MANAGEMENT DISCUSSION AND ANALYSIS

THE MAURITIAN ECONOMY

The Mauritian economy has been severely affected by the pandemic and the government is trying its level best to manage the number of new cases and deaths and to mitigate the economic impact of the crisis. With the closure of the borders, the tourism sector, which normally contributes around 24% of GDP and 22% of employment, was the most affected, real GDP contracted by 15% in 2020, and the current account deficit widened (-10.1% of GDP in 2020 against -5.7% of GDP in 2019 source: trading economics). This has had a knock-on effect on the economy as a whole.

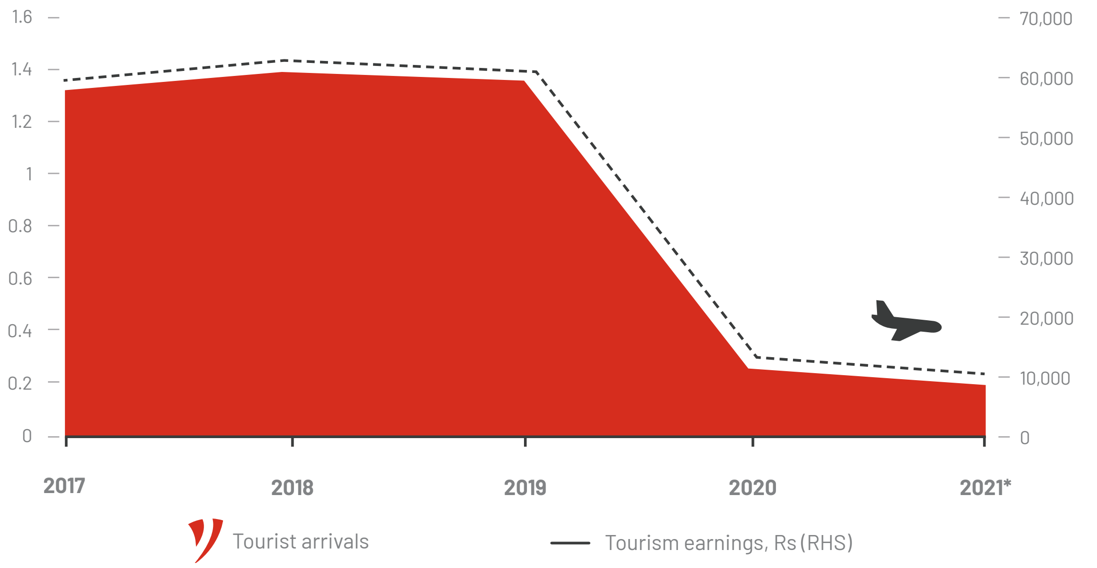
The pandemic led to a contraction in economic activity across the board

Contibution to Real GDP Growth : Supply Side
(in percent of GDP)

Source: IMF country Report No.21/139

With tourism coming to a standstill in 2020Q2, the tourism receipts collapsed

Tourism Arrivals and receipts
(millions)



MANAGEMENT DISCUSSION AND ANALYSIS

THE MAURITIAN ECONOMY (Cont'd)

The budget deficit has also widened due to lower revenues and increased spending to meet various necessities. Inflation remains low, with headline inflation at 1.9% in April 2021. At the same time, the current account deficit has widened to MUR 17.2Bn at the 1st Quarter of 2021 due to lower exports and tourism receipts.

The vaccination programme started in February 2021 and the government expects at least 60% of the population to be vaccinated by October 2021. The Mauritian borders have been partially opened and the full reopening is planned for October.

Furthermore, Mauritius has been placed on the Financial Action Task Force (FATF) in February 2020 due to strategic deficiencies identified by the FATF in its AML/CFT system. In order to graduate from this list, Mauritius was asked by the FATF to implement an action plan, which included, among other things, the implementation of risk-based supervision of the international business sector and designated non-financial businesses and professions (DNFBPs), timely access to basic and beneficial owner information by competent authorities, training of law enforcement agencies to conduct parallel financial investigations, monitoring of the NPO sector and proper implementation of targeted financial sanctions through awareness raising and surveillance.

At its June 2021 Plenary meeting, the FATF decided that Mauritius warranted an on-site visit following the satisfaction expressed by the FATF Executive that all criticisms of the Mauritian financial services sector for deficiencies in its fight against money laundering and terrorist financing have been addressed. The organisation will use its report to initiate the process of formally removing Mauritius from the list. If this is the case, Mauritius could then be considered for removal from the EU's blacklist.

KEY repo rate, yields and FX

Announced Key Repo Rate, Overnight Interbank Rate, 91-Day BOM Bill Yield
(in Percent)

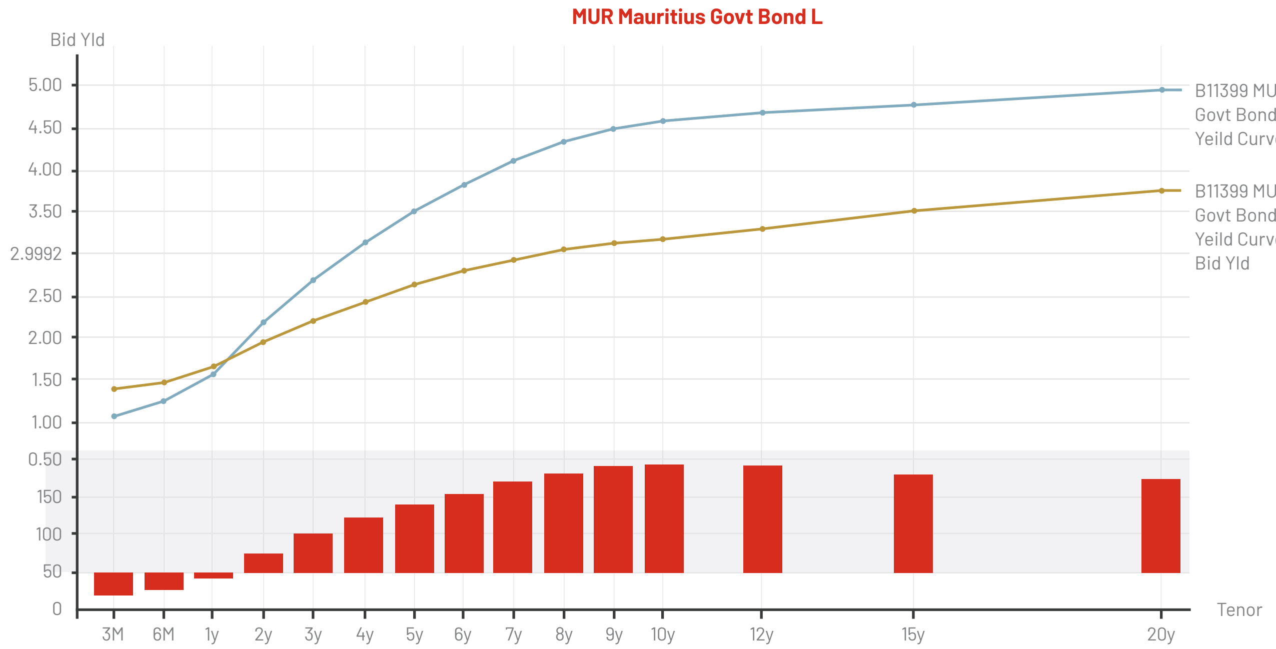
Source: IMF country Report No.21/139

MANAGEMENT DISCUSSION AND ANALYSIS

THE MAURITIAN ECONOMY (Cont'd)

KEY repo rate, yields and FX (Cont'd)

The Key Repo Rate ("KRR") has been kept unchanged during the financial year 2020 while the overnight money market interest rate declined to almost 0% all thanks to excess liquidity in the Banking system which stood at MUR 24Bn as at July 2021. Government bonds yields on the other hand rose due unusual longer terms out of calendar issuances.



IMF expectations

The IMF anticipates a recovery of the Mauritian economy in 2021, with growth expected to be around 5% in 2021 and 6.7% in 2022. Tourism flows, which are of the utmost importance, are expected to rebound in the second half of the year, as well as exports, in line with global demand. Unemployment is likely to remain high, at 9.2% in 2021 and 2022, due to the reduction in wage support schemes. Inflation is expected to rise modestly by the end of 2021 to 2.9% in 2022, driven by the recovery in aggregate demand.

Medium term growth is projected to converge to pre-pandemic rates of 3-3.5%. Mauritius' economic outlook is subject to downside risks as the country emerges from the pandemic. Tourism flows are uncertain, and a prolonged pandemic could require costly containment efforts and prompt behavioral changes hurting tourism. The IMF believes that both the fiscal and monetary stance should remain accommodative in the near term. However, given the rising debt level, the authorities should prepare for credible medium-term consolidation and rebuilding fiscal buffers, including through an appropriate fiscal rule. Once the country has exited the crisis, revenue will need to be increased and spending reduced to put debt on a declining path, while avoiding undue social costs (IMF country report).

In the wake of the crisis the local authorities took several measures to limit damage. These included:

- As from the month of March 2020, the grant of a wage assistance scheme was launched to contain unemployment and hence social distress. All companies in Mauritius could apply for Wage Assistance subsidy to alleviate the employee cost for the month of March ranging from 15 days' basic wage bill to MUR 12,500 per employee;
- Income support for the self-employed, have provided support to firms and households;
- Workers from the informal sector, i.e. self-employed not registered with the revenue authority will get 50% of the prevailing minimum wage if they register with the revenue authority during the COVID-19 lockdown;
- Priority sectors for assistance are travel and tourism sector, export-oriented enterprises, ICT/BPO sector, SMEs and other sectors of the economy, who become technically unemployed on a temporary basis due to the impact of the Coronavirus;
- The Central Bank has allowed households impacted by COVID-19 a moratorium of six (6) months on capital repayments on their existing household loans as from the 1st of April 2020. Low income groups will see the Bank of Mauritius bear the interest payable on outstanding household credits with commercial banks up to June 2020;
- The BOM has initiated a USD/MUR swap arrangement with commercial banks for an initial mount of USD100 million to enable commercial banks to support import-oriented businesses, except for the State Trading Corporation which will be dealing directly with the Bank of Mauritius for its foreign currency requirements until further notice;
- Tourism sector: MUR 420M has been allocated to the Mauritius Tourism Promotion Authority (MTPA) for the promotion and destination marketing in France, Reunion, UK, Germany, Italy, South Africa and China;
- The Economic Development Board ("EDB") will set up a special desk aiming to attract at least 50,000 foreign retirees in Mauritius during the next financial year, through a targeted marketing campaign in collaboration with MTPA; and
- Creation of the Mauritius Investment Corporation Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS

THE MAURITIAN ECONOMY (Cont'd)

The MIC

Following the crisis, The Bank of Mauritius created the Mauritius Investment Corporation Ltd in June 2020. The establishment of the MIC is fully in line with the Bank of Mauritius's mandate which is to ensure an orderly and balanced economic development of the country as well as safeguard the stability of the financial system. Its aim is to deliver sustainable value over the long term.

The Investment philosophy of the MIC includes:

- Financial assistance to companies affected by COVID-19 pandemic.
- Investment of assets under its management to support higher long-term growth and secure basic necessities.
- Support for the economic development of Mauritius.
- Securing and enhancing financial wealth for current and future Mauritius generations
- Financing of green and blue projects that would encourage sustainable development.

As of 30 June 2021, The Mauritius Investment Corporation Ltd has disbursed a total of MUR 9.141Bn, which 53.4% being to the Accommodation & Food Service Activities followed by 35.3% to the Agriculture, Forestry and Fishing, 6.8% to Manufacturing, 0.5% to Arts, Entertainment and Recreation and 0.7% to Real Estate *(Source: The Mauritius Investment Corporation Ltd website).*

The 2021 Budget in brief

The Finance Minister presented a socially oriented 2021/2022 budget with ambitions for a MUR 65Bn stimulus package over 3 years, including structural renovations and improvements as well as tax incentives for key future sectors such as bio-medicine and upgrades for the sugar industry. The country is also committed to sustainable development, aiming for self-sufficiency in coal by 2030, and encouraging local businesses to consume locally produced goods and services.

In addition, the plan to reopen the borders from October 1st should offer a significant economic rebound, expected to reach 9% growth over the fiscal year, and allowing the debt ratio to return to 91% compared to 95% today. In addition to opening up to foreigners by introducing new permits, notably the 'premium investor' and lowering the threshold for access to property, the Finance Minister has indicated his commitment to respecting international ethical standards, enabling us to get off the blacklist as quickly as possible. The emphasis on education and skills is welcome as we reinvent ourselves beyond the pandemic. The successful implementation of these proposals is now key to the recovery of a resilient economy.