

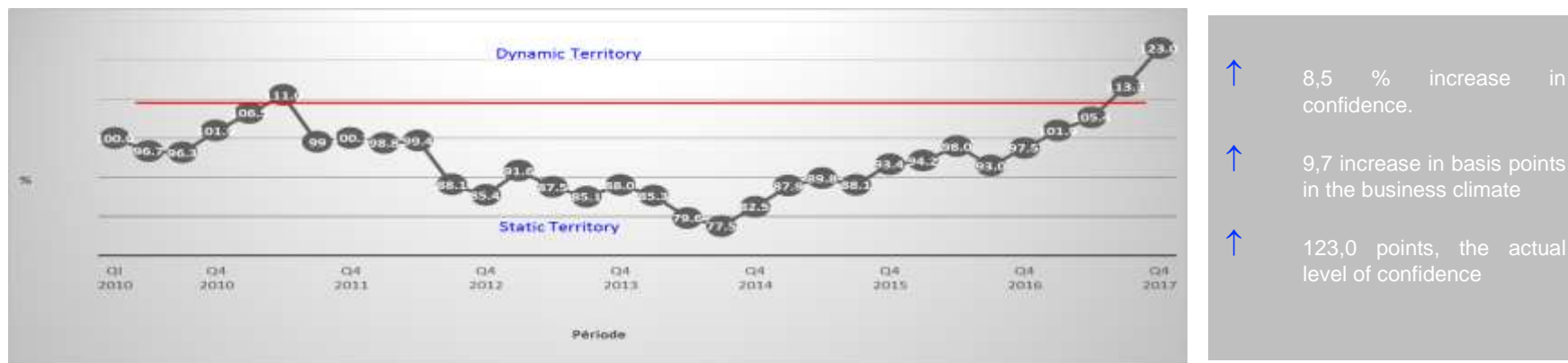


MCCI BUSINESS CONFIDENCE INDICATOR

31st Edition
4th Quarter 2017

I. BUSINESS CONFIDENCE INDICATOR IN Q4 2017

Figure 1 : Business Confidence Indicator of all enterprises



Increase in business confidence

Based on the quarterly business survey conducted between the 26th of December and the 12th of January this year¹, we observe a strong improvement in the level of entrepreneurs' confidence for the fourth quarter of 2017.

The synthetic index increased by 9.7 points (8.5 percent) between October and December 2017 and now stands at 123.0 points.

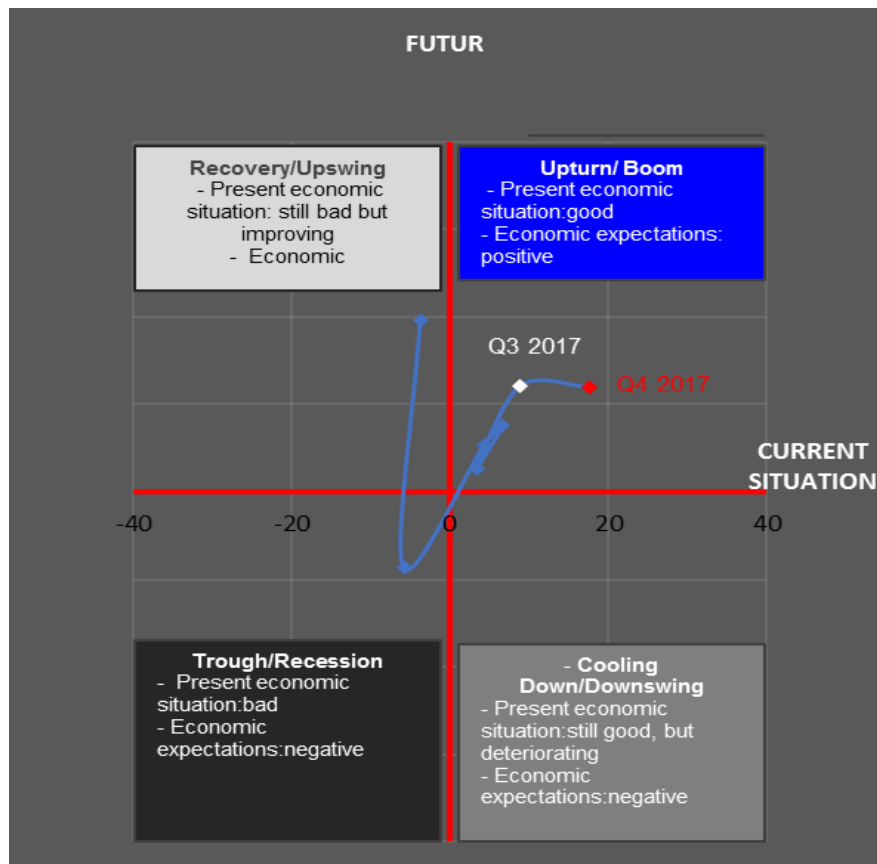
We notice that for the first time since the launch of this economic tool, in June 2010, we have had consecutive and sustained increases in the confidence index for each of the four quarters of the year. The index is at its highest level ever attained, with a net increase of 26.2 percent of the year 2017.

These successive increases indicate a positive optimism of entrepreneurs, who consider that globally the economic situation is improving since the last quarter of 2016.

¹ The Survey does not take into account possible business disruptions linked to the cyclone during the week starting 15th of January 2018

II. THE ECONOMIC BAROMETER IN Q4 2017

Figure 2 : MCCI Economic Barometer



The economic barometer, based on the CESifo methodology, allows us to see the evolution of two components of the business confidence indicator, that is, the arithmetic mean of the assessments of entrepreneurs of the current situation and future economic expectations over the next three months. The correlation of the two components can be illustrated in a four-quadrant diagram, defining the four phases of the business cycle: Recovery, Boom, Recession and Downswing.

Thus, based on forecasts of entrepreneurs in the medium term we can analyze the present and have a useful overview of the evolution of the Mauritian economy.

According to the latest tendency survey, the business confidence indicator has continued to improve during the 4th quarter of 2017.

This increase is, on one hand, due to the improvement in the evaluation of entrepreneurs on the economic situation between the months of October and December 2017, and on the other hand, positive expectations on the economic outlook. On the first component - entrepreneurs' assessment of business tendency based

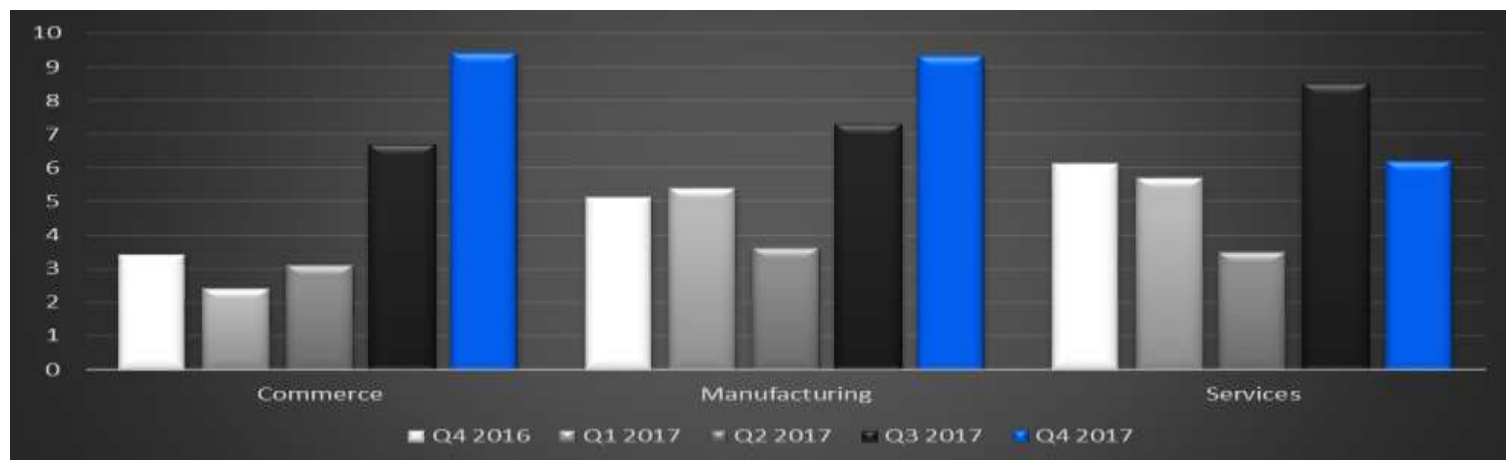
on turnover figures - the balance of opinion over the first quarter is positive at 8.9 percent. About the first component mentioned above, entrepreneurs' assessments of business developments, compared to sales figures, in the fourth quarter, the balance of opinion is positive at 17.6 percent. **28 percent have observed an improvement in turnover figures over the fourth quarter, 62 percent a stagnation in turnover figures and 10 percent have noticed a decrease in their sales figures.**

On the second component, estimates of future prospects, the balance of expectations of entrepreneurs is positive at 12.0 percent. **24 percent predict business improvement over the next three months, 66 percent a stabilization of sales and 10 percent a deterioration.**

The correlation between the two elements show that the confidence index remains in the fourth quarter of 2017 in the quadrant "Upturn/Boom" of the barometer, and shows a marked increase as compared to the other quarters of 2017. Tendency on the future prospects is very positive.

III. SECTORAL ANALYSIS OF THE CONFIDENCE LEVEL IN Q4 2017

Figure 7 : Evolution of sectoral confidence of entrepreneurs



In Q4 2017, general increase in the sectoral confidence indices

On a sectoral level, we notice another general increase in confidence indicators in the fourth quarter of 2017. Similar to the global index, we notice a steady increase in the sectoral indices over the four quarters of 2017.

The commerce sector recorded the largest increase in the sectoral indicator, at 9.4 percent. This shows an upward tendency in household expenditure. Operators uphold that sales have increased as compared to Q4 2016 and their expectations for the future are very positive. For the industry and services sectors, the confidence indexes

increased by 9.3 percent and 6.2 percent respectively. For these two sectors of activity, entrepreneurs have, on the overall, noticed an improvement in their sales figures in Q4 2017 compared to Q4 2016 and anticipate an improvement in their turnover in the first quarter of 2018.

Moreover, during the last quarters, we have noticed that entrepreneurs in all sectors of activity are adopting a more efficient inventory management.

IV. BUSINESS CONFIDENCE BASED ON SIZE OF COMPANIES



Figure 4 : Evolution of the confidence of entrepreneurs based on size of the workforce

In Q4 2017, favourable environment irrespective of the size of the workforce

An analysis based on the size of the workforce shows that the evolutions of the indices summarizing the level of confidence of the entrepreneurs are homogeneous.

Similar to the second and third quarters of 2017, the synthetic business climate indicators improved for all business categories.

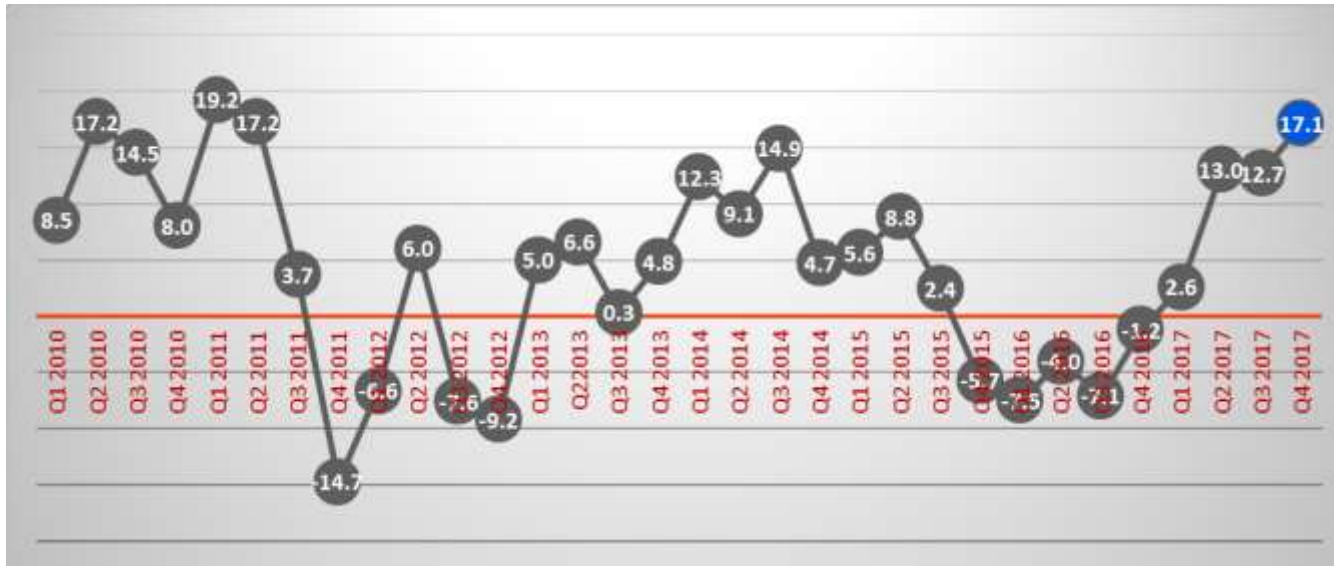
For the first category, companies with less than 20 employees, we notice an increase of 3.8 percent. Entrepreneurs assessed the current economic situation slightly more positively than in the fourth quarter of 2016.

For the other two categories, we notice across the board improvements. An increase of 14.1 percent for companies with 20 to 249 employees and 4.1 percent for companies with 250 employees or more. For both categories, all the determinant factors of the index remain favourable.

We therefore notice that medium sized companies tend to be the engine of business confidence, whilst smaller and larger companies show moderate growth.

V. GLOBAL ECONOMIC CLIMATE IN Q4 2017

Figure 5 Evolution of the World Economic Climate



Source : CESifo World Economic Survey

The global economic environment at its highest level since 2011

The global economic report conducted by the German institute, CESifo, assesses global economic trends based on short-term surveys with international organizations and national institutions around the world.

It is a dynamic tool that offers a quick assessment of the overall economic situation and reveals cyclical changes earlier than conventional statistics.

The methodology and evaluation technique focuses on qualitative information, namely assessments of a country's overall economic situation and expectations of key economic indicators.

Qualitative questions in the global economic study have three possible categories: "Positive (+)" for a positive rating, "Same (=)" for a neutral rating, and "Negative (-)" for a negative rating.

The individual responses are combined for each country without weightage and thus for the "T" time for each qualitative question and for each country, the respective percentages of (+), (=) and (-) are calculated.

The balance is the difference between positive and negative ratings and ranges from -100 points to +100 points.

The mid-range is at 0 points and is reached if the share of the positive and negative answers is equal.

According to the latest survey conducted by the CESifo Institute, the global economic climate continued to improve in the fourth quarter of 2017.

After the turn-around at the beginning of the year, the global economy continued to recover and economic sentiment remains positive in the fourth quarter of 2017 .

As a reminder, the level of confidence was in negative zone throughout 2016.

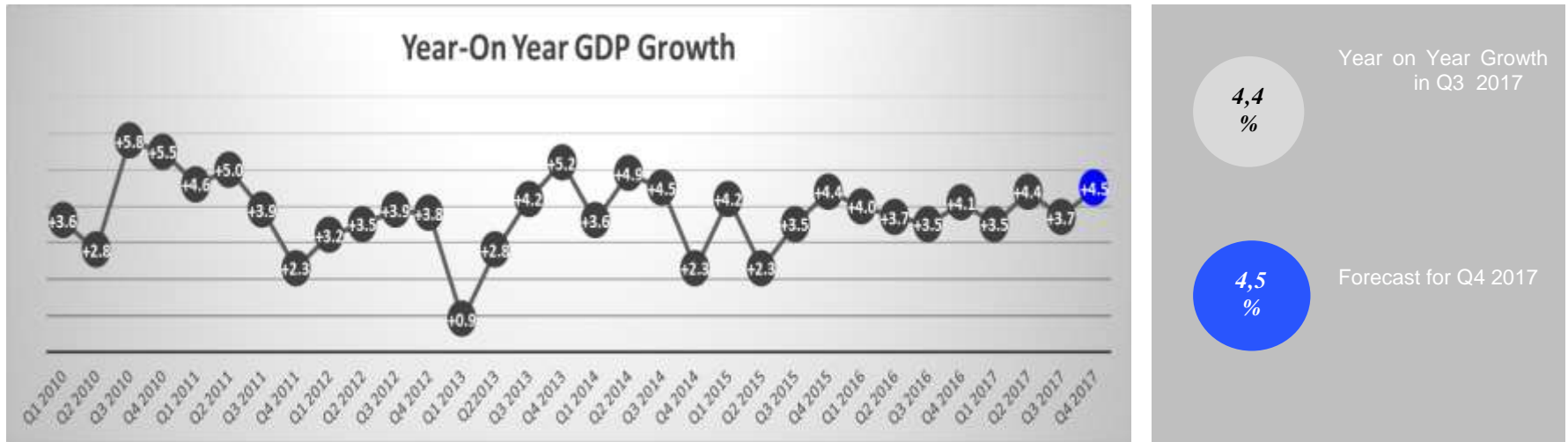
The confidence indicator rose to +17.1 equilibrium points in Q4 2017, close to the level reached in Q2 2011, +17.2 points, and significantly higher compared to the other sectors of 2017.

According to experts from this institute, during the fourth quarter, respondents' assessments of the overall economic situation and future expectations were positive.

The global economy is expected to continue to accelerate in 2018, despite moderate dynamism.

VI. ECONOMIC GROWTH IN Q4 2017 COMPARED TO Q4 2016

Figure 3 : Year-on-year Growth outlook in Q4 2017



A Year-On-Year Growth of 4.5 percent in Q4 2017

According to Statistics Mauritius official data, for the third quarter of 2017, we had a year-on-year increase in GDP of 3.7%, which is higher than the rate of 3.5% achieved in the third quarter of 2016. Our econometric model demonstrates that, over the first nine months of the year, we have already achieved 2.8 percentage points of growth. Thus, if the economy grew by zero percent in Q4 2017, economic growth would have been of 2.8 percent.

Nonetheless, in the fourth quarter of 2017, we forecast an improvement in GDP compared to the fourth quarter of 2016 of 4.5 percent. **Taking into account economic trends over 2017, and in a hypothesis that such a dynamic is maintained over the next quarter, we estimate that economic growth would be of 4 percent for 2017 and 4.4 percent in 2018, ceteris paribus.**

VII. TREND ANALYSIS

The business confidence indicator, based on the OECD methodology, is designed to signal the turning points of economic cycles, showing the fluctuations of economic activity relative to its potential long-term level.

This tool is based on companies' assessment of production, orders and inventories, as well as the current situation and their short-term expectations. The gap between the positive and negative responses of entrepreneurs' opinions and expectations provides a qualitative index of economic conditions.

Thus, the confidence indicator shows short-term economic fluctuations qualitatively rather than quantitatively.

The latest quarterly business survey shows that business confidence continued to rise in the fourth quarter of 2017. The confidence index rose by 8.5 percent to above the long-term average of 123.0 points, its highest level since 2010.

The Mauritian economy is intrinsically linked to the global economy. We notice that the economic tendency at the global level is similar as to Mauritius. According to the CesIFO institute, the global economic

climate continues to improve, and has reached its highest level since 2011.

This analysis is in harmony with the latest forecasts by international institutions.

The IMF confirms in its latest publication that the global economic activity continues to firm up and has been broad based, with notable upside surprises in Europe and Asia.

This institution further improved its growth forecasts this January. It favours a macro-economic scenario where the global growth rate, as measured by GDP, has increased by 3.7 percent in 2017, up by another 0.1 percentage points from its October 2017 forecast. It has further improved its global growth forecasts for 2018 and 2019, by 0.2 percentage point to 3.9 percent.

These figure is largely higher than the growth rate of 3.2 percent observed in 2016.

In Mauritius the turnaround took place in the last quarter of 2016. Over the last year 2017, the evolution of the index has been positive irrespective of the sector of activity.

The moderate business cycle phase that started at the end of 2011 closed in 2016. This is evidenced by the evolution of investment, especially private investment. After a period of contraction between 2012 and 2015, we had a recovery of investment, both global and private, in 2016 with positive growth rates of 3.7 percent and 6.1 percent respectively. This positive trend is expected to continue in 2017. Taking into account the large public infrastructure projects (Metro Express, Road Decongestion Programme, JIOI Sports Complex), as well as private projects such as the Smart Cities, we anticipate that this positive evolution of investment shall remain in 2018.

Thus, taking into account the evolution of the various variables mentioned above, the econometric model of the MCCI projects that the economy of Mauritius should experience in 2017 a GDP growth rate of 4.0 percent adjusted for the price effect, up from 3.8 percent in 2016. With the latest demand-inducing measures, and by combining the effect of the minimum salary on the purchasing power of households, we estimate that GDP Growth should be of 4.4 percent in 2018.

ANNEX – METHODOLOGY

The « MCCI Business Confidence Indicator » is a composite indicator of business climate in Mauritius summarizing, in a single variable, the simultaneous changes of several variables and thus allows the transcription of the state of mind and morale of business leaders. The higher it is the more confident are the businesspersons about the economic outlook, and vice-versa.

The objective is to collect information on the current economic situation and its evolution in order to have a holistic view of the business world.

The methodology used to construct this index of the business climate is one recommended by the OECD², namely:

- Preparation of a questionnaire with qualitative and trimodal questions,
- Using harmonized processing techniques,
- Construct a sample representing 20 percent of the members of our organization,
- Conduct a business survey on the sample in a maximum period of three weeks,

- Assign weights to responses according to the size of the enterprises

To follow the evolution of the indicator, this study should be performed repetitively on the same sample. In our case, we have opted for a quarterly survey.

² OECD : Business Tendency Surveys – A Handbook, 2003