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ECONOMIC REVIEW FOR THE YEAR 2009

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1. World Economic Outlook

1.1 Macro-performance

Economies around the world have been seriously affected by the financial crisis and the slump in activity. According to the IMF advanced economies experienced an unprecedented decline of 3.4% in real GDP in 2009 while emerging and developing economies registered a very low growth of 1.7%.

In the United States the shocks have depressed consumption and unemployment rate has increased to 9.7%. In Europe economic activity has begun to contract already before September 2008 financial blowout owing mainly to rising oil prices. Financial systems suffered a much larger and more sustained shock than expected, and rapidly transformed into a crisis for the real economy.

The impact of the global crisis on economies in Asia has been surprisingly heavy. Japan's economy contracted by 5.4% in 2009, and growth in newly industrialized economies (Hong Kong, Korea, Singapore, Taiwan) and southeast Asian emerging economies has severely declined. China and India have also been affected by a contraction in the export sector.

In Latin America and the Caribbean, borrowing costs have increased and capital inflows have dropped. The decline in commodity prices has pounded large economies in the region (Argentina, Brazil, Chile, Mexico and Venezuela).

The Middle East has not been spared by the global crisis. The extremely large fall in the price of oil has hit the region hard. Local property and equity markets have come under intense pressure across the region.

Economic activity has taken a particularly sharp turn for the worse in many emerging European economies, because of their heavy reliance on capital inflows. Real GDP has contracted by 5% in this region.

Relatively weak financial linkages with advanced economies have not shielded African countries from the global economic storm. The main shock buffeting the continent is severe deterioration in external growth. The sharp fall in commodity prices is also hitting the resource-rich countries in the region hard.

1.2. Expansionary Policies

In its review for 2009, the IMF notes that strong public intervention across advanced and many emerging economies have supported demand and lowered uncertainty and systemic risk in financial markets. Central banks reacted quickly with exceptionally large interest rate cuts as well as unconventional

measures to inject liquidity and sustain banks with guarantees and capital injections.

The sharp drop in activity has decreased inflation pressures. In advanced economies, headline inflation has been below zero since May, and policy interest rates have been brought down considerably, close to zero. Many central banks also provided liquidity in US dollars, some intervened with purchases of government bonds and in the US the Federal Reserve intervened more heavily in various ways.

With major stimulus from governments, fiscal deficits would increase by about 6 percentage points of GDP compared with 2007 levels. The fiscal expansion has been greater in advanced economies.

Thanks to these interventions, economic growth has turned positive. Nevertheless, the recovery is expected to be slow as financial systems remain impaired, support from public policies will gradually have to be withdrawn, and households in economies which suffered asset price busts will continue to rebuild savings. Premature exit from accommodative monetary and fiscal policies is a particular concern because the policy – induced rebound might be mistaken for the beginning of a strong recovery. The key requirement remains to restore financial sector health, while maintaining supportive macroeconomic policies until the recovery is on a firm footing.

2. Mauritian Economic Outlook

Due to the world crisis, 2009 was a disappointing year for Mauritius, with a low growth of 2.8%. Tourism and textiles contracted while in other productive sectors only moderate expansion was registered. Government intervened with a stimulus package intended to cushion the economy against the impact of the crisis. With this expansionary policy the budget deficit has increased while public debt has remained manageable at about 60% of GDP.

Unemployment rate went up from 7.2% in 2008 to 7.7% in 2009.

Inflationary pressures have lessened considerably and the Bank of Mauritius has reduced the key Repo rate from 8.25% in September 2008 to 6.75% in December 2008 and to 5.75% in March 2009.

Investment in 2009 was moderate, with a contraction in the private component, while savings dropped from 16.2% to 13.3% of Gross National Disposable Income.

On the external front, owing to lower prices of oil and other commodities, a lower trade deficit was recorded.

Growth prospects remain dependent on the economic situation in Europe and the United States.

3. Macro-Economic Performance

3.1 National Accounts

Compared to the situation that prevailed between 2006 and 2008, the outcome in 2009 shows a marked slowdown of the economy. Indeed, from an average of 5.2% during the three previous years, growth rate dropped sharply to 2.8% according to latest CSO data. This performance is well below the level necessary to induce a reduction of unemployment rate. It is a setback due mainly to economic downturns in our main markets for textiles and tourism and the indirect impact on the rest of the economy. However, the crisis has also raised issues of competitiveness both in the rest of the manufacturing sector and the services sector.

The financial support which Government provided to private firms through the Stimulus Package no doubt helped some enterprises to get over short-term difficulties, but to what extent this facility has contributed to long term growth is yet to be assessed. But at any rate, it has proved useful and most probably it is a tool which needs to become a permanent feature, to support the competitiveness of our various economic sectors.

GDP at current basic prices for 2009 is estimated at R 247bn, showing a nominal increase of 5.5% compared to an increase of over 13% in 2007 and 2008. It can be noted that net primary income from abroad dropped from R 7,023 m in 2007 to R 4,900 m in 2008 and further down to R 414 m in 2009. Consequently, the nominal increase of Gross National Income in 2009 is only 3.5%.

As for Per Capita GDP at market price, an increase of less than 4% has been estimated, bringing the indicator to R 217, 216. In 2008, an increase of 11.9% was recorded. In terms of US\$, GDP per capita went up from 5,854 in 2007 to 7,206 in 2008 and has dropped to 6,663 in 2009. The variations of the exchange rates, appreciation of the Rupee in 2008 and depreciation in 2009, explain this erratic evolution. As a matter of fact, the average exchange rate of the US Dollar fell by 9% in 2008 and went up by 12.3% in 2009.

Looking at sectoral performance, it is observed that Agriculture and Sugar are the only sectors with higher growth rates in 2009 compared to each of the three previous years. With this notable exception, which is the result of favourable climatic conditions, all other sectors slowed down. It is an indication that the misfortunes of the tourism and the textile sectors was not an isolated phenomenon and that the effects of the crisis were diffused through the whole

economy. It is also the result of subdued demand after three consecutive years of high inflation rates and falling purchasing power.

The “Hotels” and “Textiles” sectors suffered important contractions while “Financial Intermediation” and “Business Activities” slowed down, though their respective growth rates of 5% and 8% in 2009 were quite appreciable. It is also remarkable that the average growth rate of “Business Activities” from 2004 to 2009 has been 8.9%. In the “Wholesale and Retail Trade” sector however, growth rate has dropped to only 1.4% compared to an average of 5% over the previous five years. It is also to be noted that the “Construction” sector which grew by 15.2% and 11.1% in 2007 and 2008 respectively, registered a growth rate of only 3% in 2009.

3.2 Investment

In 2008, investment increased by only 3.6% in real terms. It recovered in 2009, but with a growth rate of 6.1%, it remains still low, and probably not strong enough to stimulate an appreciable growth rate of the economy in the medium term. If investment in aircraft worth R 3.4 bn is excluded, growth rate of Gross Domestic Fixed Capital Formation (GDFCF) works out to only 2%. Furthermore, it is disturbing to note that growth of private sector investment has fallen considerably from 24% in 2007 to 9.7% in 2008 and has actually been negative (-2.1%) in 2009. As for public sector investment, exclusive of aircraft, growth rates for each of the four years from 2004 to 2007 have been negative. In 2008, it was slightly positive and in 2009 a more comfortable growth rate of 16.1% is registered. But in spite of this increase, at constant prices, public investment in 2009 is at merely 74% of its 2003 level.

In the nineties, the distribution of GDFCF by type of capital goods was roughly balanced. In some years, investment in ‘Building and Construction work was higher, and in others that of ‘Machinery and Equipment’ was predominant. In this decade, the evolution is very much skewed toward “Building and Construction”. In 2000, investment in “Machinery and equipment” was equivalent to 85% of that in “Building and Construction”. In 2008, this ratio dropped to less than 50%, and in 2009 it increased slightly to 53%. There might be a crowding out phenomenon, i.e. the high investment flow in real estate, including IRS and Hotels, driven by high profitability prospects, could be inhibiting the development of viable projects in other sectors. If this is the case, then it can be expected that when investment in real estate and hotels will subside due to limited land resources, more funds will be available for investment in other areas.

3.3 Consumption and Savings

‘Compensation of employees’, which rose by 12% in 2007 and 14.2% in 2008 at current prices, registered an increase of only 7.7% in 2009. The increase in

Gross Operating Surplus was also quite low, 4.2% compared to 14.3% in 2007 and 12.4% in 2008. As a result, growth of consumption expenditure of households was exceptionally low. In real terms, it grew by only 2.1%, down from a growth of 7% in 2008. On the other hand, Government consumption expenditure grew by 4.9% in 2009, the highest increase since 2005. However, since Government Expenditure represents less than 20% of household expenditure, on the whole, Final Consumption Expenditure grew by a moderate 2.5%.

Concerning Gross National Savings (GNS), it is worrying to note that from a peak of R 49.9 bn in 2007, it dropped to R 44.8 bn in 2008 and further down to R 37.7 bn in 2009. A good part of the decrease is accounted for by the fall of Net Primary Income from overseas as noted above. As a percentage of Gross National Disposable Income, GNS has decreased dramatically from 20.2% in 2007 to 13.3% in 2009. Such a rapid decline in saving is due probably to several factors, among which inflation, less motivation to save, and new consumption patterns. It is a very complex issue which has to be studied seriously so that appropriate remedial policies can be introduced.

The Resource Gap, which is the difference between investment and savings, has widened considerably from R 9.3bn in 2007 to R 20.4 bn in 2008 and R 32.6 bn in 2009. In 2009, it represents 46% of GDFCF and 13.2% of GDP. This trend is clearly unsustainable. Our country has entered in a risky cycle with growing dependence on external finance, including sales of our assets to foreigners to meet the resource gap. At this rate, there are risks that the financial inflows will be insufficient and the current account deficit will become really unmanageable. From this point of view, there is a need for a review of macro economic policies and future development options.

3.4 External Trade

Preliminary estimates show that total exports will continue to decrease in a third consecutive year. From R 74 bn in 2006, they dropped to R 69.7 bn in 2007 and to R 68 bn in 2008. The expected figure for 2009 is R 61.8 bn, representing only 83.5% of the 2006 level. This is a very alarming trend which has serious consequences on direct employment in the manufacturing sector and indirect impact on other sectors. It can be noted that re-exports also have fallen considerably. From R 21.3 bn in 2006, they dropped to R 13.8 bn in 2007 and to R 12.6 bn in 2008. In 2009 they are expected to decrease to Rs 10.4 bn.

Concerning imports, there was an increase from R 115.5 bn to R 132.2 bn between 2006 and 2008. In 2009, it is estimated that they will fall to about Rs 118.3 bn. Thus the balance of trade in goods would show a deficit of R 56.5 bn compared to a deficit of R 64.2 in 2008.

The major changes in Exports of 2009 compared to that of 2008 concern mainly sugar (decrease of Rs 1.7bn), textiles (decrease of Rs 827 m) and fish preparations (increase of R 1.1 bn). Smaller increases are noted in beverages and chemicals. There has been a substantial drop of R 1.7 bn in re-export of mobile phones.

On the debit side, the biggest change is noted in the section of 'fuels' which dropped from R 28.4 bn to R 18.4 bn. Other important reductions are noted in food products (R 1.7 bn), textiles (R 1.6 bn), cement (R 849 m) and iron and steel (R 895 m)

Concerning the Services account, a small decrease is expected on the credit side due to the international economic downturn, from R 72.2 bn to R 71.2 bn. Similarly, imports would decrease from R 54.6 bn to R 51.1 bn. The Balance of Trade in Services would thus register a surplus of R 20 bn compared to R 17.6 bn in 2008. The overall deficit of Trade in Goods and Services would consequently be reduced from R 38.9 bn in 2008 to R 29.2 bn in 2009.

As the accounts of Income and Transfers would register a surplus of about R 7.7 bn, the current account will show a deficit of R 21.4 bn compared to R 27.7 bn in 2008.

The counterpart of this deficit is an inflow of capital. FDI in 2009 was R 8.5 bn, with R 3.8 bn in Hotels, R 2.1 bn in Real Estate, and Rs 1.4 bn in Financial Intermediation.

Net International Reserves at December 2009 was R 100.5 bn compared to R 90.2 bn in December 2008.

The surplus on the Balance of Payments would increase from R 4.6 bn to about R 12.1 bn.

3.5 Inflation

After three years of soaring prices, which have had an impact on purchasing power, there has been a great relief in 2009. Headline inflation rate dropped from 9.7% in 2008 to a very low 2.5%, which is the lowest increase in prices for more than two decades. Core I inflation rate, which excludes food and beverages from the basket of goods, was 2.4%.

The Consumer Price Index, which was 115.5 in December 2008, increased by only 1.7 points to reach 117.2 in December 2009, showing an increase of 1.5%. Small increases were registered in most of the groups which make up the basket.

In fact both headline and Core I inflation rates have been declining continuously from peaks of 9.9% and 8.7% respectively in November 2009.

The Import Price Index recorded for third quarter 2009 was 105.7 compared to 119.6 for third quarter 2008, indicating a drop of 11.6%. It is accounted for by very important decreases in the 'Fuels' groups and less substantial decreases in others. This is one of the factors responsible for the fall in inflation rate. Another one is abated demand.

It can be noted that the Construction Price Index recorded a peak of 170 in October 2008, then gradually dropped to 162.6 in June 2009 and increased slightly to 164.1 in December 2009.

Similarly, the Producer Price Index for the Domestic Oriented Enterprises fell from 179.2 in October 2008 to 165.7 in June 2009, and increased slightly to 167.9 in September 2009, while the Producer Price Index for Agriculture decreased from 104.7 in September 2008 to 96.3 in December 2009.

3.6 Employment

In 2008, employment rose by an outstanding figure of 16,900, reducing unemployment rate substantially by 1.3 percentage points from 8.5% to 7.2%. Preliminary CSO estimates for 2009 show a creation of just 4,800 jobs, only 28% of the number of additional jobs obtained in 2008. But this is not the lowest number of jobs created in any year, since in 2006, employment increased by 3,500 and in 2004 by 3,900. At any rate, the latest estimates are not reassuring; they do confirm the difficulties of various sectors of the economy.

Labour Force is expected to increase by 8,300, 28% less than the increase of 2008, but the reason for this lower increase is not clear. Based on that estimate, unemployment for 2009 is expected to be 43,900, giving an unemployment rate of 7.7%, 0.5 percentage point higher than in 2008. It is to be recalled that unemployment rate hit a peak of 9.6% in 2005, and thereafter decreased continuously, by an average of 0.6 percentage point yearly, to 7.2% in 2008.

Unfortunately, this trend has now been reversed, and the indicators are that the situation will not improve in 2010.

As far as foreign workers are concerned, a decrease from 24,000 to 21,000 is noted.

3.7 Public Finance

The 2010 Budget is the first Budget presented on a calendar year basis. Last year there was a transition budget of 6 months to cover the period July to

December 2009. The structure of the 2010 Budget was in keeping with three main objectives.

Firstly, “Shaping the Recovery”. Government took the decision to maintain the Additional Stimulus Package, including support to the manufacturing sector and tourism; investment in major infrastructural projects (design of Bus Rapid Transit System; launching of Phase II of Ring Road; beginning of works in the new airport passenger terminal; various road projects; etc.)

The second objective is “Sustaining Green Mauritius”, with emphasis on the Maurice Ile Durable project, energy efficiency, promotion of solar energy and small independent power producers, land-based oceanic industry, composting on industrial scale, green buildings, etc.

The third priority of Government is ‘Consolidating Social Progress’ with the following main elements: Empowerment Programme and Trust Fund for vulnerable groups, integrated housing programme and eradication of absolute poverty. It is noted that Corporate Social Responsibility has been made statutory, companies being required to spend 2% of profits on social projects.

According to the 2010 Budget Estimates, Revenue would be around R 66.8bn, representing 21.9% of GDP (based on an assumed GDP growth rate of 4.3% in 2010), slightly lower than the ratio of 2009. Expenses are expected to be R 80.5 bn, i.e. 26.4% of GDP, compared to 25.6% in 2009. Thus the Budget Deficit for 2010 would be around 4.5% of GDP, same as in 2009, but higher than those of the three previous years. It is to be noted that the Primary Balance would be negative (-R 3.5bn) and would represent 1.1% of GDP in 2010, similar to the 2009 Budget, while in 2007/2008 and 2008/2009 there was a surplus. It should also be underlined that “Net acquisition of Non-Financial Assets” which was R 5.5 bn in 2008/2009 has been doubled in 2010 with R 11.3 bn. For the six months of 2009, it was R 5.1 bn.

Concerning Total Public Debt, there would be an increase from R 167.1 bn in December 2009 to R 179.1 in Dec 2010; but as a percentage of GDP, it will go down from 59.6% to 58.7%. Government is committed to bring down public debt to 50% of GDP by 2013. According to IMF, public finances are fundamentally sound and public debt is sustainable over the medium term. Nevertheless, it advises more restraint to reduce the inherent risks, and to bring down the large external current account deficit which carries financing risks.

4. Sectoral Analysis

4.1 Agriculture

Value added in current rupees of the agricultural sector, including sugar milling, increased by 1% from R 11.74 bn to R 11.86 bn in 2009. It is to be noted that raw sugar prices have fallen considerably, and taking into account increase in tonnage, additional revenue from special and refined sugars, the C.S.O. has estimated that the real growth rate of the sector for 2009 was 13.7% compared to 1.5% in 2008.

Nevertheless, the share of the sector in GDP has decreased from 5% in 2008 to 4.8% in 2009.

In addition, according to the Continuous Multi-Purpose Household Survey, the share of employment of the Primary sector in total employment has dropped from 10% in 3rd quarter 2008 to 9.2% in 3rd quarter 2009. The Survey of Employment and Earnings in large establishments indicates a loss of 930 jobs between March 2008 and March 2009.

4.1 Sugar

Value added in current rupees of sugar cane and sugar decreased by 9.2% from R 5.9 bn in 2008 to R 5.4 bn in 2009. In real terms, the growth rate was 21.1%. This group represented 45% of the Agricultural sector in 2009, compared to 50% in 2008. The CSO estimates are based on a sugar production of 467,000 tonnes, compared to 452,000 tonnes in 2008.

The sugar sector has undergone severe stress, with price cuts amounting to 36% and its restructuring programme comprising VRS, centralization of factories, production of white sugar, diversification of activities, etc. It has been able to weather the storm and has already embarked on projects relating to a Food Security Strategic Plan launched last year, and will most probably enhance its role in the sector of renewable energy.

Employment declined from 12,999 in March 2008 to 12,070 in March 2009. The tonnage of sugar exported dropped by 20% from 427,000 tons in 2008 to 342,000 tons in 2009, and total receipts declined from R 8.3 bn to R 6.6 bn.

4.1.1 Non-sugar

Growth rate of non-sugar sector was 8% in 2009 compared to a small contraction of 0.4% in 2008.

Between March 2008 and March 2009, employment was constant with 7342 employees. But there was a decrease of 108 male employees and a corresponding increase in female employees.

Latest statistics available for agricultural production in 2009 show a drop 11.6% in green leaves and 11.2% in manufactured tea compared to 2008. But concerning food crops an increase of 19% was registered.

Tonnage of beef from imported live cattle increased from 1875 tons in 2008 to 2054 tons in first semester 2009 and local beef from 15 tons to 36 tons. An increase in pork production from 330 tons to 428 tons was noted, while poultry meat increased from 42,000 tons to 44,000 tons. Fish production increased from 6025 tons to 6385 tons.

4.2 Manufacturing

Excluding sugar milling, value added of the Manufacturing sector grew by a mere 0.6% in 2009 compared to 3.2% in 2008. Growth rate in the Food sector dropped from 7.5% in 2008 to 3% in 2009. The decline was more pronounced in the Textiles sector which contracted by 4% in 2009 after stagnating in 2008. The rest of the Manufacturing sector registered zero growth in 2009 after an increase of 2.4% in 2008.

The Index of industrial production went down from 105.9 in fourth quarter 2008 to 100.3 in third quarter 2009.

In the case of export enterprises, the main reason for the contraction was the difficult economic situation in the developed countries which constitute the main markets for Mauritius. More intensive competition in export markets and other factors at the local level, such as exchange rate movements, higher costs, inability of many firms to innovate, insufficient training and unavailability of workers, etc. have also contributed to the contraction. The plight of Domestic Oriented Enterprises is somewhat different. For most of them, it is becoming more and more difficult to compete with products imported from large developing countries under conditions which are more favourable to the latter. The situation is quite challenging for both sub sectors and calls for remedial action.

Concerning the number of EOE, quite surprisingly, it increased slightly from 403 in September 2008 to 414 in September 2009. However there was a big drop in “wearing apparel” sub-sector from 170 to 158.

Latest employment figures for export oriented enterprises indicate a decrease from 62,828 in September 2008 to 58,883 in September 2009. Exports of that sub-sector are expected to decline by 1.8% to around R 35.7 bn, and import by 13.4% to around R 17.5 bn.

4.3 Hotels and Restaurants

As a direct consequence of the world economic crisis, the 'Hotel and Restaurant' sector suffered a contraction in 2009. Value Added in current rupees which went up from R 19.5 bn in 2007 to R 20 bn in 2008, dropped to R 18.2 bn in 2009 according to preliminary estimates. In real terms, the sector recorded a negative growth rate of -6.4% compared to a low but positive growth of 2.7 % in 2008. As a result, the share of 'Hotels and Restaurants' in GDP dropped from a peak of 9.4% in 2007 to 8.6% in 2008 and further to 7.4% in 2008, down to the level of 2004.

Number of tourists decreased from 930,456 to 871,356. The last fall registered was way back in 1982 when the prevailing world recession was contributing to depress the local economic situation.

The decline in number of tourists was noted in most of the countries of residence, with two notable exceptions. Firstly, number of tourists from France, the main Mauritian market increased by 6% from 260,054 to 275,599. The second one is Reunion Island, with an increase of 9.1% from 96,174 to 104,946. Reunion Island is now the second most important market for Mauritius while UK is in the third position after a drop of 5.5% from 107,919 to 101,996.

Number of hotels in operation at December 2009 was 102, same as in December 2008, but there were 7 more which were not operational due to renovation work.

Room occupancy rate for all hotels which peaked at 76% in 2007 fell to 68% in 2008 and to 61% in 2009.

Gross tourism receipts decreased by 13.4% from R 41.2 bn to R 35.7 bn compared to an increase of 1.2% in 2008.

One positive note for the sector is that investment in 'Hotels and Restaurants' went up from R 11.9 bn to R 12.7 bn in current rupees.

Concerning employment in large establishments of the tourism sector, there has been a decrease from 28,753 in March 2008 to 26,922 in March 2009.

4.4 Financial Intermediation

Reflecting the buoyancy in business in recent years, growth rate in the financial intermediation sector accelerated to a peak of 10.8% in 2008. But as most sectors of the economy slowed down in 2009, the financial intermediation sector too reflected the difficult situation with a drop of growth rate to 5%.

Its share in GDP at basic prices has increased from 10.9% in 2008 to 11.7% in 2009. Investment grew by 16.2% in 2009 after contracting by 15.2% in 2008.

Employment in large establishments increased from 10,216 in March 2008 to 10,763 in March 2009.

In regards to the world financial crisis, it is observed that banks in Mauritius do not hold toxic assets; that they fund operations mainly through domestic deposits rather than large scale interbank foreign borrowing; and that they are liquid and well capitalized. In addition, according to IMF, they hold long foreign exchange positions and they would not be adversely affected by a depreciation of the exchange rate.

4.5 Information and Communications Technologies

For statistics purposes, the ICT sector consists of manufacturing and services industries whose products capture, transmit or display data and information electronically. It includes related activities of Manufacturing, Wholesale and retail trade, Communications and Business Services (Call centres, software development, website development and hosting, multimedia, IT consulting and disaster recovery). It excludes training in IT.

The CSO has estimated that the growth rate of the sector for 2008 was 12.6% compared to 14.9% in 2007. In 2004 and 2005, the average growth rate was over 20%. These very high growth rates give an indication of the increasing importance of ICT in our economy.

It is estimated that value added increased from R 11.5 bn in 2007 to Rs 12.7 bn in 2008, and that the contribution of the sector to GDP is about 5.5%.

The CSO has also found that there were 129 large establishments employing 11,250 people in 2009 compared to 116 firms and 10,170 employees in 2008.

Concerning external trade, imports of ICT goods and services declined from R 9 bn in 2009 to R 8.5 bn in 2008, while exports increased from R 4.8 bn to R 5.1 bn.

5. Conclusion

The review shows that 2009 has been a difficult year for the Mauritian economy. It has suffered from the backlash of the world economic crisis. The adverse impact has been felt primarily on the Export Oriented Enterprises and Tourism sectors with a fall in revenue and employment. It has spread to other sectors of the economy and the final effect has been a drop in growth rate, an increase in unemployment and a contraction of savings.

The external account, which has improved a little because of a decrease in commodity prices, remains critical and the Resource Gap which has widened is very worrying.

The situation could have been worse were it not for Government's prompt response through a fiscal stimulus package and a loosening of the monetary policy. The Banking system has not been affected.

Growth prospects depend much on the recovery in developed countries. And with the present uncertainty that can be observed in these countries, there are still risks of a further deterioration of the external account.