rose by 7.3% reaching Rs 11,640 m. Indirect taxes remain the main source of Government revenue. Import duties and stamp duties brought in Rs 4,670 m, representing about two-fifths of recurrent revenue. In spite of the substantial increases in personal tax allowances and the tax exemption thresholds of small
income earners, direct taxes increased from Rs 2,203 m to Rs 2,240 m between FY 91 and FY 92 and these are forecast to increase further to Rs 2,557 m during the current financial year. The improvement in personal income tax collection and a broadening of the tax base attributed mainly to an increase in wages and salaries, prompted personal income tax to rise by 21%. Corporate tax, however, declined to Rs 775 m, from a high of about Rs 1 billion in FY 91 following the streamlining of the tax system in the productive sectors. Receipts from excise duties which were Rs 886 m in FY 91 increased substantially to cross the Rs 1.0 billion mark in FY 92 as a result of the 20% increase in the tax rate on alcoholic beverages and tobacco.

51. The share of total Government expenditure in GDP continued its downward trend declining further from 26% of FY 91 to 24% in FY 92. However, recurrent expenditure as a percentage of total outlays increased by nearly 1.0%, from Rs 10,275 m to Rs10,880 m primarily because of the higher wage bill and current transfers. The wage bill is estimated to reach Rs 5,326 m in the current financial year accounting for about 42% of recurrent expenditure.

52. Capital expenditure which rose by 12% in FY 91 registered an increase of 25% last year, reaching an all time high of Rs 3,600 m. Equipment for the Sugar Planters Mechanical Pool Corporation and integrated irrigation and road construction projects contributed to the increase in capital expenditure.

53. The overall budget deficit of Rs 1,059 m in FY 92 was funded essentially by borrowing from local sources. Domestic financing amounted to Rs 1,359 m whereas net external financing indicated an outflow of Rs 300 m due mainly to repayments of foreign loans of the order of Rs 822 m.

54. The pattern of financing of the budget deficit also indicates a marked change from that of previous years. Commercial banks’ contribution through the purchase of Treasury Bills, to finance deficit which was around 50% in the early 1980’s, increased considerably in the late 1980’s, except in FY 1991. The non-bank financial sectors’ contribution which averaged at 35% in the first half of the eighties, also went up in the following years. Up till FY 82, almost half of the budget deficit was financed mainly by borrowings from Bank of Mauritius (BOM). Thus, in recent years, there was a gradual substitution of BOM credit by commercial banks and the non-banking sector in financing the fiscal deficit.

55. As a result of the containment of the overall budget deficit to near 2% over the past four years and the gradual withdrawal of government from productive activities, total public debt has decreased from Rs 22,895 m in FY 91 to Rs 20,459 m in FY 92. As a share of GDP, internal debt fell from 37.8% to 29.8%. As at June 1993, Government external debt was estimated at Rs 6,485 m compared to Rs 5,475 m in the previous year. However, in spite of the increase in the country’s external debt, the debt service ratio, which is the ratio of total debt service payments to total exports, decreased from 9% in 1992 to 8% in 1993, mainly as a result of higher export earnings.
MONETARY POLICY

56. Recent developments in the monetary sector have been marked by the introduction of new instruments of financial management and the establishment of new financial institutions like the Mauritius Offshore Business Activities Authority (MOBAA) and the National Investment Trust (NIT). With increasing emphasis on modernising the financial system and adopting international practices like the BIS guidelines, Mauritius is well poised to become a financial centre in the region.

57. Prior to 1991, the major instruments for conducting monetary policy were credit ceilings for individual banks, interest rate controls and selective rediscount mechanism designed to reallocate credit at subsidised interest rates. The financial reform, initiated in late eighties, aimed at gradually replacing the system of restrictions on financial institutions with a more indirect system of monetary control. Thus, interest rates were liberalised, credit ceilings were eliminated and restriction on current international transactions were removed. However, the credit/deposit ratio has been increased from 61% to 65% to check any inflationary upsurge. The move to open-market operations, planned for this year, as the principal instrument of monetary control, will undoubtedly further liberalise the financial system and will greatly improve BOM's ability to manage monetary aggregates.

58. The monetary stance of Government continues to be guided by the need to check the inflationary pressures resulting from excess liquidity. The large salary and compensation awards coupled with the continuous surpluses in the overall BOP led to a rapid growth of reserve money which left the banking system with large volume of surplus funds.

59. To mop up the excess liquidity and stimulate savings, the BOM issued two types of savings bonds incorporating interesting fiscal incentives—Progressive Interest Rate Bonds of a maturity period of 5 years with the option to be encashed after 4 years bearing an interest rate of 10% for the first year and rising by 0.5% each year to reach 12% the fifth year, and Variable Interest Rate Bonds of a maturity period of 7 years with the same option of encashment after the fourth year and bearing an interest rate of 3% above the Bank Rate. This also aims at dampening inflationary pressures in the economy. It is estimated that the savings bonds scheme has, by the first week of December 1993, absorbed some Rs 130 m.

60. The Bank Rate was reduced by three percentage points to 8% in 1992 to stimulate domestic investment, especially in capital intensive technology and new equipment. The savings and deposit rates stabilised at around 8% without any increase in the lending rates. The lower interest rate and the greater access to credit helped to boost investment, which increased by 13% last year. However, the real interest rate which has turned negative as a result of double-digit inflation, will have to be closely monitored so as not to deter the growth of savings.
Recent data points towards a deceleration in the growth of money supply. From a growth rate of 12.4% in 1992, M1, consisting of currency in circulation and demand deposits of the banking system, recorded a decline of 1.1% last year. The slowdown in the increase of net foreign assets during the past two years, combined with the recent prudent fiscal and monetary policies, were mainly responsible for such a decline.

PROSPECTS

At the dawn of 1994, all the ingredients were present which pointed that this year would be a rather exceptional one as far as economic prospects were concerned. It was even prognosticated that growth would edge the 7.0% mark, a target which at that time looked realistic and within easy reach. However, these hopes were dashed with the passage in February of cyclone Hollanda.

Besides causing considerable damages to the country's physical infrastructure, Hollanda dealt a severe blow to the sugar cane plantations and foodcrops production on the island. As a result, the agricultural sector will, again this year, perform poorly and is expected to register a decline of about 3.0% in real terms which will lower its contribution to the economy by a further percentage point to around 8.7% in 1994. In terms of value-added, the sector will add an estimated Rs 4,600 m to GDP, more or less equivalent to its level in 1993.

The sugar sector will fare badly due to a shortfall of some 15% from an average annual sugar crop which will translate in a 5% deceleration in its growth rate. This year's sugar output is, accordingly, expected to be lower than that achieved in 1993, by some 15,000 tonnes. This conservative first estimate which put sugar production at 550,000 tonnes may have to be revised upwards during the course of the year, if the relatively favourable weather conditions prevailing after cyclone Hollanda are maintained till the harvest time. The non-sugar agriculture which includes foodcrops should recover satisfactorily during the year, although its performance is likely to be below the previous year's out-turn by some 3%.

This counter performance from the agricultural sector will, as a result, impinge adversely on the overall growth rate of the economy for the second year in succession. It is a reminder that the Mauritian economy is still vulnerable to the vagaries of weather, in particular droughts and cyclones, and will remain so for a long time to come. However, given its more diversified and wider economic base, the country is now in a better position to cushion such shocks so that the impact on the economy is smaller than would otherwise be the case.

The other productive sectors of the economy are expected to benefit from the recovery in the industrialised countries. Given the heavy investment taking place in the EPZ, that sector seemed well set to capitalise on the improved international economic environment. Nevertheless, continued progress on the exports front will depend on the
ability of local operators to meet the exigencies of the market in terms of quality, price and timely delivery which will give them the necessary edge over their competitors. On the basis of past trends, it is estimated that EPZ will grow by some 8% in real terms in 1994, with exports edging Rs 18,500 m.

67. The tourism sector is poised to maintain its upward trend both in terms of arrivals and earnings which are estimated to reach 400,000 and Rs 6,000 m respectively. The Financial and Business services sector will also do well and may register a growth rate of some 6.5% in 1994. A comprehensive and modern legal framework is expected to come into force during the year, that will look after all financial services in the country, apart from banks and insurance. In the Stock Exchange, the number of trading sessions has already been increased to four since the beginning of the year and a Central Depository System will be introduced to speeding up securities transfer and settlement procedures. A Venture Capital Fund as well as an Export Credit Insurance will also be set up.

68. Consequently, the economy is forecast to grow at around 5.0% in 1994, more or less the same rate as last year. GDP at market price is estimated at Rs 62,000 m. With population growth hovering around 1%, per capita income will continue to improve to reach some Rs 57,600 by the end of the year.

69. Investment expenditure is expected to shoot up by about 20% in current terms to reach Rs 18,900 m in 1994 mainly as a result of the purchase of an aircraft by the national carrier worth some Rs 2,000 m. Excluding this exceptional expenditure, investment will come to a more reasonable level. The growth in consumption expenditure, on the other hand, is expected to slow down to about 4% in real terms but because of inflationary pressure, its share in GDP will tend to go up from 75.8% to 76.5%. Unless timely corrective measures are taken to encourage households to postpone consumption to a future date, the savings rate will deteriorate further in 1994, to settle at 23.5%. In a similar vein, the resource gap is estimated to widen so as to represent some 7% of GDP.

70. The import bill will feel the pinch of the expansion in investment, bulging by 20% to about Rs 35,600 m in 1994. This may partly be attributed to repairs to the country's physical infrastructure caused by cyclone Holland. With exports projected at Rs 26,000 m, the deficit in the balance of trade is likely to swell to about Rs 9,000 m by the end of the year. Increased earnings from tourism and net current transfers may not be sufficient to put a brake to the deficit on the current account. However, the positive capital account is expected to exert a favourable influence so as to result in a surplus in the overall Balance of Payments.

71. In a nutshell, the economy will perform satisfactorily this year. The projected deterioration in the savings rate and trade deficit as well as the high inflation rate are causes for concern and call for a fine tuning of the monetary and fiscal policies, with a view to restoring stability in the macro-economic environment. All the same, continued efforts should be made to improve productivity of the labour force, so crucial for maintaining the country's competitive edge in international markets. With the economy in
a state of full employment, increased output per worker will, in addition, help mitigate the spill-over effects of rising wages on prices, keep inflation at bay, thus providing scope for a better performance of the economy.

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