



THE MCCI BUSINESS CONFIDENCE INDICATOR

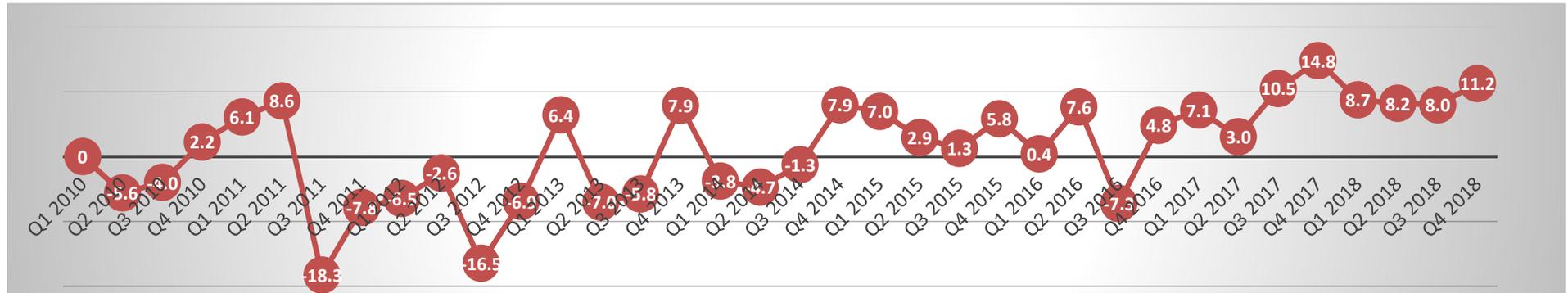
*35th Edition – Fourth
Quarter 2018*

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I. Business Confidence Indicator in Q4 2018

Figure 1 : Business Confidence Indicator of all enterprise



In Q4 2018, increase in the business confidence indicator

Based on quarterly business survey conducted between the 1st and 25th of January 2019 with a sample of economic operators representative of the sectors of the Mauritian economy, we observe a continued increase in the business confidence indicator.

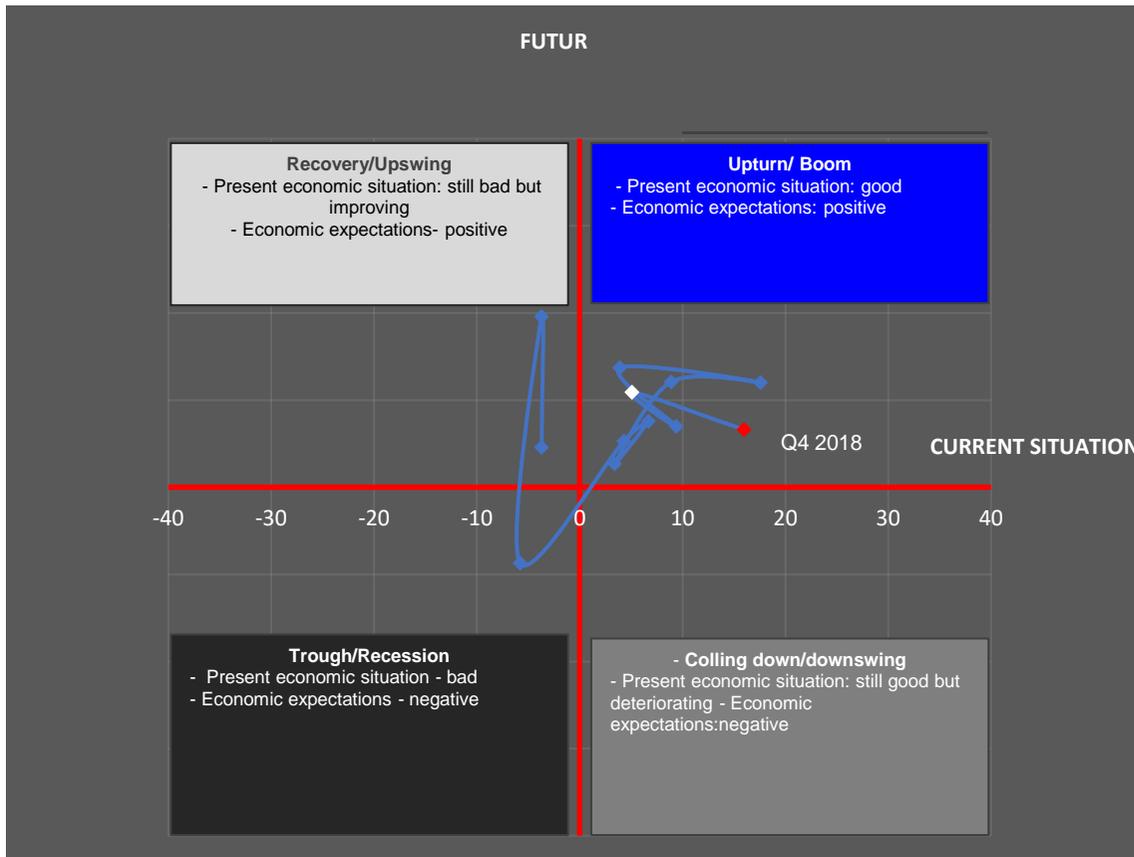
The synthetic indicator increased by 11.2 balance points in the fourth quarter of 2018, at a higher rate than the 8.0 balance points observed in the third quarter of 2018. The increase was at a lower rate than the exceptional dynamism observed in the corresponding quarter of 2017, at 14.8 balance points. We, nonetheless, notice that there is a continued upturn in entrepreneurs' assessment of the Mauritian economy.

Indeed, we find a turning point since the third quarter of 2016, whereby the balance of opinions has been in the positive quadrant with a continued upturn and optimism in entrepreneurs' assessment of the Mauritian economy, indicating a medium-run virtuous cycle.

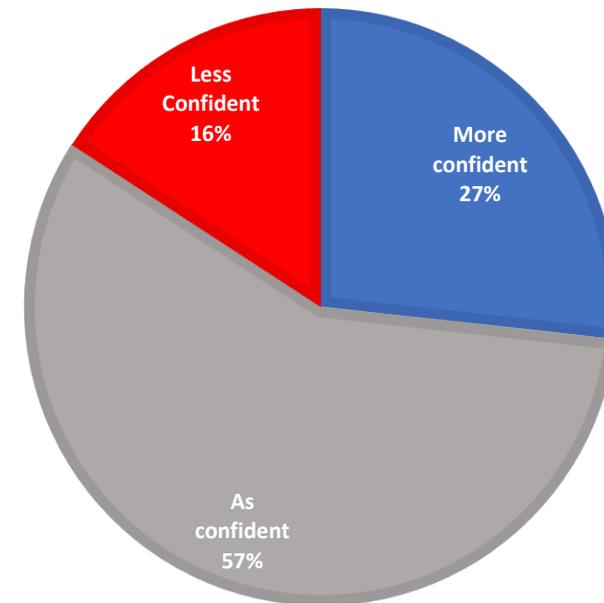
Nonetheless, based on the trends observed in the four quarters of 2018, we observe that the increase in momentum, which has led to a peak in 2017 has reached an equilibrium point, with a more prudent approach being adopted by entrepreneurs.

II. The Economic Barometer in Q4 2018

Figure 2 : MCCI Economic Barometer



Entrepreneurs Expectations for the 1st Quarter of 2019



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 remained in the positive ‘Upturn’ quadrant in the fourth quarter of 2018, with a higher growth than the third quarter of 2018.

The expectations of operators, expressed in our last tendency survey, as to a more positive economic outlook for the fourth quarter of 2018, has been confirmed. The improvement in the evaluation of entrepreneurs on the economic situation between the months of October and December 2018, has

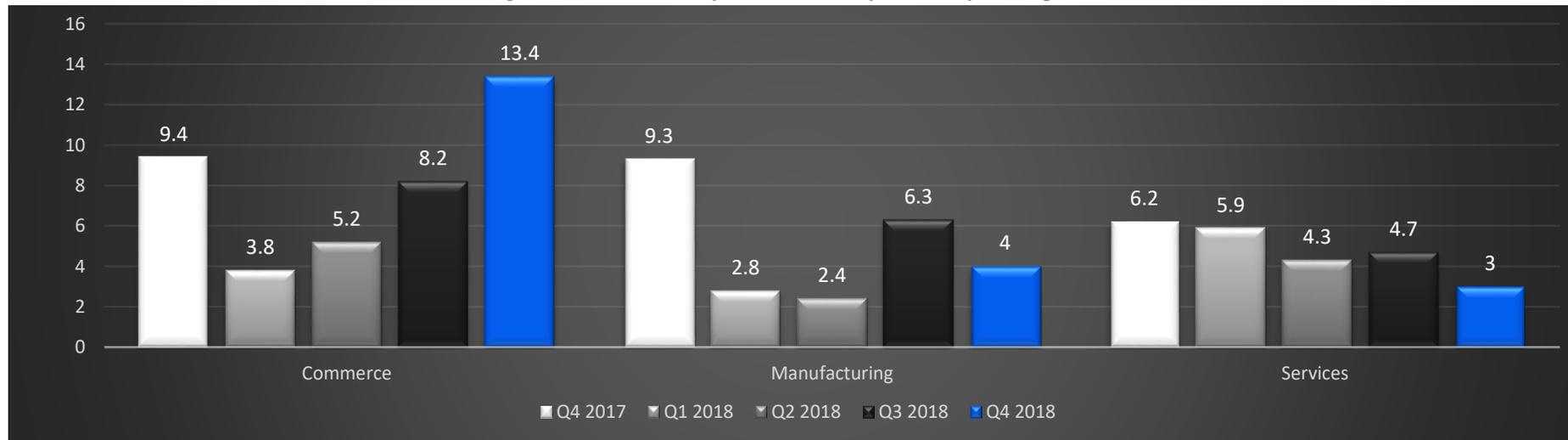
been, nonetheless, balanced by a lower expectation on the economic outlook for the first three months of the year 2019. On the first component - entrepreneurs’ assessment of business tendency based on turnover figures - the balance of opinion over the fourth quarter is largely positive at 16.0 percent. **37 percent have observed an improvement in turnover figures over the fourth quarter of 2018, 50 percent a stagnation in turnover figures and 13 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 6.6 percent. **27 percent predict business improvement over the next three months, 58 percent a stabilization of sales and 16 percent a deterioration.**

The correlation between the two elements show that the confidence indicator remains in the fourth quarter of 2018 in the quadrant “Upturn/Boom” of the barometer, and shows a slight decrease as compared to the corresponding quarter of 2017, where exceptional growths were registered. **The current situation has improved in the fourth quarter of 2018, whilst the tendency on the future prospects for the first quarter of 2019 have weakened.**

III. Sectoral Analysis of the Confidence Level in Q4 2018

Figure 3: Evolution of Sectoral Confidence of Entrepreneurs



In Q4 2018, sectoral business confidence driven by the Commerce Sector

On a sectoral level, we notice another general increase in confidence indicators in the fourth quarter of 2018. Similar to the global indicator, we notice a steady increase in the sectoral indices since the end of 2016.

After a slump in the first quarter of 2018, the commerce sector has continued to grow exponentially and records the largest increase in the sectoral indicator, at 13.4 percent in the fourth quarter of 2018. This confirms the upward tendency in household expenditure as a result of recent

increases in the purchasing power of households and a modest inflation rate forecasted for 2018. Operators uphold that sales have increased as compared to Q4 2017, on the back of end-of-year bonuses and expenditures linked to the New Year celebrations. In the commerce sector, entrepreneurs' expectations for the future are fairly positive, with continued improvement forecasted in turnover figures. Household expenditure is expected to continue to grow, with the cumulative factors of the recent salary compensation to employees, the increase in old-age pensions as well as

fairly modest interest rates. Nonetheless, we are of the view that the Mauritian economy still remains below its potential growth, indicating outstanding bottlenecks preventing a dynamic and sustained boost in local demand and consumption.

For the industry sector, the confidence indicator increased by a modest rate of 4 percent in the fourth quarter of 2018, as compared to the 9.3 percent balance point observed in the corresponding quarter of 2017. The turnover of operators in the fourth quarter of 2018 has increased modestly, with a balance of 2.4 points as compared to the same quarter of 2017, whilst expectations for the beginning of 2019 figures are slightly better.

The industrial sector is mainly being driven by higher levels of production linked to the construction industry with large infrastructural and investment projects, causing a multiplier effect on the economy, despite high import components. The manufacturing sub-sector remains largely affected by the slowing down of economic dynamism in the country's main export markets, as well as uncertainties and potential market disruptions linked to the global trading environment. Traditional manufacturing activities are particularly faced with fierce competition at exports whilst the domestically-oriented industries face higher pressures from imported goods. With a slowing down of global trade growth, the manufacturing sector is anticipated to continue to

show modest growth. It is imperative for the industry to move towards higher value-added activities based on skills and R&D and innovation.

For the services sector, the confidence index increased by 3 percent. Entrepreneurs have, on the overall, noticed a modest improvement in their turnover figures in Q4 2018 compared to Q4 2017, much lower than the 6.2 percent achieved in the same quarter of 2017. Enterprises in the service industry have been affected by a number of varying factors in the fourth quarter of 2018.

Weather disruptions in November have caused interruptions in port activities, whilst at the same time, there has been a decline in tourist arrivals from Reunion Island, with a number of flights cancelled or re-scheduled during three weeks of anti-hike “gilet-jaune” protests. Indeed, there has been a decrease of 5 percent in tourist arrivals from Reunion Island, i.e. approximately 7,600 less tourists in 2018 than in 2017.

In the financial services sector, companies are progressively adapting themselves to the new global business reforms, with adjustments in their modes of operation to meet the substance requirements. Whilst the OECD now assesses the Mauritius jurisdiction as compliant to the BEPS initiative,

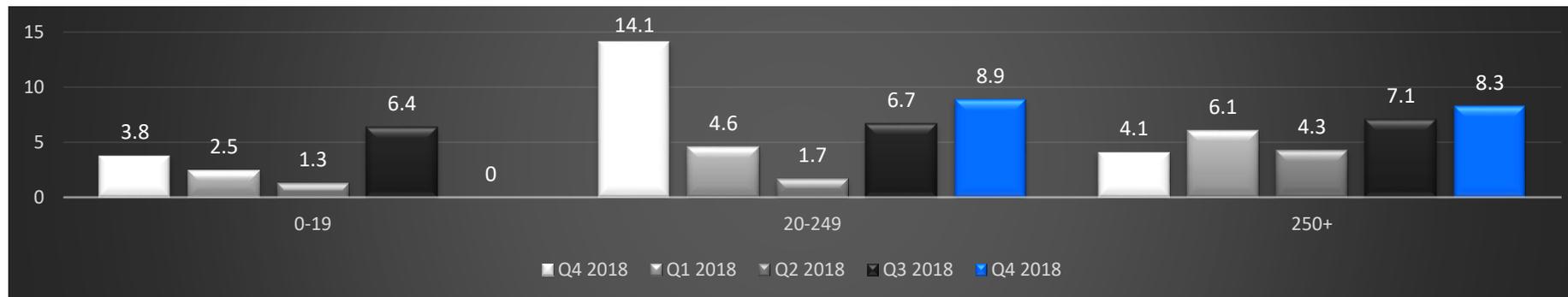
the EU has raised concerns on the new global business regime, with minor amendments anticipated to be in force in the upcoming Finance Bill in September of this year. The white-listing of the Mauritius jurisdiction by the EU will hence only be achieved at the earliest in the fourth quarter of 2019. It is hence estimated that companies in the services sector shall project a

modest growth in their turnover figures in the first quarter of 2018, with a balance of opinions at 2.6 percent.

On stock levels, companies are making use of the start of year to adjust their inventory management based on their forecasted orders. expectations of sales.

IV. Business Confidence based on Size of Companies

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



In Q4 2018, enterprises with larger sized workforce lead business confidence

An analysis based on the size of the workforce shows that the evolutions of the indices summarizing the level of confidence of the entrepreneurs **since the second quarter of 2017 has been positive for all business categories. Nonetheless, despite consistent increases in the medium and larger sized companies turnover, we notice a stagnation in the turnover levels in smaller sized enterprises in the fourth quarter of 2018.**

For the first category, companies with less than 20 employees, we notice a stagnation in the balance of opinions. Entrepreneurs' assessment of the current economic situation in the fourth quarter of 2018 and the future tendency for the first quarter of 2019 point to a stagnation in growth figures,

reflecting a prudence strategy based on a more modest world economic environment as well as an increase in competition.

For companies with 20 to 249 employees, we notice an increase of 8.9 percent in the fourth quarter of 2018, lower than the 14.1 percent achieved in the corresponding quarter of 2017. Entrepreneurs in this middle category assessed the current economic situation more positively than in the other three quarters of the year. Medium-sized companies experienced an improvement in their turnover levels for the fourth quarter of 2018, but

expect a more modest increase in their performance levels in the first quarter of 2019.

For larger-sized companies, we notice an improvement of 8.3 percent in the fourth quarter of 2018, higher than the 4.1 percent shown in the same quarter of 2017. Large-sized companies experienced an improvement in their turnover levels for the fourth quarter of 2018, but expect a more modest increase in their performance levels in the first quarter of 2019.

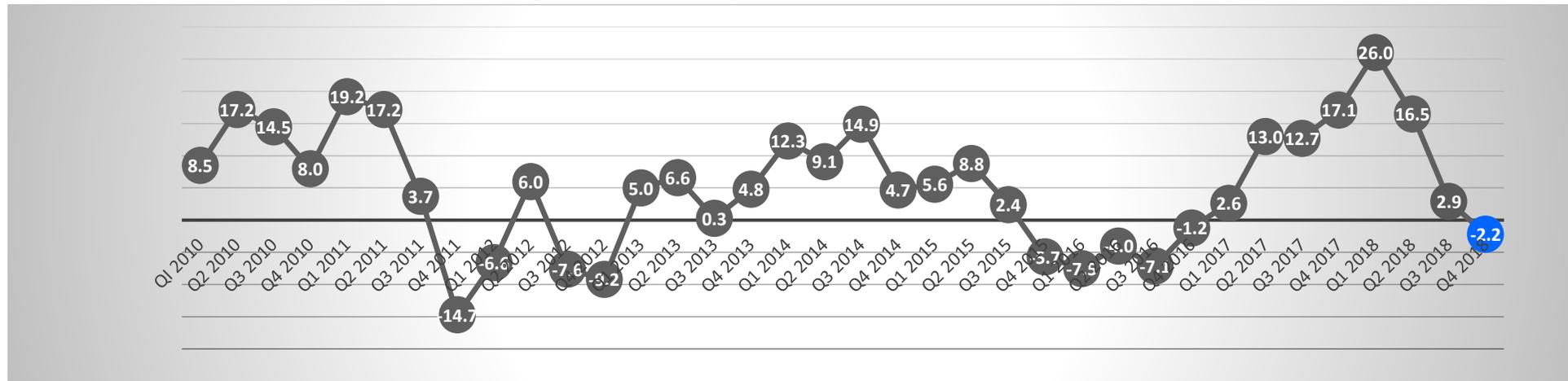
Based on the above, we therefore notice that **medium and larger sized companies remain the engine of business confidence whilst there is a stagnation in the development of smaller enterprises.** In times of slow

economic dynamism, medium and large companies are more equipped to face the challenges of the economy, whilst smaller enterprises are more vulnerable. Moreover, there is a pulling effect of orders from smaller enterprises to larger enterprises.

It is therefore necessary to adopt support mechanisms to support the SME sector and enable a comprehensive mainstreaming of their expansion in the economic eco-system of the country. These should take the form of enhanced access to capital, technological support through R&D and Innovation, as well as capacity building to adhere to quality certifications and norms and improving access to regional markets through exports.

V. Global Economic Climate

Figure 5: Evolution of the World Economic Climate



Source : CESifo World Economic Survey

The global economic climate deteriorates

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.

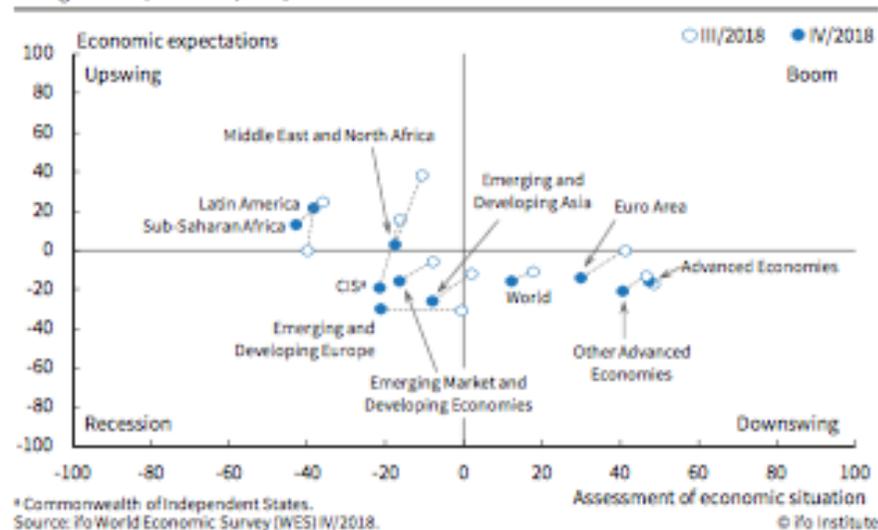
According to the latest survey conducted by the CESifo Institute, the global economic climate deteriorated in the fourth quarter of 2018, with a negative balance points. After the dynamic upturn in the world economy since the start of 2017, growth in the world economy is waning, falling from its highest level of 26.0 balance points in the first quarter of 2018, to -2.2 points in the fourth quarter of the year. Assessments of the current economic situation deteriorated significantly, but remain above their long-term average, whilst economic expectations for the beginning of 2019 were scaled back considerably.

Globally, the economic climate in emerging economies deteriorated significantly whilst we notice a stabilisation in advanced economies.

According to CES-Ifo experts, the deterioration in worldwide economic expectations is particularly reflected in weaker private consumption leading to weaker expected growth in world trade whilst investment activity is not expected to decline much further. With continuing trade tensions between the USA and China and uncertainties linked to the negotiations on Brexit, CES-IFo experts do not expect existing trade barriers to be dismantled in the short-term.

Figure 2

ifo Business Cycle Clock for Selected Aggregates
Change from III/2018 to IV/2018; balances

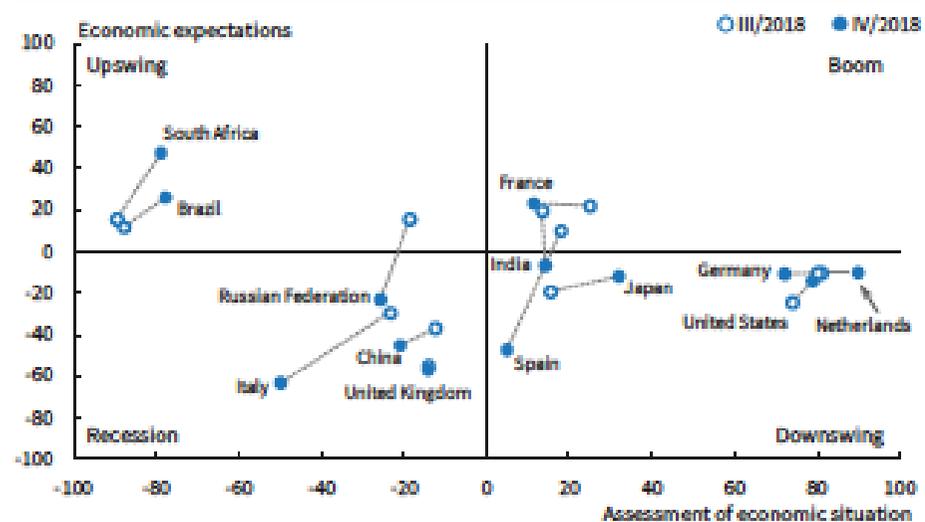


In advanced economies as a group, the economic climate remained stable and positive, but expectations for the first half of 2019 remained

pessimistic driven by a lack of skilled labour, widening income gap as well as uncertainties linked to the future of the EU-UK relationship. In the United States, the economic climate remains robust and improving.

In emerging and developing economies, economic conditions continued to worsen on the back of slowdown in the global world trade and tightening financial conditions.

Ifo Business Cycle Clock for Selected Countries
Change from III/2018 to IV/2018; balances



Source: Ifo World Economic Survey (WES) IV/2018.

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At the country level, amongst the main economies, only **France** remains in the boom quadrant with a positive expectation in both assessment of the

current situation and the future economic situation. The French economy is in a normalisation phase after a uncertainties and shocks linked to the anti-price hikes protests during the last quarter of the year 2018. Amongst the emerging economies, **Brazil** and **South Africa** were the only countries to show improvement in the present situation and economic expectations. Whilst the Brazilian Real seem to have recovered from its recent depreciation, **WES experts deem the South African Rand as still undervalued.** Both economies continue to suffer from corruption and a lack of confidence in the government’s economic policy.

India remains the fastest growing economy in the Asian region with n estimated average GDP growth rate of 7.5 percent over the next three to five years. Capital shortages, inadequate infrastructure and a continuing widening of income inequality continue to cloud the prospects for the Indian economy, which shall further be affected by a potential slowdown and lack of clarity in economic policy as the country goes to the polls in mid-2019. In **China**, capital expenditure and private consumption have slowed down, with no sign of a recovery in the next six months. The country shall continue to be affected by the ramifications of the trade tariffs imposed by the U.S and the tightening of financial conditions worldwide. China’s mid-term GDP growth rate is nonetheless expected to improve from 5.6 percent to 5.9 percent, and remains one of the highest growing economies in the

emerging markets.

In the **United States**, the economic indicators for the end of 2018 and the next 6 months have both improved, with the expected decrease in the volume of trade in imports and exports being small. It is now expected that **interest rates will rise over the next six months and that the US dollar will continue to strengthen**. Nonetheless, economic experts at CES-Ifo are less confident in the economic policy adopted by the U.S, especially with the introduction of higher levels of barriers to trade. In the **United Kingdom**, the uncertainty surrounding Brexit remains one of the most important disruptive factors, with political instability and a lack of confidence in the economic policy of the government hindering the economy’s growth. This has led to weaker levels of capital expenditure during the end of 2018. With uncertainties linked to the risk of a “no-deal Brexit”, capital expenditure is not expected to recover in the coming months, with consumption is anticipated to weaken.

During the analysis conducted in the fourth quarter of 2018, CESIfo experts throughout the world have identified the most important economic problems as widening income inequality, lack of skilled labour, corruption and lack of confidence in government’s economic policy. Indeed, with the current economic situation, there is a tendency for a widening of income

inequalities. Nearly 70 percent of experts have identified the latter as an economic issue facing their economies. Some 62 percent of experts have further identified lack of skilled labour as a major barrier to economic development in the world economy. This is particularly the case in advanced economies, Europe, the MENA region and Sub-Saharan Africa.

Economic Problems ranked by World Importance*

	World	Advanced Economies	Emerging and Developing Economies	EU	Developing Europe	Developing Asia	Latin America	CIS	MENA	Sub Saharan Africa
Widening income inequality	69.6	65.1	73.3	55.0	59.7	73.0	78.4	75.1	64.2	87.2
Lack of skilled labour	61.4	66.2	57.5	67.9	76.6	52.3	53.9	66.6	77.2	72.7
Corruption	58.3	31.4	80.0	30.8	67.6	76.7	88.2	94.2	77.1	94.6
Lack of confidence in government's econ. policy	56.3	58.4	54.6	64.8	87.0	40.8	76.4	77.2	60.3	79.1
Lack of innovation	55.3	44.0	64.3	55.2	87.4	53.4	85.1	86.2	64.9	75.1
Legal and administrative barriers for business	53.7	38.5	65.9	47.2	53.2	67.6	61.7	72.9	71.5	58.2
Inadequate Infrastructure	51.6	54.5	49.2	49.4	54.4	34.2	87.7	77.1	50.6	74.1
Lack of international competitiveness	43.6	33.4	51.8	39.7	42.4	41.9	71.9	77.8	71.4	71.0
Trade barriers to exports	42.8	32.9	50.7	15.8	21.4	61.0	30.0	49.6	32.8	40.2
Unfavourable climate for foreign investors	40.8	26.3	52.5	34.2	64.3	50.4	44.9	61.7	70.5	52.2
Inefficient debt management	39.8	32.2	46.0	23.7	55.7	48.8	38.6	13.1	59.8	58.4
Insufficient demand	36.6	19.4	50.4	26.4	37.9	44.3	63.5	68.6	51.9	77.0
Political instability	33.5	43.3	25.6	43.7	54.8	14.5	58.8	21.2	35.5	27.6
Capital shortage	29.2	11.4	43.5	24.2	77.3	28.4	49.7	79.1	80.4	78.0
Lack of credible central bank policy	13.3	7.1	18.4	6.8	44.2	12.8	14.9	29.2	45.9	19.4

*Based on percentages of experts indicating their country is facing this problem at the moment. Highlighted problems are the top 3 most important economic problems for each region.

Source: Ifo World Economic Survey (WES) IV/2018.

Corruption and lack of confidence in government’s economic policy have

been identified as main issues facing economies. In fact, apart from the EU region, more than 65 percent of experts believe that corruption is one of the main difficulties facing economies. In advanced economies particularly the EU, and Developing Europe as well as in Sub-Saharan African and Latin America, there is furthermore a clear lack of confidence in Governments economic policies. Finally, lack of innovation is particularly prominent in Developing Europe Latin America, the Commonwealth of Independent States (CIS) and in Sub-Saharan Africa and acts as a stumbling block to a dynamic economic development in those regions.

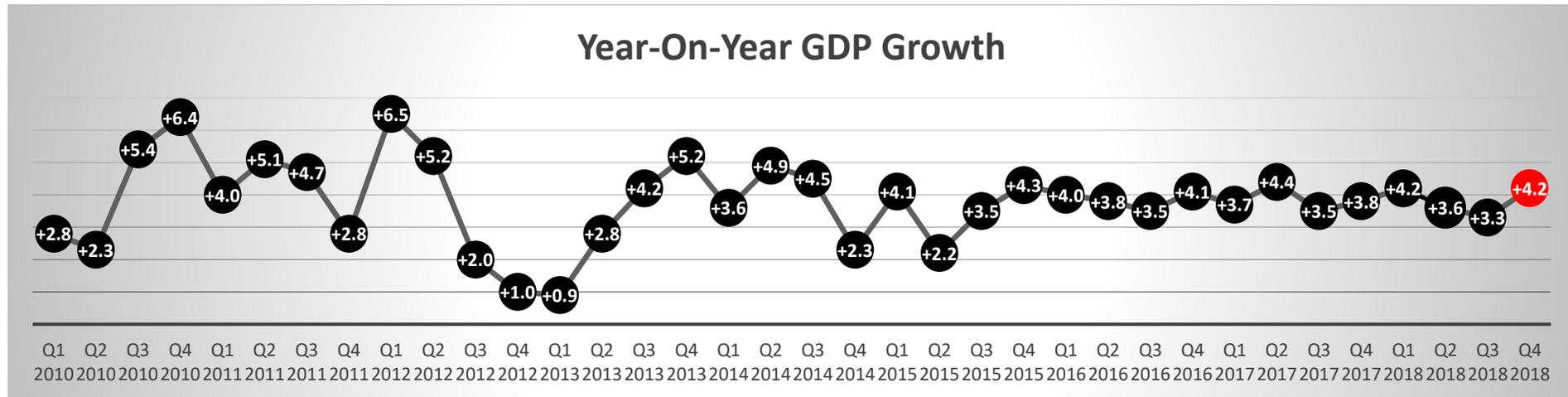
According to experts from the CES-Ifo, during the fourth quarter, respondents' assessments of the overall economic situation deteriorated

significantly, but nevertheless remain positive. In contrast, future economic expectations fell considerably, and reached its lowest level since 2010, with a negative balance of opinions observed. The indicator's growth dropped significantly as a result, with the global economy moving further in the downswing quadrant, although it remains very close to the middle.

The global economy has entered a downswing in the medium-term, which may have consequences on the domestic economy.

VI. Economic Growth in Q4 2018 compared to Q4 2017

Figure 6: Year-on-year growth outlook in Q4 2018 based on Business Confidence



A Year-on-Year GDP Growth of 4.2 percent in Q4 2018, Economic growth estimated at 3.9 percent for the year 2018

According to Statistics Mauritius official data, for the third quarter of 2018, we had a year-on-year increase in GDP of 3.3%, which is lower than the rate of 4.2% achieved in the first quarter of 2018 and 3.6 percent in the second quarter of 2018., and lower than the 3.5 percent achieved in the corresponding second quarter of 2017. As a reminder, this rate was at 3.5 percent in the third quarter of 2017.

Based on our econometric model, and trend analysis of business tendency over the fourth quarter of 2018, we estimate a year-on-year growth rate of **4.2 percent for the fourth quarter of 2018, compared to the corresponding quarter of 2017.**

Our econometric model demonstrates an economic growth rate of 3.9 percent for the year 2018. Our initial estimates, based on preliminary expectations of operators, and the current trend, should be that economic growth in 2019 is of 3.9 percent.

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.

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 – the balance of opinions - provides a qualitative indicator 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 show positive growth in the fourth quarter of 2018. **The balance of opinions remained in the positive territory at 11.2 balance points, lower than the 14.8 percent achieved in the fourth quarter of 2017.**

The Mauritian economy is intrinsically linked to the global economy. **According to the CesIFO institute, the global economic climate deteriorated in the fourth quarter of 2018, after reaching its peak at 26.0 balance points in the first quarter of the year. The indicator is now in the negative territory at -2.2 balance points, its lowest level since the middle of 2016.**

Though growth in the world economy remains steady, it is losing its impetus with a number of downside risks to the global economic expansion. 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 remain stable but the expansion is now less vigorous and less balanced.

This institution favours a macro-economic scenario where the global growth rate, as measured by GDP, to increase by 3.7 percent in 2018. It has further reduced its global growth forecasts for 2019 to 3.5 percent and 3.6 percent in 2020, 0.2 and 0.1 percentage points below its last October's projections. The global growth forecast has been downgraded partly due to the negative effects of tariff increases enacted in the United States and

China in 2018. Moreover, risks to global growth tilt to the downside with a possibility of an escalation of trade tensions, further tightening of financial conditions and high levels of public and private debt. In advanced economies, with the effect of tariff measures, climatic and weather disruptions as well as lacklustre productivity, economic activity lost some momentum in 2018. The global economy shall further be affected by the effects of a potential “no-deal” withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China. It is now clear that **economic growth and expansion has weakened significantly with downside risks to a number of economies in 2019.**

According to the IMF, the main policy priority is for countries to resolve **cooperatively and quickly their trade disagreements and the resulting policy uncertainty**, rather than raising harmful barriers further and destabilizing an already slowing global economy. Across all economies, **measures to boost potential output growth, enhance inclusiveness, and strengthen fiscal and financial buffers in an environment of high debt burdens and tighter financial conditions are imperatives.**

In Mauritius after a turnaround in the last quarter of 2016, the business confidence indicator has been evolving in the positive area irrespective of the sector of activity or the size of the business. After exponential upturns in

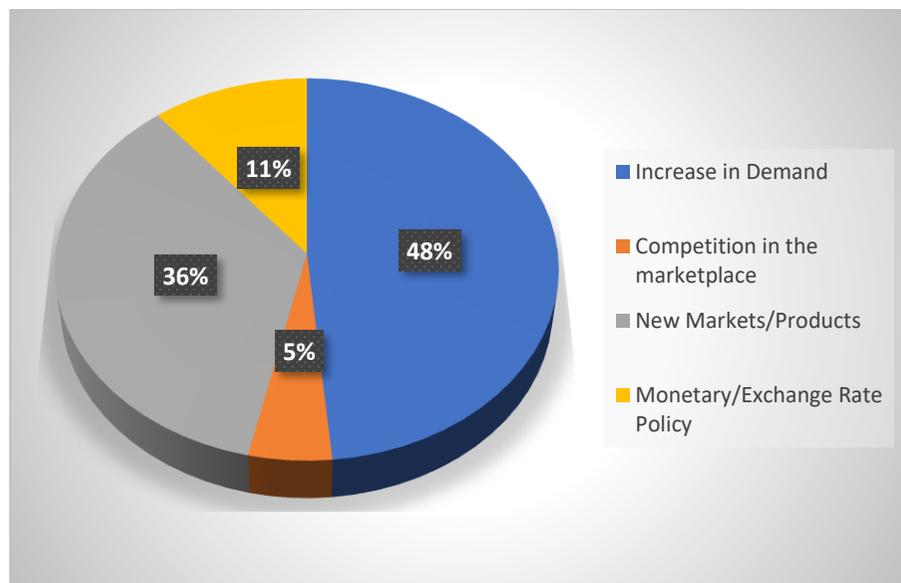
2017, the growth in business confidence has been steady in 2018. In the fourth quarter of 2018, business confidence growth is less balanced with medium and larger sized economies driving growth, whilst there is a stagnation in the performance of smaller companies. Business confidence remains largely driven by the Commerce Sector, with exceptional growth in household expenditure levels, whilst the industry and services sectors show modest growth, on the back of uncertainties in the world economy and the impact of weather disruptions.

Demand remains one of the key engines of growth in the Mauritian economy, with **more than 48 percent of entrepreneurs indicating that an increase in demand has been one of the most significant factors affecting their businesses.** The combined effects of the implementation of purchasing power policies over the last two years¹, has led to an improvement in the purchasing power of individuals, with the average monthly earnings of employees having reached approximately Rs. 30,000. This has had a positive effect on consumption expenditure, with household consumption expenditure growing by 3.4 percent in 2018 – its highest figure in over more than 10 years. Entrepreneurs particularly in the consumer goods segments have indicated an increase in demand.

¹ Negative Income Tax, Minimum Wage, Lower tax band for middle income-earners

It is further noted that approximately 35 percent of entrepreneurs **have indicated that their strategies for diversification of products and the tapping into new markets have contributed positively to their business performance during the fourth quarter of 2018 whilst 11 percent of enterprises believe that a favourable monetary and exchange rate policy has positively affected their business performance.**

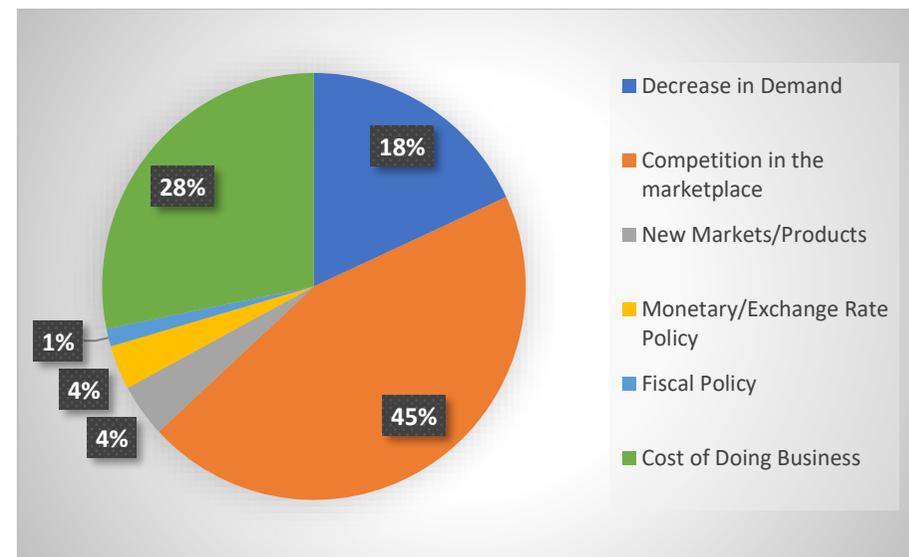
Figure 7: Main factors affecting business confidence in 4th Qtr 2018 (Positive)



Nonetheless, some 18 percent of entrepreneurs have indicated a decrease in the demand for their products, mostly accompanied by higher levels of

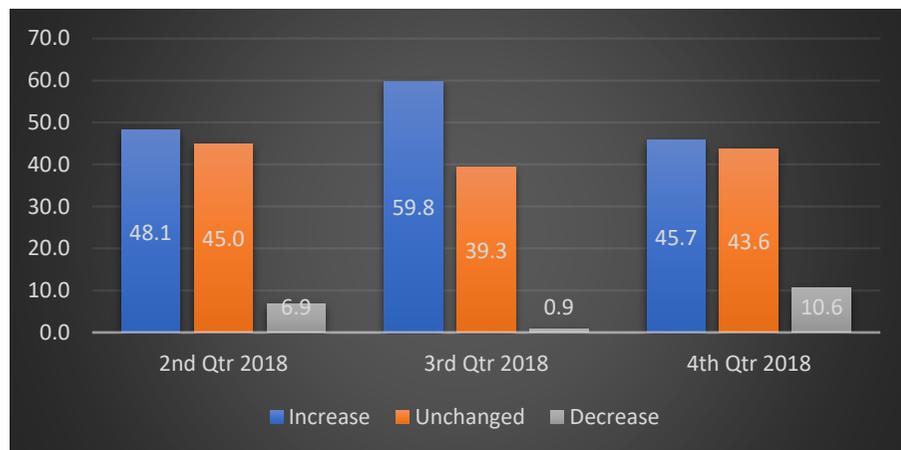
competition in the marketplace. Indeed, with a highly liberalised economy, and faced by global competitiveness both on the domestic and external markets, entrepreneurs, at 45 percent point to an increase in competition as one of the constraining factors affecting their businesses. Moreover, we notice that the cost of doing business is also amongst the main factors affecting business performances, with more than 28 percent of companies pointing to the latter as one of the negative factors affecting performance in enterprises.

Figure 8: Main factors affecting business confidence in 4th Qtr 2018 (Negative)



The planned increase in investment observed during the last few quarters has slightly dampened with just under 45 percent of entrepreneurs indicating that they would increase their investment expenditure in the next twelve months. This is in contrast to some 11 percent of entrepreneurs anticipating a decrease in investment expenditure.

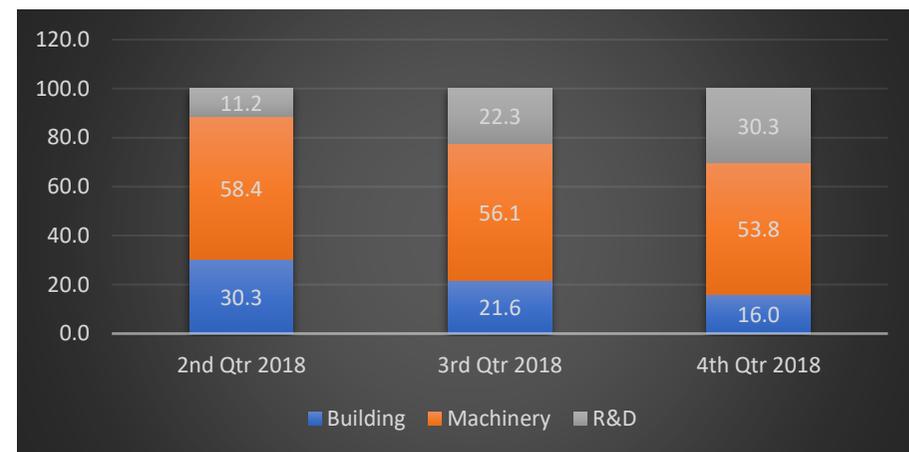
Figure 9: Evolution of investment expectations by enterprises (%)



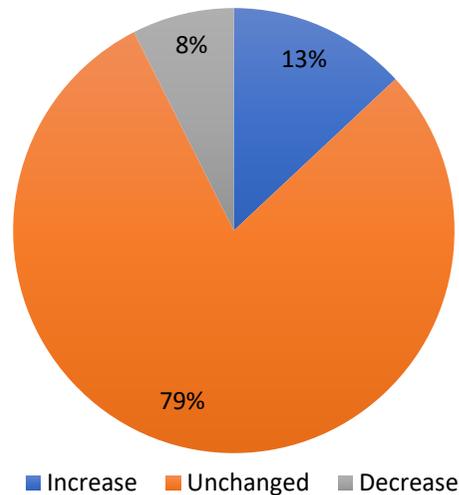
Investment remains predominantly in Plant & Machinery, indicating that entrepreneurs are investing in new production lines and markets. Indeed, more than 54 percent of entrepreneurs have indicated that their investment shall be in Plant & Machinery, whilst 30 percent indicated investments

predominantly in R&D Expenditure. The remainder of companies are principally investing in Buildings.

Figure 10: Evolution of investment by type (%)

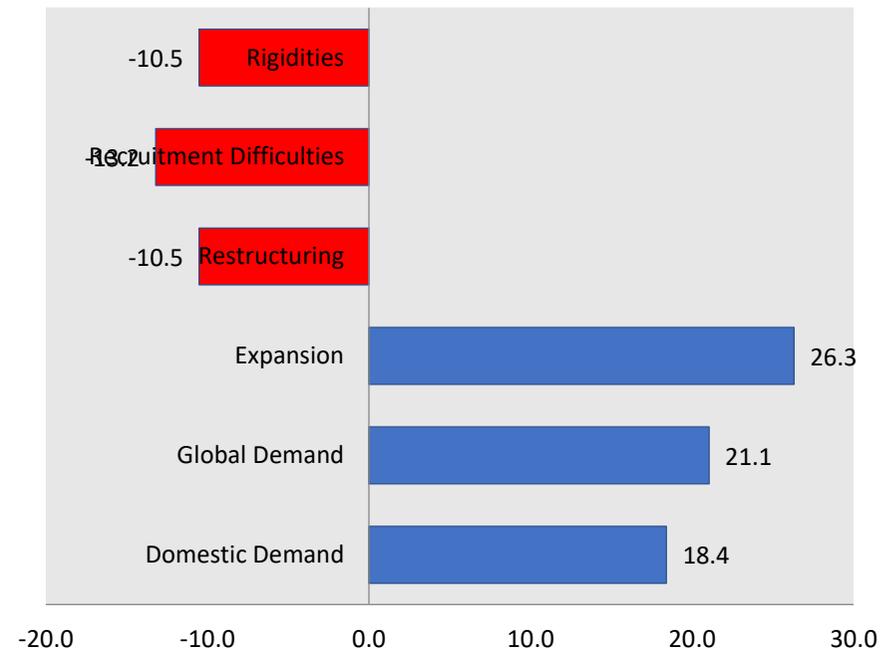


Employment is expected to continue to improve, albeit modestly, with 13 percent of entrepreneurs indicating an increase in employment over the next 3 months. The majority of enterprises are expecting to maintain their employment levels whilst some 7.5 percent of companies are engaged in a restructuring and downsizing exercise and thus decreasing their employment levels.



More than 40 percent of companies point to an increase in global and local demand as the main reason for their employment policies, whilst some 26 percent of companies are in an expansion phase. On the downside, some 10 percent of enterprises are in a restructuring phase in order to maximise the use of their workforce and mitigate the cost of production. Nearly one in four companies are either experiencing recruitment difficulties or faced with labour market rigidities. The streamlining of procedures for employment as

well as **addressing the skills mismatch through targeted training and education is primordial for the development of the economy.**



The balance of opinions on exports of goods and services **remained positive**, at **balance of opinion of exports at 3.2 points**. The evaluation on the **exports' turnover between the months of October and December 2018 estimated at 1.1 balance points is boosted by a slightly higher expectation on the export turnover for the first three months of 2019, at**

5.2 balance points. A number of enterprises anticipate that export figures, which have been delayed in the last quarter of 2018 is expected to pick-up in the first quarter of 2019.

Based on the business climate results for the first three quarters of 2018, we estimate that the economic growth in the fourth quarter of 2018 was of 4.2 percent. **Our econometric projections for the full year 2018 is that growth should be of approximately 3.9 percent, a slightly lower figure than initially forecasted. This is mainly due to the sharp reduction in sugar production and low sugar prices. Our Growth forecasts slightly differ from Statistics Mauritius, with our estimates of the textile sector**

deflator for 2018 being at a lower level, though we also estimate a contraction in textile manufacturing in the year 2018.

We are currently experiencing a rather prudent optimism of entrepreneurs as regards to the economic environment, with a number of downside risks to the economy, be they global or local. In 2019, growth in the economy shall be demand-driven. Higher levels of consumption with an improvement in the purchasing power of enterprises shall be combined with the implementation of large infrastructural projects and Smart Cities and further improve the investment figures for the year 2019.

VIII. AN ANALYSIS ON THE AWARENESS AND USE OF MAIN INCENTIVES & MEASURES

Mauritius has, throughout the last decade adopted a number of incentives and schemes to boost the economy and incentivise entrepreneurship and innovation. Ten years after the Global Financial Crisis of 2008-2009, and with a plethora of incentives available to operators, we have conducted a preliminary analysis with our operators of the awareness and use of such measures. Our initial hypothesis is that economic operators in Mauritius are often unaware or otherwise are not making full use of the incentives available to them. Throughout our analysis, we have identified six main categories of incentives available to enterprises. These constitute some 28

incentives and schemes, which have been analysed for their awareness and use by enterprises. Unsurprisingly, the main incentive used by enterprises is the **Training Levy Refund of 70 percent for training of employees, with some 56 percent of enterprises surveyed making use of the measure.** Aside from new measures and measures which have had no impact on enterprises so far, the least utilised measures are the **double deduction on R&D Expenditure and the deduction of investment in solar energy units from taxable income.** Both measures have only been utilised by some 2.5 percent of enterprises surveyed

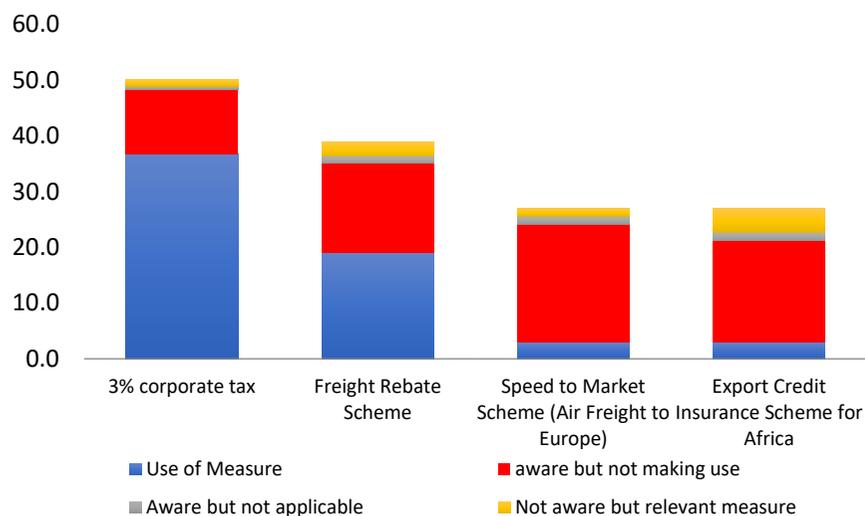


We shall now conduct a more granular analysis of the main incentives and schemes and their utilisation by enterprises. On the **export-related measures**, we notice that more than 36 percent of enterprises surveyed are making use of the reduced **3 percent corporate tax on exports of goods**, whilst 19 percent of enterprises utilise the freight rebate scheme to Africa. The Speed-to-Market Scheme and the Export Credit Insurance Scheme are the least utilised incentives with some 2.9 percent of enterprises employing the schemes. **The Export Credit Insurance Scheme for Africa is the least known measure by enterprises, despite its relevance to these companies.**

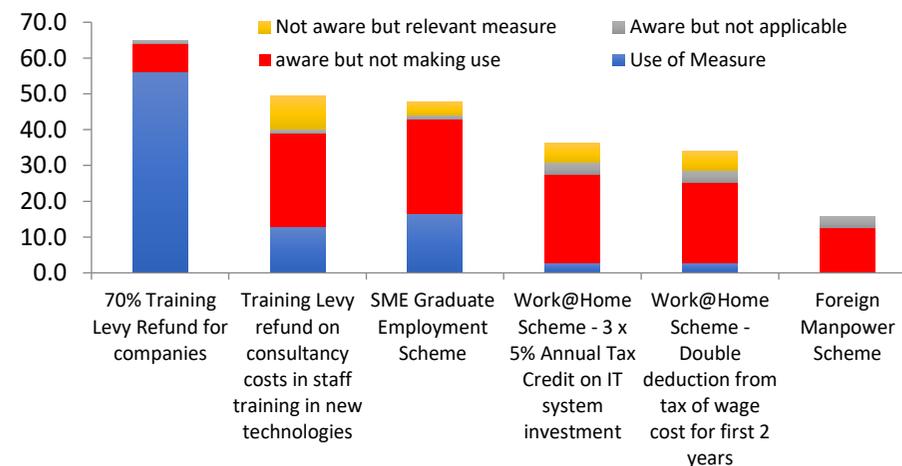
Moreover, an average of **between 15 to 20 percent of enterprises, though aware of the export-related measures, are currently not making use of the incentives available to them.** We notice that, even for the 3 percent of corporate tax on exports of goods, some more than 12 percent of exporting enterprises are currently not using the measure.

On **training and employment measures**, more than 56 percent of enterprises are making use of the 70 percent training refund available to enterprises, whilst some 16 percent of companies are already making use of the newly devised SME Graduate Employment Scheme.

Export-Related Measures – Analysis of Measures as at 4th Qtr 2018



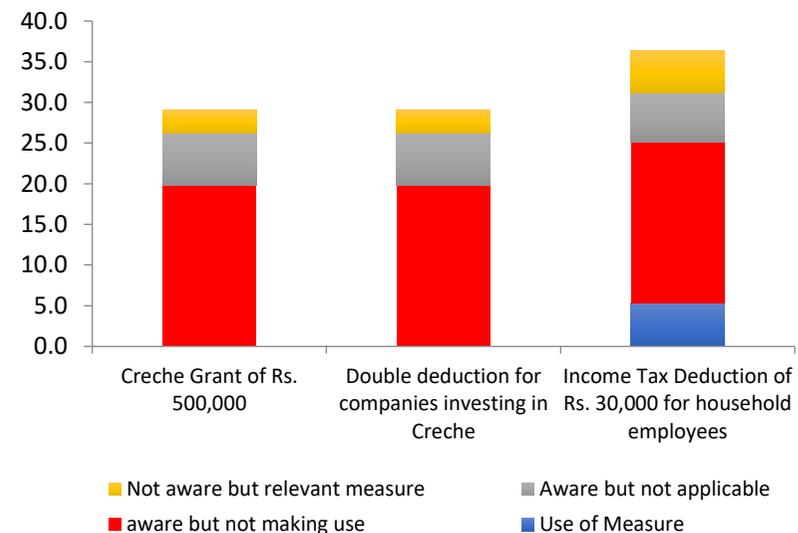
Training and Employment-Related Measures – Analysis of Measures as at 4th Qtr 2018



Nearly one in four enterprises, though aware of the training-related measures, are not making use of the incentives. Nearly 10 percent of enterprises were not aware of the measure for consultancy costs in staff training in new technologies, though they feel it is a relevant incentive for their enterprises. There is furthermore, more than 60 percent of enterprises who are unable to utilise the Work@Home Schemes. This could be partly explained by the **restrictions imposed on the Work@Home Scheme limiting the scheme to employees working full-time at work. Flexible working conditions with a number of days at office and a number of days working at home currently do not benefit from the scheme.**

On **Gender Mainstreaming in the Workforce**, the main measure being utilised is the income tax deduction of Rs. 30,000 deductible for household employees, with some 5 percent of individuals employing the measure. More than 70 percent of entrepreneurs believe that the newly devised creche schemes are not relevant to their enterprises whilst 20 percent of them, though aware of the measures, are currently not yet making use of the scheme available. Only less than 3 percent of those surveyed have indicated that though they were not aware of the measures, the creche schemes are relevant to their enterprises. **There is thus a need to conduct sensitisation of entrepreneurs on the creche schemes in order to accelerate the gender mainstreaming agenda of the Government.**

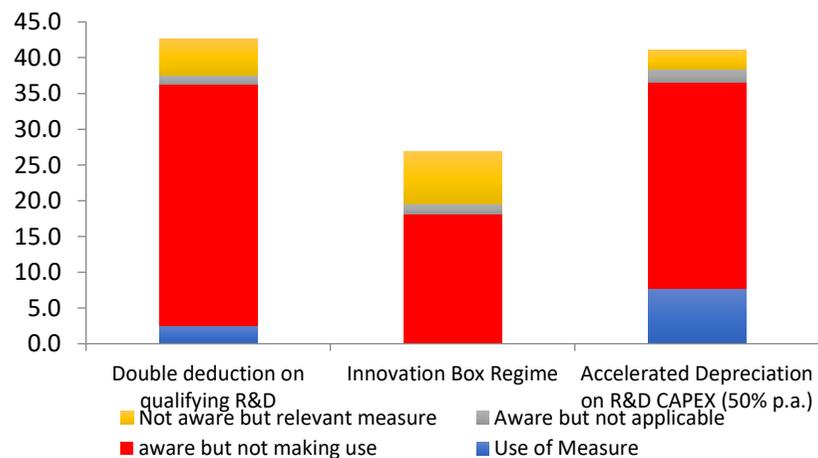
Gender Mainstreaming Measures – Analysis of Measures as at 4th Qtr 2018



With the small percentage of respondents using the measure on household employees, it is estimated that a high proportion of those working in households are currently not in formal employment. **An increase in the annual income tax deduction should give an additional boost to bringing a higher proportion of household employees into formal employment. The measure could further have a higher impact if extended to fees paid for creche services..**

R&D and Innovation measures, enterprises are making the most use of the accelerated depreciation on R&D CAPEX expenditure (50% p.a.). Nonetheless, there is a clear underutilisation of R&D-related members. On the double deduction on qualifying R&D expenditure, there is less 2.5 percent of companies making use of the measure. More than 35 percent of enterprises, though aware of the measure are currently not making use of the incentive. **There seems to be uncertainty on the applicability of the measure, and there is thus a need to clarify the procedure for companies to adopt the double deduction on their R&D expenditure especially as more than 30 percent of enterprises have identified R&D as their main investment over the upcoming twelve months.**

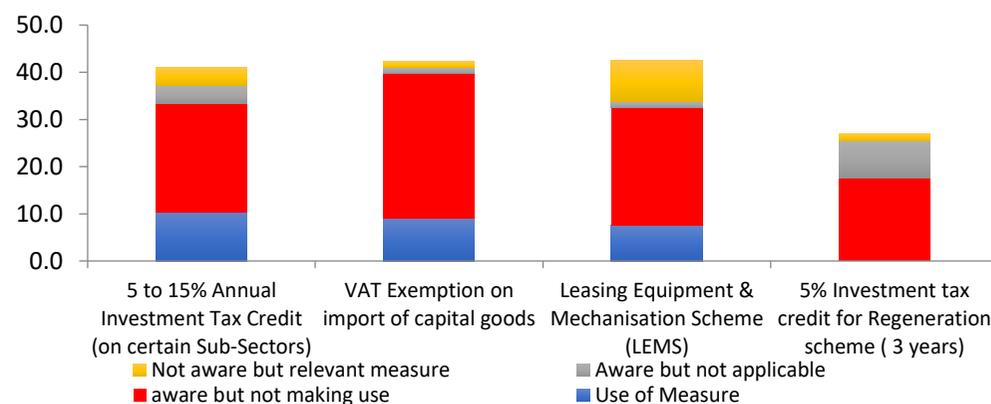
Innovation and R&D Measures – Analysis of Measures as at 4th Qtr 2018



There is furthermore a lack of awareness in enterprises of their innovation capacities, with **more than 55 percent of enterprises not identifying R&D and Innovation-related measures as being relevant to their businesses.** The measure introduced for enterprises to benefit from an 8-year tax holiday on revenue derived from IP Assets – the Innovation Box Regime – is also not being utilised by enterprises due to its narrowness in targeting **new** enterprises only.

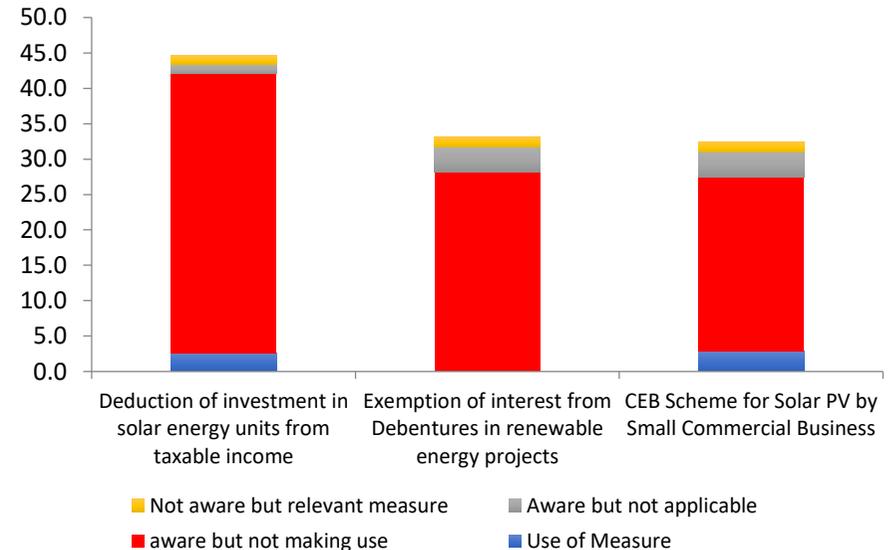
On **investment measures**, enterprises are making the most use of the **investment tax credit**, with some 10 percent of entrepreneurs making use of the measure. This is followed by the newly instituted VAT exemption on import of capital goods and the LEMS Schemes, which are also used by entrepreneurs.

Investment Measures – Analysis of Measures as at 4th Qtr 2018



Approximately 30 percent of entrepreneurs, though aware of the different investment related measures, have been unable to make use of the measures. On the investment tax credit, **this could be explained by the fact that it is limited to a number of sub-sectors of activity with sectors such as the Agro-Industry, Chemical & Paints amongst others not benefiting from the measure.** We further notice that the LEMS Scheme has a high proportion of entrepreneurs unaware of the incentive available. More than 60 percent of enterprises do not anticipate that the investment related measures are applicable to their enterprises. This could be partly explained by companies in services and commerce sector not making use of plant and machinery.

On **Sustainability and Environment** related measures, the impact of the measures on enterprises is very low with less than 2.5 percent of enterprises utilising the deduction of investment in solar energy units and the CEB Scheme for solar Photovoltaics by small commercial businesses. Though on average, some 30 percent of enterprises are aware of the measures related to sustainability, **we cannot see a dynamic drive towards utilising renewable energy yet.**

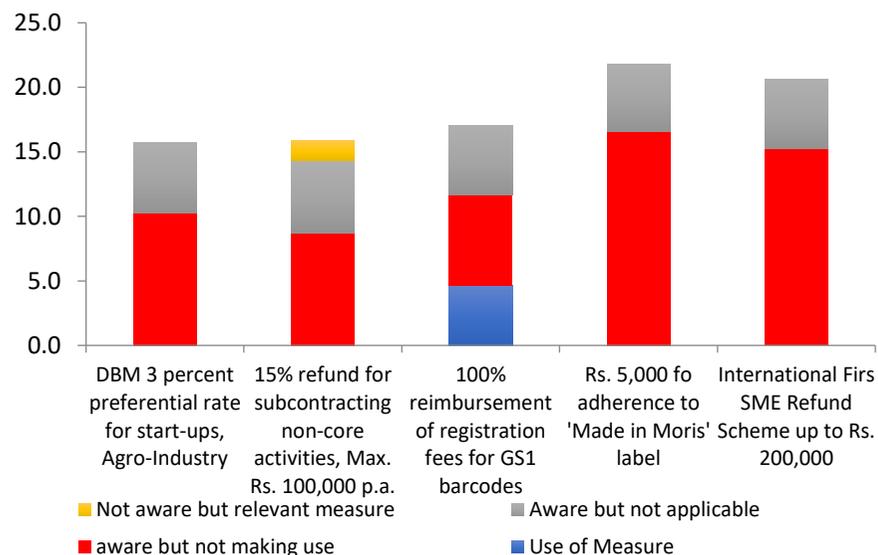


A high proportion of enterprises, at **more than 55 percent, do not see the applicability of the sustainability-related measures to their enterprises. There is a need for a targeted sensitisation and promotion with enterprises to inculcate a sustainability-led model in the business processes of these companies.**

On **SME and Entrepreneurship** related measures, we have noticed that the only measure currently utilised by companies surveyed is the scheme available for companies of less than Rs. 20M to acquire GS1 Barcodes.

Nonetheless, it concerns less than 5 percent of enterprises and remains underutilised.

Amongst companies surveyed, more than 80 percent on average believe that the SME related measures are not relevant to their enterprises. **Indeed, the SME and Entrepreneurship measures seem to be having limited applicability in terms of turnover figures and activities conducted. It is necessary to align measures targeted to SMEs to match the legislative definition of Rs. 50M turnover.**



Enterprises on average, though aware of measures for SMEs, are at 15 percent not making use of the measures. Despite its restrictiveness, the incentive for subcontracting of non-core activities is a measure with potential, with enterprises indicating its relevancy, though they were previously unaware of the measures. **We estimate that the extension of the subcontracting measure to medium sized enterprises, and a higher maximum limit could have a triggering effect towards a more inclusive value-chain in the local economy.**

Our preliminary analysis of the use and awareness of fiscal and structural incentives and schemes by enterprises show a clear lack of awareness of enterprises of available incentives. There is furthermore a number of restrictions as well as administrative burdens which disincentives the use of those measures by enterprises. The MCCI believes that a targeted sensitisation and awareness campaign jointly conducted by the Government through the EDB and the MCCI to enterprises combined with the necessary corrective amendments identified above in the different schemes and incentives shall enable companies to fully benefit from the expansionary support measures, thus enhancing productivity, competitiveness and profitability in a number of enterprises. This preliminary study should, nonetheless, be further enhanced, over the upcoming year..

IX. ANNEX – METHODOLOGY

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.

Following international practice, the MCCI uses the “balances” approach (OECD 2003). In order to determine the indicator, individual replies of companies are combined as a geometric mean of the balance of the current economic situation and the balance of the economic expectations for the next three months. The economic climate ranges between -100 and +100 points. The mid-range lies at 0 points and is reached if the share of positive and negative answers is equal.

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 indicator 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
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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

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