

While the public equity markets may continue to show limitations going forward, given high debt to free cash flow levels within the non-financial firms and the low likelihood of any public share issuance, the private equity space may see more traction. For example, highly indebted companies may look to sell assets or share investment risks on projects which need more financing/restructuring or financing for new projects where family shareholding dilution concerns on the holding company will not be at risk. Given the low level of gross national savings to GDP (and high public and private debt levels), private Mauritian firms may need to depend more on foreign investors who today demand ESG convergence.

Is there a way without the will?

For decades, the rentier economy and the system of political patronage have co-existed and created high barriers to entry and moral hazard. This is because policy makers have consistently provided backstops in the form of various subsidies, cheap bailouts and perks to many sectors of the economy. The effective corporate tax rates companies pay are also today not impacted by any ESG score today which could also meaningfully tilt corporate behaviour.

Lastly, if the government is interested in promoting a more inclusive and socially responsible society in Mauritius, it should perhaps start with its many public majority owned companies when it comes to corporate disclosures, Key Performance Indicators setting, governance structure enhancements and its ESG goals. For example, LUX and New Mauritius Hotels have disclosed more about their bailouts to the public than the MIC has disclosed. The likes of Mauritius Telecom and the State Bank of Mauritius have miles to go when it comes to enhancing governance frameworks, corporate disclosures and moving towards the ESG way.

ESG is the future, but whether Mauritian policy makers will move in this direction or not remains an open question.

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Weak rupee, weak economy

By Amit Bakhirta

"A weak currency is the sign of a weak economy, and a weak economy leads to a weak nation"

Ross Perot

The Mauritian rupee, our dear nation's currency, has depreciated by a mindboggling 36% over the past decade! Any foreign investor would be rightly concerned on the outlook thereof. No one wants to invest in an economy wherein the currency is in a downward spiral. Not only their investments are worth less (typically net Internal Rate of Returns, bar the insane bid-ask spreads practiced on foreign exchange transactions locally in their native currencies, are tremendously affected) but a sustainably depreciating currency is the sign of a much more profound malaise in the economy. Sustained currency depreciation impoverishes a nation over time. An impoverished nation can only be a perfect recipe for socio-economic disaster over time.



We need a stronger, more stable rupee, not weaker

Is there trade hoarding, or a true dent in the supply of hard currencies in the domestic market?

Our chart herein showcases the sales of rupees for hard currencies really picking up momentum from 2012 onwards. However, the pace of rupee depreciation accelerates from 2014/15 onwards. We all understand that a number of macroeconomic factors, including the reduced inflows of hard currencies from the tourism (and adjacent) industry, the blacklisting of the Mauritian financial jurisdiction and a central banking policy weak currency instance, amongst others, have led to a depleted currency today. One way to understand as to why the majority of the population (yes, even the 'reasonably' fortunate ones) and most corporates have faced difficulties in securing hard currencies since the Covid-19 pandemic hit is rather straightforward. Or is it?

Global Business Companies (GBC) deposits in the Mauritian economy have been an important source of the country's banking system's foreign currency deposits and pool. As the financial jurisdictional compliance issues started to come to fruition (they had been simmering for a while), fear of GBC deposits outflows naturally grew. However, the empirical impact thereon has been negligible.

Transferrable deposits in the banking system (which include deposits mobilised from residents, primarily Global Business Licence Holders and non-residents) sat at roughly Rs 633 billion as at March 2021 in contrast to approximately Rs 466 billion in December 2019. Yes, a positive 36% increase. Yes, we should learn to analyse some indicators from a hard currency perspective to understand true financial but also real mathematical impacts. And so, while the same deposits represented Circa USD 12.6 billion in December 2019, these foreign deposits had grown to USD 15.5 billion as at March this year (yes, a 22.4% growth). Sure, the maturity profile of these foreign currency deposits in the Mauritian economy have adjusted to heightened risks in the financial jurisdiction as we denote a readjustment from the tail end of the curve towards the shorter end. Hence, we can conclude that actual supply of hard currency in the Mauritian economy has not had a dent.

Excess foreign exchange currency holdings

In alignment to the loosened monetary instance in the economy, you expect the Cash Reserve Ratio (CRR) to compress. Interestingly enough, as of 1st July 2021, average foreign currency (FCY) CRR in the banking system sat at 30.4%. As of December 2019, within a much tighter monetary policy instance (and so higher key repo rate / CRR rates), the same FCY CRR stood at 20.85%! Notwithstanding the fact FCY credit growth foreseeably brakes during the early phases of a recession, a lower mandatory CRR should technically result in lower average CRRs when the central bank's CRR are sitting at a low time low! Not the other way round!

Excess foreign exchange currency holdings in the Mauritian economy have more than doubled from Rs 17 billion in December 2019 to Rs 37 billion as of 1st July 2021! Average FCY cash balances grew 91% from Rs 24 billion to Rs 46 billion. This not only shows an extremely healthy state of affairs, but most importantly an overarching excess of foreign exchange liquidity in the country's economic and banking systems.

An artificial weakening of a nation's currency works in short term economic cycle.

Now how do we explain (honestly) to our citizens and corporates that they have faced enormous difficulty (only after we had raised the issue in a respected business media that the Central Bank intervened to furnish ample liquidity but the transmission mechanism has not been fully fair and effective) and restrictions of procuring foreign exchange (for various needs, irrespective of which, in a free and fair capitalistic market, should be readily and unconditionally available to buyers and sellers at all times!). The trading numbers and currency translation gains are surely going to save the day!

A note of caution to the rupee bears

Since December 2019, our monetary supply has shot up by circa 27%, sitting at Rs 767 billion as at May 2021. We need to start seeing a transitory contraction, followed by some stability in the

money supply, hopefully resulting in an acceleration of the money velocity. As nominal GDP weakened by 8.7% to an estimated Rs 107 billion in the first quarter of this year, velocity of money has again weakened, and so the slow economic activity. Typically, the velocity should increase in an expanding economy. From a multi-year low in second quarter of 2020, as we locked down in first quarter 2021, this velocity has shrunk again. We need a strong uptick, and we need it reasonably fast. We expect a hopeful strong turnaround in third quarter 2021 (mathematically speaking).

In essence, we humbly argue herein that the past decade's trend of the rupee, versus major hard currency pairs, is far from engraved in stone. We do not believe, as yet, that this trend is a free-market lasting trend as macros are not yet supportive of a fundamentally significantly weaker rupee over time. It is a situation which can be fundamentally altered, and it is very likely that it shall be altered at some point in time. An artificial weakening of a nation's currency works in short term economic cycle, not necessarily long-term ones (especially if the macroeconomics of the country grow increasingly robust with time).

Hence, we remain reasonably supportive of the rupee at the current levels, and a humble note of caution to the rupee bears, as the fundamentals and the pricing of our dear nation's currency are increasingly divergent.

"The free market always converges. As does nature..."

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Le climat de catastrophisme

Par Eric Ng Ping Cheun

Le nombre journalier de décès à Maurice est en moyenne de 30. Imaginez les radios consacrer, matin, midi et soir, leur première information à la rubrique nécrologique. Vous finirez par voir la vie tout en négatif. C'est le même sentiment qui se dégage lorsqu'on entend, à longueur de journée, le nombre de cas positifs au Covid-19 qui, pourtant, entraînent très peu de décès. Il n'y a pas de plus mortel pour l'économie que le virus de la peur, tout comme en matière de changement climatique.

Le catastrophisme fait vendre les journaux et booster l'audience des radios. En particulier, l'alarmisme climatique domine les médias dans un torrent d'hyperboles. La couverture médiatique des rapports du Groupe d'experts intergouvernemental sur l'évolution du climat (Giec) se résume à sélectionner les morceaux qui sont alarmants. Les risques extrêmes mais peu probables sont amplifiés dans les médias, puis repris en chœur par les militants écologistes qui n'aimeraient pas avoir tort.

Paradoxalement, affirment deux chercheurs en climatologie, Zeke Hausfather et Glen Peters, ce biais de négativité journalistique peut conduire à l'apathie climatique. Présenter le futur sous le pire scénario peut engendrer défaitisme et fatalisme, du moins contribuer à démobiliser les gens. Pourtant, le scénario catastrophe, qui implique un retour massif au charbon, devient de plus en plus improbable, car il ignore les politiques d'atténuation du changement climatique.

