Escaping the Fate of the Dodo

Rundheersing Bheenick

Governor

BANK OF MAURITIUS

Address on the occasion of the Commemoration Dinner
for the 40^{th} Anniversary of the Bank of Mauritius
held on Friday 24 August 2007 at the Bank of Mauritius Tower.

A very warm welcome to you Mr President and Lady Jugnauth, to you Mr Prime Minister and Mrs Veena Ramgoolam, our Deputy Prime Ministers and their spouses, members of the Board and to all our guests this evening, who honour us with your presence, at this special Commemoration Dinner. And let me wish to all of my colleagues in the Bank of Mauritius here today, Happy Birthday! Happy 40th Birthday! and especially those benefiting from the pension fund: many…many…Happy Returns of the Day!!

I have to admit to you now, that, faced with the formidable history of the achievements of my predecessors, many of whom we welcome here tonight, I am feeling rather modest. A most unusual state to be in as Governor! Some would say, I suspect, a most unusual feeling for this particular Governor, often taxed – in the past, and wrongly, as I would say - with a certain arrogance and an "effortless sense of superiority"!

At the inception of the Bank in 1967, I had just completed my time at Oxford, broke, as is the fate of all students, and wondering what I would do with my life. Yet it was at this moment that Robin Harrison, the Warden of my college, Merton, Oxford introduced me to his old friend Professor James Meade[1] who came down from that other place, Cambridge, for an excellent lunch. Over lunch, Meade steered me towards demography and the runaway population explosion that he had identified as the biggest threat to Mauritius, which was then a world leader in the fertility stakes! Meade was pleased to see me to exchange views on the prospects for Mauritius. For it was he who with his team had planted that vital signpost in the early story of the economic and financial outlook for our country in 1961, with the seminal Report on the Economic and Social Structure of Mauritius.

The then Prime Minister, Sir Seewoosagur Ramgoolam[2], sent me a letter through Sir Dayendranath Burenchobay[3], the then Permanent Secretary at the Prime Minister's office – actually transmitted through no less a person than Raymond Chasle, then running the newly-opened Mauritius High Commission in London, inviting me to return to Mauritius, and detailing a list of openings in the economics field. The list included the Economic Planning Unit, The Development Bank of Mauritius, The Bank of Mauritius and the University. Since February this year, I can say, I have been associated with all the institutions on that list, in one capacity or another!

We have come a long way!

In truth, reflecting on the story of the forty years of banking, as we are doing now, makes me full of wonder and admiration for what has been achieved. I remain therefore heavily conscious of the responsibility we inherit for sustaining the course.

Meade was to become a Nobel laureate in 1977, but this year 2007, is also significant, as it is the 100th anniversary of his birth. His work in economics as an adviser to us in Mauritius and to other countries is perhaps not as widely celebrated as that of Keynes[4], with whom he collaborated, but it is more significant for us today through his contribution to the linkage between development theory and monetary practice.

In his invaluable report of 1961 to which I referred earlier, he produced about 100 detailed recommendations but just gave us one option for averting the fate of the Dodo[5] itself; invest and industrialise! The question was, should it focus on import substitution or on exports. The great and somewhat fruitless debate was engaged, the answer being not either but of course both. But Meade gave us the shock we needed to get us going. He continued to be a wise counsellor on policy and planning in developing countries.

In his Banquet speech on receiving the Nobel prize he had this to say about economists:

> *'The well-balanced economist …(has)… his warm heart on the Left, his practical work-a-day hand on the Right, and his clear and thoughtful head in the Centre.'*

A sage prescription for the profession. The history of the Central Bank here in Mauritius has, I believe, admirably reflected that balance.

Our saving grace, in the face of all the challenges which he outlined in such stark and ominous terms, has been the foundation of a secure financial system, firmly laid at Independence, and the period leading up to it, respect for law and order and a productive relationship with the colonial powers that was to ease open the gateways to the future and, not the least, at the heart of the economy, the banking sector.

William Kogan, a distinguished economic journalist has referred to Meade's approach as

> *'a model of globalization that doesn't leave anyone behind.'*

He adds, Meade's

> *'was a pragmatic approach to management of economic stability, embracing globalization, but taking responsibility for handling its social and economic consequences.'*

Meade would be in the league now with those macro-economists who today are concerned for the 'losers' from Globalization such as Joseph Stiglitz[6], and Lawrence Summers[7]. Meade also had some sharp things to say about our need for technical transition. He referred to the:

> *'startling ignorance (in Mauritius) of modern ideas about education and its true purpose'*

and he encouraged a greater attention to technical inefficiency then rampant in the public sector with its lack of Organisation and Methods study to link inputs to outputs. We now begin to see in Mauritius forty years later a more problem-oriented approach to education and continuing professional development as core principles for human capacity-building. In the new Medium Term Expenditure Framework of my friend the Deputy Prime Minister and Minister of Finance and Economic Development we now also have a target date for establishing results-based budgets for the whole of the public sector. Change does not always come fast; we must be patient. Some reforms can take a generation to flower, as they have to press against the embedded climate of inertia inherent in our traditional culture and values.

In 1961, when Meade was reviewing our gloomy prospects, we not only had no Central Bank and no Stock Exchange but we also had to confront a kind of unholy alliance somewhat opposed to such ideas of regulation and standardisation. Surely, some might have mused, Independence would mean just the opposite: a free operation of the market, de-regulation and an escape from colonial-style central control.

In the early days the old Chamber of Brokers convened, informally in a little room, for quietly facilitating the buying and selling of private shares in local family companies. Rather different today; but did reforms come about in a seamless way, an inescapable progression in our unfolding destiny? Indeed no; and many here can offer evidence of the immense efforts expended in achieving the difficult transition from the third to the first world - or at least the doors of the first world, for we are certainly not there yet. Reform requires first inspiration, then perspiration, with determination and courage aplenty to overcome the innumerable set- backs and the disappointments on the way!

James Meade's seminal report was a shock from which we have mercifully recovered, more than once! But I suspect it was always intended to be a wake-up call, not a requiem. In his summary section, he declared:

> *'Continuous and self-sustaining improvement in production and in the real standards of living can be achieved in Mauritius only if over the next five years or so there is <u>a relentless effort</u> to introduce all those economic reforms which are essential to set this process of economic growth to work. '*

If there is a secret to the continual forward impulsion of the country it is set in the foundations of the state itself and the capacity of its leaders and the sturdy fortitude of people of our country to want something better for their country and for their children. We have now so much we owe to the aspirations of our parents and the strength of our family life!

In one of the formative policy documents which set the scene for Independence, Sessional Paper No.9 of 1966[8], we find the following context for our work:

> *'Ministers of Finance have their ears to the political ground; A Central Bank should concern itself with the economic facts of life and above all should be 'in' and 'of' the financial and business community.'*

Tellingly, this paper refers to the Central Bank as the 'Government's Bank' and the 'Bankers' Bank'. That was a key formula for the times, defining the role of the new Bank-to-be in providing advice to Government and to business on domestic monetary and economic matters.

I am the sixth Governor of the Bank of Mauritius. It is a great honour to follow the lead of those five men before me.

The life of a Governor in this part of the world for those who are statistically- oriented is about 8 years, but with a large deviation, from the shortest 2 years to the longest 14 years. Sir John Shaw Rennie[9], Governor of Mauritius, at the inauguration of the Bank, and addressing its Governor, remarked that his wife had drawn his attention to a dictionary definition of governor:

> *'an automatic attachment to an engine for controlling the speed, usually by regulating the supply of working fluid.'*

Happily not a phrase appearing on my job description!

The first Governor Mr Aunauth Beejadhur[10], having just opened the shop for business on 14 August 1967, responding to the immediate challenges on his desk, had this to say at the official opening three weeks later:

> *'We intend to proceed cautiously…The Bank would not have seen the light of day if it were not for the imagination, the sagacity and drive of the Premier and Minister of Finance. He has untiringly brought one more financial institution into being and continues to watch over its fortunes, with undiminished interest… '*

But the first Governor was a man in a hurry. For he proceeded in short shrift to take over the Exchange Control Department on Friday 1st September, and on Monday 4th September, to issue bank notes, in the name of the new Bank, sent under close security by our good friends at De La Rue. I salute the presence of the CEO of De La Rue, Mr Quinn, at our commemoration dinner tonight.

The actual origins of the idea of the Bank were disclosed in the Second reading of the Bank of Mauritius Bill, no. 33 of 1966, on the 5th July that year, when the Premier mentioned that he had been thinking of a central bank since the 1940's, citing the then leader of the Opposition, Jules Koenig, in support of his claim. If we are commemorating the birth of the Bank in 1967, we should I suppose cherish the thought that the first twinkle in the eye of the father of the nation, the creative urge, was some twenty years earlier. Some gestation! Our debt to our founding fathers is truly immense.

At its birth the Bank inherited a fixed link with the pound, at Rs 13.40!, Now there is some nostalgia for you! I have been reminded of one of the early tests for the Bank, by a good friend[11], a scrupulous analyst and commentator on financial affairs of state, with his store of memories from a vantage point very close to the centre. The courage of the Bank was immediately tested in its capacity for taking an independent line in September 1967, when the pound sterling was devalued.

After some consultation with expert opinion and in concert with the then internal adviser seconded from the Bank of England, who was also the Managing Director of the Bank of

Mauritius, Mr. Donald George Herbert Cook[12], it is reported, the consensus was that the rupee should follow the pound sterling. The Bank presented documentation to the Premier and Minister of Finance to devalue the rupee in line with the pound sterling. *Un moment critique*! To say there was hesitation by the Premier, is to lightly paraphrase my informant's account! I understand an official communiqué some days later, presented the remarkable paradox to the faithful people, in language worthy of Sir Seewoosagur Ramgoolam:

> *'The rupee is <u>not</u> being devalued; the Government has decided to maintain its relationship with the pound!'.*

With a heavy reliance on sterling trade, this was one way to resolve the dilemma and preserve the independence of the Bank, even if it stretched the meaning of the English used to its very limits.

Tonight, however, is not the time or the occasion for me to try to trace the blow-by-blow history of the crises met and resolved by my predecessors and their gallant teams. In the course of this year we are to prepare a series of events and publications which will more thoroughly explore that history, the dilemmas, the decisions and the people involved. It is a fascinating story, which culminates with us tonight being able to commemorate forty sturdy years of this Bank in its fearless service of the country.

But I cannot let the opportunity go without making some mention of the pathway we have travelled, some passing reflections on the bases of policy development and a few of the principal 'dramatis personae'.

So I am glad to say that we have with us tonight a wondrous clutch of previous Governors, Board members, leading lights from the commercial banking sector, the chambers of commerce and government, and distinguished actors from the wider world of economics and finance, many of whom together have contributed to the undoubted success of the venture embarked upon 40 years ago, plus others here who will continue to guide our future.

I am especially pleased that we are honoured by the company of two of our former Governors of the Bank:

- **Sir Indurduth Ramphul,** appointed Governor - in 1982 and who continued until 1996, and

- **Mr Mitrajeet Dhaneshwar Maraye,** appointed Governor in 1996 who continued until 1998.

In a different capacity, I was instrumental in ensuring a smooth transition between the two of them. I very much regret that my immediate predecessor

- **Mr Rameswurlall Basant Roi,** appointed Governor in 1998 and serving until 2006, was not able to be present with us tonight.

I am very pleased that, marking the history of the Bank, we have with us tonight the son of our first Governor Mr. Beejadhur, and the young nephew of the second Governor Mr Bunwaree[13], who is also here in his capacity as a former Minister of Finance. May I say I am delighted that Lady Ringadoo the widow of our first Minister of Finance on Independence[14] is with us tonight. The other former Ministers of Finance who are sadly unable to be present here tonight are Mr Paul Berenger[15], Mr Vishnu Lutchmeernaraidoo[16] and Mr Pravind Jugnauth[17] who have sent their good wishes for this historic occasion.

Finally, I want to say, how glad I was to know that Mr Leo Quinn CEO of De La Rue plc has been able to make the long journey from the UK, to represent our banknote and security printers, as we were amongst their first colonial clients.

I wanted also to refer to certain milestones along the pathway we have travelled together, which have helped to consolidate the role of the Central Bank, as an indispensable institution of governance in a modern democratic state. In talking with people, however, about the history of the Bank, it is evident that there are many quite different perspectives, making a kaleidoscope of impressions of the journey made in the passage of time.

Some see the story in terms of the issue of new currency; the banknotes and the coins with the images of monarchs and presidents and the great and the good. Some consider the milestones are the laws which have prescribed the duties and powers of the Bank, one account even citing the legendary UK Bills of Exchange Act of 1882, the model on which subsequent legislation for Mauritius was built, followed by the Banking Ordinances of colonial times and then the Banking and Companies Acts of the Parliament of Mauritius. Others see the story in terms of the changing structure of the Bank to respond to the need for implementing those laws and providing the operational mechanisms increasingly adapted to the needs of modern banking. They cite for example the coming of Departments for Research and for Information Technology, which strengthen our back-office capacities and with the Administration Department itself, serve the needs of the continually-developing frontline Departmental functions of the Bank; the Departments concerned with Financial markets, with Accounting and Budgeting, with Banking and Currency and with the Supervision of financial institutions.

Other people, when you ask them about the significant events in the life of the Bank, will talk of appointments, disappointments, personal careers, departures, marriages, deaths, fires, even a strike; these are the sagas of the internal and personal life of the people here who make the Bank a working living organism at the service of the State and the people.

Beyond the internal workings of the Bank itself there are other perspectives too, those of the wider Banking and commercial community in Mauritius, our investors and creditors, the global banking community, the Governments who have accorded us our role and last but not least the citizens of this country on whose trust we depend.

In mapping the history of the Bank over the coming months we shall try to bring together these strands in the real life story of this complex Institution, warts and all.

At the silver anniversary of 25 years of the Central Bank in 1992, the then Prime Minister, now President[18], had this to say about the place of the Bank in Mauritian society; the Bank is, he said,

> *'a centre of moral authority, an authority capable of expressing constructive criticisms in moments of exaggerated optimism or exaggerated pessimism. To succeed in this mission the Bank required from the outset public friendship and support and public confidence'*

Indeed, as we well know, trust and confidence are the primordial qualities for a central bank:

> *'Who steals my purse steals trash; 'tis something, nothing…*
> *but he that filches from me my good name,*
> *Robs me of that which not enriches him,*
> *And makes me poor indeed'*

As in Shakespeare's Othello with this delineation of the political values in the 16th century Venetian court, so in Banking today name, trust and reputation are all.

The reputation of any Bank takes years to build and can be lost in moments. That good name of this Bank, and of banking in Mauritius in general for that matter, has been bought by the diligent toil of so many here in Banking past and present.

Over the next year as we set down the history of the Bank of Mauritius, chapter by chapter, we shall be also capturing something of the social dimension to show the character of the changing times and the pattern of working of our dedicated staff. In opening this chapter recently I have been reminded of some of the social elements of those early days and I hope that many of you here will help in the coming months to paint in these aspects of the picture with anecdotes from times past.

For example, we have been reminded by the longest-serving members of staff, of the initial days when there was not one building for the Bank of Mauritius as now; the staff were scattered in as many as five different locations. In 1967 there were no computers, no electric accounting machines, no electric calculators nor even electric typewriters. All was largely done by hand, mostly in pen and ink.

Many of the junior staff were recruited straight from school but had to sit for an exam including a précis and questions to be answered on the scope and content of the 1966 Banking Ordinance, before they would be taken on. Hours of work were generally 9-4 but on Thursdays and Saturdays they were 9-12. Long gone are those days of Saturday banking.

Trousers for women were banned; no married women were recruited to any Bank in Mauritius and when a girl on the staff announced her marriage, she was forced to resign. This rule was only revoked in 1974 after continued protests, and by a special edict from the Prime Minister's Office; but women who came back had either to repay the compensation they had received on their early departure, or lose seniority.

That was a different world that we must document before the passage of time buries these secrets of the past from our collective memory.

If I refrain from elaborating on the history now, let me make two points about monetary policy and investment. Economists are commonly expected to have a position on macro-economic matters derived from theory covering monetary policy and practice as a basis for shaping advice on decision-making. These theoretical principles may derive from the 18th century classical economics of the Free Market, the neo-classical developments of the late 19th century Alfred Marshall[19], from John Maynard Keynes' postulates for promoting full-employment in the post-Depression era, the post-Keynes developments by Nicholas Kaldor[20] and his colleagues, to respond to the challenges of wage inflation, from the modernist positions of Milton Friedman[21] to control money supply, and from even the post-modernist evidence-based approaches of Jeffrey Sachs[22]. It was Sachs, one of today's 'big shots' in macro-economics, who at a stroke put the brakes on hyperinflation in Bolivia in the 1980's. Each of these iconic scholars represents schools of thought which to the outsider have something of the appearance of coteries or clubs of isolated sects.

Now on such matters of economics schools, clubs and theories I tend to keep an open mind, without going to the extreme position of my friend Marx… Groucho[23] of course! He once famously declared:

> *'Any club that would have <u>me</u> as a member… I would not want to join!'*

You see monetary theory has been growing wildly for years and I guess is just about approaching its infancy, that is as an evidence-based arena of positive economics.

On an occasion such as this, I am sure you would not want me to further explore the intricacies of this very complex subject. Yet as we celebrate all those medals gained in the *Jeux des Iles*[24], although as a central banker I have to say unhappily rather more in bronze than gold, as we enjoy the opening of the new Season of the Premier League, and as we come fresh from the third meeting of the Monetary Policy Committee, I cannot resist offering a sporting metaphor, as a vehicle for my take on Monetary Theory and its application to national economic policy.

In doing this I would like borrow from the 'Maradona theory of interest rates' as enunciated by an elder in the *metier*, our colleague from the Bank of England, Governor Mervyn King, in his Mais lecture in 2005. It is a football metaphor, that beautiful game for gentlemen commonly played by ruffians!

The Maradona Theory of interest rates is, I believe, a really innovative and apt contribution to the bulging portfolio of macroeconomic theory. The Maradona theory is named after the famed Argentinian footballer Diego Maradona, - *and was there a greater ruffian than he in the annals of that beautiful game?* If I may be allowed to elaborate just a little, this theory encompasses, iteratively both a classical free-market approach to theory and a post-modernist line. The field-work setting is the World Cup in Mexico in 1986 when, you may well recall, the Argentinians swept a strong England team out of the world competition when Maradona notoriously scored two remarkable goals.

The first goal aptly illustrates the Adam Smith[25] principles of the free unregulated market and the operation of the 'invisible hand', or as the great Diego subsequently called it, 'the hand of God'.

The second goal, Mervyn King declares, admirably illustrates the power of expectations in the modern theory of interest rates.

As with the Manchester United Portuguese star, Ronaldo of the modern game, when his legs are crisscrossing to deceive the tackler, the ball itself continues rolling straight on with its initial forward propulsion. The five defenders, confronting the Argentinian star in 1986, fell in turn to one side or the other expecting a corresponding feint. Maradona ran some 60 yards from inside his own half, beating the whole defence and then the goal keeper, keeping in virtually a straight line. This, King declares, illustrates the misguided power of expectations: the conflict between appearance and reality.

Monetary policy, says King, works in a similar way: market interest rates react to what the Central Bank is expected to do. Thus, no simple rule must be applied if the object is inflation targeting and the stability of the markets. The precise rule that Central Banks follow is less important than their ability to condition expectations. But once the cat was out of the bag, neither classical nor post-modernist theory could help even Maradona to score again in the match.

So monetary policy must be embedded in a continuous process of learning; or what Jeffrey Sachs refers to as *'the process of clinical economics'*, an evidence-based iterative process of the continuing testing of fresh hypotheses.

In the short run monetary policy, wisely attuned, does affect output and employment and so has the potential to be an effective stabilisation tool. Inflation targeting requires two elements, a medium-term target and a short-term response to economic shocks. King calls this

> *'a framework of constrained discretion'.*

Together with the Minister of Finance, the members of the Monetary Policy Committee, and the research staff at the Bank, we are now getting these elements more firmly in place.

The second big point I want to make, if I may crave your further indulgence, is on the urgency of the promotion of savings in line with the new economic framework of the Government. Without wishing to upset the apple-cart with my commercial banking colleagues, we must extract ourselves from what have been referred to as the

> *'disasters of a culture of wild speculation and debt delinquency'*

that are eroding economies of the world. Whilst the Polonius[26] financial policy

> *'never a borrower nor a lender be'*

was never good news for banking, we must be concerned when these days it seems easier to spend on credit than to save; I'm told you can even borrow money from one credit card company to pay off a loan from another!

In the past weeks there has been a spectre hanging over the banking world emerging from the sub-prime market in housing loans in the US and ricocheting off most other components of the complex market in credit. For every loan there has to be a clear reciprocal relationship between debtors and creditors.

Here in Mauritius we can see in microcosm the problems of the failure of this relationship emerging in the sale-by-levy traumas and the new processes of regulation and family support that have been so rapidly put in place by the Government to help the poor debtors subjected to such foreclosures. Ultimately there are of course no free lunches and no free loans; people must be persuaded that in the end, if you borrow, you have to pay it back and the sooner the cheaper. It is certainly a concern if we are to drift on the Moody's scale of reliable debtors.

One of our tasks ahead is no less than to change the culture and the forms of access to services. Just as the Government and even our Civil Service are trying to become more and more people-oriented, so this Central Bank needs to achieve that transition from being The Bank of Mauritius to being the Bank for Mauritians; the Bank of the People. We must make the sound financial choices for every family, the easy choices. We must also re-orient our communications accordingly. If we want to penetrate a new market, we must adopt a marketing strategy to compete with the other goods and services ordinary people buy. We will need a new language for getting the message across. As has been said in a recent IMF seminar on finding this new market, the people out there have a different set of priorities in terms of the trends and the shape of the economy and their options for saving or spending:

> *'They don't care about the shape of the Phillips curve, but they do want to know if their mortgage payments are going up'*.

We may even have to start giving away pens rather than chaining them up at the counter.

We must also beware of viewing the world of banking just as a bunch of accountants and economists, of whom George Bernard Shaw said:

> *'they know the price of everything but the value of nothing!'*

For in Mauritius, in these forty years that we celebrate today, we have come to treasure not just the Treasury Bills, but also the non-traded assets of these islands. Trust, probity, friendship, truth and beauty. Let us cherish these values above all in the years ahead; the natural and human assets of our homeland.

So what is the agenda for the next forty years. Who can say? It is tough to make predictions, especially about the future! Much experience in forecasting suggests that its principal function is better to illuminate the <u>known</u> unknowns.

As we establish more elaborate computer-based models for our planning we should perhaps test-run them through the 1967 data when we opened for business and see how far they would reveal the shape of things now. Something for our research team to use as the litmus test for any new mathematical modelling kit!

In recent years, the world of finance has encountered what Taleb from the US, a professor of the science of uncertainty, denotes as the 'Black Swans' of economic life, the unexpected eruptions which sharply deviate from the smooth transitions of the Gaussian bell-shaped curve. We must be ready for the unexpected and nurture a capacity for resilience to withstand the future shocks and crises.

IBM forty years ago was predicting little future for the PC, entrenched as they were in main-frame systems; when "Big Blue" failed, Bill Gates was the beneficiary. In the US they used to consider the profession of accounting straight, if rather boring, and company accounts a fair presentation of the financial state of affairs. That is all being swept aside in the light of unexpected events, with the new tighter company regulatory systems; adieu Arthur Anderson and the rest.

That is the Black Swan bad news; but a fairer wind blows: now Goldman Sachs is telling us that socially-responsible companies are out-performing the global stock index by a stunning 25%. Those companies, that have more concern for their ecological footprint, get a larger payoff and are increasingly attractive to investors. We should anticipate that here and, indeed, promote it to be ahead of the game.

Despite the future uncertainties, to say nothing of the uncertainties of Futures, we are reshaping things here at the Bank, by what might be called a little light re-engineering. Supported by its own dedicated research unit, the new Monetary Policy Committee is now in place. The outcome of its third meeting was announced this week. In the last fifteen years, inflation targeting has taken the central banking world by storm and through this MPC vehicle we are hoping to get on top of this elusive matter.

Let me also mention some of the other steps we are already taking to change the face of the Central Bank whilst preserving its essential role. We recognise that in these small islands, banks should take more of a role in community-leadership and in conserving the natural capital of our country and its heritage. So, working hand in hand with our colleagues in the banking and finance community in promoting these principles, we are developing a new eco-friendly theme to extend the idea of garden cities and the eco touch into the capital, the major towns and various districts. We are planning to entrench our presence in the island of Rodrigues. Islamic banking is coming, and other financial facilities are on the agenda too, with guidelines still awaiting to be developed in many of these areas.

We are bringing in more outside talent to promote an R&D theme in our work to assist our drive to adapt international best practice to our changing needs. Whilst combating inflation is in sharp focus as it should be, we see that as just one element in the primary functions of the Bank to maintain price stability and to promote orderly and balanced economic development. That can only be done with closer links with the world of employers, trade unions, and other economic operators through their respective chambers and associations.

We are also establishing a process of continuing education and development for professional staff, aided by commercial banks. Consultants from another central bank are reviewing our organisational structure and practices.

High on our immediate priorities is completing the implementation of Basel II with its risk-sensitive components in our supervision of banks. But we are also aware that our regulatory function needs to be increasingly extended to the wider range of financial dealers.

Forty years ago there were just five banks and very few others in the formal business of money transactions; now we have 18 Banks, 13 non-bank financial institutions with deposit-taking transactions, 3 registered bureaux de change, and 5 registered foreign exchange dealers. That makes some 40 in all; an eight-fold increase in forty years! This is a sign of the expanding economy but at the same time it translates into an increasing challenge for our key function in keeping the system reliable and clean.

In the speech of the then Minister of Finance, Mr Rama Sithanen, at the 25th anniversary of this Bank, he wisely observed that throughout history we see that:

> *'evolution depends on small currents as well as great tides…the ability to sense a trend, the will to act on understanding and intuition.'*

Amid the flux of the future life of the Bank, we must do several things: ensuring continuity, probity, and above all adaptability; securing a stable state within a changing world; making investment more accessible; bank-rolling effective innovation; and playing our part on the regional and global stage. We must be willing to learn, though we do not always like being taught! As we are opening our doors to over-the-counter sales of

Government and Bank instruments to the general public, so we are opening our ears to the best practice and best advice from beyond our walls.

We are committed to playing a lead role beyond our shores in regional and global banking. The African Union has set the future targets to which we are signed up: this agenda includes an African Central Bank; an African Monetary Fund, and an African Development Finance Institution. It is of course no state secret that our friends in De La Rue have yet to be asked to tender for printing the new Afro, which must remain for some time to come more an ethnic hairstyle than a unit of regional currency.

You might ponder on the fact that from Jean Monnet to Jean Claude Trichet – that is from the concept of European money to the final trick of issuing the new notes for Europe -- took over 50 years. I think we could do better than that!

My vision of the future includes a wider role for us in promoting greater transparency in Banking, better communication with the public and the banking sector, and greater consumer protection. At the heart of transparency and consumer protection are education and effective communication not just with the banking community but with the country at large. That is a vital task for all banks in a modern world and especially for the Bank of Mauritius in setting the tone and style for sustainable development. We are now becoming the institution that Sir Seewoosagur Ramgoolam called for in that 1966 debate I referred to earlier, one worthy of developed countries, along with the Development Bank and the Economic Planning Unit.

In 2004, the International Development Research Centre (IDRC) reflected on the success of the development of Mauritius and its banking and financial sector. It did not see the story as one of seamless progress. Where Meade had presented the haunting vision of catastrophe ahead in the 1960's, the IDRC paper highlighted the downside, for example in the 1980's, and listed the challenges ahead.

The IDRC underlined the severe economic setbacks of 25 years ago, soaring unemployment, rapid inflation, acute foreign exchange shortages, low reserves, public sector finance in a shambles, low investments, increasing debt and the rest of it. But by 1988, with the success of the EPZ sector, more favourable terms of trade and falling oil prices, those dark clouds had dissipated and near full-employment was reached.

The relative success of Mauritius which is evident in a regional perspective, was not dependent on a single factor or a formula that could be replicated elsewhere. Key elements included the following: political stability - Mauritius is not considered a high risk country politically -, strong chambers of agriculture and commerce, an educated population, a pro-business government, fresh COMESA preferential trade (with many opportunities yet to be exploited) for niche markets, the unfolding of the policies of the regional hub, delocalisation of production, and more investment in other countries in the region such as Madagascar, Mozambique, Lesotho, Cote d'Ivoire by then being exploited.

The IDRC recipe for continued success requires sound macro-economic management to sustain international competitiveness, bringing unemployment down to 2% without jeopardising inflation, reducing public sector expenditure to 22% of GDP, bringing more banks into the financial sector to promote competition, a foreign-exchange management monitoring committee, greater productivity and competitiveness, co-ordinated mechanisms for promoting investment, R&D, low and uniform level of protection, and more effective negotiations at the WTO.

We give thanks for the lives of those who over the last forty years have given their services to this Bank; the foundations on which a great Bank is built. In the *Jeux des Isles* one of the concluding events is the relay where the athletes complete their run and then pass the baton to the next and so on towards the winning line.

At this anniversary event we take on that baton passed to us from the former Governors here, Board members and staff, with the determination to compete in the future to match and outmatch their performance, adapting our stride to the new course as it unfolds.

In keeping with the occasion we are presenting to the President and to the Prime Minister a newly-carved large wooden Dodo. This bird is the traditional icon of the Bank of Mauritius. In the English language, our bird has achieved an unenviable notoriety representing, as it does, the grim finality of species extinction. We are taking the liberty of also placing a replica of this carving in the new entrance hall of the brand-new Bank of Mauritius Tower, as a continuing reminder to all of us who work here of the fate that becomes a species that fails to adapt to its ever-changing environment and the threat from new predators!

Once again, thank you for honouring us with your presence to-night. Enjoy your dinner. And thank you for your attention.

Notes

[1]**James Edward Meade**, 1907-1995, economist, author of "*The Economic and Social Structure of Mauritius*" (Methuen & Co, London, *1961) and "The* Economic and Social Structure of Mauritius: Report to the Governor of Mauritius" (Publisher**:** London, Cass, Date**:** 1968.), chaired the Economic Survey Mission to Mauritius, 1960-1961. He prophesied in the early 1960's that Mauritius's development prospects were poor—that Mauritius was a strong candidate for failure, with its heavy economic dependence on one crop (sugar), vulnerability to terms of trade shocks, rapid population growth, and potential for ethnic tensions. History—or, rather, Mauritius—proved Meade's dire prognostication famously wrong.

[2]**Sir Seewoosagur Ramgoolam**, known as the Father of the Nation**,** LRCP, MRCS (18 September 1900 – 15 December 1985) was the Prime Minister of Mauritius from 1961 until 1982. As decolonisation swept the third world, he led his country to independence from the United Kingdom in 1968. He was Governor-General of Mauritius from 28 December 1983 until his death in December 1985.

[3]**Sir Dayendranath Burrenchobay**, (24 March 1919 – 29 March 1999), served as Governor-General of Mauritius from April 26, 1979 to December 28, 1983.

[4]**John Maynard Keynes**, (1883 – 1946).Noted principally for his 1936 publication "The General Theory of Employment, Interest and Money."

[5]**The Dodo** (*Raphus cucullatus*) was a flightless bird that lived in Mauritius. The dodo has been extinct since the mid-to-late 17th century. It is commonly used as the archetype of an extinct species because its extinction occurred during recorded human history, and was directly attributable to human activity. The phrase "as dead as the dodo" means undoubtedly and unquestionably dead.

[6]**Joseph E. Stiglitz**, (1943 -), 2001-winner Nobel Prize in economics, cabinet member of the Clinton Administration, served as Senior Vice President and Chief Economist of the World Bank, author of "Globalization and its Discontents".

[7]**Lawrence Henry ("Larry") Summers**, (1954 -), American economist and academic. He is the 1993 recipient of the John Bates Clark Medal for his work in macroeconomics, was Secretary of the Treasury for the last year and a half of the Clinton Administration, and served as the 27th President of Harvard University from 2001 to 2006.

[8]Parliamentary Paper in Mauritius.

[9]**Sir John Shaw Rennie**, (1917-1981), was Governor-General of Mauritius from March 12 to September 3, 1968. Previously, he was the British Resident in what is now known as Vanuatu from 1955 to 1962, and the governor of Mauritius from 1962 to 1968, when Mauritius gained independence and Rennie served his brief term as governor-general.

[10]**Mr Aunauth Beejadhur**, first Governor of the Bank of Mauritius from July 1967 to December 1972.

[11]**Philippe Hein**, who was then serving as the first Mauritian Executive Director of the Mauritius Employers Federation from 1968 to 1974.

[12]**Mr Donald George Herbert Cook**, first Managing Director of the Bank of Mauritius, from July 1967 to June 1968.

[13]**Goorpersad Bunwaree** , Former Financial Secretary before becoming Managing Director of the Bank of Mauritius, from 1969 to 1973 when he became Governor.

[14]**Sir Veerasamy Ringadoo**, GCMG (1920–2000), was Minister of Finance from 1968 to 1982. He was Governor-General of Mauritius from January 1986 to March 12, 1992, when Mauritius became a Republic. Ringadoo then served as acting President of Mauritius until late in 1992.

[15]**Paul Raymond Bérenger**, (1945-) is a Mauritian politician and former Prime Minister of Mauritius from 2003 to 2005. He was Minister of Finance from July 1982 to March 1983.

[16]**Vishnu Lutchmeenaraidoo**, Deputy Prime Minister, Minister of Finance from 1983 to 1991.

[17]**Pravind Jugnauth,** Deputy Prime Minister and Minister of Finance from 2003 to 2005.

[18]**Sir Anerood Jugnauth**, KCMG, QC (1930 -) is now President of the Republic. He served as Prime Minister from 1982 to 1995, and again from 2000 to 2003. Sir Anerood Jugnauth is credited with the paternity of Mauritius' "economic miracle" of the 1980's - a set of liberal policies such as the creation of a duty-free trade zone and establishing Mauritius as a leader in textiles production - which allowed the island to develop into an economic powerhouse in the region.

[19]**Alfred Marshall** ,(1842 – 1924), British economist, noted for his 1890 publication "Principles of Economics".

[20]**Nicholas Kaldor**,(1908 – 1986), British economist. His works on macro-economics had a major impact on the application of economic theory to government policies of western countries.

[21]**Milton Friedman** ,(1912 – 2006), Nobel Prize winner in Economics, noted for advocating the free market system and monetarism.

[22]**Jeffrey Sachs** , (1954-), Director of the Earth Institute and Professor of Sustainable Development at Colombia University, USA.

[23] **Groucho Marx**, Famous American film comedian in the 1930's.

[24]**Jeux des Iles:** Regional sports competition involving Indian Ocean islands. The competition is held every four years.

[25]**Adam Smith**, (1923 -1790), noted as father of classical economics through his 1776 hugely- influential “An inquiry into the nature and causes of the Wealth of Nations”.

[26]**Polonius**, Courtier in Shakespeare’s play Hamlet offering advice to his son before the latter leaves for England