COVID-19

Economic implications for Mauritius

15 April 2020

The backdrop

- The situation surrounding the COVID-19 global outbreak is highly dynamic and remains a major cause for concern. Indeed, more than 200 countries and territories have reported infected cases, with the number of people infected having accelerated to around 2 million and over 120,000 deaths having been registered as at mid April.

- The pandemic, which has become a global emergency, has triggered unprecedented challenges and spillover repercussions that are posing serious threats to economic and social development. As the virus continues its propagation around the world, Governments have turned to proven public health measures, such as social distancing and lockdowns, to physically disrupt the contagion. In the process, it is worth noting that the flow of goods and people has been severed on the international front, with economies being stalled – notwithstanding significant support measures that the authorities have put into place across countries and regions – while financial and commodity markets have also taken a hit.

What this means for Mauritius…

- Mauritius has not been insulated from the COVID-19 blow. In fact, while the authorities have reacted by introducing a number of support measures – notably covering the social, monetary and macro-financial fronts – a significant downturn is foreseen in economic activity this year. Essentially, the impact of local confinement measures implemented in the wake of the detection of infected cases would be compounded by the global repercussions spanning to the country given its high exposure to international trade and investment.

- This document provides some preliminary insights into the main transmission channels of the crisis onto the Mauritian economy and sheds light on the potential implications for the country. Of note, the views formulated in the report are based on an assessment of the situation as it stands. Readers are, however, advised to take cognizance of the highly dynamic nature of the current operating landscape, which may, therefore, cause the performance and orientations of the Mauritian economy to evolve rapidly over time.

The global economic outlook is looking increasingly bleak …

There is growing consensus that the world is heading towards a recession this year

International Monetary Fund *(April 14)*	• Global growth to contract by 3.0% in 2020 with significant downside risks • "Today we are confronted with a crisis like no other. We anticipate the worst economic fallout since the Great Depression" - *Kristalina Georgieva Managing Director*
Economist Intelligence Unit *(April 8)*	• The coronavirus pandemic is a game changer, pushing global output to contract by 2.5% in 2020
Capital Economics *(March 31)*	• Global economy to contract by over 3% in 2020 • Sharpest and deepest global slowdown since World War II

- Basically, **economic activity is plummeting worldwide** as infections and measures to combat the pandemic are triggering **both supply and demand shocks**:
  - Containment efforts are leading to a drop in capacity utilisation and lowered production, thus disrupting global supply chains
  - On the demand side, restricted mobility, loss of income, fear of contagion and heightened uncertainty are affecting spending by consumers and businesses
- In this uncharted territory, naming a global recession adds little clarity beyond setting the expectation of a negative growth rate for this year that could **possibly end up being even worse than the rates currently being envisaged** in the event that it takes longer for the virus to be contained, thereby feeding into self-sustaining recessionary dynamics

Emerging markets and developing economies to be hit the hardest

- **Around USD 90 billion** of capital already flown out (IMF)
- Many of these economies to bear the brunt of collapsing commodity prices

Sectors such as tourism, aviation and logistics to be more severely impacted

- **49 million jobs** in the travel and tourism sector at risk globally (World Travel & Tourism Council)

Looking ahead

A partial recovery is anticipated for 2021 with global growth reaching 5.8% as per the base case of the IMF. That said, notable downside risks prevail given the significant uncertainty about the intensity, lifespan and depth of the pandemic and since the effectiveness of monetary and macro-financial measures remains to be ascertained. Also, potential lasting welfare losses to the society through increased unemployment and corporate bankruptcies could weaken the recovery process.

… with the country's key trading partners being severely hit …

Euro Area

- GDP growth is foreseen to contract by 7.5% this year (IMF) – the first recession in 7 years
- As per a recent analysis by the Bank of France, France has now entered into recession after a second consecutive quarter of negative growth. The report also indicates that every two-week period of confinement costs the French economy about 1.5% of GDP and an additional 1% of public deficit

UK

- UK economic output could plunge by an unprecedented 15% in second quarter of the year (CEBR, March 30, 2020)
- Overall, GDP is predicted to contract by 6.5% this year (IMF)

US

- As stated by Federal Reserve Chairman, US may already be in recession. Overall, GDP is likely to contract by 5.9% this year (IMF)
- Initial jobless claims jumped to a record 6.9 million in the week ending March 28th, from 3.3 million in the previous week, adding up to about 10 million job losses during the last two weeks of March.

Sub-Saharan Africa

- As per the IMF, the region is set to register a negative growth of 1.6% in 2020, with a contraction of 3.4% and 5.8% in Nigeria and South Africa respectively. Following the dramatic decline in oil prices since the beginning of the year, near-term prospects for oil-exporting countries have deteriorated significantly.
- The latest Africa Pulse of the World Bank indicates that the pandemic will cost SSA between USD 37 billion and USD 79 billion in terms of output losses for 2020.

China

- While businesses steadily resume activities, slow improvement in consumer demand would temper the pace of China's recovery
- The IMF expects real GDP growth of 1.2% in 2020 (from 6.1% in 2019)

India

- Reduced domestic demand, private investment and credit supply to the economy could exacerbate the already worsening outlook
- The IMF forecasts real GDP growth to attain 1.9% in 2020 (from 4.2% in 2019)

Sources: IMF, World Economic Outlook, April 2020, Banque de France (April 8 2020), Centre for Economics and Business Research (March 31, 2020), Federal Reserve, IMF, Moody's Banking System Outlook India (April 2, 2020) & World Bank Africa Pulse (April 9, 2020)

Financial Markets

- Global stock markets have recorded their worst quarter since the start of the financial crisis in 2008.
- Rising volatility has been observed across global stock markets. This situation has triggered market-wide automatic trading suspensions, called circuit breakers, which are regulatory mechanisms in place to temporarily stop trading on an exchange in the event of severe market declines.
- With regard to the bond markets, the yields have reached record lows lately and are, notwithstanding support measures, likely to remain at or close to these record lows for the near term.
- In Q1 2020, most emerging markets currencies, excluding China, fell to their weakest levels since the 1990s when measured against the US dollar. The plunge has made servicing external debt for emerging markets ever-more expensive, thus creating a serious threat to financially weaker economies.

Movements in global stock market indices

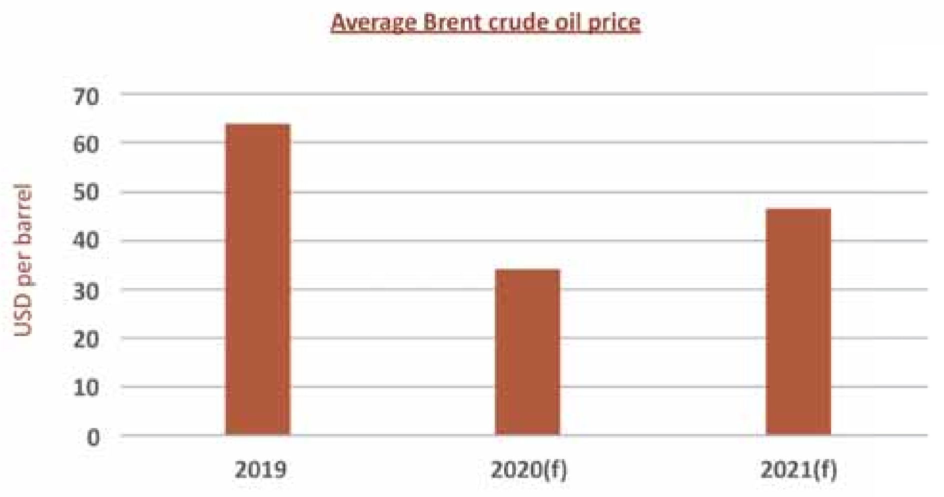
For the period January – March 2020

S&P 500	Dow Jones	FTSE 100
↓20%	↓23%	↓25%
		Worst quarter since 1987

Sources: The Economist & Financial Times

Commodity Markets

- Tellingly, the prices of most commodities have fallen markedly in recent times, except in the case of Gold – which is generally viewed as a safe haven and which rose by about 21% in Q1 2020 relative to the corresponding quarter of last year – and for canned food for which demand has risen amidst lockdown measures.
- The price of oil slumped to levels not seen since 2001, with Brent crude falling, on average, by 42% during March 2020 compared to the previous month. This occurred on the back of a dual shock: drop in global demand as lockdowns cut consumption and surge in supply following price war between Saudi Arabia and Russia that left the market awash in crude. Lately, however, an agreement was reached between major oil producers to cut global oil production by 9.7 million barrels a day for May and June, thereby putting an end to the price war.
- Overall, while remaining at relatively low levels during the short term, oil prices are generally anticipated to pick up gradually during the course of this year. Specifically, the US Energy Information Administration (EIA) expects Brent oil prices to average around USD 33/b in 2020, before increasing to USD 46/b in 2021, with the recovery being driven by a combination of an expected rebound in activity once lockdown measures are lifted and likely supply adjustments. As for the IMF, oil prices – when computed as the simple average of prices of UK Brent, Dubai Fateh and West Texas Intermediate crude oil – are expected to average USD 35.61 in 2020 and USD 37.87 in 2021, based on futures markets.



Sources: FAO, World Bank, IMF & US Energy Information Administration (EIA) *(f) EIA forecasts*

Growth in the Mauritian economy is bound to take a significant hit ...

IMPACT OF: Local spread of the virus and confinement measures **+** Global repercussions spanning to Mauritius

LEADING TO:

Demand shock
Reduced internal and external demand

Supply shock
Production disruption from restricted movements

Financial market shock
Uncertainty and volatility in financial markets

Channels of impact

Fall in exports	Consumption slowdown	Supply chain disruptions	Healthcare system	Fall in commodity prices	Dampened investor sentiment
Restrained consumer demand from our key markets affecting exports of goods and services; notable downturn in tourist arrivals, with ensuing country-wide multiplier effects	Mobility restrictions and aversion to public gatherings impacting expenditures of individuals and businesses, with a notable bearing on SMEs and MMEs	Business and factory closures locally and overseas leading to production cuts/shortages as well as lingering delays in the execution of investment projects	Potential pressures on public health care system and spending; higher demand for specific healthcare products and services	Falling prices of commodities (such as oil) on international markets due to lower demand	Uncertainties causing delays in investments, capital flights to safe havens, declines in equity prices and lower interest rates

Key sectors impacted

Tourism	Construction & real estate	Business Process Outsourcing (BPO)	Shipping, logistics & land transport	Wholesale & retail trade
Aviation	Textile	Other export oriented industries	Financial sector	Domestic oriented activities

Foreign earnings		Imports		Capital & financial flows	
Exports of goods (notably textile)	↓	Oil prices	↓	FDI (notably in real estate)	↓
Exports of services (notably tourism, BPO & transport)	↓	Slowdown in volume of imports	↓	Portfolio flows	↓
Primary income*	↓	Depreciation of the rupee	↑	Global business flows	↓

**Primary income is the net flow of compensation of employees, investment income (such as dividends and interest), rent and taxes and subsidies on products and production between a country and the rest of the world*

There is a high likelihood that the balance of payments will turn into deficit for the first time in nearly 15 years

Pressures are likely to be exerted on the availability of foreign currencies in the economic system

… and the prevalence of wider-level socio-economic considerations

Net employment creation

- Pressures on the ability of business operators to sustain employment across specific economic sectors amidst declining business operations
- Confinement bringing to surface the vulnerability of the informal sector and the self-employed population who are dependent on day-to-day earnings, although the authorities have provided some relief those respects

Public health

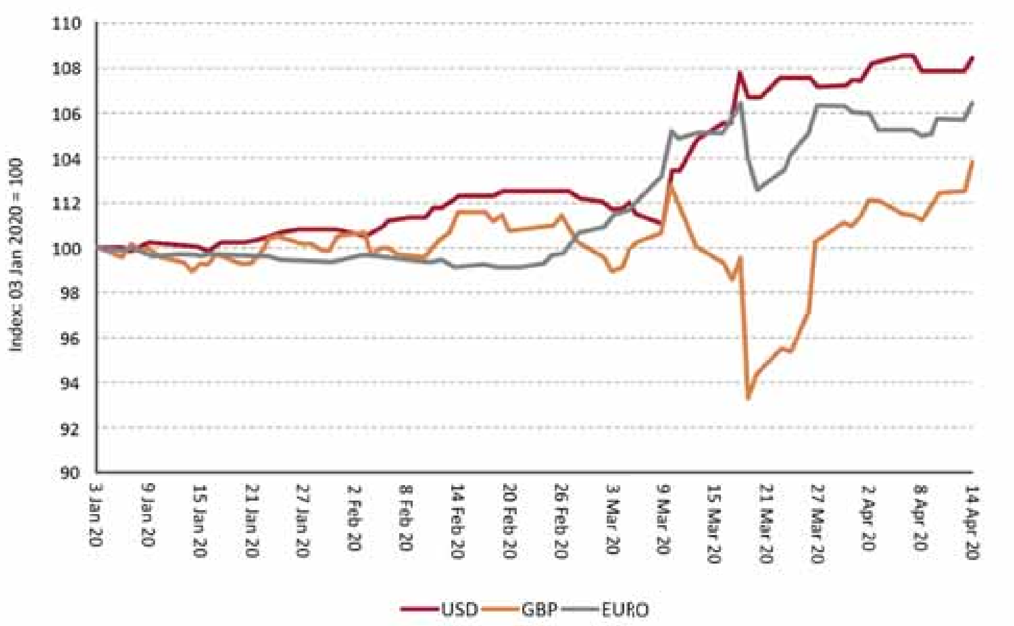
- Increased public expenditure and pressures on the country’s healthcare system, in terms of extension of bed capacity and equipment as well as staffing issues
- Overall, the impact will depend on the duration and severity of the crisis as well as the success of likely capacity enhancements by the authorities

Fiscal performance

- Fiscal metrics are anticipated to be impacted by dampened revenue collection of the Government amidst the difficult context and higher expenditures linked to support measures. Of note, in the context of the April update to the World Economic Outlook database, the IMF projects that the General Government net lending/borrowing in Mauritius would deteriorate to -10.6% of GDP in 2020 (compared to -6.5% in 2019) before declining to -5.9% of GDP next year.
- That being said, the worsening of fiscal metrics is likely to be a global phenomenon to the extent that the extraordinary socio-economic challenges arising from the COVID-19 crisis call for sizeable support measures to weather the shocks.

Against this backdrop, increased volatility has been witnessed in forex and money markets …

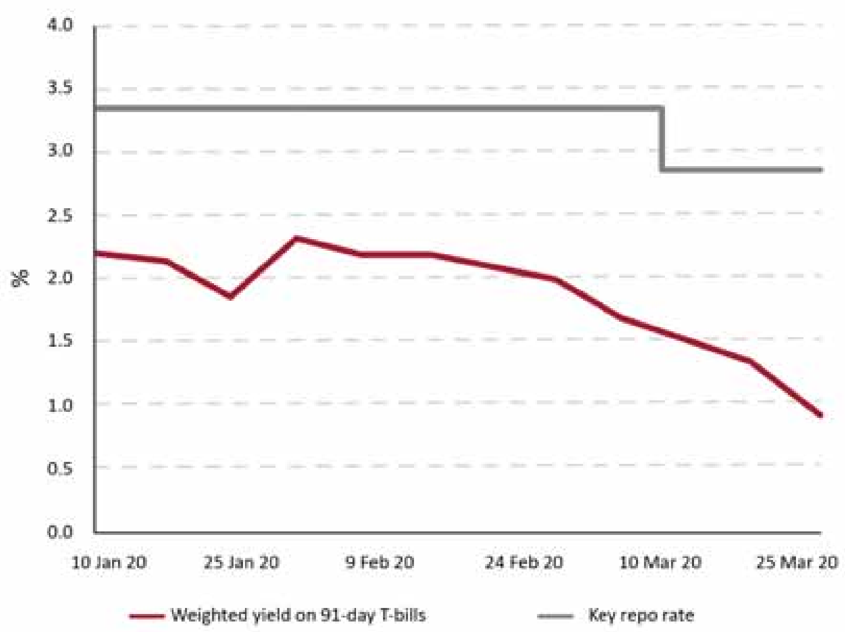
Evolution of MUR v/s main currencies



Note: An increase/decrease in the index corresponds to a depreciation / appreciation of the Mauritian rupee

	Mid-rate	(Appreciation)/Depreciation of the rupee		
	14-Apr-20	m.o.m	y.o.y	y.t.d
	MUR	%	%	%
USD	39.50	3.5	13.1	8.5
Euro	43.18	1.2	9.9	6.4
GBP	49.58	3.8	9.0	3.9

Evolution of Key Repo Rate and yields on T-bills



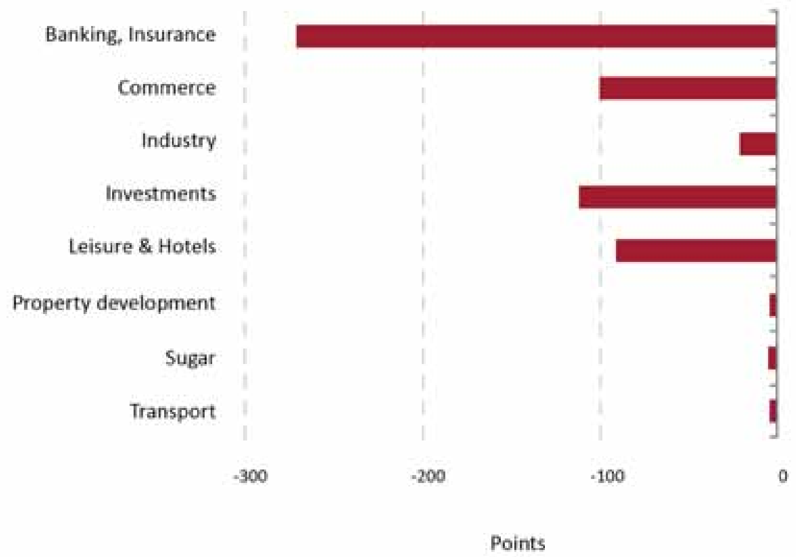
Note: The Key Repo Rate is the key policy rate used by the Bank of Mauritius to signal changes in its monetary policy stance.

Sources: Bank of Mauritius & MCB Treasury

… as well as on the Stock Exchange of Mauritius

Evolution of the SEMDEX

Contribution to the change in SEMDEX over Q1 2020 by sector



Conclusion

- We are living in unprecedented times, with the extraordinary conditions calling for extraordinary actions and behaviours from all of us. As highlighted before, the pandemic has paralysed the global economy and is taking a significant toll on economic activity in Mauritius. As matters stand, while the full impact of the crisis on the country remains subject to notable uncertainties – insofar as it will notably depend on the intensity, lifespan and depth of the virus spread as well as the effectiveness of containment and support measures being executed by the authorities – the Mauritian economy is, in all likelihood, anticipated to register a notable contraction this year, with the IMF forecasting a negative growth of 6.8% in its recently-updated World Economic Outlook database. On the other hand, an important rebound in GDP growth can be foreseen for 2021 as per the current base case scenario, though some sectors, such as tourism, would take some time to return to pre-pandemic levels.

- Overall, effectively confronting and mitigating the economic damage befalling on Mauritius calls for ambitious, broad-based and coordinated support measures – along the lines of the sizeable stimulus packages deployed by several countries worldwide – with a view to attending to people's needs, protecting employment and ensuring that businesses remain afloat. Along the way, a key priority is to reduce stresses on the financial system and uphold supply of credit to the real sector. Strategically, towards realising its socio-economic objectives amidst such testing times, it has become increasingly evident that initiatives already adopted by the authorities be (i) complemented by further timely and targeted measures providing short term relief to households and businesses; and (ii) accompanied by a longer term view, which incorporates dedicated policies that can assist to build up further resilience against potential macroeconomic shocks, alongside meeting productivity and competitiveness imperatives that will help businesses adequately deal with and adjust to the post-COVID era, with its new normals and realities.

- Whereas the above responses should – along with the country's strong fundamentals (e.g. comfortable reserves position and institutional strength) – help the Mauritian economy to recover at a sustained pace, it is important that dynamic collaboration between public and private stakeholders is maintained to resolutely overcome the headwinds and challenges faced by the nation. Alongside capitalising on support from international partners, everyone in Mauritius– be it the Government, regulators, businesses, employees or the wider population – has a key role to play to enable the country duly confront the tough conditions triggered by the pandemic, get out of the conundrum and gradually restore normality.

This report has been prepared with the assistance of the **Strategy, Research & Development (SRD)** department of MCB Ltd.

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