

Speech of Mr Rundheersing Bheenick, Governor, Bank of Mauritius before the Mauritius Bankers Association on the occasion of its fortieth anniversary celebrations, 16 November 2007

It is a great pleasure for me to be here on this occasion of your fortieth anniversary celebration. And I bring to you the greetings of the other quadragenarian on the block. I was wondering while talking to some of you whether it was the government's decision to set up a central bank that got all the bankers together to set up the MBA or was it the other way round - your attempts to get together that provoked the government to set up a central bank! Whatever it is, I think that the last forty years have been a really fruitful partnership between the regulator and the banking community in Mauritius. And I think all of us can look back on that with some pride.

I was recently discussing the MBA with Mrs Aisha Timol, and I must say that I know her for almost twenty-five years now, and I can vouch that she is very competent because I actually hired her to work for me. At the same time, I had quite a few people in the same batch. Some of them are running the Chamber of Commerce and Industry. Some of them are running the Joint Economic Council. One of them is actually Minister of Finance, but we won't dwell on that. I think by and large we had a batch of people who were very committed. And you are lucky to have the same person heading your secretariat. So, when I saw her I also asked her to find some information for me about your early days, because I have a vague recollection of having actually attended a meeting of what was probably the MBA or the kernel of it on the first floor of what was called the Mercantile Bank in the office of a man whose name was Mc Donald. And, the man from Barclays was actually called Mr Richard Ferney, he was called the Mauritius Manager. I do not remember what we discussed, but the World Bank was very much part of the story, because the World Bank was coming in to provide some inputs for what afterwards became the Tea Development Authority. So that was what we were discussing and that ties up probably with what the Kenyan delegation was coming to do, because they had set up a Kenya Tea Authority at about the same time. And I was talking to you because I was writing a report on the economy in 1967. I had to go and establish contact with every single operator in the country, every single Chamber, every single producer group; tobacco producers, tea producers you name it. Our statistical base was not as elaborate, as sophisticated as it is now. And there were just two of us. One became Financial Secretary and he has now joined the banking sector as Chairman of the SBI bank in Mauritius, the IOIB, that's Mr Baguant.

So, we can all look back over a very rich journey which has been very rewarding for all of us. Our country at that time had been written off as a country that exuded an air of hopelessness. These are the exact words of that World Bank delegation we mentioned. Those are the words of the Mission Leader as he went back. Now it is the opposite. Now we are one of the leaders in Africa. Among the Small Island Developing States we have been quoted as a model. And that gets me scared because we can build up some complacency. You referred, Mr Chairman, to what happened yesterday when we were pleased to welcome Dr Bishnodat Persaud. Prime Minister, you know him. He is a Guyanese national, he was the right-hand man, economic advisor of no less distinguished Secretary General of the Commonwealth, Mr Sonny Ramphal and they did some wonderful work. South-South Commission, Non-Aligned Movement and at the Commonwealth Secretariat. In areas like Debt Management, Structural Adjustment and bringing the focus on Island States. Island States were nowhere as a group for study, as a group for analysis. So the fact that today we have a focus worldwide on Small Island Developing Countries and that we have a lobby asking for special and differential treatment for Small Island States is the result of the work put in by the gentleman you heard yesterday. And I think that we are proud that some people who attended the lectures that we have organised at the Bank found it fruitful, and where they were for two solid hours. So I thank you for your support. I thank the MBA for having taken a full-page advertisement to help the Bank of Mauritius kick-off its four months celebrations period. If I have a quarrel with that, it is that they have taken a picture of this nice tower block that we have, this glass block completely transparent and they had put some clouds on top. It is as if we have our head in the clouds. So I hope that the clouds have dissipated and I hope that the relationship is built on trust. And as I look back over the forty years I think we have every reason to be happy with what has been achieved. I think we are not the regulator talking to the regulatee, we are more extending a hand in partnership from one to the other and it has been a very rewarding partnership. If I look back at the recent past only, we have the MCIB, that's the 'Mauritius Credit Information Bureau', for those of you who do not know what it stands for. And we must be doing something right, because we started about two years ago in the Central Bank, in partnership with the Bankers Association and we are now under pressure to reduce the threshold, which we are doing. We are under pressure to accommodate other players beyond banks, housing corporations, leasing companies, insurance companies, knocking to get in. So, the credit information must be doing something to your balance sheet. It must be improving credit quality. It must be reducing non-performing loans and more important, we have a rating agency from outside that wants to

buy the whole operation. I am sure that the Prime Minister will not mind that we rejected this particular approach. Because it is one thing to have a unique operator shared by the Central Bank as regulator and the regulatees, but it is something quite different to build up yet another monopoly. So we agreed to make our information available to any rating agency, but we do not sell to any single one of them. So, that is what we are doing. We are maintaining control of our credit bureau, we will sell our data, if the Prime Minister agrees to change the law, and my colleague the Minister of Finance. I apologise for not mentioning him in my opening remarks, I cannot see him. So if he passes the law we will be happy to sell our data to any provider of value-added services to translate that into ratings. Because ratings are very important for us as we move towards Basel II implementation here.

We have many other reasons to be happy. I think one of the unseen success stories here is our Automated Settlement System. We still rely on cheques in Mauritius. We still rely on paper transactions. A large volume of them everyday. With the support of the MBA, we have set up in place the Port Louis Automated Clearing House and the MACSS (Mauritius Automated Clearing and Settlement System). And now we are looking forward to reduce the transaction time by moving to the next stage, which is cheque imaging, which is called the 'Cheque Truncation System'. When that will be in place, we will be able to reduce the time it takes to clear cheques, from three days, as it is now, to virtually instant clearance. And we feel it is a major step forward for increasing efficiency, for reducing transaction costs and for modernising our whole banking infrastructure. So these are two major achievements of this close partnership that the regulator has had with the banking community. I believe that this is a good basis to build on. However, we should never rest on our laurels. We have problems. The Banking Act was passed in 2004, but the Monetary Policy Committee had not been made operational. We set it up early this year. And the Monetary Policy Committee has showed very clearly from day one, and here I would like to thank members of the Monetary Policy Committee for their support, that fighting inflation, reducing inflation, achieving monetary stability and financial stability is our number one priority. But not to the exclusion of everything else. Because we do want orderly and balanced economic development as the law of the Bank of Mauritius requires us to do. But inflation fighting became a priority and it continues to be a priority. I look forward to our next meeting of the MPC in early December. We have every reason to be happy with the way inflation has started declining. But the rate of decline is a bit too small for comfort and there are some dark clouds on the horizon. As an open economy we have to be aware of sources of potential price instability. So, we are very cautious in our forecast for the next few months. I hope that the Monetary Policy Committee

in December will take the right decision to try to ensure that we achieve our policy targets of achieving a low and sustainable rate of inflation. Those of you who were present yesterday at the lecture would know that there were some proposals that perhaps Monetary Policy should be bolder, should achieve reduction faster. But we can only go as fast as the Monetary Policy Committee will allow us and I reminded some of you that at the very first interest rate-setting meeting, the executive of the Central bank was in a minority. And I believe that we have a very small economy with a small jurisdiction, with immature market reaction and we cannot afford to have this kind of dissention on such a major issue at that level. And I hope that as we all grow into the job, that the Monetary Policy Committee will begin to look in the same direction and take up the cudgels to try to reduce inflation as it needs to be done.

We have other few clauses in the Bank of Mauritius Act that are yet to be implemented. One of them is the Ombudsman. We all know about the background that led to the creation of the Commissioner for the protection of the small borrowers. And I would like to add here that I had a positive meeting with Judge Ahnee and we are basically on the same wavelength. We do not believe that in our small jurisdiction we can have two or three separate people doing the same job. The Ombudsperson who exists on our books will have to be revisited and will have to look to an Ombudscommission so that whoever is there in that Commission will have a mandate to look beyond the banking sector, to look at other financial services and to look at small borrowers as well. Because no other approach would be efficient for a small jurisdiction like ours. So I believe we have to put our heads together. I did raise the issue with the Chairman of the Bankers that we need to get our act together first before we go to our masters in Government House to ask them to help us out to try to put some order in this jurisdiction. So we are moving in that direction. I am sure that the Bankers Association, after having discussed the matter, will be happy to help us to find a way out so that we do not end up recreating in a manner what is happening in the UK right now with three different parties involved to combat a particular issue and then one of them has been accused of sleeping on the job. So, obviously if all three start working, there will be total confusion. If we have three working there, two have got to sleep. It is much more efficient to have one on the job. I am not making a comment about dual regulators on other matters, I think we have to visit that as well. And as you know to provide better service to the Banking Community, who are our main clients, our partners, we have tried to revisit our approach to regulation. For the first time in ten years, the Bank of Mauritius has got a Director of Supervision. For the first time in forty years, the Bank of Mauritius is being restructured to respond to the requirements of today. We believe that our Central Bank, for a small jurisdiction like ours, has got to be

efficient. We have got to be comparable to other small jurisdictions like Singapore and others. We tried to measure ourselves with them and we failed the test. So that is why we want to restructure because we need to restructure to provide a good service to you, and through you to the stakeholders out there. So that is the name of the game. And I am happy to say that we have almost completed our restructuring exercise with very little dissent, a very rare event indeed. Normally to restructure a living body that has never been restructured or transformed is a very dangerous matter. You will be advised to lay-off, do not touch it. We hope that by early next year we will be able to tell you that we are going to revisit our approach to regulation, to regulate the sector with a very light touch so that the invisible hand that you now know of, which is the invisible hand of the market, you will also find something else, the invisible hand of Bank of Mauritius regulation. That is our target because we believe the market, if it functions properly, is the best regulator. So that is what we intend to achieve. We intend to play the card of transparency and we hope that with your support we will get there.

So forty years is a long journey but it is nothing compared to the next ten years because I think we are living through very interesting times. This is a transformation period for Mauritius. And luckily, if you look back, those of you who go back so many years, you will find every decade we had challenges like this which force us to revisit our priorities, to reassess our strategies and then take bold decisions. And under the guidance of the Prime Minister, I have no doubt that we will be able to steer a clear path towards prosperity and economic resilience for our small country. So thank you very much, Chairman, Bankers Association. Thank you very much, Members, Bankers Association. As you look forward to welcome more members rest assured that we are also as excited as you. We are also want you to have more members. The more members there are, the better the market functions. The more competition there are, the better the spreads will be and the lower the spreads are, the more efficient the whole market becomes. So that is the name of the game and we want to be part of that particular game. So thank you very much and if you allow me, from one quadragenarian to another I would like to present a small gift to your Chairman this afternoon before I leave the podium.

Thank you.