

**ORAL ANSWERS TO QUESTIONS****INTERNATIONAL ECONOMIC CRISIS**

**The Leader of the Opposition (Mr P. Bérenger)** (*By Private Notice*) asked the Minister of Finance and Economic Empowerment whether, in regard to the international economic crisis and its impact on Mauritius, he will state the –

- (a) revised Gross Domestic Product for 2008 and 2008/2009;
- (b) figures, compared to the same periods of 2007, for
  - (i) goods exports for the third quarter 2008;
  - (ii) tourist arrivals and earnings for October 2008;
  - (iii) Foreign Direct Investment for the third quarter 2008, and
  - (iv) net International Reserves and import coverage for September and October 2008, and
- (c) sums disbursed to date from the funds set up under the Supplementary Appropriation Act of June 2008, indicating if he proposes to accelerate the disbursements.

**The Vice-Prime Minister, Minister of Finance and Economic Empowerment (Dr. R. Sithanen):** Mr Speaker, Sir, with your permission, since the PNQ and the PQ Nos. B/1226, B/1227 and B/1228 all relate to the impact of the international economic crisis on Mauritius, I shall reply to them simultaneously.

Mr Speaker, Sir, since the past 14 months, the world has been engulfed by one of the worst financial crises in many years, if not decades. What started as a crisis in the sub-prime mortgage market in the United States rippled throughout the major financial centres of the world, sending giant financial institutions into financial mayhem, some of them collapsing. The crisis took a turn for the worse some four months ago when the financial institutions that have been involved in sub-prime lending and their derivatives began to report heavy losses, unable to continue operating without being bailed out. Commercial banks, investment banks as well as

insurance companies world-wide were rocked by the crisis, creating a severe credit crunch in the US, Europe and Asia, crashing equity markets, pushing commodity prices down, undermining consumer confidence and driving major economies into recession and some even to the brink of collapse.

Mr Speaker, Sir, however our economy has been remarkably resilient throughout the financial crisis itself. As regards the forecast for 2008, the Central Statistical Office is expecting a GDP growth rate of between 5.3 and 5.4 percent, only slightly down from its forecast in September of this year of 5.6 percent. Moreover, all sectors are projected to do well, in the circumstances, with rates of growth of 2.5 percent in textiles; 3.5 percent in tourism; 5.5 percent in sugar; 7.7 percent in real estate; 7.8 percent in the financial sector; 8.1 percent in transport and communications and 15 percent in ICT and 11 percent in construction.

Regarding 2008/09, the CSO publishes data only on a calendar year basis and is compiling data for calendar year 2009. This exercise is particularly complicated this year due to the volatility of the international situation with very little visibility and clarity beyond one quarter. Developments in the world economy will depend on the package of measures to be adopted by the Obama Administration once it takes office and the consensus to be generated at the meeting on November 15 in Washington DC of the main economic powers, i.e the G20. This uncertainty is also affecting forecasts by the IMF, the OECD and major developed countries like France with both organizations frequently updating estimates, so far with negative corrections.

Mr Speaker, Sir, staff of the Ministry of Finance usually works with the CSO and the Bank of Mauritius to prepare financial year data as part of the budgetary exercise. Different scenarios are being worked out due to the uncertainty and lack of visibility beyond the next quarter. As the international response becomes clearer and as we get closer to the next budget, we will narrow the range of estimates for financial year 2008/09. Meanwhile, the staff is closely monitoring international developments and refining various scenarios to underpin its final projections.

Mr Speaker, Sir, in spite of the global recession, growth in Mauritius is higher than in most other countries and significantly more robust than the economy we inherited in 2005 when the external environment was favourable to growth.

Mr Speaker, Sir, compared to the same periods of 2007, for the third quarter –

- goods exports have risen from Rs17.6 billion to Rs18.2 billion.
- Tourist arrivals have risen from 212,708 to 218,406 and earnings have remained at about Rs9 billion. However, earnings for the month of September 2008 – we don't have the figures for October 2008 yet - are higher by 12.1 % compared to same month last year. Cumulative figures for January to September 2008 show an increase in tourism arrival of 4.6% in 2008 compared to 2007.
- FDI for this quarter has increased from Rs2.7 billion last year to Rs3.6 billion this year, that is, a rise of 33 %.

Net international reserves in September 2008 amount to Rs80.3 billion, representing around 33 weeks of imports. However, Mr Speaker, Sir, the import cover results from the calculation based on the value of the import bill for fiscal year 2007/08. This does not take into account falling prices of freight, commodities, food, energy and metal which will obviously be reflected in the Balance of Payments for next year.

Mr Speaker, Sir, this good performance, as a result of our bold reform programme, needs to be contrasted with the performance that we inherited in 2005. Across the board, indicators for 2008 are much better than in 2005, notwithstanding the extremely difficult international environment.

- FDI has increased from Rs2.8 billion for the whole of 2005 to Rs7.2 billion for the first three quarters of 2008;
- Reserves have increased from Rs63.7 billion in September 2005 to Rs80.3 billion in September 2008;
- Net employment creation has grown from 3,000 jobs annually in 2005 to 11,000 projected for this year;

- Investment as a share of GDP has risen from 21.4 percent in 2005 to 25.4 percent in 2008.
- Tourism arrivals from 761,063 in 2005 to 940,000 projected for 2008.
- Exports have expanded from Rs63.2 billion to a projected Rs68.5 billion.

Mr Speaker, Sir, this resilience is due mostly to an investment/GDP ratio that would rise for a third consecutive year to 25.4 percent, driven mostly by private sector investment including foreign direct investment. Consumption by households will rise to 72.4 percent of GDP. As a result of the rising investment and higher GDP growth, this year net employment creation will go up by 11,000 in contrast to 8,400 last year, to 8,000 in 2006 and 3,000 in 2005.

Mr Speaker, Sir, two main reasons underline our good performance. First, it is the soundness of our financial system. Second, it is the effectiveness of the reforms we have been implementing for the past three years.

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. Moreover, our financial system is well regulated, solid, and has ample liquidity to meet the financing needs of the economy. One exception is the stock market where normal corrections from record highs have been exacerbated by fear in major markets across the globe. However, even here the declines in our stock market since the failure of Lehman Brothers in mid-September 2008 have been lower than in most major and emerging markets.

Our reforms which constitute the second underlying strength of our country have opened the economy and made it more versatile and dynamic so that we have potential offsets to declines in traditional sectors and traditional partners. At the same time, our reforms have put us on the path of fiscal responsibility and given us the fiscal space required to deal with the crisis.

Our public sector debt has fallen from 69.6 percent of GDP in June 2005 to 57.9 percent of GDP in June 2008 whilst the budget deficit has declined from 5.3 percent of GDP in 2005/06 to 3.4 percent of GDP in 2007/08. Additionally, we have also cleared almost Rs6 billion of out of budget expenses that were left in the closet. Indeed, we are using some of this fiscal space in crafting the last budget to be ready in case the international situation worsened. We have set aside almost Rs5 billion in several funds and built into the budget a contingency of almost Rs2 billion. This provides significant ammunition to stimulate the economy with investment in public infrastructure and in our people via education, training and reskilling.

It is clear that our financial system has come out unscathed by the financial turmoil and our economy has resisted its initial adverse impact. Meanwhile, global demand for goods and services is under pressure, especially with countries like the US, UK, Germany, France, Japan, and even robust Singapore experiencing a severe economic contraction, with India and China experiencing economic slowdown and other countries including, Hungary, Ukraine, Iceland, Georgia, Seychelles and Pakistan on the brink of economic collapse.

Open economies like Mauritius, with most of its trading partners in recession, and relying on exports of textiles, sugar, and tourism as mainstays of the economy would obviously face important downside risks to its growth. Our economy is resilient but not immune. And in the face of such a major challenge the resilience of our economy must be nurtured.

Mr Speaker, Sir, in addition to our prudent macroeconomic strategy, our response to the crisis has been pre-emptive, decisive and quickly reactive. We have been prudent by creating fiscal space through lower debt and lower fiscal deficit. We already anticipated some of the problems during the budget preparation in early May. Consequently, we took some insurance through an expansionary budget, the creation of many special funds totalling Rs5 billion to stimulate investment, the full payment of the PRB report in one go and the creation of a contingency of Rs2 billion in the 2008/09 budget.

In the past two months, myself and officials of my ministry have been meeting with all key stakeholders in both the public and the private sectors to assess the situation in both domestic and export oriented industries, including among others, textiles and garment, tourism, banking, financial services, global business, fisheries, seafood, ICT, sugar, agro-industries, construction, jewelry and shoe manufacturing. We have met with large enterprises as well as SMEs and are also monitoring the flow and projections of FDI.

Mr Speaker, Sir, operators in the textiles and tourism industries will be facing a difficult situation. Some are already facing a difficult situation. They reckon that the year 2009 could be very testing, depending on the depth, breadth and duration of the recession in trading partner countries. Global business also will be adversely affected from the effects of declining wealth and the uncertainty surrounding the global economy. The ICT sector, however, is showing tremendous resilience even expecting higher growth due to some positive impact of the recession on outsourcing activities. Construction could go either way: if we can remove bottlenecks slowing private investment and accelerate public investment projects, the sector should maintain its positive impact on GDP growth next year.

Overall, all our sectors would be exposed to the global economic downturn and its impact on textiles and tourism could obviously have multiplier effects on other sectors of the economy.

There is, however, Mr Speaker, Sir, poor visibility beyond the next three months on how the situation will evolve. This accentuates the uncertainty and makes forecasting very difficult. We, therefore, have to rely on scenarios, from the prudently optimistic to most likely the worst case, and stand prepared for the worse which could be a protracted, broad and deep global recession.

The global economic performance will depend to a large extent on the effectiveness of policy responses worldwide to provide the financial system with the liquidity and funding that the economy needs and measures to act on the psychology of consumers and of investors so as to restore confidence. At the IMF/World Bank meeting last month, there was wide agreement that there should be a global response to the crisis, which should be speedy, comprehensive, flexible and coordinated. The strategy is for expansionary

fiscal and monetary policies so that there is, first of all, an adequate flow of credit to finance consumption and investment expenditures and to bring back consumer and investor confidence. The election of Senator Barack Obama and the meeting of the major economies in Washington on November 15 set the stage for the global coordinated response that is required to begin to have a positive effect on sentiment of investors and consumers. However, Mr Speaker, Sir, the challenges are enormous and progress could be slow.

Our own response to hold off the negative impact of the global economic downturn is to join the international movement and pursue expansionary macroeconomic policies as well, especially now that the balance of risk is clearly on growth. In fact, Mauritius is ahead of the curve in terms of expansionary fiscal policy. As I explained earlier, with foresight during the budget we have presented an expansionary budget this year and other countries are doing it now.

The Supplementary Appropriation Act of June 2008 provided instruments to sustain an expansionary fiscal policy. A total of Rs4.4 billion was appropriated with another Rs1.3 billion appropriated for new funds in the 2008/09 Budget. These appropriations address major policy issues, including food and energy security, infrastructure development, promoting education and arts, and for productivity improvement. We have also implemented the PRB report in full this year, injecting some massive Rs5.2 billion in the economy. And we estimate that the supply response to public infrastructure will need an investment estimated at Rs125 billion over the next decade. In addition, the implementation of the Tianli Project will inject another Rs20 billion in the economy in the coming years. Out of the Rs500 m. in the Manufacturing Adjustment and SME Development Fund Rs450 m. are being committed to finance restructuring and expansion of SMEs on a demand driven basis. I have also agreed to release additional funds to support the tourism sector, especially with respect to product and market development so as to enhance the resilience of that sector.

Mr Speaker, Sir, to date, we have committed a total of Rs1.8 billion from the Supplementary Appropriations voted in June 2008 and the additional amounts voted in the 2008/09 Budget. We have also disbursed Rs1.3 billion as of October 2008. Moreover, we expect the pace of commitments and disbursements to pick up as the committees managing the various Funds move ahead with the definition of their strategic plans and implementation of the agreed measures. We are also taken steps to

streamline processes to accelerate the commitment process and disbursements. In addition, I am chairing a Committee that will further examine bottlenecks that stand in the way of rapid implementation of public investment.

Mr Speaker, Sir, the stance of the Monetary Policy Committee of the Bank of Mauritius complements our expansionary fiscal policy. We welcome the decision taken at its last meeting to lower the repo rate by 50 basis points. This should lower the cost of credit and make it easier for firms to overcome the effects of the global recession. The lowering of the cash reserve ratio from 6 to 5 percent by the Bank of Mauritius should free some Rs2.5 billion in the banking system for commercial banks to on-lend to productive sectors. We have set up a committee comprising representatives of the Ministry of Finance, of the Bank of Mauritius, and the Mauritius Bankers Association to ensure that the liquidity injected in the system through the lowering of the cash reserve ratio is used to provide credit to investors and to enterprises that need working capital and need financing for restructuring.

The recent 15 to 20 percent cut in the prices of fuel oil, gasoline and mogas through the Automatic Pricing Mechanism is another major source of cost reduction for our enterprises, for the transport industry and for all consumers. This should be followed over the coming months by cuts in the prices of many food items and in the cost of commodities and construction materials.

Mr Speaker, Sir, not only have we acted with foresight, but we have also acted swiftly as it became clear that the risks that concerned us were in fact materializing. Our comprehensive package of measures has kicked off our plan to nurture economic resilience and to stand prepared for the global economic slowdown. The Prime Minister has announced our plan to fast-track public and private sector investments so that next year we maintain capital formation on a rising trend. To the same end, we will frontload, wherever possible, public investments in infrastructure. These will be part of a broader stimulus package to stave off the negative impact of the recession as well as to stand prepared to harness fully the positive impact of the global recovery when it happens. Here again, we are acting with foresight. Our policy emphasis is on investment, growth and employment creation to reach our goal of full employment.

Two Ministerial Committees have been set up to analyse the situation and to propose remedial measures where possible. One committee on nurturing resilience is chaired by the Prime Minister and supported by a Technical Committee chaired by the Secretary to Cabinet. And, as I mentioned earlier, the second committee on Human Capacity, Solidarity and Physical Infrastructure is chaired by myself and supported by a Technical Committee chaired by the Financial Secretary.

As the problems have not been caused by emerging economies like Mauritius, it is an indisputable fact that 95 percent of the solutions will have to come from the global response to the financial and economic crisis. However, Mr Speaker, Sir, we shall look at everything that could be done to help the country weather the economic storm, with emphasis of job preservation and ensuring that low prices are passed on to the population as fast as possible.

We are closely monitoring developments and working with all economic operators to take early corrective action if required. We have created, Mr Speaker, Sir, the fiscal space within the current budgetary framework to deal with the situation and this ammunition is at the disposal of the two Committees to propose whatever package of economic measures is necessary to ensure that Mauritius prevails over the difficult and challenging times ahead. We are also committed to taking whatever actions are required to ensure that our population, in particular the vulnerable, are well protected and that we continue on the path of progress and prosperity as the economic clouds are cleared.

**Mr Bérenger:** Mr Speaker, Sir, five months ago when the hon. Vice-Prime Minister, Minister of Finance and Economic Development presented the last Budget, he had estimated that the GDP growth for 2008 would be 6%. It is now revised to 5.3 to 5.4% and we will see what is the final figure. I am very surprised that there has been no attempt, and I would ask the Minister to have another go at the figure for the financial year 2008-2009. Five months ago, he estimated that it would be 6.2% in 2008-2009. Does he have any new, fresh estimate to offer?

**Dr. Sithanen:** Mr Speaker, Sir, I mentioned that there is a lack of visibility, a lack of clarity. Three of the best forecasters in the world, the IMF, the OECD and the World Bank have been unable to forecast with accuracy what to happen. The forecasts keep changing.

*(Interruptions)*

Let me finish!

**Mr Speaker:** Order! Let the hon. Minister answer! Members are interrupting him!

**Dr. Sithanen:** Mr Speaker, Sir, I attended the World Bank/IMF Meeting. They made a forecast one month ago and they have changed the forecast already. The Minister of Finance in France comes on TV almost every month to '*minorer*' the growth projection. Hon. Bodha is laughing...

*(Interruptions)*

Why does he laugh? Why doesn't he listen?

*(Interruptions)*

**Mr Speaker:** Let me remind the House that this a very important issue which has been raised by way of a PNQ and time is running out. If Members are going to interrupt the Minister, I will be very harsh. Order, now!

**Dr. Sithanen:** Mr Speaker, Sir, it is very clear that we shall not make 6.2%. How much it is going to go down? It is very difficult to tell. We have another seven months to go for the end of the Financial Year 2008-2009. I have tried to meet most, if not all sectors. I also have a simple model; I used to use that model when I was in the Opposition, Mr Speaker, Sir. We are exchanging figures with the Bank of Mauritius, the CSO and also with MCB - they have a very good team at the MCB to forecast growth. We are trying our best and there is a lot of uncertainty. I have spoken to the tourism sector. It is difficult to have visibility beyond three months and the best that can be done, Mr Speaker, Sir, is the three scenarios that I have given in the reply: less than moderately affected, moderately affected and severely affected. Once you do this, then you have to go sector by sector. As I mentioned, some sectors have better resilience than others. The ICT Sector is doing well, the global business sector is doing well. Of course, the two most visible ...

*(Interruptions)*

I am just trying to explain why we can't do what is being asked.

**Mr Bérenger:** The hon. Minister is repeating himself!

**Dr. Sithanen:** No, I am not repeating myself!

**Mr Speaker:** Order! Order, now!

**Dr. Sithanen:** Mr Speaker, Sir, obviously, there are the two visible sectors of the economy which are tourism and textile, but there are other sectors of the economy that we also have to forecast. We are trying also to kick-start some of the major public sector expenditure. If we are able to do that, growth will be higher. If the G-20 stimulates the economy aggressively through Keynesian measures, this will change outlook, Mr Speaker, Sir. There is nobody who can tell. Mr Speaker, Sir, I am an economist by training...

*(Interruptions)*

There are many exceptionally good economists that I meet and who cannot forecast what will happen. How can I forecast? We can only work on different scenarios, Mr Speaker, Sir.

**Mr Bérenger:** In fact, the IMF updated its estimates last Thursday and came up with a very disturbing report to the effect that next year, 2009, GDP in the developing world will go back negative by 0.3% and he pretends that he cannot offer any precise figure.

Can I move on to the second part, Mr Speaker, Sir?

*(Interruptions)*

Can he behave like *un enfant malélevé*?

**Mr Speaker:** I don't want any provocative remark!

*(Interruptions)*

Please! I am appealing to both sides of the House not to make any provocative remarks.

*(Interruptions)*

Both sides of the House, I have said!

**Mr Bérenger:** My second question related to goods exports for the third quarter 2008 and the figure I have just heard ...

*(Interruptions)*

**Mr Speaker:** Order, I said!

*(Interruptions)*

Now, I am going to take action against Members.

**Mr Bérenger:** And the figure which I have been offered is not at all reassuring. I am sure the hon. Minister of Finance is perfectly aware that people are very disturbed by the deteriorating current account of the Balance of Payments. Very disturbed! With that kind of trend, can the Minister tell us, as a percentage of GDP, what percentage the current account has reached and what percentage do we expect it to reach by the end of 2008?

**Dr. Sithanen:** Let me say a couple of things, Mr Speaker, Sir. I think this is a very fair question. The current account of the Balance of Payments has deteriorated for three reasons and two of them are 100% beyond of our control. I am sure the hon. Leader of the Opposition who reads a lot will agree with me that it has deteriorated in 2007/2008 over 2006/2007 because we are spending over 100% more in dollars to import our fuel.

Second, we are spending 125% more in dollars to import our food. We are also spending more to import commodities and metals. We are also spending more because of higher freight. All these explain the deterioration in the current account. In fact, the figures that have been produced by the CSO and the Bank of Mauritius explain clearly why it has deteriorated. Obviously, as from September, things have improved. The good side of the

downside is that prices have started to come down and when prices of commodities come down, when prices of food items come down, when the price of fuel comes down, when the price of metals comes down, when freight comes down, this, in my humble submission, will reflect positively on the balance of trade, on the balance of current account and the Balance of Payments next year.

However, it will also depend on how resilient the tourism sector, the Export Processing Zone and the global business sector are. And, as I say, if you look at the four sectors where we get money in terms of export earnings, two are facing difficulties, tourism and textile, two are managing relatively well. The ICT sector is managing well and the global business sector is doing well. Let me remind the House that it is true that the most visible part of the economy is affected, this is tourism and textile, but these two accounts for 15% of the economy. There are other sectors of the economy which are also important, Mr Speaker, Sir.

**Mr Bérenger:** I heard the hon. Minister say that the figures for the number of tourists coming into the country for October is not available. In fact, it is available. The figures are available by the end of the first week of the following month. Is it because the figure for October 2008 compared to October 2009 is negative for the first time that is why we are not being provided with the figure?

**Dr. Sithanen:** Mr Speaker, Sir, I can share that with the hon. Leader of the Opposition. This is what I got at 11.15 this morning –

“Material for answering the question.

October 2008 data for tourist arrivals and tourism receipts are not yet available. The best that we have is tourism arrival for September 2008.”

This is what I have, hon. Leader of the Opposition!

**Mr Speaker:** This is an official document from which the Minister is quoting. I mean the hon. Leader of the Opposition has to accept the good faith of the Minister.

**Dr. Sithanen:** What do I do?

*(Interruptions)*

**Mr Speaker:** Order!

**Dr. Sithanen:** Mr Speaker, Sir, let me reassure the House and the nation through the House, it is not in my interest and it is not in the interest of Government to play around with figures. I have never done that as Minister of Finance, Mr Speaker, Sir, and I will not do that.

*(Interruptions)*

Obviously, interpretation of facts and figures is different. I will give all the information that is required, Mr Speaker, Sir, but we have to keep our lucidity, to be calm, to be composed and address these issues head on.

**Mr Bérenger:** Since we are not being provided with figures for October, can I ask the Minister whether the target which Government had aimed at, that is, 8% increase in tourist arrivals for 2008, will be reached?

**Dr. Sithanen:** Mr Speaker, Sir, the hon. Leader of the Opposition says something and the contrary at the same time. One does not have to be a great economist to know that we will not be able to make 8%. He keeps saying it every week, he keeps sending people to say it and then he comes to this House and asks me whether we shall make 8%. We will not make 8%, but, Mr Speaker, Sir, we shall make more than they made when there was no recession. Mr Speaker, Sir, we are doing significantly better this time.

*(Interruptions)*

There was no recession in 2005. *Il y avait l'état d'urgence économique. La situation était dramatique.* Today, Mr Speaker, Sir, we are creating 11,000 jobs, growth is 5.4%.

*(Interruptions)*

**Mr Speaker:** Order!

*(Interruptions)*

But the hon. Minister is repeating his arguments to answer the question. Order! Order!

**Mr Bérenger:** I'll have to put a few more questions in terms of Foreign Direct Investment. I didn't catch the latest figures ...

*(Interruptions)*

**Mr Speaker:** Order now!

**Mr Bérenger:** ...which the Minister put forward, but again five months ago, when he presented the Budget, he had made the estimate that there would be Rs15 billion of FDI in 2008. Again, being given the new situation, can I ask what is, on the present rate, expected to come in in terms of FDI for 2008?

**Dr. Sithanen:** Mr Speaker, Sir, this is not a test on my ability to forecast. The hon. Leader of the Opposition tried to forecast the Law Lords' judgment last week and he got it wrong.

*(Interruptions)*

**Mr Speaker:** That is irrelevant.

**Dr. Sithanen:** But I am just stating that the science of forecasting is not an easy one even after people have already written the judgment and now, Mr Speaker, Sir, he wants me to forecast what will happen in the future. What I can tell the House, Mr Speaker, Sir, is that in 2005 with no recession FDI was Rs2.8 billion; this year, with recession, for only nine months, we have already reached Rs7.2 billion.

*(Interruptions)*

**Mr Speaker:** Order! Order! Order, please!

**Dr. Sithanen:** I'll give the breakdown.

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Dr. Sithanen:** Everybody thinks he knows better!

*(Interruptions)*

**Mr Speaker:** Order!

**Dr. Sithanen:** Rs2.3 billion financial intermediation, Rs1.5 billion business activities and real estate. However, tourism and hotel is Rs3 billion.

*(Interruptions)*

**Mr Speaker:** Order!

**Mr Bérenger:** As regards net international reserves, again we are not being provided with the figures for October 2008 and the figure which I heard was 33 weeks of income coverage. We were at 36 weeks in January 2008. We are going down steadily to 33 weeks in September. Does the hon. Minister expect that in October, November, December, we shall keep on running down our foreign reserves in terms of import cover?

**Dr. Sithanen:** Mr Speaker, Sir, let me explain. When we came back to power it was Rs52 billion, approximately 30 weeks of import, then it went up considerably. However, I am sure the hon. Leader of the Opposition who has been Minister of Finance knows how we measure the import cover. The import cover is measured on the last financial year's import figures. And because imports have been very high, one, for food, two, for fuel, three, for commodities, four, for metals, the amount of import cover that you can have from the same amount of reserves has decreased. What will happen? Obviously, as the pressure on prices is eased, we expect the import cover to increase. Having said that, Mr Speaker, Sir, the Central Bank also has to intervene to supply the market and that is why it has intervened to make sure that there is enough foreign currency for the economy to move around especially at this critical time when there is a seasonal upswing in demand of currency because people have to purchase from abroad to meet demand for the end of year festivities.

**Mr Bérenger:** Mr Speaker, Sir, in the Budget, five months ago, we set up several funds, namely the Ile Durable Fund to the tune of Rs1.3 billion, the Food Security Fund: Rs1 billion, Human Resources Fund: Rs1 billion, Manufacturing Fund: Rs500 m., and Social Housing: Rs500 billion. Can I know why, today, it is only on one Fund, that is, the Manufacturing Fund, that we are being provided with any details? There is nothing on all the other Funds that we have set up. Why is it so?

**Dr. Sithanen:** Mr Speaker, Sir, it is very simple. On manufacturing, we have acted swiftly. On the other one, we need land. We are discussing with the private sector to get land. I can reassure the House that, with respect to the MID Fund, money has already been disbursed for acquisition of solar heaters by the population. Money has also been disbursed for people to change their bulbs, and money will be disbursed for a series of projects that have been approved by the MID Fund. With respect to the Education Fund, my colleague, hon. Dr. Bunwaree, has already ensured that we secure the land on which we will put up infrastructure, so that we can broaden access to education. On food security, we had a meeting this week with hon. Faugoo, and we have agreed that there are about four or five projects, which will start soon. On local government, tomorrow afternoon we shall start the construction of a beautiful market in Rose Belle, Mr Speaker, Sir. On social housing, we need to finalise the acquisition of land, so that we can proceed with construction. Mr Speaker, Sir, the same people who were against the setting up of these Funds are now telling me that we are not spending fast enough. Let me also conclude by saying that, initially, we wanted to use these funds for a long period of time. With what is happening now, to give additional stimulus to growth, we shall accelerate the disbursement of these funds.

**Mr Mardemootoo:** M. le président, et si la bulle avait éclaté en 2005 ? Will the hon. Minister agree with me that Mauritius would have faced the same financial disaster as Seychelles today?

**Mr Speaker:** The hon. Minister cannot predict.

**Dr. Sithanen:** I can, because this is the past, Mr Speaker, Sir! If without the bursting we were *en état d'urgence économique*, God knows what would have happened if there were one!

**Mr Bodha:** Mr Speaker, Sir, may I ask the hon. Minister whether he will agree that the debt burden has been deteriorating? He has said that he will be transparent and give the figures. Can he give the figures for the debt in billions and not a percentage of GDP now? Can he explain to the House how this is going to have an impact with the credit crunch that we are going to have?

**Dr. Sithanen:** Mr Speaker, Sir, there is no country in the world that does not calculate debt as a percentage of GDP. Even those who study economics at the level of Form III know that it is not possible. How can we do this? Mr Speaker, Sir, let me reassure the House. Any person who has got some economic sense will know that, as long as there is a Budget deficit, the debt in absolute terms has to increase. The only way you can bring down debt in absolute terms is to have a Budget surplus. Debt is always calculated on a share of GDP.

**Mr Dayal:** Mr Speaker, Sir, does the hon. Vice-Prime Minister consider it sound and beneficial to the country to convert a major share of our reserve into gold, in order to address the international financial and economic crisis?

**Dr. Sithanen:** Mr Speaker, Sir, let me be very fair to both the hon. Leader of the Opposition and hon. Bodha. They have been wise enough not to mention that. I was listening to Warren Buffett on TV, and he said that we should be very careful about the three 'i'. The first 'i' is the innovators, those who are ahead of the curve and make decision. These people need to be congratulated. The second 'i' is the imitators. They are not very good, but if they follow what those who know do, it is alright. The third one is the idiots. This proposal falls in the third category.

**Mr Bérenger:** Mr Speaker, Sir, I asked how much has been disbursed for the Manufacturing Fund, but I have been informed about how much has been committed. Can I ask whether funds are being disbursed to individual firms and, if yes, for the sake of transparency, whether the House will be kept informed?

**Dr. Sithanen:** Mr Speaker, Sir, this is a very fair question. We have acted quickly. We have set up a committee, which is chaired by the Chairman of Enterprise Mauritius and comprises various stakeholders. This is closely monitored by my good friend, hon. Gokhool, Minister of Industry, and by the Minister responsible for business enterprise. We have separated the Fund, because when we created it there was one Ministry that was looking at all enterprises. Now, we have one for Industry and one for SMEs. I have told them that we have to make sure that the Fund is used to support the manufacturing sector, but it must be done in a transparent way. We shall be accountable, and I will come to the House to say how much money has been spent in which sector, whether it has gone to an individual firm or to help the industry as a whole. Let me give one example. Many of the SMEs are complaining about access to market. We may take action to support them in terms of access to market that will benefit all of them. We will also take individual measures that will address the specific problems that one particular firm faces, Mr Speaker, Sir.

**Mr Bérenger:** Mr Speaker, Sir, I am sure the hon. Minister will agree with me that the first thing that we must have to face the ongoing crisis is credibility, coherence and continuity. Will the hon. Minister agree with me that what has been taking place over the last few months at the Bank of Mauritius is everything but that? There has been terrible zigzagging in terms of interest rate. It has been brought up and down, and then there has been pressure to bring it up again. There has been terrible zigzagging on the cash reserve ratio, bringing it up by 50% and then bringing it down by 25% within a few days. Will the hon. Minister agree with me that this is very bad for the image of Mauritius, and very bad for us to face this difficult music that is coming our way next year?

**Dr. Sithanen:** Mr Speaker, Sir, I am sure the hon. Leader of the Opposition expects me to say 'yes', and this will make the headlines! Obviously, I am not going to say that! Mr Speaker, Sir, I have to act as a responsible Minister of Finance, even though people know my sentiments. What has happened is that there has been a change in sentiment, a change in global and national economic outlook. There is much better coordination between the Ministry of Finance and the Bank now. I must say, in all fairness, that, right from day one, although I was in favour of an expansionary policy - which I did in the Budget, after consulting the hon.

Prime Minister, and which we did again when we fully paid the PRB, after discussing with the hon. Prime Minister - there was some problem about inflation. Now the risk of inflation seems to come down. There is almost unanimity on what needs to be done in terms of expansionary monetary and fiscal policy. Let me inform the House that, even in UK, in the one but last MPC, not only the Members voted differently, but the percentage by which they wanted to change the rate was also different. I think there is unanimity not only in Mauritius, but also across the world on what needs to be done in terms of expansionary monetary policy, expansionary fiscal policy, injecting liquidity, capitalisation, and funding to banks. Hopefully, next week, we shall see the emergence of a new global financial architecture, with countries like China, India, Brazil and South Africa playing a more important role, deciding how the world shall be managed.

**Mr Bérenger:** Mr Speaker, Sir, I hope I am proved wrong. But, looking at the IMF forecast and at what is taking place, I think we are going to be in a very, very serious situation next year. Is the hon. Minister ready to start preparing for new measures, apart from those that he has announced, decreasing fiscal pressure and allowing consumers to benefit from the crash in prices on the world market of petroleum products, rice, wheat, cement, and the bigger crash in maritime freight rates in general? The consumers are not benefiting as they should from all these crashes in prices. Since I believe that next year is going, unfortunately, to be very, very difficult, will the hon. Minister start preparing for other measures to the benefit of the population at large, and of consumers in particular?

**Dr. Sithanen:** We inherited the APM which is based on a three-month moving average. And again any mathematician would know that when you have a three-month moving average, when prices increase, it protects you. Unfortunately, when prices go down, it does not transfer the decrease in price immediately. After we came back from abroad, the Prime Minister and myself sat down and after careful consideration we changed the system in order to pass on faster the price decrease for fuel oil, mogas and diesel, notwithstanding the fact that this will represent a loss of Rs800 m. to the STC, which, we have agreed, will be absorbed over an eight-month period. Government has shown the lead and we shall show the lead also wherever it is possible to do so. We have told the private sector that we are not happy with the delay in ensuring that prices fall. I have criticised it openly that I am not happy, but they give reasons, saying that the contract is in dollars, they have imported when prices were high, they have huge stock.

I understand some of the points made. I hope that as from December there would be a major decrease in the prices of many commodities. I say it here, we should not fool by granting a small decrease only. The full impact must be passed on. We have a committee that is checking by how much prices are coming down. Traders should pass on the totality of the decrease in prices to the population. With respect to the first point that was raised by the hon. Leader of the Opposition, I have said, Mr Speaker, Sir, we have acted with foresight, with diligence. We have speedily reacted and we have put in place a series of measures to address some sectoral problem and some macro economic challenges. We continue to discuss with economic operators. What we need, Mr Speaker, Sir, is serious analysis, concrete measures and not gimmicks that will not help us find solutions.

**Mr Soodhun:** Mr Speaker, Sir, first, the hon. Minister has stated that he has liaised with the Bank of Mauritius. Is it true? Second...

**Mr Speaker:** When the Minister has said he has consulted, there is no need to ask again.

**Mr Soodhun:** We all know that the Director of the Bank of Mauritius has said the contrary to what has been stated by the hon. Minister today. Even the JEC and MEF also disagree with the hon. Minister. What is happening today is that the Bank of Mauritius wants to control inflation but the hon. Minister is against. Can the hon. Minister explain the exact situation? Is it not as we used to say: *deux éléphants la guerre c'est l'herbe qui pe crazé*? How long will this tug of war continue? Who is going to suffer? Is it not the poor?

**Dr. Sithanen:** Mr Speaker, Sir, let me try to give an answer.

**Mr Speaker:** The hon. Minister should be brief.

**Dr. Sithanen:** Mr Speaker, Sir, I will try to be brief, but it is a very long question.

*(Interruptions)*

Mr Speaker, Sir, what the hon. Prime Minister and some distinguished economists in this country have said is that the economy is resilient, but not immune. There is obviously a downside risk of an accelerated downturn in the global economy. This risk exists. Nobody knows with accuracy, with precision, how much it will be, how broad the recession will be, how long it will be. Not even some of the best economists in this world! We are trying our best. Obviously, if you ask some people in some visible sectors: how is it compared to last year? They will tell you: not as good as last year! Mr Speaker, Sir, given the international circumstances, who would have thought Iceland, one of the richest countries in the world in terms of GDP per capita, would have collapsed.

*(Interruptions)*

Who would have thought our neighbours would face such challenges! I feel very sorry for what is happening there. Mr Speaker, Sir, we are resilient, but we are not immune. What we need to do is to nurture the resilience of the economy so that we can withstand better the shock.

**Mr Bodha:** The hon. Vice-Prime Minister said that the global architecture will be responsible for 95% of what is going to happen in the future. Will he agree with me then that his *marge de manoeuvre* is extremely limited and he has been saying a lot of things which will not matter in what is going to happen as the consequences of the credit crunch?

**Dr. Sithanen:** Mr Speaker, Sir, everybody knows that if there is no comprehensive coordinated, flexible and speedy global response to the recession, obviously, a small country like Mauritius, there is little that we can do. I ask my hon. friend: what can Mauritius do if tourists in France feel that their standard of living has fallen, their consumption has fallen and they stop flying? What can little Mauritius do if the Americans fall into deeper recession and decrease their purchase of textiles and clothing? Let me tell the hon. Member that we have acted pre-emptively, we are doing the best that can be done by any Government. We saved this economy from where they left it in Intensive Care Unit, Mr Speaker, Sir! Had it not been for the reform, we would already have been in Intensive Care Unit, as hon. Mardemootoo has said, Mr Speaker, Sir!

**Mr Speaker:** Hon. Members, the time is over! Let me inform the House that in the past when Parliamentary Questions have been answered together with PNQ, some more time has been given beyond the 30 minutes as provided for by the Standing Orders. This practice has been accepted by the House. I have followed the same practice and I have accorded some 20 minutes more, because there were three Parliamentary Questions which have been answered together with the PNQ.

Other questions addressed to the hon. Prime Minister. I have been informed that PQ No. B/1190 addressed to the hon. Prime Minister has been withdrawn and that PQ No. B/1241 with regard to the Chagos Archipelago addressed to the hon. Minister of Foreign Affairs, Regional Integration and International Trade will now be replied by the hon. Prime Minister, time permitting.