



REPUBLIC OF MAURITIUS

Facing The Euro Zone Crisis & Restructuring For Long Term Resilience

Presented by
The Hon. Pravind Kumar JUGNAUTH

Vice-Prime Minister,
Minister of Finance & Economic Development

August 2010



1. INTRODUCTION

The Mauritian economy is once again buffeted by a major external shock, this time by the euro zone crisis. Once more, and in a relatively short span of time, Mauritius is called upon to demonstrate its capacity to respond effectively, to adapt its policies and even to rethink its strategies.

The country is well positioned to respond. The economy has already shown a considerable degree of resilience and has built an environment already conducive to dynamic entrepreneurial activity. Our institutional advantages have been noticed by international investors who have responded positively to our transparent and well defined investment code and legal system. Taxation is competitive and efficient and our economy is increasingly diversified with significant private sector investment in sugar, tourism and hospitality, export processing, financial services, ICT, seafood and knowledge based centres.

This positions us well to emerge even stronger from the impact of the Eurozone and UK crisis provided we act with the same collective action and in the same bold spirit that saw us through the Great Recession.

Since November 2009, when the Greek government announced the more than doubling of the estimates for the country's budget deficit, the euro has been weakening against the USD and as a result against our rupee. Also, the exchange rate of the Euro has become volatile. In the same month, Greece announced that it would implement policies to slash its deficit. However, the decline of the euro accelerated when Portugal, Italy and Spain also started austerity policies to exit from large public deficits and excessive debt. Moreover, Britain has introduced a raft of austerity measures to tackle its budget deficit, which it aims to eliminate by 2015. Other European countries are also expected to follow in the coming year or two.

Analysts expect the austerity measures to impact negatively on the growth performance of euro zone economies. This can result in a drop in demand for our exports and lower tourist arrivals. Moreover, some analysts also believe that the predicament of the euro zone economies could last 5 to 7 years.

The euro crisis is however brewing against the backdrop of global economic rebalancing led by BRIC countries (Brazil, Russia, India and China). If the crisis constitutes a tough challenge, the rebalancing of the global economy brings enormous opportunities that our exporters and the tourism industry should prepare themselves to seize. Mauritius must ride on the crest of the wave of opportunities that the new world economy brings while at the same time ride out the euro crisis.

The depreciating euro, the potential drop in demand from euro zone economies and the long duration of the crisis can have serious consequences for our economy. The euro represents 95 percent of the earnings of the sugar industry. Some 60 percent of tourists are from euro-based markets and 12 percent from the UK. Seventy percent, that is, 264 of the 343 enterprises operating in Export-Oriented Industries (EOIs) sell their goods for euros. Forty percent of these enterprises receive 100 percent of their earnings in euros. Around 65 percent of the export revenues of the ICT/BPO sector are in euros. In addition, some enterprises export for UK pounds which has also been depreciating and most Export Oriented Enterprises (EOEs) pay for the bulk of their raw materials in an appreciating USD. With exports being euro-centric and imports predominantly in USD, many enterprises are squeezed between falling revenues and rising costs in rupee terms. And this is happening just after the global economic recession in 2009 which has undermined the operational and financial soundness of many enterprises and weakened the textile and tourism sectors.

Since January this year, the exchange rate of the euro against the dollar has declined from 1.45 to 1.19, that is, by 18 percent, before recovering to reach around 1.30 this week. The exchange rate of the UK pound against the USD has fallen from 1.61 to 1.43, that is a depreciation of 11 percent, before rising to around 1.60. The depreciation of these two currencies against the rupee has followed the trend on international markets but not in equal magnitude. Since the beginning of the year, the euro has depreciated by about 8 percent against the rupee, that is, faster than the UK Pound which has lost around one percent. The USD on the other hand has appreciated by around 3 percent during the same period against our rupee. But, over the past twelve months, the rupee has appreciated against all three currencies, by some 11 percent against the euro, about 9 percent against the UK pound and around 5 percent against the USD.

2. THE EURO ZONE CRISIS: STANDING PREPARED FOR THE WORST CASE SCENARIO

The outlook for the euro zone economies for the next few years is bleak. For many analysts the euro may stabilize at around 1.25 USD. Two months ago, some analysts thought it may go down to parity with the USD by the end of this year. There are still some who do not believe that the rising trend of the euro in the past two weeks will be sustained. But most analysts seem to agree that it might take years before the euro and the euro zone economies recover.

There is a lot of uncertainty. Mauritius cannot afford the risk of not being prepared for the worst case scenario.

Unlike the global recession which called for Keynesian policies to stimulate demand, the euro crisis is caused by excessive government deficits and debt which is being addressed by tightening rather than increasing public spending. If the euro reverts to its declining trend and austerity measures are deepened there could be a prolonged period of sluggish economic growth in the euro zone. Our economy would then have to cope with the shocks of a weak euro, reduced demand for our exports and fewer tourist arrivals for some five years and may be for a longer period.

The risk of a long-lasting crisis in the euro zone and the UK is real and may have worrisome consequences for our economy. We have seen how our economic growth has been cut to 3.1 percent last year by the global recession - a drop of around 2 percent from its trend. The same recession has caused our textile and tourism industries to contract by 2.9 percent and 5.3 percent, respectively. Before the unfolding of this crisis, the Central Statistical Office (CSO) was forecasting real GDP to grow by around 4.6 percent and nominal GDP by 8.2 percent in 2010. These forecasts have now been reviewed to 4.2 percent and 6.1 percent, respectively based on the expected impact of the crisis on the export sectors and anticipating good performances of the financial industry, construction, Domestic Oriented Industries and the emerging sectors. Nevertheless, our latest projections indicate GDP growth is likely to be in the 3.5 to 4 percent range. Foreign Direct Investment which is expected to be around Rs 10 billion in 2010 will also contribute to cushion the full impact of the crisis on growth. The bigger expected drop in the nominal GDP growth reflects a greater weight of the crisis on exports in rupee terms than in volume terms.

Employment creation and the unemployment rate will also be impacted. The CSO is predicting a slight rise in the unemployment rate for this year to 7.5 percent from 7.3 percent in 2009.

If the fiscal tightening results in a sharper than expected economic slowdown in Europe in the third and fourth quarter of this year, there will be pressure on our real GDP growth rate to fall further.

One positive consequence of the depreciation of the euro and the pound may be a downward pressure on the inflation rate. But the threat to growth, to FDI, to private investment and to employment creation far outweighs the positive impact and calls for effective and concrete responses to protect growth, employment and the long-term competitiveness of our country.

Mauritius must stand prepared. We must be ahead of the curve.

3. LOOKING AT THE WIDER CHALLENGE: THE GREAT GLOBAL REBALANCING

One likely ramification of the euro crisis on the world economy would be to accelerate and strengthen the global rebalancing. A significant amount of economic activities will move from countries beset by high deficits, heavy debt burden and sluggish growth to where there are surpluses and rapid economic transformation and expansion. This will add to the rapid increase in intra-emerging market trade, which rose on average by 18 percent per year from 2000 to 2008, faster than commerce between emerging and advanced nations. It is therefore crucial that we have a firm handle on developments in the broader world economy and not only on what is happening in Europe.

If the crisis compels us to restructure our economy by expanding in non-euro based markets, global rebalancing and the rise of BRIC and other emerging economies, provide us with the opportunity to maximize that diversification. Our response therefore should be on these two fronts and not limited to surviving the euro zone crisis.

We must look at the wider challenge.

We should not just paper over the cracks. We must prepare Mauritius for the new global economic landscape. Mauritius must break away from the dictates of history that have made its development euro-

centric and adapt to the forces that are giving a new shape to the world economy.

4. SOME HARSH REALITIES OF OUR ECONOMY

To build such an economy we must first address a number of deep-seated pitfalls in our growth paradigm that underlie our country's vulnerability to external shocks and that are severe constraints to development. These weaknesses are:

- First, the high dependence of our export sectors such as tourism, textile and sugar on markets in Europe.
- Second, many of our enterprises cannot cushion external shocks coming from currency fluctuations and falling demand because they operate at low levels of efficiency and productivity.
- Third, most enterprises are excessively leveraged and therefore extremely exposed to the risk of severe financial distress in times of crisis.
- Fourth, there is a shortage of financial instruments to enable enterprises to better manage their risks and to intermediate between savers and potentially productive investment.
- Fifth, there is a major weakness in corporate strategic planning, where short-termism dominates the agenda instead of long-term value creation for all stakeholders. This makes it difficult for the economy to adapt to the new dynamism of the world economy and to seize the opportunities that it unleashes.
- Sixth, the diversity of skills and the retraining facilities do not match our ambitions of a more diversified, higher value-added services and knowledge based economy.
- Seventh, there is an acute problem of capacity in the implementation of public infrastructure. This can severely delay our preparedness to face new challenges and seize the opportunities.

These weaknesses are driving our growth model to the limits. We are therefore compelled to take a long-term view of how to change the business culture, how to make our enterprises more efficient and resilient to shocks, how to strengthen their financial standing, how to create the diversity of talents that we will need to enter new markets and broaden our economic base, and how to speed up the implementation of public infrastructure projects.

5. A COMPELLING NEED TO CHANGE THE BUSINESS CULTURE

The Additional Stimulus Package presented in December 2008, whilst supporting enterprises on a short-term basis so they could save jobs and bounce back when the economic situation turned around, does not address these fundamental issues. Notwithstanding the need for short-term actions to mitigate the impact of the crisis, the bulk of our efforts must be on long-term restructuring of our industries and enterprises if we want to build the new economy that can be resilient to recurring external shocks.

Our industries must restructure mainly at two levels.

- First, they must diversify their exports into non-euro based markets and into new higher value-added niches.
- Second, they must restructure their operations and finances.

The corporate culture must evolve.

A conspicuous feature of our corporate culture is the widespread appetite for high gearing ratios, that is, excessive debt in relation to book equity. Government cannot and should not continue to support enterprises that are focused on short-term profits, that deliberately build leverage to magnify their profits when times are good but do not build reserves to face bad times. These firms whether large or medium or small, whether they are companies or sole proprietorships, must start a process of deleveraging. This is crucial to reducing the amplifying effect of volatility on our economy. Leverage can be effective when times are good and very destructive on the negative side. While deleveraging sometimes means giving up the potential of upside gains, it does take away a lot of the risk.

Equally important is that we must face the harsh reality that restructuring, in a few cases, will mean retrenchment of some workers. If the crisis deepens there may be casualties in terms of closures. While Government will take all necessary actions to minimise retrenchment in contracting sectors, we must also be prepared in case the worst that can be expected does happen. A crucial leg of our policy response will therefore be to give retrenched workers adequate income protection, put in place the policies to create new activities and employment opportunities for them and give them the required training and support to take these new jobs.

As we restructure and deleverage businesses and minimize retrenchment, we shall also need to expand, modernize and create new infrastructure facilities for our economy to diversify and connect to a higher growth path.

6. THE POLICY RESPONSE

Thus, the seven pillars of our response to the euro crisis and to the larger challenge of global economic rebalancing are:

- industry and enterprise restructuring
- deleveraging
- supporting the creation of new financing instruments
- fast re-skilling and re-employment of retrenched workers, with a focus on retrenched women workers
- acceleration of public infrastructure
- protecting consumers
- modernising regulations to improve competitiveness.

The core features of that policy response are the following:

- It is based on the expectation that there will be a protracted period of sluggish GDP growth in the euro zone economies and the UK.
- It is formulated on the thinking that we need to take advantage of the rebalancing of the global economy to diversify our exports and economy at the same time as we address the euro crisis.

- It assumes that external shocks and unprecedented events are a recurring feature of the new world economy to which our enterprises must build lasting resilience.
- It will be implemented on a burden-sharing basis with the participation of the industries, the enterprises and the banks as well as non-bank financial institutions.
- It places a deep responsibility on the enterprises which are facing difficulty to restructure and deleverage.
- It recognises that there may be some retrenchment of workers in the course of restructuring, therefore requiring Government and the private sector to collaborate in redeploying them to the growing parts of the economy.
- It factors in the importance of fast implementation of public infrastructure projects to the restructuring of our economy and to building long-term resilience.

It recognises that while sectors that are exposed to the crisis need support, the growing industries will also need to restructure to maximize benefits from the global economic rebalancing.

The policy response is organized around direct short-term and medium-term support to enterprises and retrenched workers, long-term restructuring of industries, specific incentives and facilities for industry restructuring, and generic measures to give common support to all industries and economic operators to harness the opportunities of the new global economic architecture.

It includes:

- i. Direct support facilities to enterprises under a new Economic Restructuring and Competitiveness Programme (ERCP), with emphasis on enterprises facing difficulties in the export sectors, particularly the textiles and clothing industry.
- ii. Direct support to SMEs to shore up their finances so they can build long-term resilience to external shocks.
- iii. Accelerating reforms in the sugar industry and protecting stakeholders, in particular the small planters who are most severely hit by the depreciating euro.

- iv. Restructuring the tourism sector to reduce its dependence on euro-based markets by diversifying into India, China, Middle East and Russia.
- v. Monitoring retrenchment of workers to provide proper support to them and ensuring their re-employment.
- vi. Ensuring that consumers are not denied the benefits of a favourable rupee exchange rate.
- vii. Restructuring of public sector enterprises with emphasis on those that operate on a commercial basis and have a significant role in the economy.
- viii. Improving implementation capacity to accelerate public infrastructure projects that are vital to economic restructuring and to building a world class physical fabric.
- ix. Improving competitiveness by modernizing the regulatory framework.
- x. Setting up a strong process to monitor the implementation of the policy response package and to ensure its effectiveness.
- xi. Mobilizing the necessary resources to finance the package.

6.1 Restructuring and Deleveraging: An Economic Restructuring and Competitiveness Package

To foster restructuring and deleveraging and to usher in a new business culture, the Mechanism for Transitional Support to the Private Sector (MTSP) that was created under the Additional Stimulus Package will be replaced with the Economic Restructuring and Competitiveness Programme (ERCP). The MTSP is a rescue plan that provides transitional support. ERCP, on the other hand, will comprise measures to foster and support long-term restructuring and deleveraging of firms while providing short-term breathing space, especially on cash flow problems and financing requirements. The underlying objective of the ERCP is to ensure they become more efficient, productive and competitive so as to build long-term resilience to external shocks.

The support under ERCP will follow a well-defined process:

- An initial diagnosis will be carried out on enterprises that ask for support under ERCP to determine their long-term

viability. The requests will be demand-driven and can be initiated by a company, the company's banker or by both.

- Firms that are considered viable will be entitled to all support provided under ERCP, on the conditions that they take a serious commitment to carry out the necessary restructuring and deleveraging.
- An Independent Financial Analyst (IFA), drawn from a pool of experts in corporate restructuring will be appointed to prepare plans for restructuring and deleveraging.
- The restructuring plan will include, amongst others, market diversification, and improvement of products, efficiency and productivity.
- Should the restructuring require the laying off of workers, a retrenchment plan will have to be submitted to the ERCP and to the Support Unit for Re-employment of Employees (SURE). Government is setting up SURE to monitor retrenchment and to support the retrenched workers from the time they are out of their jobs to the time they find employment. In the case of viable firms, any lay-off will have to be part of the restructuring plan approved by the ERCP Committee. Retrenchment of workers will be approved only if it is a sine qua non condition for restructuring.
- The ERCP will be run by a Committee that is co-chaired by the Chairman of SIC and the Director of the JEC and comprises the Chairman of Enterprise Mauritius, the Permanent Secretaries of the Ministries of Industry, of Tourism, and of Labour, representatives of the Prime Minister's Office (PMO), the Bank of Mauritius and the Ministry of Finance.
- SURE will be co-chaired by the Permanent Secretary of the Ministry of Labour and the Director of the Joint Economic Council and will comprise representatives of the PMO, Ministry of Finance, Ministry of Industry, NEF, Ministry of Education, Mauritius Employers Federation, Ministry of Tourism and Ministry of Agro-industry.
- The deleveraging plan will define actions that the company needs to take to bring its gearing ratio to the acceptable benchmark in the industry as determined by the ERCP committee and will set out a pathway to get there.

For firms that are too inefficient, poorly managed and that have accumulated too much risk and debt to be viable on a long-term basis, it will not be appropriate for Government to use public resources to support them. However, SURE will see to it that any retrenchment of workers by these enterprises, is done in an orderly and organized way and that there is fast re-employment of the workers in growing sectors.

6.2 The Support Package under the ERCP

To support the restructuring and deleveraging of viable firms, Government is revisiting the Mauritius Approach that is operational under the MTSP. Currently Government matches the additional financing provided by the banks and the shareholder in the form of debentures or provides a guarantee for part of the additional financing from the banks. Under the ERCP, this facility will only be available to firms which have acceptable gearing ratios.

In the case of firms that have an excessively high gearing ratio, support will be given on the condition that they take a commitment to deleverage. To facilitate deleveraging, Government is taking the following actions:

- (i) A new Private Equity Fund is being set up. The aim is to enable enterprises to restructure their finances and management to increase shareholder value and make them more competitive and resilient. Many firms can unlock significantly more value by changing the business strategy, investing new capital and injecting new management talent. The new Private Equity Fund will contribute to achieving all this and not only providing financial engineering. An initial seed capital of Rs 300 million will be raised this year, with equal contribution of Government and the banking sector. The contribution of the banking sector will be raised through a special one off charge on Segment A operations of banks. The charge will consist of 0.5 percent of turnover plus 1.25 percent of profits generated from Segment A banking activities. Each bank subscribing to the Fund will be able to offset the amount subscribed against the charge payable. The Fund will be professionally managed with the banking sector assisting in launching the Request for Proposal and the selection of an appropriate Fund Manager.

- (ii) We expect that the Private Equity Fund will need to mobilize some Rs 4 billion over the next three years to help not only viable export-oriented companies to restructure and deleverage but also to take advantage of opportunities in growing sectors. In the first instance, however, the focus of the Fund will be on the hotel and textile/manufacturing sectors.
- (iii) Government will pursue discussions with non-bank financial intermediaries and institutional investors to participate in the Private Equity Fund so as to increase its capital to the Rs 4 billion that will be required.
- (iv) To better share risks and provide a longer time frame for restructuring, debentures under the Additional Stimulus Package will be replaced by preference shares under the ERCP.
- (v) Firms will be encouraged to use their physical assets like buildings and land to broaden their equity base. The main obstacle to this practice is a thin and undeveloped market for industrial real estate. Currently, under the MTSP, there is a sales, lease back and repurchase facility where Government is the purchaser. This approach is being fundamentally revisited. The sales-lease back and repurchase arrangement should be primarily a private deal. Government will only participate as a very last resort to make final purchase of assets and/or to purchase and lease back. Government will not enter into arrangements for repurchase.
- (vi) In cases of liquidation where equipment is purchased by an operator to maintain production, Government may, as a last resort, purchase the property with an agreement to leaseback to the operator. This is aimed principally at preventing closures and retrenchment of workers.
- (vii) To facilitate the process for the sale of property, Government is:
 - a. waiving registration dues for such transfers up to December 2011;

- b. exempting these transactions from land transfer tax for the same period;
- c. exempting repurchases made within a three-year period from these taxes;
- d. applications for reconversion to other activities that require planning permission will be processed expeditiously and subject to the silent agreement principle;
- e. allowing foreign investors who wish to purchase such assets to do so until December 2011 through fast track procedures under the Non-Citizens Property Restriction Act, and
- f. exempting the sales of personal assets from transfer tax if the proceeds are fully reinvested in the company.

(viii) Government will set aside Rs 500 million from the Save Jobs Recovery (SJR) Fund to finance the various supports that are provided under the ERCP.

To protect public money, firms will not be allowed to pay any dividend to their original shareholders until they have redeemed the investments made by Government under ERCP. Until Government investment has been repaid, the firm will need to plough back at least three quarters of its net earnings to increase its equity base until it reaches the industry benchmark for debt-equity ratio.

Moreover, there must be at least one bank or non-bank financial institution that is willing to contribute fresh financing to the restructuring plan or the shareholder is willing to increase his equity significantly. In case of sale of business assets, at least 90 percent of the net proceeds will have to be reinvested into the enterprise (after paying off any secured debt and meeting expenses associated with the sale). Where no fresh injection of financing occurs from outside parties, the full net proceeds will need to be invested.

6.3 Leasing As a Means To Finance Equipment Modernisation

Presently Government gives a line of credit to leasing companies under the Leasing for Equipment Modernisation Scheme (LEMS) so as to provide affordable finance to companies to shore up their productivity and competitiveness. Three instruments are being operated under LEMS. LEMS I caters for SMEs with turnover up to Rs 50 million. LEMS II provides support to enterprises with turnover exceeding Rs 50 million up to Rs 150 million and LEMS III for all others. These instruments cater only for the purchase of new equipment and are available only until December 2010. Moreover the maximum amount of leasing finance available under LEMS is Rs 50 million while there are some enterprises, especially in the textiles and clothing industry that require a higher amount. Government is therefore introducing two new instruments under LEMS to address these gaps.

LEMS IV will enable SMEs and other enterprises with an approved restructuring plan to use existing equipment to mobilize financing by entering into leasing arrangements. Government will provide a guarantee of 30 percent.

LEMS V is designed to extend support to textile and clothing enterprises to modernize for productivity gains. The ceiling will be Rs 100 million per firm and Government will not provide any guarantee.

All the instruments under the LEMS will be available until December 2011 instead of December 2010.

Rs 500 million will be put aside from the Save Jobs Recovery Fund to finance the LEMS.

To complement the extension of facilities under LEMS, the Export Credit Insurance Scheme (ECIS) which is already operational will be extended to December 2011.

6.4 Minimising Retrenchment Through Delocalisation

Delocalisation of part of a company's operation can be an important means to avoid total closures and minimize retrenchment. At the same time, it creates greater scope for companies to restructure, focus on higher productivity activities and become more globally competitive. This could be a means to enhance the role of Mauritius as a service platform between

Asia and Africa and contribute to the development of links to the emerging markets. This was important to our textile and clothing sector to make the transition to more capital-intensive production in the past two decades. For the next decade, delocalization will again be important but this time to make the transition to knowledge-based production – moving into design and creativity. To make it easy for companies that will be under pressure from the new global economic architecture to take this route, Government is exploring frameworks with certain countries in Africa (such as Ghana) to facilitate the on-going process of delocalizing production of low end manufacturing and to promote the export of services. The objective is to establish a Government to Government framework to address problems encountered by investors moving on their own.

6.5 More focused support to SMEs

Support for SMEs under the Additional Stimulus Package, in particular the Mauritius Approach has not been effective. One main reason is that the enterprises do not have the capacity to contribute 25 percent of the additional financing as required under the scheme. Moreover, the Banks do not find the product attractive from a risk-return perspective. The scheme is therefore being reviewed.

- First, the required contribution of SMEs to additional financing is being reduced from 25 percent to 5 percent.
- Second, Government is increasing its guarantee of banks' fresh financing from 50 percent to 75 percent.
- Third, participating banks will not charge an interest rate higher than 300 basis points above the key repo rate on loans to these enterprises.
- Fourth, banks will have to restructure existing debt and reduce the debt service of SMEs to ensure their viability.
- Fifth, as part of the debt restructuring plan, banks will look at reducing interest burdens, including the possibility, where appropriate, to freeze and postpone payments of interest.
- Sixth, SMEs that are highly geared will need to plough back at least half of their net earnings to increase their equity base and to comply with the deleveraging thrust of our policies.

6.5.1 DBM Support Programme for SMEs

To further provide financial breathing space to the SMEs, the DBM is launching a Deleveraging Support Programme targeted at some 5,000 borrowers who have not availed themselves of the amnesty that ended in June this year.

This programme will be in effect until end December 2010 and will involve tailoring the deleveraging to the circumstances of each client:

- i. DBM will write off, for some 1,140 small businesses, all loans where the capital balance does not exceed Rs 10,000 and which fell under the Amnesty Scheme.
- ii. All loans exceeding Rs 10,000 up to Rs 75,000 will be written off totally for borrowers facing extreme hardship. Stringent criteria have been set up to determine hardship cases including the following:
 - Where a borrower is unable to work due to illness, being physically handicapped or is incapacitated.
 - Where a borrower has passed away or is undergoing expensive medical treatment.
 - Where a borrower is very old and is living on old age pension.
 - Where the business of a borrower has failed due to severe droughts and cyclones or has suffered damage from fire prior to 1 August 2010.
 - Where a borrower has lost his property through a sale by levy following legal action by another financial institution.
 - Where a borrower is unable to service his loans due to the above cases and his only property is a residential property that accommodates his family and is burdened by DBM's floating charge.
- iii. DBM will write off loans exceeding Rs 10,000 up to Rs 75,000, where the borrower does not own any immovable property and therefore has absolutely no capacity to repay. These loans will be written off after careful verification to confirm that they do not own any immovable property.

- iv. For borrowers with loans exceeding Rs 10,000 and up to Rs 75,000 who own immovable property, the DBM will waive the full amount of interest. They will be given up to 2 years to repay the capital balance due.
- v. As regards loans above Rs 75,000 up to Rs 200,000 which are normally secured by a fixed charge on an immovable property, the total debt will be written off for borrowers who are facing extreme hardship as defined above.
- vi. For non-hardship cases and where the loans above Rs 75,000 up to Rs 200,000 are fully secured, the Bank will waive all penalty interests. To encourage restructuring and deleveraging of firms that fall in this category of borrowers, DBM will reschedule the remaining dues over a period of up to 4 years if they present an acceptable plan for restructuring and deleveraging. The rescheduled amount shall bear interest at the DBM's commercial rate of 11.5 percent.
- vii. Government will extend the Transitional Support Scheme to Small Companies to December 2011. This scheme, being implemented by DBM, offers a programme to assist restructuring the debt of SMEs, with turnover up to Rs 5 million that have become overleveraged.
- viii. DBM is aligning its lending rate for taxis to other SME programmes by reducing the rate by 250 basis points to 8.5 percent.
- ix. To ensure that in the future the DBM strengthens the performance of its loan portfolios, it will participate in the Credit Information Bureau at the Bank of Mauritius, except for micro credits. It is important that our enterprises, including the SMEs, be able to offset or minimize the risks that are associated with exchange rate volatility. Yet, there are not enough hedging instruments in our financial system because of a lack of capacity. The Technical Working Group on the euro zone crisis is working with the Mauritius Bankers Association to organise training in the administering and use of hedging instruments such as options, futures, and swaps.

6.6 Restructuring the Tourism Industry

Enterprises operating in the tourism sector, in particular the small and medium sized hotels will also need to meet the urgent restructuring and deleveraging challenge. The industry must expand into existing markets and diversify into non euro-based markets, develop new products and explore alternative ways of mobilizing finance. Government wants to work closely with that industry to support it through the immediate challenge of the crisis and to kick-start a transformation of that industry over the next five years.

Government's vision is to tap fully the rapidly growing potential to attract significantly more visitors from China, India and Russia, develop new products that include shopping tourism, international golf events, make of Mauritius a travel hub and maximize earnings from cruise tourism.

Besides support under ERCP and SURE which cuts across all sectors, we need to take actions that respond to the specific needs of that industry and the ambitions we set for it.

6.6.1 Medium and Long-Term Restructuring of the Industry: Shopping Paradise

- i. Government will pursue actively its efforts to make of Mauritius a duty-free island and a shopping paradise for tourists. This will add a completely new product in our tourism industry. It will be an important innovation to attract more visitors, diversity the sources of our tourists and increase the earnings per tourist. An updated Blueprint will be prepared to provide a basis for initiating debates and discussions for transforming Mauritius into a Duty-Free shopping and leisure Island.
- ii. Government will work with stakeholders to develop an integrated approach that weaves in the duty-free island concept, the development of shopping space in the port, airport and inner city, down-town shops, factory outlets, dispersed shops at various tourist locations, specialized shopping complexes, entertainment parks and the Rapid Transit System.

- iii. The Blueprint will also consider ways to promote other services (such as medical tourism and events/cultural tourism).
- iv. Additionally, the Blueprint will work out ways to encourage and assist businesses to obtain franchisee rights of international brand labels in Mauritius. Such franchising should include the right to trade as well as, and more importantly, to locally manufacture the products so as to maximize the spillover effects of the duty-free shopping project.
- v. Finally, the plan will identify leisure and entertainment activities that can be integrated to develop a comprehensive entertainment park to attract tourists from the region.

6.6.2 Diversifying Into Non-Euro Based Markets

- vi. There is a huge untapped potential for attracting tourists from India. There are over 12 million Indian outbound tourists, a figure which is growing at rate of around 10 percent per annum. The Indian market will therefore be a principal target of our strategy to develop in non-euro zone markets. Government and the private sector are allocating Rs 350 million to finance a marketing plan targeted at increasing the annual number of visitors from India to 115,000 from the present 67,000, by 2015. Government's share for this campaign will be Rs 100 million. The main features of that marketing will be to focus on niches including weddings, golf, film production, honeymooners and families.
- vii. China is the other country which holds a great potential for diversifying our tourist industry. Outbound tourists from China number around 51 million and are growing at a rate of 10 percent annually. To fully exploit the prospects from China, Government will work with the stakeholders in the industry to implement a Rs 500 million plan for promoting Mauritius as a high end tourist destination for the next five years by focusing on travel during the golden weeks. Government will contribute Rs 75 million.

- viii. The Board of Investment will work with the MTPA and AHRIM to promote Indian and Chinese investment in the hotel sector.
- ix. MTPA will work with AHRIM to undertake a marketing campaign targeted to the high net worth group in Russia. Rs 350 million will be jointly spent with Government contributing Rs 75 million through 2015.

6.6.3 Adapting the Marketing and Promotion Approach

- x. The MTPA and AHRIM will work with Air Mauritius to develop direct marketing of our tourism product via the internet. This will adapt our marketing strategy to the new trend in the international tourism industry of last-minute booking and the use of internet to make these bookings. The e-marketing will be especially beneficial for small hotels as they will be able to reach the widest possible network of clients at relatively low costs.
- xi. In the same spirit, a special package is being developed to encourage tourists in this segment from Reunion to take up a package holiday in the small hotels.
- xii. Efforts will also be undertaken to promote cultural, events-based and medical tourism linked to stays in the smaller hotels. The production of Carmen in September provides an opportunity to develop this segment of the market from Reunion and South Africa.
- xiii. Around 20 international events will be organized over the next twelve months to attract more visitors. These events range from Jazz festival, marathon, triathlon, kite surfing, royal raid, and the Marlin Cup, to international golf competitions.

The spending of the budget for promotion in our traditional markets is being reprioritized to focus on developing new markets. Nonetheless, we will continue to invest in preserving the flows from traditional markets. In addition to about Rs 1.5 billion for the next five years for the traditional promotion including stronger efforts in Germany, Government will provide an additional Rs 250 million to co-finance the marketing campaigns with the private sector, on a burden sharing basis, to develop

new markets. In all, Government and the Private Sector will spend about Rs 1.2 billion to diversify our tourist markets. This means a total of Rs 2.7 billion for marketing including diversification over the next five years.

6.6.4 Adapting the Air Access Policy

- xiv. The Ministry of External Communications will work with Air Mauritius, MTPA, AHRIM and the Ministry of Tourism to develop air access for cross connection to the Air Mauritius network and initiate actions to identify hubs through which to serve Mauritius from Asia.
- xv. The Ministry of Tourism and the Ministry of External Communications will work with Air Mauritius, the MTPA and AHRIM to consider how best to increase regional flight frequency and to promote special flights from China.
- xvi. The Ministry of Foreign Affairs will work to establish conditions in the IOC, SADC and COMESA countries for visa-free travel for Indian and Chinese tourists visiting Mauritius.
- xvii. Government will work to make greater efforts to serve Russian tourists and to encourage 'Transaero' airline to operate twice-weekly flights to Mauritius during peak seasons.
- xviii. The restructuring of the tourism industry will be supported by increased seat capacity on all Air Mauritius routes for the year 2010/11. These include a 40 percent increase in seat capacity on Australia; 36 percent on Hong Kong; 33percent on the London route; 29 percent on India, 22.6 percent on Far East, 9 percent on Switzerland and 7 percent on Germany. Overall, a seat capacity growth of 15.6 percent on current figures has been planned for year 2010/11.

6.6.5 Supporting the Hotels to Overcome Short-Term Cash Flow Problems

- xix. The Invest Hotel Scheme which enables individual foreign and Mauritian investors to acquire rooms in newly constructed hotels and villas which they must obligatorily lease back to the hotel operator will be reviewed and extended

to existing hotels that have an approved restructuring plan. The sale of rooms will be contained to a maximum of 30 percent of the total. This scheme is consistent with the sales and leaseback facility that manufacturing enterprises can resort to. It will be an important instrument to enable small hotels to mobilize finance and broaden their equity base to deleverage. The sale and purchase of these hotel rooms will be subject to the standard acquisition and transfer taxes.

- xx. The Bank of Mauritius is providing a line of credit of Rs 500 million at repo rate to banks which wish to on-lend to the small and medium hotels with an approved restructuring plan. The line of credit will finance investment including renovation at a maximum of 175 basis points above the repo rate.
- xxi. Alternatively, particularly for Banks which do not face liquidity problems, as part of a restructuring plan approved by the ERCPC the interest rate on overdrafts/working capital facilities will be reduced by 2 percentage points for fifty percent of the amount outstanding. Moreover, the maximum interest rate to be charged on this portion will not exceed 2 percentage points above the prime lending rate. Finally, the interest rate on the other half will also be reduced to remove any penalty rates. To support this programme, Government will guarantee 25 percent of the outstanding loans.
- xxii. There are provisions for the suspension of the increase in rental for hotels on less than one hectare of land and with less than 50 bedrooms, for the period 1 July 2009 to 31 December 2010. As from January 2011, these hotels will have the option of paying the increase in rental or delay the payment until January 2012. In the case of delayed payment Government will waive the penalty applicable and charge an interest rate of repo plus 300 basis points.
- xxiii. In addition, these small hotels will be given the option of paying any indemnity in 8 equal annual installments instead of 5. However, interest at the rate of repo plus 300 basis points per annum will be charged during the last three years. Interest will only apply to the deferred amount. The first installment is payable before the end of January 2011.

- xxiv. As regards large hotels, they will be allowed, if they so choose, to pay any indemnity in five instead of three equal annual installments with interest at repo plus 300 basis points per annum as from January 2011.

A crucial prerequisite for the small and medium hotels to engage fully in the restructuring of the industry will be their capacity to upgrade their quality and services offered to international standard. To this end, Government will support small and medium hotels which are members of the Association des Hotels de Charme to be HACCP and ISO certified. The ISO 22000:2005 – Food Safety Management Systems – will enable these hotels to harmonise the requirements for systematically managing safety in food supply chains and offers a unique solution for good practice on a worldwide basis. HACCP concept is a systematic approach to hazard identification, assessment and control to ensure safety throughout the food chain. The SJR Fund will meet 50 percent of the cost of certification per firm, subject to a maximum of Rs 200,000. Government will develop a framework for banks to provide a loan at an interest rate of repo plus 300 basis points per annum for the remaining 50 percent, provided the firm's gearing ratio does not exceed the norm as will be decided by the ERCP.

6.6.6 Giving a Boost to the Tourism Sector in Rodrigues

- xxv. To further support the tourist sector in Rodrigues, Government is extending the subsidy on air travel to Rodrigues as part of a holiday package to the end of December 2011.
- xxvi. The Blueprint for the Duty-Free Island will also include Rodrigues.
- xxvii. Two major events will be organized to attract more visitors in Rodrigues, namely the Festival Rodrigues and the Fête du Pain.
- xxviii. Air Mauritius has planned a 20% increase in seat capacity on Rodrigues.

6.7 Sugar Industry: consolidating reforms and supporting the small planters and workers through the crisis

The sugar cane industry is an example of how we can persevere to restructure an industry and adapt it to new realities. Even so, like other export sectors, it is impacted by the decline in the euro. This could set back the progress made.

There is a genuine need to support the sugar cane industry, the planters and the workers through this challenging time. Government shares the confidence of other stakeholders that the industry has a viable future. But we must shore up that viability by creating the environment that fosters innovations, and new trade initiatives. Government will do this by putting at the disposal of small and medium planters new means of procuring and applying inputs, by supporting the industry through the crisis that is curtailing its revenue. At the same time, we need to enable employees who have accepted offers under the VRS 2, the ERS and the Blue Print to receive their land entitlements with the least delay. To these ends, Government is taking the following actions:

6.7.1 Financial Breathing Space through the Crisis

- i. The Global Cess will be substantially reduced over a period of two years starting in 2010 and ending in 2012, so that in 2012 and subsequent years it does not exceed 4 percent of the ex MSS price. The cess reduction will be equivalent to an increase of Rs 450 per tonne this year and Rs 600 per tonne as from 2011 in the revenue of planters. This will particularly provide financial relief for some 28,000 small planters who are feeling the brunt of the euro crisis.

The cess-financed institutions, including the Mauritius Sugar Authority, the Mauritius Sugar Terminal Corporation (Bulk Sugar Terminal), the Mauritius Sugar Industry Research Institute, the Farmers Service Corporation, the Sugar Planters' Mechanical Pool Corporation and the Cane Planters' and Millers' Arbitration and Control Board will be restructured over the next two years to adapt to the new situation. The sugar industry will finance the costs of associated reductions in the workforce.

- ii. Additional concessionary funding of not more than Rs 1.5 billion will be released by the BoM so that small and medium planters receive at least 80 percent of the estimated net MSS price as from their first sugar consignment. The additional cash flow is expected to facilitate the procurement and use of fertilizers and thus ensures the viability of future crops.
- iii. The Sugar Insurance Fund Board (SIFB) is making arrangements for the appointment of a consulting actuary to conduct a major review of the Fund in the light of the new circumstances surrounding the sugar industry. Until such time as the review is completed and implemented, the SIFB would make available to the MSS a concessionary line of credit of an amount not less than the estimated premium payable for year 2010. This would enable a higher level of crop advances to be paid to producers.

6.7.2 Accelerating the Restructuring of the Industry

- iv. The restructuring of the sugar industry into the cane industry must be given a major boost. A crucial leg of that restructuring thrust is the production of ethanol and of Concentrated Molasses Stillage (CMS), a very useful fertilizer. Accordingly, bottlenecks as regards their production will be removed so that production can start in the 2011 crop.
- v. Government will ensure that the production of these two commodities incorporates a maximum of stakeholders in the sugar and molasses filières. Small and medium planters and employees shall hold 35% of the equity of the entity undertaking the production of ethanol, in line with the agreement secured by the team led by the Honourable Prime Minister.
- vi. As from crop 2012, an Environmental Fee will be levied on molasses exports to encourage local value addition in the form of fuel ethanol and potable alcohol.

- vii. Government will encourage initiatives by suppliers to facilitate the economic application of fertilizers and will examine the best means to make CMS available as fertilizer to planters.
- viii. Procedures and administrative measures stemming from the SIE Act 2001 and the Morcellement Act will be streamlined to facilitate the sale of land to recoup costs incurred in respect of the sugar reform.
- ix. The Field Operations Regrouping and Irrigation Project (FORIP) will be immediately overhauled to ensure that it has a comprehensive approach with particular emphasis on adequate and economic use of fertilizers, full scale mechanisation of cultural/harvest operations and transport logistics.
- x. Government will ensure that the FORIP operates hand in hand with the Fair Trade Initiative project.
- xi. Funds amounting to some Rs 100 M in the Factory Closure Planters Funds will be used to modernize the small and medium planter sector and to regroup planters. This will involve derocking, irrigation systems and preparation for mechanized harvesting and introduction of new varieties.
- xii. The credit line of Rs 100 M announced in the 2008/09 budget will be used to finance the acquisition of equipment, in particular by Small and Medium Operators (SMOs).
- xiii. Private operators, such as stone crushers and suppliers of services, including SMOs, will be called upon to participate in the FORIP.
- xiv. Given the importance of the Fair Trade Initiative for the FORIP, all expenses related to accreditation for the Cooperative Credit Societies will be met from funds under the FORIP. Initially this initiative would concern some 4,000 cooperative planters and some 15,000 tonnes of sugar with an additional revenue of USD 60 or Rs 1,800

per tonne. Overall, additional receipts to small planters would amount to US 900,000 dollars annually.

- xv. Government is also working on a programme so that in the near future an additional 18,000 planters with a production of 65,000 tonnes of sugar could benefit from this initiative.

6.7.3 Supporting the Employees through The Restructuring

- xvi. Some € 68 M will be invested by sugar entities in the coming years to ensure that employees who have accepted the offers of the Voluntary Retirement Schemes of the VRS 2, the ERS and the Blue Print receive all their plots of land with all the required infrastructure by mid 2013.
- xvii. A yearly amount of Rs 2 million will be credited to the Training and Modernisation Fund for the Trade Unions in the sugar sector.

6.8 Monitoring and Re-employment of retrenched workers

To give direct protection to workers who are retrenched when enterprises are restructuring, SURE will use all existing platforms for training, re-skilling and placement. It will ensure that they have an income pending re-employment and that they have appropriate assistance to find a new job. SURE will be a joint Government/Private Sector collaboration that will work closely with the ERCP, National Empowerment Foundation (NEF) and the Ministry of Labour. SURE will also fully explore all possibilities for the retrenched workers to participate in the Circular Migration Programme as well as the Training as Carers Programme being launched by the Ministry of Social Security. The retrenched workers who wish to participate in the Circular Migration Programme will be given priority.

SURE will build two interactive databases. The first will contain information on employment opportunities in the areas and job categories which will match the profile of the retrenched workers.

The second database will be on the profile of the retrenched workers as we expect that most of them will have to take on jobs in sectors which are different from the ones in which they are employed and that will require different skills and training.

Appropriate training and placement programmes will then be provided under existing facilities at the National Empowerment Foundation (NEF) with special focus on addressing any mismatch between the skills of the retrenched workers and the jobs available.

The demand for jobs by the retrenched workers and supply of employment opportunities by the business community will be made available on the interactive platform of the NEF on the internet. This has already been a very effective instrument for training and placement, through which 8,000 unemployed have been placed in 520 companies. This interactive platform will be supplemented by a range of activities such as dedicated job fairs and regular sectoral training and placement meetings to connect job-seekers with the 'market'.

The training and placement programme will be reformulated to reflect the need to address a major gender gap on the labour market. The female unemployment rate is around 12.3 percent, much higher than the 4.4 percent male unemployment rate. Restructuring, in particular, in the textiles sector, can further widen that gap. The training and placement programme will therefore be adapted to ensure that the crisis does not widen that gap even more. SURE will also focus on support to retrenched women workers above 40 years of age.

A list of some 25 job categories in which there is an increasing demand for women has already been identified. These include:

- i. Baby sitters
- ii. Child care workers
- iii. Bakers/pastry makers
- iv. Barmaid
- v. Bookbinder
- vi. Bus conductor
- vii. Carer
- viii. Cleaner
- ix. Housemaid
- x. Laundry attendant
- xi. Cook
- xii. Craftswoman (handicraft/artisan)
- xiii. Gardener
- xiv. Housekeeper/housemaid
- xv. Kitchen helper
- xvi. Knitter
- xvii. Midwife

- xviii. Nursery attendant
- xix. Pattern maker/cutter
- xx. Planter/farmer
- xxi. Printer/press operator
- xxii. Security guard
- xxiii. Home based work (textile)
- xxiv. Waitress

The retrenched workers will be provided with income support for up to one year with training and placement.

6.9 Restructuring in the Public Sector

The public enterprises sector contributes some 13 percent to GDP and there are around 100 parastatal bodies that provide institutional support to implement government policy and realize its vision. Some of these institutions operate on budgets allocated to them by Government and some of them are run on a commercial basis.

In view of the demand on public finances to support the restructuring of our economy whilst meeting our social obligations, it is important that parastatals operating on a commercial basis and Government Owned Enterprises stop acting as a drain on the budget. Each enterprise must bring its operations in line with government's policy to deleverage, restructure and to be efficient by global standards. They will need to explore all means of enhancing revenue and controlling expenditure. To this end, Government will assess the financial standing of these enterprises to increase their capitalization if necessary, reduce their leverage and also to ensure that their operations are commercially viable. The restructuring of Government Owned Enterprises is also vital to improving the management of public sector debt.

Government will continue to provide financing for their investment programme, with the requirement that in the coming years, they will provide a real return of at least 5 percent on capital invested.

These Government Owned Enterprises will also have to finance their operating costs on their own and not depend on budgetary transfers anymore.

6.10 Developing a world class Physical Fabric

A world class physical fabric will be vital to achieving the kind of competitiveness that Mauritius will need to succeed in the new global economic architecture. The plan for the next ten years includes a comprehensive set of projects that will expand and modernize public infrastructure and that will need some Rs 230 billion of investments, both public and private. Some of the major projects are:

- i. The Rapid Transit System
- ii. The Harbour Bridge
- iii. Road networks including Ring Road and A1/M1 Bridge and improvement of the road system in Rodrigues
- iv. Airport terminal and emergency runway
- v. Port expansion and modernisation in both Port Louis and Port Mathurin
- vi. The Jin Fei economic zone
- vii. The Land Based Oceanic Industry
- viii. The Highlands project
- ix. University Campuses
- x. Hospital renovations and expansion
- xi. Power stations, turbines including projects from renewable energy sources
- xii. Improving the water catchment and distribution network including in Rodrigues
- xiii. Waste water management

The investments in these infrastructure projects need to be adapted to the national endeavour to restructure our economy and build long-term resilience. The Ministry of Finance will work with the relevant line ministries to prioritize and accelerate the projects and to work out an optimal sequencing of their implementation.

The National Development Strategy governing physical planning will be reviewed to be finalized by the first quarter of next year to accelerate the planning process for infrastructure projects. Zones will be clearly defined for different types of economic activity so that developers

can conform to the guidelines without specific prior authorization that results in long delays or even cancellation of projects.

The National Development Strategy will also ensure coherent development and assist in preventing new developments from generating new congestion that could nullify the impact of the Road Decongestion Programme.

The National Development Strategy will also identify the green spaces which need to be preserved in support of the Maurice Ile Durable Strategy.

Investment in social infrastructure will also follow an integrated approach to avoid duplication and ensure all parts of the country are equally served. This could also provide the information to guide the development of municipalities taking into account potential economic activity. The Strategy will result in integrated social and economic development.

Government will also continue to address structural bottlenecks that impact competitiveness and slow down the implementation of public investment projects.

6.11 Improving Competitiveness by Modernizing the Regulatory Framework

To complement restructuring at the firm level, competitiveness will be enhanced through a Task Force set up under the auspices of the Ministry of Business and the Board of Investment. This Task Force will review and modernize regulations and licensing arrangements focusing on e-government approaches and streamlining of the regulatory framework to ensure compliance at lower cost. The assistance of Singapore has been sought in this regard. This work will also build on the progress achieved in improving our Doing Business Ranking.

6.12 Ensuring consumers benefit from advantageous exchange rate movements

Consumers in Mauritius have always suffered from an unfair asymmetry in the pricing policies of enterprises. When the rupee exchange rate depreciates the higher imported prices are passed on automatically to consumers. On the other hand, when the rupee appreciates, most prices go down with a long delay and in many cases there are no downward

adjustments at all. This is a serious source of economic injustice that we need to address. There is also a wide range of non-conformity to laws that ensure consumer protection that must be addressed. Compliance to the legal metrology Act and non-affixing of prices are two striking examples.

To address these issues, a Task Force is being set up under the aegis of the Ministry of Business and Consumer Protection to follow up closely urgent consumer protection issues that need speedy resolution, such as currency exchange rate impact on consumers and non-compliance to important consumer laws. The Committee will include consumer organisations, women's organisations, cooperatives, stakeholders in the commercial sector and the MCCI. The Committee will work on a Terms of Reference to be established and will submit its recommendations to the Minister of Finance by the end of October this year. This will include completing the work on the Observatoire des Prix to inform consumers about comparative prices on a regular basis.

7. MONITORING THE IMPLEMENTATION OF THE PRESENT PACKAGE

The Ministry of Public Infrastructure is setting up a Committee to improve project planning and to enhance support to line Ministries to develop, formulate and implement investment projects. The Committee will make recommendations by end September to improve the functioning of the Project Plans Committee (PPC) operating under the Ministry of Public Infrastructure.

The Ministry of Finance will assist Ministries to set up and staff their own Planning and Project Implementation unit reporting directly to the Supervising Officer.

The sub-Committee on Public Infrastructure that reports to the Secretary to Cabinet will analyse the bottlenecks holding back rapid implementation of the largest investment projects being implemented. Recommendations for reforming the project cycle at the line Ministry level will be made to the Secretary to Cabinet by the end of October.

Our ambitious Public Sector Investment Programme requires mechanisms to ensure projects meet intended objectives and provide value for money both at design and implementation stage. The Ministry of Finance will set up a Project Monitoring Unit staffed by financial analysts, architects, economists and quantity surveyors.

A Committee comprising the Ministry of Tourism, the Ministry of Finance and Economic Development, the MTPA, the Tourism Authority, AHRIM and Air Mauritius will be set up to coordinate the implementation of the strategy to restructure the tourism industry and diversify into the Indian, Chinese, Russian and other markets. The Committee will be chaired by the Minister of Tourism.

A joint public/private sector Committee will be set up under the aegis of the Ministry of Agro-industry to work out the details of the restructuring of the cess-financed institutions, including social packages and corresponding incentives so that the global cess reduction commences at latest by October 2010.

The serious problems of the European economies are likely to persist for several more years with scope for significant downside risk. Moreover, the world economy, whilst recovering, is fraught with uncertainty and may also be a source of shocks that may yet rock our economy. We must keep a close watch on how things are evolving and always be ahead of the curve. To this end, the High Level Committee which is co-chaired by the Secretary to Cabinet and the Director JEC will now focus on dealing with the bottlenecks and structural problems that hinder the competitiveness of our economy in the different affected sectors.

In addition, the Technical Working Group (TWG) on the euro zone crisis will become a permanent platform for monitoring the implementation and effectiveness of all the actions taken and for keeping a close watch on the developments in the euro zone countries and in the global economy that can impact on our industries. The TWG will meet at least once a month and submit a monthly report to the Minister of Finance, including recommendations on further actions that need to be taken.

8. THE FOREIGN EXCHANGE MARKET

In an attempt to reduce both the volatility that has been observed on the domestic market and the spreads between buying and selling rates practiced on the forex market, the Bank of Mauritius is examining the possibility of offering/posting on a daily basis a central rate around which it is prepared to conduct sale and purchase operations for large volume transactions. The Bank of Mauritius is studying the possibility of introducing foreign exchange futures to complement the foreign currency swaps it already offers.

9. FINANCING THE PACKAGE

We have made sure that the additional resources that Government spends on this package balance the need to restructure the economy and to ride out the euro zone and UK crisis with that of maintaining fiscal integrity. Moreover, we have also been guided by the principle that scarce public resources must be channeled into activities that have the highest productivity and the greatest potential for creating jobs, for improving the income per capita and standard of living of our population.

As we prepare our economy to weather the new crisis, we must not overlook the fundamental lessons that it teaches us.

- Firstly, that government deficits and sovereign debt must always be at sustainable levels.
- Secondly, that no government should spend beyond its means even and specially during a crisis.
- Thirdly, that the global recession and the crisis are not unconnected events. They are a harsh reminder that more such events may pound our shores in the future and that we need to build strong fiscal capacity and maintain ample fiscal space to deal with them.

The development vision of Government and the high aspirations of the population can only be met if we make judicious use of our productive resources and if we bring our productivity and our production capacity to globally competitive levels.

This package has been prepared within the constraints of maintaining the fiscal integrity of our country while mobilizing resources to give maximum support to economic operators, minimize retrenchment and build long-term resilience to shocks.

The budget deficit for 2010 is projected to be close to the 4.5 percent announced in the Budget.

This policy response is based on burden sharing. Total financial resources mobilized by the nation to face the crisis would be around Rs 12 billion, of which Rs 2 billion would come from Government, Rs 2 billion from acceleration of projects in the Public Sector Investment Programme and Rs 3 billion from public sector institutions, including Rs 2 billion from the Bank of Mauritius.

The private sector would mobilize Rs 5 billion.

This clearly represents a coordinated and determined national effort that will require us to shoulder a high cost. But we are more focused on the benefits, confident that they will be greater than the costs.

9. CONCLUSION

The global recession, the euro zone and UK crisis and the global rebalancing are compelling us to take a hard look at the fragilities in our economy and to reassess its strengths. We must ride out the crisis as well as seize the opportunities that global rebalancing brings. This new package of measures and policies does that with effectiveness and sets the ball rolling for transforming our economy, creating a well diversified economic base, a park of efficient, financially sound and globally competitive enterprises and a labour force with appropriate knowledge and skills. These will be supported by a comprehensive infrastructure expansion and modernization plan to create a world class physical fabric.

The need to diversify our export sectors to make them less dependent on euro-based markets is more pressing today than ever before. The crisis is a reminder that diversifying into markets in China, India, South Africa, and other non-euro zone economies is now a crucial imperative.

The crisis is also a last warning signal for those enterprises that have always been too highly leveraged to face the new reality and expand their capital base. It is a final wake-up call for firms that are operating at the margin of inefficiency and that can be taken to the brink by the slightest shock.

There must be a restructuring and deleveraging drive that transcends the need to face up to the currency issue, that cuts across all sectors of the economy and not only the export oriented industries, and prepare for the larger challenge of global rebalancing, competitiveness and long-term resilience. All our enterprises, whether they are facing difficulties or doing well, need to wake up to that urgent call.

Thus the central thrust of this package is to support our enterprises and industries to hold out the current crisis and, more importantly, to deal with the causes of their vulnerability. The package will enable them to become resilient to such unprecedented shocks in the future. It will also give a strong impetus to the factors that are decisive to their long-term viability in a rebalanced global economy.

The package acts on the vital importance of protecting consumer welfare and training and re-skilling of retrenched workers for rapid re-employment in activities where productivity will be higher so they can improve their earning capacity.

As a nation, we must see both the euro zone crisis and the great global rebalancing as a unique opportunity to redefine our development path. It compels us to adapt our strategies so as to better steer Mauritius to its vision of a modern nation, with a world class physical fabric, globally competitive enterprises, higher income per capita and standard of living and greater social justice.

This policy response kicks off that vital endeavour with some 100 policy measures and with the confidence that once again Mauritius will prevail.