SBM INSIGHTS

No. 6 | NOVEMBER 2017

CHIEF EDITOR'S NOTE

Recent data releases are portraying a much improved performance of the global economy, albeit with country-level differences. The US in particular has sustained strong growth and low unemployment, and is expected to pursue its cycle of gradually removing policy accommodation this year and the next. Encouragingly, the Eurozone has also surprised on the upside. Notwithstanding a slowdown, the UK economy appears to be more resilient to Brexit concerns than might have initially been feared, although risks prevail. Among large emerging markets, China's soft landing appears set to continue, while India should recover from a dip in its growth rate earlier this year linked to demonetization, weak credit growth and the introduction of a goods and services tax, among others.

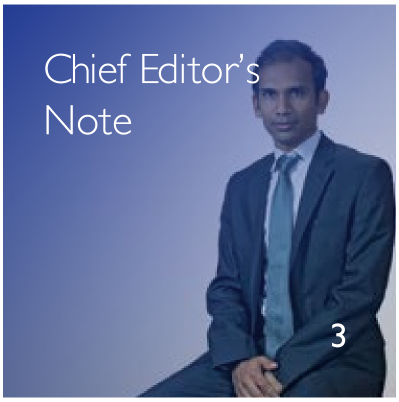
The Mauritian economy is also on an upswing as construction activity has bounced back while business and financial services and tourism have remained buoyant. These sectors should continue to drive the recovery going forward and would arguably be supported by increased commercial activity on the back of a planned increase in the remuneration for low salary earners. On account of the improved growth performance, the labor market situation should improve further. Besides, barring large unanticipated price shocks, inflation would remain under control, albeit increasing in the short term. On the other hand, external balances are projected to deteriorate as exports of goods would recover only slowly and imports would increase as a result of higher investment and consumption.

The regional country coverage zooms in on Rwanda. From a country in tatters in the mid 1990s, this East African nation has made tremendous progress over the past two decades, becoming one the fastest growing economies in the world, backed by a relatively stable political environment. Rwanda is committed to upgrading its business environment in an endeavor to attract investment. From 2005 to 2017, the country implemented a total of 47 reforms across all indicators of the World Bank's Doing Business report. These reforms are in line with the country's Vision 2020, which provides the framework to help it attain the middle income country status. Rwanda and Mauritius share strong political and business ties, and would mutually benefit from sharing of expertise, notably through the FDI channel.

We wish you good reading, and welcome your comments and suggestions at research@sbmgroup.mu

Shailen Sreekeessoon
Head of Strategy and Research
30 November 2017

TABLE OF CONTENTS



ABBREVIATIONS

BoE	Bank of England
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
DRC	Democratic Republic of Congo
ECB	European Central Bank
EDPRS	Economic Development and Poverty Reduction Strategy
EUR	Euro
FDI	Foreign Direct Investment
GBL	Global Business License
GBP	Pound Sterling
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IMF	International Monetary Fund
LME	London Metal Exchange
Mn	Million
MoU	Memorandum of Understanding
MUR	Mauritian Rupee
MW	Mega Watt
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
PPP	Purchasing Power Parity
PRS	Poverty Reduction Strategy
ROA	Return on Assets
ROE	Return on Equity
SEZ	Special Economic Zone
SME	Small & Medium Enterprise
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
USD	US Dollar

LIST OF TABLES

LIST OF FIGURES

GLOBAL MACROECONOMIC ENVIRONMENT

HIGHLIGHTS

- GDP growth in the US was robust in the second and third quarters, and unemployment fell to a 16-year low in September. In line with the continued progress of the economy, the Federal Reserve began to reduce its securities holdings in October and is expected to raise its policy rate in December.

- The Bank of England lifted its policy rate in November, in response to inflation running above target due to the post-referendum depreciation of sterling. There are signs that the UK economy is operating with limited spare capacity, despite a slowdown in GDP growth this year.

- Eurozone GDP increased by a robust 0.6% (quarter on quarter) in the third quarter, the fourth consecutive quarter with a growth rate above 0.5%. Unemployment, meanwhile, continued to decline. But with inflation remaining subdued, the European Central Bank extended its asset purchase programme until September 2018, though the pace of purchases will slow as from January.

- China's GDP grew by 6.9% (year on year) in the first nine months of 2017, an acceleration compared to the pace a year earlier. Government-induced investment provided a boost, though the debt-fueled nature of growth remains a concern.

- In India, the introduction of the goods and services tax caused confusion which contributed to a slowdown in GDP growth in the April–June quarter and is deemed to have held down business activity in the subsequent quarter as well.

- South Africa's economy returned to growth in the second quarter following two quarters of contraction. But the outlook remains weak, with political uncertainty weighing on consumer and business confidence.

- Oil prices trended up between June and October, supported by improving oil market fundamentals. World oil demand is expected to exceed supply this year, for the first time since 2013. In October, the price of Brent reached USD 60/barrel, its highest in more than two years.

- The US dollar appreciated against most major developed and developing country currencies in the two months to October, due to increased optimism that a rise in the federal funds rate is imminent and that the Trump administration will be able to implement income tax reform.

US

GDP growth in the US picked up to 3.1% (quarter on quarter, annualized) in the second quarter of 2017, following the lackluster 1.2% registered in the first quarter. This was driven by personal consumption expenditures, which accelerated to 3.3% from 1.9% in the previous quarter. Growth in nonresidential fixed investment remained robust at 4.7%, roughly the same rate as in the first quarter. In the third quarter, GDP increased by 3.3% according to the second estimate. Personal consumption expenditures slowed to 2.3% while residential investment declined by 5.1%, partly due to the disruptions caused by hurricanes Harvey and Irma. But this was offset by higher contributions from the typically volatile components of GDP - namely private inventories and net exports, which contributed 0.7 and 0.4 percentage point to growth respectively (Q2: 0.1 and 0.2). On a year-on-year basis, GDP rose by 2.2% in the first three quarters (Q3: 2.3%; Q2: 2.2%). See Table 1.1 for growth forecasts.

In October 2017, the Federal Reserve began its balance sheet normalization programme announced in June, which involves gradually reducing its securities holdings by decreasing the reinvestment of principal payments therefrom. Moreover, the Fed is widely expected to increase the federal funds rate in December, which would be the third increase this year. Federal funds futures prices imply a very high likelihood of a 25 basis-point hike in December (see Table 1.2 for interest rate forecasts). The gradual removal of monetary accommodation is consistent with the continuing progress of the economy. Unemployment fell to a 16-year low of 4.2% in September, below Federal Open Market Committee participants' estimates of its long-run rate. With further tightening of the labor market, the Fed expects inflation to approach its 2% target next year; core inflation (which excludes energy and food prices) has been running somewhat below that for most of this year, averaging 1.3% in July - September.

UK

UK real GDP rose by 0.3% (quarter on quarter) in the second quarter of 2017, the same rate as in the first quarter. Household consumption (the biggest component of GDP) increased by only 0.2%, a slowdown compared to the 0.4% rise in the first quarter. This is due in part to a fall in expenditure on new cars, as consumers brought forward planned purchases to the first quarter in anticipation of an increase in the excise duty on vehicles in April. Business investment also decelerated in the second quarter, inching up by 0.5% compared with 0.8% in the prior quarter. But exports performed well, expanding by 1.7% and contributing the most (0.5 percentage point) to the GDP growth figure. (year on year, exports increased by 4.6% on average in the three quarters to June 2017, benefiting from sterling weakness.) In the third quarter, GDP advanced by 0.4% according to the preliminary estimate. Though this came above expectations, it was about as weak as the second quarter outcome. Manufacturing output rose by 1.0% after contracting by 0.3% in the previous quarter, contributing 0.1 percentage point to GDP growth; but construction declined for the second consecutive quarter (-0.7% following -0.5% in Q2). Compared to the corresponding period a year ago, GDP increased by 1.6% in the first three quarters (Q3: 1.5%; Q2: 1.5%); the rate in the second quarter was the lowest in five years.

Despite the weak GDP figures, labor market indicators have continued to strengthen and suggest that the economy is operating with limited spare capacity. Unemployment reached a 42-year low of 4.3% in the three months to August, down from 4.5% in the previous three-month period. Moreover, the number of unemployed people per vacancy, at 1.9 for the three months to August, is the lowest since records began in 2001. Meanwhile, CPI inflation has been running above the BoE's 2% target since February, reaching 3.0% in September (core CPI inflation - which excludes energy, food, alcohol and tobacco - was 2.7% in August and September, the highest in more than five years). This is mainly due to the post-referendum depreciation of sterling, which is expected to continue feeding through to consumer prices in the years ahead; the BoE forecasts CPI inflation to exceed 2% until 2020 at least. Against this background, the BoE in November raised its policy interest rate (Bank Rate) by 25 basis points to 0.5%.

Eurozone

The eurozone economy is on a good cyclical momentum. Real GDP increased by a robust 0.7% (quarter on quarter) in the second quarter, slightly faster than the 0.6% rate in the prior quarter. Growth was broad-based, with the majority of constituent countries growing by at least 0.5%. Another good result was registered in the third quarter: GDP rose by 0.6% according to the preliminary flash estimate, the fourth consecutive quarter with growth of 0.6% or more. (year on year, the increase was 2.5% - the highest since 2011 - compared to 2.3% in Q2 and 2.0% in Q1.) Meanwhile unemployment sustained its downward trend, reaching 8.9% in September (the lowest since January 2009), compared to 9.1% three months earlier. Business and consumer confidence continued to improve: the European Commission's Economic Sentiment Indicator touched, in October, its highest level since 2001.

Due to the persistence of low inflation, monetary policy remains very accommodative. Consumer price inflation averaged 1.4% in the four months to October, falling short of the ECB target of just under 2%. Core inflation also showed no convincing uptrend; the measure excluding energy, food, alcohol and tobacco averaged 1.1% from August to October, same as in the previous three-month period. In October, the ECB extended its asset purchase programme (which was due to expire at the end of this year) until September 2018, while reiterating that its key interest rates are expected to stay at their near-zero levels for a prolonged period (it forecasts inflation to remain below target in the next two years). But the pace of asset purchases will halve to EUR 30 billion per month as from next year, consistent with the ongoing progress of the economy.

Table 1.1: Growth Projections – Selected Major Global Economies

		PROJECTIONS			
	2016	2017		2018	
PERCENT CHANGE IN REAL GDP		Average	Range	Average	Range
US	1.5	2.2	2.0–2.4	2.3	1.9–2.9
UK	1.8	1.5	1.2–1.7	1.3	0.7–1.7
Eurozone	1.8	2.1	2.0–2.2	1.9	1.6–2.4
China	6.7	6.8	6.6–6.8	6.4	5.8–6.9
India*	7.1	6.7	6.0–7.3	7.3	6.9–7.8
South Africa	0.3	0.7	0.5–1.0	1.3	0.9–2.0

Source: The Economist (October poll of forecasters)
* For the fiscal year ending March of the following year.

Table 1.2: Central Bank Interest Rates

		MEDIAN FORECASTS	
PERCENT	Current	Q4 2017	Q4 2018
Federal funds rate	1.00–1.25	1.25–1.50	1.75–2.00
BoE Bank Rate	0.50	0.50	0.50
ECB main refinancing rate	0.00	0.00	0.00

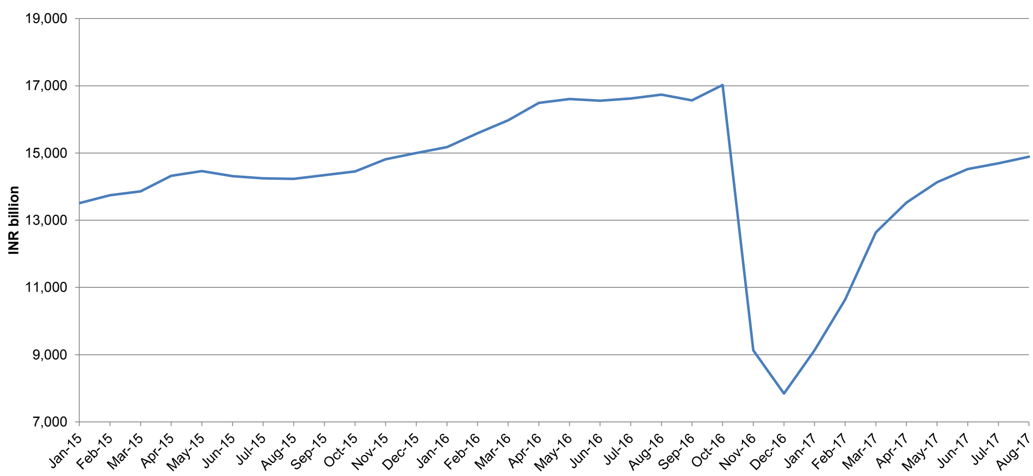
Source: Bloomberg

Emerging Markets

China's economic performance in the first half of the year exceeded most expectations: real GDP increased by 6.9% (year on year) in both the first and second quarters, higher than the pace in the corresponding period last year. In the third quarter, GDP grew by a similarly robust 6.8%. These translate into an increase of 6.9% in the first three quarters, leaving a good chance of full-year growth at least matching last year's figure of 6.7%. Investment statistics indicate that this performance has benefited from strong policy support. Investment in fixed assets by state-owned enterprises increased by 11.0% (in nominal terms) in the first nine months, outpacing private investment, which grew by 6.0%. And investment in infrastructure continued to be strong, rising by 19.8% (about the same pace as a year earlier). Nevertheless, concerns of a sharp economic slowdown in the future linger due to high and growing debt levels. The IMF estimates that domestic nonfinancial sector debt will exceed 250% of GDP at the end of this year (this compares with a ratio of about 180% five years ago).

The Indian economy slowed in the April–June quarter (Q1 of fiscal year 2017/18). Real GDP increased by 5.7% year on year, down from 6.1% in the prior quarter and 7.9% in the same quarter a year ago. There was a notable slowdown in manufacturing (the third largest component of gross value added), which grew by a mere 1.2% compared to an average rate of 8% in the previous four quarters. This is partly attributed to confusion in the build up to the introduction of the goods and services tax in July, and to the lingering effects of last November's demonetization (during Q1, currency in circulation was still about 20% below its pre-demonetization level; see Figure 1.1). On the expenditure side, gross fixed capital formation returned to growth after contracting in the previous quarter; but the increase was only slight (1.6%) as the high ratio of non-performing loans on banks' books continued to restrict their lending capacity. The economy is likely to have delivered another disappointing performance in the second quarter of the fiscal year. Both the manufacturing and services PMI dipped below 50 (the no-change level) in July and their average in July–September was below that of the previous three months. The IMF has lowered its GDP growth forecast for this fiscal year from 7.2% to 6.7%.

Figure 1.1: Currency with the Public in India



Sources: BMI Research, Reserve Bank of India

South Africa came out of recession in the second quarter - real GDP rose by 2.5% (quarter on quarter, annualized) after contracting in the previous two quarters. "Agriculture, forestry and fishing" was the main driver, with output jumping by 34% as crop production continued to return to normal following severe droughts in 2015-16. On the expenditure side, household consumption increased by 4.7% after contracting in the first quarter; but gross fixed capital formation declined by 2.6%, with private-business investment in particular down by 6.9% (on a year-on-year basis, private-business investment has decreased for eight consecutive quarters). South Africa's economic outlook remains poor despite the second-quarter uptick in GDP. Indicators of business and consumer confidence are below their long-run averages (some are even below their levels during the global financial crisis), mainly due to domestic political uncertainty. PMI data indicate weak business activity in the third quarter; the Standard Bank PMI averaged under 50 (the neutral level) in July–September and below its second-quarter average. The South African Reserve Bank forecasts GDP growth of 0.6% this year; in the first half, GDP increased by 1.1% on a year-on-year basis.

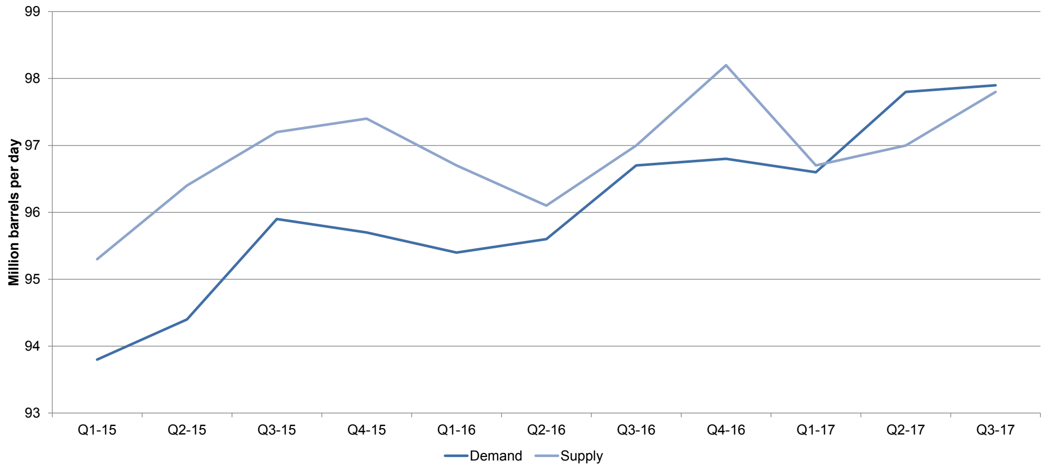
Commodities

Oil prices trended up in the four months to October. The price of Brent climbed to USD 60/barrel in October, its highest in more than two years (see Figure 1.2). This is on account of: drawdowns in OECD oil stocks due to demand growth and supply restraint from OPEC and its allies; anticipation that the OPEC-led output-cut agreement, which expires in March, will be extended until the end of 2018; and uncertainty about crude supply from Venezuela, Iraq and Iran due to political tension in these countries. Oil market fundamentals have improved this year. The International Energy Agency estimates that world oil demand will exceed supply for the year as a whole, for the first time since 2013. In the first three quarters, demand exceeded supply by an average of 0.3 million barrels per day (see Figure 1.3). Price forecasts are shown in Table 1.3.

Figure 1.2: Brent Price

Source: Bloomberg

Figure 1.3: World Oil Supply and Demand



Source: International Energy Agency

Table 1.3: Brent Price Forecasts

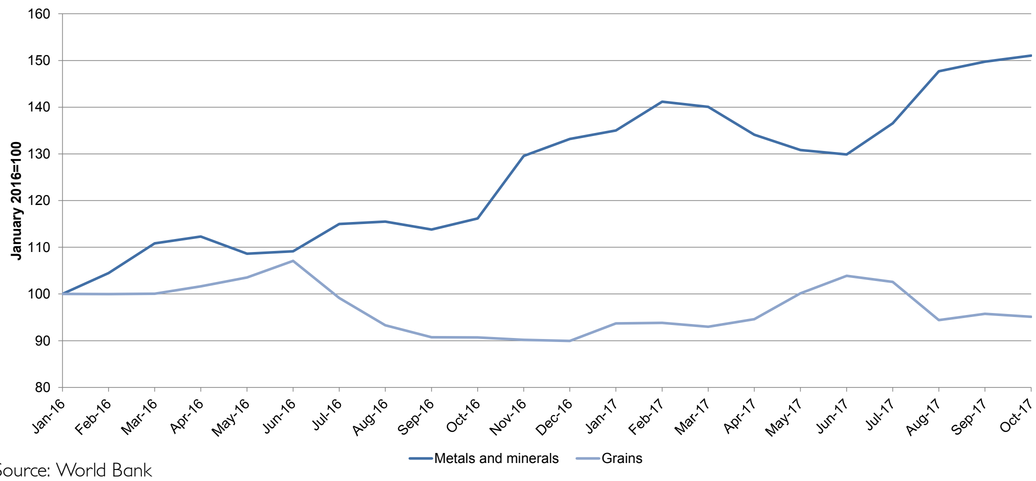
USD/BARREL	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Bloomberg median (as of 31/10/2017)	54	54	56	57
US Energy Information Administration	55	55	55	58

Sources: Bloomberg, US Energy Information Administration

The World Bank's metals and minerals price index rose by 16% between June and October (see Figure 1.4). Strong demand from China, the world's largest consumer of metals, drove metal prices higher. Aluminium, one of the main constituents of the index, gained 12% over the same period; its price on the LME reached a five-year high in late October. Aluminium prices have been buoyed by the prospect of supply cuts in China, which accounts for more than 50% of world production. The Chinese government has ordered production cuts during the winter months to combat pollution; in addition, it has been cracking down on unlicensed smelters. The LME price has also been supported by declines in LME inventories; these are down by more than 40% since the start of the year, indicating a global supply shortfall.

The World Bank's grains price index lost 8% between June and October, reflecting lower maize, rice and wheat prices. Prices for various grades of Thai rice declined by 12% or more in that period, due in part to local supply developments: namely the prospect of a good harvest later this year and the resumption of government stock sales. Rice production in Thailand, one of the top two global exporters, is projected to reach a four-year high in the current 2017/18 season.

Figure 1.4: World Bank Commodity Price Indices

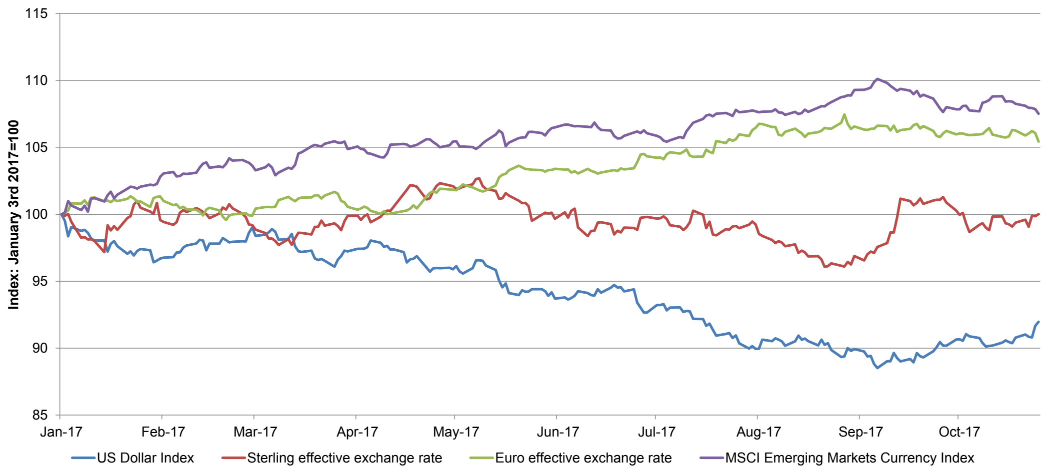


Source: World Bank

Currencies

The US Dollar Index, which measures the value of the dollar relative to six advanced-economy currencies, gained close to 4% between early September and the end of October - due to an increase in the perceived likelihood of monetary tightening by the Fed and of income tax cuts by the Trump administration. For the same reasons, many emerging-market currencies weakened against the dollar during that period - as reflected by the concurrent decline of the MSCI Emerging Markets Currency Index, which tracks the value of 25 emerging-market currencies against the US dollar (see Figure 1.5). The euro effective exchange rate - a trade-weighted measure of the euro's value - lost 2% between late August and the end of October, a reaction to political uncertainty (related to the German federal election and the threat of Catalan secession in Spain) and the dovish stance taken by the ECB at its October policy meeting. Sterling advanced by 4% on a trade-weighted basis in the two months to October, as markets anticipated the rise in the Bank Rate; though uncertainty around the Brexit negotiation weighed on the currency in early October. See Table 1.4 for exchange rate forecasts.

Figure 1.5: Evolution of Indices of Major Global Currencies



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

Table 1.4: Exchange Rate Forecasts

	ACTUAL	FORECASTS			
	31/10/2017	Q1 2018		Q2 2018	
		Median	Range	Median	Range
EUR/USD	1.16	1.18	1.09–1.24	1.19	1.06–1.27
GBP/USD	1.33	1.31	1.16–1.41	1.30	1.18–1.46

Source: Bloomberg

Risks to the Outlook

The main risks to the outlook are essentially the same as flagged in our previous issue: a sharp economic slowdown in China due to a disorderly unravelling of the credit boom; policy uncertainty in the US, including the risk of protectionism; and the failure of the UK and EU to agree on exit terms and any transitional arrangement in a timely and orderly manner.

ECONOMIC OUTLOOK - MAURITIUS

HIGHLIGHTS

- Our prognosis for economic growth in Mauritius in 2017 has been maintained at 3.8%, representing an increase from 3.6% achieved in the previous year. Our forecast for growth in 2018 has been upgraded by 20 basis points to 4.1%.

- The upswing in 2018 would be supported by stronger momentum in the construction sector as a result of the implementation of large-scale public infrastructure projects, coupled with private sector initiatives in the hotel and real estate segments, as well as continued resilience in business and financial services and in tourism. In addition, trade and domestic-oriented manufacturing are likely to get a boost from measures aimed at improving purchasing power at lower income levels.

- Agriculture and manufacturing are likely to remain drag factors on economic growth, both in 2017 and in 2018.

- In line with higher activity levels, the labor market situation should continue to improve, with the unemployment rate projected to decline to 7.1% in 2017 and 7.0% in 2018.

- Inflation has pursued an increasing trend, and is forecast at 3.6% in December 2017. It should continue to rise in the early months of 2018 before receding to a projected 2.5% as at December next year, largely on base effects.

- The current account deficit is projected to widen to above 6% of GDP in 2017 and 2018, amidst tepid exports and rising imports linked to higher consumption and investment. However, the balance of payments would remain in surplus as a result of strong net financial inflows.

- Within this context, the exchange rate of the rupee is expected to remain fairly stable going forward.

- The Repo rate was reduced by 50 basis points to 3.5% by the Monetary Policy Committee of the Bank of Mauritius in September 2017. No change is anticipated in the coming period. However, rates on Government paper and commercial instruments are likely to be under downward pressure in a context of high liquidity in the banking system.

- The fiscal deficit is expected to be contained at some 3.4% of GDP in the financial year ending June 2018, that is, close to the previous year's level. Similarly, public sector debt is forecast to remain below 65% of GDP.

Economic Growth

After a slow start in Q1 2017, economic activity in Mauritius accelerated in Q2 2017 with real GDP at basic prices growing by 4.1% year-on-year. The impetus from the half-year performance is expected to be sustained in the second semester, amidst a growingly favourable external environment. Hence, our growth prognosis for 2017 has been maintained at 3.8%. The upturn would be driven by a recovery in the construction sector on the back of improved investor confidence, as well as sustained momentum in tourism and continued resilience in business and financial services. These sectors should continue to support economic activity going forward. In particular, construction should experience a solid upswing as a result of the implementation of large-scale public infrastructure projects, coupled with private sector initiatives in the hotel and real estate segments. In addition, trade and domestic-oriented manufacturing are likely to get a boost from measures aimed at improving purchasing power at lower income levels. Against this background, the growth outlook for 2018 has been upgraded from 3.9% to 4.1%. On the other hand, agriculture and manufacturing are likely to remain drag factors on economic growth, both in 2017 and in 2018.

Analysis by Sector

The sugar growing segment underperformed for a second consecutive quarter, posting a negative growth rate of 9.5% in Q2 2017 year-on-year, following a drop of 6.9% in Q1 2017. This trend should persist in the second half of the year in view of adverse climatic conditions that have affected extraction rates and sugarcane yields. In addition, the declining trend in area under harvest has persisted, partly linked to falling sugar prices on the international market. Table 2.1 highlights the declining performance in respect of key metrics in the sugar sector.

Table 2.1: Sugar Sector Performance Metrics

	2016 (AS AT 07 OCTOBER)	2017 (AS AT 07 OCTOBER)
Harvested area (hectares)	20,556	19,455
Sugarcane yield (tonnes)	1,649,886	1,552,444
Sugar production (tonnes)	239,517	203,835
Extraction rates (%)	9.87	9.18

Source: Mauritius Sugar Industry Research Institute

As at October 7, 2017, sugar production was around 15% lower compared to the corresponding period in 2016. Consequently, sugar production for the current harvest season is expected at 350,000 tonnes, compared to 386,277 tonnes in 2016, with an estimated price of MUR 13,500/tonne, according to the Mauritius Sugar Syndicate. Other agricultural activities are expected to pick up in line with better livestock, fish and poultry output. Overall, a net decline of 0.5% is projected for the agricultural sector, including sugar, for 2017. Assuming more favourable weather conditions in 2018, and taking into consideration measures announced in the National Budget to boost the sector - such as the adoption of drone technology for better crop assessment and monitoring, as well as provision to bring back at least 500 hectares of land under sugarcane production - the downtrend should be curtailed, and a positive growth is forecast for next year.

Notwithstanding the poor sugar growing activities, the sugar milling segment is projected to record a positive growth outcome on the back of increased refining activities, supported by imported inputs - 85 thousand tons of cane sugar for refining were imported from Brazil in the first half of 2017 - thereby partly offsetting the negative growth performance in respect of sugarcane output. Apparel and textiles manufacturing also recorded a year-on-year expansion rate of 6.3% in Q2 2017 after several quarters of contraction or weak growth. However, the upturn has to be viewed within the context of a significantly reduced base in Q2 2016. Other manufacturing activity has been lackluster. For the year, activity in the manufacturing sector as a whole is likely to remain subdued, reflecting ongoing competitiveness concerns, partly linked to a relatively strong rupee, increasing unit labor costs and skills gaps, among others. Despite strong Budget measures to give a boost to manufacturing, these issues would continue to cloud the outlook for the sector in the medium term, unless significant efforts are made in terms of product diversification, vertical integration and increase in value addition, driven by technology and innovation, among others.

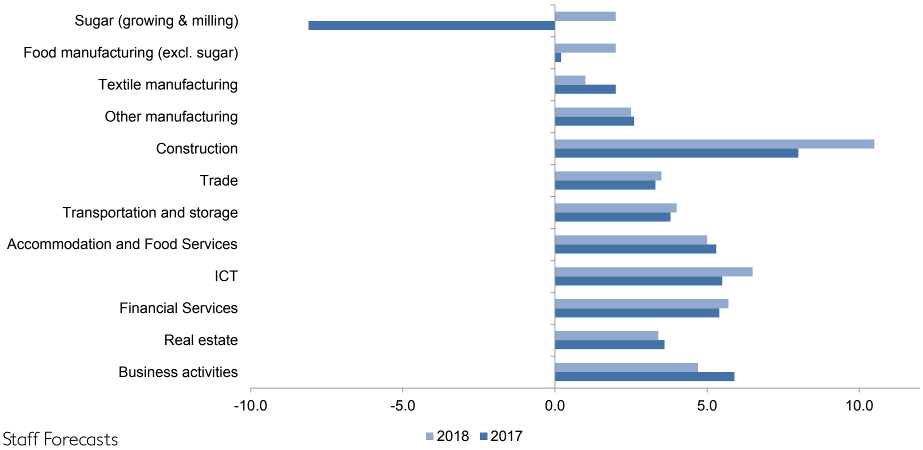
On a brighter note, the momentum in construction firmed up in Q2 2017, evidenced by a growth rate of 9.4% year-on-year. Activities in the sector were heavily boosted by hotel renovation works, commercial space and infrastructure works for residential real estate projects. This should drive a robust upturn in 2017 as a whole, even if a somewhat lower pace of growth is anticipated in the latter half of the year, in view of the completion of hotel renovations and commercial projects ahead of the summer peak period. The recovery is expected to gather further steam in 2018, as a number of investment initiatives materialize. On the private sector side, hotel projects – both new and renovations – should drive the growth in line with continued buoyancy in the tourism sector. The residential real estate segment should also fare well as smart cities start to take shape, supported by established local and foreign developers, and backed by strong FDI in the higher end segment. In the public sector, key projects planned in the coming period include: the metro express, major road development projects in the island's main conurbation, low-cost housing, new Supreme Court and new hospitals, as well as sports infrastructure in the buildup to the Indian Ocean International Games. Against this background, our strong growth forecasts for the construction sector in 2017 and 2018 are being maintained.

Expansion in commerce continues to be steady, albeit moderate, in line with consumption patterns. In Q2 2017, the wholesale and retail trade sector grew by 2.9% year-on-year, after an expansion of 3.3% in the previous quarter. Whilst consumer confidence remains tepid, the projected upswing in 2018 coupled with initiatives to increase the purchasing power of low-income earners – such as the introduction of a national minimum wage, the negative income tax and a flat salary increase to all employees – should, if they materialize, give a boost to consumption and, by extension, to the trade sector. On this premise, the growth rate for commerce in 2018 has been upgraded to 3.5%.

Accommodation and food service activities have also sustained an appreciable momentum on the back of solid growth in tourist arrivals. Indeed, notwithstanding a year-on-year decline of 0.3% in October 2017, the number of visitors over the first ten months of the year went up by 5.3% compared to the corresponding period in 2016, while gross tourism earnings recorded a 7.4% year-on-year increase in the first nine months of 2017. Whereas most major markets contributed positively to the performance, some eyebrows may be raised in respect of the 5.4% year-on-year decline in Chinese tourists and, to a lower extent, a lackluster increase in the Brexit-affected UK market.

Nonetheless, as hotels that were under renovation during the early part of the year should become available in the final months, and in view of the buoyancy of advance bookings, the tourism sector is well set to achieve a strong outturn in 2017. Looking ahead, a number of favourable factors suggest that the accommodation and food services sector is set to register another good year in 2018. Firstly, the global outbound tourism industry - on course to achieve a record year in 2017 - is currently in full swing and should sustain a robust performance next year. Secondly, the recovery in the euro area, which remains a key market for Mauritius, is likely to consolidate in 2018. Thirdly, the hotel park is expected to expand further, taking into consideration new projects in the pipeline from both established and new players, supported by improving balance sheets of hotel operators. Finally, air seat capacity would be boosted by the onboarding of new airplanes by the national carrier and, potentially, additional airlines serving the destination. Efforts at market diversification, targeting emerging outbound tourist markets such as China - which was the global top tourism spender in 2016 - would also benefit the sector.

Figure 2.1: Selected Industry Growth Forecasts



Source: SBM Staff Forecasts

In the banking sector - which is the mainstay of financial services - subdued credit growth and squeezing margins, amidst high liquidity in the system, have put pressure on profitability. Nevertheless, operators in the sector have performed well by modernizing and diversifying their offers, and by increasing their share of foreign-sourced business. As regards the Global Business sector, despite the renegotiation of the tax treaty with India, and a general tightening of international fiscal and compliance regulations and requirements, expansion in activity levels has been sustained on the basis of market diversification and enhancements in value addition. The ambition of the country to position itself as an international financial center channeling investments into Africa appears to be gradually taking shape. Our baseline forecasts assume progressive steps in this direction, considering policy efforts to create an enabling environment as well as growing initiatives by private sector operators. On this basis, it is projected that, despite ongoing challenges, business and financial services – which encompass "financial and insurance activities", "professional, scientific and technical activities" and "administrative and support service activities" – will continue to expand at an appreciable pace of above 5% in 2017 and 2018. However, considering that the bulk of the current stock of direct investments of GBC1s remains heavily centered on India, risk factors remain prevalent, and a close monitoring of flows and activities in the sector is warranted.

Table 2.2: FDI Equity Inflows into India (USD million)

	APRIL - JUNE				
	2013	2014	2015	2016	2017
Mauritius	1,099	2,610	2,089	1,896	3,293
Share of total	20%	36%	22%	25%	32%
Singapore	1,852	1,187	3,673	1,976	3,010
Share of total	34%	16%	39%	26%	29%

	APRIL - MARCH				
	2012/13	2013/14	2014/15	2015/16	2016/17
Mauritius	9,497	4,859	9,030	8,355	15,728
Share of total	42%	20%	29%	21%	36%
Singapore	2,308	5,985	6,742	13,692	8,711
Share of total	10%	25%	22%	34%	20%

Source: Department of Industrial Policy and Promotion

Table 2.3: Global Business Deposits and Advances with Mauritian Banks (MUR million)

	DEC 2013	DEC 2014	DEC 2015	DEC 2016	AUG 2017
Deposits	273,488	314,005	347,545	340,188	337,155
Advances	33,710	37,419	44,990	49,580	47,934

Source: Bank of Mauritius

Table 2.4: Number of Newly Licensed Global Business Companies

	2013	2014	2015	2016	2017 (JAN–SEP)
Category 1	999	1,259	1,366	1,264	1,016
Category 2	1,193	1,379	1,310	1,103	796
Total	2,192	2,638	2,676	2,367	1,812

Source: Financial Services Commission

Table 2.5(a): Target Country of Investment of Newly Licensed GBC1s in 2017

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
Africa	37%	62%	49%	66%	54%	57%	63%	54%	45%
India	4%	7%	12%	8%	3%	6%	6%	4%	9%
China	2%	3%	1%	0%	4%	2%	4%	2%	2%
Asia (ex. China and India)	14%	10%	21%	11%	18%	13%	9%	8%	24%
America	7%	4%	5%	4%	3%	7%	4%	8%	4%
Europe	29%	11%	11%	10%	16%	13%	11%	21%	15%
Others	7%	3%	1%	1%	2%	3%	6%	3%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Financial Services Commission

Table 2.5(b): Country of Origin of Newly Licensed GBC1s in 2017

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
Africa	27%	38%	27%	40%	47%	35%	44%	50%	39%
India	8%	2%	14%	1%	2%	4%	7%	1%	6%
China	2%	0%	1%	1%	1%	1%	7%	0%	1%
Asia (ex. China and India)	8%	7%	17%	11%	7%	9%	13%	4%	11%
America	19%	18%	18%	17%	10%	17%	9%	15%	12%
Europe	36%	32%	20%	29%	29%	26%	18%	28%	27%
Others	1%	4%	3%	2%	4%	8%	2%	1%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Financial Services Commission

The transportation sector should also post an appreciable performance in 2017 and 2018 in line with strong passenger traffic backed by increasing air seat capacity, as well as enhanced port infrastructure and developments in road transportation. Utilities would, in all likelihood, mirror the growth of the overall economy while expansion in government services is projected to be in line with past trends.

Risks to the economic outlook appear fairly balanced. Downside risks include: a weaker-than-anticipated external environment, significantly higher financial outflows than currently foreseen, execution lags of key infrastructure projects, and policy sluggishness in respect of openness and innovation initiatives.

On the upside, an acceleration in the implementation of the public investment programme, a faster transition to an international financial hub supported by appropriate policy measures, and a quicker adoption of technology and innovation in the way of doing business and in the public sector, would give a boost to the growth engine.

Table 2.6: Mauritius – Selected Economic and Financial Indicators

	UNIT	2014	2015	2016	2017(f)	2018(f)
REAL SECTOR						
GDP at market prices	MUR bn	392	410	434	460	486
GDP at market prices per capita	USD	10,155	9,243	9,585	10,454	11,116
GDP at basic prices - real growth	%	3.6	3.0	3.6	3.8	4.1
Gross domestic saving (GDS)	% GDP	10.6	10.5	11.0	10.9	10.8
Gross fixed capital formation (GFCF)	% GDP	18.9	17.4	17.3	17.4	17.9
Private sector	% GDP	14.0	12.7	12.5	12.5	12.8
Public sector	% GDP	4.8	4.7	4.8	4.9	5.1
Headline inflation	%	3.2	1.3	1.0	3.6	2.5
Unemployment	%	7.8	7.9	7.3	7.1	7.0
FINANCIAL SECTOR						
Credit to the private sector (excl. GBL) †	% GDP	70.1	69.8	65.7	64.0	63.6
Deposits (Segment A) †	% GDP	88.2	92.5	95.3	99.0	100.3
Key Repo Rate †	%	4.65	4.40	4.00	3.50	3.50
Average MUR lending rate*	%	8.01	7.60	7.06	6.62	6.22
Average MUR deposit rate*	%	3.25	2.90	2.42	2.01	1.69
Average Treasury Bills rate*	%	2.37	2.14	2.68	2.11	1.80
GOVT SECTOR						
Budget balance ‡	% GDP	-3.2	-3.2	-3.5	-3.5	-3.4
Public sector debt †	% GDP	60.7	63.6	64.5	64.6	64.8
Public sector debt (for debt ceiling) †	% GDP	53.4	55.7	55.4	55.4	55.6
EXTERNAL SECTOR						
Balance of visible trade	% GDP	-19.7	-18.2	-18.8	-20.1	-20.2
FDI	% GDP	4.7	2.4	3.2	3.3	3.3
Current account balance	% GDP	-5.6	-5.0	-4.3	-6.3	-6.2
Balance of payments	% GDP	5.9	4.9	6.0	3.4	3.4
USDMUR annual average change	%	-0.1	14.8	2.1	-3.0	-0.7

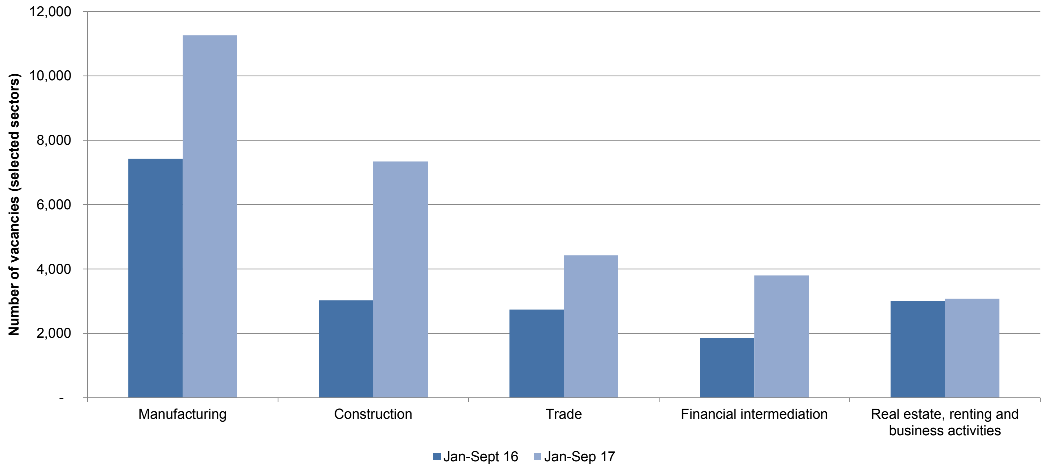
Sources: Statistics Mauritius, Bank of Mauritius, Ministry of Finance, SBM staff estimates
†End of period * mean of monthly weighted averages (f) SBM staff forecasts

‡ 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.

Unemployment

Economic recovery, accompanied by measures to address skills mismatch, would help relieve some pressure on the labor market. In Q2 2017, the unemployment rate was estimated at 7.2%, down from 7.4% a year earlier and from 7.6% in the previous quarter. Taking into account an increase in the number of vacancies in the second half and factoring in seasonally lower unemployment rate in the last quarter, the joblessness rate for 2017 is forecast at 7.1%, representing a further improvement on the preceding year. Looking ahead, the projected upturn in the construction sector, together with an upbeat tourism industry, are expected to support labor demand. The impact may be partly mitigated though by the potential short term effects on employment of a projected increase in real wages. On balance, the unemployment rate for 2018 is expected to further improve to 7.0%.

Figure 2.2: Increase in the Number of Vacancies in 2017



Source: Ministry of Labour, Industrial Relations, Employment and Training

Inflation

As anticipated in the previous issue of SBM Insights, headline inflation has followed an upward trajectory to reach 3.4% as at October 2017. Vegetable prices – whose atypical pattern had accounted for a large part of the recent increase in inflation – have now reverted to near seasonal levels. However, lingering pressures from the increase in the prices of cigarettes and alcohol, fuel, and air tickets, among others, should contribute to a continued rise in the general price level until the first quarter of 2018 at least, although this would be partly mitigated by reduced rates on mortgage interest rates. As from April next year, the inflation rate should pursue a declining trend as base effects kick in, despite demand-pull pressures linked to a projected increase in consumption and mildly higher international commodity prices expected on an annual average basis. Overall, our projections for inflation have been slightly raised to 3.6% in 2017 and 2.5% in 2018.

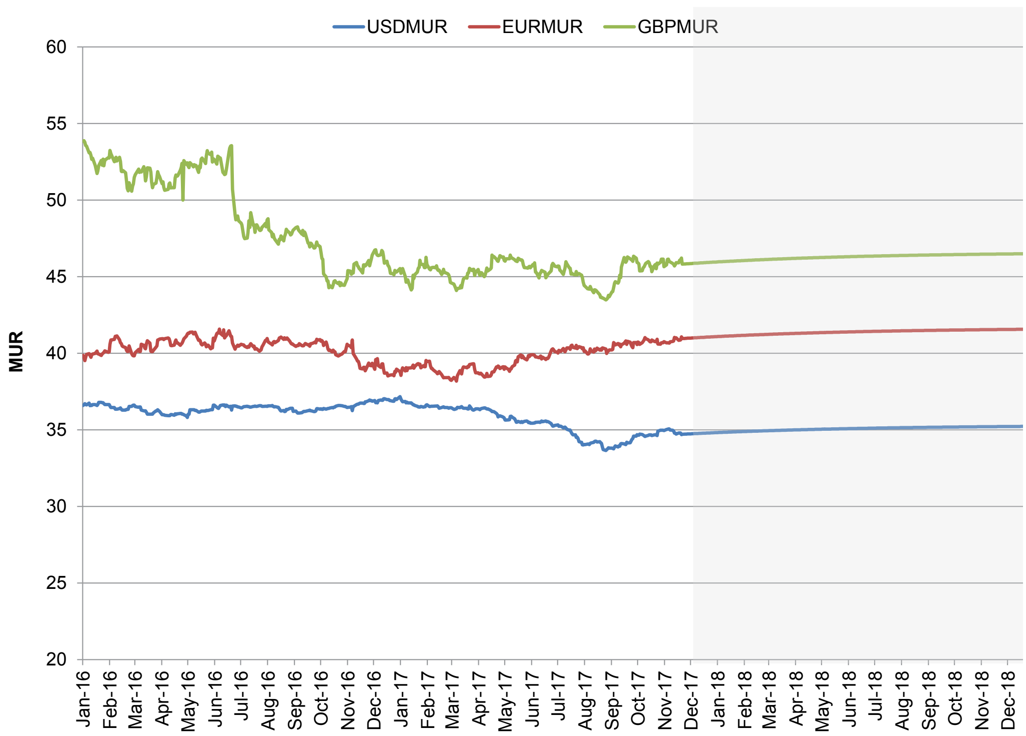
External Balances

The deficits on the balance of trade and on the current account are expected to widen in 2017 to 20.1% of GDP and 6.3% of GDP respectively on the back of a projected decline in exports of goods and a heavier import bill, partly as a result of higher commodity prices on average compared to the corresponding period in 2016. Pressures on the external trade deficit are expected to persist in 2018, mainly due to an expected increase in consumption as well as infrastructure and other construction related spending, carrying a high import content. The impact on the current account would be partly mitigated by strong services exports and external grants, principally from the Government of India. In view of still strong financial inflows, the balance of payments is projected to remain in surplus in both 2017 and 2018, albeit at a reduced percentage of around 3.3% of GDP. These flows should however be under watch on account of significant downside risks following the amendments to the Mauritius-India double taxation avoidance agreement.

Currency and Interest Rates

Reflecting a positive balance of payments, the Mauritian rupee has on average appreciated against all major currencies in the first nine months of the year, as compared to the same period in 2016. Rupee strength should broadly persist in 2018, particularly if the cross-rates between international currencies remain close to 1.18 for EURUSD and 1.32 for GBPUSD on an annual average basis, as suggested by median consensus forecasts. However, deviations from these rates and fluctuations in financial inflows could, among others, cause actual rates to diverge from the projections.

Figure 2.2: Central Tendency Forecasts of MUR vis-à-vis Major Exchange rates under Baseline Assumptions



On the interest rate front, following the largely unanticipated decision of the Monetary Policy Committee of the Bank of Mauritius to reduce the Repo rate by 50 basis points to 3.50% in September 2017, most commercial interest rates have also been lowered. Given the projected pickup in growth and inflation in the near term, further declines are not expected over the coming quarters, and the Repo rate is expected to remain at its current level.

Fiscal Position

Whilst public infrastructure spending is expected to significantly increase going forward, a large proportion of the outlay would be matched by external grants. Against this background, the fiscal deficit is expected to be contained at some 3.4% of GDP in the financial year ending June 2018, that is, close to the previous year's level. Similarly, public sector debt is forecast to remain below 65% of GDP. Whereas the relatively high fiscal deficit and debt levels may be justified in the short term on the basis of infrastructure expenditure that will ultimately be a catalyst for growth, they pose risks, albeit mild for now, in respect of the sustainability of public finances. A plan for unraveling the relatively high debt level needs therefore to feature as priority in the next National Budget.

COUNTRY INSIGHTS: RWANDA

RWANDA: EAST AFRICA'S ECONOMIC MIRACLE

HIGHLIGHTS

- Despite being one of the smallest countries on the African continent, Rwanda is among the fastest growing economies in the world, backed by a relatively stable political environment.
- According to President Kagame, Rwanda has the potential to achieve the middle income country status by 2020, supported by the Vision 2020 framework developed by the Government.
- In 2016, economic growth declined to a still high 5.9%, from 8.9% in 2015, on the back of a drought-related downturn in agriculture.
- GDP growth is expected to bounce back in 2017 and 2018 to 6.1% and 6.8% respectively, on account of a recovering agricultural sector.
- Rwanda's economic development is supported by efforts to constantly improve ease of doing business. The country has been a leading reformer over the past decade.
- The Rwandan and Mauritian business communities are set to strengthen trade and investment ties as well as economic relations, through several initiatives.

Background

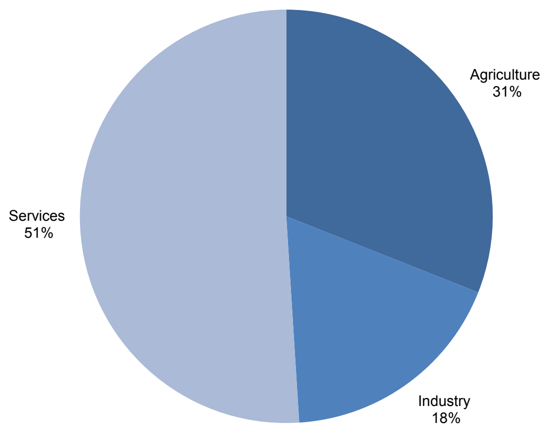
Rwanda is a small landlocked country in East Africa, bordered by Uganda to the North, Tanzania to the East, Burundi to the South and the Democratic Republic of the Congo to the West. Despite being one of the smallest countries on the African continent, Rwanda is among the fastest growing economies in the world. It has a population of around 12 million, with 80% engaged in subsistence agriculture. The agricultural sector contributes to nearly one third of Rwanda's GDP. Like many of its African neighbours, Rwanda has been, in the past, subject to a fragile socio-economic fabric, plagued by extreme poverty and an unfavourable business climate. More than two decades ago, Rwanda's economy was in tatters when a genocide started in 1994, lasting for approximately 100 days and killing 800,000 citizens or nearly 20% of its population at that time. The Rwandan genocide ended when Paul Kagame and his rebel forces took power. Since then, the country has made laudable progress in stabilising and rehabilitating its economy, which is no less than an economic miracle.

Rwanda has enjoyed a relatively stable political environment after the genocide of 1994. President Paul Kagame was re-elected for a third term in August 2017. The President was expected to resign in 2017 in line with the constitution's two-term presidential limit. But the December 2015 referendum cleared him to run for an additional term. The President has been widely lauded for his record on reducing poverty, tackling corruption and maintaining high levels of economic growth. Paul Kagame has stated that he believes Rwanda can emulate the economic development of Singapore to achieve the middle income country status by 2020, which is the main objective of the country's Vision 2020 programme.

Economic Performance

In 2016, economic growth declined markedly to 5.9%, from 8.9% in 2015, on the back of a drought-related downturn in agriculture. A good performance of the construction and services sectors prevented a more severe slowdown. An improvement in GDP growth is expected in 2017 and 2018 to 6.1% and 6.8% respectively, as the agriculture sector is projected to recover. The construction sector is also forecasted to continue on a strong growth trajectory in 2017 as the government implements its Vision 2020 programme which is aimed at reducing reliance on agriculture, supported by significant investments in infrastructure, power, transport and ICT.

Figure 3.1: Composition of GDP, 2016



Source: National Institute of Statistics Rwanda

The drought in 2016, which led to reduced food production, coupled with a weaker currency and rising global fuel prices, resulted into an increase in the inflation rate to 5.7% from 2.5% in 2015. The inflation rate is projected to increase in 2017 to about 7% reflecting the first round pass-through effect of rising fuel and food prices.

Table 3.1: Rwanda - Selected Macroeconomic Indicators

SELECTED MACROECONOMIC INDICATORS	UNIT	2012	2013	2014	2015	2016	2017F	2018F
GDP, constant prices	% change	8.8	4.7	7.6	8.9	5.9	6.1	6.8
GDP, current prices	USD billion	7.3	7.6	8.0	8.3	8.4	8.9	9.4
Population	million	10.5	10.7	11.0	11.3	11.5	11.8	12.1
GDP per capita, current prices	USD	697	710	728	732	729	754	776
GDP per capita in PPP terms	USD	1,577	1,640	1,754	1,879	1,976	2,081	2,210
Total investment	% GDP	25.8	26.5	25.3	26.5	26.1	24.6	25.1
Gross national savings	% GDP	7.3	10.5	8.6	8.7	7.6	10.8	10.5
Inflation, average consumer prices	%	6.3	4.2	1.8	2.5	5.7	7.1	6.0
Volume of imports of goods and services	% change	27	-0.7	10.0	12.0	-5.1	-3.1	1.3
Volume of exports of goods and services	% change	21.1	9.6	8.6	-3.7	9.8	9.0	3.7
General government gross debt	% GDP	20.0	26.7	29.1	33.4	37.6	40.2	42.1
Current account balance	% GDP	-11.2	-8.7	-11.8	-13.4	-14.4	-10.1	-11.2

Source: IMF World Economic Outlook Database, October 2017

The current account deficit worsened from 13.4% of GDP in 2015 to 14.4% of GDP in 2016 due to a relatively weak trade performance on the back of plunging commodity prices. According to IMF forecasts, the current account deficit is expected to narrow in 2017, owing to an expected recovery in commodity prices and government support for domestic manufacturers and exporters. Thus, imports are anticipated to decline in 2017, as the 'Made-In-Rwanda' initiative improves local production of goods.

The overall fiscal balance has been improving but remained in deficit, at 4.0% of GDP in 2016. The budget deficit is forecast to worsen to 4.8% of GDP in 2017 due to increased government spending. Fiscal deficits in recent years have been mainly driven by capital spending related to a number of investment projects. The December 2016 Debt Sustainability Analysis by IMF showed that Rwanda's debt service to export stood at 29.8% at end of 2016. Although public sector debt was on an increasing trend, it was deemed to be broadly sustainable. The Government has adopted a conservative stance regarding its medium term debt policy, by ensuring its financing needs and settlement obligations are undertaken at low borrowing costs. It expects to achieve this goal through the development and deepening of the local capital market.

Table 3.2: Top Trading Partners for Exports and Imports of Goods, 2016

EXPORTS

COUNTRY	VALUE (USD Mn)*	SHARE
DRC	136	30%
Kenya	65	15%
Switzerland	58	13%
EU 28	45	10%
UAE	29	7%
Sri Lanka	20	4%
USA	13	3%
Burundi	13	3%
Uganda	10	2%
Japan	9	2%
Others	47	11%
TOTAL	445	100%

IMPORTS

COUNTRY	VALUE (USD Mn)*	SHARE
EU 28	690	30%
China	290	13%
Kenya	220	9%
Uganda	163	7%
UAE	151	7%
Tanzania	128	6%
India	122	5%
USA	81	3%
South Africa	47	2%
Zambia	45	2%
Others	381	16%
TOTAL	2,318	100%

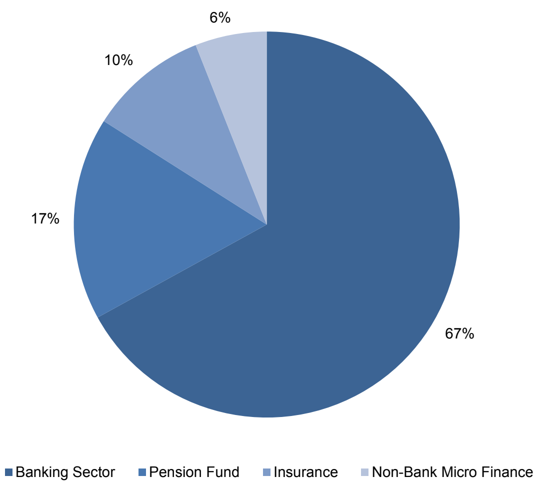
Source: Eurostat

* The original figures are in EUR. They have been translated to USD at 1.0517 using Bloomberg end-Dec exchange rate.

The Rwandan Financial Sector

The Rwandan financial sector comprises 16 banks, 491 micro-finance institutions and Savings and Credit Cooperatives and 54 non-bank financial institutions. The sector is dominated by banks, which account for two-thirds of the total assets of the industry, followed by the pension fund and the insurance sector. According to IMF, the banking sector is not subject to vulnerability risk despite being highly concentrated. However, financial soundness indicators have slightly weakened in 2016 – as evidenced by an increase in non-performing loans – due to the relative slowdown in the economy and inadequate monitoring of large facilities. Notwithstanding the increase, the non-performing loan ratio is the lowest in comparison to regional peers.

Figure 3.2: Total Financial Sector Assets, 2016



Source: National Bank of Rwanda

According to the National Bank of Rwanda, the banking sector remains profitable, although to a lesser extent than in the previous years. Indeed, both ROA and ROE registered a decline in 2016 in comparison to 2015, on account of a substantial increase in operating expenses and slowdown in economic activities.

Table 3.3: Banking Sector Soundness Indicators

INDICATOR	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Profitability	%	%	%	%	%	%	%	%	%	%	%
ROA	2.8	2.8	3.3	3.3	3.0	2.9	2.8	2.6	2.8	2.5	2.7
ROE	15.2	15.3	17.6	17.7	16.2	15.7	14.7	14.0	14.4	13.6	14.9
Asset Quality											
NPL Ratio	5.3	5.2	5.7	5.5	5.8	5.9	6.0	7.0	7.4	7.1	7.7
NPL ratio change (per annum)	-11.2	-12.0	-2.8	4.5	10.2	13.1	6.3	27.6	27.5	19.9	28.6

Source: National Bank of Rwanda

The agricultural sector has the largest share of NPL ratio in comparison to the other sectors. The deterioration is due to the slowdown of agricultural production in 2016. However, the impact of weak agriculture performance is insignificant as loans to this sector make up only 2% of total banking sector loans. The increase in the overall NPL ratio was mainly driven by an increase in NPL ratio for "Trade & Hotel" and "Manufacturing". Around 41% of total NPLs in the banking sector are in "Trade & Hotel". The mortgage sector, which accounts for the largest share of loans, has one of the lowest NPL ratios, at 5%.

Table 3.4: NPL Ratios in Selected Sectors

SECTOR	JUN-15	JUN-16
Agricultural, Fisheries and Livestock	15%	17%
Mining	3%	1%
Manufacturing	1%	6%
Water & Energy	3%	0.2%
Mortgage	4%	5%
Trade & Hotel	7%	9%
Transport & Warehousing	4%	3%
Financial Institutions & Insurance	4%	4%
Services Sector	7%	4%
Non Classified	7%	6%

Source: National Bank of Rwanda

To adapt to the changing financial landscape and bolster solvency of the banking sector, the National Bank of Rwanda recently imposed new capital requirements as part of its efforts to implement Basel II and Basel III standards. The central bank has set its common equity Tier 1 ratio at a minimum of 8% of risk-weighted assets, the Tier 1 ratio at 10% and the regulatory CAR at 12.5%. Banks are also required to hold a capital conservation buffer of 2.5%, which brings the minimum CAR to 15% while an additional 1 – 3.5% CAR may be required for domestic banks.

The Rwandan capital market is relatively young and underdeveloped, with only seven listed and cross-listed companies and a stock market capitalisation of 26% of GDP at end-June 2016. The government together with the Rwandan Capital Markets Authority have developed a 10 year master plan with a view to deepening the capital markets. The plan includes a strategic agenda for expanding listings, developing an ecosystem of financial sector intermediaries, and further integrating the capital markets with those of East African peers.

Credit Profile

In September 2016, Standard and Poor's downgraded Rwanda's rating from B+ to B and reaffirmed the same rating in 2017. A widening current account deficit and growing external debt levels were cited as factors contributing to the downgrade. The factors that could potentially trigger a further negative rating action include: the country's inability to narrow its current account deficit and/or failure to attract long-term capital to finance its deficit, failure to stabilise the large gross general government debt to GDP ratio, and a material threat to political stability. Nonetheless, a positive rating action could be expected on account of a continued strong GDP growth, a significant narrowing of the current account deficit, an increase in tax revenue, declining government debt to GDP and increased fiscal financing flexibility.

Table 3.5: Sovereign Risk Ratings

CREDIT RATING AGENCY	RATINGS	OUTLOOK	DATE
Moody's Investors Service	B2	Stable	Aug-17
Fitch	B+	Stable	May-17
Standard & Poor's	B	Stable	Mar-17

Sources: Moody's Investors Service, S&P Global Market Intelligence & Fitch Ratings

According to Moody's, Rwanda has a robust institutional framework compared to most of its Sub-Saharan African peers. High growth potential is expected to be supported by ongoing government reforms and a favourable business climate. The credit rating agency expects growth in 2017 to remain relatively the same as in 2016, before picking up in 2018 on account of an upturn in the construction sector driven, among others, by the Bugesera airport project. However, Moody's expressed its concerns over Rwanda's large share of foreign currency debt and high susceptibility to event risk. Even though it does not anticipate political risk in the near future, the lack of visibility about a political alternative to Paul Kagame raises succession risk in the future. Sustained improvements to infrastructure and labour force would result in an upward revision to the credit rating, provided that Rwanda becomes more competitive than its regional peers. A downward credit rating would be a consequence of persistent external factors and deterioration in the balance of payments, eroding foreign exchange reserves

Middle-Income Country Status by 2020

Vision 2020 is a framework for Rwanda's economic development, presenting the main sector priorities and acting as a guiding tool for the future. The Vision aims at attaining per capita income of a middle-income country in an equitable manner, and aspires to become a modern, strong and united nation, without discrimination among its citizens.

Vision 2020 is being implemented through medium term planning frameworks: the PRSP1 was adopted in 2002 while the EDPRS covered the period 2008-2012.

Since the development of the Vision 2020 programme, Rwanda has implemented strong policy reforms which have driven high and steady rates of economic growth averaging 6% to 7%, with a peak of 11.6% in 2008. The implementation of both PRSP1 and EDPRS has helped the country to reduce poverty and make significant strides economically and in a number of development areas. Nevertheless, the country still faces challenges including insufficient financial resources and skills gaps; it appears that many milestones were not ambitious enough in the context of transforming Rwanda, as evidenced by a targeted per capita income of USD 900, which would no longer qualify for middle income country status by 2020.

From the time Vision 2020 was launched, a number of new development opportunities and challenges have emerged which the Government of Rwanda had to take into consideration. Some key aspects of sustainable development such as climate change, access to energy and clean water, rural habitat development and suitable infrastructures were not given much consideration as prerequisites of national development. Thus, a number of new programmes and initiatives were developed in the 7-year Government Comprehensive Programme (2010-17) to address the shortcomings.

Major Projects

- Construction of a USD 40 million dry port to reduce significant non-tariff barriers to trade and improve access to coastal ports. A joint venture between the Government of Rwanda and a private cargo handling company.
- An agreement to import 30 MW from Kenya and 450 MW from Ethiopia to add support to the national electricity supply in the long run and further support economic growth.
- Development of rail links to ports of Indian Ocean through Tanzania as they are cheaper and shorter than the Kenyan route. The Tanzanian option would cost Rwanda about USD 900 million compared to USD 1 billion for the Kenyan route.
- The Dar es Salaam-Isaka-Kigali / KezaMusongati standard gauge railway project is on-going and expected to be completed by March 2018 at an estimated to cost of USD 5 billion.

Table 3.6: International Rankings

PUBLICATIONS	RANKING	
	2015-2016	2016-2017
Ease of Doing Business	62nd out of 189	56th out of 190
WEF Global Competitiveness Index	58th out of 140	52nd out of 138
Index of Economic Freedom	71st out of 178	51st out of 180
Corruption Perceptions Index	43rd out of 167	50th out of 176
Human Development Index	163rd out of 188	159th out of 188
Global Gender Gap Report	6th out of 145	5th out of 144
Mo Ibrahim Index	11th out of 54	9th out of 54

Sources: World Bank, World Economic Forum, The Heritage Foundation, Mo Ibrahim Foundation, Transparency International

Rwanda's business and investment environment continues to improve, which is reflected in its improved competitiveness rankings. Indeed, Rwanda moved up six places in the latest assessment, from 62nd to 56th position, consolidating its second rank in Africa behind Mauritius. The improvement testifies to Rwanda's commitment to upgrading its business environment in an endeavour to attract investment. From 2005 to 2017, Rwanda implemented a total of 47 reforms across all indicators of the Doing Business report. These reforms are in line with the country's Vision 2020.

Foreign Direct Investment

According to UNCTAD World Investment Report 2017, even though FDI stocks have increased in recent years, FDI flows into Rwanda remained relatively weak at USD 380 million in 2015 and USD 409 million in 2016. Rwanda's political stability and measures focused on improving the business climate have been observed as a positive influence on foreign investments. However, the political instability of its neighbouring country, the Democratic Republic of the Congo, has discouraged international businesses from investing in the area. In May 2015, Rwanda launched a new investment code aimed at attracting FDI into tourism, energy and technology and innovation. According to the new code, foreign investors are no longer required to invest a minimum of USD 100,000.

Business Opportunities

The Rwanda Development Board has identified five specific investment opportunities in manufacturing, namely: construction materials, textiles and garments, packaging materials, soaps and detergents, and motorcycle assembly. To get manufacturers on board, the government has established four industrial parks throughout the country, as well as the Kigali first modern SEZ that offers investors a range of financial incentives and infrastructure, such as roads and the internet.

In 2016, the government launched an online system to give investors information about public land and its suitability for agricultural development. Rwanda also benefits from a low level of corruption, a professional judiciary and accessible justice, making the country more business-friendly. Rwanda has been an Afreximbank member country since 1993 and hosted the 24th Annual General Meeting of the Bank. During that meeting, Afreximbank announced disbursements worth USD 500 million in favour of trade development ventures in Rwanda.

Rwanda-Mauritius Linkages

The Rwandan and Mauritian business communities are set to strengthen trade and investment ties as well as economic relations, through several initiatives. One of these was the first Rwanda-Mauritius Buyers-Sellers meeting, organized by Enterprise Mauritius in collaboration with the Private Sector Federation of Rwanda, to showcase a wide range of 'Made in Mauritius' products. The products and services include textile, plastics, detergents, cosmetics, chemicals, fertilizers, pipes and fittings, furniture, footwear, books, printing services as well as services such as ICT, education and training services.

According to entrepreneurs, the Buyers-Sellers meeting proved to be an ideal platform to establish fruitful contacts between Rwandan and Mauritian businesses. Both countries are members of the Common Market for Eastern and Southern Africa, which promotes intra-regional trade with goods exempted from customs duty. Rwanda has exports in excess of USD 3 billion, and Africa accounts for 18% of it.

It is a clear signal that Mauritius wants to do business and has a closer collaboration with Rwanda. This is evidenced from the fact that MoUs at three levels were signed between:

(i) the private sectors;
(ii) Enterprise Mauritius and the Rwanda Development Board; and
(iii) governments and related institutions.

The MoUs relate to trade partnership and linkages. According to officials, the targeted sectors include agro-industry, chemical industry and energy. Mauritian investors have already started to invest in Rwanda in sectors such as energy and sugar production. We expect that both countries would continue to work hand in hand in the long term, benefitting each other through sharing of knowledge, expertise and know-how.

REFERENCES

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

Bank of Mauritius. *Monthly Statistical Bulletin, October 2017*.

BBC. "Rwanda Country Profile." Updated August 6, 2017. http://www.bbc.com/news/world-africa-14093238.

Board of Governors of the Federal Reserve System. *Minutes of the Federal Open Market Committee, September 19–20, 2017*. Washington, DC: Board of Governors of the Federal Reserve System, 2017.

Byamukama, Bernis, and Yemesrach Workie. "Rwanda, 2017." African Economic Outlook. Accessed November 20, 2017. http://www.africaneconomicoutlook.org/sites/default/files/2017-05/Rwanda_EN_2017.pdf.

Central Intelligence Agency. "The World Factbook: Rwanda." Accessed November 20, 2017. https://www.cia.gov/library/publications/the-world-factbook/geos/rw.html.

Childs, Nathan, and Sharon Raszap Skorbiansky. "Rice Outlook, October 2017." Rice Outlook No. RCS-17J, United States Department of Agriculture, Washington, DC, 2017.

CME Group. "CME FedWatch Tool." Accessed November 14, 2017. http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html.

European Central Bank. *ECB Staff Macroeconomic Projections for the Euro Area, September 2017*. Frankfurt: European Central Bank, 2017.

Financial Services Commission, Mauritius. www.fscmauritius.org.

Fortune of Africa. "Rwanda Vision 2020." Accessed November 20, 2017. http://fortuneofafrica.com/rwanda/investment-climate-rwanda/rwanda-vision-2020.

IHS Markit. "Nikkei India Manufacturing PMI: Indian manufacturing production and new orders increase in September." News release, October 3, 2017.

IHS Markit. "Nikkei India Services PMI (with Composite PMI data): Services activity returns to growth." News release, October 5, 2017.

IHS Markit. "Standard Bank South Africa PMI: Business conditions deteriorate in South African private sector." News release, October 4, 2017.

International Energy Agency. *Oil Market Report, 12 October 2017*. Paris: International Energy Agency, 2017.

International Monetary Fund. "IMF Staff Completes 2017 Article IV Consultation and Review Mission to Rwanda." News release, May 15, 2017. http://www.imf.org/en/News/Articles/2017/05/15/pr17173-imf-staff-completes-2017-article-iv-consultation-and-review-mission-to-rwanda.

International Monetary Fund. "IMF Staff Completes Review Visit to Rwanda." News release, November 10, 2017. http://www.imf.org/en/News/Articles/2017/11/10/pr17433-imf-staff-completes-review-visit-to-rwanda.

International Monetary Fund. "People's Republic of China: 2017 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China." IMF Country Report No. 17/247, International Monetary Fund, Washington, DC, 2017.

International Monetary Fund. "Rwanda: Selected Issues." IMF Country Report No. 17/214, International Monetary Fund, Washington, DC, 2017.

International Monetary Fund. *World Economic Outlook, October 2017: Seeking Sustainable Growth—Short-Term Recovery, Long-Term Challenges*. Washington, DC: International Monetary Fund, 2017.

Ministry of Finance and Economic Planning. "Standard & Poor's affirms Rwanda's ratings as a B, outlook stable." News release, March 16, 2017. http://www.minecofin.gov.rw/index.php?id=12&tx_ttnews%5Btt_news%5D=556&cHash=ef2805107a4c10cd90601248aceb4ca1.

Moody's Investors Service. "Moody's: Rwanda's credit profile reflects institutional strength and growth potential; challenges include external imbalances." News release, October 2, 2017. https://www.moodys.com/research/Moodys-Rwandas-credit-profile-reflects-institutional-strength-and-growth-potential--PR_373485.

National Bank of Rwanda. *Annual Financial Stability Report, June 2015–June 2016*. Kigali: National Bank of Rwanda, 2017.

Republic of Rwanda. *Rwanda Vision 2020*. Revised 2012. Kigali: Republic of Rwanda, 2012. http://www.minecofin.gov.rw/fileadmin/templates/documents/NDPR/Vision_2020_.pdf.

Reuters. "Fitch Affirms Rwanda at 'B+'; Outlook Stable." Posted May 13, 2017. https://af.reuters.com/article/africaTech/idAFFit999047.

South African Reserve Bank. *Monetary Policy Review, October 2017*. Pretoria: South African Reserve Bank, 2017.

South African Reserve Bank. *Quarterly Bulletin, September 2017*. Pretoria: South African Reserve Bank, 2017.

REFERENCES

Statistics Mauritius, *Various Publications*. http://statsmauritius.govmu.org.

The Economist. The Economist Poll of Forecasters, October Averages. October 7, 2017.

United Nations Conference on Trade and Development. *World Investment Report 2017: Investment and the Digital Economy*. Geneva: United Nations, 2017. http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf.

U.S. Energy Information Administration. *Short-Term Energy Outlook, November 2017*. Washington, DC: U.S. Energy Information Administration, 2017.

CREDITS

Contributors
Urvashi GAONJUR
Andy LAM YAN ON

Reviewer
Shailen SREEKEESSOON

Advisors
Moses Harding JOHN
Kee Chong LI KWONG WING

DISCLAIMER

SBM

www.sbmgroup.mu