SBM INSIGHTS

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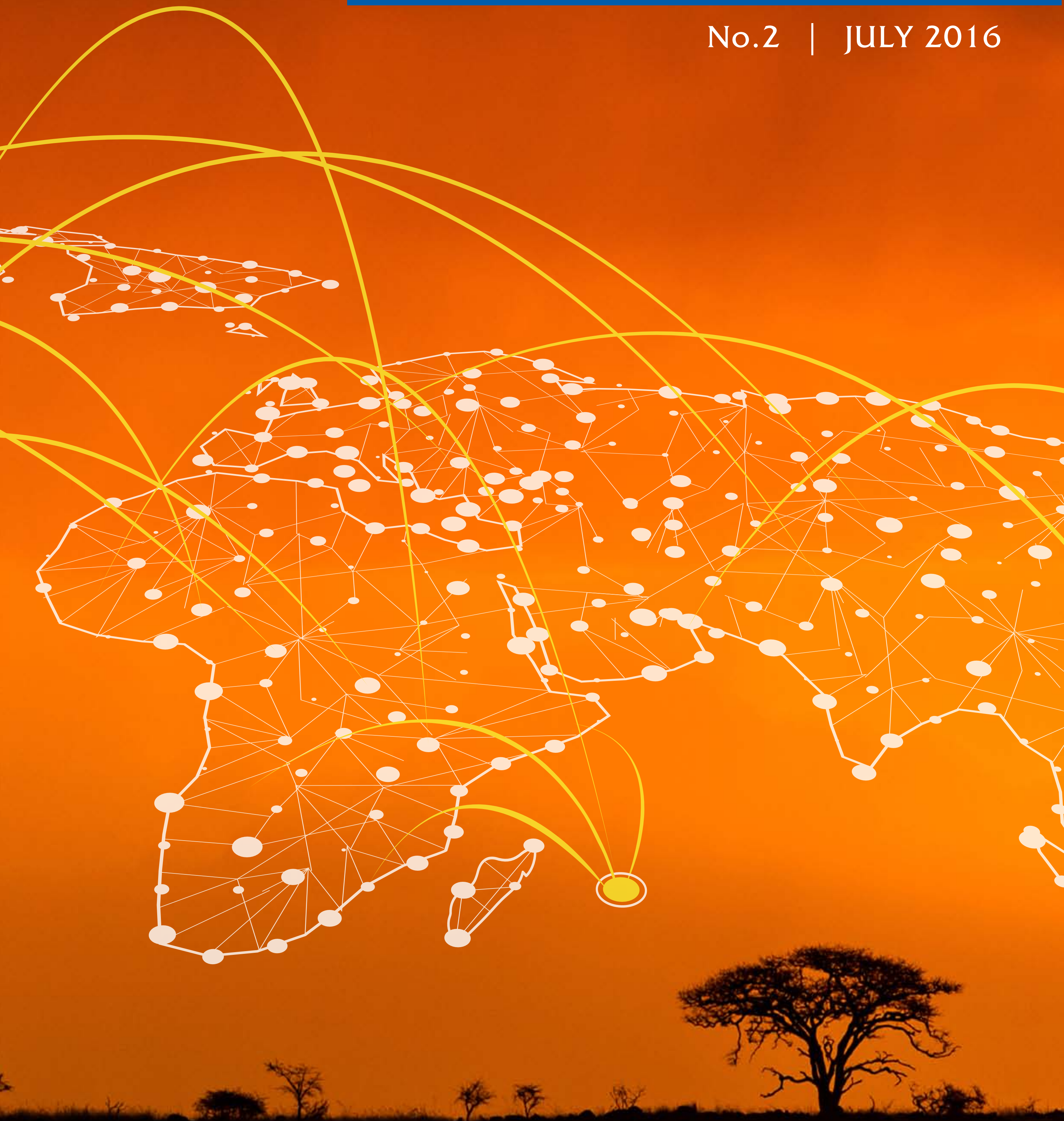

CHIEF EDITOR'S NOTE

The context for this second edition of SBM Insights® is a very intriguing one. While the National Budget is being highly anticipated in Mauritius, very few were expecting that the result of June 23 referendum in UK would have been a YES, i.e. an exit from the EU. Though not legally binding, the likely departure of the UK from the EU will have an impact on the global and local economies. The nature of the impact, however, will depend on the extent to which it is a "hard exit" or a "soft exit". The 2016-2017 National Budget should therefore, in addition to what was on the agenda without Brexit, also include additional measures to increase the resilience of the Mauritian economy in the wake of Brexit.

At the international level, even before Brexit, the pace of economic activities was sluggish. The pre-Brexit economic landscape was characterized by weak demand, low productivity and depressed commodity prices. Now that the majority of the voters in the UK have chosen to leave the EU, the global economy is set to face additional headwinds and uncertainty. The UK is at the center of a political and a potential constitutional crisis. Rating agencies downgraded the credit rating and economic outlook of the UK within a week of the announcement of the referendum's result. Other countries across the EU are facing calls to have UK type referendum on whether or not to stay in the EU. In this context, volatility in the financial markets, especially a depressed GBP, could persist. In the shorter term, the resulting political and economic uncertainty could weaken investors' confidence and risk appetite not only in the UK but also across the world. In the longer term, the mode of exit – i.e. hard or soft exit –and the future EU-UK relationship will impact the trend in global economic activity. Given the international context, central banks across the world stand ready to intervene. Hence, we may expect a prolonged period of low interest rates and further quantitative easing.

On the domestic front, the economy continues to navigate in a challenging territory. While some sectors such as business and financial services, ICT as well as tourism have maintained their growth momentum, the overall performance of the Mauritian economy has been modest. This is attributable to drags in export-oriented industry and in the construction sector admist weak investment. In the meantime, new challenges have emerged; namely the revision of the Mauritius-India DTAA and Brexit. As a result, economic operators may face a period of uncertainty and sluggish demand conditions, which have contributed to a downgrade in our growth projections. Against the background of subdued economic expansion, tempered business confidence level, sluggish capital formation and the persistence of labour market rigidities, the unemployment rate is expected to remain on the high side. Taking into account that a lukewarm economic outlook is likely to prevail in the near future, the 2016-2017 budget must encompass measures which will not only increase the resilience of the Mauritian economy but also give a boost to growth.

Furthermore, in this edition of SBM Insights®, we take the opportunity to explore some African countries through our country reports. These are countries that we believe hold considerable potential and interest for the Mauritian business community. The first country report is on Côte d'Ivoire. Following a civil war which lasted till 2011, this country embarked on a series of reforms to rebuild its economy and society. Since then, things have taken a turn for the better. The country has posted above average economic growth over the past years while maintaining relative stability. It is now aiming to consolidate this situation by embarking on a National Development Plan (2016–2020). Similarly, Kenya embarked on its Vision 2030 programme back in 2008 and is now reaping the benefits. Investor interest in domestic and regional projects is rising and economic growth has been above the Sub-Saharan average for the last few years. Yet, recent turmoil in the banking sector shows that investors must tread carefully.

Our Special Report touches upon a topic that has been in the news lately. Indeed, changes brought to the Mauritius-India DTAA have provided us with the occasion to explore global anti-tax avoidance initiatives and to analyze their possible impact on Mauritius.

We wish you good read-ing, and look forward to receiving your views and feedback at research@sbmgroup.mu.

SREEKEESSOON Shailen
Head of Strategy, Research & Innovation
July 13, 2016

SBM INSIGHTS

Chief Editor's Note

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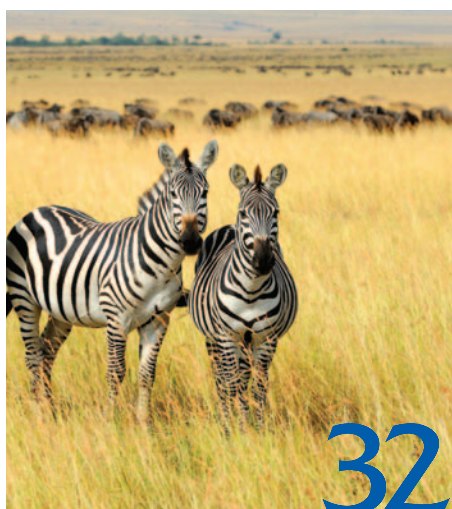

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ABBREVIATIONS

ATM	Automated Teller Machine
BEPS	Base Erosion and Profit Shifting
BIAO	Banque Internationale pour l'Afrique Occidentale
BRVM	Bourse Régionale des Valeurs Mobilières
CBDT	Central Board of Direct Taxes
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CIPREL	Compagnie Ivoirienne de Production d'Electricité
COMESA	Common Market for Eastern and Southern Africa
CRS	Common Reporting Standards
DTAA	Double Taxation Avoidance Agreement
EMDE	Emerging Markets and Developing Economies
EU	European Union
EUR	Euro
FATCA	Foreign Account Tax Compliance Act
FSC	Financial Services Commission
GAAR	General Anti-Avoidance Rules
GBC	Global Business Company
GBP	Great Britain Pound
GDFCF	Gross Domestic Fixed Capital Formation
GDP	Gross Domestic Product
GFCI	Global Financial Centre Index
ICT	Information and Communication Technology
IGA	Intergovernmental Agreements
IMF	International Monetary Fund
INR	Indian Rupee
IT	Information Technology
KDIC	Kenya Deposit Insurance Corporation
KES	Kenyan Shilling
MUR	Mauritian Rupee
NDP	National Development Plan
NPL	Non-Performing Loans
OECD	Organisation for Economic Co-operation and Development
PMI	Purchasing Managers' Index
PNBGLC	Plan National de Bonne Gouvernance et de Lutte contre la Corruption
PNCS	Plan National de Cohésion Sociale
SADC	Southern African Development Community
SME	Small and Medium Enterprise
UK	United Kingdom
UNDP	United Nations Development Programme
USD	United States Dollar
WAEMU	West African Economic and Monetary Union
WTI	West Texas Intermediate
MCCI	Mauritius Chamber of Commerce and Industry
XOF	West African CFA Francs

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GLOBAL MACROECONOMIC ENVIRONMENT

HIGHLIGHTS

Global activity was tepid in the first half of 2016, with risks remaining prominent. Brexit is a seminal event with implications for the global economy. Prior to the referendum result in favour of Brexit:

- Global recovery was hindered mostly due to factors like: weak demand, unresolved crisis legacies, as well as unfavorable demographics and low productivity growth;
- In the US, despite an improvement in the job market, a slowdown was noted during the first quarter of 2016;
- Euro zone economy grew by 0.6 % in the first quarter of 2016, driven by household spending and private sector investment;
- Growth in EMDEs had slowed further;

Brexit has now added uncertainty in the global economy.

Rating agencies have already downgraded the credit rating and economic outlook of the UK.

The magnitude and long term consequences of Brexit on the UK and the global economy would largely depend on the different scenarios about how the UK would be leaving the EU.

Uncertainty, mounting risk aversion and depressed business confidence are expected to add to the loss of dynamism observed prior to the result of the June 23 referendum in the UK.

Assuming a scenario lying between a "soft exit" and a "hard exit", growth in the UK economy is expected to be lower by 50 basis points in 2016 and by 110 basis points in 2017, compared to earlier forecasts.

The impact on the EU would be less significant, unless events unfold in a disorderly manner, with further breakup in the union.

EMDEs would be affected in varying degrees, according to their dependence on the UK and potentially the EU.

Currency markets would remain volatile while commodity prices are expected to be depressed, on average.

GLOBAL MACROECONOMIC ENVIRONMENT

Since the publication of our first edition of SBM Insights®, global activity has remained tepid with risks remaining prominent. However, given that Brexit is a seminal event with implications for the global economy, it is useful to understand its implications for the global economy.

PRE BREXIT SITUATION

In its April 2016 World Economic Outlook edition, the IMF further downgraded its prognosis for global growth this year by 20 basis points to 3.2 % on the back of persisting challenges in both advanced and emerging economies. The recovery was hindered mostly by factors like: weak demand, unresolved crisis legacies, unfavorable demographics and low productivity growth. The expansion rate of EMDEs was anticipated to rise only modestly compared to 2015 to 4.1 % this year. The main factors behind this include: slowing growth in oil exporter; slowdown in China; and diminished growth prospects in many and low income nations. On a more positive note, the outlook for India remained positive, with strong growth projection of 7.5 % for 2016 and 2017 amidst rising real incomes.

US ECONOMY

In the US, gross domestic product (GDP) in the first quarter of 2016 plunged by 0.5 %, succeeding an already disappointing performance in the final quarter of 2015 (1.4 %). The key factors which contributed to this slowdown include: a contraction in private non-residential investment (mainly driven by sharp decline in capital expenditure in the energy sector), continued cuts in inventories and a negative contribution from net exports. Real consumer spending growth also has dropped to 1.9 % in spite of an improvement in the unemployment rate to 4.7 %, which contributed to an acceleration in household income gains and declining oil prices.

EURO ZONE

The Euro zone economy grew by 0.6 % in the first quarter of 2016, the highest rate for 12 months, driven by improved household spending and private sector investment. Besides, despite the presence of several risk factors, the short-term economic environment in Europe was deemed as relatively favourable compared to other mature economies as domestic demand and the labor markets were showing positive signs while investment and productivity were expected to recover, auguring well for long term growth.

UK

Recovery in the UK since mid-2009 has been relatively slow by historical standards, but still faster than most other G7 economies over this period. Its economy decelerated slightly in Q1 and for 2016, growth was forecast at 1.9 %. The main elements which contributed towards this slowdown included a weakening in the external sector's contribution to overall growth and uncertainty around the Brexit referendum. This situation was also having an impact on the stability of the currency

JAPAN

The Japanese economy continued to face weak growth together with fragile activity and deteriorating confidence in the first quarter of 2016. The inflation rate fell to -0.1 % in March and the Bank of Japan's Tankan survey shows that companies' inflation expectations continued to decline. These disruptions in the Japanese economy were also related with the two earthquakes on the island of Kyushu in April.

EMERGING AND DEVELOPING ECONOMIES (EMDEs)

Growth in EMDEs slowed further in Q1 2016. In April 2016, the IMF projected a modest growth of about 4.1% for EMDEs, 20 basis points below their January projections. EMDEs were facing stronger headwinds, particularly commodity exporters which were struggling to adjust to persistently low commodity prices as compared to commodity importers which were showing greater resilience. In China, growth was projected to decelerate further to 6.2% in 2016, that is, 20 basis points below the January forecast projecting the back of weak exports and slow investment. India was expected to continue to outperform other major developing economies, with a projected growth of 7.5% in 2016.

Table 1.1: Global growth projections (Pre Brexit)

(Figures in annual percentage change)	2014	2015	2016 (f)	2017 (f)	% point differences from Jan 2016 projections: 2016 (f)	2017 (f)
WORLD	3.4	3.1	3.2	3.5	(0.2)	(0.1)
ADVANCED ECONOMIES	1.8	1.9	1.9	2.0	(0.2)	(0.1)
US	2.4	2.4	2.4	2.5	(0.2)	(0.1)
UK	2.9	2.2	1.9	2.2	(0.3)	0.0
Euro Area	0.9	1.6	1.5	1.6	(0.2)	(0.1)
EMERGING MARKET AND DEVELOPING ECONOMIES	4.6	4.0	4.1	4.6	(0.2)	(0.1)
China	7.3	6.9	6.5	6.2	(0.2)	(0.2)
India	7.3	7.3	7.5	7.5	0.0	0.0
Emerging and Developing Europe	2.8	3.5	3.5	3.3	(0.4)	(0.1)
Middle East, North Africa, Afghanistan and Pakistan	2.8	2.5	3.1	3.5	(0.5)	(0.1)
Sub-Saharan Africa	5.0	3.4	3.0	4.0	(1.0)	(0.7)

Source: IMF World Economic Outlook April 2016

BREXIT FACTOR

However, the occurence of Brexit has now added additional uncertainty in this very complex equation. The above scenario is set to change as rating agencies have already downgraded the credit rating and economic outlook of UK.

BREXIT SCENARIOS – HARD VS SOFT EXIT

Though the risk factors are overwhelmingly on the downside, the magnitude and long term consequences of Brexit on the UK and global economies would largely depend on the different scenarios about how UK would be leaving the EU. A comparison between a "soft exit" and "hard exit" scenarios would give an indication of the extent of possible divergences in the outcome.

Compared to a hard exit scenario, a soft exit could be characterized by relatively low uncertainty, less volatile financial markets and no further countries leaving the EU but with short term market disruptions. The table below considers two such scenarios.

Table 1.2: Brexit Scenarios

	Soft exit	Hard exit
Political	Appointment of a new prime minister and cabinet in the UK within the next 3 months.	Inability to reach a consensus with respect to the appointment of a new prime minister. Possibility of a snap election in the UK.
Financial Markets	Short term disruptions in the financial markets with the depreciation of the GBP and EUR and depressed stock markets in the UK and in Europe.	Prolonged disruptions in the financial markets leading to rising unemployment, hike in non-performing bank loans and write off in banks' balance sheets, increased capital flight from the UK, reduced business confidence, drop in new investment, downfall of London as the preferred financial centre in the EU.
UK Constitution	A unified UK which includes England, Wales, Scotland and Northern Ireland with no call for independence.	A constitutional crisis in the UK with Scotland seeking independence and Northern Ireland seeking adherence with the Republic of Ireland.
Transition period	A transition period of 2 years during which a status quo with the EU will prevail.	Call from the EU to accelerate the exit of UK from EU or otherwise an uncertain exit plan due to stalling and complex negotiations between UK and EU.
Negotiation with the EU	Amicable and relatively quick agreement with the EU on the modality of UK's Exit.	While the exit may take 2 years as per the Lisbon Treaty, it may take longer for the UK to have a new agreement with the EU given that it will have to be agreed by all remaining EU members. There may also be risk of retaliation.
Trade	The UK continues to benefit from preferential market access to the EU and vice versa following quick negotiations with EU.	The EU imposes significant trade restrictions such as tariffs on UK products. The renegotiation of bilateral trade agreements between the UK and its trading partners takes time. Though the depreciation of the GBP makes UK exports less expensive, market access remains an issue.
Migration	Status quo with respect to current EU and non EU citizens living and working in the UK.	UK puts new restrictions and requirements on EU citizens on living and working in the UK. This impacts the labor market and economic activity in the UK.
Contagion across EU	No other countries leave the EU though they may hold UK type referendums.	Other EU countries choose to leave the EU and the Eurozone in the next 2 years.
Level of Uncertainty	Low to medium	Medium to High

OUTLOOK

Our outlook is based on a baseline scenario, which is between a "hard exit" and a "soft exit" scenario.

UK

The economic consequences for the UK leaving the EU are complex. The recent downgrades of its ratings and economic outlook by major rating agencies sum up to some extent the situation which the UK may be heading for. The country is currently facing a period of economic and political instability, accompanied by a drop in business confidence. At the time of writing this report, yields on UK government bond dropped rather than going up despite the cut in credit rating. This indicates strong risk aversion, anticipation of interest rate cuts by the Bank of England and a wait-and-see attitude by investors. Some degree of political uncertainty following the Brexit vote is also apparent and could further dampen investor and consumer confidence. As a result, investment is likely to suffer.

Another consequence – and a quite immediate one – has been on the currency. From 23 to 27 June 2016, the GBP lost almost 11% against the USD, confirming concerns about the repercussions of Brexit. The GBP is expected to endure market volatility though it is not excluded that some correction would occur in the short term.

Figure 1.1: GBP/USD one month trend

Source: Bloomberg

Over the longer term, the UK may miss out on future trade agreements which are being negotiated at the EU level, such as the EU-US new free trade agreement and the EU-Japan new economic partnership. Even the future UK–EU trade agreements and relationships are uncertain, which is a cause for concern given that EU countries account for some 50% of UK's exports.

On a brighter note, it is not excluded that uncertainty may be quickly dissipated if a stronger government enters into power and takes effective control of trade negotiations with the EU and other major economic partners.

As per the baseline scenario, growth is projected to be slower by about 100 basis points on an annualized basis to around 1.4% and 1.1% in 2016 and 2017 (compared to 1.9% and 2.2% for 2016 and 2017 as forecast by the IMF in April).

EU

An eventual departure of the UK from the EU bloc would imply a smaller economic union and trade area. Also, the EU could experience a 12% drop in its budget if the UK were to stop its contributions. Brexit may also cast doubt on demand and investment. On the political front, a major risk is a further weakening of the union, with other states breaking away. This would accentuate uncertainty and could degenerate into economic recession.

However, the economic consequence of Brexit on the EU may turn out to be milder than for UK. As a matter of fact, exports to the UK represent less than 5% of total EU exports. Besides, the departure of the UK from the union may imply that decision making may become smoother in the EU.

Therefore, the growth forecast for 2016 remains unchanged at 1.5% while the projection for 2017 is revised downwards to 1.3% for the euro area. (Compared to 1.6% as per the IMF in April).

US

Based on the recent purchasing managers' indexes (PMIs) which were in the expansion zone for the last three months, it is deemed that conditions may be stabilizing as from the second quarter. It is expected that the US will be less affected by Brexit compared to the EU. However, should other countries leave the EU and, as such, cause the weakening of the EUR, there may be a flight to safer currency such as the USD. This scenario may affect the competitiveness of US exports. Given the uncertainty generated by Brexit, it is also expected that the Federal Reserve will delay the next series of hike in the policy rate.

GLOBAL ECONOMY

The impact on EMDEs will depend on their dependence on the UK and, to a lesser extent, the Eurozone.

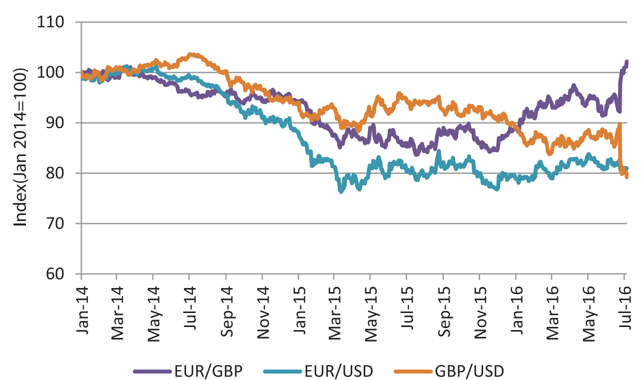
Evidence gathered during the past decade shows that financial linkages transmit economic shocks across countries almost instantaneously and with magnified amplitude. However, most analysts are anticipating that the impact of Brexit will not be of the same magnitude as during the global financial crisis or Greece default crisis. In the aftermath of Brexit, central banks across the world have signified their intention to intervene and to cover the potential cash shortage. However, a bumpy ride is expected as uncertainty continues to build up.

Uncertainty, mounting risk aversion, depressed business confidence are expected to add to the loss of dynamism observed prior to the result of 23rd June referendum in the UK. Hence, it is anticipated that global growth in 2016 and 2017 will be lower by 20 to 50 bps than the 3.2% and 3.5% respectively anticipated earlier this year by the IMF.

CURRENCY MARKET

GBP came under heavy selling pressure after the vote on Brexit, in fact, to an even larger extent than we had anticipated. On the other hand, EUR/USD remained relatively more stable. It is expected that currency markets would remain very volatile going forward, with negative bias against the GBP amidst uncertainty. If events would start pointing towards a "hard exit", it is expected that EUR could also be negatively impacted. On the other hand, gains on the USD may be somewhat contained should interest rate hikes in the US be delayed or, in a stress scenario, reversed.

Figure 1.2: Evolution of major currencies



Source: Bloomberg

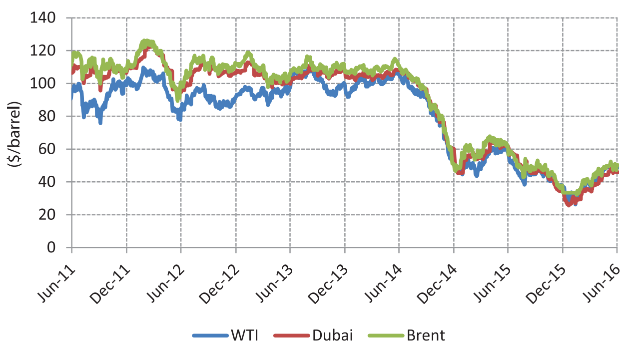
COMMODITY MARKETS

As highlighted in SBM Insights no.1, commodity prices have recovered from the January lows but uncertainty remains high, with improved oil supply sentiment and geopolitical risks as potential driving factors.

ENERGY MARKET

After plunging below USD 30 per barrel in January, price of oil (WTI) rebounded and averaged USD 49 per barrel in June. This trend in oil prices partly reflected supply factors, including outages in Iraq and Nigeria and accelerating cuts in U.S. oil production since December 2015, following a substantial decline in investment and drilling activity. Globally, the oil price plunge has prompted a reduction in the rig count by nearly 60% since November 2014. Based on recent trends, oil prices are expected to hover around USD 41 per barrel in 2016 and USD 50 per barrel in 2017. This implies marginally higher prices for the rest of the year as the oversupply in the oil market diminishes. However, should the impact of Brexit be more significant and broad-based than currently anticipated ("hard exit" scenario), the increase in average oil prices may be significantly curtailed, notably considering that Europe accounts for about 14% of global oil consumption.

Figure 1.3: Crude Oil Prices



Source: Bloomberg

METAL PRICES

Metal prices are projected to decrease slightly following abundant supply and continued slow demand. As with crude oil, production of metals has held up better than expected as a result of lower input costs and depreciating currencies in producing countries. However, there is a risk of industrial metal prices falling due to the slowdown in China's imports and dampened investor confidence linked to Brexit. On the other hand, heightened risk aversion may induce more investors to pile into gold, which rose to about USD 1,315 an ounce on June 24, up by 4.7% compared to the previous day, representing its biggest spike since the global financial crisis in 2008. The rise was particularly stark in sterling terms: bullion jumped almost 20% as investors sought a safe haven from the plunging pound. Later during that day gold came off its highs, but some investment banks have predicted that the price could reach almost USD 1,400 an ounce if risk aversion in global markets makes it even less likely that the Federal Reserve will raise interest rates later this year.

AGRICULTURAL COMMODITY MARKETS

The prospects for agricultural commodity prices for the next three quarters varies across products. Prices of corn, coffee, rice and wheat are expected to increase on weather concerns including El Nino related disruptions in East Asia while the prices of most grains and oilseeds should slightly decline on the back of favourable weather conditions in the Southern Hemisphere. On an annual average basis, food commodity prices in 2016 are expected to be only slightly above as compared to the preceding year while agricultural raw materials are expected to decline on account of weak investment prospects.

RISKS TO THE OUTLOOK

As discussed above, the Brexit vote has increased uncertainty in the markets and, depending how events pan out, its impact on the UK, the EU and the global economy can vary significantly. At the same time, several other risk factors remain present and are broadly in line with those discussed in SBM Insights no.1. These include: the timing of monetary policy decisions and its implications on currencies and financial markets, the risk of a hard landing in China and sharp movements in commodity prices. Moreover, geopolitical risks remain prominent with a multiplication of conflicts globally. The threat of terrorism, large and uncontrolled migration flows, weakening diplomatic ties are some of the concerns that might trigger protectionist policies and deter investments.

MAURITIAN ECONOMY HIGHLIGHTS

The Mauritian economy continued to grow at a moderate pace over the recent years with export-oriented industry and construction remaining key drags on activity.

Indeed, real GDP growth rate at basic prices of the economy was revised downwards at 3.0% for the year 2015, while unemployment rate estimated at 7.9%. In the first quarter of 2016, economic growth stood at 3.7%.

Looking ahead, challenges prevail, with the aftermath of Brexit being uncertain. Beyond the forecast horizon, we expect significant threats to also emanate from changes to the global tax environment.

Based on evidence of recent crises, Brexit is likely to negatively impact key export-oriented sectors, for instance, garments and tourism as well as investment-linked industries such as construction.

The economic growth forecast for 2016 has thus been revised downwards to 3.4% on account of less favourable performances anticipated in manufacturing and construction, as well as to some extent resulting from challenges emanating from Brexit.

Based on a "no policy change", a lukewarm economic outlook is predicted for 2017. As such, the speed and depth of project implementation at both public and private sector levels are vital to rekindle growth and employment creation over time.

In view of tepid economic conditions and heightened uncertainty, unemployment should remain high at close to 8% in 2016 and 2017 whereas inflation should be contained in the low single digits.

Subdued growth and employment, accompanied by low inflation should provide grounds for continued monetary accommodation.

Fiscal policy would remain tight with the requirement to materially reduce the public sector debt level. The budget deficit should thus be contained below 3.0% of GDP.

MAURITIAN ECONOMY

2015 growth estimates revised sharply downward on the back of a modest fourth quarter outturn

Despite a solid performance in key service sectors such as business and financial services, ICT and particularly tourism, growth in Q4 2015 was subdued at 3.5% year-on-year. The main drag factors on the performance were sugar, manufacturing (with the notable exception of food manufacturing) and construction. A drop in activity was also noted in the public administration and defense sector. As a result of the worse-than-expected fourth quarter performance, and taking into consideration changes in the computation methodology, the annual growth estimate for 2015 has been lowered by 40 basis points to 3.0% by Statistics Mauritius. In line with the weaker than expected expansion, labor market conditions have also been difficult in the fourth quarter, with the unemployment count increasing to 46,600, representing an unemployment rate of 7.9%, or 8.6% on a seasonally-adjusted basis. Youth unemployment (age group below 25) stood at 22.1% for the last quarter 2015. Overall for the year, the unemployment rate increased by 10 basis points to 7.9% in 2015, which is marginally higher than our previous estimate of 7.8%, albeit lower than the previous official forecast of 8.0%, as we anticipated.

BREXIT: UNCERTAINTY AHEAD

Given the importance of the UK and the EU for Mauritius exports, the implications of Brexit on these markets could be significant for the domestic economy. Table 2.1 highlights some of the channels through which Mauritius can be impacted, and discusses the possible impact.

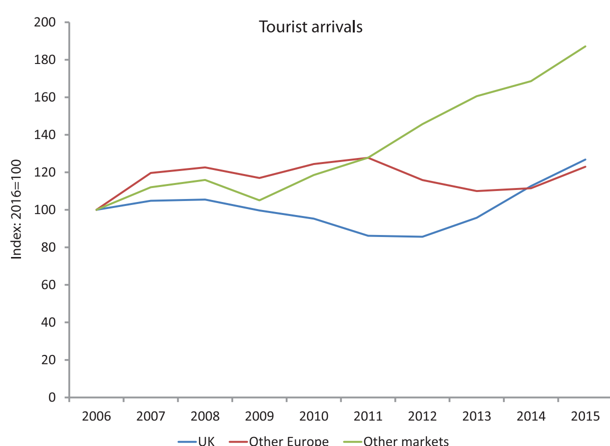
Table 2.1: Potential impacts of Brexit

Channel of transmission	Significance for Mauritius	Potential impact
Currency movements	Taking into consideration the currency composition of exports and imports of goods and services, higher values of EUR/MUR and GBP/MUR tend to beneficial for the current account balance, while a higher value of USD/MUR generally worsens the external accounts, other things remaining the same.	While there is a negative bias on GBP/MUR, the EUR/MUR and USD/MUR pairs are not expected to diverge significantly from the baseline. The impact on net exports, assuming unchanged volume, would therefore be relatively small for 2016 and 2017. However, in a "hard exit" scenario, the drop in GBP/MUR could be more significant. There would also be downward pressure on EUR/MUR and upward pressure on USD/MUR. However, we are not expecting that this scenario would materialize in 2016 or 2017.
Demand for exports	The UK market accounted in 2015 for 13% of total exports of goods and 11% of tourist arrivals, while the euro area (excluding Réunion) represented 26% of exports of goods and 39% of tourist arrivals.	In the aftermath of the global financial crisis, tourist arrivals from the UK dropped by a cumulative 18.8% between 2008 and 2012, but recovered strongly thereafter. Tourist arrivals from other European countries declined by 4.6% in 2009, before picking up in 2010 and 2011. However, with the onset of the euro crisis, arrivals from this market dropped by a cumulative 13.9% in the subsequent two years (See Figure 2.1). The impact of Brexit is not expected to be as significant as the global financial crisis. Nonetheless, growth in tourist arrivals from the UK is expected to slow down considerably compared to the baseline, while – barring a "hard exit" scenario – arrivals from the Eurozone should be sustained. The impact on sectors such as apparel and textiles during these stress years was also significant and enduring. For instance, apparel exports by export-oriented enterprises to the UK and Eurozone dropped by cumulative rates of 34.9% and 40.9% respectively between 2009 and 2013, both inclusive, with declines in every single year. The demand impact on sugar and tuna sectors are harder to assess given that food commodities tend to have different dynamics.
Price of commodities	Mauritius is a net importer of commodities, and imported goods account for around 40% of total domestic consumption and investment. The international price of commodities thus has a significant impact on external balances and on inflation.	The international price of commodities is not likely to differ significantly from the pre-Brexit baseline, unless there is a "hard exit", where there would be downward pressure on global prices. The impact is nonetheless likely to be less than during the global financial crisis, when average oil prices declined by some 36% in 2009, before subsequently picking up. This should temper the effect of lower exports value compared to baseline in such a scenario.

Table 2.1: Potential impacts of Brexit

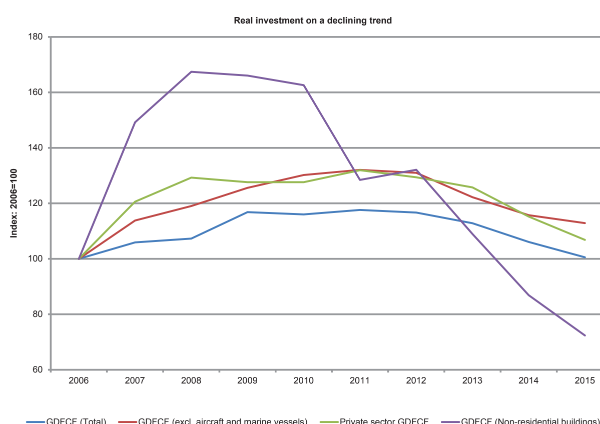
Channel of transmission	Significance for Mauritius	Potential impact
Confidence	Confidence is an important channel, as it influences consumption and particularly investment decisions. Given uncertainty on key export markets, whose performance would have an impact on domestic growth, businesses might delay investment decisions.	Business investment contracted sharply post the financial crisis with, for instance, private sector investment declining by a cumulative 17.4% in real terms between 2009 and 2015 both inclusive, and real investment in non-residential buildings, which is more representative of larger scale projects, going down by a massive 56.8% over the same period (See Figure 2.2). We expect that heightened uncertainty following Brexit will prevent a pickup in investment, which would be detrimental to the construction sector, among others.
Foreign direct investment	Given that the current account has been in deficit over the last few years, FDI has been an effective means of partly financing the deficit, and has helped boost investment and growth in the real estate and hotel sectors in particular. Over the last five years, the average share of the UK and of the rest of the EU in total FDI stood at 12% and 39% respectively.	Given that FDI follows an erratic pattern, it is difficult to gauge the impact of economic stress in European countries on FDI inflows from that source. If anything, inflows from the EU (excluding UK) have increased since 2011, despite the euro crisis, while flows from the UK have slowed down considerably in recent years.
Market access	Mauritius currently enjoys preferential access to the European Union, including the UK, as part of an Interim Economic Partnership Agreement (EPA) as well as the ACP-EU Agreement. Negotiations are under progress in respect of a full EPA. Depending on the mode of exit of the UK from the EU, trade agreements with the UK may need to be separately negotiated.	Trade agreements with the EU are expected to remain unaffected. We also do not anticipate material adverse impact on future negotiations with the EU when the UK is out of the EU. On the other hand, there may be greater uncertainty on trade agreements between the UK and Mauritius. Overall though, the impact would be felt mostly after 2017.

Figure 2.1: Annual Tourist Arrivals



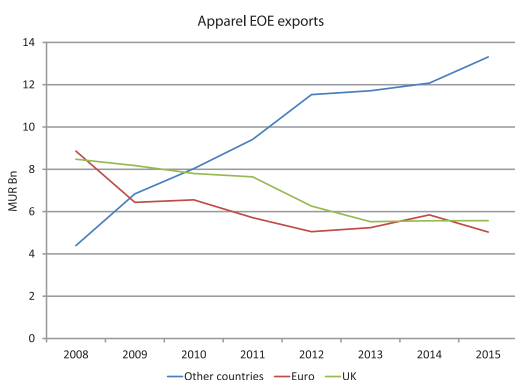
Source: Statistics Mauritius, SBM staff estimates

Figure 2.2: Real investment on a declining trend



Source: Statistics Mauritius, SBM staff estimates

Figure 2.3: Annual EOE Exports of Apparel



Source: Statistics Mauritius, SBM Staff Estimates

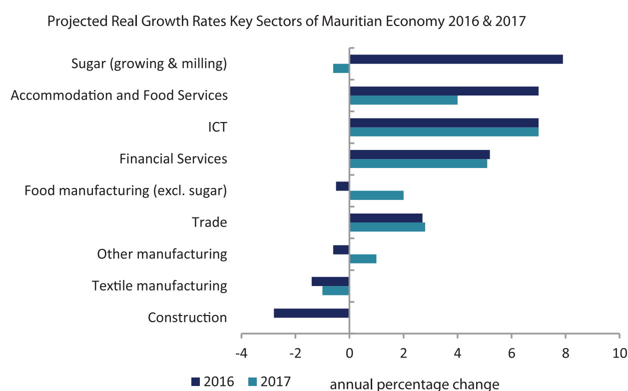
REVISED 2016 FORECASTS AND PRELIMINARY 2017 PROJECTIONS ON A NO POLICY CHANGE SCENARIO

General sentiment for the Mauritius economy will remain subdued amidst heightened challenges.

Against the backdrop of the challenging international context, particularly after the Brexit vote, our projection for growth in 2016 has been revised to 3.4%, which is lower by 30 basis points as compared to our March 2016 projection and by 50 basis points compared to the latest forecast made by Statistics Mauritius in June 2016. This downgrade is on account of lower performances being now anticipated in manufacturing (excluding sugar) and construction, partly as a result of challenges emanating from Brexit. These include, as discussed in Table 2.1 above, pressures on exported manufactures, particularly garments, and lower investment in building and construction works amidst heightened uncertainty. The investment to GDP ratio is now expected at 17.0%, that is, 20 basis points lower than our earlier forecasts. Whilst the tourism sector is also expected to be impacted going forward, particularly in respect of the UK market, the forecast for food and accommodation service activities has in fact been upgraded to 7.0% given a strong first half outturn, as gauged by a year-on-year increase of 9.8% in tourist arrivals. On a brighter note, the projection for the sugar sector has been upgraded as recent data tend to support the view of a much improved crop and extraction rate in 2016, in addition to an expected increase in the quantity of refined sugar produced out of imported raw sugar. The projections for all other major sectors remain broadly in line with the March 2016 outlook, with financial services, business activities and ICT expected to be important drivers of growth while other sectors such as trade, transportation and real estate are predicted to register moderate expansion rates.

Brexit should continue to impact the performance of the Mauritian economy in 2017 and beyond, taking into consideration that the negotiations surrounding UK's exit from the EU are likely to take time, while recent experience portends that the impact of such crises on demand has a tendency to linger for several years. On a "no policy change" basis, it is thus expected that growth would remain subdued in 2017, at around the same level as this year. Rekindling investment would be particularly challenging in the context of increased uncertainty, particularly in respect of key markets. Hence, construction activity is expected to remain tepid, while export-oriented manufacturing should remain under pressure. The growth in tourist arrivals is also projected to slow down on concerns relating to demand in UK and the euro area, as well as base effects, although a welcome boost should be received by initiatives aimed at increasing passenger traffic such as the Africa-Asia air corridor. Besides, continued market diversification should help mitigate the impact of Brexit on export-oriented sectors, analogous to the post global financial crisis experience. Business activities, financial services and ICT, for their part, should be able to sustain appreciable growth rates and should thus remain the main drivers of activity.

Figure 2.4: Projected real growth rates of the key sectors of Mauritian economy



Source: SBM Staff Forecasts

External balances are also projected to be impacted as a result of lower demand from key markets, particularly the UK, but potentially also the euro area, which accounts for a larger share of total exports of goods and services. Currency movements could also be unfavorable to the external account. Nonetheless, the balance of trade as a percentage of GDP should slightly improve to a projected 17.7% in 2016, largely on account of lower commodity prices on an annual average basis (in spite of an expected point to point increase). The current account deficit should also narrow to some 4.5% of GDP, although this forecast is highly dependent on current transfers and income flows being at par with last year's strong outturn. However, the external balances are projected to deteriorate in 2017 as the impact of lower average commodity prices starts to wane and in line with a weakening of demand for the country's exports.

Against the background of pressures on exports, investment and economic growth, the economy would continue to be characterized by high unemployment, at close to 8% in both 2016 and 2017. The joblessness situation would thus remain a major cause for concern, particularly at the youth and female levels. At the same time, low female labor force participation, as gauged by an activity rate of below 50%, highlights latent growth potential and requires further investigation.

With activity levels expected to be subdued, and taking into consideration lower commodity prices movements, it is projected that inflation should remain tame in 2016 and 2017 at around 1.4% and 2.0% respectively.

Whereas the room for maneuver remains tight for policy makers, the persistently low expansion rates coupled with high unemployment and low inflation could prompt the Bank of Mauritius to adjust the Key Repo Rate downwards towards year-end. Policymakers would nonetheless balance the need to provide a boost to economic activity with the objective of having a reasonably sound savings rate that would be conducive to long-term growth.

On the other hand, fiscal policy would be severely constrained by the requirement to contain the public sector debt level below 50% of GDP by 31 December 2018, as opposed to 56.4% of GDP as at March 2016. In our opinion, this would require that the budget deficit is contained within 3% of GDP in coming years.

As highlighted above, the projections are shrouded by uncharacteristic uncertainty as risks abound. Whereas key decisions regarding UK's exit, for instance relating to movement of people and goods, are not anticipated before two years' time, signs of a "hard exit" scenario if they become apparent–are likely to unsettle markets and influence confidence and, by ricochet, consumer demand and investment. This could well require further revisions in the outlook.

Whilst Brexit is currently key focuses of attention, other significant challenges for the economy are prevalent Prominent examples include risks to the Global Business sector in the wake of changes in the tax environment, for instance, linked to BEPS, CRS and the revision of the DTAA with India (See also the "Special Report" on taxation).

These risks and issues are all the more worrying in the context of an already weak investment environment and imbalances on the external and fiscal fronts, and emphasize the need for reigniting the growth engine through a revamp of the economic strategy.

Table 2.2: Selected Economic Indicators – Mauritius

	Units	2013	2014	2015	2016 (f)	2017 (f)
REAL SECTOR						
GDP (at market prices)	MUR bn	371	391	408	**431**	**459**
GDP per capita	USD	9,504	10,113	9,916	**9,550**	**10,075**
Real GDP growth rate at basic prices	%	3.4	3.6	3.0	**3.4**	**3.4**
Gross domestic saving (GDS)	% GDP	11.0	10.5	10.4	**11.5**	**12.0**
Investment (GDFCF)	% GDP	20.9	18.9	17.5	**17.0**	**17.0**
Private sector investment	% GDP	16.0	14.1	12.7	**12.0**	**12.0**
Public sector investment	% GDP	4.9	4.8	4.8	**5.0**	**5.0**
Headline Inflation	%	3.5	3.2	1.3	**1.4**	**2.0**
Unemployment	%	8.0	7.8	7.9	**7.7**	**7.8**
FINANCIAL SECTOR						
Credit to private sector (excl. GBL) †	% GDP	74.0	71.1	70.9	**70.2**	**70.0**
Deposits (segment A) †	% GDP	86.7	88.5	92.9	**93.4**	**92.5**
Key Repo Rate†	%	4.65	4.65	4.40	**4.15**	**4.15**
Average rupee lending rate*	%	8.25	8.01	7.60	**7.13**	**6.82**
Average rupee deposit rate*	%	3.32	3.35	2.90	**2.54**	**2.24**
Average Treasury bills rate*	%	2.86	2.37	2.14	**2.83**	**2.75**
GOVT SECTOR						
Budget balance‡	% GDP	(3.5)	(3.2)	(3.3)	**(3.0)**	**(3.0)**
Public sector debt†	% GDP	59.3	60.9	63.8	**64.0**	**62.1**
Public sector debt (for debt ceiling) †	% GDP	53.2	53.6	55.9	**56.2**	**54.6**
EXTERNAL SECTOR						
Balance of visible trade	% GDP	(20.9)	(19.8)	(18.1)	**(17.7)**	**(18.4)**
Foreign Direct Investment (FDI)	% GDP	3.7	4.7	2.4	**2.5**	**2.5**
Current account balance	% GDP	(6.2)	(5.6)	(4.8)	**(4.5)**	**(5.2)**
Balance of Payments	% GDP	4.5	5.9	4.9	**5.0**	**4.3**

† end of period (e) revised estimates (f) SBM staff forecasts

* mean of monthly weighted averages

‡ due to the change in fiscal year from calendar year to a July-June cycle in 2015, 2013 and 2014 figures relate to calendar year, the 2015 figure relates to the Jan-Jul 2015 period, and the 2016 and 2017 figures relate to Jul 15 - Jun 16 and Jul 16 - Jun 17 fiscal years respectively.

Source: Statistics Mauritius, Bank of Mauritius, Ministry of Finance and Economic Development, and SBM staff estimates and forecasts

NATIONAL BUDGET 2016–2017: POLICY ORIENTATIONS FOR SHIFTING THE ECONOMY ON A NEW GROWTH PATH

The forthcoming National Budget would be an ideal platform to set the stage for the much needed paradigm shift, in congruence with the earlier announced strategy of turning Mauritius into an inclusive, well governed and high income country. Whilst a number of measures are expected to be announced in this respect in the Budget, we would like to lay emphasis on some selected areas, albeit not comprehensive, which we believe could make a material difference for the country, without necessarily weighing heavily on the budget deficit.

1. The "hub" strategy

Mauritius has the ambition to become a key financial hub in the region that would provide international investors with a platform to undertake and manage their global investments. Given, amongst others, the relatively good standing of Mauritius in most international rankings as compared to most African countries, the country could indeed serve as a financial hub for Africa. As discussed in this issue's Special Report, this would require enhancing the breadth and depth of the financial sector in Mauritius.

African citizens could also become key customers for medical and education services, thereby upholding the "medical hub" and "education hub" initiatives. The transshipment hub concept also holds considerable scope for growth and employment creation.

We believe that a key component of a hub is openness. Successful hubs have been able to achieve superior growth by attracting high caliber talent that has helped enhance the overall human capital potential of the country. At the same time, it creates a significant internal market through a "quasi-population", that is, a significant number of nonpermanent residents that is present at all times, albeit not the same people. This should hugely benefit Mauritian businesses including SMEs through more robust demand, hence engendering higher investment. Alongside appropriate schemes to attract talent, measures should focus on improving IT and transport connectivity, both in terms of communication and transportation.

2. The Africa strategy

Africa is on the brink of an economic takeoff, and Mauritius is well positioned, geographically and politically to take advantage of this growth. However, market knowledge as well as the expertise pool in Mauritius is limited. A targeted strategy could, for instance, focus on selected countries and sectors, and would elaborate the most relevant products and services that Mauritius could offer. The country would have to build capacity in a focused manner to tap into the opportunities hence identified. The Government could also engage with the policymakers in the targeted countries to create an enabling environment that would encourage Mauritian businesses to expand their activities therein.

3. Technology and Innovation

As highlighted in the March 2016 issue of SBM Insights, technology has the potential to better the lives of people, and improve productivity while creating more value added jobs. One first step to improve lives through technology could be by maximizing the number of online public services and increasing adoption through enhanced end to end processes, coupled with appropriate incentives. At the same time, efficiency would be significantly boosted as less time is spent in queues and operators can be freed to do more value added activities. Given financing constraints, these investments in technology should, as far as possible, be self-funding. Private sector enterprises including SMEs could also be incentivized, for instance, through enhanced tax allowances to upgrade technology with proven benefits on convenience and efficiency. The longer term aim would be to foster innovation-led growth, with technology as a key enabler.

4. Smart working

In line with the evolution of the economic structure towards services and thus a higher contribution of intangible assets in the production process, work arrangements may have to be revamped to enable greater participation of women in particular in the labor force. This could include specific legislation and schemes on flexi-time and part-time work, as well as other facilities that would accommodate their other family commitments. It should also enable a higher proportion of round-the-clock activity, that would reinforce the global hub except highlighted earlier. Regarding the youth segment, specific programs could be established to acquaint them with the requirements of the job market and, at the same time, help them acquire useful social skills.

5. Execution focus

While significant effort is often put in elaborating the country's strategy and related initiatives, often the challenge lies in execution. Hence, a strong team should be put in place to elaborate and oversee the execution plan, with appropriate performance indicators and proactive handling of issues and risks. This should be accompanied by targeted and regular communication to foster citizen engagement and focus.

EXCHANGE RATE SCENARIOS POST BREXIT

The risk of Brexit was underestimated by global markets. The UK's vote to leave the European Union marked a turning point in British history and has cast shadow over the country's growth prospects and its competitive position in the global economy.
On June 23, 2016, the referendum outcome came as a major shock to investors and the immediate reaction in global financial markets was negative as the pound nose-dived by more than 10% to a thirty-year low of $1.3232.

Back in Mauritius, the GBP/MUR has lost its value from 52.65 to 47.478 representing around 10% loss on the next day of the referendum results.

Considering the uncertainties prevailing in the euro zone, the Federal Reserve is likely to delay interest rate hikes, and may even contemplate an interest rate cut. We consider the following scenario for the EUR / USD and GBP / USD pairs over the year to July 4, 2017.

	Spot (04.07.2016)	3 Months	6 Months	9 Months	12 Months
EUR / USD	1.1154	1.11	1.13	1.15	1.16
GBP / USD	1.3287	1.26	1.27	1.28	1.29

Source: SBM Treasury forecasts

Based on the above estimates and Post-Brexit impacts, we have forecasted the below

EURMUR – Up to 4th July 2017

Source: SBM Treasury forecasts

USDMUR – Up to 4th July 2017

Source: SBM Treasury forecasts

GBPMUR – Up to 4th July 2017

Source: SBM Treasury forecasts

We foresee the following central forecast range for the year to July 4, 2017:

	Spot Rates (04.07.2017)	04.07.2016 – 04.07.2017
USD / MUR	35.778	33.75 – 35.85
GBP / MUR	47.452	42.50 – 46.80
EUR / MUR	39.749	38.00 – 41.80

Source: SBM Treasury forecasts

*Rupee exchange rates refer to average of buying T.T and D.D consolidated indicative rates

These are turbulent times. EU meets its first divorce and there are chances that others may follow. Bank stocks in European territories have already shown signs of trouble. While the currencies will play end to end showing unforeseen volatilities, it is recommended for corporates to be prudent and take judicious hedging measures to safe guard their interest.

CÔTE D'IVOIRE HIGHLIGHTS

The Republic of Côte d'Ivoire is located on the West African coast and sprawls over 322,463 square kilometres.

The mix of different ethnicities and religions of Côte d'Ivoire has sometimes to conflicts in the country, notably the 2002 civil war and the coup d'état in 2011.

Yet, in recent years, the country has experienced social and political stability.

The National Develpment Plan (2012-2015) was developed to transform the country into a haven of peace and security, an economic powerhouse in the West African region, a country of hardworking and disciplined people, a country with a culture of excellence, an environment friendly tourist destination and an internationally-acclaimed financial centre.

Despite some successes, Côte d'Ivoire is yet to achieve all its objectives outlined in the plan.

With the first plan coming to an end, the Government of Côte d'Ivoire has announced a new five year investment plan totaling USD 49 billion (National Development Plan 2016-2020).

60% of the earmarked funds are expected to be put forward by the private sector while the Government would contribute the remaining.

Côte d'Ivoire undertook a Eurobond sale in February 2015 which was oversubscribed.

Moody's Investor Services has upgraded the country's credit rating from B1 to Ba3 while Fitch Ratings currently rates Côte d'Ivoire as B+.

Côte d'Ivoire's economy grew at an average rate of 9.1% over the period 2012 to 2014 and recorded 8.6% growth in 2015.

The outlook for the Côte d'Ivoire economy remains positive.

The recent stability is expected to continue and would play a prominent role in attracting new investors.

Challenges in the economy remain in the form of structural bottlenecks and a lack of skilled employees.

During his recent visit to Côte d'Ivoire, the Vice Prime Minister and Minister of Tourism and External Communications of Mauritius signed an agreement for the establishment of a Joint Commission between Mauritius and Côte d'Ivoire with the objective of consolidating bilateral relations between the two countries. Other agreements to facilitate business are also being discussed. Opportunities for Mauritian firms are mainly in the agricultural sector, financial services sector and ICT sector in view of the focus being given to these areas by the Côte d'Ivoire authorities, as well as skills and expertise developed therein by Mauritian enterprises.

CÔTE D'IVOIRE BACK IN BUSINESS

The Republic of Côte d'Ivoire is located on the West African coast and sprawls over 322,463 square kilometres. Home to 23.3 million inhabitants, the country is bordered by Burkina Faso, Ghana, Guinea, Liberia and Mali. 58.9% of its population is aged below 25 years old. The population is made up of different ethnicities including Akan, Voltaiques, Northern Mandes, Southern Mandes and Krous. Akan is the biggest group and constitutes 42.1% of the population.

The mix of different ethnicities and religions of Côte d'Ivoire has sometimes led to difficult situations in the country. Indeed, located in a sensitive region, Côte d'Ivoire has had its fair share of skirmishes. A first coup occurred in December 1999 when the military overthrew Henri Konan Bédié, then President of the country.

Thereafter, a failed coup d'état took place in September 2002. This incident eventually gained prominence as it developed into a rebellion and eventually a civil war. From 2003 to 2007, the country was divided into two parts: the north was occupied by rebels while the south was mostly controlled by the official Government. The second coup d'état in the history of Côte d'Ivoire happened in 2011. Two parties contested the results of elections with each side claiming victory and took to arms. The country descended into a spiral of violence which only ended when Laurent Gbagbo, leader of Front Populaire Ivoirien, was arrested at his residence and Alassane Ouattara, leader of Rassemblement des Republicains was sworn in as President of the country in 2010. He was subsequently reelected in 2015. One of the reasons for his reelection was the social and political stability that the country achieved under his leadership. Still, more efforts are deemed necessary to strengthen national security, speed up disarmament and ensure protection of property.

NATIONAL DEVELOPMENT PLANS

With the perceived improvement in the country's political climate, global firms are once again taking an interest in Côte d'Ivoire. A high rate of economic growth and an abundance of natural resources have turned the country into one of the most attractive investment destinations in Africa. Indeed, Côte d'Ivoire is the leading producer of cocoa, accounting for 40% of global production, the second-largest global producer and leading global exporter of cashew nuts, the leading African producer of rubber, bananas and tuna, and the second-largest African producer of palm oil. Côte d'Ivoire is making noticeable progress in respect of its aim to become an emerging market economy by 2020.

This objective was set in 2013 when Côte d'Ivoire drew up a National Development Plan for its economy. The National Development Plan (NDP) covered the period 2012–2015. The aim behind the plan was to transform the country into:

(i) A haven of peace and security
(ii) An economic powerhouse in the West African region
(iii) A country of hardworking and disciplined people
(iv) A country with a culture of excellence
(v) An environment friendly tourist destination
(vi) An internationally-acclaimed financial centre

Sectors that were identified for development included infrastructure, financial services and agriculture. The Government encouraged the implementation of good governance as well as the development of the SME segment. As part of the NDP implementation, sector strategies were prepared, including the Agricultural Development Programme, the National Good Governance and Anti–Corruption Plan (PNBGLC), the Industrial Development Action Plan, the Financial Sector Development Strategy and the National Social Cohesion Plan (PNCS). Certain quantitative criteria were also set as part of the 2012-2015 plans.

These are:

(a) Achieve a constant GDP growth rate of about 10% on average over this period, driven by a substantial increase in investment, both private (including external sources) and public, which must lead to an investment to GDP ratio of 18% by 2015.

(b) Reduce the poverty rate by half and regain its position among the leading countries in Africa in respect of the UNDP Human Development Index;

(c) Achieve the Millennium Development Goals for 2015 or get as close as possible to the targets;

(e) Create one of the best business climates in Africa;

(f) Be part of the leading African countries with respect to good governance and fight against corruption.

The results of NDP have been mostly mixed. While Côte d'Ivoire has registered the second highest economic growth rate in Africa and has achieved an investment to GDP ratio of over 18% in 2015, it is yet to create one of the best business climates in the continent or reduce poverty rates. Table 3.1 portrays some of the international rankings of Côte d'Ivoire, giving an indication of the distance that the country has to cover to achieve its objectives. Indeed, Côte d'Ivoire is currently in the bottom half of almost all rankings even if it has vastly improved compared to a few years back.

Table 3.1: Côte d'Ivoire's position in international rankings

	2013	2014	2015	2016
Ease of Doing Business Report	177th	158th	145th	142nd
Global Competitiveness Index	126th	115th	91st	
Corruption Perceptions Index	136th	115th	107th	
Human Development Index	168th	171st	172nd	
Index of Economic Freedom	134th	107th	92nd	
Global Gender Gap Report	131st	136th	133rd	

The improvement in some rankings since 2012 shows the significant progress that Côte d'Ivoire has made towards stability, monetary freedom and management of public finance. Institutions have been strengthened while domestic and financial markets have improved. A Commercial Court as well as a one stop shop for business formalities have also been inaugurated. Nonetheless, concerns remain about property rights, corruption and freedom of labour. The gender gap is also a vital concern.

With the NDP ending in 2015, the Government of Côte d'Ivoire has announced a new five year investment plan totaling USD 49 billion (National Development Plan 2016–2020). This investment plan has been designed to spur economic growth as well as to tackle poverty in the country. Indeed, one of the aims is to reduce poverty by half. 60% of the earmarked funds are expected to be put forward by the private sector while the Government will contribute the remaining.

Congruent to this, Côte d'Ivoire undertook a Eurobond sale in February 2015. It raised USD 1 billion with an average 12 year maturity and paying a yield of 6.625%. The sale attracted USD 4 billion in orders, highlighting the attractive profile that Côte d'Ivoire currently has in the financial markets. A previous sale of bond amounting to USD 750 million was also oversubscribed by a factor of 6 times.

Global credit rating agencies have also taken note of the progress made by Côte d'Ivoire over the last few years. Moody's Investors Service upgraded the country's credit rating from B1 to Ba3 in November 2015. The main reasons for the upgrade were political stability, very strong growth prospects, strengthening public finances and an improvement in governance and institutional strength. Fitch Ratings soon followed suit and upgraded its own rating for Côte d'Ivoire to B+ in December 2015. The reasons put forward for the change include an improvement in respect of political and security risks, good governance indicators and public finance management. Côte d'Ivoire probably has one of the most attractive risk profiles in the West African region today. At the same time, the rating agency has highlighted some issues that Côte d'Ivoire still needs to address. These include a low GDP per capita as well as low Human Development Index. Financial inclusion is also weak. (See also section on Financial Services Sector).

ECONOMIC REVIEW

Since 2011, Côte d'Ivoire has experienced a boom in foreign direct investment and economic growth. The economy grew at an average rate of 9.1% over the period 2012 to 2014 and recorded 8.6% growth in 2015. A booming agricultural sector and improved business climate contributed to the economy registering high GDP growth in 2015. GDP per capita has increased by more than 20% since 2012. The country has also benefited from USD 4.4 billion in debt relief announced by the IMF and World Bank in 2012. This relief resulted in a substantial decline in general Government gross debt between 2011 and 2012. From an estimated 69.9% of GDP in 2011, the ratio declined to 44.8% the following year.

The economic performance in 2015 followed a similar pattern as in preceding years, with private and public investment sustaining domestic demand and rising prices of agricultural products contributing to strong export revenue. Structural reforms undertaken by the West African country have also contributed to attracting foreign direct investment.

As expected from a resource rich country, the economy is highly dependent on the agriculture and mining sector, which contributed to over a quarter of GDP in 2015. Other pillars of the economy include trade, manufacturing and financial intermediation. In total, these four sectors contributed to around 70% of GDP (See Figure 3.1).

It should also be noted that since 2012, the Government has undertaken a vast agricultural support programme to extract more value from arable land.

Figure 3.1:

Sector Contribution to Gross Domestic Product, 2015

Source: African Economic Outlook

ECONOMIC OUTLOOK

The outlook for the Côte d'Ivoire economy remains positive with several development plans under way. The recent stability is expected to continue and would play a prominent role in attracting new investors. The setting up of new industrial zones, most notably in Grand Bassam, Government's support to SMEs and strong domestic demand should see economic growth continue on its current strong path with the IMF forecasting growth rates of 8.5% in 2016 and 8.0% in 2017.

The country needs investment in road infrastructure and power generation. It is estimated that Côte d'Ivoire would have to spend some USD 2.5 billion over the next decade to bridge its infrastructure gap. This investment should help the population as well as the business community. Already, a third bridge has been constructed in the city of Abidjan. The country is also counting on the Mali- Côte d'Ivoire Road Development and Transport Facilitation Project to progress towards its aim of becoming an emerging economy. This project will allow the country to take advantage of its geographical position and turn the port of San Pedro into a key transit point for neighboring landlocked countries. The strategic position of Côte d'Ivoire and its port alongside its membership to the Economic Community of West African States (ECOWAS) means that Côte d'Ivoire could gain access to a potential market of some 300 million people.

With respect to power generation, CIPREL – the country's largest power producer- obtained a USD 132.54 million loan from the International Finance Corporation to transform its natural gas-fired plant into a combined cycle plant. This has allowed the creation of 650 jobs and made available an additional 111 mW of electricity in February 2016. Nevertheless, the manufacturing and construction sector are still adversely affected by unstable electricity production. The Songon Gas-to-Power project should help alleviate some of these issues. This project is a multi-phase power project located outside of Abidjan that will consist of approximately 1,200 mW of combined cycle power generation. It is expected to be completed by end 2016.

The underdeveloped mining sector of Côte d'Ivoire will also play a prominent role in the country's economic plan. Gold production reached 14 tonnes in 2014 while oil and gas reserves have been estimated at 100 million barrels and 30 billion cubic meters respectively. Yet, the country does not have the required expertise, technologies and financial resources to invest in the mining and oil sectors. As such, the current situation allows for illegal mining to take place, with agriculture being slow and periodic. As part of its 5 year investment plan, the Government has invited global mining firms to set up operations in the country. While the mining ministry and all the other stakeholders in the industry have focused on gold production and given little attention to the extraction of the other minerals till date, this is expected to change going forward. In addition to significant economic benefits, this move will greatly help the country in terms of health infrastructure as well as in the diversification of the economy.

Table 3.2: Table of economic indicators

Selected Macroeconomic Indicators	Unit	2010	2011	2012	2013	2014	2015	2016(f)	2017(f)
GDP, constant prices	% change	2.0	-4.4	10.7	8.7	7.9	8.6	8.5	8.0
GDP, current prices	USD Billion	24.9	25.4	27.1	31.1	33.7	31.2	34.7	38.5
Population	Million	20.9	21.4	22.0	22.5	23.1	23.7	24.3	25.0
GDP per capita, current prices	USD	1,195	1,187	1,235	1,380	1,460	1,315	1,425	1,542
GDP per capita in PPP terms	USD	2,579	2,453	2,694	2,901	3,101	3,316	3,542	3,779
Investment	% GDP	14.9	10.5	16.5	17.0	16.8	18.2	19.4	20.2
Gross national savings	% GDP	16.8	21.0	15.3	15.7	16.1	16.4	17.5	17.5
Inflation, average consumer prices	%	1.4	4.9	1.3	2.6	0.4	1.2	2.1	2.0
Volume of imports of goods and services	% change	11.1	-21.9	48.5	-3.3	-4.0	15.1	16.2	14.3
Volume of exports of goods and services	% change	-6.6	-3.4	8.1	1.4	0.9	12.1	15.5	6.7
General Government gross debt	% GDP	63.0	69.9	44.8	39.9	36.6	34.7	33.0	31.5
Current account balance	% GDP	1.9	10.5	-1.2	-1.4	-0.7	-1.7	-1.8	-2.7

Source: IMF, SBM Staff Estimates

Other opportunities exist in the energy, transport, telecommunications, construction and agribusiness sectors. In fact, according to some operators, everything that relates to retail has room for development.

Nonetheless, challenges remain in the economy.The strong performance of the past few years has been driven by an increase in productivity and capital accumulation. However, certain structural bottlenecks still exist in the Ivoirian economy and these need to be dealt with to make growth sustainable.

According to local employers, there is a lack of skilled employees on the market. This is corroborated by the weak Human Development Indicators indices for the country. There is thus a need for greater investment in human capital. The competitiveness of Ivoirian exporters is also hampered by high costs and delays as well as cumbersome import procedures. Exporting by Ivoirian firms usually requires nine documents and takes twenty five days, indicating that firms spend 50% more time compared to their peers in comparator countries such as Indonesia, Morocco, Philippines and Mauritius.

Figure 3.2: Risk Assessment of the Côte d'Ivoire Economy

FINANCIAL SERVICES SECTOR

Côte d'Ivoire is a member of the West Africa Economic and Monetary Union (WAEMU) which comprise eight, mostly francophone countries within the ECOWAS that share the CFA Franc (XOF) as a common currency. There is a common banking sector in the WAEMU region with 119 accredited credit institutions, including 106 banks. In WAEMU, interest rates decisions are taken by the Monetary Policy Committee of the Central Bank of West African States (regional central bank). The Key Interest Rate stood at 3.5% as at June 2016.

The banking sector in Côte d'Ivoire is the biggest of the WAEMU zone with total assets of XOF 4,736 billion (USD 8.1 billion) which represents 27.3% of the total assets in the region. The financial services sector comprises 25 banks and one non-banking institution. In 2014, the Government of Côte d'Ivoire adopted a plan to restructure the banking sector. Under this plan, Banque Nationale d'Investissement, Caisse Nationale des Caisses d'Epargne de la Côte d'Ivoire and Banque de l'Habitat de Côte d'Ivoire were to remain state owned banks while other similar state owned banks would be privatized. In this regard, Banque pour le Financement de l'Agriculture and Versus Bank S.A. have been earmarked for privatization. Attijariwafa Bank, a Morrocan institution, has already agreed to buy 19% of Côte d'Ivoire's share in Societe Ivoirienne de Banque while the remaining 30% that the Government holds will be listed on the Bourse Regionale des Valeurs Mobilieres (BRVM). A similar transaction is being pursued for Banque Internationale pour l'Afrique Occidentale (BIAO).

Banking activity is characterized by high interest rates and conservative lending process. As a result, few firms have access to credit. Nonetheless, banks are expanding their networks and have increased total bank branches from 473 in 2010 to around 600 in 2014.

As at December 2015, credit to the private sector amounted to XOF 4,455 billion (Approximately USD 7.6 billion).

Despite efforts to increase the banking network–the number of bank branches increased from 473 in 2010 to around 600 in 2014–the bank penetration rate as at 31 December 2015 was 16%, one of the lowest in the world while private sector credit-to-GDP ratio was around 18%

according to a report from IMF in 2013. Loans are predominantly short-term and concentrated on larger companies, with limited provision of credit to small and medium enterprises. As per data gathered by the World Bank in 2013, there were only 6 automated teller machines (ATMs) in the country for every 100,000 adults in the country in 2013. Similarly, there were only 5 commercial bank branches for every 100,000 adults. These figures pale in comparison with peers and countries in the region. Kenya is slightly better with 6 commercial bank branches per 100,000 adults while Morocco is further ahead with a ratio of 24 branches per 100,000 adults for a similar population size. Despite progress in financial deepening, the banking sector lags behind those of peer countries and several WAEMU countries in terms of depth and access. Local banks are not involved in big projects in the country. In fact, firms investing in Côte d'Ivoire can access financing from the World Bank and IMF to pursue projects linked to the development of the country.

The low bank penetration rate in Côte d'Ivoire indicates that much is yet to be done to achieve emerging market status. The country's Bankers' Association has estimated that the banking penetration must increase to 35% to achieve the stated objective. This would require investment in the financial services sector in terms of sophistication and innovation. The restructuring of the banking sector led by the Government therefore comes at an appropriate time. Mobile subscription is quite high in the country with 106 subscriptions for every 100 persons in the country and mobile banking services could be one of the key channels to increase the banking penetration rate.

PROSPECTS FOR MAURITIUS

During his recent visit to Côte d'Ivoire, the Vice Prime Minister and Minister of Tourism and External Communications of Mauritius signed an agreement for the establishment of a Joint Commission between Mauritius and Côte d'Ivoire. The purpose of the Joint Commission will be to consolidate bilateral relations between the two countries and find ways and means to boost collaboration in the economic, technical, scientific and cultural fields. The terms of an Investment Promotion and Protection Agreement were also agreed upon. Furthermore, discussions are in progress for the signature of a double taxation avoidance agreement between the two countries.

Currently, only a few Mauritian firms operate in Côte d'Ivoire. Among others, Abax Corporate Services Ltd has set up an office in the country while Terra Mauricia Ltd has a 25% shareholding in Sucrivoire S.A. The signature of the above mentioned agreements should make the Côte d'Ivoire economy more attractive for Mauritian companies. The expected double taxation avoidance agreement should also help direct investments into the country.

Opportunities for Mauritian firms are mainly in the agricultural sector, financial services and ICT sectors in view of skills and expertise developed therein by Mauritian enterprises. The shared francophone heritage of the two countries can also be an advantage for Mauritian firms. One area that can be particularly interesting for Mauritian firms is the processing of agricultural products. Though Côte d'Ivoire is one of the biggest producers of agricultural products on the continent, only 5% of output is transformed within its borders with the majority being exported to neighbouring countries for transformation. Côte d'Ivoire aims to increase the share of processing in the country. Related opportunities could emerge for Mauritian firms to tap into given expertise developed in agro-industry. Similarly, with Côte d'Ivoire being the biggest African exporter of tuna, there is room for Mauritian tuna processing firms to conduct business there as well.

KENYA: THE HUB OF EAST AFRICA

HIGHLIGHTS

Kenya is a democratic republic covering 586,600 square kilometres whereby the President is both chief of state and head of government.

The Kenyan Government embarked on a new strategic plan for economic growth and development, in 2007, named Vision 2030, which would be implemented in 5-year phases.

The first medium term plan has been executed and the second one is currently being implemented.

Kenya's GDP amounted to USD 61 billion in 2015, making it the 4th largest economy in Sub Saharan Africa.

Key contributors to Kenya's GDP are agriculture and forestry, wholesale and retail trade and the manufacturing sector.

Kenya experienced GDP growth of 5.6% in 2015 while the budget deficit stood at 8% of GDP for 2015 and the current account deficit was estimated at 9% of GDP.

Kenya's banking sector regulator, the Central Bank of Kenya, has adopted a tight monetary policy stance in recent years to ensure stability and maintain inflation within its target range.

The outlook for the Kenyan economy remains positive with both the World Bank and IMF forecasting a growth of 6.0% in 2016 and 6.1% in 2017.

Yet, challenges remain in the economy and these need to be tackled if Kenya aspires to sustain strong economic growth.

The country remains vulnerable to security threats and external shocks through spill overs from international markets.

The major credit rating agencies agree upon the credit ratings for Kenya with Standard & Poor's and Fitch Ratings assigning B+ and Moody's Investors Service assigning B1.

Mauritian firms can access the Kenyan market through the Common Market for Eastern and Southern Africa (COMESA).

Opportunities for Mauritian firms are mainly in the agriculture and fisheries, tourism, financial services and logistics sectors.

KENYA: THE HUB OF EAST AFRICA

Kenya is located on the eastern coast of Africa and is bordered by Somalia, Ethiopia, South Sudan, Uganda and Tanzania. The Kenyan territory covers around 586,600 square kilometers

Formerly a British colony, Kenya gained independence on December 12, 1964 and became a Republic exactly 12 months later. The Kenyan population is made up of several ethnic groups such as the Kikuyu, Luhya, Luo, Kalenjin, Kamba, Kisii, Meru as well as Asian, European, and Arab communities. The official languages in Kenya are English and Swahili. However, other languages are spoken, reflecting the diversity of the country's population.

POLITICAL ENVIRONMENT

The Kenyan political system is currently regarded as a democratic republic whereby the President is both chief of state and head of government. Kenya has a mixed political and economic history. Following independence, it became a one-party state with power centralized in the Office of the President. The one party state was eventually included in Kenya's constitution in the early 1980's. However, with constitutional reforms in 1991, the one-party state ended and subsequently, multi-party elections were held in 1992. Kenya adopted a new constitution following a referendum in August 2010, putting the country on the track of reform. The constitution provides the Structure of the Government of Kenya to consist of The Executive, The Legislature, The Judiciary and The Devolved Governments. Kenya can thus be considered as a relatively fragile democracy with young institutions. Strife usually arises around election period. Indeed, in the last 25 years, almost all presidential elections have been marred by violence related to ethnic tensions. Nonetheless, the situation has improved in recent years owing to Government's commitment to economic progress as well as political and social stability (Vision 2030). As a testimony to this, the last presidential elections went on without a hitch. In fact, even if Kenya has been through a fair share of contentions, it is currently deemed to be one of the most stable democracies in Africa.

VISION 2030

The Kenyan Government embarked on a new strategic plan for economic growth and development, in 2007, named Vision 2030, which would be implemented in 5-year phases. The vision behind this long term plan is to transform the country into a newly industrialized middle income country by 2030 as well as to provide high quality of life to all Kenya citizens. The vision is anchored on three pillars: Economic, Social and Political.

The objective of the economic pillar is to achieve sustained economic growth of 10% per annum over 25 years. This economic pillar is further broken down into specific objectives for six priority sectors, namely wholesale and retail, financial services, business process outsourcing, agriculture, manufacturing and tourism.

The objective of the social pillar is to create just, cohesive and equitable social development in a clean and secure environment. To achieve this, the Government has undertaken reforms in education, health and environment and is working on providing better access to water.

Following the end of the first five year phase in 2013, a progress report on the implementation of the Vision was carried out. The progress report enumerated the projects carried out under the First Medium Term plan of Vision 2030 as well as all the legislations passed to facilitate implementation. Progress was achieved in road development, sea port development, manufacturing sector, ICT sector and energy sector. However, the report also highlighted challenges such as lack of funding, poor quality standards in roads, slow pace of legislation reforms as well as insufficient land for flagship projects.

The Second Medium Term plan (2013–2017) focuses on employment creation, food security, physical security, and climate change and value systems through the National Values for Kenya. A seventh sector – Oil, Gas and Mineral Resources -has also been included in the plan. The projects identified as part of this plan include a science park in the Rift Valley to increase tourist arrivals, fish farms in arid and semi-arid land to increase production of fish as well as Special Economic Zones in Mombasa, Lamu and Kisumu. 47 Micro Small Medium Enterprise Centers of Excellence will also be set up to help businesses. Other measures relate to financial sector deepening. The latter is expected to be achieved through robust policy and regulatory framework, diversification of markets, efficient infrastructure and investor education. The recent National Budget also provides incentives to consolidate the progress achieved under Vision 2030.

Indeed, the title of the 2016 Budget itself is "Consolidating Gains for a Prosperous Kenya". Measures announced in the Budget relate to improving the business environment to lower cost of doing business, investing in security, ensuring stability, driving agricultural and industrial transformation, improving infrastructure, providing accessible health care to support the vulnerable, and boosting productivity and competitiveness.

Initiatives undertaken to achieve these objectives comprise the construction of 20,000 police housing units within 24 months and the restructuring of state owned enterprises. Other projects undertaken by the Kenyan Government are the implementation of an e-payment system for the Government, setting up an inter-agency Business Environment Delivery Unit to coordinate business processes for World Bank Doing Business Indicators and continued investment in roads, rail, ports, energy and water

supplies. Major road projects include the construction of the East Africa Road Network to boost regional trade, the construction of the Kisumu-Kakamega road under the Kenya Transport Sector Support Programme and the construction of a 600 km South Sudan link road. All these projects are expected to generate 1 million jobs while increasing prosperity in Kenya.

KENYAN ECONOMY

According to the IMF, Kenya's GDP amounted to USD 61 billion in 2015, making it the 4th largest economy in Sub Saharan Africa. During the past 5 years, the Kenyan economy experienced consistent growth of above 4%. Key contributors to Kenya's GDP are agriculture and forestry, wholesale and retail trade and the manufacturing sector.

Table 4.1 – Table of economic indicators for Kenya

Selected Macroeconomic Indicators	Units	2010	2011	2012	2013	2014	2015	2016 (f)	2017 (f)
Real GDP Growth	%	8.4	6.1	4.6	5.7	5.3	5.6	**6.0**	**6.1**
GDP at current prices	USD Bn	40.0	42.0	50.4	54.9	60.9	61.4	**64.7**	**69.1**
Population	Million	38.5	39.5	40.7	41.8	43.0	44.2	**45.5**	**46.8**
GDP per capita, current prices	USD	1,039	1,062	1,239	1,314	1,417	1,388	**1,422**	**1,477**
Total investment	% GDP	20.7	21.7	21.5	20.1	21.4	22.5	**22.4**	**22.2**
Gross national savings	% GDP	14.8	12.5	13.1	11.2	11.0	14.4	**14.2**	**15.2**
Inflation, end of period	%	5.8	18.9	3.2	7.1	6.0	8.0	**5.8**	**5.5**
Volume of imports of goods and services	% change	8.1	13.4	5.1	0.3	9.7	10.7	**10.3**	**0.1**
Volume of exports of goods and services	% change	8.7	9.3	-0.4	-0.6	2.3	8.1	**5.4**	**6.3**
General government gross debt	% GDP	44.4	43.0	41.7	41.6	47.0	52.7	**55.2**	**55.0**

Source: IMF World Economic Outlook Database, April 2016

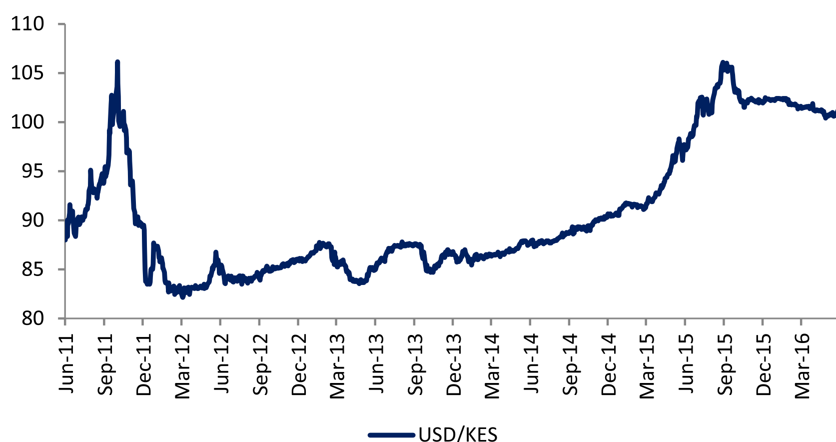
f - Forecasts

The budget deficit stood at 8% of GDP in 2015 as compared to a target of 5% as per the 2016 Budget policy statement. This figure is expected to reach 6.8% of GDP in 2016. Government revenue amounted to KES 1,300 billion (USD 1.3 billion) in 2015 and expenditure was estimated at KES 1,900 billion (USD 1.9 billion). The current account deficit was estimated at 9% of GDP in 2014 and 2015 and is expected to decrease to 6.5% of GDP in 2016.

The national debt ceiling was raised from KES 1,200 billion to KES 2,500 billion in 2014 as funding was required for megaprojects such as the standard gauge railway. Though, the Kenyan Government has set an objective to contain Government debt to 45% of GDP, the ratio is currently at 52% of GDP and this figure is expected to rise in the future due to infrastructure spending.

Kenya's banking sector regulator, the Central Bank of Kenya, has adopted a tight monetary policy stance in recent years to ensure stability and maintain inflation within its target range. Nevertheless, it reviewed its position at the latest Monetary Policy Committee held in May 2016. The Committee noted that overall inflation is expected to decline and remain within the Government target range in the short-term, providing policy space for an easing of monetary policy while continuing to anchor inflation expectations. The cost of borrowing in the Kenyan banking sector is high at 18% on average but this is expected to decrease following a 100 basis points cut in Central Bank Rate (CBR) in May 2016.

Figure 4.1: Evolution of Kenyan Shilling against US Dollar



Source: Bloomberg

The evolution of the Kenyan Shilling was in line with international trend with USD appreciating in 2015 owing to expectations of an interest rate hike by the Federal Reserve. Indeed, the Kenyan Shilling depreciated by 13% against the greenback in 2015.

The outlook for the Kenyan economy remains positive with both the World Bank and the IMF forecasting a growth of 6.0% in 2016 and 6.1% in 2017. The significant reforms and actions undertaken by Kenya as part of its Vision 2030 programme are already yielding their fruits and are expected to impact positively going forward. Reforms in ease of doing business, public management and devolution should ensure economic and political stability while at the same time eliminates red tape.

The execution of projects announced as part of the Second Medium Term plan of Vision 2030, accompanied by an expected increase of public investment in infrastructure as well as rising interest of foreign investors in domestic and regional opportunities, should also ensure strong economic growth in Kenya. The country is thus well under way to achieve middle income status.

Although significant room for improvement remains, ease of doing business as well is improving in Kenya with the country climbing 21 places in the latest rankings to 108th. The regulatory framework and policies have improved while progress has also been made on other metrics such as dealing with construction permits, getting credit and starting a business. Kenya ranks 10th in Africa but is ahead of the regional average. On the Global Competitiveness Index scale, the country ranks 99th out of 140 countries. Though it scores well on the innovation and sophistication factors, it is let down by its score on basic requirements and efficiency enhancers. It is still a factor-driven country in terms of development.

Notwithstanding the significant progress achieved on various fronts, challenges remain in the economy and these need to be tackled if Kenya aspires to continue on its current growth trajectory.

The country remains vulnerable to security threats, especially from terrorist organizations in the North. Likewise, recent challenges in the financial sector have also highlighted the need to better supervise and regulate the banking sector.

Finally, as Kenya becomes more integrated in the global economy, it is bound to be exposed to external shocks– through spillovers from trading partners' economies or volatility in international financial markets.

Kenya has experienced two major incidents of aid freeze. During the 1990s, Kenya experienced rising unemployment coupled with a fast growing population. These issues were further exacerbated with rising inflation, high budget deficit and an authoritarian government. The Kenyan Government could not complete its fourth program in 1991. As a result, bilateral and multilateral donors suspended program aid to Kenya in 1991. A second aid freeze occurred in 1997. IMF suspended a USD 220 million loan to Kenya in August of that year because of a scandal in the gold and diamond export trade.

Shortly after the IMF acted, the World Bank also suspended a USD 76 million loan to Kenya for energy development because it could not ensure that contracts would be awarded fairly and openly.

Recently, however, IMF agreed to provide a standby loan of USD 1.5 billion to Kenya. The loan reflects the confidence that the institution now has in Kenya. The loan is one of the biggest that the fund has given on the continent.

The IMF highlighted Kenya's robust economic growth outpacing its Sub-Saharan peers as one of the reasons behind its decision. The country is also seen as one of the African economies which can survive the low commodity prices environment as well as a slowdown in the Chinese economy. Yet, the IMF has cautioned about the Kenyan economy being vulnerable to continued security threats and potential extreme weather conditions.

The recent issue of Eurobonds also paints a positive outlook for Kenya and confidence in its economy. On 16 June 2014, Kenya successfully issued two tranches of a maiden Eurobond (USD 500 million, 5.875% due 2019 and USD 1.5 billion, 6.875% due 2024) in order to repay previous loans and finance projects in the energy and infrastructure projects. There was strong participation by global investors in the maiden Eurobond, with oversubscription of about 340%. Kenya joins a handful of Sub-Saharan countries such as Zambia, Rwanda, Nigeria and Ghana that have successfully issued Eurobonds recently.

The strong participation and the geographical spread of investors who have participated in the Eurobond issue reflect investor confidence in the country's long term growth performance. Indeed, pension funds, insurers, high net worth individuals and sovereign wealth funds are said to have driven the high demand for Kenya's Eurobond.

SOVEREIGN CREDIT RATINGS

Table 4.2: Rating by major credit rating agencies

Ratings	Credit Rating Agency
B+	Standard & Poor's
B1	Moody's Investors Service
B+	Fitch Ratings

Last assessed in 2015, the major credit rating agencies agree upon the credit ratings for Kenya with Standard & Poor's and Fitch Ratings assigning B+ and Moody's Investors Service assigning B1. However, the agencies disagree on the outlook for the economy. Both Fitch Ratings and Standard & Poor's have a negative outlook on the Kenyan economy. The reasons enumerated for this outlook are deteriorating public finances, poor revenue performance, high current expenditure and increased spending on infrastructure. Similarly, credit agencies deem that terrorism and a slump in tourism sector are expected to adversely affect the country's fortunes. Besides, they have highlighted risks stemming from lack of transparency among small banks. On the other hand, Moody's has recently upgraded its outlook on the Kenyan economy to positive. The factors driving this outlook were an encouraging growth trajectory, stability and fiscal trajectory. It also views favorably the USD 1.5 billion loan that Kenya has obtained from the IMF.

BANKING SECTOR

According to the Central Bank of Kenya (CBK), there are 42 commercial banks, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus in Kenya. Commercial banks include the 3 Government Owned banks.

25 of the privately owned commercial banks in Kenya have local ownership while 14 are owned by foreigners (i.e. where foreign entities hold more than 50%). Locally held (public and private) banks owned 70 % of total assets of commercial banks.

Commercial banks in Kenya are classified into three peer groups using a weighted composite index that comprises net assets, customer deposits, capital and reserves, number of deposit accounts and loans accounts. Banks are classified as large, medium or small. As at Dec 2014, large, medium and small banks accounted for 49.9%, 41.7% and 8.4% respectively in terms market share.

Table 4.3 - Trends in Kenya Banking Sector

Kenya Banking Sector	Sep-10	Sep-11	Sep-12	Sep-13	Sep-14	Sep-15
Gross Loans and Advances (KES bn)	879	1,200	1,320	1,520	1,910	2,320
Deposits (KES Bn)	1271	1,500	1,720	1,910	2,250	2,568
Net NPL to Gross Loans (%)	2.5	1.8	0.9	1.53	1.9	2.5
Gross NPL to Gross Loan (%)	7.0	4.8	4.6	5.2	5.4	5.4

Source: Central Bank of Kenya

The main sectors attracting credit included manufacturing, trade, real estate and private households.

Table 4.4 – Sector wise distribution of credit to the private sector in Kenya

Sectors	Sep-14		Sep-15	
	KES Bn	% of total	KES Bn	% of total
Agriculture	82	4.3	91	3.9
Manufacturing	240	12.6	286	12.4
Trade	378	19.8	459	19.9
Building & Construction	84	4.4	101	4.4
Transport & Communication	144	7.5	196	8.5
Financial Services	70	3.7	86	3.7
Real Estate	281	14.7	344	14.9
Mining & Quarrying	21	1.1	16	0.7
Private Households	483	25.3	568	24.6
Tourism, Hotels & Restaurant	34	1.8	54	2.4
Energy & Water	91	4.8	106	4.6
Total credit to Private Sector	1,910	100	2,320	100

Source: Development in the Banking Sector Report, Central Bank of Kenya

ASSET QUALITY IN BANKING SECTOR

According to the September 2015 Development in the Banking Sector Report, the value of gross non-performing loans (NPLs) increased by 20% from KES 103.7bn in September 2014 to KES 124.8bn in September 2015. The quality of assets, measured as a proportion of net non-performing loans to net loans rose from 1.9% in September 2014 to 2.5% in September 2015.The ratio of gross NPLs to gross loans stood at 5.4% in September 2015, unchanged from the September 2014 level.

Sectors with the highest non-performing loans included trade, personal/households, real estate and building and construction.

MOBILE PAYMENT AND BANKING SECTOR PENETRATION

Mobile payment is a key characteristic of Kenya's banking industry. According to Business Monitor International, as at November 2015, 90% of Kenya's adult population was using mobile service such as m-pesa. On the other hand, according to a report by KPMG, the ratio of commercial banking branches per adult population remains relatively low in Kenya (5 branches per 100,000 adults in Kenya vs. 21 branches for 100,000 adults in Mauritius). Kenya also had a relatively low ATM penetration rate (10 ATMs per 100,000 adults in Kenya vs. 52 ATMs for 100,000 adults in Mauritius).

RECENT DEVELOPMENTS

The Kenyan banking sector has had its fair share of turbulence in the past 12 months. Dubai Bank closed in August 2015 following an investigation by the Central Bank of Kenya. Dubai Bank had been experiencing serious liquidity and capital deficiencies which raised the CBK's concerns that it would most likely not be able to meet its financial obligations as and when they fall due. As a result, Kenya Deposit Insurance Corporation (KDIC) was appointed as receiver for Dubai Bank Kenya Limited in August 2015.

This incident was soon followed by another scandal in October 2015. Imperial Bank Limited was placed under receivership by the Central Bank of Kenya

due to "unsafe banking practices at the commercial bank". The Kenya Deposit Insurance Corporation assumed the management and control of the bank.

In April 2016, the Central Bank of Kenya put Chase Bank under receivership after a run on deposits of USD 80 million caused by the restatement of the company's accounts for 2015 to reflect the actual bad debt and insider lending position resulting in the exit of the bank chairman and group managing director.

Other developments include proposals made by the Cabinet Secretary for the National Treasury to the parliament. The Treasury has proposed to increase the minimum capital requirement for commercial banks from KES 1 billion (USD 10 million) to KES 5 billion (USD 50 million). If the proposal is approved, Kenya's commercial banks will be required to increase their core capital to KES 2 billion (USD 20 million) by December 2017, KES 3.5 billion (USD 35 million) by

December 2018, and finally KES 5 billion (USD 50 million) by December 2019.

It has also recommended that the penalty for institutions violating the Banking Act be increased from the current cap of KES 5 million to a maximum of KES 20 million, and also to allow for additional penalties for each day that the violation continues. Oversight of commercial banks IT systems is also being enhanced together with skills enhancement for Central Bank of Kenya's supervisor staff.

PROSPECTS FOR MAURITIUS

Mauritius and Kenya have a double taxation avoidance agreement in place though it has not yet ratified. In fact, according to certain operators in Kenya, there is a negative view of DTAA in the country. Nevertheless, Mauritian firms can access the Kenyan market through the Common Market for Eastern and Southern Africa (COMESA) trading bloc.

Currently, acccording to Board of Investment's website, eight Mauritian firms operate in Kenya. Among them, New Mauritius Hotels Ltd is currently present in the tourism industry, Rogers has entered the logistics sector through its subsidiary, Velogic Ltd and Omnicane Ltd has a significant stake in a modern sugarcane complex in Kenya's Kwale region. The Africa Strategy being promoted by the Mauritian Government should encourage more Mauritian companies to enter the Kenyan market in the near future.

Opportunities for Mauritian firms are mainly in the agriculture and fisheries sector, tourism sector, financial services sector and logistics sector in view of the skills and expertise developed in those areas. Power generation is another interesting business opportunity. Local sugar firms are already investing domestically in power generation to diversify their activities. They can further expand their activities in this sector in other parts of Africa as well. Similarly, with several infrastructure projects being pursued in Kenya, there exist the opportunity for Mauritian firms supplying building and construction materials to enter the market.

GLOBAL TAXATION ENVIRONMENT HIGHLIGHTS

Taxation has been a cornerstone of every civilization.

It allows Government to incur military and civil expenditure but also to meet the common needs of the citizens like maintenance of roads, administration of justice and such other functions of the State.

On the otherhand, authorities also have an agenda to promote investment.

Tax incentives have played a major role in boosting investment in many countries thereby leading to economic growth and job creation.

To encourage multinationals to expand their geographical presence, countries have over the years come up with different ways to help these reduce their tax burden on businesses and individuals, one of them being through bilateral agreements between countries called double tax avoidance agreements.

The global financial crisis deeply altered the economic landscape with a new age of cuts in public spending and austerity setting in.

With declines in income, market returns and people being laid off, there was outrage over low tax paid by multinationals.

In the same vein, the rise of the digital economy is also proving to be a major obstacle for tax authorities.

Questions mainly arise about substance and value creation.

This has resulted in a global crackdown on tax avoidance through several initiatives. These include Base Erosion and Profit Shifting (BEPS), Common Reporting Standards (CRS), Foreign Account Tax Compliance Act (FATCA), General Anti-Avoidance Rule (GAAR) and some revisions to double taxation avoidance agreements (DTAA).

Indeed, the Mauritius-India DTAA has been recently amended.

Over the years, Mauritius has become the top source of FDI in India.

However, the latter deemed that it was missing out on a high amount of taxation revenue and thereafter started negotiations to amend the treaty.

Possible implications for Mauritius from changes in the global tax environment include higher costs of doing business which might result in a drop in global business activities.

Given the importance of the business and financial services sector for the country, as well as the ambition to become a global financial center, strong measures would be required to give a boost to this sector. These include broadening and deepening the sector while being on the lookout for opportunistic gains, diversifying the market, improving the support services and using economic diplomacy to increase influence and defend the jurisdiction.

GLOBAL TAXATION ENVIRONMENT: A NEW NORMAL

Taxation has been around for ages. Be it the Egyptian civilization more than 2,000 years ago or today's modern society, taxation has been a cornerstone of all civilizations. What has changed over the ages, however, is the tax environment. For instance, tax was paid to monarchs in the past but nowadays, it is paid to the government. Similarly, the variety of taxes imposed has greatly expanded.

Yet, the objective behind the imposition of taxes has remained the same. Levies and taxes are imposed to meet the needs of the Government or the ruling body. These needs can be in the form of military and civil expenditure but also outlays to meet the common needs of the citizens like maintenance of roads, administration of justice and such other functions of the State. Tax revenue enables Government to provide their citizens with the resources against external and internal danger. In addition to promoting welfare and security, taxation enables Government to promote equity and efficiency, namely through social transfers and correction of market failures. Through tax, authorities also aim to redistribute from the rich to the poor.

In parallel to pursuing social needs, governments also strive to promote a pro-growth environment, notably by encouraging investment. Tax incentives have played a major role in boosting investment in many countries thereby leading to economic growth and job creation. Mauritius is a good example of such countries. Indeed, tax rebate and exemption schemes were a major selling point for the creation of the Export Processing Zone and the Freeport, which have highly benefited the country as the benefits in terms of job creation and growth have far outweighed the costs.

On the international tax front, one constraint to cross-border investment has been the issue of double taxation, whereby profits taxed in one jurisdiction are again taxed when the money is repatriated in the home country. To encourage multinationals to expand their geographical presence, countries have over the years come up with different ways to help these multinationals reduce their tax burden, one of them being through bilateral agreements between countries called double tax avoidance agreements, which generally set out that income taxed in one country is not taxed in another. The jurisdictions provide multinational companies with facilities alongside a base for operations and in return, the latter contribute to growth

and development of the economy. Indeed, this model was the norm for many countries until the global financial crisis with its public debt explosion.

The global financial crisis deeply altered the economic landscape with a new age of cuts in public spending and austerity setting in. With declines in income, market returns and people being laid off, there was outrage over low tax paid by multinationals. Many people felt that the pain of austerity was not shared equally. Given that many countries were experiencing high fiscal deficits, Governments also realised that they were missing on tax revenue. Research conducted by the Organisation for Economic Co-operation and Development (OECD) in 2012 estimated that governments were losing USD 100-240 billion annually in revenue due to tax avoidance strategies. Similarly, according to a 2015 report by UN Conference on Trade and Development, developing countries lose around USD 100 billion per year in revenues due to tax avoidance by multinational enterprises (MNEs), and as much as USD 300 billion in total development finance.

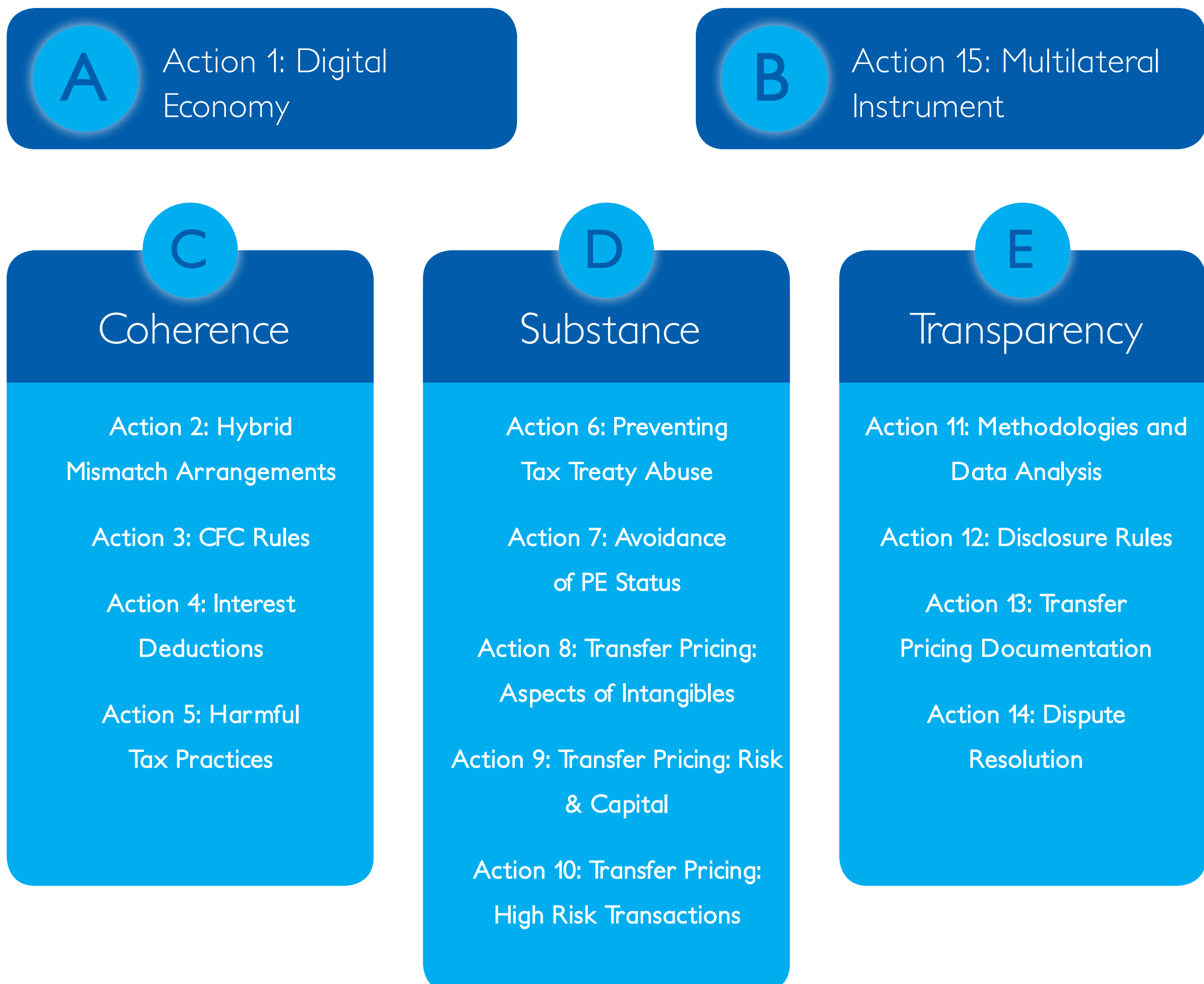
The rise of the digital economy is also proving to be a major obstacle for tax authorities. Characterized by a reliance on intangible assets, massive amount of personal data and value creation through varied and new business models, the digital economy is yet to be understood by tax authorities. At the same time, the recent rise of start-ups such as Snapchat, Twitter and Facebook highlight the increasing prominence of digital businesses in the overall economy and their relevance as an important generator of tax. Major technology firms usually possess very elaborate tax management systems with the objective of minimizing the amount of tax to be paid. It is therefore difficult for tax authorities to determine the jurisdiction in which value creation takes place. These weaknesses put the existing consensus-based tax framework at risk and can also lead to the enactment of different tax rules in respect of the digital economy. Though questions remain about substance and value creation, public opinion has prompted tax authorities to act quickly and decisively against technology multinationals for tax recovery.

CHANGES IN THE GLOBAL TAXATION ENVIRONMENT

The stance of authorities as well as public pressure have resulted in a global crackdown on tax avoidance. One major development in this respect relates to initiatives taken by G20 countries in the form of the Base Erosion and Profit Shifting (BEPS) Action Plan and the Common Reporting Standards (CRS). The US as well has come up with the Foreign Account Tax Compliance Act (FATCA). Furthermore, India has changed its attitude towards tax avoidance and is now reviewing all its double tax avoidance agreements (DTAA). It will also implement the General Anti-Avoidance Rule (GAAR) as from April 2017. All these action plans and regulations may ultimately change the global landscape, albeit in a disparate manner.

The aim behind the BEPS Action Plan is to eliminate tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little economic substance, resulting in little or no overall corporate tax being paid. It aims to do this through 15 Actions Points that have been organised into 5 parts, as highlighted in Figure 5.1.

Figure 5.1: BEPS Action Points



Source: OECD

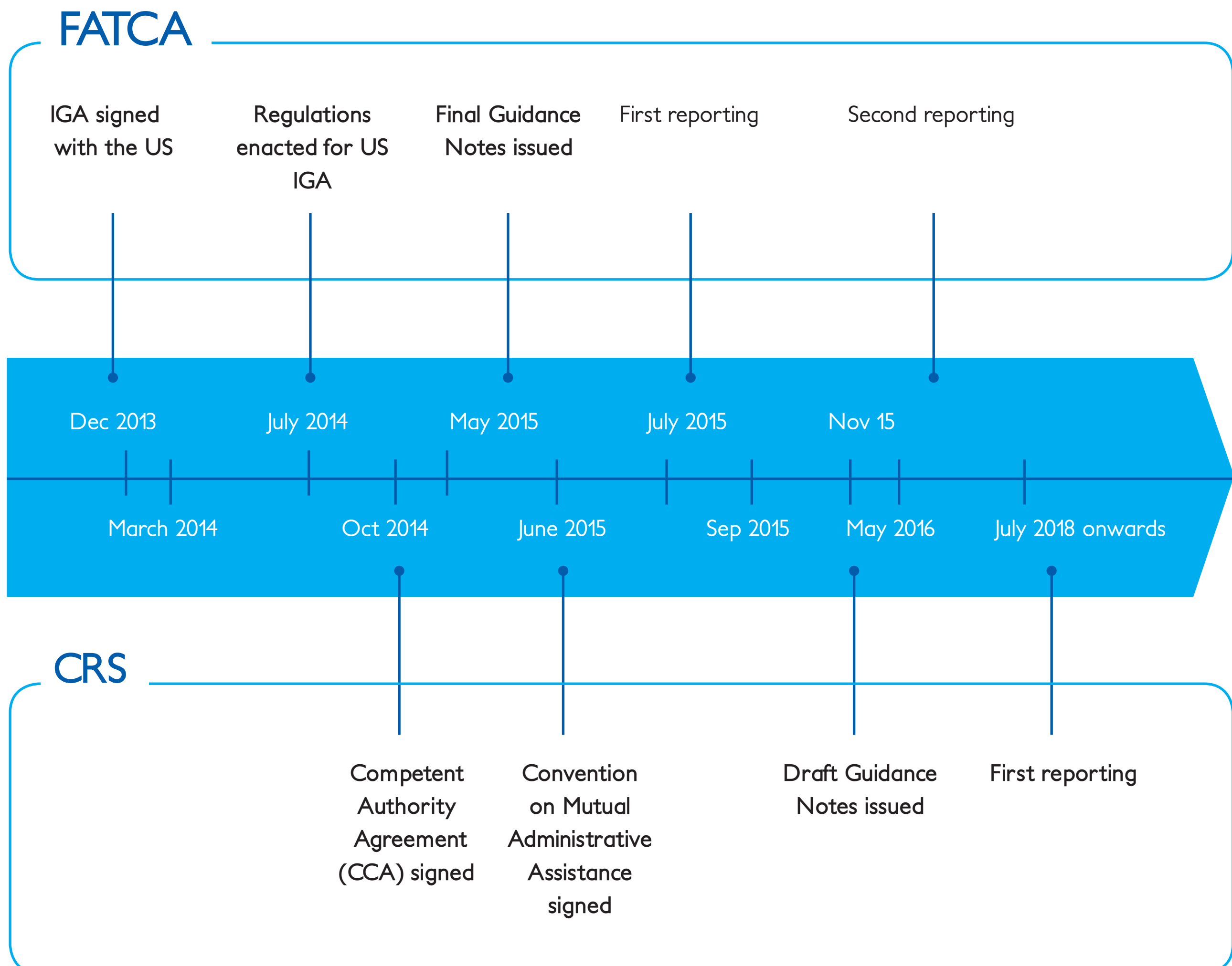
Common Reporting Standards, on the other hand, refer to a multilateral tax information exchange mechanism which will involve 50 countries. The Common Reporting Standards aim at eliminating tax evasion through automatic exchange of information on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered as well as common due diligence procedures to be followed.

The new US regulation, FATCA, promotes cross border tax compliance through the implementation of a system of automatic exchange of information related to US taxpayers. The aim behind this regulation is to increase transparency for the US's Internal Revenue Service with respect to US citizens who may be investing in the country through non-US institutions.

Mauritius has committed to complying to the provisions of FATCA and CRS, as per the timelines highlighted in Figure 5.2.

CURRENT POSITION IN MAURITIUS FATCA & CRS

Figure 5.2: Mauritius- CRS and FATCA



Source: KPMG (Guidance notes of FATCA & CRS)

In India, the GAAR aims to override all tax treaties in case of abuse of the treaty. Indeed, this new tax provision vests tax authorities with wide powers to disregard or ignore all arrangements. When GAAR will be applied in the case of a taxpayer, there will be no corresponding or consequential relief available to the counter party.

DOUBLE TAXATION AVOIDANCE AGREEMENT (India–Mauritius DTAA)

The Double Taxation Avoidance Agreement between India and Mauritius was signed in August 1982. The aim behind this agreement was to avoid double taxation and the prevention of fiscal evasion with respect to taxes on income and capital gains as well as to encourage mutual trade and investment. The following provisions were included under the agreement:

(i) Business profits of an entreprise in India or Mauritius was taxable only in the state where it conducted business through a permanent establishment therein.

(ii) Income from immovable property was taxed in the state where such property is situated.

(iii) Dividends paid by a company which is a resident of one state to a resident of the other state was taxed in the other state. Dividends paid by a company which is a resident of Mauritius to a resident in India may be taxed in Mauritius and according to the laws of Mauritius. Tax rate should not exceed the rate of the Mauritius Tax on profits of the company paying the dividends.

(iv) Interest arising in one state and paid to a resident of the other state may be taxed in the other state.

(v) Royalties arising in one state and paid to a resident of the other state may be taxed in the other state.

(vi) Gains from the alienation of immovable property may be taxed in the state in which such property is situated.

(vii) Directors' Fees and other similar payments derived by a resident of a state in his capacity as a member of the board of directors of a company which is a resident of that other state may be taxed in that other state.

Subsequently, many firms set up a Global Business Company in Mauritius to conduct business in India. Investments in India were made through Mauritius and the latter became the top source of Foreign Direct Investment in India with some USD 100 billion being invested in India through Mauritius over the last 15 years (33.7% of total FDI into India over that period). As per data recently released by the Reserve Bank of India, on 3,320 selected Foreign Direct Investment companies in India, Mauritius was top ranked with 105 companies operating in the Manufacturing sector and 359 firms operating in the services sector. Firms operating from Mauritius also had one of the highest borrowings to equity ratios alongside Singapore with 100% in 2012–2013, 99.7% in 2013–2014 and 84.8% in 2014–2015.

With the high amount of investments coming from Mauritius into India, the latter deemed that it was missing out on a high amount of taxation revenue and

thereafter started negotiations to amend the treaty.

According to the Central Board of Direct Taxes (CBDT), the protocol is intended to tackle the long pending issues of treaty abuse and round tripping of funds attributed to the India-Mauritius treaty, curb revenue loss, prevent double non-taxation, streamline the flow of investment and stimulate the flow of exchange of information between India and Mauritius. In addition, it is deemed to improve transparency in tax matters and help curb tax evasion and tax avoidance.

Changes brought to current agreement in place include:

- From April 1st, 2017 to March 31st, 2019, firms based in Mauritius will have to pay capital gains tax at 50% of domestic tax rate in India.
- Thereafter, full domestic tax rate will be applied on firms' capital gains arising from sale/transfer of Indian shares by firms based in Mauritius
- Interest income arising in India will be subject to 7.5% withholding tax after March 31st, 2017.
- Only those Mauritius-based companies that have a total expenditure of more than INR 27 lakh (indicatively MUR 1,470,000 or USD 41,000 as at May 2016) in the preceding 12 months will be able to benefit from the tax treaty
- A resident is deemed to be a shell/conduit company, if its total expenditure on operations in Mauritius is less than INR 2,700,000 (indicatively MUR 1,470,000 or USD 41,000 as at May 2016) in the immediately preceding 12 months
- Foreign Portfolio Investors - the largest investor group – will now have to pay 15% tax on short-term capital gains on listed shares

POSSIBLE IMPLICATIONS FOR MAURITIUS

Higher costs of doing business

The scope of the changes means that the different laws and action plan have the potential to rewrite the rules of international taxation. Mauritius, in particular, will have to contend with changes from BEPS, FATCA, CRS as well as the DTAA with India. Already, firms including management companies are holding discussions to assess the potential impact of these changes. The latter implies a new business environment with risks and costs of doing business expected to significantly rise.

Compliance risks in particular would be a major concern. New country by country reporting requirements and more transparency imply that firms are only a step away from legal sanctions, material financial loss and loss of reputation if they fail to comply with them. As a result, compliance costs of many firms would rise. Going forward, they would have to spend more to generate required reports and disclosures. Many would also have to strengthen their compliance teams to deal with the additional work.

An additional effect of these new regulations would be on reputation. As per the new regulations, information about a group's tax affairs will be shared more widely indicating that the public will have greater access to previously held private information about tax affairs. Therefore, greater scrutiny of a company's tax profile is expected from authorities and the public. There will be a greater emphasis on what activity is actually being carried in Mauritius. As a result, in the future, inter-company agreements as well as contracts would have to identify underlying reality of transactions. The move towards greater substance and economic reality will imply a change in business models given that firms will have to spend more in Mauritius. Greater value creation would have to take place here. Profit allocations and intra-group arrangements would have to be updated.

Drop in global business activities

As a result of the increased costs and increased scrutiny on global business activities, particularly in respect of tax matters, the attractiveness of the Mauritius jurisdiction could lessen going forward, other things remaining the same.

It is estimated that a drop of, say, 25% in this sector's activities could reduce overall economic value added by about 1-1.5%, putting pressure on unemployment, particularly at the higher end of the skills scale. Net contribution to the balance of payments which stood at 22.6% of GDP recently, could also decline by about MUR 15 to 20 billion. This could lead to depreciating pressure on the exchange rate of the rupee, with adverse impact on inflation and external debt servicing costs, among others.

Moreover, a reduction in activities in the sector would have adverse spill over effects on other sectors, mainly the banking sector. Indeed, loans to non-residents and global business companies represent 26% of total banking sector

assets. More than a quarter of banks' balance sheet is dependent on global business sector. This is true for the funding side also. Deposits from non-resident and global business companies account for 43% of total liabilities. It may be inferred that global business activities contribute a non-negligible amount to the foreign currency funding needs of domestic banks.

In the same vein, services provided to global business companies contribute around 40% of revenue generated by legal, accounting and audit firms. In addition, the global business sector contributes annually around 6.5% of total tax revenue for the government through the Mauritius Revenue Authority. The Financial Services Commission as well benefits from the global business sector. There are around 21,000 global business companies in Mauritius which pay annual license fees to the FSC. Total fees received by the organization in 2014 amounted to MUR 885,236,406. Out of this, MUR 798,813,192 was received from global business companies (90% of total fees).

WAY FORWARD

The revision of global tax regulations are expected to negatively impact Mauritius over the medium term. In the transition phase, a number of measures can be put in place to mitigate the consequences, as discussed below.

1. Broaden and deepen the sector while being on the lookout for opportunistic gains.

Mauritius is presently classified as a transnational specialist in the latest Global Financial Centre (GFC) Index. The latter takes into account three factors for its ranking: Connectivity (To what extent is the centre well known?), Diversity (Breadth of financial services centre) and Speciality (Depth of the financial services centre).The current classification of the Mauritian jurisdiction indicates a lack of breadth and depth. The country's recent push to become an International Financial Services Centre is, therefore, a step in the right direction. Indeed, a broader range of services could be offered to bring more substance for domestic and foreign investment holding companies investing across the globe. For instance, capabilities to engage in investment banking activities, including mergers and acquisitions, asset management services, advisory services and capital raising activities can be actively pursued. To this effect, attractive packages can be put together to attract multinational companies to set up office in Mauritius. Smart cities, a key Government project, can be used as well to attract big corporates to Mauritius.

The concept of International Financial Services Centre can be pushed even further with the establishment of an International Business Centre not limited to financial services only. Some pharmaceutical firms already have laboratories in the country. Other firms operating in different sectors of the economy can also be encouraged to conduct their research and development in Mauritius. Incentive programmes might be put together to attract international firms to set up base in the country. A parallel can here be drawn with Mauritius attracting textile companies to set up in Mauritius in the 1980s. The incentive programmes can include subsidized loans, tax incentives, subsidized utility rates and jobs for spouses.

Alongside a review of its strategic

positioning, the country should remain alive to opportunistic gains that may accrue. For instance, as part of the Mauritius-India DTAA negotiation, Mauritius would become the most favoured nation in terms of debt financing/structuring and should therefore aim at maximizing opportunities arising therefrom**.**

2. Market Diversification

Another potential way forward is market diversification. The Mauritian global business sector has historically been dependent on India. Yet, with the revision of the DTAA, the need for diversification has emerged. The path to diversification can be through Africa. Since the last global financial crisis, the continent has emerged as an attractive place to conduct business and invest. Some have even labelled it as the last great investment opportunity. Still, doing business in Africa remains fraught with challenges in the form of political risks, lack of market intelligence, difficult access to financing and different tax and legal systems to abide by. Mauritius could position itself as a solution provided for all these issues. It can build on its close ties to Africa to attract firms willing to enter the continent and transform itself into the gateway to Africa. For instance, it could become the capital raising platform for African firms or any other firms. Bonds for different international companies could be issued in Mauritius. Given that the Mauritian financial services sector already possesses good skills and that the Government is willing to pursue the Africa strategy, the prerequisites for market diversification might already be present.

3. Supporting services

To support this ambition, the enabling infrastructure and services should be accordingly revamped. Particular attention should here be placed on the availability and quality of human capital. The 2016 A.T Kearney Global Services ranked recently Mauritius 30th out of 55 countries with a score of 5.17 points. Of note, however, is that Mauritius has a poor score on the "People skills and availability" sub index. A considerable contribution might therefore be needed from foreigners. Talents could be attracted in areas where the country has little to no expertise. Thereafter, emphasis could be put on training and transfer of knowledge so that the local population can benefit as well.

Knowledge about markets that firms want to enter would have to be built. In so doing, firms would set up in Mauritius due to the country's competitive advantage. Emphasis would also have to be laid on improving the business environment and governance so that firms are encouraged to do business in Mauritius.

Investment in infrastructure would be required to bridge the gap with the global financial centres. Broadband connectivity is still slow in the country compared to other economies. This is an impediment to progress and growth in today's world where internet is of paramount importance. The proposed regional fibre cable in Indian Ocean is expected to help in this regard. Similarly, the recently inaugurated air corridor linking Mauritius to Asia would open up the skies and lead to more connectivity and communication. The proposal to extend the air corridor to Africa would also help to increase Mauritian footprint on the continent.

Flexible working arrangements can also be introduced. This would especially be an incentive for women who are reluctant to take up a job due to their family commitments. Operating a 24x7 model would also allow Mauritius to do business with countries having different time zones.

4. Defending the Jurisdiction, Notably through Enhanced Economic Diplomacy

A further avenue to mitigate the impact emanating from the changing tax environment would be through economic diplomacy. Mauritius' influence and weight on international matters should therefore be increased. Any hostile depiction of Mauritius would have to be countered while at the same time, putting emphasis on what makes Mauritius an international business centre. The inclusion of Mauritius on the white list of many countries should be promoted. Promotion campaigns undertaken by the country should put emphasis on the whole package that Mauritius can offer rather than just low tax advantage. A rise in influence could also be garnered through the development of markets in other countries. For example, the signature of investment promotion and protection agreements with other nations and the setting up of Special Economic Zones in other jurisdictions will encourage firms to invest in those countries through Mauritius. The latter will be able to offer them comfort and certainty with regards to their investment. With firms using Mauritius as a base for their operations, influence and weight on international matters would undeniably rise.

Whereas challenges to medium term growth in the global business sector are manifold, a properly-executed strategy of broadening and deepening the sector – with a higher degree of openness, as well as appropriate incentives and support services – could not only moderate the impact of impending changes in the tax environment, but also set the stage for a more robust financial services sector and a stronger economic base in general.

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