Address by Rundheersing Bheenick, Governor, Bank of Mauritius, at The Annual Dinner in honour of Economic Operators, Saturday 5 December 2009

I am delighted to welcome you all to the Annual Dinner in honour of our principal economic operators, to celebrate a year of fruitful collaboration and to reflect on the critical elements for sustaining this effective partnership.

We are delighted that His Excellency Tito Mboweni has accepted our invitation to be our special guest tonight. The Great Tito was until recently Governor of the South African Reserve Bank and is now a committed fisherman. Well may I say he is a great catch for us tonight. I first met Tito Mboweni as Governor Designate in Davos in the margins of a World Economic Forum meeting in February 1999, when I had the honour to accompany my Prime Minister as a Minister in his Cabinet.

I have gained much from this illustrious man who shared with me glimpses of his vast and rich career. I must confess that my first meeting with him as Governor was even more memorable. It happened in Washington during the IMF/World Bank Annual Meetings in October 2007. It was as close to a telling-off as a Governor ever gets from another Governor:
"My brother Governor from Mauritius", Tito said drily, *"I understand you have been on the job for nearly a year now….but you haven't found the time to pay us a visit or to take an interest in our work in SADC,"*

I was cut to the quick by this stinging remark, especially as I had actually played a key role in getting Mauritius to join SADC in the first place. I am a quick learner and I learnt my lesson. Governor, you will be pleased to know that I currently luxuriate under the additional title of Chairman of the COMESA Committee of Central Bank Governors. And I had the singular honour to chair the Commonwealth Meeting of Central Bank Governors in Cyprus and report on our work to the plenary meeting of Commonwealth Finance Ministers. Indeed, some claim I have learnt my lesson too well! Some complain that I have taken the regional and international dimensions of the job so much to heart that I am hardly ever here.

Now as Governor Mboweni steps from the limelight and has plans to pursue his great love of fishing, I invite him to elect Mauritius as his second home, so that he may indulge in his new hobby in our tranquil waters. You are most welcome Tito: it is our honour to have you with us. But, I am afraid, in this open and liberal economy we offer no 'free lunches'. So we are going to ask you, a little later, to sing for your supper.

But first, on a sombre note, may I ask you to remember our good friend and colleague, Anil Gunness, late CEO of the State Bank of Mauritius, assassinated in November 2008 in the Mumbai terrorist attack whilst on official duty. His death has been a great loss to us, a terrible tragedy for his family and a mark of the uncertain times in which we live. He was a man of integrity at the height of his powers, much loved and respected by all he met. So let us not allow the assassins their victory and, in this moment of reflection, let us recall the words of Dylan Thomas:

'Though lovers be lost,
Love shall not,
And death shall have no dominion.'

Let us rise and observe a moment of silence in his memory……..Thank you.

Many of us here, last met in similar convivial circumstances in 2007, for the 40th anniversary of the Central Bank. Since then much has changed. The greatest economic and financial crisis of our generation happened. Indeed, it is still with us. So let us take time to reflect on the last two years and try to look forward to our role in the pursuit of our Prime Minister's challenge of ***Maurice Ile Durable*** . But as we do so, there is just one thing ahead, of which we can be sure, in the immortal words of Yogi Berra, the US baseball star:

'the future ain't what it used to be!'

This is not the moment to go over the now well-documented blowing away of so many star players in the western banking system and its knock-on effects in the real economy. That is all available in the roaring paperback trade; and those failed econometric models are just today's pulp fiction. So as an economist I agree, somewhat with hindsight, with Kenneth Boulding, another economist – whose textbook guided my first steps in the field and figures among my most-prized possessions. Boulding succinctly expressed what many others have been thinking too:

"Anyone who believes that exponential growth can go on forever in a finite world is either a madman, or an economist!"

For what lies ahead for us is, nothing less than, a rethinking of western finance, and in the words of Kevin Warsh, a Governor at the US Federal Reserve:

*'We are witnessing a fundamental reassessment of the value of every asset everywhere in the world. [*And] *…… a new financial architecture…*' is taking shape before our eyes.

As we look back across the debris of a collapsing western system of thought and practice on banking and financial matters, we might well ask, why did we miss the call to action before. Could the doctors in charge have saved the patient? What were the telling signs and symptoms?

The very first cough maybe? When Barings Bank, with a Royal seal of approval, was hit by their own young man in Hong Kong, who sold them down the futures and derivatives drain, while senior managers were sipping cocktails…. perhaps the pink champagne with which this Governor is allegedly permanently sozzled.

If we look back, there was once a time when accountants were thought to be, if anything, rather boring, and absolutely straight: then there was Enron and Madoff.

There was once a time when bankers led the field in asserting 'safe as houses'; we don't seem to hear that phrase too often now! But have we yet put in place a re-designed system to review the content of assets and their continuing value in the Books? We know Basel II is not the end of the road? But will even a Basel III be solid enough? Will the new codes of the International Accounting Standards Board, with the move away from current fair-value rules, set us up straight again? Will they reach an accord with the US Financial Accounting Standards Board, so that we have a unified western system? But while we are sorting out those books, who is keeping the accounts on the depreciation of the natural assets of the paradise isle and the costs of climate change and sea level rise?.

There was once a time when one could say 'safe as the Bank of England', but even that seems to have lost its currency! As we see major banks in key countries becoming wards of the state, we can't help musing that there was once a time when bankers might have preferred defenestration to nationalisation!

Is this the end of the history of the western financial and banking model and the public/private divide?

'The old order changeth, yielding place to the new...'

as Tennyson intoned in *La Morte d'Arthur*, and with foresight warned:

'lest one good custom should corrupt the world.'

There was once a time when we spoke of the promise of a stable state and an end to poverty. Even development economics followed a set of well-established principles; and banking never hit the headlines. Now banking seems daily to be front page news. And over the last fortnight we at the Bank of Mauritius are contributing our fair bit as well.

You know I'm not really one for conspiracy theories. But last year, when they made another James Bond film, I was reminded of the advice of Goldfinger to Bond, in that eponymous thriller:

'Mr Bond, they have a saying in Chicago -'Once is happenstance; Twice is co-incidence; The third time it's enemy action.'

Obviously, we must not become paranoid and see enemies and conspirators everywhere. But, maybe we bankers here should be heeding such advice, don our flak jackets and re-examine, with our economic partners, what banking is about, and what its future role should be in the real world.

What exactly is the business we are in? I think the crisis has given some useful pointers. As bankers, we are **not** in the business of making money: that is where we have gone astray, giving too much latitude to the young man in Barings, or the young man in Société Générale, or the army of bonus-seekers playing hard and fast with other peoples' money like Leeson and Kerviel.

The business of banking is business. It is doing business with you, the operators in the real economy, to promote more business, and through that to secure economic and social welfare and sustainable development. The money is not an end in itself. The bottom line matters…but so does the top line. That is why I have been keen to explore another model here which brings the money closer to the action in the real economy - Islamic banking.

Some of you may know I was not here last week. A pity, because they tell me there was a bit of street theatre that I missed. Last week, I was away in the Gulf States, as for some time I have been concerned that the champion we were counting on to support our move in Islamic banking, Dubai, was looking a bit wobbly and weak at the knees. I was right. And so with a few phone calls, some discreet and rapid negotiations in the Gulf, I have returned confident that we shall be signing up partners from a cash-rich Gulf state to establish a complete Sharia-compliant banking service in Mauritius. This will set a new pace for our business and banking world. And I am pleased to report that we are now a full member of the Islamic Financial Services Board, the international standard-setting body in this rapidly-developing area. Which makes us the second non-Islamic country, after Singapore, to accede to this coveted position.

Islamic finance will bring a new model for banking and for business to revitalise our partnership with the real economy, in big business and in small. Watch this space. These Arab thoroughbreds move fast and are bred to be quick on the turn. For I sometimes fear the western model of banking has an inherent kamikaze conservatism; a bit slow on its feet under fire. In that sense it is rather like a former South African Archbishop's depiction of his Church:

' like a train that will not take a sharp turn'

Now at this point, I must confess, I have heard mutterings that, sometimes at these events, I tend to drift a little beyond my allotted time! So let me reassure you of two things. First there will be for insomniacs a fuller version of my take on what we did this year in the Letter to Stakeholders to be issued in a few weeks' time. It will be on our website. Which means I shall be the soul of brevity now. Second, echoing the words of Lord Birket, I do not object to people looking at their watches when I am speaking. But I do strongly object when they start shaking them to make certain they are still working!

Briefly, then, I take my hat off to you all here tonight in your response, as innocent bystanders, to the financial crisis that has been shaking the world beyond our shores. Government fiscal policy has been bold, just and effective. We at the Bank have adjusted our monetary steps to dance in perfect cadence. To some applause from the Fund and the World Bank, I must add.

Our banks have been prudent and a safe harbour in the storm. The private sector and our sanguine people in the market place have managed the business of business very well. I think tonight you can all take a collective bow! For unlike the general crash, abroad, here in Mauritius these last two years have definitely **not** been the worst of years. Indeed, all things considered, they shine through as some of our best, showing our fortitude and good judgment in weathering the storm. For here in Mauritius there is:

- No crisis of credit,
- No crisis in housing,
- No collapse of banks, and
- Regulation which is sound, just, timely and respected.

What is more, here in Mauritius:

- Inflation is coming down,
- Public debt is declining,
- The economy is buoyant,
- Revenue is increasing,
- Growth remains positive and
- You (at least) are all pretty safe in your jobs.

Here, I am reminded of the difference between recession and depression, as defined by Harry Truman:

'It's a recession when your neighbour loses his job; it's a depression when you lose yours.'

Now, as some of you may guess, I am very preoccupied these days but I am certainly not depressed. For we are:

- Improving our forecasting methods,
- Establishing more transparency,
- Already rolling out added support to enterprises in distress and to sme's,
- Seeing more efficiency and more customer-friendly services, stimulated by our smart fresh high street entrants showing the old timers a new trick or two, and
- Moving towards a regional role as a clearing house for COMESA.

Total assets in banks here continue to grow well, both in deposits and advances, with scarcely a whiff of the toxic fumes that are besetting our distant neighbours.

Thus, as you will appreciate from these brief remarks, my stewardship of the Bank has not been as negative as some recent press coverage might lead the uninformed observer to believe. Let me give you a few other strong positives.

First, our management of foreign exchange reserves. Our net international reserves increased by nearly Rs18 billion to stand at Rs96 billion in October 2009. That's an increase of nearly 23% since December 2006. This constitutes more that 40 weeks' imports, as against 38 weeks of imports in December 2007, notwithstanding the rise in the value of imports during this period. Still on this topic, tiny Mauritius became the 2nd country to participate in the Fund's Gold Sales this year, coming hard on the heels of the South Asian Elephant, India.

Second, the exchange rate. The rupee exchange rate index MERI_1 and MERI_2 which we rolled out last year, has declined steadily since May this year to close at around 98 in November 2009, compared to its base of 100 for Calendar Year 2007, thus indicating an appreciation of the rupee. I understand that last week Bloomberg commented that the rupee appreciated by 2% vis ā vis the dollar, in spite of our "*Theatre de Boulevard*". The Bank also acted as lender of last resort in foreign exchange at about this time last year when trade credit lines dried up. I am sure the grand daddy of central banking, Bagehot, would have approved.

Third, banking and finance. The banking sector, which is the bread and butter of the Central Bank, has seen its profit surge by a full 50% since December 2006 to reach Rs12.6 billion for the year ended 30 June 2009. While banks in the rest of the world are drowning in red ink, we have seen non-performing loans declining to a historical low of 2.5% in September 2009. Thus, there is scarcely a whiff of the toxic fumes that are besetting banking elsewhere. Both banking sector assets and banking deposits grew by nearly 22% between December 2006 to September 2009. And there is not a trace of any credit crunch as advances have increased by over 60% to stand at Rs427 billion at the end of the period, of which nearly 40 % was directed to the domestic market.

Banks have also expanded their footprint in the country, with the number of branches going up from 177 to 202, and the number of ATM's increasing from 326 to 376 during the last three years. Employment in the banking sector has gone up by about 30 per cent from 4,923 in December 2006 to 6,365 in September 2009.

Many Central Banks have sent their officers to our Bank on attachment and study tours to see how we conduct business in various areas of central banking. This redounds to the credit of the institution, which is a small player but is known and respected.

Of course, when I look back over the past 21/2 years, I do have some regrets about what might have been but did not happen. I realize that vision is not enough to effect organizational change to make the Bank perform at optimal level. I am dismayed by the resistance which I encountered when I tried to introduce what is now being termed "dynamic provisioning" last year to provide for future expected losses, which was then sheer anathema to the accounting profession, but which is likely to become accepted as a new standard soon. Thus, the Bank missed a golden opportunity to be a pace-setter in this area in the emerging world.

Another regret is our failure as the main provider of data on banking, finance and international trade to the IMF to graduate to the IMF's Special Data Dissemination Standards. Had other key players in the sector shared our vision, we would have ranked with Malta and Cyprus, both of which joined the league of SDDS countries last week. All is not lost, though, as we are working hard to join this higher reporting standard so that we can rank among the best. Punching above one's weight has always been a key driver for many of my actions. This is done more easily if the entire team shares the same mind-set and is prepared to leave their comfort zone to reach ever higher and higher.

Hilary Clinton, the US Secretary of State, has been lavishing praise on our government as an economic and moral leader in Africa. The World Bank has given our economy a clean bill of health. The IMF is holding what it calls our "hybrid system of inflation targeting" as a model for other countries to emulate. And, for good measure, the Fund has re-classified our exchange rate regime as "free floating", going up one notch above "managed floating." We do not have the vaulting ambition to aim for the next level, which is that of a reserve currency!

To a troubled world we seem to have offered some fresh tuition. Yet we should beware of hubris. So let us be warned by H G Wells, one of the founding fathers of that fine institution, LSE, — much beloved of our Minister of Finance, and my daughter, — who asserted over 100 years ago:

'Human history becomes more and more a race between education and catastrophe'.

Thus we must learn from the current troubles, shrewdly building on our evidence-based approach to business, banking and finance.

The World Economic Forum index may put us top of the <u>African</u> league on probity, but we still come low on the <u>Global</u> list; Hilary likes our form of democracy, but the Privy Council has probed some of our political election practices and found some of our customs wanting. We may be getting along in economic growth; but what about the degradation of our natural environment and the effectiveness of our response to the risks of climate change and sea level rise?

Our lodestar must be the rule of law, and not those quaint misleading dubious customs of the past. Let us pay due respect to our electoral laws and codes, and our banking laws and regulations, and to the safe future of our natural environment. It is our commitment to these duties in business, that can best protect our state and our planet earth from degradation and our people and our leaders from unwarranted calumny.

Now, perhaps as never before, we must face the music, and press on with those reforms in our practices that will keep us resilient and on the fast track to growth with equity and justice. Or we will all face the fate of the dodo.

Finally, I must observe, that a core problem with business, as with fiscal and monetary policy, is knowing whether it will be a success. Last time I offered you the Maradonna theory of interest rates; tonight may I close by offering you the Albert Einstein theory of success. I hope this will help many in business who are addicted workaholics.

Einstein proposed a very simple formula: A= X +Y+Z, where **A** represents success in Life, **X** is work, **Y** is play, and **Z** is keeping your mouth shut. I can hear your silent imprecations that I pay some heed to that last **Z** element!

But, before I do so, let me call upon you all, to rise and drink a toast, to a prosperous new future for banking in Mauritius, coupled firmly with the real economy and the private sector and a firm commitment in our work to face the music and dance with agility to our own Mauritian tunes.

Thank you!