Opening Remarks of Mr Y Googoolye,
First Deputy Governor, Bank of Mauritius
in the context of Presentation on "The Great Recession" by
Mr Goolam Ballim, Chief Economist, Standard Bank Group

Ladies and Gentlemen

Good afternoon.

It gives me great pleasure to welcome you all to the presentation on "The Great Recession" by Mr Goolam Ballim. After joining the Economics Division of the Standard Bank in 1999, Mr Ballim soon headed the Financial Market Desk and later relocated to the Corporate and Investment Banking Division of the Group, where he served as Senior Treasury Economist. Mr Ballim was appointed Chief Economist in May 2004 and heads a research team whose particular strength is analysis of macroeconomic and political economy subjects in South Africa and other African countries.

One might be intrigued by Mr Ballim's phraseology to describe the current global economic condition. We have heard about the Great Depression as well as about a recession. But a great recession is something new. There is an old joke among economists that a recession is when your neighbour loses his job while a depression is when you lose your job. We then would need to figure out what a great recession would portend. Or is it just a parody on the previous decade being called a period of Great Moderation? Well, we would know that soon.

Jest apart, the more easily understood implication of recession is that it signifies a decline in GDP for two or more consecutive quarters. A depression on the other hand would be a recession that lasts longer with a steeper decline in business activity. Some feel that a good rule of thumb may be to also look at them in terms of the degree of downturn. In their view, a severe downturn where GDP declines by say more than 10 per cent can be categorised as depression while a recession is an economic downturn, which is less severe.

The current Global Economic Crisis has assumed monstrous proportions in terms of its depth and reach. What began as a sub-prime mortgage crisis in the US is now a full-blown economic downturn across the globe. Hardly has any country been spared of its effects even if the degree of impact might vary. Luckily, Mauritius has been among those which have been relatively better off, at least so far.

The present situation has been described by some as the worst since the Great Depression of 1930s. As estimated by the IMF, the Global GDP is likely to grow by 0.5 per cent in 2009 as against 3.4 per cent last year. A number of advanced economies like US, UK, Eurozone and Japan are projected to record negative growth. While in three of the BRIC countries, growth rates are expected to decelerate, Russia's GDP might shrink. Job losses across the globe in general and the advanced economies in particular have been of gargantuan magnitude.

We can therefore surmise that the term "Great Recession" captures the depth of the problem even if the extent of decline in economic activity in the countries that are going through a recession may not be so severe as to be branded a depression. It could also imply that one does not know whether the Global Economy has bottomed out and how long would the recovery take. As the Vice Prime Minister and Minister of Finance said recently, the situation is like trying to find out whether we have turned the corner or when we would turn the corner without knowing where it is.

A significant aspect of the current crisis is that it has torn the financial system apart. It has taken a toll on some of the awe-inspiring names of the global financial world – while some have crumbled, many others are either standing on crutches with governments' support or limping. We are still not certain that we have seen the worst yet. It is no more an issue of sub-prime mortgages – it has now assumed far more serious dimensions. It has been pointed out in some quarters that for some banks the problem now is one of exposure to sub-prime corporate and sub-prime countries.

The crisis of confidence is really alarming. The measures being taken by different governments can be seen in one of the two ways, and neither is comforting. At one level, it is like pouring water in quicksand and at another, it can be equated with using water to douse a raging fire not knowing how the overflowing water would be pumped out later. However, in the present conjuncture there seems to be no other alternative.

But why is the world where it is today? The answer can be found in the old adage that the only certain lesson from history is that mankind does not learn from it. The financial institutions failed to contain and manage risk, and ironically did so in the name of better risk management. As Mr. Evan Davies put it, banks had somehow taken what seemed to be a magic bullet of securitisation and fired it on themselves.

The world economy is going through a grave situation and the future is grim if not dark. But there is also the proverbial silver lining to the dark cloud. Some commentators have started to talk about reasons to be optimistic - stock market no longer overpriced; authorities working together; consumers adjusting fast to new economic reality; change and reinvention being new drivers of the economy and so on. Let us hope then that we are only moments away before the clouds drift off to give us long periods of bright sunshine.

With these few words and on a less pessimistic note, I once again have the pleasure of welcoming you all and now request Mr Ballim to give us his take on the current economic situation in his presentation on the Great Recession.

Thanks for your attention.

Bank of Mauritius
10 March 2009