Speech

of

Mr Yandraduth Googoolye,

Governor, Bank of Mauritius

at the

Annual Dinner with Major Economic Stakeholders

Hilton Mauritius Resort and Spa

Friday 23 November 2018

- Your Lordship, Meghnad Desai
- Excellencies
- Ladies and Gentlemen

Good Evening!

As a new central bank governor, but having been serving the central banking community for nearly 34 years, it is my immense pleasure to welcome you to the Bank's Annual Dinner in honour of economic stakeholders.

Your presence tonight pays testimony to the longstanding cooperation between the Bank and economic agents and players of Mauritius. Over the years, we have been fortunate to forge a bond together with you… a bond of friendship, trust and mutual respect.

A major thread that has been running throughout the years has been that of collaboration and partnership. As Charles Darwin put forth *"In the long history of humankind (and animal-kind, too), those who learned to collaborate and improvise most effectively have prevailed."*

When we started this event in the mid-90s, at the time when Governor Maraye was around, we were never aware it would go on to become one of the much-sought happenings in the Bank's calendar of activities.

We have come a long way from the days when central banks were considered as mysterious institutions, shrouded in secrecy, and markets left guessing on what the policies could actually be. In 1981, Karl Brunner, a famous monetary economist, said, "*Central Banking thrives on a pervasive impression that it is an esoteric art. Access to this art and its proper execution is confined to the initiated* *elite, while its esoteric nature [is] revealed by an inherent impossibility to articulate its insights in explicit and intelligible words and sentences*."

Since then, the veil on the mystique of central banks has been lifted and it is very well recognized both in academia and in central banking circles that central banks have to become more accountable. Accountability requires increased transparency and effective communication. But this brings its own challenges of how to communicate and how much to communicate.

It is imperative for not only stakeholders, but also the public, to fully understand what the central bank is trying to do and the impact of its actions on the future course of the economy. Nothing can undermine independence more quickly than being opaque and unaccountable!

Over the years, the Bank has been producing and disseminating more detailed financial accounts. We are in discussions with our external auditors to see how much more transparent we can be in publishing the accounts, while at the same time not compromising the requirements of international financial reporting standards.

Communication is not just about our interaction with markets. We have deemed it appropriate to communicate with different stakeholder groups in the broader civil society through our financial literacy programme. We regularly meet business associations from different sectors of the economy. We find it useful not only to express our own views but also to hear the views of market participants. It is important for us to know what the thinking about the Bank and our policies are. Although we may not be always successful in changing perceptions and misconceptions about the Bank and its policy, we have found that these interactions and initiatives have helped to create a greater appreciation of the challenges we face.

A more candid relationship between the Bank and the media will accompany us in our mission. It does not mean that the media should be our *porte-parole* nor report uncritically on our actions. This has more value to the central bank than an uncritical media. Media is perceived as a source of objective and independent information and analysis and whatever is reported in the local press has an international coverage, which could affect the credibility and image of the jurisdiction. Even my predecessors have reiterated on this point in their previous addresses.

Let me reassure you that we operate within the parameters of the Bank of Mauritius Act and assume our duties and responsibilities independently. The Act grants the Bank operational independence to implement its policies. Section 12 of the Act states that "*the Board of Directors … in the exercise of their functions, shall not be subject to the direction or control of any other person or authority*". I take this opportunity to thank all my Board Members for having displayed an independence of thoughts and for their guidance and support.

Further, Section 55(3) stipulates that "*in the discharge of its functions, the Monetary Policy Committee shall not be subject to the direction or control of any other person or authority*". Again, let me commend the impartiality of the Members in their assessments and for voting independently on interest rate decisions. The MPC Minutes are so transparent that they reflect the voting pattern of each individual Member.

We are also mandated to manage the official foreign exchange reserves of Mauritius in the manner specified in the Act. That is, we need to take into account, while investing,

- first, the security of the reserves,
- second, their liquidity and,
- then, return.

Foreign exchange reserves are part of a country's macroeconomic toolkit, and are considered a key indicator of the strength of the economy. So it is fundamental that we judiciously manage them for the benefit of the country.

It is but natural for me to start by giving you an overall perspective on the role of the Bank in the Mauritian economy. Of course, monetary policy formulation is a key function of the Bank, but the public attention, at times, obscures the other important tasks that the Bank undertakes. In this respect, I will brush on some major achievements during the year and point on how they have assisted in maintaining the stability and efficiency of the Mauritian economy and financial system. We do not perform our work in isolation. We require the participation and contribution of various stakeholders in our decision-making process.

2018 has been quite an eventful year, as it coincided partly with our 50th anniversary celebrations. I dare not dwell too much into our contributions to the economy over these 50 years, but you will appreciate that we are here to serve society and ensure that macroeconomic conditions are conducive to economic prosperity.

We marked our golden jubilee's existence with the opening of the Bank of Mauritius Museum to the public. The Museum displays over five hundred artefacts related to the history of our monetary system. We released the book "*From Piastres to Polymer*", which provides for a comprehensively researched work on the history of banknotes of Mauritius. I strongly recommend you and your family a visit to the Museum and to own the book, which is available in the main libraries.

Ladies and Gentlemen, banknotes are part of a defining symbol of a country's identity. We encourage our people to cherish and respect our banknotes and know their characteristics and features. On this count, the Bank has issued a "*Know Our Banknotes*" leaflet incorporating the security features of all banknotes currently in circulation. To address counterfeiting issues, we intensified media campaign on banknote security features and maximised public awareness on how to detect fake banknotes. We even brought over specialists from UK-based De La Rue to conduct a two-day seminar on '*Counterfeit Detection*' for our stakeholders, a first of its kind! In view of the forthcoming festive periods, we intend to invite the specialists again to talk to consumer associations, retail outlets and merchants.

The importance of savings is essential for both economic development and upholding macro-financial stability. As individuals, we save in good times for bad times, thus protecting ourselves from any contingencies. We also save to plan long-term investments. Saving is also beneficial for the entire society, as it is one of the key factors which the economy's investment level depends on. A significant portion of the savings is channelled into our banking system, thus providing stable sources of financing to domestic banks.

Deposit growth provides a solid basis for increase in lending activity and deepening of financial intermediation. There is no doubt for a need of investment growth in our country, thereby meaning an undisputed requirement for encouraging domestic savings in order to reduce the gap between domestic savings and investments. Otherwise, the gap will need to be financed to a significant extent by external sources.

Last March, the Bank came up with the issue of a 3-Year Golden Jubilee Bond for retail customers and NGOs. The issue was well received. The Bond is listed on the Stock Exchange of Mauritius for trading and I thank the CEOs of banks for their collaboration. We also invite banks to come up with attractive deposit schemes to enhance the savings culture.

Since the beginning of the year, the Bank has improved the operational efficiency of its monetary policy, bringing the short-term money market rates within the corridor of the Key Repo Rate. Through the conduct of open market operations to remove structural excess liquidity from the system, the disconnect between the KRR and money market rates was corrected. The excess liquidity legacy which has hindered the transmission of monetary policy, and subject to concerns in various quarters, has been addressed. The focus on excess liquidity is often blurred by the reference to balances that are kept over and above statutory requirement of the cash reserve ratio. However, the excess liquidity comprises both rupee and foreign currency excess liquidity.

The Bank introduced a liquidity standard under BASEL III as from November 2017, which is the liquidity coverage ratio (or the LCR for short). The LCR was introduced to promote short term resilience of the liquidity risk profile of banks to ensure that they have sufficient High Quality Liquid Assets (HQLA) to survive a significant stress scenario lasting 30 calendar days. Keeping foreign currency balances with the Bank count towards the HQLA. Almost all of foreign currency excess liquidity would be reckoned towards balanced held for the maintenance of the LCR.

We conducted a survey among banks as to why they were keeping rupee excess balances and the results showed that a sizeable part was being held by them voluntarily as a precaution. These balances have been estimated between Rs4-6 billion, depending on circumstances. Therefore, the analysis of rupee excess reserves should exclude these balances. And currently, we estimate that the true rupee excess liquidity in the system would be around Rs2 billion, which is more or less manageable. In the coming weeks, we foresee rupee excess reserves to go down.

The Bank has recently been focusing on the 91-day Bill yield as its short-term operating target. The 91-day Bill yield, which is market-determined, can be viewed as an appropriate measure of the efficiency of the Bank's operations. The Bank has successfully been able to manage liquidity by sustaining the level of the 91-day Bill, since March 2018, at a level consistent with its monetary policy stance. The relative stability of the 91-day Bill also reflects on the rupee excess liquidity situation. If there would have been a higher level of excess liquidity, the yield on the 91-day Bill would have dropped. However, as mentioned earlier, the 91-day Bill yield has been evolving around the Key Repo Rate.

Our conduct of monetary operations entails costs, which have a bearing of the operations of the Bank. The correction of the interest rate disconnect together with the increase in the Bank's issue of its own securities have cost the Bank Rs2.4 billion in 2017/2018 compared to Rs1.9 billion in 2016/2017 and Rs1.4 billion in 2015/2016. But, you will appreciate that the cost of monetary policy is nothing compared to the benefits that monetary policy imparts.

The rise in the short-term money market rates has widened the spread vis-à-vis savings deposit rates. For instance, the weighted average yield on Bills accepted at primary auctions has increased from 1.78 per cent in November 2017 to 2.91 per cent in February 2018 and further to 3.60 per cent in October 2018. While over this period, the weighted average savings deposit rate has been around 1.7 per cent. That's why I have been making an appeal to banks to increase their savings deposit rates so that savers can benefit from a higher return. And I thanked those banks which have already increased their rates.

The increase in yields on risk-free Government and BoM instruments can also benefit savers and can prove to be viable alternative investment instruments. We have engaged with banks with a view to opening up access to these instruments to the public for trading on the secondary market. It is noteworthy that outstanding investment by individuals on the secondary market increased from Rs1.8 billion as at end-December 2017 to nearly Rs6.0 billion as of date. We thank banks for creating the awareness for these attractive instruments and broadening their access to the public at large.

The development of bond markets has been on the agenda of the Bank since long and we cherish the idea of seeing a vibrant bond market in Mauritius. We issued a Guideline on Commercial Papers last June. Commercial papers are short-term money market instruments issued by companies in the form of promissory notes, which can be subscribed by the public. The introduction of commercial papers in Mauritius is expected to support the development of financial markets and allow issuers to diversify their sources of short-term borrowing and ensure price discovery. We recommend companies to consider issuing these new types of instruments, which would be beneficial to the issuer and the local investor.

When I was appointed vice-Chair of the FSC last year, I saw the benefits of the synergy between the Bank and the FSC. Today we are lucky to further cement the bond between the two regulators, with our First Deputy Governor as Chairman of the Financial Services Commission. We are jointly collaborating to create a Centralised E-KYC Registry. The Registry will be the national repository for KYC information of individuals and corporates. Our next project will be the implementation of a staff exchange programme as from next year, for an effective surveillance of the financial system. In the same spirit, we have signed a tripartite MoU with the FSC and FIU. We shall soon start discussions with the Police for a memorandum of cooperation on money-laundering and counterfeiting issues.

Let me emphasise that the Bank considers AML/CFT supervision among its key priorities. You will recall that the strengths and weaknesses of Mauritius have been identified in the mutual evaluation report of the ESAAMLG. Already, a host of laws have been amended and regulations passed to comply with recommendations of the ESAAMLG. We have also set up a dedicated unit for AML/CFT supervision at the Bank and we are cooperating actively with the FSC, FIU, MRA, ICAC and soon with the Police in this combat. I would like, once again, to call upon CEOs of banks to ensure that they take all precautions to keep our jurisdiction clean.

To accompany the country as international financial centre of repute, we need to ensure that our banking industry is appropriately equipped and resilient. Capacity building was identified as a key priority to the banking sector, and we backed the MBA's initiative for a Professional Banker Certificate course offered by the Chartered Institute of Bankers of Scotland. We will soon roll out more targeted courses.

As you are aware, the Government has set up the Fintech Regulatory Committee under the chairmanship of Lord Meghnad Desai. The Committee has already submitted its Report and the main recommendations are being implemented. We even had a meeting today, hence the presence of Lord Desai and Ms Loretta Joseph of the OECD.

The global financial crisis has been an eye-opener on so many counts and made us realised the importance of a well-regulated and supervised banking industry. It also brought forth that traditional micro-prudential regulation and supervision do not suffice. We did not stay behind.

We enforced a range of supervisory and regulatory measures to make our banking sector resilient. The level of bank capital in Mauritius are broadly adequate to meet a range of shocks. We are toiling hard to roll out a risk-based supervisory framework, which will entail, amongst others, the development of a risk profile for individual banks. A more resilient banking system will better absorb the impact of future downturns. This framework is data-intensive and we rely on the collaboration of our partners, including the accounting firms, to bring to fruition this project.

The role of payment systems in an economy is critical. As the guardian of the stability of the financial system, it is imperative for the Bank to ensure that the payment system operates efficiently. I am therefore glad that the National Payment Systems Bill, whose main objective is to provide an enabling framework for the regulation, oversight and supervision of the national payments systems, has been approved at the National Assembly on Wednesday. In the same vein, development of a payment infrastructure through the National Payment Switch has been an item high and dear in the Bank's agenda. I am pleased to announce that the National Payment Switch is operational.

A quick word on the global economic environment. At the time I had assumed office as Governor, there was widespread optimism that the global economic outlook was robust. This optimism, unfortunately, did not last long. A series of events have created dimmer prospects for 2019 global growth. Against this uncertain backdrop, domestic economic and financial conditions have remained largely stable and commendable. Our concern remains the recent trends in private investment and exports. These issues need to be addressed to sustain growth and employment creation.

I am convinced that each and every Mauritian is proud of the progress we have achieved so far since the independence. Mauritius has successfully reinvented itself in the wake of various global shocks and following decades of positive growth momentum, we have emerged as a resilient country. Let all the partners – public sector, private sector, civil society, the press – join hands to capitalize on our strengths to tap opportunities emerging from our strategic location between the two fastest-growing continents, which are Asia and Africa. As Winston Churchill put it, *“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."*

I wish to thank all members of the Board of Directors, my Deputy Governors, MPC Members and staff of the Bank for their unflinching support and commitment, without whom the Bank would not have been able to achieve so much. I also commend all economic stakeholders for their contributions to the economy.

On behalf of the Board of Directors, the Members of the MPC, my Deputy Governors, staff of the Bank of Mauritius, and my own behalf, I wish you all a Merry Christmas and a Happy New Year 2019.