

# CONJONCTURE

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THINKING OUT OF THE BOX!

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"*Tout l'art de la politique est de se servir des conjonctures.*" Louis XIV

## Resilience of the tourism industry

By Patrice Legris

After having started the year 2006 on a high growth momentum in January and February, the Mauritian tourism sector was adversely hit by the sudden outbreak of Chikungunya. The industry showed its resilience and bounced back to end the year with a positive growth in arrivals. All stakeholders of the industry (public and private) have worked together towards long term solutions to the problem. The authorities are now more vigilant and are putting every effort and means to prevent the resurgence of this virus.

In December, Mauritius welcomed 96,309 tourists as compared to 90,519 in the corresponding month of 2005, representing an increase of 6.4%. Over the whole year 2006, tourist arrivals shot up by 27,213 and edged 3.6% higher from 761,063 in 2005 to 788,276 in 2006. This can be qualified as satisfactory notwithstanding the unfavourable local environment characterized by the outbreak of Chikungunya.

### Arrivals excluding France and Reunion increased by 17%

Arrivals from Europe, which accounted for 65% of total tourist arrivals, grew by 1.5% to 510,479 in 2006 as compared to 502,715 in 2005. Arrivals from France, our leading market representing 23% of total tourist arrivals and 36% of the European market, decreased by 17.3% to reach 182,295 in 2006. The French market was mostly affected by Chikungunya.

Excluding France and Reunion, it is interesting to observe that tourist arrivals from other countries grew by 17% in 2006, from 441,606 to 516,854, as compared to 1.4% and 7.2% in 2004 and 2005 respectively. This shows the good performance of these markets as a result of changes in our air access policy and marketing strategies.

The Italian market performed extremely well in 2006 following an expansion in the number of seats on that route. A growth of 59.7% was noted in arrivals from Italy. The other major generating countries also performed well, namely United Kingdom (7.3%), Germany (2.3%), Austria (0.4%), Sweden (50.9%), Spain (13.7%), Netherlands (8.1%), Switzerland (2.5%) and Belgium (2.7%).

Arrivals from Africa, with a share of 24% in total arrivals, increased by 2.3% to 189,458. Arrivals from Reunion Island, the major generating country of the region, went down by 10%, while those from South Africa were up by 21%. Changes in arrivals from other African countries were as follows: Kenya (+24.7%), Seychelles (+19.2%), Malagasy (-2.1%), Comoros (-29.8%) and Zimbabwe (-34.4%).

Tourist arrivals from the Asian market grew by 22% in 2006 and constituted 7.6% of total tourist arrivals. Arrivals from India grew by 26% to reach 37,498. Among the other Asian countries, the following trends were noted: Malaysia (+56.3%), United Arab Emirates (+41.1%), Singapore (+4.1%), Japan (+3.5%), Hong Kong (+2.2%) and China (-11.8%).

Tourist arrivals from Australia showed an increase of 23.5%, from 13,486 in 2005 to 16,660 in 2006. Mauritius also received more tourists from America (+6.7%) and from Canada (+8.8%) last year.

In terms of the industry's contribution to the economy, gross tourism receipts are expected to grow by 23.7% from Rs 25.7 billion in 2005 to Rs 31.8 billion in 2006. Direct employment in travel and tourism establishments employing at least ten persons stood at 25,798 at the end of March 2006, around 2% higher than last year. The share of women working in the hotels and restaurants sector hovered at 26%.

Compared to agriculture and textile sectors, the tourism industry (including only hotels and restaurants) has emerged as the fastest growing productive sector with an estimated growth of 3.7% in 2006, albeit lower than the 5.5% growth in 2005. It thus positioned itself as the main pillar of the Mauritian economy, accounting for about 8.5% of gross domestic product in 2006, higher than the share of the Export Processing Zone (7.5%) and the sugar sector (2.7%).

### Optimistic outlook

World tourism demand continues to exceed expectations, showing resilience against extraneous factors. According to the latest issue of the *UNWTO World Tourism Barometer*, for the first eight months of 2006 international tourist arrivals totalled 578 million worldwide (+4.5%), up from 553 million for the same period of 2005. Growth is expected to continue in 2007 at a pace of around 4% worldwide.

The short term outlook remains very positive, especially against the background of a strong world economy and as favourable exchange rates continue to encourage European and Asian travellers. International tourism is likely to remain buoyant unless major incidents occur.

In Mauritius, there is a general consensus to ensure higher visibility of the destination and to intensify marketing and promotional activities in both established and emerging markets. As the global tourism market becomes more competitive, authorities feel that, in order to grow, the tourism industry requires expanded capacity (especially during the peak month periods), new routes and

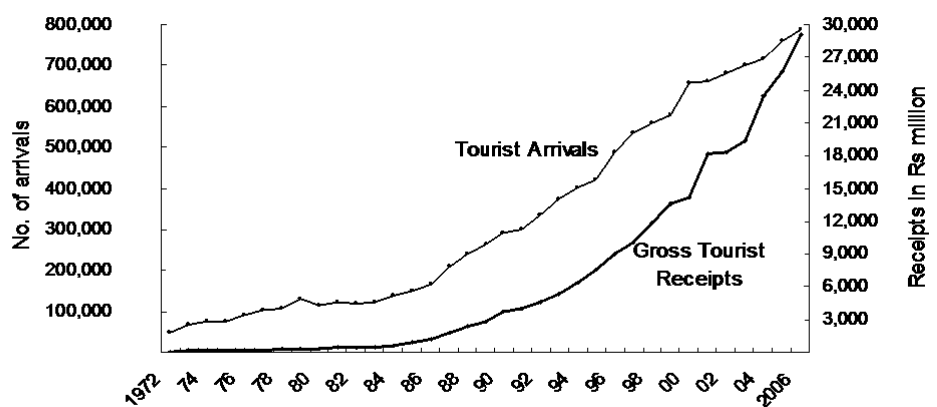
Authorities are also working on the possibility to operate direct flights from other key markets such as Russia, Spain and China. Discussions are ongoing as regards Virgin Atlantic (expected to serve Mauritius by November 2007).

Product development and diversification are important to enhance the attractiveness and overall competitiveness of the destination. The authorities have initiated some measures, such as:

- the development of a visitor signage programme,
- provision of enhanced opportunities for small and medium tourism enterprises through the setting up of tourist villages around the island,
- strict rules to planning guidelines as well as protection and preservation of the environment (cleanliness of the destination) through campaigns against stray dogs and fight against Chikungunya,
- the new Tourism Act regulating tourism and tourism-related activities.

However, more efforts are required in terms of safety and security, establishing norms and standards for the provision of all tourism and tourism-related services, regularising the informal sector, cleanliness of the destination, and management of tourist sites and attractions, in order to enhance the appeal and attractiveness of the Mauritian destination.

After a very busy December period and a good start for the year 2007, the tourism sector, barring unforeseen circumstances, has a relatively optimistic outlook. Preliminary estimates indicate a growth rate of around 8% in tourist arrivals, taking into account further liberalisation of air access



(Data: Central Statistics Office)

competitive costs.

Major developments are:

- the adoption of a more flexible approach to increase capacity of existing carriers,
- additional flights by existing carriers in peak seasons,
- selective opening of particular routes served by third carriers to increase capacity as well as competition (Corsair on France-Mauritius route and Comair on South Africa-Mauritius route),
- special flights targeting markets with high potential in Central and Eastern Europe, namely Slovakia, Czech Republic, Hungary, have been encouraged (Eurofly, MALEV, TUI Nordic, Travel service airlines).

(which would bring increased seat capacity and frequencies and new carriers), market penetration and development strategies, and also provided we do better during the low season. However, in view of past experience locally and abroad, we must carefully monitor the pace of tourist development in Mauritius and reduce the market, product, health and sanitary risks to ensure sustainable growth of the industry without jeopardising its competitiveness.

Patrice Legris is the Chief Executive Officer of the *Association des Hôteliers et Restaurateurs de l'île Maurice*.

## Casser le verrou psychologique

Par Jean-Maurice Paturau

Face au chômage et à l'inflation, il est clair que personne n'a de solution miracle qu'on pourrait tirer d'un chapeau en se disant que cela va tout régler. Sinon, cela ferait longtemps qu'on aurait le plein emploi et l'inflation zéro.

Nous savons l'implication des éléments extérieurs avec l'ouverture de l'économie et les paramètres sur lesquels nous n'avons pas de contrôle. Cela complique, bien sûr, la tâche de nos décideurs mais il faut bien faire avec.

Je propose quatre pistes de réflexion :

**1) Création d'une prime à l'embauche** des Mauriciens par rapport aux étrangers : cette prime serait payable soit par l'Etat soit par l'entreprise elle-même déductible de l'impôt des sociétés.

Il faudrait voir si cette prime s'appliquerait à tel ou tel secteur (il y a certainement des zones prioritaires, des industries créatrices d'emploi) et sous quelles conditions (montant, durée).

Il est clair que dans certains secteurs qui vont créer de l'emploi dans les mois et années à venir, comme le bâtiment, le textile et les produits de mer, les firmes mauriciennes vont très majoritairement employer des travailleurs étrangers (Indiens, Pakistanaï, Chinois). Cela n'aidera pas à réduire le nombre de chômeurs mauriciens.

Est-il normal que nous devons employer autant de maçons, de charpentiers et de machinistes étrangers ?

**2) Création d'une véritable Chambre des Métiers et de l'Artisanat** : il faut un répertoire des métiers, un répertoire des qualifications professionnelles, une filière de formation aux métiers et une promotion de l'entreprise artisanale.

Qualifier, former et accompagner sont les trois maîtres mots pour faire avancer les choses à ce niveau. Tout cela n'existe pas à Maurice et c'est dommage. Je pense à quelqu'un comme José Poncini qui pourrait être le fer de lance d'une telle structure. Il faut le faire sans tarder.

**Revaloriser l'épargne et soutenir la roupie**

**3) Enlever l'imposition des intérêts bancaires** : le ministre des Finances est contre l'enlèvement de cette mesure, mais je pense que c'est un mauvais signal en général. L'argument selon lequel cet impôt existe dans d'autres pays n'est pas pertinent à mon sens, car cela pénalise les épargnants en général et les retraités en particulier.

Il est clair que cette mesure a eu certaines répercussions sur la façon d'agir des épargnants. On note que la bourse est en plein boom, que les devises se font rares et que les gens investissent à l'étranger.

Les efforts d'investissement doivent faire appel, plus que par le passé, à l'épargne privée nationale. Pourquoi brimer les épargnants ? Au contraire, il faut qu'ils placent leur argent dans du concret et dans du productif. Pour schématiser : Epargne = Investissement = Croissance = Emploi.

**4) Redonner confiance en la roupie** : les autorités doivent tout faire pour que la roupie cesse de se déprécier. Une politique plus rigoureuse de la Banque de Maurice doit être initiée.

Je me pose la question du différentiel entre le taux d'intérêt à l'épargne et le taux d'intérêt à l'emprunt. Sommes-nous en conformité avec les normes internationales quand on voit les énormes profits que font les grosses banques commerciales à Maurice ?

Je ne pense pas que tout est facile. Pour moi, la situation ne se débloquera pas positivement avant fin 2008 au plus tôt. Le déclivage psychologique est important, mais il ne faut pas leurrer les gens en disant que 2007 sera rose. Il faudra surtout gérer au plus près toutes ces actions, toutes ces décisions et surtout tous ces financements que Maurice obtiendra de gauche et de droite. Il faudra surtout que le gouvernement rende des comptes sur ce qui est fait.

Jean-Maurice Paturau dirige Parure Ltée.

## Concurrence à la mode européenne

Par Jean-Yves Naudet

Si nous approuvons la politique de concurrence quand elle consiste à ouvrir les marchés, nous ne l'accepterons pas quand elle prétend « organiser le marché » suivant des critères arbitraires. La concurrence, c'est le libre accès au marché, et peu importe la façon dont le marché se structure sous la pression des consommateurs et des producteurs.

Lors de son récent passage à Paris, Neelie Kroes, commissaire européen en charge de la concurrence, s'est exprimée devant les membres de l'European American Press Club. Officiellement elle devait présenter le plan énergétique adopté par la Commission, visant à faire fonctionner le secteur au profit des usagers (consommateurs ou entreprises) et remettant en cause le comportement anticoncurrentiel des monopoles publics comme GDF. Madame le commissaire conteste le manque de transparence et les manipulations incessantes des prix, ainsi qu'un niveau de protection trop élevé. Jusque là, rien à dire.

Mais Neelie Kroes en a profité pour se féliciter des bons résultats qu'elle aurait obtenus au cours de ses deux premières années de mandat à la tête de la Direction de la concurrence. Elle a commencé par une pétition de principe, parlant d'une philosophie de la concurrence « pas si différente de celle des Etats-Unis » : « Nous sommes tous convaincus qu'une concurrence ouverte – et même agressive – est essentielle pour une économie saine et dynamique. Et aussi que les règles de la concurrence doivent protéger non les entreprises, mais les consommateurs ».

Elle a évidemment raison. Dans une économie de marché, la concurrence est essentielle. Et celle-ci ne doit pas se limiter au territoire national, voire européen, mais elle doit être sans frontières. La concurrence pousse les entreprises à s'adapter sans cesse, à se débarrasser de leurs impuretés, comme le dit Victoria Curzon-Price (comme « une machine à laver »). Et elle a toujours pour effet de favoriser les clients en leur offrant les meilleurs produits au moindre prix. Il faut donc tout faire pour favoriser la concurrence.

**Les concentrations menacent-elles la concurrence ?**

C'est là que les difficultés commencent. Dans son bilan Neelie Kroes a en effet mis en avant la

lutte contre les ententes et les concentrations. C'est une thèse bien connue, très en vogue en France où la Commission de la concurrence veut être le gendarme des marchés et mettre sous surveillance toutes les opérations de concentration. Au niveau européen, la Commission européenne n'est pas en reste ; elle a contrôlé 356 opérations de fusion acquisition et l'année dernière elle a distribué 1,8 milliards d'euros d'amendes pour condamner les cartels. Les amendes sont proportionnées aux années de comportement « illégal » et les entreprises récidivistes verront leurs sanctions financières doublées.

Cette conception des atteintes à la concurrence vient directement du modèle néo-classique de concurrence pure et parfaite, qui inspire hélas la presque totalité des juges dans le monde entier (Etats-Unis compris). Pour ce modèle, un marché est dit concurrentiel quand il réunit simultanément cinq caractéristiques : polycité (un grand nombre d'entreprises), atomicité (toutes les entreprises sont de faible taille), homogénéité (toutes les entreprises vendent le même produit, il n'y a pas de discrimination), fluidité (libre entrée et libre sortie des entreprises) et transparence (information parfaite des clients et des concurrents, notamment sur les prix).

Il est inutile de dire qu'un tel marché n'a jamais existé, et n'existera sans doute jamais. Mais ces critères permettent aux juges de « façonner » les marchés à leur convenance, dénonçant ici une entente, là une position dominante, ou encore un monopole.

Car dans la réalité, les entreprises sont évidemment de tailles différentes (c'est ce qui fonde la concurrence) et leur nombre ne fait rien dans l'intensité de la concurrence. Un marché où opèrent de nombreux fabricants, mais où existe un numerus clausus à l'entrée, et où les prix sont fixés par l'Etat, n'est pas concurrentiel, alors qu'un marché ouvert (comme l'automobile par exemple), même s'il n'y a que deux entreprises nationales, est concurrentiel.

Concurrentiel aussi un marché où il n'y a qu'un seul vendeur parce que lui seul sait fabriquer le produit, alors que d'autres pourraient y entrer librement mais n'ont pas les compétences voulues ou les conditions requises : toute innovation crée un monopole. De même une concentration d'entreprises ne menace en rien

la concurrence si le marché reste ouvert et une entente n'a jamais de caractère durable. Dans ces conditions, les attaques contre Microsoft, au nom de la concurrence, sont absurdes. C'est en empêchant les regroupements nécessaires que l'Etat – ou Bruxelles – limite artificiellement la concurrence.

**Les Etats, véritables adversaires de la concurrence**

On reconnaîtra cependant à la Commission le mérite de s'attaquer sans complaisance aux vrais destructeurs de la concurrence, qui sont les Etats. Les Etats détruisent la concurrence en pratiquant le protectionnisme. C'est ce qui se passe quand, au nom du patriotisme économique, on empêche les concurrents étrangers d'entrer ou de se développer ou de fusionner avec des entreprises nationales. C'est ce qui se passe quand des aides d'Etat viennent fausser la concurrence et empêchent celle-ci de jouer.

C'est surtout ce qui se passe quand, au nom de la défense des services publics, on prétend empêcher le secteur privé de jouer son rôle et de concurrencer l'ancien monopole public. Dans ce domaine, l'action européenne a été bénéfique. Peu à peu, au grand dam de la France, les services publics s'ouvrent les uns après les autres à la concurrence, de la poste aux télécommunications en passant par les chemins de fer ou le gaz et l'électricité.

La concurrence est ainsi en permanence menacée par les dirigeants politiques, soumis à la pression des corporations, des syndicats et des entreprises publiques. C'est pourquoi il est assez paradoxal de parler de « politique de la concurrence », puisque la protection de la concurrence consiste précisément à lutter contre la politique menée par les Etats.

Pour être clair, il faudrait parler de la politique anti-concurrentielle des Etats et de la discipline concurrentielle que cherche à faire respecter Bruxelles. Le danger est né de ce que Bruxelles, à son tour, a voulu se donner une « politique de la concurrence » ! *Qui custodet ipsos custodiet ?* Qui gardera les gardiens eux-mêmes ?

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## Holistic approach to investing

By Daryl Liew

Asset allocation and portfolio management is still a relatively new concept for many investors. One of the reasons for this is that investments are still predominantly sold on a single product basis. Packaged with "sexy" marketing and attractive-looking returns, these products often cater to investors' two main wants – Fear (capital protected products) and Greed (latest high return story). It is not surprising then that investors typically lap up these new flavour-of-the-month offerings, perpetuating this whole product-selling cycle.

In my opinion, adopting a well thought out asset allocation strategy is superior to the hodge-podge approach of indiscriminately purchasing single investment products. The key attribute of asset allocation is really the reduction of portfolio risk by spreading out the investments over different types of asset classes.

### Modern Portfolio Theory

A quick recap of the advantages of asset allocation as enunciated by its founder, Nobel Prize Laureate Harry Markowitz, is that while the overall returns is a weighted sum of its parts, the overall risk or volatility of the portfolio is actually *less* than that of the sum of its parts. The things that make this risk reduction possible are these technical terms called covariance and correlation, which essentially measures the relationship between two investments over time. For example if the performance of Investment A closely related to that of Investment B (i.e. if A is up 5%, B is also up 5%, and when A suffers losses, B also loses), they can be said to be highly correlated against each other. The goal of the asset allocator is to combine various investments that have a low correlation with each other (i.e. they behave differently under certain circumstances). Putting them together in the same portfolio will result in more stable overall returns.

Let's illustrate this by using a simple two-asset portfolio. Based on the expected returns, risk (measured using standard deviation) and correlation figures for global bonds and global equities found in Table 1, three portfolios were created. The first has an 80-20 allocation (80% allocation to bonds and a 20% allocation to equities); the second, an equally weighted allocation; while the third has a 20-80 allocation.

One can make a few interesting observations based on the results. A very conservative investor who had previously only invested entirely in global bonds for instance, would stand to benefit by including a 20%

allocation to equities in his portfolio. This 20% allocation to equities would add another 60 basis points (1 basis point = 0.01%) of return at just a marginal increase in risk (from 6.00 to 6.02%). At the other end of the spectrum, an aggressive investor with all his money in equities could significantly reduce the volatility of his investments by adding a 20% allocation to bonds in his portfolio.

### Determining a suitable Asset Allocation Model

So if you are sold on portfolio management, how do you determine what asset allocation model is suitable for you? Well, the first step is to come up with the Markowitz efficient frontier of optimal portfolios. This entails identifying all the various investible asset classes, before coming up with their respective expected returns, standard deviation and correlation figures. An optimization process is then carried out to determine the ideal weightings in each asset class for different risk-return profiles.

Once these optimal portfolios have been identified, the next step is determining which allocation along this efficient frontier you as an investor should be investing in. Your risk and return objectives should be the two main factors in making this selection. Do you require higher returns? If so, then you will probably need to be further on the right hand side of the risk-return spectrum. This however needs to be balanced with how much risk you can stomach. Conservative investors for example would be better off sticking to lower return and hence lower risk allocations.

Besides risk and return, other important factors to consider include your investment time horizon, generally the longer you are able to invest for, the greater the risk you are able to take. In addition, a more conservative allocation is recommended should you have any liquidity requirements, like regular drawdown on your investments to fund your retirement expenses.

Once you have determined an appropriate asset allocation strategy, the next step is to fill it up with suitable instruments. Unit trusts and other collective investment schemes are our preferred instruments because in our opinion, they are still the best source of diversified exposure to the respective markets. Many local investors however are still leery about unit trusts, as they remember being badly burned by their investments in the past. I believe that the problems with unit trusts can be overcome with timely tactical asset allocation calls coupled with a solid fund selection and monitoring system.

### Importance of Good Fund Selection

Indeed, being able to select the better-performing funds can often add precious additional returns to your portfolio. So how do you sieve out the wheat from the chaff and find the diamonds in the rough? Let's say that you need to find a good global bond fund as your asset allocation strategy calls for some global fixed income exposure. The first step would be to isolate all the global bond funds available in the market.

Considering, the absolute performance figures of 18 funds and their relative rankings according to the different time periods, one could simply select the best fund based on the numbers, though the question would always be over what time period should you be looking at?

But selecting the best funds purely on quantitative factors may not be the best move, since you are relying just on historical figures. And as we all know, past performance is no guarantee of future performance. Hence, it is arguably even more important to assess each fund manager based on qualitative factors, evaluating their investment methodology to uncover how they go about delivering consistently good returns year after year. This qualitative due diligence can be an extremely time-consuming process. I believe that regular meetings and dialogues with the fund managers are necessary in order to better size up the manager.

Indeed, if the above process sounds like it just takes too much effort, think again about the potential benefits of adopting a proper asset allocation methodology, namely the reduction of portfolio risk. People tend to overlook investment risk in their everyday chase for higher and better returns. In fact, the only time they start thinking about risk is when a blow-up occurs and by then, it is usually too late to take any remedial steps.

So the next time someone tries to sell you an attractively packaged product, ask yourself whether you can stomach the worst case scenario and how that instrument fits into your overall asset allocation strategy. Don't be afraid to walk away if your answers to both those questions are "No". You will definitely sleep much better as a result.

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## What the state should do and not do

By Zuber Jeewa

The article on "Relative poverty", which appeared in the January 2007 issue of CONJUNCTIONURE, stated that "since 1962, life expectancy has increased by ten years for men and by thirteen years for women, to attain 68.8 years and 75.7 years respectively in 2005". Although I do agree that this figure could, at first glance, indicate that the standard of living or health of the Mauritian population has progressed over the 43-year period, it is important to take note of the rising trend of diabetes among our population.

Life expectancy has increased but more and more people are living more and more years with diabetes. They have to continuously control their eating habits and have to spend a considerable portion of their income on medicines that allow them to live with this disease.

Being of a marketing formation, I cannot help but

think that the state has a very important role to play especially in the form of awareness campaigns. We still need the state to make people aware of sustainable eating habits so that we may live longer and spend these extra years in good health.

Contrary to what many people think, diabetes is not solely a genetic problem. We recently had the visit of a renowned doctor who mentioned that the percentage of diabetes among the 'Sino-Mauriciens' is a lot higher than the percentage of diabetes among the Chinese in China. So the problem obviously lies in our eating habits and the state can help to rectify this.

### The state should stop spoon-feeding people

I do agree that the state should allow the market to render our local firms stronger and more compet-

itive. However, the state should still provide some support in the form of ensuring education for all, inculcate work ethic and channelling the "poorer" Mauritians towards the right jobs for them. The state still needs to provide the right type of training to these people so as to increase their marketability vis-à-vis employers.

The state should stop subsidising or, to use a stronger and more appropriate word, spoon-feeding people and instead provide them with the required skills. "Do not give them a fish, but teach them how to fish!" If the state plans to stop spoon-feeding people, then I believe we are at the dawn of a better tomorrow for all Mauritians.

Zuber Jeewa is a professional in marketing.

## Economic summer

By Eric Ng Ping Cheun

The latest estimates of the National Accounts are a testimony to the economic spring that blessed Mauritius last October. However, it is feared that Mauritians behave like those cicadas that spend the whole summer singing, because they work less and less but consume more and more.

For the year 2007, the Central Statistics Office (CSO) made a first forecast of 5.3% of economic growth excluding sugar. As regards 2006, one can ascertain that it did witness the beginning of a silver lining on account of a growth excluding sugar of 5.1%, a rate which far exceeds the 2.8% recorded in 2005.

### Consumption remains the main growth engine of the Mauritian economy

If we are to compare the December's issue of the National Accounts with the previous one dated September 2006, we find an improvement in the aggregates. Everything stems from the Gross Domestic Product (GDP), which is the aggregate value added of all goods and services produced: it has been revised upwards by Rs 2 billion. It is encouraging to note that neither government investment nor public consumption has affected this increase: it has been brought about only by private investment, households consumption and exports. Better still, the additional production has enabled the households to raise both their consumption and savings simultaneously.

At 15.7% of GDP, the saving rate for 2006 turns out to be better than what was estimated in September (15.1%), and even in last March (14.6%). It has been, of course, the lowest rate since 1982. But it stands comparison with that of developed countries. As Mauritius is opening up inexorably to external trade, we cannot expect it to redeem itself to the level of saving that it enjoyed in the 1980s and 1990s.

Consumption remains the main growth engine of the Mauritian economy. In 2006, even if final consumption moderated to a real growth rate of 5.4%, its share to GDP soared up to 87.2%, next to the 1980 record of 89.6%. In particular, private consumption accounted for 73% of GDP, against 59.6% in 2001.

At 10.8%, the real progression of private investment in 2006 exceeded the estimates made in September (9.3%), against a decline of 1% in 2005. Excluding aviation, the share of private investment to GDP passed from 15% to 15.8%. For firms to continue to invest and produce – which is the only way to reduce poverty –, people must work and save.

The year 2006 witnessed an overall decrease in inventories which turned out to be weaker than what was forecast in September (Rs 76 million instead of Rs 766 million). The acceleration of imports of goods at a real rate of 11.8% is likely to support future growth, as it precedes a forthcoming increase in inventories which could signal renewed corporate confidence in the sustainability of consumption in 2007. In spite of that, the deficit of the current account of our balance of payments for 2006 is not as acute as it was feared in September.

The current deficit, that was forecast at Rs 23.5 billion (11.5% of GDP), ends up with Rs 16.8 billion, representing 8.2% of GDP, below the target of 9% set by the Southern African Development Community in its Macroeconomic Convergence Programme. Two reasons for this improvement are that the net exports of goods and services have increased in nominal terms, while Mauritian investments overseas have returned more than foreign investments in Mauritius, by a net surplus of Rs 3.4 billion.

However, discarding the price effect, net exports have decreased by 0.5% in volume. The sharp depreciation of the rupee during the past year has led to an unfavourable movement in our terms of trade. We must take heed of inflationary growth!

It is especially so for our two main export sectors, the Export Processing Zone and tourism. Sectoral GDP deflators, which are production price indices, reflect a price increase of 8% in the first sector and of 19% in the second one. That is particularly unfortunate for tourist production which grew by 23% in money value: the real growth is only 3.7%.

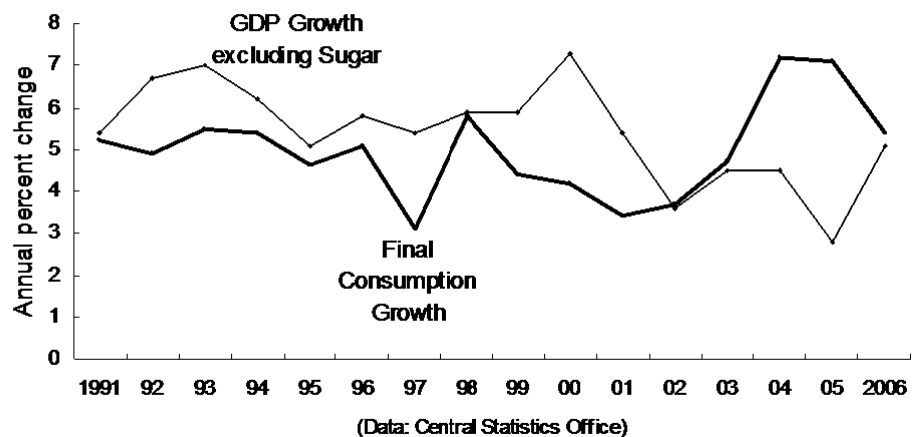
The total value created by the EPZ increased for the first time since 2001 by Rs 1.4 billion. The industry thus enjoyed a positive real growth of 3%

Maybe our enterprises fail to give due credit to work. In 2006, compensation of employees fell to its lowest at 40.9% of GDP, which means that capital is far better rewarded than labour. Hence the appeal of the Minister of Finance, Rama Sithanen, for a fairer distribution of wealth.

We must also target a higher non-inflationary growth. The GDP deflator, which is a broader and more relevant measure of inflation than the Consumer Price Index, has risen from 4.1% in 2005 to 6.4% in 2006. Inflation remains the biggest constraint to growth.

The 20% reduction in our retail price of gasoline at the start of January has baffled the prophets of doom who predicted a hot period of "cascading price hikes" in the country early this year. A similar reduction might occur in April if the price of crude oil remained under \$55 a barrel. Meanwhile, it is the overheating of our Stock Exchange that should be a cause for concern especially as the Bank of Mauritius ignores asset inflation. As the real economy is growing at a reasonable pace, hopefully the next Government budget will bring about a warm winter.

### Economic growth led by consumption



in 2006 following a contraction of 35%. On a higher base now, its expansion is forecast to be 2.5% in 2007. Let us hope that it will not remain a "jobless growth".

### The need for a fairer distribution of wealth

But at the national level we have job-pregnant growth: the year 2006 saw a net creation of 5,800 jobs that absorbed the increase of 5,400 people in the labour force: unemployment rate thus came down from 9.6% to 9.4%.

However, productivity will suffer if a rise in employment goes along with a reduction in the hours of work. According to the CSO, the number of hours worked per week has diminished: the third quarter average was 40.9 hours in 2004, 41.6 hours in 2005 and 40.3 hours in 2006.