Economic Indicators

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ECONOMIC REVIEW AND PROSPECTS- 1994-1995

The Mauritian economy grew at a comfortable rate of 5% in 1994 as in the previous year. This performance has been achieved despite cyclone Hollanda whose impact on the agricultural sector has been more severe than expected, the tight labour market situation and a competitive international environment. However, preliminary estimates point towards higher growth in 1995.

A. Economic Review

2. Gross Domestic Product (GDP) at market prices edged Rs 61,544 m last year compared to Rs 54,877 m in 1993. This indicates a nominal increase of 12%. With the exception of the agricultural sector whose contribution in nominal GDP increased by only 5% to attain Rs 4,750 m last year, performance in other sectors of the economy such as the services sector and the manufacturing sector has been better as witnessed by their double-digit nominal growth rates.

I. Sectoral Performance

3. The agricultural sector was seriously affected with the passage of cyclone Hollanda. It recorded a negative growth rate of 6.8% as against an estimated rate of -4%. This has led to a further decline in the share of agriculture in GDP, which attained a low of 10% in 1994. Sugar production reached only 500,200 tons last year compared to 565,000 tons and 643,000 tons in 1993 and 1992 respectively. Export of sugar last year stood at Rs 5,742 m, almost the same level as in 1993.

4. Performance in the non-sugar agricultural production was also affected by the adverse climatic conditions that prevailed in 1994. It recorded a negative growth rate of 2%. However, tea production continued to decline as it fell by 12%. Production of food crops fell by 1.4% as compared to 1993 inspite of an increase in the area under cultivation.
5. The manufacturing sector grew by 5.1% last year which is marginally lower than that of 1993. This was the combined effect of a 4% growth in the EPZ, 9% increase in the non-EPZ sector and a 10% drop in sugar. EPZ exports amounted to Rs 16,545 m in 1994 compared to Rs 15,821 m in 1993. However, investment fell from Rs 900 m to Rs 820 m last year. During the year 1994, the EPZ sector registered a net decrease of 42 enterprises while employment dropped by around 3,450.

6. The EPZ sector has been facing a number of constraints on both the domestic and international fronts. With the economy operating at near full employment, the sector has to reckon with increasing shortage of skilled labour and the resultant higher costs of production. Moreover, the enterprises have to operate under stiffer competition with the entry of new low-cost producing economies on world market. However, the sector has been modernising and diversifying. Many large firms have introduced labour-saving techniques of production. Some have expanded by relocating parts of their business processes in the region essentially in Madagascar.

7. The tourism sector, with 'hotels and restaurants' as a major component, performed well for the year 1994 with a growth rate of 8%. Tourist arrivals exceeded the 400,000 mark, representing an increase of around 7% from 1993 and generating over Rs 6,000 m as gross foreign exchange earnings. Average room occupancy rate, which has a bearing on the financial health of the sector, stood at 64% while it was much higher for the large hotels (74%). Around 58% of the tourists came from the European market, mainly from France (46%).

8. The financial and business services sector is emerging as an important sector in the economy. It maintained a growth rate of 8% in 1994. The financial services sector continues to act as auxiliary support to the other sectors of the economy. Its contribution in overall GDP stood at around 6%. The stock market, with its five-year existence, has achieved remarkable success. Market capitalisation of listed shares has grown spectacularly in recent years to reach over Rs 28,500 m by the end
of 1994. The SEMDEX with a base of 100 in July 1989 reached a high of 473.46 last year while the number of listed companies, which cut across various sectors of the economy, increased to 35. Offshore and freeport sub-sectors have also expanded, as evident from the increasing number of companies which were registered last year.

C. The diagram below shows the growth rate of the main sectors of the economy over the period 1991-1994.

![Fig 1. Sectoral Growth Rate](image)

III. Consumption, Savings and Investment

10. Rising private disposable income and the emergence of new pattern of consumption coupled with the further liberalisation of trade, which enabled higher consumption, have resulted in a significant growth of 14% in nominal terms in total consumption. The household consumption-GDP ratio rose from 63% in 1993 to 64% last year. Private consumption increased by 13% and attained Rs 39,496 m in 1994. As a ratio of total consumption, private consumption stood at 83%. On the other hand, the level of government consumption soared by 20% to reach Rs 7,935 m mainly as a result of an increase in wages, salaries, and other allowances following the implementation of the PRB report and the expenses incurred
to restore the economy after the passage of cyclone Hollanda. The share of
government consumption in total consumption expenditure stood at
16.7% for 1994. Higher consumption expenditure had the effect of
further decreasing the level of saving in the economy. Thus, the savings
rate fell from 24.2% in 1993 to 22.9% in 1994.

11. On the other hand, investment as measured by GDFCF reached Rs
19,260 m in 1994. The investment rate stood at 31.3%. Excluding
aircraft, the investment rate showed a lower figure of 28%. The share of
public sector in GDFCF went up from 27.4% in 1993 to 38.3% in 1994
mainly as a result of the acquisition of an aircraft. Private investment
increased by 3.3% to attain Rs 11,875 m in 1994. Overall investment in
the manufacturing sector declined slightly from Rs 2,640 m in 1993 to Rs
2,610 m in 1994. Higher investment last year has led to a further
widening of the resource gap which reached Rs 5,147 m and represented
8.4% of GDP.

12. Inflation was brought down to a more manageable level of 7.3% in
1994 compared to the double-digit figure of 10.5% in 1993. This was
achieved through the combined effect of the fiscal and monetary measures
adopted last year. Import duties on a large number of articles were
reduced, as announced in the 1994-1995 budget, while a prudent
monetary policy was adopted to absorb excess liquidity and check
inflationary pressures.

III. Employment

13. With near full-employment situation prevailing since the late 1980’s,
the tight labour market continued to put strong pressure on wages. The
rate of unemployment declined further from 1.8% in 1993 to 1.6% in
1994 while the level of employment rose by about 3% to reach 495,000.
Employment in large establishments went up by 4,500 to reach 288,100
while employment in “other than large” establishments recorded a growth
rate of 5% to stand at 206,900 last year. The female participation rate in economic activities stood at 34.7%.

14. The share of agricultural employment in total employment registered a decline from 14.8% in 1993 to 14.3% in 1994 when it stood at 70,900. The level of employment in the manufacturing sector, however, increased slightly by 0.5% to attain 137,500 in 1994. The EPZ sector, which has been undergoing a process of modernisation and restructuring, also witnessed a fall in employment by 6% to attain 78,500 last year.

15. The services sector registered quite important increases in the level of employment, the largest being for the wholesale and retail trade, restaurants and hotels sub-sector. In fact, employment expanded by almost 10% in the latter reaching a high of 76,500 last year. Employment in the financial services sector also experienced an expansion of 8% to reach 14,800 in 1994.

IV. Monetary Policy

16. The main thrust of the monetary policy has been to control inflationary pressures and promote efficient mobilisation and allocation of financial resources. This has been sought to be achieved by promoting a market-oriented monetary system with reliance on indirect means of monetary control.

17. The Bank Rate, which was fixed by the Bank of Mauritius prior to June 1994 and changed at periodic intervals, is now market-related and is linked with the average Treasury bill auction rate over the preceding twelve weeks. The Bank Rate under the new system has risen from 8% in June 1994 to a high of 13.41% in the first half of November declining subsequently to 12.33% by end 1994. The hike in the Bank Rate contributed to the dampening of inflationary pressures. However, it should be noted that a prolonged high Bank Rate can discourage potential investors and may adversely affect the overall investment in the economy.
18. A foreign exchange market in US dollars has been established since July 1994. The year also marked the culmination of the process of abolition of foreign exchange controls.

19. In 1994, the process of liberalising the financial services sector was pursued further. Financial instruments like Certificates of Deposits by non-bank financial intermediaries have been introduced. Simultaneously, prudential regulations to prevent abuses of the liberalised system have been reinforced. New capital adequacy guidelines, in conformity with those prescribed by the Bank of International Settlements (BIS), have been issued in 1994 to make banks more risk-sensitive. Banks are also required to observe the International Accounting Standards 30 to allow for adequate disclosure.

20. Available figures indicate that there has been a deceleration in the growth of important monetary aggregates during 1994. Domestic credit grew by 21% last year compared to a growth of 26% in 1993. Credit to the private sector recorded a growth of only 18% being 11% lower compared to 1993. Aggregate monetary resources registered a growth of 12% in 1994 against 16% in the previous year.

V. Public Finance

21. The budget deficit to GDP ratio is estimated to decline to 2.2% during FY94 compared to 2.5% in FY93 pointing to the continued maintenance of fiscal discipline and rationalisation of government expenditure and tax system. It may be pointed out that the budgetary deficit has been kept under check despite higher expenditure incurred on putting the economy back on track after the passage of cyclone Holland.

22. Total revenue and grants are estimated to rise by 10% to reach Rs 14,605 m in FY94. Tax revenue occupies the largest share representing 84% of total revenue and grants. The rationalisation and harmonisation of
the tax system designed to increase tax yields with a wider base through the introduction of "Pay As You Earn" and "Current Payment System," are likely to bring additional revenue in terms of direct taxes from FY93 to FY94. In FY94 direct taxes are estimated to yield Rs 2,717 m. Corporate tax is expected to increase from Rs 815 m in FY 93 to reach Rs 855 m in FY 94.

23. Indirect taxes still remain the major source of tax revenue for Government representing an average of 79% of total tax revenue for the period FY92-FY94. The year 1994 was marked by a major overhauling of the import tax structure. In fact, the three categories of import tax - customs duty, stamp duty, excise duty - have been replaced by a single import tax in a bid to further rationalise the tax structure.

24. Compared to FY93, total expenditure and net lending is expected to register a growth of 9% in FY94 to attain Rs 16,068 m. Recurrent expenditure as a percentage of GDP is likely to decline from 22.8% in FY93 to 22.2% in FY94. Transfers, including subsidies, absorbed 18% of expenditure while wages and salaries account for another 47%. The balance is accounted for by the purchase of goods and services and debt-service payments. Capital expenditure as a ratio of GDP is expected to rise slightly from 4.7% in FY93 to 4.9% in FY94.

25. An overall budget deficit of Rs 1466 m is likely to persist in FY94. Almost 98% of the overall deficit in FY 93 was financed through local resources indicating the Government policy of reducing reliance on external sources of financing. A similar trend is expected for FY94. Total internal debt of Government rose by 10% from FY 92 to reach Rs 16,522 m in FY 93 while Government's total external debt registered a slight increase of about 1% over the same period. Total external debt of the country rose marginally by 3.6% in FY 92 to attain Rs 17,679 m the year after. The ratios of internal and external debt to GDP stood at 28.2% and 9.9% respectively in FY 93 showing an improvement of about 2 percentage points compared to FY 92. Debt service ratio improved from 9.2% in FY 92 to 6.9% in FY 93.
VI. Balance of Payments

26. The overall Balance of Payments surplus declined significantly from a high of Rs 3,442 m in 1990 to Rs 140 m in 1993, among the lowest recorded since the mid-eighties, due to a high current account deficit. The current account continued to register an unfavourable balance standing at Rs 181 m and Rs 1,624 m in 1992 and 1993 respectively. As a percentage of GDP, the current account deficit rose from 0.4% to 2.9% over the same period.

27. Last year a lower than expected export growth, higher import growth, and the purchase of an aircraft worth Rs 2,000 m contributed to a more pronounced trade deficit of Rs 9,776 m against the corresponding figure of Rs 6,797 m in 1993. The trade deficit in 1994 amounted to 15.9% of GDP (12.6% excluding the aircraft).

28. Exports in nominal terms rose by 5% to reach Rs 24,697 m in 1994. Gross export receipts from the EPZ sector amounted to Rs 16,545 m in 1994.

29. Total imports in 1994 stood at Rs 34,473 m. As a percentage of GDP, imports amounted to 56% last year as against 53% in 1992. Imports of food grew by 14% while capital goods and petroleum products grew by 30.9% and 1.1% respectively in 1994. A significant volume growth in imports combined with the depreciation of the rupee against the currencies of some of the country's important trading partners were mainly responsible for the higher imports in 1994.

30. Deficit in the current account has been largely alleviated by the favourable outcome on the services account. In 1993, the balance on the services account stood at Rs 1,166 m representing about 2% of GDP. Net factor income which stood at Rs 63 m in 1993 is expected to fall due to, among others, a relatively lower return on country's investment overseas. Net non-factor services recorded positive balances due to higher
earnings on account of tourism and transportation which amounted to Rs 3,111 m and Rs 1,187 m respectively in 1993. Freight and insurance recorded an outflow of Rs 2,693 m in 1993 reflecting higher charges for the increasing levels of imports. On the other hand, current transfers remained positive, growing by 18% to attain Rs 1,697 m in 1993.

31. The balance on capital account has fluctuated over the last few years. From a deficit of Rs 230 m in 1992, capital account balance turned to a surplus of Rs 216 m in 1993. Direct and other private long term investment flows contributed largely in maintaining a favourable balance in the capital account. Direct investment flows slightly improved to Rs 207 m in 1993 from a low of Rs 174 m in 1992. Private short term investment inflows increased substantially to Rs 379 m in 1993. The diagram below exhibits the Balance of Payments for the period 1990 to 1993.

32. The level of foreign exchange reserves of the Bank of Mauritius went up from Rs 14,008 m as at end of December 1993 to Rs 14,232 m in March 1994.
B. Prospects

33. The economy is poised to register a higher growth performance this year, forecast at 5.9% as against 5% in 1994, primarily due to the expected recovery in the sugar sector. Barring any unforeseen shocks, sugar production is expected to increase by around 18% to attain 600,000 tons this year.

34. The manufacturing sector is expected to maintain the growth rate of 5.1% attained last year. However, a slight deceleration in the EPZ growth rate, from 4% in 1994 to 3% this year, is forecast reflecting intensified competition in the traditional markets as well as rising domestic production costs affecting profitability of operations. Efforts to modernise and diversify the EPZ sector and move up-market assume added urgency in this context.

35. The tourism sector is expected to record yet another year of good performance with the growth rate touching 6%. Tourist arrivals are expected to reach 425,000 generating some Rs 6,700 m as foreign exchange earnings. An aggressive marketing strategy together with the exploitation of new routes by the national airline will contribute to the attainment of the objectives in the sector.

36. The financial, insurance and business services sector is anticipated to continue expanding at a high rate of 8% during 1995. The stock market is likely to experience heightened activity with the proposed public floatation of a number of public enterprises and the setting-up of the Mauritius Depository and Clearing Company to speed up securities transfers and settlement procedures. The internationalisation of the Stock Exchange and removal of controls on foreign exchange transactions are expected to further boost activity in the offshore sub-sector. Freeport activities will get a further impetus with the undertaking of a major project to increase its warehousing capacity.
37. With the forecast rate of growth of 5.9 %, GDP at market prices is expected to rise to Rs 67,700 m this year. Per capita income, on the other hand, is likely to increase to Rs 61,259.

38. The investment expenditure is forecast to reach Rs 18,300 m reflecting a decline of 5 % in nominal terms. Excluding the effect of the purchase of an aircraft in 1994, however, GDFCF is expected to show an increase of 6 % in nominal terms and 2.7 % in real terms. The growth of aggregate consumption is expected to decline in real terms from 5.4 % in 1994 to 5 % in 1995. The savings rate, however, is expected to decline further from 22.9 % in 1994 to 22 % in 1995.

39. The economy is thus set to recover and attain a high growth rate during the current year. A stable macro-economic environment including a declining rate of inflation provides a congenial backdrop for a renewal of the growth process. However the declining savings rate, high trade deficit, and a lowering of the growth performance of the EPZ sector are areas deserving closer attention.

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