

# Could the gloom surrounding the South African economy be a silver lining for Mauritius?

**THE** South African economy is one which leaves little room for optimism. It is currently facing a number of internal and external headwinds with growth stagnating and inflation on the rise – a phenomenon which is known as stagflation. All the Gross Domestic Product components are depressed. The economy is estimated to have grown by 1.3% in 2015 and a lower growth of 0.8% is expected for 2016 by most economists.

Business confidence is receding, corporate profitability is falling and the combination is extremely negative for private sector investment and wage bills. The inflation trajectory is far higher now thanks to sharply rising grain prices and a sharply weaker ZAR and it is expected that this will cause the SARB to hike more aggressively in 2016, even if GDP sinks lower.

To make things worse, given that a sovereign rating downgrade by S&P to junk status is a possibility given widespread macroeconomic concerns, the SA authorities would be expected to be doing their utmost to satisfy the rating agencies, especially S&Ps, and reassure the markets. The consensus is that if there is a downgrade it would happen in December 2016 rather than at the next review in June 2016.

There are too few South Africans at work. Unemployment rate



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today is officially at around 25% but the true figure far exceeds 30% and what is concerning for the future of the nation is that the real pass rate for their national exams has fallen to below the 45% mark.

A rating downgrade to sub-investment grade by S&P coupled with US policy rate lift-off would cause the currency to further depreciate, resulting in a tightening of liquidity. This takes us to firmly believe in a “hard landing scenario” for South Africa.

Against this backdrop, it is firmly believed that Mauritius could well take advantage of the economic woes of South Africa to add more breadth and depth to its financial sector and upgrade Mauritius’ status as an international financial centre that provides a full

suite of financial products to market participants around the world.

We are all well versed with rhetoric of “Why Mauritius”. However, there are a few clear opportunities that I have attempted to summarize below:

A number of Multi National Corporations have set up their base in South Africa to cover the African market and some of these have even set up Mauritian structures to benefit from our network of DTAs. We should be encouraging these companies to carry out their front office operations out of Mauritius and this might mean giving them fiscal incentives both at the corporate level as well as for their senior employees, who more often than not would be expatriates. Attracting quality foreign professionals would have an added advantage of helping to boost internal consumption.

Similarly, we can be an attractive jurisdiction for international banks looking to offer both Investment Banking and Wealth Management solutions in Africa. We have recently seen Bank of China obtain their banking license and we feel that other large Asian, US and African banking institutions (e.g. FirstRand, Nedbank and Ecobank) could be convinced on the merits of setting up their regional headquarters in Mauritius. The large pool of foreign currency liquidity and the increasing number of inter-

national firms using our IFC as an investment and trading platform makes it an interesting prospect for these banks to operate out of here. Once you have a burgeoning financial sector, it automatically becomes attractive for internal law firms, insurance companies, etc.

Mauritius has all the attributes to be a private banking and wealth management hub for HNWIs and UHNWIs on the continent. Wealth creation in Africa can only expand and individuals are looking for a safe jurisdiction; Mauritius ticks all the boxes and even provides the added value of offering an idyllic lifestyle for a second home.

The opportunities are evident. However, we need to act quickly and grab them with both hands. Taking this path will definitely mean large investments in the general infrastructure of the country coupled with a much improved connectivity to the rest of the continent, without which all of the above will not be possible.

There is a general feeling amongst the business community that we need to create a “Mauritian Brand” to attract institutions and their professional talent to set up in Mauritius. There needs to be a very disciplined and concerted approach by both the government and the private sector to woo large corporations. It’s a medium to long term plan, but it needs to start NOW!!