2022: GROWTH IS BACK - AMID THE RUSSIAN THREAT

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Goodbye to Covid?

Mauritius has started to emerge from its worst recession in over 40 years following the onset of Covid-19. In 2021, most macroeconomic indicators deteriorated further as a consequence of the longer-than-expected disruptions in the economy and most importantly in the Tourism industry. For instance, the Debt to GDP Ratio peaked above 95%. However, on a brighter note, GDP – which stands at 2016 levels – appears to have bottomed-out in Q1-2021 and has since been steadily rising.

The second lockdown of March 2021 could have been fatal to the economy but on the contrary was less disruptive and shorter lived than the first one. Work Access Permits (WAPs) were granted rather swiftly, and enterprises were better prepared to switch to "Work-from-Home". The Rupee having plunged by a further 10% vis-à-vis the US Dollar in 2021, coupled with surging costs of commodities and shipping, meant that the cost of running a household increased by more than 10%. The reduction in disposable income coupled with greater uncertainty led to consumers being more careful with regards to consumption.

Signs of optimism

While most international markets were recovering, the Mauritian stock market remained justifiably weak in 2020, bottoming out in November that year. The turning point was Pfizer-BioNTech's announcement that it had developed a safe and rather effective vaccine against SARS-CoV-2. Two key measures – remuneration of bagasse and setting a date for the resumption of quarantine-free travel – were announced in 2021-2022. The National Budget provided further impetus to the market which ground to a halt upon the discovery of the Omicron variant and subsequent disruption to travel. Fortunately, this was more of a "blip" once it became clear that Omicron was less lethal and that Mauritius was removed from the French *"Rouge Écarlate"* list. The local bourse has since extended its rebound and returned to pre-pandemic levels in February 2022.

The restart of the tourism industry has been rather promising with October and November arrivals at about half of their pre-pandemic average which have since dropped to ~33% of pre-pandemic levels following the Omicron wave, and nonetheless better than the 28% observed globally. This shows that recovery for the sector will be unfortunately rather erratic and lengthier than expected. The UN World Tourism Organisation doesn't expect a return to pre-Covid level before 2024. Government recently updated its 2022 target to an ambitious 1,000,000 tourist arrivals, which is about three-quarters that of its pre-Covid equivalent. While some may be disappointed with the raw arrivals figures, receipts are highly encouraging given favourable exchange rates. In EUR terms, Receipts per Visitor during Q4-2021 exceeded €1,500 which is 38% higher than its pre-Covid 5-year average. Consequently, in MUR terms, 43% of typical Q4 arrivals generated 74% of equivalent pre-Covid receipts. Therefore, although arrivals remain subdued, receipts are rather promising, which should in turn provide a boost to the local economy and get cash flowing faster through the system.

"WHILE THERE STILL EXIST PROMISING OPPORTUNITIES ACROSS MANY SECTORS ON THE LOCAL FRONT, THE RUSSIA-UKRAINE CONFLICT WILL CERTAINLY IMPACT ON MAURITIAN STOCKS SOONER OR LATER"

In line with the global and generalised commodity price inflation, in rupee terms, world sugar prices are about 70% higher than they were in June 2020. A better world market price coupled with additional remuneration for bagasse means greater revenue for sugar planters in spite of the expected drop in sugar production to 250kt. The Mauritius Sugar Syndicate – the body which exports all the sugar produced on the island – will be increasingly selling specialty sugars to China – expected to reach 50kt in the medium term – following the recent signature of a bilateral trade agreement. Alteo shut its refinery and will now exclusively produce special sugars.

On the Global Business front, the Financial Action Taskforce (FATF) removed Mauritius from its "gray list" on October 22nd, 2021 and was swiftly followed by the EU announcing that Mauritius would not feature in the next iteration of its list of High-Risk 3rd Countries which became effective on March 13th 2022. Although we would have to make up for lost ground, this bodes well for the Financial Services industry as well as other industries – including luxury real estate – which will experience a return to more free-flowing and less-tedious international money transfers in and out of Mauritius. According to the Bank of Mauritius, the level of non-performing loans and requests for loan re-structuring have been declining steadily since Q1-2021, which suggests that banks are seeing healthier loan books and will experience a normalization of impairments.

All of the above promising developments coupled with what looks like an end to the worst of the pandemic in 2022, explains why the local market has rallied since the start of the year. Mauritius has even outshined many major international markets. We were expecting the positive market momentum and the economy to recover more strongly in this year for the industries discussed above, before the most recent events in Europe. It will be crucial to monitor the conflict in Ukraine as Europe is on the brink of all-out war.

The immediate impact will evidently be higher inflation – which is expected to peak above 7% – it could also potentially impact global travel. In essence, while there still exist promising opportunities across many sectors on the local front, the Russia-Ukraine conflict will certainly impact on Mauritian stocks sooner or later.