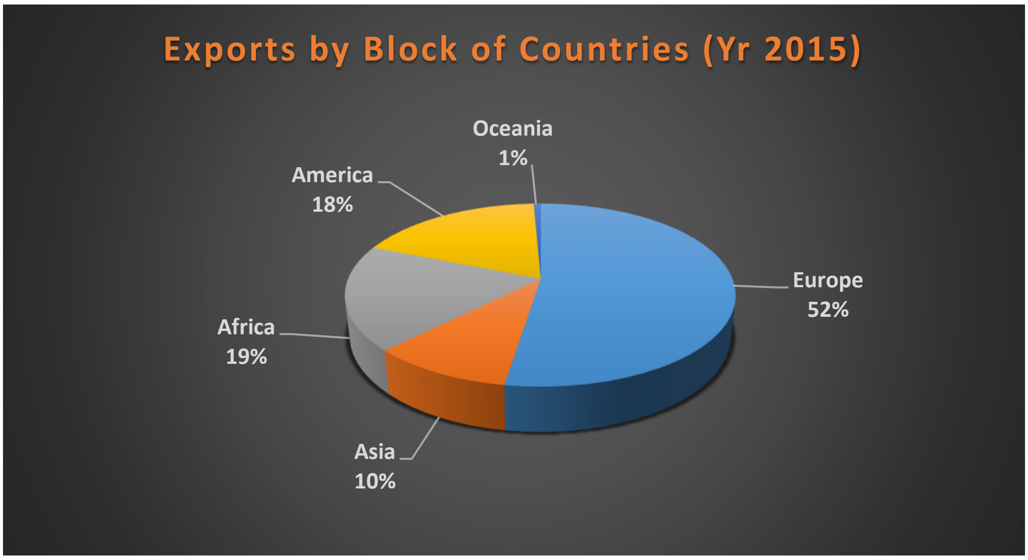
A. Export Structure:

(i) Export Market – Global Perspective:

It is a fact that exports of Mauritius has always been euro-centric. Indeed, EU remains the largest trade partner of Mauritius with an average annual exports of Rs 25,551 million *(excluding sugar).* As a consequence, exports to EU, including United Kingdom represent more than 50% of our total exports.



Source: Statistics Mauritius

- **Exports within EU Countries:**

Within the EU countries, the United Kingdom remains the largest export destination followed by France, and Italy with exports of Rs 8,917 million, Rs 6,741 million and Rs 2,229 million respectively.

Total EOE Exports Yr. 2015 *(Rs Million)*	**48,687**
Europe	**25,551**
United Kingdom	8,917
France	6,741
Italy	2,229
Netherlands	1,944
Spain	1,691

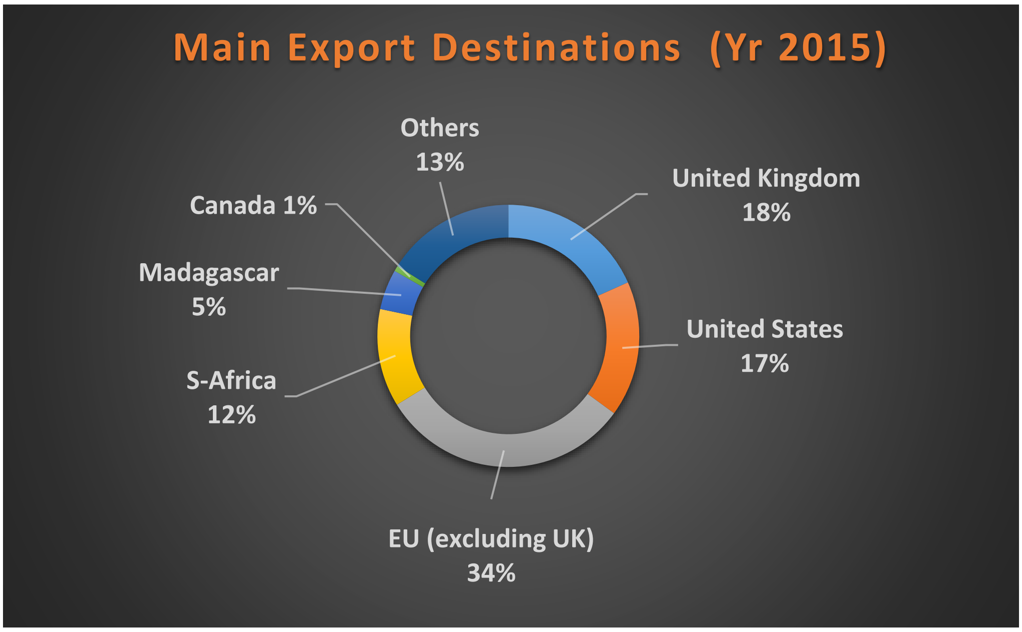
Belgium	1,249
Other	1,083
Switzerland	916
Germany	396
Portugal	232
Austria	153

Note: Total EOE Exports to UK in 2015 amounted to Rs 8,917 million, excluding exports of sugar to the UK which amounted to around Rs 1,368 million.

- **Main Export Market:**

On its own, the United Kingdom (UK) remains the main export market of Mauritius with a share of 18% of total exports, followed by United States, France and South Africa.

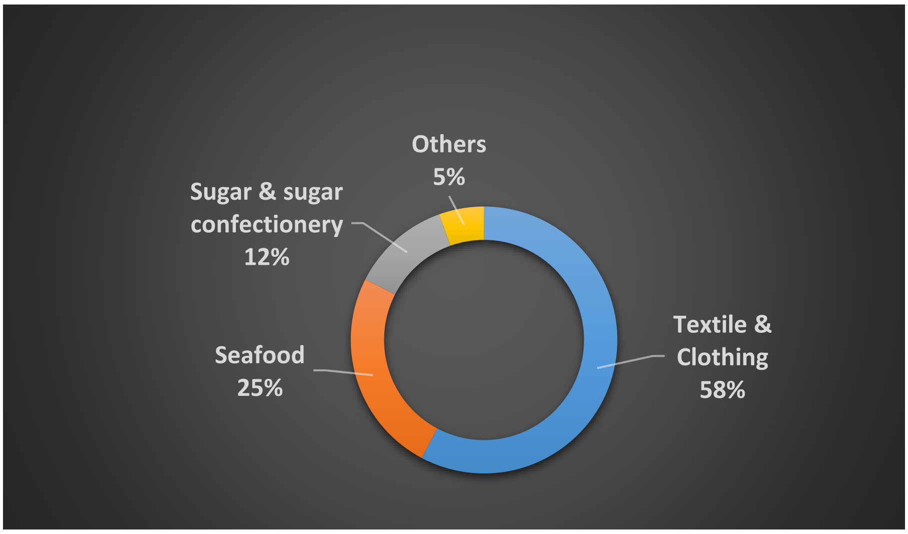
Following the global financial crisis and the euro-zone crisis in 2008, the export companies have started to diversify their export markets, shifting away from the traditional markets such as UK and France to South Africa and other EU countries like Germany and Italy. The United Kingdom has a reduced share of total export market from 21% 8 years down the road to 18% in 2016 but it is still the largest export destination of Mauritius.



Source: Statistics Mauritius

(ii) Products of Export to the United Kingdom:

Our exports to the United Kingdom is mainly dominated by Textile & apparel, followed by Seafood products and sugar. As illustrated in the chart below, T&A makes up 58% of total exports to UK while exports of seafood and sugar and sugar confectionery make up 25% and 12% of our total exports to UK respectively.



Source: Statistics Mauritius

Exports of two main products to UK:

1. Exports of Textile & Apparel:

- **Total Exports of T&A to UK: Rs 6,570 million**
- **Share of T&A Exports to UK of Total exports: 13.5%**
- **Share of T&A Exports to UK of Total T&A exports: 24%**

2. Exports of Seafood Products

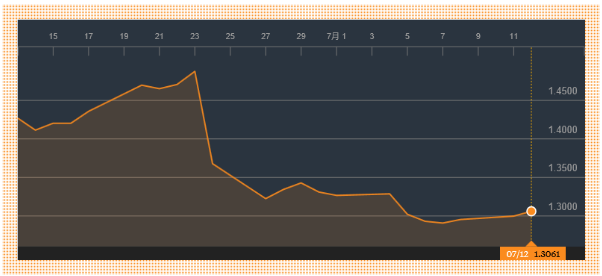
- **Total Exports of Seafood products to UK: Rs 2,818 million**
- **Share of Exports of Seafood to UK of Total exports: 5.8%**
- **Share of Exports of Seafood Product to UK of Total Seafood exports: 30%**

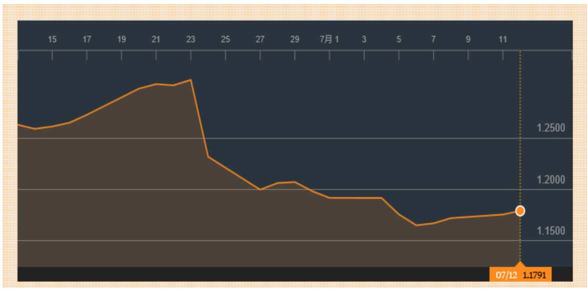
B. Impact of BREXIT on Exchange Rate:

At International Level:

The pound has fallen sharply against the dollar and EURO as a result of BREXIT referendum.

- GBPUSD (*15 June – 13th July 2016*):
- GBPEUR: (15 June – 13th July 2016)





Source: ***http://www.bloomberg.com***

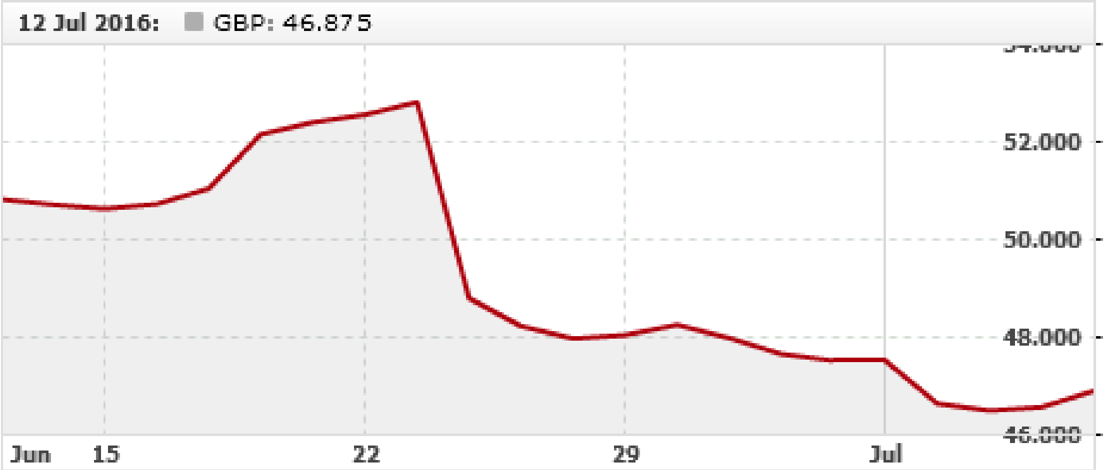
The pound fell to a 31-year low against the dollar on the day of results of the BREXIT referendum. In the following days sterling slipped further against the US currency as fears about Britain's economic outlook intensified and traders bet on lower UK interest rates.

"The future value of sterling is a function of how quickly the structural uncertainty is resolved – if it doesn't involve much of a free trade setup with the EU, it is not inconceivable for sterling to head to parity with the US dollar," said Mohamed El-Erian, Chief Economic Adviser from Allianz in USA.

Sterling has also tumbled against the euro (GBPEUR): The pound went down more than 10% against the euro since the Brexit vote. On the day of the referendum £1 was worth €1.30, today it is worth €1.17. It is not just holidaymakers hurt by a weaker pound against the euro. Although it makes UK exporters' products and services more competitive a weaker pound makes imports from the single currency bloc more expensive and that could stoke UK inflation.

At National Level:

- **Depreciation of Pound against Mauritian Rupee (GBPMUR):**



Source: http://www.mcbgroup.com/en/group/economy-and-finance/economy-and-finance

Mauritius being highly vulnerable to the international market conditions, the pound has fallen sharply against the Mauritian rupee following the EU referendum. In one day, pound depreciated by more than 10% against the Mauritian Rupee from 51.92 on 23rd June 2016 to 47.14 on 24th June 2016 (day of the results of the referendum) and today the pound stands at 46.

The impact has been felt across other currencies as well. Indeed, alongside the biggest moves in the pound, the euro which is expected to struggle given worries about the impact of a "Brexit" on the euro zone economy, also dropped sharply against the dollar.

As a consequence, this led to a depreciation of the euro against Mauritian Rupee. As depicted in the table below, Euro has slightly fallen since 24 June 2016 while the USD and South African Rand strengthened against Mauritian Rupee by 0.14% and 3.43% respectively.

Indicative Buying Rates	Average Jun-16	Average Jul-16	Appreciation/(Depreciation)
Euro	39.4	39.1	-0.76%
USD	35.18	35.23	0.14%
GBP	51.92	47.14	-10.12%
ZAR	2.33	2.41	3.4%

Source: Bank of Mauritius

- ***Conclusion: Our exports are mostly hit by a depreciation of both GBP and EURO.***

C. Analysis of UK Economy - what economists are saying?

While the full economic impact of Brexit is not clear yet, it definitely threatens to destabilise the UK's strong macroeconomic fundamentals. Already, economists have downgraded their GDP forecasts amid low business sentiment, a significant weaker currency and gloomier outlook for the labour market. In fact, the International Monetary Fund has reviewed the forecasted GDP growth of UK in 2016 from 1.7% to 1.4%.

On the financial side, the leave vote prompted a collapse of the financial markets and the pound hit its weakest reading over 30 years on 24 June. Although recent political events have boosted the pound and it is rising for the fifth day running, City analysts in UK are predicting that the pound may suffer fresh losses soon, when the Bank of England announces its decision on UK interest rates.

Business Uncertainties: A new survey of UK corporate chiefs has shown that the Brexit vote has hurt business confidence, badly. Credit Suisse says corporate sentiment has "deteriorated out of all recognition" since 23 June. For the first time since 2013, more companies expect to cut spending, rather than raise it. Research also shows that some businesses have trimmed hiring and spending plans already. Many others have put their plans on hold until they have clarity on the UK's relationship with the EU.

Impact on Trade between <u>Mauritius and UK and EU</u>: It is undisputable that Britain plays an important role in the EU. Whether it is the share in total population, total GDP or FDI, Britain ranks in the top three countries in the Euro zone and the trade channel is the most direct channel through which Brexit would hit the rest of the European Union. A study by the German Bertelsmann Foundation, shows that a Brexit could lower Eurozone GDP growth by between 0.01 and 0.03 percentage points each year

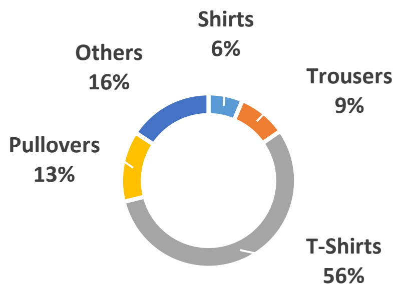
EU, being our largest export market, Mauritius will be significantly affected by the slowdown in the Eurozone.

D. Exports of Textile & Apparel to UK:

Exports of Textile & apparel to UK in 2015 amounted to approximately Rs 6,570 million in 2015, of which exports of apparel and yarn amounted to Rs 6,324 million and Rs 246 million respectively.

- The four main apparel products exported to UK are:

Product	Export Value (2015) *(Rs Million)*
Shirts	401
Trousers	569
T-Shirts	3,526
Pullovers	835
Others *(baby wear, ties, scarves)*	993
Total	**6,324**



As depicted in the chart, T-shirt is the main product of apparel being exported to UK, followed by pullovers and trousers. It is interesting to note that with the vertical integration of the Textile Industry, through the setting up of Spinning Mills in Mauritius, we are today exporting yarn to the UK. Exports of yarn to UK amounted to around Rs 246 million in 2015.

Since clothing is not a basic necessity the Textile & Clothing sector will be the most hit by the BREXIT. It will definitely have a significant impact on the Mauritian economy as it is the largest export sector of the country.

E. Qualitative Survey among Textile & Clothing (T&C) export companies - How are they going to be affected by BREXIT:

In the short run, uncertainty about Britain's future relationship with the EU, its largest trading partner, would add on to the slowdown in the UK economy. As a consequence, UK being the largest export market of Mauritius, it will definitely be having ripple effect on Mauritius and mainly our trade patterns with UK.

I. <u>No of T&C companies exporting to UK and their export exposure to UK:</u>

- This concerns a group of around 15 companies comprising of 7 large Textile & Apparel export companies and the remaining 8 small and medium sized companies.
- In terms of employment, together, the 15 companies employ around 20,000 people directly.
- In terms of exports exposure to UK, while exports of the 7 large T&A companies to the UK makes around 20-60% of their total exports, exports of the medium-sized companies are highly concentrated on the UK market representing at least 80% of their total exports.
- Medium-sized companies will be highly vulnerable to the BREXIT impact.

II. <u>Exchange Rate Impact:</u>

One of the major impact of the BREXIT was the drastic fall in pound just one day after the Referendum. This weakening of the pound following the Brexit has had an immediate adverse impact on the export revenue of Mauritian export companies.

(i) ***Double whammy effect:*** pound sterling is the mostly used foreign currency for our exports to the UK. Indeed, almost 90% of our revenue on exports of Textile & Apparel to UK is in pound sterling. On the contrary, all our imports are made in US dollars. These companies are thereby faced with a double whammy effect with their profitability being squeezed both in terms of exports and imports; exports revenue being depleted with the depreciation of the pound by 10% and costs being inflated with the appreciation of the US dollar by 1% since the BREXIT Referendum.

(ii) ***Exchange Rate Effect on orders:***

- ***Orders already contracted out:*** Orders for the Textile & Apparel sector are contracted out at least 6 months ahead and the prices are already agreed at the prevailing exchange rate at the time the orders have been confirmed.

(i) At that time, MURGBP was at around Rs 51. Today, the exchange rate being at Rs 46, orders are being sold at a loss. Moreover, orders that have not yet gone into production will also be produced at a loss.

(ii) The average profit margin of the T&A sector being around 6-8%, their exports revenue will be considerably tightened.

(iii) And, it is particularly very difficult for the medium-sized T&C companies which are being hit hard given that 80% of their exports are made in pound.

- ***Future orders:*** for future orders, prices ***may be*** readjusted upwards but by how much, is uncertain. As a matter of fact, if the present exchange rate level of the pound against Mauritian rupee is maintained, the prices of Mauritian products will remain 8-10% more expensive than the period before BREXIT.

Summary of impact on Orders (Current & Future):

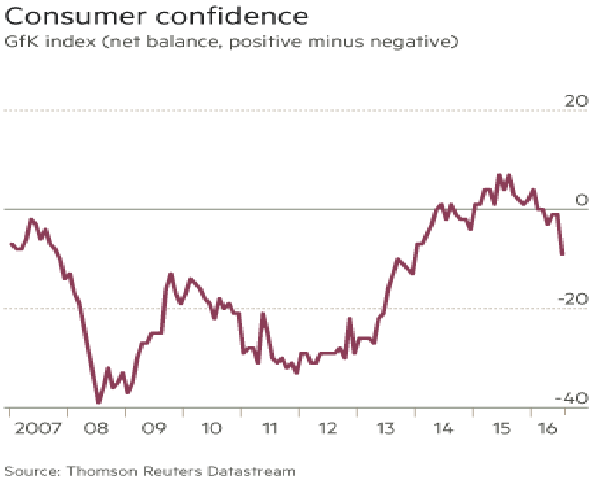
- Because of exchange rate impact, all orders that have already been contracted ou are sold at a loss,
- For all future orders, Mauritian products has become 8-10% more expensive at the present pound exchange rate level,

III. Market Reactions:

(a) Fall in Consumerism in UK:

Garment retailing business before BREXIT: The garment retailing business before BREXIT was already under pressure and weakening considerably with the upsurge of e-commerce business and changing consumer buying behavior. We have seen giant retailers like BHS close down their retailing business.

Following BREXIT, Marks & Spencer, one of the largest retailers in UK, which reported its worst trading figures since the depth of the financial crisis, said “consumer confidence slid in the run up to the vote, and remains fragile.” London, 8 July 2016 – In a one-off special GfK Consumer Confidence Barometer (CCB) to measure post-referendum sentiment, the core Consumer Index has fallen 8 points to -9 as illustrated in the chart below.



The analysis suggests that "in the immediate aftermath of the referendum, sectors like travel, ***fashion and lifestyle,*** home, living, and grocery is particularly vulnerable to consumers cutting back their discretionary spending.

Textile & Apparel not being a necessity, Mauritius will definitely be impacted by this fall in consumerism in UK.

(b) How Buyers are reacting after BREXIT:

i. ***Reduction in Stock****:* Today, with the depreciation of the pound, imported goods by UK buyers have become more expensive as compared to the period before BREXIT. Our main buyers, which are also among the largest UK buyers such as Arcadia, and Marks & Spencer have already announced substantial reduction in their inventories and they do not want to retain stocks.

ii. ***Pressure to Reduce Price****:* Buyers are not willing to review prices on orders. For future buyers, we fear that they will shift to alternatively cheaper sourcing destinations than Mauritius.

iii. ***Low visibility:*** there is very low visibility on future orders. In fact, orders for September which are normally confirmed in July (now), have not been discussed at all by buyers as at to date.

Summary of Market Reactions following BREXIT

- The drop in retail business coupled with the fall in consumerism index in UK will lead in fall in demand from UK.
- Buyers do not want to keep stock.
- With the depreciation of the pound, buyers will definitely look for cheaper sourcing destinations than Mauritius.

F. Concluding Remarks:

- The Textile & Apparel companies exporting to UK covering around 20,000 jobs are the most vulnerable sector to BREXIT.
- Exports of Textile & Apparel to UK amounts to Rs 6.5 billion, representing 13.5% of our total exports and 1% of the GDP of the country.
- The uncertainty factor around BREXIT which has already started will prevail until UK and EU starts negotiations on market access and that Mauritius follows suite.
- The present loss due to exchange rate impact:
    - 10% loss on orders already contracted out.
    - The Medium sized companies are the most impacted because of their high exposure to UK.
    - More than 2,500 jobs being threatened from the Medium sized enterprises.
- **Future Orders:**
    a) Quantity wise, there will be a drop of 10% in our exports to UK as a consequence of the fall in consumerism level in UK coupled with the depreciation of the pound.

    b) From an export revenue perspective, another 10% decrease will be registered in 2016 for the following 2 reasons:

    (i) The MURGBP is currently at Rs 45- Rs 46 while in 2015 MUR traded against GBP at an average of Rs 50 in 2015 (based on figures from the Bank of Mauritius).

    (ii) This is irrespective of the fact that we are also foreseeing reduction in prices from UK buyers since UK citizens are looking for cheaper prices.

    c) In the hypothesis of points (a) and (b) above there will be a 10% decrease in volume of exports and a 10% in export revenue from UK. The global impact on total exports will be follows:

    - Drop of Rs 1.2 billion in exports of T&A to UK.
    - Drop of 4% in total exports of T&A.
    - Drop of 2% in total exports of Mauritius.
- Unfortunately, this may also lead to a fall in employment in the T&A sector to a certain extent.
- EUROZONE: The ripple effect of BREXIT on orders from other export markets within the Eurozone is also to be taken into consideration.

G. Proposals:

Given this difficult situation of BREXIT, MEXA is proposing the following:

- A favourable monetary policy with GBP exchange rate of at least Rs 49 to stabilise export revenue from UK.

- Buyers no longer want to keep stock at hand given the drop in consumerism level in UK and high uncertainty environment around BREXIT. The Mauritian exporters will have to come up with appropriate measures to provide comfort to our UK buyers in this difficult period and maintain our export competitiveness to UK.

- One of the solution is exporting in shorter lead time as and when the buyers need the products. This will only be possible through Air Freight. **We need an Export enabling Air Freight policy providing more cargo capacity at more competitive rates.**

MEXA/July 2016