



In Conversation with Ramesh Basant Roi G.C.S.K.

Governor of the Bank of Mauritius



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FDI Spotlight: *This is your second term serving as Governor of the Bank of Mauritius.*

Looking back from December 2014 until today, what are the accomplishments you feel proudest of?

Ramesh Basant Roi: Back to the Bank from overseas in January 2015, I had identified three major areas that needed urgent attention: the first is monetary operations and policy, the second is financial stability and the third is improvement of the functional efficiency of the central bank. Large capital inflows over a number of years had caused significant appreciation of the rupee that had undermined the competitiveness of firms in the exports sector. Occasionally, the Bank had intervened on the forex market to contain the appreciation of the rupee. As a result, the

banking system was flooded with liquidity. Banks had accumulated massive amounts of excess liquidity over a number of years. The Bank, with its profitability drastically reduced by low rates of return on its investments, was trapped into a situation that had sapped its ability to sterilize the excess liquidity. The banking industry was fast heading to a situation whereby depositors would have had to pay banks to hold their deposits. In other words, the rates of interest on their deposits would have gone negative. This would have been socially unacceptable. That monetary policy had become impotent for several years was strikingly apparent. The Bank took bold initiatives to, first and foremost, sterilize the excess liquidity at high costs. It’s a price that the Bank is paying for sustaining monetary stability.

On the financial stability side, the Bank decidedly went for a cleansing of the banking industry. A bad bank anywhere is a threat to good banks everywhere. As regulator of banking institutions, the Bank revoked the license of a bank that had posed a systemic threat. A second bank that was mismanaged was re-capitalised, re-structured and put back on rail. Licensing procedures of financial institutions have been made more stringent. AML/CFT rules are enforced more rigorously. A number of existing Guidelines issued by the Bank to commercial banks have been recast and strengthened. Prudential norms are being increasingly made more stringent. On-site and off-site examinations of banks have been intensified. External auditors of banks are now required to follow instructions given to them by the Bank. Overall, the Bank has strengthened the regulatory and supervisory framework for ensuring financial stability.

On the institutional side, the Bank has launched numerous projects since last year to modernise the banking and financial markets infrastructure, and to enhance the efficacy of monetary policy. Several projects have been finalised or nearly finalised – such as the Deposit Insurance Scheme for the banking industry, a national payment system legislation for Mauritius, a national switch project, an upgraded monetary policy framework, and an asset management company for Mauritius. The national payment system legislation and switch projects will transform the infrastructure and regulatory regime for the payment system. On the banking regulation front, we are also building capacity and strengthening the quality of human capital at the central bank. Further, the character of our financial markets and external conditions have evolved significantly over the years. We are in the process of harmonizing the Bank of Mauritius Act and the Banking Act to reflect latest developments in central banking and regulatory principles. Running fast in a world that is changing fast makes us stay still. We have to run faster if we have to be competitive. In a nutshell, the Bank is a central bank in a hurry.

The worldwide market trend in electronic payments are users using their mobiles for payments and banking access. When should we expect Mauritius to do the same?

Ramesh Basant Roi: Many Mauritians are already effecting payments for goods and services via their mobile phones. Upon my arrival last year, I noted an ever growing demand for the use of mobile facilities for effecting payments. The need for a modern legal framework for the payment system was palpably felt. As of today, a draft payment system legislation is ready and is under consideration. We plan to launch the national payment switch in 2017. This new infrastructure will go a long way towards enhancing the appeal of electronic payments to consumers while making it more cost effective.

Currently there is only one bank in Mauritius licensed to do Islamic banking business. Why is it that Islamic banking hasn’t been developed as originally planned and what are the opportunities for growth in this sector?

Ramesh Basant Roi: Talks on Islamic banking and developing this segment started way back in 2005 in Mauritius. I even gave the opening address at a conference on the Islamic banking at that time. We should have already gone a long way in this area, but for reasons that I can’t explain we haven’t. A few banks have tried to offer Islamic banking products but with limited success. Penetration of Islamic banking products into the domestic market has been difficult. There appears to be a market for the products in Mauritius and in the region as well. I am inclined to believe that banks have not been forceful enough in pushing for the products on the one hand and prospective investors lacked propensity to invest in the products on the other.

Regarding the number of banks currently in Mauritius, one could say that it is getting tougher for institutions to obtain a banking license. What is your message to regional and international banks looking to establish operations in Mauritius?

Ramesh Basant Roi: True, it’s tougher to get a banking license in our jurisdiction. Many individuals and groups of individuals who have expressed their intentions to open a bank have been asked to fulfil the conditions failing which the issue of a license must not be expected. The ones that did not meet the criteria set by us were knocked out. We are intolerant to suspicious applicants of banking licenses. Any bank or investor willing to be a player in our jurisdiction should necessarily have a certified reputation in the field of banking and finance. We issued a banking license to the Bank of China this year. We are very demanding with regard to the source and provenance of funds. Moreover, the investors are required to have a particularly regional perspective and outlook.

In the current times of global uncertainty, what can Mauritius do to strengthen its economy and stay competitive?

Ramesh Basant Roi: The world order we were all familiar with is no longer the same. The rise of nationalism, rivalries between leading countries of the world and a substantially weakened world economy, amongst other factors, have made the future of the world economy more uncertain than before. A small island state like Mauritius has only one sure way of making it a robust economy: improve the quality of its human capital stock.

You will recall that prior to the introduction of the euro, Germany had a strong currency, the D-Mark. Despite its sustained strength, exports of Mercedes and BMWs were hardly affected. The high quality of German products had made the German economy highly competitive. Quality of human capital, whether are goods or services, is a quintessential element in achieving and sustaining competitiveness of any economy. Several other factors, including the quality of human capital, innovative capacity, resourcefulness, etc. are, without doubt, as critical in enhancing competitiveness of an economy.

If we have to break the middle income trap we find ourselves in, we need to improve the quality of our goods and services we export. This requires a radical improvement of our human capital. Building a dependable human capital stock takes time; the gestation period of investment in human resources is inevitably long. In the short term, this is a problem readily remediable by opening up and importing the talent and the skills. If we have to stay competitive, we indispensably need to keep improving our human capital.

How do you respond to certain citizens who have a Brexit or Trump mentality about expatriates coming to Mauritius?

Ramesh Basant Roi: It used to be case in the early 1970s when the idea of having an export processing zone and the development of the tourism industry was first mooted. Feelings were expressed that foreigners would come in and grab our land, leaving us all landless. Over time Mauritians have learned to live with expatriates as neighbours. Every family in the country has one or several members settled in a foreign land and in every family we have one or more members or even the whole family who have travelled abroad. I disagree with the view that Mauritians have travelled abroad with a xenophobic attitude towards foreigners. Don’t forget that Mauritians happily welcome more than a million tourists every year. However, there might be a few occasional and mild voices that express discontent. One thing I am absolutely sure about is the fact that Mauritians are never hostile to expatriates because of the very fact that they are all expatriates.

There is a growing number of international universities entering Mauritius. Medine Education Village, a private-sector driven initiative, has already started to build the first integrated and international campus on the island, designed to provide world-class education to Mauritian and African students through partnerships with elite institutions in view of building up African expertise. How do you see education developing with the private sector’s help?

Ramesh Basant Roi: I followed developments in our educational sector quite closely. In the 1990s, we have had several individuals and companies gifted with entrepreneurial skills who started educational institutions. The lie of the land was vast and waiting for green field investment. The institutions put in place were affiliated to some universities in the UK, France or South Africa. Some of them could not expand but others did. Since the beginning of the new millennium, investment in this sector picked up. Large corporate groups have made their entry in the sector. The universities are designed to provide world-class education.

Apart from improving its education, what other measures could take Mauritius out of the middle-income trap to become a high-income nation?

Ramesh Basant Roi: Mauritius is a highly foreign trade dependent country. Without enhanced performance of its export sector, an escape from the middle-income trap is almost unimaginable. In a very resource scarce country like ours, aggregate income levels can meaningfully rise only if exports of goods and services go up. Our tourism, financial, and the emerging fishing industry are the three sectors that have performed better lately. The uncertainties associated with an already inhospitable external environment necessitate a re-thinking of our strategy with a special weight assigned therein to digital technology.

What is your message of confidence to choose Mauritius as a global investment platform?

Ramesh Basant Roi: We have a democratic tradition, rule of law and political stability. It’s a peaceful and pleasant place to live and it ranks quite high when it comes to quality of life and happiness. It’s also one of the safest and most secure places to visit, with a multicultural society where we respect each other. You don’t find our kind of social harmony elsewhere in the world. Besides, Mauritius has a well-diversified stable economy with a growing pool of professionals and which offers great potential for investors willing to use the country as a regional financial centre.