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"Tout l'art de la politique est de se servir des conjonctures." Louis XIV

The irrelevance of overbanking

By Afsar Ebrahim

Overbanking can only be determined with hindsight when there is a contraction after booming years of activity. High number of banks is optimal to market conditions. What constitutes "Too Many Banks" is difficult to determine, more so that now we have Segment A and Segment B business.

Overbanking can only be substantiated if new entrants to the market reduce profits of existing banks to the extent of threatening solvency or if competition leads to high risk lending, aggressiveness to finance project with negative value.

Highly competitive market disrupts relationship building, encourage risky lending and banks remain under-capitalised. How do you stop that? Anti-competitive regulation, as existed in Hong Kong until fairly recently or in China, is not only archaic, outdated, but does more damage than good to the economy and ensure existing players become too dominant for the well being of the economy.

Competition in banking drives economic growth

The risks which may be associated with the perception of "overbanking" are addressed by prudential supervision and not reduction in competition. Bank failures have been caused by bad management due to insider lending or failure to comply with prudential norms of central banks to ensure clean lending books.

This is not the case in Mauritius. We have a robust banking sector as evidenced by its healthy profitability (this is probably an understatement). All banks are making large profits and high return on equity, attracting even more entrants to the industry. Our banking regulations are constantly being enhanced through greater compliance with Basel Core Principles of Effective Banking Supervision.

There is also empirical evidence that the financial services sector, within which banking sector is the core element, drives the economic growth and not the other way round. The more profitable players there are, more growth will be experienced by the economy.

Today the financial services sector represents 11% of Gross Domestic Product, higher that any other economic pillars. With 20 banks and counting, 13 Non-Bank Financial Institutions, over 150 branches network and over 300 Automatic Teller Machines, the local market still experiences a high degree of dominance. This is not a criticism as concentration may result in economies of scale and competitiveness.

In terms of local deposits, 70% are with the two local banks and 20% with two international banks. New local banks are joining and new international banks are in the queue. They all bring their own degree of sophistications and business models, expertise, nice market positioning and broadening the base for consumers, improving the country's profile and reputation as a credible financial services centre.

We cannot look at Mauritius as an "island". In the wake of globalisation and Global Business Sector, we service the world. A bank can be highly profitable without have a single local client, i.e. a client whose business depends on the local economy. Strictly, even in the offshore sector all companies are legally based in Mauritius. How can we talk of overbanking? This is irrelevant.

Multiple banking is common

If you feel that the staff carousel has caused much disturbance so far, wait until the roller coaster hits town. We still have room to welcome Citicorp, Société Générale, Middle East banks, Chinese Banks, Private Banking outfits and Investment Banks.

The core issue is that with a population of 1.2 million, talent is a prized resource and its management requires a new paradigm. Hiring, Managing and Retaining Talent is a new ball game which the banking sector has suddenly woken up to. It is an international challenge not only here and not specific to the banking sector.

Staff turnover is not a distressed sign but a sign of a healthy prosperous banking sector. It reflects the underlying state of this sector whose importance to our GDP has taken such magnitude that it is such a fast track career for any upcoming professional.

Professionals these days are nomadic and the emotional link is not to the institution but to individuals working there. Clients too are not loyal to banks. They shift if there is a value proposition. Multiple banking is common. It is about the team and the leader.

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Why expectations matter to a central bank

By Sameer Sharma

Expectations and reality can sometimes diverge and such divergence can prove to be a headache for any Central Bank as their credibility is questioned. In such cases, the Central Bank is forced to react more aggressively and must sometimes even sideline what the figures are saying because losing one's credibility is the Achilles' heel of central banking.

Talk to almost anyone in Mauritius and you will quickly understand that inflationary expectations remain high. Unfortunately for our Central Bank, even analysts, forex traders and other "experts" seem to share this same view. Anyone who has read through PluriConseil's monthly surveys on *L'Express* would quickly notice that most analysts surveyed still have high inflationary expectations.

In fact these results have not really changed much since last June despite the fact that inflation has since then actually fallen to 9.1% from 10.7% and will continue to fall because of a very favourable base effect (which is likely to dominate the impact of rising commodity prices until next June).

Beyond issues of credibility, high inflationary expectations can potentially cause inflation or more importantly (in our case) slow down the speed at which inflation is falling in the medium and, God help us, even in the long term especially if longer term inflationary expectations are not well anchored (which has sadly been evident on this island so far). Loose anchoring occurs when people do not have full information about the economy or about the objectives of the central bank, but they instead must make statistical inferences about the unknown parameters governing the evolution of the economy. When one combines this with the process of learning in an ever changing economy where market participants may indeed not fully understand inflation and inflation forecasting, communication between the central bank and participants becomes key.

I will at this point remind the readers that the Bank of Mauritius (BoM) left the key Repo rate unchanged on the 5th of December and only gave us a more detailed reason as to why it did so on the 12th of December, 7 days after the decision had been made. The communiqué issued would be no more than three pages long, would have few graphs, no forecasts and no detailed minutes of the monetary committee meeting.

Such moves certainly do not reassure market participants and do not help in combating the effect of high inflationary expectations. In terms of communication, in a country where speculation can sometimes go out of control, the BoM has a very long way to go.

Inflationary expectations must become well aligned to what is really happening

Inflation is a relatively misunderstood concept. By itself, it really isn't as harmful as many believe. Simply put, what it does is degrade people's savings and hurts people on fixed income.

In an economy where prices rise by 4% and wages rise by 5%, the standard of living can still be rising (although not true in our case). But what inflation does do, especially when it is unexpected, is to hurt productivity.

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Banking mirrors economic development

By Antony Withers

The development of the banking system to become one of the pillars of the Mauritian economy mirrors the development of the latter which, from being a monocrop sugar based economy in 1970 with per capita income of $200, has reached a diversified economy with several pillars and per capita income of $5,400 in 2007. This is an enormous achievement of which it is right that both public and private sectors are entitled to feel extremely proud. We heard from Professor Persaud at his lecture at Bank of Mauritius that being small is no impediment to sustained economic growth – witness Singapore, Ireland, Iceland, Malta, Cyprus and Barbados. So Mauritius is in the company of a good peer group.

The founding members of the Mauritius Bankers Association (MBA) in 1967 were Bank of Baroda, Barclays, Habib Bank, Mauritius Commercial Bank and The Mercantile Bank (today's HSBC). Today there are 19 member banks with two more standing in line to pay the license fee. So the Bank of Mauritius can also justifiably feel proud, not only for playing a key role in economic development, but also in broadening its revenue base, thereby diversifying its risks and so practicing what it preaches!

Member banks can also feel very proud for their role in facilitating economic development since providing a safe place to put deposits matched by readily available access to credit are key aspects of achieving sustained economic growth. Today the banking sector is a vibrant sector of the economy employing some 6,000 people thereby making important contributions to rising living standards through job growth, payment of taxation, generating foreign exchange, not forgetting dividends and capital growth for some 20,000 shareholders.

There have been many important landmarks over the years including:

1988: Amendment of the Banking Act to allow Off-Shore banking
1992: Establishment of the Free Port, and Mauritius Offshore Businesses Activities Act
1994: Abolition of Exchange Control
2001: Establishment of the Financial Services Commission, and 2001Companies Act came into force
2004: New Banking Act establishing the Single Banking License
2006: Borrowers Protection Act, and New Monetary Policy Framework

Recently the Association has introduced the MBA Code of Practice, has supported the Solidarity Levy on profitable banks (banks are in general very conscious of their corporate social responsibilities) and is currently looking at the proposed Insolvency Legislation as well as grappling with the demands of Basel 2. The MBA is also working on several important initiatives including the introduction of cheque truncation, and an expanded role for the Credit Information Bureau.

Banks are fragile creatures

Banks are fragile creatures – albeit this is not the popular impression. They are typically geared at the level of 10 times capital which requires them to exercise great vigilance over their loans, their supporting customer deposits and shareholders funds. This is why in all countries the industry is heavily regulated. When things go wrong (and they do go wrong from time to time), it takes years to rebuild both capital and confidence.

We have seen recently in the United States and the United Kingdom what happens when either the focus of banks on pursuing high standards of risk management or the regulators' focus on supervising their flocks (or both) slips. The collapse of prudent lending to sub-prime customers in the US will likely lead to write off of as much of a quarter of the US banking system's capital. Already $50 billion of write-downs have been announced and there is clearly much more to come as sub-prime mortgages re-set to higher rates and defaults/foreclosures rise further.

The confusion over who does what between the tripartite regulators in the UK (Bank of England, Financial Services Authority and the Treasury) led to the first run on a bank in the UK in 140 years. Basel 2, the international risk management framework that comes into force next year, will safeguard banks (and so, customers, shareholders and regulators) through the imposition of a relentless focus on managing in a structured way the many risks of banking: Reputational, Strategic, Credit, Market, Operational, Compliance and Liquidity.

The problems in the US and UK show how vital the introduction of Basel 2 is. To lose perhaps a quarter of a nation's banking system capital is indeed careless as well as avoidable. The foreclosures, which are up 100% in the USA, and lost opportunities from the diminished availability of credit and lower consumer spending, will undoubtedly lower economic growth significantly. It will undoubtedly cause great headaches for the US Federal Reserve, the European Central Bank, the Bank of England and other central banks as regards the need to lower interest rates to sustain economic growth, but which will compromise the struggle to keep inflation at low levels.

Central banks' credibility is now at risk

2007 has been a most eventful year with many challenges posed by the credit crisis and the falling US dollar to central banks. In many ways, the credit crisis has presented central banks with their greatest challenge since they won the battle against inflation almost a generation ago. It has cast doubt on how well they have managed their twin responsibilities of preserving financial stability and defending price stability.

The last decade has seen computing power and financial ingenuity transform the financial world. New markets have emerged based on converting loans, interest payments, default risk into securities which have been divided and repackaged and sold and then resold. The most valuable result of these new markets is that more people and business have gained access to credit on generally improved terms.

However, this summer has perhaps witnessed that invention has moved a long way ahead of intervention. The credit crisis this year affected, and still affects, the heart of the regulated financial system – the interbank markets and central bank reserves – which resulted in the US Fed, the European Central Bank and the Bank of England having to provide significant amounts of liquidity, and which caused scares about the stability of the banking system.

Fixing all this, let there be no doubt, will be difficult. Central banks' success in reducing inflation from the 15%-20% levels of the mid 1970's and 80's won them great credibility. But this credibility is now at risk in two ways: 1) Monetary policy has been too loose for too long – certainly causing housing and lending excesses in the USA & elsewhere and rising levels of inflation. 2) How central banks use monetary policy to clear up the mess could easily result in a recession.

If policy is too tight, recession will happen for sure. If policy is too loose, inflation will rise further again.

Central banks are not "all-seeing" masters of the universe, but whether the paradox I have just described is navigated successfully over the next 6 to 12 months will set either the framework to allow economic growth to continue and living standards to rise or, alternatively, bring growth to a halt and living standards to plateau or fall whilst bank capital is rebuilt.

Ben Bernanke, Fed Reserve Chairman, said $150 billion of loans will end up being written off. The Bank of England in private says $200 billion. The reality may well be more.

Goldman Sachs' Chief Economist said that US house prices will fall 15% (peak to trough) leaving 20% of US households with $3 billion negative equity. He also sees a decline in bank lending of $2 billion, which he believes will require a cut in the Fed funds rate to 3% by mid 2008 to head off recession. The dollar may therefore have further to fall.

Poor level of financial literacy

The Federal Reserve's recent track record has been that of a "fast cutter of rates", but a "slow raiser of rates". The 1998 collapse of Long Term Capital Management resulted in three quick rate cuts that contributed to the dot-com bubble in 2001. The cutting of rates by the then Fed Chairman Alan Greenspan, down from 6.5% to 1% (2001 to 2003) and slow rise in one quarter point increments back to 5.25%, did much to keep the US economy growing but, with the benefit of hindsight, clearly fuelled an already overheating housing market.

The financial markets belief in the Greenspan "put" – that the central bank always rescues tumbling markets – will be tested with the new Fed Chairman Ben Bernanke. Already he has cut rates by half per cent to 4.75% and there are clamours for more. My guess is that he will deliver rate cuts and so inflation will rise, but rescue the US economy.

The astonishing collapse of sound lending practices, entry into the sub-prime mortgage market of unregulated mortgage lenders and the willing participation of rating agencies in awarding AAA ratings to securitized sub prime mortgages will be closely scrutinized. The whole escapade is likely to end up costing in excess of $200 billion, perhaps $300 billion, in write-offs or some 20-30% of the US banking system's capital.

The large fall in property values, resulting in negative equity, will cause distress for a large number of households. It raises questions about ethical behaviour and also the seemingly poor level of financial literacy on the part of both borrowers and lenders.

This huge banking system capital write-off and fall in property prices and tighter lending standards will also curtail spending by consumers and lower US economic growth, notwithstanding the well known adage about the American consumer: *"When the going gets tough, the tough go shopping!"*

The weak dollar – the Euro has risen 82% against the dollar over the past 7 years – will also curtail consumption spending in the US, but will herald an export-led recovery at the expense of Europe, putting significant strains on the common currency

that will test its cohesion.

So 2008 will be a difficult year for growth and inflation worldwide. To paraphrase the Chinese saying: *"We live in interesting times."*

The Mauritian economy is demonstrating flexibility and resilience

As a small island economy that has now largely embraced the free market, Mauritius will continue to grow and prosper. Having a sound banking system underpinned by good contract law and protection of property rights are key features of economic growth, as Alan Greenspan in his book *The Age of Turbulence* has observed. It has now been conclusively proved that free markets (as opposed to centrally planned or closed economies) generate increased living standards and job growth. Managing economic growth in any liberal market economy does, however, require all parties to pull together and resolve in a constructive way the inevitable tensions that arise from time to time.

The triple shocks of the loss of trade preferences, European Union sugar price reform and US$90 to 100 a barrel oil price are, of course, real challenges to the economy (as they are for many other countries). But the Mauritian economy is responding well in a number of sectors demonstrating flexibility and resilience. There is clearly a need to improve productivity to help achieve lower inflation and also to continue investing in physical infrastructure. The key to all of this is perhaps a strong focus on education and training, a steady hand at the central bank and sensible fiscal policies to sustain productivity growth and economic growth.

The banking system is well set to continue to play a strong role in underpinning this key objective of sustaining economic growth, provided it continues to be successful and increase its capital base. Sound risk management, which underpins success, is thus at the core of the banking sector's continued expansion and ability to support the economy and to give growing credibility to the country as a regional financial centre.

Problems need resolving away from the glare of the media

Mauritius gross domestic product is growing at 5.8% annually. 19,200 jobs have been created over the last 2 years. Foreign Direct Investment amounted to Rs 10.3 billion for the year to June 2007. Official reserves are at US$1.7 billion and the Rupee is relatively stable. Many sectors are doing well and investing for the future, particularly tourism. And we have strong bank regulation.

However, inflation remains above 9%, which is too high. Monetary policy needs more attention. Roads need more investment. Problems need resolving away from the glare of the media.

Inflation needs to come down and stay down to give confidence to those on lower incomes that purchasing power is not being diminished. Otherwise, living standards will be affected if the Rupee falls in value.

Since the 75 basis points rise in the Repo Rate to 9.25%, we have seen Treasury bills rates fall by 2%, which hardly can be said to have assisted the work of the new Monetary Policy Committee to keep inflation in check. It would be helpful to actually see some Repo transactions take place within the 1% boundary around the Repo Rate set by the MPC.

Rising living standards and large number of tourists will generate more and more traffic. Quite apart from current congestion, the economy will be held back if nothing is done. I believe the domestic banking sector as well as international agencies will proudly support and finance the Port Louis by-pass which is so urgently required.

We live in the age of the internet and 24 hour news and markets while Mauritius enjoys the presence of international investors in government securities and private sector shares. Mauritius is thus joined up to the international market place where news travels extremely rapidly.

From a neutral observer's perspective it would be a welcome thing if the various groups could, out of the glare of the media, quietly find a solution to problems that invariably arise from time to time. Otherwise, as a result of the glare of the media, problems can easily become a distraction from the very successful story that is Mauritius, with the consequence, in this age of 24/7 news, that investor confidence both here and overseas is affected adversely.

Diversity underpins the resilience of markets

When he was President of the USSR, Khrushchev was very impressed with supermarkets on his first visit to the USA. So impressed that the first question he asked when he met the then US Vice-President Nixon was: *"Who is responsible for the supply of bread to New York City?" "I want to meet this brilliant man!"*

Nixon, of course, could not answer the question even if he understood it! In the liberal, competitive and international markets of today no individual is responsible for the supply of bread or, for that matter, allocating credit. This is a cause for relief not despair. Diversity underpins the resilience of markets.

In the stimulating series of Memorial lectures organised by the Bank of Mauritius, we have heard: 1) from the Governor of the Reserve Bank of India that economic growth continues apace in India with trade among Asian countries particularly resilient; 2) from the Governor of the Central Bank of Ghana that a wide range of African countries are also growing strongly; 3) from Professor Persaud that as a small island economy Mauritius can expect to grow strongly just as Singapore has demonstrated.

Mauritius has the ability to continue to grow strongly by virtue of its enterprising spirit, unique geographical position and strong links to South East Asia, North Asia and Africa, as well as Europe. Markets will, however, always be unpredictable and creative and, at times, fragile. This is why an export-led boom will eventually pull the US out of its difficulties, and why living standards will continue to rise in Mauritius as entrepreneurs invest in growth opportunities both at home and regionally.

The role of the government, central bank and regulators should therefore ideally be supportive, enabling markets to continue do their proven job of generating rising living standards whilst guarding against excesses, and above all, keeping inflation at a low level. In this way, as Governor Reddy said, the central bank can have the well-being of the people at heart. I am thus optimistic about the future but it will be a testing year ahead.

Antony Withers is the Chief Executive Officer, Banking of the Mauritius Commercial Bank and the President of the Mauritius Bankers Association.

The irrelevance of overbanking

By Afsar Ebrahim(cont., from Pg 1)

Loyalty is not to the institutions. Although we know that no individual is greater than an institution, when it comes to Talent Management, it is about the Top Guy, the inspired leader who breathes confidence in the team. It is like any football manager. Only the best managers attract the best players.

Banks are used to have career bankers, we have seen CEOs with O levels only and their claim to fame is 25 years banking career. Seniority remains the corner stone of progress in banks. Where is succession planning in banking sector? How do banks manage their star players since promotion is linked to seniority? As long as banks' organizational structure remains stuck in the 1970's, they will have to face the music.

The business model of banks has not evolved to manage talent

Lots of banks change CEOs every three years and with it, the strategy. Where is the emotional link? The business model of banks has not evolved to manage talent. They remain focused on one of their prized key performance indicators: Headcount. This is totally irrelevant in today's world. We are in an era of serving global clients: what is the headcount in Mauritius going to do with this?

Banks are refusing to acknowledge specialization. Front office staff goes back office, back office becomes front office. With complexity of financial statements, how many banks have qualified accountants or financially clued in executives in Corporate Banking? Banks tend to club all in systems and process. Banks believe that being "High Tech" is enough to enhance competitiveness, forgetting that they need to have economies of scale and be "High Touch" as well to be competitive.

Apart from financial incentives, nomad staff when moving achieves self-fulfillment and career development. In a knowledge-based economy, the power has shifted to those who have talents. They command the market, not the employer. He or she has engaged in lifelong learning and continually looks for challenges. The moment there is no excitement, the nomad moves on. The business model must alter.

I would say that staff apply to competitors or respond to job offers because they do not see a future with present employer. Firms of accountants invest heavily in recruitment and training, knowing fully well that some will move on. A sign of progress, a sign that our training equips them to make strides, hence our ability to attract talents. Managing them and transforming them in exceptional talents is what learning organisation is all about. We do retain the very best and the best goes to clients. We hardly lose to direct competitors unless there has been a flaw in our reward system, which can happen as no system is perfect.

Short term solution: getting staff whom you can "Plug and Play" is costly and increases operating costs. There is no short cut: it requires investment in terms of financial outlay, of on-the-job training, of visibility in career plan, and fairness in terms of progression where seniority is not an excuse for promotion.

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Why expectations matter to a central bank

By Sameer Sharma (cont., from Pg 1)

It is surprising to note that almost nobody in Mauritius knew about the impact of a low base (due to price controls) and budgetary measures on inflation in 2006. This misunderstanding lingers on today because market participants cannot still separate the impact of the now high base effect on falling inflation and rising commodity prices.

In fact most people used to think that I was wrong when I would state that inflation would gradually fall after June of this year as commodity prices kept on rising. Personally, I am more concerned about the impact of expectations in an environment where the central bank is still lacking on the communication front and how all this can impact productivity and growth.

When firms cannot make correct and accurate decisions because they are hampered by or unwary of inflation, they tend to delay investment, and growth in productivity will generally slow. When one considers the fact that productivity growth in Mauritius has been near zero over the past decade, such an eventuality can prove to be too challenging for our still structurally fragile economy!

Furthermore, workers who have high inflationary expectations may (with the help of our socialist like labour unions and politicians) demand higher wage increases which can lead to higher inflation. At this point I will remind the readers that the potentially too high Pay Research Bureau wage increase recommendation of 2008 may have a severe impact on inflation and interest rates.

A high interest rate environment does not help anyone. As a financial analyst and consultant, I have often come across both listed and unlisted firms where the return on capital employed has been lower than their respective weighted average cost of capital (WACC). In fact the number of listed companies that operate below WACC in Mauritius has given me many a headache over the past year.

While it is certainly true that bad management, especially bad debt management and the lack of sophisticated derivative instruments are all big problems in Mauritius, small and medium enterprises will not boom until interest rates are lowered and this will not happen until inflation is substantially lowered and until inflationary expectations become well aligned to what is really happening.

The Bank of Mauritius needs to communicate much better

In the hopes of not loosening anchorage even further, I will now briefly comment on the BoM interest rate decision and provide a medium term outlook on inflation. As expected, inflation peaked in June and has fallen to 9.1% as at November of 2007 and should stand at around 8.8% in December. The 3-month annualized rate of inflation has hence also maintained its downward trend and real rates (3-month Treasury Bills lagged back three months minus 3-month annualized rate of inflation) have remained highly attractive and the Rupee has remained strong. Such high real rates clearly indicate that the central bank is being forced to offer too high a premium for misaligned inflationary expectations.

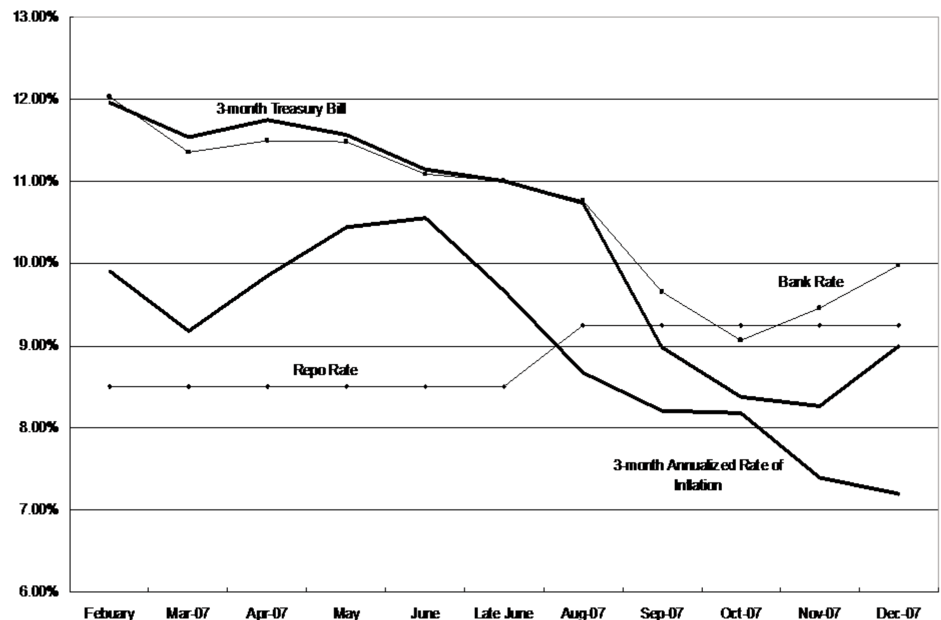
For some odd reason, the Bank of Mauritius has not used its Repo facility very often. It appears that the Bank rate has been favoured so far. The Bank rate is generally defined as the discount rate of the Central Bank but its ability to remove excess liquidity in the system is constrained by the fact that banks can also borrow elsewhere for short term requirements. While the Repo rate was kept on hold last week, the Bank rate was increased to 9.98%.

Many analysts who have been following the evolution of the yield curve over the past six months will clearly notice that the Bank rate has again been raised after it had been gradually lowered over the past few months. Had expectations been well aligned and had communication been improved, such up and down movements (that only serve to add confusion in an already confused market place) would not have taken place. Certainly it may be true that the BoM may indeed change the Bank rate for liquidity purposes but not to this extent. In the United States, the Federal Reserve attempts to keep discount rate changes in line with Repo rate changes.

The medium term outlook on inflation remains positive and headline inflation is expected to hover around the upper 6% range by next June after which the base effect is expected to fade. If commodity prices continue to rise as they have in 2006, it may be difficult for the BoM to get inflation down to 5% in the medium and even long term.

At the end of the day, inflationary expectations need to be brought under control and the Central Bank needs to do its job and communicate much better than it is currently doing. It is the state that pays for misaligned expectations in the form of higher interest rate premiums. If there is one thing this cash strapped state does not need at this moment, it is a higher cost of debt.

Key Interest Rates and the 3-month Annualized Rate of Inflation



Sameer Sharma is a financial analyst.

On currency board

Kurt Schuler, from the U.S. Treasury Department: Another side to the analysis of Samad Ramoly, published in the November 2007 issue of CONJONCTURE, is taxation. Ireland in particular is a good example. It cut tax rates almost every year from the mid 1980s onward – not always the same taxes every year, but at least some tax rate somewhere. It reinvested part of the gains from higher growth into lower tax rates, producing a virtuous circle of lower tax rates spurring higher growth, leading to higher government revenues, partly used to cut tax rates, spurring further growth. Ireland also had some degree of luck, but it took excellent advantage of its luck.

Paul Chow, from Seychelles: The article of Samad Ramoly on “The monetary trap” is quite interesting. I have been working on a project for sometime now to promote the idea of installing a currency board arrangement for Seychelles as a long term solution to the ongoing currency crisis. I am pleased there are others in this part of the world who share my view that this is the best monetary system for small open economies. The Singapore version is interesting, but it rests on a balanced budget discipline which is lacking among current crop of populists politicians in Seychelles and even in Mauritius. In this light I prefer a system of money creation which is on auto-pilot, such as Hong Kong. I hope to be able to discuss a mechanism to transform the current Seychelles pegged system to a currency board taking into consideration the huge budget deficit and the collapsed of the exchange rate system with the black market premium almost 100% of the official rate.

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