Headwinds and Opportunities for Mauritius

Since independence in 1968, Mauritius has always relied on strong macroeconomic fundamentals. Vibrant tourism sector, sophisticated financial centre, manufacturing and construction sectors have all contributed to the economic growth of Mauritius, through the years. However, with the spread of the Covid-19 pandemic, Mauritius is poised to face unprecedent challenges. It must break conventional norms in order to tackle what is needed.

COVID-19 pandemic has wreaked havoc across the world since the beginning of the year. Global COVID-19 cases have reached over 51m while the number of deaths has exceeded 1 million. Many countries are going through a second lockdown period to minimize the spread of the virus, despite the fact that the economies were being opened in a measured way. The situation has so far been very different in Mauritius. After three people tested positive for covid-19 in March 2020, Mauritian authorities acted promptly to close the borders and ordered a nationwide lockdown. This has enabled the country to keep its COVID-19 cases and deaths at low levels, with a total of 453 cases and 10 deaths in total. As of date, there are no active local cases in the country, although there are around 27 imported cases in quarantine centres around the island. While the government stepped up its effort to repatriate Mauritians stranded abroad, it was not until the 1st of October that borders were re-opened to tourists. Since that date, incoming passengers have undergone PCR tests, 5 days prior to travel and upon arrival in Mauritius, a compulsory quarantine is imposed for 15 days. These measures have so far been beneficial in curtailing the spread of the virus across the population.

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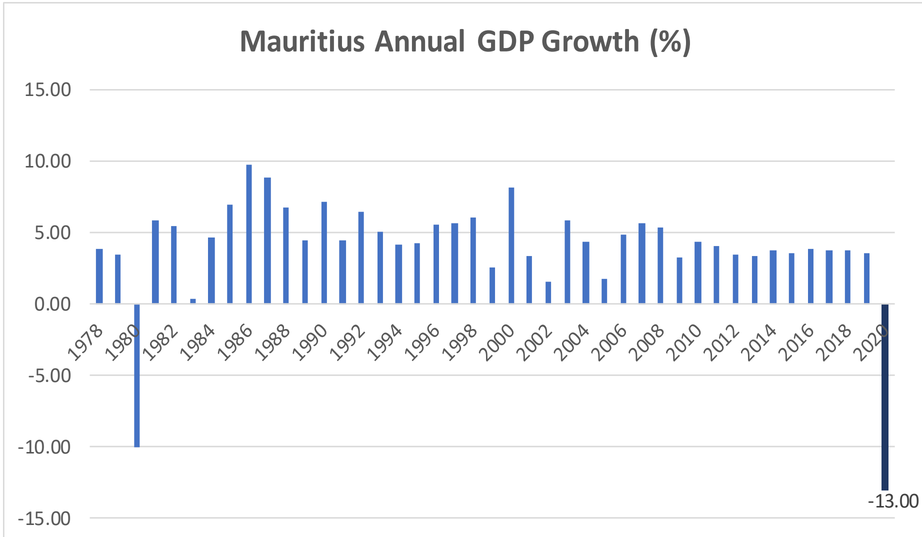
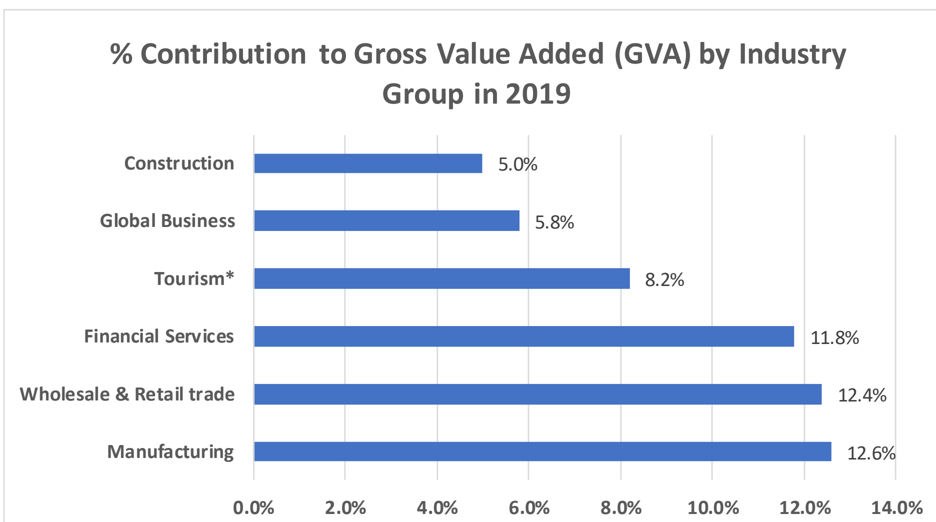
Mauritian Economy- Key Figures

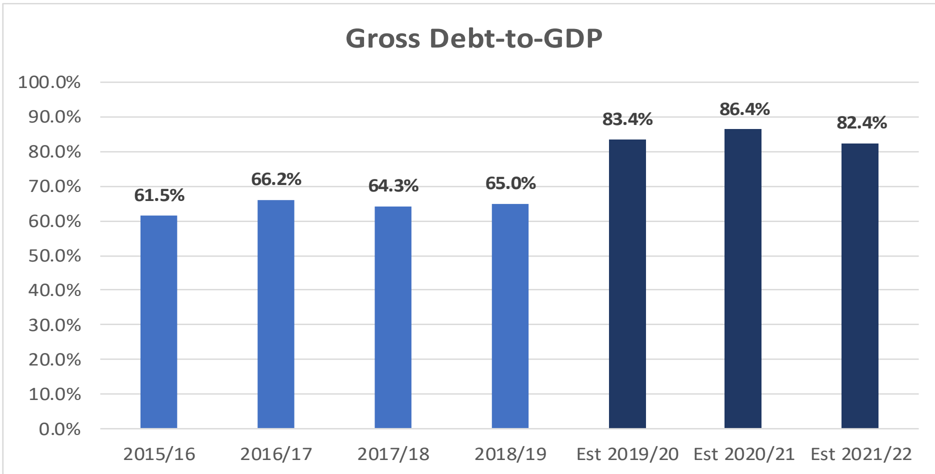


[Source: The World Bank Data]



***Tourism directly contributes around 8% of GVA but together with indirect contribution, can reach 20-22% of GVA.**

[Source: Statistics Mauritius- National Accounts]



Source: PWC budget/public finance

The tourism industry is an essential component of the Mauritian economy and is estimated to have accounted for 18.8% of GDP and 19.1% of total employment in 2019. In the first four months of 2020, tourism arrivals dropped by 33.9% y-o-y. Post confinement restrictions, travel bans and containment measures have a devastating effect on the tourism sector. Although, the government has reopened its borders, in a measured way, to tourists from 1st October, the fear to travel among passengers and the mandatory 2-week isolation in quarantine centres upon arrival will not entice many to visit the island, especially during the peak summer season (October- May).

In an attempt to attract more foreigners to Mauritius, who would wish to spend their time in an almost Covid free country, the 'Premium Travel Visa', valid for a period of one year, was just launched. This visa allows foreigners to spend up to one year, whereas normally the length of stay is restricted to three or two months, depending the country of origin.

Ever since the pandemic outbreak, the hotel industry has been badly scarred. To safeguard jobs and furlough others indirectly, the Mauritius Investment Corporation (MIC), a Special Purpose Vehicle (SPV) under the aegis of the Bank of Mauritius (BOM), has been created. It aims to provide funding to companies hardest hit by the lockdown. MIC has injected and will further inject liquidities through redeemable and convertible secured bonds issued by hotel chains and other industries.

As exhibited by the table below, tourist arrivals will have dropped massively in 2020 after reaching nearly 1.4m in 2019.

Source: BOM statistical bulletin – August 2020; Statistics Mauritius- International Travel and Tourism

Another bellwether of the Mauritian economy is its banking industry. Latter contributes around 12% - 15% of the GDP. Even though Mauritian banks are adequately capitalised, they still face the risk of incurring high default rates if no drastic measures are implemented due to high exposure to the tourism and household segment. Rating agency Moody's has recently downgraded its outlook for Mauritian banks from stable to negative. The decision was mainly driven by the potentially weakening credit profile of the Mauritian Government.

The inclusion of Mauritius on the EU list of High-Risk Jurisdictions is also affecting the Global Business sector and the banking industry, given that banks may lose business from Global Business companies. Income generated from segment B revenue stream might also be negatively affected if correspondent banks refuse to deal with Mauritian banks due to enhanced due diligence procedures for international banks. The next few months will be challenging for the banking sector. The knock-on effects from several sectors will impact directly the banks' balance sheet.

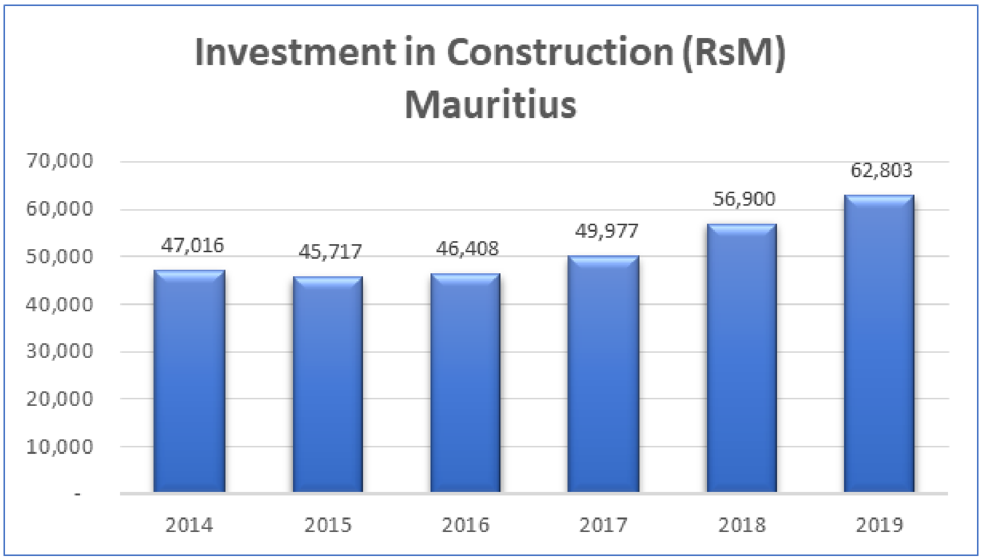
Since its inclusion on the EU blacklist, authorities have responded in the right manner. The country was recently commended by the FATF for the progress made with respect to adopting the best practices to fight against money laundering, terrorist financing and proliferation financing.

The Global Business sector remains an economic pillar of the country. Robust infrastructure and political stability portray Mauritius as an investment platform for investors willing to tap the African continent. Integrally linked to the African continent, Mauritius offers to investors a wide network of bilateral agreements consisting of 46 Double Taxation Agreements (DTAs) and 29 Investment Promotion and Protection Agreements (IPPAs). Furthermore, the country was ranked 13th globally and 1st in Africa in the 2020 edition of Ease of doing business ranking, which was released by the World Bank in October 2019. AAMIL has incorporated its own investment vehicle into Africa, namely AAMIL Africa Capital Partners under the legal form of a Protected Cell Company (PCC).

The Regulatory Sandbox Licence (RSL) introduced in 2016 is facilitating FinTech projects. The RSL offers the opportunity for an investor to conduct a business activity for which there exists no legal ecosystem yet or adequate provisions under existing legislation in Mauritius. The country has also already positioned itself to act as digital asset custodian as part of this plan to create a Fintech hub in and for Africa. Ergo, while tough times are surely ahead for the sector, the industry is strong enough to make it through to the other side.

During the fiscal year 2020/21, the construction sector is touted as being the engine of recovery for Mauritius. The government announced capital projects exceeding Rs 40Bn (US$ 1Bn) in the coming year. Construction is one of the fastest growing sectors of the Mauritian economy, with an average growth rate of the industry over the last 3 years at 8.5% per annum. Many infrastructural projects in the transport sector such as construction of new roads and the completion of the Metro system are benefiting construction companies. In addition to capital intensive government projects, Smart City projects are also being promoted to modernise the physical fabric of the country as well as consolidating the foundations for economic growth and creation of new job opportunities. Several Smart City projects have been announced.

However, in 2020, the COVID-19 pandemic has caused a new work-at-home culture around the globe and in Mauritius as well. During the transition to remote working in March 2020, many companies have invested in their digital workforce and might see reverting to the old normal as a step backwards. Therefore, there are reasons to believe that working from home might become the new normal for many employees. Following this new trend of work from home, the significance of smart cities and specially, business parks, could be called into question. Employers would no longer require a lot of working space, instead they may implement a hybrid system where employees operate from home, a few times each week and few days in office. This could bring the concept of Smart City in tatters.



Source: Statistics Mauritius- Buildings and Construction

At this juncture, we expect the nascent economic recovery to continue in the back half of 2020, although at a slow and uneven pace, with the help of additional fiscal and monetary support. The economic conditions can shift meaningfully given the large amounts of uncertainty today around a variety of factors impacting the macro environment.

The greatest upside would be a meaningful change in the health outlook for COVID-19 that leads to a return to normal consumer behaviour and pick up on investment. The current news about a possible vaccine development is very encouraging.

The removal of lockdowns and quarantine periods will obviously be a great bonus for future travel to and from Mauritius. It is anticipated that as soon as these restrictions will be lifted, Mauritius, having fought successfully the Covid pandemic, will benefit from a large growth in tourism arrivals, in no small part induced by the pent-up demand during these past months.

It is interesting to note that the sale of luxury homes has so far not been impacted much by the current crisis. Foreign demand for such real estate remains very strong, some foreigners having even been through the mandatory quarantine period to finalise such a purchase.

We are ready at AAMIL to assist and guide you through this process.

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