



As of 28th June, the Mauritian rupee experienced a depreciation of 3.5%. It is a huge shock for the foreign exchange market. The euro can now be bought at Rs 51.47, the US dollar at Rs 42.95. The British pound is now traded at Rs 60.40. Seeing this, stakeholders are afraid that this situation is worsened and put the country at peril.

Rupee faces Covid brunt

Nafissah Fakan

The Impact of the Covid-19 pandemic has been felt everywhere. The volatility seen in exchange rates is one of the major external indicators of the economic impact of the global turmoil since the past year. The Mauritian's rupee has not been spared either. Unfortunately, our currency is depreciating constantly. What explains this depreciation? There have been numerous factors that came as a blow for the Mauritian rupee. Allan Juste, Head of Forex and Derivatives at Afrasia Bank reveals that in the days following the Covid-19 pandemic breakout in 2020 and lockdown in Mauritius, there has been a bottleneck on the domestic market's foreign currency supply and demand. "In light of foreign transactions conducted by banks and foreign exchange dealers extracted from the Bank of Mauritius 'Monthly Statistical Bulletin' in May 2021, on the supply-side, foreign inflows, mainly from the Export and Tourism sectors, have witnessed a severe backdrop of 44.4% on a monthly basis and fell to USD 245 million in May 2021. Meanwhile, demand for foreign currency, basically from importers, have decreased by only 17.8% to USD 362 million a month compared to USD 440 million early in March 2020. It would appear that demand for foreign currency has relentlessly overlapped supply to the tune of USD 1.65 bn, while the Bank of Mauritius, through its regular intervention, injected only USD 1.54 bn into the do-



Allan Juste, Head of Forex and Derivatives at Afrasia Bank.

national lockdown since March 2021 in response to the resurgence of local cases coupled with the relentless US dollar rally abroad has been a double-edged sword for the rupee depreciation. "In the latest Federal Open Market Committee (FOMC) meeting this month, the Federal Reserve has indicated that it could raise interest rates in the United States earlier than previously expected, boosting the greenback's appeal."

MAURITIUS'S RUPEE VULNERABILITY

We should understand that the Rupee was already well on a slide against the US\$ well before the Covid-19 Crisis. Kevin Teeroovengadam, economist explains that between 2015 to 2019, the rupee depreciated by more than 25% having moved from Rs29 to Rs37 against the dollar. "Now with

domestic market, lighting a fire under the value of the rupee throughout 2020 and the first six months of 2021."

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THE RUPEE WILL EVEN BE MORE VULNERABLE TO FURTHER PRESSURE TO WEAKEN. SO THE RUPEE COULD SOON BREAK THE RS 45 LEVEL AGAINST THE DOLLAR AND EURO REACHING RS55.



Kevin Teeroovengadam, economist.

the Covid crisis, it has accelerated a further significant depreciation of the rupee vis a vis all the major forex currencies on the back of zero revenue from the tourism sector, our financial sector has had a meagre 1% growth in 2020, and FDI fell way short of target at less than \$300M for last year. The future of the rupee is definitely not looking promising."

Allan Juste utters that the rapid and worldwide widening spread of Covid-19 throughout 2020 has caused a sharp decline and a prolonged slump in the tourism and manufacturing industries, which usually contribute a sizeable proportion of USD 6.5 bn annually in foreign inflows into the Mauritian economy. "The substantial reduction from the supply of foreign currencies by nearly 38.5 % to USD 4 bn in 2020 has negatively impacted the rupee exchange rates to other major traded currencies. The Mauritian rupee has been pinned near milestone lows against its major currency peers, namely the U.S dollar, Euro and Pound since the Covid-19 pandemic started more than a year ago."

Dr.Chiragra Chakrabarty, CEO of Katic Consulting adds that although comparing the global volatility, Mauritian currency was less volatile. "Global lockdown as well as Mauritius lockdown, as there were no other options to economies, led a shortfall of foreign currency. This was due to the main sectors of the economy were facing a massive issue - tourism, textiles manufacturing, the construc-

tion sector in terms of sales of goods and services to foreigners - then obviously, there would be a shortfall in foreign currency. When this situation arises, it is very normal that our local currency would depreciate. This is not a phenomenon that is only in Mauritius, but we have seen it across emerging market currencies worldwide."

CONSEQUENCES

The impact of this depreciation is multi-fold. Kevin Teeroovengadam points out that there are far more negatives for the Mauritian economy as we are net importer and with the increase of prices of commodities and food, fuel where Brent oil has reached the \$75 level, a dramatic increase of freight costs in the global market, all this will lead to two things being a rise in inflation and eventually a further pressure on the rupee to slide even further to the levels of where it is currently. "On top of that, following last week's comment by the Federal Re-



Dr.Chiragra Chakrabarty, CEO of Katic Consulting.



THE MAIN SECTORS OF THE ECONOMY WERE FACING A MASSIVE ISSUE - TOURISM, TEXTILES MANUFACTURING, THE CONSTRUCTION SECTOR IN TERMS OF SALES OF GOODS AND SERVICES TO FOREIGNERS - THEN OBVIOUSLY, THERE WOULD BE A SHORTFALL IN FOREIGN CURRENCY.



Sectors impacted

Seeing the prevalent situation, many sectors are at risk because of the depreciation. According to Kevin Teeroovengadam, the manufacturing sector will be impacted, as they rely on imported machinery and equipment and these will cost more than before and impacting on their capability to buy or delay their acquisition. "A continuous depreciation of the rupee will impact our import bills and will eventually lead to higher inflation and hit the consumers pockets. It's not only consumers buying imported products in

supermarkets that will cost more, but also, for example, parents who are paying for university fees for their kids overseas, also medical fees overseas."

For him, we need to understand when the rupee goes down our GDP per capita in US\$ will also go down, which makes us poorer vis a vis the rest of the World. For example, as it stands, we took a 12-year knock in terms of GDP per capita in US\$. "We are back to the levels of 2009! We don't want to be like Lebanon where they have gone back by 20 years!"



There has been a bottleneck on the domestic market's foreign currency supply and demand.

serve Governor of the USA whereby the probability of an increase in interest rate in the USA is more likely to happen sooner than later, means that the Rupee will even be more vulnerable to further pressure to weaken. So the rupee could soon break the Rs 45 level against the dollar and Euro reaching Rs55."

This time, he believes we are caught in a downward spiral, as until such time we become a net exporter which doesn't seem to be the case anytime soon, the rupee will not be able to strengthen and will not go

back to the levels of pre-Covid. "We have moved from an era of a strong rupee in the 2000-2015 period to an era of a continuous depreciation of the rupee."

Dr.Chiragra Chakrabarty, on other hand, argues depreciation is directly linked to one of the major pillars of the Mauritian economy, that is, the tourism industry and its linkages. "Depreciation of Mauritius Rupee means the price of Mauritius's exports, denoted in foreign currency, will decrease, hence increasing the purchasing power of source markets. Mauritius exports

will be less expensive on the world market. Tourism expenditures are also an export; its unique feature being that it is consumed in the host country. This assumes that there are unemployed resources due to the Covid situation available to meet this additional demand. This will push up the revenue of the tourism industry. While exports will be less expensive, imports will be more expensive. Finally, depreciation can have a significant impact on the domestic value of remittances from family and friends overseas."

Measures to boost the rupee again

There is a need for the policymakers and the government to come forward with interesting measures to give value back to our rupee. Kevin Teeroovengadam argues that our traditional pillars of the economy are struggling and we need a deep restructuring of these pillars. "If you take the tourism sector, for more than 15 years, the average spending per tourist in forex has had no growth, and in fact has been decreasing. So, going forward, we need to tackle this issue and come up with strategies where our tourists spend more money during their stays in Mauritius and Seychelles is doing well on that front as they are getting more high-income tourists who spend more money. What we need is not

more tourists, where in fact we need more spent per tourist. The same goes for our financial services sector, where we need to go up the value chain to be able to generate more income per client."

He states that we also need to immediately get all these new pillars of the economy and especially the blue and the silver economies going. "As of to-date these two potential pillars generate absolutely nothing for the overall economy and we know that these two pillars could generate huge potential in getting forex revenues. And going forward we need an annual FDI target of \$1billion and not the same \$500million that we have been aiming for the last 15 years."