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Table of Contents

1. WORLD ECONOMIC OUTLOOK.....	1
2. MAURITIUS ECONOMIC OUTLOOK.....	3
2.1 NATIONAL ACCOUNTS	3
2.2 INVESTMENT	5
2.2.1 <i>Foreign Direct Investment</i>	6
2.3 CONSUMPTION AND SAVINGS	8
2.4 EXTERNAL TRADE	9
2.5 INFLATION	11
2.6 EMPLOYMENT	12
2.7 PUBLIC FINANCE.....	14
2.7.1 <i>Ease of doing business</i>	14
2.7.2 <i>Modern infrastructure</i>	14
3. SECTORAL ANALYSIS.....	16
3.1 AGRICULTURE.....	17
3.1.1 <i>Sugar</i>	18
3.1.2 <i>Non-Sugar</i>	19
3.2 MANUFACTURING	20
3.2.1 <i>Export Oriented Enterprises</i>	21
3.3 HOTEL AND RESTAURANT.....	22
3.4 FINANCIAL INTERMEDIATION.....	24
3.4.1 <i>Global Business</i>	25
3.5 INFORMATION AND COMMUNICATION TECHNOLOGY	25
4 CONCLUSION.....	26

1. World Economic Outlook

The global economy has been markedly stricken by the major crises hitting its food, energy and financial markets in 2008. While the imbalances in the food and energy markets resulted into soaring food and fuel prices at the beginning of the year, the turmoil that plagued the US subprime mortgage market in 2007 turned into a severe global financial crisis which subsequently led to the collapse of major financial institutions, stock markets crash and a credit freeze.

Although commodity prices reversed sharply because of favourable global supplies prospects and falling consumer demand, the amplification of the financial crisis triggered a simultaneous recession in developed countries and a sharp slowdown across developing ones.

World growth, estimated by the International Monetary Fund, stood at 3.4% in 2008, down from 5.2% in 2007. World trade volume decreased from 7.2% in 2007 to reach 4.1% in 2008 because of lower consumer demand stemming from the global financial crisis.

	2007	2008	2009 <i>Projections</i>	2010 <i>Projections</i>
World Output	5.2	3.4	0.5	3.0
Advance economies of which	2.7	1.0	-2.0	1.1
United States	2.0	1.1	-1.6	1.6
Euro Area	2.6	1.0	-2.0	0.2
Japan	2.4	-0.3	-2.6	0.6
Other Advanced economies	4.6	1.9	-2.4	2.2
Emerging and developing economies	8.3	6.3	3.3	5.0
Africa	6.2	5.2	3.4	4.9
Commonwealth of Independent States	8.6	6.0	-0.4	2.2
Central and eastern Europe	5.4	3.2	-0.4	2.5
Developing Asia	10.6	7.8	5.5	6.9
Middle East	6.4	6.1	3.9	4.7
Western Hemisphere	5.7	4.6	1.1	3.0
World trade volume	7.2	4.1	-2.8	3.2

Source: World Economic Outlook Update (January 2009), International Monetary Fund.

With regards to advanced economies, output growth dropped to 1.0% in 2008 from 2.7% in 2007. In the United States growth decreased from 2.0% in 2007 to 1.1% in 2008 because of negative contributions from exports, personal consumption expenditures, equipment and software, and residential fixed investment.

Europe has also been hardly hit by the crisis as almost every country in the Euro zone was in recession at the end of 2008. According to the IMF, the Euro zone and the Central and Eastern Europe registered respective growths of 1.0% and 3.2% in 2008, against 2.6% and 5.4% in 2007.

The Japanese economy encountered a deceleration of -0.3% in 2008 because the main factors influencing its growth — corporate investments and net exports—were negatively affected by the credit crisis, the stronger yen, and a tumbling U.S. economy.

Even in the midst of the economic crisis, developing Asian economies posted healthy, though lower, growth rates in 2008. Indeed, output in the area fell from 10.6% in 2007 to reach 7.8% in 2008.

With regards to East Asia and the Pacific, real GDP rose by 8.5% in 2008, down from 10.5% in 2007. Moreover, as a result of the deterioration in the United States and Japan, export growth of the region (exclusive of China) decreased from 10.1% in 2006 to 5.2% in 2008. Consequently, manufacturing output fell from 5% growth in 2007 to -5% in 2008.

Growth in emerging and developing economies reached 6.3% in 2008 compared to 8.3% in 2007. It is to be noted that there were increasing signs of slowing economic activity in developing countries even before the international credit channels froze. This was mainly the result of a decline in investment in developing countries reflecting the slowing growth in the high-income economies, falling equity markets and reduced international capital flows and constrained consumer spending.

Even if it has been argued that the relationship between Africa's GDP and World GDP has weakened due to significant structural changes and the emergence of

countries like China, African growth has nonetheless contracted by 1.0% to reach 5.2% in 2008. Slower global growth arising from the global financial turmoil and the volatility in commodity prices were the main reasons behind this deceleration.

2. Mauritius Economic Outlook

Owing to the fact that Mauritius, as most developing countries, is not integrated in the modern, complex and fragile financial network, it has been preserved in 2008 from the devastating impact of the financial crisis which gradually spread over the developed world and large emerging economies. But as the impact of the meltdown spread to the real economy, Mauritius started by the end of the year to feel the pinch of the recession which has violently shaken the economic foundations of the world leaders.

Globally our country did well in 2008 in terms of economic growth and employment, in spite of the fact that sugar prices were again reduced and that export oriented enterprises and tourism suffered the consequences of the international consumption crisis. But, the disequilibrium of our external account has reached unprecedented heights and constitutes a very serious warning.

2.1 National Accounts

Economic performance in 2008, as indicated by Gross Domestic Product, was quite satisfactory and stable. Real growth rate stood at 5.2% in 2008, slightly lower than in 2007. GDP at current basic prices is estimated at Rs 231.8 bn, 12% higher than in 2007. Taxes on products, 'net of subsidies' increased by approximately the same percentage to reach Rs 32 bn.

GDP per capita at market prices increased by 11.6% to Rs 207, 915 in 2008. In terms of US dollar and Euro, GDP per capita registered higher growth rates because of the appreciation of the Rupee. It increased by 22% from \$5,854 in 2007 to \$ 7, 165 in 2008, and by 14% from 4, 260 Euro to 4, 884 Euro.

	Unit	2004	2005	2006	2007	2008
GDP growth rate	%	+4.8	+2.3	+5.1	+5.4	+5.2
GDP at current basic prices	R Bn	152.4	162.2	182.0	206.9	231.8
GDP per capita	Rs	142,336	149,049	164,669	186,813	207,915
GDP per capita	US\$	5,090.7	5,010.1	5191.3	5,854.4	7,164.5
GDP per capita	€	4,098.4	4,028.4	4,082.0	4,269.0	4,884.1
Exchange rate (average 12-month)	US\$ to Rs	27.96	29.75	31.72	31.91	29.02
Exchange rate (average 12-month)	€ to Rs	34.73	37.00	40.34	43.76	42.57

The relative stability observed in real growth rate of GDP in 2007 and 2008 does not exclude significant fluctuations from a sectoral point of view. While the highest growth rates in 2008 were recorded in Banking (12.9%), Construction (11.0%) and Business activities (10.8%), it is noted that growth rate in Construction was much higher in 2007 with 15.2%, and that of banking much lower with 7.9%. In addition, the 'Hotel and Restaurant' sector, which hit an exceptionally high growth rate of 14% in 2007, grew by only 3.1% in 2008, while the Textile sector was rather stagnant (0.2%) after a surprising growth rate of 8.5% in 2008. On the other hand, the Sugar sector showed a relative improvement with a growth rate of 5.5% in 2008 after a large contraction of 13.6% in 2007. A greater stability was noted in 'Transport and Communication' and 'Other Services' with growth rates of 7.2% and 8.3% respectively.

Sector	2007	2008
Sugar	-13.6	+5.5
Electricity, gas and water supply	+3.4	+4.5
Construction	+15.2	+11.0
Wholesale & retail trade; repair of motor vehicles, motorcycles, personal and household goods	+4.5	+4.6
Hotel and restaurant	+14.0	+3.1
Transport, storage and communications	+7.6	+7.2
Financial intermediation:	+7.5	+10.1
<i>Of which, Banks</i>	+7.9	+12.9
Real estate, renting and business activities	+7.6	+7.6
<i>Of which, Business activities</i>	+10.0	+10.8
Other community, social and personal service	+8.0	+8.3
Textile	+8.5	+0.2

The changing economic environment has a noticeable impact on the relative importance of different sectors in the economy. Thus, the share of the construction

sector in GDP, which was 5.6% only two years ago, is now 7%. Two other sectors which have gained in importance are 'Finance' and 'Hotel' which represent 11% and 8.7% of GDP respectively in 2008, compared to 7.4% and 6.2% in 1998. At the other extreme, the direct contribution of the sugar industry in the economy has been falling continuously. From 7.2% ten years ago, it has dropped to only 2.5% in 2008. Similarly, the share of the manufacturing sector has dropped considerably from 22.3% in 1998 to 18.8% in 2008.

2.2 Investment

If GDP growth was satisfactory, the same cannot be said of investment, which appeared to be below expectations. Investment growth which peaked at 19% in 2006, after a rather stagnant two-year period, decelerated to 8.6% in 2007 and further down to 3% in 2008. This 3% growth of GDFCF appears to be somewhat low in regards to a GDP growth of more than 5% at which the country is aiming. However, if aircraft, considered as an exceptional item, is excluded, then the growth rate of the GDFCF in 2008 works out to 6.5%, which is more satisfactory and in accordance with the general level of activities.

	Unit	2004	2005	2006	2007	2008
Gross Domestic Fixed Capital Formation (GDFCF)	R Bn	38.1	39.7	50.0	59.2	64.8
Private sector investment as a % of GDFCF	%	69.3	70.4	68.3	78.2	83.0
Public sector investment as a % of GDFCF	%	30.7	29.6	31.7	21.8	17.0
GDFCF /GDP at market prices	%	21.6	21.4	24.3	25.1	24.6
Annual Real Growth of GDFCF	%	+2.2	-1.9	+19.0	+8.6	+3.0
Private investment growth rate	%	+16.3	-0.3	+15.1	+24.0	+9.2
Public investment growth rate	%	-19.8	-5.4	+28.3	-24.7	-19.2

Private sector investment has recorded a growth rate of only 9.2% in 2008 compared to 24% in 2007. On the other hand, public sector investment, after contracting by 24.7% in 2007 decreased again by 19.2% in 2008. If aircraft is not included, the drop appears less dramatic. Nevertheless, the figures relating to public investment may give rise to some serious concern, because over the last five years, public investment (excluding aircraft) has dropped by 37% in real terms. But on the other hand, this drop has been largely compensated by an increase of 80% in private investment

during the same period. This contrasting evolution has resulted in an increasing share of private sector investment in total GDFCF, rising from 61% in 2003 to 83% in 2008, and a corresponding decrease in the share of public investment.

Overall, the investment rate – measured by investment as a percentage of GDP at market prices – dropped from 25.1% in 2007 to 24.6% in 2008.

GDFCF By type of capital goods	Unit	2004	2005	2006	2007	2008
A. Building & construction work	%	-0.3	-5.3	+6.7	+16.9	+13.2
Residential building	%	-2.3	-10.5	+10.3	+5.5	+19.3
Non-residential building	%	20.1	-12.1	+3.9	+49.2	+12.2
Other construction work	%	-24.2	+16.8	+6.3	-17.4	+6.0
B. Machinery and equipment	%	+6.2	+3.4	+36.9	-1.0	-11.6
Passenger car	%	+39.5	-14.1	+4.2	+29.9	+5.7
Other transport equipment	%	-40.3	+2.8	+296.5	-38.2	-42.2
Other machinery and equipment	%	+14.0	+7.7	+3.1	+14.6	-5.8

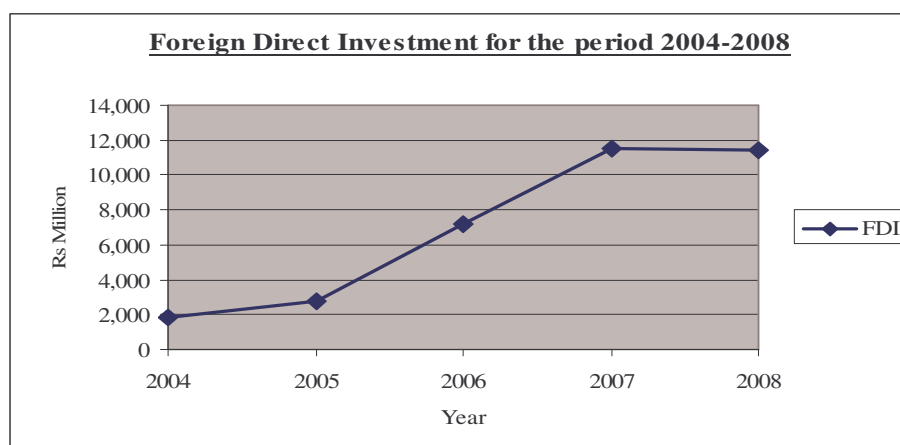
The breakdown of investment by “type of capital goods”, while giving some insight into the structure of the economy, points at the same time to what appears to be a weakness. Thus, if on the one hand, “Building and construction work” which represents 67% of GDFCF, grew by 13.2% in 2008, on the other hand, investment in “Machinery and Equipment” dropped by 11.6%.

Similarly, the breakdown by “Industrial use” confirms the expansion in “Real estate” and “Hotel” which together represent nearly 50% of total GDFCF in 2008 compared to 40% in 2007. Thus, while investment in property development continues to grow, investment in the production capacity of the country is moving in the opposite direction.

2.2.1 Foreign Direct Investment

Mauritius continued to enjoy a high volume of FDI in 2008. Driven by investment in ‘Hotel’ and ‘Financial Intermediation’ sectors, FDI increased by 157% in 2006 and by

59% in 2007 to reach a record figure of Rs 11.5bn in 2007. In 2008, in spite of the global recession, Mauritius attracted FDI to the tune of Rs 11.4bn, almost at the same level as 2007.



FDI by sectors

The main sectors which benefited from FDI were again “Hotel”, more precisely IRS, and “Financial intermediation”. An important amount of FDI also flowed to the ‘Real estate and business activities’ sector.

The main countries of origin for FDI in 2008 were: UK (Rs 2 bn), India (Rs 1.9 bn), South Africa (Rs 1.4 bn), France (Rs 1.2bn), USA (Rs1.1 bn) and United Arab Emirates (Rs 0.8 bn).

Sector	Unit	2003	2004	2005	2006	2007	2008
Total FDI	Rs M	1,966	1,797	2,807	7,222	11,514	11,419
Agriculture	Rs M	-	484	19	26	12	447
Manufacturing	Rs M	127	387	263	181	271	149
Hotel and restaurant	Rs M	103	121	536	2610	5979	3985
Financial Intermediation	Rs M	1311	392	481	3593	4056	4564
Real estate, renting and business activities	Rs M	109	228	759	473	1030	1888
Others	Rs M	316	184	749	339	166	387
Direct Investment abroad	Rs M	1156	970	1942	1134	1826	1612
Net Foreign Direct Investment	Rs M	810	970	865	6,088	9,688	9,807

2.3 Consumption and Savings

While GDP growth rate has declined by 0.2 percentage point, consumption expenditure, on the contrary, has increased by the same percentage from 3.9% to 4.1%. Nevertheless, consumption growth remains below GDP growth, and this, from a general point of view in the present circumstances, could have been considered as positive, if it were not for the downturn in savings as observed below. It is to be noted that Household expenditure, which makes up 84.7% of total consumption, grew by 4.9% compared to 4.5% in 2007, spurred by substantial salary compensation for public employees and lower income tax rates. Overall Government consumption expenditure recorded a negative growth of -0.1%, down from +0.8% in 2007, in line with Government policy to streamline expenditure.

	Unit	2004	2005	2006	2007	2008
Consumption						
Final consumption expenditure:	Rs M	136,880	154,717	174,846	196,636	226,299
Households	Rs M	111,837	127,349	145,491	165,790	191,642
General government	Rs M	25,043	27,368	29,355	30,846	34,657
Final consumption expenditure as a % of GDP at market prices	%	78.0%	83.5%	84.7%	83.5%	85.7%
Real Final Consumption growth	%	+7.2	+7.1	+5.5	+3.9	+4.1
Household	%	+7.8	+7.3	+5.9	+4.5	+4.9
General Government	%	+4.6	+6.1	+3.8	+0.8	-0.1
Savings						
Gross National Savings	Rs M	39,701	32,189	35,384	49,833	49,885
GNS as a % of Gross National Disposable Income	%	22.5	17.2	16.8	20.2	18.1

As far as savings are concerned, what was thought to be the beginning of a new trend last year has been short-lived. As a matter of fact, the savings rate rose to 21.2% in 2007 but dropped to 18.9% in 2008. But what is more worrying is that while Gross National Disposable Income increased by 12.1% in current rupees, savings went up by a mere 0.1%, showing that the marginal propensity to save has dropped to 0.01. This tendency can probably be linked to the fact that interests on savings are now being taxed.

Mauritius being a very open economy, the impact of more consumption and less savings is felt directly at the level of the balance of trade. In addition, the resource

gap, which is the difference between savings and investment, has again increased, now for the fourth consecutive year. It went up from Rs 9.3 bn in 2007 to Rs 14.9 bn in 2008. This is translated by a further deterioration of the current account.

2.4 External trade

As far as external trade is concerned, the situation has deteriorated further, raising the issue of the sustainability of such a trend.

Exports dropped by 1.9% from Rs 69.7 bn in 2007 to Rs 68.4 bn in 2008 while Imports went up by 9.6% from Rs 121 bn to Rs 132.6 bn, resulting in a deficit of Rs 64.2 bn in 2008 compared to a deficit of Rs 51.3 bn in 2007. Between 2004 and 2008, the deficit has been multiplied by three.

	Rs Billion				
	2004	2005	2006	2007	2008
Domestic Exports	43.7	42.1	47.6	50.5	46.7
Re-export	9.0	17.0	21.3	13.8	12.7
Ships' stores and Bunkers	2.2	4.1	5.1	5.4	9.0
Total Exports (f.o.b)	54.9	63.2	74.0	69.7	68.4
Total Imports (c.i.f)	76.4	93.3	115.5	121.0	132.6
Balance of trade in goods	-21.5	-30.1	-41.5	-51.3	-64.2
Balance of trade in goods (excluding freight)	-16.0	-23.5	-34.5	-43.9	-56.5
Trade in services					
Export	40.0	47.7	53.1	68.8	72.2
Import	28.1	35.3	41.9	49.2	54.6
Balance of trade in services	11.8	12.4	11.2	19.6	17.6
Overall trade balance in goods and services	-4.2	-11.1	-23.5	-24.3	-38.9

This negative evolution can be judged also in terms of GDP. Thus, the ratio Import of Goods/GDP has increased from 50.1% in 2004 to 57.2% in 2008, indicating that imports are increasing at a much higher rate than GDP, which illustrates the higher dependence of the Mauritian economy on imports. As for exports, the reverse trend is observed, and this makes the external trade situation more problematic. The ratio Export of Goods/GDP dropped from 36% in 2004 to 29.5% in 2008. As a result the ratio of the "Balance of Trade in Goods deficit/GDP" doubled, going up from 14% to nearly 28% during the period. In light of the significant reduction of the contribution

of exports of goods in the economy, it has become crucial for the country to review its development strategy.

Concerning Imports of goods, the following table shows the major increases in 2008:

	Increase in Rs M	Percentage increase
Fish and fish preparations	1,481	21.0%
Rice	601	49.6%
Dairy products	565	23.1%
Other food	724	19.1%
Tobacco	572	90.9%
Textile fibres	565	32.5%
Fuels	6,172	27.8%
Oils and fats	432	37.7%
Chemicals	1,001	10.6%

On the credit side, Domestic exports fell from Rs 50.5 bn to Rs 46.7 bn. This represents a drop of 7.5%, pointing out that the situation is worse than it appears when Total Exports are considered. Re-exports also fell, by 8.0% from Rs 13.8bn to Rs12.7bn. Such evolution probably indicates that it is more difficult than it is believed to exploit the possibilities that theoretically exist in this sector. Ships' stores and Bunkers registered an increase of 64.5% from Rs 5.4 bn to Rs 9.0 bn due to higher prices of oil.

On the services account, exports are expected to increase to about Rs 72.2 bn and imports to Rs 54.6 bn. Thus the balance of trade in services would register a surplus of about Rs 17.6 bn compared to a surplus of Rs 19.6 bn in 2007.

However, this surplus is now too low to compensate for the deficit of the merchandise account. The situation is very far from that which prevailed in 2003, when the surplus of trade in services was higher than the deficit of trade in goods. The overall deficit of trade in goods and services has further deteriorated, from Rs 24.3 bn in 2007 to Rs 38.9 bn in 2008.

The balance of the Current Account, which comprises Income and Transfers in addition to Goods and Services, is crucial to the economy. If there is a deficit, then there is a necessity to finance it from foreign sources. The Current Account was positive until 2003. Since then it has fallen in a deficit which has grown rapidly to Rs19.4 bn in 2006.

In 2007 however the deficit was lower with Rs13.4 bn. In 2008, it is expected to worsen and would be around Rs 27.7 bn. A deficit of that magnitude, if maintained, is indeed very worrisome. It represents about 10.5% of GDP and as such Mauritius would be categorised as a high risk country from an external payments perspective.

Fortunately for us there have been substantial inflows of capital, and Net International Reserves have increased from Rs 85.8bn in December 2007 to Rs 90.2 bn in December 2008; and the overall Balance of Payments would show a surplus of Rs 4.6 bn for 2008.

2.5 Inflation

In 2008, the economy continued to be plagued by high level of prices. From 8.8% in 2007, inflation rate rose to 9.7% in 2008, the highest since 1994 in spite of an appreciation of the Rupee. The average exchange rate vis-à-vis the Dollar moved from 31.91 in 2007 to 29.02 in 2008, showing a appreciation of 10% of the Rupee. The Consumer Price Index went up from 108.2 in December 2007 to a peak of 117.2 in October 2008 and thereafter decreased to 115.5 in December 2008.

	Unit	2004	2005	2006	2007	2008
Consumer Price Index		83.5	87.6	95.4	103.8	113.9
Headline inflation	%	4.7	4.9	8.9	8.8	9.7
Core 1 inflation	%	3.1	4.4	7.4	5.0	8.7
Core 2 inflation	%	2.9	3.4	7.2	5.7	6.1

The highest increases were recorded in the following sub-indices:

The Food index, making up 29% of the CPI, increased by 11.7%; “Transport”, representing 15% of CPI, went up by 6.6%; the ‘Restaurant and Hotel’ sub-index

showed the highest increase with 13.6%, but its share in the index is much lower with 4.3%.

It is to be noted that Core 1 inflation rate (which excludes the food sub-index) as calculated by the Bank of Mauritius, rose sharply from 5% to 8.7%, while Core 2 inflation rate (excluding energy and administered prices from Core 1) moved from 5.7% to 6.1%. All these figures show how the country has been affected by rising prices abroad, on which it does not have much control.

Thus, the Import Price Index in 2008 was 166.2 compared to 153.6 in 2007, showing an increase of 8.2%, with the sub-index “Oils and Fat” recording an increase of 47%. Two other sub-indices showed substantial increases: “Food” and “Fuels”, while the remaining five (crude material, manufactured goods, chemicals, machinery and transport equipment and miscellaneous manufactured products) posted slight decreases.

It is also interesting to note that the construction price index went up from 151.4 in December 2007 to 167.2 in December 2008 (giving an increase of 10.4%) with a peak of 170.0 in October 2008.

Price increases of imported inputs account partly for the increase in Producer Price Index for the Domestic Oriented Manufacturing Sector, from 146.4 in 2007 to 169.7 in 2008. The increase of 15.9% which is much higher than that of the Import Price Index shows that in 2008 local inputs had a greater impact on prices of locally produced goods than imported goods.

2.6 Employment

According to CSO estimates employment, excluding foreign workers, increased astonishingly by 16,900 in 2008, compared to an increase of 3,500 in 2007. This increase of 16,900 is the highest ever recorded in the local employment history. The bulk of increase in employment was scattered across small and medium enterprises operating in the ‘Hotel and Restaurant’, ‘Construction’ and ‘Wholesale and trade’ sectors. Unemployment rate in 2008 went down from 8.5% to 7.2%. This is the third

consecutive year that there is an improvement in the overall labour situation. In 2005 unemployment rate was 9.6% and at that time there were fears that it would cross the 10% mark. Fortunately for the country, there has been a turnaround of the situation.

	2004	2005	2006	2007	2008
Labour Force (Mauritian)	531.3	542.5	548.4	548.9	559.4
Male	347.8	349.6	351.4	353.6	355.6
Female	183.5	192.9	197.0	195.3	203.8
Employment (Mauritian)	486.7	490.6	498.6	502.1	519.0
Foreign workers	17.5	16.6	16.7	21.6	24.0
Total employment	504.2	507.2	515.3	523.7	543.0
Unemployment	44.6	51.9	49.8	46.8	40.4
Male	20.0	20.2	19.2	18.6	14.6
Female	24.6	31.7	30.6	28.2	25.8
Unemployment rate (%)	8.4	9.6	9.1	8.5	7.2

Male labour force in 2008 increased by 2,000 while female labour force rose by 8,500, after a drop of 1,700 in 2007.

However, a caveat is necessary: the figures published by the CSO are the results of a survey called Continuous Multi-Purpose Household Survey covering 11,280 households and therefore these results are not a direct measure of employment and can be only approximate figures subject to sampling errors.

Figures relating to foreign workers are probably more accurate. After an increase of 4,900 in 2007 there was another increase of 2,400 last year, giving a total number of 24,000 foreign workers in 2008. Similarly, the results of the survey of employment in large establishments carried in March are more reliable.

Employment in large establishments, which represents about 60% of total employment increased by 6,070 from 299,395 in March 2007 to 305,465 in March 2008. The main sectors which account for this increase are: “real estate and business activities” (+1900), “Hotel” (+1900), “Financial intermediation” (+1400) and “Construction” (+1000). On the other hand, “Agriculture” registered a drop of 2 600 mainly due to restructuring of the sugar industry.

2.7 Public Finance

The Budget speech was the occasion for the Minister of Finance to present a medium-term perspective of Government development strategy. That strategy consists of three main components:

2.7.1 Ease of doing business

During the last two years, appreciable progress has been made in streamlining procedures to start and operate businesses. This action is being pursued and the focus is now on reducing the number of licenses, facilitating the entry and stay of foreign investors, registration of property, improving financial services, etc. Also, in order to sustain the growth momentum, Government is now devoting more resources to tertiary education.

2.7.2 Modern infrastructure

Government strategy is based to a large extent on the development of a modern infrastructure. This includes, among others, the road network, harbour bridge, bus-way corridor, air-passenger terminal, cruise terminal, a modern city at Highlands, Tianli project, Bagatelle Dam and low-cost housing estates.

While all these projects appear to be relevant and would certainly contribute to improve the environment for doing business and the living environment for the population, what seems lacking is a global perspective and an effective implementation mechanism which are crucial for the realization of these projects. In addition, for some of the projects like Tianli and Harbour Bridge, which will require the mobilisation of significant resources, it is imperative that they are implemented in a way that maximizes the benefits to the local economy, especially in terms of employment.

It can also be observed that, while Government is proposing to invest huge amounts of money in road network in order to ease traffic congestion, little is being done to

directly limit the number of vehicles by appropriate measures as is the practice in many congested cities worldwide.

2.7.3 Energy and Food Security

In spite of the potential that exists, Mauritius has not been proactive enough in the past in the areas of renewable energy and food security. It is encouraging that, in the Budget Speech of last year, Government has made serious commitment on these two critical sectors. However, it can be deplored that in the case of renewable energy, there is still no clear established policy. Nevertheless, with the Maurice Ile Durable project it should be possible to chart out a program of actions. Concerning food self-sufficiency, the situation appears more promising, with a clear strategy, including a regional component. On this latter aspect, much would depend on the political stability in the region.

	Unit	2004/5	2005/6	2006/7	2007/8 <i>Revised</i>	2008/9 <i>Budget estimates</i>
Total Revenue	Rs Bn	36.1	39.2	42.2	53.2	61.6
Total Revenue/GDP	<i>%</i>	19.9	20.0	19.2	21.5	21.9
Total Expenditure	Rs Bn	45.1	49.6	51.6	61.5	70.9
Total Expenditure/GDP	<i>%</i>	24.9	25.3	23.5	24.8	25.2
Primary Balance	Rs Bn	-1.8	-3.0	-0.6	2.4	1.7
Overall Balance	Rs Bn	-9.0	-10.3	-9.4	-8.3	-9.3
Overall Balance/GDP	<i>%</i>	-5.0	-5.3	-4.3	-3.4	-3.3

The Budget Estimates for 2008/9 show that Revenue is expected to increase by 15.7% to reach Rs 61.6bn, and Expenditure by 15.2% to Rs 70.9 bn. In terms of GDP, a small increase is noted both in Revenue and Expenditure. The overall deficit would be Rs 9.3 bn, compared to Rs 8.3 bn in 2007/8; but in terms of GDP, a slight improvement is noted, from -3.4% to -3.3%. As a percentage of GDP, Public Sector Debt is expected to decrease from 59.1% in June 2008 to 55.7% in June 2009.

Globally the Budget appears to be balanced, and even presents some improvement. It can be argued that the ratio Expenditure/GDP has increased for two consecutive years. But the Minister of Finance has subsequently responded to justify the expansionary element as part of the anti-cyclic economic policy which has become prevalent

throughout the world by the end of 2008. Nevertheless, it is far from being judicious to increase current expenditure by 25% with compensation of employees increasing by 35%.

Mauritius being a very open economy, this kind of expansionary measures can have only limited impact on growth, while the negative aspect is a worsening of the trade deficit.

In addition, in spite of all the infrastructural projects announced for the medium-term, the Capital budget for 2008/9 shows a contraction of 13.3% in current rupees, from Rs 11.7 bn in the previous year to Rs 10.1 bn.

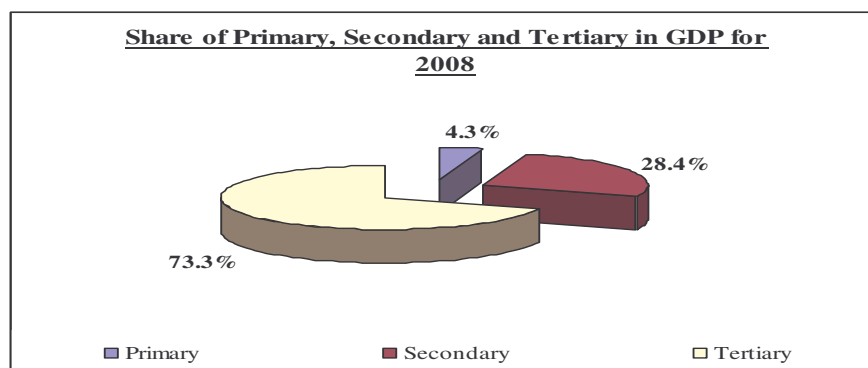
Contrary to what has been happening in the developed world, the problem in Mauritius has less to do so far with decreasing consumption. The challenge is to reinforce the resilience of enterprises. In fact, Government did realize that aspect and in an Additional Stimulus Package presented in December 2008 it is the central pillar of this initiative. But in the ASP other issues were dealt with.

The important objectives of the ASP were to accelerate the implementation of infrastructural projects and private investment and to support various sectors. Its impact on the Budget 2008/9 would be a shifting of resources from lower priority items to meet the needs of sectors under pressure.

3 Sectoral Analysis

The share of the tertiary sector, which accounted for 63.8% of GDP at current basic prices in 1998 has gradually increased to 73.3% in 2008. This is mainly due to an increase in the percentage share of 'Hotel and Restaurant', 'Financial Intermediation' and 'Real estate, renting and business activities' over the last decade.

During the same period, the secondary sector's contribution to total output has fallen from 30.7% to 28.4% and the primary sector has decreased from 9.3% to 4.3%.



3.1 Agriculture

Statistics for 2008 show that value added in current rupees of the agricultural sector including sugar milling increased slightly by 0.6% in 2008 from Rs 11.26 bn in 2007 to Rs 11.33 bn. This is mainly due to an increase of 8.2% in the value added of the non-sugar sector. In real terms, growth in the agricultural sector is estimated at 5.3% against a contraction of -7.8% in 2008.

However, the contribution of total agriculture to GDP fell to 4.9% in 2008 against 5.4% in 2007.

The share of employment of the Primary sector in Total employment, according to the Continuous Multi-Purpose Household Survey, was 10% in the third quarter of 2008, same as in the third quarter 2007.

		2004	2005	2006	2007	2008
Sugarcane value added	Rs Bn	5.3	5.2	5.1	4.6	4.3
Sugar Milling value added	Rs Bn	1.6	1.6	1.6	1.4	1.3
Non-Sugar value added	Rs Bn	4.6	4.6	5.0	5.2	5.7
Total Agriculture value added	Rs Bn	11.45	11.40	11.72	11.26	11.33
Sugar/GDP	%	4.5	4.2	3.7	2.9	2.5
Non-Sugar /GDP	%	3.0	2.8	2.7	2.5	2.4
Total Agriculture / GDP	%	7.5	7.0	6.4	5.4	4.9
<i>Growth rates</i>						
Sugar	%	10.6	-9.2	-2.9	-13.6	+5.5
Non-sugar	%	5.4	-1.1	+4.5	-1.1	+5.0
Agriculture	%	8.3	-5.8	0.4	-7.8	5.3
Employment	No.	49000	48600	47900	47300	

Sugar/Total employment	%	3.8	3.7	3.5	3.4	
Non-Sugar/Total employment	%	5.9	5.9	5.8	5.6	
Agriculture/Total employment	%	9.7	9.6	9.3	9.0	

3.1.1 Sugar

During 2008, in addition to the challenges posed by a major restructuring program, the sugar sector had to face two sets of negative developments.

First, due to the reforms of the EU Sugar protocol, the sugar sector endured a further price reduction of 17% in October which resulted in a price decrease to Rs 12,500 per tonne. This accordingly affected 60% of the year's harvest.

Second, planters were deeply affected by increases in the cost of fuel, fertilizers and chemicals which were in turn reflected in high costs of production.

Value added in current rupees of the sugar sector including sugar milling declined by 5.9% from Rs 6.0 bn in 2007 to reach Rs 5.6 bn. As a percentage of GDP, sugar accounted for 2.5% in 2008 compared to 2.9% in 2007. In real terms, sugar grew by 5.5% in 2008 compared to -13.6% 2007.

While sugar cane production increased by 7% in 2008, the extraction rate for the period under review decreased to 9.98% compared to 10.31% in 2007. This is the lowest extraction rate ever recorded. It was due to excessive rainfalls over 2008 which resulted in a better crop outturn but which negatively affected the sugar yield.

Only 427,000 tonnes were exported in 2008 against 442,000 tonnes in 2007. In nominal value sugar exports showed a decrease of 13.7% from Rs 9.6 bn in 2007 to Rs 8.2 bn in 2008. Exportation of molasses amounted to Rs 160 m against Rs 54 m in 2007.

Employment in large establishments decreased, by 15.5%, from 15,993 in March 2007 to 13,521 in March 2008.

3.1.2 Non-Sugar

Value added in current rupees of the non-sugar sector increased from Rs 5.2bn in 2007 to Rs 5.7 bn in 2008. It grew in real terms by 5.0% in 2008, against a -1.1% contraction in 2007. As a % of GDP, the sector's contribution decreased to 2.4% in 2008 compared to 2.5% in 2007.

Employment in large establishments decreased by 6.9% from 7,688 in March 2007 to 7,155 in March 2008.

tonnes

	2004	2005	2006	2007	2008
Tea (green leaves)	7229	6798	7649	8,027	8,672
Tea (manufactures)	1,482	1387	1567	1,563	1,668
Tobacco	427	357	298	316	347
Food crops	111633	96782	106902	99130	91470
Area harvested (hectares)	8603	7919	8144	7701	7081
Livestock (beef, goat, meat, mutton and pork)	3306	3304	2967	2433	2307
Poultry	30900	33000	36000	40000	42000
Fish	9430	8982	8885	5987	6006

Production of green tea leaves increased, by 8.1%, from 8,027 tonnes in 2007 to 8,672 tonnes in 2008. On the other hand, Black tea produced from green leaves rose by 6.7% from 1,563 tonnes in 2007 to 1,668 tonnes.

Tobacco cultivation which has been declining since the 1997/1998 season, registered a rise of 9.8% from 316 tonnes in 2007 to 347 tonnes in 2008. This is explained by an increase in the area under tobacco cultivation (from 252 hectares in 2007 to 259 hectares in 2008).

With regards to food crops, production decreased by 7.7% in 2008 to 91,470 tonnes because the area under cultivation decreased by 9.2% from 6,740 hectares in 2007 to 6,120 hectares in the corresponding period in 2008.

Livestock in 2008 decreased by 5.2%, from 2,433 tonnes in 2007 to reach 2,307 tonnes. This was mainly due to a significant decrease of 35.4% in pork production resulting from the African swine fever.

Total poultry production on the other hand increased from 40,000 tonnes in 2007 to 42,000 tonnes in 2008.

Fish production, which increased by 0.3% from 5,987 tonnes in 2007 to 6,006 tonnes in 2008, was mainly due to a growth of 2.6% in fresh coastal fish catch.

3.2 Manufacturing

Exclusive of sugar milling, value added of the manufacturing sector rose by 10.1% in current rupees from Rs 39.7bn in 2007 to Rs 43.7bn in 2008. Globally, real growth rate dropped from 3.3% in 2007 to 1.6% in 2008. The drop is explained by a lower performance of the food sub-sector and a rather stagnant situation in the textiles sector.

		2004	2005	2006	2007	2008
Food	Rs bn	7.3	8.3	10.1	12.3	15.0
Textile	Rs bn	12.3	10.9	12.0	13.4	12.6
Other	Rs bn	10.7	11.4	12.7	13.9	16.1
Total manufacturing	Rs bn	30.3	30.6	34.8	39.7	43.7
Food/GDP	%	4.8	5.1	5.6	5.9	6.5
Textile/GDP	%	8.1	6.7	6.6	6.5	5.4
Other sector/GDP	%	7.1	7.0	7.0	6.7	6.9
Total manufacturing/GDP	%	19.9	18.9	19.1	19.2	18.8
<i>Growth rates</i>						
Food	%	4.4	2.1	9.6	4.0	2.6
Textile	%	-7.2	-14.7	2.9	8.5	0.2
Other	%	6.6	0.4	1.8	-3.1	2.4
Total manufacturing	%	-0.1	-5.2	4.5	3.3	1.6
Employment	No	125200	120100	120900	122500	
Employment in manufacturing/total employment	%	24.8	23.7	23.5	23.4	

In current rupees, value added of the food sector increased by 22.1%. However the major part of this increase is due to inflation. The real growth rate is estimated at only 2.6% compared to 4% in 2007.

The 'Other' manufacturing sector experienced a 15.6% rise to reach Rs 16.1bn in 2008. Its real growth increased from -3.1% in 2007 to +2.4% in 2008, but it is lower

than the forecast of 3.5%, because of low growth in the industries producing for the local market.

The ‘Textile’ industry registered a drop of 6.9% of production in current rupees. Real growth in the sector reached only 0.2% compared to 8.5% in 2007. This is mainly the result of unfavourable movements in the exchange rate, a fall in orders resulting from the tightening of credit and a lack of liquidity which stem from the financial crisis and also from the slowdown of the EU and US economies- our main textile markets. Exports by country of destination of export oriented enterprises indeed revealed respective decreases of 7% and 24% in our exports to the EU and the US in the first nine months of 2008 compared to the same period in 2007.

Total employment in the manufacturing sector exclusive of sugar milling decreased from 90,264 in March 2007 to 90,244 in March 2008. This is mainly due to lay-offs in the textile sector.

3.2.1 Export Oriented Enterprises

Activities of export oriented enterprises increased slightly by 0.4% from Rs15.58 bn in 2007 to reach Rs 15.64 bn in 2008. Its contribution to GDP amounted to 6.7% in 2008 against 7.5% in 2007.

		2005	2006	2007	2008
Value added at current basic prices	Rs Bn	12.1	13.7	15.6	15.6
Value added/GDP	%	7.4	7.5	7.5	6.7
No. of enterprises	No.	506	441	404	412
Employment	No.	66,931	64,962	67,314	62,276
Investment	Rs Bn	2.4	2.2	4.3	2.1
Exports	Rs Bn	29	33.6	37.8	34.9
Exports/total exports	%	45.8	45.4	54.3	51.1
Imports	Rs Bn	15.5	19.0	21.0	19.9
Imports of raw materials/Imports	Rs Bn	88	88.3	86.8	94.3

The total number of enterprises at the end of 2008 reached 412 against 404 in 2007. This is mainly due to an increase in the number of enterprises of the following product

groups: 'Food', 'Jewellery and related articles', 'Electric and electronic products', 'Leather products and footwear' and 'Other' export oriented companies.

On the other hand, there were 35 closures in the EOE sector from December 2007 to December 2008, out of which 43% were from the 'Wearing and Apparel' sector. With regards to the number of persons employed by EOE, it decreased by 7.5% from 67,314 in 2007 to 62,276 in 2008.

Export value from the export oriented enterprises, which accounted for 51.1% of total exports in 2008, decreased from Rs 37.8 bn in 2007 to Rs 34.9 bn in 2008. This reflects the decrease in demand for our textile products which account for 41% of the EOE sector.

The value of their total imports decreased by 5.4% from Rs 21.0 bn in 2007 to Rs 19.9 bn in 2008. Imports of raw materials represented 94.3% of EOE import bills in 2008 compared to 86.8% over the corresponding period in 2007.

3.3 Hotel and Restaurant

In 2008, value added in the 'Hotel and Restaurant' sector increased by 4.1% in current rupees. This is in sharp contrast with the huge increase of 25.8% recorded in 2007. In real terms, growth rate in that sector is estimated at 3.1% in 2008, down from 14% in 2007.

The main reasons for this abrupt reversal are the higher costs of the destination and a slowdown of economic growth in our main markets during the second half of the year. A year before, expectations were high, and therefore the growth of 3.1%, which is lower than the 5.2% growth of the economy, is quite disappointing, especially in regards to the high rate of investment effected in the sector in the last two years. The share of the 'Hotel and Restaurant' sector in GDP, which rose to 9.4% in 2007, dropped to 8.7% in 2008.

	Unit	2004	2005	2006	2007	2008
Value added	Rs Bn	11.3	12.4	15.5	19.5	20.3
Value added/GDP	%	7.4	7.7	8.5	9.4	8.7
Real Growth rates	%	+2.4	+5.6	+3.5	+14.0	+3.1
Tourist arrivals	No.	718,861	761,063	788,276	906,971	930,456
Gross earnings	Rs Bn	23.4	25.7	31.9	40.7	41.2
Employment*	No.	18,476	21,035	21,341	22,026	23,881
Investment	Rs Bn	5.2	4.2	6.6	10.1	11.7
As a % of total investment	%	13.7	10.6	14.8	17.9	18.3
Real Growth rates	%	+52.2	-24.5	+46.8	+39.2	+6.6
Number of hotels	No.	103	99	98	97	102
Number of rooms	No.	10640	10497	10666	10857	11488
Room occupancy rate	%	63	63	66	76	68

*Employment in Hotel and Restaurant as at the end of March, 2004 - 2008

It was a large increase of 118,695 in tourist arrivals which resulted in the high growth rate of 2007. In 2008, the increase is only 23,485, representing a growth of 2.6% compared to 15.1% in 2007.

The table below shows the evolution in number of tourists from our main markets:

Country	2006	2007	2008
France	182295	240,028	260,054
<i>% change</i>	<i>-17.3%</i>	<i>31.7%</i>	<i>8.3%</i>
United Kingdom	102333	107,297	107,919
<i>% change</i>	<i>7.3%</i>	<i>4.9%</i>	<i>0.6%</i>
Reunion	89127	95,823	96,174
<i>% change</i>	<i>-10.0%</i>	<i>7.5%</i>	<i>0.4%</i>
S. Africa, Rep. of	70796	81,733	84,448
<i>% change</i>	<i>21.1%</i>	<i>15.4%</i>	<i>3.3%</i>
Italy	69407	69,510	66,432
<i>% change</i>	<i>59.7%</i>	<i>0.1%</i>	<i>-4.4%</i>
Germany	57251	65,165	61,484
<i>% change</i>	<i>2.3%</i>	<i>13.8%</i>	<i>-5.6%</i>

Together those six countries of origin represent 73% of the total number of tourists visiting Mauritius.

In 2008, number of hotels in operation amounted to 102, 5 more than in 2007. Three other hotels were not operational due to renovation works.

Total number of rooms increased from 10,857 to 11,488. Average room occupancy rate for all hotels decreased from 76% in 2007 to 68% in 2008.

Gross earnings from tourism increased by 1.2% from Rs 40.7 bn to Rs 41.2 bn, compared to an increase of 27.6% in 2007.

Investment in hotels which increased substantially from Rs 6.6 bn to Rs 10.1 bn in 2007 remained high in 2008 with Rs 11.7 bn.

Employment in “Hotel and Restaurant” increased by 8.4% from 22,026 in March 2007 to 23,881 in March 2008. The corresponding increase in the previous year was 3.2%.

3.4 Financial Intermediation

Growth rate of the Financial Intermediation sector has increased markedly over the last five years. From 4.3% in 2004, it has jumped to 7.0% in 2006. In 2008, the growth rate of that sector has again improved substantially to 10.1% compared to 7.5% in 2007. Its share in GDP has risen from 9.8% in 2004 to 11% in 2008. However, concerning investment, after a good performance in 2005 and 2006, there has been a marked deceleration in 2007 and 2008.

		2004	2005	2006	2007	2008
Value added	Rs Bn	14.9	16.8	18.9	21.6	25.4
Value added/GDP	%	9.8	10.3	10.4	10.5	11.0
Growth rate	%	+4.3	+5.4	+7.0	+7.5	+10.1
Investment	Rs Bn	0.9	1.3	1.7	1.4	1.2
As a % of total investment	%	2.5	3.4	3.8	2.5	1.9
Employment	No.	7,900	8,800	9,400	10,600	
As a % of total employment	%	1.6	1.7	1.8	2.0	

Nevertheless, it has remained one of the most dynamic sectors during the period. Employment in the sector increased from 9,293 in March 2007 to 10,673 in March 2008. The overall situation of financial intermediation has greatly improved in recent years. With high profitability and capital levels, and prudential management, they have not been exposed to the same risks as those encountered by financial institutions in the developed world.

3.4.1 Global Business

The number of global business companies totalled to 33,580 in 2008 compared to 34,090 in 2007. This is explained by a decrease of 810 in the number of GBCs 2 Licensed Companies. By contrast, Management companies increased to 121 in 2008 compared to 78 in 2007. It is to be noted that applications received for management licences indicated the interest of international law firms and international banks to enter the local market. During the period under review, the reported turnover from Management Companies was USD 90.8 bn, representing an increase of 37% over the previous year.

	2004	2005	2006	2007	2008
No. Category 1 Global Business Companies	7,445	8,061	9,035	10,372	10,672
No. Category 2 Global Business Companies	17,085	19,352	21,481	23,718	22,908
Total Global Business Companies	24,530	27,413	30,516	34,090	33,580
No. Global Funds	309	359	460	460	641
Net Asset Value (US\$ billion)	12.4	26.8	35.9	49.5	
No. Management Companies	73	78	78	78	121

3.5 Information and Communication Technology

The ICT sector cuts across various sectors. It includes activities related to Manufacturing, Wholesale and retail trade, Communication and Business services. Latest statistics refer to 2007. In real terms, the sector grew by 14.6% compared to 12.9% in the previous period. Its contribution to GDP stood at 5.7% in 2007 against 5.5% in 2006.

		2003	2004	2005	2006	2007
Value added in the ICT sector	Rs Bn	6.8	7.7	8.7	9.9	11.7
Value added/GDP	%	5.0	5.0	5.3	5.5	5.7
Growth rate in the ICT sector (%)	%	12.8	22.7	18.2	12.9	14.6
No of large*companies operational	No.	71	91	111	116	125
Employment in large enterprises	No.	5,560	6,240	7,640	8,180	10,390
As a % of total employment	%	1.9	2.1	2.6	2.8	3.5
Investment in ITES/BPO	Rs Bn	0.4	0.5	0.7	1.0	

The number of large companies operating in the sector increased from 116 in 2006 to reach 125 in 2007. With regards to employment, large enterprises increased their number of employees to 10,390 in 2007. This represented 3.5% of total employment in 2007 against 2.8% in 2006.

Total cumulative realized investment in the ITES/BPO sector between October 2006 and March 2007 amounted to Rs 1.6bn.

4 Conclusion

The economic review shows that in 2008, Mauritius was to a great extent protected from the global financial crisis. With a GDP growth rate only a little lower than that in 2007, the situation can be considered as satisfactory. However, two important sectors of the economy, namely tourism and export-oriented manufacturing, which are dependent on the demand situation in Europe and the United States, suffered a setback. For the domestic-oriented food manufacturing sector, which recorded a lower growth rate, and the sugar sector which had to sustain a further reduction in export revenue, the outcome was predictable. Thus, 2008 can be said to have been characterised by much ambivalence. Other positive aspects include lower employment rate, high rate of private investment, sustained FDI and excellent performance of banking and construction sectors. On the other hand, the increasing gap in the external current account represents probably the most crucial issue that needs to be tackled urgently.