ADDITIONAL STIMULUS PACKAGE

SHORING UP ECONOMIC PERFORMANCE

OUTLINE

A. Introduction: Origin of the problem

For over fifteen months, the subprime mortgage crisis that started in the United States has been creating havoc in the major financial centres. It has pushed financial giants to breakdown points, creating an unprecedented credit crunch world-wide, sapping consumer and investor confidence, crashing equity markets, bringing down commodity prices and also driving advanced countries into recession and some economies to the brink of bankruptcy. The US, UK, Germany, Spain, Ireland, Singapore and Japan are some of the countries that have already slid into a recession. The Euro Zone is now in recession. Growth in China and India is decelerating while other countries including Hungary, Ukraine, Georgia, Seychelles, Iceland and Pakistan are near collapse. And now there is fear of deflation that can further pull down global growth.

B. Building resilience through structural reforms

Back in July 2005, the economy was in a precarious state with growth on a downward path, unemployment at its highest level in 20 years, job creation very low, budget deficits and debt in a parlous state, purchasing power falling, investment going down and FDI almost inexistent. These weak economic indicators were compounded by external shocks including the dismantling of the Multi Fibre Agreement, the cut in the price of sugar, soaring energy prices, rising interest rates worldwide soon to be followed by surging food prices. The economy was in dire straits and in a state of emergency.

We were not daunted and took up the challenge of bold and, at the time, criticised reforms. But these reforms have borne fruits and saved the economy from these negative shocks and returned it to a high and balanced growth path. Unemployment has declined. FDI has soared and private investment recovered fully from its worst performance in many years. The textile industry was no more mired in deep depression. Construction and tourism were booming. The seafood and the ICT sectors were doing well. A new wave of SMEs has been rising. New sectors are firming up their roots to become additional pillars. Jobs are being created at more than twice the rate prior to reforms. And net international reserves have increased.

Investor confidence returned and we have been able to build the kind of economic resilience that has saved the economy in 2008 from the financial turmoil that has shaken other economies around the world.

C. **Reforms have saved the economy**

Our economy has indeed been resilient to the first round effects of the financial crisis. This year, we are expecting a growth rate of around 5.2 percent. Growth remains diversified with 3.2 percent in tourism, 5.5 percent in sugar, 7.5 percent in real estate and 11 percent in construction and 13 percent in banking. Moreover, the transport and communications sector continues to grow strongly at 7.1 percent, including 15 percent growth in ICT.

Investment as a ratio of GDP will rise for a third consecutive year to 25.4 percent, driven mostly by the private sector, including FDI which has reached Rs 7 billion at end October. Consumption by households will rise to 72.4 percent of GDP. The increases in consumption and investment, combined with soaring prices of imported energy, food and raw materials have caused the inflation rate to stay high and the deficit of the current account of the Balance of Payments to widen. Even so, we are expecting an overall Balance of Payments surplus for a second consecutive year after three years of deficits. At end October 2008 there were Rs 86.9 billion of net international reserves, good for 35.3 weeks of import cover. As a result of the rising investment and higher GDP growth this year, net employment creation will go up to over 10,000- in contrast to 8,400 last year, 8,000 in 2006 and 3,000 in 2005. As noted by the IMF in its latest Assessment letter, under the impact of the fiscal reforms, the overall deficit was lowered to 3.4 percent of GDP in 2007/08 from 5.4 percent in 2005/06 while public sector debt was reduced to about 60 percent of GDP in June 2008 from close to 70 percent in June 2005.

Two main reasons underline our economy's resilience to such an unprecedented external shock, which is deep in implications and broad in scope. The first, as noted by all experts, is the effectiveness of the reforms we have been implementing during the past three years. The second is the robustness of our financial system as recognised by the IMF.

Our reforms have opened the economy and made it more versatile. The strengthening of the emerging sectors to diversify the economic base has created good capacity to offset the negative effects of external shocks. At the same time, our reforms have given us the fiscal space required to deal with such a crisis. Had it not been for the comprehensive economic reforms undertaken by Government, the economy would have been in recession.

Reforms have allowed us to build resilience to cushion the adverse impact of the international financial and economic crisis.

Our financial system has not in any way been involved in sub-prime lending or any activity deriving directly or indirectly from that asset class. Our financial system is well regulated, solid and highly profitable. It has ample liquidity to meet the financing needs of the economy. As a result we have not had to intervene, as in many other countries, to bail out the banks. In fact, for the past 10 months of this year, commercial bank credit to the private sector has grown by a healthy 24 percent, total assets of banks have maintained a high expansion pace and the fundamentals of our banking institutions have improved significantly. The rest of the financial sector has also performed well. One exception is the stock market where normal corrections from record highs have been exacerbated by fear in major markets across the globe. However, net foreign portfolio outflows have been lower than in most emerging markets.

D. Being Pre-emptive: Expansionary Budget

But, although our financial system has come out unscathed and the economy has so far resisted the financial mayhem, we must recognise that no country is immune. Recently, the world has witnessed a marked deterioration in the outlook for economic activity - so much so that major countries, from developed to emerging, and their Monetary Policy Committees have become convinced that the balance of risk is now clearly on growth and not on inflation. The IMF has revised its growth forecast for advanced economies to negative 0.3 percent for 2009. The economies of our major trading partners will experience deeper contractions than originally estimated. However, the forecasts do not capture the policy changes and actions that would be implemented globally after the G20 meeting last November in Washington. But if the policy responses world-wide are not effective the global downturn can be deep and lasting. We have been on our guard for the last fifteen months of the financial mayhem. We have with foresight stepped up our reforms. We now have the greater fiscal space that three years of reforming have helped us create – giving us more capacity to cushion external shocks. With the rapidly deteriorating world economic outlook, we must now be prepared for the ripples of what may become one of the worst global economic downturns in many decades. As a consequence we should shore up the resilience that has kept us on a high growth path while other economies were going under.

We must recognise that the world is not facing a conventional business cycle. For the world economy to recover, it needs demand stimulus that can influence the future output trend and not merely the fluctuations around the present trend. At the IMF/World Bank meeting, last October, there was wide agreement on a global response that is speedy, comprehensive, flexible and coordinated. There is also consensus worldwide that central banks and governments need to cooperate to provide this stimulus, the more so that the inflation danger is now receding. The strategy is for expansionary fiscal policy supported by easing of monetary policy so that there is first of all an adequate flow of credit to finance consumption and investment expenditure and bring back consumer confidence.

As regards expansionary fiscal policy, Mauritius is ahead of the curve. In the June 2008 Budget Speech we mentioned:

"*Our reforms have made Mauritius resilient. But we are not immune. We are already feeling some of the anxieties that grip the world. We must have an effective handle on developments, globally and regionally. That is why, Mr Speaker, Sir, we must continue on the path of reforms with yet greater commitment and determination. Having restored high, robust and sustained growth; having put the country solidly on the path of openness, global competitiveness and full employment, we now need to give Mauritius a strong and vigorous impetus to run the next development lap and build the Mauritius of tomorrow.*" *(para 37, 38).*

And at the sectoral level, we were pre-emptive and stated at para 65 that

"*The tourism sector will need to weather the storm of weakening economic growth in Europe to maintain its rapid growth. We are therefore increasing the budget of the Mauritius Tourism Promotion Authority to Rs 340 million in 2008/09".*

In fact, while other countries waited to be officially in a recession to announce a stimulus package, we anticipated as far back as May 2008 the difficult global economic situation and adopted an expansionary fiscal policy in spite of economic growth being forecast at over 5.5% at that time.

(1) Stimulus package with special allocations of Rs 6 billion

First, we did so by using the larger fiscal space arising from the reforms to allocate Rs 6 billion to invest in airport expansion and modernisation and to create six funds. These funds will enable us to:

- realise the Maurice Ile Durable vision;
- build food security;
- boost education and knowledge to eradicate poverty and widen the circle of opportunities;
- improve local infrastructure;
- carry through our social housing commitments; and
- sharpen the competitiveness of domestic oriented industries and SMEs

(2) Implementing the PRB in full: an additional Rs 1.5 billion

Second, the implementation of the PRB in full in one year, rather than phased over two years as recommended and as previously done, has injected an extra one and a half billion rupees in the economy.

(3) Providing for Contingencies of Rs 1.8 billion

Third, we innovated by introducing in the 2008/09 Budget a provision for contingencies and allocated Rs 1.8 billion under this item precisely to deal with the kind of shocks that we now have to confront.

Taken together, the creation of the Funds, the full implementation of the PRB in June this year and the contingency of Rs 1.8 billion amount to a cushion of Rs 9.3 billion (over 3.4 percent of GDP) which is significantly higher than the 2 percent fiscal stimulus that the IMF and G20 are now calling for to boost aggregate demand. We are now ready because these actions were taken six months ago, over and above the programmes that make up government capital expenditure for the year, precisely in case the international crisis turned out to be worse than most analysts predicted at the time.

E. Nurturing Resilience to stay ahead of the curve

(1) Coordinating with the Bank of Mauritius to ease monetary policy

We kicked off the stimulus package last October, when the Ministry of Finance and the Monetary Policy Committee of the Bank of Mauritius coordinated policy responses ensuring that monetary policy is expansionary to support the fiscal stimulus. Since then the repo rate has been lowered by 150 basis points, bringing down the cost of credit significantly.

In the same vein, the Bank of Mauritius also lowered its cash reserve ratio from 6 to 5 percent, thus freeing some Rs 2.5 billion in the banking system for commercial banks to on-lend to productive sectors.

(2) Amending the Automatic Price Mechanism

To rapidly pass on to consumers the benefits of falling international petroleum prices we amended the regulations governing the Automatic Price Mechanism (APM). As a result, the prices of mogas, diesel and fuel oil have fallen in a range of 22.5 to 27.5 percent and provided relief to our enterprises, more specifically in manufacturing, construction and transport, as well as the population at large. This has slowed down the general increase in prices and mitigated the loss of purchasing power for consumers.

(3) Regular consultations and constant dialogue with stakeholders

It is worth recalling that in early 2008 most analysts projected a short and shallow recession with many believing it would not be broad due to decoupling of the rest of the world from the US economy. By mid-2008, sentiment changed to the realisation that the recession would be broad but expectations were for fast recovery from a mild recession. After the collapse of Lehman Brothers in mid-September, pessimism intensified with the view of a long, broad and prolonged recession. Since then, every month the forecasts have been increasingly grim. The IMF is continually revising downward its growth projections, including for emerging economies. The most recent view is that even China and India will be badly affected instead of just facing lower growth. Another growing concern is the threat of deflation with devastating consequences.

In the initial period our measures provided the necessary resilience to manage through the international crisis, as recognised in the recent Assessment Letter of the IMF. However, after the Lehman Brothers episode, as the world economic outlook deteriorated sharply, we realised we would need to use the fiscal ammunition that we had set aside in May and June 2008. Thus since October 2008 we started to articulate a strategy on how best to formulate the policy response. As part of that strategy we intensified discussions with economic operators and set up mechanisms in Government to formulate and implement the required additional stimulus.

Government has had intensive consultations with all sectors of the economy and with SMEs and set up a joint committee with the JEC to complement the one earlier instituted with the Chamber of Commerce and Industry. We also obtained inputs from the Association des Consommateurs de l'île Maurice (ACIM), Association of Inbound Operators Institute for Consumer Protection (ICP), Association of Trust and Management Companies (ATMC), AHRIM, Building and Civil Engineering Contractors Association (BACECA), the Chamber of Agriculture, Outsourcing and Telecommunications Association of Mauritius (OTAM), MBA, MEXA, Mauritius Manufacturers Association (MMA), the SME Federation and representatives of small and medium Planters. These consultations and the work of these Committees have been important elements in putting together this stimulus package within a short period of time. In fact, they have allowed us to go beyond the calls to deal with the problems of textiles and tourism to take a holistic approach that will further strengthen our resilience and better prepare us for the rebound.

(4) Two Ministerial Committees to help formulate an additional economic stimulus

The Prime Minister set up two Ministerial Committees in November. First, a Committee on 'Nurturing Resilience' headed by the Prime Minister and supported by a Technical Committee chaired by the Secretary to Cabinet. The second Committee, on 'Human Capacity, Solidarity and Physical Infrastructure' is presided by the Vice Prime Minister and Minister of Finance and its Technical Committee is chaired by the Financial Secretary.

Both Committees are removing a number of hurdles and clearing the way for accelerating projects that are crucial to investment, growth, employment creation, infrastructure development and human capacity building.

The Committees also thrashed out both systemic and sector specific constraints to investment. The Vice Prime Minister and Minister of Finance has also consulted with stakeholders in all key sectors of the economy to have a good understanding of the scope and intensity of the challenges ahead so that remedial actions are properly formulated and targeted.

Thus, the main features of our additional stimulus package are:

First, it is targeted, flexible and temporary;

Second, it will be put in place between now and early 2009 and implemented over the two-year period between now and 31 December 2010;

Third, we are using the fiscal space we have created to significantly increase public sector investment;

Fourth, we will ensure that capital expenditure for the fiscal year 2008/09 is implemented as programmed;

Fifth, we are dealing with bottlenecks to boost private investment and where possible accelerate their projects;

Sixth, Government is speeding up the supply response we started in the 2008/09 Budget, particularly by fast tracking and front-loading infrastructure projects;

Seventh, support will be provided to businesses to continue operations so as to protect employment and workers;

Eighth, the National Empowerment Foundation will enhance its efforts on re-skilling, retraining and returning retrenched workers to productive employment; and

Ninth, Government is providing ample protection for the population during the period of the international crisis.

F. Status of the Special Allocations of Rs 6 billion appropriated earlier this year

Before elaborating on the new policies that form part of the stimulus package to shore up the resilience of our economy, it is important to consider the use to date of the Funds that were created in the Budget this year, because they are a central component of our policy to improve economic resilience. We are accelerating implementation over two years instead of the planned five.

First, the MID Fund. To the Rs 1 billion voted in the Supplementary Appropriation Act 2008, Rs 300 million are expected from the 2008/09 Budget. And of the Rs 1.3 billion available in that Fund, we have already committed some half a billion rupees on various initiatives including:

(i) the solar water heater scheme at the DBM which has already benefited over 2,000 households;

(ii) energy saving lamps that are benefiting about 100,000 households;

(iii) replacement of 16,000 street lighting lamps

(iv) strategic alliances to mobilise foreign expertise for sustainable development;

(v) support for a Wind Farm Project at Bigara under PPP;

(vi) financing for the waste disposal component in the Waste to Energy project;

These projects are taking us closer to the vision of a Green Mauritius and at the same time injecting significant income in the economy and stimulating economic activity.

Second, the Food Security Fund. Resources available in that Fund amount to Rs 1 billion. A draft three year strategic plan for Food Security has already been prepared.

The strategic plan proposes the mobilisation of an additional 1,973 arpents of land resources including in Rodrigues. These lands would be prepared and provided with irrigation facilities and leased to some 700 to 900 small farmers who would have to group themselves in order to benefit from economies of scale. In Mauritius 918 arpents would be devoted to food crop production and 319 arpents for meat and milk production. In Rodrigues, an additional 700 arpents of uncultivated/abandoned lands would be put under food production. The land resource mobilisation would result in the production of some 5,000 tonnes of additional food commodities between 2009 and 2011. Priority will be on strategic crops including potato, maize pulses, onions, vegetables and fruits. In the livestock sector, emphasis will be on schemes for beef, goat, sheep, poultry and fodder/pasture development. Institutions such as veterinary services, food technology laboratory, etc will be upgraded. Government has facilitated a major project for dairy farming for milk production which is expected to begin production next year.

A special programme under the National Empowerment Foundation is currently being implemented for investment in infrastructure to support the modernisation of the pig sector to the tune of about Rs 200 million including an expansion of the programme to improve Environmental aspects such as processing of waste. In addition, Government is lending to the pig breeders about Rs 160 million on concessional terms with a grant element of Rs 53 million.

In the fisheries sector, proposals have been made for the construction of four fibre-glass fishing boats, the setting up of a fish cage-culture, the construction of one semi-industrial fibre-glass fishing boat and the training of skippers and mechanics.

The implementation of measures contained in the Strategic Plan would necessitate funds to the tune of Rs 1 billion, Rs 813 million for Mauritius and Rs 187 million for Rodrigues. The Strategic Plan will be finalised so that the bulk of the plan is implemented in the next two years. Government will employ consultants to assist in the implementation of the Plan.

Third, the Human Resource, Knowledge and Arts Development Fund with available resource of Rs 1.05 billion. About Rs 300 million have already been committed for the following projects:

(i) Scholarships to needy students;

(ii) Student Loan Guarantee Scheme;

(iii) Infrastructure Development, including a new Campus for Tertiary Education; and

(iv) a Second Chance Programme for youth who are not in full-time education or employment to upgrade their skills.

Fourth, the Local Infrastructure Fund with total resources of Rs 305 million. Rs 250 million have already been committed on projects in a wide range of areas including multi-purpose complexes, fish landing stations, market fairs, waterfront, crematorium and tartan track. The construction of the Rose Belle market at a cost of Rs 85 million has started. We are accelerating projects to also commit the remaining Rs 55 million within the next few months

Fifth, the Social Housing Development Fund with total resources of Rs 500 million. Rs 300 million have been committed. This includes the rehabilitation of NHDC estates and infrastructure for Social Housing and support for affordable housing to bring down the cost of mortgages.

Sixth, out of the Rs 500 million that was allocated to the Manufacturing Adjustment and SME Development Fund, Rs 400 million have been committed to finance some 51 projects under programmes managed by Enterprise Mauritius, SEHDA and the National Women Entrepreneur Council. SME's also will benefit from this facility.

Seventh, funds allocated to Airports of Mauritius and Airport of Rodrigues, Rs 1 billion and Rs 75 million respectively, have been fully committed. Work on both airports should start in the coming months, especially now that we have just secured confirmation from China that it will provide the required financing on concessional terms.

And eighth, the full Rs 250 million allocated to the Productivity Improvement Programme have been fully committed and should improve productivity of Government in the coming years through enhanced use of ICT and the provision of the latest software to the whole Public Service.

Of the Rs 6 billion of resources available, we are frontloading spending and almost half will be committed by June 2009. There is thus accelerated implementation, especially since some of these funds were meant to be spent over a period of five years and more. These will generate a significant amount of new income in the economy, both directly and indirectly, through the multiplier effect and should give us a better cushion against the adverse impact of the global recession.

But we must do the maximum to ward off the negative consequences of the global economic downturn. That is why, Government is presenting today, in addition to the creation of the six Funds, the expansionary budgetary measures taken earlier this year, the easing of monetary policy and the pass through from falling international petroleum prices, a strong additional stimulus package to shore up resilience and position Mauritius to ride the crest of the world economic recovery when it happens.

G. The focus of the additional stimulus:

(1) Fast-tracking and frontloading public infrastructure

The biggest boost that Government can give to the economy over the next two years is in the area of public expenditure on infrastructure. Government spending on infrastructure can have powerful stimulating effects in the short term as it will create jobs, generate more income, boost investment and in the medium to long term, it will enhance the attractiveness of Mauritius as an investment destination, improve the doing business environment and expand productive capacity. The two Committees set up by Government will therefore address the weaknesses in public project implementation, on all fronts and at their sources, so that we can speed up, bring forward and reprioritise public spending on infrastructure.

Government is selecting a mix of projects that consist of large ones of national importance, some medium sized ones that may require preparation time and will be implemented in the coming year and small projects that can be immediately undertaken. Government is also ensuring that small and medium sized contractors get a fair share of the projects. In addition to roads, the projects include building up local infrastructure in all regions of Mauritius and Rodrigues. Government will also invest to upgrade schools, hospitals and sports facilities and protect the environment. Government will also invest in a mini hydro project at La Nicolière, finalise the agreements in the energy sector; accelerate the tender via a PPP for a second power plant to meet energy demand, move ahead with Highlands and facilitate Tianli's investment. We are thus increasing spending on public infrastructure by an additional Rs 2.5 billion in 2008/09. This is over and above the Rs 7.2 billion provided for in the 2008/09 budget. For the two-year period January 2009 to December 2010, the value of spending on this programme is expected to be Rs 3.8. billion.

To support the process, Government is setting up mechanisms to improve implementation capacity that include:

(i) mobilising support from development partners to finance the Public Sector Investment Programme (PSIP);

(ii) setting up systems that can lead to major improvements in the pace of project implementation whilst ensuring value for money and mobilising resources to finance the maintenance and operation;

(iii) reviewing the role of the Technical Division at the Ministry of Public Infrastructure to give it the overall responsibility for coordination through a Programme Coordinating Committee (PCC);

(iv) using the Design and Build Procurement method which in other countries has successfully reduced the implementation time and also cut costs;

(v) facilitating the provision of infrastructure to leased sites. Government will automatically call back, after a fixed deadline, all non-performing leases which will be reallocated to productive uses;

(vi) reviewing procedures to streamline and accelerate the process for land acquisition; and

(vii) facilitating the implementation of projects through the advanced purchase of land required for the Public Sector Investment Programme (PSIP).

Improving the implementation process will contribute to Government's effort to accelerate investments with a total value of Rs 8.7 billion, out of which we expect to spend Rs 1.2 billion during 2009 and 2010.

Government has approved the Airport Master Plan. The design work has been completed and AML is in the process of launching the tender for extending the airport terminal with an estimated cost of about Rs 2 billion. We are also seeking financial support from our development partners for a second runway and conducting a feasibility study for its implementation.

The project to upgrade the airport at Rodrigues to international security norms is underway and will be completed next year.

In addition, a feasibility study is being carried out for a longer runway to allow bigger aircraft to land in Rodrigues.

Government is moving ahead with investment in Dr Jeetoo Hospital on which work will start next year with a project value of Rs 1.8 billion.

The Road Development Authority is accelerating, with World Bank institutional and financial support, the implementation of its road maintenance programme and is projected to spend an additional Rs 200 million in 2008/2009.

The construction of the Bus Way will be initiated with a projected expenditure over 2009 and 2010 of Rs 300 million.

Work on the Bus Lane on the M1 Motorway is expected to start in mid-2009 with an investment of Rs 200 million.

(2) New investments in public infrastructure

Government has also decided to make substantial new investments in public infrastructure to firm up the stimulus package and support the construction industry. Accordingly, an additional Rs 2.6 billion is being provided for public infrastructure, including Rs 1.8 billion for the road network. This is over and above what has been appropriated in the 2008/09 budget to finance new infrastructure over the period January 2009 to December 2010.

Government will improve the process for the acquisition of land required for public infrastructure projects, particularly roads. Instead of waiting for final project approval to acquire land, Government will henceforth begin the process as soon as a project is accepted in the PSIP. This will reduce implementation delays. We are committing Rs 2 billion to this programme over 2009 to 2010.

Rs 700 million will be invested to expand the single carriage way connecting Pamplemousses to Grand Baie into a dual carriage way. Work will start next year.

Rs 315 million will be spent to upgrade the Wooton/Quartier Militaire road and a feasibility study will be launched to decide the timing for its extension to Flacq as a dual carriageway.

Rs 235 million will be invested to build the Triolet bypass ; and

Rs 200 million will be invested on the Goodlands bypass.

A focus of our efforts is to upgrade the road network to make Mauritius an attractive service centre by linking Highlands to the coast whilst bypassing population centres, developing a ring road network and constructing an East-West link.

(3) Supporting infrastructure development in local authorities

Government is injecting another Rs 487 million in the economy for infrastructure development in local authorities across the country. Each municipality and district council will be allocated Rs 50 million.

As mentioned in the 2007/08 Budget Speech, history is a part of who we were, who we are and also who we will be. We must identify, list, preserve and protect, for our future generations, the historical and cultural monuments that are an essential component of our national heritage. In this context we launched a programme that started with the restoration of the Plaza. However, despite their best efforts the Town Council of Beau Bassin/Rose Hill has been unable to raise sufficient funds to complete the project. As part of this additional stimulus package, we are allocating an extra Rs 30 million to complete the renovation works on the Plaza.

In the same spirit, Rs 7 million will be allocated to complete restoration work on the Cathedral St Louis.

Government will make sure that these Rs 487 million worth of contracts are awarded in priority to small and medium sized contractors.

(4) Supporting infrastructure development in Rodrigues

Rodrigues will be provided Rs 50 million of additional funding to be used for a new market in Port Mathurin, the construction of the Winston Churchill Bridge and the upgrading of roads. This is in addition to the sums provided for the feasibility study on the new runway and for upgrading the airport.

(5) Upgrading public infrastructure in Education, Health, Environment and Sports

An additional Rs 500 million is being provided for projects that can be contracted out to local construction firms. It is expected that the work will go to small and medium sized contractors on a decentralised basis. The focus is to upgrade schools, hospitals, sports facilities and to protect the environment.

First, Rs 150 m will be used for Education to improve and upgrade schools.

Second, we are providing Rs 150 m to renovate hospitals.

Third, Rs 150 m for Environment and NDU will be used to protect the environment and improve drainage.

Fourth, Rs 50 million will be allocated for upgrading Sports facilities.

(6) Accelerating private sector investment

Besides public investment, a second offset to the slowdown in some traditional sectors will come from private investment including FDI. To this end, we are adopting the necessary legal and regulatory framework and accelerating the decision-making process. The next session of the National Assembly will be presented with a bill for regulating clinical trials. We have also proclaimed the Law Practitioners Amendment Act and passed the International Arbitration legislation which will allow us to expand the range of Business Process and Knowledge Process Outsourcing Services offered from our country. This legislation provides a framework to attract international law firms that will bring skills we need to export legal outsourcing services.

The BOI has approved some 15 private sector projects in the manufacturing sector where some Rs 1.7 billion will be invested, of which Rs 1 billion are FDIs, creating some 800 jobs. These projects include, amongst others, the building sector, a Commodity Exchange, a Diamond Exchange and a Paper recycling plant.

(7) New private sector investment

Government is giving the necessary clearance for the setting up of the Air Cargo Logistics Centre. It will also support a project to set up an airport hotel and business cum commercial centre. This will clear the way for the implementation of 4 major projects in the Air Cargo Logistics Centre for an estimated investment of Rs 1 billion.

Legal process outsourcing and Business process outsourcing offer potential for new business as firms in industrialised countries are under pressure to further cut costs. Moreover, we can benefit from investment in clinical trials and develop the education hub including medical training.

To attract FDI in these specific areas we are providing the Board of Investment with an additional Rs 25 million for marketing and promotion.

(8) Further improving business facilitation

In the area of business facilitation which is crucial to investment and to attract foreign businesses, Government is finalising the Guidelines for permanent residence to be issued to eligible investors, professionals as provided in the Finance Act 2008. These regulations will be in force by end January 2009.

Government is also giving permanent resident status to purchasers in Real Estate Scheme (RES) developments provided they buy a property worth at least US$ 500,000.

We will maintain our momentum to further improve on the progress made in the World Bank Ease of Doing Business Survey moving up from 32nd in 2006 to 24th this year. We are continuing to streamline regulations and have mobilised expertise to draw on international best practices to modernise licensing procedures in four ministries, namely Agro-Industry, Finance, Health and Tourism which collectively issue some 440 different licenses.

(9) Building human resources capacity

The next area to which we will allocate resources in the medium and long-term is building human capacity. In both the public and private sectors, there is a dearth of skills and expertise that hinders project implementation, undermines the country's competitiveness and constrains growth potential. We have already introduced reforms to make the labour market more flexible. These reforms are vital but not enough. Government recognises the need to act on human capacity as well.

To this end, the framework for autonomous campuses has been approved and the guidelines posted on the website of the Ministry of Education. This has the multiple objectives of opening greater access to tertiary education for students, create jobs for graduates and researchers, attract expertise from other countries and make of Mauritius a centre of excellence for the region. It will also open the way to an investment potential of Rs 1.2 billion over the next two years.

To encourage the building of knowledge and human capital, Government is exempting loans contracted by an individual for educational purposes from payment of registration duty on registration of the loan agreement.

We are also approving the clinical training framework that the Tertiary Education Commission has worked out for medical, dental and nursing colleges.

And Government will approve the allocation of public hospitals to medical schools for training. These policy measures will facilitate the setting up of 3 medical colleges, representing investment exceeding Rs 1 billion.

(10) Supporting vulnerable sectors

As an open economy, we are directly dependent on developments in the rest of the World. Moreover, as a small player in the international market we have to adapt to changing circumstances. Our Export Oriented sectors, particularly textiles and tourism are the most severely hit by falling demand. This can be compounded by adverse and volatile cross-currency movements over which we have no control.

Domestic Oriented Industries are also vulnerable. As international prices fall, they may find it harder to be competitive on the domestic market. In addition, a weakening export sector will adversely impact these enterprises.

SMEs may face particular difficulties in responding to the adverse environment due to their size and lack of expertise.

As firms of all sizes across the entire economy are affected, Government response will be equally wide in scope but well targeted to those in need.

(11) Manufacturing and Export Sector

First, for export oriented firms, we will give assistance to make up for falling demand in Europe. We will set up a representation unit to provide marketing back-up and marketing intelligence to support companies in the US market to take full advantage of AGOA including the derogation under AGOA for textile and apparel firms.

Second, we will put in place a package tailored to the needs of tourism as outlined below.

Third, to give a breathing space to the domestic oriented industries serving consumers, Government will, in 2009 and 2010, freeze its plan to lower import duty to make of Mauritius a duty-free island. However, this suspension will not apply to inputs needed by the productive sector such as construction.

Fourth, the Bank of Mauritius will introduce a foreign currency line of credit for banks to enable them to cope with demand in case the normal sources of supply dry up.

Fifth, Government is accelerating the implementation of the Manufacturing Adjustment and SME Development Fund. Rs 400 million have already been committed out of Rs 500 million towards the widest possible range of support benefiting some 51 projects, mainly SMEs including women entrepreneurs. These include

- upgrading of Standards, Quality and Packaging for export readiness;
- Productivity and Competitiveness Improvement;
- Market Intelligence and Export Promotion;
- Equipment Modernisation Scheme
- Market Development and Marketing,
- Market Diversification
- product development.

Sixth, the remaining Rs 100 million will be used to provide direct support to SMEs that require assistance with liquidity or to restructure. Enterprise Mauritius will assist SMEs to develop a plan that can qualify for financing to meet the challenges arising from the crisis.

Seventh, Government will help firms on three main fronts:

- to reengineer to become more competitive and to ensure their long term survival;
- to improve access to financing, in particular working capital, at concessionary interest rates; and
- to restructure their debt

The Manufacturing Adjustment and SME Development Fund will have its mandate broadened to include support for the export of services. Government will raise its contribution to Rs 1 billion by injecting an additional Rs 500 million. In parallel, Commercial Banks will provide additional facilities worth at least Rs 500 million. In all there will be at least Rs 1 billion of new financial resources to support the Manufacturing sector and tourism. These facilities will be made available on a temporary and targeted basis for the period 1 January 2009 to 31 December 2010. This fresh financing will be used to implement a Mechanism for Transitional Support to the Manufacturing Sector including textiles with three components:

- Equity Support
- Liquidity/Working Capital including guarantee for bank support
- Asset purchase, swap or lease back for asset rich but cash poor enterprises

Those firms that need to restructure to face the intensifying global competition and the difficult time ahead will be given support through direct equity participation by Government.

Firms seeking assistance will have to prepare a credible reengineering plan that ensures the return to profitability once the international crisis is over. In the case of SMEs, Enterprise Mauritius will assist in the preparation of such a plan. The plan will be submitted to a consortium of the creditor banks with the most important creditor acting as the lead bank.

We have already launched the first restructuring efforts with burden sharing via an equity stake to enable the takeover of an enterprise that faced closure. Also, we have worked with the banks to ensure that a firm facing liquidity problems can meet its payroll. We are also designing a package that would allow Government to assist an asset rich but cash poor firm.

Banks will provide financing for restructuring the balance sheet of firms, including injection of additional liquidity when required. The additional financing will be provided at a concessionary rate not exceeding the savings rate, currently about 5.5 percent. Depending on the circumstances the rate could be well below the savings rate. To accommodate these operations, the Bank of Mauritius will if necessary relax the rules relating to impaired assets for these targeted firms for the crisis period.

Government will either match the additional financing provided by the banks and the shareholder in the form of redeemable and convertible preference shares remunerated at 5 percent annually or provide a guarantee for 50 percent of the additional financing given by the banks.

The Bank of Mauritius will lower its required reserve ratio by another percentage point, from 5 to 4 percent in stages. This should eventually inject another Rs 2.5 billion in the banking system. We expect the liquidity released to contribute to the operation of the special lending facility.

For asset-rich but cash-poor enterprises in the manufacturing and tourism sectors, Government is creating a Special Purpose Vehicle to acquire and hold assets in those enterprises. This sale and lease back mechanism will enable them to make use of their assets to raise finance. These enterprises will be given the opportunity to buy back their assets in the future. We are launching the scheme with an injection of Rs 500 million for this purpose.

To oversee the system the Ministry of Finance will chair a Committee comprising the Bank of Mauritius, the Ministry of Industry, the JEC and the MBA.

(12) A social contract: Government expectations

The plan formulated by these enterprises and presented to Government for financing by the lead bank must include several critical elements.

First, an effort is required by the shareholders and management in the form of any combination of equity injection, asset sales and cuts in operating costs, particularly management pay, benefits and perks.

Second, there must also be a commitment to preserve employment either within the firm or by redeployment.

Third, there can be no dividend payments until all preference shares held by Government are redeemed.

Fourth, the preference shares still held by Government after five years will be automatically converted into ordinary shares.

Fifth, Government may appoint a representative to the Board where it deems this helpful to ensure that the restructuring funds are well spent.

Sixth, there will also be an obligation for regular reporting to the Committee overseeing the system.

(13) Enhanced role of Empowerment Programme

To give maximum protection to workers in that sector, MEXA and the National Empowerment Foundation (NEF) will establish a programme to reskill textile and apparel workers who could lose their jobs for placement in other sectors. In parallel, the Ministry of Labour will work with the National Empowerment Foundation and the JEC to set up a mechanism to generate early warning of possible redundancies so that the NEF can come up with an appropriate response plan.

The NEF is working with the Ministry of Labour to kick start a Cité des Métiers that will improve the capacity to match labour demand to supply. The Cité will offer enhanced counselling to orient first time job seekers and those being reskilled to employment opportunities. NEF will then assist with finding the appropriate job placement and work with training institutions and employers to build up the required skills.

(14) Tourism

Tourism is another sector which is vulnerable to the global economic downturn. The airlines, hotels and tour operators will be affected. There is already evidence of lower growth in tourist arrivals which, combined with falling prices constitute a challenging situation. Government's concern is not only about the lower income that will be generated in that sector but most importantly about protecting employment. As explained above, Government will support enterprises in the tourism sector that are in difficulty, provided employment is protected. Government will implement the following measures:

First, starting 1 January 2009 and until 31 December 2010, hotels will pay the Environment Protection Fee only if they show a profit at the end of their financial year. Currently, this fee is applied on turnover irrespective of profitability.

Second, the Temporary Solidarity Levy will be suspended from 1 January 2009 to 31 December 2010.

Third, to ease the liquidity for companies subject to the Environment Protection Fee, payment will be effected at the end of the financial year instead of every month.

Fourth, tour operators will be allowed to sell their duty free vehicles within the first four years of purchase and pay duty on a pro rata basis rather than reimburse the full amount of duty.

Fifth, Government is increasing the promotion budget of the Mauritius Tourism Promotion Authority by Rs 100 million. The additional fund will be used to finance promotion to raise our visibility in existing markets such as South Africa and other short and medium haul destinations. The funding will also be used to attract visitors from the upper market segments of India and to carry out intensive marketing campaigns in markets with great potential, including Russia, China, Nordic countries and the East European nations.

Sixth, Government is organising special promotion campaigns at the thirty five points now served by Air Mauritius under code sharing agreements with Air France and in China for the code share agreement with Malaysian Airlines.

Seventh, MTPA is also appointing Public Relations/marketing representatives in some new markets which have potential to diversify our tourism base.

Eighth, all airlines will be exempted from the contribution to the MID Fund from 1 January 2009 to 31 December 2010.

Ninth, as part of the social contract with the Tourism Sector, AHRIM and the Empowerment Foundation will work together on a training programme to avoid layoffs in particular, among the 70 percent of employees of hotels that are below managerial ranks. There will be no layoffs without prior consultations with the Government and a plan for retraining.

(15) Sugar

The sugar industry will during the coming year have to face a further cut of 21 percent in the price of sugar, resulting in a cumulative decrease of 36 percent. The industry faces further pressure from the phasing out of the Sugar Protocol. The 21 percent reduction amounts to some Euros 140 per ton of sugar. In these circumstances the reform of the industry must be accelerated.

First, Government is developing a programme to be announced early next year for maintaining the financial equilibrium within the Cess financed institutions following the cut in revenue from sugar. This measure will benefit planters.

Second, Government is formulating a scheme to redeploy surplus labour from Cess financed institutions to fill vacancies in Central Government and para-statal bodies for funded positions.

Third, to accelerate fine de-rocking, mechanization and transport, Government is developing a programme to encourage participation of small and medium enterprises. The scheme will ensure that these SMEs are awarded contracts which will enable financing from the banking system, leasing companies and the SME Partnership Fund. It will also entail a performance bonus. The project value of works to be outsourced is estimated at Rs 200 million for 2009 and 2010.

Fourth, to increase the income of planters, sugar will no more be a controlled item for the purposes of the Consumer Protection (Price and Supplies Control) Act.

Fifth, the present system of land conversion does not allow for relocation of projects on different sites than initially approved. Henceforth, applications for relocation of new projects will be entertained. The process for obtaining the land conversion permit will remain unchanged.

Sixth, the current system of land valuation for conversion purposes is time consuming and imposes an undue administrative burden as it requires the valuation of each and every plot. Henceforth, Government is introducing a simple, transparent and rule-based method through the determination of an average net realisable value.

(16) Construction

As a result of work carried out by the Committee on Resilience, impediments have been removed to allow hotel construction and IRS and RES projects. This will mitigate the impact of the crisis on construction. Major IRS projects that will now be implemented in the course of 2009 and 2010 include River Club, Corniche Bay, Barachois villas, Matala property, Bouigue Development and Dolphin Coast Marina Estate. Together they involve investments of some Rs 15 billion over the next two years and the construction of 750 residential units and other facilities.

The Board of Investment has also given a spur to investment under the Real Estate Scheme where 10 projects worth Rs 4.8 billion and constructing 1,900 residential units and ancillary facilities such as commercial space, restaurants, fitness centres and club will start in 2009 and 2010.

To give a further stimulus to that sector we are removing the requirement that land should have been purchased 5 years in advance before being used for development under the RES. Henceforth there will be no such ownership requirement.

Acquisition of a residential property under the Integrated Resort Scheme (IRS) and the Real Estate Scheme (RES) can henceforth be made in any hard convertible currency, including the South African Rand. Currently, payment may be made in US Dollars, Euro or GB Pounds Sterling.

Moreover, for the period up to 31 December 2010, all IRS villas will pay the minimum duty of USD 70,000.

The construction industry should get another major boost as work starts on the Tianli Project. The promoters should begin construction early next year after finalising their financial documentations. Government, on its part, has initiated construction of the access road that will link the Mauritius Tianli

Economic & Trade Cooperation Zone to the motorway. Offsite utilities infrastructure are also due to start as from April 2009.

The Highlands project constitutes a further big potential for the construction industry. Following road shows in India, South Africa, Middle-East and Europe, requests for qualifications have been sent to 65 potential developers with a deadline for submission set at 16 January 2009. So far, seven developers have confirmed their intention to submit the request for qualification documents by the deadline. As soon as this phase of the process is completed, Government will expedite the procedures and its implementation.

To give additional support to the construction industry, duty on iron bars in coils imported by registered contractors will be reduced from 15% to 7.5% from 1 January 2009.

As an exceptional measure to help the construction industry, the land transfer tax and registration duty will be suspended for the period 1 January 2009 to 31 December 2010 for approved projects undertaken by developers to be registered with the MRA in respect of land for a development project, provided at least Rs 50 million of construction works are completed before 30 June 2011. This measure will not apply to IRS projects.

Land transfer tax will be allowed as a deduction for income tax purposes.

For all public sector construction projects, a higher preference margin will be given to local and foreign companies employing Mauritian workers. The Ministry of Labour will establish guidelines and closely monitor the situation. We urge the private sector to adopt a similar approach over the coming two year period.

We also expect the construction industry to pass on the benefits of this package of measures and the lower cost of materials, including diesel and iron bars, to consumers.

(17) Financial Services

The Global Business Sector is also vulnerable to the international crisis. The financial institutions which operate in our jurisdiction may be hit by the problems faced by the failures in the finance sector across the world. Moreover, the volume of business could be affected by the credit crunch, by the fall in FDI flows to emerging markets that are served from Mauritius and by the reduction in the value of wealth.

At the same time, there may be opportunities to mobilise new business if we reinforce the sector and provide credibility to our jurisdiction. The FSC is working with stakeholders in this direction. They plan to come up with recommendations to enhance the competitiveness of the Mauritius Financial Services Centre.

However, we also need to ensure that we preserve the reputation of Mauritius as a well-regulated financial centre. Some OECD countries are holding the offshore centres as being partly responsible for the financial crisis. This could result in a new list of countries that are classified as tax havens. Government is taking several initiatives to keep Mauritius off such a list. The Vice Prime Minister and Minister of Finance has recently held talks with the OECD, France and Germany to confirm that Mauritius is a well-regulated and transparent jurisdiction in addition to being cooperative in effective exchange of information. Mauritius also ensures that substance and value added is generated from the Global Business Sector.

Mauritius is actively participating in the relevant subgroup of the OECD to create a level playing field with regards to transparency and exchange of information. We are sustaining this campaign.

Government has also introduced a new Insolvency Bill that incorporates provisions to facilitate the deployment of new financial instruments. The enactment of the Bill will attract international business by modernising the process for restructuring firms and dealing with insolvency.

(18) Freeport

We are working with the stakeholders to find ways to reduce costs with a focus on improving port infrastructure and logistics. Acceleration of the implementation of the Port Masterplan will have the added benefit of supporting economic activity. In addition, we expect to secure efficiency gains from the selection of a strategic partner for the Cargo Handling Corporation (CHC). The International Finance Corporation (IFC) has started its due diligence process and submitted an inception report. This should provide the basis for the CHC to launch a request for proposals to identify a strategic partner.

The transitional provision for income tax exemption for Freeport Operators will be extended by two years.

(19) Seafood

The Seafood Hub is an important source of growth and offers good potential for further diversifying exports. However, it may also need support during the challenging times ahead. To assist the sector we are implementing 3 measures.

First, the competent authority for issuing health certificates to the EU will be properly equipped, including the food laboratory. It will be led by an efficient team.

Second, the auction market for the sale of fish will be set up in 2009.

Third, to protect market access for our tuna, we are working to finalise the Mauritius-EU Fishing Agreement.

(20) ICT

The ICT sector is proving to be more resilient than most other sectors. The global economic downturn has increased outsourcing to Mauritius. As a result firms operating in that sector, in particular the ITES/BPO enterprises are increasing employment and looking to a strong growth performance in the coming year. Our strategy therefore is to support that industry as it takes advantage of the more favourable market conditions so as to maximise offsets to the adverse impact in other sectors. To this end, we are setting up the Data Protection Commissioner's Office. The Data Protection Act will be amended at the first opportunity in the next session of the National Assembly to conform with EU rules to make Mauritius a recognised jurisdiction. This will open opportunities for more upscale investment in the sector.

All issues standing in the way of the utilization of our Satellite Orbital Slot have been addressed. ICTA will start a coordination exercise with the International Telecommunications Union and a call for Expression of Interest will be launched for Commercial exploitation of our Satellite Orbital Slot.

In line with Government policy, the ICT Authority has determined a reduction in the wholesale bilateral half-circuit tariffs for International Private Leased Circuit (IPLC) of the order of 35%, on average to be implemented on 1 January 2009. This is primarily intended for the Information Technology Enabled Services (ITES) sector which includes the BPO and Call Centre operations. It will reduce the cost of operation of companies operating in the ITES to enhance their competitiveness.

On the basis of the lower IPLC price, Internet Service Providers (ISP) will be able to offer consumers lower prices on ADSL. Their proposals should be rapidly processed by ICTA. In parallel, MT is investing in upgrading the internet infrastructure to provide a better internet experience to users including higher access speeds. We expect lower prices to be offered to consumers by March 2009, associated also with an improvement in the service.

H. Protecting the population

The surest way to protect the population in these uncertain economic times is to preserve its purchasing power. The stimulus package will achieve this by protecting employment and putting more people in jobs. In fact, in 2008 net employment creation has reached a record 10,000 as opposed to around 8,000 in the previous two years and 3,000 in 2005. This is a sign that the benefits of economic resilience is flowing to the entire population. The centrepiece of the additional stimulus package for 2009 and 2010 is a social contract to keep jobs and maintain family income. The other focus of our approach is to bring down prices. In fact, both employment protection and lowering of prices are objectives that Government is asking enterprises to deliver in exchange for benefitting from public support.

Concerning prices, Government has requested the trading community and the MCCI to ensure that declines in the prices of food and other commodities are passed on to consumers. In this regard, we should recall that last year the price of flour reached record levels due to poor harvests and high worldwide demand. If we had not intervened as a caring Government, the price would have risen to Rs 10.20 per half kg. As a result of a cross subsidy operated by STC, Government kept the price of flour to Rs 6.90 per half kg. The subsidy amounted to Rs 683 million.

Similarly, without a subsidy, the price of LPG would have been around Rs 550 per 12 kg cylinder. The price to the consumer has been kept at Rs 315 because of a subsidy of Rs 614 million.

In spite of huge accumulated losses by the STC due to the high level of cross subsidies on flour and cooking gas, Government is taking steps to ensure that the population benefits from falling international prices. The following prices will be effective as from Monday 22 December 2008.

i) First, the price of flour will fall by 15 percent from Rs 6.90 to Rs 5.85 per half kg;

ii) Second, the price of Bread 100 gram will be reduced by 5.67 % from Rs 2.65 to Rs 2.50;

iii) Third, the price of LPG will drop by 5 % from Rs 315 to Rs 300 for a 12 kg cylinder;

The above prices will still require subsidies in excess of Rs 350 million based on current international prices and the parity of the US$.

We expect the prices of goods that use flour as ingredient to fall as a result of the 15 % decrease in the price of flour

I. <u>Financing the package</u>

The package will be financed by a combination of measures.

First, we are shifting resources from lower priority items to meet the needs of sectors under pressure.

Second, we are also tapping into the Rs 1.8 billion of contingency already appropriated in the 2008/09 budget by the National Assembly as part of our precautionary actions in June.

Third, we are mobilising resources from the 6 Funds by accelerating commitments over 2 instead of 5 years.

Fourth, we are benefitting from the reduction in public debt service as a result of lower interest rates. We are projecting savings of Rs 400 million on this item for 2008/09.

Fifth, we will also appropriate additional funds as required in the context of the two budgets programmed in June and November 2009.

Sixth, if required, we will request the National Assembly to appropriate the necessary funding under a Supplementary Appropriation Bill.

Seventh, Government will closely monitor the outturns on expenditure and revenue and keep track of the outputs and outcomes from the interventions under the additional stimulus package.

J. Conclusion

In a world that is changing very fast, we need to diversify and be versatile. Our new development model has achieved this. It has built resilience into our economy but not immunity. In times of severe external shocks, as we are seeing now, no country can have immunity. We are in fact experiencing the black swan phenomenon. We have seen, in these past fifteen months, that the perceived impossibility can actually come to pass. We have been witnessing negative events with low probability but with amazingly large impact. The mere scope and magnitude of the financial crisis and downturn in the global economy are beyond the realm of normal expectations. The biggest banks and insurance companies in the world can go under and all at about the same time. Only a year ago analysts were talking of a decoupling of the world economy from the US economy. Today, it is clear that this is not true. The US is resorting to state interventionism on a scale never thought possible. In such a world, Mauritius needs to be doubly vigilant and ever prepared to respond positively to the unexpected.

Government is stepping out of the box to support enterprises and the population through these very turbulent and uncertain times. The additional economic stimulus package offers a social contract that is fair and well balanced. It is designed to mitigate the impact of one of the worst global economic decline in decades, the depth of which we have not yet experienced and the duration may be long. But at the same time, the extra efforts being made by Government should not be construed as a give-away to ailing businesses. There must be an equal commitment by the enterprises to restructure, to become more efficient, to maintain employment, to bring down costs and pass on some of the efficiency gains arising from Government stimulus package and policies to the population.

Taken together, the various actions amount to an additional stimulus of some Rs 10.4 billion, equivalent to about 3.8 per cent of GDP. We expect the package to unlock an extra 1 to 1½ percent growth annually.

However, we must recognise that while we are standing prepared, the ultimate solutions to the global economic downturn lie in the ability of the economic powers of the world to restore confidence and boost consumer spending. The G20 makes up 85 percent of the world economy. It has come up with a road map to recovery that calls for collective, comprehensive and concerted actions. We hope that they will implement their decisions and that they will be able to face down the credit crunch, restore consumer and investor confidence and get the world economy back to a growth path.

We are confident that our additional stimulus package is comprehensive, pragmatic and realistic enough to lead our people and our economy safely through that difficult and challenging period. Our response is decisive enough to ensure that Mauritius shores up its economic resilience.