

Budget 2016/17

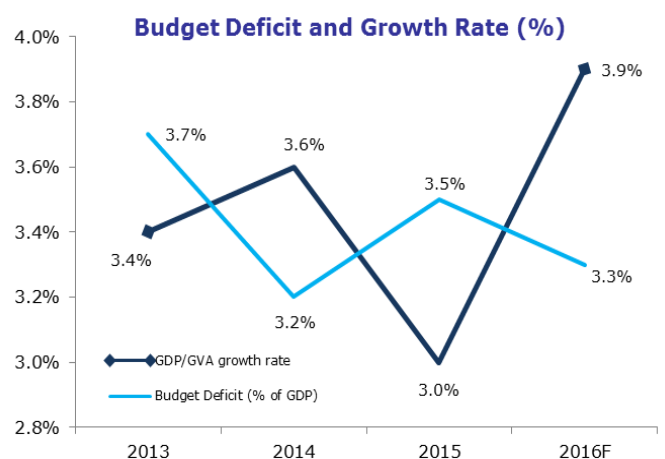
The much awaited budget speech 2016/2017 was delivered this Friday by the new Minister of Finance Hon. Pravind Jugnauth and is entitled 'A new era of development'. With this budget, the Minister of Finance (MoF) had the challenge of stimulating the economy where the 3% to 3.5% annual growth trend of recent years was becoming the 'new normal'. The global context is quite unfavourable and IMF recently revised down its global growth forecast from 3.7% to 3.1% mainly due to lower than expected growth in the USA, Europe and OECD countries. The Brexit outcome further increased uncertainty of the global economy. Consequently, the Monetary Policy Committee (MPC) which held its meeting on the 20th July lowered interest rates by 40 basis points after assessing that downside risks to domestic growth outlook outweighed the risks to the inflation outlook.

The budget presented in 2015 laid emphasis on making the SME sector the backbone of our economy. The 2016/2017 Budget added further impetus to the concept of empowering our citizens to become entrepreneurs through a series of accompanying measures which included the re-introduction of the Leasing Equipment Modernisation Scheme. The striking words of this speech were 'Modernisation', 'Innovation' and 'fully-fledged Digital Society'. Hon. Pravind Jugnauth which previously held the ICT portfolio is paving the way for the Mauritian economy to be able to surf on the high waves of innovation and technology. It is an undeniable fact that we are witnessing a huge paradigm shift in the way businesses are being conducted globally with increased focus on technological advances.

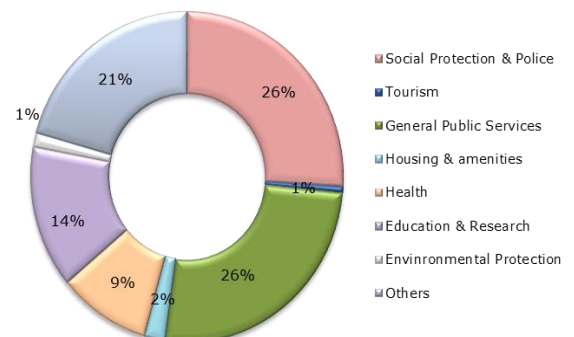
There was a shift from 'no tax' budget to 'some tax'. The usual culprits alcohol, sugar and tobacco were severely hit with the latter taxed at 25%. The concept of duty free Island was re-introduced and some sectors such as SMEs, industrial fishing companies and financial services will benefit from tax holidays. Some players in the manufacturing sector will enjoy improved tax credits. The textile and apparel sector will welcome an Air Freight Rebate of 40% enhancing competitiveness of our exports. In order to reduce inefficiencies in the public sector, a series of mergers among public institutions were announced. The budget deficit will be reduced to 3.3% of GDP compared to 3.5% in 2015/16. A real GDP growth of 4.1% is expected for the year 2016/17 and public sector debt will be 62.8% (measured by IMF standards). With a view to reducing our exposure to foreign currency risk, early repayments of USD 120m of external debt has been targeted. The MoF also outlined the projects which has been earmarked for development from the grant of Rs 12.7bn received from India, out of which, Rs7.2bn will be used to finance the Metro Express Project.

Besides economic goals, the budget also had some important social objectives such as creation of jobs, eradication of absolute poverty and reduce social gap. For instance, around 53.2% of Government budget is spent on social sectors: social protection (pensions and social assistance), health, education and housing. This share has increased by 6% during the period 2010-2015/16. Some of the measures announced by the Minister of finance include the construction of 1000 social housing units. Other measures mentioned are the provision of cash awards for students from poor families and the creation of 21,400 jobs for people of different age groups and educational background.

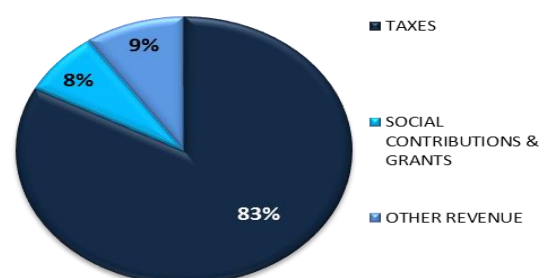
| Key Figures | 2013 | 2014 | 2015 | 2016F |
|---------------------------|-------|-------|-------|-------|
| GDP/GVA growth rate | 3.4% | 3.6% | 3.0% | 3.9% |
| Budget Deficit (% of GDP) | 3.7% | 3.2% | 3.5% | 3.3% |
| Public sector debt | 54.8% | 54.2% | 54.2% | 55.6% |
| Unemployment rate | 8.0% | 7.8% | 7.9% | 7.6% |
| Inflation rate (Headline) | 3.5% | 3.2% | 1.3% | 2.0% |
| Total Revenue (Rsbn) | 78.9 | 79.7 | 90.8 | 102.4 |
| Total Expenditure (Rsbn) | 99.2 | 92.2 | 106.2 | 117.4 |



Expenditure by Ministries for 2016/17 (est.)



Revenue for 2016/17 (est.)



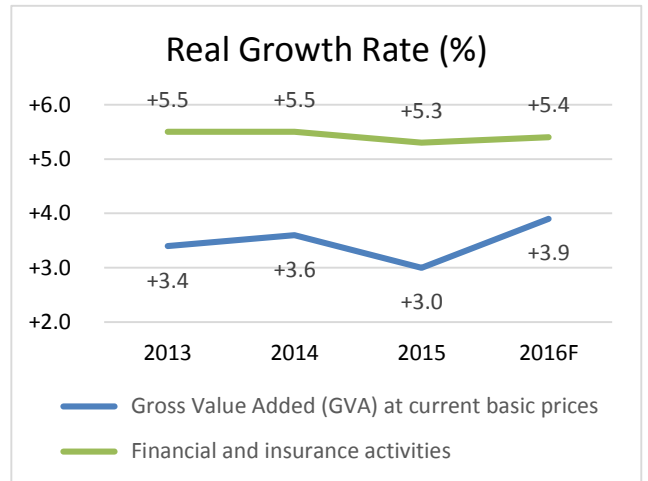
Financial sector

Measures to boost the Financial and investment sector

- GBC 2 companies will be allowed to invest in listed securities;
- Companies holding a 'Global Headquarters Administration Licence' will be granted an 8 year tax holiday.
- 5 year tax holiday for the following categories,
 - a) 'Treasury Management Centre License',
 - b) Licensed Asset and Fund Manager with a minimum AUM USD 100 Million
 - c) International law firms with a Global Legal Advisory Services license
 - d) An Investment Banking and Corporate Advisory License
 - e) Overseas Family Corporation License
 - f) Foreign Ultra High Net Worth Individuals investing a minimum of USD 25 million in Mauritius.

Of note these tax holidays will be subject to meeting conditions of employment creation and substance.

- Setting up of a new 'Mauritius International Derivatives & Commodities Exchange' (MINDEX) with a seed capital of Rs 50 million for its initial set up.
- The Bank of Mauritius will come up with a National Payment Switch which will reduce transaction costs and give a boost to e-commerce.
- To develop Mauritius into a full-fledged International Arbitration Centre with the capacity and expertise to resolve disputes.



Re-Energizing the Small & Medium Enterprise (SME) Sector

Sector

- Suspension of trade fees for licences of Rs 5,000 and below, for a period of three years for all SMEs, with the exception of those engaged in activities such as gambling, and sales of liquor and cigarettes.
- New Enterprises registered with SMEDA will benefit from an 8 year tax holiday. Existing registered Enterprises with a turnover less than Rs10 million will be given a 4 year tax holiday in respect of their business income.
- The Government earmarked Rs50 million for the creation of a National SME Incubator Scheme with the aim of supporting and mentoring of young entrepreneurs
- Construction of 2 new SME Industrial Parks at Plaine Magnien and Vuillemin
- SME financing scheme to be extended for the next three years and rates to revised downwards from 7.4% to 6%
- Government is putting great emphasis in providing greater access to finance for SME through
 - a) Reintroduction of Leasing Equipment Modernisation Scheme (LEMS)
 - b) A SME Venture Capital Fund of Rs. 500 million will emerge through the merger of the NRF Equity Fund & the SME Partnership Fund.
 - c) Government will set up a line of credit of Rs100 million to be used towards providing factoring services to SMEs.

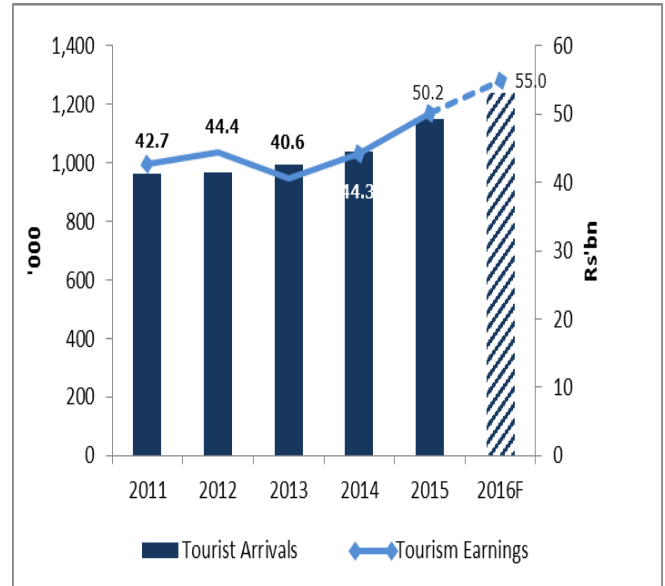
Comments

- No extra levy for the banking sector has been announced. Current levy maintained till 2018.
- SME incentive likely to boost banking and leasing business.
- Tax Credit on Asset Management firm with AUM USD 100 million will encourage players to increase their AUM.
- Increased competition in the investment and asset management sector as the 5 year tax holiday period will encourage new players to join in.

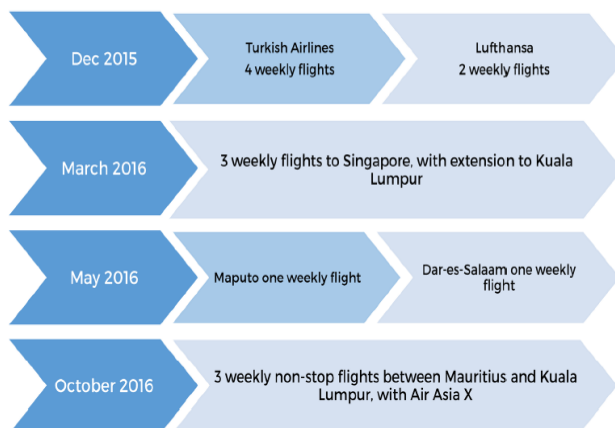
Leisure, Hotels & Air Access

Tourism & Air Access

- A total of 1,151,723 tourists visited the island in 2015, spending 10.9 nights on average. Statistics Mauritius forecasted arrivals of 1,240,000 and earnings of Rs 55 bn (Rs 50.2bn in 2015). The Minister emphasized that the sector must ride on the crest of the wave and sustain its long term development.
- The Tourism Authority introduced a hotel classification in January 2016 whereby 6 five-star luxury hotels and 24 five star hotels were identified. Total number of rooms available amounted to 21,335 when including hotels, tourist residences and guest houses.
- Leisure remains the main purpose of tourists and as such the Ministry of Tourism, the Ministry of Arts and Culture, together with relevant private sector organizations will work out an annual calendar of national events to be known as the Mauritius Calendar. The 'Porlwi by Light' event last year was a huge success with over 300k people attending over the weekend and such national events could benefit the tourism industry as well.
- The Government will also facilitate the setting up of a world class aquarium, national museum and other new leisure attractions.
- Moreover, hotels will be allowed to organize regulated betting games which will be restricted to non-residents and foreigners. On-line betting games will also be allowed for non-residents and foreigners whereby a tax of 30% will be imposed on winnings.



New Air Routes



Source: Ministry of Tourism & External Communications

- Air Mauritius accounted for 45% of total weekly flights in 2015. A total of 16 foreign airlines served the Mauritian destination with 83 flights per week. The Africa-Asia Air Corridor should help bring more tourists to the Island with new air routes and increasing connectivity. An additional Rs 40m was allocated for the marketing of the Air Corridor initiative.
- Intensifying the marketing of Mauritius as a duty free island in Africa, Gulf regions, Scandinavian countries and Eastern Europe.

Gambling

- A 2% levy on the net stakes of all gambling operators except the Mauritius National Lottery Operator to finance the Responsible Gambling and Capacity Building Fund.
- Higher betting duty for bookmakers operating outside the racecourse from Rs 16,000 to Rs 30,000 for each race meeting.
- Government will divest itself of its businesses in the gambling sector and such will review both ownership and management of casinos in Mauritius.
- Set up a Lotto Fund to finance schemes or projects relating to promotion of sports, art and culture and protection of national heritage.

| Description of Revenue Items | Rs 000 | | | | Notes |
|---------------------------------------------------|-------------------|----------------------|--------------|----------------------|-------|
| | 2014 (Jan-Dec) | 2015/16 (Jul-Jun) | | 2016/17 (Jul-Jun) | |
| | Actual | Estimates | Prov. Actual | Estimates | |
| Taxes on Specific Services and Gambling | 3,413,115 | 3,655,000 | 3,162,685 | 3,560,000 | |
| Taxes on the National Lottery and Other Lotteries | 651,513 | 620,000 | 386,728 | 310,000 | |
| Betting Taxes on Horse Racing, Football etc. | 933,826 | 1,110,000 | 886,885 | 920,000 | |
| Gaming Taxes on Casinos and Gaming Houses | 529,232 | 525,000 | 651,577 | 750,000 | |
| Passenger Fee on Air Tickets | 1,213,299 | 1,400,000 | 1,230,468 | 1,580,000 | |

Source: Ministry of Finance

| Listed Companies | Impact | Comments |
|---------------------------|--------|-------------------------------------------------------------------------------------------------------------|
| LEISURE | | |
| ASL | ⊗ | Impacted by 2% Levy. Might benefit from closure of bookmakers outside racecourse due to higher betting duty |
| Lottotech | ⊕ | Not impacted by Levy |
| HOTELS | | |
| New Mauritius Hotels | ⊕ | New flights to boost tourist arrivals |
| Lux Island Resorts | ⊕ | Hotels allowed to offer gambling facilities |
| Sun Resorts | ⊕ | Setting up of aquarium, museum and calendar of national events |
| Constance Hotels Services | ⊕ | duty free Island |
| Morning Light | ⊕ | |
| Southern Cross Tourist | ⊕ | |
| Tropical Paradise | ⊕ | |
| TRAVEL | | |
| Air Mauritius | ⊗ | Increased competition from new airlines |



Construction and Property Development

'Building the infrastructure that fits into the future'

Government will significantly raise its capital expenditure to Rs19 billion in this Budget. In all, the public sector will invest some Rs 34.5 billion in 2016/17 and Rs 97.6 billion over the next three years. These investments shall come from both the public and private sectors.

Stimulate the growth of this sector through a number of capital intensive projects namely:

- A new mass transit system namely the "Metro Express" along with a network of modern integrated urban terminals
- Construction of the Victoria Bus Terminal in Port Louis under the Build Operate Transfer Model
- Three *Smart Cities* will start construction this year including the Heritage City in which the phase one includes the construction of the new Parliament, offices and other infrastructure
- An intensive Road Decongestion Program which includes alleviating traffic flow at key arteries of the road network

Government intends to significantly develop the connectivity and traffic in the sea and air ports through a series of strategic investments:

- Rs 770 M will be invested in a new Integrated Government Clearance Centre in the Cargo Village and a modern Control Tower at the airport
- Rs 425M will be invested by the Central Electricity Board in a sub-station to cater for cargo and Freeport power requirements
- Rs 6bn will be invested over the five next years to enhance port infrastructure
- Acquisition of two additional Ship-to-Shore cranes and other equipment to service container vessels
- 35 hectares of land are being earmarked for petroleum storage, logistics and fishing activities
- A petroleum port will be developed in Albion.

Property Development

- a) Exemption from Registration Duty on Acquisition of a Newly-Built Dwelling
- b) Exemption from Land Transfer Tax to a promoter undertaking construction of housing projects for Mauritians.
- c) Exemption from Registration Duty to first time buyers acquiring land for building his house.
- d) VAT Refund to a Mauritian constructing his house or buying a new residence from a Property Developer.
- e) Exemption from Registration Duty on Registration of a Secured Housing Loan.
- f) Exemption of Land Transfer Tax on the Provision of Social Housing to Employees.

| Listed Companies | Impact | Comments |
|------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Gamma | ✓ | Smart Cities, Metro Express |
| UBP | ✓ | |
| MFD Group | ✓ | Rs6 billion to be invested over the next 5 years and acquisition of two additional Ship-to-Shore cranes and other equipment to service container. |



Forging a Green Economy

Government is pushing hard the Green economy culture through local sources of production. A number of key measures has been highlighted below:

- The creation of a renewable energy company by the CEB, establishing the electricity production on solar photo voltaic systems of up to 15 MW. Consequently the shareholding of this company will be opened to SMEs, cooperative societies and small investors.
- The production of energy driven from bio-mass, including cane tops and trash will be facilitated. Government will ensure that the small planters get their share of the revenue.
- Duty on hybrid motors for all cylinder capacity will also be lowered by 30 percentage points. The rate of a hybrid car of below 1,600 cc will subsequently decrease from 55 to 25 percent.
- Duty on electric cars of up to 180 KW will be abolished.

| Listed Companies | Impact | Comments |
|------------------|--------|----------------------------------------------------|
| ABC Motors | ✓ | An increase in sales expected due to reduced duty. |
| ENL Commercial | ✓ | |

Measures to diversify and modernise the manufacturing sector

The manufacturing sector is the largest contributor to GDP and is expected to contribute up to 14.4% for 2016. Below are some measures announced by the Finance Minister to further strengthen this pillar:

- Opening up to gold business with high-value added activities including gold refinery, production of gold bars and top-end jewelleries and vault facilities.
- A new commodity exchange shall facilitate the trading of gold and bullions, diamond and other metals.
- Setting up of a Pharmaceutical Village at Rose Belle to cater for local and African markets.
- Tax credit to increase from 5% to 15% for manufacturers of textiles, wearing apparels, ships and boats, computers and pharmaceuticals.
- The textile and apparel sector will benefit from a major Air Freight Rebate Scheme, entailing a 40% reduction by the national carrier of the air freight cost to Europe.

| Listed Companies | Impact | Comments |
|---------------------|--------|-------------------------------------------------------------------------------------------|
| Phoenix Beverages | ✗ | An increase by 5% for beer and 10% for all other alcoholic products |
| Phoenix Investments | | |
| Terra and EUDCOS | ✗ | Customs duty on spirituous products such as rum and whisky is being raised from 15 to 30% |
| Ciel Textile | ✓ | To benefit from the Air Freight Rebate Scheme |

Ocean economy

Mauritius manages a maritime zone of 2.3 million km². The potential for economic advancement and prosperity that this resource can generate a sustainable way to reach a high-income country.

Below are some measures announced in the Budget Speech to boost the Ocean Economy

- Setting up common facilities for aquaculture and fish processing
- Allocation of 20 million for the purchase of a multi-purpose vessel for research, surveys and training of fishermen and skippers.
- A grant of 50 percent, up to a cap of Rs 4 million will be given to cooperative societies to procure them semi-industrial vessels.
- A tax holiday of 8 years will be introduced to attract industrial fishing companies to operate from Mauritius

Development of Mauritius into a Digital economy and society

- Digital tablets will be provided to primary students of grades 1 and 2
- The Bank of Mauritius will introduce a National Payment Switch which will reduce transaction costs and give a boost to e-commerce. Also, a National Payment Bill will be set up to better regulate e-payment transactions
- The Government and MEXA (Mauritius Export Association) will develop a national e-commerce platform to connect worldwide consumers directly to exporters thereby boosting exports.
- 250 additional free Wifi Hotspots will be set up around the island. This will amount to a total of 600.
- Investment in a 'Third Undersea Cable'. A project led by Mauritius Telecom
- The acceleration of the Fibre To The Home programme by Mauritius Telecom to cover every town and village by December 2017
- Investment in a fibre-optic undersea cable by a consortium of regional telecom operators to connect Mauritius, Reunion, Madagascar with an international backbone through South Africa
- Investment of Rs200 million by the CEB (Central Electricity Board) to provide high speed broadband to Internet Service Providers

| Listed Companies | Impact | Comments |
|--------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------|
| ICT/BPO | | |
| Bharat Telecom Ltd | ⊗ | Increased number of free wifi spots and installation of fibre optic cables will make it difficult for the Company to grow its market share. |

To access the full budget speech, click on the following link:

<http://budget.mof.govmu.org/budget2017/budgetspeech2016-17.pdf>

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