

Address of the Minister

The Additional Stimulus Package

Mr. Speaker Sir,

The global economy is going through turbulent times. Hit by an unprecedented financial crisis, the global economy has cooled down with projections of low or negative growth rates in the forthcoming years. The causes of this financial crisis originating in the US are well documented now. Sub prime, housing bubble, toxic debts, credit crunch, stimulus plans and bailouts are some of the terms associated with the financial crisis.

The crises in real estate, banking and credit in the United States had a global reach, affecting a wide range of financial and economic activities and institutions. The extent of its pervasive impact can be gauged from information we obtain daily on closures and contraction of enterprises, lay off of workers, decline in output and exports and fall in growth rates of advanced as well as major economies.

The International Monetary Fund (IMF) has reported that global economic slowdown is so severe that the global economy will contract for the first time in 60 years. Allow me here to quote some figures released by the IMF. Global output of goods and services is projected to slump by 1 percent in 2009, compared with a 3.2 percent growth rate in 2008. The United States economy is expected to shrink by 2.6 percent in 2009 while those of

Europe and Japan are projected to decline by 3.2 % and 5.8%, respectively. The world's emerging and developing economies will continue to grow this year, but by no more than 2.5 percent, compared to 6.1 percent growth rate in 2008. Global economic recovery would not come until 2010.

The main difference from previous global slowdowns is the weakening of the financial sectors in the US and Europe, with damaging implications for credit expansion, demand for goods and services and trade. In a globalised world, where countries are today more interdependent than ever. The economic down turn of countries, that account for a larger share of world output and trade and are thus the locomotives that pull the global economy, is bound to have repercussions on other countries.

Economies that are open to global trade, finance and international flows cannot escape the damaging effects of such a slowdown. Emerging and buoyant economies like China and India have not been spared from the effects of the crisis in the western countries. As a matter of fact China's growth is expected to drop to 7.5% in 2009 from 11% in 2008 and India's growth is projected to fall to 4.5 % in 2009 from 9 % in 2008.

The US and EU have embarked on repairing their financial institutions and restarting the flow of credit. Without quick rehabilitation of the global financial system, it will not be possible to revive economic growth in countries which are important markets for Mauritius. The crisis poses substantial risks to countries like Mauritius. Invariably all affected countries that have unveiled stimulus packages to shore up their economies through consumer spending. Mr. Speaker Sir, let me cite here stimulus packages already introduced by some countries: the US – two packages, one

amounting to \$ 168 bn and the other \$ 787 bn; the EU - \$ 370 bn; China – \$ 586 bn; and India – \$ 60 bn.

As the house is aware, the G20 comprising the 21 of the most developed countries and seven international financial institutions met last week to collectively explore ways and means to overcome the global recession and impose stricter regulations over the global banking sector. The Summit has agreed to an unprecedented and concerted fiscal expansion, which will save or create millions of jobs that would otherwise have been destroyed. At this stage \$ 1.1 trillion programme of support of credit, growth and jobs in the world economy will be put at the disposal of the IMF and Multilateral Development Banks. The G20 also affirmed its commitment to the World Trade Organisation, supporting free trade and a check on protectionism by its members. The policy response by the economically advanced countries is expected to stem the deterioration of the world economy and put it back on growth path.

Well before the effects of the slow down reached our shores, Government had adopted expansionary measures to shore up demand and stimulate business activities. It has embarked on fundamental structural reforms of the economy to make it more resilient, where consolidation of the existing sectors and diversification into new sectors are of strategic importance. The reform programme, aims at achieving the country's long-term growth potential through fiscal reforms and public sector efficiency, improvement in trade competitiveness, creating an enabling business environment, and empowering our citizens to create wealth. The reforms have enabled us to build resilience and cushion the adverse impact of the financial and economic crisis on our economy.

The last Budget thus contains a number of provisions to stem the adverse impact of the global slow down. The Manufacturing and SMEs Development Fund (MASMED) with an initial contribution of Rs. 500 million was set up to enhance the competitiveness of both the export and domestic oriented enterprises. So far 51 projects for a total value of Rs. 474 million have been initiated. These include 19 projects for restructuring of manufacturing enterprises by EM, 9 projects for export promotion, 8 projects relating to SMEs development and 15 projects for women entrepreneurship.

As the economic crisis deepened in the West, leading many countries into recession, Government introduced the Additional Stimulus Package with an amount of Rs. 10.4 billion. Stimulus packages worldwide aim at expansionary fiscal and monetary policies to boost investment, consumption, production and raise consumer confidence. The focus of the Additional Stimulus Package is to: fast track and front load investment in public infrastructure; increase new investment in public infrastructure; accelerate private sector investment; build human resource capacity; and support vulnerable sectors of the economy. This bill, Mr. Speaker Sir, make provision for the implementation of measures contained in the Additional Stimulus Package.

Although we have been able to built resilience in the economy, we are not immune to changes in the external front. At this critical juncture, we need actions to mitigate the adverse effects of the global economic meltdown as well as support the economic sectors to ride over this difficult period. And this what we are embarked on.

