Launch of the Monetary Policy Committee at the Bank of Mauritius

Address by Mr Rundheersing Bheenick, Governor

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It is a great honour and indeed a pleasure for me to add my own words of welcome and to address you today on the occasion of the launching ceremony of the Monetary Policy Committee as a statutory committee of the Bank of Mauritius.

It is a landmark move. It is eloquent testimony of our determination to rid our structures and processes of remaining outdated practices, loopholes, and bottlenecks in our quest for excellence. It is designed to leverage our economy to its next level of excellence and it is all happening in the year when the Bank is gearing up to celebrate its 40th anniversary. It has a touch of history. It is fitting, therefore, that former governor, Sir Indur Ramphul, and so many of you associated with the Bank's early days should be with us this morning.

You will forgive me if I read some more history in today's event. It was exactly 13 years ago, on 22nd April 1994, that the National Economic Development Council — of which I was the founder-Chairman, — published its report entitled **Improving Efficiency in the Financial Sector in Mauritius.** The report recommended *"some major structural changes for a more efficient and dynamic financial sector, which can support and sustain the other sectors of the Mauritian economy to stay globally competitive".* The objectives are no less pertinent today than they were 13 years ago.

If I may be allowed to plagiarise myself, the NEDC was set up as a tripartite, high-level, policy review and policy advisory body to the Government of Mauritius, with an open-ended remit in all matters related to the economic development of Mauritius. It provided a forum for informed debate on vital economic issues to contribute to the development of consensus regarding ways of improving economic performance and national competitiveness. A laudable objective, indeed, and one, I may add, that is being so ably pursued today under the baton of my friend Mohamed Vayid.

What the NEDC did not have, at least in those days, was the resources to match its ambition. I had identified the late Maxwell Fry, then Tokai Bank Professor of International Finance at Birmingham, as the man we needed to support our work in finance and I was unwilling to settle for a more affordable second-best alternative. We were thus forced to innovate and do a little bit of public-private- partnership well before PPP became flavour-of-the-month. That is how I was able to draw on such co-sponsors as the State Bank of Mauritius, the Mauritius Commercial Bank, Air Mauritius, and IBL to be able to attract such high-powered financial expertise.

The NEDC chose to focus on a "…*relatively small number of reforms that* ….*would have maximum immediate impact in improving the efficiency of the Mauritian financial sector"*. In other words, we recommended that we go in for the low-hanging fruit first.

The point of this short trip down memory lane is to remind ourselves that the seeds of the MPC that we are launching to-day were planted a full 13 years ago. There were nearly 3 dozen of us, bankers, economists, accountants, insurance executives and financial services specialists, who were roped in by the NEDC for the exercise. To drop some names, they included the likes of Muni Reddy, Rana Tacouri, Tim Taylor, Iqbal Rajaballee, Yvan Lagesse, Radhakrishna Chellapermal, Pierre Guy Noel, the late Alain Cheong, Jean De Fondaumiêre, Mootoosamy Sidambaram, Omar Rawat and many others…. The establishment of the MPC figured prominently among the NEDC recommendations. Let me quote Maxwell Fry's own words: *"In order to coordinate policy formulation and implementation, a monetary policy committee might be formed …. [to] formulate policy and agree on the way in which the policy would be implemented … effectively and efficiently … [to] benefit everyone."*

You will agree with me that we were definitely on the right track. We could have established the grandfather of all MPC's in 1994, a full 3 years before the Bank of England set up its own MPC, which now commands international headlines each time it meets. The MPC, as envisaged originally by us, was admittedly of a slightly different vintage than the one we are launching today.

In contemplating how we were then very much on the right track, I am reminded of the words of Mark Twain, an early tourist here: *"Beware if you just stay on the right track, you may be run over by the next train that comes along!"* Rest assured: there is no risk of that happening to us. We are on the right track. More than that, we have caught the right train and we are moving in the right direction. Today, more than 80 central banks take monetary policy decisions in a committee. Indeed, our launch vehicle of this morning is now recognised as a key element of how central banks the world over have transformed themselves. As Alan Blinder, of the US Federal Reserve, puts it *"One of the elements of the quiet revolution in central banking has been a change in the way monetary policy decisions are taken: the 'dictatorial central bank governor' of the past has increasingly been replaced by committees taking monetary policy decisions".*

The MPC, then, is part of the transformation of our Bank. It is being established under Section 54 of the Bank of Mauritius Act 2004, with specific responsibility for the formulation of monetary policy. In addition to the Executive side, comprising myself as the Chairperson and my two Deputy Governors, the MPC has two Board Directors and three external members with experience in the field of economics, banking and finance. The Deputy Prime Minister and Minister of Finance and Economic Development has appointed Jacques Li Wan Po, an old friend going back to our primary-school days, and Shyam Seebun as the two Board Directors on the MPC. He has appointed Pierre Dinan and Jagnaden Coopamah, my former Civil Service colleague and friend, as external members. I am circulating, for your information, some background information on all the members of this first MPC.

We are also privileged to be able to draw on the experience of somebody as distinguished as Mario Blejer who has kindly agreed to support our work as Honorary Adviser to the MPC. Mario is a respected academic, a former Fund staffer, a past Governor of the Central Bank of Argentina and he is currently Director of the Centre for Central Banking Studies at the Bank of England — a position previously held by the late Maxwell Fry, to whom I referred earlier. Thank you Mario for being with us today and convey our thanks to the Bank of England for allowing you to do so.

I am also pleased to welcome Stefan Gerlach as observer to the MPC. He has extensive experience in monetary policy, having held a number of positions both in central banks and in academia. He is currently the Head of the Secretariat of the Committee on the Global Financial System at the Bank for International Settlements, which is the central bankers' central bank. He serves as Adviser to the Hong Kong Institute for Monetary Research and is Adjunct Professor of Economics at the University of Basel.

Central banks are sometimes accused of practising a culture of secrecy and of suffering from in-breeding. We, at the Bank — and here I am including my Second Deputy Governor and myself, both newly-minted central bankers of only nine weeks' standing, as part of the "in" crowd — place tremendous value on "outside" talent and expertise. Outsiders bring a much-needed fresh perspective to old issues — this is even truer when they come from outside the country. Let me observe here that committee decision-making in central banks is in line with trends in other sectors: juries, not individual jurors, rule on guilt or innocence; parliament, not individual lawmakers, decides upon bills and legislates and so on. Perish the thought if any of you were reminded of horses and camels!

A fresh perspective is vital for innovation. With the passage of time, some of the old ways of doing things have become just that — old! Changes in the global environment, in perceptions and approaches force us to think differently — out of the box, if you will — and adapt international best practices in all areas.

Innovation is at the heart of our strategy. For we shall achieve nothing unless we help to fulfil the strategic objective of the Government, so deftly promoted by the Deputy Prime Minister and Minister of Finance, to create a new economic model and open up the economy to fundamental change. It is a new architecture that we are seeking to create. But the purpose of gleaming new tall towers like this one is not for the de-fenestration of bankrupt investors, bankers or central bank governors but to provide a new vision into the future and beyond our shores. The core focus of our strategy is to improve the banking industry and financial services generally to bring them in line with best international standards and make them internationally competitive.

The launch of the MPC is a part of the re-engineering process of the central bank. We have set up an MPC Unit, reallocated staff to it, and tasked it to coordinate all work relating to the MPC. My Second Deputy Governor will chair an in-house Monetary Policy Review Committee to ensure a continuous monitoring of the economic situation. We are also proposing that the MPC meet at quarterly intervals. The dates on which the meetings will be held will be communicated to the public well in advance. However, there is provision for the MPC to meet in between should the need arise. The MPC will decide on the key Repo Rate by voting. All these are tentative at this stage and are subject to revision or confirmation by the MPC when it meets later today.

Inflationary pressures have built up lately in our economy and the inflation rate is expected to cross the single digit level by June this year. We are experiencing the highest rate of inflation in a decade. It is a cause for concern, but certainly not for alarm as the rate is expected to decline as the pass-through effects of recent price hikes taper off. This of course assumes that we do not compound the problem by inappropriate fiscal and wage policies. Eternal vigilance on these fronts is the price we have to pay to combat inflation. In any case, we must remind ourselves that the primary objective of the Bank is *to maintain price stability* **and** *to promote orderly and balanced economic development.* Thus, in our mandate as given by the Act setting us up, price stability is not an end in itself. Rather it is a means to an end, which is sustainable macroeconomic growth. We therefore need to weigh real sector issues adequately in our monetary policy decisions. In this respect, the Bank intends to institute regular contact with stakeholders of the real sector in addition to those of the financial sector we normally deal with. And I very much welcome the presence among us this morning of employers, trade unions, economic operators, exporters, and their respective associations and chambers.

I am convinced that there is a lot more that must be done – and done fast - within the Bank. We are expecting shortly the arrival of a consultant from another central bank to help us with a strategic review of our existing structure. As a pro-active institution, we want to make sure that our staff is equipped with the right tools, given state-of-the-art training and imbued with the level of professionalism that the situation calls for. I hope I shall be able to count on the support of the staff and the union as we press on with the re-engineering that we have already embarked upon. We shall proceed in a measured manner, with full consultation every step of the way.

I have been able to draw on the pool of talent in the Bank as we launched different initiatives in several directions simultaneously. The very first task-force that I set up completes its mandate today with the launch of the MPC. There are several others still at work on a range of issues such as the strategic review I just mentioned, the celebration of the 40th anniversary of the Bank, the move to the new Headquarters, the review of our approach to retail forex trading, and one on such a mundane but serious issue as the flooding of the Bank's vault.

Looking down the line, we have on the drawing board our move into Islamic banking services which constitute a global business opportunity. We can rapidly roll out a new financial product and service, with some re-engineering of our approach to banking regulation and supervision to make it possible. In the next few weeks, we have a training programme, organised jointly with Deutsche Bank, for our own staff and also for staff from commercial banks, to pave the way for our move to full conformity with Basel II principles. Both regulators and regulatees will be given the same training to ensure they are on the same wavelength. And later this week, a joint Bank of Mauritius/ Mauritius Bankers' Association delegation leaves for East Asia as we make final preparations to introduce the cheque truncation system. This will reduce paper processing, speed transactions and reduce their cost, and make us all cheque-users a little bit more efficient and productive. As you can see, we have many balls up in the air.

Our vision is clear. Our goal is set. We continue the exciting journey of modernisation with renewed determination. We do not have the luxury of time. This time round, we do not want to wait another 13 years to do what must be done. The future does not belong to the hesitant. We must get on with the job, come what may. To achieve all this, we need resources. We require new blood. And this is the reason why the Bank has recently advertised for a range of positions for such openings as Bank Examiners, Research Officers and Communications Manager. The response has been very good, indicating that the Bank has a good reputation and enjoys credibility as an employer.

Allow me to conclude by making two specific observations. First and foremost, let me point out that this first MPC meeting is not an interest- rate- setting meeting. Today the MPC will discuss the operational aspects for the conduct of its future meetings, take stock of the current and future economic and monetary developments, and agree on its future work programme and the way forward. So, the markets, the media and the public should not expect any interest rate decision today.

Second, the monetary policy decision-making process as established in the Bank of Mauritius Act has an unusual feature. Currently, the MPC can only recommend its decision to the Board of Directors of the Bank, which shall then determine the monetary policy stance of the Bank. However, this situation is far from optimal and warrants revision. As an interim measure, I will shortly be seeking from my Board a specific delegation of authority enabling the MPC both to formulate and implement its monetary policy decision. In this way, the MPC which we are launching this morning, before this august assembly of dignitaries, will operate in line with international best practice.

Ladies and Gentlemen, today is the start of a new era in monetary policymaking in Mauritius. It marks the end of a long journey that began nearly four decades ago, with direct controls, directed interest rates and credit ceilings on lending, to say nothing of exchange controls which disappeared more than a dozen years ago. I am confident that the MPC, with its high-powered membership and even higher-powered advisory support, will fully deliver on the Bank's monetary policy mandate. The time has now come for that "dictatorial central bank governor" of yore that we spoke about earlier to step definitely into history. And for the current one of yours who is now speaking to step aside and make room for our guest speaker!

Thank you for your attention.