

# 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

## Giving impetus to corporate governance

By Tim Taylor

One of the classic definitions of economics is "*the proper allocation of scarce resources*". A proper allocation of resources is necessary for the maximum creation of wealth. This is very much a macroeconomic concept, but it is the same at the micro level where corporate governance is concerned with assuring that resources are properly allocated for the maximum benefit of the stakeholders of a corporation.

Mauritius' path towards better governance started in 2001. It was the then Minister of Financial Services, Sushil Khushiram, that instigated a number of initiatives that have led to a major change in the regulatory and governance landscape in which Mauritian businesses operate.

### Institutional investors should be questioning the board on governance issues

In 2001, the Financial Services Commission was set up as well as the National Committee on Corporate Governance. International Accounting Standards became mandatory for the first time and the Stock Exchange of Mauritius introduced new listing rules. This was followed up in 2002 by a Report on Standards and Codes undertaken by the World Bank. In 2003, the Code on Corporate Governance for Mauritius was launched, and in 2004 the Financial Reporting Council Act was passed.

There is still further legislation to come – the Securities Act and the Insurance Act, which are already prepared, and a new Insolvency Act. Once this new legislation is enacted, Mauritius' regulatory and governance environment will be of an international standard.

This is very necessary if we are going to attract foreign investment, both direct and portfolio. It is also important for Mauritian investors, both institutional and individual. If individuals have confidence in the governance of listed entities, they will be prepared to invest their savings into shares rather than leave it on deposit in a bank.

It is all very well to have a better regulatory environment, but more important is whether this improved environment has led to better governance. The Code of Corporate Governance applies to all companies with an annual turnover of over Rs 250 million (around US\$ 8 million). These companies have to comply or explain why they have not complied.

The limit of Rs 250 million is low and there are several hundred companies with turnovers that exceed this. Compliance is clearly most important where companies have the public as investors or where they are State Owned Enterprises (SOEs), as these are basically financed by taxpayers' money.

As regards listed companies, there are signs of improvement in governance. Their financial statements and annual reports are better prepared and have greater disclosures, and board committees, like audit, corporate governance and risk committees, have become a fact of life at the level of most boards. There are more executive directors on boards and more genuinely independent directors. There is evidence that some companies have given some real thought to corporate governance.

However, the picture is not all rosy and there is a feeling at the moment that the impetus has slowed down. In certain cases, the Report on Corporate Governance in annual reports appears to be too much of a box ticking exercise, relying on the auditors' template.

Institutional investors are not really playing their role at the Annual Meeting of Shareholders when they should be questioning the board on governance issues. While there are more disclosures in the annual reports, the boards are not really tackling the practices that are detrimental to shareholders.

Very few companies disclose the emoluments of their executive directors, while independent directors are still chosen from too small a pool.

### No real progress in the public sector

However, it is in the public sector that no real progress has been made, notwithstanding the fact that State Owned Enterprises are meant to be compliant with the Code. In most SOEs, too little thought has been given to what the Code is trying to achieve.

Unfortunately, the evidence is plain to see. There are continual clashes between the Chairmen and the Chief Executives of many SOEs. There are clashes between the Chairman of SOEs and ministers, and many SOE boards feel they are at the mercy of ministerial whims. Certain people nominated to boards lack the requisite skills set.

Government wants very much the SOEs to perform. One important way of helping to achieve this would be to get the boards working in an effective manner. This is also one of the objectives of the Code of Corporate Governance.

Corporate governance is also concerned with looking after the interests of stakeholders other than shareholders. Society at large is one of these stakeholders. This has led to the notion that corporations have social responsibility. In Mauritius, a number of companies devote resources to helping those disadvantaged in our society. The most structured are the actions taken by the Beachcomber Group through *Foundation Espoir et Développement*.

However, there is room for the private sector to take a much more active role in society by identifying social problems and then bringing resources to help solve them. One of the challenges in the years to come will be for the Private sector to become a partner with Government and NGOs to address the social ills that are unfortunately part of today's Mauritius.

*Tim Taylor is the president of the National Committee on Corporate Governance.*

## Le développement socio-économique ancré dans la gouvernance

Par Lindsay Morvan

Le terme de gouvernance présente une signification polyvalente. Il appartient à plusieurs sciences sociales contemporaines, notamment la science économique et la science politique. Il procède du besoin de la science économique (en ce qui concerne la gouvernance des entreprises) et de la science politique (en ce qui concerne la gouvernance de l'Etat), de se munir d'une notion omni-compréhensive, capable d'offrir une diversité de significations non couvertes par le terme classique de gouvernement. Cependant la gouvernance s'applique aussi de plus en plus aujourd'hui au domaine associatif.

On s'y réfère comme la « gouvernance associative ».

Se référant globalement à l'exercice du pouvoir, le terme de gouvernance désigne, que ce soit dans le domaine de l'entreprise ou dans le domaine de l'Etat, non seulement l'action des organes exécutifs mais aussi le parlement ou le judiciaire. La gouvernance démocratique combine les principes et les processus de la démocratie avec les instruments et les processus de la gouvernance. La démocratisation peut être comprise comme le processus par lequel les instruments, pratiques

et croyances démocratiques sont construits et renforcés dans une société.

### Les structures et la qualité de la gouvernance sont des facteurs déterminants de la cohésion sociale

Démocratie et bonne gouvernance sont deux notions intimement liées, sans question de préséance. Cette indissociabilité est exprimée à travers le vocable "Bonne Gouvernance".

## Le développement socio-économique ancré dans la gouvernance

Par Lindsay Morvan (cont., from Pg 1)

La bonne gouvernance est synonyme de participation, de transparence, d'imputabilité et d'efficacité. Elle prône l'Etat de droit et l'égalité devant la justice, et elle s'assure que les priorités économiques, sociales et politiques sont basées sur un large consensus au sein de la société.

Les structures et la qualité de la gouvernance sont des facteurs déterminants de la cohésion sociale ou des conflits sociaux, du succès ou de l'échec du développement économique, de la préservation ou de la dégradation de l'environnement naturel et du respect ou de la violation des droits de l'homme et des libertés fondamentales. Ces liens sont largement reconnus par la communauté internationale et montrent en quoi la gouvernance exerce une influence sur le développement.

La Déclaration du Millénaire des Nations Unies proclame que la création d'un environnement propice au développement et à l'éradication de la pauvreté dépend, entre autres choses, d'une bonne gouvernance dans chaque pays, d'une bonne gouvernance à l'échelle internationale et de la transparence des systèmes financiers, monétaires et commerciaux.

L'Ile Maurice est considérée, parmi les pays du continent Africain et dans la région, comme celui jouissant d'une démocratie multipartite durable et soutenue avec la possibilité, pour ses citoyens, d'exercer leurs droits civils et politiques en toute liberté. Ce serait vraiment exagéré de croire que le fait d'avoir des élections législatives tous les cinq ans suffit pour qualifier l'Ile Maurice de Bonne Gouvernance Démocratique. D'ailleurs, malgré le fait d'avoir été parmi les trois premiers membres de l'Union Africaine à se porter volontaire pour l'exercice du Mécanisme Africain d'Evaluation par les Pairs (*African Peer Review Mechanism*) en 2003, notre jeune république peine toujours à compléter cet exercice en 2007 tandis que le Kenya et le Rwanda, les deux autres premiers volontaires, ont déjà complété le leur.

Entre-temps, une dizaine d'autres pays africains, dont le Ghana, la République Populaire du Congo et l'Afrique du Sud, ont déjà complété cet exercice d'évaluation de gouvernance et de démocratie en ligne avec les objectifs du Nouveau Partenariat pour le Développement de l'Afrique (NEPAD) dont le principal objectif est la Bonne Gouvernance comme exigence pour la paix, la sécurité et un développement socio-économique et politique durable pour *La Renaissance de Afrique*. L'exercice actuellement en cours chez nous à Maurice, l'est aussi dans des dizaines autres pays membres de l'Union Africaine.

### La dimension ethnique de la pauvreté

Gouverner c'est prévoir. Donc, afin de pouvoir respecter « l'ambition politique » de faire de notre pays une *cyber-île et le pays le mieux géré au monde*, il nous faudrait nous assurer que notre population y soit préparée en

conséquence. On serait trop naïf de croire que placer deux ordinateurs dans chaque école primaire et organiser des cours d'initiation pour le troisième âge nous conduiront vers ce but. Le fondement même de notre système d'éducation devrait être revu. Face aux défis de la globalisation et aux nouvelles données économiques mondiales, notre système d'éducation nationale ne répond plus aux besoins de notre société.

On a dépensé des millions de roupies durant les dernières décennies en commandant rapports et études qui ont tous spécifié le besoin d'une révision d'un système broyant les cerveaux de nos enfants et qui produit 30% d'échecs au niveau national à la fin de l'étude primaire chaque année. D'après le Bureau central des statistiques, plus de 78% de nos chômeurs n'ont pas le *School Certificate*. Les différents ministres d'éducation qui se sont succédé ont toujours refusé l'introduction de la langue maternelle (le Créole) dans le curriculum scolaire malgré plusieurs recommandations de différents experts de l'UNESCO dans ce sens. Comment construire une cyber-île avec un système d'éducation qui manque de cohérence ?

Notre population estudiantine démarre avec 30,000 élèves en première année du primaire, et il y a seulement moins de 20% de ce nombre terminant le secondaire avec un *Higher School Certificate* ! En plus, il n'est pas surprenant de constater que des *HSC holders* avec des sujets scientifiques fassent carrière dans le secteur bancaire, dans l'assurance ou même comme *clerical officers* dans la fonction publique. Quel gâchis !

L'éradication de la pauvreté est l'objectif principal du NEPAD et se trouve aussi être l'un des premiers objectifs du Millénaire des Nations Unies. Nous avons à Maurice dépensé plusieurs millions de roupies ces dix dernières années pour financer des projets visant à l'élimination de la pauvreté. Le premier *Trust Fund Against Poverty* fut établi au début des années 1990 avec un budget de Rs 500 millions. Où en est-on aujourd'hui ? Le nombre de victimes de drogue et d'alcoolisme s'allonge, Les squatters vivant dans des conditions inhumaines sont toujours aussi nombreux. Le problème d'enfants de rue sniffant la colle et s'adonnant à des activités illicites s'accroît.

Aussi longtemps qu'on occulte le fait que la pauvreté a une dimension ethnique et que les mesures pour la combattre doivent prendre en compte cette réalité qui tire sa source de l'histoire culturelle et socio-politique de la communauté Créole d'origine esclave africaine, la pauvreté demeurera une épine dans le talon de notre *cyber-île* en devenir. Il est indiscutable que les pauvres à Maurice ne sont pas seulement des Créoles. Mais il est un fait indéniable que la majorité des pauvres à Maurice sont des Créoles comme il est aussi indéniable que la majorité de ceux qui échouent aux examens du CPE sont des Créoles.

D'ailleurs dans un rapport publié en avril 2002, le *UN Working Group on Minorities* précise que l'exclusion sociale à Maurice a un "*ethnic overtone*" en décrivant la situation des Créoles à Maurice. Le Professeur Carlson Anyangwe, expert des Nations Unies pour les droits humains, décrit lui aussi dans un rapport publié en juillet 2006 "*the ethnicity of poverty*" à Maurice, se référant à la communauté Créole. Cette situation est malsaine pour la paix sociale aussi bien que pour le développement économique. Des études avec des statistiques désagrégées nous permettraient d'identifier la vraie ampleur du problème et nous guiderait pour trouver les solutions appropriées. Il n'y a pas de pire aveugle que celui qui ne veut pas voir !

### Cessons de discriminer nos filles !

Malgré notre bombardement de torse vis-à-vis des pays africains, nous sommes dans les derniers wagons sur le dossier du genre parmi les pays de l'Afrique australe. Nous avons une pauvre représentation de femmes dans des positions de décision : 16,7% à l'Assemblée nationale et 10,7% au Cabinet des ministres. La *Southern African Development Community*, dont nous avons assumé la présidence en 2004, préconise une représentation de 30% de femmes au Parlement !

Pourtant nos dispositions légales ne font aucunement obstacle à cet objectif. Malheureusement notre système politique est demeuré machiste, car il ne tient qu'à nos leaders politiques de choisir autant de candidates pour les élections. D'autre part, la violence contre les femmes perdure au point que, pas plus tard que le mois dernier, une jeune femme de 18 ans a été égorgée par simple jalousie.

Nous ne devrions pas attendre que nos filles deviennent adultes pour accorder le respect et le traitement qui leur sont dus. Il faudrait que nous, parents, cessions de discriminer nos filles – aussi bien que nos femmes – en faveur de nos fils tant dans notre langage que dans nos façons d'agir ; et inculquer la même attitude à nos fils vis-à-vis de leurs sœurs. On ne peut s'attendre qu'un garçon qui a grandi dans une ambiance où la mère et/ou la fille ont toujours subi toutes sortes de brutalité ou d'insulte, agisse autrement vis-à-vis des femmes. Il ne suffit pas d'avoir des lois pour réprimer ceux coupables de violence envers les femmes. Il nous faudrait aussi une éducation encourageant le respect des autres ainsi que des signaux forts de la part de nos gouvernants dans la valorisation et le respect du genre féminin.

La bonne gouvernance ne devrait pas être seulement un moyen pour attirer des investisseurs et des bailleurs de fonds internationaux pour le développement économique. Elle nécessite une volonté et une disposition à travailler pour le bien-être de toutes les composantes de la société. Elle doit se démarquer de la rhétorique.

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## Helping your children excel in their passion

By Christopher Tan

Children's education planning has always been one of the services offered by financial services firms. However, at best, the planning can only be described as superficial, run of the mill and an "academic" exercise. The financial services professionals simply find out the desired country of study from the client; estimate the cost and recommend financial products to meet that need. Usually, no attempt is made to understand the client's children that the planning is for, and guide the clients in selecting the most suitable country or even university and area of study for their children.

Many parents have been misguided into thinking that they should only plan when their children are older, taken their 'A' levels and know where their results can take them and so there is no point in planning early or thinking so far ahead. But this is as good as no planning. This is saying that our children's future is solely dependent on that piece of paper they get at 'A' levels.

This is leaving the future of our children to chance. But surely, our children's future goes beyond the paper qualification? And surely, education is not just about getting straight A's in that transcript? Shouldn't it be the total learning experience that our children will go through in school?

We strongly believe that our role as parents is to identify the potential (academic or non-academic) of our children and as early as possible, help them exploit it to the fullest potential. If we agree to this view, then education planning is really about finding the most suitable country and institution for our children, preparing them now to be there, when the time comes.

Our role as wealth managers is to understand our client's philosophy towards their children's education, to help our clients understand the need to work with educators, to identify the gifting of their children as early as possible. Our job is then to help them understand the education system of the various countries, their strengths and weaknesses and select the most suitable system to complement their children. Our responsibility is to help them know the reputable universities in that country of choice before finally creating a suitable investment portfolio to accumulate towards it.

### Criteria to choose an overseas university

So having understood the gifting of our children, how do we decide whether our children are suited for a local education or an overseas one, and if it is an overseas education you want, which country is best suited for them, which university is appropriate? Let me use some parts from our education coaching tool for our clients to provide some guidance.

**Cost:** This is the first question many would ask. But it is really wrong to start the decision process from here. Although our local university's tuition fees have been rising steadily over the years, they remain the most affordable. Opting to study abroad is a lot more expensive. However, these costs can be effectively managed through proper investment to accumulate towards this serious objective.

Many other financial options such as scholarships (offered by the student's future company), study awards (no bond study awards), bursaries (from religious or community groups), financial aid (offered by choice of university) are available. There are of course options for the student to do part-time campus jobs which are arranged by the university's student liaison office.

**Course not available locally:** If your child shows special interest in a particular discipline that is not offered locally such as veterinary science, film, hospitality management just to name a few, there is good reason to enrol him in an overseas institution that does offer these courses as degree programmes.

**Career Opportunities:** A degree course that is not offered locally is often a reflection of an industry or market that is less developed as compared to other countries, as such; it is prudent to consider where one would like to work upon graduation. The United Kingdom still tends to be a little enclosed in terms of its job market but a UK graduate can usually land a job, even before graduation. A United States degree for now at least, retains its international flavour. As the world becomes more globalised, studying and working abroad should only become more commonplace with time.

**Prestige of a Top University:** The prestige of an overseas university education is waning, given the high standards of our local ones. Therefore, the real prestige only comes if your child graduates from a top-ranked university such as Stanford, Cambridge, Harvard and not simply having studied in the UK or US. Having said that, it is not necessary just to aim for the Harvards and Yales. For a large country like US, any college with the top 30 band is deemed to be extremely prestigious enough. Leagues universities can sometimes be overrated.

**Cultural Immersion:** One of the good reasons to study abroad is the opportunity to immerse into a different culture. This makes learning more holistic. However, this is not given simply because one is studying in an overseas university as Singaporeans students may tend to clique together. If cultural immersion is an important consideration, a less popular college with fewer Singaporeans may be a better choice.

**Global Mindset:** One of the greatest advantages of studying overseas is the nurturing of a global mindset. Your children get to meet an international cohort of students and faculty members. This network may prove to be useful in the future. If your children are in a reputable university, he or she may even get the chance to spar intellectually with the top minds all over the world. This will make their learning more enriching.

### A career-based education promotes specialisation at the expense of a broader-based education

Students do 10 years of education consisting of primary and secondary schools and then proceed to do polytechnic diplomas or foundation degrees before entering universities.

The main difference between a UK and a US degree is that in the UK, specialisation tends to start very early on. The choice of subjects studied at pre-university level relates closely to the entry requirements of universities. This is advantageous for students who exhibits a clear aptitude in a particular discipline at a younger age and would like to focus more on their area of interest. Such a career-based education promotes specialisation at the expense of a broader-based education.

Just like there are different ratings of financial strength done by Moody's, Standard and Poor and so on, there are different bodies that rate universities all over the world. Rankings should really be taken with a huge pinch of salt as a university's rank is largely affected by the criteria used.

Different criteria used as well as weightage attached to these criteria can make a lot of difference between a university in the top 25 or not even in the top 100 at all. So it is important that as you select the suitable universities for your children, understand which ranking organisation ranked the university and the criteria used.

Some of the most common criteria are: a) peer review – done by asking academics in certain area of expertise to name say 30 universities they regard as top in these areas, b) staff to student ratio, c) citation of academic research.

Other criteria could be: percentage of foreign staff, percentage of foreign students, graduation rates, freshman retention rates, percentage of Alumni Donors, and scholarly resources available to students.

Children education planning goes beyond simply calculating the funds needed and finding financial products to meet that need. That is the easiest part of the entire process. Real education planning is about understanding the potential of each child, and finding the best place for him or her to exploit that.

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## Boom and Bubble

By Eric Ng Ping Cheun

The word is on people's lips. In the last issue of CONJONCTURE, we wrote that we foresaw an economic boom by 2010. Today, analysts and operators feel more at ease to whisper the word "boom" even in the ears of the sceptics!

When we opined last October that the estimates of the national accounts announced an economic spring, many people did not want to believe us. Later, they ended up in giving credence to the existence of an economic revival, but only to add that the latter would benefit solely the "big business". Now that the idea of a possible economic boom becomes acceptable, the same people do not even wait it to happen: they have already taken stock of it so as to insist that after the boom would come a recession...

We are thus made to understand that the problem is not the boom, but the "boom and bust". However, it sounds far-fetched to pretend that the Mauritian economy would slump after a period of sustained growth. Managing the economy is the art of superimposing adjustment measures on well-defined policies. Knowing that a non-inflationary and job-creating growth remains the key element of any macroeconomic policy, we need to bring out some further ideas.

### The Mauritian economic cycle is flat

First point: a government does not create an economic boom by design, but just establishes the conditions that are conducive to its emergence. When the boom takes shape by the magic of the invisible hand, no interventionist hand can control it. Progress cannot be stopped! China symbolises this truism as its government shamelessly underestimates its economic growth rates every year.

Second point: there is no choice to be made between a boom over a short period and a modest growth over a long period. All policies aim at optimising growth, i.e. maximising it under the condition of scarcity. Since Mauritius has limited resources, we cannot allow ourselves to forego growth opportunities.

finds its causes in the business activity itself. The movement of variables is subjected to immutable laws which constitute the necessary framework of economic life. If the structure of the economy is fundamentally cyclical, then policymakers can only smooth out, not abolish, economic fluctuations.

Fourth point: the Mauritian economic cycle has remained quite flat since 1984 with expansions stretching over several years whereas recessions ended after one year, occurring only in 1999, 2002 and 2005. As it evolves towards the services industries, the Mauritian economy will become even less volatile. Nonetheless, it is important that there be a prudent monetary policy, a better supervision of the banking system and a greater efficiency of the capital markets to avoid big fluctuations.

Fifth point: economic disequilibrium is caused by lax monetary policy and equilibrium can be restored only by an inevitable but necessary recession. The latest hike of 75 basis points in the key Repo Rate of the Bank of Mauritius (BoM) should be viewed from that perspective. The monetary tightening is not only a pre-emptive action but also a clear signal to credit institutions that they should properly reallocate capital to profitable activities.

Still, it will be difficult to manage monetary aggregates in the face of huge capital inflows coming in the form of direct investments, portfolio investments, loans and donations. Some 27 billion rupees, equivalent to 14% of our current broad money supply, would be created out of the 500 million dollars of investments from Tianli, the purchase of 200 million dollars of Mauritius Treasury Bills by Chinese authorities and the 830 million Yuan of loans lent by the Chinese government. Too much money in circulation is likely to dampen the long term effects of the interest rate tightening.

### Excess liquidities are inflating the stock market

Sixth point: the money market is already awash with excess liquidities as demand for Treasury Bills

Last point: investors are feeling sufficiently flush with cash to inflate the Port Louis Stock Exchange. While international indices are enduring a painful but welcome correction, our broad-based index, the Semdex, closes at new highs every week, having gained over 27% since the beginning of the year. The market price earnings ratio is hovering around 14.4.

True, share prices are being pushed higher by companies' fat profits, which may lead people to think that shares are still undervalued, especially relative to government bonds. Indeed, profits of blue chips have risen faster and for longer than anyone expected a few years ago. Some listed companies have so much cash that they have used it to buy back shares, thereby supporting the stock market.

A fast-rising and highly valued stock market does not, in itself, imply a bubble. However, we are in an unusual bull market where the volume of transactions is low, the number of sellers is limited, and investors are buying stocks, not because they believe shares are good value, but simply because their prices are rising. This can be rational behaviour if investors think that everyone else will do the same. But the fact remains that we are dealing with a financial bubble: the value of assets has moved out of line with their fundamental worth.

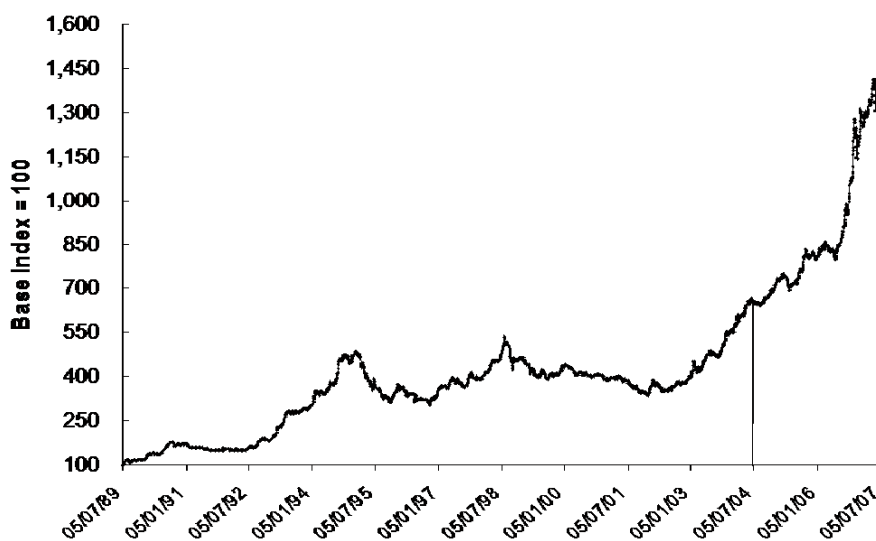
In two years (2004 to 2006), the Semdex grew by 70% whereas the share of corporate profits in gross domestic product (GDP) expanded by 22%. Yet, Gross Operating Surplus is historically high, accounting for 59% of GDP. Analysts are blithely assuming companies' earnings can keep rising to the detriment of compensation of employees. Perhaps globalisation has shifted the balance of power firmly in favour of the corporate sector and away from labour. But workers have votes and may demand the balance be shifted back, either through taxes or... economic democratisation!

A convenient way to prick the bubble is to supply more shares to meet demand. In the 2007-2008 Budget, the Finance Minister has announced that the government will encourage the official listing of Mauritius Telecom and State Insurance Company of Mauritius, and that it will sell some of its shares in other state owned companies. But the process may drag on for several months. What can be done at once is to increase public floating from 25% to 50% of total shares. It would be a concrete step towards real economic democratisation, especially in the hotel industry!

Another way to burst the bubble is to continually raise the interest rate. But we do not expect a further Repo Rate hike when the Monetary Policy Committee will meet on 21 August. This time, the risks to investment and to economic growth will outweigh the oil price effect and the current account deficit. Credit conditions have become sufficiently tight for households and businesses.

Nevertheless, the Bank of Mauritius cannot lie back and relax. Sooner or later, asset inflation will cause harm to the real economy. A stock market bubble can engender an economic bubble as the surge in share prices and inflated expectations about future prospects encourage over-investment, over-borrowing and a fall in savings. If that happened, it would take longer to unwind those economic excesses. It should be a matter of months before the central bank errs a little more on the hawkish side.

### SEMDEX



The same people who are in favour of price control are now seeking to control growth! If unchecked, the itch from certain quarters of the ruling majority to control economic phenomena might inhibit growth.

Third point: the economic cycle, defined as a regular succession of periods of expansion and contraction,

largely exceeds supply. The BoM is thus in a position not to adjust its accepted bid yields according to the increase in its Repo Rate. To avoid the interest tax, people prefer to channel the surplus in demand money to the stock market despite a very low dividend yield of 3%.