SBM INSIGHTS

No.4 | MARCH 2017

FOREWORD BY SBM GROUP CHAIRMAN

Dear Reader,

In our inaugural version of SBM Insights in March 2016, we highlighted that the global economy was stuck in a difficult environment characterized by volatility, uncertainty, complexity and ambiguity (VUCA). Unfortunately, recent events on the global scene seem to have added further fuel to the VUCA situation, notably in respect of the political economy and its increasingly intertwining relationship with the real economy.

Indeed, over the past year, we have often witnessed a number of unexpected changes at both global and national levels. The outcomes of the US elections and Brexit referendum were major surprises to many observers. In the last few months of the year, India, which is considered as a country with a few bright spots in the current macroeconomic situation, provided another shock to the markets – demonetization. Traders also had to follow negotiations regarding oil production and deal with a slowdown in commodity markets in the first half of 2016. As a result, African commodity-exporting countries, namely South Africa and Nigeria, suffered greatly during the year. With elections planned in several countries in 2017, one would be excused to expect another year full of surprises. A surge in populism and nationalistic sentiments are among the things to watch for.

On the national front as well, there were many developments. Chief among those was the revision made to the existing India-Mauritius double taxation avoidance agreement. Even though the worst initial fears did not materialize, the Mauritian global business sector woke up to the pitfalls of overdependence on certain markets and has therefore begun to diversify. One target has been the African continent. Progress was also made on the Smart City projects, albeit at a slower pace than expected. The National Budget 2016/17, presented in July, was another key highlight. Emphasis was laid on the drive towards digitization, a sustainable economy and the need for modern entrepreneurs to emerge. In line with these objectives, several initiatives were enumerated. These included the waiving of trade fees for specific categories of businesses, tax holidays and new regulations. The year also saw new ideas and concepts gaining prominence, such as Bitcoin, blockchain and the blue economy.

The uncertainty associated with forecasting was evident in 2016 as one after the other, firms revised down their projections for economic growth. Indeed, there were no signs of a notable pick up

FOREWORD BY SBM GROUP CHAIRMAN

in investment and the economy. I must here point out that SBM Insights was ahead of the curve in reviewing down the outlook. The team also identified some bright spots; notably the tourism sector. Tourist arrivals surpassed the 1.25 million target, and this translated into higher tourism earnings. The 'Brexit' effect was largely contained and the country benefitted from increased seat capacity on the destination. On the other hand, the export-oriented manufacturing sector has continued to suffer. The construction sector also faced dire times although better things are expected in 2017. The announced Road Decongestion Programme, Metro Express, renovation of hotels and smart cities should fill the order books of construction companies.

A pick up in the macroeconomic situation also augurs well for the banking sector and SBM. 2016 was a year to remember for the Group. We made our first foray on the African mainland through the planned acquisition of Fidelity Commercial Bank in Kenya. This is in line with the strategy to increase our footprint in Africa. In parallel, we have strengthened our team in India and started improving our balance sheet position as we gear up for the implementation of a wholly owned subsidiary in the country. The expansion in Seychelles is also on track and we should start activities in that jurisdiction very soon. There is also an ongoing expansion of our network in Madagascar. SBM is in a solid financial position and that should allow us to grab opportunities whenever they appear – both overseas and domestic.

We started SBM Insights one year back with the objective of contributing to economic debate in the country. We will continue to do so and bring to the fore any topic or material we deem worthy for the economy.

In this edition's country report, the Strategy & Research team has focused on Ethiopia – a country which has tremendous business potential. The global and local economies have also been analyzed, especially in the wake of the numerous events that have shaped last year. The document ends with a special report on a key project for the country – Minimum Wage.

I trust that you will enjoy reading this edition of SBM Insights and find it to be a valuable tool to use. I take this opportunity to wish you all the best for this year.

KEE CHONG LI KWONG WING,
G.O.S.K.
CHAIRMAN,
SBM HOLDINGS LTD

CHIEF EDITOR'S NOTE

Latest releases point out to an upturn in key global economies, accompanied by an improvement in labor markets. Commodity markets have also recovered, inflation is trending towards central banks' targets and deflation fears in the Eurozone have been allayed. Global economic activity has been more resilient than initially expected in the face of "shocks" such as Brexit, Trump election and demonetization in India. Although global trade has been under pressure, and visa requirements as well as border controls have been toughened in some countries, we do not foresee a situation of reverse globalization – viewed from a broad perspective of movement of goods, people and financial flows – in the near future. Nonetheless, the increased populism and protectionism trends are, in all probability, set to continue and there is a risk that they could unravel in an unpredictable and potentially harmful fashion.

In Mauritius, after 5 years of contraction, construction is expected to recover in 2017 on the back of a rise in investment. Whilst large public sector infrastructure projects would be the key driver of this uptick, private sector investment is also projected to edge up, particularly in respect of the hospitality segment. Coupled with a continued good expected performance of the services sectors, the upturn in the construction sector should help consolidate the recovery in output growth that started in 2016. However, overall expansion in 2017 and 2018 are forecasted to remain below 4% as the export-oriented manufacturing sector would continue to act as a major drag factor. The outlook is also subject to major downside risks. Alongside exogenous factors, delays in project implementation as well as the pace at which some sectors are able to undergo structural adjustments would weigh on prospects.

Continuous efforts by the authorities to promote employability of jobseekers as well as better performance in some key sectors such as tourism have resulted in a decline in the unemployment rate. We expect this trend to continue in the future. Inflation, which stood at 1.0% in 2016, should pick up this year and in 2018 in line with a rise in commodity prices, but should remain in the low single digits. On the other hand, the impact of external balances is likely to be more pronounced, considering that export growth would be benign. As the environment is still uncertain and a strong and sustained recovery is yet to emerge, an accommodative policy stance should be maintained.

Our regional focus for the current edition is on Ethiopia. The country has been clocking one of the fastest expansion rates in the world for the last decade. Notwithstanding a slowdown last year, prospects for the country remain solid, driven by an emerging manufacturing sector. However, structural imbalances are present and the country is closed to foreign investment in some key sectors, such as financial services, which could hamper growth. A worsening of the security situation also poses a risk to growth. Nonetheless, in view of the country's strong potential, we reckon that mutually beneficial partnerships can be developed whereby Mauritian enterprises could extend their base to Ethiopia, and export their expertise therein.

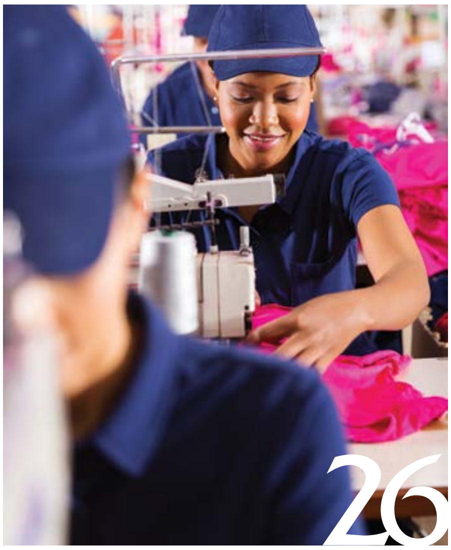
The special report for the current issue deals with a topic that is currently generating significant interest in Mauritius, namely the setting up of a national minimum wage. Our analysts argue that a minimum wage structure – which exists in a way or another in around 90% of ILO countries – have multiple benefits. These include: greater equity and equality in the society, increased spending in basic amenities such as housing and childcare, and increased motivation. However, experience shows that the implementation of a national minimum wage can give rise to cost and competitiveness challenges. To address these, the design of the system should favor an upgrade in the skills base and an upward movement in the industry value chain.

We wish you good reading and invite you to share your thoughts on research@sbmgroup.mu

SHAILEN SREEKEESSOON
Head of Strategy and Research
March 10, 2017

SBM INSIGHTS

CONTENTS



FEATURES

ABBREVIATIONS

AUD	Australian Dollar
CFR	Cost and Freight
COMESA	Common Market for Eastern and Southern Africa
DXY	US Dollar Index
ECB	European Central Bank
ECCSA	Ethiopian Chamber of Commerce and Sectoral Associations
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FOMC	Federal Open Market Committee
GBP	Pound Sterling
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
IDR	Issuer Default Ratings
ILO	International Labour Organization
IMF	International Monetary Fund
MOU	Memorandum of Understanding
MYR	Malaysian Ringgit
NWCC	National Wage Consultative Council
NZD	New Zealand Dollar
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
PPP	Purchasing Power Parity
S&P	Standard and Poor's
SCR	Seychellois Rupee
SEZ	Special Economic Zone
TTD	Trinidad & Tobago Dollar
USD	United States Dollar
WEF	World Economic Forum
ZAR	South African Rand

LIST OF FIGURES

LIST OF TABLES

GLOBAL MACROECONOMIC ENVIRONMENT

HIGHLIGHTS

- In December 2016, the Federal Reserve, as anticipated, raised its policy rate by 25 basis points, the first hike in a year. This was encouraged by positive economic data for the final months of 2016. Further monetary tightening is expected in 2017, though the pace will likely be influenced by the economic policies implemented by the Trump administration, which at this stage remain unclear.
- Eurozone GDP expanded by 0.4% in the fourth quarter, identical to the upwardly revised increase in the third. Other economic indicators were also positive. In 2017, activity will continue to be supported by accommodative monetary policy, a key instrument thereof being the asset purchase program which was extended by nine months until December 2017.
- After a good third quarter, the UK economy continued to show resilience in the fourth quarter despite the vote to leave the EU. This has encouraged analysts to upgrade their growth projections for 2017, although most of them are still anticipating a slowdown relative to 2016.
- GDP growth in China slowed to 6.7% in 2016, from 6.9% the year before. The outturn of 2016 benefited from a substantial increase in investment by state-owned enterprises, backed by government attempts to smooth the economic deceleration.
- In India, the surprise demonetization of two high-value bank notes last November led to a slowdown in economic activity. As a result, the IMF cut its GDP growth forecast for this fiscal year (ending in March) from 7.6% to 6.6%.
- Sub-Saharan Africa's two largest economies, namely Nigeria and South Africa, continued to perform poorly in the third quarter: Nigeria's GDP contracted while South Africa's increased marginally. GDP for the whole region is estimated to have grown by about 1.5% in 2016, the slowest pace in over 20 years.
- Commodity prices generally increased in 2016, after falling in 2015. The outcome of the US election, which brought expectation of reflationary fiscal policies, provided a boost to most commodities in the final two months of 2016. Oil prices were also buoyed by the agreement of OPEC and 11 non-OPEC producers to reduce oil production.
- The US dollar appreciated against most currencies in the weeks following the presidential election; but it has weakened since the start of 2017 amid uncertainty surrounding the Trump administration's policies.

Since the publication of our previous issue there have been two major unexpected events: Donald Trump's election victory and the demonetization in India. The first has had a wide-ranging impact, affecting the economic outlook and financial markets.

US

As expected, the Federal Reserve raised its policy rate by 25 basis points in December, to a range of 0.5%–0.75%. This was the first rate increase in a year and came amid positive data releases in the US. Growth of real GDP in the third quarter was revised upward twice, from 2.9% in the initial estimate to 3.5% in the third (quarter on quarter, annualized rates). The unemployment rate fell to a nine-year low of 4.6% in November (in December it was almost the same), below Federal Open Market Committee (FOMC) participants' median long-run estimate of 4.8%. And inflation—as measured by the 12-month change in the price index for personal consumption expenditures—moved closer to the Fed's 2% target, rising to 1.4% in November (December: 1.6%) from 0.3% in 2015.

In 2017, the Fed expects inflation to approach 2% as the job market strengthens further and energy prices recover some of their past losses. This should support the gradual removal of policy accommodation. The median projection by FOMC participants is for three 25-basis-point increases in the federal funds rate by the end of the year. However, significant uncertainty prevails around the interest rate outlook given the volatile economic situation; one of the key risk factors being the direction of fiscal policy under the new administration. The IMF forecasts GDP growth of 2.3% this year, which represents its most likely policy scenario; this is superior to the 1.6% expansion registered in 2016 (growth in Q4 came in slightly below expectations at 1.9%).

EUROZONE

Eurozone data for the final months of 2016 were positive. GDP advanced by 0.4%, quarter on quarter, in the fourth quarter—identical to the upwardly revised increase in the third. The European Commission's Economic Sentiment Indicator, a barometer of business and consumer confidence, rose to a five-year high in December and is comfortably above its long-term average. In addition unemployment declined to a seven-year low of 9.6% in December (November: 9.7%, downwardly revised), sustaining the improvement that began in 2013.

For 2017, the European Central Bank (ECB) and the IMF forecast GDP growth of 1.7% and 1.6% respectively, which are almost the same as the 1.7% expansion realized in 2016. Both organizations upgraded their forecast by 0.1 percentage point due to better-than-expected data in the final months of 2016. Eurozone economies will continue to be supported this year by the accommodative monetary policy pursued by the ECB. This includes the asset purchase programme which the ECB extended until December 2017 and was due to expire in March. The size and scope of the programme were also tweaked to ease pressure on market liquidity. Specifically, as from the start of the year, minimum maturity and yield requirements were relaxed. Moreover, as from April, the amount of monthly purchases will be reduced to EUR 60 billion from EUR 80 billion. The reduction in the pace of purchases is also consistent with growing confidence in the economic outlook. Monetary accommodation will persist as long as inflation fails to converge to the ECB's target of just below 2%. There is so far no discernible upward trend in core inflation (which excludes energy and unprocessed food): in January, core inflation was 0.9%, about the same as the average in the previous 12 months. However, headline inflation jumped to a three-year high of 1.8% in January (from 1.1% the previous month), on account of higher energy inflation.

UK

The UK economy remained resilient in the second half of 2016 despite the vote to leave the EU. GDP growth in the third quarter was revised up to 0.6% (quarter on quarter) in the third estimate; the second estimate had confirmed the initial surprise reading of 0.5%. The fourth quarter witnessed growth of 0.7% according to the second estimate (marginally above expectations); as in the third quarter, services was the main contributor to growth. For 2016 as a whole, GDP expanded by 1.8%.

Nevertheless, a slowdown is still expected this year. December PMI surveys revealed subdued business confidence about the period ahead, reflecting ongoing uncertainty as to the UK's eventual arrangement with the EU. This suggests that business investment will be restrained this year. Moreover, higher inflation will put pressure on households' real income and hence on their expenditure. Inflation is forecast to rise above 2% this year (in December inflation was 1.6%), mainly due to the large carry-on effect of the depreciation of the pound sterling since the EU referendum. There is some divergence of opinion as to the probable reduction in the GDP growth rate this year. In February the Bank of England notably raised its growth forecast for 2017 from 1.4% to 2%, on the expectation of continued economic resilience in the first quarter of 2017. But it expects a slowdown in the quarterly growth rates as the year wears on and a drop-off in the annual rate of growth in 2018. The Office for Budget Responsibility is less optimistic: in November it forecast GDP growth of

1.4% for 2017, which incorporates a small contribution from the fiscal loosening announced in the Autumn Statement (a mini budget). Meanwhile, the range of growth forecasts in The Economist's (February) poll of private forecasters is 1%–1.7%; this is more optimistic than the range of -0.5%–1.3% in the October poll, likely as a result of the observed resilience of the UK economy after the referendum.

EMERGING MARKETS

The pace of China's economic expansion continued to slow in 2016: real GDP growth decelerated to 6.7%, from 6.9% in 2015. The outturn of 2016, which was within the government's target range of 6.5%–7%, benefited from substantial government support. Investment in fixed assets by state-owned enterprises rose by 18.7%, a sharp acceleration compared to the increase of 10.9% in 2015. Meanwhile growth in private investment slowed to 3.2%, from 10.1% in 2015. Consequently, the ratio of private to total investment fell to 61.2% (2015: 64.2%). For 2017, the IMF projects GDP growth of 6.5%; that is, an upgrade of 0.3 percentage point over its previous forecast, reflecting expectation of continued policy support.

In India, the surprise demonetization of two high-value banknotes last November (replaced by two new notes) caused a cash shortage which has weighed down on economic activity. The Nikkei composite PMI was below 50 in both November and December—the only sub-50 readings since 2015—indicating a contraction of output in those months. Though the cash shortage is easing as more new notes enter circulation, it is expected to persist into the next fiscal year (April–March). The IMF forecasts GDP growth of 6.6% this fiscal year and 7.2% in the next; these are lower by 1 percentage point and 0.4 percentage point, respectively, compared to the pre-demonetization forecasts.

The performance of sub-Saharan Africa's two largest economies—Nigeria and South Africa, accounting for half of the region's GDP—continued to be poor in the third quarter of 2016. Nigeria's real GDP fell by 2.2% (year on year) in that quarter, as militant attacks disrupted oil production and the foreign currency shortage crippled various sectors. Business surveys, as well as oil production data, suggest that the economy contracted at a smaller rate in the fourth quarter. For 2016 as a whole, the IMF estimates that GDP decreased by 1.5%, Nigeria's first full-year recession in over two decades (in the nine months to September, GDP fell by 1.6% year on year). For 2017, it forecasts the economy to come out of recession and expand by a modest 0.8%.

In South Africa, real GDP increased by 0.7% (year on year) in the third quarter, the same pace as in the second. Gross fixed capital formation contracted for the fourth consecutive quarter amid low business confidence. Monthly data suggest that growth remained weak in the fourth quarter. For 2016 as a whole, the IMF estimates that the economy expanded by only 0.3%, the lowest rate since 2009. For 2017, it expects the growth rate to pick up to a still weak 0.8%.

Table 1.1: Economic Growth Projections in Selected Countries

		Estimate	Projections	
Percent change in real GDP	**2015**	**2016**	**2017**	**2018**
US	2.6	1.6	2.3	2.5
UK	2.2	2.0	1.5	1.4
Eurozone	2.0	1.7	1.6	1.6
China	6.9	6.7	6.5	6.0
India*	7.6	6.6	7.2	7.7
Sub-Saharan Africa	3.4	1.6	2.8	3.7
Nigeria	2.7	-1.5	0.8	2.3
South Africa	1.3	0.3	0.8	1.6

Source: IMF World Economic Outlook Update, January 2017
* Data and forecasts are for the fiscal year ending in March of the following year.

COMMODITIES

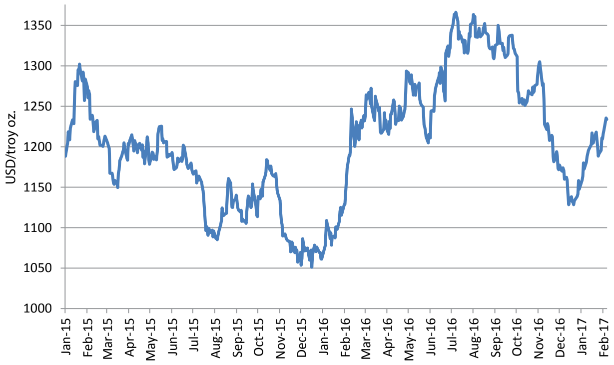
On November 30, OPEC agreed on the details of their previously announced production cut. Shortly after, 11 non-OPEC oil producers (including Russia) also agreed to reduce their output. These events have boosted oil prices: since December, the price of Brent has been trading in a range of USD 53–57 per barrel, around 20% above its November low of USD 45 per barrel. The production cuts are effective since the start of 2017, for an initial period of six months. As a result of these cuts, the International Energy Agency forecasts that oil demand will exceed supply by 0.6 million barrels per day in the first quarter; this compares with an estimated excess supply of 0.7 million barrels per day in 2016.

The US election result proved negative for gold prices. From around USD 1,300/troy oz. in early November, the spot price slumped to USD 1,128/troy oz. in mid-December due to expectation of reflationary fiscal policies under a Trump administration and hence of faster monetary policy tightening (higher interest rates diminish the appeal of holding gold). But since the start of 2017, gold has rallied by 7% as investors sought safety amid uncertainty about the Trump administration's policies.

The IMF's metals price index (which tracks 8 base metals) gained nearly 20% in the last three months of 2016, buoyed by positive economic data from China and optimism for higher infrastructure spending in the US following Trump's election win. Over the same period, iron ore (62% Fe CFR China) appreciated by over 30%, bringing its total gain in 2016 to about 80% (one of the best performances among metals). Chinese steel production, the major driver of iron ore demand, remained elevated in the fourth quarter: crude steel output in that quarter rose by 4% year on year, the highest quarterly increase in 2016. But concern about oversupply in the iron ore market is expected to weigh on prices this year: December 2017 futures traded at USD 68/tonne at the end of January, 17% lower than the front-month price.

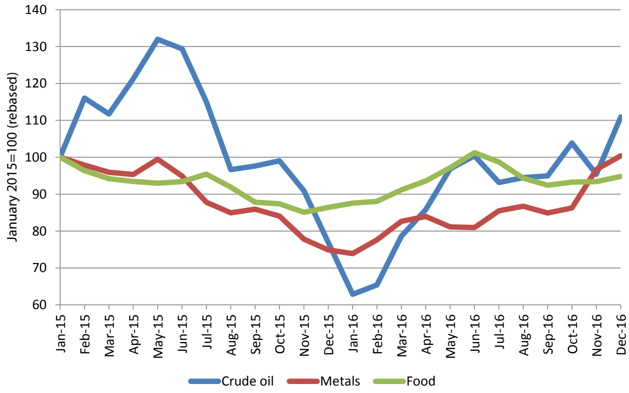
The IMF's food price index (which tracks 6 food categories) rose by 3% in the fourth quarter, with the majority of food commodities posting gains. Rice was one of the losers—against the background of abundant supply on the world market—with the benchmark Thailand 5% broken falling by 4% in the last quarter. Global rice production is forecast to reach a record 482 million tonnes in 2016/17 according to the International Grains Council, boosted by good growing conditions in India and Thailand, the top exporters.

Figure 1.1: Gold Spot Price



Source: Bloomberg

Figure 1.2: IMF Commodity Price Indices



Source: IMF

CURRENCIES

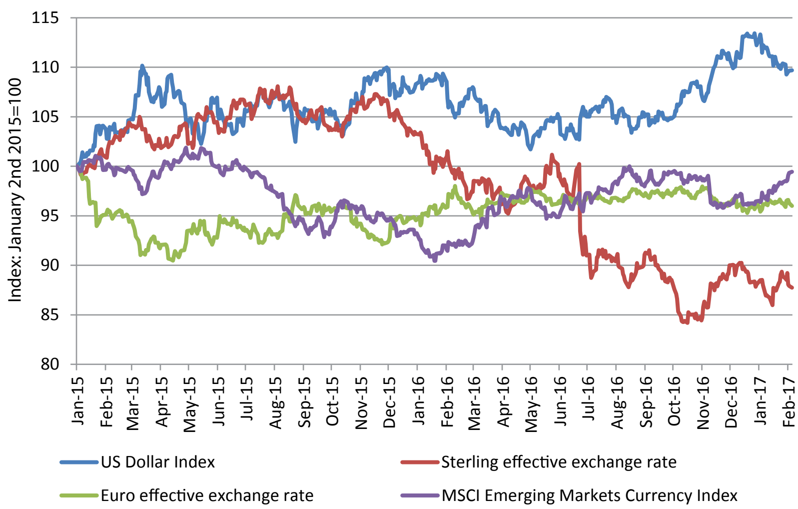
The US dollar appreciated against most currencies in the weeks following the presidential election (held in early November), on expectation that the Trump administration will implement reflationary fiscal policies. The US Dollar Index (DXY)—which measures the value of the dollar relative to six advanced-economy currencies—gained nearly 5% between the start of November and the end of December, hitting a 14-year high in December. The interest-rate hike in December also provided a boost. However, the dollar has retreated this year amid policy uncertainty: in January the DXY lost 3%.

After reaching its lowest level in over 25 years last October, the sterling exchange rate index—a trade-weighted measure of the value of sterling—gained 4% between the start of November and the end of December. This mirrors the rise of the dollar in that period, perhaps as the outcome of the US election was perceived as positive for the UK's future trade relations with the US.

The euro declined by 1.3% on a trade-weighted basis in the three months to January. The decision of the ECB to extend its asset purchase programme—as well as political uncertainty ahead of upcoming elections in France and the Netherlands, where Eurosceptic parties are serious contenders—contributed to this slight weakening.

After a poor 2015, emerging-market currencies fared better in 2016. The MSCI Emerging Markets Currency Index—which tracks the performance of 25 emerging-market currencies relative to the US dollar—gained 3.5% in 2016 after falling by 7% in 2015. Like those of advanced economies, emerging-market currencies generally weakened against the dollar towards the end of 2016, on the back of the election outcome and interest-rate hike in the US (an exception is the Russian rouble, which strengthened together with oil prices). The MSCI index declined by 2.3% in the two months to December. But emerging-market currencies have bounced back this year: as of early February, the MSCI index is at the same level as at the start of November.

Figure 1.3: Movements in Main Currencies



Sources: Bloomberg, Bank of England, European Central Bank, MSCI

RISKS TO THE OUTLOOK

Risks to the outlook include: a hard landing in China in the next couple of years; the failure of the UK to negotiate a favourable post-exit arrangement with the EU; the adoption of protectionist policies in the US which could trigger a trade war; and victory for Eurosceptic parties in upcoming elections in France, the Netherlands, and Italy which could lead to their abandoning the euro.


GrandMARK

ECONOMIC OUTLOOK MAURITIUS

STRENGTHENING RECOVERY, SUBJECT TO BOTH EXOGENOUS AND ENDOGENOUS RISKS

HIGHLIGHTS

- The growth estimate for 2016 has been maintained at 3.4%, 20 basis points below the Statistics Mauritius estimates on the basis of a weaker performance expected in export-oriented manufacturing sector.
- This nonetheless marks an acceleration from the 3.0% growth recorded in 2015, with sugar and services being key drivers of the upturn.
- The recovery is expected to continue in 2017 and 2018, but is dependent on five key assumptions, namely that: (i) the uptick in construction recorded in the third quarter of 2016 is sustained in the periods ahead; (ii) tourist arrivals are expected to remain buoyant, albeit at a slower pace than in 2016; (iii) business and financial services would exhibit resilience despite multiple challenges; (iv) the decline in manufacturing exports would slow down; and (v) weather conditions would be close to normal.
- The growth projection for 2017 has been maintained at 3.9% while our initial forecast for 2018 points out to a similar performance next year.
- The unemployment rate has improved in 2016, and is expected to sustain this trend, underpinned by efforts by the authorities to enhance employability of jobseekers as well as the projected good economic performance in the construction and tourism sectors.
- Inflation should pick up this year in line with rising global commodity prices, but would remain under control at around 2.0% in 2017 and 2.4% in 2018.
- However, external balances should worsen as merchandise exports struggle. Challenges to the Global Business sector also pose a risk to the balance of payments position.
- With growth still moderate, despite the projected upturn, and inflation under control, authorities should maintain an accommodative policy stance.

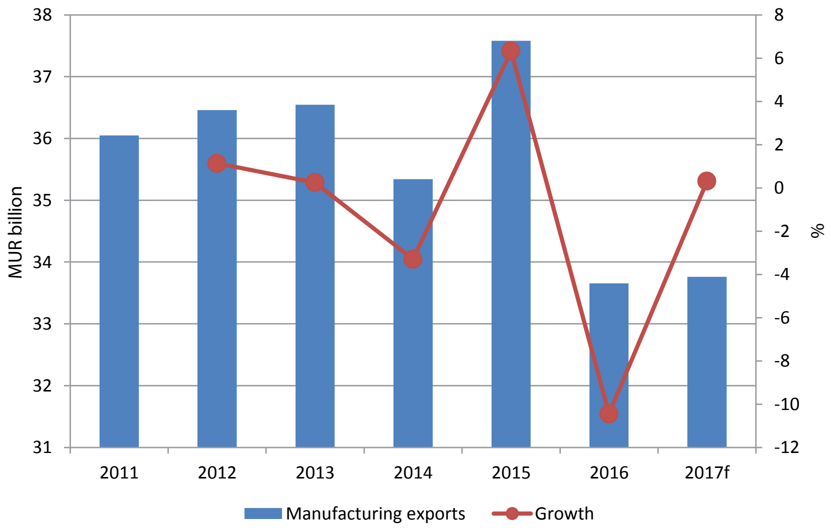
ECONOMIC GROWTH

Services sectors performed strongly in 2016, driving a recovery in GDP growth from 3.0% in 2015 to an estimated 3.4% last year. In particular, the food and accommodation sector posted a solid expansion rate on the basis of healthy increases of 10.8% and 11.3% in tourist arrivals and tourism earnings respectively. It is encouraging to note that the rise in arrivals has been broad-based, with the traditional European market also posting a significant year-on-year rise of 16.3% in line with better in economic conditions in key European countries and improved air access. ICT, financial services, professional, scientific and technical services and administrative and support service activities are also estimated to grow at above 5.5% in line with past trends. The sugar sector would also perform solidly on the strength of a rebound in the average extraction rate whilst a moderate performance is expected in trade, transportation and utilities in tune with the average expansion of the economy.

As anticipated in our last edition, the construction sector registered a positive growth rate – of 7.4% year on year – in the third quarter of 2016 after 16 quarters of contraction, thanks to strong investment in the residential real estate segment. Whereas it is expected that the upturn would be sustained in subsequent quarters, the growth rate of the sector for 2016 as a whole is still expected to be close to zero in view of the contraction recorded in the first semester, year on year.

For its part, the export-oriented manufacturing sector, particularly apparel and textiles, remains a major cause for concern. Indeed, exports of manufactured goods dropped by 10.4% in 2016 compared to the previous year, with apparel exports decreasing by 8.0%. As a result, our growth prognosis for the export-oriented manufacturing sector is more pessimistic than that of Statistics Mauritius, largely explaining the 20 basis points difference between their overall GDP growth estimates of 3.6% for 2015 and those of SBM Insights (3.4%).

Figure 2.1: Sluggish Manufacturing Exports



Source: Statistics Mauritius

Looking ahead, it is projected that the recovery would strengthen in 2017, with an expected GDP growth rate of 3.9%, similar as forecast in the October 2016 issue of SBM Insights. Economic expansion is expected to stabilize around that rate in 2018.

The upturn is nonetheless conditional on five key assumptions.

- Firstly, the upturn in the construction sector that was observed in the third quarter of 2016 is expected to be sustained in subsequent quarters, and even reinforced as from the second half of 2017, driven by large-scale public infrastructure projects, as announced in the last National Budget and Public Sector Infrastructure Programme. The residential real estate segment should also support growth in construction. Besides, private sector non-residential construction projects, which have so far remained anemic, could also pick up going forward particularly in connection with the hospitality sector. Overall, investment should recover in all major categories. However, a close focus on project execution should be maintained, taking into consideration past experience in this area, from both the public and private sectors. Potential bottlenecks – such as the availability of labor – should be addressed in a proactive manner to avoid delays in the implementation of key projects, which would obviously entail a downward revision in the projected activity levels for the sector.

- Secondly, tourist arrivals are expected to remain buoyant, albeit increasing at a lower tempo as compared to 2016 in view of base effects. The continued good performance of the hospitality sector is conditional upon further inroads into market diversification, increase in the hotel park and, critically, a corresponding rise in air seat capacity.

- Thirdly, business and financial services are projected to exhibit some degree of resilience despite multiple challenges lying ahead. On the domestic banking sector front, despite a projected upturn in investment, excess liquidity is expected to persist as deposit growth would remain strong. Thus, credit growth and interest rate margins would remain under pressure. Domestic banks are likely to respond through further diversification of their offers and development of new markets. Regarding Global Business, risks arising from changes in the global tax environment are more difficult to fathom and could require a shake-up of the current business and financial ecosystem. In our opinion, decisive action will be required to broaden the scope of services of the Mauritius international financial center, and make important inroads into the African market, among others.

- Fourthly, whilst a further decline in the export-oriented manufacturing sector is projected, the pace of deceleration should slow down on account of base effects. Fundamentally, a revival of the sector would hinge on an increase in value addition which could be brought about through an innovation-led strategy. Commendably, the authorities are committed to promoting a regulatory and technical infrastructure that should favor the deployment of technology in a manner that would render our enterprises more efficient and enable the production of higher value added products. However, the impact on the manufacturing sector would not be felt in the near future.

- Fifthly, extreme weather conditions are being excluded in our baseline assumptions, and normalized agricultural production, including sugar, is projected.

Other major sectors should evolve in line with past trends and/or overall economic growth.

Table 2.1: Key Projects Expected to Start in 2017

Project	Cost	Promoter
Metro Express	MUR 20 billion	Ministry of Public Infrastructure and Land Transport
Multi-sports complex at Cote d'Or	MUR 1.9 billion	Mauritius Multi-sports Infrastructure Limited
New Victoria Station Complex	N A	Ministry of Public Infrastructure and Land Transport
Medine Smart City Project	MUR 5 billion	Medine Property Ltd
Trianon Smart City	MUR 13 billion	Hermes Properties Ltd

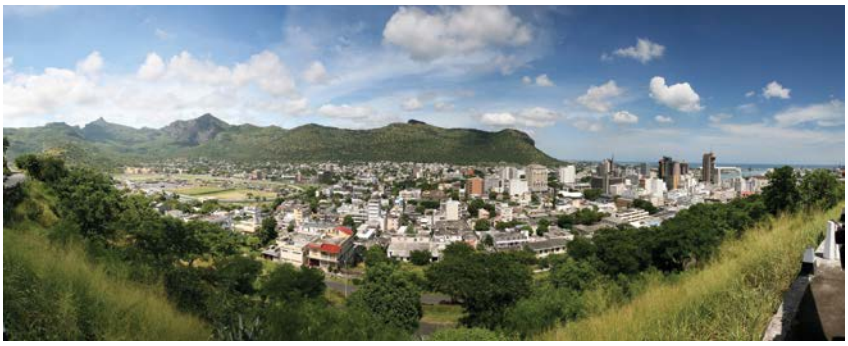
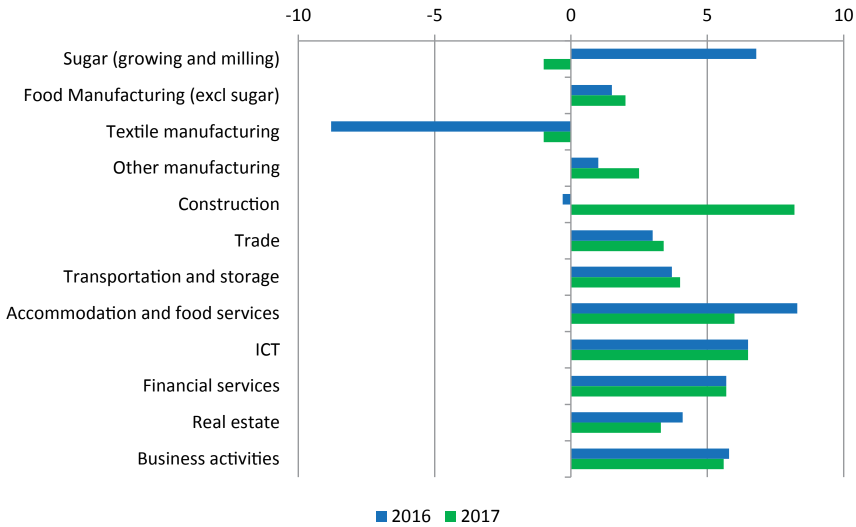


Figure 2.2: Selected Industry Growth Forecasts



Source: SBM staff estimates and forecasts

In view of the still uncertain global economic environment and considering policy implementation lags, risk factors are tilted to the downside. In addition to the abovementioned challenges, a close watch is warranted on external developments, particularly regarding the spillover effects of a rise in populism and protectionism noted in notable countries across the globe. While the effects of Brexit seem, for now, to be contained, a major upheaval in the Eurozone – for example stemming from a possible French or Dutch exit – could have serious consequences for the Mauritian economy.

On the upside, a faster transition towards a digital economy would boost growth through enhanced efficiency, new services and the possibility to export expertise to other countries, notably in Africa. Similarly, a more open and targeted policy at attracting talent would be key in enlarging the service offering of the country, upgrading the overall competency base and increasing domestic demand, thereby giving a further boost to activity. Rapid progress in these areas could entail an upgrade in the prognosis.

Table 2.2: Mauritius – Selected Economic Indicators

	Units	2014	2015	2016(e)	2017(f)	2018(f)
REAL SECTOR						
GDP (at market prices)	MUR bn	392	410	433	**458**	**484**
GDP at market prices per capita	USD	10,155	9,235	9,555	**9,839**	**10,199**
GDP at basic prices - real growth	%	3.6	3.0	3.4	**3.9**	**3.9**
Gross domestic saving (GDS)	% GDP	10.6	10.4	11.1	**11.2**	**10.6**
Gross fixed capital formation (GFCF)	% GDP	18.9	17.4	17.8	**18.0**	**18.3**
Private sector	% GDP	14.0	12.7	13.0	**13.1**	**13.3**
Public sector	% GDP	4.8	4.7	4.8	**4.9**	**5.0**
Headline inflation	%	3.2	1.3	1.0	**2.0**	**2.4**
Unemployment	%	7.8	7.9	7.4	**7.2**	**7.1**
FINANCIAL SECTOR						
Credit to private sector (excl. GBL) †	% GDP	70.1	69.9	66.0	**66.3**	**67.8**
Deposits (Segment A)†	% GDP	88.2	92.6	95.6	**96.6**	**97.9**
Key Repo Rate†	%	4.65	4.40	4.00	**4.00**	**4.00**
Average MUR lending rate*	%	8.01	7.60	7.06	**6.91**	**7.20**
Average MUR deposit rate*	%	3.25	2.90	2.42	**2.25**	**2.43**
Average Treasury Bills rate*	%	2.37	2.14	2.68	**2.61**	**2.83**
GOVT SECTOR						
Budget balance‡	% GDP	(3.2)	(3.2)	(3.5)	**(3.3)**	**(3.0)**
Public sector debt†	% GDP	60.7	63.7	64.7	**64.5**	**64.1**
Public sector debt (for debt ceiling)†	% GDP	53.4	55.7	55.5	**55.1**	**54.7**
EXTERNAL SECTOR						
Balance of visible trade	% GDP	(19.7)	(18.2)	(18.8)	**(21.0)**	**(20.5)**
Foreign direct investment (FDI)	% GDP	4.7	2.4	3.2	**3.3**	**3.3**
Current account balance	% GDP	(5.6)	(5.0)	(5.2)	**(7.9)**	**(7.0)**
Balance of payments	% GDP	5.9	4.9	4.9	**3.5**	**3.3**
USDMUR annual average change	%	(0.1)	14.8	2.1	**2.7**	**1.8**

† end of period (e) revised estimates (f) SBM staff forecasts

* mean of monthly weighted averages

‡ due to the change in fiscal year from calendar year to a July-June cycle in 2015, 2014 figures relate to calendar year, the 2015 figure relates to the Jan-Jun 2015 period, and the 2016, 2017 and 2018 figures relate to the Jul15-Jun16, Jul16-Jun17 and Jul17-Jun18 fiscal years respectively.

Source: Statistics Mauritius, Bank of Mauritius, Ministry of Finance and Economic Development, and SBM staff estimates and forecasts

UNEMPLOYMENT

After hovering in the 7.8%-8.0% range for many years, the unemployment rate fell to an estimated 7.4% in 2016. This follows recruitment in the public sector, higher employment in tourism therein and increased efforts by the authorities to enhance the employability of young jobseekers in particular through various schemes. Considering an upturn in the construction sector, a good momentum in tourism and consolidation of efforts by the Government to promote employment creation, the joblessness rate is projected to decline further to 7.2% in 2017 and 7.1% in 2018.

INFLATION

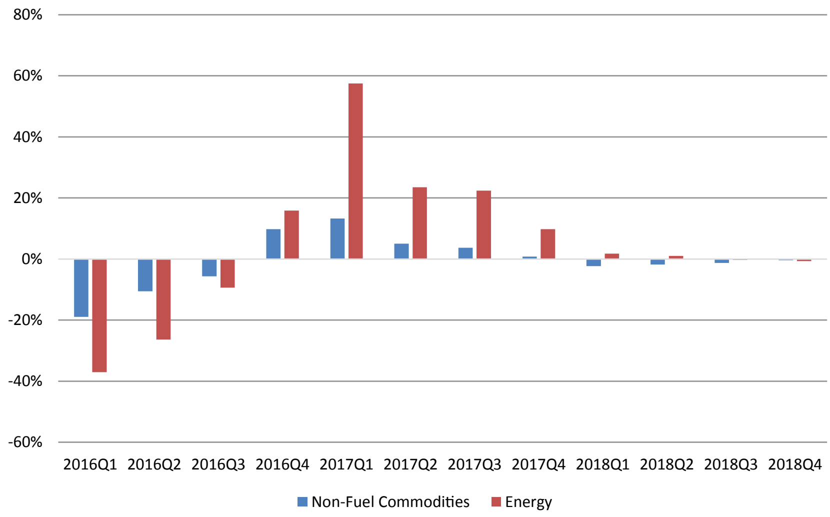
Despite a depreciation of the Mauritian rupee versus the US dollar on an annual average basis in 2016, the inflation rate declined from 1.3% as at December 2015 to 1.0% as at December 2016 in line with weaker commodity prices on international markets for the year as a whole. With the greenback expected to remain strong, coupled with a pickup in commodity prices anticipated for 2017, the inflation rate should gradually increase to reach 2.0% as at December 2017 and 2.4% as at December 2018, assuming a fair pass-through of prices on the local market. Notwithstanding the upward trend, the inflation would thus remain under control, taking into account relatively tepid activity levels.

EXTERNAL BALANCES

On the other hand, the impact of increased commodity prices on external balances would be more pronounced considering that export growth, which was negative in 2016, is not forecast to materially pick up in the periods ahead. Moreover, although an increase in external grants, notably from the Government of India, is foreseen, import content of related expenditure would be high. Hence, we project that the merchandise trade deficit and the current account deficit will worsen from an estimated 18.8% of GDP and 5.2% of GDP respectively in 2016 to 21.0% of GDP and 7.9% of GDP in 2017. These deficits are expected to remain high in 2018. Against this background, the surplus on the balance of payments is projected to narrow from an estimated 4.9% of GDP in 2016 to 3.5% of GDP in 2017 and 3.3% of GDP in 2018. The balance of payments position is however at risk of further weakening if flows from the Global Business segment were to materially decline, as implied in one of the downside risk scenarios discussed above.

Under the baseline scenario of the balance of payments maintaining a positive outturn, the exchange rate of the Mauritian rupee should remain relatively stable on a trade weighted basis. Against individual currencies, it would reflect movements in international currency markets and is, on this basis, expected to depreciate slightly against the US dollar and appreciate vis-à-vis the pound sterling.

Figure 2.3: Rising Commodity Prices in 2017



Source: IMF, SBM staff estimates

FISCAL AND MONETARY POLICY

Given that a lukewarm growth and inflation environment should persist going forward, notwithstanding an expected recovery in both indicators, policy accommodation would, in all likelihood, be maintained in 2017 and 2018.

On the fiscal front, capital expenditure is expected to rise sensibly as from the second half of 2017 on account of the planned implementation of major infrastructure projects, particularly regarding land transportation. Although the impact on the fiscal balances should be tempered by financial grants negotiated from the Government of India in particular, it is anticipated that the budget deficit would remain relatively high at 3.3% of GDP and 3.0% of GDP in the fiscal years ending June 2017 and June 2018 respectively.

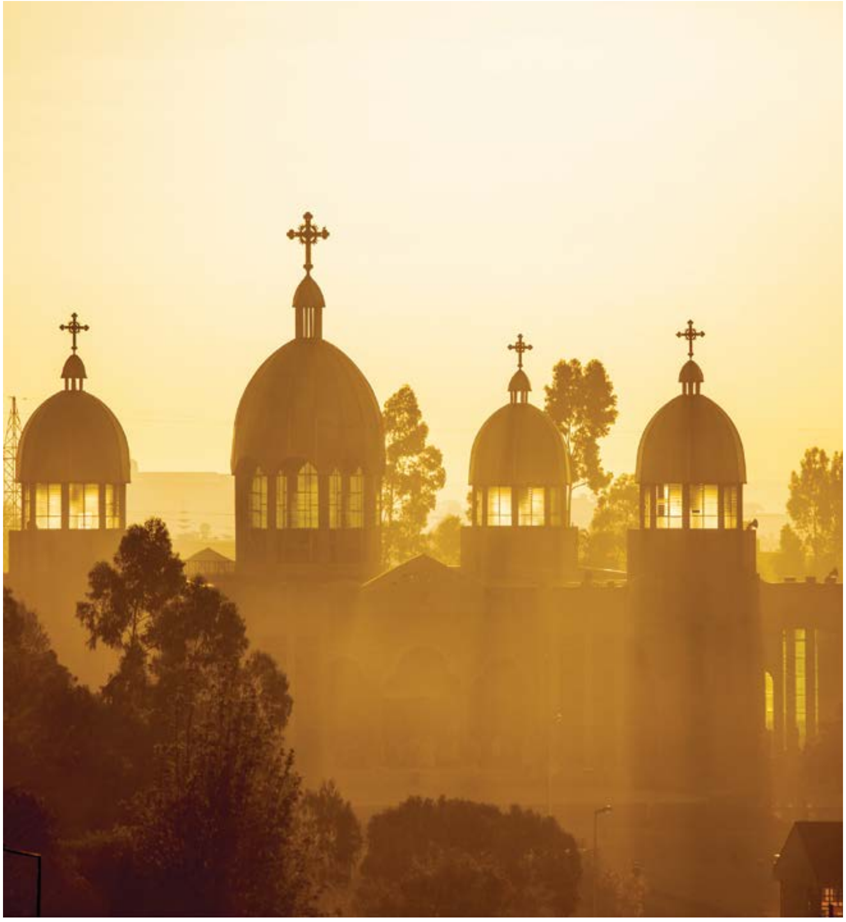
As a result, public sector debt would remain high, and alternative measures would have to be considered to bring it down (after adjustment) to the 50% ceiling prescribed in the Public Debt Management Act 2008.

Regarding monetary policy, it is forecast that the Monetary Policy Committee of the Bank of Mauritius would leave the Repo rate at low levels during 2017 and 2018.

ETHIOPIA: CHINA OF AFRICA?

HIGHLIGHTS

- Ethiopia is a federal parliamentary republic where the Prime Minister is the Head of Government. Executive power is exercised by the government and the Judiciary is completely independent of the executive and the legislature.
- Ethiopia has registered a decade of above 9% economic growth.
- 36.3% of the country's 1,000,000 sq.km land area is used for agricultural purposes while the country also has small deposits of gold, platinum, copper, potash and natural gas.
- The manufacturing and construction sectors have benefitted from China's involvement in Ethiopia.
- The high number of projects in the country led to a construction boom which has translated into high economic growth sustained over a decade.
- In 2016, Ethiopia's macroeconomic situation was adversely affected by a severe drought and weak global economic conditions, leading to a slowdown in economic activity.
- The economy is expected to rebound in 2017 and 2018 on the back of normalization in the agriculture sector and pro-growth reforms announced in the Growth and Transformation Plan II.
- A key risk to the outlook relates to the security situation, particularly if unrests persist and amplify. However, they appear to be contained for now, and the three major credit rating agencies have a stable outlook on the Ethiopian economy.
- Both Mauritius and Ethiopia form part of the Common Market for Eastern and Southern Africa (COMESA).
- This could open up mutually-beneficial cooperation, and Mauritius industrialists could expand their operations in Ethiopia.
- It is to be noted that there are no direct air access, investment promotion and investment protection agreements or double taxation avoidance agreements between Ethiopia and Mauritius as yet.



China of Africa, land of long distance runners, roof of Africa... Ethiopia is known by many names. It is the only African country to never have been colonized. It is home to the Great Rift Valley and there is evidence that the species to which man belong originated in this region. Later on, kingdoms were established and the monarchy system continued until 1974 when Haile Selassie was deposed by the Derg. The dictatorship established by the Derg was repeatedly challenged and eventually it was removed from power in 1991. Since then, the Ethiopian People's Revolutionary Democratic Front has been in power.

Ethiopia is a federal parliamentary republic where the Prime Minister is the Head of Government. Executive power is exercised by the government and the Judiciary is completely independent of the executive and the legislature. The country's current Prime Minister is Hailemariam Desalegn while the parliament constitutes of 547 members.

Although the government is classified as authoritarian (being ranked 123rd out of 167 countries by the Economist Intelligence Unit), this has not stopped the economy from doing very well over the past decade.

Indeed, Ethiopia has registered economic growth of above 9% for more than a decade. The agriculture sector contributed 41.4% to GDP in 2015. More than a third of the country's 1,000,000 sq.km land area is used for agricultural purposes while the country also has small deposits of gold, platinum, copper, potash and natural gas. In addition, agricultural products form a major chunk of merchandise exports (83%) while fuel and mining exports represent 5% of total merchandise exports. Although the agriculture sector remains important in Ethiopia, the economy is shifting from being principally primary to secondary and tertiary sectors.

The manufacturing sector is vital and contributes 17% to exports. This sector grew 11% annually and related exports increased more than eleven fold between 2004 and 2014. This was largely thanks to the footwear and apparel industries.

The manufacturing and construction sectors have benefitted from China's involvement in Ethiopia. The latter has been a big contributor to the Ethiopian economy since the turn of the millennium. Chinese investment in Ethiopia has grown throughout the years and loan finance has also been provided. In addition, Ethiopia has penned agreements with China on many projects relating to road infrastructure, railway infrastructure and power generation and many Chinese firms are involved in implementation. The high number of projects in the country led to a construction boom which contributed to the robust, decade-long expansion story.

Nevertheless, the situation has changed more recently. In 2016, Ethiopia's macroeconomic situation was adversely affected by a severe drought and weak global economic conditions. This brought economic growth down to 6.5% compared to rates of above 10% in previous years.

Table 3.1: Ethiopia - Selected Macroeconomic Indicators

Selected Macroeconomic Indicators	Unit	2012	2013	2014	2015	2016	2017f	2018f
GDP, constant prices	% change	8.7	9.9	10.3	10.2	6.5	7.5	7.5
GDP, current prices	USD billion	43	48	56	62	69	77	84
Population	million	85.6	87.0	88.3	89.8	91.2	92.7	94.1
GDP per capita, current prices	USD	504	548	628	687	759	830	892
GDP per capita in PPP terms	USD	1,354	1,489	1,646	1,804	1,916	2,071	2,243
Total investment	% GDP	37.1	34.1	38.0	39.3	39.7	39.0	38.5
Gross national savings	% GDP	31.2	28.1	30.2	31.7	29.0	29.7	29.6
Inflation, average consumer prices	%	24.1	8.1	7.4	10.1	7.7	8.2	8.2
Volume of imports of goods and services	%	22.1	-5.0	32.3	29.6	14.5	1.9	4.1
Volume of exports of goods and services	%	-12.5	15.5	6.0	8.0	3.6	7.9	6.8
General government gross debt	% GDP	36.9	42.4	46.3	56.1	57.4	60.3	60.8
Current account balance	% GDP	-6.9	-5.9	-7.9	-12.0	-10.7	-9.3	-8.9

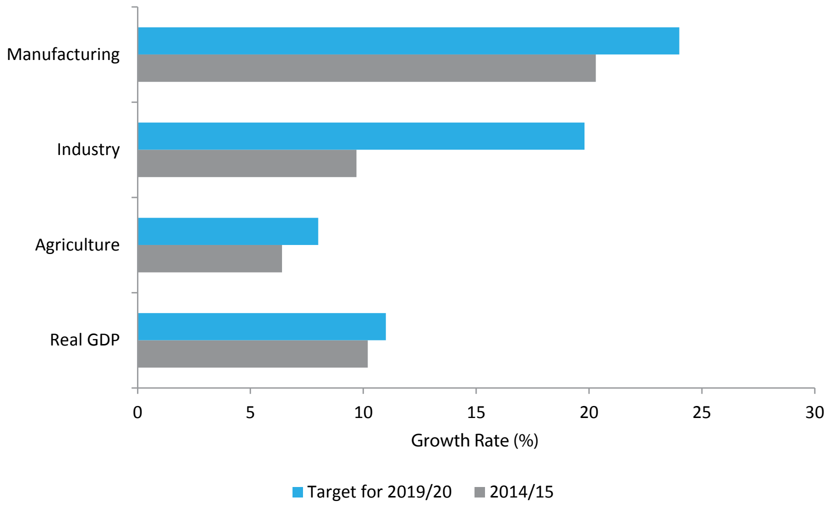
Source: IMF World Economic Outlook Database, October 2016

The government introduced drought-related food imports in 2016 which helped contain inflationary pressures. Despite increases in export volumes underpinned by diversification to new export markets, export revenue stagnated on the back of weak international commodity prices. Besides, savings on fuel imports were more than offset by increased drought-related food imports and other imports. The current account deficit thus remained wide. However, remittances and FDI posted strong growth, helping to limit the deterioration of the external position.

Despite the slowdown in 2016, Ethiopia remained the fastest growing country on the African continent. Moreover, there is significant potential to further tap into. This is emphasized upon by the recent IMF country report which gives a generally positive outlook on the economy for the medium term.

Economic growth is expected to pick up in 2017 and 2018 as the agricultural sector normalizes and growth-oriented reforms are implemented. These reforms have been announced as part of the Growth and Transformation Plan II. The objective of the Second Growth and Transformation Plan is the realization of Ethiopia's vision of becoming a lower middle income country by 2025. GTP II aims to achieve an annual average real GDP growth rate of 11% within stable macroeconomic environment while pursuing aggressive measures towards rapid industrialization and structural transformation.

Figure 3.1: Target growth rates



Source: Growth and Transformation Plan II

Nonetheless, the security situation in Ethiopia is a significant risk factor that could derail the growth mechanism. Ethiopia is currently in a state of emergency following unrests in the country in October 2016. An anti-government protest quickly descended into violence. This incident was followed by other acts of violence and the premises of many foreign companies were damaged. The people at the heart of the unrest, Oromo, accused the government of seizing their land and thereafter selling it to foreigners.

Even though this situation has led to some pessimism, it is not expected to significantly impact investment and tourist arrivals in the country for now.

This is further corroborated by the views of rating agencies. The three major credit rating agencies have a stable outlook on the Ethiopian economy. As per their analysis, Ethiopia's growth momentum is supported by a substantial level of infrastructure spending while fiscal deficits and debt levels remain low. The effects of the drought have been contained while the recent political situation is not expected to translate into significant deterioration of the macroeconomic environment. International reserves cover approximately 2 months of imports and public debt levels are manageable. After taking into consideration all these factors, Moody's Investors Service affirmed the Government of Ethiopia's long-term issuer and senior unsecured bond ratings of B1 on 2 December 2016, Fitch Ratings affirmed Ethiopia's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'B' on 8 April 2016 and S&P Global Ratings affirmed its 'B/B' long- and short-term foreign and local currency sovereign credit ratings on Ethiopia on 21 December 2016.

Table 3.2: Sovereign Credit Ratings

Credit Rating Agency	Ratings	Outlook	Date
Moody's Investors Service	B1	Stable	Dec-16
Standard & Poor's	B	Stable	Dec-16
Fitch Ratings	B	Stable	Apr-16

Macroeconomic figures give rise to optimism about Ethiopia. However, challenges in respect of the operating and regulatory environment are manifold. The financial services sector is still closed to foreigners and this is expected to continue in the future, at least until the local financial services institutions are able to compete with foreign banks. With the arrival of more and more foreign firms and the absence of international banks in the market, the Ethiopian government might consider loosening its grip on the financial services sector although that will not be any time soon. The country also exercises a strict foreign exchange control regime. The local currency (Ethiopian Birr - ETB) is not freely convertible.

There have also been many occasions when Human Rights groups have spoken out against the government due to its dominant role in politics and the economy.

Table 3.3: International Rankings

Publications	Year	Rankings
Ease of Doing Business	2017	159th out of 190 countries
WEF Global Competitiveness Index	2016	109th out of 138 countries
Index of Economic Freedom	2016	148th out of 178 countries
Corruption Perceptions Index	2015	103rd out of 167 countries
Human Development Index	2015	174th out of 188 countries
Global Gender Gap Report	2016	109th out of 144 countries

Source: Various

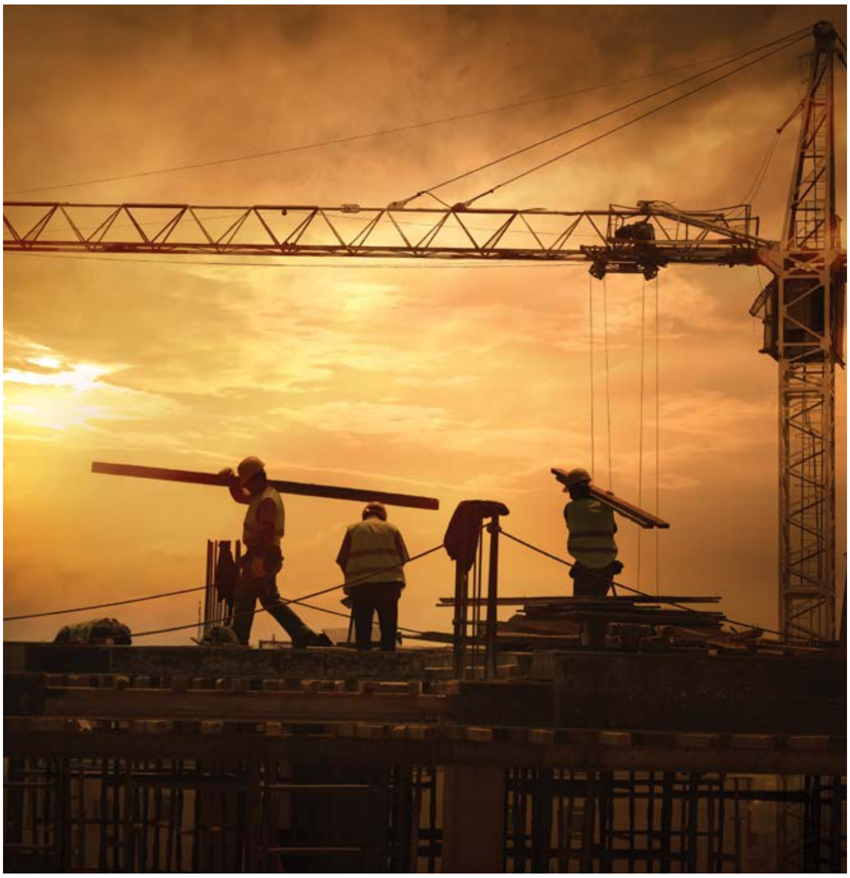
In addition, Ethiopia ranks in the bottom half of all the benchmark indices/rankings. These show that although Ethiopia has significant economic achievements, much needs to be done on the structural and social aspects, especially with regard to business friendliness, human development and freedom. Concerns remain about property rights, corruption, and regulatory efficiency. Weak rule of law and lack of effective implementation often undercut policies aimed at promoting open markets. Besides, red tape and an underdeveloped financial sector continue to deter investors and prevent the emergence of vibrant entrepreneurial activity. The informal economy provides most jobs for the relatively unskilled labor force while ruling party officials enjoy preferential access to credit, land leases, and jobs.

Prospects for Mauritius and Ethiopia

Both Mauritius and Ethiopia form part of the Common Market for Eastern and Southern Africa (COMESA). As a result, Ethiopia grants a 10% tariff discount to Mauritius. The Ethiopian market represents a good opportunity for Mauritian firms to tap into given its size, rate of industrialization and growing demand for manufactured goods. Thus, Mauritian firms can set up base in Ethiopia both to cater for the needs of the local market and to export therefrom.

Ethiopia offers opportunities for the textile, agro-based products, light engineering, chemicals, paper and printing sectors, amongst others. The Ethiopian Chamber of Commerce and sector-specific associations have signed MOUs with Enterprise Mauritius and the Mauritius Chamber of Commerce and Industry to strengthen the collaboration between the two countries. These MOUs will cover commercial support including mutual assistance to exchange buyers' databases and market intelligence. As per the agreement, ECCSA provides the required information to enable Mauritian exporters recruit reliable buyers among its members. Ethiopia is currently in an industrialization stage and is encouraging the setting up of industrial parks by providing tax rebates. Ethiopia could be an ideal location for the setting up of Special Economic Zones given that the Mauritian government is actively pursuing the setting up of such infrastructure across Africa.

Nevertheless, it is to be noted that there are no direct air access, investment promotion and investment protection agreements or double taxation avoidance agreements between Ethiopia and Mauritius, as yet.



SPECIAL REPORT: MINIMUM WAGE – A SAFETY NET AND A LADDER

HIGHLIGHTS

- The likely introduction of a minimum wage in Mauritius has gained momentum and expectations are rising with respect to its possibility in 2017.
- A minimum wage system was first introduced in 1894 in New Zealand and gradually spread to other countries. A form of minimum wage today exists in more than 90% of the ILO's member states.
- Benefits of a minimum wage system include:
  - Ensuring that each worker receives at least the bare minimum to fulfill his or her needs.
  - Increased consumption and savings, as well as improved housing and childcare spending, among lower paid workers.
  - Improved equity and equality in the society.
- However, there are multiple criticisms of such a system in that it increases operational costs and can render companies and countries uncompetitive.
- To address these challenges, the system should be designed to try and achieve greater efficiency and productivity, and promote an upgrade in skills and value addition.
- Besides, practical implementation issues, such as effective communication and participation of all stakeholders, need to be properly addressed

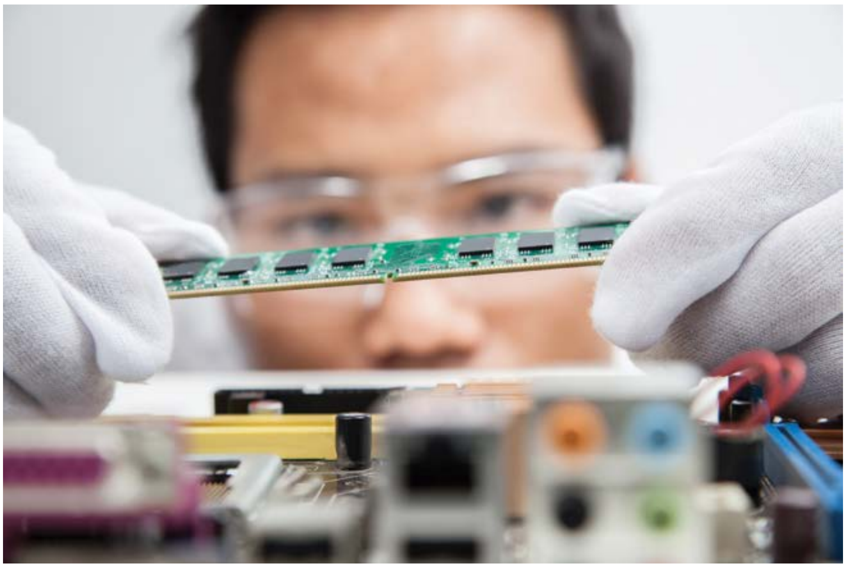
Following lengthy debate, the National Assembly approved the National Wage Consultative Council Bill 2016 in July last year. The reason behind the act was to set up a National Wage Consultative Council (NWCC) which would have the responsibility of '*evaluating the effect of the introduction of a national minimum wage, particularly on pay structures and pay differentials, wealth and income distribution, wage ratio, employment, inflation, competitiveness, the cost of doing business, low paying sectors, small firms, employment of foreign workers and groups of workers, including women, gender discrimination, young persons and persons with disabilities*'. The NWCC would have the prerogative of making recommendations regarding the introduction of a national minimum wage in both the public and private sector with a view to establishing through a transparent and participative democratic process

a dividing line which no worker in the Republic of Mauritius should ever fall below. With the appointment of a Chairman for the NWCC, the likely introduction of a minimum wage in Mauritius has gained momentum and expectations are rising with respect to this possibility in 2017. The debate around minimum wage is not new in Mauritius. Indeed, the country commissioned the International Labour Office to conduct a research on this matter in 2014 while the current ruling party included it in its Government Programme 2015-2019. Similarly, trade unions have also sought the introduction of such a system since long.

ILO's report on the wage system in Mauritius highlighted its complexity which stemmed from having no single wage system in Mauritius and no common minimum wage for various occupational jobs across industries or sectors of the economy. The report touched upon the current system based principally on Government's intervention through the National Remuneration Board which is responsible for setting minimum wages on an industry basis for different occupational groups in the private sector. Additionally, the Pay Research Bureau establishes wages in the public sector whilst the Annual Tripartite Committee determines the cost of living allowance for both the private and public sector workers annually. The report also recommended a mechanism to determine minimum wage in Mauritius and stated that the economic and social dimension must be taken into account when introducing minimum wage.

This concept is not a new one. It was first introduced in 1894 in New Zealand. Steadily, this concept spread to other countries across the globe. The United Nations' agency – International Labour Organization – looks after this area. The ILO has even adopted two conventions on this matter – Convention No. 26 and Convention No. 131. The latter is an upgrade on the former in that it provides better coverage. Convention No. 131 encourages member states to establish a system of minimum wages which:

- offers a broad scope of application and where exclusions made are kept to a minimum;
- establishes a machinery to fix and adjust minimum wages from time to time;
- is based on the principle of full consultation with social partners;



- involves social partners, on an equal footing, as well as independent experts in the design and operation of the system;
- sets minimum wage levels that take into account the needs of workers and their families, as well as economic factors;
- includes appropriate measures to ensure the effective application of minimum wages.

By the end of 2015, the Convention had been ratified by 52 member states.

The tradition of minimum wage on an industry based system and consultation of wage fixing dates to 1934 in Mauritius. The minimum wage was first introduced in the private sector in 1939 and was applied only to the agricultural workers in the district of Moka following the recommendations of the Minimum Wages Advisory Board which was set up under the Minimum Wages Ordinance of 1934. It was extended to the laborers of the whole island in 1941. The Minimum Wage Advisory Board, however, used its power sparingly and covered a limited number of sectors and occupations, namely the Baking Industry, the Printing Industry, laborers employed on a monthly basis in the sugar industry, shop assistants and clerks. The Minimum Wages Ordinance of 1934 was replaced by the Minimum Wage Ordinance of 1950, which was itself replaced by the Regulation of Workers Ordinance of Wages and Conditions of Employment of 1961. However, as from 1965, the number of Wages Council Orders started to decrease dramatically and in 1973, the Industrial Relations Act repealed the 1961 Ordinance and introduced the National Remuneration Board (NRB). As stated earlier, the NRB is responsible for conducting investigations and making recommendations to the Minister of Labor regarding minimum remuneration and specific terms and conditions of employment only in sectors which are referred to it by the Minister.

The Pay Research Bureau, on the other hand, covers workers in the public sector and the minimum salary recommended on the pay scale is generally above the poverty line and is not subject to collective bargaining. However, the PRB structure does not cater for the setting up of a minimum wage.

Minimum wage was put in place in different countries with specific objectives. The pioneer in the matter, New Zealand, introduced it through the Industrial Conciliation and Arbitration Act 1894. As a result, the Court was able to bind all employers and workers in a particular industry, and set down minimum conditions and rates of pay. This formed the basis for negotiating better terms than those laid down by the Court. Minimum wage was considered as a temporary measure. Once wage bargaining started, they would be phased out.

With time, the mindset and function evolved. The aim behind establishing a minimum pay system transformed into eliminating poverty pay and inequality rather than being used as a bargaining tool. With this in mind, the US passed the Fair Labor Standards Act in 1941, thus paving the way for women and children to receive a minimum pay. The introduction of minimum wage gained pace following the Second World War to the point that today, a form of minimum wage exists in more than 90% of the ILO's member states. Many countries, ranging from developing to developed ones, have implemented this system.

The table below showcases a list of selected countries that have implemented minimum wage:

Table 4.1: Selected Countries with a Minimum Wage System

Country	Year of Introduction	Eligibility	Objectives	Minimum Wage
Malaysia	1990	Employers with six employees and above to pay a minimum wage	Improving the skills, productivity and economic conditions of the labor force	MYR 800 per month (USD 181 per month)
Trinidad & Tobago	1998	All workers and types of work without exception	Reduction of poverty	TTD 12.50 per hour (USD 1.85 per hour)
United Kingdom	1999	Workers must be at least school leaving age to get the National Minimum Wage	Combating poverty	25 and over: GBP 7.20 per hour (USD 9.10 per hour) 21 to 24: GBP 6.95 per hour (USD 8.78 per hour)
Australia	2006	Employees in the national workplace relations system	To provide a fair and reasonable wage appropriate to the need of a human being	AUD 17.70 per hour (USD 13.57 per hour)
New Zealand	1894	All employees aged 16 and over, who are full-time, part-time, fixed-term, casual, working from home, and paid by wages, salary, commission or piece rates	To provide a basis for wage negotiation	NZD 15.25 per hour (USD 11.15 per hour)
United States	1938	Covered non-exempt employees	Better living and working conditions	USD 7.25 per hour

Note: USD equivalents are based on current currency conversion rates

Closer to home, around 20 Sub-Saharan African countries have implemented some sort of minimum wage system. Seychelles is a good example of one such country. It currently pays SCR 5,050 monthly for a 35-hour week. Similarly, Nigeria and Ghana have their own minimum wage system. South Africa is in a similar position to Mauritius. The government in place is currently pondering over the implementation of a national minimum wage. An amount of ZAR 3,500 has been proposed.

KEY OBJECTIVES OF A MINIMUM WAGE SYSTEM

The main objective behind instilling a minimum wage system in most countries in the world is to combat poverty. Indeed, this system is used to remove poverty pay in an economy. Poverty pay refers to a salary whereby paid work does not result in a living wage. As a direct consequence, people are not able to escape poverty. The minimum wage ensures that each worker receives at least the bare minimum to fulfill his or her needs. This takes even more prominence when a worker is the sole breadwinner in the family. As a consequence, minimum wage generally brings about a rise in standard of living. Low paid workers are able to afford more consumption and saving and in some cases better housing. Spending and child care also rise (McMillen, 2016).

A minimum wage system is also deemed to promote equity in the society and reduce inequality. With the existence of such a mechanism, unemployed people are encouraged to join the labor market. They get a specified income while the low paid would get a rise in wages. This leads to a better distribution of income between the highly paid and low paid. The minimum wage system has another added benefit. Given that employers can no longer provide a salary below minimum wage, exploitation of workers is curbed.

Firms and the society at large are also deemed to benefit when a minimum pay system is implemented. Owing to the higher salary, firms generally experience lower staff turnover. Efficiency and productivity of workers also increase as they work with greater drive and gusto. In turn, this may lead to a rise in sales. By proposing a higher salary, firms may also attract workers with greater skills while some move to greater automation to make up for the number of workers they lose owing to greater labor cost.

The economy is expected to benefit as greater consumption and spending by workers lead to higher economic growth. The average skills set of workers also improves. Finally, increased automation would lead to greater capital investment and ultimately higher GDP per capita. Unemployment benefits would also lessen.

CHALLENGES

Nevertheless, despite all the benefits mentioned above, a minimum wage system is not without its challenges.

According to Neumark (2015b), minimum wage is not an effective tool to reduce poverty. The majority of individuals who would benefit from this are not poor. In the same vein, Sabia and Nguyen (2015) argue that a minimum wage would redistribute income rather than increase it among low skilled workers. Some low paid workers would indeed be paid more but firms would also lay off a certain proportion of workers to make up for this cost (Neumark, Salas

& Wascher, 2014). Lower skilled workers might also be left out of the job market.

Rendering a minimum wage compulsory would lead to a rise in operational costs as this would add pressure on wages and costs. This rise in cost may in turn give rise to price inflation as employers pass on the increased wage bill to the customers (Lemos, 2004). In a certain manner, people would be paying out of their pocket the impact of the implementation of a minimum wage system. Minimum wage would act as a tax on those not concerned by it.

Employers might also be less inclined to hire new people because of the increase in wage bill. This can act as a deterrent against job creation. Employers may choose to offset higher wages with shorter working hours. They may also hire part-time or seasonal workers. There has been great debate around this effect. The labor market is subject to the forces of demand and supply. Nevertheless, the introduction of a minimum wage distorts the market as it sets a price floor. There would be a rise in the supply of labor owing to the rise in wages but this would be accompanied by firms cutting down their demand as they have to deal with higher costs. The end result would be that the economy would face higher unemployment. People already in employment would emerge as winners but the society would lose. Higher wages would lead to unemployment.

In addition, competitiveness might be hampered as the rise in labor cost

discourage foreign firm from investing in the country and hire local manpower.

Some countries have already experienced this. For instance, Malaysia faced a rise in inflation and the number of firms closing down or leaving the country. It also had to deal with drops in foreign direct investment and the registration of foreign companies. Trinidad and Tobago also faced substantial potential costs in the form of a rise in wage bill. This effect was however mitigated by the fact that the degree of compliance with the minimum wage system was fairly low.

THE WAY FORWARD

To overcome these challenges, the minimum wage framework should be set in a way that encourages productivity growth and upgrade in value addition. Bassanini and Venn (2008) examined this topic and concluded that the introduction of minimum wage and increases in minimum wage indeed boosted productivity.

Following this line of thought, the Singaporean government has effectively implemented a system so that employers are forced to make more productive use of labor by paying more for it. This was done to boost productivity. The minimum wages are sector specific.

With technology taking over many aspects of life, the minimum wage system is expected to be more dependent on higher skills and productivity. This means that workers will have to earn this minimum wage through an increase in productivity and skills. Although the objective of eliminating poverty pay will still hold, it might lessen in importance.

As stated earlier, Mauritius aims to implement a system of minimum wage. The government has also set the objective of transforming the country into a high income economy supported, among others, by significant enhancements in the technology ecosystem.

The use of technology is generally accompanied by a rise in skills as well as a rise in wages. Therefore, setting a minimum in this context must be done with great care. The minimum wage to be set should be high enough to attract people in the labor market but also at a level that still allows Mauritius to be competitive. Workers should earn their wages indicating that the implementation of a minimum wage system should be accompanied by an increase in productivity.

The implementation of minimum wage must

not increase costs significantly. A significant rise in costs would lead to firm cutting down on research and development. This would hamper innovation in the country and may lead to the country being uncompetitive. A fine balance must be found.

At a more practical level, it is important to ensure that there is active participation of all relevant stakeholders in the implementation of the minimum wage system, supported by clear and transparent communication. Otherwise, the project can become ineffective due to a lack of buy-in. Trinidad and Tobago faced such a situation in 1998. At the time when it was implementing its minimum wage system, the government invited the general public alongside the employers and trade unions to propose their thoughts on the matter. The turnout was very low. It was only after the system went live that these people started to find issues with it. This set back the implementation of the system and it had to be overhauled.

Besides, there should be effective enforcement of the legislation through timely detection of non-compliance. Sufficient deterrent should be prescribed in the law. If the fines are too low, employers may not hesitate in transgressing the law. Some countries have a system of naming and shaming these employers by publicly qualifying them as cheaters.

Finally, capacity building is deemed as very important.

With the recent actions taken by the Government, it seems more and more plausible that a minimum wage system will soon be a reality in Mauritius. This system is mainly seen as a tool to combat poverty and provide employees with a living wage. However, other aspects such as efficiency and innovation must also be taken into account, alongside practical implementation issues. All of these matters must be considered before the implementation and ultimately the success of a minimum wage system.

Although skeptics remain, empirical studies demonstrate that the introduction of a minimum wage is generally beneficial for an economy. Difficulties and challenges do crop up initially but in the long term, this system does more good than harm for the overall society. Economies experience a rise in productivity given that workers become more efficient. Income inequality also narrows. In addition, as firms hire higher skilled workers and automate some processes, the economy moves up the value added and skills ladder.

REFERENCES

Bank Negara Malaysia. *Annual Report 2012*. Kuala Lumpur: Bank Negara Malaysia, 2013.

Bank of England. *Inflation Report, February 2017*. London: Bank of England, 2017.

Bassanini, Andrea, and Danielle Venn. "The Impact of Labour Market Policies on Productivity in OECD Countries." *International Productivity Monitor* no. 17 (Fall 2008): 3–15.

Board of Governors of the Federal Reserve System. *Minutes of the Federal Open Market Committee, December 13–14, 2016*. Washington, DC: Board of Governors of the Federal Reserve System, 2017.

Bray, J. Rob. "Reflections on the Evolution of the Minimum Wage in Australia: Options for the Future." SPI Working Paper 01/2013, Social Policy Institute, The Australian National University, Canberra, 2013.

Bureau of Economic Analysis. "Gross Domestic Product: Fourth Quarter and Annual 2016 (Advance Estimate)." News release, January 27, 2017.

Bureau of Economic Analysis. "Personal Income and Outlays: December 2016." News release, January 30, 2017.

Bureau of Labor Statistics. "The Employment Situation—December 2016." News release, January 6, 2017.

Central Intelligence Agency. "The World Factbook: Ethiopia." https://www.cia.gov/library/publications/the-world-factbook/geos/et.html.

European Central Bank. *Account of the Monetary Policy Meeting of the Governing Council of the European Central Bank, Held in Frankfurt am Main on Wednesday and Thursday, 7-8 December 2016*. Frankfurt: European Central Bank, 2017. https://www.ecb.europa.eu/press/accounts/2017/html/mg170112.en.html.

European Central Bank. "Daily nominal effective exchange rate of the euro." Available at https://www.ecb.europa.eu/stats/balance_of_payments_and_external/eer/html/index.en.html.

European Central Bank. *Eurosystem Staff Macroeconomic Projections for the Euro Area, December 2016*. Frankfurt: European Central Bank, 2016.

European Commission. "Business and Consumer Survey Results, December 2016." News release, January 6, 2017.

Eurostat. "December 2016: Euro area unemployment at 9.6%." News release, January 31, 2017.

Eurostat. "Flash estimate for the fourth quarter of 2016: GDP up by 0.4% in the euro area and by 0.5% in the EU28." News release, February 14, 2017.

Eurostat. "Flash estimate - January 2017: Euro area annual inflation up to 1.8%." News release, January 31, 2017.

Eurostat. "Preliminary flash estimate for the fourth quarter of 2016: GDP up by 0.5% in the euro area and by 0.6% in the EU28." News release, January 31, 2017.

Eyraud, François, and Verena Tandrayen-Ragoobur. "Minimum Wage Fixing Challenge in Mauritius." ILO report September 2014, International Labour Organization, Geneva, 2014. http://nationalminimumwage.co.za/wp-content/uploads/2015/09/0165-NMW-IN-MAURITIUS-18.9.14.pdf.

IHS Markit. "Nikkei India Services PMI (with Composite PMI data): Rupee ban leads to sharpest fall in services new business since September 2013." News release, January 4, 2017.

IHS Markit. "Stanbic IBTC Bank Nigeria PMI: Nigeria's private sector downturn softens at the end of 2016." News release, January 5, 2017.

IHS Markit. "United Kingdom: Strong end to 2016 signalled as PMI surveys hit 17-month high." News release, January 5, 2017. http://www.markit.com/Commentary/Get/05012017-Economics-Strong-end-to-2016-signalled-as-UK-PMI-surveys-hit-17-month-high.

International Energy Agency. *Oil Market Report, 13 December 2016*. Paris: International Energy Agency, 2016.

REFERENCES (continued)

International Grains Council. *Grain Market Report, 19 January 2017*. London: International Grains Council, 2017.

International Monetary Fund. "Monthly Data." Available at http://www.imf.org/external/np/res/commod/index.aspx.

International Monetary Fund. "The Federal Democratic Republic of Ethiopia: 2016 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for The Federal Democratic Republic of Ethiopia." IMF Country Report No. 16/322, International Monetary Fund, Washington, DC, 2016.

International Monetary Fund. "The Federal Democratic Republic of Ethiopia: Poverty Reduction Strategy Paper; Growth and Transformation Plan 2010/11–2014/15 – Volume I." IMF Country Report No. 11/304, International Monetary Fund, Washington, DC, 2011.

International Monetary Fund. *World Economic Outlook, October 2016: Subdued Demand; Symptoms and Remedies*. Washington, DC: International Monetary Fund, 2016.

International Monetary Fund. *World Economic Outlook Update, January 2017: A Shifting Global Economic Landscape*. Washington, DC: International Monetary Fund, 2017.

Lemos, Sara. "The Effect of the Minimum Wage on Prices." IZA Discussion Paper No. 1072, IZA, Bonn, 2004.

Mahabir, Reshma, Vishana Jagessar, Crystal Neptune, and Delvin Cox. "Understanding Wages in a Small Open Economy: The Case of Trinidad and Tobago." WP 11/2013, Central Bank of Trinidad & Tobago, Port of Spain, 2013.

Manning, Alan. "The Minimum Wage in the UK and Beyond." LSE Works: Centre for Economic Performance public lecture, London, February 2015.
http://www.lse.ac.uk/assets/richmedia/channels/publicLecturesAndEvents/slides/20150226_1830_theMinimumWageInTheUKAndBeyond_sl.pdf.

Ministry of Finance and Economic Development. "Budget 2016-2017." Available at http://budget.mof.govmu.org/.

Ministry of Finance and Economic Development. "Public Debt." Available at http://mof.govmu.org/English/Public%20Debt/Pages/Debt-Data.aspx.

National Bureau of Statistics. *Nigerian Gross Domestic Product Report, Quarter Three 2016*. Abuja: National Bureau of Statistics, 2016.

National Bureau of Statistics of China. "Investment in Fixed Assets for 2016." News release, January 22, 2017.

National Bureau of Statistics of China. "Preliminary Accounting Results of GDP for the Fourth Quarter and the Whole Year of 2016." News release, January 24, 2017.

National Bureau of Statistics of China. "Private Investment in Fixed Assets for 2016." News release, January 22, 2017.

National Planning Commission. *The Federal Democratic Republic of Ethiopia: The Second Growth and Transformation Plan (GTP II) (2015/16-2019/20) (Draft)*. Addis Ababa: National Planning Commission, 2015. https://www.africaintelligence.com/c/dc/LOI/1415/GTP-II.pdf.

Neumark, David. "The Effects of Minimum Wages on Employment." FRBSF Economic Letter 2015-37, Federal Reserve Bank of San Francisco, San Francisco, 2015.

Neumark, David, JM Ian Salas, and William Wascher. "More on Recent Evidence on the Effects of Minimum Wages in the United States." *IZA Journal of Labor Policy* 3, no. 24 (2014): 1–26.

Office for Budget Responsibility. *Economic and Fiscal Outlook, November 2016*. London: Office for Budget Responsibility, 2016.

Office for National Statistics. "Gross domestic product, preliminary estimate: Oct to Dec 2016." Statistical bulletin, January 26, 2017.

Office for National Statistics. "Second estimate of GDP: Quarter 4 (Oct to Dec) 2016." Statistical bulletin, February 22, 2017.

Organization of the Petroleum Exporting Countries. *OPEC Monthly Oil Market Report, 18 January 2017*. Vienna: Organization of the Petroleum Exporting Countries, 2017.

REFERENCES (CONTINUED)

Sabia, Joseph J. "Do minimum wages stimulate productivity and growth?" *IZA World of Labor* no. 221 (December 2015): 1–10.

Senasi, Vally, and Samihah Khalil. "Implementation of Minimum Wage Policy in Malaysia: Manufacturing Employers' Perceptions of Training Provision and Fringe Benefits." *International Journal of Humanities and Social Science* 5, no. 12 (December 2015): 87–94.

Shanmugam, T. "Early Effects & Challenges of Minimum Wages in Malaysia: Sharing of Pre & Post Economic & Social Indicators." Presentation at National Minimum Wage: Symposium & Policy Round Table, Johannesburg, February 2016. http://nationalminimumwage.co.za/wp-content/uploads/2016/02/Case-Studies-Early-Effects-and-Challenges-of-Minimum-Wages-in-Malaysia-T-Shanmugam-Wits-03-02-16.pdf.

South African Reserve Bank. "Statement of the Monetary Policy Committee." News release, January 24, 2017.

Statistics Mauritius. "External Trade – 3rd Quarter 2016." Available at http://statsmauritius.govmu.org/English/StatsbySubj/Pages/External-Trade.aspx.

Statistics Mauritius. "Labour." Available at http://statsmauritius.govmu.org/English/StatsbySubj/Pages/Labour.aspx.

Statistics Mauritius. "Monthly Tourist Arrival." Available at http://statsmauritius.govmu.org/English/Publications/Pages/Monthly-Tourist-Arrival.aspx.

Statistics Mauritius. "National Accounts Estimates (2013-2016), December 2016 issue." Available at http://statsmauritius.govmu.org/English/Publications/Pages/NAE_Dec16.aspx.

Statistics South Africa. "Gross domestic product: Third quarter 2016." Statistical release, December 6, 2016.

Strobl, Eric, and Frank Walsh. "Minimum Wages and Compliance: The Case of Trinidad and Tobago." CREDIT Research Paper No. 01/12, Centre for Research in Economic Development and International Trade, University of Nottingham, Nottingham, 2001. https://www.nottingham.ac.uk/credit/documents/papers/01-12.pdf.

The Economist. The Economist Poll of Forecasters, February Averages. February 11, 2017.

World Bank Group. *5th Ethiopia Economic Update: Why So Idle? Wages and Employment in a Crowded Labor Market*. Washington, DC: World Bank Group, 2016.

World Steel Association. "Monthly crude steel production." Available at http://www.worldsteel.org/steel-by-topic/statistics/monthly-crude-steel-and-iron-production.html.

EDITORS

Gulshan RAMROOP
Shailen SREEKEESSOON

CONTRIBUTORS

Humaira DELAWARALLY
Shaktiraj JUDIVADOO
Andy LAM YAN ON

ADVISORS

Kee Chong LI KWONG WING
Moses Harding JOHN

DISCLAIMER

SBM

www.sbmgroup.mu